The Economist
JUNE 11TH-17TH 1994

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A future for socialism

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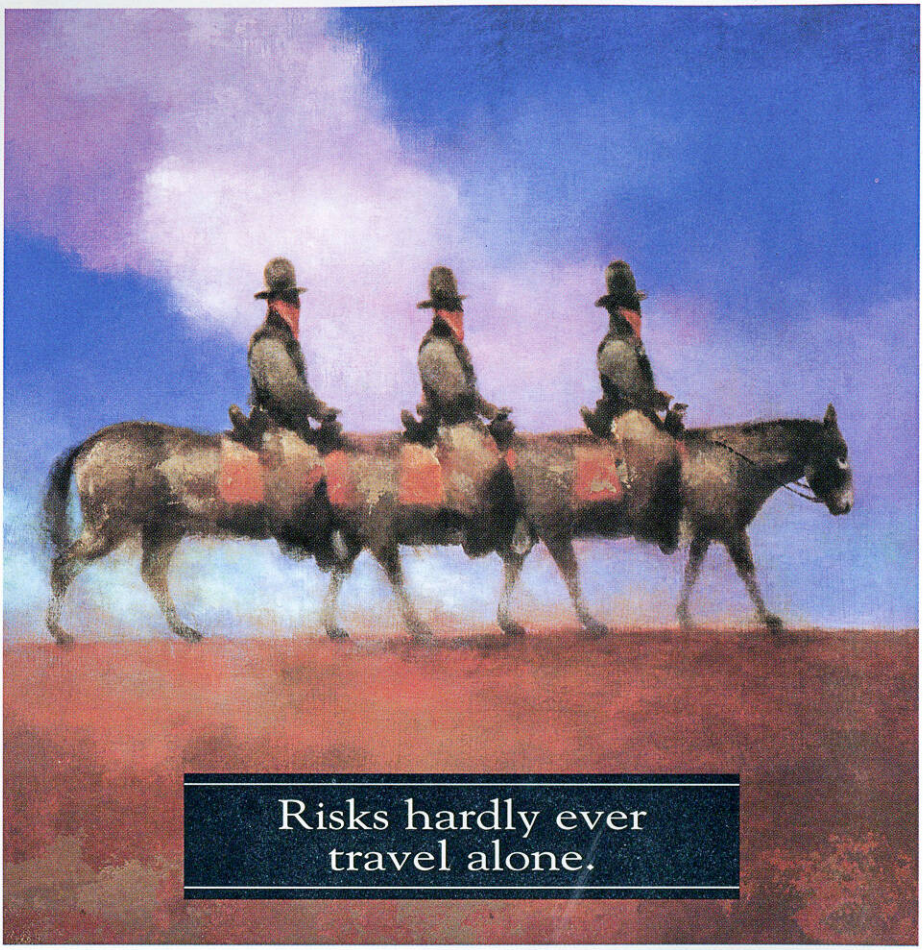

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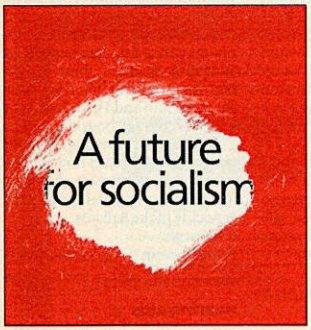

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LETTERS

The Economist, 25 St James's Street, London SW1A 1HG
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Arkansan enterprise

SIR—Your article "Ghosts of carelessness past" (May 7th) was most interesting. The powers of the Arkansas Development Finance Authority are indeed a "prescription for abuse". But one should not ignore the other powers of the Arkansas Department of Industrial Development. This was endowed with certain additional powers as a result of the Arkansas Enterprise Zone Act—legislation that was purportedly designed to assist the underdeveloped parts of the state.

The creation of enterprise zones is based on certain criteria: the rates of adult and youth unemployment; the number of residents receiving public assistance; and the median income within the proposed zone.

Setting up a business within an enterprise zone confers certain benefits: exemption from sales or use tax on the purchase of materials employed in the construction of, additions to and improvement of a building located within it; exemption from sales or use tax for any machinery and equipment to be located in (or in connection with) such a building; and a $2,000 income-tax credit per net new employee. Thus significant advantages accrue to a firm fortunate enough to be located within an enterprise zone.

But not all businesses are farsighted enough to have done so. For that reason, the legislature, along with the then Governor Clinton, allowed these enterprise zones to be moved. In my county of Washington, for example, the zones created to assist various economically depressed outlying rural areas (Winslow and Lincoln to name but two) were moved to an economically booming urban area (Springdale), where the tax benefits associated with the moved enterprise zone accrued to, among others, Tyson Foods, a poultry giant. You may recall that it was James Blair, a lawyer for Tyson Foods, who obligingly advised Hillary Clinton on her commodity trades.

Unfortunately, the tax benefits associated with enterprise zones are unevenly distributed between large and small businesses. Washington County contains at least one small business which has been declared ineligible for such benefits (because too few workers had been employed at the time of the plant's construction). The state has refused to supply information about other businesses rumoured to have been denied similar tax benefits.

Fayetteville,
Arkansas DONALD DONNER

Directionless

SIR—I could not agree more with your analysis of the European malaise (May 21st). But the European Union has not simply lost its sense of purpose: it never had one. Even in the 1970s the then Belgian prime minister, Leo Tindemans, claimed that Europe was "steering without a compass".

You are right to point out that many Europeans are unexcited about the prospect of a federal Europe. There are three reasons for this. First, the European Union has not yet succeeded in transcending economic boundaries. Second, the process of unification is too gradual to make any noticeable difference to daily life. And third, too much institutionalism makes a comprehensive understanding of Europe difficult.

Despite these shortcomings, I remain a proud European. Without the co-operation achieved so far, Europe would be a less safe place in which to live and prone to short-sighted nationalism.

Bissegem,
Belgium PASCAL LEROY

SIR—You react to a poll conducted by MORI for the *European* newspaper which produced only 32% of respondents in favour of a federal Europe. You conclude that "something drastic has happened to the public's view of Europe".

This poll also shows that something drastic has happened to the public's view of their national governments. Distrust of national leaders easily converts into distrust of European political integration. The poll reveals that, on average within the EU, the respondents distrust their national government even more than they distrust the European Union.

But these conclusions do not detract from your message that the question "what is Europe for?" must be answered swiftly. Whether national leaders are willing to answer the question objectively, and not solely in domestic party-political terms, is doubtful.

STANLEY CROSSICK
Belmont European
Brussels Policy Centre

Rwandan atrocities

SIR—I must take issue with one flawed contention in your otherwise perceptive leader on Rwanda (May 7th). You assert that "civil war... is not a threat to the stability of the region". As someone who worked with refugees (chiefly Burundians) in western Tanzania until shortly before the recent Rwandan exodus, I would not be quite so sanguine about the threat that this bloodbath represents to Central Africa.

You rightly note that the effects on the historically similar situation in Burundi might well shatter the fragile peace still prevailing there. It would be imprudent, however, to discount the possible repercussions on the already volatile ethnic conflicts in eastern Zaire, as well as the potential destabilisation of the delicate ethnic tolerance that has reigned in Tanzania. Each of these neighbouring countries inherited their share of Hutu and Tutsi cousins–a legacy of colonial boundaries.

I hope to be proved wrong. But it is sobering to recall how, only a decade ago, few expert observers would have predicted the present genocide in the Balkans.

Pittsburgh,
Pennsylvania T.J. RECTENWALD

Hearing aids

SIR–Your article on closed captioning for videos (May 7th) raises the important issue of how the information-technology revolution will benefit deaf people, ending generations of exclusion and second-class status.

Computer systems capable of simultaneous transcription, such as that used by Lord Ashley to follow debates in the House of Lords, have been a great step forward. Voice-activated computers (which transcribe the spoken word on to a computer screen) will have limitless applications. Video conferencing is already proving its worth for business and, for deaf people whose first language is sign language, videophones will eventually allow independent access to the telephone network for the first time.

STUART ETHERINGTON
Chief Executive
Royal National Institute
London for Deaf People

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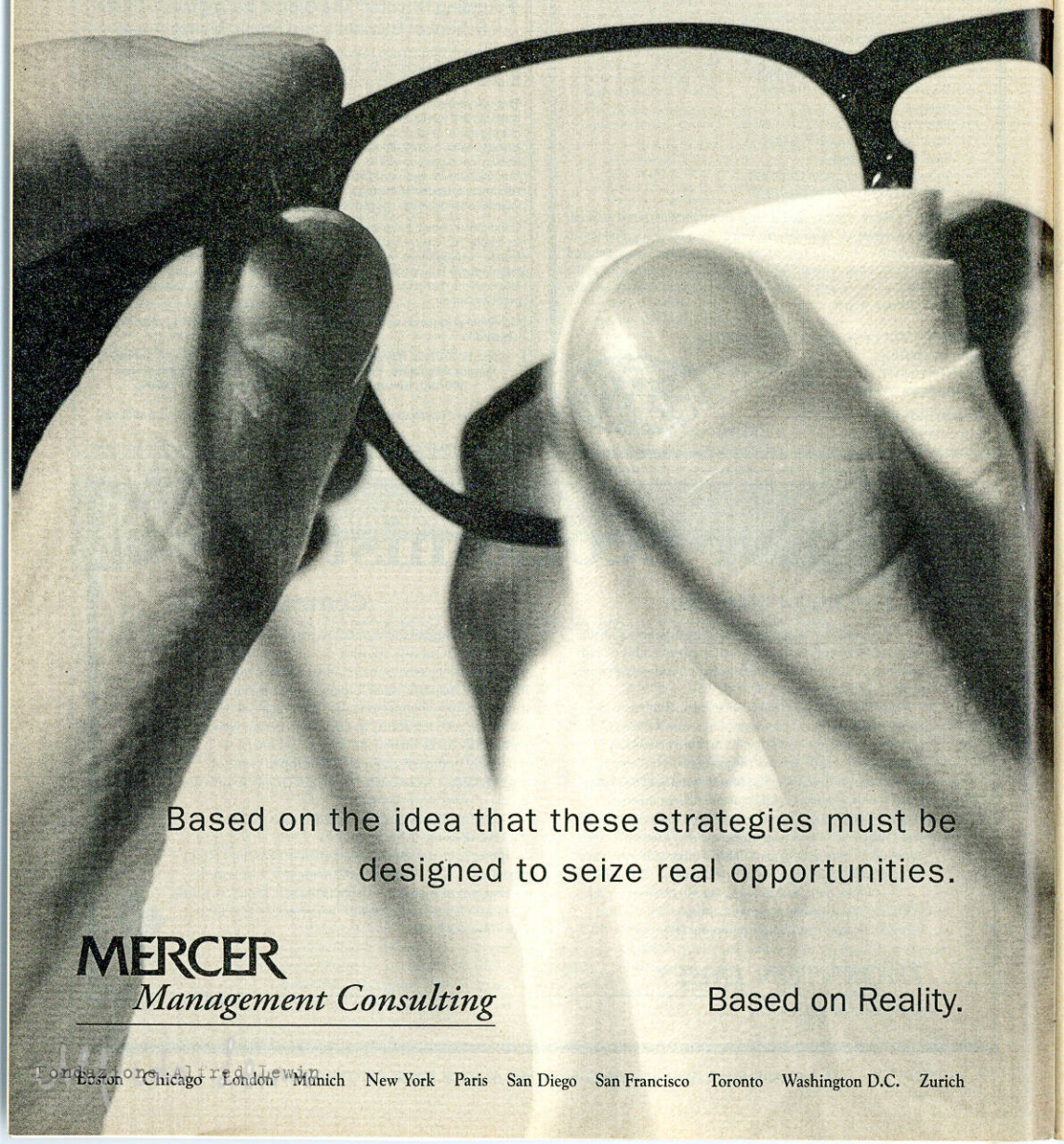

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The left's new start



IN MUCH of Europe, left-wing politics is enjoying a revival. Scandinavian voters, who not long ago seemed to have abandoned their tradition of social democratic government, are putting left-of-centre parties into office again. Last month Hungary ditched its reformist pro-business government in favour of a "socialist" party made up of former communists; Social Democrats will do well in Germany's elections in October, opinion polls say; in Britain, the Labour Party trounced the Tories in recent local elections and stands a good chance of forming the next government; across the European Union, socialists expect to do well in elections to the European Parliament on June 9th and 12th. The revival is by no means universal—socialist parties are in trouble in Spain, France and Italy, to name just three—but it is nonetheless striking.

Just as striking is the fact that traditional ideas cannot claim the credit for the left's popularity. Today's socialist parties have all but abandoned many of their old policies. By the end of the 1980s most of Europe's left-of-centre parties already advocated (albeit grudgingly) slimmer government, lower taxes and privatisation—measures to which they were once bitterly opposed. Where parties called "socialist" are doing better, it is partly because they no longer espouse socialism.

This is a good thing. The left's traditional policies of widespread public ownership and punitive taxation only ever promised equality of disappointment. However, the realignment of the left is not as good a thing as it could be. Traditional socialists who ask why the left should seek power at all, if it is only to implement a soft-focus version of conservatism, ask a good question. For the sake of intelligent debate about public policy (ie, for the sake of good government) the left needs to do more than ditch the discredited policies of its past. It needs to develop a new programme that is not just economically literate, welcome though that would be, but distinctive as well.

Same means, different ends

In a variety of countries, attempts to do this are under way (see pages 19-21). Few of these efforts are promising, for a reason that is both revealing and dispiriting: most socialist modernisers remain instinctively hostile to market economics.

Some "market socialists" say, for instance, that capitalism would be all right as long as firms worked in a different way. They propose batteries of regulation to increase worker participation in management, to oblige firms to take a longer-term view, to make them more sensitive to the needs of their "stakeholders" (as opposed to the people who merely own them), and what not. Other modernisers see environmental questions as the niche for a new socialism. Still others emphasise the role of trade and industrial policies in maintaining some supposedly desirable mix of activities. The list goes on—each such policy justified by an elaborate appeal to the concept of "market failure". This idea remains the hallmark even of modernised socialism, central both to its substance and its presentation. The market alone cannot do this, cannot do that. State intervention—cleverer than before, but broadly based and, in its way, hardly less ambitious—remains the offered remedy.

Such thinking is profoundly misguided. In a sense market failure is pervasive. Competition is "imperfect", production and exchange involve externalities, the future is uncertain; for all these reasons, markets fail to allocate resources precisely as they would in the textbook world of basic economics. By the same test, there is much to be said for central planning. But this century's most important economic lesson is that, except in textbooks, government failure is broader, more damaging in economic terms and much more threatening to individual liberty than market failure.

The question is whether socialists can accept that truth whole-heartedly; rather than, as at present, half-heartedly, with 10,000 qualifications, or not at all. The answer may well be No. For many, "socialism" by definition cannot accept the market as the right framework for organising society. After all, socialism has a history. Its roots lie in an analysis of society that denies not merely the efficiency but also the moral content of free interaction among economic agents. If that analysis is bankrupt (and it is), what is there left for "socialism" to say?

Plenty, as it happens—with or without that label. The aims of socialism as a programme of social and economic reform, as opposed to the analysis of socialism as an intellectual discipline, have always been the source of its popular support. Goals such as reducing poverty, promoting equality of opportunity, and improving the quality of public services for all remain enormously appealing. In these aims, not in the arcane theories of economic planning, lies the reason why so many people for years invested in socialism their hopes for a happier and healthier society.

If those goals, as opposed to the ideological apparatus in which they were once couched, matter most to today's socialists, there is no reason why the left cannot be as vigorous in its enthusiasm for market economics as the right. If leftist parties could bring themselves to believe that the market is wonderful (not merely useful if kept in its place), that it has delivered the vast majority (not a privileged minority) of people in the West to material well-being which they would never have attained otherwise, that it must be trusted to co-ordinate the great bulk of society's activities, then they could be far more effective in pursuing their aims as social reformers.

These aims constitute an agenda that is not only distinctive

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but which also attacks the right at its weakest spot. In many countries (notably Britain), conservative governments have failed to reform welfare systems in such a way as to prevent, let alone reverse, increasing poverty. They have failed to invest adequately in the forms of education (notably nursery education, and basic training in literacy and numeracy) that do most to interrupt the transmission of failure from one generation to the next. They have failed to maintain the supply of some public services (such as public transport) to those who have no choice but to rely on them.

Left-of-centre parties account for this partly by saying that conservative governments, unlike them, are not chiefly concerned about the people who suffer as a result. By and large, this is true. But the policies that are needed in response do not call for a searching critique of the market economy. In the aggregate, the market provides the resources for effective action; case by case, moreover, it is often the only effective way to deliver help to the people who need it. The goals of defeating poverty, expanding economic opportunities for the less well-off, and improving the quality of public services will only in fact be achieved by people who can say the words "market" and "capitalism" without sneering.

Exploiting the market

In framing market-friendly policies with aims such as these in view, left-of-centre parties actually have two decisive advantages over their conservative counterparts. First, they can more readily attack certain sorts of privilege. In many countries in Europe and elsewhere, the fiercest opponents of change are those who have traditionally benefited from the restrictive practices established over the years by the middle-class professions: doctors, accountants, lawyers and so forth. The left may be—and certainly ought to be—less willing than the right to defer to such interests. Second, the left's motives in reform are less in doubt. As a result, as "socialist" governments in Australia and New Zealand have shown, leftist reformers can often be more radical than right-of-centre governments in pursuit of efficiency, as well as in pursuit of equity.

This is especially true in management of the public sector. By getting better value for taxpayers' money, and by pruning subsidies to the better off, socialists can deliver more and better services to the people who need them.

Consider Britain's reforms of the National Health Service. By the end of the 1970s, the NHS had become a startlingly wasteful bureaucracy. The best that could be said for it was that it was comparatively cheap: Britain spent massively on health care, but less so than most other rich industrial countries. The service worked badly. Access to medicine and treatment was controlled by rationing; the system was slow and growing slower; standards of treatment and hospital accommodation compared poorly with those abroad.

The reforms undertaken by successive Conservative administrations—the attempt to introduce an "internal market", to ensure that resources were allocated according to the needs of users rather than the convenience of producers—made good sense. In principle, the changes were entirely consistent with the preservation of taxpayer-financed health care for all. In principle, they were capable of putting whatever resources the government devoted to the NHS to better use—meaning faster, better care, including for the least well-off. Voters remained intensely suspicious, however, not least because the government presented its plans as though saving money counted for more than improving the quality of the service. And the Labour Party vilified the reforms from the start, arguing that market economics has no place in the provision of health care.

If Labour wins power, it should think again. However much it plans to spend on health care, the intelligent use of market forces within the system would be its greatest ally in helping those who rely upon it. And because Labour would be trusted by the electorate to keep the NHS intact and free at the point of use, it could actually go further and faster than the Tories in improving the system.

The same goes for socialist parties in other countries, and for other forms of public investment. Adopt road-use pricing, for instance, and use the proceeds from that market-friendly policy to increase investment in railways and other forms of public transport. Introduce competition and market forces into education, by extending the freedom of parents to choose their children's schools, thus encouraging popular schools to grow and unpopular ones to shrink. In these and other areas, left-of-centre governments might still choose to spend more on public investment than conservative ones. That could make sense—but only if a framework (the market) was in place to ensure that the resources were well used.

Respect for market forces and incentives, together with a determination to help the unfortunate, can be expensive. A policy to equip the unemployed for work costs a lot: more, often, than it costs to keep failing industries afloat. However, measures that improve training opportunities for the unemployed make better sense than measures to defend a dying firm. They speed the creation of jobs in the right industries, promoting growth across the economy as a whole. Welfare reform is even more difficult than labour-market reform. It is costly and complicated to help the poor without worsening the poverty trap that is caused by the interaction of benefits and taxation. The remedy involves benefits that are better-targeted, but withdrawn more gradually as income rises, and minimal taxation at the bottom of the income scale. This costs money.

A left-of-centre party should nonetheless be ambitious in both these areas—making it all the more important to pare public spending of the kind that helps people who do not need to be helped. Here too, a left-of-centre government could be more daring than a conservative one. Acting as always in the name of equity and efficiency, it could make benefits to the elderly poor more generous, but reduce or eliminate benefits to the elderly not-poor; it could recover more of the costs of university education from the beneficiaries; it could narrow tax breaks and subsidies for the well-off; it could launch a vigorous assault on support (in the form of inflated prices and other subsidies) for farmers, thereby raising revenue for other purposes while cutting the cost of food.

A question of priorities

Much of this may seem unthinkable for Europe's socialists—like support for privatisation ten years ago. If so, it is because the character of the left, though altered and improved, needs to change further. Socialism must continue to define itself less in terms of means (we will manage the economy and civilise the market) and more in terms of priorities (we will help society's losers). The left should do this not merely to strengthen its electability further, though that would be one result. It should do it mainly because, once in power, it would then be far more likely to change society, as it wants to, for the better.

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Africa's stunted giant



The world won't look up to Nigeria until it can govern itself

NIGERIA is a big African country that badly wants to be taken seriously. By many standards, it should be. One in five black Africans is a Nigerian. Its oil-powered economy is the second biggest on the continent. It behaves responsibly abroad, sending peacekeepers to ex-Yugoslavia and Cambodia, and running a peacekeeping force in Liberia. All this qualifies it, in the eyes of some Nigerians, for a permanent seat on the United Nations Security Council, where its government could speak for the whole of Africa. The trouble is that its government scarcely seems able to speak for the whole of Nigeria—a parallel government is about to be set up, it is said—let alone Africa. Indeed, to dignify its rulers with the term government may be a mistake. However properly they behave abroad, at home they are a bad joke.

By almost any measure, Nigeria is a shambles. A year after its military rulers promised to hand over to civilians, soldiers—albeit a different lot—are still in charge. They talk about talking about civilian rule. Last month they held an election for a national conference to start talking. But few Nigerians bothered to vote. Many think that these soldiers, like previous ones, are simply currying favour with promises to quit that they will later break. This suspicion was hardly quelled this week when two ex-senators were charged with treason for calling on the army to step down.

Nigeria did have the chance to make a fresh start a year ago, but blew it. Its then president, General Ibrahim Babangida, had promised after eight years in power to hand over to civilians. The general held a presidential election, then declared the result void and called for another poll. He then changed his mind and handed over to a hand-picked interim government instead. Three months later that was overthrown by another general, who abolished all political parties and said he would start all over again. It is the winner of last year's annulled election who now wants to set up a parallel government.

It would be comic if it were not so serious. Potentially rich Nigeria has been impoverished through the folly of its leaders. Even before the current fiasco, it had squandered its oil windfall on all manner of loopy projects that had in the end to be financed by borrowing. It thus accumulated, and then defaulted on, a colossal external debt, worth more than its GDP; arrears pile up. Nigeria's foreign creditors will not ease its debt burden until the government gets a grip on its finances.

Yet it shows no signs of doing so. Earlier this year the new government threw out most of the plan introduced to stabilise the economy and brought back foreign-exchange controls. The budget deficit keeps growing. Government services do not. Today fewer children are at school than in 1980; more children under five are underweight than in 1975.

Lessons from the south

What chance of change? One African event might conceivably serve to embarrass Nigeria's rulers into governing better: the transformation of South Africa. Though irresponsible and corrupt, Nigeria's soldiers have never begun to match the systematic brutality of apartheid. Yet South Africa's much nastier regime has yielded to a fully democratic government, while Nigeria is no closer to democracy than it was ten years ago.

As South Africa re-emerges from its international isolation, Nigeria's claims to be the leader of Africa look even more feeble. Last month South Africa rejoined the Commonwealth. It will soon be fully involved again at the UN. Nigeria used to treat South Africa with disdain. Now Nigeria is indicted by South Africa as one of only two countries (with Sierra Leone) in the 51-member Commonwealth still under military rule.

It is not too late for Nigeria's soldiers to save their international face and restore democracy. Nigeria would not necessarily be better governed by civilians. But at least the voters would periodically have the chance to throw the rascals out.

Big shots in jail



Cleaning up corruption, or just being beastly to business?

THIS is an exciting time to be a captain of industry in Western Europe. Opportunity abounds. There is the opportunity of the single market. There is the opportunity to go east, as the nations of Central Europe convert to market economies. And, increasingly, there is the opportunity to go to jail.

Although only a few businessmen have so far been detained, they include some grandish names. One is that of Carlo De Benedetti, one of Italy's suavest moguls and boss of Olivetti, its biggest electronics company. He narrowly argued his way out of a night in jail when magistrates investigating his company summoned him to Rome, but had to endure a spell of house arrest and may still face criminal charges. Since Italy has been indulging in some Augean cleansing lately, the rich and powerful have been unusually vulnerable there. But the habit of locking up businessmen is spreading. Consider Didier Pineau-Valencienne, chairman of Schneider, a French electronics group. When he visited Belgium recently to clear up a spot of legal bother, a Belgian magistrate locked him up.

Mr Pineau-Valencienne was released after 11 days, but not before his arrest had put France in a huff. Frenchmen do not accept that one of their industrialists should be humiliated simply because a Belgian subsidiary may or may not have vio-

Photocopied by Lewin

lated the rights of minority shareholders several years ago. That his Belgian jailers allowed him to dine on food from the French embassy rather than on prison gruel did not soothe French opinion. French newspapers accused the Belgians of spite; Belgian newspapers retorted that their magistrate was simply doing what French magistrates would have done if they were not in thrall to the establishment.

Most people who are not Mr Pineau-Valencienne would allow that this episode has its elements of farce. But it is not all funny. At a minimum, the Schneider affair is a reminder to border-hopping companies that Europe's single market does not have a single legal regime, that companies entering new jurisdictions need to understand and obey local regulations, no matter how murky they appear, and that xenophobia is alive and well even in neighbouring countries that share the same language. But the affair's main lesson is that a proper desire to root out corruption can all too easily be construed as, or degenerate into, a witch-hunt against corporate big shots.

Humbling the mighty is a tempting way for ambitious prosecutors to make their names. In the 1980s a New York attorney, Rudy Giuliani, made a splash by hauling Wall Street brokers out of their offices in handcuffs. Some were innocent; but he is now mayor. In continental Europe the Napoleonic code gives investigating magistrates wider powers of detention, and these can sometimes be abused. An Italian magistrate, Antonio Di Pietro, is deservedly famous for his fearless pursuit of corruption in high places. His imitators may be less ethical.

When is it right to lock up a boss simply on suspicion that his company is involved in wrongdoing? If Belgian investigators had reason to believe that Mr Pineau-Valencienne would otherwise have gone into hiding or rushed back home to doctor vital evidence, they had a case. If they locked him up simply because it looked like a convenient way to make his company sweat they were wrong. And they were doubly wrong if they did not really believe that Mr Pineau-Valencienne personally ordered or knew about the alleged crimes of his company. It is in this respect that the Schneider affair should send a shiver through boardrooms everywhere.

Even fat cats have rights

In too many jurisdictions, the idea is spreading that bosses should be held to account for all the actions of their companies, and of individual employees, even if the bosses did not themselves knowingly break the law, and did not know that the law was being broken. This notion is dangerous.

Companies are entities in criminal law: if they act illegally, they can be fined. In some cases, individual bosses may also be culpable—for being part of a fraud, say, or for criminally neglecting to ensure that a product is safe—in which case they can be sent to prison. And top people do need to make sure their firm has insurance to cover their individual liabilities as board directors. But, just as senior folk should not be above the law, nor should they be denied its usual protections. They should be jailed if they knowingly did wrong, and if their personal guilt can be established in court. There can be no justice in locking up an innocent man just because he is a top man.

China's North Korean test



One that cannot be ducked

NO ONE, save perhaps Kim Il Sung and his cronies, relishes the prospect of a showdown on the Korean peninsula. The countries that have worked hardest to end North Korea's nuclear nose-thumbing—the United States, South Korea, Japan and China—would all prefer to see a negotiated solution to this increasingly dangerous problem. Yet all diplomatic efforts have so far failed, North Korea goes on breaking its non-nuclear promises and economic sanctions of some sort seem bound to follow (see pages 47 and 56). If Mr Kim means what he says—that sanctions would turn the cold war between the Koreas hot—then South Korea, and the American troops stationed there, may soon have a fight on their hands. Japan, which is within missile range, could also be involved. Only China, North Korea's semi-friend, is unlikely to be a target for its bombs and bullets. Yet, war or no war, the Korean crisis could still do China immense damage.

The Chinese have two interests in the outcome of the North Korean saga. One is the continued stability and prosperity of their Asian neighbourhood. The other is the survival of the antediluvian North Korean regime. While there was a chance that Mr Kim could be tempted in from his private cold war, these two interests could be kept in rough balance. No longer. At best a defiant North Korea obliges China to choose between the two; at worst it puts both of China's goals in jeopardy. What China now decides to do about North Korea will be a clear sign of whether it intends to use its increasing weight in the world for good or ill.

China's fast-growing economy benefits greatly from the gathering prosperity of the region. Anything that puts that at risk damages China too. China is also alarmed, if not in quite the same way as America and its allies, at the prospect of a nuclear-armed North Korea. If Mr Kim is allowed to cheat on his treaty promises, heightening fears that he is indeed secretly making bombs, then South Korea, Japan and Taiwan may be tempted to follow suit and build bombs of their own. A nuclear arms race of this kind in that part of Asia might prompt India and Pakistan to step publicly across the nuclear threshold. China would then be ringed by nuclear-armed neighbours, the region's stability would be in jeopardy and the cause of non-proliferation would be dead.

Since diplomatic efforts, China's included, have failed to divert North Korea from this dangerous path, America, South Korea and Japan have reluctantly concluded that stronger measures are called for. But China has balked, thus far blocking even talk of sanctions in the UN Security Council. Whatever it may think of Mr Kim and his policies, China is loth to see North Korea squeezed for fear that it will crumple and be swallowed up, East Germany-like, by its richer half. Yet China also knows that simply fending off sanctions will not necessarily save Mr Kim and company from the consequences of their own

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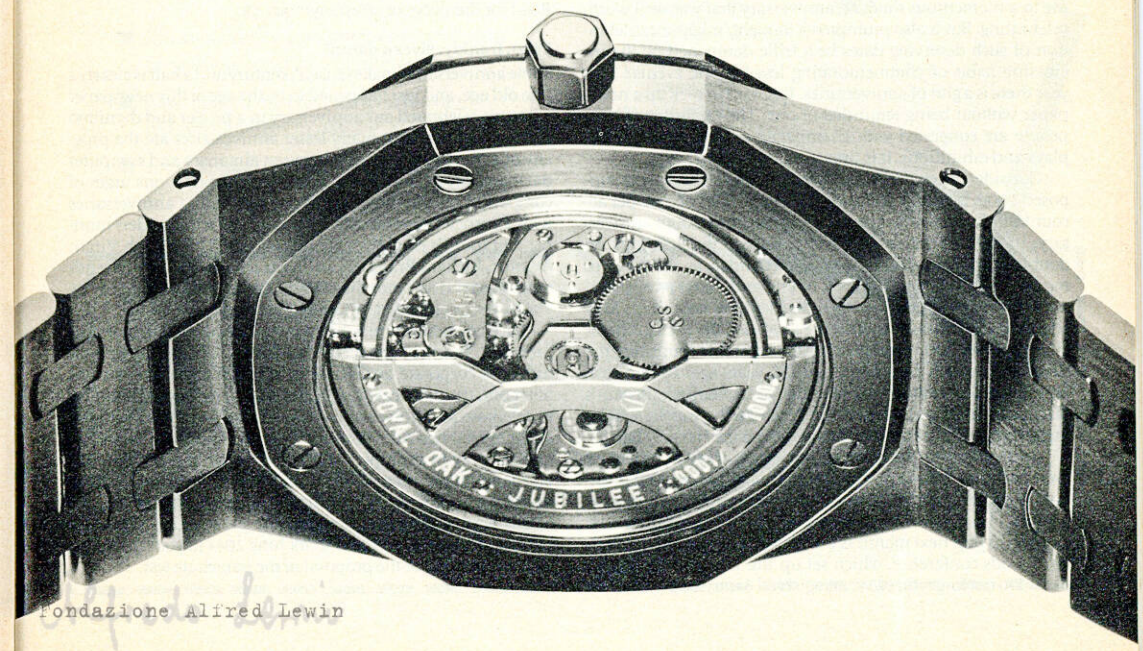

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folly. North Korea's economy is on its uppers. Economic reforms and foreign capital are needed, both in liberal doses. But aid and trade will be blocked until North Korea allows proper international inspection of its nuclear activities.

Great power brings big responsibilities

Faced with such difficult choices, China's leaders will be tempted to try to duck them. They might decide to block UN approval for sanctions, leaving America and the rest to go it alone if they want to. Alternatively, they might let the UN impose sanctions but simply refuse to apply them. Either course would be consistent with what China has so often done in the past: kept its head down while leaving America to bear the cost of sorting out Asia's security problems.

But with the world's biggest standing army and one of its biggest economies, China can no longer expect to skulk on the sidelines. As it has added to its military muscle (see page 55), the neighbours have comforted themselves with the thought that modern China's economic interests dictate co-operation with the outside world, not confrontation. But China is itself going through an unsteady patch. Unnerved by the collapse of communism elsewhere, anxious about unrest at home and preparing to do battle for the succession to Deng Xiaoping, its leaders have lately seemed to revert to the sort of chip-on-shoulder nationalism that may be intended mostly to strengthen their grip, but naturally makes the neighbours nervous.

At issue is not whether China is to be a power in Asia: it already is one. The worry is whether China can be counted on to use its growing power responsibly. North Korea provides an opportunity for China to show that it can. It has the greatest leverage on Mr Kim. It accepts that he has flouted his obligations under the Nuclear Non-Proliferation Treaty. Unless it is prepared to act to uphold the treaty (one that it has itself only recently signed), it will be seen to have turned protector of Asia's most dangerous rogue regime.

North Korea represents the first really big test of modern China's great-power reflexes. A decision to co-operate with America for tougher action by the Security Council would be hard for some of China's leaders to swallow. But great powers face hard choices. Co-operation would put China squarely on the side of international law—and offer the last chance of bringing North Korea half-peaceably to its nuclear senses.

All our yesterdays



A plague of anniversaries is sweeping the planet

WAR veterans and heads of state gathered on June 6th to commemorate D-day and to honour the men who, as Bill Clinton said, "saved the world". Old soldiers in their 70s and 80s parachuted back into Normandy. It was a fitting tribute to a momentous time; an anniversary that was well worth celebrating. But it also prompted a thought: might the celebration of such deserving dates be a trifle dampened by the increasing habit of commemorating less historic events? This year there is a glut of anniversaries. It is hard to pick up a newspaper without being reminded of one. The calendars of busy people are congested with champagne parties, firework displays and exhibitions. It is time to call a halt.

Consider the evidence. In May the Scots celebrated the supposed 500th birthday of Scotch whisky. Armies of unsober accountants have meanwhile been toasting their 500th anniversary: in 1494 a Franciscan monk published the first book on double-entry book-keeping—widely regarded as the birth of modern accountancy. The Bank of England shares its tercentenary this year with the distinguished London taxicab. In May scientists paid homage to Antoine Lavoisier, the French chemist guillotined 200 years ago. Ornithologists are mourning the Great Auk, which became extinct 150 years ago. By contrast, 1894 provided rather jollier events to remember: Britain's Blackpool tower was opened, the Peach Melba was created by Auguste Escoffier and America discovered the Hershey bar.

Anniversary-mongers are no respecters of big numbers, or even of round numbers. The International Labour Organisation is excited that the International Labour Organisation is turning 75 this year, Disney that Donald Duck is 60, financial journalists that next month is the 50th anniversary of the Bretton Woods conference, which set up the IMF and the World Bank. Do not forget that 25 years ago Neil Armstrong walked on the moon, Concorde went supersonic, Britain sent troops into Northern Ireland, America's young flocked to the Woodstock rock festival, the BBC first screened "Monty Python's Flying Circus" and the Beatles were photographed crossing Abbey Road for the sleeve of an eponymous LP.

Who, frankly, gives a damn?

Some anniversaries make sense. A century and a half is clearly a fine old age, and just happened to be the age of this newspaper when we celebrated our anniversary in a proper and dignified manner last year. But many lesser anniversaries are the progeny of a disastrous marriage between almanacs and computer databases on the one hand, and the public-relations urges of companies on the other. Firms are celebrating anniversaries with antisocial promiscuity. Fifty used to be the golden number, but today's executives are less patient. This month Virgin Atlantic, Richard Branson's airline, is celebrating only its tenth anniversary. Last month, Virgin Records, now owned by Thorn-EMI, celebrated its 21st birthday party.

Such celebrations may be good for sales of champagne and fireworks, but they are subject to the law of diminishing returns. As corporate anniversaries threaten to crowd one another out, there is a case for greater selectivity. Firms planning to celebrate an anniversary, or journalists writing about one, ought to bear two rules in mind. First, anniversaries should be marked only in multiples of 50 years—resist the 25, 75 or 125 year temptation. Second, no anniversary is worth celebrating unless the boss of the organisation is willing to follow the lead of this week's Normandy veterans by parachuting into their anniversary parties. Oh, and mark June 2044 in your diary: the 50th anniversary of the proposal of the parachute test.

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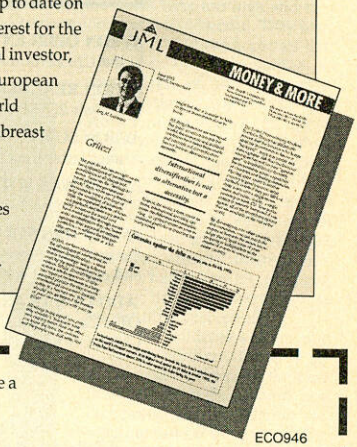

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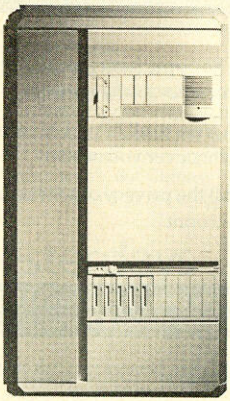

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*International Data Corporation, "Data General's Ascent in the UNIX Market," October 1993
**"The CW Guide to Servers," Computerworld (USA), March 22, 1993 and "CW Guide to Servers and Superservers," Computerworld (USA), January 31, 1994
***"Clash of the Drive Arrays," PC Week (USA), October 11,1993
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Rose-tinted visions

Europe's left-wing parties are profiting from voters' disenchantment with the right. But having tempered its historic passions for high taxation and public ownership, the left is still wondering how to redefine what it stands for

JAMES CALLAGHAN, who led Britain's Labour Party to its defeat in 1979 at the hands of Margaret Thatcher's Conservatives, said shortly before the general election that he sensed a "sea-change" in British politics of a kind that occurred "perhaps once every 30 years". Voters had changed their minds about the sort of government they wanted, he thought, and there was nothing that Labour could do about it.

Time has proved him right. Three more general elections and three more Labour leaders have so far come and gone while the party has languished in opposition. (Labour is now about to select a new leader, probably Tony Blair, following the death of John Smith on May 12th.) The change was, moreover, one that went far beyond Britain. Support for social democrats and other parties of the left was receding across northern Europe. The Labour Party's defeat in 1979 was part of a reversal that began with the defeat of Sweden's Social Democrats in 1976 (their first time out of government since 1936) and ended with the ousting of Helmut Schmidt's Social Democratic Party from the government of Germany in 1982. In 1974 the left had been running Austria, Belgium, Britain, Denmark, Finland, Germany, Holland, Norway and Sweden. By 1982 it had lost all of those countries bar Austria.

For these parties of the left, the early 1970s marked the end of a rise dating from the late 19th century. That was when the spread of industrialisation, trade unions, urbanisation and the male franchise across northern Europe spawned groups calling themselves socialist, labour or workers' parties. They declared their aims as being to promote the interests of the working class, to create a more just and equal society, and to achieve some degree of common or public ownership of the economy. These parties insisted that man could and should be a co-operative animal as well as a competitive one, selfless as well as self-interested. They spoke of responsibilities—such as helping the disadvantaged—as well as rights. They borrowed from the analyses and rhetoric of Marxism, but they were not revolutionary parties. Rather, they sought to define a socialist platform capable of appealing to a majority of voters. (For convenience, and though some would contest the label, they are called here collectively the parties of "social democracy".)

Often fighting as fiercely with communists as they did with conservatives and Christian democrats to their right, the social democrats established themselves as a durable force. They were northern Europe's parties of social reform in the years after the second world war, the champions of universal education, health care and income support.



The crisis which overtook these parties in the late 1970s and early 1980s flowed from changes in the world economy which were reflected in voter behaviour. The growth of service industries, and rising unemployment in traditional manufacturing industries, meant a shrinking of the social democrats' historic constituency among the industrial working class and the trade unions. At the same time, the dismal performance of most western economies in the 1970s appeared as a damning verdict on the interventionist economic policies which had become the orthodoxy of post-war Europe. If left-wing governments had given northern Europe some of the free world's most comprehensive welfare states, they had also imposed its heaviest tax burdens.

The wilderness years

By the late 1970s—the moment of Mr Callaghan's "sea-change"—voters were deciding that the welfare state was already large enough, that taxes were too high and that trade unions were too powerful. They were moving their support towards parties that promised less state and more market. As neo-liberals of the right sharpened their arguments and gained in confidence, the social democrats began losing their faith. For some, the fatal moment came with the abject failure of the French Socialists' attempt at unilateral reflation in 1981-83—proof positive that, as the liberal right had been arguing, international markets had grown too powerful for any national government to oppose them successfully.

In the wilderness years that followed, northern Europe's social democrats tempered their enthusiasm for high taxation and their hostility to privatisation, recognising that on these issues they had lost touch with too wide a section of public opinion. They also became the passive beneficiaries of the economic problems that beset their successors: unemployment continued to rise, and at the turn of the 1990s recession reappeared. Gloomy voters started worrying more about some of the long-term social and environmental consequences of neo-liberal policies, notably in areas such as welfare reform, crime and pub-

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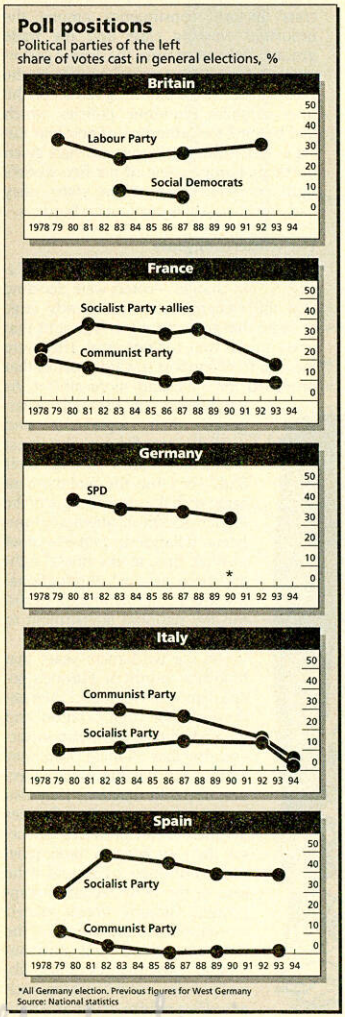
lic transport. In Britain, Conservative rule had meant lower income-tax rates for the better-paid and higher productivity in industry, but also the biggest income inequalities in half a century.

Disenchantment with sitting governments began manifesting itself, to the benefit of the left, when Denmark's Social Democrats regained power in January 1993. Norway's Labour Party won a general election eight months later; and left-wing parties in Sweden and Finland look set to complete a run of Nordic victories in elections set for this coming September and March respectively. The left won most votes in Holland's general election last month. October's election in Germany promises to be a tight race between right and left. British opinion polls show the Labour Party far ahead of the Conservatives, though a general election need not be called until 1997. Social democrats were also expected to do well across Europe in elections for the European Parliament on June 9th and 12th. All told, the mid-1990s seem to hold out to northern Europe's social democrats their best hope of office in two decades.



In southern Europe there has been a different picture, or at least a different rhythm. There, left-wing parties were approaching only in the early 1980s the sort of high point that their northern cousins had touched a decade earlier. In Portugal, Greece and Spain they had been repressed until comparatively recently by right-wing dictatorships, and were establishing themselves as natural parties of government even as the northern parties were entering their eclipse: a landslide general-election victory in October 1982 installed Felipe Gonzalez as Spain's first Socialist prime minister just three weeks after Helmut Schmidt had lost power in Germany. France moved with the south: François Mitterrand became its first Socialist president in 1981.

The southern parties differed in style and often in substance from those of the north. Obliged to contend with communist parties that were well entrenched among the industrial working class and the largest trade unions, the southern parties evolved into militant machines that functioned best under the autocratic control of a charismatic leader—Mr Mitterrand in France, Bettino Craxi in Italy, Felipe Gonzalez in Spain, Mario Soares in Portugal, Andreas Papandreou in Greece. In power, the southern socialists were vulnerable to the same depressing economic fundamentals of erratic growth and rising unemployment. But for historic reasons, they were also in a position (except in Italy) to push through big and long-overdue programmes of social, administrative, legal and constitutional reform which maintained their popularity and also their own morale. In Spain, Mr Gonzalez created regional assemblies and a national system of health care; in France, Mr Mitterrand introduced new labour laws, ended capital punishment and devolved power to regional and local authorities.

So long as they remained the champions of reform, the southern socialists exuded an air of liberalism, secularism and modernity that appealed to young, urban and middle-class voters. Recently, however, they have become tired and lazy in power, and voters have been turning against them too. In the past two years, financial scandals have destroyed the Italian Socialist Party and weakened the Spanish and French Socialists. The left has been beaten in Portugal, France and Italy; in Spain it holds on only narrowly.

Yet, whether the electoral pendulum seems to be swinging towards them as in the north, or against them as in the south, Europe's social democrats face a shared problem. By definition they are an alternative to the right and may rise or fall as the policies of the right appear to fail or succeed. But having conceded, in effect, that high taxation, welfarism and big government no longer win votes, and having arrived at an accommodation with (if not an enthusiasm for) the market, the left has yet to construct any new framework of big ideas with which to move forward. Social democrats may reasonably retort that their values—unlike those of many parties of the right—have been remarkably constant for a hundred years now. But that is little comfort unless they can find policies which express those values and still differ clearly from the policies of the right—a particular conundrum in continental northern Europe, where the right is as much paternal as it is liberal.

Spot the difference

In Austria, for example, there are almost no discernible policy differences between the Social Democrats and their right-of-centre coalition partners. In Germany, Mr Kohl's centre-right coalition and the Social Democratic Party bicker about the precise level of special taxes needed next year to finance the reconstruction of the east. In France, Mr Balladur's right-wing government is continuing most of the policies it inherited from its Socialist predecessor, and arguing mainly with its own dissidents who want to devalue the franc and reflate the economy.

Britain's Labour Party, though frightened to say anything about macroeconomic policy that might lose it votes, has at least been confronting a right-wing party of authentically neo-liberal views: so it has been able to mark its differences by advocating, among other things, much more investment in training, more spending on infrastructure, and restrictions on hostile takeovers. Italy's Democratic Party of the Left (PDS), which emerged out of what was the Communist Party in 1991 and models itself on Germany's Social Democrats, may find similarly straightforward opportunities to mark its differences with Silvio Berlusconi's new neo-liberal government: it supports privatisation, but opposes Mr Berlusconi's plans for tax cuts, and will defend the welfare state.

Away from mainstream economic policy, most of Europe's left-wing parties find clear-cut issues easier to make their own. Because voters for right-wing parties usually want promises of strong government and tough law-and-order policies, the parties of the left have been able to champion decen-

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tralisation and civil liberties. In France, the Socialists boosted the powers of the regions when in office; in opposition they are objecting to greater powers for the police against illegal immigrants. In Britain, the Labour Party is looking at ways of revising a constitution which is, by European standards, peculiarly archaic and centralised: the party talks about reforming the House of Lords, introducing proportional representation for parliamentary elections and establishing regional assemblies.

Parties of the left tend to be more willing than those of the right to promote positive discrimination for women: Italy's PDS allots 40% of its senior positions to women; Britain's Labour Party has decided to fix a base-figure for women parliamentary candidates. They also tend to present themselves as the champions of environmentalism and consumer rights: Sweden's Social Democrats dismantled agricultural protection when last in government; in Australia, where political traditions mirror those of Europe, the Labour Party defends rain forests and opposes Antarctic mining.

