(Give a sarong) to collection

Schlossberg ltr
1731

HITE HOUSE

SHINGTON

copied
Currie

February 1, 2000

The Schlossberg Family
641 Sixth Avenue
New York, New York 10011

Dear ~~Edwin~~ Ed, Caroline, Rose, Tatiana, and Jack:

Thanks so much for the wonderful sarong. Your continued thoughtfulness and support mean a lot to Hillary and me, and we send our best wishes for the coming year.

Sincerely,

Bill

White House Gift Record

Presented: 12/27/1999
Arrival: 12/30/1999
Entered: 12/30/1999

Gift ID: 5011837/UNDLIN_M

Donor Information

Mr. Edwin Schlossberg and Family
Edwin Schlossberg Incorporated
641 Sixth Avenue
New York, NY 10011

Acknowledged By: Pending BC Gift Draft

Comments:
1999 holiday gift. Possible BC SIG - Caroline Kennedy Schlossberg's family.

Gift Information

Intended: President and First Lady
Description:
60" x 69" piece of beige fabric that lists lessons for life ie: The Ten Commandments, The Commandments from the Kuran, The Seven Social Sins of Ghandi, and The Four Noble Truths, and is signed Edwin, Caroline, Rose, Tatiana, and Jack Schlossberg.

Disposition: Archives
Location:
The gift is in Archives.

Total Gift Value is $35

The enclosed

sulu sarong sari lavalava

has many names around the world
and many possible uses:

most of all, *enjoy it*!

With our best wishes to you
this Holiday Season
and throughout the New Year

Edwin, Caroline
Rose, Tatiana & Jack

December
1999

See notes on 5/2/05

Sultan Ltr ltrs 1/21 cleared by Hans/NSC

already has

copied Currie

WHITE HOUSE

WASHINGTON

February 1, 2000

Your Majesty:

Thank you very much for the bountiful gift hamper. You were kind to remember me once again this holiday season, and I appreciate your thoughtfulness and generosity.

Best wishes for health and happiness in the coming year.

Sincerely,

Bill Clinton

I look forward to visiting you at APEC

His Majesty
Sultan Haji Hassanal Bolkiah Mu'Izzaddin Waddaulah
Sultan and Yang Di-Pertuan of Brunei Darussalam
Bandar Seri Begawan

White House Gift Record

Presented: 12/16/1999
Arrival: 12/16/1999
Entered: 12/16/1999

Gift ID: 5011064/UNDLIN_M

Donor Information

His Majesty Sultan Haji Hassanal Bolkiah Mu'Izzaddin Waddaulah
Sultan and Yang Di-Pertuan of Brunei Darussalam
Bandar Seri Begawan,

Acknowledged By: Pending BC Gift Draft

Comments:
1999 Holiday gift. BC Sig because donor is head of state, and per previous correspondence.

Gift Information

Intended: President

Description:
1) Three ceramic coffee canisters, one navy blue, one white, and one hunter green, with gold-tone clasps, $60. 2) Small navy blue nylon backpack, $25. 3) Green apron with gold verticle stripes, $30. 4) Green pot holder with gold verticle stripes, $15. 5) Navy blue plastic tote bag with gold stars, $20. 6) Light brown "Millennium Bear" teddy bear wearing a navy blue vest and bow tie, $50. 7) 18" x 27" braided wicker basket, $60. 8) 14" oatmeal and brown sitting teddy bear with a maroon fleece hat and scarf that reads "Harrods on the sole of his foot, $75. 9) 10" brass and glass coffee pot, $60. 10) Sterling silver corkscrew, $35. 11) Two 7" sterling silver candlesticks, $60. 12) 9" crystal decanter with gold trim, $100. 13) Set of four crystal brandy glasses with gold trim, $200. 14) Sterling silver gravy ladel, $25. 15) 9" sterling silver platter, $50. 16) 8" Sterling silver gravy boat, $40. 17) 8" cream colored cake stand with a green and purple grape and leaf pattern stenciled around the middle, $75.

Disposition: Archives
Location:
The gift is in Archives.

There are multiple parts to this gift. This part is valued at $980

Total Gift Value is $2230

White House Gift Record

Presented: 12/16/1999
Arrival: 12/16/1999
Entered: 12/16/1999

Gift ID: 5011064/UNDLIN_M

Donor Information

His Majesty Sultan Haji Hassanal Bolkiah Mu'Izzaddin Waddaulah
Sultan and Yang Di-Pertuan of Brunei Darussalam
Bandar Seri Begawan,

Acknowledged By: Pending BC Gift Draft

Comments:
1999 Holiday gift. BC Sig because donor is head of state, and per previous correspondence.

Gift Information

Intended: President

Description:
1) Christmas tin of Shortbread Cookies. 2) Christmas tin of Traditional Christmas Biscuits. 3) Tin of Traditional Biscuits. 4) One pound bag of coffee. 5) Package of caramels. 6) Bottle of Remy Martin Champagne Cognac. 7) Box of Table Water Biscuits. 8) Old Fashioned Christmas Pudding with brandy, walnuts, rum, and sherry. 9) Two boxes of Petits Fours chocolates. 10) Box of Sweatmeal digestive biscuits. 11) Large Belgian milk chocolate bar. 12) Canister of assorted shortbread cookies. 13) Loaf of Panettone bread. 14) Box of Jamaican Blue Mountain coffee. 15) Box of chocolate mint selections. 16) Box of mince pies. 17) Jar of brandy butter. 18) Jar of cranberry sauce. 19) Bottle of Malt Whiskey. 20) Bottle of black cherry syrup. 21) Jar of mustard and dill. 22) Jar of mango with ginger and lime chutney. 23) Jar of raspberry jam. 24) Bottle of Saint-Aubin Premier Cru wine. 25) Bottle of Dow's port wine. 26) Bottle of Cote-Rotie wine. 27) Bottle of Pommard Premier Cru wine. 28) Bottle of Chateau Rabaud-promis Sauternes wine. 29) Jar of apricot jelly. 30) Bottle of 1996 Condrieu wine. 31) Bottle of Chateau Lagrange wine. 32) Bottle of 1995 Chateau Lagrezette wine. 33) Bottle of 1992 Dom Perignon Champagne. 34)

Disposition: Accepted by Another Government Agency

Location:
Sent to the White House Mess for Official Use on 12/17/99

Can later use for WH reception

Wooden canister of Mineral Springs leaf tea. 35) Container of cream toffees. 36) Tin of tropical fruit drops. 37) Jar of Christmas conserves. 38) Canister of goose liver block with truffles. 39) Jar of spiced anchovy relish pate. 40) Tin of mini fruit jellies. 41) Box of mini chocolates. 42) 8" round white cake that reads "Merry Christmas," and depicts a Christmas stocking, teddy bear, and toy soldier. 43) Jar of Christmas chutney. 44) Sleeve of roasted chestnuts. 45) Magnum bottle of 1991 vintage champagne. 46) Glass jar containing olive oil. All items are from Harrods.

There are multiple parts to this gift. This part is valued at $1200

Total Gift Value is $2230

White House Gift Record

Presented: 12/16/1999
Arrival: 12/16/1999
Entered: 12/16/1999

Gift ID: 5011064/UNDLIN_M

Donor Information

His Majesty Sultan Haji Hassanal Bolkiah Mu'Izzaddin Waddaulah
Sultan and Yang Di-Pertuan of Brunei Darussalam
Bandar Seri Begawan,

Acknowledged By: Pending BC Gift Draft

Comments:
1999 Holiday gift. BC Sig because donor is head of state, and per previous correspondence.

Gift Information

Intended: First Family
Description:
12 red hand finished taper candles from Harrods.

Disposition: Destroyed
Location:
Held in Gift Office pending decision.

There are multiple parts to this gift. This part is valued at $50

Total Gift Value is $2230

THE AVIARY,
WINDMILL LANE,
SOUTHALL,
MIDDLESEX UB2 4NG.
0181-574 2711

The Honourable Bill Clinton
President of the United States of America
The White House
Washington
DC 20500
USA

1 December 1999

Dear Mr President.

I am commanded by His Majesty The Sultan of Brunei to forward this hamper together with Seasonal Greetings.

Yours Sincerely

Christopher Hanbury

Christopher Hanbury

copied
Cerrie

McAleese ltr
AMS
1/31
cleared by Norland/NSC

WHITE HOUSE

WASHINGTON

February 1, 2000

Dear Madam President:

Thank you for the beautiful print, which Ambassador O'Huiginn passed along to me. It is a powerful reminder of the dramatic steps already taken toward peace and of the promise the future holds for Ireland -- I will treasure it.

I am also grateful for your kind words. Best wishes for peace, health, and happiness in the coming year.

Sincerely,

Bill Clinton

Her Excellency
Mary McAleese
President of Ireland
Dublin

White House Gift Record

Presented: 12/29/1999
Arrival: 12/30/1999
Entered: 12/30/1999

Gift ID: 5011872/KLETNICK

Donor Information

Her Excellency Mary McAleese
President of Ireland
Dublin,

Acknowledged By: Pending BC Gift Draft

Comments:
Forwarded to the Gift Office by Ambassador O'Huiginn. WHCC: Ambassador O'Huiginn. BC SIG. - Head of State

Gift Information

Intended: President
Description:
6" x 15" print titled "Belfast Good Friday 1998," by Ciaran O Gaora in a 9-1/2" x 18-1/2" wooden frame. The print represents a journey through the peace process.

Disposition: Archives Foreign
Location:
Held in Gift Office pending value.

Total Gift Value is Pending Value

AMBASÁID NA hÉIREANN
TELEPHONE: (202) 462-3939
FAX: (202) 232-5993

EMBASSY OF IRELAND
2234 MASSACHUSETTS AVE., N.W.
WASHINGTON, D.C. 20008

29 December 1999

My dear Mr President

I have been asked by Dr Mary McAleese, President of Ireland, to forward you the attached gift with her compliments.

I have the honor to be, Mr President.

Yours sincerely

Sean O'Huiginn

Sean O'Huiginn
Ambassador

The President
The White House
1600 Pennsylvania Avenue NW
WASHINGTON DC 20500

Áras an Uachtaráin
Dublin

To Bill,

In recognition of your contribution to the Peace Process

We owe you so much and thank you from the bottom of our hearts for this new dawn, this "kairos" day.
Mary McAleese

'Belfast – Good Friday 1998'

This limited edition print, created by Dublin graphic artist Ciarán Ó Gaora, represents a journey through the peace process.

Forgiveness for the past and hope for the future are represented as healing the wounds of division and raising the flag of peace.

The elements from the top down:

The Declaration of Support from the Peace Agreement supporting and linking the various elements.

The photograph by Kristen Rodwell from 1994 which has become an icon for the process leading to the agreement.

The red cross motif works on many levels: Northern flag / Casting a vote / Good Friday.

The white flag of peace being raised within the gold environment of the process.

Two texts of poetry on hope and forgiveness:
'Dóchas' by Séamus Ó hAodha
'Ceasefire' by Michael Longley

The scars of the past being healed.

Sent to Case Sinatra Bk Ana 1/31

copied Currie

WHITE HOUSE

WASHINGTON

February 1, 2000

Ms. Nancy Sinatra Lambert
720 North Crescent Drive
Beverly Hills, California 90210

Dear Nancy:

Thanks so much for the inscribed copy of *The American Flag* and for the wonderful gifts for Hillary and Chelsea. You are always so thoughtful.

We wish you all the best for the coming year.

Sincerely,

Bill

White House Gift Record

Presented: 12/20/1999
Arrival: 01/06/2000
Entered: 01/06/2000

Gift ID: 5012524/KLETNICK

Donor Information

Ms. Nancy Sinatra
720 North Crescent Drive
Beverly Hills, CA 90210

Acknowledged By: Pending BC Gift Draft

Comments:
Possible BC SIG. FOB per IQ. 1999 holiday gift.

Gift Information

Intended: First Family
Description:
For Chelsea: Three 3-1/2" x 7-1/2" tins that depict cats. For the First Lady: 34" x 34" red, white, and blue silk scarf that depicts small american flags. For the President: Hardcover book. "The American Flag," published by Friedman/Fairfax; inscribed by donor.

Disposition: Archives
Location:
The gift is in Archives.

Total Gift Value is $100

For President Clinton
from, Nancy Sinatra
Christmas 1999

Mrs.
Clinton

Merry Christmas,
Dear Hillary

A little "good luck"
present for you!
Love,
Nancy Sinatra Lambert

President
Clinton

Merry Christmas,
Mr. President
Love,
A.J., Amanda &
Nancy Sinatra
Lambert

Chelsea
Clinton

For Chelsea & Sox
With love
from
Nancy Sinatra
Lambert

Game ball to me
Snyder ltr
pro
1/31

copied
Currie

THE WHITE HOUSE

WASHINGTON

February 1, 2000

PERSONAL

Mr. Daniel M. Snyder
Chairman and Chief Executive Officer
Snyder Communications, Inc.
15th Floor
6903 Rockledge Drive
Bethesda, Maryland 20817

Dear ~~Daniel~~ Dan:

It was a pleasure to welcome you to the White House, and I hope you enjoyed your time here.

Thanks so much for the game ball from the Redskins' victory over the Eagles. It's a wonderful reminder of a terrific season, and I appreciate your thoughtfulness.

Best wishes for the coming year.

Sincerely,

Bill Clinton

White House Gift Record

Presented: 12/03/1999
Arrival: 01/18/2000
Entered: 01/18/2000

Gift ID: 5014335/ZANLUNGO

Donor Information

Mr. Daniel Snyder
Owner
The Washington Redskins
15th Floor
6903 Rockledge Drive
Bethesda, MD 20817

POTUS DRAFT

[redacted]

Comments:
Gift and information was forwarded to the Gift Office by Doug Band on 1/13/2000. Presented to POTUS during a movie at the White House. Possible BC SIG because donor is owner of the Redskins.

Gift Information

Intended: President
Description:
Wilson Official NFL football used in the Redskins victory over the Eagles on November 28, 1999; one panel of the ball is painted red, white, and yellow and reads "Game ball presented to Bill Clinton, a true Redskin Fan."

Disposition: Archives
Location:
The gift is in Archives.

Total Gift Value is $75

WHITE HOUSE GIFT REGISTER

GIFT INTENDED FOR

President ☒ Both/All ☐

First Lady ☐ Chelsea ☐

DONOR INFORMATION

Name: Daniel Snyder (owner of Redskins)

Address: Washington Redskins, 6903 Rockledge Drive
15th Floor, Bethesda, MD 20817 Phone:

PRESENTATION

Date: 12/3/99 Event: Movie at the White House

Handed to President ☒ Other Method ☐

Gift Description: Redskin Game Ball from Washington v Philadelphia game

Send Gift and Register to OEOB, Room 457 x7133

Doug Band 6-5113

Related Items
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Redskins Hire Rhodes, Assistant

Fired Packers Coach To Run Defense; Fazio Also Is Added to Staff

By Mark Maske
Washington Post Staff Writer
Tuesday, January 25, 2000; Page D01

The Washington Redskins' coaching staff for next season is nearly complete. The Redskins hired Ray Rhodes as their defensive coordinator and Foge Fazio as their linebackers coach yesterday, and sources said club officials have all but decided to retain special teams coach LeCharls McDaniel.

Also, sources said the Redskins plan to complete a deal to hire defensive backs coach Ron Meeks from the Atlanta Falcons today. Meeks probably will be replaced in Atlanta by ousted Redskins defensive coordinator Mike Nolan, league sources said yesterday.

On a busy day at Redskin Park, Rhodes and Fazio met with Coach Norv Turner and signed two-year contracts. Vowing to turn around a defense that ranked 30th among the 31 NFL teams this season, Rhodes said he intends to have the unit in the league's top 10 next season.

"The game is played with urgency," said the former head coach of the Philadelphia Eagles and Green Bay Packers. "If your house is on fire and you're four blocks away, are you going to walk? No, you're going to run. . . . I'm going to get back in that top 10. We have to find a way to get back and have a defense where we're a force to be reckoned with. We're going to work our butts off to improve."

Turner said: "From an organizational standpoint, I don't think we could do more in one day to help our football team than hire Ray Rhodes and Foge Fazio for our staff."

Meantime, the Redskins opened contract negotiations with running back Stephen Davis yesterday and, according to sources, offered Davis a five-year deal. Team officials believed progress was made during a Redskin Park meeting with agent Steve Weinberg, sources said, but the Redskins remained wary they will have to name Davis their franchise player Feb. 10 to keep him off the free agent market.

The Redskins moved quickly in their pursuit of Rhodes after announcing Wednesday they would not renew Nolan's contract. Director of player personnel Vinny Cerrato and owner Daniel M. Snyder met with Rhodes in Mobile, Ala., that day, and Turner spoke with Rhodes by telephone. The Redskins also spoke to recently fired New England Patriots head coach Pete Carroll, but chose Rhodes. Rhodes arrived in town late Sunday and spent yesterday with Turner, and the Redskins made the hiring official with a late afternoon news conference.

"Things happened fast [yesterday] when we had a chance to sit down and talk," Turner said. ". . . This profession is wild. It can make partners out of some different guys. Ray and I are used to competing with each other."

Rhodes, 49, has been a defensive coordinator with the Packers and San Francisco 49ers. He said he wasn't bothered by becoming an assistant coach again after being fired as a head coach in consecutive seasons.

"I wanted to get a more hands-on approach," Rhodes said.

Rhodes said he believes the Redskins can upgrade their defense enough next season for it to complement an offense that was ranked second in the NFL this season.

"I want the bar raised high," said Rhodes, whose NFL coaching resume includes 13 playoff visits and five Super Bowl victories in 19 seasons. "Let's don't be content with what's happening. The offense is rated what, second? The defense is rated what, 30th? That doesn't work. . . . Let's do what we need to do to get this thing right. It's no fun when you have an offense rated up there in the top of the league and we're at the bottom of the league. We need to close that gap."

Rhodes vowed to have an attacking, aggressive defense. He called cornerback Champ Bailey a superstar in the making. The Redskins hope to add Penn State linebacker LaVar Arrington on draft day, and it will be up to Rhodes to get more out of tackles Dana Stubblefield and Dan Wilkinson.

"You're looking at two guys where you know it's there," Rhodes said. "We have to find it and get it out."

Said Stubblefield, who played for Rhodes in San Francisco: "He's one of the coaches that took me to the Super Bowl as a defensive coordinator. So there's no doubt I believe in his scheme, and there's no doubt I will play for him. And I think everybody else will love to play for him too."

Fazio, 60, left the Minnesota Vikings after four seasons as that team's defensive coordinator. He said he wanted to be closer to his 91-year-old mother, who lives in Pittsburgh. He inherits a set of young linebackers that frustrated the Redskins coaches at times this season.

"We're going to do what these guys can do," Fazio said.

Meeks visited Redskin Park yesterday and probably will be added to the staff today to replace fired defensive backs coach Tom Hayes. Meeks, 45, spent the 1991 season on the same Dallas Cowboys staff with Turner. Nolan apparently is set to replace Meeks as the Falcons' secondary coach.

Redskins defensive line coach Rubin Carter will be retained, sources said, and the club will decide whether to hire a second defensive line coach. Defensive assistant and linebackers coach Jeff FitzGerald will not be retained, sources said.

Redskins director of player development Joe Mendes met with Weinberg to begin negotiations on a multiyear contract for Davis, the NFC rushing champion who had a $934,000 salary this season. Cerrato has said if a long-term deal cannot be completed, the Redskins will make Davis their franchise player the day before the NFL free agent signing period begins Feb. 11. The talks are not scheduled to resume until after the Super Bowl, sources said.

Redskins Note: The 49ers have asked the Redskins for a third-round pick, in addition to two first-round selections, in a prospective trade for the third overall choice in April's college draft, sources said. The Redskins would like to send the 12th and 24th picks to the 49ers for the third selection and choose Penn State defensive end Courtney Brown as well as Arrington.

Milstein, Snyder Buy Redskins for About $800M

By Thomas Heath
Washington Post Staff Writer
Monday, January 11, 1999; Page A1

New York City banker Howard Milstein and Bethesda businessman Daniel M. Snyder yesterday signed an agreement with the estate of the late Jack Kent Cooke to purchase the Washington Redskins and Jack Kent Cooke Stadium for approximately $800 million, shattering the previous record for a National Football League franchise by more than $250 million, according to sources close to the negotiations.

Redskins President John Kent Cooke, who faced an uphill battle to purchase the team, made a final bid approaching $700 million, ending a 25-year era in which the Cooke family owned the majority share of the Redskins. The family ran the team since 1979, winning three Super Bowls.

The sale to Milstein and Snyder requires approval by three-quarters of the NFL's other 30 teams.

Cooke desperately attempted to retain the franchise and made a credible effort, offering more money for the team than some observers believed was possible, given his limited personal wealth. Cooke could not be immediately reached for comment last night.

Behind Cooke in the bidding were groups led by Phoenix businessman Sam Grossman; by Washington businessman Ted Lerner and Texas investors David Bonderman and Gerald J. Ford; and by John J. McMullen, owner of the New Jersey Devils hockey team, and cable TV magnate Charles Dolan.

Grossman was hoping to make a last-ditch bid today, but sources said the deal between the Milstein-Snyder group and the foundation's trustees is final.

Update

Jack Kent Cooke's estate, in a statement released Monday, confirmed the sale of the Washington Redskins to the group led by New York City banker Howard Milstein and Bethesda businessman Daniel M. Snyder.

The text of the statement:

"The Special Committee of the Board of Directors of Jack kent Cooke Incorporated announced today that has agreed to sell the Washington Redskins, Jack Kent Cooke Stadium and related assets to an investor group led by Howard Milstein and Daniel Snyder for a purchase price of approximately $800 million. The sale is subject to NFL approval and other conditions and is expected to close within the next 60 days. Ninety percent of the net proceeds of the sale will go to Jack Kent Cooke Foundation, a Foundation established by the Will of the late Jack Kent Cooke to provide scholarships to deserving students.

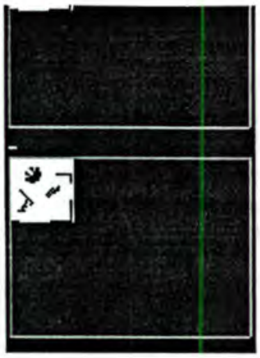
"The Special Committee expresses its deep appreciation to John Kent Cooke for his leadership of the Washington Redskins, particularly his leadership in completing Jack Kent Cooke Stadium."

Partner Sites:
·Newsweek.com
·Britannica Internet Guide

Related Items

From The Post
The new owners are leaning toward keeping Norv Turner as coach.
Tony Kornheiser: Time to bid The Squire's kid adieu.
For John Kent Cooke, losing the franchise is a loss for the family.
The new owners' empire has grown by leaps and bounds.
April 13, 1998: Snyder's marketing firm has become a major player.
A profile of John Kent Cooke appeared in the Aug. 31, 1997, issue of The Washington Post Magazine.

On Our Site
Jack Kent Cooke Section
NFL Section



trustees is final.

Six trustees of the Cooke estate unanimously approved the deal yesterday afternoon, sources said, after a lengthy negotiating session between Milstein and Snyder and the estate's advisors, which include the investment bank Morgan Stanley Dean Witter and the law firms of Wilmer, Cutler & Pickering from Washington and Paul, Weiss, Rifkind, Wharton & Garrison from New York.

The previous record for an NFL franchise was $530 million paid by credit card mogul Alfred Lerner for the Cleveland Browns expansion franchise last fall. The Manchester United soccer team in England has a sale pending for $1 billion, which would be a world record for a sports franchise.

The NFL-record price paid for the Redskins and the two-year-old stadium, which seats 80,116, is a result of the team's cash flow of around $55 million a year – among the highest amounts in the NFL – before taxes and debt. The team also has the potential to increase its cash flow by up to $25 million a year through the sale of more advertising, stadium naming rights and corporate sponsorships, as well as the construction of another 74 luxury suites in the stadium, which opened in September 1997.

The Redskins still have about 2,500 of the 15,000 club seats for sale. The team's general seating has been sold out since 1966, and while the team won three Super Bowls from 1982 to 1991, it has not been in the playoffs for the last six years.

The sale price, which is a gross figure and does not reflect remaining debt for the stadium, will put about half a billion dollars in the Jack Kent Cooke Foundation after about $155 million in debt is paid on the stadium and after John Cooke collects his 10 percent share of the franchise, which should be worth about $60 million.

The elder Cooke, who died in April 1997, directed in his will that the proceeds from the sale of his estate be placed in the foundation and the money used to award college scholarships.

The $800 million price represents the sale of all the stock of Jack Kent Cooke Inc., which is the holding company for the assets of the late owner. The Minnesota Vikings were sold in a stock deal last year for $230 million to millionaire Red McCombs.

As an asset transaction, the Redskins' sale price would be valued at approximately $1 billion, according to some experts. Stock deals generally have a lower price tag than asset deals because the buyer does not get certain tax advantages. The $530 million price tag for the Browns was on an asset basis.

A copy of the contract will be sent to the NFL in the next few days, where it will be reviewed by league staffers before going to the finance committee, chaired by New England Patriots owner Robert Kraft, accompanied by a recommendation to approve or not. The finance committee will then present the transfer in ownership to the league's other owners, 23 of whom must vote for approval. The Redskins cannot vote.

1:45 2:00	pm- pm	**MEETING** OVAL OFFICE Staff Contact: Stephanie Streett
2:00 2:15	pm- pm	**BRIEFING** OVAL OFFICE Staff Contact: Samuel Berger
2:20 2:30	pm- pm	**BRIEFING** OVAL OFFICE DINING ROOM Staff Contact: Mary Beth Cahill
2:30 3:00	pm- pm	**HANUKAH EVENT** OVAL OFFICE Remarks: Josh Gottheimer Staff Contact: Mary Beth Cahill **POOL PRESS**
3:00 4:45	pm- pm	**PHONE AND OFFICE TIME** OVAL OFFICE
4:45 5:00	pm- pm	**BRIEFING** OVAL OFFICE Staff Contact: Joe Lockhart
5:00 5:25	pm- pm	**INTERVIEW WITH STEVE SCULLY OF *C-SPAN*** CABINET ROOM Staff Contact: Joe Lockhart
5:30 5:45	pm- pm	**YEAR-END INTERVIEW WITH *PEOPLE MAGAZINE*** OVAL OFFICE Staff Contact: Joe Lockhart
5:45 6:30	pm- pm	**BRIEFING AND TAPE RADIO ADDRESS** OVAL OFFICE DINING ROOM AND OVAL OFFICE Remarks: Heather Hurlburt Staff Contact: Loretta Ucelli, Megan Moloney
6:30 7:00	pm- pm	**DOWN TIME** RESIDENCE
7:00 9:00	pm- pm	**HOLD (SS)**
9:15 TBD	pm- pm	**MOVIE NIGHT** FAMILY THEATER

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Search Area: Bethesda, MD

Snyder Communications, Inc

(1 - 1) of 1 listed. **show businesses on a map**

Snyder Communications Inc
6903 Rockledge Dr Fl 15.
Bethesda, MD.
(301) 468-1010

Chairman and CEO

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wcavl7

The past several years have been an exciting time for us. During this time, we've effectively established the foundation necessary to become the industry's premier provider of integrated marketing solutions. Each of our operating areas—Advertising, Direct, and Interactive—has made significant progress. Our ability to create seamless integration between traditional and non-traditional forms of marketing has created many opportunities for our clients.

The key word to our success and our clients' success is "integration". It means companies that use Snyder's sales and marketing strategies can also utilize the intelligence of Snyder's ROI analysts, technology experts, and creative talent to generate comprehensive brand-building solutions. It's all done seamlessly, the perfect combination for a successful integrated presence.

We're looking forward to what's ahead in the upcoming years, especially in the new millennium—and to developing ever better solutions that will build market share for our clients.

Thank you for your interest in Snyder Communications. Enjoy our site.

Sincerely,

Daniel M. Snyder
Chairman and Chief Executive Officer

altavista: LIVE!

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Search Area: Ashburn, VA

Washington Redskins

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Washington Redskins
21300 Redskin Park Dr.
Ashburn, VA.
(703) 478-8900

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wcavl5

THE PRESIDENT HAS SEEN
2-1-00

QUINCY JONES PRODUCTIONS

January 28, 2000

Mr.President, Mr. President, Mr. President:

PLEEEZE!! Congratulations on an unforgettable anthem for the 21st Century!! No one has ever done it better!! I am proud to be alive the same time as you. (You never did know how to putt ☺.)

