



Economist - Briefings

Updated: 3-16
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Natural gas: An unconventional glut

Newly economic, widely distributed sources are shifting the balance of power in the world's gas markets

SOME time in 2014 natural gas will be condensed into liquid and loaded onto a tanker docked in Kitimat, on Canada's Pacific coast, about 650km (400 miles) north-west of Vancouver. The ship will probably take its cargo to Asia. This proposed liquefied natural gas (LNG) plant, to be built by Apache Corporation, an American energy company, will not be North America's first. Gas has been shipped from Alaska to Japan since 1969. But if it makes it past the planning stages, Kitimat LNG will be one of the continent's most significant energy developments in decades.

Five years ago Kitimat was intended to be a point of import, not export, one of many terminals that would dot the coast of North America. There was good economic sense behind the rush. Local production of natural gas was waning, prices were surging and an energy-hungry America was worried about the lights going out. ...

Modernising Russia: Another great leap forward?

Modernisation is hard to argue with. But it may not be what Russia needs

IMAGINE a town or settlement of 30,000 people, probably near Moscow. Its high-tech laboratories and ultra-modern glass houses make California's Palo Alto look ancient. It has a greater concentration of scientists than anywhere else in the world. The atmosphere in the town is free, cosmopolitan and creative, almost anarchic at times. Police harassment is minimal, "at least to start with". Riff-raff and drunks from surrounding villages are kept away by tight security.

The streets are clean, and shops are stuffed with organic food to stimulate the brain. Here, in this exclusive "zone of special attention", the state is extracting creative energy from Russian and foreign scientists that is driving the country along the path of modernisation and innovation. ...

Iraq's election: No promised land at the end of all this

Iraq, having beaten most of its insurgents, holds an election on March 7th. But its institutions may be too weak, and its politicians too greedy, to save democracy

THINGS had been going well for Iraq's footballers. They had re-established a national league, won the 2007 Asian Cup and last summer played host to their first post-Saddam international. Then, in November, a column of armoured police cars turned up at the headquarters of the Iraqi Football Association in eastern Baghdad. Uniformed men stormed the building, setting up sandbagged machinegun positions. They were acting on the orders of the Iraqi Olympic Committee, which is in the hands of Iraq's Shia-dominated government. The Football Association is still run mainly by Sunnis. Its directors were accused of irregularities by the government and asked to give up control. When they refused, the army moved in.

There is more than one way of looking at this. FIFA, the world football body, took a dim view of armed interference in the affairs of one of its members, and banned Iraq from all international competitions until the takeover was reversed. But America's military commanders in Iraq saw progress: after all, no shots had been fired and nobody was hurt. "We used to wake up every morning with another 100 bodies in the river," remarked General Stephen Lanza, a spokesman. Detecting an overall "maturing" of institutions along with striking improvements in security, he believes Iraq is coming right. But is it? ...

Dealing with fiscal deficits: Sharing the pain

Increasing budget deficits and rising government debts are likely to entail fierce political battles— not least between taxpayers and public-sector workers

WHEN times are hard, many people are tempted to let their credit cards take the strain for a while. And when economies fall into recession, many governments are happy to let their budget deficits widen, to tide the economy over.

Sensible as this may be, deficits in several countries have increased so much and so fast during the economic crisis of the past 18 months or so that it is generally agreed that remedial action will be needed in the medium term. Deficits of 10% or more of GDP cannot be sustained for long, especially when nervous markets drive up the cost of servicing the growing debt. ...

The first family's businesses: Welcome to the Hotel Kirchner

Such a lovely little earner

SET amid natural grandeur, where the southernmost Patagonian steppe meets the Andes and turquoise icebergs bob in Argentina's biggest lake, the small town of El Calafate has become a magnet for well-heeled foreign tourists. It is also the adopted hometown of Cristina Fernandez, Argentina's president, and her husband and predecessor, Nestor Kirchner. They own a 45% stake in Los Sauces, one of the town's most expensive hotels, where golf buggies are parked outside and Celine Dion songs are piped through the dining room. The Kirchners also own 98% of Hotesur, a company whose main asset is Alto Calafate, another luxury hotel in the town.

The first family's business dealings have come under scrutiny since the release of the president's official declaration of assets for 2008. This showed an increase in the first family's wealth from \$2.3m in 2003 to over \$12m. During that time neither of the Kirchners had jobs outside politics. According to the declaration, most of their money comes from property deals in Santa Cruz province, where Mr Kirchner was governor before he became president. ...

Reviving Royal Bank of Scotland: Scots on the rocks

What really went wrong at RBS? And how can it be put right?