A hundred flowers bloom

The question of European integration divides parties of the left and right alike; but the left is, by and large, more supportive of it than the right. Parties of the left see the European Union as a unit large enough to sustain its own economic, labour and trade policies in a way that no single nation could; and, as such, as a means for implementing effective policies in such areas as pollution control, worker consultation, labour market regulation and macroeconomic policy co-ordination. And it is parties of the right—such as Britain's Conservatives, France's Gaullists and, on occasion, Germany's Christian Democrats—that tend to be the natural home of those who place the strengthening of nationhood and sovereignty at the top of their political agenda. For southern social democrats, the EU is an ally in the economic and political modernisation of their countries. The combination of those factors is enough to make social democracy—albeit unevenly and erratically—a pro-European movement, to the annoyance of some of its traditional supporters. (In Sweden, Norway, Finland and Denmark, party leaders are strongly pro-EU while party members are sharply divided.)

Espousing these causes and issues has increased the appeal of social democratic parties to middle-class voters; but it has also alienated some traditional working-class supporters, and so created openings for populist parties offering simplistic policies strongly flavoured with racialism and nationalism. Austria's Freedom Party, Denmark's Progress Party, Italy's neo-fascists and Germany's Republicans have all gained from social democracy's middle-class drift.

The search for a convincing new mix of policies, fiscal policies above all, keeps social democrats busy across Europe in a perpetual round of conferences, seminars and pamphleteering. One camp, the "market socialists", accepts that free markets are desirable but argues that the companies which compete in them should be organised along socialist lines. Market socialists favour co-operatives, employee share ownership plans and worker consultation as methods of redistributing power and wealth within companies. Pointing to Germany, they argue that up-market firms perform better if they develop long-term relationships with stakeholders (employees, suppliers, customers and bankers) so as to give all parties an interest in one another's well-being.

Other social democrats argue, still, for distinctive and strongly interventionist economic policies. Among them is Michel Rocard, the French Socialist leader, who has proposed three "solutions" to the problem of unemployment. First, as part of a Keynesian "New Deal", the EU would borrow 50 billion ecus ($58 billion) a year for five years and spend it on public works. Second, the state would subsidise the provision of services to help the elderly, the handicapped and children, creating employment in those areas and so reducing dole payments. Third, manufacturing industry and public services would be placed on a shorter working week—first of 35 hours, then of four days.



In Britain, theorists argue for fundamental reforms of the state and of the democratic process. A pamphlet from Demos, an independent British think-tank, suggests "unbundling" taxes so that citizens can see where they go*. If transport, health and education authorities raise their own levies, the thinking runs, people might be happy to give more money for better services.

"Communitarian" social democrats argue for a return to ethical roots through the development of community values; they draw on the work of Amitai Etzioni, a professor of sociology at George Washington University in Washington, DC, who thinks that societies need shared notions of right and wrong if they are to cohere. Modern ones, he fears, have overemphasised the importance of rights and underestimated the significance of responsibilities, fostering selfishness and self-absorption rather than an awareness of the needs of others.

Mr Etzioni recommends that parents—men as well as women—spend more time with their children, even at the expense of their careers; and that young people do a year of community service. These are ideas that find an echo among Catholic social democrats in Europe, such as Jacques Delors, president of the European Commission. A communitarian programme might place strict controls on out-of-town shopping centres and new road developments, encourage schools to stay open in the evening as drop-in centres for pensioners, and urge adult children to help elderly parents.

All in the mind

It should be an important source of comfort and inspiration for social democrats that, even if economics seemed to have betrayed them in the 1970s, psychology is coming to their defence in the 1990s. Surveys of social values suggest that Western Europeans at least have become less concerned during the past few years about personal consumption and self-advancement. Instead, they worry more about declining standards of morality and about their physical, environmental and economic security. The spread of global markets, labour-market deregulation, new technology and new management methods has left some civil servants and middle managers as fearful for their jobs as industrial workers alone used to be.

Social democrats can speak to such fears by putting forward plausible, practical proposals for tackling crime, helping the unemployed, and improving education and the quality of life—libraries, public transport, local government, for example. If the public mood is still against expansion of the welfare state, social democrats can offer policies that target benefits more effectively at those in genuine need. Perhaps, in sum, social democrats may even be better equipped with lots of small ideas than with a few big ones, so long as those ideas offer an alternative to the ideas of the right—essentially, by upholding the belief that societies should be judged not by the well-being of their richest members but by the fate of the less well-off. As a contention, this may be right or wrong. But as a choice, it is certainly worth preserving for voters themselves to make.

* "Reconnecting Taxation", Geoff Mulgan and Robin Murray, Demos, London, 1993

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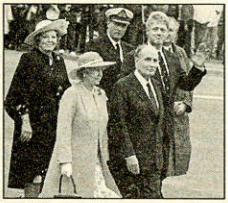
The Economist

Politics and Current Affairs

Vote, vote, vote

The 12 countries of the European Union are electing a new, more powerful, **European Parliament**. Britain, Denmark, Ireland and Holland went to the polls on June 9th; the rest vote on June 12th. Only in Britain has the future of the Union been hotly debated. If the Conservatives win fewer than ten out of 87 seats, the prime minister, John Major, may be in trouble.

The European Court of Justice upheld four complaints against the British government for failing to implement EU laws **protecting employees** whose jobs are transferred from one employer to another. The government shrugged off the ruling as "minor", but trade unions are seeking compensation on behalf of members who lost out.



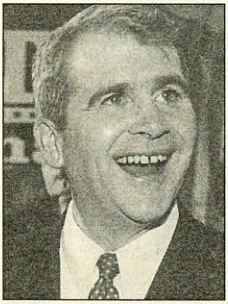
President Clinton came to Europe. Speaking at the D-day commemoration services at Pointe du Hoc in Normandy, he called on the western allies to keep fighting for democracy. He also talked to leaders in Britain, France and Italy. While praising the European Union for helping post-war reconciliation, he promised that America would stay engaged in Europe. In Oxford, his *alma mater*, he received an honorary degree. The president's wife ruffled feathers in Rome by saying she did not wish to meet "salon ladies".

Bosnia's warring factions said they would stop fighting on June 9th for a month. The United Nations envoy, Yasushi Akashi, wanted a longer ceasefire. The Bosnian Muslims fear that a longer truce would freeze the Serbs' territorial gains and make them permanent.

Italy's **neo-fascist leader**, Gianfranco Fini, whose party is in the governing coalition led by Silvio Berlusconi, raised eyebrows by saying Mussolini was "never a criminal". Jacques Delors, president of the European Commission, said Italy's far right should be kept under "a more concerned vigilance".

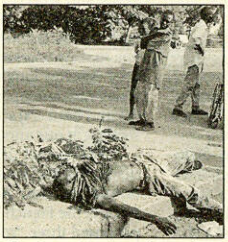
A German court acquitted three alleged **IRA members** of the murder of a British army major.

Squaring up



Kathleen Brown, Democrat, and Pete Wilson, Republican, won their respective party primaries in the **California governor's race**. Oliver North (above), of Iran-contra notoriety, won the Republican nomination for the Senate in **Virginia**. Bob Dole, the minority leader in the Senate, refused to endorse him.

A report on **teenage sex** from the Alan Guttmacher Institute said that more than half of American teenagers were still virgins at the age of 16, and that pregnancy rates among sexually active teenage girls had fallen by an encouraging 19% in two decades.



The Organisation of American States agreed on tougher sanctions against **Haiti**, but still fought shy of recommending an invasion.

Testing ground

China assured **North Korea** of its "unwavering friendship", and declined to support sanctions against the North for refusing to open its nuclear plants to inspection. North Korea, which is suspected of making a nuclear weapon, offered inspections of its reactor at Yongbyon in return for high-level talks with America. Since the Koreans have already unloaded the reactor's nuclear fuel, thus destroying the evidence, America rejected the idea.

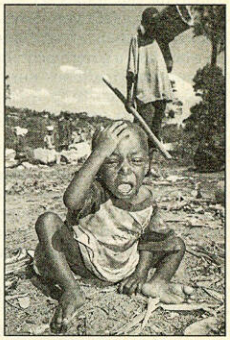
India successfully test-fired a ballistic **missile**, the Prithvi, which is capable of hitting targets in Pakistan. Benazir Bhutto, Pakistan's prime minister, said the testing was "provocative".

China's poor record for air safety took another knock when all 160 passengers and crew members died in the country's worst **air disaster**. A Russian-built Tupolev-154 crashed near Xian.

Muslim secessionists shot dead 15 **Christians** they had kidnapped on Basilan island in the southern Philippines.

Still trying

Moshood Abiola, winner of last year's annulled presidential election in **Nigeria**, threatened to set up a parallel government to try to force the country's military rulers to step down.



Bloodshed continued in **Rwanda**. The rebels said their "renegades" had killed 13 clergymen, including the Archbishop of Kigali and two bishops. Another nine priests were said to have been murdered in government-held territory. In general, the rebel advance continued, though there were some government counter-attacks. The UN announced the formation of a force of 3,000 men, to guard aid supplies and help protect refugees in Rwanda. The first group is expected soon.

Nelson Mandela's new government in **South Africa** said it would set up a commission to investigate abuses of human rights under apartheid.

Jordan and Israel agreed on practical steps to normal relations, notably joint commissions on boundary and water disputes, and a new Egypt-Israel-Jordan road.

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The Economist

Business and Finance

Doing better

GDP
% change from a year earlier

	1993	1994*	1995*
United States	3.0	4.0	3.0
Japan	0.1	0.8	2.7
Germanyt	-1.3	1.8	2.6
OECD Europe	-0.2	1.9	2.8
Total OECD	1.2	2.6	2.9

Source: OECD *Forecast †Western

Meeting in Paris, the Organisation for Economic Co-operation and Development forecast that its member countries would enjoy **economic growth** this year of 2.6%, up half a percentage point from its expectations in December. In Europe, it predicted, interest rates would fall. Mexico, which recently became the OECD's 25th member, is excluded from the figures.

Ministers of the OECD countries endorsed a report on the industrial world's **35m unemployed**. Its main prescriptions: more flexible labour markets together with better education and training.

Germany said its GDP (in the west) grew by 0.5% in the first quarter to give a rise of 1.6% compared with a year earlier, the first year-to-year improvement in nearly two years. The Bundesbank declared Germany's recession over.

The European Commission settled one of its biggest competition disputes to date by allowing a polypropylene joint venture between **Royal Dutch/Shell** and Italy's **Montedison** to go ahead. A condition was that separate technologies controlled by the two companies would remain independent of the venture.

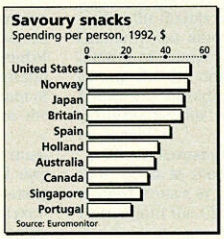
Link-ups

Sprint, America's third-largest long-distance telephone firm, called off a proposed merger with GM's Electronic Data Systems, the world's biggest software-services company, after a dispute over the price of the deal. Sprint may instead form a global alliance with France Télécom and Deutsche Bundespost Telekom. The two European telecoms monopolies are expected to take a minority stake in Sprint.

America's **Times Mirror** agreed to sell its cable-television business to **Cox**, the country's sixth-largest cable-television operator, in a deal worth a high $2.3 billion or so. The combined force would rank third in cable TV in America, after TCI and Time Warner.

A new twist in the computer wars. **Intel**, America's biggest chip maker, is teaming up with **Hewlett Packard** to develop a new computer chip. It will have to compete with a rival chip developed by **IBM**, **Motorola** and **Apple**.

Two washing-powder giants had a big scrap. **Unilever**, an Anglo-Dutch conglomerate, admitted that its American rival, **Procter & Gamble**, was right when it said that Unilever's new-formula washing powder wore out clothes. But Unilever said this happened only in laboratory conditions, and that it was reducing levels of the alleged culprit, manganese, in the detergent. It accused P&G of being jealous of its formula.



"Ethnic extruded snacks" such as tortilla chips are gaining ground in Britain. Americans are far and away the biggest **snack eaters**, spending $52 a head each year; the Chinese by contrast eat only 49 cents-worth. Also low on the list are the Mediterraneans, who still like their food fresh rather than processed.

One of Britain's big four banks, Lloyds, suffered a setback to its plans to take over the **Cheltenham & Gloucester** building society when a court ruled the terms of the deal unlawful. Both companies said they were considering an appeal.

Philip Morris is mounting a legal challenge against Australia's ban on cigarette advertising, which came into effect last year. The American tobacco giant asserts that "important issues of freedom of speech are at stake." It has used that argument before.

Fishy

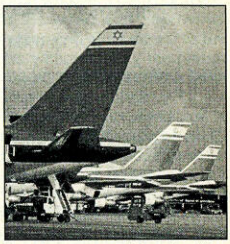


Another big fraud hit **German banks**. With the insolvency of the Jürgen Schneider property firm still causing trouble, prosecutors arrested four executives of Balsam, a maker of floors for sports halls. They were accused of defrauding banks of up to DM1.6 billion ($958m). Once again Deutsche Bank, Germany's biggest, finds itself in the position of having too big a share in a shady operation: it owns 15% of Balsam.

After 11 days in a Brussels prison, **Didier Pineau-Valencienne**, chairman of Groupe Schneider of France (and no relation to Germany's Jürgen Schneider), was released on bail. He denies all allegations of fraud and swindling involving two Belgian subsidiaries of his company. Valentino Foti, an Italian businessman also being held, remains in prison.

After one of its government-bond funds suffered heavy losses, PaineWebber, an American securities house, agreed to **compensate investors** by buying back $33m-worth of securities from the fund.

On the move



Israel announced that it will sell off 51% of **El Al**, the country's national airline, as part of a privatisation programme. The public offering will be made after October, when El Al comes out of its 13-year receivership. The remaining 49% will be offered later.

Mercedes-Benz started large-scale production in Indonesia of the MB 700, a medium-sized lorry, with production of a bus based on the same chassis to start later in the year, in a bid to raise its minuscule share of a market dominated by Japanese commercial vehicles. Mercedes is also keen to get away from its cost-heavy German base.

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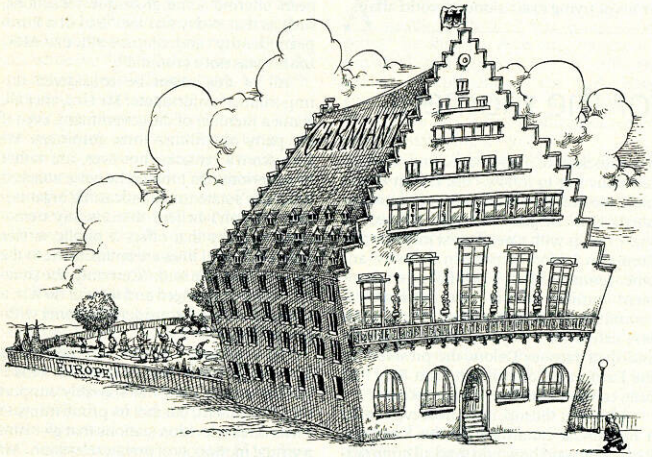

Germany's Europe

BERLIN

European integration is at the heart of Germany's view of Europe. But is that on Germany's terms? Or Europe's?

THE Germans take over the presidency of the European Union on July 1st for six months. Despite Chancellor Kohl's heartfelt calls for more unity, his diplomats in the engine room are promising few new departures. They hardly need to. A united Germany at the head of Europe is a momentous event on its own.

The EU was founded to bring a ravaged Western Europe prosperity, not communism, and to reconcile France and Germany after their third war in less than a century. Both aims have been achieved. After 50 years of European peace and with the end of the cold war, what is the EU's point? Is it still in Germany's interest? How does a giant of 80m people, accounting for 30% of the Union's GNP, fit into it?

Germany is in no mood for such questions, which its leaders wearily feel they have answered before: whatever Germany does in the world, they say, it does with partners. Germany is anyway distracted by elections and by paying for the costs of unification. More narrowly, its government wants nothing in the EU to upset the referendums on entry being held by the four would-be newcomers, beginning with Austria's on June 12th and continuing in the autumn with Finland's, Sweden's and Norway's.

The German agenda for its presidency is market-minded and down-to-earth in economics: more flexible job markets in Europe and deregulation of energy. If asked about immigration and foreign policy, two other German priorities, officials' voices trail vaguely away.

But the doubts linger. For 35 years West Germany was among the most *communautaire* of Europe's countries, giving and getting. In the original bargain in 1957, France got subsidies for its farmers, Germany markets for its goods and, as a bonus, respectability.

When Germany did raise its voice, it was most often as mediator or paymaster. It nudged France at critical moments: to let Britain join the Community in 1973 or to sign the GATT agreement last year. When D-marks were to be had, Germany threw them at problems, notably smoothing the way for Spanish and Portuguese entry in 1986. And to allay its neighbours' fears about unity in 1990, Germany pressed for majority voting in the Council of Ministers—hardly the act of an unreformed bully.

The worriers in Paris and London still want to know how far the behaviour of sovereign Germany is now to change. Their interests are not identical: the French nail-biters tend to want a closer embrace, the British ones more reasons to stand aloof from Europe. Issues that have already caused friction include:

- the prospect of less German money in the EU budget: Mr Kohl has already murmured that Germany pays too much;
- German pressure to recognise Slovenia and Croatia in 1991;
- German deafness to French and British pleas on interest rates in 1992 and 1993;
- the future of Franco-German relations after the generation of Mr Kohl and François Mitterrand, the last one with direct experience of the war, is gone.

The deeper question is how the EU fits Germany's own interests. For its security Germany needs good relations with neighbours, east and west. As a trader it needs to be open to the world and unprovincial. Such goals mean enlarging the EU to bring in easterners without losing the commitment to western neighbours, especially to France—no easy feat to achieve.

Hans Tietmeyer, the head of the Bundesbank, explained this week how Germany sees the difficulty. Enlargement is necessary, he said, but brings with it the danger of "a certain disintegration" if all countries move with the "slowest boat". The answer, he suggested, could be a multi-speed Europe, an idea getting sympathetic echoes from Paris, notably from Alain Lamassoure, France's Europe minister.

The resolution of this conundrum will not come until 1996 or 1997 at the earliest, when the EU's inter-governmental conference on institutions gets going. German ideas include weighting votes in the Council of Ministers for population as well as GNP, fortifying the European Parliament, trimming the commission's size and strengthening the presidency. This may start with the "back-to-back" German and French presidencies (France succeeds Germany next January).

Messrs Kohl and Tietmeyer assume that monetary union cannot be achieved before the end of the century, which spares them declaring how desirable they still think it. Soon after 1997 the EU will have to start listening to eastern applicants. Their entry would mean dynamiting the common farm programme and rethinking the structural

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funds—Europe's equivalent of revenue-sharing. Those issues are likely to set Germany, France and Spain at odds.

The darker fears of Germany's neighbours can never be wholly allayed. Nothing can prove that a united Germany will not be the EU's bully, reassert its old sway in Central Europe or lay claim to nuclear weapons. But the evidence suggests otherwise. Unlike the Bismarck Reich of 1871, united Germany is democratic and has no claim on neighbouring territory. Its politicians tend to see better than those of Britain or France the limits of trying to act alone in world affairs.

Italy

Mussolini is dead—for the moment

HOW nasty is Italy's new government? To hear what politicians in other European countries have been saying about the neo-fascist part of the ruling right-wing coalition, you might have thought that Mussolini were back in charge. He isn't. No one with a genuinely fascist past is in government and, as anyone who knows Italy at all well can confirm, fascism poses no serious threat. All the carping was enough to make even critics of Silvio Berlusconi, the prime minister, feel a little sorry for him—until, that is, Mr Berlusconi himself started to behave like a Latin American *caudillo* imitating a central African emperor.

The murmurs started straight after the Italian general election at the end of March, when Germany's foreign minister, Klaus Kinkel, described the victory of the right as "rather worrying". Once the government had been formed a month later, the muttering began to build in earnest.

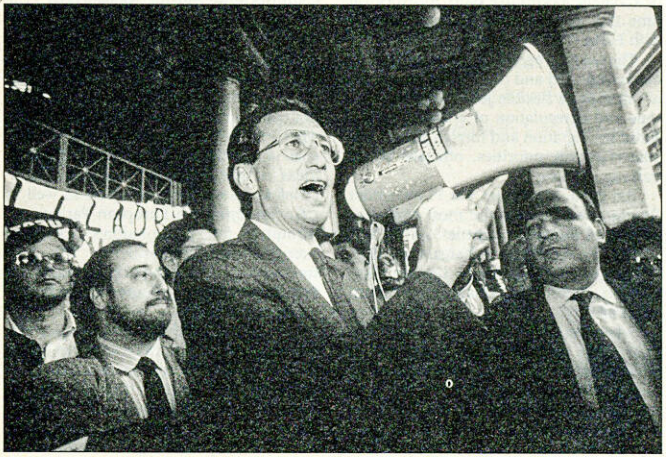
The European Parliament passed a motion urging Italy to be "faithful to the fundamental values that influenced the foundation of the Community". President Mitterrand "regretted" the presence of neo-fascists in the Italian government. In Germany the new president admitted he was worried by the presence of neo-fascists and warned Germans not to follow "the Italian example". Norway's foreign minister harrumphed. One Belgian minister refused to shake hands with a neo-fascist minister at a European Union meeting in Brussels; another reminded Italy's neo-fascist environment minister of the EU's fundamental commitment to democracy. Five Danish MPs called for a boycott of Italian goods, and then Jacques Delors, the president of the European Commission, said Italy had been contaminated by "a hideous beast".

A bit over the top, it seemed, even when a neo-fascist candidate for the European Parliament said he would send all homosexuals to concentration camps: every party has its fat-heads. Still, this remark did raise the question of whether the Italian Social Movement (MSI) did not have more than its fair share.

The MSI is the neo-fascist party that is the biggest element of the National Alliance, which in turn is part of Mr Berlusconi's ruling coalition. Gianfranco Fini, the leader of the Alliance and head of the MSI, is a supposedly intelligent man who has tried to differentiate the Alliance from the MSI and rid them both of their embarrassing jackboot image. The trouble is that the Alliance has no separate manifesto and, more seriously, Mr Fini cannot establish a new line without antagonising his supporters, who are rather less enlightened than he is. So, in order to keep them happy, he has been offering some grotesque reflections, such as that D-day was the "end of a European identity" and, on June 8th, that Mussolini "was not a criminal".

All of this might be considered unimportant, if unfortunate: Mr Fini, after all, is not a member of the government, even if his party contributes three ministers. Mr Berlusconi's remarks, however, are rather more serious. On June 7th he twice attacked RAI, Italy's state-run broadcasting organisation. "I don't believe there is any democratic country that offers a public service whose editorial lines are antagonistic to the government," he said. "Certainly, the situation must be changed and we will do it in a correct, balanced, considered manner without excesses."

To most other people, the odd thing about Italy is not that its state-run broadcasting service does not slavishly support the government, but that its prime minister owns three television stations that give him a virtual monopoly of private television. Mr Berlusconi concedes it is an anomaly, but not one that seems to bother him. Those who seek evidence of authoritarian tendencies in Italy may be wasting their time examining the coalition's junior partner. Just start at the top.



26 **Fini frightens Europe**

Top jobs

Finding Buggins

THE hugger-mugger way of choosing the next president of the European Commission is not burnishing the European Union's reputation for openness. Moreover, until **Jacques Delors**'s successor is known, a clutch of other top international jobs cannot be allotted.

Many Europeans are annoyed by the undeclared but well understood decision by Chancellor Kohl and President Mitterrand to plump for the Belgian prime minister, **Jean-Luc Dehaene**, as Mr Delors's replacement. This particularly offends Mr Dehaene's main rival, **Ruud Lubbers**, the outgoing Dutch prime minister. The EU's British trade commissioner, **Sir Leon Brittan**, still wants the job, but is the wrong nationality. So does Ireland's **Peter Sutherland**, former head of GATT, but he lacks big-gun backing. A last-minute dark horse could yet emerge in the shape of a Belgian viscount, **Etienne Davignon**, a former vice-president of the commission.

If the French and Germans fail to sell Mr Dehaene to the other ten heads of govern-

Fondazione Alfred Lewin

ment when they meet in Corfu on June 24th and 25th, a decision on the Delors succession may have to be put off. That would complicate the allocation of consolation prizes. If Britain accepts Mr Dehaene, **Nigel Lawson**, a former British chancellor, will have a better chance of becoming head of the OECD, although the Americans want **Donald Johnson**, a Canadian, to take that job, while the French have so far backed the incumbent, **Jean-Claude Paye**, a Frenchman, who wants to keep it.

Another plum is the top job at GATT's successor body, the World Trade Organisation, which must be picked by next year. The front-runner is **Renato Ruggiero**, a respected former trade minister of Italy. But the developing countries may feel that the rich ones should not hog the top spots, in which case the job might go to **Rubens Ricupero**, Brazil's finance minister.

Other jobs also wait upon the succession to Mr Delors. One is the head of the Western European Union, a body that could become more important if the EU's leaders decide in 1996 to make it the hub of the Union's defence structure. The WEU's current Dutch boss, **Willem van Eekelen**, has had his allotted five years, but wants to stay another two. He faces competition from **Mark Eyskens**, a former Belgian foreign minister. However, either man could be ruled out if his country were to win the coveted EU presidency.

For most of these jobs, merit matters less than a dignified past and the right nationality. That should not apply to the job of secretary-general of NATO, were it to come up. The illness of **Manfred Wörner**, who has held the post since 1988, is making his tenure increasingly awkward. He has just missed this week's NATO foreign ministers' meeting in Istanbul. He says he will decide before the autumn whether to bow out. Choosing a successor would be fraught with geopolitics. The Americans have always provided the supreme allied commander, Europe—the top NATO general. The French remain outside NATO's integrated command. So both countries are out of the contest. The Germans are the current job-holders. If Britain fails to get any of the other plums, **David Owen**, the EU's negotiator in ex-Yugoslavia, may fancy his chances, but is probably too abrasive.

That leaves the smaller NATO countries. If Mr Lubbers fails to win the presidency of the commission, he might succeed Mr Wörner. But his compatriot, **Hans van den Broek**, the EU foreign-affairs commissioner, might well do a better job. If, however, Mr Lubbers were to succeed Mr Delors, the worthy Mr van den Broek would then be out of the running—and out of a top job altogether. **Mr Buggins**, as usual, would be the winner; the loser, too often, the organisation itself.

Turkey's Kurds

Scorched earth

DIYARBAKIR

A YOUNG Kurdish villager ran to the car, openly terrified. "We're going, we're going," he shouted. A second villager approached and gently took his arm. He turned in explanation: "The Turks have given us 40 days to leave the village. He thinks you are plain-clothes policemen come to make sure we go."

Over the hill the neighbouring village of Sihoban already lies empty, its houses destroyed by fire and its 500 inhabitants gone. A few clothes and belongings lie scattered among the scorched ruins.

According to human-rights activists, more than 70 villages in the south-east of Turkey have been attacked and emptied since the Turkish local elections at the end of March. Hardly a day passes without someone being shot in the streets of Diyarbakir, the regional capital. More than 100 people, they say, have disappeared. Cities have also been cleaned out. The ancient town of Cizre on the River Tigris—once a bastion of separatist support—has been abandoned by more than half of its population of 60,000 since the start of the year.

The campaign to end the rebellion by the separatist rebels of the Kurdistan Workers' Party (PKK) in the south-east—which is costing Turkey $6 billion a year—seems to be approaching a new pitch of ferocity. Turkish security forces are under pressure to show results in the war against the guerrillas which is tying down more than 150,000 troops.

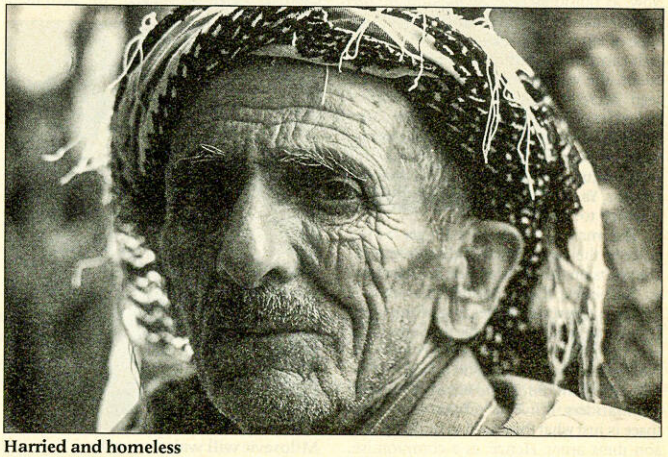
More than 800 villages are said to have been evacuated under government pressure since 1990. For the past year villagers say the army has cut off food and fuel, accusing them of supplying the PKK. Now Turkish security forces are increasingly turning to scorched-earth tactics. The result is a landscape of burnt villages and a population living in fear.

Some 8,000 or so Kurds have crossed into neighbouring northern Iraq. Like the 1.5m Iraqi Kurds who fled to Turkey and Iran after the Gulf war, most appear to be terrified refugees with stories of villages bombed (in their case by the Turkish air force) and relations killed. An 86-year-old man from the region of Hilal recounted how he had been taken from his village and held for 25 days by Turkish police. "They beat us constantly," he said. "They said we were PKK. But how could I harm anyone, even if I had the most sophisticated weapons in the world? I can hardly walk."

It is ten years since the PKK began its fight for Kurdish independence in a war that has claimed more than 12,000 lives. The PKK, says the government, has committed plenty of atrocities of its own. It is now said to have its back to the wall. Rebels are fleeing to anti-Turkish countries such as Armenia and Greece, or to remote areas of Iran and northern Iraq. The average life expectancy of its guerrillas—estimated to number 10,000, though some put the figure at 30,000—is now six months.

Turkey's embattled prime minister, Tansu Ciller, has vowed to crush the rebels this year, and appears to have given the security forces a free hand. But the fight against the PKK is forcing her government to resort to increasingly repressive methods. This week 13 journalists from the pro-Kurdish newspaper *Ozgul Gundem* go on trial in Istanbul, charged with membership of the PKK. The paper's editor faces a maximum penalty of 15 years in prison.

Meanwhile, in the south-east, the secu-



Harried and homeless

Fondazione Alfred Lewin

Starting early

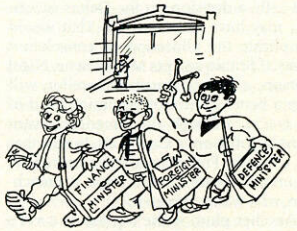
TALLINN

IN MOST European countries, the people running Estonia would be no nearer to power than the upper reaches of student politics. The finance minister is 33, the interior minister 29, the defence minister (now sacked, after a failed cabinet revolt last month) also 29, the foreign minister 27. Estonia's cabinet is certainly the most youthful in Europe.

Foreign-ministry officials tend to be even younger. The result is something of a generation gap between them and their counterparts outside government. One (not too antique) western ambassador in Tallinn says he sometimes feels that he is conducting talks with his grown-up sons. Baltic bureaucrats, especially from Lithuania, which is now run by ex-communists, feel that their Estonian opposite numbers display barely concealed disdain for their old-fashioned ways.

Youthful zeal has certainly given Estonians one of the most avowedly western and reformist governments in post-communist Europe, rivalled only by the Czechs and Slovenes. Last month Lady Thatcher told a beaming Mart Laar, the Estonian prime minister, that he is "her type of European". Unfortunately for the IMF and other outside well-wishers, the ruling Isamaa (Fatherland) coalition is deeply unpopular with the voters. It was humiliated in the local elections last year, and now has the support of under 5% of voters, according to one opinion poll—too few to expect a single seat in parliament at next year's general election.

Elderly voters in particular have deserted in droves. Their liking for Fatherland's robust foreign policy and emphasis on continuity with pre-war Estonia has been eclipsed by the collapsing value of their pensions, and by a series of messy scandals and upsets, including persistent



allegations of corruption. Matters are not helped by the quirky (and 65-year-old) president, Lennart Meri, whose relations with his prime minister, Mr Laar (34), are increasingly acerbic.

Party managers have wondered whether the special party congress on June 11th is the occasion to replace Mr Laar with someone less brusque and more politically adept. One candidate is Juri Luik, the foreign minister, who has a precocious and unnerving *gravitas*, which his boss lacks. Mr Luik is 27.

rity forces' operations are breeding a new generation of angry and frightened young Kurds. Caught between government forces and the guerrillas of the PKK, the question will be whom they come to fear most.

Bosnia

Thinking grey

BELGRADE

WHEN the killing raged, each side was united in its lethal common purpose. Now, as outsiders increase pressure on the belligerents—to give up land or give up hope of winning it back—the strains within each camp are beginning to show. To some extent, the warring parties may even have been secretly pleased when a ceasefire looked impossible to fix: hideous decisions, meaning compromise and concessions, could be put off. Now, after an accord brokered on June 8th by the United Nations negotiator, Yasushi Akashi, they have a month in which to sweat.

The main obstacle to a longer-lasting peace is their own internal disagreements. The splits on the Bosnian side are the clearest. Some fear that a prolonged truce will lead to a Cyprus-style freezing of the lines. This, some think, will enable the Serbs (who now hold more than 70% of the country) to stall permanently in talks on a final territorial settlement. But some Bosnian military commanders think a proper breathing-space is just what they need to build up and arm their army. Hence, as a compromise, the Bosnians' proposal of short but renewable ceasefires.

The Bosnians also fear that the longer the fighting stays quiet, the harder it will be to get men back to battle. Sarajevans are enjoying their first real peace in two years. They are not keen to fight and die for provincial towns and villages that they would hardly have deigned to visit in peacetime.

The Serbs are also divided. Serbia's president, Slobodan Milosevic, may well be keen to accept the proposed formula of 51% of the land for the Muslims and Croats and 49% for the Serbs. His main aim is the lifting of sanctions. All Mr Milosevic requires is a compact territory linked to Serb-held



Milosevic will wait a month

Krajina in Croatia which, at a later date, can be smoothly united with Serbia. He cares little which bits are given up.

In a clear signal of impatience with the Bosnian Serbs, Zoran Lilic, president of the rump Yugoslav federation, said on June 7th: "The strategy of drawing Yugoslavia and Serbia into war will not work . . . We cannot accept the option of [the peace talks'] endless postponement and sabotage."

Easier said than done. Most Bosnian Serb leaders accept the need to give up territory to the Muslims and Croats. On one condition, of course: that it is not "their" bit. For example, most accept that the area north of Sarajevo should be given up, enabling the Bosnians to link that city to central Bosnia. Most, that is, except for Momcilo Krajisnik, one of the three most powerful Bosnian Serb leaders. His village happens to be in the linking strip.

Soldiers and civilians are also divided. Many top Serbs want one last push to widen the strategic northern corridor linking Serbia with Serb-held territories in western Bosnia and Croatia. Until now the politicians have counselled restraint. If the Serbs hold back, they have argued, the Muslims and Croats making small probing attacks will gradually come to be viewed by the western powers as the real enemies of peace.

Bosnian Serb leaders say they do not need stop-go ceasefires but a proper truce. The Muslims fear this would allow the Serbs to hang on to all their gains. That may indeed be part of the Serb calculation, but maybe not all of it. They also want to see sanctions lifted.

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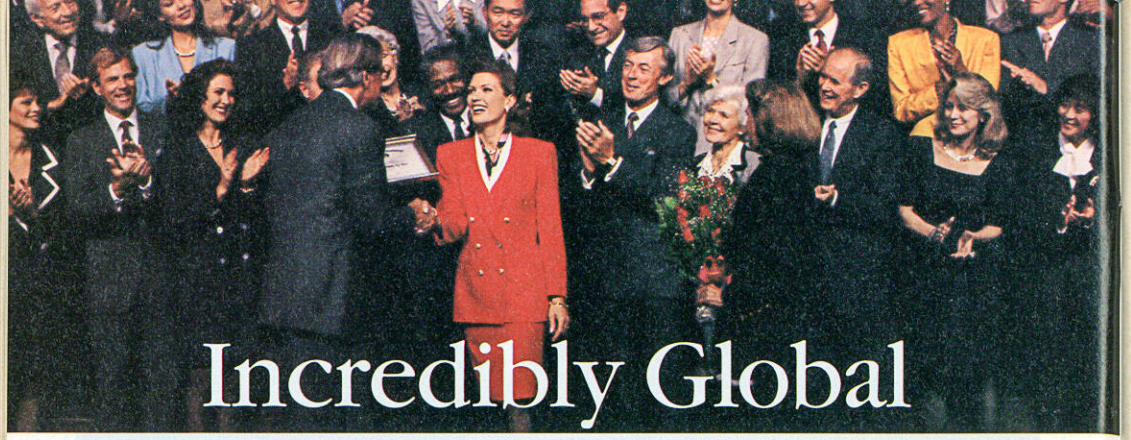

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of "grey zones"—areas deemed to be in dispute—is now emerging. The suggestion is that, both to show Serb goodwill and to discourage Bosnian Muslims from trying to take the zones by force, UN troops could be deployed in them, alongside Serb police. Apart from military observers and some troops around Sarajevo, no UN forces are now stationed on Serb-held territory.

Some Serbs oppose the grey-zone idea. They say that international pressure made them hand over a strategic mountain near Sarajevo to the UN; the Muslims then quietly took it back. They do not want something similar to happen again. But other Serbs think the grey-zone plan could be used as an argument for lifting sanctions.

Odd as it may seem, Bosnian Serb leaders may now be counting on western support. Recent threats by France and Britain to remove their troops if the parties do not buckle down to peace talks have been chiefly aimed at the Muslims and Croats. The notion of greyness may turn out to be a shade brighter than some of the wishy-washy schemes of the past.

Neutering neutrality

NEUTRALITY may be going out of fashion. The famous four European neutrals—Sweden, Switzerland, Finland and Austria—are all to some extent moving away from it. (By virtue of its cosy geography, far from the European maelstrom, the dilemma facing fiercely neutral Ireland, an EU member since 1973, has never been so sharp.) But the cautious quartet were, in any case, never at all uniform. Nor have the delicate steps they have been taking to join the world of blocks been in unison.

For a start, the neutrality of Finland and Austria, unlike that of Sweden and Switzerland, was involuntary. The Finns fought heroically, from 1939 to 1944, to prevent Stalin conquering them. The price of peace, framed in 1947 in a treaty of "friendship and co-operation", was a promise to keep out of the cold war—and never to say boo to a Soviet goose.

Austria had no choice, either. The final post-war treaty of 1955, whereby the great powers of the second world war vacated the zones into which Austria had been divided, linked the country's sovereignty to an understanding that it, too, would keep out of western power blocks.

Since the collapse of communism, both countries have unilaterally abrogated their agreements with the Russian heir to the Soviet Union. But it is not yet clear whether, provided that their citizens agree to join the EU, the two countries will join the WEU, the Union's embryonic military structure, let alone NATO. Finland says it will keep its options open, pending the outcome of the EU's inter-governmental conference in 1996, but, if the Finns agree in a referendum this October to join the EU, they will ask to join the WEU as "observers", but will continue to eschew NATO's "Partnerships for Peace".

Austria's present government, which is urging Austrians to vote to join the EU in a referendum on June 12th, likewise rules out the possibility of joining NATO, but its chancellor, Franz Vranitzky, contemplates joining the WEU—in due course. "A common security policy does not affect neutrality," says Mr Vranitzky. "We aren't throwing neutrality overboard overnight." The question of neutrality has loomed large in the referendum camapign. Some of those opposed to joining the EU do not believe the chancellor. Besides, many say that Austria's identity will be swallowed up in a Greater Germany, echoing the *Anschluss* of 1938.

The Swedes and Swiss have been quite different. For Sweden, neutrality was bolstered by a tradition of high-minded, sometimes pacifist, often anti-American, humanism. Even if Swedes say Yes to joining the EU in their referendum in November, the idea of joining the WEU, let alone NATO, would remain controversial.

But the national mood may have changed. Sweden's centre-right prime minister, Carl Bildt, has been unusually outspoken in backing the newly restored sovereignty of the Baltic states, which, in cheeky mimicry of Russia's foreign-policy vocabulary, he has described as Sweden's own "near abroad". If Russia were to attack the Baltic states, says Mr Bildt, Sweden would not consider itself neutral.

Neutrality has been equally dear to the Swiss, for whom, over centuries, it has been almost a *raison d'être* for statehood. Only eight years ago they rejected, by referendum, membership of the United Nations, even though they profitably offer a home to so many of its agencies. A fresh referendum on June 12th may, just perceptibly, modify Switzerland's traditional posture in the world. The question is whether the government should maintain a small volunteer force of soldiers allowed, under strict conditions, to put on the UN's blue berets.



Wrong-coloured beret

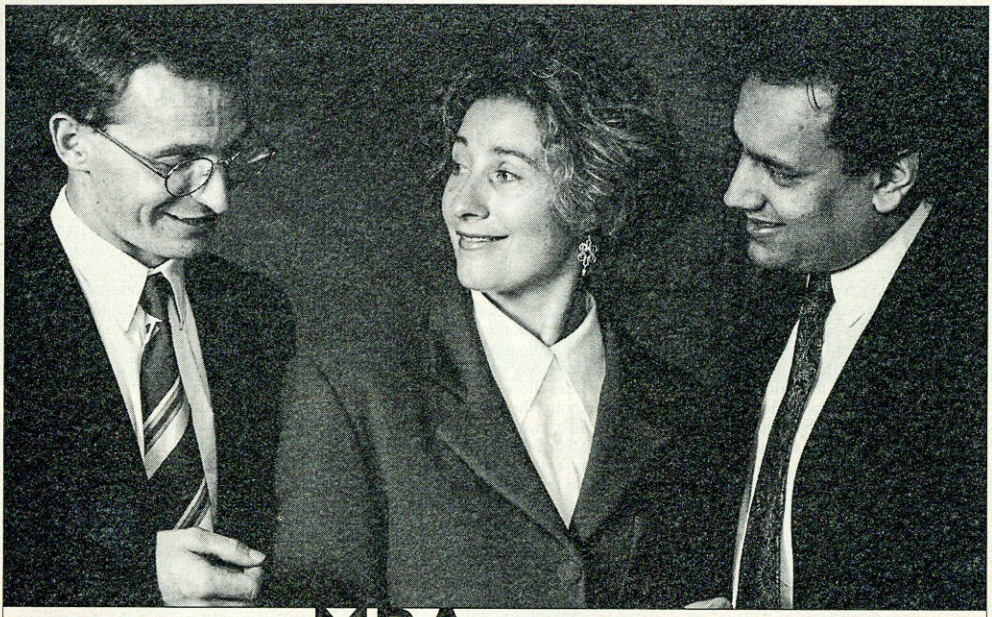
Switzerland's foreign minister, Flavio Cotti, and his colleague at defence, Kaspar Villiger, argue strongly that enlisting Swiss peacekeepers would by no means endanger neutrality. The only political party to oppose the force is the Swiss People's Party, and even that is split. The opponents' case, backed by televised images of death and danger, is that formal UN service would be a step towards internationalisation, including membership of the EU and the UN itself.

A few Swiss soldiers and policemen, in half-dozens round the world, from Korea to Palestine, and from Mozambique to Bosnia, have already done some peacekeeping. The new proposal would write such activities formally into the constitution, and turn the odd handful of Swiss here and there into a standing force of at most 800 men.

Long before they discovered skiing and high finance, Swiss halbardiers and archers had an honoured tradition of fighting other people's wars, often on both sides. That was outlawed after the Napoleonic wars, and now only the Vatican still has its Swiss mercenary guards, their toughness disguised by pretty striped uniforms.

Unlike the pope's defenders, the men of the proposed force would not need to be approved by their local (and exclusively Catholic) bishops. They would be deployed on behalf of the UN only as their government decides. The Swiss Officers' Society, a powerful voice in a country where universal military service extends into middle age, strongly favours the idea. There are plenty of keen volunteers. Yet the latest opinion polls give a slight edge to the force's enemies. Of the four neutrals, Switzerland remains the most reluctant to tangle with the world.

Fordham Rod Lewin



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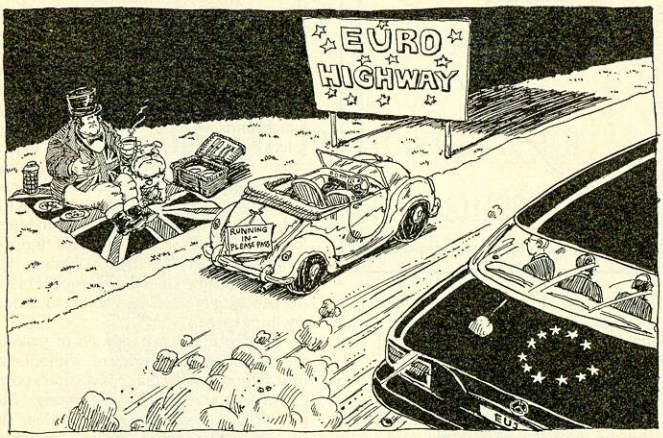

On the verge of Europe

Britain's European election campaign has been dominated by claims and counter-claims about whether the country will end up in the European Union's "slow" lane. The truth is that it is barely even there

WHEN Britain joined the European Economic Community in 1973, many continental Europeans looked forward to the prospect of three countries, rather than just two, leading the enterprise. Smaller member states, especially, looked to Britain to weaken the Franco-German hegemony and occasionally speak up for their interests. Britain's economy responded to the European challenge (see chart on next page), but not its politicians. For most of the past 20 years, France and Germany have remained in control while Britain has often seemed rather travel-sick. Despite constant strains in their alliance, neither France nor Germany thinks a troika could be a viable alternative, for Britain does not share their belief in a more united Europe. Whatever the results of the elections for the European Parliament on June 9th, Britain will remain in the slow lane.

Given the origins of the European Union (EU) as a means to bind together the continent's two biggest powers, and defuse their centuries-long rivalry, the hope that Britain could play an equal role with France and Germany may always have been unrealistic. But this did not make Britain's marginalisation inevitable. Many EU members have sadly concluded that Britain has played its hand badly, and continues to do so, perhaps more than ever.

When John Major replaced Margaret Thatcher as prime minister, in November 1990, Britain's stock in the EU rose. In March 1991 he declared that Britain should be at the heart of Europe. Help from friends such as Germany's Helmut Kohl helped Mr Major to win arguments at the Maastricht summit. But ever since the Danes voted against the Maastricht treaty two years ago, Mr Major has seemed more willing to placate his party's Eurosceptics than his European partners. His current talk of a multi-speed Europe reinforces their belief that, at least led by Mr Major (and probably any Tory), Britain would be happier in the slow lane where, inevitably, it would wield less influence.

Britain's partners complain that it seldom wants anything positive from the EU. They claim that, whatever the substance of the matter under discussion, the British dogmatically and systematically seek to minimise the role of the European Commission and the European Parliament, and the use of majority voting. "The British behaved better when Mrs Thatcher was prime minister," says a senior adviser to Jacques Delors, the commission president. "Then they handbagged you on some issues but were very positive on others, such as laws for the single-market programme." He claims that Mr Major's government is always negative and that, even on relatively uncontroversial single-market laws such as a commission proposal for common rules on the export of "dual-use" technology, it shows little enthusiasm.

British ministers often try a knockabout, House-of-Commons tone at European Union meetings. The resulting ill-will can make other governments reluctant to grant Britain favours—as Mr Major discovered in March when, during the row on new voting rules, they would not offer him a graceful way to climb down. France sometimes resorts to bloody-minded tactics in order to win an argument, yet it can also find allies because other countries trust its commitment on the fundamental issue of a more united Europe.

One indication of Britain's lack of clout is the fact that Sir Leon Brittan, the EU trade commissioner, has no chance of succeeding Mr Delors as commission president. In the chancelleries of Europe, officials admit that Sir Leon's abilities should make him a serious contender. But they say it would be inconceivable to give the presidency to a man whose country, in their view, behaves so badly. Mr Kohl and François Mitterrand, France's president, are backing Belgium's Jean-Luc Dehaene, partly because they consider Holland's Ruud Lubbers—once the favourite—over-indulgent to the British.

British diplomats claim that, thanks to the warm relations between Mr Major and Mr Kohl, and a common interest in EU enlargement and free trade, there is still a special Anglo-German friendship. German diplomats beg to differ. Mr Major's opposition to the new voting rules—when he appeared to jeopardise enlargement only to please his own party's Eurosceptics—went down badly in Bonn. At one point Mr Major suggested that Germany, as the largest member, should have more votes than Britain and France. But instead of pleasing the Germans, this made them suspect that Mr Major was trying to upset the French and destabilise the Franco-German alliance. Such is the mistrust of Britain.