Thank you for always being such a generous and thoughtful friend. Thank you for the lift to Davos.

Warmest regards and Big Time Props!!

Quincy

(dictated but not read)

2-1-00
After you have seen,
we will send to
Burkhardt for reply –

3800 BARHAM BOULEVARD, SUITE 503, LOS ANGELES, CALIFORNIA 90068

Send to Stephanie Streett?

Yes ✓

No ______

00 FEB 1 PM3:43

January 21, 2000
Lucy Cavendish College, Cambridge Uni
Cambridge CB3 0BU
England, UK

Mrs .Betty Currie
West Wing, The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Carol.

Dear Betty,

I hope this has been a good year for you and your family. Certainly it must have been better than the year before. Do you have any time just to have fun and take advantage of Washington culture?

I am spending a year doing research on African film and literature at Cambridge University, a marvelous experience despite the high financial costs. England has been very mild in weather and just about perfect for me who hates the heat. I have met many wonderful people from all over the world and particularly from South Africa. Some of them will undoubtedly be the future leaders of their homeland. The rich cultural opportunites are marvelous here and in London. I show video copies of African films I brought from Arkansas, and the audiences love them. There is a good library of tv documentaries on Africa at the Africa Studies Centre here, a fine resource for me.

Tomorrow I fly to Egypt first an adventure rather than a posh tour with a small riverboat up the Nile to see the ancient monuments and have a short time in Cairo. Will have the chance to ride both a donkey and a camel, which I look forward to. Then I take a 5 day excursion into the western deserts to meet the non-urban Egyptians in a less stressful, more natural context. Three nights of camping in the desert with NO faciliaties will be a challenge, but I have my rented sleeping bag ready.

I am going to Washington soon after my return from Egypt to go to the Africa Summit conference (Feb 16-20 Washington conference center), which you probably know about. Mac deShazer was the first director of this project. I will fly in **on Feb 16** and lodge at the **Washington Plaza Hotel**, 10 Thomas Circle NW, DC 20005—tel 202-842-1300. On **Feb. 20** I move to the **Kalorama Guest House**, 1854 Mintwood Place, NW, DC 20009—tel 202-667-6369. I will **fly back** to England in **late afternoon Feb 25.**

I would like to see The President while I am in DC if there is an opportunity. The conference time is less convenient than afterward, but I will do my best to arrange my schedule. It's sad to think this is the last time I will be in Washington while he is in office, but he deserves rest from the constant pressures.

The news says that Socks has been declawed. I remember the time when he began scratching on the nice chair next to your desk[perhaps the surgery was a good idea. At least now he has to stay inside where he is safe. I would love to see him again, too, if that is convenient.

I hope to see you before long. I am writing to Stephanie Streett also.

Best wishes,

Suzanne

Suzanne MacRae

THE PRESIDENT HAS SEEN
2-1-00

Podesta
we need to discuss
It is Big

Jock Gill <jgill@greenstar.org>
01/31/2000 05:38:59 PM

Record Type: Record

To: Nancy V. Hernreich/WHO/EOP, Betty W. Currie/WHO/EOP

cc:
Subject: $1.80 gal heating oil !!!

January 31, 2000

Copied
Podesta

VIA EMAIL

Dear Mr. President,

Let me begin by applauding, virtually, your State of the Union address as well as your recent comments in Davos.

As a new home owner, are you aware that home heating oil is now at the sky high price of $1.80 per gallon? I just had $400 worth dumped in my tank which will not last a month. Last year I was paying half as much per gallon. I wonder how much it will cost to heat your house next winter. At these rates .....

This issue will get red hot and could sink Al Gore's hopes for becoming the next president. Vote for the man who let home heating oil double in price in just one year? Not in frigid New England.

I hope you and the Vice President will find a way to bring the cost of home heating oil back to earth! And the sooner the better.

Thanks for your attention.

Best regards,

Jock
Jock Gill, Executive Director
(781) 396-0492
www.greenstar.org

THE PRESIDENT HAS SEEN
2-1-00

Gene S
Should we make a new proposal on starting a new round?
BC

31 January 2000
FBIS-FMN 00-036

Foreign Broadcast Information Service

copied
Sperling
Podesta

Foreign Media Note

West Europe: Media See US-Inspired Progress on Trade System at Davos

Germany Today's press commentary was uniform in its view of American preeminence at the Davos forum. The influential center-right *Frankfurter Allgemeine* noted that "instead of a market place for ideas, Davos largely seemed a supermarket of American successes" and found President Clinton's speech "the result of the insight that this is the only way to prevent conflicts with the Third World." Right-of-center *Die Welt* also saw US dominance as a mirror of reality, given Europe's own missed opportunities.

- Left-of-center *Frankfurter Rundschau* said the President's "fiery plea for free trade" had set the tone of the forum. The commentator cautioned, however, that while theory says President Clinton is correct, the question remains whether "limitless freedom for goods and capital can really solve the problems or is itself part of the problem."

UK The *Financial Times* reported both that many Davos participants found President Clinton's speech a "constructive contribution" to repairing the damage done to the trade system in Seattle and that others expressed "disappointment" that the President gave "only cautious endorsement" to the launch of a new world trade round and "offered no fresh proposals" for breaking the deadlock at Seattle (31 January).

- A commentary in the center-left *Observer* yesterday charged that neither the President nor Prime Minister Blair is "bold enough" to transform their "rhetoric" on the need for social justice into legislative and institutional proposals. The President, the weekly added, "recognizes the need to act but appealed to his audience on how to do so."

France While left-of-center *Liberation* reported that "NGO vocabulary" was "dominant" at Davos and center-right *Le Figaro* noted that concerns over globalization made political leaders "color their speech with a social varnish," both papers today carried lead editorials finding the anti-trade position wanting, condemning the "often demagogic" arguments (*Liberation*) and arguments against capitalism "from another age" (*Figaro*).

- Center-left *Le Monde* in its 1 February edition reported that US and UK speeches at Davos sought to "erase the malaise provoked in Seattle" but noted that "heated exchanges" at the forum showed the difficulty in balancing world trade with demands of the third world and civil society.

Italy Sunday's major papers carried brief, strightforward reporting on Davos, focusing on the President's "clear message" committing to a new trade round (*Il Sole-24 Ore*).

THE WHITE HOUSE
WASHINGTON '00 FEB 1 AM 10:01

Carol -

Joe was wondering if we could request a Presidential letter of congratulations to Helen Thomas for this awards dinner in March.

Is this something we can do? Personally signed, if possible.

2/1/00

Send to Burkhardt?
Yes ✓
No ____

Thanks,
Jenni
62673

OK

Carol

January 12, 2000

Mr. Joe Lockhart
Upper Press Office
The White House
Washington, D.C. 20500

Dear Mr. Lockhart:

The Kentucky Society of Washington has selected a native daughter, Helen Thomas, United Press International's award winning journalist, and Senior White House correspondent, as the Henry Clay Distinguished Kentuckian Award recipient for 2000. The award will be presented at a gala dinner at the historic Willard Hotel on Tuesday evening, March 28th. Kentucky Governor Paul Patton, the state's entire congressional delegation, and many other notable figures with Kentucky roots will attend this tribute. Because of your close friendship with Ms. Thomas, we hope you will accept our complimentary invitation to join us for dinner on this exciting evening.

Established in 1998, the Henry Clay Distinguished Kentuckian Award is the Society's highest form of recognition. Presented biennially, the award recognizes the accomplishments of one noted Kentuckian whose pursuits, a portion of which must have been made while a resident of the National Capital Region, have received national acclaim or brought honor to the Commonwealth of Kentucky. It is also important to note that the net proceeds from the dinner provide funds to support the Henry Clay Internship in Public Policy program. These internships provide students from Kentucky colleges and universities practical experiences in government through service as Clay interns in Congressional offices as well as positions in the executive and judicial branches.

We look forward to having you as our guest at this tribute to Ms. Thomas. Should you have any questions regarding the Henry Clay Distinguished Kentuckian Award or the dinner arrangements, please contact me at 202-484-1931. I look forward to hearing from you soon.

Sincerely,

B.G. Wright

B.G. Wright
Program Committee Co-Chair
The Kentucky Society of Washington

Texans Council for Higher Education

'00 FEB 1 AM11:40

2/1/00

January 31, 2000

Send to Burkhardt

Yes ✓

No

William Jefferson Clinton, President
Executive Office of the President
1600 Pennsylvania Avenue
Washington, D.C. 20500

Carol

VIA FAX 202-456-2883
c/o Betty Currie

Dear Mr. President:

The Bayou Bend Chapter of Texas Southern University, alumni and friends along with the Prairie View and Texas Southern Universities Committee for Survival are concerned about the plight of these two Historical Public Colleges in Texas.

We have attempted to work with Secretary of Education, Richard W. Riley's personnel but activities of the past, including today's revelations do not inspire confidence that the future will be any brighter. A consultant to "OCR" indicated in a public meeting of the Office of Civil Rights and the Texas Coordinating Board that closure as an viable option in the current investigation of the Texas Statewide System of Higher Education. He said other damaging things including but not limited to "not recommending professional programs for Prairie View and Texas Southern," not recommending permanent university funds for said universities and not consulting with the affected parties as to the appropriateness of the proposed remedy.

If we could get you to get this letter into the hands of the President . . . then maybe the White House will oppose closing Public Black Colleges. On January 7, 2000, Seth P. Waxman opposed the granting of Certiorari in **Ayers v. Fordice**, 99-6965 which is against this administrations stated policy. We urge you to look into this matter as soon as possible.

Sincerely,

G. D. Provost

Georgia D. Provost

Enclosures

3821 N. MacGregor Way, Suite 102 • Houston, TX 77004 • (713) 527-8964 • fax (713) 942-7374

Committee on OCR Issues

Monday, January 31, 2000
John B. Coleman Health Science Center, Room 151
Houston Community College District
1900 Galen Drive
Houston, Texas 77030

AGENDA

10:00-10:15	Welcome; review and approve minutes
10:15-12:00	Public comment
12:00-12:30	Lunch, Room 363A/B
12:30- 1:30	Subcommittee meetings
	Mission/Programs, Room 436 Facilities, Room 437 Funding, Room 466 Recruitment, Retention and Graduation, Room 468
1:30- 4:00	Committee discussion regarding preliminary subcommittee recommendations
4:00	Adjourn

CHARGE TO THE COMMITTEE ON OCR ISSUES

Texas is committed to providing quality education for all its people. In addition, the state is committed to strengthening Texas' historically black universities, Prairie View A&M University and Texas Southern University, along with the state's other public universities. To carry out those commitments, the Texas Higher Education Coordinating Board will create a new higher education plan for the entire state. The concerns raised by the Office for Civil Rights (OCR) of the U.S. Department of Education will be addressed through the process used to develop the new plan.

The Higher Education Planning Committee appointed by the Coordinating Board chair will recommend the new plan to the Board. The Planning Committee will receive recommendations from the Task Force on Participation and Success, the Task Force on Medical, Nursing and Allied Health Education, the Task Force on Development of the Technological Workforce and from the Committee on OCR Issues.

The Committee on OCR Issues is charged to do the following:

1. Review the OCR issues regarding mission, land grant status, program duplication, facilities, funding, and equality of access to educational opportunities at Prairie View A&M University and Texas Southern University. As part of the review, receive information from OCR and its experts.

2. As part of the Coordinating Board's new statewide plan to improve higher education for all Texans, identify the best measures that Texas can implement to address the issues raised by OCR.

3. Identify any further issues and steps that Texas should consider to strengthen Prairie View A&M University and Texas Southern University.

4. By April 2000, provide the Coordinating Board's Higher Education Planning Committee with recommendations for strengthening Prairie View A&M University and Texas Southern University as part of the new plan for Texas higher education.

5. Conduct an open process that gives all stakeholders an opportunity to provide input.

revised 10/13/99

Notice of Application of Supreme Court Decision

SUMMARY: In *United States* v. *Fordice*, ___ U.S. ___, 112 S.Ct. 2727 (1992), the Supreme Court held that States that operated *de jure* segregated higher education systems have an affirmative duty under the Equal Protection Clause of the Fourteenth Amendment to the Constitution and Title VI of the Civil Rights Act of 1964 to dismantle those systems and their vestiges. This notice is published in response to a number of questions the Department has received concerning the effect of this decision.

EFFECTIVE DATE: January 28, 1994.

FOR FURTHER INFORMATION CONTACT: Jeanette J. Lim, U.S. Department of Education, 400 Maryland Avenue, SW., room 5036 Switzer Building, Washington, DC 20202–1174. Telephone: (202) 205–8635. Individuals who use a telecommunications device for the deaf (TDD) may call the TDD number at (202) 205–9683 or 1–800–421–3481.

SUPPLEMENTARY INFORMATION: Title VI of the Civil Rights Act of 1964 (Title VI), 42 U.S.C. 2000d *et seq.*, prohibits discrimination on the basis of race, color, or national origin in any program [illegible] Education (Department) has promulgated regulations in 34 CFR part 100 to effectuate the provisions of title VI with regard to programs and activities receiving funding from the Department. Title VI also guides the Department's enforcement policies regarding State higher education systems that were previously determined to be segregated pursuant to [illegible] for Civil Rights (OCR) of the Department of Education will follow when investigating States with a history of *de jure* segregated systems of higher education.

This notice is published in response to a number of questions the Department has received concerning the effect of the Supreme Court's decision in *United States* v. *Fordice*, ___ U.S. ___, 112 S.Ct. 2727 (1992), on the Department's enforcement policies under Title VI regarding State higher education systems that were segregated pursuant to State law.

In *Fordice*, the Supreme Court held that States that operated *de jure* segregated higher education systems have an affirmative duty under the Equal Protection Clause of the Fourteenth Amendment to the Constitution and Title VI to dismantle those systems and their vestiges. The Court, while acknowledging the differences between public higher education systems and elementary or secondary school systems, based this holding on the precedent established in its 1954 decision in *Brown* v. *Board of Education of Topeka* and its progeny in elementary and secondary school desegregation cases. 112 S.Ct. at 2736.

The Supreme Court also held that before a determination can be made that a State has discharged its affirmative duty to eliminate the vestiges of its *de jure* system, an examination must be made of a "wide range of factors to determine whether [a] State has perpetuated its formerly *de jure* segregation in any facet of its institutional system." 112 S.Ct. at 2735. This holding is consistent with the Department's policy requiring that the vestiges of *de jure* segregation be eliminated system-wide in State higher education systems, which is reflected in the Department's published "Revised Criteria Specifying the Ingredients of Acceptable Plans to Desegregate State Systems of Public Higher Education," published in the Federal Register on February 15, 1978 (43 FR 6658) ("Revised Criteria"). The "Revised Criteria" specify a broad range of factors, which include those addressed in *Fordice*, that must be included in a statewide higher education desegregation plan to be acceptable under Title VI.

The Supreme Court made clear in *Fordice* that (1) a State will not have complied with its affirmative duty to dismantle the vestiges of segregation if it merely adopts race-neutral policies and practices [illegible] its prior system that continue to have segregative effects—whether by influencing student enrollment decisions or by fostering segregation in other facets of the university system—and such policies are without sound educational justifications and can be practicably eliminated, the State has not satisfied its burden of proving that it has dismantled its prior system," 112 S.Ct. 2735, 2737. [illegible] burden of proof falls on each State to establish that it has dismantled its prior *de jure* segregated system. 112 S.Ct. at 2741.

In light of the *Fordice* decision, the Department reaffirms that all States[1] with a history of *de jure* segregated systems of higher education have an affirmative duty to ensure that no vestiges of the *de jure* system are having a discriminatory effect on the basis of race. If OCR receives information indicating that a State has not met this affirmative duty, OCR will take appropriate action.

OCR will apply the standard set out in *Fordice*, requiring the elimination of the vestiges of prior *de jure* segregation, to all pending Title VI evaluations of statewide higher education systems with OCR-accepted desegregation plans that have expired. The States with expired plans are Florida, Kentucky, Maryland, Pennsylvania, Texas, and Virginia. OCR will examine a wide range of factors to ensure that the vestiges of these States' *de jure* systems have been eliminated. The comprehensive array of factors that OCR will consider includes those addressed in *Fordice* and those reflected in the ingredients for acceptable desegregation plans specified in the Department's "Revised Criteria." Accordingly, OCR will ensure that these States have implemented their OCR-approved desegregation plans and have eliminated the vestiges of their *de jure* segregated systems.

Finally, the Department reaffirms its position reflected in the "Revised Criteria," which is consistent with *Fordice*, that States may not place unfair burdens upon black students and faculty in the desegregation process. Moreover, the Department's "Revised Criteria" recognize that State systems of higher education may be required, in order to overcome the effects of past [illegible] enhance traditionally or historically black institutions. The Department will strictly scrutinize State proposals to close or merge traditionally or historically black institutions, and any other actions that might impose undue burdens on black students, faculty, or administrators or diminish the unique roles of those institutions.

Dated: January 26, 1994.

Norma V. Cantu, [illegible]

[FR Doc. 94–2042 Filed 1–28–94; 8:45 am]

BILLING CODE 4000–01–P

[1] Included are the eight States which, in the late 1980's before the Supreme Court rendered its decision in *Fordice*, OCR found in compliance with Title VI. The States OCR found to have complied with Title VI were Arkansas, Delaware, Georgia, North Carolina, Missouri, Oklahoma, South Carolina, and West Virginia. OCR's findings were based on its investigations that showed that these States had implemented their OCR-approved desegregation plans, which were developed pursuant to the "Revised Criteria."

federal register

Monday
January 31, 1994

Education Department
NOTICES

Nondiscrimination on basis of race, color, or national origin in Federally assisted programs or activities; Supreme Court decision application, 4271–4272

Coalition to Save PVAMU & TSU

Contact:
G. Provost, 713-527-9488
R. Gilmore, 713-949-2381

For Immediate Release:
Houston/Nationwide

"Texas Higher Education Coordinating Board Asked To Resign for Continued Violations of Title VI Civil Rights Law"

.... Texas Governor George W. Bush stated recently,' every objective that's looked at my state recognizes we're making great improvements when it comes to the education of our children, particularly among African-American and Hispanic youngsters". Obviously Governor Bush was not referring to the sentiments of the Coalition to Save Texas Southern University and Prairie View A & M University supporters for equity and Justice.

.... The Coalition to Save PVAMU and TSU are demanding the Texas Higher Education Coordinating Board resign for continued violations of the Supreme Court Title VI ruling, a new Federal Class Action suit has been filed in the United States District Court. The Coalition will give public testimony on January 31st from 10 am to 12 noon, at the Houston Community College, John B. Coleman Health Science Center, 1900 Galen Drive in the Medical Center.

.... The Coalition is not satisfied with the leadership of Governor George W. Bush and believes that if the Governor is going to be a National leader, he needs to deal with the State of Texas and its Civil Rights violations. A press conference will be held at 12 Noon, at the John B. Coleman Center.

fax cover sheet

Date: January 31, 2000

Number of pages 6 (including cover page)

to: Name Ms. Betty Currie

Company For - President William Clinton

Telephone

Fax 202-456-2883

AFFIRMING TOMORROW
THROUGH
ACTION TODAY

from: Name Georgia D. Provost

Comments

Black Texans Council for Higher Education

3821 N. MacGregor Way • Houston, Texas 77004 • (713) 527-8964 • (713) 942-7374 Fax

THE WHITE HOUSE

WASHINGTON

Date 2/1/00

To: Josh Gottheimer

From: The Staff Secretary

Could we get drafts for these two Forewords by March 10th?

Thanks,

Justin

THE WHITE HOUSE

WASHINGTON

January 12, 2000

MEMORANDUM FOR SEAN MALONEY

FROM: TIM SAUNDERS
Executive Clerk

SUBJECT: **Forewords for the Next Two Volumes of the President's Public Papers (1/1/1999 - 6/30/1999 and 7/1/1999 - 12/31/1999)**

As you know, the Executive Clerk serves as White House Liaison to the Office of the Federal Register. I have received the attached from the Office of the Federal Register requesting Forewords for the next two volumes (13^{th} and 14^{th}) of the President's Public Papers.

The Federal Register asks to have the two Forewords by April 3, 2000.

When completed, we will take care of getting the signed Forewords to the Federal Register.

To you for appropriate staffing.

Thank you.

National Archives and Records Administration

Office of the Federal Register

Washington, DC 20408

January 3, 2000

G. Timothy Saunders
Executive Clerk
The White House
Washington, DC 20500

Dear Mr. Saunders:

The Office of the Federal Register, National Archives and Records Administration, is currently preparing the 13th and 14th volumes of the Public Papers of William J. Clinton. Each volume customarily contains a Foreword signed by the President. Please provide us with TWO Forewords: one covering the period January 1, 1999 - June 30, 1999, and a separate second Foreword covering the period July 1, 1999 - December 31, 1999.

The Foreword is an opportunity for the administration to highlight or summarize events or accomplishments which occurred during the period covered by each volume. Enclosed are copies of Forewords used in previous volumes.

We need to receive both signed Forewords by April 3, 2000, in order to meet our contract deadline.

If your have any questions, please feel free to contact me or Karen Ashlin at 202-523-5230 or Michael Sullivan at 202-456-2988.

Sincerely,

Gwen H. Estep

GWEN H. ESTEP
Chief, Presidential and Legislative Publications Unit
Office of the Federal Register

Enclosures

Sid B fyi B

2-1-00

copied
Blumenthal
Podesta

Lionel Jospin, France's would-be president

IN AMERICA, the spin doctors would despair: Lionel Jospin's frown is a touch too frequent, his suits a bit too rumpled, the prime-ministerial sound-bites all too rare. But no matter: this is France, where attention spans are longer and televisual gloss is not yet the defining characteristic of the politician. Indeed, the opinion polls assert that Mr Jospin, for all the austere air that the French put down to his Protestant origins, is now the most popular prime minister since Jacques Chaban-Delmas a generation ago. Could it be, then, that after the spring of 2002, when the head of state is due for election, France will be speaking of President Jospin?

The present incumbent, Jacques Chirac, certainly fears so. Already almost any public occasion, from international rugby matches to the ritual greeting of a new millennium, is an excuse for veiled electioneering, pitting the conservative president against his socialist prime minister. In theory, such events play to the president's advantage. Mr Chirac has, after all, a personal warmth and an unflagging desire to press the electoral flesh that is positively Clintonian.

But Mr Jospin is catching up fast. When a shipwrecked oil-tanker began smearing France's Atlantic coastline just before Christmas and violent storms scarred the nation's forests and architectural wonders soon after, causing at least 88 deaths and $11 billion-worth of damage, it was Mr Jospin who seized the moment. Somehow, when the prime minister, in long overcoat and knotted scarf, tramped across the wintry beaches of the Vendée or gazed at uprooted trees at Versailles, his praise of "solidarity" and public service came over as patently sincere. By contrast, Mr Chirac's enthusiasm for those very same virtues seemed a shade contrived.

These are, of course, early days. Many a banana skin will be strewn in the prime minister's path: barring a vote to change the timetable, a new parliament will be elected in March or April 2002, a new president in May. Mr Jospin has already lost a clever finance minister, Dominique Strauss-Kahn, to allegations of corruption. What if magistrates smell other whiffs in Socialist cupboards?

Or what if Mr Jospin's Socialists start squabbling with their coalition partners—the Communists, the Greens and an old-guard socialist faction? There are plenty of actual or potential irritants: the implementation, from this month, of the 35-hour week; proposals to reform France's tortured systems of justice and taxation; the need to overhaul pensions. Moreover, when France assumes the European Union's rotating presidency in July, there will surely be foreign jibes at its blithe willingness to flout EU law, not least if it goes on banning British beef.

To which Mr Jospin is already reacting with an appropriately Gallic shrug. "If Tony Blair were in my place, he would have done just the same," he recently told British journalists invited to Matignon, his elegant official residence, as part of a charm offensive to soothe British feelings. He may be right. After all, both men are pragmatists who are good at cajoling their followers: witness Mr Jospin getting his Socialists to practise privatisation, whereas his conservative predecessors tended merely to preach it.

But is Jospinism the same as Blairism? Does a Third Way link the two sides of the Channel? Mr Blair would like to think so. In November, when the world's social democrats met in Paris at a shindig of the Socialist International, Mr Blair deliberately equated Mr Jospin's modernising instincts with his own. But Mr Jospin, who in June had declined to join Mr Blair and Germany's chancellor, Gerhard Schröder, in signing a "Third-Way manifesto", squirmed in silent annoyance.

One can see why. The word socialism has been almost banished from the Blairite lexicon, whereas for Mr Jospin, who at 62 may view 46-year-old Mr Blair as a bit of an upstart, it remains his mantra. As one Matignon courtier points out, Mr Blair's modernising of the left was made possible by the right-wing radicalism of the Thatcher era. By contrast, Mr Jospin has had no such helpful precursor: France's right, like its left, believes instinctively in the state's superiority and in the public sector's honourable and essential role. In other words, the Third Way is a heresy, a code for abandoning the true faith, and the true faith needs no more than some updating: programmes to educate the jobless into jobs, for example, balanced by tax breaks and share options for capitalist employers. As Mr Jospin loves to say, most recently in his new-year "good wishes" to President Chirac: "The world is more than a market. Our societies need rules. The economy must be at the service of man, not the other way round."

Too good to be true? Despite the robust growth of the French economy, few within the government expect the 35-hour week to perform job-creating miracles for the tenth of the labour force still without work. And Mr Chirac is right to chastise the government for timidity on reforming pensions.

But so what? French voters have learned to live with high unemployment. And they have warmed to Mr Jospin: he may be part of the elite group that have passed through the Ecole Nationale d'Administration, but he is not condescendingly brilliant like his conservative predecessor, Alain Juppé. He grew up with a father who ran a school for delinquents; he played basketball at university; abandoned a diplomatic career to teach economics in an unfashionable suburb of Paris. When he was a guest recently on the Eurosport television channel, he clearly knew his stuff, from tennis to rugby. Populist as Mr Chirac can be, he would have been hard put to have performed so well.

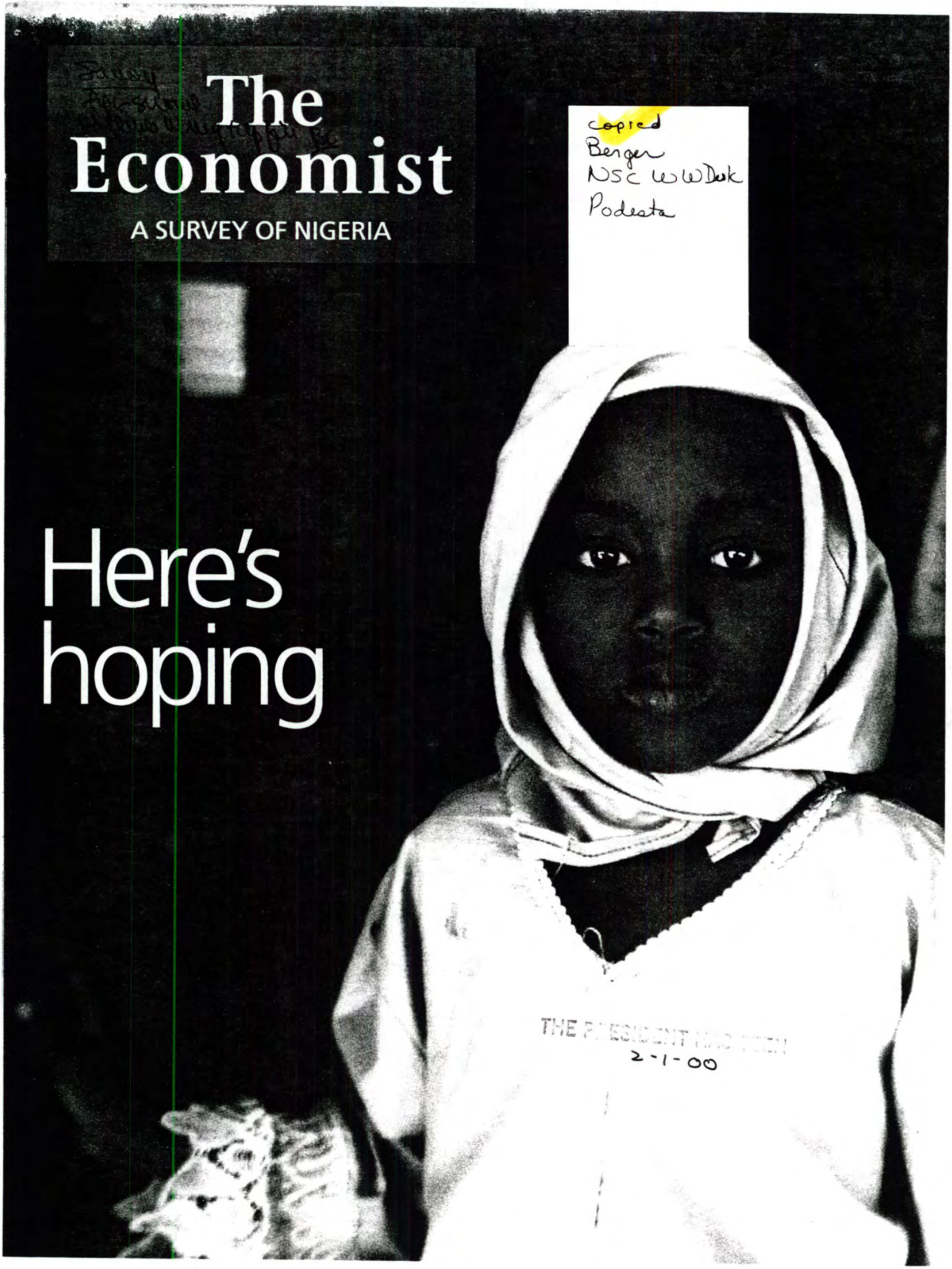
Mr Jospin's political skills are undoubted. In 1995, he came from almost nowhere—after just a spell as a minister for education, from 1988 to 1992—to lead his party and then run Mr Chirac a close race for the presidency. In 1997, he surprised even himself by leading the left to victory after Mr Chirac had called a snap parliamentary election. Now he rules with an iron hand, summoning ministers back from their Christmas holidays to "show solidarity" with the people after the December storms. If Mr Chirac, with his conservatives in disarray, is getting worried, who can blame him?