THERE is a road to nowhere in Royal Bank of Scotland's campus just outside Edinburgh. It ends abruptly amid rolling parkland and was laid on the presumption that a new building would eventually be added to the bank's already big office complex. That sense of destiny, that the bank would always get bigger, is dead. The executive wing is being refitted for humble workers. The art has been taken from the walls and loaned to British galleries. Stephen Hester, the chief executive, has split his predecessor's office in two and occupies only half of it. He says the restructuring of RBS is the biggest and most complex of any bank in the world.

Mr Hester may be the kind of big, brisk City banker who has the average braveheart reaching for his claymore, but his superlatives are part of an RBS tradition. It is one of the world's oldest banks, founded in 1727. At its peak it was the world's sixth-largest bank by risk-adjusted assets. In 2007 it led the consortium that made the largest ever takeover of a bank, ABN AMRO. A year later it needed Europe's biggest bail-out; its former boss, Sir Fred Goodwin, was one of the most vilified bankers around. RBS was, if you believe a government minister, "the worst-managed bank this country has ever seen."

Argentina under the Kirchners: Socialism for foes, capitalism for friends

While some private businesses in Argentina have faced harassment or even nationalisation, others have flourished thanks to political contacts

WHEN Nestor Kirchner took over as Argentina's president in 2003, his country's economy was already on the mend after a sickening collapse 18 months earlier that had prompted debt default and devaluation. Lambasting the IMF and privatisation, Mr Kirchner extended the state's control over the economy. Rising world prices for Argentina's farm-commodity exports and government pump-priming unleashed an economic boom. This made Mr Kirchner a popular hero, and secured the election of his wife, Cristina Fernandez de Kirchner, as his successor in 2007. She has continued his policies. Mr Kirchner was last year elected as a congressman, but according to former officials he still takes many executive decisions.

Enjoying almost complete political dominance, Argentina's first couple swatted away critics who accused them of everything from illegal enrichment to wrecking institutions. They are still trying to do so. Ms Fernandez frequently accuses Argentina's leading newspapers of making up stories to discredit her government. But it is getting harder. Thanks to the world recession, rising inflation and a series of political errors, her approval rating in opinion polls has fallen to 20%. After losing a working majority in a congressional election last year, the government is on the verge of losing control of key committees of Congress as well. ...

America's democracy: A study in paralysis

The fate of health-care reform is a test-case in how initiatives fail. Is it also a sign of much deeper trouble in America's political system?

ACCORDING to Paul Krugman, the winner of a Nobel prize for economics and a columnist for the New York Times, modern America is much like 18th-century Poland. On his telling, Poland was rendered largely ungovernable by the parliament's requirement for unanimity, and disappeared as a country for more than a century. James Fallows, after several years in China as a writer for the Atlantic Monthly, wrote on his return that he found in America a vital and self-renewing culture that attracts the world's talent and a governing system that increasingly looks like a joke. Tom Friedman, another columnist for the New York Times, reported from the annual World Economic Forum in Davos last month that he had never before heard people abroad talking about "political instability" in America. But these days he did.

The growing idea among influential pundits that America is "ungovernable" is being driven in large part by Barack Obama's failure so far to pass some of the main laws he wants to. And it is, indeed, a puzzle. Here, after all, is a president who only just over a year ago won a handsome mandate: 53% of the popular vote and big majorities in both the House of Representatives and the Senate. He bounded into office with a mountainous agenda, including plans to overhaul America's health-care system and cut its greenhouse emissions. He seemed until quite recently to be doing reasonably well. In a folksy December interview with Oprah Winfrey he awarded himself a "good, solid B-plus". ...

Health insurance: Clear diagnosis, uncertain remedy

Governments are increasingly turning to private insurance in order to widen access to health care and make it more efficient. Are they expecting too much?

OTTO VON BISMARCK believed that the ordinary worker "is unsure if he will always be healthy and he can predict that he will reach old age and be unable to work. If he falls into poverty, and be that only through prolonged illness, he will find himself totally helpless." So in 1883 Germany's Iron Chancellor introduced a health-insurance law that required both companies and workers to contribute to the costs of care.

Until then health insurance had been essentially a voluntary affair. In many parts of Europe private non-commercial organisations (such as mutuals) had sold health insurance for centuries. Bismarck's "social" insurance scheme found many imitators. Most of the world's health care is financed directly by governments, but private insurance, which now makes up nearly a fifth of the total, looks set for a state-sponsored boom. ...