The Foreign Office argues that, despite high-profile political setbacks, Britain remains influential at the nitty-gritty level of

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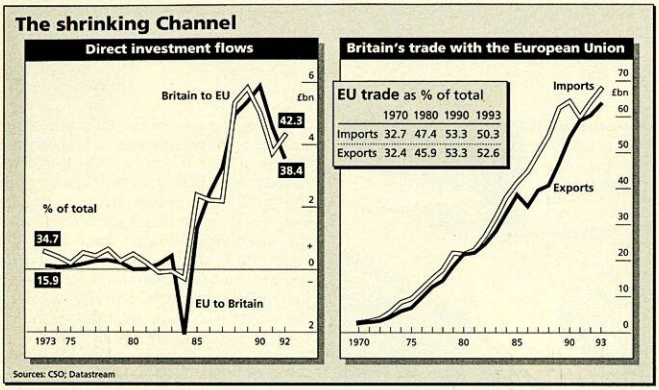

everyday business. It is winning some of the arguments on subsidiarity, trade with Eastern Europe and the need for more flexible labour markets. British diplomats point to the EU approving a German idea for a committee of businessmen to propose ways of cutting red tape. Yet they admit that, if Britain had made the proposal, it might have been seen as an attack on the commission and therefore failed to pass.

Douglas Hurd, the foreign secretary, claims that the increasingly sceptical mood of European public opinion shows that the continent is coming round to the British idea of a free-trading Europe based on the nation-state. Other governments retort that popular disenchantment with the EU is not the same as support for the views of Tory Eurosceptics. For instance, many French Eurosceptics oppose the EU because, to them, it represents free trade and open frontiers, which is precisely what some Tories criticise it for not representing. And, while opinion polls show most Germans to oppose monetary union and the scale of Germany's budget contribution, they still want a more powerful European Parliament and common EU foreign policies.

Many continental Europeans, for all their worries over Britain's long-term intentions, would be delighted if it played a more constructive role. So would the many American diplomats who believe that Britain would have more sway in Washington if it could exert leadership in Europe.

How might it do this? The field of common foreign and security policy, in which Britain has more expertise and experience than most of its partners, could offer a chance. The current mechanisms for co-ordinating foreign policies are inadequate. The country holding the EU presidency, which shifts every six months, takes a lead role, assisted by a Brussels secretariat of two dozen diplomats. But there is no central body to plan ahead or react quickly in a crisis. No senior individual can bang heads together or provide third parties with an interlocutor. At a recent meeting of foreign ministers which discussed Ukraine, Mr Hurd complained that the absence of briefing papers hampered their ability to decide anything useful.

Britain could propose ways of making the machinery more efficient, without significantly extending the commission's powers or introducing majority voting. The presidency could last for longer than six months and be confined to large countries. Small members could take turns to be vice-presidents. A heavyweight political figure—rather than, as now, an unknown bureaucrat—could head the Brussels secretariat and negotiate with other countries.

The Foreign Office claims to be mulling over such ideas. Earlier this year it proposed

Major setback

The timing was exquisite; the blow devastating. For weeks John Major had led the Tories' campaign for the European Parliament with the claim that Europe was moving Britain's way. On June 8th, one day before polling, the European Court of Justice delivered a ruling which showed that it isn't.

The government had been taken to the court by the European Commission. It charged Britain with five counts of failing properly to implement EU law which protects workers whose jobs are moved from one employer to another—for instance, when local-authority services are privatised. On four counts, the court backed the commission. Britain had failed to make sure employees were properly consulted; it had not insisted that employers seek agreement with employee representatives; it had not included non-profit undertakings in its rules; and it did not adequately penalise employers who failed to consult.

The British government responded that it had changed its law in 1993 to meet most EU requirements. Anyway, it said, the practical consequences would be "extremely limited". This remains to be seen. Hundreds of thousands of workers have been affected by contracting-out. Some may now sue, a possibility created by a 1991 court ruling in the *Francovich* case which forced the Italian government to compensate one person injured by its failure to implement EU law.

The latest ruling is one of several that threaten the government's plans to contract out local-authority and health services. The EU's Acquired Rights Directive of 1977 outlaws cuts in wages and conditions when an undertaking is transferred from one owner to another.

British ministers long refused to admit that the directive applied to local-authority workers because they did not work for profit-making enterprises. In 1993 it conceded that they were covered. But recent European court rulings have extended the definition of an undertaking ever wider. A German bank dismissed Christol Schmidt, a cleaner, when she refused the terms offered by contractors who took over the cleaning. She was declared an "undertaking", eligible for compensation. Meanwhile, the British courts have enforced European rules strictly. In the *Dines* case in May, employees' conditions were declared protected when a cleaning contract passed from one private contractor to another. Would-be contractors can no longer hope to win public-sector contracts by cutting wages.

Britain would like to water down the European rules. It claims support from the Germans, alarmed by *Schmidt*, and from the Italians, miffed by *Francovich*. Padraig Flynn, the social affairs commissioner, is preparing proposals to modify the law so it covers only transfers of "economic entities". These are expected to go to the EU's Council of Ministers in October. They may at least clarify the law. But "economic entities" will include privatisations; no European government backs British demands that contracting out be excluded. The blow to Mr Major's contracting-out policy is severe. Worse, despite his prized opt-out from the European Social Chapter, Europe is still interfering in Britain's labour market.

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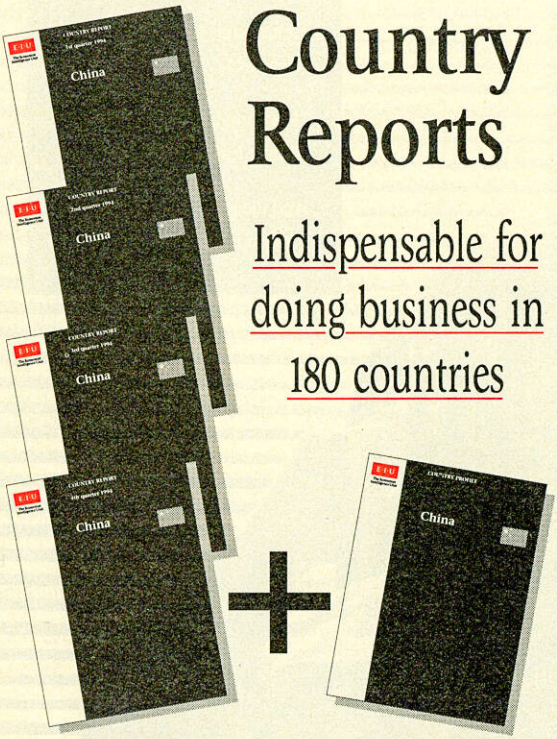

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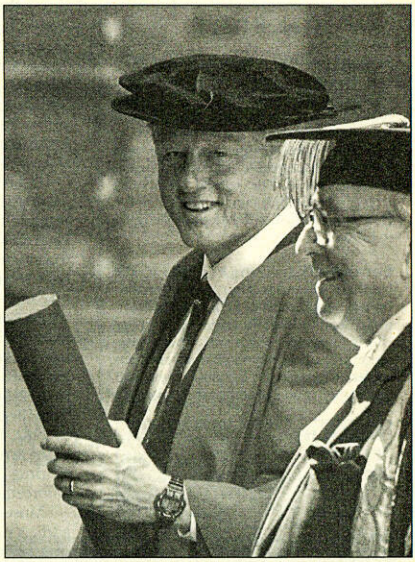
that the presidency should no longer rotate in alphabetical order, and that one of the "troika"—the past, present and future presidents—should always be a large country. Britain's partners agreed. They would welcome more ambitious proposals, so long as these did not appear to make a point of principle of excluding the commission.

Even if Britain succeeds in appearing constructive, its views on the EU's long-term objectives remain at odds with those of most other members. This problem resurfaces every time that constitutional matters are discussed. The inter-governmental conference due in 1996 is supposed to reform the EU's institutions so that they can cope with the East Europeans' accession. Most governments will argue that enlargement requires the national veto to be diluted, but Britain disagrees. "I predict that the enlargement of the Union into Eastern Europe will be postponed, mainly because of Britain's attitude to voting rules," says a senior German diplomat. That would provoke an almighty row, and do nothing to persuade Europeans, both East and West, that Mr Major's vision of a free-trading Europe of nation-states is best for everyone.



Cashing in on Clinton

Oxford University

Less equal than others

TO BILL CLINTON, who revisited his *alma mater* on June 8th to pocket an honorary degree, Oxford must have looked very much as he first found it in 1968: prosperous, parochial and a trifle self-satisfied. If he were to hang around for a while, however, he would learn that the university's mood is far from smug. Dons are reluctantly starting to think hard about everything from teaching methods to funding. Their cogitations are being given an added urgency by the fact that Oxford's poorer colleges face severe financial problems, perhaps even bankruptcy. Some dons suggest that Oxford granted Mr Clinton his degree only to garner free television publicity in America, home of many of the university's wealthier alumni.

The very notion of a poor Oxford college may strike many people as comical. But Oxford is a federal university, made up of 36 independent colleges. These colleges vary enormously in their wealth, from St John's, with a reputed endowment of £200m ($300m), to Pembroke, St Edmund's Hall and St Peter's, with respective endowments of £6m or less. The poorer colleges are finding it difficult to make ends meet. Pembroke, for example, is running a deficit of £500,000 on an annual income of £2m.

Apart from lax management, the biggest reason for mounting financial problems is that the Department for Education, desperate to educate a lot more students at only a little more cost, is trying to force all British universities to become more productive. The department has cut the money available for teaching each university student by more than a quarter since 1989-90. It is also reducing the annual bonus of £2,000 or so per student which Oxford and Cambridge get to meet the additional costs of their college system, by 2-3% a year in real terms, at a time when the cost of running colleges is rising by about 4% a year.

This squeeze is forcing the poorer Oxford colleges to scramble about for extra money. The time-honoured way of doing this was to enroll more students. But this policy may be becoming counter-productive. Students are getting less lucrative, as the government squeezes funding; and the colleges are discovering that additional students bring costs as well as benefits.

Partly in response to this squeeze on government funding, the most hard-pressed colleges have started selling privileges to non-university students. They allow "associated students" to use college facilities, such as the library and junior common room, in return for an annual fee of £3,000. They have also struck a deal with an American institution, Butler University, which enables American students in their junior year abroad to get a taste of Oxford life, at a cost of £1,900 a head.

Another consequence is that inequalities within the university are growing. The richer colleges, increasingly conscious that they need to compete for good academic staff in an international labour market, are padding out their pay-packets with generous perks, like better secretarial facilities, bigger housing allowances and longer sabbaticals. They are also attracting brighter students with cushier accommodation. Though the university has tried to suppress the Norrington table, which ranks colleges according to academic results, a *samizdat* version shows that poorer colleges do significantly less well than richer ones.

A third consequence is that tensions are growing within the university. The fact that the university, as a corporate entity, and the colleges, as autonomous institutions, are all trying to raise money has caused a good deal of confusion which some claim has been intentionally fostered by the poorer colleges. These tensions are being heightened by the fact that the colleges are currently renegotiating their internal taxation system, the "college contribution scheme", which takes from the rich to subsidise the poor. The poorer colleges are naturally on the side of higher taxes. The richer ones are less keen. In particular, rich colleges are worried that they will be forced to take over from the state as the source of university funding.

The debate about college contributions is only part of a larger debate about finance. Though most dons look forward to a time when a Labour government starts pouring money into higher education, the more hard-headed ones are starting to whisper a once forbidden word: fees. To some in the richer colleges, fees are the best defence against being plundered by their impoverished neighbours. To some in the poorer colleges, fees are essential if they are to flourish, or even stay afloat.

Drugs

Opening crack

THE only people who would want drugs legalised, you might think, are free-market radicals, junkies or both. On June 8th-9th, senior police officers held their annual conference on drugs. Some independent thinkers such as Raymond Kendall, the head of Interpol, the international police organisation, called for drug use to be brought within the law. But no chief consta-

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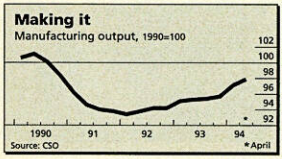
IN BRIEF

Squabbles The Conservatives' unity over Europe began to crumble in advance of the European elections on June 9th. John Gummer, the environment secretary, appeared to contradict John Major's vision of a multi-speed Europe. He said it would be "quite unacceptable" for Britain to go at a slower speed. The Liberal Democrats crumbled too when their candidate in the Newham North-East by-election defected to Labour.

Bombshell Sir Patrick Mayhew, the Northern Ireland secretary, admitted that the accidental crash of a Chinook helicopter in Scotland was "a severe blow to our efforts to combat terrorism". The 25 passengers, on their way to an anti-terrorism conference, included top policemen, and government and MI5 officials. All died.



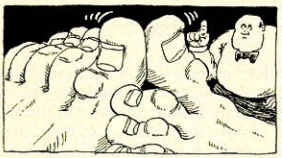
Boom After an unexpected fall in March, manufacturing output rose by 1.1% in April, according to government figures.

Body count A 12th body was found by police investigating the case of the alleged killers Fred and Rose West. The body was said to belong to a 22-year-old woman who worked for the couple as a nanny.

Lunatic asylum A riot broke out at an immigration detention centre in Oxfordshire. Eight inmates escaped. Graham Allan, a Labour MP, complained about the increasing numbers of asylum seekers imprisoned "as though they are criminals".

No joke An industrial tribunal awarded damages to a Northern Irishman sacked after he complained about a torrent of anti-Irish jibes. It ruled that the jibes amounted to racial discrimination.

No pay out The High Court banned cash payments of up to £10,000 to some savers in Cheltenham & Gloucester, a building society, putting on hold an agreed £1.8 billion takeover by Lloyds Bank.



Toe rag A 34-year-old man became the world's first toe-wrestling champion after beating 20 challengers.

bles dared voice public support for legalisation. John Major ruled it out on a visit to Cleveland, because people would "move from soft drugs to hard drugs." And, when Michael Howard, the home secretary, addressed the conference, he backed the prime minister. Only months before, he had increased the maximum fine for possession of cannabis five-fold.

But reality differs from rhetoric. Recent years have seen a creeping *de facto* legalisation of drugs. This softening has been caused partly by evidence that drug enforcement is failing. The police and customs have seized ever-larger quantities of drugs (the number of seizures rose by 237% between 1982 and 1992). Officers have caught more dealers (arrests are up by 179% over the same period). Yet drug use appears to have increased too. In a survey of 10,000 people in 1992, 28% of 16-29-year-olds said they had tried illegal drugs, roughly twice as many as in 1982. Even most policemen admit that rising arrests and seizures reflect the growth of drug use, rather than the success of enforcement.

Most drug users, of course, are neither addicts nor even miserable. Around half of drug users say they have taken only cannabis. Recent Home Office research shows that cannabis smokers are concentrated among professional and managerial classes. Two new magazines for dope aficionados—*Hemp Nation* and *Bush Telegraph*—have appeared. Even the *Sunday Telegraph*, a strictly middle-class paper, recently published an article on the etiquette of dinner-party dope-smoking.

Rave culture has also boosted the use of recreational drugs. According to a Gallup survey among 15-24-year-olds, rave drugs have taken root quickest of all. The proportion who had taken LSD rose from 2% to 10% between 1989 and 1992; those taking Ecstasy rose from 1% to 7%. "There's a whole generation of young people involved," admits Keith Hellawell, the chief constable of West Yorkshire.

Despite the hardline words of Mr Howard and other ministers, the police have become more pragmatic. For a start, they have become dramatically more tolerant of cannabis. In 1982, over 70% of those caught in possession of the drug were punished (with either a fine, community service or imprisonment). In 1992 only 30% were punished. Most caught with cannabis are now given a mere caution.

Police and health officers also now agree that the health of hard-drug users should take priority over arresting them. In 1988, the Department of Health pioneered a policy of trying to reduce the harm of drugs, rather than preventing their use. "AIDS represents a greater threat to health than drug misuse," it explained. The department set up 270 needle-exchange schemes. Doctors began to prescribe methadone, a heroin-substitute which is not injected. Such a harm-reduction approach has since been copied elsewhere in Europe and in America.

But, crucially, the approach entails more relaxed enforcement of the law. The Scottish Office recently complained that in the early 1980s a police crackdown on heroin users led to needle sharing and thus boosted HIV infection. So the police now steer clear of needle exchanges and spend more of their time chasing drug dealers rather than users. In fact, some police have become so concerned not to disrupt treatment that they say they have given up even asking questions of those visiting needle exchanges, though this might help them gather information on dealers.

The police reap benefits from such a policy too. Making it easier for addicts to seek cures, for example, can reduce crime. Studies show that around 90% of heroin users finance their habits from shoplifting or burglary. A few clinics are allowed to prescribe drugs themselves, rather than substitutes, to addicts. The Halton clinic, near Liverpool, claims particular success for its small-scale experiment in legalisation. A study of 150 addicts prescribed cocaine or heroin showed they committed 96% fewer crimes while under treatment. Senior officers, such as Mr Hellawell, are now calling for more research into such schemes.

Both chief constables and those who treat users are also beginning to complain that drugs education is too doctrinaire. They want teachers to admit to children that taking drugs can be pleasant as well as harmful. "The days of frightening people are over," argues Mike Goodman, the director of Release, the national drugs advice agency.

Many children, after all, realise that moderate soft-drug use may be no more harmful than alcohol or tobacco. Surveys shows that 30% of 15-16-year-olds say they have taken drugs. Mr Hellawell, too, advocates giving pupils better information. "You've got to be honest with children," he says. And yet whether more honesty, rather than scare tactics, actually reduces drug use among children remains unproven.

So far, the softening of policy towards drugs and the laws which criminalise their use have co-existed. But for how long? The police, for example, may retreat further from prosecuting cannabis users. The Department of Health may decide to reduce the health-risks of adulterated illegal drugs by allowing more clinics to dispense heroin and cocaine. And teachers, forced to concede that cannabis may be no more damaging to health than tobacco, could soon begin to stumble over explanations of why cannabis is outlawed. The contradictions of criminalisation, in other words, can only become more apparent.

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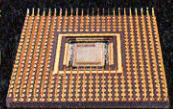

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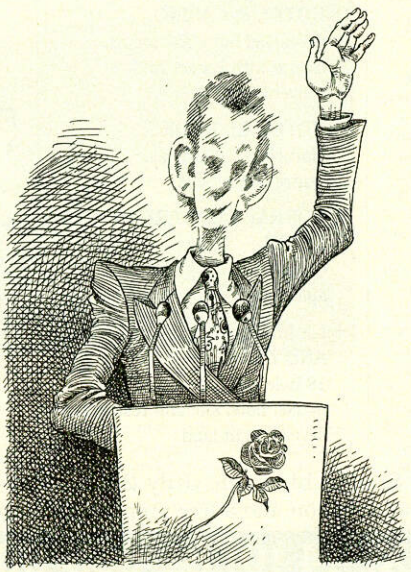
The crowning of Tony Blur

NEIL KINNOCK once ruefully remarked that he feared his place in history might be to smooth the path for Tony Blair's ascent to No 10 Downing Street. The betting is that Mr Kinnock's fear is about to be realised. On June 10th, the race for the Labour Party's leadership formally begins, and it looks as if, like the party's last two leadership elections, it will be more of a coronation than a contest. Some 15 years in the wilderness of opposition and four consecutive election defeats have left Labour with no stomach for a bruising contest. A desperate desire to win power has replaced ideology. By the time you read this, John Prescott or Margaret Beckett, or both, are likely to have stepped forward as candidates from the left; but their challenges will probably be defeated almost as easily as were those of Tony Benn in 1983 by Neil Kinnock and of Bryan Gould a decade later by John Smith.

For the Labour Party this will be a stroke of good fortune. While the Tories continue to tear each other part, the last thing Labour needs is an internal battle of its own. But for the British public such an easy contest will be a disappointment. Mr Blair is so far ahead in all three sections of the party's electorate—MPs, party members, and union levy payers—that he will not have to say much about what kind of Labour Party he wants to lead into the next election. The vacuum in policy which was the price of unity under John Smith is thus set to continue, at least for now.

And yet Mr Blair will be elected with fewer albatrosses around his neck than any of his predecessors, including Mr Smith, which should eventually give him the latitude to say something specific. Backed by a party electorate of more than 4m voters, Mr Blair will owe no favours to the union bosses. Most dare not even state their leadership preference for fear of being ignored by their members.



If the mandate is extraordinary, so is the fact that Mr Blair has risen through the ranks of his party with almost no ideological baggage. The rise and rise of "Tony Blur" or "Bambi", as he is variously described by his enemies, has been astonishing. Aged only 41, he is a public-school boy and son of a university lecturer (and Conservative supporter). His selection as MP for the safe Labour seat of Sedgefield in 1983 was a fluke, helped by his membership of a set of left-wing legal chambers.

Yet his parliamentary skills were soon recognised, not least by John Major, then Treasury chief secretary, who was given a rough going-over by his newly appointed Labour shadow. Mr Blair has a lawyer's ability to master a complicated brief and to concentrate fire on the weaknesses of an opponent's case. In his two front-bench posts, he has shown his mettle. In 1989, as the newly appointed employment shadow spokesman, Mr Blair had to persuade the unions to back the party's decision to accept some of the Tory reforms of trade-union law, including the abolition of the closed shop. He accomplished this sensitive task with only minor ructions—albeit at the cost of the party endorsing the idea of a minimum wage and the souring of his own relations with some union leaders. Since then he has successfully besieged the traditional Tory bastion of law and order, repeatedly punching holes in the claim of Michael Howard, the home secretary, that the government is tackling crime effectively. Mr Blair's policy of "tough on crime, tough on the causes of crime" may be nothing more than a soundbite, but it has convinced voters that Labour is genuinely concerned about the subject.

Mr Blair's insistence that individual rights do not conflict with, but complement, the needs of society lies at the heart of his political philosophy. How this woolly redefinition of socialism will translate into economic policy is unclear. Until now, Mr Blair has deferred to Labour's shadow chancellor, Gordon Brown, almost as to an older brother. What little he has said himself about economics is enigmatic: "We need new ways of reconnecting taxation and spending to the individual's quality of life." This could mean almost anything.

One reason why Mr Blair is prone to such empty assertions is that his whole career has been an attempt to reach out to a wider electorate, without leaving the great mass of Labour supporters behind. His success at doing the former is a clue to why Mr Brown took the painful decision to support Mr Blair rather than enter the race himself.

But avoiding alienating committed Labour supporters has been tricky. "It's a fine line and you worry every moment. Sometimes I feel like I'm on the end of a branch that is being busily sawed off at the trunk," he has observed. The paranoia is understandable. Ken Livingstone, a left-wing MP and flamboyant former leader of the Greater London Council, has already predicted that Mr Blair would be "the most extreme right-wing leader Labour has ever had". Mr Blair knows he will have to advance stealthily if he is to avoid splitting his party.

Nevertheless, he seems more aware than was Mr Smith that Labour still has a mountain to climb. As the recently published 1992 British Election Study pointed out, Labour needs a 5% swing from its 1992 result, larger than it has achieved in any post-war election, if it is to win an overall majority in the next Parliament. Mr Blair has never subscribed to the "one-more-heave" strategy favoured by Mr Smith. He recognises that it is not enough simply to jettison unpopular policies. The most common question asked of Labour candidates on the doorstep during the European election campaign was: "What will you do?" A continuing policy vacuum will not put Labour back in power. It will be up to the party's new leader to show that he is more than "a pair of safe hands and a silver tongue".

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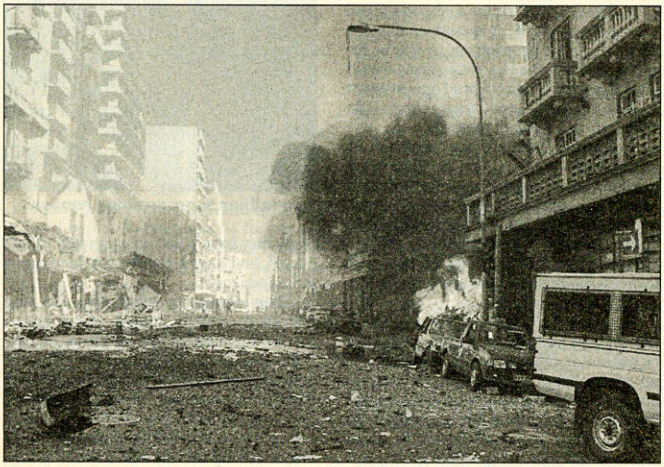
South Africa confronts its past

JOHANNESBURG



Bombed out in April—too recently to merit a Nelsonian blind eye

PRESIDENT MANDELA wants to forgive, but not forget, crimes carried out in the name of apartheid. After his predecessor, F.W. de Klerk, lifted the ban on the African National Congress in 1990, all ANC exiles had to confess to the political crimes they had committed in the struggle against apartheid before they were granted pardons and allowed back home. Now Mr Mandela wants to extend the same principle of amnesty to political offenders on the right and left alike.

The new constitution binds the government to granting amnesty for politically motivated offences committed in the past. Afrikaner nationalists of the far right see this as an opportunity to free right-wingers already in prison and secure indemnity for those who face charges of murder, terrorism and sabotage. Ferdi Hartzenberg, leader of the Conservative Party, which boycotted the April election, last week went to see Mr Mandela and the justice minister, Dullah Omar, to discuss these matters.

Among the right-wingers he hopes to have freed are Clive Derby-Lewis, a former Conservative leader, and Janusz Walus, both under sentence of death since last October for the murder of Chris Hani, a leading member of the ANC and general secretary of the Communist Party. That murder may in the end not qualify, but was certainly committed before the cut-off point for amnesty laid down in the constitution, last December 5th. That is not true—despite Mr Hartzenberg's pleas—of the bombings just before the April election, of which more than 30 men, mostly members of the Afrikaner Resistance Movement (AWB), stand accused. These killed 21 people. By then, South Africa's road ahead was a matter of almost common consent, and the ANC is insisting that the cut-off date be adhered to.

This week Mr Omar announced that the government would set up a truth commission to investigate abuses of human rights under apartheid. Its proceedings will be open. Applicants for amnesty will appear before it, and those who can prove their crimes were politically motivated will—in most cases—be pardoned. The ANC opposes the idea that amnesty might be granted without disclosure. As Mr Omar put it, "If the wounds of the past are to be healed, disclosure of the truth and its acknowledgment are essential."

The question is how broad a definition of a "political crime" the new commission will apply. South Africa already has two amnesty laws, passed in 1990 and 1992. The first empowers the president to pardon political offenders, though not those responsible for the wanton killing of civilians. The chief beneficiaries have been members of the ANC and its fellow anti-apartheid movement, the Pan Africanist Congress.

The second law is much broader: "political motivation" is the sole criterion needed for amnesty. Two controversial prisoners owe their freedom to this law: Robert McBride, an ANC insurgent who planted a car bomb that killed three women in a Durban restaurant in 1986, and Barend Strydom, known as the White Wolf, who shot seven black civilians in Pretoria in 1988. Lourens du Plessis, a law professor at the University of Stellenbosch, believes that this broader law was intended as a loophole for state officials. Proceedings under it are secret; applications for indemnity are made to a national council nominated by the president, and hearings are in private. Even the number of people indemnified under this later law is not known.

Mr Omar is likely to take a narrower definition of political crime. Members of a guerrilla movement acting to free South Africa from racial oppression might be covered. So might members of the security forces acting to maintain law and order in the face of what they genuinely believed to be a terrorist onslaught. That would not cover Hani's assassins; Mr Omar has already indicated they are unlikely to qualify for amnesty. It would also exclude killers motivated by racial bigotry, such as the black gunmen who killed 11 worshippers at a church in a white Cape Town suburb last August, or the six AWB men convicted of murdering four black civilians at a roadblock last December.

People already granted amnesty under these two earlier laws are unlikely to be affected. Less secure are those to whom Mr de Klerk granted amnesty in the dying days of his presidency. These included several dirty-tricks operators in the security forces, among them Major-General Eddie Webb, head of a unit that is blamed for some of the nastier efforts to destroy the ANC. Mr de Klerk denies that his action was underhand: he voluntarily referred his decisions on these cases, he says, to the multi-party transitional executive that functioned as a parallel cabinet in the run-up to the election. So he did; but it in turn held them over for review by the new, democratic government.

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Rwanda

With the rebels

NYANZA

AN EMACIATED man sits in the courtyard of the hospital at Nyanza, southwest of the Rwandan capital, Kigali. His head is bandaged and one side of his face is cross-hatched with long, angry scars. He is one of the lucky ones. His half-healed wounds are the calling-card of the Hutu militiamen, armed gangs that have butchered countless thousands of helpless victims in the past two months. More than 150 men, women and children who have survived such bloody attacks crowd the hospital grounds and wards. Though the rebels of the mostly-Tutsi Rwandan Patriotic Front (RPF) are gaining ground, in the areas still held by an increasingly desperate government the murder is still going on. And in other places the rebels are taking their revenge: at least 13 clergymen, including the Archbishop of Kigali and two bishops, were reported to have been killed this week.

The United Nations has tried to organise ceasefires and truce talks. This week it said it had at last won agreements from various governments to supply some 3,000 soldiers to protect refugees and guard relief supplies; they are due to reach Kigali at the end of the month, and may be followed by 2,000 more. America has been reluctant to fly men or supplies into Rwanda but may help get them to neighbouring Tanzania and Uganda. The RPF, both angry and winning, is in no hurry to make peace. Its troops have captured about half the country. As they advance into southern Rwanda, they are uncovering more evidence of atrocities, more mass graves. It is now clear that the death squads have been working together with the government army—and that they still are.

In Kabgayi, next door to Gitarama, the place to which the government fled in April, some 35,000 people were being held in a camp controlled by government soldiers. The rebels captured the camp last month, enabling thousands of mainly Tutsi civilians to flee to the relative safety of rebel-held towns. Many more who were hiding in the surrounding countryside have trekked in to take refuge in these towns. Often they arrive hungry and ill. The International Committee of the Red Cross—the only aid organisation working in southern Rwanda—says it is unable to cope with the numbers of sick and wounded pouring into rebel-held areas.



Though the rebels have been gaining ground, they met stiff resistance this week from government forces in Gitarama. The government, or what remains of it, has once again taken to its heels; this time it fled west from Gitarama towards the border with Zaire. The fall of Gitarama to the RPF could be a turning-point. It would enable the rebels to isolate government troops in Kigali. Aware that the loss of Gitarama would mark the beginning of the end, government soldiers this week tried to regain control of a stretch of road south of the town.

Meanwhile, the RPF has tightened its grip around the capital, leaving the government in control only of the city centre and a couple of nearby hills. But the RPF's commander, General Paul Kagame, says he is in no hurry to take either Gitarama or Kigali. He knows that the hardest task ahead is not to defeat the government's army, but to win over the Hutu majority.

As veterans of Yoweri Museveni's liberation army in Uganda, Mr Kagame and most of his senior officers should know that to win over a country a guerrilla army cannot operate by force alone. It must combine political acumen with military restraint. At present, many Hutus are fleeing the rebel advance into a shrinking area of central and western Rwanda.

The RPF is certainly not innocent of bloodshed, and has carried out some brutal reprisals. But it says that when it attacks government strongholds it tries to leave routes open so that civilians can escape artillery bombardment. Though there have been tentative ceasefire talks with government army officers, RPF commanders have repeatedly said they will not talk to a government which they consider not merely illegitimate but directly to blame for the massacres. And, after they have won, they say, they intend to bring to book those responsible.

Mozambique

Overmined

TETE

MOZAMBIQUE'S civil war ended in October 1992. Yet an estimated 2m land mines lie strewn across its countryside, dormant until a truck, a farmer or a child at play sets them off. They kill at least ten people each month, say official figures, and the actual number could be much higher. Already they have killed an estimated 10,000 people, and have certainly wounded many thousands more.



Two million more awaiting removal

Their destructive effect does not stop with those actually injured. Mines hinder the resettlement of the millions of Mozambicans displaced by war. They slow the huge task of restoring Mozambique's battered roads, railways, bridges and power lines to get the economy on its feet again. In sum, a return to anything near normal life means getting rid of them. But while slow progress has been made in demobilising the country's rival armed forces and in preparing for national elections next October, there has been dispiritingly little mine clearance.

Infighting among politicians and within the United Nations' bureaucracy has made the job more difficult. Since 1992 there have been sporadic, unco-ordinated efforts, notably by the UN's World Food Programme, which opened up several roads so that it could deliver aid. But only now is the UN's force of 7,000 peacekeepers and monitors putting into action a plan to train 1,200 Mozambicans to clear mines.

The UN is also hiring commercial firms to help. That is controversial: some of the companies, including some from South Africa and Zimbabwe, have manufactured mines and even helped to spread them in Mozambique. Human-rights activists do not like the idea that those responsible for the mines should profit, a second time, from getting rid of them.

Mozambique's most successful mine-clearance project is in central Tete province. A team from Norwegian People's Aid has been training demobilised soldiers, and then supervising their work along roads and in minefields. Inch by painstaking inch, the

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Mozambicans turn over the soil with implements like garden tools. They clear paths in a grid pattern, hoping to detect a string of mines. But Mozambique's mining, whether done by government troops or, especially, by those of the Renamo rebels, was highly erratic. Without even rough plans of what was buried where, two mines found on a path and one by a tree offer no detectable logic to guide the clearance team in its search for others.

Clearing mines is slow, tedious work, but it is urgent. Thousands of refugees are returning from nearby Malawi and resettling their old lands. Single-file bush paths were often mined, and now many peasant families are at risk. The joint Norwegian-Mozambican team had to evacuate one school when a minefield was discovered next to the playground.

The Mozambican mine-clearers sport bright blue uniforms and earn the equivalent of $100 per month. They talk proudly of "liberating" their country's soil of mines—but add that they want to continue to be employed by the Norwegians. As former soldiers, they know the Mozambican government's abysmal record of not paying or feeding its employees, and do not trust it to be any better with those who clear the mines today than it was during the civil war with those who laid them.

Yemen

Under pressure

SANAA

YEMEN'S feuding political leaders have been at war for more than a month now, with little sign that they are ready to give up the fight. The military advantage appears to be clearly on the side of President Saleh, whose forces have been edging closer over the past week to the outskirts of Aden, capital of the former Marxist state of South Yemen. His forces have also pushed into the far south-east of the country, into the oil-rich province of Hadhramawt. But victory for the north still seems some way off. And Arab neighbours may not allow it at all.

The southern forces, inferior in numbers but better equipped, have put up fierce resistance around Aden. The northern ones are probably suffering from the classic trouble of all armies that take the war on to their opponents' territory—over-extended supply lines. They also have to spread themselves over several fronts, not just around Aden but in the remote south-east.

The biggest problem for President Saleh is a diplomatic one. Neighbouring states have decided the war must be stopped, and have taken steps at the United Nations to bring pressure on him. No one in northern Yemen believes their motives are benign. The government has all but accused several countries, notably Saudi Arabia, of supporting the secessionists to weaken Yemen and get revenge for the Gulf war, when President Saleh sided with Iraq.

The government in Sanaa has been doing its best to give the impression that it is willing to work with the UN. In fact, it would much prefer to be left alone. But it knows that will not happen. Accordingly it pretended to welcome a UN resolution passed last week calling for a ceasefire which it does not want and would not gain from.

The southern leadership, meanwhile, whom President Saleh refuses to talk to, has shown no sign of buckling under the pressure. The north says it is talking to "acceptable" elements in the southern-based Yemeni Socialist Party—men whom it claims favour Yemeni unity. One such has been the party's assistant secretary-general, Salem Saleh Mohammed, who has been in London throughout the war, and who is in the curious position of being on the presidential council of Yemen as well as that of the secessionist state in the south.

The dialogue—if that's what it is—seems to have got nowhere. The conditions laid down by the north, that the declaration of secession be annulled, and that the south accept the result of last year's elections, appear to have been ignored. An envoy arrived from the UN this week, Lakhdar Brahimi, a former Algerian foreign minister. But the likeliest bet is further conflict, a siege of Aden in the south, worsening conditions in the north—petrol and some basic goods are already in short supply—and for the whole country long-term economic damage.

Jordan

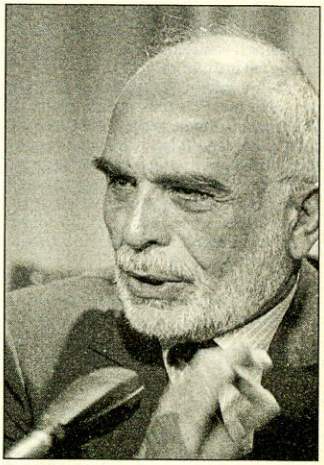
On the move

AMMAN

AS THE Middle East peace process clanks uneasily ahead, Jordan is trying desperately to take control of its own destiny. A big cabinet reshuffle is forging at least a semblance of unity at home. And this week Jordan agreed with Israel to push on with the "agenda" they drew up last autumn.

Since Yasser Arafat quietly (and contrary to his promises) made his Oslo deal with Israel on his own last year, the mood in Amman has been one of uncertainty. Often King Hussein has been left in the dark. Now he has decided enough is enough.

One problem is the animosity between the king and Mr Arafat. Another is Jordan's historic relationship with the Palestinians. Neither side can forget that the West Bank and East Jerusalem were annexed to Jordan by the king's grandfather, Abdullah, in 1950, then lost to Israel in the 1967 war. In 1970 came what was—to the king—a PLO attempt



Hussein catches up

to overthrow him, and is still to Palestinians the bitter memory of "black September", his repression of it and expulsion of the PLO. Only in 1988 did the king sever Jordan's legal and administrative links with the West Bank. There is distrust on both sides—awkwardly for a king 60% of whose subjects are of Palestinian origin.

Hence Jordan's decision to go ahead on its own with Israel. The two agreed in Washington on June 7th to set up joint commissions on their disputed border, water rights, energy and the environment. These commissions will meet not in Washington, the usual meeting-place till now, but in Jordan and Israel. There was also agreement on two big projects: a park spanning the Israeli-Jordanian border south of the Dead Sea, and a coast road on the Gulf of Aqaba linking Egypt, Israel and Jordan.

The deal is no huge achievement in itself. But it marks a new stage in the two countries' relations. Till now they were talking about principles; now they are talking of putting change into practice.

Jordan's prime minister, Abdel Salam Majali, has tried to soothe unease about the change in negotiating gear with a change in government. Since the elections late last year, relations between government and parliament have been sour, at times stormy. Though portfolios such as foreign affairs, information and finance remain in the same hands, several members of parliament have been brought into the cabinet. Nearly all significant parties have got some share of power, except the fundamentalists of the Islamic Action Front.

That is no small exception: with 16 of the 80 parliamentary seats, the Front is the largest group there. And it firmly opposes Jordan's participation, on whatever terms, in

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any peace deal with Israel. It was in fact ready to take its part in the cabinet. But the portfolios it wanted were not ones that the regime felt inclined to give it.

The king hopes that, with these shifts, he can keep most factions aboard while he aims for an overall peace with Israel. Already outdistanced last year by the PLO, he fears finding himself left behind again by the Syrians and Lebanese. He says he is still committed to a "comprehensive" Arab settlement with Israel. But he is no longer ready to sit around waiting for approval from others.

Paraguay

Disappointed

ASUNCION

AFTER ten months as Paraguay's freely elected president, Juan Carlos Wasmosy has not much to look back on. Expectations are high, and reform is needed in plenty of places. It is not coming.

One reason is that Mr Wasmosy is both product and prisoner of his country's enduring curse, *Stronismo*, as Paraguayans call it, the carrot-and-stick system of dictatorship practised during the 35-year reign of General Alfredo Stroessner. Public contracts, bribes or a piece of the contraband action were traded for loyalty. Opponents were killed or chased into exile. With the Colorado Party and the army exerting a stranglehold on every aspect of life, anyone near the centre of power was of necessity involved. Few obeyed the law.

So a clean break with the past was never likely. The 1989 coup that toppled the dictator (into exile in Brazil) was in fact led by a notably prosperous army general, Andres Rodriguez. Still, democracy soon overtook the palace coup. By freeing the press and allowing opposition parties to thrive, General Rodriguez unleashed popular frustration with a system that was mainly enriching the Colorado-military elite. The new 1992 constitution barred the general from standing for the presidency in 1993. When Mr Wasmosy was elected in May that year, people looked to him to usher in a new era.

Instead, even with foreign backing for democracy, he is running to stand still. Paraguay needs more than that. It is a mess. The economy is not keeping pace with population growth, and the bloated state sector devours much of the budget. Unemployment and poverty are rising. Real wages have fallen sharply. Education and health care are woefully inadequate. The countryside is crying out for agrarian reform. Corruption is still endemic and the informal economy outweighs the formal one.

Mr Wasmosy has a plan for a free-market overhaul. The problem is putting it into effect. After so many years of dictatorship, politics still centres on personal vendettas and the defence of vested interests. One newspaper editor calls his country a "kindergarten of democracy", where everyone wants to be heard and few understand the art of compromise. The emerging trade-union movement rejects any policy that will cut jobs. The opposition old guard dreams not of real reform, merely of getting its own hands on the apparatus of state patronage. Otherwise progressive legislators vote against Mr Wasmosy's reforms just because he is Colorado.

Nor is his own party much help. Many of its congressmen see no reason for the state to be anything but a Colorado milch cow; many resent Mr Wasmosy for the manipulation that won him the party's presidential nomination; and some do both. Party hacks want more say in government.

The president's efforts to woo the modernising wings of opposition parties—perhaps the only way to break the logjam—have borne little fruit. A law to reform the central bank has been before Congress for seven months, and privatisation is yet to begin in earnest. Opened last October, the embryonic stock exchange is still awaiting financial-sector reform.



Wasmosy searches for consensus

Mr Wasmosy must take his share of the blame. That he amassed a fortune through public building contracts does little for his credibility. His meddling in the judiciary sends the wrong message. So does his reluctance to tackle corruption and the political posturing of General Lino Oviedo, the army strongman who engineered victory for him in the struggle for the Colorado candidacy (and who hints at running for president himself in 1998). He vetoed a new law barring policemen and soldiers from political parties (though, with his veto over-ridden, it has now come into effect). Nor has Mr Wasmosy shown either the personality or the tact needed to build consensus inside and outside the legislatures.

Yet there are bright spots. Since rejoining the international fold, Paraguay has brought its foreign debt under control. New incentives for foreign investors are slowly arousing interest. A few corrupt brass-hats have been shamed into retirement. In all the parties, a new generation of modernisers is coming of age. Some of the traditional contraband families are said to be moving into legitimate commerce. The education minister is even managing to curb one sacred privilege of the Colorado apparatchiks, the right to appoint teachers. And as the network of Colorado patronage is eroded by opposition victories in local elections, Mr Wasmosy is starting to win a political space he can call his own.

Paraguay has strengths. Its place on the map and its low labour costs make it a plausible launch-pad for investors who want access to the Mercosur regional free-trade zone. It has huge hydroelectric and agricultural potential. Most Paraguayans know the time has come to discard their famous aversion to change. Wary of international reprisals, the men in uniform seem prepared, for now, to let civilians run the show. Time will tell if the men in suits are up to the task.

Mexico

All change?

NOT often does a single television debate win or lose an election. One in Mexico a month ago may—with some help from a sluggish economy—have upset not just an election but a whole political system.

Until then, despite the murder of the ruling party's candidate in March, prospects for August's presidential election looked clear. The Institutional Revolutionary Party (PRI) and its substitute candidate, Ernesto Zedillo, were still well, albeit not comfortably, ahead in opinion polls: for what such polls are worth in Mexico, five in April gave him, on average, 53%. The main challenger, though well behind with 24%, was plainly the left-winger Cuauhtemoc Cardenas, who claims that only fraud cheated him of the presidency in 1988. Far behind (18%), and widely disregarded, came Diego Fernandez, of the right-wing National Action Party.

Then came the debate—and Mr Fernandez wiped the floor with both his rivals. Viewers saw it, and polls said it: an average, in the first four polls after the debate, of only 45% for the PRI's Mr Zedillo, 35% for Mr Fer-

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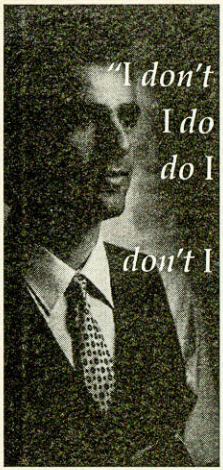

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nandez and 18% for Mr Cardenas. Suddenly it seemed possible that the PRI's 65 years of power could be ended without a swing to the left. It may not happen: the reaction of an entrenched ruling party apart, all the figures exclude the (typically) one-quarter of voters who did not express any preference and probably also the voters in the many rural parts of the country where Mr Fernandez's party is not organised. Moreover, victory does not require an absolute majority. But the idea that the PRI's candidate is not inevitably invincible is already infectious.

Enter the economy. After shrinking for the second half of 1993, it is slowly on the mend, but how slowly: in the first quarter of 1994 it was only 0.5% higher than a year earlier, and manufacturing was still actually slightly down. Foreign investors, worried by this year's signs of instability, have not rushed to help. Mexican private forecasters, who at one time were suggesting 3% growth this year, now talk of 0.5%, though outsiders speak of 2.5%.

No wonder Mr Zedillo this week was talking of his "firm commitment" to growth and the means to achieve it. Much of this was apple pie: "the highest priority" for investment; lower interest rates; lower corporate taxes; less regulation; better training; better roads, railways and telecoms. Some of it was snake-oil: a 25% rise in direct public investment in his first year; a new fund to foster private-sector investment in infrastructure; more money for municipalities, for development banks, for small and medium companies; easier export finance and guarantees; cheaper credit in rural areas, "decisive" support for farmers; five times more workers trained each year by the end of his term than now. You name it.

None of which barrel of goodies guarantees victory for Mr Zedillo; nor, even if he wins, control of Congress for the PRI.

Canada

Timber

VANCOUVER

THE war should be over, but it is not. A new plan for British Columbia's forests put up by its premier, Mike Harcourt, has won wide support. But hardline environmentalists are still threatening the province's C$10 billion ($7.5 billion) a year of forest-product exports with international consumer boycotts.

Forests have dominated British Columbian politics for two decades. The loggers have been assailed for over-cutting, damaging the environment, and not paying enough for cutting rights; and the provincial government for allowing it to happen (95% of forest lands are publicly owned). In recent years the focus has turned to how much of still untouched forest is to be left that way. Greens have used blockades, vandalism and an international campaign to hinder logging. The industry has raised the spectre of terrible job losses, and forest workers have threatened revenge at the ballot box if the government were to yield too much.

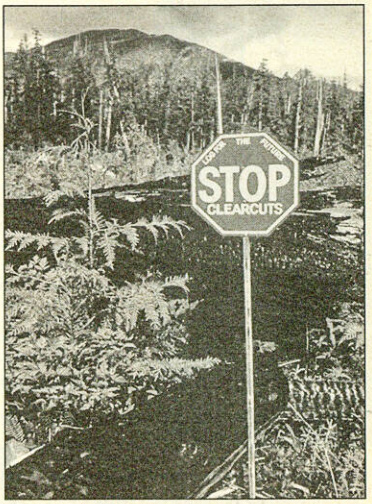
British Columbia has seen itself condemned as "the Brazil of the north", an eco-vandal destroying one of the last great rain forests. This sounds catchy, but is untrue. Only 20% of the original rain forest (of 10.6m hectares—26m acres) has ever been logged (and is being regrown successfully). Another 20% is to be cut, and replanted, over the next 40 years. The remaining 60% is set aside in parks or else is inaccessible and is unlikely ever to be logged. The real issue is, or ought to be, sustainable management.

The charge of vandalism dismays a people who pride themselves on concern for the environment—but who know plenty of photographs of bad practice can be offered to make the charge seem true. Forests have indeed sometimes been clear-cut on too large a scale or on too-steep slopes, and this has caused soil erosion and damage to salmon streams. But the forest industry generates 28% of provincial GDP and 200,000 jobs. British Columbians know it may need reform, but they want to do that for themselves.

No one more so than Mr Harcourt, who, in large measure, was elected in 1991 to end the conflicts and mismanagement. Promising wide public involvement in ensuring sustainable forestry, he won both green and forest-union support. Not for long. After an attempt to win consensus on the future of old-growth forests failed, the government imposed a decision last spring on the Clayoquot Sound region of Vancouver Island. This kept 33% of the region untouched, shrank the working forest to 45% (from 81%), and set aside 17% under special management, where some logging is allowed, subject to the needs of wildlife, recreation and scenic value. The compromise pleased neither environmentalists nor loggers.

Environmentalists staged a summer-long blockade of the logging road into Clayoquot and some 700 protesters were arrested. In March this year the government's Commission on Resources and the Environment proposed a further reduction in the working forest. Angry workers descended 20,000-strong on the legislature at Victoria to jeer the premier, protesting that the plan would wipe out 3,500 jobs.

Central to the latest plan, launched in April, is the industry's agreement to an 80% increase in stumpage (cutting) fees paid to the government. The new revenue, about C$2 billion over the first five years, must by law be used to improve forest management and reforestation, and clean up past damage. Fewer trees will be cut, but displaced loggers will be retrained. A new code of logging practice will be enacted.