The Economist

A SURVEY OF NIGERIA

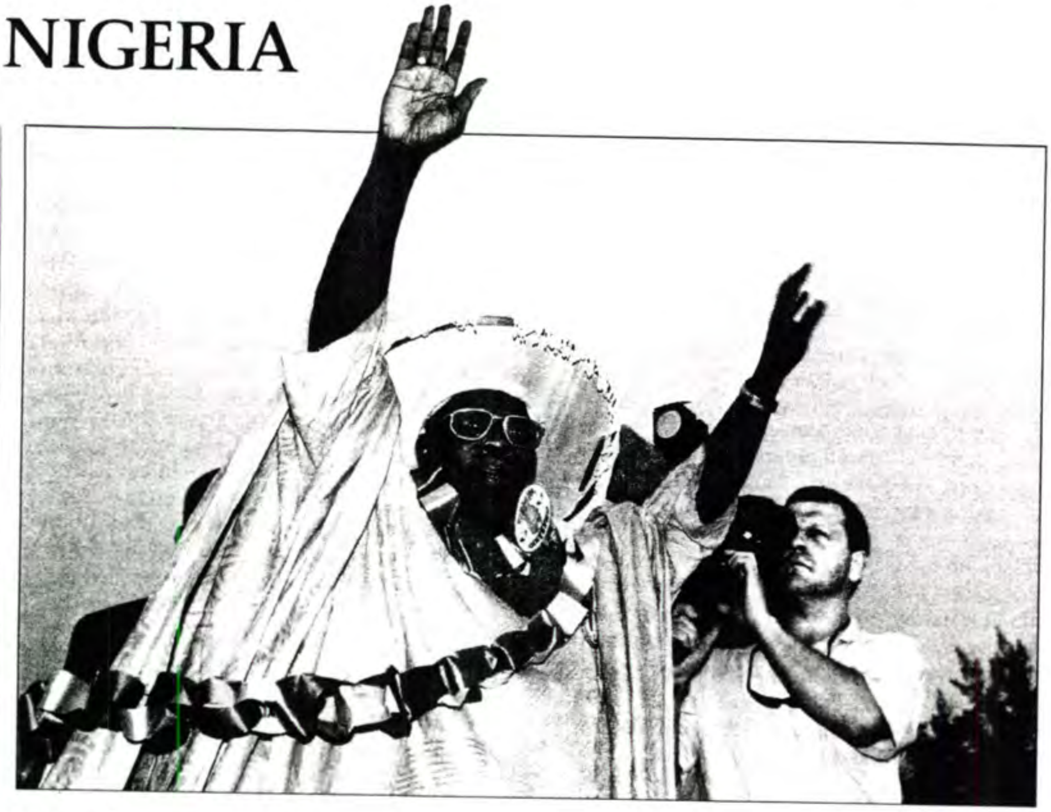
Here's hoping

copied
Berger
NSC WWDesk
Podesta



THE PRESIDENT HAS SEEN
2-1-00

NIGERIA



Under new management

Nigeria's new president has made a promising start on repairing the damage done by his predecessors. But he has a mountainous task ahead of him, reports Robert Guest

The trouble with Nigeria is simply and squarely a failure of leadership. There is nothing basically wrong with the Nigerian character. There is nothing wrong with the Nigerian land or climate or water or air or anything else. The Nigerian problem is the unwillingness or inability of its leaders to rise to the responsibility, to the challenge of personal example which are the hallmarks of true leadership.

SO WROTE Chinua Achebe, a Nigerian novelist, in 1983. Between then and now, his gloomy book, "The Trouble with Nigeria", has been perhaps the best short account available of how his native country worked—or rather, how it did not work. Ruled by soldiers for all but six years since 1966, Nigeria has suffered one civil war, six violent changes of government, and the continual theft and squandering of public funds by its leaders. Blessed with fertile soil, floods of oil, and a huge, energetic, talented population, Nigeria should be Africa's giant. That it is instead one of the poorest countries in the world is largely the fault of a succession of awful military dictators. But the sudden death of the most recent and perhaps worst of them, Sani Abacha, has given Nigeria a chance to recover.

General Abacha, who seized power in 1993, died of a heart attack in June 1998. An interim government led by General Abdulsalami Abubakar promised to restore democracy in stages, with elections first for local governments, then for state governments, then for a national assembly and for the presidency itself. To many people's surprise, he kept his word. The elections were marred by bribery—of which all parties were guilty—but the result is widely agreed to reflect the will of the Nigerian people. On May 29th 1999, Olusegun Obasanjo, a 62-year-old chicken farmer, was sworn in as Nigeria's first democratically elected president since the toppling of Shehu Shagari in 1983.

The challenge facing Mr Obasanjo is daunting. His country is poor, indebted and riven by ethnic violence (which left 100 people dead in Lagos at the end of November). The roads are pitted with potholes and clogged with rubbish. Telephone and power lines work intermittently at best, and often not at all. Factories are idle. So, resentfully, are millions of urban youths. After a long spell of crude despotism, Nigeria has no tradition of democracy, nor of effective governance. For as long as most Nigerians can remember, the rewards for honesty and industry have been miserable, whereas corruption has paid magnificently. Nigeria had become "the open sore of a continent", in the words of Wole Soyinka, the country's 1986 Nobel laureate for literature.

Wanted: true leadership

Seven months after assuming power, Mr Obasanjo is hard at work applying ointment to that sore. He has some useful qualifications. First, although he was once Nigeria's military ruler, he was not personally corrupt, and had landed the top job more by chance than by design. In 1976, after the assassination of the then ruler, Murtala Mohammed, Mr Obasanjo, as his deputy, took over. He stayed in office long enough to organise elections, and in 1979 handed over power to an elected civilian. It was not Mr Obasanjo's fault that this civilian regime was corrupt, and was soon swept away in a coup.

This time he has a mandate to keep Nigeria democratic. To this end, he has subdued the mili-

tary. More than 100 officers with links to the old regime have been retired, and non-political soldiers have been put in charge of the army. Some of those close to Abacha, including his son, are being prosecuted for an array of alleged crimes, including murder. Efforts to recover some of the money that the late dictator and his cronies stole have produced a haul of over $700m. There may be more to come.

Ordinary Nigerians, fed up with being robbed and bullied by their leaders, would probably like to see harsh punishments for the old regime, but Mr Obasanjo, a former political prisoner himself (he served three years of a 15-year sentence for allegedly plotting a coup against Abacha before the tyrant's death set him free), is inclined to be gentle. Indeed, Nigeria today is a far less fearful place than it was a couple of years ago. General Abubakar began the good work by releasing political prisoners and stop-

The last despot?

IN 1994, Wole Soyinka predicted that Sani Abacha would be Nigeria's last despot. The man was so cruel, and so incompetent, Mr Soyinka argued, that after his passing Nigerians would never again submit to military rule. With luck, he may be proved right. Abacha gave the army such a bad name that hardly anyone in Nigeria now has a good word to say for the men in green. The most political generals have been sacked. Those who are not being prosecuted have retired to their estates to play with their Lamborghinis. Doubtless this leaves behind some ambitious junior officers who still hope one day to make their own fortunes in government. They may be biding their time, waiting for a suitable opportunity for a coup. Ethnic violence or an economic collapse might one day provide such a pretext. But for now, democracy is popular. Abacha's parting gift to the nation he pillaged was to make Nigerians determined never to see his like again.

Most of Nigeria's uniformed rulers have been heavy-handed. When General Muhammadu Buhari seized power in 1983, he decided that military-style discipline was the way to put Nigeria to rights. His thugs started enforcing orderly queuing and the flying of the national flag above every shop, from department stores to roadside fruit stalls. On the last Saturday of every month, all Nigerians had to stay home and clean up their neighbourhoods. Civil servants who arrived late for work were forced to do the "frog-jump", leaping up and down in a squatting position with their hands on their ears. Some suffered heart attacks. General Ibrahim Babangida, who overthrew Buhari in 1985, was more crafty in his exercise of power, but more ruthless too. In 1990, he had 69 fellow army officers executed after trials before a military tribunal, for allegedly plotting a coup against him.

Abacha, who took over in 1993, brought Nigeria to new lows. Dissidents were beaten, hung upside down and starved to make them confess or implicate others. Political prisoners were tried in camera, before martial courts that rarely set them free. Common criminals, such as armed robbers, were whisked through swift summary courts and shot without the right to appeal. In 1995, Abacha had the novelist Ken Saro-Wiwa hanged even as leaders of the British Commonwealth, gathered in New Zealand for a summit, were trying to persuade him to show mercy. Nigeria was expelled from the Commonwealth the next day, and limp sanctions were imposed on it.

Abacha persecuted many of Nigeria's most famous offspring. Olusegun Obasanjo, the current president, was jailed after a rigged trial for treason. Shehu Yar'Adua, who was Mr Obasanjo's deputy in the 1970s, died in custody in 1997, some say of a lethal injection administered by Abacha's hired killers. Moshood Abiola, a millionaire businessman who was set to win the 1993 presidential election before the army cancelled the vote count, was jailed for declaring himself president. When he died in jail within a month of Abacha's death, apparently of a heart attack, some of his fellow tribesmen assumed that he had been murdered to prevent a Yoruba winning power. Many people died in the ensuing riots. In 1994, Abacha had Mr Soyinka's Nigerian passport confiscated, driving the writer into exile in America—where many members of the Nigerian middle class had already emigrated in search of an easier life.

When Abacha died, the terror ceased. Abdulsalami Abubakar, the interim ruler, gradually released some 140 political prisoners, and oversaw the free and reasonably fair elections that elevated Mr Obasanjo to the presidency. The military budget is to be cut. Mr Obasanjo hopes that the UN will help to pay for Nigeria's peacekeeping efforts in Sierra Leone and Liberia, which have cost an estimated $8 billion over the past decade. Abacha's son Mohammed and four others face trial for the murder of Abiola's wife, Kudirat, in 1996. An investigation into past human-rights abuses, loosely modelled on South Africa's truth commission, has accepted 11,000 submissions. There are still reports of police and army brutality, but overall the state is incomparably more respectful of human rights than it was. Some Nigerians lament that the newly restrained police are not tough enough on thieves and hijackers. But most celebrate the death of despotism, and hope that it never revives.

Mostly inglorious **1**

Nigerian leaders since independence

Name	Period in power	Type of government	Reason for losing office
Nnamdi Azikiwe	1960-66	Civilian	Coup
Johnson Aguiyi-Ironsi	1966	Military	Coup
Yakubu Gowon	1966-75	Military	Coup
Murtala Muhammed	1975-76	Military	Assassinated
Olusegun Obasanjo	1976-79	Military	Called election and retired
Shehu Shagari	1979-83	Civilian	Coup
Muhammadu Buhari	1983-85	Military	Coup
Ibrahim Babangida	1985-93	Military	"Stepped aside"
Ernest Shonekan	1993	Civilian	"Resigned"
Sani Abacha	1993-98	Military	Died in office
Abdulsalami Abubakar	1998-99	Military	Called election and retired
Olusegun Obasanjo	1999-	Civilian	–

And mostly military, too: Gowon, Shagari, Buhari and Abacha

ping the security forces from harassing dissidents. Mr Obasanjo has continued in that vein (although his use of the army to crack down on terrorism in the Niger delta has recently caused concern). Journalists at Nigeria's dozens of lively, opinionated newspapers, who once risked being roughed up or worse by the security forces, now work unmolested.

On the economy, too, Mr Obasanjo has made a reasonable start. He claims to have abandoned the statist philosophy he espoused in the 1970s, and to have embraced the market. He has relaxed exchange controls and promised to privatise, deregulate and fight corruption. For the first time in decades, there is a feeling of optimism in the air. Now that the country is no longer a pariah, America and Europe have pledged more aid. There is talk of debt relief in the future, and perhaps even a bit of foreign investment. For the Nigerian in the street, the most visible change is the easy availability of petrol. Under Abacha, pumps ran dry and the president's friends made fortunes cornering supplies at the low official price and selling them at the much higher black-market rate. Day-long queues formed outside petrol stations. For the citizens of one of the world's largest oil-producing countries, not being able to buy fuel was perhaps the worst humiliation. Mr Obasanjo all but ended it with a few honest appointments.

Mr Obasanjo comes closer than any of Nigeria's recent presidents to providing the "true leadership" Mr Achebe called for. But his predecessors left Nigeria so horribly broken that it will take a lot of time and skill to mend it.

A tale of two giants

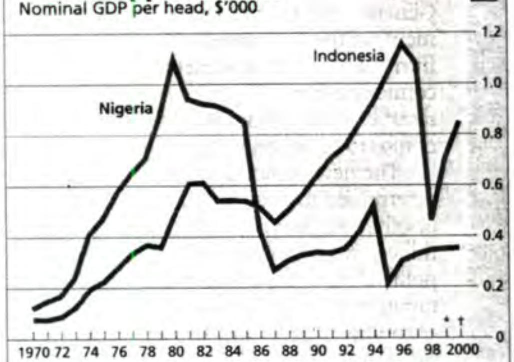
Why Indonesia has beaten Nigeria hands down

TO UNDERSTAND the scale of Nigeria's failure, it is helpful to compare it with Indonesia. The two countries are superficially similar. Both are huge, populous (Indonesia has 200m people; Nigeria perhaps 100m), and ethnically diverse. Both countries have suffered military rule and, at times, terrible violence. At independence, in 1945 and 1960 respectively, both Indonesia and Nigeria were extremely poor; most of their people were subsistence farmers. But then both struck oil, and after the sudden quadrupling of the oil price in 1973-74 both were deluged with floods of petrodollars.

Nigeria has received some $280 billion in oil revenues since the early 1970s. Through foolish investments, graft and simple theft, this vast fortune has been wholly squandered. In fact, because successive Nigerian governments borrowed billions against future oil revenues and wasted that money too, it is fair to say that Nigeria blew more than its entire oil windfall. Nigerians are, on average, poorer today than they were in 1974, despite the recent surge in the oil price, and the country is saddled with debts of about $30 billion. Income per head in 1998 was a wretched $345, less than a third its level at the height of the boom in 1980.

Indonesia, which has not always been a model of good governance either, has fared much better. GDP per head rose from under $200 in 1974 to over $1,000 in 1996 and 1997. A currency crash brought it tumbling down to below $500 in 1998, but it bounced back to an estimated $700 last year. Indonesia's cake not only grew fast; it was also, despite the depredations of the Suharto family, more fairly sliced than Nigeria's shrinking one. In the mid-1990s, the poorest fifth of Indonesia's people accounted for 8% of national income, compared with about 4% for the bottom fifth in Nigeria. By 1997, according to the United Nations Development Programme (UNDP), Nigerians were more than twice as likely as Indonesians to be illiterate or to die before the age of 40, and seven times as likely to lack access to basic health care.

Missed opportunities 2
Nominal GDP per head, $'000



Sources: IMF; EIU *Estimate †Forecast

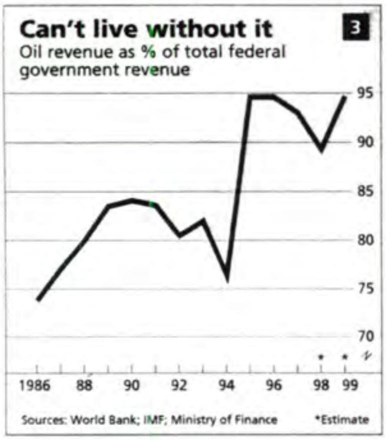
What could account for such disparities? Corruption was undoubtedly a factor. Bad in Indonesia, it was much worse in Nigeria. Raconteurs in Lagos bars tell it this way:

> A Nigerian and an Indonesian attend a foreign university together in the 1960s and become friends. After graduation, each returns home to join the government. Several years later, the Nigerian visits his colleague in Jakarta, and finds him living in a big, luxurious house with a Mercedes car parked outside. 'How can you afford such a nice house on a politician's salary?', asks the Nigerian. 'Do you see that road?', replies the Indonesian, pointing to a magnificent highway outside. 'Ten per cent.' Some time later, the Indonesian goes to visit his Nigerian friend, and finds him living in a vast palace with ten Mercedes cars parked outside. Amazed, he asks where the money had come from. 'Do you see that road?' asks the Nigerian, pointing to a thick tangle of rain forest. 'A hundred per cent.'

A recent World Bank study* puts it more soberly: "Indonesia turned oil income into productive investment, whereas Nigerian oil income was either siphoned abroad or used for prestige projects."

The oil money came so suddenly, and in such vast quantities, that the government did not know what to do with it. In 1960, oil accounted for 1% of federal government revenues. Since then it has risen to about 95% (see chart 3, next page). It was easy money. Foreign firms found and extracted the oil; the Nigerian government simply opened its coffers and watched the dollars gush in. The generals, as-

*"Nigeria and Indonesia: The Political Economy of Poverty, Equity and Growth", by David L. Bevan, Paul Collier and Jan Willem Gunning. Oxford University Press, 1999.



suming that the boom would last forever, spent carelessly. They also helped themselves and their friends to a big wad of the cash.

Most of Nigeria's rulers have been crooked, but Sani Abacha was probably more crooked than the rest. Whereas his predecessors usually made at least some effort to disguise their thieving, for example by laundering the loot through dummy companies, Abacha simply grabbed it straight from the treasury and stashed it in his offshore accounts. His most blatant scam was the Petroleum Trust Fund (PTF), set up in the mid-1990s, ostensibly to channel the extra revenue from an increase in the domestic fuel price into infrastructure and other investments. The fund was not independently audited, and almost none of the money that sloshed through it was properly accounted for. It was a vehicle for Abacha and his friends to spend at will a sum that in 1996 was equivalent to a quarter of the federal budget. Some went on padded contracts for friends. Some was stolen. Abacha himself, ever nervous of his position as an unelected, unpopular leader, spent lavishly on his personal security, and handed out bricks of banknotes to bigwigs whose support he wanted to buy.

The fat of the land

How much did Nigeria's military rulers steal for their own use? Newspapers in Lagos bandy about numbers in the tens of billions of dollars, but the true total will probably never be known. Visitors to Kaduna, a town in northern Nigeria where a number of retired generals live, cannot fail to be impressed by their huge mansions, complete with private mosques and satellite dishes bigger than many poor people's houses. Senior officers often own several such houses, not to mention dozens of the sort of snazzy sports cars seen parked outside the Kaduna polo club.

But even more harmful to Nigeria than the generals' thieving was the way military governments squandered money they were legally entitled to spend. Visitors to the Ajaokuta steel plant, for instance, are surprised to see goats grazing among the gantries and children playing by the silent rolling mills. Nigeria flushed away a total of $8 billion trying to build a steel industry at Ajaokuta and elsewhere. The idea, first proposed in the 1970s, was that the country would become the Japan of Africa by industrialising heavily. Steel mills would turn local coke and iron ore into shiny metal, which would then be used to build railways. Contractors from the Soviet Union, tendering to build Ajaokuta, produced a 21-volume feasibility study, but it was never translated from Russian, and probably never read by any Nigerian decision-makers. They wanted a steel industry whatever the cost, partly as a matter of national pride, and partly because big projects brought big kickbacks. Ajaokuta has yet to produce a single bar of steel, and it will probably never be able to do so at a profit. Other steel mills in Nigeria operate fitfully, at a loss, and usually at a small fraction of capacity.

Another example of how corruption bred waste in Nigeria is the cement scandal that broke under the civilian regime of Shehu Shagari in the early 1980s. President Shagari announced a grand public housing project, for which his government ordered vast quantities of cement—more, it turned out, than Nigeria's ramshackle ports could cope with. Ships loaded with cement formed a queue stretching for miles outside Lagos harbour, creating a spectacle that commercial pilots would take a detour to gawp at, and racking up months of demurrage fees. Meanwhile the officials responsible were making a fortune from selling cement import licences.

Perhaps the most egregious example of pointless extravagance is the capital city itself. Abuja was conceived as a symbol of national unity, a new capital in the centre of the country, unburdened by connections with any of Nigeria's many squabbling ethnic groups. Instead, it became a symbol of the profligacy of the regime of General Ibrahim Babangida (1985-93), which sank billions into the project and produced a glittering ghost town. No ordinary Nigerian can afford to live there, but no state governor can afford not to make regular begging trips to the capital.

In the world corruption rankings compiled by Transparency International, a Berlin-based consultancy, Nigeria has consistently been among the worst offenders. Last year it was rated the second most crooked country, beaten only by neighbouring Cameroon. The pilfering continued right until the end of General Abubakar's transitional government. In the last months of military rule, a flurry of public contracts went to well-connected firms. Nigeria's foreign-exchange reserves shrank from $6.7 billion at the end of 1998 to $4 billion at the end of March 1999.

The new democratic government seems determined to clean up this mess somehow or other. But having sacked a few powerful thieves is not enough. The whole Nigerian political system, built up in a series of unfortunate steps over the past 40 years, tends to encourage corruption. To curb it, Mr Obasanjo must change the system itself. ■


Abuja is a picture to behold

The stony road to reform

So much to do, so hard to do it

FOR a crusader against corruption, Nigeria's new president has fine credentials. When he was last in charge of the country, he kept his fingers out of the till. Until last year, he was chairman of Transparency International's advisory council. Since assuming office, he has done many of the right things. Besides forcing the retirement of the army officers who most obviously grew fat on their links with the Abacha regime, he suspended government contracts dating from the last three months of General Abubakar's transitional administration, pending a review. He has appointed more able and honest men to run public agencies such as the petroleum refineries, and launched a probe into past wrongdoings.

Only the biggest offenders will be prosecuted, according to Christopher Kolade, who also used to work for Transparency International, and whom Mr Obasanjo put in charge of probing the contracts awarded under General Abubakar. Punishing everyone who took bribes in the past would mean sacking virtually the entire civil service, thereby bringing government to a standstill. Mr Kolade argues that what matters is to let people know that from now on graft will no longer be tolerated. But moral admonitions will not be enough. It is traditional for Nigerian rulers to announce a clean-up soon after taking office. In the past, this has usually meant locking up a few big shots from the previous regime, which may not necessarily have curbed baksheesh but was a handy way of getting rid of potential rivals.

This was why Britain refused to extradite Umaru Dikko, the man in charge of the notoriously corrupt rice task force under President Shehu Shagari. When Mr Shagari was overthrown on new year's eve in 1983, Mr Dikko fled to Britain. He was hunted down by the new regime, drugged, gagged and put in a diplomatic crate bound for Nigeria. Suspicious British customs officials found and released him. He was not sent back because Britain felt he would not receive a fair trial.

So far, Mr Obasanjo's anti-corruption drive seems admirably non-vindictive, but to have a chance of reducing corruption in Nigeria to a tolerable level Mr Obasanjo needs to make two drastic changes. First, he must reduce the temptation to seek bribes by paying bureaucrats adequately. Second, he must loosen the state's grip on the economy. This is not only desirable in itself, it will also reduce the power of officials to extort rents from Nigerian business.

Given the government's precarious finances, paying public servants properly will not be easy. In the past, civil-service salaries were reviewed only occasionally. Typically, they would be lifted to a fairly generous level when the oil price went up and then frozen for several years, so that Nigeria's high inflation rapidly reduced them to less than a living wage, even if they managed to get paid. Civil servants had the choice of taking an extra job or trousering bribes. Many chose bribes. Mr Abubakar's transitional government approved a substantial pay increase, but how much of this extra money will reach civil servants remains to be seen.

Lower-rung government employees are used to being paid late or not at all. Central-government revenues fluctuate wildly with the oil price. These fluctuations are reflected in the payments that trickle down to teachers, nurses and so on, and can be exacerbated if the officials in charge of disbursing their salaries are dishonest. Many state and local governments have not published audited accounts for 10-15 years, so a lot of money seeps away as it passes through the system. This is one reason why so many schools and clinics in Nigeria barely function. Unpaid staff are reluctant to show up for work. Those who do turn up often find that there is no budget for day-to-day running costs.

Exorcise the ghosts

One way to free up funds to pay civil servants properly would be to reduce their number, starting with the unknown but certainly huge number of "ghost" workers who get paid even though they are dead, or who never existed in the first place. Their salaries are pocketed either by relatives or by the officials who invented them. This kind of graft will be hard to curb until regular payroll records are kept.

To reduce the opportunities for corruption, fundamental changes will be needed to the way the Nigerian economy works. The instincts of the generals who have ruled Nigeria for most of the time since independence have been *dirigiste*. In the late 1960s and early 1970s they absorbed the ideas that were then fashionable: that governments of developing countries should seize the commanding heights of the economy, that the state should direct investment into "strategic" sectors such as heavy industry, and that all sorts of subsidies and controls were necessary to nurture and protect domestic agriculture and nascent manufacturers. Doubtless they sincerely believed all this. Their belief may have been reinforced, however, by the discovery that they could also direct money into their own pockets.

Contracts for building strategic factories were often parcelled out among firms owned by members of the tender board. Controls imposed costs that businessmen were prepared to pay bribes to avoid: in Nigeria, getting a licence to do more or less anything productive has for decades been conditional on handing over large amounts of cash. Subsidies were generally stolen before they reached their intended beneficiaries. Monopolies led to dreadful

Behind almost everyone 4

Latest available	Human Development Index* rank (out of 174)	Life expectancy, years	Infant mortality, per 1,000 live births	Adult literacy, %	Access to clean water, %
Thailand	67	68.8	31	94.7	89
Indonesia	105	65.1	45	85.0	65
Botswana	122	47.4	39	74.4	70
Zimbabwe	130	44.1	53	90.9	77
Nigeria	**146**	**50.1**	**112**	**59.5**	**50**
Côte d'Ivoire	154	46.7	90	42.6	72

Sources: UN; World Bank

*HDI measures achievement in terms of life expectancy, education and real income. 1=top

But can Obasanjo deliver?

service and a tradition of demanding bribes to make it less so: a few thousand naira to have a telephone line installed in days rather than years, a few thousand more to get power lines mended.