The crisis in Spain: So hard to bend

Rigidities in the labour market make recovery even harder

EVERY member of the eurozone has weaknesses that limit its potential. Spain seems to contain a continent's-worth of frailties in just one country. Like Ireland, its consumers are weighed down by huge mortgage debts. Spain has a rigid system for setting wages, also a source of inefficiency in Greece and Portugal. The attempt to free up Spain's jobs market by allowing temporary work contracts has reduced incentives to train workers, holding back productivity. That is true also of Italy. And, like all these countries, Spain has steadily lost cost competitiveness against the euro zone's "core" countries, centred around Germany. As a member of the euro, it cannot address that problem by devaluing the currency.

Politicians in Spain have woken only recently to the need for reform. The wage system demands it most urgently. Pay is set centrally through a complex system of agreements across regions and industries. That means wages adjust only slowly to changes in business conditions. Despite a deep recession and zero inflation, pay growth averaged 3% last year, according to the OECD. That helps explain why Spain's jobless rate shot up so quickly; it now stands at 19.5%. In Britain, by contrast, though the recession was equally savage, firms could limit pay; they therefore did not have to shed as many jobs, and unemployment rose less steeply. ...

Europe's financial crisis: The spectre that haunts Europe

A bail-out for Greece will not be the end of the euro area's fiscal troubles

AS FINANCE ministers from the European Union gathered in Brussels for a two-day "informal" summit on February 11th, there was only one topic on the agenda: how best to help Greece avoid defaulting on its debts while, at the same time, reassuring bond markets that other euro-area countries with big budget deficits, such as Ireland, Portugal and Spain, were still safe bets.

As *The Economist* went to press, only the basic elements of a possible backstop for Greece had emerged. Pride is at stake, so it will be a "European solution", with the IMF limited to an advisory role. It will be a joint effort led by France and a somewhat reluctant Germany, the country with the deepest pockets. Berlin frets that a rescue will only encourage further profligacy. ...

Spain's politics of austerity: Muddle obscures message

A prime minister caught between the unions and the bond market

IT WAS the week Spanish Socialists would rather forget. Jose Luis Rodriguez Zapatero, Spain's prime minister, began it on January 28th at the World Economic Forum in Davos where he found himself sharing a platform with the leaders of Europe's lamest ducks, Greece and Latvia. Mr Zapatero had gone to Davos determined to instil confidence in his country, the only big developed economy still in recession. Instead, he raised more doubts, chiefly this one: is Mr Zapatero the man to lead Spain into recovery?

At Davos he boldly announced proposals to raise the retirement age from 65 to 67. But that provoked fury from his trade union allies at home. Then his finance ministry sent a deficit-reduction plan to the European Commission. Union anger, however, forced it to be watered down. Mr Zapatero's next trick was to flag a package of proposals for labour reform, an issue on which he has stalled for almost two years. It turned out to leave all decision-making to employers and the unions, who of course disagree. ...

Tightening economic policy: Withdrawing the drugs

Policymakers are wondering when and how to start a delicate task: weaning the world economy off fiscal and monetary stimulus

THE world economy has been injected with the biggest Keynesian cocktail yet seen in peacetime. In the past 18 months governments have pumped cash into their economies to fight financial seizure and recession. Central banks have slashed interest rates (see chart 1); the rich world's largest ones have supplemented ultra-cheap money with a special drug, quantitative easing (QE). Finance ministries have cut taxes and boosted public spending.

This infusion has had a dramatic effect. It prevented the biggest financial bust since the 1930s from triggering an economic catastrophe. Banks were stabilised, asset prices rebounded and the global recession, though the deepest since the second world war, was no second Depression. The pace of recovery varies, but every big economy has stopped shrinking. ...

Greek finances: The labours of Hercules

First task: persuade the middle classes to be honest about their taxes

UP AND down Greece, public-sector workers, from teachers to rubbish-collectors, left their jobs on February 10th. They braved the persistent rain to chant slogans against a pay cut for civil servants, the first anyone can remember. It means that chief executives at state corporations could have their real salaries cut in half, and even cleaners and drivers will see their earnings slip by 4%. That is the net result of a freeze in basic pay combined with a slashing of allowances.

For all its sound and fury, the protest was a relatively tame affair, organised by unions who are close to the ruling Socialists but feel obliged to let off steam. The exception was a protest by farmers, whose tractors have been blocking many Greek highways, and the main border crossing with Greece's EU neighbour Bulgaria, for the past three weeks. But by mid-week even these were trundling home. ...

America and China: By fits and starts

As China and America square off in the latest round of recriminations, how bad are relations really?