If you cry, don't use a tissue

This could have been the basis for peace. Forest companies had at last realised they had to reinvest more to retain productive forests. And they could no longer plead poverty: lumber prices and profits are up. Forest workers needed assurance that they had a future. Weary of conflict, voters had long favoured a compromise. A recent opinion poll found 61% ready to believe the new forest policy was on the right track.

Not so groups such as Greenpeace and Friends of Clayoquot Sound. They dismiss the plan as "window-dressing", and are sticking to demands that much more old-growth forest be preserved and all clear-cutting banned. And they have increased efforts to "educate" foreign companies that buy British Columbia's exports. Two such firms, Kimberly-Clark and Scott, recently cancelled $7.5m in pulp contracts with British Columbia's MacMillan Bloedel. German firms too have grown nervous since Greenpeace began urging buyers there to insist on "clear-cut-free" products.

This is "blackmail and misinformation", says the provincial government. Greenpeace, it claims, is telling Europeans that British Columbia's ancient forests are being pulped into tissue and lavatory paper; these are in fact only by-products of its lumber industry. But appeals for "ancient rain forests" have a strong pull. Government and loggers are worried.

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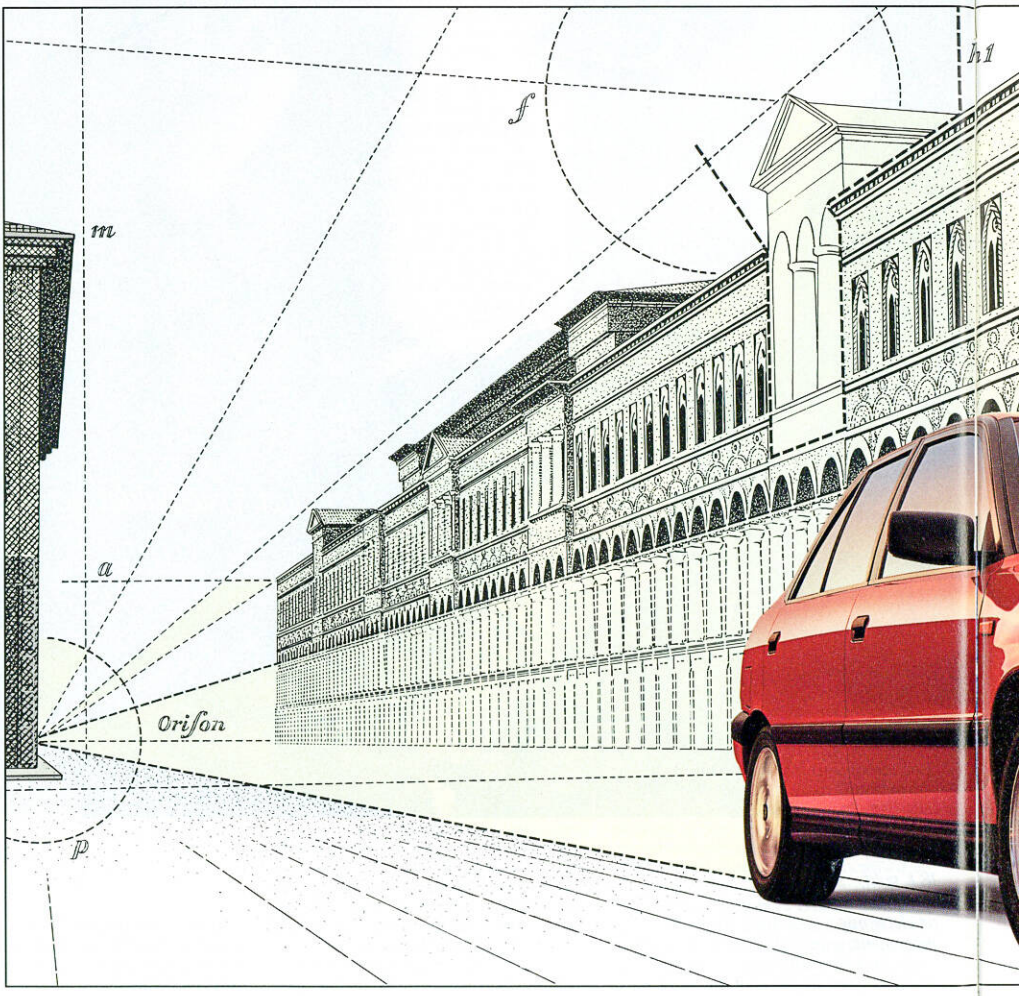

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Beached

WASHINGTON, DC

THE president strode solemnly along Normandy beaches, bowed his head in respect to war heroes, spoke eloquently of sacrifice and freedom. Despite his Vietnam-avoiding record that made the D-day anniversary awkward to handle, Bill Clinton did a good job on the past this week. The present—with a mini-crisis brewing in Haiti and a major one in Korea—is altogether more difficult.

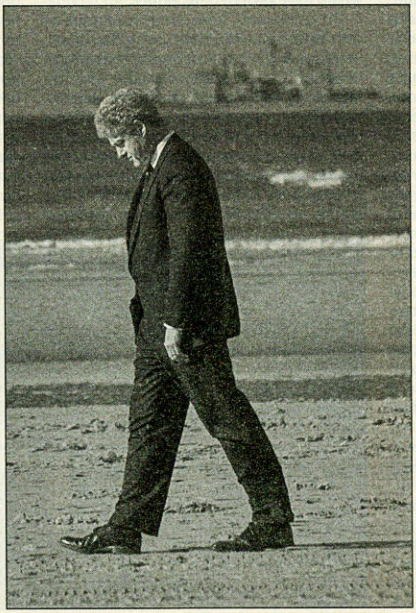
Recent rumours about possible reshuffles of his foreign-policy team reflect a widespread malaise over the administration's performance. One version of the putative merry-go-round sees Warren Christopher transferred to White House chief of staff once the current chief, Mack McLarty, is named to head the campaign for 1996; Walter Mondale, now ambassador to Japan, would replace Mr Christopher as secretary of state; and the deputy secretary of state, Strobe Talbott, would become national security adviser in place of Anthony Lake, who would leave the administration. Mr Clinton went out of his way to deny that he planned any changes, and may have managed to suppress the rumours for a while.

At the margin, a punchier foreign-policy team could make some difference. Yet the central problem is Mr Clinton himself. He keeps changing course, and has had a tendency to reveal bits of his foreign-policy thinking in reaction to reporters' questions. What is lacking—and what ordinary Americans, Congress and, no doubt, even his own top aides would be grateful for—is the commanding statement of American interests and what is involved in protecting them.

Lee Hamilton, the chairman of the House Foreign Affairs Committee, believes that on a range of big issues Mr Clinton would be wise to make a "fairly comprehensive statement" of American "interests, goals and what we're prepared to do." In diplomacy, to be sure, it can be useful to keep an element of ambiguity. But in contemplating the use of force, a president also needs to carry the support of the American people and of Congress. He has a lot of explaining to do. A proper presidential explanation would also help Mr Clinton make up his own mind, argues Mr Hamilton, because it "forces the president to make decisions before he makes the statement."

Mr Clinton has been damagingly indecisive on Bosnia and Rwanda—examples of one type of post-cold-war challenge, ethnic barbarity. He can ill afford indecision on another type of challenge: the spread of nuclear weapons to rogue states. The cost of miscalculation in the current argument with North Korea would be catastrophic.

America's aims in Korea are clear. They are to maintain the integrity of the Nuclear Non-Proliferation Treaty (NPT) by bringing North Korea, a signatory to the treaty, back into compliance with its safeguards; and, more broadly, to ensure a non-nuclear Korean peninsula. Still unclear is what America is willing to do to achieve those aims.



Sort out North Korea, sort out Haiti . . .

The United Nations' nuclear watchdog has said it can no longer check whether North Korea has diverted plutonium to make nuclear weapons. This has triggered a search for UN-backed economic sanctions against North Korea (see page 56). Even if China vetoes the idea in the UN Security Council, America and its friends will want to press ahead with some sanctions anyway (such as a ban on the money Koreans in Japan send to relatives in North Korea).

Kim Il Sung, the North's dictator, has let it be known that his country would consider sanctions an act of war. He is probably bluffing, but possibly not. Optimists reckoned the North Koreans were using the nuclear threat as a bargaining chip to extract political and economic concessions from the West, yet they have had ample opportunity to cash in their chip. The pessimists' view looks ominously plausible: North Korea simply wants the bomb.

America has been reluctant to bring matters to a head because another Korean war is too horrendous to contemplate. It has a reasonable excuse. All avenues of patient diplomacy had first to be explored if America was to bring together the crucial countries of the region behind a tougher policy towards North Korea. "We're in a far stronger position now to talk to the Chinese, the South Koreans and the Japanese having clearly exhausted the negotiating path," says a senior administration official.

What if sanctions fail to bring the North to order? At stake is not only the security of a chunk of Asia, but the credibility of the attempt to limit the spread of nuclear weapons anywhere. Mr Clinton does not underestimate the problem: "I just don't think we can walk away from this," he said in Rome this week. Yet he has allowed confusion in his policy, and too many contradictory signals from the Departments of State and Defence. He has not begun to explain to Congress or the American people (or to himself?) what price might be worth paying to win the Korean argument.

Unlike in Korea, world security is not exactly at issue in the little spat over Haiti. For America, though, Haiti is closer to home, the refugees fleeing the place are a visible concern and matters may come to a head sooner. Haiti may even be a first test (and a cheaper one than Korea) of Mr Clinton's willingness to use force in a foreign showdown.

Having dumped umpteen half-

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formed policies on Haiti, Mr Clinton is now putting his faith in tightened economic sanctions to do the job of restoring the country's elected president, Jean-Bertrand Aristide. The message to Haiti's military leaders is meant to be unambiguous: they have got to go. The tougher sanctions went into effect on May 21st. A ban on commercial flights and on financial transfers may soon follow. Beyond that, says a senior State Department official, "there aren't many sanctions left to impose, frankly."

The government expects stricter enforcement of the trade embargo, thanks to promises of co-operation from President Joaquin Balaguer of the Dominican Republic (presumably in exchange for American promises not to question the legitimacy of his recent election). Mr Balaguer is deploying more soldiers along his country's porous border with Haiti. He has agreed to the stationing of at least 60 UN monitors at the border. America will help by providing equipment for the border forces and some ships to support the efforts of the Dominican navy. Henceforth, ships attempting to break the embargo will not merely be turned away but escorted to Guantanamo Bay and kept there pending legal proceedings.

The Americans are trying to impress on the countries of the region the importance of restoring democracy in Haiti, which is now one of only two non-democracies in the hemisphere (the other being Cuba). They are seeking wider participation in a beefed-up United Nations Mission in Haiti (UNMIH), which was originally a mainly American-Canadian training taskforce designed to implement an agreed transfer of power to President Aristide. Now the Americans think UNMIH will have to have more men and be involved in law-enforcement, specifically to protect the government, since Haiti's military rulers would be leaving under duress.

Unfortunately, the new sanctions regime is likely to deepen the misery in Haiti, increase the exodus of refugees (arrangements are being made to process asylum applications in ships off Jamaica), but leave the military rulers in place. Mr Clinton is flirting with the idea of an armed intervention. Going in, everyone assumes, would be the easy part. Getting out again is the problem: the last time Americans occupied Haiti they stayed for 19 years.

As with Korea, Mr Clinton has failed to prepare the nation for whatever plans he might have. Into that vacuum Congress moved on May 24th with a non-binding vote opposing the use of American force in Haiti. On past experience, Mr Clinton may be content to let Congress guide him. But if he meant one-tenth of what he said on the grey beaches of northern France, the sense of direction—and of purpose—needs to come from him.

The Virginia Senate race

Ollie's moment

RICHMOND

"THEY will never see Ollie North crawling up the steps of Capitol Hill to kiss their big fat . . . rings." When Oliver North talks, one thing is certain: he does not do it in the gentlemanly tones Virginians would prefer. Leave aside the fact that politics in this horsey, elitist state has been far from elegant for the past few years; Mr North, the new Republican Senate nominee, has shaken things up—and, some would say, driven standards down—as few others can.

Mr North was easily nominated (though not as easily as he had boasted) at a convention in Richmond on June 4th, when he defeated James Miller, a plump and cheery former budget director. Some 15,000 delegates attended; they seemed to prefer feeding on themselves to savaging Democrats. Indeed, Mr North's candidacy has exposed enormous fissures within the Republican Party, both locally and nationally.

Haley Barbour, the chairman of the Republican National Committee, embraced Mr North. But the Senate minority leader, Robert Dole, a man highly likely to carry the party mantle in 1996, was publicly cool to him. So were several Senate colleagues. Even former President Gerald Ford said he would have preferred Mr Miller.

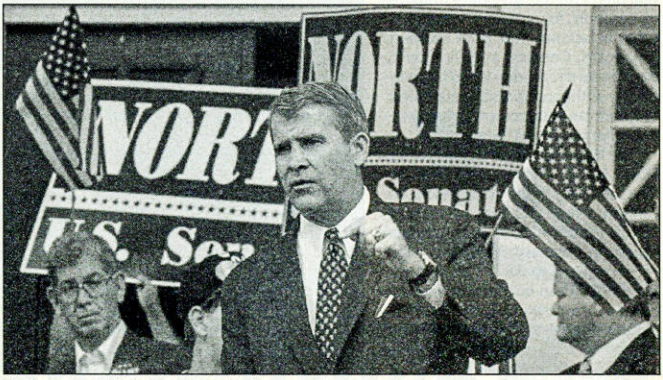
At grass-roots level, Virginia Republicans worry that Mr North, who has made his name and his fortune by displaying contempt for Congress, is unelectable and incapable of working with others. The Republican Party chairman of Crewe, a country town south-west of Richmond, declared at the end of the convention that he was leaving the party for good. Such disaffected voters may have a choice this autumn. At the urging of Virginia's Republican senator, John Warner, and other more moderate Republicans who consider Mr North unfit for office, a former candidate for governor, Marshall Coleman, is likely to run as an independent. So too is Douglas Wilder, a former Democratic governor—if, that is, his bitter foe, Senator Charles Robb, is renominated by a divided Democratic Party at the primary on June 14th.

Thus Virginia could see a chaotic, four-way race in which the candidates would start almost even; and in which, according to a recent poll by Mason-Dixon Political/Media Research, possibly less than 5% of the electorate would decide the outcome. This poll and others show that Mr North would lose a two-person race to almost anyone—even to Mr Robb, whose supposed sexual escapades have made him one of the most vulnerable incumbents in the country.

But electability is the last thing on the minds of Mr North's supporters. Many of them are political newcomers drawn from the ranks of religious conservatives. They loathe abortion, gun control and gay rights; they want a strong defence, traditional values and lower taxes. Christian conservatives believe they are an endangered minority, and that feeling has been underscored in Virginia by the recent trouncing of Pat Robertson's chosen raft of Christian candidates in the local school-board elections.

Mr North's appeal to these Republicans is rooted in his status as martyr. He stared down congressional interrogators in 1987; he stared down the independent prosecutor, eventually getting his Iran-contra convictions overturned on technicalities; and his role as a victim was reinforced for his followers when former President Reagan and dozens of Washington worthies lined up against him during his campaign. As his supporters see it, the big-wigs in the Senate just want to keep him out because he will never kow-tow to them.

By election day, Mr North could surpass



And my last pledge: a shredder in every home

Fondazione Alfred Lewin

the all-time record for fund-raising by a Senate candidate, $12.5m. And he has been spending money at a rate of $1m a month. In the end, such prodigality may get him to Capitol Hill. In that case, a word of comfort for his legions of opponents: Mr North, a believer in term-limits, has promised that he will serve no more than two terms.

The California primaries

Home again, Kathleen?

LOS ANGELES

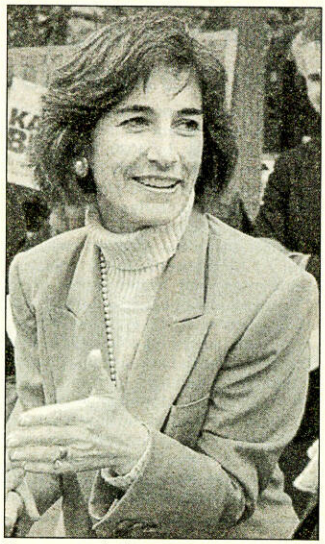
HISTORY could be about to repeat itself in one of two wholly different ways. For the second time in a row, Democrats in California have nominated a woman for this November's election for governor. Four years ago they fielded Dianne Feinstein, who went on to lose to the Republican candidate, Pete Wilson. In the Californian primary on June 7th, Kathleen Brown, the state treasurer, beat off last-minute efforts by her Democratic rivals. Should she win in November, she will be the third member of the Brown family to occupy the governor's mansion in Sacramento.

Like Ms Feinstein before her, Ms Brown has had to fight a costly and gruelling campaign that has dragged on since last autumn. As the front-runner, she has been free to ignore her two Democratic opponents, concentrating instead on attacking Mr Wilson's record as governor. Stiff-necked, verbose beyond belief and having the misfortune of coming into office just as California slid into its worst recession in 60 years, Mr Wilson has been an easy target.

But so, too, has Ms Brown. Her leading Democratic rival, John Garamendi, hammered her remorselessly for being soft on crime and having no clear idea why she wanted to be governor—other than to carry on the dynasty. For her part, Ms Brown has focused on the sorry state of the local economy, saying wistfully that it is not the California she knew as a younger woman, and that it is all Pete Wilson's fault.

Ms Brown can thank her family name and connections for where she is today. There is no doubt that had Mr Garamendi been able to raise more than the $3m he collected, he would now be celebrating rather than looking for a new job. With his mainstream support among blue-collar Democrats, the 39% turnout—the lowest since records began in 1916—hurt Mr Garamendi disproportionately. Ms Brown, by contrast, had the backing of the party's female majority, which nowadays tends to vote along sexist lines during primaries.

Though well financed, Ms Brown's campaign was in a shambles three months ago



Sacramento's that way

and the governor was catching up in the polls. Belatedly, she fired her campaign manager, brought in a seasoned professional, Clint Reilly, and started spending heavily on television advertising. She has worked the telephones continuously since, trying to raise money.

Winning the Democratic ticket has cost Ms Brown $9m; fighting the general election will cost a good deal more. That said, she is in better shape than Ms Feinstein was after her primary in 1990. That cleaned her out and left her with nothing to counter her Republican opponent's well-financed campaign. (Ms Feinstein, who reinvented herself as a Senate candidate in 1992, and is running for re-election to the Senate in November, easily won the Democratic nomination on June 7th and will now face Michael Huffington, a Republican oil millionaire.)

Many within the Democratic Party believe Ms Brown is getting desperately short of money and will have an uphill battle to raise the kind of sums that Mr Wilson and his supporters can lay their hands on. Ms Brown was down to $1.2m before her last advertising blitz began. On the eve of the primary election, a Brown spokesman admitted that only several hundred thousand dollars was left in the bank, though he later revised the figure upwards to $1m or so.

Meanwhile, Mr Wilson has been free to concentrate on filling his war-chest for November, raising an average of $45,000 a day since January. In the run-up to the primary, Mr Wilson chose to ignore his young libertarian challenger, Ron Unz, a computer entrepreneur from Silicon Valley, who spent $2m of his personal fortune on a blistering radio campaign. In the space of a couple of months, Mr Unz came from nowhere to seize 33% of the vote. But apart from some television spots blasting Ms Brown, Mr Wilson managed to come through the primary barely having to spend a bean.

The governor still has a lot of catching up to do. The last opinion poll had him trailing Ms Brown by ten percentage points. Fortunately for Mr Wilson, the economy has now swung strongly in his favour—and is set to add almost as many jobs over the coming four months as were lost during the previous four years of recession. Ironically, the latest poll suggests that if it had been the general election on June 7th, rather than the primary, Mr Garamendi would have beaten the governor by a bigger margin than Ms Brown. The governor can count himself lucky that he is now running against an attractive amateur rather than a professional street-fighter like himself.

South Carolina

A rebel tamed?

COLUMBIA

IN 1962, the Confederate battle flag was hoisted over the capitol dome of South Carolina. This act was ostensibly meant to commemorate the centenary of the Confederacy; but critics believe it was meant to give the finger to the federal government, which at the time was using troops to integrate the south's public schools. Today, the flag continues to fly; but not, perhaps, for much longer.

In recent years, other states in the deep south, including Alabama and Georgia, have bowed to pressure from black organisations and taken their Confederate flags down. South Carolina has kept defiantly on. But black pressure has been increasing, to the point where the state has been able to think of almost nothing else. Diehard defenders have held rallies and flooded newspapers with letters proclaiming the flag's symbolic, historical and emotional importance. Legislators have held marathon hearings on the subject. Ludicrous compromises have been proposed, including flying the black Liberation Flag (popularised in the 1920s by Marcus Garvey, a black nationalist) alongside the offending banner. The governor has kept his head down.

This spring, as a last resort, the National Association for the Advancement of Coloured People (NAACP) threatened to organise a national economic boycott against South Carolina to force the flag down. And this, at last, has galvanised the state establishment. As recently as the end of May, it appeared that a compromise might be

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The prophet's mantle

SALT LAKE CITY

ON JUNE 5th, a Sunday, members of the Quorum of Twelve Apostles—the governing body of the Mormon church—met in a private chamber in the Salt Lake Temple. There, they placed their hands on the head of Howard Hunter and ordained him prophet, seer, revelator and the 14th president of the church.

A day later, Mr Hunter spoke, and church members heard the voice of a living prophet for the first time in five years. The previous prophet, Ezra Taft Benson, who died on May 30th, had been in such poor health in recent years that he had scarcely been seen in public.

At 86, Mr Hunter himself is no stripling; but his mind and voice remain strong. He still travels regularly on church business; last year, he visited Brazil and Australia. He also spent many years overseeing the rapidly growing church in Central and South America. His international outlook is important for an American church that may, by 2080, have 280m members. In the 1950s only 7.7% of Mormons lived outside the United States. Now 42% do, and nearly a quarter of the church speaks Spanish.

This means that Mormon culture—typified by the neatly suited doorstep proselytisers, and by the murals of a Christ teaching fair-haired children in the Utah desert—must be taken and transformed into something acceptable in any place. The church has called this process "controlled flexibility". In practice, it may mean that Mormons in Islamic countries will conduct church services on Friday, the local holy day, or meet quietly in members' homes in the Philippines.

Mr Hunter also appears ready to lead a church more tolerant of dissent. Last autumn, several scholars and feminists in the church were disciplined for heresy. On Monday, Mr Hunter invited members who had transgressed or had been offended to come back into the fold. He urged Mormons to "treat each other with more kindness, more courtesy, more humility and patience and forgiveness."

Mr Hunter's politics too may differ from his predecessor's: so far, it is hard to discern what they are. He has written no books, been involved with no political causes. Benson was a former Secretary of Agriculture who had been associated with right-wing causes for most of his life; but, when he became church president, he devoted himself to exegesis of the Book of Mormon. At Benson's funeral, Mr Hunter remembered that "I saw the mantle of prophetic leadership settle upon his shoulders. I felt . . . his dependence on the Lord as he stepped into the sacred office he would now hold." The new prophet was also, undoubtedly, talking about himself.

struck. The battle flag would come down this summer, but two other Confederate flags would be flown at Confederate monuments on the state house grounds. By the beginning of June, that plan had been scuttled too.

Businessmen are right to fret about the impact of a boycott. In 1993, 17m tourists spent $6.5 billion as they flocked to South Carolina's wide sandy beaches and elegant old cities, such as Charleston. What if the tourists stopped coming? Moreover, a boycott that conjured up images of racists and rednecks saluting the rebel flag might also make business executives wary of investing in the state.



They were beginning to make a habit of such investment. After enduring nearly a century of grim poverty in the changed conditions that followed the Civil War, South Carolina began moving ahead in the 1960s as textiles, industrial manufacturing and tourism took hold. Employment soared, a record number of new homes were built, businesses came knocking, and income per head in real terms jumped nearly fivefold after 1960 to reach $15,043 in 1990.

Until the flag fuss, South Carolina's generally sprightly image (and its cheap wages, in a place where unions are weak) had led nearly 5,000 firms to announce $19.5 billion in capital investment between 1987 and 1993. Some of these companies were American, but executives from Japan and Germany set up shop too; BMW is now building a new car plant in Greer, near Greenville, in the north-western corner of the state.

And yet problems remain. South Carolina continues to have one of the highest rates of infant mortality in the country. Teacher pay—and student performance—remain comparatively low. Hourly manufacturing wages in 1990 were only 82% of the national average. Besides, although South Carolina's income per head has been rising fast, it is still low: in 1992, the state ranked 44th in the country.

More tellingly, blacks fared worse than whites. The median household income for blacks in South Carolina in 1989 was $16,555; for whites it was $30,118. In 1990, 9% of black males aged 16 and older were unemployed, compared with 3.3% of white males. Of all children living in poverty in South Carolina, 72% are black.

In short, Old South attitudes have kept many blacks from enjoying New South prosperity. And those attitudes are summed up in enthusiasm for the flag that South Carolina, after all these years, still seems more than a little reluctant to take down.

Home schooling

Classless society



TEN years ago, choosing to educate your child at home was a sure sign of crankiness. Today it is a growing fashion. The Department of Education estimates that the number of school-age children being taught at home has risen from 15,000 at the start of the 1980s to 350,000 in 1992. The Home School Legal Defence Association (HSLDA) puts the figure even higher, at 500,000 or more. The reason for the discrepancy, according to Scott Somerville, a lawyer with the association, is that home-schoolers are not overkeen on owning up to census-takers.

In general, home-schoolers have slightly higher incomes and much more stable families than the average American. Apart from that, they are a fairly mixed bunch. In the north-west, where the movement has been growing for 15 years, they tend to be New Age types, intoxicated by the anti-schooling ideas of A.S. Neill and Ivan Illich. Elsewhere, particularly in the south, they are usually evangelical Christians, angry at the

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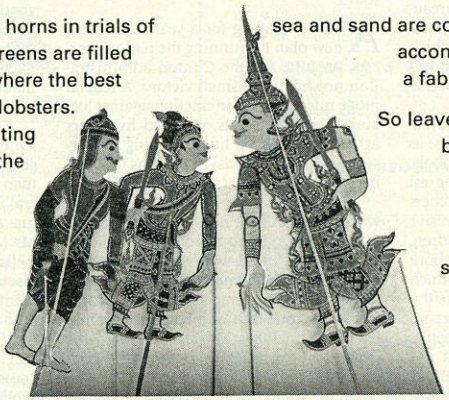

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constitutional ruling that keeps God out of the classroom.

The movement has made least impact in the mid-west, where opting out of the local school is tantamount to opting out of local society, and New England, where bureaucrats and pedagogues are jealous of their traditional prerogatives. Massachusetts, which pioneered compulsory education, imposes particularly heavy regulations on home-schoolers.

The main factor driving people to home-schooling is, predictably, what most see as the inadequacy of the public schools. Home-schoolers complain about falling test scores, growing violence, lousy teachers and, most eloquently of all, a pervasive egalitarianism which stifles bright children. The fashion also suggests something about the inadequacies of private schools, which are either too expensive or too hard-up: the Catholic parochial schools have fewer resources than their public-sector neighbours. Opting out of formal schooling does not seem to exact any academic price. Brian Ray, president of the National Home Education Research Institute in Oregon, points out that on standardised tests home-schoolers do as well as or better than their conventionally educated peers.

Mr Somerville argues that the past few years have seen barriers to the growth of home education falling, thanks, in part, to the work of his association. Since the 1980s home-schoolers have obliged 34 states to legalise the practice. (Most other states already defined private education broadly enough to include education at home.) In 1993, for example, Wisconsin's Supreme Court ruled that the state law compelling children to attend school was unconstitutional.

Home-schoolers have also seen technical and social barriers fall. They are finding it increasingly easy to lay their hands on software to help them teach everything from algebra to zoology. They are also starting to hold up their heads in public. They have their own specialist magazines and a radio call-in show, and they have recently had favourable reports in the national media. Last year the chairman of the HSLDA, Mike Farris, an evangelical Christian with strong views against abortion, won 46% of the vote when he ran for the lieutenant-governorship of Virginia.

Mr Farris represents, to many, the slightly fanatical side of home-schooling. It is startlingly old-fashioned. In a society where two-income families are becoming the norm, and where parents pay for public schools whether they use them or not, home-schooling involves considerable sacrifices of both time and money. The fact that more and more parents are turning to it implies something worrying about the state of public education.

Logging towns

New roots

SEATTLE

AFTER struggling for a year to devise a new plan for running the nation's forests, on June 6th the Clinton administration notched up a small victory. A federal judge ruled that the injunction against logging in public forests, imposed five years ago, could now be lifted; logging can resume (with safeguards) in sections that had been closed to protect the spotted owl.

Yet even with the chain-cutters back at work, logging in the north-west will not return to its former grandeur. The administration reckons that it will take two years for logging in the reopened parts of the public forests to reach as much as 1 billion board-feet a year, one-fifth of the average annual harvest in the 1980s. This means that towns dependent on logging must still worry about finding something else to do.

In the small town of Oakridge, deep in the Willamette National Forest in Oregon, almost everyone used to make his living from logs. When production was cut to protect the spotted owl, two big lumber mills closed down and 1,000 people lost their jobs. As production declined, the Forest Service laid off surveyors and road crews. Oakridge's population shrank from 3,800 to 3,000, and a quarter of those were living below the federal poverty level.

Now, however, the population of Oakridge is growing again. Property values have risen by 17%. And on the site of the now-closed mill some businesses are adding employees and finding markets for new kinds of wood products such as refurbished shipping pallets and gardeners' planter boxes. The town is even being considered for a new McDonald's.

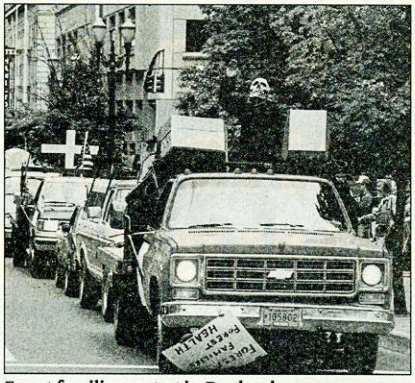
How did the improvement occur? The economics of forest employment are simple. Catherine Mater, an Oregon wood-products consultant, says that old-style forestry practices which turned big logs into small boards created about three jobs for every 1m board-feet of lumber (about 1,000 good-sized trees). If the same wood is used to make components for furniture or decorative mouldings, the jobs rise to 20. And if the furniture and mouldings themselves are made, the figure becomes 80. Parts of the north-west are trying to apply that lesson.

Forests, it appears, are a richer and more varied resource than had been realised. Loggers once regarded alder trees as little more than a weed to be chopped down; now several north-western mills are making furniture components with alder wood. In 1992 Ms Mater's firm surveyed a portion of the Willamette National Forest for non-timber resources. It found that a mere four native plant species could potentially generate $72m a year in sales to garden shops.

It would be foolish, though, to suggest that building chairs or plucking Oregon grapes is the whole answer. Value-added products, although economical with wood, still require some raw material: and the right sort may still be scarce. In Hoquiam, on the coast of Washington, Tom Mayr runs a sawmill that once used logs from the nearby Olympic National Forest to cut special lumber for the Japanese market. But those trees have been out-of-bounds for five years now, costing him his overseas customers. So Mr Mayr and his 160 employees saw up smaller trees from state-owned and private lands, trees suited only for commodity lumber for the domestic market.

Ironically, the panic among private owners over potential restrictions on logging has delayed change in many towns in Oregon and Washington. Mills have been kept busy over the past year sawing logs from small private timber tracts that have been chopped down for quick, certain cash. When this is over, the region could lose another 25,000 timber-related jobs over the next few years. In Hoquiam, many youngsters already live in homes where unemployed parents have become abusive or alcoholic; some live in cars, or on Forest Service camping grounds normally frequented by well-off city-dwellers in search of fresh air.

In ten years, perhaps, some of the schemes now under way will bear fruit. There may be a new wood-products industry that makes good use of lumber and provides plenty of jobs. Oakridge is finding its way already. But much of the present generation of workers will find it hard either to cling to the past or to grasp the future.



Forest families protest in Portland

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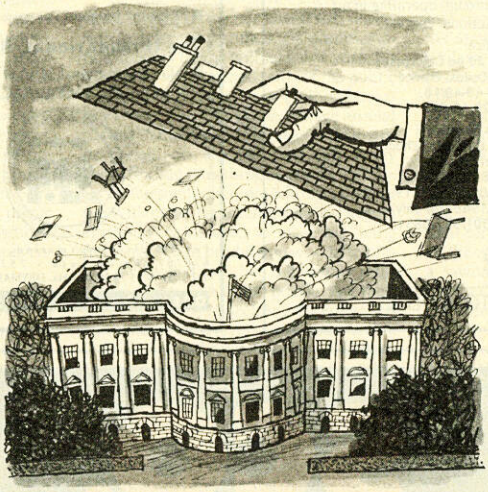
Forecasting Kevin Lewin

Clintonomics revealed

FOR those who are not financial fetishists, political junkies or White House officials, Bob Woodward's new book on economic policy-making in the Clinton administration may be a bit of a bore. Page after page recounts meeting after meeting. Deficits are debated; aides squabble and preen. "The Agenda" may open with the then-governor and his wife in bed, but the sexiest thing that occurs is her cooing, "I think if you run, you win."

Which, by Washington standards, is pretty sexy. And so Mr Woodward's tome is being pawed over like some piece of public-policy pornography, its titillating scenes repeated again and again on the theory that they (like the articles in *Playboy*) are really quite substantive. But Mr Woodward stakes no claim to analysis. Instead, using his familiar, controversial reporting techniques—many sources, no names—the *Washington Post*'s famed sleuth offers a tantalisingly voyeuristic glimpse inside the Clinton White House during its struggle last year to concoct and then pass its economic package.



A pretty picture it is not. Infighting is rife. Mack McLarty, the chief of staff, is compared to a used-car dealer, "trying to make a sale by throwing in free floor mats". Budget director Leon Panetta is dubbed (by a colleague) "the poster boy of economic constipation". Then there is Mr Clinton: indecisive, occasionally inept, flying into expletive-filled "purple fits" and calling his own package "a turkey".

Delightfully new details, all. Yet the central strand of Mr Woodward's yarn is a familiar one: the battle between Mr Clinton's economics advisers and his political ones to shape the package. During the campaign, candidate Clinton had pledged billions in public investments in education, infrastructure and the like. But, after the election, his economics team convinces him to focus instead on reducing the budget deficit. Doing so would please the bond markets, they tell him, pushing long-term interest rates down and thus spurring the economy. Mr Clinton's populist political advisers argue violently against this "Wall Street strategy" and in favour of new spending—to no avail.

At first glance the story seems plausible; certainly everyone in Washington holds it to be self-evident. Mr Clinton's proposal for more than $200 billion in public investments over five years was sliced to ribbons. The budget deficit was cut by some $430 billion over the same period. Now comes Mr Woodward's tale of the bloody victory of the deficit-hawks over the pro-investment liberals, and the spin from the White House is that he has it about right. The result: deficit tamed, economy booming.

When wisdom becomes this cloyingly conventional, the time has come to debunk it. Forget for a moment that the recovery began before Mr Clinton's package had kicked in. Forget too that long-term interest rates are back up where they were when the administration took office. Consider only the deficit. The Congressional Budget Office says this will shrink to $166 billion in 1996; but then (just after Mr Clinton's re-election campaign) it will start to rise again, soaring to $365 billion in 2004.

The reasons why this matters are clear enough. Deficits drain resources from the pool of national savings, leaving less money to be invested by firms; they also tie the government's hands, keeping it from investing sufficiently in schools, training and infrastructure. Under the Clinton plan, America's rates of savings and of public and private investment will be better than in the 1980s—but only slightly. Compared with other rich countries, and with itself during most of this century, they are (and will remain) abysmally low.

Hence the first fallacy of the received wisdom: that the deficit hawks "won". That is true only in the sense that the pro-investment side "lost". Such a narrow, incrementalist view reflects a second, deeper fallacy of Clintonomics: that deficit-reduction and public investment are somehow mutually exclusive. This conflict between cutting and investing, says George Stephanopoulos in one of Mr Woodward's most revealing passages, is "the unbridgeable chasm" in both Mr Clinton and the economic plan.

Rarely has a dichotomy been so false. Not only are deficit reduction and big public investments not mutually exclusive: the latter are more or less impossible without the former. This brutal truth escapes the political people, who seem to think that budget-cutting means "screwing" the common man. In fact, masses of subsidies and tax breaks—aptly described by the labour secretary, Robert Reich, as "welfare for the wealthy"—could happily be chopped to finance more investment. And even those who insist (correctly) that the spiralling cost of middle-class entitlements must be restrained are not merely "merchants of pain". The budget blueprint proposed by Pete Peterson, an arch-deficit-hawk, would balance the budget by 2000 while spending $80 billion a year on new public investments—many times more than Mr Clinton is now doing.

Such investments are desperately needed, a point not always grasped by some administration deficit-hawks. For although economists disagree about whether public investments or private ones feed more efficiently into the economy, it is plain that large dollops of both are needed to enhance the productivity of America's workers, and hence to improve their stagnant real wages and standards of living.

That, of course, is what Mr Clinton promised. So far he has taken good but timid steps. Yet if he continues to see an "unbridgeable chasm" between deficit-reduction and public investment it will be worse than economically myopic and politically unimaginative. It will be a failure of leadership.

Fondazione Alfred Lewin



China's new model army

BEIJING

SINCE China is rather large, it is no great surprise that its 3m-strong armed forces are the world's biggest. But since it is also rather poor, the soldiers' spending power is more remarkable: according to recent calculations by the International Institute for Strategic Studies, China's total defence spending, including official and unofficial figures, is now the third-largest in the world, and rising fast.

Official military spending, which declined during the 1980s, has grown sharply in the past three years. This year it rose by 25%, to 52 billion yuan ($6 billion). Actual military spending may be up to five times as high: the Chinese leave huge areas such as research and development and pensions out of their official figures.

Some of the gap between the official budget and the resources at the disposal of the People's Liberation Army (which includes the navy and air force as well as the army) is filled by the soldiers' enthusiastic espousal of market economics. The armed forces are reckoned to own 20,000 companies. The army's annual profits are thought to amount to something like $5 billion, putting it on a par with the big American multinationals.

Anybody staying in a three-star hotel in Guangzhou is likely to be a guest of the army. The smoothest and fastest buses from Guangzhou to Shenzhen, the lawless and booming economic zone next to Hong Kong, are operated by the navy and the air force. The fastest-growing securities firms in Shenzhen are military companies. In Shanghai China's largest nightclub, J.J.'s, is built on army-owned land; the army owns the best karaoke bars; and women of the most generous morals can invariably be found in army-run joints.

Like any ambitious Chinese business group, the armed forces are turning to Hong Kong, though front companies conceal the effort. The army has a stake in one of the city's best-known developments, Nine Queen's Road Central. Two of its companies have offices in the old Bank of China building. And 999, an army-owned pharmaceuticals company with operations in Shenzhen, has a huge billboard over the Hong Kong waterfront.

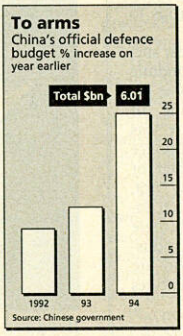
No doubt much of the profit from this great empire is reinvested in the businesses, and much no doubt goes on making the lives of managers and generals more comfortable. But the army's wealth is also helping China remodel its armed forces for the modern world.

Two nasty shocks have changed China's military thinking in the past few years, by showing the government that it was equipped to deal neither with domestic dangers nor with external threats. First came Tiananmen Square in 1989, when the party learnt both how much it needed the army, and how close it came to revolt: by the official count, 110 officers and 1,400 soldiers refused to slaughter civilians around Tiananmen Square. Then, in 1991, Iraq was swiftly defeated in the Gulf war. Much of Iraq's inadequate weaponry, including 20% of its tanks, had been provided by China. The rest was mostly more modern than the stuff China had.

Attending to its domestic worries, the government seems to have been trying to erode the armed forces' independence. Reshuffles among the top commanders are more frequent. In 1992 the troika at the top of the army was replaced, and the commanders of all seven of China's military regions were also moved.

The bonds between the party and the army are being strengthened. More soldiers have been co-opted into the party's ruling body, the 190-strong Central Committee. Military men now account for a quarter of the committee's members. And since 1989 the party has been running an intense indoctrination campaign down to the lowest levels of the army, to make sure that the soldiers have the right attitude.

The army has also won some favours from the government. The party has promised that soldiers will not be called upon again as the first line of attack against unarmed civilians. To this end, the leadership has doubled the presence in Beijing of the People's Armed Police (PAP), who in 1989 lived up to their acronym. Two PAP divisions, each 20,000 strong, are now stationed in Beijing as an army of occupation.



The sharp budgetary increases since 1989 have been designed not just to buy loyalty from the generals, but also to deal with the second problem: the inadequacy of China's weapons to defend it against external threats. Since it cannot afford to import high-tech goods (and anyway all the big exporters except Russia banned the sale of weapons to China after the Tiananmen Square massacre), China is trying to beef up its own arms industry. About half the increase in total defence spending is believed to be going on R&D to enable China to produce

Fondation Alain Lewin

more sophisticated weapons.

Since the threat from the Soviet Union disappeared, Chinese defence planners have been redesigning the armed forces to deal with a different world. They are concerned not so much with the threat of ground attack from the north, but with securing access to sea routes and resources—the oil in the South China Sea in particular.

The extra money is therefore going on faster-moving troops and on naval equipment. The Chinese navy is being transformed from a "brown-water" navy, of the sort that potters around coastlines, to a longer-range "blue-water" navy. Concern about this development is reflected in the corresponding increases in spending among China's neighbours.

Yet China's rising military spending does not mean an overall rise in local tension. Since China has become better friends with Russia, India and Vietnam, the region is a less dangerous place than it was a few years ago; and, for the moment, China's armed forces are probably too absorbed with their own concerns—money-making and modernisation—to interest themselves in foreign adventures. But in a decade or so, when the army's cupboards have been restocked with new toys, things may look different.

Gangsterville

BAIGOU

THREE hours' suicidal drive south of Beijing sits Baigou, a market town on the plains of Hebei province whose success has been achieved with an unusual range of goods. At first, all you see are rows and rows of stalls displaying designer bags and cheap couture, made in local factories. Then you come across fake pistols, copies of the state-made Black Star being popular. Ask the stallholders about what else is for sale in Baigou, and you are directed to backstreet shops. Here, alongside pornographic videos, are real guns, along with the accessories for the well-equipped criminal in modern China: a flashing light with siren to stick to the top of your car and a police uniform.

These goods have been used to rob banks and jewellery shops in China—a habit spreading to Hong Kong, where Black Star guns have been used in several recent raids. Perhaps the favoured technique of those who come to Baigou to shop is the highway robbery. An all-purpose six-man police roadblock may cost no more than $200-worth of props to put together.

The Baigou market is a clear success in these days of economic change, but one that embarrasses the central government in Beijing. In May the government said it was clamping down on the sale of police and military goods, counterfeit or otherwise. These orders may not, however, be followed with much enthusiasm in Baigou. Everybody there is doing nicely out of the local industry—including the police, who are part-owners of some of the factories copying their equipment.

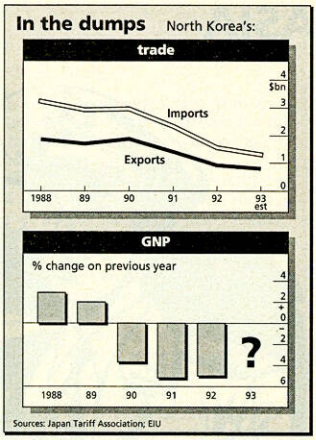
North Korea

Game's up

BRAZEN defiance is a North Korean art form. This week, the North at last offered to let inspectors from the International Atomic Energy Agency have a look around its nuclear reactor—just as it was removing the last of the nuclear fuel and thus destroying the evidence. In return for this concession, it asked for a resumption of high-level talks with the United States. America has rejected the idea.

The package of incentives on trade, aid and diplomatic recognition that America had been hoping might coax Kim Il Sung to part with his nuclear secrets would no doubt be more welcome than the economic sanctions now being tentatively discussed behind the scenes at the UN Security Council. But, despite repeated threats from the North Korean government that "sanctions mean war", some form of sanctions now seems inevitable.

America is hoping a list of possible sanctions can be drawn up and approved with full United Nations backing. But Russia and China are dragging their feet. Russia wants to try its own idea first: an international conference of all involved, including North Korea. But efforts to bring North Korea back into compliance with its nuclear obligations have thus far been all talk—and got nowhere.



Although China has not said out loud that it will veto a sanctions resolution when it comes up for discussion, probably next week, the Chinese insist that sanctions are not the answer. At best it might abstain, let a resolution pass, and then ignore it. Though Chinese diplomats say they are still trying to persuade the North Koreans to end their nuclear defiance, China's president, Jiang Zemin, warmly welcomed North Korea's chief of staff, General Choe Gwang, to Beijing this week with professions of "unwavering" friendship. General Choe announced last year that his army would unify Korea by force.

North Korea's is one of the world's most isolated economies, but it is not self-sufficient. Since Russia stopped subsidising its imports, China has become the North's biggest trading partner, supplying vital food and fuel. Sanctions would be tighter if China were to co-operate. But America, South Korea and Japan say they will press ahead with sanctions anyway.

Japan is North Korea's second-largest trading partner. Sympathetic Koreans living in Japan are also its single biggest source of foreign exchange. They send something between $600m and $1.8 billion in hard currency into North Korea each year. Japan is considering stopping the flow of cash and cutting exports. South Korea, too, has been doing more business with North Korea in recent years, mostly supplying equipment and materials to North Korea's clothing indus-



Jiang and Choe: the Chinese squeeze

Fondazione Alfred Lewin

try and taking the finished products to sell.

North Korea's economy is in poor shape to take extra punishment. This year's harvest is just starting to come in and will alleviate the worst of the widely reported food shortages. But last year's grain harvest was the worst for a decade. Industry is operating at half capacity or less. Plan targets are there to be missed, but they do give outsiders an idea of where the worst problems lie. This year North Koreans have been told to increase meat production by 30%, and bump up grain output and coal production. Whatever the sanctions, ordinary North Koreans will feel the pinch.

Thailand

Tragedy or farce?

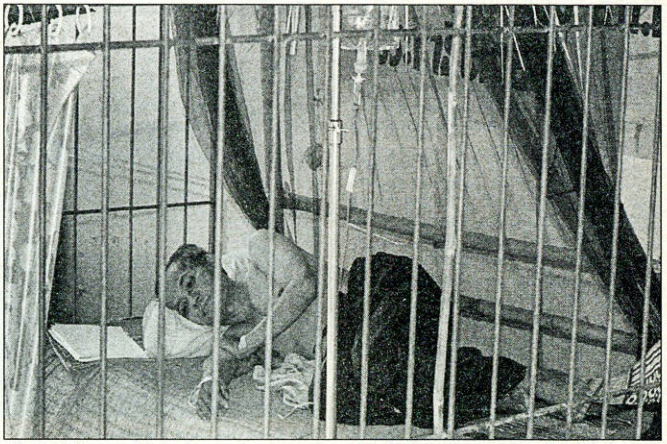
BANGKOK

CHALARD VORACHAT, who is currently starving himself to death outside the Thai parliament to press his demands for a more democratic constitution, is no ordinary hunger striker. The last time he went off his food, his actions sparked off the pro-democracy protests of May 1992, which culminated in the massacre of scores of demonstrators by the Thai army. Although the military government subsequently backed down and a new government was democratically elected, Thai politics remains unstable. Some fear that Mr Chalard's latest hunger strike could provoke public disorder, which could in turn threaten the government and even lead to renewed violence on the streets of Bangkok.

But other elements of the story support the view of Karl Marx, who believed that when history repeats itself it does so "the first time as tragedy, the second time as farce." When a man embarks on his fourth "fast unto death", his determination is called into question. On the first day of Mr Chalard's latest hunger strike, some of his right-wing opponents set up a stall nearby and vowed to "eat unto death". Plates piled high with pungent fruits and steaming noodles were brought to them, while they jeered at the ascetic protester.

Even many pro-democracy activists, who were firmly on Mr Chalard's side in 1992, are uneasy about his latest fast. The government that Mr Chalard is now protesting against is not headed by an unelected general, as in 1992, but by an elected civilian prime minister, Chuan Leekpai.

Mr Chuan is resisting Mr Chalard's demands. He argues that it is profoundly undemocratic for a single "pro-democracy activist" to try to force the hand of an elected government. Though the Chuan government is committed to democratising the constitution (and had its own efforts thwarted by the military-dominated upper



Chalard fasts until death, again

house of parliament earlier this year), the government argues that Mr Chalard's proposed reforms would contravene the present constitution. Ministers took heart from opinion polls taken in the first days of the hunger strike, which showed that most Thais did not support Mr Chalard.