Past attempts at reform have failed, not least because so many Nigerians in top positions have benefited personally from bad policies. For example, in 1986, a year in which oil prices halved and Nigeria's finances accordingly fell into disarray, Ibrahim Babangida, the then ruler, tried to liberalise his way out of the mess. He adopted an IMF-style "structural adjustment" programme which involved setting the exchange rate free, abolishing import licences, slashing tariffs and removing most price controls. The programme failed, for two reasons. First, General Babangida was too preoccupied with political problems to follow through his reforms, and second, vested interests resisted any kind of liberalisation. When one opportunity for graft was closed (such as import licences), officials created another, such as embezzling the government's windfall from devaluation. The fiscal deficit ballooned to almost 10% of GDP. Ordinary Nigerians agitated for democracy. General Babangida called an election in 1993, but annulled it as soon as it became clear that his candidate had lost. When Sani Abacha, his defence minister, grabbed power, he re-imposed many controls on the economy.

Mr Obasanjo has taken effective action to start expunging the virus of state intervention from the Nigerian economy. Most important, he has liberalised the exchange rate again. Under Abacha, the naira was grossly overvalued, but only the ruler's cronies could buy hard currency at the official rate. They could thus make millions in minutes by buying dollars cheaply and selling them expensively on the black market to businessmen who needed them. Now, although the naira is not yet fully convertible, its rate is set daily at more or less market levels, and oil companies are allowed to sell dollars direct to anyone who wants to buy them. So the gulf between the official and the black-market exchange rate has all but vanished, and with it the opportunity for arbitrage. Mr Obasanjo has also ended the scam whereby officials deliberately created petroleum shortages to drive up the black-market price, thus enabling them to make a huge profit on reselling fuel bought at low official prices. The price at the pumps is still fixed by the government, but no longer at absurdly low levels.

The new president professes to have embraced market economics, but he does not seem to have conquered his statist instincts entirely. The Petroleum Trust Fund has been abolished, but Mr Obasanjo still has a minister in charge of "special projects". He seems to believe that corruption can be eliminated by appointing honest men. This is clearly a good idea, but so is the introduction of checks and balances that make it harder to waste or steal public funds. Worryingly, Mr Obasanjo has promised to re-introduce fertiliser subsidies. He rightly points out that stimulating agriculture is the quickest way to raise large numbers of Nigerians out of poverty, and that lots of rich countries also subsidise farming. Yet when the fertiliser subsidy was tried before in Nigeria, it was a spectacular failure. The entire subsidy was swallowed by middlemen, and fertiliser supplies became erratic because so much was smuggled abroad.

For Nigeria to recover, Mr Obasanjo must create a climate conducive to doing business. Neither foreigners nor Nigerians (many of whom have a lot of money squirrelled away abroad) will invest in Nigeria just because the president tells them that it is their moral duty to help rebuild a battered nation. The obvious place to start promoting investment is in the oil sector.

Oil alone doesn't make you happy

You also have to know how to manage it

IT HAPPENS almost every week. Youths burst into the offices of a foreign oil company, waving sticks and machetes, and take a few employees hostage. Their demands: money for their community, and jobs for themselves. In any other part of the world, this would not be a good way of making a job application. But in the Niger delta it sometimes works.

About 2m barrels of oil are pumped out of the delta's mangrove swamps every day, providing Nigeria with a variable but large chunk of its GDP (see chart 5, next page), over 90% of its export earnings and almost all its tax revenue. Since the 1970s, the delta has generated hundreds of billions of dollars, but the people who live here have barely benefited. Despite all the energy the region produces, many of them have no electricity. Their nights are lit only by the gas flares atop the oil rigs, which spew out pollutants that cause acid rain.

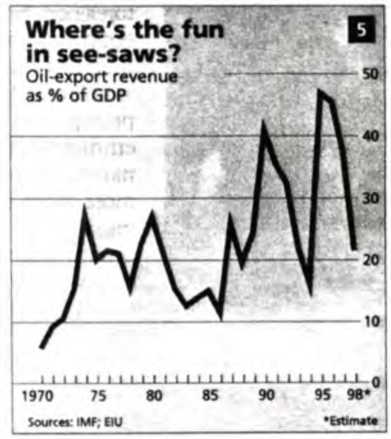
What the central government did not grab, local politicians stole or wasted. Complaints addressed to the old regime often landed the complainants in jail, or worse. When Ken Saro-Wiwa, a writer and champion of the Ogonis, a small delta tribe, was hanged in 1995, people got the message, and took to raising their grievances direct with the oil companies.

The quickest way to capture an oil firm's attention is through violence. Since President Obasanjo came to power, dozens of oil workers have been kidnapped. Most are released unharmed. The oil firms insist in public that they do not reward extortion. "The best security is to be welcomed by the local community," insists Bobo Brown, a spokesman for Shell, the Anglo-Dutch firm that handles about half Nigeria's oil production. But the truth is that kidnapping pays. Oil companies in the Niger delta spend millions of dollars a year on community relations, on things like building schools and jetties in areas where they operate, and compensating those whose land is polluted by oil spills. Locals have found that they are more likely to win a share of such goodies if they invade a rig or capture a company helicopter, and that their claims for compensation are processed faster. Thugs who apply for jobs by brandishing machetes are sometimes put on the payroll. Often they draw wages but fail to show up for work. The oil companies prefer it that way: oil-drilling is a skilled and not particularly labour-intensive task, and having untrained people on site could be dangerous. Paying this kind of protection money is just one of the costs of doing business in the delta.

Mr Obasanjo declared last year that solving the problems of the Niger delta would be one of his first priorities. A clause in the new constitution offers a guarantee that at least 13% of federal oil revenues will be returned to the states where the oil is produced, compared with 3% previously. Mr Obasanjo hopes that this will kick-start development and gradually ease tensions. But calming this region will be difficult. The oil industry employs only about 100,000 people, so if the delta's wretched unemployment is to be reduced, other types of work will have to be found. Agriculture and fishing are the obvious traditional alternatives, but oil is bad for both of them. Leakage from ill-maintained pipes kills fish and renders arable land barren. Since the compensation paid for ruined land often exceeds the likely returns from farming it, locals sometimes puncture the pipes themselves. Shell estimates that, of 131 spills in 1998, 51 were caused by sabotage. Vandalising pipes carrying inflammable liquid is hazardous. In one incident in 1998, about 1,000 people were burned to death as they scooped up free fuel from a large spill near the town of Jesse.

Throwing money at the Niger delta may actually aggravate tensions there, as rival ethnic groups fight each other to claim bigger portions of the new, larger pie. To take one incident among many, about 50 people were killed in November when members of the Oleh and Olomoro tribes squabbled over some water pipes that Shell was trying to donate to their communities.

Violence in the delta escalated after the "two-million-man march" in 1998, when Sani Abacha, in an effort to buy a bit of legitimacy, bused people from around the country to Abuja and paid them to rally in favour of his rule. For youths from the Niger delta who took part in this extravaganza, the sight of Nigeria's capital was a revelation. They goggled at the smooth roads, the gleaming hotels and the splendid houses that oil money had bought for their rulers. They noted that whereas the delta has thousands of rivers but almost no bridges, Abuja has hundreds of bridges but no rivers to speak of. They realised for the first time how badly they had been robbed, and have nursed an implacable sense of grievance ever since.



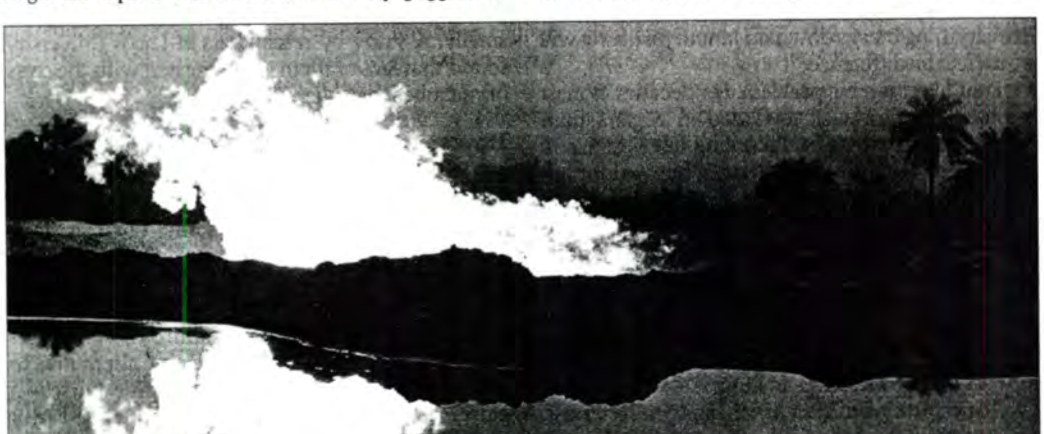
Where's the fun in see-saws?

The rich get richer

Oil firms have yet to see any real results from the money they have spent on community development. In the past, their goodwill money was channelled largely through traditional tribal chiefs, and often went no further. "We'd give a village a boat to set up a ferry business, and the chief would just grab it and use it as his personal transport," complains one oil executive. Ken Saro-Wiwa was hanged because he was said to have had some of those crooked chiefs murdered. The trial was a charade and the writer died protesting his innocence, but the animosity between Saro-Wiwa's followers and traditional Ogoni chiefs was real and often bloody.

Shell, which wants to ensure that the $38m a year it hands over to secure local goodwill is well spent, recently recruited two dozen experts from development agencies to monitor its community programmes. But there is a limit to how much the multinationals can do without better local government. At a recent meeting between Shell representatives and a dozen local politicians from delta states, the deputy speaker of the Rivers State assembly put his priorities as follows: "Shell must give us water and light. The federal government must give us more money. Foreign investors must come. Then we will have development."

Against this turbulent background, President Obasanjo is determined to increase Nigeria's oil production from 2m to 4m barrels a day by 2010, and proven reserves from about 25 billion to 40 billion barrels. In the past, one of the blocks to the investment needed to meet these targets was the federal government itself. The government claims ownership of all Nigerian oil. Foreign oil firms must operate as minority partners in joint ventures with it. The



But Nigeria doesn't have money to burn

foreigners bring most of the know-how; the government's only obligation is to shoulder its share of the investment. In the past, it often failed to pay up.

Under Mr Obasanjo, payments have been prompt, but hefty arrears remain. The new government is trying to find alternative forms of finance. This means that the oil companies will cover more of the up-front costs of exploration and drilling, and will in return receive a greater share of the profits. They also plan within the next decade to stop wastefully burning off the natural gas that is found with the oil. Instead, this gas will be turned into fertiliser, or liquefied and sold as fuel. This rather obvious strategy was first mooted 30 years ago, but never implemented.

"The government is serious about oil," says Egbert Imomoh, the senior Nigerian director at Shell. "We are confident that things will get better." But doing business in the Niger delta will continue to be hair-raising for years to come. "Community disruptions", as Shell calls them, have grown more frequent. In 1997 the firm suffered 106 such incidents, last year almost twice as many. In November Mr Obasanjo sent troops into the delta to quell unrest. The violence regularly prevents oil firms from honouring commitments to buyers. And spare parts are hard to come by in a region which some foreign suppliers shun for fear of being kidnapped.

Striving amid chaos

The biggest headache for Nigerian business is uncertainty

OIL firms have their own particular problems, but they share more general headaches with every other kind of business in Nigeria. The telephones rarely work. Electricity comes in "periodic vengeful surges...as if the god of lightning has ...taken personal charge", as Wole Soyinka puts it. When the traffic police knock off for lunch, cars soon become so gridlocked that crippled beggars on hand-propelled skateboards outpace the motorists on whose windows they imploringly tap. Getting to appointments on time is tricky. Reliable services are so hard to come by that firms barter contacts: we'll let you share the electricity from our generator if you can help us find spare parts for it.

Firms wanting to set up in Nigeria are faced with a problem known locally as "BYOI" (Bring Your Own Infrastructure). Cadbury Nigeria, for instance, in the absence of reliable power or water suppliers, generates eight megawatts of its own electricity and drills 2,500 feet down to obtain the 70,000 gallons of water an hour it needs for its Lagos food-processing plant. Since the water spurts out at 80°C, it has to be cooled before it can be used. According to Bunmi Oni, the firm's managing director, BYOI adds at least 25% to operating costs. Many Nigerian firms, particularly the state-owned ones, devote little effort to maintaining their equipment, so it often breaks down. Capacity utilisation in the manufacturing sector is a miserable 28%. One European factory boss in Lagos, pestered by head office to draw up contingency plans for coping with the millennium bug, scoffed: "If everything breaks down on January 1st, how will we notice the difference?"

Fraud, too, is a big problem. For decades, honest toil has been less well rewarded in Nigeria than swiping public funds or swindling fellow citizens. Abroad, the country has become a byword for advance-fee scams and drug-peddling. But the biggest sufferers at the hands of Nigeria's ingenious criminals are the Nigerians themselves. Laden lorries disappear. Accounts remain unpaid. Subscribers to the awful national telephone monopoly, NITEL, sometimes find their bills hugely swollen because their lines have been rented out at night to people who want to call their relatives in Europe and America.

Francis Fukuyama, an American social scientist, a few years ago wrote a book arguing that only societies whose people trusted each other, and their institutions, would be able to compete successfully in the global economy. If he is right, then Nigeria is in trouble. Most Nigerians avoid paying taxes, not least because they assume their money will be filched. Businesses do not extend credit to customers, because they do not expect to get paid. Banks do not issue credit cards, and shops do not accept them. Personal cheques are out of the question. Guests at plush hotels must pay in advance, in cash, not only for the room but also for any meals the manager thinks they may eat or telephone calls they may make. Foreigners paying with dollars must wait while each bank note is scanned to detect forgeries, and the serial number of each bill is painstakingly recorded to make sure the staff resist temptation.

Because Nigerians do not trust each other, they have to pay cash for more or less everything. Until very recently the highest-denomination banknote was 50 naira (worth a mere 50 cents). The government introduced a 100-naira note last month, and has promised a 200- and 500-naira note in May, but until then counting out the cash for a restaurant bill can still take several minutes. Business travellers must carry around suitcases full of naira. Nigeria's banks have made so much money from foreign-exchange arbitrage that few bother much with ordinary customers. Small-time traders fear that business opportunities will disappear in the time it takes to make a withdrawal, so they keep their working capital stuffed in cocoa jars. And the banknotes themselves, after so much handling, are dirty and smelly. A study by researchers at Lagos university found that 86% of them were infested with the sorts of microbes that cause diarrhoea.

How to win without cheating

Doing business in Nigeria is difficult, but it is not impossible. That nothing works is both an obstacle and an opportunity. It may be frustrating, but it also lessens the competition. Consumers get so little choice that any firm providing half-way decent goods or services against the odds can do nicely. Smartcard Nigeria, for instance, a joint venture by several Nigerian banks, has developed a welcome alternative to cash. The firm produces an "electronic purse"—a plastic card with a memory chip embedded in it that can be loaded with credit from the customer's bank account. This "virtual money" can then be spent at shops, hotels and restaurants.

The Smartcard is aimed at Nigeria's middle class, which is small as a proportion of the population, but large in absolute terms. After a successful pilot run in Lagos, involving 24,000 cardholders and 200 merchants, Patrick Merino, the firm's managing director, now hopes to attract a million customers within three years. Credit cards, he reckons, will take at least five years to get established in Nigeria, so he predicts handsome profits for his venture.

Another success has been the growth of private airlines. Firms such as Bellview Airlines have taken advantage of the low reputation of the national carrier, Nigeria Airways. Over 95% of passengers on internal flights now use private carriers, which are cheap and fairly reliable. Flying between Nigerian airports is still not as safe as it should be. One hazard is hold-ups on runways in which the robbers force open the hold and steal the luggage. Worse, an organisation calling itself the "Association of Unemployed Pilots in Nigeria" recently issued a thinly veiled threat to sabotage airlines that hire foreign pilots instead of locals. Yet Nigeria's airports are less hellish than they were. In the early 1990s, passengers had to hand over fistfuls of bribes to get through customs and passport control. But on a recent trip your correspondent was asked for nothing more than a ballpoint pen in return for not having his bag searched. And flying is much safer than travelling by road, where potholes, drunken drivers and brigands await travellers. As the *Daily Sketch*, a Nigerian newspaper, put it: "Nigerian roads eat more regularly than battlefields."

Guinness made good

Some companies have prospered through sheer doggedness. Guinness Nigeria, for example, struggled in the early 1990s as incomes fell, but it bounced back. By determinedly cutting its costs and squeezing its suppliers, it made a return of 23% on its assets last year. Nigeria is the world's third-biggest market by volume for the company's thick dark beer. Matt Murphy, the managing director of the firm's Nigerian operation, cites low labour costs, a large market and sexy advertising as reasons for its success. He might also have mentioned the lack of competition. The Nigerian beer market is essentially a duopoly, split between Nigerian Breweries, which is part-owned by Heineken, and Guinness Nigeria. The country's poor infrastructure has put most international brewers off, but Guinness has been selling beer in West Africa since the 19th century, and set up its first brewery in Nigeria in 1962.

In his book "Managing Uncertainty", published in 1998 by Spectrum Books, Pat Utomi of the Lagos Business School argues that a prerequisite for success in Nigeria has been the ability to adapt to a fickle political environment. Bankers, for instance, have had to cope with the deregulation of interest rates in 1987, re-regulation in 1991 and deregulation again in 1992. Under Abacha, who had no coherent ideas about economics but was able to rule by fiat, policy twirled like a weathervane. One of Abacha's numerous finance ministers announced the lifting of a ban on rice imports, but had a note slipped to him shortly afterwards, when he was making a speech on television, to say that the president had reconsidered and that the ban would remain. Even now, regulations change back and forth, tariffs yo-yo, and permission to do something as innocuous as making a new type of sweet can take six months.

Frightfully bad for business

Business can begin to bloom in Nigeria only when there is less uncertainty. The new government has shown some commitment to fiscal and monetary discipline, which is a good start, although without knowing what the oil price will be, the size of the budget deficit is hard to predict. Inflation, it is hoped, will stay within manageable bounds. Bureaucratic delays are being reduced by Mr Obasanjo's anti-corruption campaign. But the most important thing the government can do to get things moving is to privatise the service providers whose incompetence forces businesses to resort to BYOI.

Unfortunately the government does not seem to grasp the urgency of this task. Its stakes in firms quoted on the Lagos stock exchange were to have been sold last year, but the deadline has been put back to May 2000. Telecoms policy is confused. The government says it wants to break up NITEL's monopoly and sell part of its stake this year. But a policy paper published last October reinforced the monopoly by barring private firms from offering international calls, and raising the licence fee for launching a GSM mobile network in Nigeria to a ridiculous $100m. Philip Asiodu, the president's economic adviser, says that both policies will be reviewed. On privatisation in general, he argues for caution. "It is important to do it right," he says. "We do not want to privatise Russian-style."

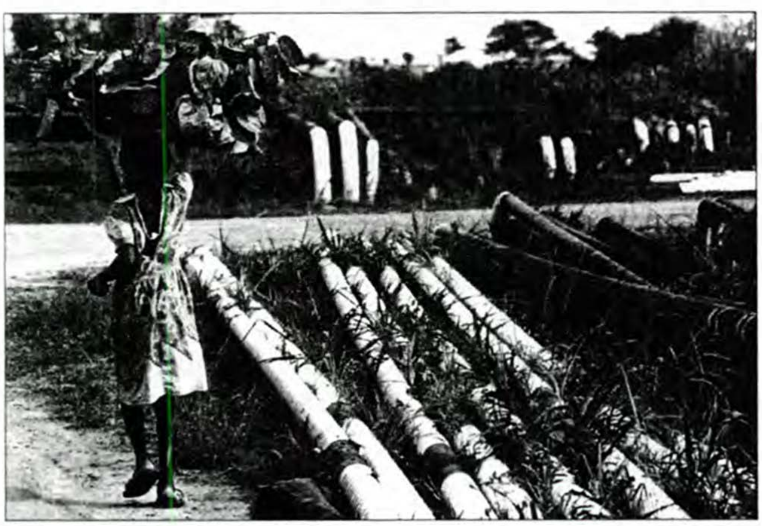
Fair enough. Sales to cronies, or deals that simply transform public monopolies into private ones, will not benefit Nigeria. Bidding must be transparent. Before there can be fair competition in the telephone and power markets, clear regulations must be in place. But dawdling incurs its own costs. The sooner publicly owned firms are sold, the sooner the government can start paying off its debts, and perhaps bring interest rates down from their present rate of around 30%. The sooner private-sector managers are brought in to sort out Nigeria's utilities, the sooner Nigeria will be a tolerable place to do business. ■

Cold comfort farm

Being poor in the city is grim; in the country even grimmer

AEROPLANES and smartcards are all very well, but they barely register with Nigeria's large number of poor people. In 1997, one Nigerian in two lived on less than 30 cents a day, says the Federal Office of Statistics. The figures are not all that reliable, but there is little doubt that poverty in Nigeria is widespread and became more so for most of the 1990s. Walk around the slums of Ibadan or Warri, and you will see the destitute densely packed into filthy, dank shacks, dark inside or occasionally lit with a dim kerosene lamp. Many of the urban poor are recent migrants from the countryside. The proportion of Nigerians living in towns swelled from a fifth in 1963 to well over a third in 1991, according to the United Nations Development Programme. Millions of peasants left their fields in pursuit of a little piece of the country's oil wealth. When successive oil booms bust, many were thrown out of work. Government could no longer afford to pay street cleaners, bureaucrats could no longer afford domestic servants, and the restaurants, nightclubs and shops formerly fuelled by petronaira closed down.

There are still crumbs falling from the tables of the oil-rich, but not as many as before, and more people are pursuing them. Motorists stuck in traffic can buy pawpaws, nuts or a car wash from one of dozens of hawkers. At the golf course in Lagos, where bankers and oil executives relax, a whole hierarchy of crumb-catching can be watched in action. It costs about $20 to play; the caddymaster demands $10 for the brief moment it takes him to assign a caddy to each golfer; and the caddies, top of the heap of manual workers, are paid $2 for four hours of humping a heavy bag. Below them in the pecking order come the "sweepers", who for a few coins flatten a path to the hole for the golfer's ball across the bumpy dirt of the putting surface; and then the half-naked men who dive into the oily, stagnant water hazards to grope for wayward golf balls, which they clean and sell for a pittance. Add to this the barmen, the boiled-egg sellers and the shoe-polishers, and the average golfer probably pays ten different people during the course of a single round, and turns away disappointed dozens.



Oil and agriculture don't mix

The poor congregate in Nigeria's cities because life in the countryside is grimmer still. It should not be. The country has wonderfully fertile soil, suitable for growing a variety of valuable crops. But after decades of neglect, Nigerian agriculture is falling far short of its potential. For example, large parts of the country offer just the right conditions for growing cocoa beans of exceptionally high quality; and yet cocoa production in Nigeria has tumbled from over 300,000 tonnes in 1970 to little more than half that last year. In nearby Ghana and Côte d'Ivoire, cocoa is a reliable export earner and big employer of rural labour. In Nigeria, it is a sad reminder of the country's wasted opportunities.

Other crops have similarly been allowed to wither. The conditions for growing rubber in Nigeria are ideal, but the country produces perhaps only a tenth as much as it could. Palm oil, used in soap, lubricants and industrial fats, was the staple of Nigeria's commerce with the outside world in the period between the banning of the slave trade and the discovery of petroleum. Today, palm leaves still provide the thatching for Nigerian houses and palm planks the walls, but exports of palm oil are stagnant. In the 1950s, Nigeria supplied Indonesia with its first palm seedlings. In 1970, Indonesia produced half as much palm oil as Nigeria. By 1991, it was producing three times as much, and in the mid-1990s Nigeria started to import Indonesian palm oil. Nigeria's exports of other formerly lucrative crops, such as groundnuts and cotton, have virtually ceased.

Man-made misery

Nigerian agriculture has been scuppered by a combination of oil and poor policies. The first oil boom brought a sudden flood of foreign currency, much of which went on building swanky new government buildings and making life comfortable for managers at state-owned companies. Working in construction and services suddenly became more rewarding than farming, so a lot of peasants threw away their hoes and surged into the cities. At the same time the oil exports strengthened the naira, making other Nigerian exports, such as cash crops, less competitive. Even when the boom ended, the currency remained overvalued, because the government imposed controls to protect it, fearing that devaluation would spark inflation.

Bad policies over the years added to Nigerian farmers' gloom in a number of ways. Subsidies such as those for fertiliser benefited only the middlemen. Marketing boards, to which farmers were obliged to sell most exportable crops, had originally been set up to ensure that farmers got a reasonable price for their produce, but the prices were set too low, so the boards imposed a hefty implicit tax on impoverished peasants. The boards were not abolished until the mid-1980s. That decade also brought a number of import bans, including one on wheat which, along with subsidies for domestic wheat-growing, was meant to stimulate Nigerian agriculture. Some regions where land was unsuitable for wheat-growing grew little or no wheat but pocketed the handouts anyway. A bread shortage followed.

Policy was not only poor, it was also unpredictable. For farmers, who were already subject to the vagaries of the weather and of world commodity prices, that created special difficulties. Not knowing whether the government would manipulate the prices of their products up or down, they were discouraged from investing in higher-yielding crops and more efficient methods of production. The green revolution, which boosted agricultural productivity throughout the developing world, passed Nigeria by.

Under the new government, things are looking up a little. The naira is no longer absurdly overvalued, so Nigeria's agricultural exports need not be uncompetitive. But the reintroduction of fertiliser subsidies is a backward step.

Other reforms would be more useful, starting with the simplification of the rules governing land ownership. At present the state technically owns almost all agricultural land, and farmers have only a vaguely defined right to farm it after several years of incumbency. The system has many local variations, but nowhere is ownership clear enough for small farmers to be able to use the soil as collateral for raising loans to buy better seeds, plant new cocoa trees and generally improve productivity. Other things the government could do include patching up the rural infrastructure, and perhaps encouraging the creation of a commodities futures exchange. But what it needs to do more than anything else is to keep its policies consistent.

Pick your parasite

Nigeria is an unhealthy place to live, in all sort of ways

NIGERIA'S climate may be lovely for cocoa trees, but it is harsh for people. In 1805 Mungo Park, a Scottish explorer, led a 45-man expedition to find the source of the river Niger, but illness put an end to the adventure. The only European in the group not to succumb to malaria was Park himself, and he was killed by local tribesmen. Nigeria's debilitating heat and swarms of mosquitoes are perhaps the main reason why British colonisers never settled in large numbers. But the conditions are not particularly healthy for local people either. In Nigeria, as in many tropical countries, there is a greater incidence of disease than in more temperate climes. Some economists think this slows down development. Most of the world's poorest countries are in the tropics. Poverty aggravates health problems: the poor often cannot afford vital medicines or adequate food. And poor health, in turn, aggravates poverty.

In many parts of Nigeria people are subjected to hundreds of infectious mosquito bites each year, making it hard to avoid contracting malaria. Every workplace is regularly disrupted by it. The health ministry has no idea how many Nigerians die of the disease each year, but reckons that over a million are seriously sickened by it.

Half of the Nigerian population has no access to safe drinking water; many women walk hours every day to fetch the precious stuff, balancing pots on their heads. Water-borne parasites and bacteria thrive. The most deadly consequence is probably diarrhoea, which makes 400,000 Nigerians seriously ill each year. The condition is cheap to treat: all it takes is a few cents' worth of rehydration salts. But for poor families living miles from the nearest pharmacy, such remedies are often unavailable.

Nigerian health workers have notched up some successes, for instance against river blindness and guinea worm. About 35m Nigerians live in areas where they risk picking up *Onchocerca volvulus* parasites that burrow into the eyes and cause blindness. River blindness used to disable huge numbers of Nigerians, but the disease has been brought largely under control by the use of ivermectin, a drug donated by Merck, an American drug firm, that kills the pest in its human host. Nigeria's progress in

Down with guinea worm

curbing guinea worm, a parasite that can keep its victims off work for months, is equally heartening. Microscopic guinea worm eggs enter humans via water fleas, swallowed when drinking dirty water. The worm grows up to three feet (almost a metre) in length, causing fever, pain and fatigue. It can be removed only after it has burst through the skin. The hapless host must then spend weeks or months gently tugging it out. Following a global campaign led by the World Health Organisation and others, Nigerians in areas at risk now use filters to strain fleas out of their drinking water. The incidence of guinea worm infestations has dropped from about 700,000 a year a decade ago to about 13,000.