IT IS probably the most important relationship of today's world, and even more of tomorrow's. If the United States and China cannot co-operate, what hope of stemming climate change and the spread of nuclear weapons, or returning the global economy to a path of stable growth? Over the past decade, the established superpower and the rising one have rubbed along reasonably well; relations with China are, by common consent, one of the few things George Bush junior got mostly right. But under Barack Obama, after a cordial start, slights have been building up for a while. The past week has produced a sharp reminder of how sensitive the relationship can be and how quickly it might spin out of control.

The issue, as so often in the past, was Taiwan, and in particular America's promise to defend the island republic from the Communist mainland, which continues to claim sovereignty over it. America's Congress has embodied this commitment in law: the United States is obliged under the Taiwan Relations Act of 1979 to provide the island with the arms it needs to defend itself. On January 29th the Obama administration gave Congress notice of more than \$6 billion-worth of arms sales it had determined to be necessary for Taiwan's defence. These included some sophisticated weaponry, including Harpoon anti-ship missiles and Black Hawk helicopters. ...

Greece's sovereign-debt crunch: A very European crisis

The sorry state of Greece's public finances is a test not only for the country's policymakers but also for Europe's

SOME would say that tragedy was inevitable from the moment, nine years ago last month, when Greece was admitted to the euro zone. Others would claim that woe was sure to befall such a disparate currency union sooner or later: if not Greece, then some other weak member of the club would have been the cause. Avoidable or not, trouble has arrived. At best, Greece has to undergo a dramatic budgetary tightening. Its fellow Europeans, or the IMF, may yet have to organise a humiliating bail-out. Some even talk "probably mistakenly" of the beginning of the end of the euro area.

Last year Greece's budget deficit reached 12.7% of GDP. Worries over whether the Greeks would act to cut it have caused paroxysms in the bond markets: late last month the yield on ten-year Greek government bonds vaulted to 7.1%, the highest since the country joined the euro area and about four percentage points more than that on German bunds, the euro zone's safest investment. The panic abated on February 3rd, when the European Commission endorsed the Greek government's plan to cut the deficit to 3% of GDP by 2012. The day before, Greece's prime minister, George Papandreou, had used a television address to announce higher taxes on fuel and an extension of a public-sector wage freeze to include low-paid civil servants. ...

Sri Lanka's election: Victory for the Tiger-slayer

What the president's re-election means for his sorely divided country

HAD Mahinda Rajapaksa, Sri Lanka's war-winning leader, lost his island-state's presidential election on January 26th, it would have been described as a Churchillian defeat. But that would have underdone the drama. Imagine Britain's wartime prime minister falling out with his feted general, Montgomery, removing him, then losing to him in the 1945 general election. That is how victory for General Sarath Fonseka, Mr Rajapaksa's main challenger, would have seemed.

Many predicted this. As army chief, General Fonseka oversaw the rout of Sri Lanka's Tamil Tiger rebels in a sweeping offensive that ended a 26-year war in a seaside bloodbath last May. When he announced his candidature in November, opposition parties rallied behind him, including the biggest, Ranil Wickremesinghe's United National Party (UNP). In campaigning, the rather wooden general and his backers gave voice to the serious gripes that Sri Lankans have with their government: economic hardship, after years of high inflation; rampant top-level corruption; and cronyism in a government that includes 109 ministers and allegedly hundreds of Mr Rajapaksa's neighbours and relatives. But it mattered naught. Mr Rajapaksa won with 58% of the vote. ...

The growth of the state: Leviathan stirs again

The return of big government means that policymakers must grapple again with some basic questions. They are now even harder to answer

FIFTEEN years ago it seemed that the great debate about the proper size and role of the state had been resolved. In Britain and America alike, Tony Blair and Bill Clinton pronounced the last rites of ‘the era of big government’. Privatising state-run companies was all the rage. The Washington consensus reigned supreme: persuade governments to put on ‘the golden straitjacket’, in Tom Friedman’s phrase, and prosperity would follow.

Today big government is back with a vengeance: not just as a brute fact, but as a vigorous ideology. Britain’s public spending is set to exceed 50% of GDP (see chart 1). America’s financial capital has shifted from New York to Washington, DC, and the government has been trying to extend its control over the health-care industry. Huge state-run companies such as Gazprom and PetroChina are on the march. Nicolas Sarkozy, having run for office as a French Margaret Thatcher, now argues that the main feature of the credit crisis is ‘the return of the state, the end of the ideology of public powerlessness’.

Correction: China's economy

In an article on China's economy (‘Not just another fake’, January 16th), we quoted a UBS report: ‘China's steel capacity of almost 0.5kg per person is slightly lower than America's output in 1920 (0.6kg) and far below Japan's peak of 1.1kg in 1973.’ All those figures should be tonnes, not kilograms. This has been corrected online.

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