Mr Chalard may not have the support of the majority, but he has enough support to be a problem. A strange pro-Chalard alliance has emerged which combines students, folk singers, trade unionists and impoverished farmers—the traditional left—with the more opportunistic members of the right-wing opposition and some members of Mr Chuan's coalition.

Moreover, Mr Chalard's tactics could prove embarrassing to the government. To prevent his removal to hospital, he has had a metal cage installed around his bed. His supporters have been instructed to allow him to die and then to prevent the removal of his corpse, which would serve as a recumbent reproach to the heartless Mr Chuan. Rumours that Mr Chalard was about to be removed one night recently provoked a near riot by supporters near his cage.

All sorts of worrying possibilities face Mr Chuan. Some soldiers may yearn for a confrontation with their old pro-democracy adversaries. A serious worsening in Mr Chalard's condition could win him more support. Mr Chuan's governing coalition might split and fall. Even so, Mr Chuan rejected early attempts to find a compromise by setting up a new parliamentary committee to consider Mr Chalard's demands.

The likelihood is still that Mr Chalard's fast will not turn into anything nearly as serious as the events of 1992. Mr Chuan is no trigger-happy general and would not countenance troops shooting at demonstrators. The army has reaffirmed its backing for the elected government and public support for Mr Chalard is much lower than in 1992.

Most important of all, Mr Chalard's supporters in the new Thai Political Reform Organisation know that they are up against the clock. It is not just the fading health of their standard-bearer that concerns them. As Veera Musikapong, a founder member of the group, explained: "Chalard is likely to stop his fast before the World Cup opens on June 17th. Thais will be concentrating on the World Cup once it arrives. Few will be interested in the protest."

Vietnam

The profit hunters

DA NANG

SINCE the end of the Vietnam war, many American films and books have agonised over the meaning of it all. The Vietnamese, who suffered much heavier casualties than the Americans, take a more practical approach. They are intent on turning the war into a tourist attraction.

Trang Cong Cuong, the head of the Da Nang Tourism company, typifies the new pragmatism. It was in Da Nang, in central Vietnam, that American marines first waded ashore in 1965. Mr Cuong, an officer with the guerrillas in the area, fought against them. But he says he is delighted to see former American servicemen returning to the town. "It is a symbol of the normalisation of relations," he says. "We hope they will spend lots of money." Da Nang Tourism is planning to organise trips to the old battlefields for American veterans.

War nostalgia is exploited in Hanoi and Ho Chi Minh City, where bars with names

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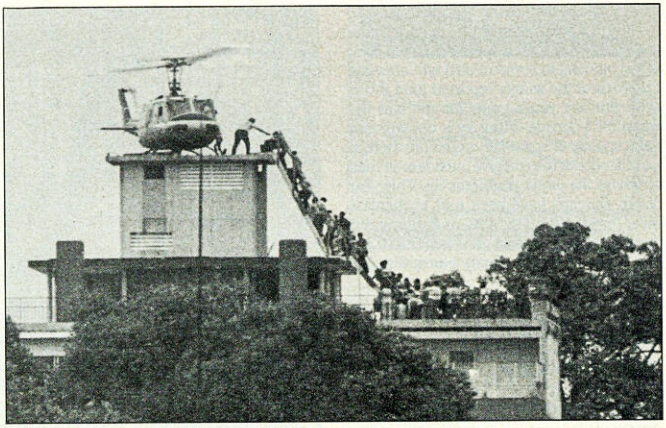
drawn from war films such as "Apocalypse Now" and "Good Morning, Vietnam" do a brisk trade. A popular tourist attraction near Ho Chi Minh City is a web of underground tunnels built by the guerrillas. For French visitors, Vietnam Airways recently started flights to Dien Bien Phu, the site of France's decisive defeat.

Da Nang is pinning many of its hopes on China Beach, where American soldiers used to repair for a spot of surfing during gaps in the fighting. On American television a series called "China Beach" has become famous, and resort developers think its name is bankable. An American company, the BBI group, has agreed to invest $280m in a resort, including five hotels and a golf course, near China Beach. It is expected to be completed by 2000. Some locals in Da Nang whisper that BBI has got the wrong place. Returning GIs apparently insist that the real beach was somewhere else, much closer to the city of Da Nang. But the city authorities insist firmly that BBI's beach is the right one.

Several large hotels are also to be built. Nguyen Xuan Phuc, the head of the province's tourism department, is aiming high. "In seven to ten years, I would like to see this place like Bali or Phuket," he says, referring to popular holiday places in Indonesia and Thailand. There are 150 kilometres (95 miles) of sandy beaches near Da Nang and the Americans left behind an airport capable of taking large commercial jets. Mr Phuc hopefully points out that Da Nang is closer to Hong Kong and Taiwan than is either Bali or Phuket.



The good old days: Saigon, 1975

Though the potential of Da Nang is obvious, the city still has a long way to go. A recent visitor to the smartest hotel in town tripped over a mangy dog, sunning itself on the floor of the lobby. The city still has no proper sewage- or water-treatment plants. Resorts such as those planned for China Beach tend to bring a lot of their infrastructure with them. But any tourists who try to leave their resorts will find that the roads out of Da Nang are awful, which will make sightseeing difficult.

Still, despite all the problems facing the development of tourism, Vietnam need only look to Thailand to get a sense of how rich the rewards can be, at least in terms of dollars. Even after a decade of rapid industrialisation, tourism remains Thailand's largest single earner of foreign exchange. Last year the Thais played host to more than 5m tourists, compared with the 670,000 who visited Vietnam. Even that figure is vastly more than in 1990, when about 100,000 foreigners visited Vietnam. The Vietnamese plan to attract 3m tourists a year by the turn of the century. That is one five-year plan which looks perfectly realistic.

The king of the waves hits a storm

TOKYO



Sasagawa has good parties

HE'S a terribly nice man. Posts up instructions on earthquake safety around Tokyo. Pays for artistic and scientific foundations. Gives nearly ¥1 billion ($9.5m) a year to the United Nations. Fancies he might deserve a Nobel prize. And, by the by, was a war criminal. Now, in Japan's newly clean atmosphere, things have turned nasty for 95-year-old Ryoichi Sasagawa.

In the 1930s Mr Sasagawa built up a 15,000-strong group of black-uniformed right-wingers and befriended drugs dealers in China. In 1942 he was elected to Japan's militarist Diet. At the end of the war he was jailed by America's occupying forces. Like many Japanese war criminals, however, Mr Sasagawa was soon out of prison and running the country. In 1952 he used his links with right-wingers in the Diet to obtain a legal monopoly over motorboat racing.

This was worth a bit. Gambling on motorboat racing currently brings in ¥2 trillion a year; Mr Sasagawa pockets 3.3% of this, or ¥66 billion. Mr Sasagawa has used the profits from old political links to forge new ones. He has a son in the Diet, and has befriended other politicians by paying for sports clubs to be built in their constituencies. He is nice to the Ministry of Transport, too. Dozens of retired ministry men have accepted sinecures from him. When he calls on the ministry, top bureaucrats hasten to greet him.

On June 7th it emerged that a senior transport bureaucrat had received a ¥50,000 gift voucher as a take-home present from a Sasagawa golf party. Ten other bureaucrats attended the party too, and may have enjoyed similar hospitality. This comes on top of the arrest in May of a Sasagawa lieutenant, Masahiko Yoshimatsu, on charges of bribery. During the rule of the corrupt Liberal Democratic Party, political and bureaucratic friendships used to shield many a Japanese rogue from the law. Since the LDP's fall from power last year, friends have grown less helpful.

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Australia

Enough for now

CANBERRA

WITH a vast swathe of territory to fill up, Australia has for most of this century welcomed immigrants. "Populate or perish" has been the country's watchword. Now that cry is heard less. The immigration minister, Nick Bolkus, announced in May a quota of 86,000 migrants for the next 12 months. This is 10,000 more than the year before, but includes 8,300 Chinese students already in Australia who want to stay. With the number of departures not much smaller than arrivals, Australia's population will remain little changed at 17m.

Because of the recession, the yearly quota had already been cut back from the high levels of the 1980s. In 1988, the peak year, there were 173,000 more immigrants than emigrants, adding about 1% to the population, slightly more than was added by natural increase. With the economy now recovering—GDP grew by 5% in the year to March—it was assumed that the welcome mat would be out again, as after previous recessions. Migrants usually bring in skills useful for an expanding economy.

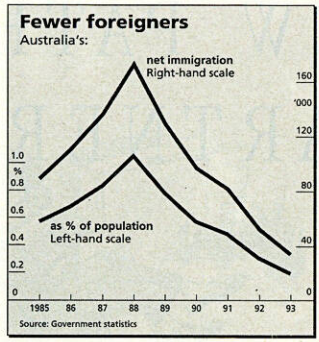
But unemployment, although falling, is still above 10%. Although research has shown that immigrants add little to the jobless total, voters are not always inclined to believe it. The prime minister, Paul Keating, said recently that he favoured training "our own people" in new skills rather than relying on immigration.

"Our own people" are a pretty mixed lot, and so are Australia's immigrants. Britain is still the single largest source of migrants, though its share is down from 44.3% in 1962-63 to 12% in 1992-93. Migration from Asia has risen since the late 1970s, especially from Vietnam, the Philippines and Hong Kong. In 1992-93, 43% of migrants had been born in Asia.

In theatres and cafés the artistic and culinary benefits of creating 5m new Australians since the end of the second world war are clear. Stars of Australian football come from all corners of Europe, though not yet from Asia (but the Melbourne municipality of Richmond several years ago elected a Vietnamese-born lord mayor).

Should a Liberal government replace Labor, even fewer migrants are likely to be allowed in. During the 1980s the Liberal Party engaged in an acrimonious debate over the relatively high levels of immigrants from Asia. Although the "white Australia" policy was formally abandoned in 1972, politicians have occasionally been tempted to exploit racist sentiment.

Generally, though, Australia has absorbed migrants pretty well. Any violence is usually verbal, not physical. Such hostility as Asians have encountered is not much more unpleasant than was once faced by Yugoslavs, Greeks and Italians who made up much of the post-war migration.



India

How to keep investors out

DELHI

COMPANIES in India are not allowed either to close down a factory, or to sack workers, without seeking permission from the government. Permission is rarely granted. Of all the old economic policies that still survive in India, this is the one that most discourages foreign investors, and the government has been muttering constantly about changing it. The prospects for change, however, seem to be receding.

Of course, companies can always get around the law. Workers who are given enough money—the going rate is a couple of years' wages—leave voluntarily. Government permission does not then need to be sought. But this means expense, inconvenience and absurdities: factories that have not operated for decades remain legally open, because they have not been given permission to shut, so the assets cannot be sold to meet the claims of creditors.

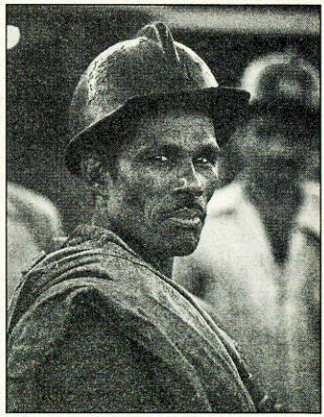
Trade unions oppose a change in the law, fearing it would result in mass closures; and every political party in India has a vociferous trade-union wing. Yet when the economic reforms began in 1991, many committees examined the possibility of amending the labour legislation, knowing that a change would boost confidence in the economy. The government even got as far as producing a draft law.

Now, however, this uncomfortable issue has been put aside. Since $5 billion of foreign money poured into India in 1993-94, raising the country's foreign-exchange reserves to $15 billion, many politicians are saying that the crisis is over, and there is no need to embark on risky reforms that could turn the unions nasty and lead to street violence. Elections are due in ten states within the next 18 months, and a general election by 1996. Besides, the prime minister. P.V. Narasimha Rao, is short of a majority in the upper house of Parliament, and so will find it hard to push through new labour laws.

Fear of unemployment has also prevented a promised restructuring of the public sector. Although 58 public-sector enterprises are chronically ill, not one has been shut down, and their workers still get paid. In 1991 Manmohan Singh, the finance minister, promised to stop these subsidies within three years. That deadline has passed, and the budgetary support continues.

The banking unions are the most powerful of all, since they can paralyse the financial system. In theory all the state-owned banks are now free to close their hundreds of loss-making branches, but not a single branch has actually been closed. An agreement with the bank unions, made in 1993, provides that banks with fewer than 500 branches will introduce computers at the rate of 1% per year, and those with more than 500 branches at 0.5% per year. In other words, the big banks will take 200 years to be fully computerised, by which time computers will doubtless be obsolete and so, perhaps, will the banks.

To reassure the unions, the government has promised not to privatise any profitable public companies. It has tried to find a buyer for Indian Iron and Steel, a hopeless case, but says the buyer must not get rid of any of the 30,000 workers, nor sell any of the company's assets. One brave purchaser put in a bid, but the unions protested, and so the government retreated into masterly inaction.



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Operating Result of BHF-BANK Group	1993 million DM	1992 million DM	Percentage change
Net interest income	619	538	+15.1
Net commission income	351	300	+17.0
Administrative expenses	600	548	+ 9.5
Partial operating result	370	290	+27.6
Net income on financial operations	127	96	+32.3
Provision for risks	168	116	+44.8
Operating result	323	268	+20.5

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A firm of their own

NEW YORK

More and more American workers are acting as if they owned their company. Increasingly, they do

TRAVELLERS flying the friendly skies of United Airlines (UAL), America's second-biggest airline, should soon get an even friendlier reception from its employees. Later this month, if all goes to plan, UAL's shareholders will vote on a deal that will hand 55% of the company's shares to its workers in exchange for close to $5 billion of union concessions on wages and working rules, plus three seats for workers on the board. Existing shareholders will receive cash and shares to compensate them for the dilution of their investments. Despite some mutinous mutterings, they are likely to approve the deal eventually.

By turning itself into America's largest employee-owned firm, UAL hopes at a stroke to cut costs and spawn a new breed of motivated owner-employees. The theory is that this should make UAL more competitive with successful penny-pinching rivals such as Southwest Airlines. It should also, says Robert Reich, America's labour secretary, "serve as a very important model" for the rest of American industry. But is the reality of employee ownership true to both UAL's and Mr Reich's dreams?

UAL is the latest in a long line of American companies to have used an employee buy-out to extricate themselves from a tight spot. Last year TWA agreed to swap 45% of its equity for $660m of concessions from its workers, while Northwest Airlines exchanged a 28% stake for $886m of wage and cost savings. Big employee buy-outs at several steel makers, notably Weirton Steel and Republic Engineered Steels—whose employees initially owned 100% of the equity—staved off almost certain closure during the 1980s. And at Avis, America's second-biggest car-rental company, a $1.75 billion buy-out, led by the employees, offered an escape from an ownership merry-go-round that had seen Avis drive through five owners in ten years.

According to the National Centre for Employee Ownership (NCEO) in Oakland, California, about 9,500 American companies—accounting for almost 10% of the country's workforce—have employee share-ownership plans, or ESOPs; another 5,000 or so firms have other kinds of workforce-wide ownership schemes, such as share-option plans. But in most "employee-owned firms" workers own a tiny percentage of the total equity. Only in about 250 big companies (ie, those with more than 1,000 employees), calculates Joseph Blasi, a professor at Rutgers University in New Jersey, do workers hold 20% or more of outstanding shares.

Most studies of worker-owned companies carried out during the past decade agree on one key point: by itself, employee ownership—regardless of the size of the stake—confers very little competitive advantage. This, as Mr Blasi notes, is unsurprising: if large executive shareholdings are not associated with improved corporate performance, why should small individual employee shareholdings—obtained in exchange for sometimes painful concessions—make much of a difference?

But combine employee ownership with "worker participation" and firms tend to pull ahead of their rivals. (Worker participation, another much misused phrase, means involving all the employees in corporate change: it thus stretches from putting workers on the board to devolving power to teams on the factory floor.) On average, various studies have shown companies that combine employee ownership with participation seem to grow about 10% faster than they did before the buy-out. Indeed, a new federal study directed by John Dunlop, a former labour secretary, argues that worker participation can help all firms.

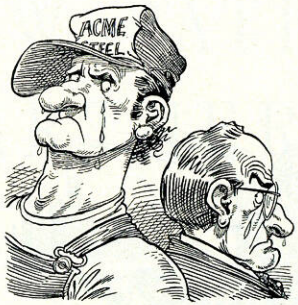
However, the Dunlop report also emphasises that worker-participation programmes are "fragile and difficult to sustain". This may help explain why so few employee-owned companies have attempted to implement them. Part of the problem is getting workers and managers to communicate each other's needs. Only a handful of big American employee-owned firms, including TWA, Northwest Airlines, Weirton Steel, Northwestern Steel and Wire, and Republic Engineered Steels, have non-management employees sitting on their board; UAL should eventually join their ranks.

But even offering workers seats on the board is not by itself enough. Management and employees (or unions) must also agree on formal mechanisms to bring about other forms of worker participation—such as extra training, quality circles and employee advisory committees. The idea, says Mr Blasi, is that managers should "create a participatory culture where share ownership becomes a reason to get more involved"—not simply a reason to keep watching the share price. So far, UAL's management and

Fondation Alfred Lewin

unions have seemed unenthusiastic about nurturing such a culture—in stark contrast to profitable Avis, whose employees own three-quarters of the shares.

The car-hire company has no non-management employees on its board, preferring to involve workers by way of 150 influential "employee participation groups". Empowering workers in this way is hard work, says Joseph Vittoria, Avis's chairman: "You have to keep going out there and pounding home what ownership means." But that pounding can work: Avis's employees constantly bombard it with cost-saving, productivity-boosting ideas.



A buy-out is forever

Mr Vittoria, who was nominated as a non-executive director of UAL in March, should try to instil a little farsightedness into a deal that both sides appear to view as a one-off cost-cutting exercise: the pilots' union already seems set on clawing back the concessions it is making to UAL within a few years. Mr Blasi says that UAL must come to terms with the need for further cuts.

Many concession-driven buy-outs stumble when the time comes for another round of belt-tightening or investment. Take Eastern Airlines. A decade ago its workers swapped concessions for a 25% shareholding, saving the near-bankrupt airline $100m in the year following the deal. But when Frank Borman, the firm's aggressive boss, demanded another round of concessions, unions and management reverted to their old confrontational ways. Eastern was sold to Texas Air less than two years after the buy-out, and went bust in 1991.

Weirton Steel, bought by its workers from National Steel in 1984, was profitable in the six years following the deal. But as industry conditions deteriorated, Weirton needed to cut costs and raise new investment capital. In 1989 the firm sold 4.5m common shares, which diluted the workers' holdings. Over time, that appears to have worsened relations between Weirton's management and workers. Last year the employees rejected a further share offering, although in May 1994, following three years of losses, they approved a share sale that will dilute their stake in Weirton to 51%. The effect that will have on their commitment remains to be seen.

In a recent paper for the NCEO, Michael Quarrey and Corey Rosen point out that many employees are "incorrigible": either incorrigibly good or incorrigibly bad. Owning shares in their firm will make little difference to these workers' behaviour. They will simply carry on much as before. All told, just under half the employees in firms studied by the NCEO said they would work either a little or a lot harder. That may not be enough to make a difference to competitiveness. If, say, labour accounts for 30% of a firm's total costs, and if half of that firm's workers now work during 30 previously wasted minutes of an eight-hour day, then (other things being equal) its unit costs will fall by a mere 1%.

The continuing decline in labour's share of total costs is whittling away the gains to be realised from swapping shares for wage and working-practice concessions—especially in manufacturing companies. According to McKinsey, a management consultancy, labour accounts for only 17% of total costs in profitable American computer makers—and its share is falling towards the 5% level found in many Japanese manufacturing companies. This trend is mostly due to the increasing use of subcontractors, which in Japan typically account for a third of total costs. No matter how highly motivated the employees of a newly bought-out firm, their influence on subcontractors'

A stake in the store

WHICH is better: a worker-owner or a shopper-owner? Compare the fates of two British retailing institutions: the John Lewis Partnership (JLP), which is Europe's biggest worker-owned business, with sales of £2.4 billion ($3.6 bilion); and the 150-year-old consumer-owned Co-operative movement, which notches up sales of some £7 billion.

John Lewis's 22 department stores, scattered across Britain, and 108 supermarkets sited mostly in southern England, are as staid as their middle-class customers. Yet John Lewis is the product of high-minded social engineering: in 1929 Spedan Lewis placed his family's business into a trust for its workers. A worker-dominated council has the power—never yet exercised—to fire the chairman. But how profits are split each year is decided by a board on which employee representatives are a minority.

Lewis also laid down some sound retailing principles, such as its "never knowingly undersold" pricing policy. JLP made pre-tax profits of £93.2m last year—31% up on the previous year. The firm's 38,800 employees received a profit share-out totalling £34.5m, 10% of their wages. (At the peak of the 1980s' retail boom, their annual profit bonus reached 24% of salary). The remaining profits were ploughed back into the business.

Critics claim that John Lewis is slow-moving, overstaffed, and invests too little. They say its weaknesses have been exposed in food retailing, where competition is fiercest: Waitrose, JLP's supermarket division, saw its profits fall last year from £42m to £34m on stagnant sales, despite new store openings. To be fair, Waitrose has not imitated its rivals and opened (illegally) on Sundays; but the store has been slow to install electronic scanning equipment.

Stuart Hampson, John Lewis's chairman, argues that far from pressuring the board to increase their bonus at the expense of investment, his workers take a longer-term view of their business than equity markets would. A 1992 study of the firm by Keith Bradley of the London School of Economics concluded that its overall business performance matched that of its publicly quoted rivals. Mr Bradley likens John Lewis to a Japanese firm: it is slow but makes the right decision in the end. John Lewis's chief strength is that its workforce is better-trained and more highly motivated than its rivals; indeed, other retailers are now trying to imitate John Lewis by treating both their staff and their customers better.

The Co-op, Britain's other alternative to capitalist retailing, is in less fine fettle. In the late 1950s some 1,000 co-operative societies, owned by 12m consumers, constituted Britain's biggest retailer. But the 40-odd surviving co-ops had just 7% of the grocery market last year according to Verdict, a consultancy. Their 3m remaining members have not received a cash dividend since the 1960s. Instead they qualify for some discounts at the stores.

Some of the Co-op's problems are those of its customers, who tend to be poor, elderly and northern. But chronic under-investment and indifferent management have also played their part. The two largest societies this year began a new round of merger talks. A single national co-op would still be Britain's fourth-largest grocer. This gloriously bad business still has a gloriously good name.

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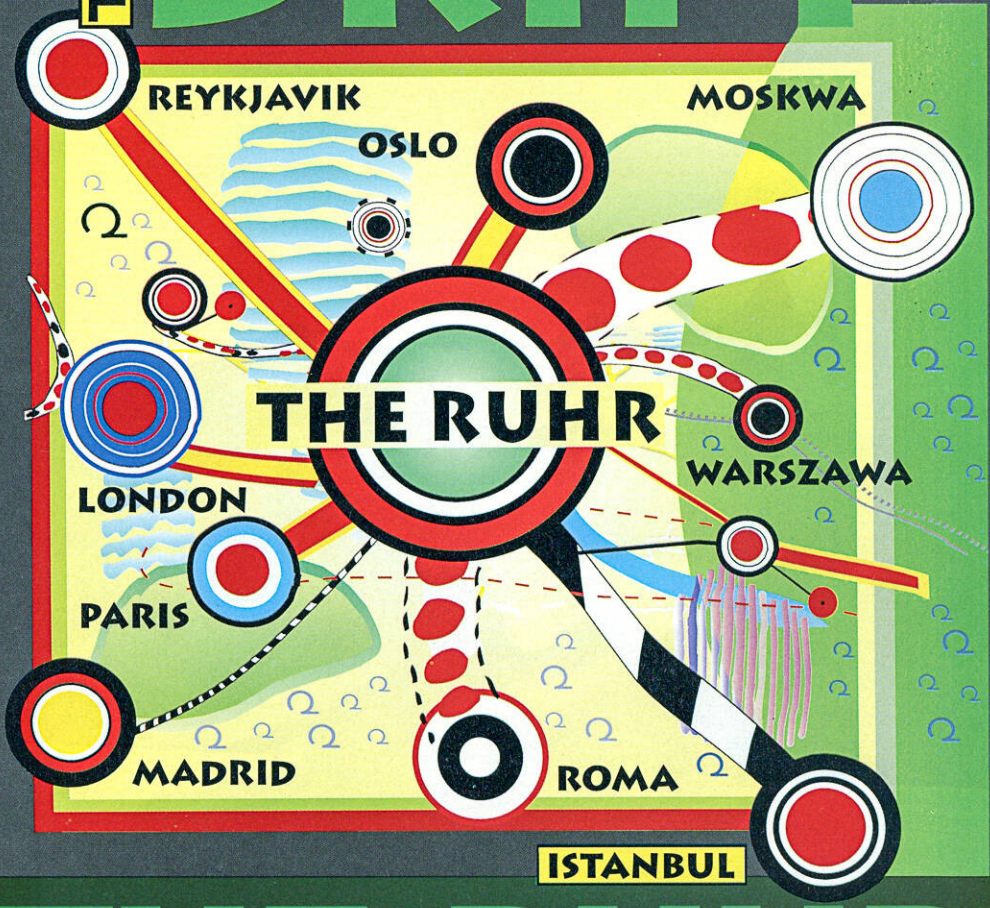

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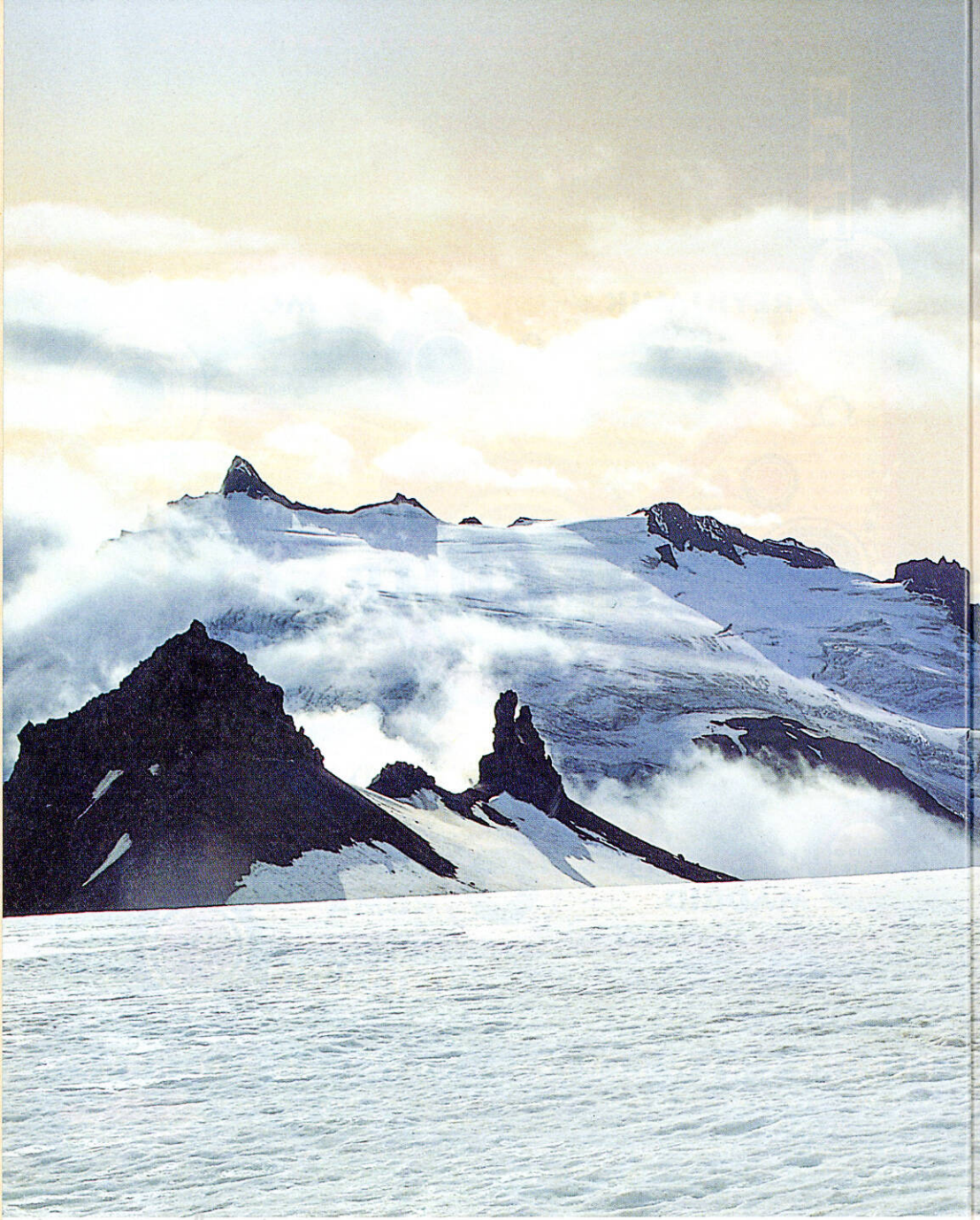

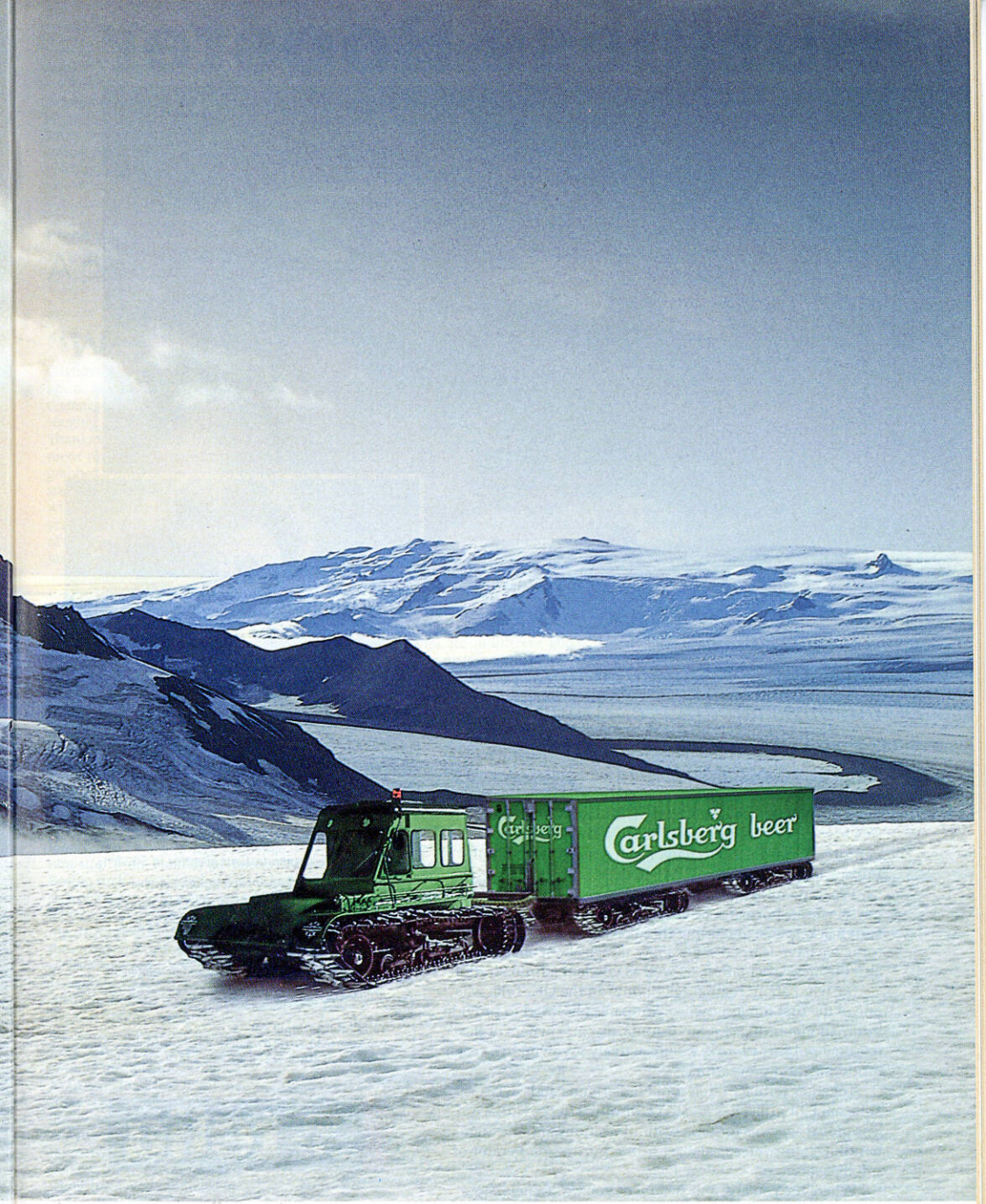

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costs will be negligible.

Wall Street, wary of the UAL deal, has marked down the company's shares by 21% since January. Yet the anxieties of the airline's existing investors, focusing on the dilution of their holdings and the effect of electing workers to UAL's board—miss the point. No matter how sugary a buy-out deal, it will all be for nought unless it heralds a new era of employee participation, empathic labour relations, and continuing improvement to everything from productivity to product quality. Alone, employee ownership has never turned a bad firm good. As Mr Blasi puts it: "Giving sugar to rats doesn't make them sweet."

Plane wars

A paper dart against Boeing

TOULOUSE

"WHO are those guys?", asks an exasperated outlaw in "Butch Cassidy and the Sundance Kid" when, once again, he spots the relentless posse in the distance. Boeing managers must feel roughly the same about Airbus Industrie. Thanks to a mixture of tenacity and government cash, the European consortium has grabbed a third of the civil-jet market—and stalked the Seattle-based industry leader with increasing success over the past ten years. This week Airbus unveiled the design of a new aircraft aimed at snatching the jumbo market from Boeing's mighty 747.

The latest offering from the Airbus consortium (which includes Aerospatiale of France, Deutsche Aerospace, British Aerospace and CASA of Spain) is the A3XX-100, a double-decker super-jumbo. It would cost $8 billion to develop, and it remains, for the moment, just a paper aeroplane. Its unveiling is part of the elaborate dance that plane-makers perform, partly to attract attention from airlines and partly to see what response they can draw from their rivals.

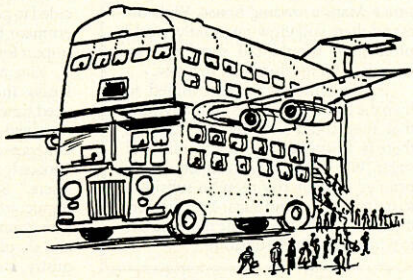
On paper, the A3XX looks promising. The first version could carry 530-840 passengers (against 350-450 on most 747s). Despite its size, the new Airbus will also have a range of 13,680 kilometres (8,500 miles)—slightly longer than Boeing's 747, and enough to fly non-stop from London to Buenos Aires. Boeing itself is considering a stretched version of the 747, with a new wing designed to let it carry more passsengers without limiting its range. As orders and production of the current 747 are slowing, a new product is clearly needed.

Airbus has pounced successfully before. In the mid-1980s it spotted a gap in the market for long-range aircraft with 250-300 seats. Its A330 twin-jet and the four-engined A340 were launched to fill the gap. Their success forced Boeing to spend $4 billion on the new 777, a similar long-range plane, which makes its maiden flight this month, and which has already attracted 147 orders. But now Airbus is closing in on Boeing again.

Or is it? The A3XX may never fly, even though Airbus says it will start presenting its project to airlines in the autumn. Out of the big carriers, only British Airways has said that it is definitely interested in a super-jumbo. Worse, while Airbus is parading its design, its parent companies are quietly talking to Boeing about a collaborative effort to build yet another super-jumbo, called the Very Large Civil Transport (VLCT) project. Airbus bosses sit on these talks as observers; they suspect Boeing is not serious about collaboration, despite its protestations to the contrary.

All this means that there are three potential super-jumbos on the drawing board: the A3XX, a stretched 747 from Boeing, or the VLCT. Airlines are indifferent about who builds it; what matters to them is whether a super-jumbo can cut operating costs. Competition has kept many airlines in losses ever since the slump that followed the war in Kuwait. Even though traffic is still estimated to grow on average by about 5% a year over the next 20 years, only lower operating costs could restore yields and profits.

Airbus claims that its new model would have a seat-per-mile cost 20% lower than anything flying today. It also may have an answer to the airlines' other big problem: a shortage of cash to buy planes. The late 1980s' boom in aircraft orders was financed by the aircraft-leasing industry; it ran into its own problems last year, when Ireland's GPA had to be rescued by an American conglomerate, General Electric. Airbus's boss, Jean Pierson, says that finance is now the biggest problem in any aircraft sale. He has been looking at how Airbus might set up its own leasing company.



To be credible with its customers, such a firm would have to have a transparent financial structure. Airbus, which shelters behind a special French law for *groupements d'intérêt économique*, currently reveals its figures only to its shareholder companies; many of its biggest costs are hidden in its parents' figures. If Airbus does start a leasing company, it would bring some of these figures into the open—and help to turn Airbus into a proper company rather than the state-subsidised consortium that Boeing has loved to hate.

Telecoms alliances

Transatlantic tryst

NEW YORK

SPRINT, America's third-biggest long-distance telephone company, is nothing if not promiscuous. On June 7th, just three weeks after its engagement to Electronic Data Systems (EDS), the world's largest computer-services group, Sprint has called off the wedding and admitted to double-dating Germany's Deutsche Bundespost Telekom and France Télécom all along. It now seems these continental suitors may pay up to $4 billion for 15% of Sprint (figures denied by the latter). The transatlantic threesome will then offer "one-stop-shop" global telecoms services—such as private voice and data networks—to multinational clients.

Sprint's betrothal to EDS—touted by both sides as a "merger of equals"—ended in tears when the telecoms group insisted it was worth about 18% more than the sum EDS had in mind. In a tetchy exchange of letters, Bill Esrey, Sprint's chairman, described EDS's valuation of Sprint as "naive" and alluded darkly to "non-public information" about EDS that might affect its future share price. There were other obstacles, notably the complexity of the share structure that links EDS to its parent, General Motors.

Both EDS and Sprint say they may yet form a more limited alliance, but for now Sprint's heart is with its two Europartners. Deutsche Telekom and France Télécom have been trying to build a global telecoms-services business since 1992, when they formed a joint venture known as Eunetcom. Riven by internal wrangling and lacking a clear strategy, Eunetcom stumbled. So, last December, the two state-owned firms launched what was, in effect, Eunetcom II—a 1 billion ecu ($1.1 billion), 4,000-employee joint venture based in Brussels. It would, said the duo, have 1.5 billion ecus in revenues by 1995. But without an American

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partner, its horizons were limited.

The two European telecoms firms had hoped to join with AT&T's $450m WorldSource venture, launched a year ago in alliance with Japan's KDD. They were scared off when it became clear that AT&T wanted to run the show (it is now negotiating a deal with telecoms firms in Sweden, Holland and Switzerland). MCI, America's second-biggest long-distance carrier, was also out of the running: it had formed a $1 billion alliance with Britain's BT. That left Sprint.

In return for their hefty investment, Deutsche Telekom and France Télécom will get access to Sprint's state-of-the-art digital technology, and to a company that owns America's fastest-growing cellular network. The two European firms might also get an Asian partner into the bargain: Japan's giant Nippon Telegraph and Telephone may invest in Sprint too.

But what is in it for Sprint? Other than the cash (no small consideration) the answer appears to be very little. The company already has one of the world's biggest global data networks, SprintNet, and has been investing heavily in other international services. Sprint is unlikely to win much business in either France or Germany, where both European carriers run well-protected monopolies. Indeed, in most parts of the EU, it will be shut out of voice telephony until 1998—which is one reason why America's Federal Communications Commission might veto any deal that offers Deutsche Telekom or France Télécom access to the American market.

Then there is the question of how receptive the proposed alliance's target market will turn out to be. Multinationals spend about $10 billion a year on international calls. They get a rotten deal—paying, on average, three times as much as domestic calls of equal distance—especially from telemonopolists such as Deutsche Telekom and France Télécom. Whether those same multinationals will be keen to go one-stop shopping in such a monopolists' mall—Sprint's involvement notwithstanding—remains to be seen.

Hot chocolate

COFFEE first, then cocoa: the list of new commodity agreements reads like a breakfast menu. Last year coffee-producing governments agreed on a scheme to withdraw supplies from the market if prices should fall too far. It has not yet been put to the test. Instead falling stocks and worries about this year's harvest have pushed up the price of coffee to $1.17/lb, almost double the average for 1993. Cocoa too has been rising of its own accord—to $1,400 a tonne, or 50% more than it was two years ago. Now the cococrats are trying to come up with a feisty new agreement of their own. They too are wasting their time.

The producing and consuming governments who are members of the International Cocoa Organisation (or the ICCO as it is known, so as not to be confused with the ICO—the International Coffee Organisation) already have an innocuous five-year pact, signed in February. It contains vague resolutions to promote demand and stabilise the price—about as convincing as a promise to eat no more than one chocolate truffle. At a meeting in London this week the ICCO is struggling to give its agreement some teeth by drafting clauses that oblige producers to match their supply with expected demand.

What emerges from this and future meetings is unlikely to be worth the paper it is written on—for two reasons. First, the ICCO has only limited control over supply. Indonesia, the world's fastest-growing producer—and by next year probably the second-largest after the Côte D'Ivoire—has refused to join the ICCO. It is unlikely to join any cartel because production targets will be based on historic figures—which is fine for countries such as Brazil, where output is falling anyway, but would penalise an expanding producer, such as Indonesia.



Insatiable demand

As for demand, the ICCO's exhortations look like a waste of breath. Nestlé, Mars, Cadbury Schweppes and other multinationals are quite capable of marketing chocolate on their own. One reason why cocoa prices are rising is recovering demand from Russian and East European chocolate-fiends. Russia now imports 100,000 tonnes of cocoa—four times the amount in 1991, according to ED&F Man, a trading house. With demand there still growing rapidly, world production should fall short of consumption for the third year in a row.

If governments are determined to help the cocoa industry is there anything that they could usefully do? Actually there is. Chocolate also needs milk and sugar. When they buy chocolate, European consumers pay more in subsidies to dairy farmers and sugar-beet growers than they do for cocoa. One more reason to wind down farm subsidies.

South Korean cars

Three's a crowd

SEOUL

LEE KUN-HEE, chairman of Samsung, the biggest of South Korea's business conglomerates, drives a Porsche. He has a passion for cars. Indeed, he would like his company to make cars. So why is his government so determined that it must not? Welcome to the latest round in the bitter fight between South Korea's government and the conglomerates known as *chaebols* that dominate the country's business life.

This round has gone the government's way. For the time being, Samsung has backed away from its plan to enter the car business. In doing so it is apparently accepting the government's campaign to persuade the nation's business giants to stick to a few core businesses instead of trying to make just about everything. Does the government's policy make sense?

Samsung Heavy Industries, a subsidiary of the *chaebol*, started making lorries earlier this year. In April it signed a technology agreement with Japan's Nissan aimed at producing 200,000 cars a year by 1998. Samsung agreed to pay Nissan ¥1.9 billion ($18.5m) upfront and another ¥68 billion in engineering fees to develop three models. Then Samsung was told by the government that South Korea had enough car makers already. After much contemplation it has decided to postpone its application to the government for the approval it would need to import foreign technology.

Kim Moo, chief executive of Samsung Heavy Industries, admits that both sides need time to cool down. Yet he remains determined to push ahead with the scheme. Unless a start can be made this year, he says, "not only Samsung, but South Korea will be losers." But Park Jae-yoon, a senior economic adviser to the country's president, Kim Young Sam, says the government can and should block a new entrant into an industry, such as cars, in which it believes

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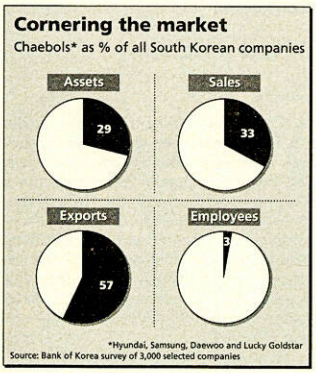


South Korea has yet to become internationally competitive. Provided that Samsung stays out, the government calculates, the country's existing car makers will be able to put South Korea among the top five car-making nations by 2000.

Come again? Since competition is generally held to sharpen the skills of firms, why should Samsung's entry damage rather than enhance the country's competitiveness in car making?

It is no surprise that South Korea's big three car firms—Hyundai, Kia and Daewoo, plus two smaller companies, Ssangyong and Asia—all want to keep Samsung out. The government's own arguments are less familiar. It claims that letting in a new contender could trigger a price war, or rob existing producers of their economies of scale. And it is worried that by importing technology from Nissan, Samsung will somehow encourage South Korea's existing car makers to continue relying on imported technology, instead of growing their own. South Korea's car producers forked out a combined $227m in royalties in 1993.

Samsung replies that its technology tie-up with Nissan will help bring South Korea's automotive capabilities up to speed rather than delay them. And it plans to develop its own cars in due course. With domestic demand growing, a recovery in the American car market and a boom in car sales anticipated throughout Asia, there should be plenty of room for a newcomer.

All of this suggests that the government's real reason for keeping Samsung out of car making is a political one. Samsung is a *chaebol*, and the stranglehold that these groups have on the country worries voters as well as politicians. In the past, the sales of the top 30 *chaebols* and all of their affiliated companies have contributed some three-quarters of GNP. The combined sales of the four biggest groups (Samsung, Hyundai, Daewoo and Lucky Goldstar) accounted for almost a third of all the sales of South Korean companies last year (see chart).

Since taking office last year, the president, Mr Kim, has promised to dilute the *chaebols*' power. But, in the absence of any proper antitrust policy, the government has had to rely on indirect measures. Last year, it encouraged the top 30 chaebols to specialise in only two or three industries each. Samsung cleverly included "heavy industries" as one of its chosen areas. And Mr Kim's plans to privatise state-owned enterprises and to deregulate the economy may simply bolster the *chaebols*' power, since they are expected to buy many of the privatised firms. The sprawling conglomerates are also moving into financial services: nine of the top ten *chaebols* already own securities houses.

All this leaves President Kim in a pickle. Samsung's diversification into cars would provoke public criticism of the government. But it would also increase consumer choice and inject some fresh ideas into the car industry. President Kim may have won the first round. The war against Samsung's Porsche-driving chairman continues.

Tale from the washroom

WHEN Unilever announced a few months ago that it was launching a "revolutionary" new detergent throughout Europe, it stressed two things. First, that the new soap powder (known as Persil Power in Britain) was the product of ten years' research. And second, that the detergent was a genuine technological breakthrough, protected by 34 patents. "It's the most significant thing we've ever done," said Andrew Seth, the boss of Lever Brothers, Unilever's British soaps arm.

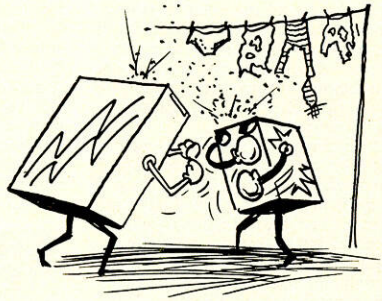
Nobody was surprised when Unilever, which has invested £100m ($150m) in production facilities for the new powder, slapped a lawsuit on Procter & Gamble in Holland after a manager at P&G claimed that the detergent (called Omo Power there) washed clothes so powerfully that it rotted them. But on June 3rd Unilever dropped the suit and said it would "reformulate" the detergent. P&G released the results of tests from several European textile research centres: one found that repeated washing with Persil Power resulted in "significant fabric deterioration" under some conditions.

Beneath the flying suds is one of the world's great business battles. Unilever estimates that it currently holds 20% of the $25 billion world market for fabric detergents, to P&G's 24%. Traditionally, the Anglo-Dutch firm held a narrow advantage in Europe and in former European colonies, while P&G was the clear leader in America. But five years ago P&G stole a lead in the $9 billion West European market, when it beat Unilever to the draw with concentrated powders (the last round of detergent innovation). In Europe, Unilever reckons its share is 23% compared with 32% for P&G.

Persil Power is Unilever's attempt to catch up. Though the company claims "a range of benefits" for the new powder, including its handy packaging, greater concentration and energy-efficient production technology, the launch propaganda centred on a manganese-based catalyst called Accelerator that Unilever claims removes stains at lower temperatures. It is this that will now be diluted.