In other respects, however, health care in Nigeria has deteriorated. Immunisation was quite systematic in the 1980s, but collapsed under the Abacha regime. Basic clinics, long neglected by Nigeria's military rulers in favour of big, prestigious hospitals, are in tatters. It is left to non-governmental organisa-

Up with life expectancy

tions to teach elementary health precautions to ordinary Nigerians, and to discourage harmful traditions, such as sharing tribal skin-marking knives. The hospitals have crumbled too: previous governments were generous with the funds to build them, but made little or no allowance for their maintenance or running costs. Budgeting was usually chaotic.

The worst is yet to come

The new health minister, Tim Menakaya, has impressed foreign donors with his energy. Unlike his predecessors, he sensibly emphasises primary care, prevention and inoculation, the measures that save the most lives for the fewest naira. The challenge is immense. Almost a fifth of Nigerian children die before their fifth birthday. Nearly half of the under-fives are stunted because of poor nutrition. Mothers have large families—an average of six children per woman—because they expect to lose some of them in infancy. Life expectancy in Nigeria has stuck at about 50 years, and that may soon drop as large numbers of Nigerians start to die of AIDS.

The first cases of AIDS in Nigeria were reported in 1986, and surveys conducted in the first half of the 1990s suggested that the virus was spreading rapidly. HIV prevalence among Nigerian adults was estimated to be 1.8% in 1990, 3.8% in 1994 and 4.5% in 1995. Under Abacha, AIDS research was neglected, but a new survey, published in December, found that in the country as a whole 5.4% of adults were infected, and in some areas over 20%. As a percentage of the population, these figures are less dreadful than those in, say, Zimbabwe or Zambia, but because Nigeria has so many people, the absolute numbers are staggering: the country can expect at least 5m AIDS deaths in the next ten years, and that may be only the beginning.

Some Nigerians are aware of the danger. The first death from AIDS of a Nigerian celebrity—the Afro-beat star Fela Kuti in 1997—brought grim publicity for the disease. A number of newspapers recently ran frightening (but possibly accurate) reports on the level of infection among Nigerian soldiers returning from peacekeeping duties in Sierra Leone and Liberia. But most Nigerians see AIDS as a disease that afflicts only foreigners, because they have yet to see friends or relatives waste away. "There is no sense of panic yet," says Professor Lawrence Adeokun, a director of the Association for Reproductive and Family Health in Ibadan. "But there should be."

Mr Menakaya takes the virus seriously, and is working with the World Bank to set up a prevention programme this year. The first step will be to improve the screening of blood for transfusions, which at present account for a significant share of infections. The next step, trying to persuade people to change their sexual habits, will be as tricky in Nigeria as anywhere else. Polygamy is common—almost a quarter of married men have two or more wives—and promiscuity and prostitution are widespread. Poverty prevents many Nigerians from taking antibiotics for venereal diseases, and untreated genital sores make HIV transmission more likely. Female genital mutilation, to which about half of Nigerian women have been subjected, can lead to bleeding during sex, which is similarly risky. Only one Nigerian woman in ten practises any form of birth control, which rarely involves condoms. Many Nigerians remain ignorant of how the virus is transmitted; few realise how widespread it already is.

The impact of AIDS on the Nigerian economy is as yet hard to predict. Output may be affected only gradually. With unemployment high, firms that lose staff will have little trouble replacing them. For the oil industry, which employs a relatively small number of people and imports some of those with essential engineering skills, world oil prices will have a far greater effect on the bottom line. But the effect on the welfare of ordinary Nigerians could be catastrophic. AIDS patients linger before they die, so relatives may have to stop work to look after them. When breadwinners sicken, household incomes plummet just as medical bills soar. In ten years' time, the number of Nigerian children orphaned by AIDS could exceed the total population of neighbouring Benin or Chad.

Fissiparous folk

Nigeria has not only a north-south divide, but a multitude of other fault lines too

IN OCTOBER last year, Ahmed Sani, the governor of Zamfara, declared that his small northern state would henceforth be subject to *sharia* (Islamic) law, citing Saudi Arabia as his model. He has encouraged the growing of beards, although they are not being made mandatory, and banned prostitution and the sale of alcohol. Thieves may have their hands cut off, but only in "extreme" cases. The announcement caused uproar. Despite Mr Sani's assurances that *sharia* courts would try only members of Zamfara's Muslim majority, the state's Christian minority is terrified. Muslim leaders who favour a secular state are afraid to speak out for fear of being branded un-Islamic, a label that could prove hazardous. Newspapers, most of which are Christian-owned, condemned the move, predicting that it would spark an exodus of Christians and lead to the break-up of the country. So far this has not happened, but in December Kano state said it, too, would adopt *sharia*. Other majority-Muslim states may follow. The debate highlights one of Nigeria's most enduring problems: holding together a country with such a diverse and fractious population.

Northern Nigeria is mainly Muslim. The south is mainly Christian and animist. The middle belt is mixed. Nigerians sometimes refer to the "mistake of 1914", when British colonial cartographers united northern and southern Nigeria by the stroke of a pen. Antagonism between north and south is not simply about religion; it is a tribal matter, too, with deep historical roots. The British sought to avoid religious turmoil by discouraging Christian missionaries from trying to convert northerners. As an unintended consequence, almost all of Nigeria's

western-style schools were built in the south, and business in both the north and the south was also dominated by southerners. By contrast, the army was mainly the preserve of northerners, because the British thought they made better leaders.

These northern officers first seized power in 1966, ostensibly to prevent tribal and religious differences from tearing the country apart. Privately they also feared that, with the British gone, wealthier, better-educated southerners would quickly come to dominate the whole country. The northern generals' insecurity also coloured their economic policies. According to the World Bank, "Northern elites feared that they would lose in an unrestricted commercial contest, so they used the state to restrict the operation of market capitalism."

Subdivide and rule

The north-south divide is not the only fault line in Nigeria. The country is home to at least 250 ethnic groups, many of whom seem to dislike each other and are keen to let everybody know about it. Nigerian comedians play endlessly on ethnic stereotypes: Yorubas are noisy, Ibos are tight-fisted and Hausas are dim, to list only the three most common.

Between 1967 and 1970, the south-eastern part of Nigeria tried to secede. The discovery of oil in the region may have added to the fervour with which the Ibos, the largest ethnic group there, fought for an independent "Biafra", and the equal fervour with which the northern Muslim-led army fought to keep Nigeria intact. But the Biafran war was mainly about ethnic and religious differences. Roughly a million people died, mainly of war-induced starvation and disease. Desperate to prevent a repeat, subsequent governments have worked hard to appease ethnic interests, sometimes with bizarre results.

Small ethnic groups, hoping to lay their hands on more of the oil money, have split the Nigerian federation into ever smaller chunks: from four regions in 1963 to 36 states today (see map). This has caused endless complexity. For instance, state governments hoping to privatise state-owned firms often find that the state which originally set up the firm has been split into several smaller ones, none of whose leaders can agree on how to proceed. Politicians' habit of giving jobs and contracts to their own ethnic group fosters what Chinua Achebe calls a "cult of mediocrity". In Nigeria, he says, "it would be difficult to point to one important job held by the most competent person we have."

Communalism has prevented the emergence of political parties based on ideology. When allowed to vote, Nigerians have tended to support someone from their own ethnic group, which means that politicians do not need ideas to get elected. Tribal loyalty also explains why so many Nigerians have shamelessly plundered the state. According to Eghosa Osaghae, a political historian, many Nigerians regarded the state itself as an alien transplant:

> It is a popular Nigerian saying, which took root under colonial rule, that 'government's business is no man's business'. There was thus nothing seriously wrong with stealing state funds, especially if they were used to benefit not only the individual but also members of his community.

President Obasanjo, a Biafra veteran himself, sincerely wants to ease ethnic tensions. A Yoruba who drew most of his electoral support from non-Yorubas, he is one of the few Nigerian politicians whose loyalties are not determined by his tribal origins. He is now trying to divide federal funds more equitably among the states while reducing incentives for further division. His swollen cabinet contains at least one member from each of the 36 states. But it is impossible to satisfy everyone.

Since federal money is, at least in theory, allocated to the states on the basis of population, Nigerian censuses have in the past been marred by fraud and violence as each group sought to inflate its numbers. Nobody really knows how many people Nigeria has. The most recent census, in 1991, put the total at 88.5m. In 1998, the government's estimate was 108.5m, and the United Nations' 121.8m. Most tribes say they have been undercounted and underpaid.

Since the end of military rule, communal violence has increased, perhaps because the police no longer suppress it so forcefully. Christians fight Muslims in the north, Ijaws and Itsekiris torch each other's homes in the Niger delta, Yoruba youths lob "magic bombs"—eggshells filled with sulphuric acid— at members of other tribes in Lagos. Since Mr Obasanjo took office, at least 1,000 people have died in ethnic clashes. Some observers predict that Nigeria will fall apart, like Yugoslavia or Congo; but most Nigerians trust that the country will somehow muddle through. Bishop David Oyedepo, head of one of the country's largest charismatic Christian churches and a friend of Mr Obasanjo, reckons that "If the country was going to break up, it would already have done so. Things were worse under Abacha. People are more optimistic now."

A story from Kaduna gives grounds for optimism. In the early 1990s two religious terrorists, Muhammad Ashafa and James Wuye, tried to have each other killed during a burst of communal bloodletting, for which Mr Ashafa blamed the Christian paramilitary group led by Mr Wuye, and Mr Wuye blamed Mr Ashafa's Muslim youth organisation. Christian assassins murdered Mr Ashafa's uncle, thinking it was Mr Ashafa. Muslim assassins attacked Mr Wuye, hacked his arm off and left him for dead. Both men believed they had eliminated the other. When they later discovered they had not, they took it as a sign from God that they should make peace, so they set up a joint charity to promote dialogue between Christians and Muslims. They are now the best of friends. ■

Umpteenth time lucky?

Another chance to make Nigeria work

NIGERIANS dream of a national revival; of a new Nigeria where shoddiness is no longer the norm; where electrical firms boast of something more ambitious than that their wiring will not burn your house down. They want to live in a place where hotels no longer feel obliged to warn each new guest to beware of kidnappers posing as chauffeurs; where mineral wealth is no longer divided among the few while tens of millions live in squalor; and where, instead of being trampled by soldiers, citizens breathe what Mr Obasanjo once called "the air of absolute freedom". This dream is not exactly new. It had previous outings after the changes of government in 1960, 1966 (twice), 1975, 1979, 1983, 1985 and, in a small way, in 1993. Each time the dreamers had a rude awakening. Why should this time be any different?

There are good reasons for predicting that the latest government, like its predecessors, will fail to live up to any of these hopes. For Nigeria to become a stable democracy, it must become less poor. Growth from upswings in the oil price is not enough, because what goes up can come down; it must come from steady investment in higher productivity, which can last and sustain itself. But it takes time and diligence to set up and operate a textile factory or a rubber plantation, and Nigerians are not patient. Just as 70 years of communism warped Russian culture in ways that cannot be straightened out overnight, so decades of kleptocracy have entrenched the get-rich-quick mentality in Nigeria. So many fortunes were made so fast, and with such ease, that many Nigerians now consider this normal. An eye for an instant profit is a useful quality in a trader, which is perhaps why Nigeria's markets are so lively. However, it takes different talents to farm, to make something people want to buy, or to run a government that enables citizens to thrive, rather than stealing their money and strangling their businesses with controls.

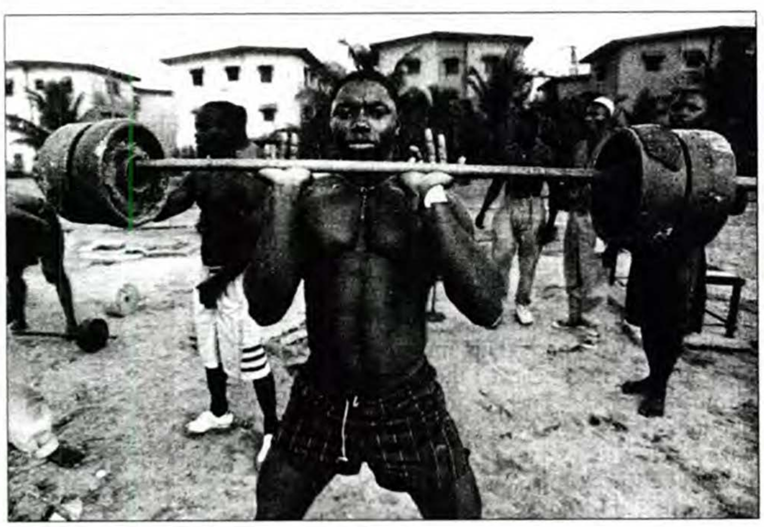
A lifetime of being ripped off has, understandably, made Nigerians hungry for compensation. Watching oligarchs grow fat by grabbing a piece of the oil money has convinced many of them that their country's problems could be solved by sharing out the oil revenues more equitably. It would be a start, of course. But even if Nigeria's oil bounty were shared out with mathematical precision, Nigerians would still be poor. Assume an oil price of $25 a barrel, no operating costs, and no money spent on distribution. Two million barrels a day would yield $50m to be shared out between 100m people, so everyone would get 50 cents. A lot of Nigerians would be delighted to receive an extra 50 cents a day, but it would not bring them water, light, education or health care; that would still require lots of Nigerians to learn how to lay pipes, maintain pylons, deliver textbooks and manage health budgets efficiently. Nigeria cannot depend on oil forever. To prosper in the long term, it must learn how to create wealth, rather than simply extracting it from the soil.

Ethnic jealousies will doubtless continue to reinforce the Nigerian tendency to bicker over the division of the oil spoils rather than devise other ways of making money. Those who benefited from corruption in the past will try to frustrate the new government's reform efforts. Ambitious colonels may be waiting for an opportunity to grab power back again. Members of the new national assembly seem more concerned with the size of their furniture allowance than with the size of the national debt. In these circumstances, what chance is there of a prosperous Nigeria?

Maybe, just maybe

Do not dismiss the idea out of hand. Granted, many aspects of Nigerian culture are inimical to growth. But cultures change, particularly when incentives do. Compare China under Mao with China under Deng Xiaoping. President Obasanjo may not yet have embraced radical reform, but he is clearly trying to change things for the better. Encouragingly, formerly critical outsiders agree. When Transparency International smiles on a Nigerian president, that is a reason for optimism. Economists grouch that the president is not liberalising or privatising quickly enough, and they are right. But at least he has promised to do these things. Remember, too, that most Nigerians found the status quo unacceptable; and that the rest of the world would dearly love to see an African success story involving a country more populous than Botswana.

Nigeria is potentially rich, Nigerians never tire of telling visitors. To cynics, that sounds like a euphemism for "not rich at present", or "poor and run by crooks". But Nigerians' self-confidence can be exhilarating to behold. Many of them seem to believe that their country is a superpower which just happens to have lost its way; that with better leadership Nigeria will quickly become a beacon for Africa. Maybe, just maybe, this exuberance can translate into a Nigeria that works. The country has a better chance now than perhaps at any time since independence. It must not waste it again. ■



Keep working at it

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BAGEHOT

New Labour's morning after

CAN this be what New Labour meant by all its talk of "modernising" Britain? A memo leaked to the *Guardian* this week reveals that Tony Blair's government, the champion of everything new and anything wired, is designing an electronic "knowledge network" for Whitehall. This promises at the click of a mouse to provide ministers with the "best three arguments" or "best five facts" in support of any particular government policy. Naturally, it is all in service of the public interest. The idea is to put across the government's "core message" so that citizens can get the "full facts without going through the distorting prism of media reporting".

Good idea. The only pity is that the knowledge network is not up and running right now, when ministers sorely need it. Instant access to the best five facts might have strengthened the assertion of Alan Milburn, the health secretary, that the National Health Service is coping very well thank you with the present "epidemic" of flu, which in the distorting prism of media reporting appears to have caused chaos in hospital wards up and down the country. The knowledge network might have rescued the reputation of the Millennium Dome, a wonder of the Blairite world that has been wantonly transformed into an object of ridicule by the distorting prism of media reporting. And Jack Straw must have heard zillions of good arguments before deciding to limit the right of Britons to trial by jury, so reversing the position he held in opposition. Absent the knowledge network, the distorting prism of Bagehot is unable to remember the best three of them.

All governments succumb to mid-term paranoia, and most to the delusion that all would be well but for the hostility of the media. Over the past fortnight, Mr Blair has seemed especially bruised by the refusal of the nation's pundits to be suitably amazed by the Millennium Dome. Although the queues that marred its opening have shrivelled away, the media verdict remains that the show in Greenwich is a disappointment: at best a nice day out, not the once-in-a-lifetime experience the government intended it to be.

Why should the prime minister care so much? Because it has already become a cliché to draw a parallel between the fate of the Dome and the performance of his government. There is much that Mr Blair can be justly proud of. He has avoided the recession forecast by the Conservatives and overseen a peace agreement in Northern Ireland. But the government, like the Dome, is staggering under the weight of unrealistic expectations.

Life under New Labour was not supposed to be just a nice day out. Mr Blair keeps on promising so much more: nothing less than a "new politics for a new century". He entered office with a new philosophy, the Third Way, that was supposed to revolutionise the provision of public services. He remains the promoter of a history-changing "project" to reform Britain's electoral system, introduce proportional representation, and unite New Labour with fellow progressives in the Liberal Democrats. And he claims to have a geography-defying plan to lead Britain into the heart of Europe through the mechanism of the single currency. It became obvious this week that the philosophy, the project and the policy on Europe are all in a bad way.

Mr Blair reiterates ad nauseam his five best facts and three best arguments in favour of monetary union. But public suspicion (blame that distorting prism) of the euro seems only to be hardening. The latest MORI poll has only 27% in favour of joining, 56% against. So although the prime minister promised this week not to "bounce" Britain into a referendum on the euro immediately after his presumed victory in the next election, the real fear among his europhile ministers is that he will not risk a referendum on the euro at any time in his second term.

Mr Blair reiterates ad nauseam his promise to the Liberal Democrats that he intends to stand by his pledge to hold a referendum on electoral reform, albeit not in the life of the present Parliament. But in repeating this undertaking yet again in the House of Commons this week, not even Mr Blair could suppress a rueful smile. Recent consultations inside his own party are said to have shown strong support for the existing system—the three best arguments for keeping it being that it gave Labour a majority of 179 in the last general election. So another planned monument to Blairism may have to be put on hold.

Not many voters will care about Mr Blair's failure to reform the electoral system. Failure to reform the health service would hurt him a lot more. Opinion polls show that voters care more about this issue than any other. Even education comes a distant second. And yet thanks to the visiting flu virus, against which too few people were vaccinated, New Labour now gives exactly the impression that Mr Blair wants to avoid: not exceptional government, not even government as usual, but government in the grip of the usual winter flu crisis. What happened to the new thinking promised by the Third Way, or the promise that the NHS would be run so much better in the hands of the party that invented it?

There are answers, or at least excuses. The flu has put the hospitals of many other countries under strain (best fact). The NHS looks in worse trouble only because it is unusually "efficient", with fewer beds to spare when demand rises (best argument). Extra money—the much-promised £40 billion ($65.6 billion) over three years—is at last on the way (core message). But for all the changes on the margin, New Labour has not yet devised a strategy capable of matching the resources available for health care to the rising demand for it. It has mainly rejected the few big ideas, such as the "internal market", or levying an earmarked health tax, or making greater use of charging and private insurance, that others have proposed. This may have been the week that the public noticed that Mr Blair's government is not as special as it thinks it is.

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Evanescent or evergreen?

A flurry of new research promises greener plastics—of one shade or another

PLASTICS are clean, convenient and comfortable, and they have improved the existences of ordinary people everywhere. But most conventional plastics are cursed by a fourth property—durability. A dump full of discarded bags and bottles may be a blot on the landscape for thousands of years after the (usually brief) useful lives of its contents.

Until recently, attempts to produce plastics that will eliminate this problem, by rotting after use, have either failed altogether, or resulted in specialised and expensive products that no mass manufacturer would want to touch. But now there is a glimmer of hope. Several biologically derived plastics, or "biopolymers", that look desirable for reasons other than their biodegradability, are emerging from the world's chemistry laboratories. If they work, archaeologists of the future may have fewer pristine objects to examine from the rubbish tips of the 21st century compared with those of the 20th.

Grow your own

The most conventional of these unconventional materials is being developed by Cargill Dow, a collaboration between one of the world's largest agricultural businesses and one of its largest chemical firms.

Cargill Dow has just announced plans to spend $300m over the next two years to produce so-called polylactide (PLA) polymers. These can be used to make a wide variety of goods, from clothing fibres to films to food containers. Unlike conventional plastics, their ultimate raw material is not oil, but maize. And, also unlike conventional plastics, they are eminently digestible (at least to micro-organisms) after use.

PLAS are formed when molecules of lactic acid (which is obtained, in this case, from maize starch) join together to form long chains. Unfortunately, these chains come in several varieties, and making useful materials from them requires that the amount of each variety in the mixture be controlled, as the properties of the resulting material depend on the proportions of its components.

The old, expensive way of doing this was to exploit the fact that different PLAS have slightly different solubilities. Recently, however, it has been discovered that they also have different boiling points. That means they can be separated by distillation—and Cargill Dow's engineers have worked out how to do this cheaply.

That is a big breakthrough, and several large packaging firms seem keen to exploit it—not least because of PLAS' biodegradability. Curiously, however, Cargill Dow seems to want to play down that side of things. According to Jim Stoppert, the company's president, what matters is that the material is able to compete on price and performance.

This attitude is sensible, for PLAS are not the only biopolymers on the block. A more radical approach to making plastics from plant materials is not merely to have the plant produce the ingredients, but to make it grow the finished product. That, however, requires some serious genetic engineering.

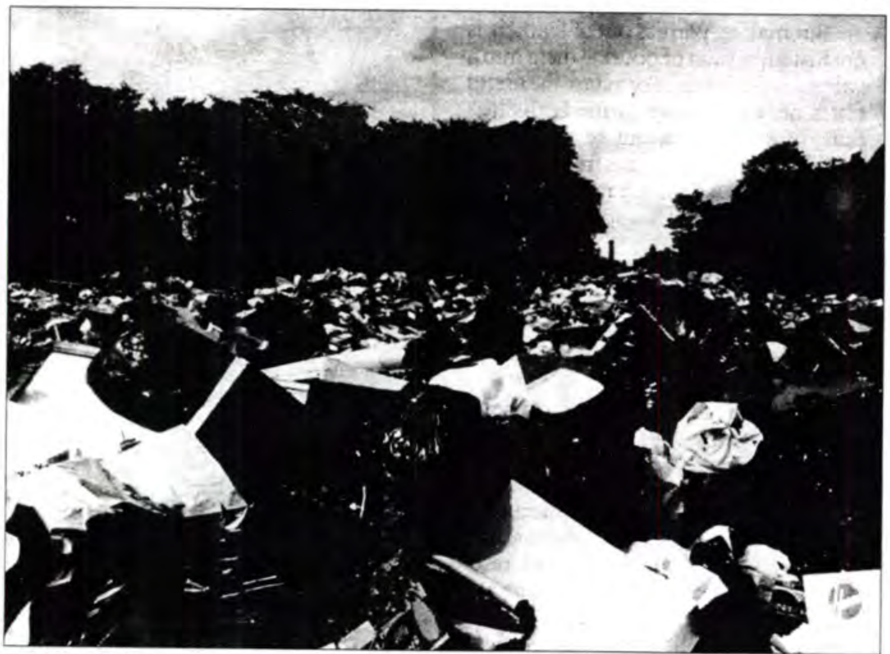
Kenneth Gruys is a serious genetic engineer. He works for Monsanto, a company that, despite its business troubles, has been in the forefront of commercialising genetically modified organisms. In October he and his team reported that they had persuaded rape and cress plants to synthesise a biodegradable plastic of a type known as a polyhydroxyalkanoate (PHA) by adding bacterial genes to them.

In nature, PHAS are made by many sorts of bacteria. (They are used by the bacteria to store energy, in the way that starch is used as an energy store by plants.) Unfortunately, bacterial PHAS, even those made from genetically engineered bacteria, seem too expensive to be commercially viable. Those produced in plants, however, should not be.

Dr Gruys and his colleagues made their plastic by transferring the genes necessary to synthesise PHAS from a bacterium called *Ralstonia eutropha* into their experimental plants. *Ralstonia* was chosen because it produces PHAS by the bucketful. These particular PHAS, however, are too brittle to be worthy of the name "plastic", so a second gene had to be transplanted from another bug, *Escherichia coli* (a bacterium that is famous as one of the workhorses of genetics and notorious, in one of its malign incarnations, for sometimes causing fatal food poisoning).

The *E. coli* gene is there to boost the production of a molecule called propionyl-CoA. When plugged into the biochemical pathways that make PHAS this, together with its already plentiful sister molecule acetyl-CoA, modifies the synthesis to produce a more plastic PHA molecule.

Sadly for Dr Gruys and his team, their project looks like being a victim of the downturn in fortune that has overtaken Monsanto in the wake of scares about genetically modified crops intended for human consump-



Pristine but unpleasant

Roger Ballentine fyi - Bc

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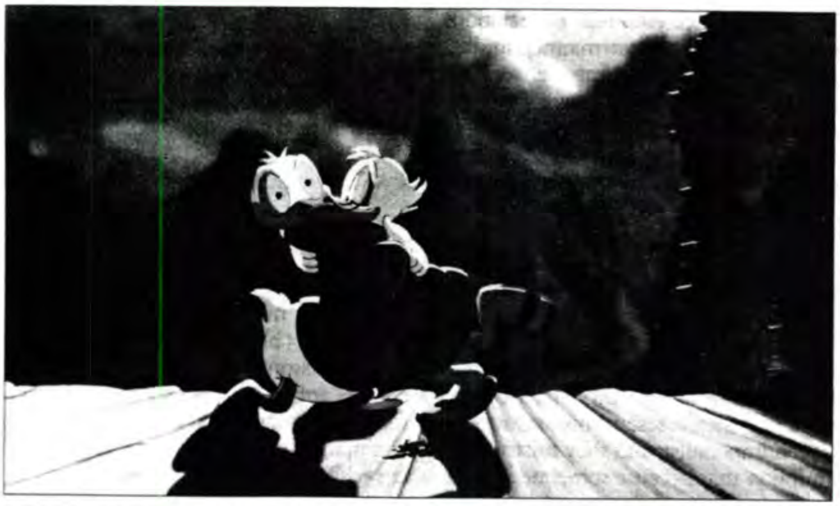
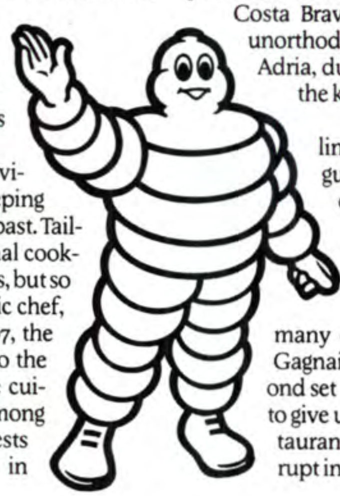


Disney, the company, may be in the doldrums. Last year was one of its worst for decades. But the animated film, with which the creator of Mickey Mouse is still almost synonymous, is thriving. Disney's "Toy Story 2" was the third biggest box-office success of 1999, and films as varied as "The Iron Giant", "Princess Mononoke" (from Japan) and "Stuart Little" have recently shown how the genre at its most inventive can captivate like none other. Disney's latest release is "Fantasia/2000", the first animated feature to be made for IMAX screens. It is also the only update of the 1940 classic "Fantasia", originally designed by Walt Disney to be a continual work-in-progress. This picture is taken from a sequence in which Donald and Daisy Duck star in a Noah's Ark tale set to Elgar's "Pomp and Circumstance" marches. What a delight.

new restaurants and trends; its inspectors are thought to be partial to plush settings, obliging proprietors to spend lavish sums of money on decoration and pushing up prices; and it allegedly saves its highest praise for restaurants turning out classical preparations—"*la cuisine de musée*" as it is derisively known—discouraging chefs from experimenting and stifling creativity.

Few of these claims, however, stand up to close scrutiny. For a start, given the ingredients that typically adorn a three-star menu—foie gras, caviar, the finest fish and the choicest cuts of meat—eating at a top-rated establishment would empty most wallets regardless of the setting. On the other hand, people who are prepared to fork out hundreds of dollars for lunch or dinner expect their surroundings to be at least as sumptuous as their food.



Nor is there much evidence that the guide is keeping French food tethered to the past. Taillevent, a temple of traditional cooking in Paris, boasts three stars, but so does the exuberantly eclectic chef, Pierre Gagnaire. And in 1997, the guide awarded three stars to the country bumpkin of haute cuisine, Michel Bras, who among other things encourages guests at his remote restaurant in south-western France to use the same knife and fork throughout the meal.

Michelin also does an able job keeping tabs on the shifting food scene. Reflecting the growing appetite for ethnic fare, particularly in Paris, it has ladled out stars to Vietnamese, Chinese, and North African restaurants. Moreover, it no longer limits itself to France. It now issues guides to a dozen European countries, and while its annual ratings may not inspire quite the same feverish speculation in Pisa as they do in Paris, Michelin stars, wherever bestowed, shine in food circles like a well-glazed sweetmeat. Were it not for the three stars awarded to El Bulli, for example, would bon vivants be flocking to Spain's Costa Brava to sample the comically unorthodox dishes of chef Ferran Adria, dubbed "the Salvador Dali of the kitchen"? Unlikely.

A high mark from Michelin, however, is no longer the guarantee of commercial success that it once was. Although there are currently 21 three-star restaurants in France, the most that there have ever been, many of them are struggling. Mr Gagnaire, for example, is on his second set of three stars; he was forced to give up the first trio when his restaurant in St Etienne went bankrupt in 1996.

More telling still is the drop in France's overall number of starred eateries. In 1984, there were 642; last year, just 500. Falling standards in the kitchen are partly to blame; but a bigg... econ-
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Cleaner cars

As pure as driven snow?

VANCOUVER is about a thousand miles from Silicon Valley. But as a hotbed of new technology it is a million miles away, not even on the same map. Yet in a garage in the unfashionable north bay area of the city was born a machine that could change the world—the Ballard PEM fuel cell. It promises to be to the car of the 21st century what the internal combustion engine was to the car of the 20th.

The fuel cell takes hydrogen and oxygen and combines them into water vapour, producing electricity in the process. Small and powerful enough to drive a car, it has none of the drawbacks—limited range, slow recharging—that have sunk battery electric vehicles so far. Its evolution features prominently in "Forward Drive", Jim Motavalli's racy account of the race to make cleaner cars. For the fuel-cell vehicle today holds out the best hope of combining a rising demand for cars with a falling tolerance for pollution.

Just over 100 years after the first motor car with a petrol engine was made by Karl Benz in Germany, the man who now runs the Mercedes car business, Jurgen Hubbert, says: "The fuel cell is the most promising option for the future, and we are determined to be the first to bring it to market." In practice, that means it will probably be possible to buy a fuel-cell car by 2004. DaimlerChrysler,

POWERING THE FUTURE—THE BALLARD FUEL CELL AND THE RACE TO CHANGE THE WORLD. By Tom Koppel. *John Wiley; 288 pages; $29.95 and £16.99*

FORWARD DRIVE—THE RACE TO BUILD "CLEAN" CARS FOR THE FUTURE. By Jim Motavalli. *Sierra Club Books; 288 pages; $25* the maker of Mercedes, and the Ford Motor Company were so impressed by the Ballard product that they bought roughly half the company and set up joint ventures to develop a whole engine and transmission system based around the Ballard core. Nearly every other car maker in the world subsequently scrambled to get on the bandwagon, using Ballard cells or, in some cases, furiously developing their own.

"Powering the Future" tells the technical and human story of how the Ballard cell was born, thanks to the leadership of an idealistic former geologist Geoffrey Ballard. Bearer of both Canadian and American passports, he at one time ran a US government laboratory and also worked on alternative-energy projects before growing disillusioned with the bureaucratic world. He ended up in Vancouver leading a small team trying to develop lithium batteries to power electric cars while living off what his wife earned from running a pub. He and his associates eventually won a contract to develop proton exchange membrane fuel cells (PEM) for the Canadian military. The soldiers had identified their potential as a lighter source of battlefield power than the batteries that they traditionally hauled into the field to make their communications equipment work.

Mr Ballard and his handful of engineers and chemists began with little knowledge of PEM cells. The first versions had been developed by General Electric for moonshots. But the large American company had lost interest and the patents had largely expired. Other forms of fuel cell were then thought to be more promising.

What the Ballard team brought to the story was engineering and passion. Using bits of plastic and sheets of graphite to make their fuel-cell stacks, they steadily increased the power output of the PEM cells. At the same time they cut costs by reducing the amount of expensive platinum needed in the electro-chemical process.

In early 1986 they showed off their work at a conference in Arizona, and the Americans suddenly woke up to the fact that they had been backing the wrong sort of fuel cell. The Ballard PEM cell made the electric motor car a real possibility, just as the tide of green protests against car smog was causing California to compel car makers to produce zero-emission vehicles.

Fuel-cell vehicles are still ten times as expensive as ordinary cars and there are problems building an infrastructure to supply hydrogen or hydrogen-bearing methanol, which is easier to handle. But mass production will cut costs, and even oil companies have now joined in the infrastructure work. The Ballard company's chief executive, Kenyan-born Firoz Rasul, told Mr Motavalli that, "By 2030 I think that one in three, or even one in two of the cars on the road will be fuel-cell vehicles." And that may well be more than mere wishful thinking.

The car for a cool planet?

A book at Oscar time

HOLLYWOOD is in literary mood at the moment, and with good reason. The select band of industry insiders who vote for the Oscar nominations, which are to be announced on February 9th, have recently shown themselves to be partial to a nice bit of literature. Look no further than "The English Patient" and "Shakespeare in Love".

Add to that the fact that, in order to qualify for this year's nominations, a film has to have been screened in Los Angeles during 1999, and it should be no surprise that December saw the release of a spate of movies with literary origins (see table). These included "The Talented Mr Ripley", a visualisation by Anthony Minghella (director of "The English Patient") of Patricia Highsmith's 1955 story of murder by the Mediterranean; "Angela's Ashes", taken from Frank McCourt's grim memories of his 1950s Limerick childhood; and "Snow Falling on Cedars", David Guterson's Japanese-American morality tale, which is also set in the 1950s.

Although the cut-off date for Oscar 2000 has now passed, the run of films-of-the-book shows no signs of ending. Steven Spielberg has put his project to film "Memoirs of a Geisha" on hold and Mr Minghella waited for the release of "The Talented Mr Ripley" before delving into his next film, based on Charles Frazier's moody civil war saga, "Cold Mountain". But spring will see film versions of Alex Garland's "The Beach", Bret Easton Ellis's "American Psycho", Michael Chabon's "The Wonder Boys", and Cormac McCarthy's "All the Pretty Horses". Book publishers could not be more pleased. Whatever these films' success, reprints of the books almost invariably pop back up on the bestseller lists while the films are on release.

The film of the book

Title	Author	Rank on Amazon	Featured actors	Opening date, 1999	Opening weekend
The End of the Affair	Graham Greene	449	Ralph Fiennes, Julianne Moore	Dec 3rd	$199,000
A Map of the World	Jane Hamilton	11	Sigourney Weaver, Julianne Moore	Dec 5th	$14,000
The Cider House Rules	John Irving	222	Charlize Theron, Michael Caine	Dec 10th	$110,000
The Green Mile	Stephen King	27	Tom Hanks	Dec 10th	$18.0m
Stuart Little	E.B. White	1,026	Michael J. Fox, Nathan Lane	Dec 17th	$15.0m
Girl, Interrupted	Susanna Kaysen	128	Winona Ryder, Angelina Jolie	Dec 21st	$95,000
Snow Falling on Cedars	David Guterson	95	Ethan Hawke, Sam Shephard	Dec 22nd	$32,000
The Talented Mr Ripley	Patricia Highsmith	26	Matt Damon, Gwyneth Paltrow	Dec 25th	$12.7m
Angela's Ashes	Frank McCourt	46	Emily Watson, Robert Carlyle	Dec 25th	$55,000

Gene - Here's a column where they're wrong -

The standard question

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Since the World Trade Organisation already enforces intellectual-property standards, why not labour and environmental ones too?

ECONOMICS FOCUS

DIVERSITY is generally a good thing, not least in international trade. It is precisely because countries are different that free trade makes all of them richer, since each benefits from what others do better. So it is odd that, in one important respect, the World Trade Organisation is trying to make its member countries more alike. It enforces minimum intellectual-property standards, not only in rich countries, but also, since January 1st, in many developing ones. If Thailand, say, fails to stamp out counterfeit Louis Vuitton handbags and pirated Viagra, France and the United States can seek WTO approval to retaliate by imposing trade sanctions.

This sets an unfortunate precedent. After all, outlawing products made in ways that are copyrighted by others is not very different from banning goods made by children or shrimp caught in ways that harm endangered sea-turtles. So if intellectual-property standards are applied, why should the WTO not also enforce minimum labour and environmental standards too?

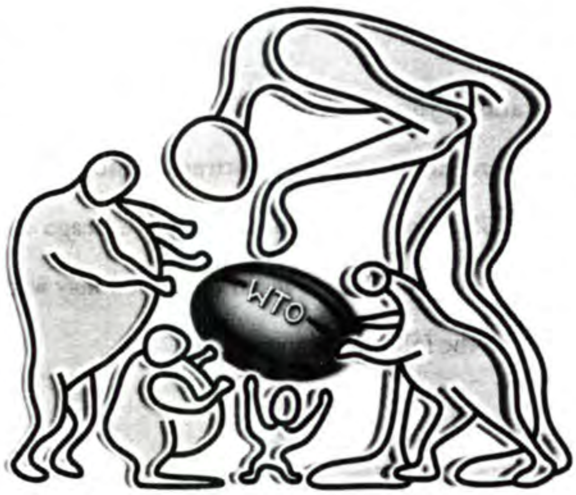
That question is in fact three separate ones. Do the costs of differing national standards—trade distortions, cross-border side-effects and policy co-ordination failures—outweigh the benefits of local rules that reflect local tastes and conditions? If international standards are preferable, could they be enforced effectively with trade sanctions? And lastly, would enforcing such standards complement the WTO's main task of keeping global trade free?

Consider labour first. Differing labour standards are hardly trade-distorting. On the contrary. That Mexican workers, for instance, enjoy less generous rights than their American counterparts, and that this may encourage labour-intensive factories to move south is a gain from trade, not a distortion. In practice, though, there is little evidence of this happening.

Evidence of cross-border side-effects is also flimsy. Studies fail to substantiate claims that weak labour standards in poor countries depress wages in rich countries. It is also argued that child labour in poor countries imposes emotional costs on rich-country consumers who find this offensive, and is thus another cross-border side-effect. If so, the rich would do better to send the children aid rather than impose harmful trade sanctions. If exports made by child labour are banned, children often end up unemployed or in unregulated sectors such as prostitution.

Nor, needless to say, does slapping trade sanctions on poor countries that employ child labour sit well with the WTO's aim of promoting free trade.

The case for some environmental standards is rather stronger. Many environmental problems, such as global warming, cross national borders. Governments tend to neglect the costs of these externalities when setting domestic regulations. Take, for instance, fish. Individual countries may fail to limit overfishing even though all suffer as a result. Even if some did impose limits, they might not reap any benefits if others continue to overfish. So there is a strong case for international agreement.



It is, however, debatable whether such agreements should be enforced with trade sanctions. They are a blunt tool, and may be ineffective (even if, sometimes, they appear the only option short of war). However, it is hard to see why such matters belong at the WTO, since these are mainly disputes about the environment, not trade.

Intellectual challenge

But what about intellectual property? According to a new paper* by Keith Maskus of the University of Colorado, at Boulder, the case for enforcing intellectual-property standards at the WTO is stronger than that for labour and the environment. Weak intellectual-property standards can harm trade. If Hong Kong is awash with bootleg Madonna CDs, imports of the genuine article may suffer. Weak intellectual-property rules may also discourage foreign investment and technology-licensing. Moreover, countries with weak intellectual-property standards may hitch a free ride on research-and-development spending elsewhere. If enough countries do this, little innovation will take place. International standards help overcome such problems.

Trade sanctions are fairly useful for enforcing intellectual-property standards, since the commercial damage imposed by illegal copying can be assessed relatively easily. And though the issue would sit better at the World Intellectual Property Organisation (WIPO), enforcing intellectual-property standards fits reasonably well with the WTO's other work, since it improves market access for copyrighted goods.

And yet, and yet. Raising intellectual-property standards is fundamentally different from lowering trade barriers. The beauty of trade liberalisation is that all countries gain—the liberalising country most of all. But strengthening intellectual-property protection in poor countries towards rich-country levels may do more harm than good.

Suppose poor countries were obliged to extend the validity of patents from five years to 20. That would undeniably hurt those poor places that do little domestic research. They would have to suffer the inefficiency of monopoly pricing for longer. Moreover, they would have to hand over more in patent fees to rich countries. But what of the benefits to the world? It is difficult to argue that Microsoft will stop producing new software and Merck anti-AIDS drugs if, say, Burkina Faso does not enforce their patents. Quite possibly, then, since there has been a loss of efficiency in poor countries and no corresponding gain in rich ones, the world as a whole will lose out.

That is bad enough. But worse still, the intellectual-property precedent fuels demands that the WTO afford similar protection to workers and the environment.

* "Regulatory Standards in the WTO: Comparing Intellectual Property Rights with Competition Policy, Environmental Protection and Core Labour Standards". Unpublished Institute for International Economics working paper. January 2000.

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Holes in the heavens

ATLANTA, GEORGIA

Black holes, once seen as a hypothetical consequence of some arcane maths, are now turning up everywhere. They may, indeed, shape the visible universe

ASK a person in the street what first comes to mind when the words "theory of relativity" are mentioned, and the chances are that the answer will be "E=mc²". Yet the formula that related mass to energy, and thus foreshadowed the atomic bomb (not to mention explaining why the sun shines) was actually an unexpected and apparently minor consequence of Einstein's work. Even the author considered it of little significance at the time. Similarly, when he published an expanded version of the theory a decade later, few thought it of much consequence that this allowed for concentrations of matter so dense, and thus with such strong gravitational fields, that light would be unable to escape from them.

Black holes have come a long way since then. Indeed, at the meeting of the American Astronomical Society held in Atlanta last week, they might be said to have come of age. For they are now seen to be an integral part of the universal bestiary—as significant in their way as stars, planets and galaxies. In fact, it looks probable that without them galaxies would never have formed in the first place.

Lest there be any lingering doubt that black holes now have the status of "normal" astronomical objects which can pop up anywhere, an unofficial contest has begun to find the closest one to the earth. Two candidates were presented for the conference's consideration. One, some 1,600 light years (about 15,000 trillion kilometres) away, was bagged by Rod Stubbings, an amateur astronomer who studies variable stars and who lives in Australia. Sadly for the spirit of amateurism, the other runner is currently reckoned to be a mere 1,000 light-years from the earth. It was discovered by a team of professionals, led by Charles Alcock of the Lawrence Livermore National Laboratory in California.

Mr Stubbings's black hole showed itself in September 1999 when a star in a constellation called Sagittarius suddenly got brighter. When he spotted this, he posted his observation on the World Wide Web, whence it was picked up by the operators of a satellite called the Rossi x-ray Timing Explorer

(RXTE). As its name suggests, this satellite measures x-rays. When it was pointed at Mr Stubbings's discovery, the pattern of x-rays it detected suggested he had seen what is known as a micro-quasar.

Because black holes swallow light, they can only be observed indirectly. One way to do this is to look for signs of the radiation generated when matter such as gas from a neighbouring star falls into one. As the gas spirals in, it is heated to a temperature of several million degrees. That causes it to emit vast quantities of radiation, including the light that Mr Stubbings saw, the x-rays picked up by RXTE, and radio waves. It becomes, in other words, a micro-quasar.

This makes it possible to detect those black holes which have companions to feed them gas. Lone black holes, though, are likely to remain invisible. Indeed, Dr Alcock's was found almost by accident, in a study of starlight from a galaxy called the Large Magellanic Cloud, which orbits the Milky Way (the earth's home galaxy).

Astronomers have long suspected that there is more to the universe than meets the eye—in other words that a lot of the matter in it is dark. One class of dark objects they are keen on finding are so-called MACHOS (Massive Compact Halo Objects). These are things the size of large planets, but which have no parent star to illuminate them.

Dr Alcock is one of the leaders of a project that is looking for MACHOS by exploiting yet another prediction of relativity theory—gravitational lensing. Relativity showed that the path of a ray of light is bent by a gravitational field. One consequence of that is that if a MACHO wanders between a star and a telescope on earth, the MACHO should act as a lens, focusing and brightening the light from the star. Stars in the Large Magellanic Cloud are ideal for this purpose. They are far enough away and numerous enough for there to be a good chance of a MACHO being found between a star and the earth (assuming there are any MACHOS out there). On the other hand they are close enough to be visible in a good telescope.

Dr Alcock did not find many planet-sized MACHOS, but he did find something that produced an effect so strong that it implied the intervening body weighed about six times as much as the sun. If this body had been an ordinary star, it would definitely have been visible in its own right. Given that it was not, it must be a black hole, reasoned Dr Alcock, since any object that massive could only be prevented from collapsing in on itself to form a black hole by the pressure of the starlight it was generating. Although it is impossible to draw strong conclusions from a single observation, the tiny chance a black hole has of being discovered this way makes it plausible that such lone black holes are quite common.

Black holes which weigh a few times the

mass of the sun (and are probably produced by stars collapsing in on themselves) are, however, small beer compared with the ones at the centres of galaxies. As the conference heard from Frederick Baganoff of Pennsylvania State University, the nearest of these—the one at the centre of the Milky Way—has now been located precisely.

The approximate site of Sagittarius A*, as it is called, has been known for some time. Its moniker originally referred to a strong radio source 26,000 light years away in that constellation—which was already known to be the direction and distance of the Milky Way's centre. The first x-ray satellites were able to detect this source too, but they were not advanced enough to pin down its location precisely.

The theory that there was a black hole out there was all but confirmed by studying the stars at the galactic centre. These travel so fast that the object they are orbiting is reckoned to have a mass many million times that of the sun. Now, as Dr Baganoff explained, a new American satellite called Chandra has shown that the x-rays—generated in a similar way to those from Mr Stubbings's microquasar—are coming from exactly this spot.

The Milky Way's central black hole is, nevertheless, comparatively quiet, as is the larger one at the centre of the nearby Andromeda nebula that Stephen Murray and his colleagues at the Harvard-Smithsonian Centre for Astrophysics reported to the conference—even though the Andromeda nebula's black hole is five times as massive as the Milky Way's. And a wider survey of 100 nearby galaxies, by Andrew Wilson and his colleagues at the University of Maryland, had to rely on radio signals to detect their central black holes because their x-ray emissions are so feeble. (The team found such objects in about 30 galaxies.)

The evidence suggests, however, that these are black holes that have been enfeebled by age. Full-blown quasars—as opposed to Mr Stubbings's micro variety—are distant galaxies that pour out huge quantities of radio energy. The most plausible explanation for them is that their central black holes are swallowing enormous amounts of matter. And because quasars are all so far away (and are thus seen as they were billions of years ago) this suggests that a central black hole is something which a galaxy acquires early in its existence—so early that many astronomers believe the hole is actually the nucleus around which a galaxy forms. These big black holes, in other words, predate galaxies themselves.

The Chandra satellite may be able to find out whether this theory is correct, according to Richard Mushotzky, of the Goddard Space Flight Centre in Greenbelt, Maryland. When the first x-ray measurements of the sky were made, only two things could be seen: a hot cloud left behind by a recently exploded star, and a smooth "x-ray background" spread evenly across the sky. Only now, using Chandra, is it possible to see that the "background" is, in fact, a large number of distinct sources.

Most of these do not show up in optical or radio telescopes, so it will be difficult to find out what they are. Some may be galaxies that contain large amounts of dust which obscure other frequencies and let only x-rays through. But others may simply not shine much in "visible" light. In that case, Chandra is looking right into the Dark Ages of the universe, 14 billion years ago, when galaxies or stars had yet to form. And when, it now appears, there were only giant black holes getting ready to create them.

Panspermia

Interplanetary migration

ATLANTA, GEORGIA

Life on earth may have an unearthly origin

WHEN you are in the business of sending spacecraft to other planets, it is probably wise to do everything you can to keep your space-probes sterile. NASA, America's space agency, certainly does so. After all, you would not want bugs from one planet to contaminate another where they might possibly thrive. But according to Curt Mileikowsky, of the Royal Institute of Technology in Stockholm, this may already have happened naturally billions of years ago when the solar system was young. For Dr Mileikowsky has taken a century-old idea called panspermia, and shown that it is plausible.

Panspermia is the theory that life does not start independently on each planet that has it (assuming that other planets do). Rather, it hops from place to place, "infecting" new worlds as it goes. Supported by experts in biology, geology and celestial mechanics, Dr Mileikowsky argued to the American Astronomical Society meeting in Atlanta that this is not as outlandish as it sounds.

Bungling space organisations apart, the only mode of travel open to microbes seems to be meteorites. Most of these are small bits of junk from the asteroid belt that have gone off course. But some are rocks that have been flung into space from the surfaces of planets as a result of those planets having been struck by even larger bits of rock—decent-sized asteroids or comets.

If there is life on such a planet, microscopic forms of it will probably live deep inside rocks, as they do on earth. The acceleration of lift-off would not kill something that size, and if a rock is large enough, the heat generated as it is thrown clear will be negligible except at its surface—where, if anything, melting may even produce an airtight skin to protect any microbes deeper down from the unpleasant vacuum of space.

Radiation, too, should not be a problem if a newly launched meteorite is at least the size of a soccer ball. An experimental colony of bacteria stranded in space by problems with the space shuttle survived for six years. Extrapolating from this result, Dr Mileikowsky thinks that in a meteorite with a diameter of 20cm it would take about 1m years for such a colony to be reduced to a millionth of its original size.

The exchange of rocky migrants that interests people most is between the earth and Mars. (Only a few years ago researchers claimed to have found fossilised traces of microbes in one such meteorite, though this is hotly disputed.) With luck, 1m years is enough time to reach the earth from Mars. In the past 4 billion years, Dr Mileikowsky has calculated, about 5 billion "landings" on earth from Mars have occurred in which the "vessel" size and travel time were just right. In the other direction, life could have made some 1 billion trips. That seems ample opportunity for mutual seeding of the two planets to have happened.

Indeed, Mauri Valtonen, of Turku University in Finland, said that although he doesn't feel particularly Martian, the inward route is actually the more probable one. Besides the larger number of emigrant rocks from its surface, Mars cooled faster than the earth after it formed, and so would have reached conditions favourable to life (a dense atmosphere, allowing for surface water) earlier.

That would make it more likely that earth was the recipient, not the giver, of life. Afterwards, of course, Mars became the cold, apparently lifeless, body that it is today. So for the past few billion years microbes have probably been travelling in one direction only—from earth to Mars.

An even more intriguing question—and the one that the original theory of panspermia tried to address—is whether life might have arrived on earth from another solar system. In present circumstances, according to Dr Mileikowsky's calculations, that idea is a non-starter. The chance that a suitable meteorite could make the journey fast enough is virtually zero. But the sun was probably born in a cluster with many other stars. This would mean that 4 billion years ago, the age of the earliest signs of life on earth, interstellar distances were much smaller. In that case, he calculates, the chance of life having crossed to the earth from another solar system, or vice versa, is about 1%. That is still pretty unlikely in most people's books. But it does make the seemingly universal two-leggedness of aliens in science fiction movies a tad more convincing.

Nuclear waste

A torch song

USING nuclear reactions to generate electricity is a messy business. Reactors that exploit nuclear fission (in which energy is generated by splitting uranium atoms) have produced thousands of tonnes of spent fuel and other radioactive by-products. Meanwhile, research into fusion power (in which energy is generated by fusing hydrogen atoms together at very high temperatures) has left behind a different kind of debris: a trail of experimental reactors, none of which has yet reached the break-even point where the amount of energy that comes out exceeds the amount put in. Bernard Eastlund, a physicist and veteran of the American nuclear industry, has proposed an ingenious way to deal with these nuclear leftovers. The experimental fusion reactors, he suggests, could be used to clean up the waste generated by the fission reactors.

Dr Eastlund first came up with the idea for what he calls a "fusion torch" in 1968, in collaboration with an electrical engineer called William Gough. At the time, it looked as though practical fusion reactors were just around the corner, and the two physicists suggested that their surplus plasma—gas heated to around 10m°C, so that individual atoms have their electrons stripped off—might be used for recycling household and industrial waste.

The idea works as follows. First, start with the plasma, confined in a doughnut-shaped magnetic "bottle" called a tokamak. Next, throw in some unwanted material. This will be reduced almost instantly to a soup of electrons and nuclei. It will also cause the magnetic bottle to overflow and emit a stream of plasma through a special outlet. The plasma stream is then passed over a series of metal plates, held at particular temperatures, and arranged in descending order of temperature.

Atoms of elements with boiling points below the temperature of a particular plate pass over it, just as water runs over a warm river-bed. But eventually, each atom encounters a plate at a temperature lower than its boiling point, at which point it sticks to the plate, just as water freezes when poured on to dry-ice. In effect, the various plates act as an atomic distillation system which sorts the plasma into its constituent elements. Household waste, for example, would be reduced to pure carbon, oxygen and hydrogen, along with a handful of heavier elements (tungsten, iron, aluminium and so on) which could then be re-used.

The idea of the fusion torch attracted a lot of attention, and won its inventors an award from America's Atomic Energy Commission. But nothing came of it, for two reasons. First, fusion research failed to progress as quickly as expected, so there were no power stations producing streams of surplus plasma to fuel fusion-torch recyclers. And second, researchers in the field disliked the idea of lobbing tennis shoes and old tyres into their pristine reactors. So the idea lay dormant for many years.

The growing mountain of nuclear waste from fission reactors, however, has recently rekindled interest in the scheme. Last year, following a request from the American Department of Energy, Dr Eastlund delivered a detailed proposal explaining how the fusion torch could help to dispose of this waste.

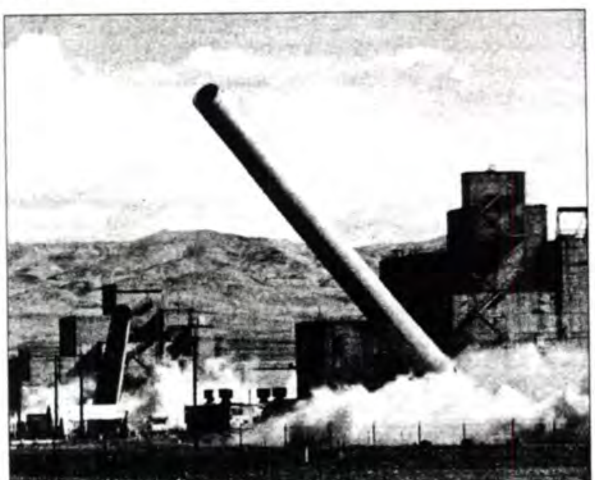
At present, the plan is for it to be reprocessed using solvents and chemical processes to separate it into high-level and low-level components. The high-level waste would then be enclosed in glass canisters and buried deep underground while the low-level waste was stored above ground in special secure facilities. The cost of treating the waste from the decommissioned plutonium-manufacturing plant in Hanford, Washington, alone is estimated at over $40 billion. Nationally, the energy department expects the bill to be around $400 billion.

According to Dr Eastlund, breaking nuclear waste up into its constituent elements using a fusion torch would have a number of advantages over the chemical approach. For a start, it would produce much less waste. Chemical reprocessing at Hanford would generate 22,000 tonnes of high-level waste and 500,000 tonnes of low-level waste. For a fusion torch the figures are around 5,000 tonnes and 1,000 tonnes respectively. This is because the waste consists of barrels of sludge containing compounds such as nitrides, oxides and water that are not, themselves, radioactive. Another advantage is cost. The fusion torch could, he reckons, handle the waste at the Hanford plant for around $10 billion.

A number of things have changed since the fusion torch was originally proposed. Experimental fusion reactors reached temperatures of 10m°C in the mid-1980s, making the idea feasible. Many of those reactors, however, have now been mothballed, so using them as fusion torches would probably encounter little opposition from their owners. Dr Eastlund has also been able to draw on subsequent research on turning solids into plasmas. (This method is, in fact, used to apply coatings to the insides of tokamaks.) And the advent of supercomputers able to simulate tokamaks should also speed up the process of building a working prototype.