Mr Seth claims that the P&G-sponsored tests involve "extreme conditions" and "carefully chosen parameters" and insists that Unilever's own exhaustive testing shows that Persil Power causes no fabric damage in normal use. He says that consumers have not complained: the new product has increased Persil's sales in Britain by 50%.

The brand's fate now rests with these washers. From Unilever's point of view, perhaps the most wounding implication—even if is untrue—is that it did not check its new product thoroughly enough. In 1990 France's Perrier allowed its mineral-water spring to be contaminated by benzene: its sales have never recovered. A name that has taken generations to build can be destroyed in less time than a pair of knickers exposed to the worst of washing powders.



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The OECD and jobs

Adapt and survive

WHEN ministers from the 25 member countries of the Organisation for Co-operation and Development (OECD) gathered in Paris on June 7th and 8th, jobs were top of the agenda. Around 35m people, or 8.5% of the workforce, are out of work in OECD economies. As many as 15m more have given up looking for work altogether or are working part-time when they would rather be in full-time jobs. Is there any solution to this misery?

Economic recovery will help—but only a little. The OECD now thinks that its members' GDP will rise by 2.6% this year and 2.9% next; last December, it predicted 2.1% and 2.7%. Yet unemployment in industrial economies will still average 8.3% in 1995, and as much as 11.8% in Europe. In the last upswing, unemployment never fell below 25m. For the past two years the OECD's economists have been working on a study of how to get the numbers down for good. On June 7th Jean-Claude Paye, its secretary-general (who is widely tipped to lose his own job when his term expires in September) unveiled their conclusions.

Their report dismisses two popular fallacies. First, technological change is not to blame for unemployment. Although it destroys low-skill jobs, it creates new, higher-skilled and more productive ones. And the claim that imports from low-wage countries have had a big adverse effect on employment and wages in OECD countries is also unfounded. Only around 1½% of OECD countries' expenditure goes on imports from elsewhere. In any case, as developing countries get richer, they provide new markets for OECD exports.

The report points instead to a long-running failure of OECD countries to adapt labour markets, education and training to changes in the world economy. That failure, it says, has had different results in different places. Buoyed by post-war prosperity, European countries had social policies—such as minimum wages, generous unemployment benefits, and job-protection laws—that made them arthritic. When technology and globalisation demanded changes in relative wages and employment patterns, their labour markets were slow to respond. That has left many such countries with high unemployment. Worse still, the long-term unemployed (those who have been out of work for more than a year) account for a high proportion of Europe's jobless (see chart).

The United States, in contrast, has a far less regulated labour market and a less generous welfare system. That has made it good at creating jobs—but at a cost. Whereas unskilled Europeans are out of work, unskilled Americans end up in jobs that pay increasingly poorly. Real wages in the lowest-paid 10% of jobs fell by more than 1% a year in the 1980s. Britain has shifted from the European model to the American model over the past decade, and it, too, has seen a sharp widening of the pay gap between low- and high-skilled jobs.

One part of the OECD's suggested reforms concentrate on deregulation. It would like governments to replace minimum wages with more direct ways of fighting poverty, or at least to vary them by age and across regions. It also thinks that it should be easier for firms to sack workers (which in turn would encourage them to hire in the first place). And it argues that the jobless would be more likely to seek work if governments cut the level of unemployment benefits. Long-term benefits, it says, should be paid only if the recipients participate in active labour-market programmes.

In the nursery

The other part of the OECD's reforms calls for better skills. That should start early, with more pre-school education, less early school-leaving and broader school curricula. It wants closer ties between industry and schools and more chances for off-the-job training. If all these recommendations were followed (against a stable macroeconomic background), says the OECD, its members' labour forces would be more likely not just to have jobs, but to have skilled jobs paying good wages.

The report has pulled some punches: it is written in language that makes it possible for all member governments to endorse it. It calls for benefit-wage ratios to be reduced "where these are high", without saying what "high" is. And because the report is merely a 50-page summary of a two-year study (the full study will not be published until the autumn), it is understandably short on analytical detail. Look for a quantitative estimate of the effect of, say, a reduction in France's minimum wage on youth employment, and you search in vain.



Multimedia

Breathless

LOS ANGELES

ANYBODY who doubts that multimedia is still a brash young industry, possessing a lot more hot money than good sense, would do well to ponder the recent fortunes of some makers of multimedia products. Last week Singapore-based Creative Technology—after another year of scorching sales of the "Sound Blaster" board that lets personal computers play video games with ear-piercing acoustics—rewarded its shareholders with a 100% dividend, worth more than $30 a share.

Meanwhile, Creative Technology's Californian rival, Media Vision, has had $600m wiped off its stockmarket value, following disclosures that it was being investigated for financial shenanigans. Media Vision's share price is now $4—barely a tenth of its level in January. The share price of 3DO, a much-hyped video-game maker, has also plunged over the past nine months—from $47 to $12—as the firm sunk $51m into the red and failed to deliver on its technological promise. With Wall Street reluctant to provide any more cash, Trip Hawkins, 3DO's chairman, has had to stump up $10m of his own money to arm-twist his other key investors, Time Warner and Matsushita, into doing likewise.

The multimedia business—which combines video, audio, text and graphics—has become Wall Street's new Wild West. Today, the majority of multimedia titles that reach the stores are computer games or spiffy education and reference works packaged in the form of CD-ROMs (compact discs that store data), selling for $40 or more. Companies producing such software have seen their price-earnings ratios yo-yo—in some cases touching the lofty 60s.

There are two causes of this fever. One is a big new opportunity in hardware. There has lately been a surge in sales of multimedia adapters, made by firms such as Creative Technology and Media Vision, that allow CD-ROMs to be played on personal computers. In the nine months ending in March, Creative Technology's sales were $477m (up from $204m in the same period last year); its post-tax profits were $82m ($27m). Nearly a quarter of the 30m PC owners in America are now reckoned to have CD-ROM drives.

The second reason for excitement has been a rush of outsiders buying stakes in multimedia developers. They have included Blockbuster, a video-rental giant (which has a stake in Virgin Interactive); Viacom, a cable-TV company (Icomm Simulations); Time Warner (Crystal Dynamics); and Matsushita (Interplay Productions as well as 3DO). In March, Pearson—a Lon-

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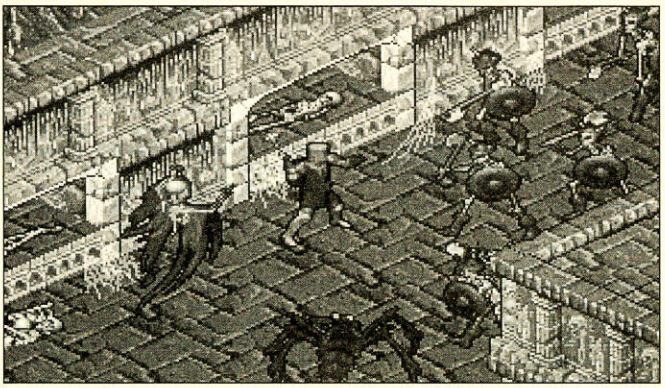


A video-game that lacks that Spielberg touch

don-based publisher with a stake in *The Economist*—bought a supplier of educational software called Software Toolworks for $462m, four times its annual sales.

Since then, reality has settled in. In April, Paramount, a Hollywood studio, paid a more earthy $50m for a stake in Davidson & Associates, another Californian educational software company. And in early May, Broderbund, a leading educational software supplier, called off its $400m sale to Electronics Arts, a video-game maker, when falling share prices knocked $90m off the value of the deal.

Coming from nowhere a decade ago, the video-game industry now has annual sales bigger than Hollywood's box-office business—and is growing at 30% a year while ticket sales in cinemas are flat or falling. Meanwhile, the fastest-growing part of video-game business is the CD-ROM sector. According to the Ohio-based Optical Publishing Association, some $1.5 billion-worth of CD-ROM titles were sold in 1993. Some 1,700 CD-ROM titles are expected to be on the shelves by Christmas—a fourfold increase over the past three years.

A lot of video-game makers will lose their shirts. CD-ROM addicts are no longer willing to put up with squeaky sound and cartoon-like characters. They want multimedia titles to offer full-motion video, popular actors and proper soundtracks. One Los Angeles firm, Activision, has started hiring Hollywood scriptwriters, actors and sound engineers to help provide creative flair. Access Software, a video-game maker that has specialised in golfing titles, is about to release an interactive game on three CD-ROMs called "Under a Killing Moon", with real actors playing 27 different roles and a Hitchcock-like script. The new release from Access is the first "three-reeler" video-game.

Two veteran film makers, Steven Spielberg and George Lucas, have joined forces to produce a space drama called "The Dig", which will be released next year as an interactive CD-ROM game rather than as a movie. Mr Spielberg has now taken a step further into the video-games business, investing several million dollars of his own money in Knowledge Adventure, one of the hottest developers of "edutainment" for children. In a deal announced on June 8th, the Oscar-winning director will collaborate on a series of video-games for Knowledge Adventure.

The drift of the video-games business towards Hollywood makes sense. But multimedia titles made in Tinseltown cost upwards of $2m apiece—enough to make a low-budget film. Which is precisely what CD-ROMs are becoming.

Welcome to the cyberguild

NEW YORK

CONSTRUCTING the infrastructure for interactive television is supposed to involve digging up half of America—and cost a fortune. Yet cheapish two-way video networks that use existing technology are sprouting across the United States. The idea is to create a cyberspace equivalent of the medieval guild, where members of a single industry can collaborate on projects.

The Drums network, which has been set up by Sprint, a telephone firm, and Silicon Graphics, a computer company, is meant to tie the film, television and advertising industries into a continuous digital network. The fibre-optic lines are supplied by Sprint's existing SprintLink network. Drums users need to have a workstation: Silicon Graphics, the industry leader in digital imaging, supplies around 90% of the workstations used in the entertainment business.

Drums members pay $2,200 per month. What do they get in return? Instead of mailing or biking tapes to advertising agencies for their approval, a production house can send clips in minutes as digital data. Both parties can change the images as they are being watched. And the network allows users to subcontract work to other Drums users. Since its inception in March, it has attracted 20 clients, mostly television post-production houses, with the number doubling every month. Sprint is now looking to take the same marketing approach to different industries, including hospitals and industrial-design firms.

Meanwhile, Digital Network Television, which began limited operations on June 13th, is built around existing fibre-optic networks. Formed in 1993 in New York city by two television news producers, DNet is a digital clearing-house and archive for news organisations: CBS, NBC and ABC in New York and CNN in Atlanta have all been testing the service since March. DNet allows producers at the buying stations to preview broadcast-quality news footage on a workstation, selecting only what they want to pay for, which is then downloaded from DNet. The current satellite-delivery system costs more and is less flexible.

DNet already has access to Reuters archives and daily broadcasts; similar deals with America's National Football League and Britain's Independent Television News are under discussion. DNet should allow independent agents to film and distribute their work—much in the way "stringers" operate in print journalism. And television networks, such as NBC, can also use DNet to ship footage to their affiliated stations, who in turn will be able to edit the digital data cheaply on computers for local broadcasts.

DNet's founders are now considering whether to join Drums, thus linking DNet to an an even larger "cloud" of interconnected computers. That way all the elements of broadcast television, from advertising to news, could be developed, produced, and distributed in a digital form. Sprint's upcoming advertising campaign will be created entirely on the Drums network—becoming an analog signal only when it is broadcast from the station to homes.

Forwarded by Lewin

Does size matter?

The debate about the relative merits of large and small firms never ends. And yet the distinction may no longer be a real one

MANAGEMENT FOCUS

THE 1980s saw management thinkers transferring their affections *en masse* from large to small companies. The most shameless bed-hopper was Tom Peters, an American guru, who, having all but equated excellence with the likes of IBM and General Motors in 1983, savaged the same companies a decade later. But Mr Peters was simply doing with panache what the average business-school professor was doing by stealth.

This collective conversion was inspired by the fact that, as the 1980s wore on, many corporate giants hit hard times, while many risky start-ups went from strength to strength. Contrast the "big three" news networks with CNN, for example, or the mainstream steel business with the mini-mills—or, most dramatically of all, IBM with Microsoft. As well as ushering in new technology, small companies also seemed to be powering the job-creation machine. In 1984 David Birch, a lecturer at the Massachusetts Institute of Technology, claimed that small businesses created eight out of ten new jobs in the United States.

To many business theorists, all this is proof that the balance of advantage has shifted from large to small firms. The liberalisation of capital and the introduction of micro-technology is lowering barriers to entry into markets. The spread of affluence is generating demand for customised goods and services. Both are ensuring that flexibility is much more important than economies of scale.

Recently, however, the tide has started to turn once again. In a vigorous new book, Bennett Harrison, a professor at Carnegie-Mellon University, joins a growing band of critics of the small-is-efficient school.* The doubters make four telling points:

- The case against big business has been overstated. IBM and Daimler-Benz may have run into trouble; but other big firms, such as Coca-Cola, McDonald's and Toyota, have prospered. The most vigorous challengers to established big businesses are often other big businesses. Thus Sears Roebuck is losing market share to other big retailers, such as Wal-Mart, rather than to thousands of niche distributors. (Wal-Mart increased its payroll by 182,000 in 1992-94.) In certain sorts of enterprise, such as the oil or car businesses, economies of scale still give giant concerns an edge.
- Whatever its earlier weaknesses, big business is on the rebound, particularly in the United States. In the 1980s, a succession of American giants went in for a harsh bout of restructuring. In the process, they proved that their real problem was not so much that they were too big, but that they were too diverse (like ITT and countless other conglomerates) or laxly managed (like AT&T). Firms such as Hewlett Packard, Xerox and 3M are now proving that it is possible to be both big and lean.
- Small businesses are not the job-generators and technology-innovators of legend.



In the United States in 1973-88, plants with more than 100 employees accounted for nearly three-quarters of gross job creation, and firms with more than 500 employees accounted for more than half of it, according to a recent study from the National Bureau of Economic Research†. The jobs that small firms create are often short-lived: small companies account for a disproportionate share of job losses as well as job gains. Small companies provide, on average, lower wages and stingier benefits than big firms. And they are also less likely to use fancy technology such as computer-controlled machine tools.

- Many small firms are independent in name only, or so Mr Harrison argues. The fashion for contracting out has certainly reduced the average size of businesses. In America, for example, the average plant size fell from 1,100 employees in 1967 to 665 in 1985. But many small businesses rely on larger ones for finance or contracts. Indeed, contracting out often does little more than shift people from the "internal" to the "external" payroll.

Much depends on how you define a small firm (Mr Harrison oscillates between a cut-off point of 50 and 100), when you choose to do your research (small firms are the first to add workers when the economy picks up), and what bit of the economy you choose to study (size is seldom a virtue in creative businesses; it is, however, in distribution ones). Thankfully, a growing number of management theorists are beginning to hint at a more interesting argument. This is that the distinction between big and small is becoming increasingly meaningless.

It depends where you look

The last few years have seen more and more large firms trying to imitate the flexibility of their smaller rivals. Some have contracted out all but their core businesses. Others, such as Titeflex, a hose manufacturer, and Rubbermaid, a rubber-products company, have organised themselves into semi-autonomous teams, and then treated those teams as business units. Similarly, Asea Brown Boveri, the Swedish-Swiss engineering giant, has subdivided itself into 1,300 independent companies and 5,000 autonomous profit centres.

At the same time, more and more small firms are trying to act like big ones, using alliances with other companies to lengthen their reach, and calling in part-time workers to increase their capacity. In Silicon Valley, for example, tiny software firms have poured their energies into building partnerships with rivals rather than buying them, a strategy which has allowed such firms to spread their risks without becoming stodgy.

The result is that it is increasingly difficult to tell whether some firms are big or small. Look at Benetton, a northern Italian clothing company, for example, or Nike, an American sports-shoe manufacturer. Judged in terms of their core workers, both firms are small local operations; judged in terms of contract workers, however, they are sprawling multinationals. Indeed, organisations like this are not so much single entities as fluid networks, adding value by co-ordinating activities across geographical and corporate boundaries. In other words, the best firms are both "big" and "small", depending on what they are doing. Size, it appears, is all in the mind.

*"Lean and Mean", Basic Books. †"Small Business and Job Creation: Dissecting the Myth and Reassessing the Facts", NBER Working Paper 4492

Fondazione Alfred Lewin

Stalking Africa's fledgling stockmarkets

Investors searching for bargains in emerging markets are venturing into Africa

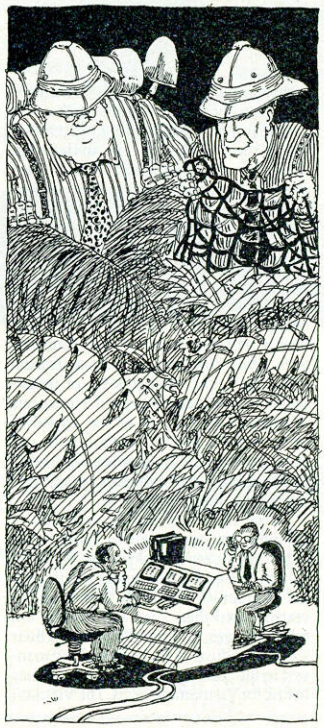
AFTER crawling all over Latin America and Asia, investment managers and banks that peddle emerging-market funds are turning their attention to the world's last great investment wilderness: Africa. Few investors may be able to name many African stockmarkets north of Johannesburg. Yet the continent now has 12 others up and running, including one in Zambia, which was opened in February; Malawi, Uganda and Tanzania have plans to launch their own bourses too.

True, South Africa's stock exchange, with a market capitalisation of $217 billion—the same as Mexico's—is still by far the biggest market on the African continent (see chart on next page): other African bourses have a total capitalisation of just $13 billion. Yet some of the smaller markets, such as Zimbabwe, which has soared by 214% in dollar terms in the year to end-May, have shone recently. Compare its fortunes with, say, those of Mexico (which rose by almost 43% over the same period) and some analysts' claims that Africa's stockmarkets are emerging rapidly start to sound plausible.

Several European and American firms are already trying to tempt investors to join stock-picking safaris. Six months ago there were virtually no investment funds devoted to Africa; now there are half a dozen. Cash is pouring in. When Morgan Stanley, an American investment bank, launched an Africa Investment Fund in February, it aimed to attract $60m; a month later it had chalked up $330m. Last year Emerging Markets Management, an American fund manager, launched a $30m Africa Emerging Markets Fund, which was twice oversubscribed when it closed in November. Two other new funds have opened this year: the Southern Africa Fund run by Alliance Capital, an American investment company, and the New South Africa Fund run by Robert Fleming, a British merchant bank.

Unsurprisingly, most of these concentrate on South African equities. Not only is South Africa the continent's biggest stockmarket, but its new political respectability is reassuring to foreign investors. More cash should flow in this year if South Africa earns its expected weighting of about 10% in the emerging-markets index of the International Finance Corporation (IFC), the private-sector arm of the World Bank. However, Morgan Stanley, for one, does not plan to invest more than 60% of its new fund in South Africa; the rest is to be spread among countries such as Zimbabwe, Ghana, Botswana and Morocco. Last month Salomon Brothers, another American investment bank, launched a $50m fund devoted exclusively to Morocco, in a joint venture with ONA, the country's biggest conglomerate.

Why this sudden infatuation with African stockmarkets? After all, the region is not



renowned for stability or prosperity. Sub-Saharan Africa is the only part of the world whose people ended the 1980s poorer than they were at the start of them; the combined GDP of the region (excluding South Africa), is still less than, say, Belgium's.

However, Michel ZhuParris, a fund manager at Morgan Stanley, thinks that is why there is hope beyond the emerging-market hype. "The tide hasn't turned yet," she says, "but that's exactly when the opportunities exist." Andrew Sardanis, the chairman of Meridien Corporation, the parent company of Meridien BIAO, which operates commercial banks in 20 African countries, is equally bullish. "Anybody who puts cash into these new stockmarkets is going to make a great deal of money," he says.

Such confidence in Africa's longer-term prospects is based on the belief that many African governments are firmly committed to economic reform. In dozens of countries, exchange rates have been liberalised, state-owned companies listed for privatisation, price controls lifted and trade deregulated. The World Bank forecasts that sub-Saharan Africa's economy, boosted by trade with a post-sanctions South Africa, will grow by 3.9% a year in 1994-2003—an impressive rate by African standards. "Not only are stockmarkets in the Africa region far cheaper than in other parts of the world," says Mark Breedon of Alliance Capital, "but the sort of policies now being pursued by their governments are the right ones for the first time in years."

Consider Morocco, whose equities are now in vogue. A decade ago the country had an over-regulated, near-bankrupt economy, heavily dependent on primary industry. Today, light manufacturing is growing fast and the government has beaten inflation down to 5%, shrunk its budget deficit to just 1.7% of GDP and restructured its external debt. Morocco's economy grew by an average of 3% a year in 1988-93, and is set to grow even faster, by 7% in 1994.

Open sesame

Other promising African countries are opening their stockmarkets to foreigners for the first time. Only Kenya and Nigeria still remain closed to foreign investment. Vincent Rague, the IFC's senior investment officer for Africa, says that Zimbabwe, Ghana and Botswana allow foreigners to buy and sell shares freely and have a decent infrastructure of stockbrokers and banks. These three reformers also allow foreigners to buy up local brokers. Robert Fleming, for example, recently bought half of a Zimbabwean stockbroker, Edwards & Co.; it also has

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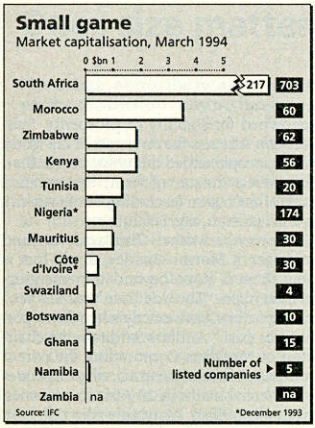

shares in brokers in Ghana and Botswana.

Intrepid investors, however, still face at least one hurdle: most African stockmarkets have very little to sell. Ghana, for example, has only 15 listed companies; Botswana has ten. (To make matters worse, trading hours are often restricted: Ghana's bourse trades for only two days a week, Morocco's for an hour and a half a day.) Most of what is for sale is tiny: outside South Africa there are only about a dozen listed companies in Africa worth more than $100m.

Privatisation should gradually ease this problem. In March the Ghanaian government sold half of its 55% stake in Ashanti Gold Mines, quadrupling the number of shares trading on the Accra stock exchange. Elsewhere, Morocco has about $3 billion-worth of state firms scheduled for flotation. And Zambia plans to sell its giant copper producer, Zambia Consolidated Copper Mines, before 1997. Companies in other sectors, such as telecommunications, could also be sold off soon.

All this is promising. But there is another big snag. Only a handful of governments considered by the World Bank to be reforming their economies are genuinely doing so. Based on the World Bank's own assessment, last October Morgan Stanley listed 28 reforming countries in Africa. One, alas, was Rwanda, which is now in the midst of a bloody civil war. Another was Nigeria. With a GDP of $30 billion and a population of nearly 100m, Nigeria, wrote Morgan Stanley, is "a powerhouse waiting to happen" and is "likely to have a democratically elected government in the very near future." But since it cancelled elections in June 1993, the Nigerian army has clung on to power, scrapped most of the country's economic reforms and reimposed exchange controls. Such upsets suggest that it may still be some time before western funds make big money out of Africa.

German fraud

Another racket

BERLIN

FOR the second time in three months German banks have learnt that they may have lent hundreds of millions of D-marks under false pretences. In a case eerily similar to the collapse of Jürgen Schneider's property empire in April, an official of Balsam, a Westphalian company that makes tennis courts and other sporting surfaces, has revealed that it has been borrowing money against doctored invoices for years. A German prosecutor who has arrested all

Vietnam's spooks and speculators

HO CHI MINH CITY

WHEN General Douglas MacArthur was driven out of the Philippines during the second world war, he vowed: "I will return." Perhaps William Colby, a former head of the Vietnam station of America's Central Intelligence Agency, once said something similar. Today, Mr Colby is returning to Vietnam as neither soldier nor spy, but as the director of an investment fund. His Vietnam Frontier Fund, which is currently raising cash in America and Japan, is hoping to profit from renewed interest in the country following America's decision in February to scrap its trade embargo.

Two other funds—the Vietnam Fund and the Viet Nam Beta Fund—are already up and running. Like Mr Colby's version, they are registered in Dublin for tax purposes. And like the Frontier Fund, they are betting that Vietnam will eventually become another Asian dragon. That hope is not too far-fetched. True, the country is desperately poor and its economy is still recovering from years of war and communist rule. But it has an educated and adaptable workforce, and the region's lowest wages.

There is, however, one obvious difficulty for foreign investors: Vietnam lacks a stockmarket. Although the government talks about starting a bourse this year, this would initially trade only in government debt. A fully fledged equity market will probably not be operating until 1996 at the earliest. Investors are undeterred: shares in the Beta Fund, which were worth $50 each when it was listed in September 1993, soared to $95 each after the embargo was lifted. They have since slipped back to around $70.

It is easier for Vietnam funds to raise money than to identify suitable projects in which to invest. The Vietnam Fund, the oldest of the three, has so far invested just $7m of its $55m capital in only four projects. Chris Wijnberg, the boss of its local office, says that another $15m of investments has also been approved. He expects investment to pick up as the arrival of more western lawyers, accountants and consultants—and the growing experience of Vietnamese entrepreneurs—makes doing business easier.

If getting money into Vietnam is hard, getting it out again may be harder still. Once a domestic stockmarket is established, foreign funds can seek a listing for the companies in which they have invested. Until then, they will have to use other wheezes, such as selling part of their stakes to industrial partners looking to invest in the country, or seeking an overseas listing for Vietnamese firms. The Vietnam



Learning fast

Frontier Fund points to the success of Finansa, a Thai company which helps to manage it. Finansa has successfully developed a goldmine in Vietnam, which will be listed on the Toronto stock exchange in September.

There may be more golden opportunities in Vietnam's hills. But investors would still do well to ponder the lesson drawn by many American soldiers after the Vietnam War: before getting into the country, America should first have thought harder about how it was eventually going to get out again.

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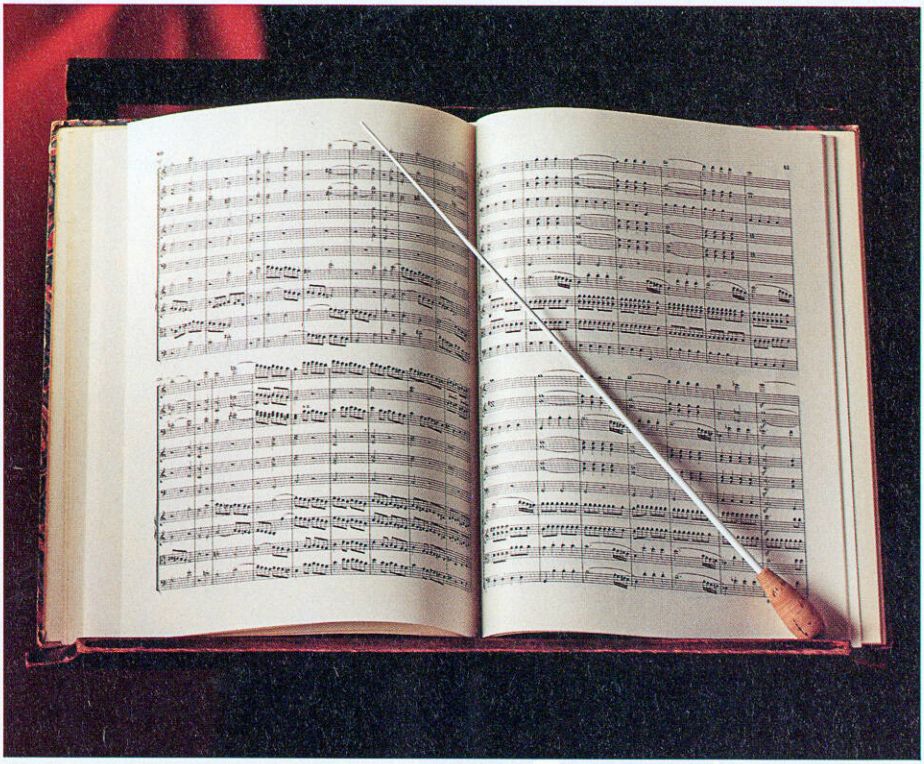

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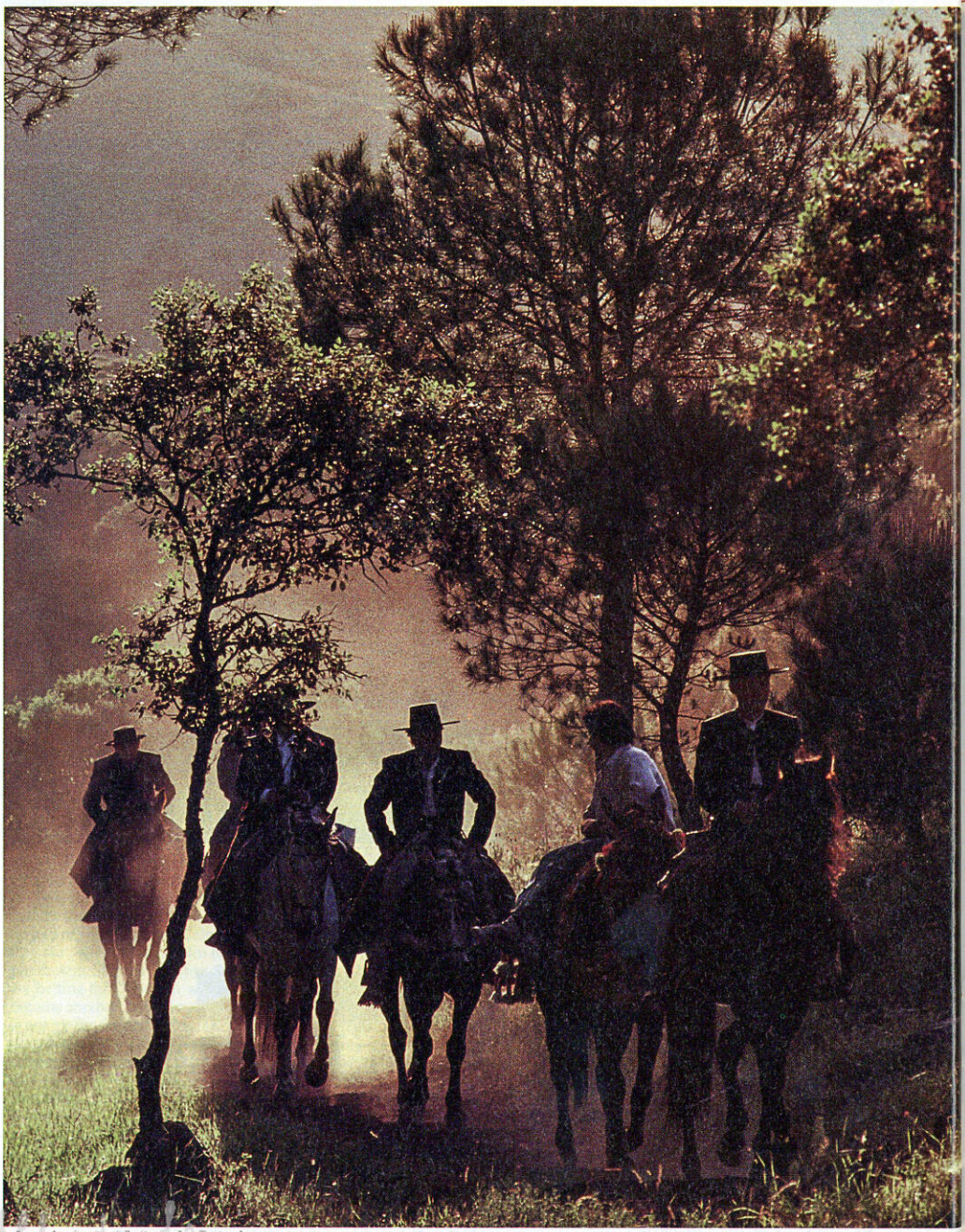

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Passion for life

Andujar, Jaen. South West Spain. Photo by Jürgen Richter.

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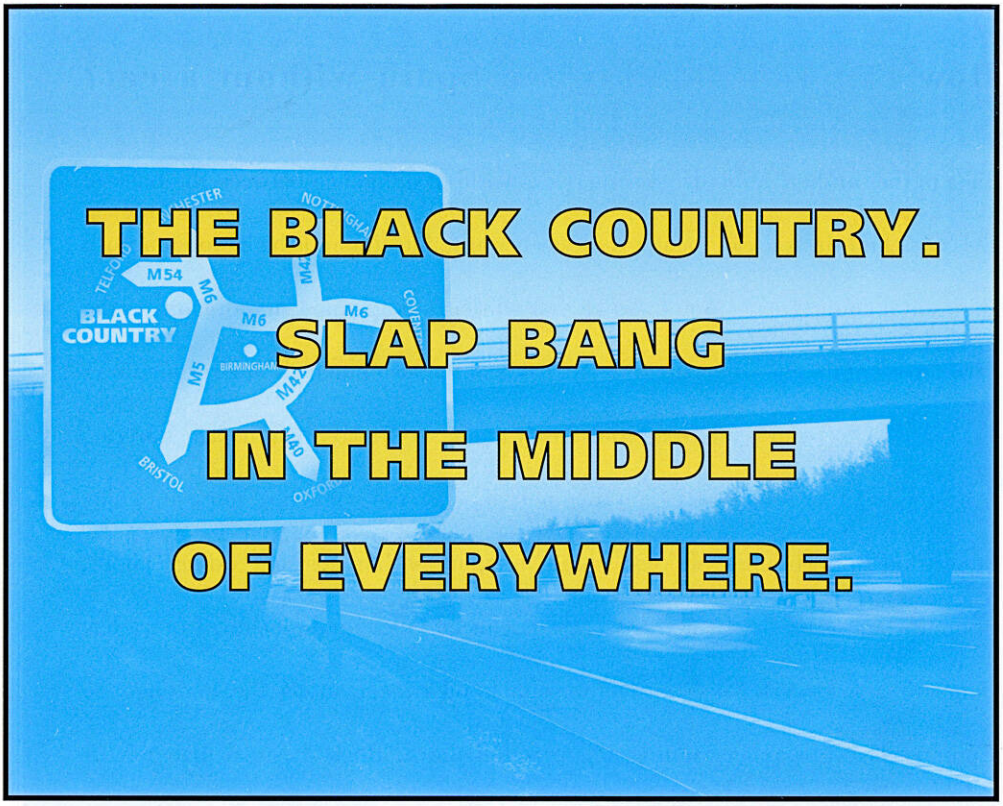

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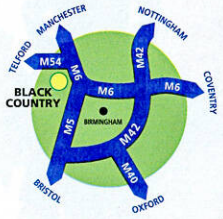

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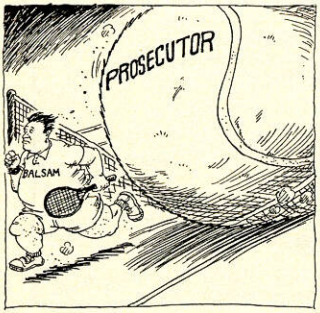


four members of Balsam's managing board, estimates that its total debt is some DM1.6 billion ($963m).

The chief victim of the alleged scam appears to be Procedo, one of Germany's biggest factoring companies, which did up to four-fifths of its business with Balsam and its far-flung subsidiaries. Procedo regularly supplied liquidity to Balsam in return for invoices which the company or its customers would later pay. On June 8th Procedo met with its bankers to discuss the damage. The pain will spread throughout the financial system. Procedo is half-owned by Allgemeine Kreditversicherung, Germany's biggest credit insurer, whose largest shareholders are Allianz and Munich Re, respectively Germany's biggest insurer and reinsurer. Procedo also owes up to DM1.7 billion to about 50 banks, including the two largest, Deutsche and Dresdner. They and three other big banks also own a 15% stake in Balsam via a venture capital fund.

Balsam's chief financial officer, Klaus Schlienkamp, has told prosecutors that the deception began about a decade ago, when the company began losing money. According to the prosecutors, Mr Schlienkamp inflated the amounts of invoices Balsam sent to customers. The company would then claim the money from Procedo. As Balsam's losses mounted, the amounts it exaggerated snowballed.

Mr Schlienkamp showed prosecutors how he turned a $523,000 invoice into one for $9.5m simply by carefully cutting out a "9" printed by an American typewriter. To convince Procedo that the invoices were genuine, he reportedly forged appraisals on the letterhead of well-known accounting firms. Some of the facilities Balsam claims to have built may not even exist.

Unlike Mr Schneider, none of Balsam's managers seems to have become particularly rich as a result of the alleged fraud. Mr Schlienkamp reportedly earned a healthy DM4m last year, partly as a reward for Balsam's successful speculations in currency options. But the goal of the alleged fraud seems to have been to cover up the firm's losses, which ran at about DM100m a year. Mr Schlienkamp is said to have turned himself in partly because, unlike Mr Schneider, he could not afford to flee. He has claimed that Balsam's chairman and biggest shareholder, Friedel Balsam, and two other top managers did not know of the deception. They have been detained for questioning nevertheless.

Like the Schneider collapse, the Balsam scandal is sure to trigger a round of recrimination and soul-searching among German institutions. How, first of all, could Procedo have failed to detect that Balsam's real turnover was a fraction of what it claimed? The factoring company says that it sometimes checked to see that sports facilities really were being built in America. Although Mr Balsam owned a stake in Procedo of at least 3.9%, the factoring company says that its relations with its biggest client were businesslike.

Fingers will also be pointed at Balsam's auditors, which include Price Waterhouse in Germany. Why did they sign off on accounts portraying Balsam as a profitable company earning, for example, DM15m on a turnover of DM460m in 1993? And banks must ask themselves yet again how they could have lent so much money on the basis of fabricated documents.

However, no one bank is likely to suffer heavy losses as a result of the alleged fraud because, the banks claim, their credit lines to Procedo were limited to DM100m each. Even so, banks will rush to tighten their lending procedures. Ronaldo Schmitz, a member of Deutsche Bank's managing board, has said that the Schneider case has prompted a "systematic review" of lending procedures in mortgage banks. The Balsam scandal suggests that the review will have to be extended to other banks too. ■

Japanese insurance

Trading blows in Tokyo

TOKYO

EVEN in insurance, the road to hell is paved with good intentions. Now that it has revived trade talks with Japan, the United States is making it a priority to increase foreign firms' share of Japan's insurance market, the second largest in the world after America's own. And yet, by lobbying hard for deregulation, America's negotiators may be about to damage the mysteriously named "third sector", the one part of the Japanese insurance market where foreigners are doing well.

The talks are finely balanced. A meeting in Tokyo last week, the first since February, officially produced nothing more than a "better understanding" of each side's position. Subsequent claims in the Japanese newspapers that Japan is ready to make concessions, and that a breakthrough is likely when discussions resume later this month, are probably untrue.

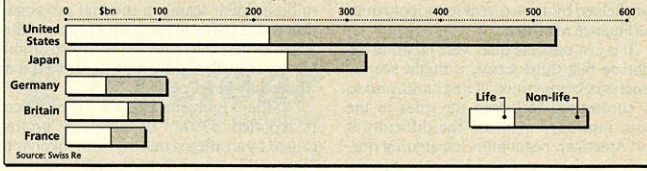
The one change conceded by Japan so far—a new law due next year that will for the first time allow insurance-broking—has disappointed foreigners. They doubt whether it will change sales practices, because it will not clearly require brokers to get the best possible deal for their clients. And there will be little for brokers to do while Japan's regulations in effect stop insurers competing on either price or product design.

Rumour has it that the industry's regulator, the Finance Ministry, may soon offer to relax its pricing rules slightly for some policies. These rules were designed to keep insurers afloat by fixing prices so high that even the worst performer could eke out a living. As the Americans point out, this price-fixing is a considerable barrier to entry—and hardly in the interest of consumers. But with the economy still moribund, the ministry is not likely to do anything that puts insurers at risk. A token reduction in the minimum level for prices is probably the most to be expected.

America's case is not helped by inconsistencies in its own position. The Japanese argue that it is hard for foreigners to break into America's insurance market unless they buy a local firm (something, admittedly, that foreigners cannot easily do in Japan). One reason is that America's state-by-state licensing process means that it can take many years for a new entrant to become licensed

Premium business

The world's biggest insurance markets, by premiums, 1992



Source: Swiss Re

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False alarm

HONG KONG

HE PROMISED a lion but produced a mouse. In March Hong Kong's governor, Chris Patten, said that "exceptional measures" would be needed to cool the colony's frenzied property market. His concern was understandable: the price of flats and offices in Hong Kong, along with the cost of renting them, has soared in the past few years (see chart). The market had feared a set of draconian changes to stifle speculation. But on June 8th the government taskforce set up to explore the problem produced what it described as a "prudent" set of measures.

The government's first move was to cut the number of uncompleted flats that can be sold before they are finished, from 50% of a development to 10%. It also increased the minimum deposit on such flats from 5% to 10%. This is to dampen speculation by people who pay the 5% and then sell on the ownership right at a juicy profit. Whether such trading actually pushes up final property prices is unclear, however. And reducing the supply of unfinished properties may simply fuel the speculative frenzy.

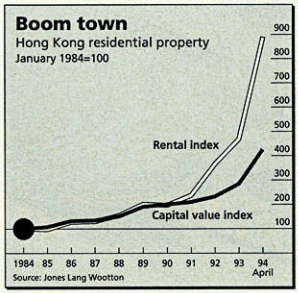
The real key to lower prices is increased supply. Peter Churchouse, a property analyst in the Hong Kong office of Morgan Stanley, an American investment bank, says that Hong Kong's government is largely to blame for the current land shortage. As the monopoly supplier of land, it has not increased the sale of plots from its reserves to match demand. It now plans to release more land from its stocks, but needs China's approval before it can do so.

These relatively puny measures will not greatly worry Hong Kong's property tycoons, who feared swingeing tax penalties on speculation. Previous government tinkerings with the property market have met with little success. When banks were required to restrict lending to property-buyers earlier this year, developers came up with their own financial wheezes to make up for it.

Big developers still wield enormous clout. Most of the land that is released is bought up by a handful of them. Their grip on the market was vividly illustrated on May 26th, when, at one of the regular government land auctions, a dozen developers jointly bought up the land on offer at prices well below market expectations. This was seen as a thinly veiled warning to Mr Patten: land sales are a big source of revenue for the government.

One reason for Mr Patten's feeble response is that, though he dislikes the property bubble, what he fears even more is bursting it. Why? Because a plummeting property market could drag the stock-market down with it: property companies represent about a quarter of the Hong Kong market's capitalisation. Moreover, the governor's hands are somewhat tied. He cannot, for example, do the most obvious thing to dampen property speculation, by sharply increasing interest rates. Since the Hong Kong dollar is pegged to America's, the colony's interest rates dance to the tune of the Federal Reserve.

However, Mr Patten may have accidentally stumbled upon one useful weapon: uncertainty. Speculation about the government's plans caused property prices to wobble recently. Now the governor is threatening to be much tougher if prices start rising again at an alarming rate. He could introduce punitive stamp duty on the short-term resale of property and other deterrents. Unless, that is, he is deterred himself by fear of what might happen to share prices.



nationwide.

Moreover, the American side is terrified that Japan will start deregulating a part of its market, known as the "third sector", that includes policies covering personal accidents, sickness and nursing care in a grey area somewhere between official definitions of life and non-life insurance. Though this sector accounts for less than 3% of the premiums earned by Japanese insurers, it represents over half of foreign insurers' income in Japan. They have flourished partly because domestic firms have been slow to supply some third-sector products. The Finance Ministry has also granted temporary protection to some foreign firms to allow them to get new products off the ground. One American firm, AFLAC, has made a fortune by selling innovative cancer insurance in Japan, helped by a seven-year monopoly from the Finance Ministry.

It is just possible that, were Japan to deregulate this third sector, it might see the benefits of competition at first hand, and so be encouraged to loosen the rules in the main insurance markets. The difficulty is that American negotiators are arguing doggedly that this sector should not be deregulated before the rest of the market, as this would be tantamount to "targeting foreign firms". The danger now is that Japan will accede to America's request, and deregulate nothing. That might suit some American insurers already in Japan. But it would hardly be a triumph for free trade.

Kidder Peabody

Curiouser

NEW YORK

MORE than six weeks after Kidder Peabody, a Wall Street investment bank owned by America's General Electric, admitted that it had been the victim of a multi-million dollar scam, an internal investigation is still trying to get to the bottom of the affair. Unless the terms of the investigation are broadened, Kidder may never find out what really happened.

Kidder's problems began in April, when it reported $350m of fictitious profits caused by an alleged trading scam involving "stripped" government bonds—Treasury bonds that have been converted into a series of zero-coupon bonds whose interest is accumulated for repayment at maturity. According to the company, Joseph Jett, its 36-year-old chief government-bond trader, was solely responsible for the scam; he was promptly sacked.

Mr Jett, who will argue his case in a pending arbitration dispute, claims that he has been made a scapegoat and that, at the behest of his superiors, his trading activities were designed to reduce the size of Kidder's balance sheet at the end of each quarter. Mr Jett is expected to argue that the firm's assets regularly ballooned over $100 billion between quarterly reporting periods. This matters because Kidder is already the most highly leveraged firm on Wall Street: at the end of December 1993 it had total assets of almost $73 billion and net capital of just $625m. (In March, a few weeks before the scandal broke, Kidder successfully raised $3.7 billion from a group of banks in what it has described as a "routine financing".)

Mr Jett, who is black, also believes that race may have played a part in his swift rise and fall. Kidder has a deliberate policy of trying to increase the proportion of minor-

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- In 1993 DM 10.0 billion was granted under export financing – DM 1.4 billion of which for exports from the new Länder.
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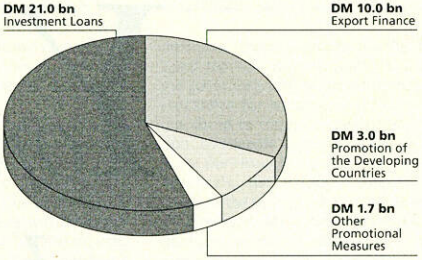
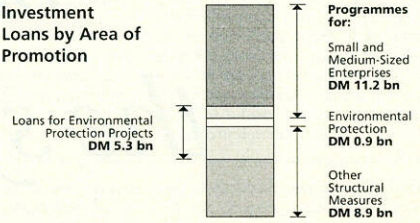
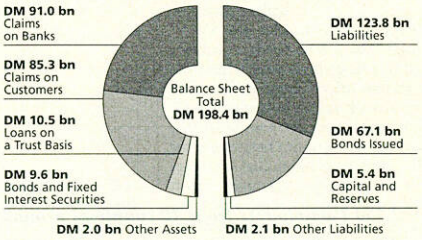


Investment Loans by Area of Promotion



Major Balance Sheet Items



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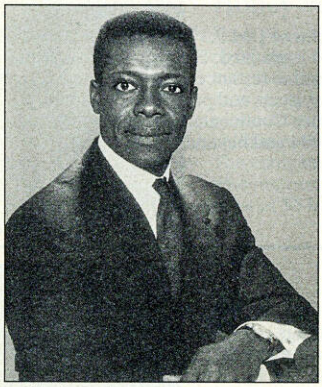
Fondazione Alfred Lewin



Joe jettisoned

ities and women on its staff. Indeed, that may explain why it recruited Mr Jett in June 1991, even though he had already been laid off by two other securities firms, Morgan Stanley and CS First Boston. A headhunting firm that tried to find Mr Jett a job after he had left CS First Boston says that he was given a second interview at only one of the 12 firms at which he had been interviewed.

Alphonse "Buddy" Fletcher, a successful black financier and a former Kidder employee with a racial-discrimination claim outstanding against the company, says that, at a meeting in April 1992, Mr Jett told him that the background to his recruitment was strange. Mr Jett recalled how he had been escorted around the firm by Richard O'Donnell, Kidder's chief financial officer, and introduced to the heads of the main trading desks. The clear message was that somebody was expected to hire him.

If the circumstances of Mr Jett's recruitment are surprising, so was his swift promotion to be head of government-bond trading, even though he lacked experience. Mr Fletcher says that when Mr Jett tried to explain his trading strategy to him and a colleague who trades stripped bonds, neither could make sense of it—even though Mr Jett claimed it was earning Kidder about $10m a month. Mr Fletcher and his colleague concluded that Mr Jett had either found a completely new trading strategy, or that he was unclear about what he was doing.