Dr Eastlund's proposal, which is now being circulated more widely within the department, lays out a $70m research programme that would involve recommissioning a tokamak at the University of Texas to test the concept, and then proceeding to a prototype system (capable of handling a barrel or two of waste per day) within five years. Waste-handling expertise would be provided by Mississippi State University. If successful, the system could then be scaled up by building several such machines.

But the wheels of government turn slowly, though Dr Eastlund says interest at the energy department increases whenever there is a nuclear incident elsewhere in the world. Backing the fusion-torch would be politically difficult, because it would be an admission that chemical reprocessing, the currently favoured approach, has its drawbacks. There would also be legal hurdles to overcome as reprocessing nuclear waste is one of the most regulated industries in America. Even so, Dr Eastlund hopes that he will soon be able to hand on the torch to someone who can make real use of it.



Breaking Hanford down

THE PRESIDENT HAS SEEN
2-1-00

DEBT IN JAPAN AND AMERICA

Podesta / Gene / L. Summers
This is a good & troubling piece – we should discuss

Into the whirlwind

copied
Podesta
Sperling
Summers

The world's two biggest economies are caught in a spiral of borrowing

THE experience of the past decade offers a good tip for predicting the next economic trouble-spot: "follow the debt". Excessive borrowing by firms, households or governments lay behind the economic crises in Mexico, East Asia, Russia and Brazil. Who will be next? Some emerging economies, such as China, still give cause for concern. But the disconcerting truth is that the next debt crisis is more likely to occur not in the developing world, but in one of the world's two biggest economies. Private borrowers in the United States have been on a five-year spree which increases the future risk of a hard economic landing, while in Japan, government debt is in danger of spiralling out of control, which could prove to be a potent drag on efforts to get the sluggish Japanese economy humming again.

Admittedly, American and Japanese debts, unlike those of emerging debtors, are almost all in their own currencies, so they are unlikely to suffer crises as severe as in East Asia. Nevertheless, in both countries the build-up of debt now looks unsustainable.

Consider Japan first. The country has been struggling for almost a decade with a nasty economic hangover brought on by excessive private-sector borrowing in the 1980s. The economy is now beginning to pick up, but only because the government has repeatedly tried to restart growth by spending and borrowing on a massive scale. The strategy has been correct, given deflation and a long (albeit shallow) recession—though it ought recently to have been accompanied by aggressive monetary expansion. But the cost has been high. Many fear that Japan is heading for a public-sector debt crisis.

As a result of countless stimulus packages, Japan's general government deficit has widened to more than 8% of GDP. Japan's gross public debt has become gross indeed, amounting to 128% of GDP at the end of last year, according to the IMF, up from 69% in 1990. This makes the Japanese government the biggest borrower in the rich world, with an even higher public-sector debt-to-GDP ratio than Italy, a long-time champ in the profligacy sweepstakes. The IMF forecasts that, even in the unlikely event that the government slashes its budget deficit to 1.4% of GDP by 2004, debt will by then have risen to a staggering 150% of GDP (see chart 1).

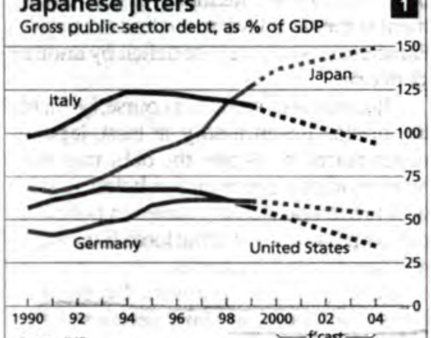
Moreover, the official figures understate the true level of debt, because Japan's public accounts are particularly opaque. They exclude the Fiscal Investment and Loan Programme (FILP), a "shadow budget" which channels funds from the postal savings system and public pension funds into public-sector institutions, such as the Housing Loan Corporation, or infrastructure projects. Many of these projects are of questionable worth and the government may eventually have to write off loans, at a big cost to the taxpayer. If hidden debts in the FILP are included, Japan's public debt is probably already around 150% of GDP. Add also the present value of future state-pension commitments (estimated at over 100% of GDP, thanks to a rapidly ageing population) and the total swells to more than 250% of GDP. And even this ignores other potentially large liabilities, such as the guarantees that the government has provided on bank loans. These could well turn sour.

Whatever the exact figure, it does not look as if Japan's public debt can go on increasing for much longer.

The "trap"

How much can a government safely borrow? There is no simple answer to this question. At the end of the second world war, for example, the ratio of public debt to GDP rose to 250% in Britain. This caused much anxiety, and rationing of goods lasted well into the 1950s, partly as a result. Nevertheless, in those exceptional times, the government quickly reduced its debts. During the past four decades, no developed economy has had a public-sector debt of more than 135% of GDP, and governments that have got anywhere near that figure—such as Italy, Belgium and Ireland—were soon forced by financial markets to tighten their belts.

Japanese jitters 1
Gross public-sector debt, as % of GDP



Source: IMF

There are at least three reasons why a high level of public debt can be dangerous. First, if government borrowing pushes up interest rates, it can crowd out more productive private-sector investment. However, with private demand still weak, the risk of crowding out is currently low in Japan. Ten-year government bond yields are only 1.7%.

A second concern is that when debt is high, a government may be tempted to print money and let inflation rip, in order to erode the real value of its debt mountain. Borrowers throughout the ages have generally liked inflation. And yet, perversely, Japan is currently suffering from just the opposite, deflation. A modest positive rate of inflation would, under current conditions, be a good, not a bad thing, for the Japanese economy. Last, but not least, there is the danger of the so-called "debt trap", in which rising interest payments swell the government's budget deficit to such an extent that total debt continues to grow even when the government is not overspending. The debt seems to take on a life of its own.

The debt trap does indeed threaten to ensnare Japan. Interest rates are still close to historical lows, but if they increase as the economy recovers, this will further increase the budget deficit. And the point is not far off when mounting interest payments will make it devilishly difficult to rein in a spiralling debt-to-GDP ratio.

Just consider some unpleasant arithmetic. The future path of the ratio of debt to GDP depends on two factors: the primary budget deficit (government spending other than interest payments minus tax revenues) and the relationship between interest rates and nominal GDP growth (real growth plus inflation). The higher the inflation and growth rates, the more a government can borrow while keeping debt as a percentage of GDP constant, because the real value of existing debt shrinks faster. If, however, interest rates exceed nominal GDP growth and the government runs a primary deficit, debt will increase indefinitely relative to GDP.

Unfortunately, the latter is currently the situation in Japan. The government's primary deficit is running at 6.5% of GDP, and over the past seven years, nominal growth has averaged only 0.7%, even less than the historical low to which bond yields have fallen. In such circumstances, balancing the budget would not be enough to stop the debt-to-GDP ratio from growing; the government would need to aim for a sizeable primary budget surplus, a dangerous thing to do when the economy itself is barely growing.

Neither economic theory nor history offers much guide to what is a sustainable level of public debt. In the end it is investors who decide, by demanding much higher interest rates on bonds.

Some good news for Japan

There are, however, some reasons why Japan may be able to run a bigger government debt than other countries. Japan is the world's biggest creditor nation, with $1.2 trillion (equal to 31% of its GDP) of overseas assets, thanks to two decades of current-account surplus. Almost all other economies in which public-sector debt has exceeded annual GDP had current-account deficits.

Because the Japanese are the rich world's biggest savers, the government is not dependent on foreign investors to finance its deficit. Only 10% of Japanese government securities are held by foreigners, compared with 40% of America's and 23% of Italy's. Residents are less likely than foreigners to dump bonds suddenly.

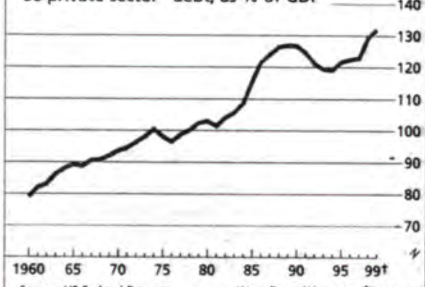
In addition, almost half of all outstanding Japanese government securities are held in the social-security funds, owned by the government itself. Indeed, on official figures, net public-sector debt is a more modest 40% of GDP, the lowest among the big, rich economies. That might seem at a stroke to eliminate the problem. But the snag is that those social-security funds are more than outweighed by future pension liabilities.

These factors all reduce the risk of an imminent funding or currency crisis, but they do not alter the fact that the continued growth in Japan's debt does not look sustainable for much longer. It would be foolish for the government to slash its budget deficit while the economy remains fragile—it made that mistake in 1997 and tipped the economy back into recession. But once a firm recovery gets under way, the government will have to act quickly to cut public spending or increase taxes, or some combination of the two, to prevent debt exploding.

That will be painful, especially because Japan's ageing population is pushing up health and pension costs. And yet Japan has a big advantage over other former big public-sector debtors, such as Sweden, Italy or Belgium. In all those economies the level of taxes was already high. In contrast, tax revenues amount to only 29% of Japan's GDP, the lowest in any rich economy and well below the average for other rich countries, which is 39%. The European Union's tax burden, for example, is even higher, at 42% of GDP.

Red alert 2

US private-sector* debt, as % of GDP



Source: US Federal Reserve *Non-financial sector †Estimate

So Japan has considerable scope for increasing tax revenues. The best way for it to do this would be to broaden its tax base, rather than raising tax rates. The OECD estimates that total revenue forgone as a result of generous personal allowances and credits amounts to 10% of GDP. If just half of this was clawed back by eliminating such tax breaks, it would go a long way towards closing the budget gap. The OECD also suggests that there is plenty of scope for cutting spending on public works. Reducing public investment to the same level in relation to GDP as in France, say, would cut the deficit by another 5% of GDP.

Tax increases would, of course, be highly unpopular. But in theory, at least, Japan is better placed to escape the debt trap than other profligate governments before it. With well-timed and skilful changes in policy, Japan could still escape what looks like, on current trends, a looming crisis.

America's debt problem, by contrast, looks more alarming. Many people will find this hard to swallow. Compared with Japan, the American government looks like a paragon of fiscal virtue. After heavy borrowing in the 1980s, its budget has moved into surplus, allowing the government to repay, with much self-congratulation, some debt.

Some bad news for America

And yet, even as the American government has weaned itself from its old borrowing habits, American households and firms have been borrowing hand over fist, lifting their combined debts to a record 132% of GDP (see chart 2). It is these debts which could make the economic consequences of a stock-market collapse more serious, and more damaging, than most people expect.

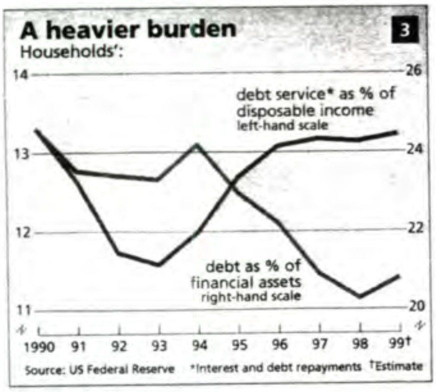
In the year to last September, the total debts of non-financial firms increased by 12%, the fastest pace since the mid-1980s. "So what?" retort some economists. Most of this borrowing is to finance a high-tech investment boom which will boost future productivity and profits. For some of this borrowing, that is undoubtedly true, but a worryingly large slice has in fact been used to finance share buy-backs. During the past two years, non-financial corporations increased their debts by $900 billion, while they retired a net $460 billion of equity. The main reason for these buy-backs is so that firms can pay employees in share options without depressing the share price. In effect, therefore, firms are borrowing to finance their pay bill and to prop up share prices.

At the same time, rising share prices have made households feel wealthier, and so encouraged them to borrow still more to pay for a spending spree. Total household debt has jumped from 85% of personal income in 1992 to 103% last year. Most worrying of all, margin debt (borrowing to buy shares) has tripled over the past five years; it has jumped by 25% in the past two months alone. If share prices fall, some of this would have to be repaid immediately, forcing investors to sell shares—and so send share prices lower still.

Optimists claim there is nothing to worry about, because the increase in debt has been more than matched by an increase in financial assets. On the surface, balance sheets do indeed look healthy. Households' net wealth (assets minus debt) has increased from just under five times personal disposable income in 1990, to a historic high of more than six times. Meanwhile, the ratio of corporate debt to the market value of equity has fallen from 0.6 to 0.35. If (a big if) the stock-market is a reliable judge of future earnings, then there is no cause for alarm.

But that cushion may be less comfortable than it seems. Other measures of corporate leverage, such as the ratio of debt to companies' net worth (the value of tangible assets minus debt), have increased.

More fundamentally, the problem with borrowing on the back of rising asset values is that debt is fixed in value, whereas the value of assets, such as shares and property, is



not. And what goes up can come down. In other words, the apparent health of balance sheets hinges on whether equities are fairly valued. Debts can only be serviced from income; assets can pay the interest bill only if they are sold, and if lots of debtors are forced to sell at the same time, asset prices will plummet. A better measure of the debt burden therefore is debt-service payments as a percentage of income. Despite low interest rates, households' debt-service ratio is currently close to a record level (see chart 3). Corporate debt-service, on the other hand, is still relatively low, thanks to bumper profits.

Japan offers a chilling example of how seemingly healthy balance sheets provide little protection. The debt of Japanese households rose from 89% of their disposable income in 1985 to 112% in 1989, an increase only slightly larger than that recorded by American households in the 1990s. Yet as the value of shares and property also soared, Japanese net household wealth rose from five times disposable income to 8.5 times over the same period. Companies' net worth also rose sharply relative to GDP. But when asset prices went sharply into reverse, debtors and banks found themselves in big trouble.

The quality of loan portfolios in America has already deteriorated in recent years as banks, facing more competitive pressure, have been forced to lend to riskier borrowers. Despite a booming economy, non-performing loans have increased. The number of companies defaulting on their bonds also hit a record level last year, and Moody's, a rating agency, downgraded twice as many American companies as it upgraded.

Rising debt is not necessarily a bad thing. Long-term economic growth will be faster if spare savings are channelled into productive investment rather than sitting idle under the mattress. It is natural, therefore that, as financial systems have become more efficient in channelling funds from those with surplus income to those who need to borrow, America's ratio of private-sector debt to GDP has increased. The snag is that, within this trend, a sudden, excessive surge in debt can have nasty consequences.

The sensible level of debt for an economy depends on interest rates, expected future growth in income, and the variability of growth. Industries with a more stable cash flow can afford to take on bigger debts than highly cyclical businesses. If (a very big if) the business cycle really has been tamed and there is little risk of a recession, firms and households can safely borrow more.

But even if the optimal level of debt has increased, a sudden surge in borrowing can leave households and firms horribly vulnerable to shocks, such as higher interest rates, a fall in asset prices or an economic slowdown. All three are possible, indeed likely, in America over the next few years.

America's high debt levels are unlikely by themselves to trigger an economic collapse, but they do threaten to amplify any downturn, turning it into a deeper recession if debtors are forced suddenly to cut their spending in order to service or reduce their debts. It is no coincidence that in the early 1990s the deepest or most protracted recessions were in economies that had seen the biggest increase in private-sector debt in the 1980s—namely Britain, Canada and Sweden. America's recovery from its recession in the early 1990s was also hindered by an overhang of private debt accumulated during the previous boom.

America's private-sector debt problem may not yet be as serious as Japan's in the late 1980s, when banks engaged in imprudent lending on a massive scale. America's banking system is also (fingers crossed) in better shape than Japan's. But to the extent that much of America's recent borrowing has been on the rosy assumption of everlasting growth, low interest rates and rising share prices, many borrowers and lenders may, sooner or later, be in for a rude shock.

The kindness of strangers

Moreover, the United States is vulnerable in a way that Japan never was. America is already the world's biggest foreign debtor, with net foreign liabilities of $1.5 trillion, around 20% of GDP. As a credit-fuelled spending binge has sucked in more imports, America's current-account deficit has widened to about 4% of GDP. If it remained at this level, America's net foreign debt would rise to more than 50% of GDP within ten years.

This leaves the American economy dependent on foreigners' willingness to hold more and more dollar-denominated assets. But there is surely a limit to this. If foreigners' appetite for dollars dries up, the currency will fall. America would then need to offer progressively higher interest rates to convince foreigners to put a growing share of their wealth into dollar securities. Higher interest rates, and hence lower share prices, would be a blow to American debtors.

During the 1970s and 1980s, the main source of economic instability in rich economies was inflation. Now that inflation is under control, excessive debt may be the new enemy. Ironically, the move to lower inflation is partly to blame for this.

In Japan deflation has not only forced the government to borrow heavily in an effort to pull the economy out of recession, it has also caused the real burden of existing public debt to swell. Stabilising the debt ratio would be easier with a low positive rate of inflation, which is why it is essential that the Bank of Japan keeps monetary policy loose.

In America, too, low inflation has encouraged heavy borrowing. The apparent defeat of inflation, combined with the longest expansion in American history, has helped to create the unrealistic expectation that the boom will last forever. This, in turn, has encouraged firms and households to borrow more and lenders to relax their standards. When inflation is low, interest rates look cheap, thanks to "money illusion", even though real interest rates are no lower. And low nominal interest rates mislead firms and households into believing that they can safely afford to borrow a much bigger multiple of their income.

Yet the same low inflation that encourages a surge in borrowing also makes excessive debt potentially more dangerous, because, unlike in the past, borrowers can no longer rely on inflation to erode their real debt burden if things go wrong.

In both America and Japan, the path of debt is unsustainable. But it is in America where the immediate risks are greatest. Japan's massive public borrowing was necessary to prevent an even nastier recession. The government's real policy test therefore lies ahead, namely how quickly will it act to cap the level of debt.

America's private-borrowing binge, by contrast, should never have been allowed to go on for so long. It has contributed to a perilous overheating, which is likely to make any "landing" hard rather than soft. It looks as if American policymakers learned nothing from the errors of their Japanese counterparts in the 1980s, when private borrowing was also allowed to rip. The cost to Japan was years of recession and sluggish growth. Americans, not to mention the rest of the world, should be praying that their economy will not have to pay the same price.

Sandy
~~H~~ Hope we can help
BC

THE PRESIDENT HAS SEEN
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Sudan's chance for peace

For the first time, all sides in Sudan's civil war are trying to find a way out

"THE war is always with us," they say in Sudan. With reason: the current civil war has lasted 17 years, and so did the one before. In the north, the battles are far distant. But in the south, the fighting has killed hundreds of thousands of people, and keeps the survivors destitute. Neither side has ever looked like winning. The warring parties talk to one another fairly regularly, but have never yet found a peaceful solution.

Yet, imperceptibly, a new feeling is growing that a settlement must be found. Little, otherwise, has changed: the pieces of the jigsaw remain as they were. The differences have not narrowed between the Muslim, Arabic-speaking, northerners and the non-Muslim southerners, who speak African languages and resent the north's political and economic domination. No dynamic new forces have entered the scene. Indeed, the main peace broker, the Intergovernmental Authority on Development (IGAD), an umbrella organisation for the Horn of Africa, has seldom looked less effective. Two of its members, Ethiopia and Eritrea, are at war, and the Kenyan government, which is IGAD's host, seems more interested in the protocol of the talks than their substance.

What has happened, however, is that Sudan's government has begun to feel even poorer and more isolated than usual. America has imposed sanctions, accusing Sudan of supporting terrorism. Nobody gives it any aid. Arab neighbours fear its brand of Islamism. And although Sudan is now an oil producer, the war prevents it from exploiting its wealth. The pipeline to the coast was blown up last week, for the second time, and Talisman Energy, a Canadian company that extracts the oil, is under pressure from the Canadian government for "financing war".

The rebels, the Sudan People's Liberation Army (SPLA), also have an incentive to seek peace. The idea of the south's independence, or at least its freedom from northern Islamic domination, remains as strong as ever, but the southerners are politically divided along ethnic lines and have never been militarily weaker. Many of the SPLA's fighters have given up, disillusioned. Respected southerners are pushing the SPLA's leader, John Garang, to end the war. Eritrea and Ethiopia, which once helped the rebellion, are too busy fighting each other. Uganda, which also used to support the SPLA, is embroiled in Congo and is now seeking a deal with the Sudanese government. Last December, the two countries promised, perhaps perfidiously, to stop supporting each other's rebels.

Egypt, which has always had a deep, rather proprietorial, concern for Sudan, has chosen this moment for a new initiative. The Egyptian government, intent on suppressing its own Islamists, had felt threatened by Sudan's Islamist power-behind-the-throne, Hassan Turabi, the sharp, fast-talking speaker of parliament. So last month, when Sudan's President Omar Bashir, an ex-general, ordered the army to remove Mr Turabi from the speakership, the Egyptians were delighted and, together with Libya, began to advance a new peace plan.

Peace in Sudan must have two elements: the southerners and the government have to be reconciled, but so too do the northern politicians. The second is easier than the first. The removal of Mr Turabi has cleared the way for the government to make its peace with two exiled northern politicians, Sadiq al-Mahdi, leader of the Umma Party, and Muhammad Osman Mirghani, leader of the Democratic Unionist Party. President Bashir wants them back in the capital, Khartoum, and both seem keen to return.

But there are complications. In exile, the northern opponents of Mr Turabi joined with the SPLA to form a united opposition, the National Democratic Alliance (NDA). The SPLA, although in theory committed to a secular, decentralised Sudan, is at heart a southern separatist movement. It will not go along with a peace plan that does not include the option of southern independence. The northern opposition, however, would prefer to keep the country together.

The one breakthrough that the IGAD peace initiative achieved was to get all parties, including the government, to accept the idea of a referendum on the future of the south, including the option of independence. But Egypt vehemently opposes the break-up of Sudan. It is deeply concerned about who controls the Nile waters, and does not want the creation of a new state on the upper Nile. This is why Egypt, a "partner" of IGAD but not a member, would like the IGAD initiative to fail. Instead, it has its own ideas for bringing peace to Sudan, leaving separatism off the agenda.

Mr al-Mahdi and Mr Mirghani might abandon their southern allies, return to Khartoum and go along with the Egyptian plan. But abandoning the SPLA would deprive them of a strong card, and the war would continue. On the other hand, if they stay allied to the SPLA and maintain a united front, they will have more leverage in Khartoum and might even be able to deliver the south to the negotiating table. The chances of peace will be greater. Finding a solution that satisfies the southern demand for a referendum on independence and the northern desire to keep Sudan together is desperately hard. But, for the first time in years, there is a real chance at least of an attempt.

Podesta / Sandy
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Biological warfare

America the unready

NEW YORK

Biowarfare could be the worst terrorist threat of all

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DOES America really face the possibility of a biological Armageddon? Since ABC News broadcast a television horror story in October—terrorists tossing bottles of anthrax spores on to the tracks of some unnamed American city's underground railway, releasing an invisible cloud of lethal bacteria that would kill 50,000 people within a week—nerves have been tingling even more sharply. The programme, ABC made clear, was pure fiction, like Orson Welles's apocalyptic radio tale of alien assault in 1938. Yet many viewers complained that the network was encouraging potential terrorists. Others accused it of unnecessary theatrics.

The secretary of defence, Bill Cohen, seems to take the matter seriously. He said recently that, if a biological attack did come, the contagion could spread horrifyingly: doctors would be able to offer little relief, hospitals might become warehouses for the dead and dying. "This is not hyperbole," Mr Cohen insisted. The head of the FBI, Louis Freeh, talking to the Senate last year, included biological weapons among the instruments of mass destruction that terrorist groups might well want to use.

Yet the head of Mr Freeh's domestic-terrorism unit, Robert Burnham, considers the risk of a biological attack to be relatively low (though he worries about a loophole in federal law that makes the possession of bioweapons like anthrax perfectly legal). And the sceptics point out that America's armed forces, understandably wanting more money to protect the country against such horrors, are unlikely to play down the danger.

One anti-sceptic is Donald Henderson, director of the Centre for Civilian Biodefence Studies at Johns Hopkins University, who believes that the threat of bioterrorism has increased in recent years. He dismisses the widely held view that the scientific expertise required to produce and disperse lethal organisms is within the reach of only the most sophisticated laboratories. "Recipes for making biological weapons are available on the Internet," he argues, "and even groups with modest finances and basic training in biology and engineering could develop an effective weapon at little cost."

The Japanese cult-group Aum Shinrikyo is best known for its 1995 sarin gas attack on the Tokyo subway system, but it is believed that it also planned to use biological weapons against American troops in Japan. Its arsenal is said to have included large amounts of nutrient media, botulinum toxin and anthrax cultures, besides drone aircraft equipped with spray tanks.

Dr Henderson says that two familiar microbes, smallpox and anthrax, are the most formidable threats. Anthrax, with a fatality rate of 80-90%, could knock out an entire city. Smallpox is also a killer of mind-boggling proportions: when the campaign to eradicate it began, in 1967, it was killing 2m people a year. And, unlike anthrax, smallpox is a highly communicable disease; it can spread like wildfire.

For the most part, smallpox was exterminated decades ago. That has a benefit and a disadvantage. The benefit is that "casual" terrorists would have great difficulty getting hold of it (officially, the only remaining stocks are held at one laboratory in America and one in Russia, though there are probably a few secret hoards in military laboratories around the world). The disadvantage is that the disease's disappearance means that there is not much vaccine around. The United States stopped vaccinating people in 1972, and about 90% of the population now lacks smallpox immunity. A major city could quickly be overrun by a disease in which one out of three people would die.

It would not take many such outbreaks to overwhelm the country's medical system. The Centre for Civilian Biodefence Studies says that, even if at first only 50 people were infected, the result could be a nationwide epidemic. Cities lack the isolation facilities needed to prevent the contagion spreading. In Washington, DC, for example, there are only about 100 hospital beds that could provide proper isolation of infected patients. If your spine is not yet tingling enough, reflect that the United States possesses nowhere near enough reserves of smallpox vaccine. It currently has about 15m doses to hand, but maybe only about half of these are usable. If more vaccine were needed, it would take up to a year to produce: at present no manufacturing capacity exists.

All this points to a serious gap in the country's preparedness to deal with a biological-weapons threat, despite the Clinton administration's efforts to increase anti-terrorism spending over the past two years. According to some doctors, the problem is partly one of priorities. Testifying to Congress recently, Tara O'Toole of the Johns Hopkins University School of Public Health said that anti-terrorism programmes have concentrated chiefly on the threat posed by conventional explosives or chemical weapons. Yet biological terrorism may not only be likelier than before; it is also far more threatening than either explosives or chemicals. Whereas the worst effects of a chemical or explosive attack are soon over, the devastation following a smallpox or anthrax outbreak can continue for weeks or months as the contagion goes on spreading.

An effective response would need lots of money. Yet for the current fiscal year the Department of Health and Human Services is requesting only $230m out of a total anti-terrorism budget of $10 billion—much less than President Clinton asked for when, 18 months ago, he announced a plan for a national response to terrorist incidents involving chemical or biological weapons.

Ms O'Toole says that hardly any American cities have practised their response to a biological attack. Even when bioterrorism scenarios are considered, she claims, hospital leaders and public-health experts are frequently excluded from the training sponsored by federal agencies. She wants the government to do much more to develop national pharmaceutical and vaccine stockpiles and to improve disease-surveillance systems. Michael Osterholm, a former Minnesota state epidemiologist, is even blunter. "We have a substantial national response to terrorism. The problem is they forgot to include a meaningful biological component."

A small military task force has now been set up, under Brigadier-General Bruce Lawlor, to help the civilians work out what to do if the worst happens. Yet perhaps even this does not address the real nightmare—that a genetically engineered pathogen might be set loose deliberately. Against that there would be no vaccine, and probably no handy antidote. And genetic technology is getting cheaper by the day.

Family
can we do anything
about this?
Bo

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Mongolia

Living in a manhole

ULAN BATOR

The street children are the symptom of a bigger problem

FATHER GILBERT knows every open manhole in Mongolia's capital, Ulan Bator, and, more important, the children who live below them. Every Wednesday this Filipino priest delivers hot tea and mutton pancakes across the city. The first port of call, a manhole between the Hard Rock Club and the Ulan Bator Hotel, has half-a-dozen children living in it. Last year, one child stabbed another to death here. A second child died in an alcohol-induced coma.