Mr Jett's fellow government-bond traders were equally baffled. Two of them say that Mr Jett's money-making strategy was a source of constant speculation on the trading desk in 1992 and 1993, as was the extent to which his superiors knew what was going on. The bond traders add that Mr Jett was visited almost daily by David Bernstein, a senior aide to Edward Cerullo, the head of Kidder's fixed-income department. Melvin Mullin, who was the head of government-bond trading before moving to run fixed-income derivatives in early 1993, also visited Mr Jett once or twice a week.

Bizarrely, Kidder's own investigation into the scandal, which is being conducted by Gary Lynch, a former prosecutor for the Securities and Exchange Commission and now a private lawyer, is apparently confined to Mr Jett. (Kidder refuses to confirm this, and declines to comment on other issues.) Mr Lynch's own position is hardly independent: he personally signed the arbitration complaint which his law firm, Davis Polk & Wardwell, filed on Kidder's behalf against Mr Jett only three days after the latter was sacked.

That does not necessarily mean that he will shy away from asking important questions, such as why Mr Jett was given such an important position at Kidder given his lack of experience, or why senior management at Kidder were not more curious about how Mr Jett suddenly started to make so much money. General Electric's shareholders are no doubt impatient for some answers.

The trials of Brian

BRIAN PITMAN, the chief executive of Lloyds, a big British bank, must wonder whether he is jinxed. In recent years, takeover bids by Lloyds for Standard Chartered and Midland Bank, two domestic rivals, have both failed. His latest scheme, a £1.8 billion ($2.7 billion) merger with Cheltenham & Gloucester (C&G), a building society (thrift), was hailed as brilliant when it was announced in April. Too brilliant, perhaps. On June 8th a senior British court ruled that the deal—and specifically its cash payments to C&G members of less than two-years' standing—were illegal.

The ruling sounded cut and dried. But it will not be the end of the matter. For one thing, the narrowness of the judgment implied that most of Lloyds/C&G's arguments in favour of the deal were valid, which suggests that the law governing building societies will need to be rewritten. C&G and Lloyds are also studying the judgment before deciding whether or not to appeal. If they were to win any appeal, the Building Societies Commission, which regulates societies and is opposed to the merger, would almost certainly appeal itself. The case would probably end up in parliament.

If Lloyds and C&G eventually lose, then they must either find a new structure for the deal or abandon it. Both Mr Pitman and Andrew Longhurst, C&G's boss, will be loth to accept defeat. And there may be an easy alternative structure in the form of free Lloyds' preference shares for C&G members. That would be less elegant (and less seductive to members) than cash payments. But Messrs Pitman and Longhurst will doubtless be willing to sacrifice elegance for success.

As for the commission, it wants to stop copycat deals or even hostile bids. Any victory over Lloyds and C&G could prove pyrrhic. The merger proposal has exposed big deficiencies in the regime for building societies; it has also led to an unprecedented outpouring of sentiment in favour of change. In recent weeks, several banks, notably Royal Bank of Scotland and TSB, have openly expressed an interest in buying a building society. Equally, some of the big societies have talked of seeking mergers. Both sides have plenty of capital to play with (see table).

John Aitken, an analyst with UBS, a Swiss investment bank, says that banks' failure to compete with societies for deposits has sharpened their acquisitive instincts. He calculates that between 1975 and 1993, societies attracted nearly three-quarters of new retail deposits. Banks are struggling to repair the damage. Mr Aitken reckons that, between them, Britain's big banks could buy the 20 largest societies on the same terms as Lloyds' mooted deal with C&G and still fulfil capital requirements. Whatever the final outcome of its legal battle with C&G/Lloyds, the commission will not easily stem that tide of money, if banks are still determined to spend it.

But should they be? There is an obvious risk in assuming that what Lloyds is willing to pay for C&G is a sensible guide for other acquisitions. Andrew Stott of Oliver, Wyman, a consulting firm, points out that fierce competition is eroding profitability in Britain's mortgage market. Moreover, differences in management and cost structures mean that some societies make fatter profits than others from the same products. If banks rush to buy societies, some of them will inevitably come a cropper.

Money to burn

1993	Banks*	Building societies†
Total assets £bn	819	267
Total capital £bn	56.3	16.5
Pre-tax profit £bn	7.21	2.56
Tier-one capital ratio	7.1	10.8

Source: UBS * Constituents of FT-A banks sector † Top 20

Fondazione Arnaud Lewin

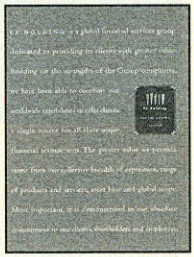


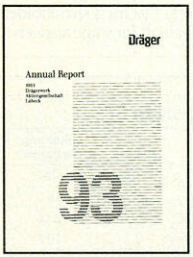
Continental Aktiengesellschaft (1)

The Continental Corporation ranks among the leading international manufacturers of tires and industrial products made from rubber and plastics: For tires, 1st in Germany, 2nd in Europe, and 4th worldwide. Despite severe recession, lower exchange rates, and steep drops in automotive sales in 1993, Continental recorded net income of DM 65.1 million on sales of DM 9.37 billion. A dividend of DM 4 is planned. Extensive measures to streamline resources, cut costs, and deliver new systems and products substantially enhance Continental's earnings potential for 1994 and beyond.

CS Holding (2)

CS Holding is a global financial services group dedicated to providing its clients with greater value. Building on the strengths of the Group companies, we have been able to combine our worldwide capabilities to offer clients a single source for all their major financial transactions. The greater value we provide stems from our collective breadth of experience, range of products and services, asset base and global scope. Most important, it is demonstrated in our absolute commitment to our clients, shareholders and employees.





Drägerwerk AG (3)

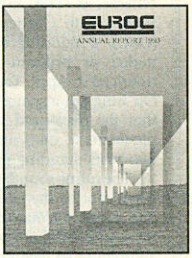
Drägerwerk AG, Lübeck, is one of the world's leading manufacturers of life-saving equipment and systems. In 1993 the Group's worldwide sales increased by 3.5% to DM 1,362 billion. Dräger operates in the following sectors;

* Medical Technology
* Safety Technology
* Aerospace Technology
* Underwater Technology

Dräger employs 7,844 people in its Lübeck Headquarters and in 30 subsidiaries around the world. 6.4% of the sales is re-invested in research and development every year. The Group profit in 1993 was DM 16 million.

Euroc (4)

The Swedish-based Euroc Group manufactures mineral-based building materials and distributes construction materials in general.
Earnings in 1993 increased 65 per cent to SEK 240 million, despite a further sharp downturn in Euroc's principal markets.
An important step to structure the Nordic construction materials industry was taken during late autumn when Euroc acquired most of the mineral-based building material operations belonging to Partek and Metra in Finland. Euroc's positions in the Baltic states were strengthened.
Earnings in 1994 are expected to be at least as high as in 1993, despite a further decline in the Swedish and Finnish markets. Cash flow is expected to remain substantially positive.



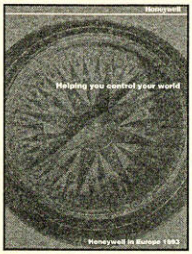


GEA AG (5)

Strength in the Crisis

The Bochum-based GEA Group boosted orders received in the recession year 1993 by 23% from DM 2.152 billion to DM 2.657 billion. Sales were up by 25% from DM 2.159 billion to DM 2.708 billion. This growth is attributable to the acquisition of the Danish NIRO Group. Despite the poor economic situation and the cost of restructuring measures, the net income for the year of DM 74.6 million was down by just barely 9% against 1992 (DM 81.7 million). Thanks to the international cyclical recovery, earnings are expected to show a marked improvement in 1994.

Collezione Alfred Lewin

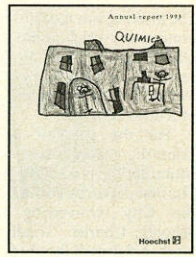


Honeywell (6)

Honeywell is a global controls company providing products, systems and services that increase comfort, environmental protection, energy conservation, productivity and safety in homes, buildings, industry, aviation and space. The company employs 52,000 people in 95 countries, and had worldwide 1993 sales of $6 billion. Honeywell Europe, which is part of Honeywell Inc., had 1993 sales of $1.5 billion and employs 11,000 people across Europe.

Hoechst (7)

Hoechst is one of the world's leading chemical and pharmaceutical companies. In 1993, sales by the Hoechst Group totalled DM 46 billion, 78% of which were generated abroad. Profit before taxes on income amounted to DM 1.2 billion. At 5.4 billion, cash flow remained at the previous year's level. In 1993, the company spent DM 1 billion on measures to improve its structure and productivity. Capital expenditure on tangible fixed assets totalled DM 3.6 billion and a further DM 1.6 billion was spent on investments in participating interests.
Hoechst invested more than DM 3 billion in research, approximately half of which went into pharmaceutical research. 15,200 people work in our research centres in 16 countries. Hoechst employs a total of 172,000 people worldwide.





Privatisation Program (8)

This investment company is based in Moscow, Russia. It started as a key element in the National Privatisation Scheme in 1992.

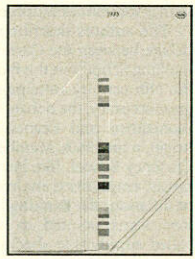
It has acquired wide experience in:

*Privatisation of large and medium-size State enterprises

*Attracting corporate investment into Russia's petrochemical and chemical industries.

Roche (9)

Roche is a Swiss-based international health care group employing over 56,000 people worldwide. It is a research-driven company with a leading position in biotechnology and activities covering the entire health spectrum of prevention, diagnosis and treatment of disease. Roche has gained a high reputation for the quality of its innovative research and the original contributions it has made to the development of new drugs. In addition to pharmaceuticals Roche is also engaged in the fields of vitamins and fine chemicals, diagnostics, fragrances and flavours. In 1993 Roche Group consolidated sales rose 11% to reach Sfr 14.315 billion. Consolidated net income grew 29% to Sfr 2.478 billion. Capital expenditure amounted to Sfr 1.407 billion compared with 1.293 billion the year before. Groupwide Sfr 2.163 billion or 15% of total group sales were devoted to research and development. This is an increase of Sfr 165 million or 8%. Out of total research and development expenditure Sfr 1.812 billion was in the Pharma Division, which represents 23% of the Division's sales.



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What the Bank would like for its birthday

On June 9th the Bank of England hosted a symposium to help celebrate its 300th birthday. The topic was central banking—and the paper the Bank liked best, it is safe to assume, argued that the Old Lady has learned enough to be made independent

ECONOMICS FOCUS

INTRODUCING the speakers at the Bank's birthday party, Eddie George, the governor, announced that this was the largest gathering of central-bank bosses ever seen—128 of them, no less, turned up. The meeting was the working part of their anniversary celebrations: after opening remarks from John Major (quite hard work), the governors were treated to two lectures on the theory and practice of central banking.

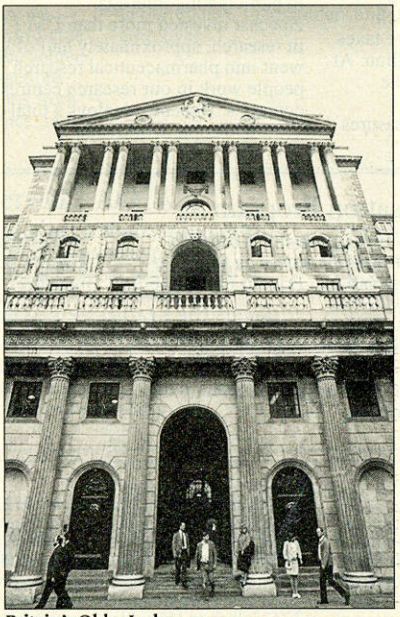
For the speakers—academics rather than practitioners—it was an intimidating task. They did well. The first paper, by Forrest Capie (of the City University Business School), Charles Goodhart and Norbert Schnadt (both of the London School of Economics), was on the history of central banking. The other, by Stanley Fischer (of the Massachusetts Institute of Technology, and soon to be a deputy managing director at the IMF), was on the present state of the art.

The historical essay took the unusual approach of discussing its subject thematically—describing debates that have recurred year after year over the role of central banks—rather than chronologically. This was revealing. It strengthened the suspicion that economics has fewer new ideas than is sometimes supposed.

The authors describe how the debate between the Currency and Banking Schools in the first half of the 19th century anticipated, with great accuracy, the debate between monetarists and Keynesians that began in the 1960s. Members of the Currency School, like later monetarists, emphasised the monetary causes of inflation; the Banking School's proto-Keynesians pointed to what are now called supply-side shocks (disturbances such as failed harvests and dearer oil).

In both cases, the worriers about money had the top economists (Ricardo, Milton Friedman) on their team. In both cases, they won the battle by recruiting political support where it counted (Peel, Margaret Thatcher). These monetarists ancient and modern learned to distrust the Bank of England as a sympathiser with the other side. (Ricardo observed, "the House [of Commons] did not withdraw its confidence from the Bank from any doubt of its wealth or integrity, but from a conviction of its total ignorance of political economy". Nice phrase.)

And, in the end, they lost the war. The rules that the Currency School and the monetarists devised to guide monetary policy altered the structure of the financial system in such a way as to make the rules fail. You may recognise that as Goodhart's Law—coined in the 1980s, but evidently in force for at least 150 years.



Britain's Older Lady

The paper by Mr Fischer is level-headed and frank—in one respect, awkwardly so—about the case for releasing the Bank from the Treasury's control. Briefly, this runs as follows.

Inflation that is higher than around 1-3% a year carries a cost that warrants action. Until inflation gets well above 5%, this cost is not huge (and can be reduced by indexation of the tax system), but it is big enough. Moreover, economic policy embodies a persistent, if gentle, bias towards inflation. This is partly because of seignorage—the purchasing power that governments command by the mere act of printing money. Because this implicit tax (which takes the form of inflation) creeps up on "taxpayers" unannounced, it tends to be used to excess.

Another cause of inflationary bias is "dynamic inconsistency"—that is, the tendency of governments to tell lies. Suppose the government promises to keep inflation low. If firms and workers believe it, they will set wages and prices accordingly. But if they do that, the government can squeeze a burst of extra growth out of the economy by arranging an "inflation surprise". The story does not end there, however. Firms and workers understand governments too well: they anticipate these periodic inflation surprises, and build them into their wages and prices. The result is a self-fulfilling prophecy: an upward bias to inflation.

By breaking the link between government and the creation of money, central-bank independence weakens both causes of inflation. But, as Mr Fischer makes clear, there is a difficulty. It may be true that in the long run it is impossible to secure higher output by tolerating higher inflation, but in the short run such a trade-off does exist. It is not good enough for supporters of central-bank independence to emphasise the lack of a long-run trade-off (important though that is). In the short run, an independent bank would have to make inescapably political decisions about the rate at which inflation should be brought down, and the extent of the temporary losses in output and employment which that decision would imply.

Banks such as the Fed and the Bundesbank have shown that a consensus can be established (partly by means of political accountability of one sort or another) to allow them the freedom they need—and the economic benefits look attractive. Establishing such a consensus in Britain—a country that loves inflation—would not be easy. Before that was accomplished, an independent Bank of England, taking a tough new line on inflation, could have rioters on its doorstep. That would be some birthday present.

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Sleeping in Business Class. A brief history.



1968



1978



1982



1985



1989



1990



1994

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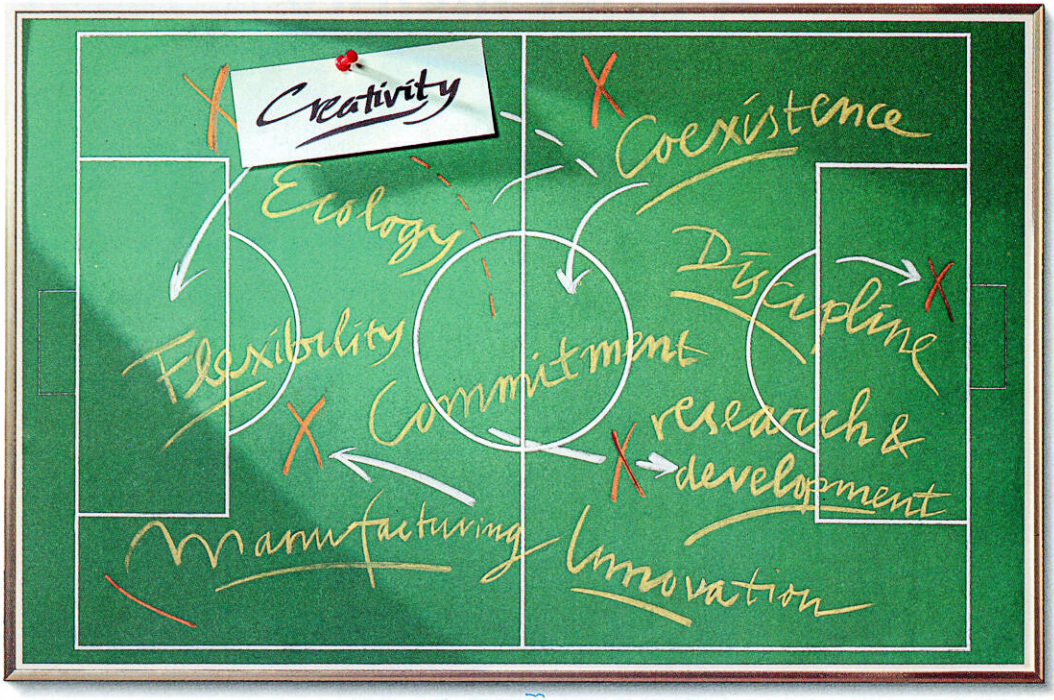

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Spoofing the spooks' chip

ITS enemies denounce it as an instrument of oppression to rank with the worst Orwellian excess—or, in their milder moments, as an intolerable brake on the progress of the American computer industry. Its friends—a small band who are, it must be admitted, mostly family—say it is an attempt to smooth the way for business and keep the world safe for democracy. The Clipper, which the American government hopes will become the standard for scrambling digital messages, was the most controversial computer chip around even before recent revelations that it does not work as advertised.

The growth of computer networks and digital wireless telephones provides an ever growing market for encryption devices, which put data into code to stop the wrong person getting it. In this market, the Clipper's unique selling proposition is a surprising one: the American government has an easy way to break the otherwise excellent encryption it offers. To a hardened criminal or terrorist—the people Clipper is meant to help catch—the fact that the code is breakable might perhaps make it a little unattractive.

On June 2nd the *New York Times* revealed that such people may yet be able to use the system with impunity. While testing a system that incorporates the Clipper, Matthew Blaze at AT&T Bell Labs found a way to block the path that lets official eavesdroppers into a message. This path, a short stretch of data at the beginning of a Clipper-encoded message, is called the LEAF (law enforcement access field). To follow it you need a series of keys.

The first key will open any LEAF to reveal a number identifying the Clipper chip that sent the transmission and a short encoded message. To go any further, you need a second, device-specific key. There are device-specific keys for all Clipper chips locked away in government databases. Each such key is kept in two pieces, one looked after by the National Institute of Standards and Technology (NIST), one in the tender care of the Justice Department. Get a warrant allowing you to retrieve the two halves of the key for the particular device which was named in the LEAF, and you can take the next step—decoding the last little message. Decoded, this turns out to be yet another key: the session key, with which you can then decode the whole transmission.

Dr Blaze's discovery is that, with a little ingenuity, you can convince your computer to produce a bogus LEAF. It will look like a normal LEAF, but the session key hidden within it will be the wrong one. Only people you have given the correct session key to will be able to get in: there will be no way to open the back door. So the encryption technology at the heart of the Clipper, a far more powerful system than the current government standard, can, in some circumstances, be used with no fear of interception.



The government's response to this revelation has been decidedly nonchalant. So far, Clipper is being used only in telephones (made by AT&T), and here LEAF-spoofing is not, as yet, an option. It becomes possible only when you have a computer to play with, and the form of Clipper being used with computers to date is still experimental. Dr Blaze's loophole may be closed before it is put into production—though it looks like a real design flaw. If it remains unplugged, though, it may still be little used. There are easier ways round the system: simply encode your message using an encryption method which allows no special access to G-men before sending it through the Clipper.

That shows up the contradiction at the heart of the Clipper policy. The government claims that it does not plan to stop citizens from using the alternative encryption technologies, almost universally believed to be uncrackable, that are already available. Criminals, terrorists, libertarians and the straightforwardly cautious can thus keep their secrets. In which case, why bother introducing Clipper in the first place?

The critics' answer is that Clipper's appearance as a voluntary standard is the thin end of the wedge. Huge government orders might make Clipper very cheap. That advantage, combined with difficulties in patenting encryption technologies (the government can refuse a patent to anything it fears might put national security at risk) and controls on their export, could drive alternatives out of the market. Clipper would then be the only game in town—especially if big companies with a lot of government business decide it is politic to use Clipper. Or a future government might just ban unbreakable alternatives. These worries led 47,000 Internet users to sign the Computer Professionals for Social Responsibility's petition against Clipper.

Such dark imaginings are fed by Clipper's provenance. In 1987, Congress gave NIST the job of setting computer-security standards. However, much of the work on Clipper was done by the National Security Agency (NSA). While the workings of the current government standard are common knowledge, the workings of Clipper are classified, which is why the system is only available as a hard-wired chip, rather than as easily inspectable software. The involvement of the highly secretive NSA adds a certain plausibility to conspiracy theories. It also provides a purely pragmatic reason for the computer industry to oppose the security standard. Foreigners will have a quite reasonable aversion to a system that allows the NSA access to their communications. If Clipper is the only encryption technology America exports, they will develop home-grown alternatives, and American firms will lose out.

The NSA's legal counsel has broken cover to respond to these questions in *Wired*, a magazine that is a focus of Clipper dissent. He points out that the government needs security standards for its own work, and has chosen Clipper; in the past industry has happily followed the government's lead. If

Fondazione Alfred Lewin

it does so this time, then the spread of easily used unbreakable cryptography might be stymied. Perhaps Clipper can head off a future where paedophiles' contact lists cannot be decoded and where nuclear secrets pass untrammelled across borders in an uncrackable sequence of bits.

Perhaps. But a world in which everyone uses Clipper uncompelled looks unlikely. There is a healthy and widespread distrust of secretive government agencies, and of putting all America's eggs into a single basket which governments elsewhere will be trying their hardest to break open. The flaw in Clipper has further dented the government's case by calling into question its mastery of the technology, one of the supposed reasons for business to follow its lead. And it has shown that, even in an all-Clipper world, perfect privacy might still be achieved. In doing so, it may have cleared the way for a debate on secrecy in which the government's case is clarified and argued through, rather than presented as a techno-fix in a black box with a murky history.

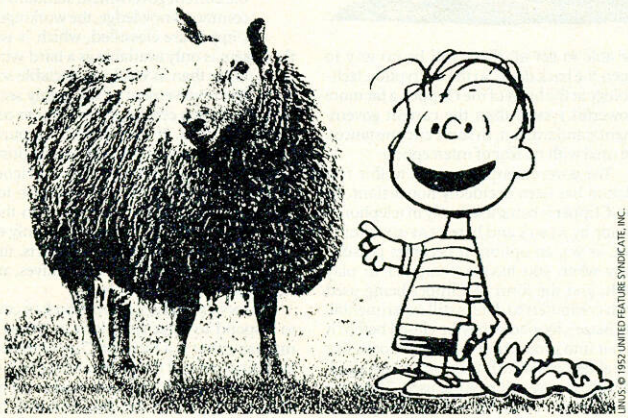
Vet blanket

A LONE figure stalks the Cumbrian fells, dragging a woollen blanket. An escaped prisoner? A suspicious observer alerts the police, but is reassured. Nick Ogden, a vet-turned-research-student, is not fleeing pursuit—he is pursuing fleas. To be more precise, he is looking for a bug, *Borrelia burgdorferi*, which can lurk in the saliva of the ticks that live on sheep. It is the bug which causes Lyme disease.

Lyme borreliosis, as it is properly called, was first recognised 20 years ago, after an outbreak of arthritis in Lyme, Connecticut. Sufferers shared a history of tick bites; some had other ailments of the skin, heart or nervous system. Last year about 10,000 Americans were diagnosed with Lyme disease, and more money was put into research on it than into research on any other infectious disease except AIDS. In Britain, where doctors test for Lyme disease less often, only 200 cases have been spotted so far. More may be going undiagnosed.

The usual danger spots for Lyme disease are woods, where the ticks feed on deer, small mammals and birds. But Mr Ogden thinks that the bacteria may also have a home on open grassland: in sheep. In theory, simply counting sheep with antibodies to the bacteria should tell you how many are infected. A lot of infected sheep means a rich reservoir of bacteria for ticks to suck up and reinject into hapless fell-walkers and farmers. Unfortunately, antibody counts are unreliable. Infectious animals do not always have them; nor does their presence guarantee the presence of disease.

Hence Mr Ogden's blanket antics. He compares the proportion of Lyme-disease-carrying ticks that hop aboard his fake fleece with the disease's incidence in ticks that have been gorging themselves on real mutton. If those sucking sheep-blood are more likely to carry the Lyme bacteria than those chewing the blanket, it would be reasonable to suggest that sheep are a reservoir for the disease. His initial results make it look likely; other research suggests that some sheep may get ill. Further work will show whether shepherds may safely graze.



Electronic road-pricing

Healthy regime

SINGAPORE

AS URBAN arteries seize up and motorway sclerosis chokes traffic to a trickle, a little financial phlebotomy looks very appealing. Bleed some of the vehicles from the roads at rush hour by charging drivers to use them and you should soon loosen automotive clots and get circulation flowing again. Two doubts have kept would-be physicians from healing a living city: first, the technology is not available; second, monitoring traffic with networks of video cameras and computers provokes fears of a police state. Singapore, always bold when it comes to radical political surgery, intends to brush such doubts aside and have a city-wide electronic road-pricing system up and running by late 1997.

With almost as much of its land taken up by roads (11%) as by housing (13%), Singapore began work on road-pricing sooner than most. In 1975 it restricted rush-hour access to the city centre to drivers who had bought special permits. The scheme has expanded and adapted to shifting rush-hour patterns, but remains a matter of paper permits and clearly defined driving zones.

Switching to an electronic system appeals to Singapore because it would require fewer workers and be easier to fine-tune. New charges for different kinds of vehicles travelling in different places at different times of day could be quickly fed into the system as conditions demanded. Singapore is sure that it can be done, and plans to extend coverage to the country's motorways, and eventually across the entire island.

Three rival consortia are bidding for the job, which could be worth S$200m ($130m) and would also offer the chance to show off technology to other cities watching the Singapore experiment with great interest. Each of the bidders is demonstrating its system on a stretch of road outside the city; the government will pick a winner at the end of the year. All three use existing technology, essentially variations of the smart-card schemes that already allow drivers to pass without stopping through toll booths on the Italian *autostrade* or at the Thames tunnel and bridge at Dartford, near London.

All three schemes would entail fitting Singapore's 600,000 vehicles and motorcycles with an in-vehicle unit (IVU) costing up to S$200. This will link the car to a system of gantries along the roads. It will pick up information about the price of the road the car is using, and deduct the charge from credit stored on a card slotted into the IVU. A digital display in the car will show how much credit is left on the card.

Cards will be sold at banks and shops. One type, the "common bearer card", will

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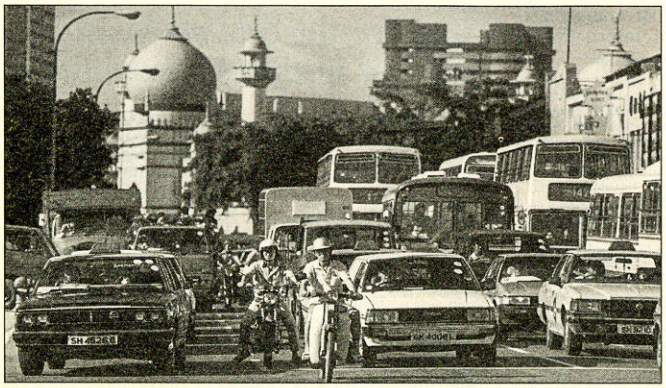


Customers

carry an embedded microchip allowing it to be recharged with credit by taking it to a bank. Software is being developed to allow users to do this directly from their account through a cash machine. Passwords and encryption will supposedly foil forgers. Eventually, a cash-charged card might also be used to pay for petrol and parking, or even for purchases at supermarkets. Because a card is charged up with funds in advance, rather than triggering a billing process, there is no need for its user to be individually identified by the system, which should allay some worries about privacy. For those prepared to swap anonymity for convenience, a personal billing card, more like a credit card, will probably be offered as well.

Road pricing could become a huge new business, which is why it has drawn the interest of plenty of big firms. In one of the consortia Teledata, a local electronics firm, has teamed up with Japan's telecoms and car giants, NTT and Toyota. It uses pairs of gantries about 15 metres (50 feet) apart. The first sends a signal asking a passing IVU what kind of vehicle it is in. The second tells the IVU to deduct the appropriate charge from the smart card. If no signal returns from the IVU to confirm the transaction (because the smart card is out of funds, or because there is no smart card in the slot) a video camera photographs the rear number plate and transmits it to a control centre, which then fines the owner.

The Singapore government wants a reliable and accurate system. This is not too hard to achieve when cars drive steadily through an electronic toll-booth. On the open road, however, the system will have to cope with high speeds, multiple lanes and vehicles weaving and bunching together.

Multiplexing offers one way to sort things out. IVUs will be able to transmit on multiple frequencies, and the antennae on the gantries will scan rapidly until they establish connections with all the individual vehicles on their different frequencies. All three consortia—the others are led by Singapore Electronics & Engineering and by the Singaporean subsidiary of Holland's Philips—have proposed such systems.

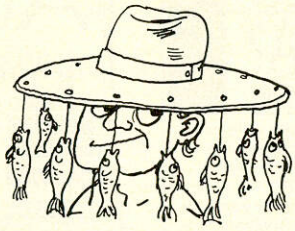
With large gantries festooning its roads, Singapore's electronic road-pricing will not look as slick as the more far-flung visions being explored elsewhere. Some American plans involve satellite monitoring and electronic navigation, for instance. But like the computer buyer who plumps for today's machine even though he knows it will soon be outdated, Singapore would rather have a system that works now than wait for the best imaginable—and suffer a car-induced coronary in the meantime.

Fresh angle

FISHERMEN, say the economists, have a problem. None of them owns the resource they share, and so they over-exploit it. The answer? Ownership. But if it were easy to assert ownership over something as slippery as a shoal of fish, people would already do it. It isn't, and they don't. Michael Young, an Australian economist, thinks he has a better answer. More ownership, of a new type.

Spurred on by economists, several governments have tried to impose fishing quotas on fishermen, in the hope that a quota that can be bought or sold will instil some sense of ownership. But unlike most property the quotas change a lot; the fishermen do not feel like owners, they feel messed around. That is why the government of New South Wales has opted for Dr Young's elaborate two-tier system of property rights. There is a long-term right to exploit a fishery; there are short-term rights to a given number of its fish.

The first right has been made to look as similar to a land title as feasible, so as to carry a similar sense of permanence; this



is what the fishermen are meant to become attached to. It covers the proportion of a fishery alloted to a fisherman, plus the gear and the size of boat he can use to exploit it.

The other right lays down the amount of fish that can be caught. Every year the total sustainable catch will be calculated by an independent committee of experts. On the basis of this individual quotas will be allocated to the fishermen with rights in the fishery. Those specific catch quotas will be much easier to trade than the right to fish. Those who catch too many fish can buy someone else's catch quota to cover themselves.

One of the scheme's great advantages is that it combines flexibility with a feeling of permanence. Rules on the total size of the catch can vary from year to year; rules on the way fishermen work will change slowly. The fishery authorities can alter them only after five years, and fishermen who make the change will get a further ten years of fishing rights with no further hassle. Those who do not change can keep at it the old way for five years before packing up. That is more constancy than is normally found on the ocean wave.

There are problems, of course. Allocating the shares is tricky. The state has a detailed record of each commercial fisherman's catch, month by month, since 1987. But it will still take a year or so to set up shares agreed by almost all to be fair, since people are always joining and leaving the industry. And then there are those for whom it is not an industry. The aim of making the fisherman "more of a businessman than a hunter", as Ian Causley, the state's fisheries minister, puts it, applies only to the professional. Recreational fishermen account for a third of the catch of some species, and they are out there precisely because they want to feel more like hunters than businessmen.

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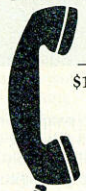

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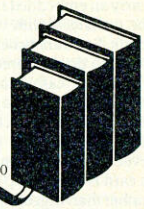

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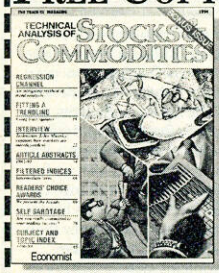

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Author! Author!

IT IS easy to laugh at the literary events which are sprouting up all over Britain (see map). At John Mortimer, the creator of Rumpole of the Bailey, picking his way across a muddy sheep-meadow on the Welsh border in ill-chosen clothes—suit, smart shoes, raspberry-pink shirt and marigold-yellow floral tie—and bleating plaintively: "Where's the hospitality tent?" At Jilly Cooper, a writer of steamy romances, bravely agreeing to substitute for Kurt Vonnegut when the author of "Cat's Cradle" and "Slaughterhouse Five" walked out on his readers, some of whom had travelled a few hundred miles to hear him, at the Cheltenham Festival of Literature. At Paul Muldoon, an Irish poet billed as "most original talent of the emerging generation", reciting a lot of pretentious rubbish as he delivered the inaugural Waterstone's lecture in Hay-on-Wye, entitled "Between Ireland and Montevideo".

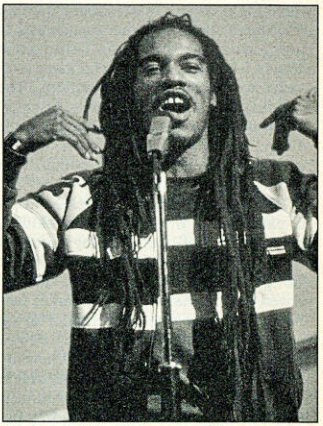
The temptation to mock should be resisted, for several reasons. The least important (although not trivial) of these is that cited by Peter Florence, a talented young literary entrepreneur who has made a success of the festival at Hay-in-Wye in the teeth of fierce not-in-my-backyard opposition. These events, he says, give writers a chance to meet other writers—and to meet their readers. Theirs is a solitary life. Most of them enjoy being lionised, and being presented with an opportunity to flog their books.

In fact they enjoy the exposure so much that literary festivals can be staged at an extraordinarily low cost—another reason for not mocking them. A music festival might have to find a six-figure sum to book the Berlin, the Vienna or another famous orchestra. Leading authors are happy to perform for £150 (about $225), a case of wine and a night or two in the best hotel in town. These comparatively low costs, often picked up or shared by the writers' publishers, have helped persuade many art, theatre and music festivals to tack on literary events.

Public appearances by authors also help to sell books—or so say the book-sellers. They attribute some of the 7% increase in book sales recorded in Britain last year to the publicity generated by literary festivals. But, if you believe Euromonitor, a London-based market analyst, spending on books in Britain, at $67 a head a year, is still below that in Germany ($111) and Spain ($94), although above that in Italy and France (both $56).

Just as important, a sensitively organised festival can help put a town on the cultural map as well as give it a sense of local pride and identity. Cheltenham, the grandest of Britain's literary festivals, is able to attract world-renowned writers. Last October its roll-call included Margaret Atwood, Sir Dirk Bogarde (the greatest drawcard of all at such events), Mario Vargas Llosa and Joseph Heller; this October it includes Kingsley Amis, Alan Bennett, P.D. James, Ian McEwan and Iris Murdoch.





Zephaniah's poetry wows the young

Yet this internationally famous literary festival will also find time this October to celebrate the poets who, just before and during the first world war, settled in the Gloucestershire village of Dymock. Edward Thomas, Robert Frost, Lascelles Abercrombie and Wilfred Gibson all lived in the area, and Rupert Brooke visited them. Other festivals also strive to mine a local theme.

Tony Harrison, who was inspired by the so-called turkey shoot in the Gulf war to write a searing anti-war poem, "The Gaze of the Gorgon", was the local-lad-made-good at the Ilkley Literature Festival in March. The Hay Festival in May basked in the reflected glory of Bruce Chatwin's "On the Black Hill", a memorable novel set in the Welsh border country. It also presented, in Welsh with simultaneous translation, fascinating talks on the life and work of Caradog Pritchard, whose "Un Nos Ola Leuad" ("One Moonlit Night") is regarded by many as the finest Welsh novel written this century. The Hull Literature Festival in November is set to examine "the influence of Hull on writers from Andrew Marvell to Philip Larkin and beyond".

When Bath enters the fray by launching its own International Literary Festival next year it will no doubt eventually get around to celebrating all the famous writers associated with the town. Among them are Fanny Burney, Jane Austen, Richard Brinsley Sheridan and, last and by all means least, Christopher Anstey, who in 1776 wrote an amusing satire, "The New Bath Guide".

But the best reason for applauding liter-

Forecasts and Trends Lewin

ary festivals is that for a small price of admission—typically £3 to £6—they provide outstanding value for money. The festival at Hay-on-Wye, staged in a farmer's field, was a case in point. Doris Lessing, whose most recent book is "African Laughter", spoke with wisdom as well as wit about the future of southern Africa. And her tongue was as cutting as a sjambok when she lashed out at those in a packed audience who had the temerity to ask her foolish questions. The brooding presence of R.S. Thomas, a powerful old poet who always seems on the verge of rage, cowed even Lord Gowrie, the urbane chairman of the Arts Council, who shared a platform with him.

Benjamin Zephaniah resembled a tropical parrot in his brightly coloured clothes, and a tent-full of mainly young people at Hay could not get enough of him. With his dub poetry and reggae singing, he had proved to them that such events can be fun. The most electrifying performance of all was given by James Fenton. The just-elected professor of poetry at Oxford University showed he had unusual stamina, as well as talent as an actor, in a non-stop, 80-minute recitation of his often very demanding poems. As an aesthete in his audience said afterwards: "That was well worth wading through sheep shit to get to."

Willem de Kooning

In his dotage

WASHINGTON, DC

OLD age is a trying time for a great painter. His passion to create may continue unabated, but flagging energy and intellectual fatigue often make it hard for him to match the achievements of his more vigorous years—and to maintain his reputation. Critics usually examine his late painting sceptically, and often they find it wanting. Even the great Titian (1485-1576) was told he ought to hang up his palette, and in this century such criticism was directed at Picasso and Chagall.

The late work of Willem de Kooning is running into the same flak. The king of Abstract Expressionism, who turned 90 on April 24th, has paintings on show at the National Gallery of Art in Washington, DC, that were completed as recently as 1986. Some find this fishy. Mr de Kooning is locked in the mental straitjacket of Alzheimer's disease and his memory loss during the 1980s has raised questions about whether assistants helped him compose the canvases from this period.

This controversy ought not to put anybody off the exhibition, which is in Washington until September 5th before moving to New York's Metropolitian Museum in October and to London's Tate Gallery next February. It offers a splendid opportunity to evaluate Mr de Kooning's full career.



Woman 1, 1950-52

Technically the exhibition is not a retrospective because it includes no sculpture, but it looks and feels like one. It begins in the late 1930s, with figure paintings that echo Picasso, and ends in 1986 with a group of the quiet, linear abstractions that raised so much doubt when they were first seen. They depart radically from the agitated, fleshy abstractions Mr de Kooning painted a few years earlier, and yet the evidence of his hand remains distinct.

In old age artists tend to reflect and consolidate. In the early 1970s, Mr de Kooning even stopped painting for several years to concentrate on sculpture. When he returned to the easel in the middle of the decade, he produced a series of paintings that appear formless, and even aimless. By contrast, the pictures from the 1980s that comprise his final series are as deliberate and gentle as the ocean the morning after a storm.

To make them, Mr de Kooning pared down his palette to red, yellow, blue and white. Turning away from his thick, chewy surfaces, he scraped down the lines of pigment until they were as flat and tenuous as watercolour. Once he covered the entire canvas with marks; now he left most of the ground open.

Seen in the context of an entire career, these pictures are an appropriate valedictory. They may not be as innovative as the black-and-white abstractions of the late 1940s, or as emotionally charged as the famous "Women" of the early 1950s. But they are not feeble. In fact they provide a much stronger final chapter to Mr de Kooning's working life than the late work of Picasso and Chagall does for their careers.

For Dennis Potter

Johnson

BECAUSE he was committed to it as a medium, Dennis Potter, who died on June 7th, was the most innovative writer yet to grace British television. In works like "Pennies from Heaven", "The Singing Detective" and "Brimstone and Treacle", his brew of 1930s songs, sexual fantasy and awareness of evil brought fame and scandal. Is Johnson to add to the latter by admitting to have been, surely, the last man who shared a bed with him?

Alas, muck-mongers, your story ends there. It was over 35 years ago, and for neither of these sworn heterosexuals was it a great night. Oxford undergraduates, the two had gathered at the rooms of Ken Trodd—later, as a TV producer, to handle many of Potter's scripts—to plan a childish brouhaha at the Oxford Union, a debating society whose members took it and themselves with deep solemnity.

Planning done, the hour was late, their lodgings far, and transport non-existent. Trodd invited his visitors to stay the night, but wisely took the sofa himself, offering them half-shares of an uncapacious bed. Moral: if you want to remain good friends, either use the phrase in its traditional sense with someone of the opposite sex, or take a sleeping-bag.

Happily, the friendship survived. It had begun at a Union debate, where Potter had demolished a Tory government minister with a damning measurement of Britain's economic performance against that of Costa Rica. His Costa Rican statistics were, in fact, fantasy; but the minister was not to know that. Young Johnson had admired Potter's intervention. Due to report for a student magazine, and unsure of the name but recognising the ginger hair, he accosted their owner next day. In Johnson's memory, his greeting was "Are you called Dennis Potter?" In Dennis's version, he was approached by a chinless wonder inquiring in a Brigade of Guards accent, "I say, is yaw name Pottah?"

So did ex-Etonian and miner's son become friends. Not that Potter, as some said this week, ever disavowed his origins. He recognised their intellectual narrowness, but his affection was deep. He married his girlfriend from his home Forest of Dean, a person of a goodness and gentleness that left youthful cynics abashed. They were married still when she died a week before he did.

Fondazione Alfred Lewin

Religion and free enterprise in America

One market under God

SELLING GOD: AMERICAN RELIGION IN THE MARKETPLACE OF CULTURE. By Laurence Moore. *Oxford University Press; 317 pages; $25 and £17.95*

AMERICA has always been of two minds about God. Its very newness as a nation in 1776 seemed to have spiritual connotations: the vast unsullied wilderness appeared as a gift from a benevolent and thoughtful creator. Melted into a oneness as a people by the heat of revolution, this splendid pristine backdrop implied a special relationship with the creator. It was this perception of a "covenant" with God that provided the inspiration, confidence and self-righteousness needed to conquer, settle and dominate the continent. Yet fresh from the fear of religious persecution by a church aligned with the interests of the state, with the heady scent of independence in the air, the founders crafting the Bill of Rights divided religion and the state as cleanly and as sharply as words could manage.

It was not to be. Religion and American political life are inseparable. Americans tell pollsters they would not vote for an atheist as president. Politicians pray in public and invite evangelists to sleep in the White House. In 1992 George Bush sought to gain at his opponents' expense by noting at the Republican convention that the Democrats had failed to include in their platform "the three-letter word God". Yet, as Laurence Moore says, no cultural component is more neglected by people writing about the United States than religion.

Threatened early on in its history by an increasingly literate and imaginative population that sought amusements beyond church services, American religion first resisted and then accommodated itself to the marketplace with an ease that disconcerted its critics, including those in its ranks. The tent revivals of the 1800s sold cider and musical entertainment along with salvation. At Methodist camps in the 1850s young people roller-skated to a waltz version of "Nearer My God to Thee". In the 1980s two televangelists, Jim and Tammy Bakker, hawked a gospel of materialistic goods and of an eternal life in the hot tub.

Most American worshippers attend conventional religious services but there are also churches that lure their congregations with bowling alleys and dance lessons—or whatever it takes. "By degrees religion . . . took on the shape of a commodity," says Mr Moore. He blames it all on the First Amendment. The lack of a state religion encouraged a proliferation of sects, all of which were forced to compete. With competition came increasing pressures to remain solvent. That, in turn, argued for catering both to the masses (a not un-Christian thought) and the monied establishment. The radical doctrine of Christianity, which elevated sacrifice and poverty, had to be watered down to avoid offending. While some churches did preach against greed, wealth and untrammelled competition, Mr Moore writes, just as many found an alliance between spiritual affairs and a market-driven economy to their advantage.

Competition also meant advertising. Salvation, peace of mind and well-being were marketed as if they were soap powders. To cater to the growing appetite for entertainment, the churches became entertainers, with lively preaching, stirring music or stately liturgy—depending on the audience.

They "seized upon market logic," says Mr Moore, "because it brought their mightiest dreams for doing God's work into the realm of possibility. Market logic promised universal redemption." The result was that messengers of the social gospel had "unwittingly joined in a celebration of benevolent capitalist expansion".

When it became available, the missionary potential of broadcasting was obvious. By 1925 more than 10% of the 600 radio stations were owned and operated by churches. Regulations providing free time for the churches on network stations favoured established liberal Protestant sects. When the perks were withdrawn in the 1960s diversity flowered and as conservative evangelicals, fundamentalists and Pentecostalists saw the free-market potential to get out their message, liberal Protestants backed away in distaste. Left unanswered is how conservative Christians reconcile their admiration for the opportunities of the marketplace with the less desirable things that, in their view, it produces. But ironies abound in this as in all histories.

The forces that drew society into the web of monetary exchange inevitably changed some aspects of religion, says Mr Moore.

> Clerics were left with no choice except to slip by steady degrees into an affectionate embrace of the world. They were forced into postures of selling annually updated religious doctrines that could keep up with the competition. Religious leaders could either give in to the sway of the market or watch as their churches died.

Mr Moore maintains that this theological shallowness was the result of strategies of the churches' own making. Yet the alliance of the churches, and the synagogues, with popular culture has not spelled their end. It has encouraged an inventiveness that has allowed them not only to survive but to boom in America (see table).

Piety index

How often do you attend church or synagogue? % of Americans polled

	Jan-92	Sep-92	Mar-94
Weekly	31	34	35
Almost weekly	9	10	15
Monthly	15	15	16
Seldom	29	26	25
Never	16	14	9
No opinion	*	1	*

Source: Gallup



On the highway to heaven

Atomic scientists

Traduced

SPECIAL TASKS. By Pavel and Anatoli Sudoplatov with Jerrold and Leona Schecter. *Little, Brown; 544pages; $24.95 and £18.99*

AMERICANS love a good spy story as much as the British do and this book has enough sensational material on the work of the Soviet security services, from the late 1920s until Stalin's death, to satisfy the

Fondazione Arrigo Lewin

most demanding palates. It offers none of the morsels usually savoured by British readers—Russian men cavorting in the altogether with equally *déshabillé* English girls, boy meeting boy in the stacks of the Cambridge University library. But it does offer a version of the traditional American anti-communist morality play about famous men selling their souls to the devil and their country down the river. In this case, four great physicists—Niels Bohr, Enrico Fermi, Leo Szilard and J. Robert Oppenheimer—stand accused of turning over secrets of the American atomic bomb programme (the Manhattan Project) to Moscow.

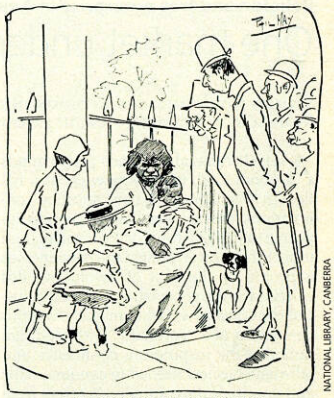
These allegations, particularly those about Oppenheimer, were made and effectively debunked in the past. The new element is their provenance: Pavel Sudoplatov, an elderly functionary of the KGB, once responsible for carrying out some of Stalin's more grisly butchering, from the assassination of Trotsky to mass deportations. Can he be trusted? Yes, say Jerrold and Leona Schecter in their introduction, for "what concerned Sudoplatov most was accuracy in the details".

Yet their book contains so many inaccuracies that the reader is tempted to put it down before reaching the fateful chapter, "Atomic Spies". Edward Benes, the president of Czechoslovakia before and after the second world war, was certainly not, as Pavel Sudoplatov claims, a Soviet agent, nor did he flee his country with the assistance of the NKVD—the predecessor of the KGB. The British did not, in the late 1930s, seek an agreement with Hitler to support Nazi Germany in a war against the Soviet Union. The Jewish Communist Party was not "a splinter group from the Jewish Bund", and there is no evidence to support Pavel Sudoplatov's claim that 90% of Soviet agents in Western Europe between the wars were Jews. All of this (and more) suggests that none of those involved—not Pavel Sudoplatov, nor his son Anatoli, nor Mr and Mrs Schecter, who on all showings are the real cooks of this dubious brew, are up on Soviet history.

If much of the book is a mixed bag, "Atomic Spies" is a disaster. It is reminiscent of the transcripts of the Moscow Trials, with reports on conversations that never took place and about people who never existed, and people placed in places they never set foot in. Pavel Sudoplatov, supposedly "in charge of the Soviet espionage effort to obtain the secrets of the atomic bomb", turns out to have been working in this domain only from September 1945 to October 1946. And the one real spy mentioned, Klaus Fuchs, was not recruited by Oppenheimer for the Manhattan Project but was sent to Los Alamos, New Mexico, by the British.

The Schecters shrug off the contrary evidence amassed by historians and physicists (including Edward Teller) by describing the book as "oral history", the testimony of one man, or by asserting that supporting documents will "soon" be available. At a recent discussion in Washington's Woodrow Wilson Centre, Mrs Schecter defended her faith in Pavel Sudoplatov. As an experienced literary agent, she said, she had learnt to trust her instincts, and the elder Sudoplatov's story had the ring of truth. Her instincts, presumably, are better than her Russian. Neither she nor her husband, by their own admission, speaks the language with any fluency, although both spent many years in the Soviet Union (Jerrold as a correspondent for *Time*).

Robert Conquest, a distinguished historian, describes this, in a foreword, as "the most sensational, the most devastating, and in many ways the most informative autobiography ever to emerge from the Stalinist milieu." He ought to follow the lead of another famous historian, Hugh Trevor Roper, and admit that he's been had.



'A CURIOSITY IN HER OWN COUNTRY'

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Australian nationalism

Divided loyalties

HISTORY OF AUSTRALIA. By Manning Clark. Abridged by Michael Cathcart. *Chatto & Windus; 572 pages; £25.*

THE RELUCTANT REPUBLIC. By Malcolm Turnbull. *Heinemann; 480 pages; £12.99*

READING Manning Clark's influential, and controversial, six-volume "History of Australia" is a bit like tilling a field with a knife and fork. This intelligent abridgement reduces the task to a manageable size without sacrificing the sweep of Clark's original vision. The story stretches from the first white settlement in 1788 to the 1930s. Clark's central theme is the quest of Australians for a definition of themselves, particularly as a white outpost on the rim of Asia and as a European culture in an unforgiving physical environment.

Settling America was an act of freedom. Australia was colonised by those who had no choice—convicts and their military overseers—and Clark emphasises how cataclysmic their arrival was for the Aborigines. The role of government, either as provider or persecutor, loomed large. Most of the convicts were either exiled Irish political prisoners or criminals, mainly from England, transported to ease the pressure on overcrowded jails. The Irish political prisoners were as feisty, republican and Catholic as Paul Keating, the country's current prime minister. The English, together with the military men and a smattering of free settlers, wanted mainly Protestant respectability under a British crown.

The new land was no Eden. English crops died in the ground. But sheep prospered, and those settlers made rich by wool and grants of land entertained visions of a quasi-feudal economy built on convict labour. When transportation was ended, it was due to a change of policy in London rather than because Australians wanted a society of free men and women. The discovery of gold in 1851 dealt another blow to the squattocracy, from which it never quite recovered.

Even though some voices argued for a loosening of the imperial connection, throughout the 19th century there was no doubt in most minds that to be Australian was also to be British. The well-to-do affected English manners and dress; a trip to London was the ultimate ambition of the upwardly mobile. Even after the federation of the six colonies in 1901, the Australian government preferred Britain to handle its foreign affairs and defence.

But the first world war, in which Australian soldiers were slaughtered in their thousands for no obvious gain, gave rise to increasing doubts. Perhaps, after all, the interests of Britain and Australia did not always coincide. After the 1929 crash there was even talk of withholding repayments on overseas loans. The crisis passed but Australia could never return to the unquestioning acceptance of Britain's guidance. If not British, then what? Caught between stools, suggests Clark. The moment of definition had eluded Australians in Clark's time and, it might be said, eludes them still.

Although not if Malcolm Turnbull has his way. The Australian lawyer who made Lord Armstrong appear a complete buffoon in the famous Spycatcher case is impatient to see his country become a republic. In a lucid and intelligent book, he argues that a nation defines itself by being different. Only colonies continue to borrow the monarchies of other lands.

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Bunkered champions

Will a bad spell be cast over the golfer who wins the American Open that starts at the Oakmont Country Club in Pennsylvania on June 15th?

EVERY summer, on private and public golf courses across the United States, the scene is replayed again and again. Young boys, their hands holding putters in the reverse overlap grip they have so assiduously copied from their professional heroes, stand over golf balls and tell themselves that the putt they face is the one that will win them the American Open. This dream, to win America's oldest and most hallowed golf tournament, has been shared by virtually all the winners of the American Open over the past ten years. But recent American Open champions have also been linked by something more spooky. They win the American Open and then they simply stop winning.



Ray Floyd

This spell has most recently been cast over Lee Janzen, a 28-year-old whose victory last year at Baltusrol Golf Club in Springfield, New Jersey, two strokes clear of Payne Stewart, has been followed by a drought of near-biblical proportions. Not only has Mr Janzen failed to win again on the American PGA Tour, he has not even finished in the top ten in any of the 21 tournaments he has since entered. For a player for whom sustained greatness was so unblushingly forecast—the headline in the *New York Times* following his victory read: "Make Room at Top: Janzen Doesn't Figure to Tail Off"—this was a particularly painful decline.

It was also a predictable one. Payne Stewart, the colourful golfer Mr Janzen beat, is the 1991 American Open Champion. He defeated Scott Simpson in a play-off at Hazeltine Golf Club in Chaska, Minnesota, that year. That was his last victory anywhere.

In fact, three of the past five winners of the American Open have not subsequently won a golf tournament. The 1987 winner, Mr Simpson, went two years without winning. And the 1986 winner, Ray Floyd, having won a minor event in 1986, endured six years without another victory. The 1985 winner, Andy North, has not won again since.

In the past decade, the nine men who have won the Open (Curtis Strange has won it twice) have had a combined total of 12 victories since winning it (see chart). That performance might seem satisfactory, but compare it with what happened before. The same men, in a comparable span of time before their Open wins, had 39 victories. Golfers call it the "Open Curse" How can it be explained?

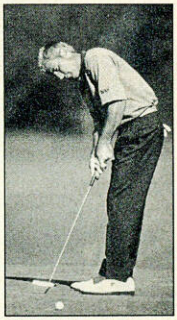
First, there is what could be termed the mountain-top syndrome. An American player directs his entire life for a moment, the national championship of his country. Once the trophy and the attendant spoils are his, there is a natural letdown. For some, it can be more momentous and longer lasting, but it afflicts all to one degree or another. Hale Irwin, who is now 49 years old, is the lone exception. He had no victories in the four years prior to his 1990 Open win and has had two in the four years since. His triumph in 1990 served to re-start Mr Irwin's faltering career, but he had the advantage of having won two previous Opens—in 1974 and 1979. For first-time winners, the glory can be overwhelming. As Mr Janzen ruefully admits:

> It was a peak. You say to yourself: How do I top that? That's really how I felt and I really didn't have the desire to go out and try to top it right away.

The obverse of this affliction is the one experienced most acutely by Mr Stewart. Rather than shy away from trying to climb higher, Mr Stewart found himself trying each day to live up to the lofty title that now defined him. Each time he played in a tournament and was introduced as the American Open champion, he could feel himself tightening up.

> If I'm the U.S. Open champion then I had better play like the U.S. Open champion. You start pressing. No score is low enough. Shots aren't good enough. It's tough.

A third factor can be even harder for a golfer to overcome than resting on his laurels or attempting to justify them. This is the endorsement factor. It takes various forms. The most damaging to a player's game can be a deal with a manufacturer of golf equipment to use only its products. About a year after his Open win, Mr Stewart signed a deal for a reported $18m a year to play with a company's ball and irons. The irons were offset, a style of club he had never used in his career. Mr Stewart also found the ball unfamiliar and candidly admitted that the equipment change was part of the reason for his slump.



Curtis Strange

Mr Janzen suffered the same fate after signing a contract to play with clubs that were very different from the forged blades he used to win the Open. In return for $500,000 a year, he changed to a cast, cavity-backed iron. This iron is the last refuge of a high-handicap golfer and Mr Janzen began playing like one himself. His stroke average went up a full stroke and his confidence plummeted. His deal is now on the verge of being cancelled. He is thinking of going back to the old clubs.

Smart lad. The post-Open victory deterioration syndrome needs no further fuel. Interestingly, it has no parallels in the three other major championships, although two recent winners of the British Open—Ian Baker-Finch in 1991 and Mark Calcavecchia in 1989—have not played as well since and some doubt that Sandy Lyle, the winner of the 1988 Masters, will ever reach the pinnacle again. The "Open Curse" is more pronounced and more buzzing. As Curtis Strange says:

> Your mind can wander after you win it, no question. Then it becomes a matter of what you're made of, can you come back, do you want to. The thing you always have to remember is that you're still the same person after you win it as you were before. Some people have forgotten that.

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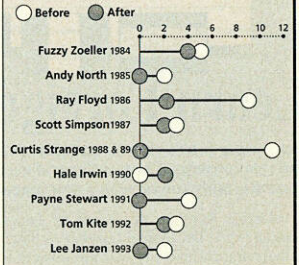

*Victories before refer to the same number of years as victories since winning the US Open †One win between 1988 and 89, none after

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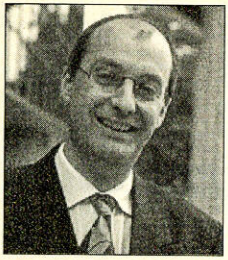

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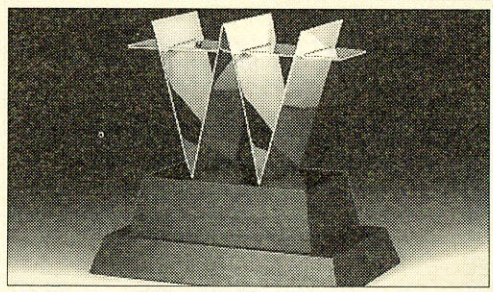

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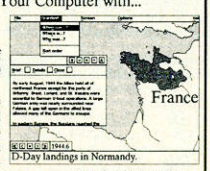

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ECONOMIC INDICATORS

OUTPUT, DEMAND AND JOBS Western Germany's GDP grew by 0.5% in the first quarter and was up 1.6% on the same period a year ago. It was the first year-on-year increase in GDP since the last quarter of 1992. Britain's industrial production jumped by 5.6% in the 12 months to April, its fastest annual growth rate for five years.

% change at annual rate

	GDP			Industrial production		Retail sales (volume)		Unemployment % rate	
	3 mths†	1 year		3 mths†	1 year	3 mths†	1 year	latest	year ago
Australia	+ 7.7	+ 5.0	Q1	– 9.5	+ 3.6 Mar	+ 7.9	+ 2.3 Q4	10.1 Apr	10.7
Austria	+ 0.3	+ 0.8	Q4	–10.5	+ 2.8 Feb**	+ 4.7	+ 0.9 Jan	6.7 Apr*	6.9
Belgium	– 0.8	– 0.3	Q4	– 2.8	+ 0.1 Dec	– 8.1	– 6.1 Nov	13.1 May**	12.0
Britain	+ 2.9	+ 2.6	Q1	+ 4.2	+ 5.6 Apr	+ 3.7	+ 4.0 Apr	9.5 Apr	10.4
Canada	+ 3.8	+ 3.0	Q4	+ 1.5	+ 2.4 Mar	+ 8.7	+ 7.7 Feb	11.0 Apr	11.4
Denmark	+ 9.8	+ 2.2	Q4	+ 3.6	+ 1.8 Dec*	+10.3	+ 5.3 Feb	12.6 Mar	12.0
France	+ 0.5	– 0.6	Q4	– 2.0	– 1.3 Feb	+11.2	+ 1.2 Mar	12.3 Apr	11.4
Germany‡	+ 2.2	+ 1.6	Q1	+ 9.0	+ 4.1 Apr	+ 4.3	– 0.4 Mar	8.4 May**	7.2
Holland	+ 2.5	+ 1.3	Q1	+ 8.3	+ 1.2 Mar	+ 2.8	– 0.7 Feb	8.1 Mar‡‡	6.1
Italy	+ 3.2	+ 0.3	Q4	– 0.8	– 0.7 Feb	–18.5	– 9.9 Dec	11.3 Mar	11.0
Japan	– 2.2	nil	Q4	+ 8.5	– 1.5 Apr	– 2.5	– 1.6 Jan	2.8 Apr	2.3
Spain	+ 0.3	– 0.3	Q4	+ 6.7	+ 4.9 Mar	+ 6.9	– 2.1 Apr	24.6 Q1*	21.7
Sweden	– 2.2	+ 0.5	Q4	+ 6.9	+ 9.1 Mar	– 8.3	– 2.1 Feb	7.4 Apr*	7.7
Switzerland	+ 1.3	+ 1.1	Q1	nil	+ 5.2 Q4	– 5.2	+ 1.3 Feb	4.9 Apr*	4.3
United States	+ 3.0	+ 3.7	Q1	+ 6.5	+ 5.0 Apr	+ 2.8	+ 8.7 Mar	6.0 May**	6.9

* Not seasonally adjusted † Average of latest 3 months compared with average of previous 3 months, at annual rate ‡ Western ** New series.‡‡ Jan-Mar.

PRICES AND WAGES The Italian 12-month rate of consumer-price inflation remained at 4.1% in May. Producer prices in Canada rose by 4.0% in the year to April, up from 3.7% in the 12 months to March. Workers in Holland received a 1.5% pay increase in the year to April, equivalent to a 1.3% cut in real terms.

% change at annual rate

	Consumer prices*			Producer prices*		Wages/earnings	
	3 mths†	1 year		3 mths†	1 year	3 mths†	1 year
Australia	+ 1.5	+ 1.4	Q1	– 2.4	+ 0.8 Mar	+ 2.6	+ 2.0 Feb*
Austria	+ 5.6	+ 3.0	Apr	+ 4.8	+ 0.9 Apr	na	+ 4.1 Jan*
Belgium	+ 2.3	+ 2.6	May	– 1.1	nil Mar	+ 6.2	+ 1.5 Q4*
Britain	+ 3.8	+ 2.6	Apr	+ 3.2	+ 2.2 Apr	+11.4	+ 4.0 Mar
Canada	– 3.5	+ 0.2	Apr	+ 6.8	+ 4.0 Apr	+ 7.7	+ 2.1 Mar
Denmark	+ 2.1	+ 2.0	Apr	+ 0.5	+ 0.4 Apr	+ 3.7	+ 3.1 Dec
France	+ 2.4	+ 1.7	Apr	+ 0.8	– 1.5 Q1	+ 1.5	+ 2.4 Q1*
Germany‡	+ 3.7	+ 2.9	May	+ 4.4	+ 0.5 Apr††	+ 1.0	+ 3.5 Mar
Holland	+ 4.5	+ 2.8	Apr	+ 0.7	– 0.7 Mar	+ 1.6	+ 1.5 Apr
Italy	+ 3.8	+ 4.1	May	+ 3.3	+ 4.0 Feb	+ 5.2	+ 4.3 Feb*
Japan	+ 1.9	+ 0.8	Apr	– 2.7	– 2.7 Apr	– 1.4	+ 2.2 Feb
Spain	+ 5.0	+ 4.9	Apr	+ 6.7	+ 4.1 Mar	+ 6.5	+ 6.2 Q4
Sweden	+ 3.2	+ 1.7	Apr	+ 4.8	+ 2.4 Mar	+ 4.3	+ 3.8 Mar
Switzerland	+ 0.7	+ 0.4	May	– 0.4	– 1.0 Apr	na	+ 5.3 Oct**
United States	+ 3.2	+ 2.4	Apr	+ 2.1	– 0.4 Apr	+ 2.7	+ 2.7 Apr

*Not seasonally adjusted † Average of latest 3 months compared with average of previous 3 months, at annual rate ‡Western **1992 ††New series

The Economist **COMMODITY PRICE INDEX** Australian wool prices have leapt by more than 60% in little over a year to A$6.25 ($4.59) a kilo. Because many sheep farmers quit when prices fell, Australia's 1993-94 wool clip will be the lowest for ten years; it is forecast to fall again next season. Demand has picked up worldwide. For the second year running China has been Australia's biggest customer, taking 20% of its exports. Farmers hope that China will continue to buy despite higher prices. The wool stockpile has fallen by 7% so far this season to 3.7m bales. And it will dwindle further: Wool International, which manages the stockpile, must sell 28,000 bales a month in the second half of this year.

1990=100	May 31st	Jun 7th*	% change on one month	% change on one year
Dollar index				
All items	107.1	104.9	+ 3.5	+26.7
Food	120.1	116.3	+ 3.1	+28.7
Industrials				
All	95.8	95.0	+ 3.9	+24.7
Nfa †	121.7	119.3	+ 2.4	+34.6
Metals	80.2	80.3	+ 5.4	+17.1
Sterling index				
All items	126.5	124.3	+ 2.4	+27.7
Food	141.8	137.8	+ 2.0	+29.7
Industrials				
All	113.1	112.5	+ 2.8	+25.7
Nfa †	143.7	141.2	+ 1.3	+35.6
Metals	94.7	95.1	+ 4.3	+17.9
SDR index				
All items	102.6	101.1	+ 3.9	+27.9
Food	115.0	112.1	+ 3.5	+29.9
Industrials				
All	91.7	91.6	+ 4.4	+25.9
Nfa †	116.5	115.0	+ 2.8	+35.8
Metals	76.8	77.4	+ 5.8	+18.1
Gold				
$ per oz	387.85	380.60	+ 0.1	+ 1.4
Crude oil North Sea Brent				
$ per barrel	16.36	16.00	– 0.7	–12.4

* Provisional † Non-food agriculturals

■ **ECONOMIC FORECASTS** Each month *The Economist* polls a group of forecasters and calculates the average of their predictions for 15 countries. The previous month's figure, where different, is shown in brackets. The table also shows the range of our panel's forecasts of GDP growth. This month our seers are generally cheerier about growth prospects: they have increased their forecasts of growth for ten countries in 1994 and the same number in 1995. They are markedly more upbeat about western Germany, where GDP is now expected to grow by 1.1% this year and 2.1% next, and Denmark, where they predict growth of 3.0% in 1994. But our panel is also more concerned about inflation: forecasts for next year have been revised upwards in eight countries.

The Economist poll of forecasters, June averages (previous month's, if changed)

	Real GDP, % change Low/high range 1994	1995	Real GDP, % change average 1994	1995	Consumer prices % increase 1994	1995	Current account % of GDP 1994	1995
Australia	3.4 / 4.5	3.0 / 5.1	4.0 (3.8)	3.8	2.2 (2.4)	3.1 (3.2)	-3.9	-3.8
Austria	1.0 / 2.0	2.2 / 3.0	1.5 (1.4)	2.5 (2.4)	2.9 (2.9)	2.5	-0.2	-0.2
Belgium	0.5 / 1.1	1.6 / 2.5	0.8	2.0 (1.9)	2.6	2.5 (2.4)	3.1 (3.0)	2.8
Britain	2.4 / 3.4	2.5 / 3.6	2.9 (2.8)	3.1 (3.0)	2.6 (2.8)	3.9	-2.0	-2.2
Canada	2.9 / 4.0	3.2 / 4.4	3.4 (3.5)	3.7	0.9	2.2 (2.1)	-3.1 (-3.2)	-2.7
Denmark	2.1 / 3.6	2.3 / 3.5	3.0 (2.5)	3.0 (2.8)	2.1	2.6 (2.3)	3.1 (3.0)	2.5 (2.4)
France	1.1 / 1.9	2.0 / 3.5	1.5 (1.3)	2.8 (2.6)	1.7 (1.6)	1.7	0.9 (1.0)	0.7 (0.8)
Germany *	0.0 / 1.7	1.3 / 3.2	1.1 (0.7)	2.1 (1.9)	2.9	2.1	-0.9	-0.6 (-0.7)
Holland	0.7 / 1.6	1.8 / 3.0	1.1	2.3	2.7	2.3 (2.2)	2.8 (2.7)	2.9 (2.8)
Italy	0.7 / 1.7	1.7 / 3.3	1.3 (1.1)	2.4 (2.3)	3.9 (3.8)	3.5 (3.4)	1.0	1.3
Japan	0.4 / 1.2	1.5 / 2.7	0.7 (0.5)	2.2	0.6	0.8 (0.9)	2.7	2.1
Spain	0.4 / 1.8	1.6 / 3.4	1.1 (0.8)	2.5 (2.4)	4.5 (4.3)	3.8 (3.7)	-0.4 (-0.5)	-0.1 (-0.3)
Sweden	1.0 / 2.5	2.3 / 3.5	1.9	2.8 (2.6)	2.1 (2.0)	2.6	1.7 (1.8)	2.4 (2.5)
Switzerland	0.8 / 1.8	1.5 / 2.8	1.4 (1.3)	2.2 (2.1)	1.5 (1.6)	2.6 (2.5)	7.1	6.5 (6.6)
United States	2.8 / 4.4	2.2 / 3.3	3.8	2.9	2.8	3.4 (3.3)	-1.9	-1.9

Sources: BZW, EIU, Goldman Sachs, Hoare Govett, James Capel, Kredietbank, Lehman Brothers, Long-Term Credit Bank, Merrill Lynch, J. P. Morgan, Morgan Stanley, Nomura, Nordbanken, Paribas, Royal Bank of Canada, Salomon Brothers, Scotiabank, UBS, S.G. Warburg. *Western Germany except current-account .

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FINANCIAL INDICATORS

STOCKMARKETS Tokyo reached its highest point this year on June 1st, before falling back to finish 0.3% up. Vienna, Brussels, London, Copenhagen and Paris touched new lows for the year. Milan was the week's biggest climber, rising by 2.6%.

Stock price indices

		1994		% change on				
	Jun 7th	high	low	one week	one year	record high	Dec 31st 1993 in local currency	Dec 31st 1993 in $ terms
Australia	2,070.2	2,340.6	1,988.1	− 0.6	+ 20.1	−11.6	− 4.8	+ 2.3
Austria	402.7	460.7	401.2	− 1.5	+ 19.3	−42.7	− 6.2	− 2.3
Belgium	1,456.5	1,542.7	1,456.5	− 2.2	+ 21.6	− 5.6	− 1.1	+ 4.3
Britain	3,004.8	3,520.3	2,931.9	+ 1.2	+ 5.6	−14.6	−12.1	−10.5
Canada	4,252.1	4,609.9	4,105.9	− 1.7	+ 10.1	− 7.8	− 1.6	− 5.7
Denmark	365.3	415.8	363.8	+ 0.2	+ 22.3	−12.2	− 0.1	+ 3.7
France	1,360.7	1,585.2	1,337.2	− 0.4	+ 11.4	−14.2	− 9.7	− 6.2
Germany	2,135.1	2,271.1	2,020.3	+ 0.3	+ 28.5	− 6.0	− 5.8	− 2.0
Holland	273.5	294.8	268.0	+ 1.1	+ 24.7	− 7.2	− 2.6	+ 1.2
Italy	750.7	817.2	588.9	+ 2.6	+ 44.0	−17.3	+21.2	+27.6
Japan	21,042.7	21,053.1	17,369.7	+ 0.3	+ 2.3	−45.9	+20.8	+29.0
Spain	323.5	358.3	309.7	− 1.1	+ 27.4	− 9.7	+ 0.2	+ 4.8
Sweden	1,464.4	1,603.9	1,403.6	− 1.0	+ 35.8	− 8.7	+ 4.4	+ 9.8
Switzerland	2,778.1	3,178.4	2,629.0	+ 2.0	+ 21.1	−12.6	− 6.1	− 1.6
United States	3,755.9	3,978.4	3,593.4	− 0.1	+ 7.0	− 5.6	nil	nil
World *	616.3	641.0	591.6	− 0.3	+ 7.3	− 3.9	+ 3.0	+ 3.0

* Morgan Stanley Capital International index includes above markets and eight others

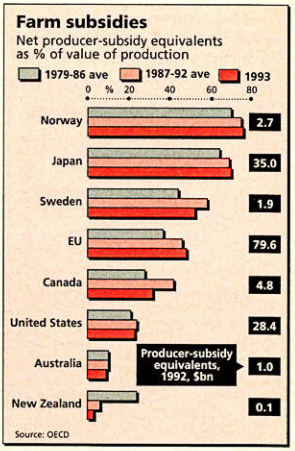
MONEY AND INTEREST RATES Italy's broad-money growth rate rose to 8.5% in the year to April, from 8.3% in March. In the year to April Holland's broad-money growth accelerated to 6.3%, from 5.9% in March. German government-bond yields continued to climb.

	Money supply* % change on year ago			Interest rates % p.a. (Jun 7th 1994)							
	narrow	broad		overnight	3-month money market latest	3-month money market year ago	banks prime	bond yields gov't††	bond yields corporate	Eurocurrency 3 mths	Eurocurrency bonds
Australia	+17.4	+ 6.9	Feb	4.87	4.87	5.20	9.00	8.64	9.09	4.69	na
Austria	+16.1	+ 6.9	Jan	4.92	5.00	6.94	8.75	7.26	na	na	7.87
Belgium	+ 2.7	+13.4	Sep	5.15	5.38	7.06	9.25	7.81	7.46	5.44	7.26
Britain	+ 7.1‡	+ 5.9	Apr	5.31	5.13	5.94	6.25	8.51	9.47	5.13	8.30
Canada	+12.5	+ 2.5	Apr	5.75	5.97	4.92	6.75	8.62	8.76	5.94	9.07
Denmark	na	+13.2	Feb	5.13	6.20	8.88	7.75	7.89	8.86	6.00	7.91
France	+ 2.8	− 4.3	Mar	5.50	5.50	7.37	7.70	7.25	7.82	5.50	7.01
Germany	+11.6	+10.9	Apr	5.15	5.05	7.55	8.00	6.87	6.78	5.06	6.12
Holland	+11.1	+ 6.3	Apr	5.06	5.05	6.75	7.00	6.96	7.24	5.09	6.67
Italy	+10.6	+ 8.5	Apr	7.88	7.88	10.63	8.88	9.94	8.22	7.69	9.20
Japan	+ 5.4	2.1	Apr	1.97	2.11	3.23	3.00	4.30	4.43	2.09	3.94
Spain	+ 6.4	+ 6.9	Apr	7.54	7.61	11.31	8.00	9.76	10.25	7.63	9.87
Sweden	na	+ 7.4	Apr	6.80	7.03	8.28	9.50	9.73	10.41	7.06	9.32
Switzerland	+ 9.8	+ 8.0	Feb	4.00	4.25	5.13	6.13	5.08	4.99	4.38	5.08
United States	+ 9.0	+ 2.6	Apr	4.03	4.53	3.28	7.25	6.94	7.99	4.50	6.54

† Ten-year bonds rates (old series: Britain 15-year 8.58%, United States 30-year 7.26%)

* Narrow: M1 except Britain M0; broad: M2 or M3 except Britain M4. **Sources:** Banco Bilbao Vizcaya; Belgian Bankers' Association; Chase Manhattan; Credit Lyonnais; Den Danske Bank; GiroCredit Bank; Bank Nederland; Royal Bank of Canada; SE-Banken; Svenska Handelsbanken; WEFA Group; Westpac Banking Corp; J.P. Morgan; CSFB. These rates cannot be construed as offers by these banks. ‡May

AGRICULTURAL POLICIES In 1987 the OECD set out some principles to curb farm subsidies. This year's agricultural statistics, published on June 2nd, show how resilient hand-outs have been in practice. Overall payments to OECD farmers through a combination of direct payments, cheap loans and guaranteed prices (called producer-subsidy equivalents, or PSEs, in the jargon) topped $163 billion in 1993. This amounted to 42% of farmers' total income. Average PSEs between 1979 and 1986, at $98 billion, provided "only" 34% of farmers' incomes. Subsidies have grown almost everywhere except in countries where there have been radical steps to cut support, such as New Zealand and Sweden. The hope now is that the GATT Uruguay-round agreement can do something where past good intentions have failed.



TRADE, EXCHANGE RATES AND RESERVES In April Japan's visible-trade surplus rose to $12.8 billion, bringing the 12-month total to $144.2 billion; its 12-month current-account surplus widened to $132.6 billion. Also in April, Spain's visible-trade deficit increased to $1.8 billion; its 12-month deficit widened slightly, to $17.6 billion, while its current-account deficit narrowed a little, to $2.7 billion.

	Trade balance*, $bn latest month		Trade balance*, $bn latest 12 months	Current account, $bn latest 12 mths		Exchange rate trade-weighted† latest	trade-weighted† year ago	Currency units per $ latest	Currency units per $ year ago	Currency units per £	Currency units per DM	Currency units per ecu	Foreign reserves‡ $bn Apr	Foreign reserves‡ $bn year ago
Australia	− 0.14	Mar	− 0.3	− 11.3	Mar	81.3	73.0	1.36	1.49	2.05	0.81	1.57	11.6	10.5
Austria	− 1.03	Mar†††	− 8.9	− 0.9	Feb	114.0	113.5	11.7	11.4	17.7	7.03	13.6	16.1	13.4
Belgium	− 0.77	Dec**	− 1.9	+ 11.0	Q4	115.1	115.0	34.4	33.5	51.8	20.6	39.7	13.4	14.1
Britain	− 1.08	Feb	− 19.3	− 16.0	Q4	80.5	79.0	0.66	0.66	—	0.40	0.77	37.2***	37.7
Canada	+ 0.48	Mar	+ 8.4	− 19.6	Q4	87.7	93.1	1.37	1.28	2.07	0.82	1.59	10.6	11.8
Denmark	+ 0.46	Feb	+ 6.1	+ 5.4	Q4	115.3	117.3	6.53	6.22	9.85	3.92	7.56	9.5	10.0
France	+ 1.55	Mar	+ 15.9	+ 10.3	Q4	108.4	109.3	5.69	5.47	8.58	3.32	6.58	23.9††	33.0
Germany	+ 3.07	Mar	+ 40.8	− 21.8	Mar	123.4	123.1	1.67	1.62	2.52	—	1.93	81.0	70.1
Holland	+ 1.50	Oct	+ 9.8	+ 6.7	Q4**	118.9	118.7	1.87	1.82	2.82	1.12	2.16	33.0	27.7
Italy	− 0.11	Jan†††	+ 18.7	+ 8.3	Jan	77.4	82.9	1,619	1,476	2,439	969	1,871	31.9	28.1
Japan	+12.84	Apr	+144.2	+132.6	Apr	183.9	178.7	105	106	159	63.0	122	107.6	80.0
Spain	− 1.80	Apr	− 17.6	− 2.7	Apr	85.3	91.1	137	124	206	81.9	158	41.7	41.0
Sweden	+ 0.85	Mar	+ 8.2	− 0.3	Feb	75.2	80.4	7.94	7.24	12.0	4.76	9.18	19.0‡‡	20.3
Switzerland	+ 0.40	Feb	+ 2.5	+ 18.6	Q4	118.0	111.6	1.42	1.46	2.13	0.85	1.63	29.4	30.1
United States	−12.04	Mar	−140.0	−109.2	Q4	65.7	63.8	—	—	1.51	0.60	1.16	65.5	64.6

* Australia, Britain, France, Canada, Japan, and USA imports fob, exports fob. USA new series. All others cif/fob † 1985=100, Bank of England and Reserve Bank of Australia ‡ Excluding gold, IMF definition
** 1992 †† February ‡‡ March *** January ††† Not seasonally adjusted

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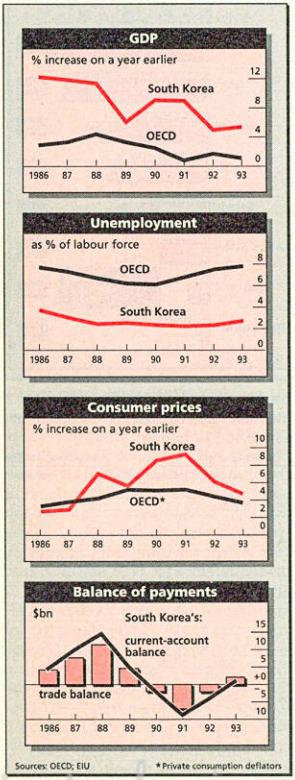
EMERGING-MARKET INDICATORS

SOUTH KOREA With fears about the nuclear ambitions of neighbouring North Korea growing all the time, the prospects for South Korea's economy are increasingly hard to forecast. If all goes well, however, the country will by 1996 become the first of the Asian tigers to join the Organisation for Economic Co-operation and Development, the club for industrialised economies. That will make it only the second new member in more than 20 years, following Mexico, which joined in April. South Korea's GDP would probably put it among the ten biggest OECD economies, according to a new survey by the Paris-based organisation. However, growth has slowed in recent years, touching a low of 5.1% in 1992. Strong growth in future will depend on using labour more efficiently and on deregulation, especially of financial markets. Inflation remains a cause for concern, although it has slowed from its 1991 peak: South Korea's government has still to prove that it can keep monetary policy tight.



Sources: OECD; EIU * Private consumption deflators

THE ECONOMY Taiwan's GDP increased by 6.1% in the year to the first quarter. South Korea's visible-trade deficit widened to $2.9 billion in the year to May. Thailand's visible-trade deficit stood at $8.4 billion for the year to April. India's industrial production rose by 6.6% in the year to February. Consumer-price inflation in the Philippines rose to 10% in the 12 months to May. Brazil's 12-month trade surplus increased to $12.4 billion in April.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+12.7 Q1	+20.0 Apr	+ 20.1 Apr	−12.2 Apr	+ 6.4 1992	22.1 Nov	23.3
Hong Kong	+ 5.6 Q4	nil Q4	+ 7.7 Apr	− 4.1 Apr	− 1.4 1993†	na	na
India	+ 4.5 1993†	+ 6.6 Feb	+ 9.9 Mar	− 1.7 Mar	− 2.6 1993†	15.4 Apr	7.3
Indonesia	+ 6.6 1993*	+15.3 Q3	+ 7.4 Apr	+ 8.2 Q1‡	− 2.8 Q1‡	11.4 Jan	10.9
Malaysia	+ 8.4 1994‡	+10.6 Mar	+ 5.0 Feb	+ 2.9 Oct	+ 0.8 1993*	34.2 Feb	16.8
Philippines	+ 3.8 Q1	+ 0.8 Q2	+ 10.0 May	− 6.6 Q1	− 3.3 Q4	5.6 Mar	5.8
Singapore	+11.0 Q1	+11.9 Q1	+ 2.9 Apr	−11.0 Mar	+ 2.0 Q4	50.5 Feb	41.5
South Korea	+ 9.1 Q1	+ 1.8 Feb	+ 5.9 Apr	− 2.9 May	− 0.8 Jan	21.3 Mar	18.6
Taiwan	+ 6.1 Q1	+ 6.3 Mar	+ 3.1 Apr	+ 6.9 Mar	+ 6.3 Q4	84.2 Dec	82.3
Thailand	+ 7.5 1993*	+11.1 Apr	+ 4.3 Apr	− 8.4 Apr	− 7.0 Q1	25.6 Apr	21.8
Argentina	+ 5.7 1993*	+ 5.6 Apr	+ 5.3 Apr	− 4.1 Jan	− 8.2 Q3	14.0 Feb	10.5
Brazil	+ 4.6 Q4	+ 6.3 Feb	+4,459 May	+12.4 Apr	+ 2.5 Q3	35.0 Feb	21.5
Chile	+ 6.0 1993*	+ 9.8 Mar	+ 12.6 May	− 0.8 Apr	− 2.1 Q4	10.2 Apr	9.9
Mexico	− 0.1 Q4	+ 0.2 Nov	+ 7.0 Apr	−14.2 Feb	−23.5 Q4	25.1 Dec	18.9
Venezuela	− 1.0 1993*	na	+ 51.6 May	+ 3.1 Dec	− 1.8 1993*	7.5 Mar	8.6
Greece	+ 1.0 1993*	+ 5.7 Nov	+ 10.4 Apr	−12.5 Dec	− 0.3 Dec	8.4 Apr	5.0
Israel	+ 9.3 Q4	+ 7.0 Feb	+ 10.6 Apr	− 6.4 Apr	− 1.4 Q4	6.8 Mar	5.8
Portugal	− 1.4 Q2	+ 3.8 Dec	+ 6.0 Apr	− 9.7 Oct	− 1.0 Q2	15.5 Mar	17.0
South Africa	+ 5.4 Q4	+ 0.4 Feb	+ 7.1 Apr	+ 6.5 Apr	+ 1.9 Q4	0.6 Mar	0.7
Turkey	+10.8 Q2	+ 7.3 Jan	+107.0 Apr	−14.1 Dec	− 4.8 Oct	3.4 Mar	na
Czech Republic	− 3.0 Q4	+ 0.9 Mar	+ 9.4 Mar	− 0.3 Mar	nil Jan	4.1 Feb	1.2
Hungary	− 1.0 1993*	+ 5.5 Mar	+ 16.8 Mar	− 3.4 Feb	− 3.6 Feb	6.8 Dec	4.4
Poland	+ 4.0 1993*	+ 8.6 Apr	+ 31.0 Apr	− 2.4 Mar	− 2.1 Mar	4.9 Mar	3.6
Russia	−12.0 1993*	−29.0 Apr	+622.5 Mar	+16.0 1993*	+ 8.0 1993*	na	na

*EIU estimates †CMIE estimate for fiscal year beginning April ‡Government estimate

FINANCIAL MARKETS Latin America's stockmarkets had a good week. Sao Paulo led the way, soaring by 18.4% on hopes that Brazil's government is at last getting serious about tackling inflation. Istanbul rose by 12.1%, but is still down by more than 64% in dollar terms this year. In Asia, Bombay was the star, rising by 5.3%. The big losers were in Central Europe. Warsaw fell by 15.1% and Prague by 10.5%.

	Currency units per $ latest	Currency units per $ year ago	Currency units per £ latest	Interest rates short-term % p.a.	Stockmarkets June 7th	% change on one week	% change on Dec 31st 1993 in local currency	% change on Dec 31st 1993 in $ terms
China	8.70	5.72	13.1	na	838.2	+ 1.8	− 26.1	− 50.7
Hong Kong	7.73	7.73	11.6	4.53	9,247.9	− 3.2	− 22.2	− 22.3
India	31.1	31.1	46.9	7.75	4,033.6	+ 5.3	+ 20.0	+ 20.0
Indonesia	2,166	2,079	3,264	10.00	486.1	− 3.1	− 17.4	− 19.8
Malaysia	2.60	2.56	3.91	4.50	972.4	− 2.1	− 23.8	− 20.9
Philippines	26.9	26.7	40.5	14.77	2,994.5	− 1.2	− 6.3	− 5.8
Singapore	1.53	1.61	2.31	3.56	2,267.2	− 0.6	− 6.5	− 2.1
South Korea	806	804	1,215	12.43	921.7	− 1.9	+ 6.4	+ 6.7
Taiwan	27.1	25.9	40.8	4.84	6,069.9	+ 3.0	nil	− 2.7
Thailand	25.2	25.3	38.1	10.00	1,383.4	+ 2.0	− 17.8	− 17.0
Argentina	0.99	0.99	1.49	10.01	608.0	+ 2.0	+ 4.5	+ 4.5
Brazil	2,010	43.1	3,029	11,900	29,205	+18.4	+ 679.2	+ 22.6
Chile	412	393	621	21.56	4,588.6	+ 3.1	+ 17.5	+ 18.5
Mexico	3.35	3.12	5.05	16.49	2,456.8	− 1.1	− 5.6	− 12.6
Venezuela	166	87.1	250	69.88	30,789	+12.1	+ 40.6	− 11.5
Greece	249	221	375	47.40	854.5	− 0.6	− 10.9	− 10.6
Israel	3.04	2.66	4.58	10.25	173.6	− 7.5	− 29.9	− 32.8
Portugal	173	154	260	14.13	2,822.9	− 1.9	+ 8.0	+ 10.5
South Africa	3.62*	3.19*	5.46*	11.20	5,518.3	+ 2.3	+ 12.8	− 1.5†
Turkey	32,667	10,154	49,230	125.00	16,536	+12.1	− 20.0	− 64.3
Czech Republic	29.2	28.8	44.0	9.07	1,836.0	−10.5	− 18.3	− 16.1
Hungary	103	88.0	156	25.00	1,535.5	− 1.3	+ 25.0	+ 19.6
Poland	22,539	17,216	33,966	32.21	10,222	−15.1	− 17.8	− 22.2
Russia	1,940	1,089	2,924	593.00	na			

*Commercial rate †Converted at financial rate

Sources: National statistics offices, central banks and stock exchanges; Datastream; IMF; Bloomberg; S.G. Warburg; Smith New Court; Centre for Monitoring Indian Economy; Bank Negara Indonesia; Malayan Banking; Philippines National Economic and Development Authority; Daewoo Securities; Thai Commercial Bank; Hoare Govett Asia; Taiwan Majestic Trading Co; FIEL; Baring Securities; Merrill Lynch; Foreign & Colonial; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Czech National Bank; PlanEcon; Russian Economic Trends; Wood & Co.

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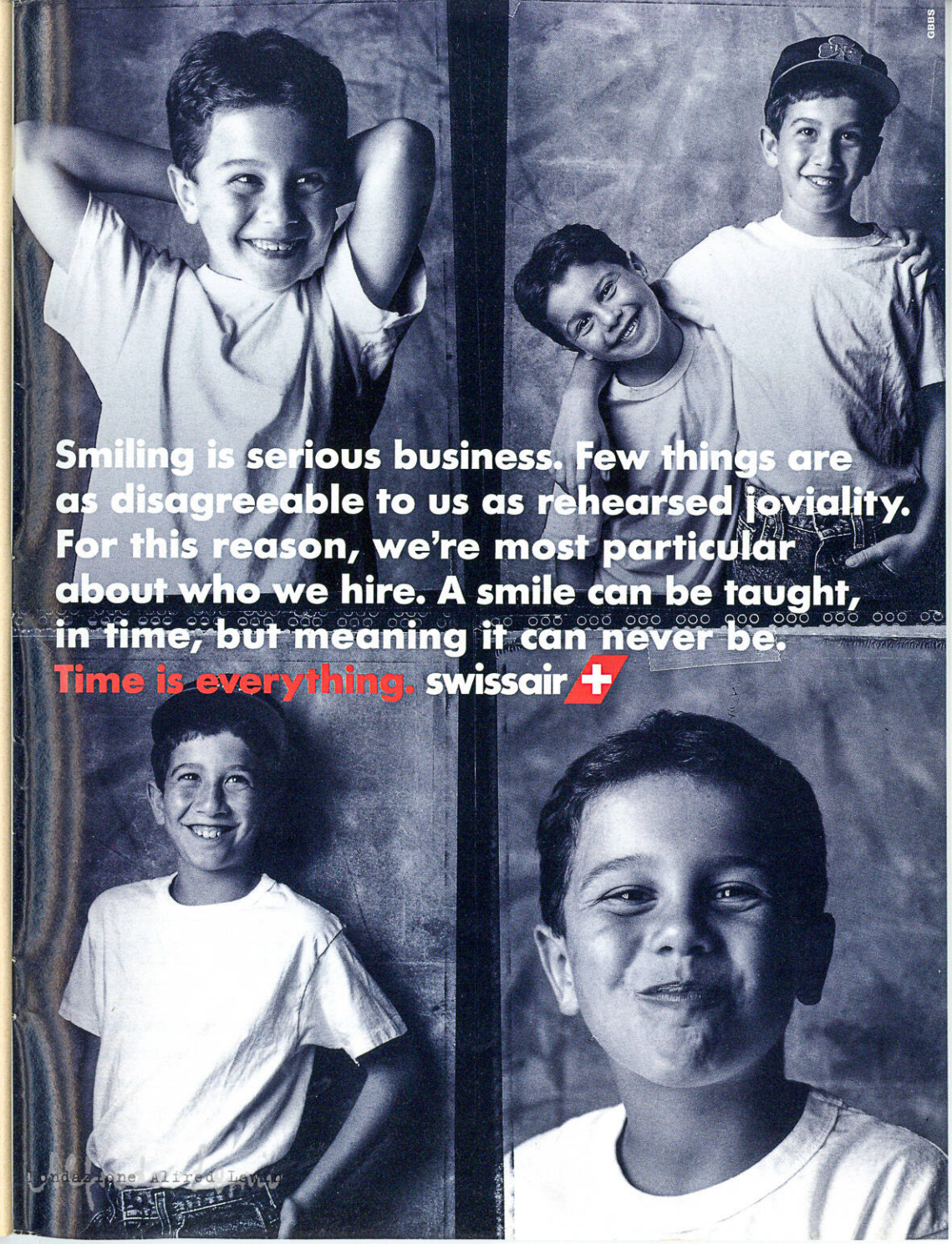
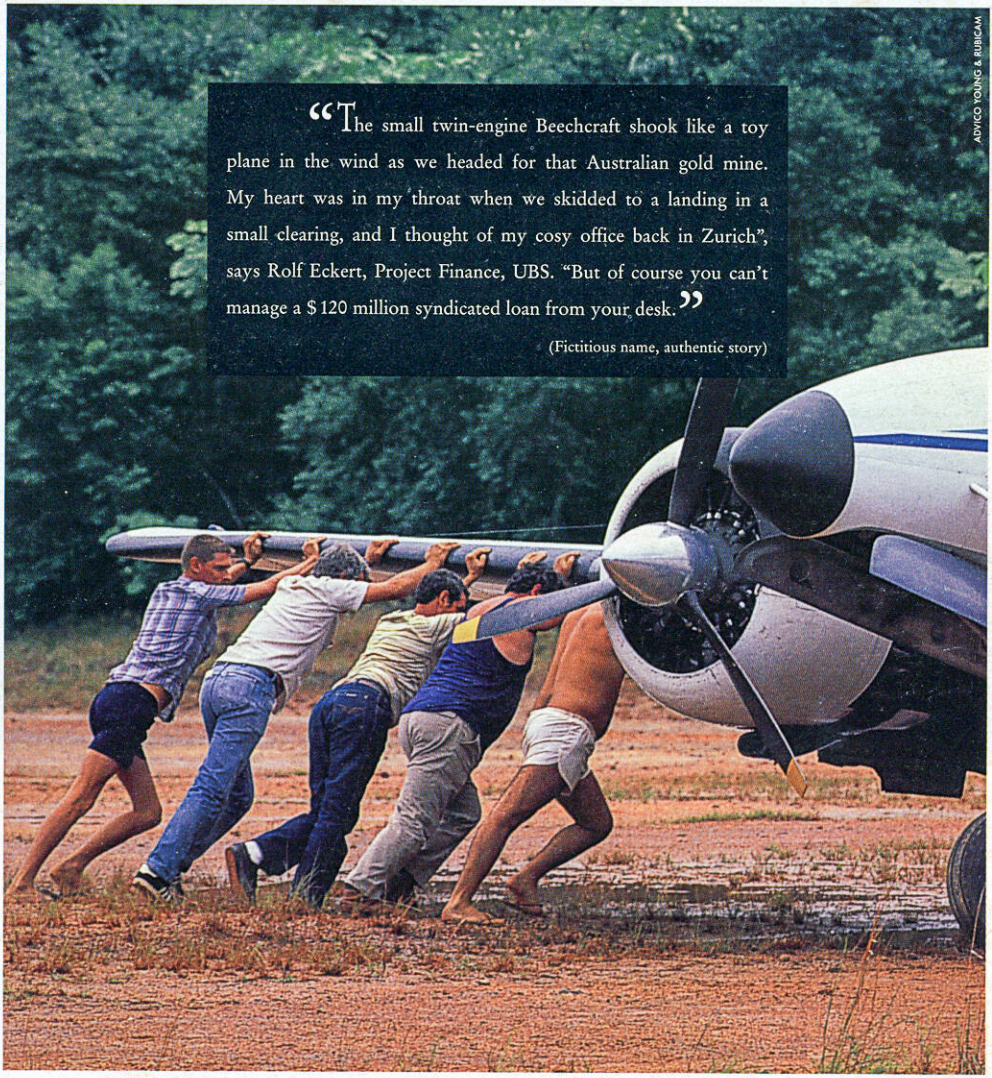

Smiling is serious business. Few things are as disagreeable to us as rehearsed joviality. For this reason, we're most particular about who we hire. A smile can be taught, in time, but meaning it can never be.
Time is everything. swissair



Not banking as usual.

Union Bank of Switzerland

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