During the day, the girls from this manhole offer themselves to men for $5 a time. That is good money, if they get it. On a recent day, they had money and only one of the children, a boy of 14, came up the ladder to greet Father Gilbert. The others, he said, had been drinking vodka and had passed out. With a grin, the boy took the food and went below again.

The manholes, in which many of Ulan Bator's nearly 3,000 street children live, are fetid places that lead either to the sewers or to the city's heating system. Underground life does nothing to reduce the high incidence among the children of scabies, tuberculosis, urinary infections and sexually transmitted diseases. But at least it is warm. Ulan Bator is the world's coldest capital city, with winter temperatures that can dip below -30°C. By leaving the covers open, the government acknowledges that the manholes have become life-savers. Indeed, aid workers say that deaths from hypothermia are more common in the summer, when a cold snap can catch the homeless off guard.

The street children of Mongolia have earned plenty of attention from aid agencies because of where they live. Some 20 "shelters" for those in Ulan Bator are now paid for by non-governmental organisations NGOs. They range from a simple *ger* (a felt tent) that acts as a half-way house, to the well-organised home for 130 children run by Father Gilbert. Children's charities, such as the Christina Noble Children's Foundation, have launched international appeals to help Mongolia's street children. The thought of children having to live in sewers is one that can wrench almost any heart.

The country's winter temperatures, however, are one of only two differences between homeless children in Ulan Bator and those, say, in Manila or Rio de Janeiro. Another is the speed with which street children have become a problem. In communist days, the Soviet Union supplied subsidies that approached one-third of Mongolia's GDP. As a result, Mongolia, though poor, had a decent enough social-welfare system, and few Mongolians fell through its cracks. Uranbileg Bergen, who works for the government's National Centre for Children, says that in 1992—just after Mongolians threw off Soviet protection in favour of democracy and capitalism—there were just 300 known street children in all of Mongolia. The number is likely to reach 4,000 this year.

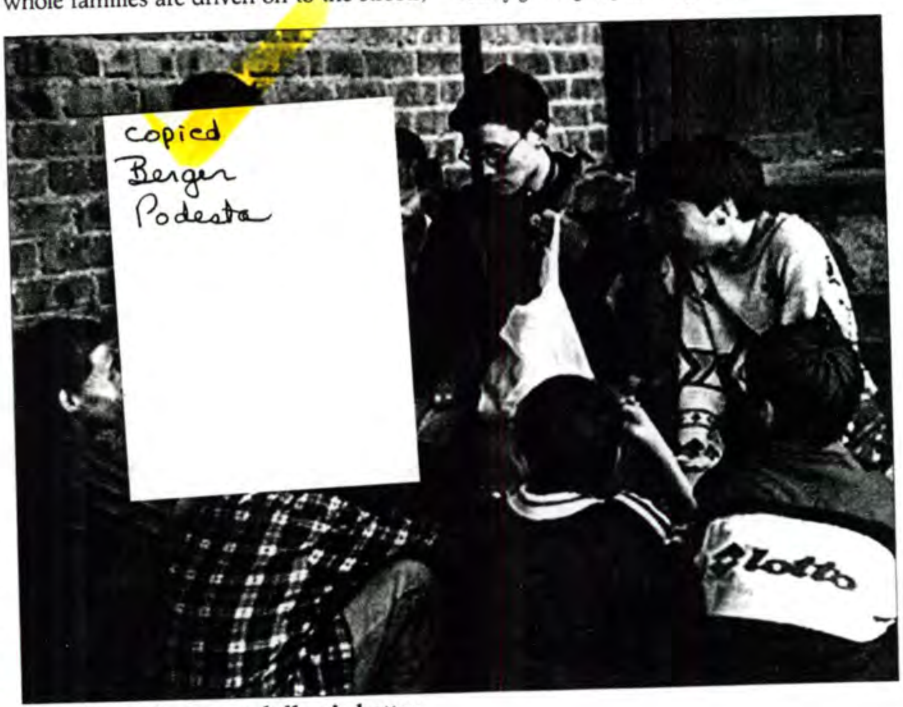
This has shocked many Mongolians. Yet some, inside government and outside it, cling to the belief that the problem of children living in the streets—or under them—has come about because people are too lazy to look after their children and too ready to accept handouts. This is naive. The majority of children are driven on to the streets by plain poverty. Families may not be able to afford school books or uniforms, so their children drop out of school. They then hang out on the streets, earning money by begging, prostitution or theft.

Other families, particularly in the countryside, cannot afford to look after their children, who are sent to relations. Given Mongolia's tradition of nomadic herding, it is not difficult for these children to be passed from one relation to another, until the parents have lost touch with them. Others are driven from home by strains within their families: by abusive, alcoholic fathers or by the consequences of parental divorce. Sometimes whole families are driven on to the streets, particularly if their *ger*, their most valuable possession, accidentally burns down. Poverty and family break-up have risen sharply during the "transition" from communism.

Miss Uranbileg believes that the roots of the problem lie with poverty. She says the NGOs are falling over each other to treat the symptom—the street children—but not the cause. Better to provide family support to help children stay at school, or to get them medical attention. Better still to provide the means for families to earn an income.

Several NGOs are trying. Save the Children Fund, which runs shelters in Mongolia to get children back into society, also pays for mobile kindergartens that follow nomadic herders. It has encouraged schemes for single mothers to earn money. The difficulty with such ventures, which often involve the provision of micro-credit, is that cash is scarce in Mongolia's countryside. More successful, says Marc LaPorte of Save the Children, is a herd-restocking scheme.

Yet money remains a problem. The average Mongolian household earns less than $400 a year. The government is bust. Miss Uranbileg has files on 4,000 families that her department has identified as being most in need of "sponsorship", or the $20 a month they need to keep children at school. Last year 400 of those families were promised such sponsorship, but the money from the central government dried up after only two months. The National Centre for Children itself, responsible for all aspects of children and child poverty, has an annual budget of only $100,000. Of the original 4,000 families, says Miss Uranbileg as she pushes the dossiers back in the cupboard, only 30 are currently getting any money at all.



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Bread is welcome, a dollar is better

THE PRESIDENT HAS SEEN
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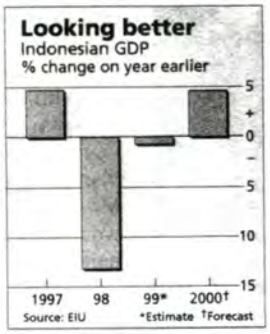
economic agenda into action. Although many of the president's plans still remain rather vague, at least the outline of the main policies are beginning to fall into place. These include a new agreement that has been struck with the IMF and a new budget, both of which were announced on January 20th. The budget calls for a deficit of 5% of GPD and extra revenue for the resource-rich but disgruntled provinces. Half of the deficit will be financed by the sale of assets.



Source: EIU *Estimate †Forecast

The importance of those sales has concentrated attention on the Indonesian Bank Restructuring Agency (IBRA), which now owns a large chunk of Indonesia's corporate assets. These must be sold rapidly not just to raise revenue, but also to keep the economy growing. Mr Wahid's economics minister, Kwik Kian Gie, has already promised to move fast. Last week, the government replaced IBRA's chairman with Cacuk Sudarijanto, a former businessman who has received good reviews as the sort of person who could speed things up.

If investors doubt the government's commitment to rapid asset sales, Indonesia's new agreement with the IMF should help to reassure them. The letter of intent contains strict timetables for the sale of assets, along with a long list of other important provisions which commit the government to responsible economic management and strenuous reforms.

If these efforts show early success, it will be easier for Mr Wahid to win over more anxious Indonesians and to cement alliances with other potential friends who are still sitting on the fence. That, along with forceful decisions to exert more control over the armed forces, could allow Indonesia's new president and his democratic supporters to breathe a little easier. A solution to the violence would help even more. But for now, alas, none is in sight.

Malaysia

Open wounds

KUALA LUMPUR

AFTER a bruising election campaign last
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anything to do with "political revenge" for the opposition's gains in the election. He said that "the court is the best place for them to prove their innocence". The foreign minister, Syed Hamid Albar, weighed in, criticising Amnesty International and America's State

How much did Thailand suffer?

Gene - This is why there's so much uncertainty PL

BANGKOK

SINCE East Asia's economies collapsed in mid-1997, the region has been providing plenty of tales of families forced on to the streets, elderly parents abandoned by their hard-pressed children and suicides among those thrown out of work. Although they are less precise than statistics on bad debts and falling production, such stories paint a grim picture. But how many of them are really true? In an effort to find out, researchers sponsored by the World Bank and the UN Children's Fund dug through the social indicators available in Thailand, where the financial collapse began. Their work is the first attempt to paint by numbers an accurate picture of the social shock.

The results, released on January 17th, show that in lots of ways life changed for many Thais and did indeed get worse (see table). Between 1996 and 1998 the number of suicides rose by 40%. Many babies were abandoned and the number of children sent to orphanages increased dramatically. Among older children, the number treated for drug-taking tripled after the economy collapsed. Sadly, none of this will surprise those who have been following Thailand's troubles. But the researchers have tried to put everything into perspective by asking two questions. How much of the deterioration was actually caused by the sharp economic dip? And to what extent were families and communities able to offset the damage?

As bad as it was, not all of Thailand's problems were exacerbated by the crisis. Although the divorce rate rose, for example, that appears to have been part of a long-term trend. An increase in drug-related arrests appear to have been the result of more active government efforts to crack down. Contrary to many fears, the use of child labour did not increase, although the rate has stopped falling after several years of progress. That it remains low may be due to weak demand, since many teenagers appear to have dropped out of school and so are swelling the ranks of potential employees. But it is encouraging that enrolment in local youth centres also increased sharply. Since the economic collapse, adults too have been joining in all sorts of civic activities in greater numbers.

Thailand's social indicators

	1996	1998
Alcohol and tobacco spending, per person, % change	133	83
Suicides	2,067	2,903
Children in orphanages, number of new entrants	1,449	1,765
Babies abandoned, per 100,000 hospital deliveries	100	120
Child drug use, number under 14 years old treated	527	1,608

Source: World Bank

Moreover, Thai communities appear to have coped well with their troubles. The researchers estimate that charity and remittances from abroad helped shave five percentage points off the potential poverty rate. And although property crimes increased, the amount of violent crime remained low.

The report makes it a bit easier to judge Thailand's problems. That it has taken so long, however, to get even a rough picture of what happened shows what the Thais have been up against. In social affairs, as in industrial and financial ones, they have been steering blind through their worst storm for years.

Daring to read something different

Department, among others, for questioning the arrests. "It is not up to international bodies to decide how we should administer our laws," he said.

The first to be charged, under Malaysia's Sedition Act, were Zulkifli Sulong, editor of *Harakah*, the newspaper of the Islamic opposition party, PAS, and its printer, Chea Lim Thye. Their "offence" was to publish a claim that the former deputy prime minister, Anwar Ibrahim, was the victim of a government-led conspiracy. Mr Anwar, who was jailed last year after being convicted of abusing his power as a minister, is currently on trial for sodomy.

Next day, two senior opposition leaders were also charged with sedition. Karpal Singh, a veteran of the Democratic Action Party (DAP), is one of Mr Anwar's lawyers. He had told the court that "people in high places" had tried to poison his client. Marina Yusoff is a vice-president of the National Justice Party (NJP), which is led by Mr Anwar's wife. She was accused of inciting racial unrest at a political rally last year. The fifth person to be charged was Mohamed Ezam, the youth leader of the NJP. He is accused of breaking the Official Secrets Act by leaking to journalists documents detailing alleged government corruption.

Over the years, several opposition politicians and other government critics have fallen foul of the Sedition Act, a British law retained by Malaysia after it gained its independence in 1957. Five months ago, another opposition leader, Lim Guan Eng of the DAP, was released after a year in jail. He had been convicted of making seditious statements against the judiciary. The act has been condemned by Chandra Muzaffar, a member of the NJP, as a "relic of the past" used by Dr Mahathir's government to undermine Malaysia's democracy. Mr Anwar's arrest in 1998 was under the Internal Security Act, a harsh, but far blunter, instrument. It allows for detention without trial.

Lim Kit Siang, chairman of the DAP, has accused government ministers of making statements that might also be regarded as seditious, without facing prosecution. Public confidence in the rule of law and the judiciary has been damaged, says Mr Lim, and the five arrests will not restore it. Adding to the unease, a law minister, Rais Yatim, has given warning that anyone saying the government had "a hand in the prosecution of prominent opposition leaders should realise they too can be prosecuted for spreading lies."

Dr Mahathir told Malaysians in a recent speech to stop complaining. "People must learn to be grateful, otherwise nobody will have peace," he said. Nevertheless, some people within Dr Mahathir's ruling United Malays National Organisation (UMNO) are not heeding his call. They are worried that UMNO's Supreme Council has agreed that there will be no contest for the two top positions when they come up for election in May. The intention is that these will go unopposed to Dr Mahathir and Mr Abdullah. Some in UMNO, including Ghafar Baba, a former deputy prime minister, have said they would rather see a vote held.

Some of the party's younger leaders are worried that the Malay community remains split in the wake of PAS's gains in the November general election, especially as most of those gains came in the traditional Malay heartland. The search for people to blame has already claimed one prominent scalp, that of Abdul Kadir Jasin, chief editor of Malaysia's New Straits Times Group, which publishes the main Malay and English-language newspapers. It is controlled by interests close to the ruling party. Mr Kadir is said to have gone on "extended leave" after his newspapers' support for the government was deemed to be overly slavish, an unusual handicap for a Malaysian journalist.

With the economy on the mend and the stockmarket booming, Mr Abdullah is also worried about the street protests that are planned to coincide with the resumption of Mr Anwar's trial on January 25th. "Why are we resorting to such actions just because of hatred towards the government?" he has asked. Perhaps his boss, Dr Mahathir, is right: Malaysians should learn to be grateful.

Japan and Britain

A nuclear fission

TOKYO

THE Japanese foreign minister, Yohei Kono, was in London last week, publicly being his usual cordial self, but privately being distinctly uncordial about a problem the British have created for Japan. It concerns the spent nuclear fuel that the Japanese ship to Britain, where it is reprocessed and shipped back to be used again in Japan's power stations. Questions are being asked about the quality of the latest shipments to Japan.

It may be that the fuel, processed by a company called BNFL, is safe to use. But in Japan any nuclear worry soon turns into a political storm. After a string of nuclear accidents, Japan experienced the world's worst nuclear disaster since Chernobyl in September 1999. An uncontrolled chain-reaction was accidentally triggered by workers in a nuclear-fuel factory at Tokaimura. This led to the death of one worker and exposed 48 others to high levels of radiation. The government rushed out new safety laws and overhauled its nuclear agency from top to bottom. It was insistent that nothing should be allowed to impede its treasured nuclear-power programme, which produces about a third of the country's electricity.

It was in this political atmosphere that a British ship, the *Pacific Pintail*, docked this month in Fukui with its cargo of reprocessed fuel. Anti-nuclear protesters greeted the ship. They had, apparently, been told of reports in British newspapers that the quality of the fuel for a later shipment had not been properly checked. BNFL admitted that the inspection of that fuel had not been done correctly, but claimed that the fuel carried by the *Pacific Pintail* for one of Kansai Electric's reactors at Takahama had been properly checked. Later, though, BNFL admitted it had not been. Worse, it had agreed with Kansai Electric not to tell the regulatory authority at Japan's Ministry of International Trade and Industry (MITI) of the shortcoming. Kansai Electric had been eager to start loading the Takahama reactor with the new fuel. It loses money all the time a reactor is out of action.

The main concern for the Japanese is

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government. Not in Zimbabwe's quasi-democracy. Parliamentary elections are due in March, though a date has not yet been set. When non-governmental groups produced evidence to show that a quarter of the people on the voters' roll were dead, fictitious or multiple listings, the justice minister, Emmerson Mnangagwa, announced that the election would be postponed until June in order to revise the roll. But President Robert Mugabe then decreed that such a postponement was not necessary. His calculation appears to be that, if he can hold his finger in the economic dyke until March, his ZANU-PF party can win the election. The deluge that will follow worries him not at all.

South Africa

Robert/Sandy - can't we do more to help them modernizing their system?

Beating crime, not suspects

SOWETO

South Africa's police need to learn modern practices

RELATIONS between the South African police and the public are much better than they were. In apartheid times, black policemen, labelled traitors, were liable to be burned alive. At Moroka, a police station in the township of Soweto, black constables sleeping in the station barracks used to be disturbed by hand grenades lobbed through the windows. These days, a calmer atmosphere prevails. Sowetans sit quietly by the reception desk before being referred either to a police officer, if a serious crime is being reported, or to a civilian adviser, who tries to sort out petty quarrels.

Communication is not their most obvious skill

Police work is different in the new South Africa, but it is no easier. In the old days, an officer's job was to squelch subversion, and his main obstacle was that most people hated him. Now, his task is to bring down South Africa's horrific crime rate, and his main hurdle is his own lack of modern policing skills. Thankfully, the police no longer routinely torture suspects for confessions. But they also convict fewer felons.

For every 50 car hijackings, for example, only one hijacker is jailed. Over 200 shootings and bombings by terrorists in and around Cape Town over the past couple of years have resulted in only one conviction. Criminals, aware that they are unlikely to be punished, are inclined to run amok.

During the first five years of majority rule, anti-crime policy was a mess. The African National Congress government, many of whose leaders had memories of truncheons and wet bags, saw the police as potential counter-revolutionaries in need of restraint. Several laws were passed protecting suspects against ill-treatment or wrongful imprisonment. But the police were not taught how to adapt to these changes.

President Thabo Mbeki, who took office in June, promised to spare no effort in fixing the justice system. In place of Mr Mandela's affable, plodding ministers in charge of the courts and the police, he appointed harder men. Steve Tshwete, the new safety and security minister, sounds suitably intolerant of officers who, as he puts it, rape women in their cells or buy stolen goods rather than arrest the sellers. He drops into police stations unannounced and sacks on the spot those whom he finds neglecting their duties. At the same time, he shows solidarity with officers who do their best, despite low pay and a high risk of being shot at.

Sometimes, however, Mr Tshwete sounds less than respectful of civil liberties. He says he wants to change the constitution to allow the police to hold suspects for longer than 48 hours without charge, and to restrict their access to lawyers. This attitude will not do much to discourage the alarming number of policemen who still rely too much on brute force—750 suspects died resisting arrest or in custody in the year to March 1999. Jackie Selebi, an ex-diplomat and human-rights activist, who took over as South Africa's first black police chief on January 1st, may not be the man to curb Mr Tshwete's excesses. Weakening his own position, Mr Selebi has already been charged with intimidating his subordinates.

Private companies are also keen to help. South African Breweries, for instance, has "adopted" a number of police stations, including Moroka. The brewer provides equipment, such as computers and fluorescent signs for roadblocks, and pays for training in computers and trauma counselling. This is a start. But many policemen, some of whom are barely literate, are no good at the administrative tasks on which they spend 70% of their time. It might make sense to hire civilians to fill in forms, allowing constables more time on the streets. The government acknowledges this, but has done little about it.

Nationally, there is little good news about crime. Murder and attempted murder are down slightly since 1994, mainly because there are fewer political killings. But South Africa's murder rate is eight times that of the United States, and figures released on December 7th showed steady increases in the other 18 of the 20 most serious categories of offence. There are, however, some local successes that merit copying. A database, set up with help from an organisation called Business Against Crime, helped cut the number of carjackings in north-eastern Johannesburg by almost 30% last year, even as the national rate soared. The database allows the police to cross-refer information about the number of robbers at each incident, their appearance, their techniques and so on. Previously, this information would have been written by hand and buried in a storeroom.

The most trumpeted of the government's innovations is an FBI-style elite detective corps, called the Scorpions. Launched in September, the unit plans to recruit 2,000 staff in two years, mainly graduates, and to offer better pay and training than the ordinary police receive. Investigators, prosecutors and intelligence agents are to co-operate more closely than in the past, so that the sort of evidence that might actually secure convictions is collected. Initial successes against taxi bosses suspected of having their rivals murdered are encouraging, but the task ahead is daunting. Rich South Africans will not yet be laying off their security guards.

Western Sahara

It's a mirage

LAYOUNNE, WESTERN SAHARA

THE likelihood of a referendum on the Western Sahara is disappearing, fast. Deadline after deadline has been missed since 1991, when the United Nations first promised Western Saharans a referendum on independence or integration into Morocco. But now the UN admits that a vote is farther away than ever: "2002, or even beyond," says the UN secretary-general's latest report, for the first time avoiding a precise date.

It will be little comfort for the tens of thousands of Western Saharan refugees, who fled Morocco's takeover of the territory

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The new alchemy

NEW YORK

The drug industry's flurry of mergers is based on a big gamble

IN THE past, mergers have been the pharmaceutical industry's equivalent of painkillers—good at relieving symptoms, but hopeless at curing the underlying disease. Faced with expiring patents and slowing growth, pharmaceutical firms have turned to mergers as a way to generate the large profit increases their investors have come to expect.

Some of these deals have been outright failures. The 1995 combination of Sweden's Pharmacia with America's Upjohn was a disaster until it was rescued by new managers two years later. Others have proved only short-term palliatives. Glaxo's purchase of Wellcome the same year, or the union of Switzerland's Ciba and Sandoz to form Novartis in 1996, produced short-term savings but did not boost long-term growth.

This week saw the biggest merger yet. On January 17th Britain's Glaxo Wellcome and SmithKline Beecham said they were creating a firm with £15 billion ($25 billion) of sales and a market value of nearly £105 billion. With a portfolio spanning treatments for asthma, AIDS, depression and diabetes, the combined firm will have an industry-leading 7.3% market share. These two companies tried to merge in 1998, but failed after a squabble between their chief executives about who would take control. The merger was revived partly because those executives are stepping aside and partly because of expectations that any day now Pfizer will announce it is buying Warner-Lambert, an American rival, to form the world's second-largest firm with 6.7% of the market.

Inevitably, these two deals sparked frenzied speculation about others: that Warner-Lambert had asked Procter & Gamble to buy it and American Home Products (AHP), with which it wanted to merge; that Novartis is sniffing around everyone, including AHP. An old rumour even surfaced that Bristol-Myers Squibb wants to merge with SmithKline.

This frenzy of speculation obscured the fact that no drugs mega-merger has, at least to date, achieved a genuine increase in productivity or boosted the number of successful new drugs brought to market. It is startling that, with one exception, every big drug merger since 1970 has led to a subsequent loss in market share (see chart on next page). By contrast, firms such as Merck, Schering-Plough and Pfizer, which have eschewed big mergers, have gained share by finding lots of "blockbuster" medicines.

Part of the reason for this may be that troubled firms have been the keenest to merge. But another lesson appears to be that the disruption caused by a merger and the added bureaucracy of a larger organisation tend to depress the scientific creativity that is the key to success in this industry. Sometimes the best researchers leave—as did David Barry, Wellcome's chief scientist, after Glaxo's hostile takeover. A bigger drug firm also requires more products to keep its enlarged sales force busy—which leads straight to the next deal.

Are these latest mergers any more likely to succeed? Their protagonists say they are. "Before, drug companies were forced together because they were weak," says Jean-Pierre Garnier, Glaxo SmithKline's new chief executive. "This is a merger between the strong and the strong."

Although it is true that none of the four companies currently in the limelight is so weak that it has to do a deal, Mr Garnier's claim needs to be qualified. Glaxo issued the first profits warning in its history last year. SmithKline suffered regulatory setbacks and is concerned about the expiration in 2003 of the patent for Augmentin, its best-selling antibiotic. Meanwhile, Pfizer's tilt at Warner-Lambert concerns cholesterol-lowering Lipitor, a best-selling drug, which is marketed by Pfizer and Warner and would otherwise fall into the hands of AHP, which also wants to buy Warner.

Gnomic genomics

Nevertheless being bigger may help in developing and marketing new medicines. Fussy regulators are demanding more complicated and expensive clinical trials. The rising cost of direct-to-consumer advertising is also straining budgets. Now that some 30% of drug firms' pipelines are filled with drugs licensed from other companies, a big sales force can attract those with good products.

Yet such factors should have worked in past mergers too. That they didn't lead to success is a sign that what really matters in this R&D business is not so much the D, but the R. And it is here that recent deals are most novel.

Glaxo and SmithKline believe in a fundamental shift in research, from finding new drugs by chance to developing them systematically through an understanding of the genetic causes of disease. New sciences such as genomics are helping researchers identify and patent biological "targets"—genes and proteins that affect the course of disease and might be modified by a new drug.

The firms think that this may be a once-in-a-lifetime opportunity. "There is only one human genome," says Tachi Yamada, the new group's head of R&D, "once it is sequenced, that is it. It will be a race to see who gets to claim the intellectual property." Applying these new techniques—and applying them with scale and speed—costs a lot of

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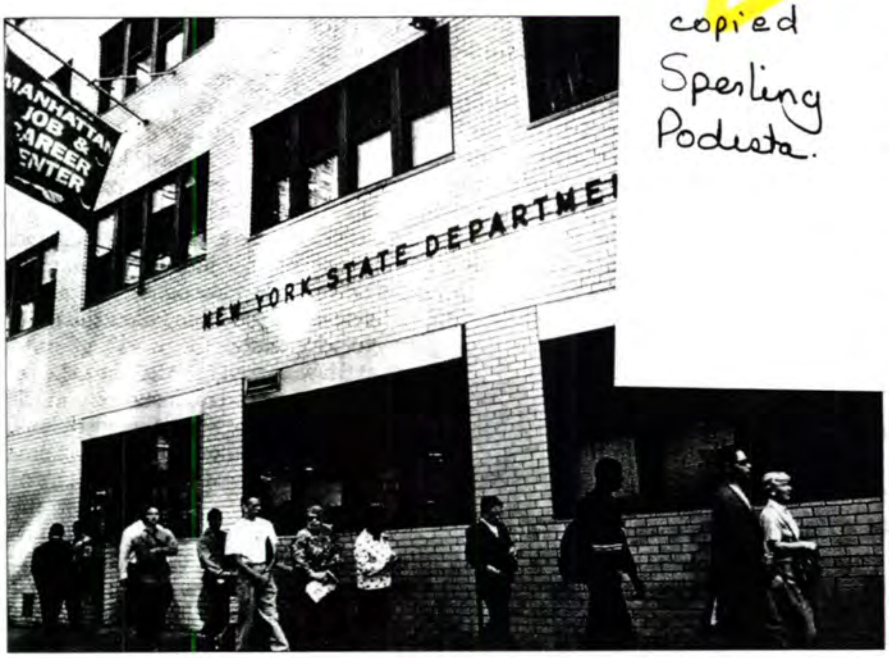


The great American jobs machine

With job growth booming, unemployment at record lows and inflation still tame, America's labour market is a spectacular puzzle

OF ALL the striking characteristics of the 1990s boom, the labour market is perhaps the most remarkable. Almost 22m new jobs have been created during the 1990s (the equivalent, in today's labour force, of one new job for every six people). Unemployment is now at 4.1%, the lowest rate for 30 years. It has been below 5% since mid-1997. A broader gauge—favoured by Alan Greenspan, the chairman of the Federal Reserve—of the pool of available workers has also fallen to its lowest level in this expansion. Yet, in stark contrast to other modern expansions, there are scant signs of serious wage or price pressure. Average wages rose 3.6% in 1999, more slowly than the average rise of 4.2% in 1998. What is going on?

The honest answer is that nobody knows. America's job market is puzzling labour economists just as much as the recent productivity acceleration is puzzling productivity experts. Nonetheless, a few trends are clear.

The first is that labour supply has proved more expandable than anyone expected. Attracted by the abundance of jobs (or forced by economic necessity), ever more Americans are working. The long-term trend towards earlier retirement has stalled. The proportion of women in the labour force, which shot up in the 1970s and 1980s, has continued to rise. It is now 61%, compared with 57% a decade ago. Welfare reform has played a role. Two-thirds of unmarried mothers with a child under three are now in the labour force, compared with just over half in 1995.

Though it is hard to measure, illegal immigration has also boosted America's workforce. Official estimates from the Census Bureau suggest there are around 5m illegal immigrants in the United States, but many economists reckon the real figure is likely to be substantially higher. These improvements in labour supply—in addition to the natural expansion that comes from population growth—are one reason this job-laden boom has been able to continue. Less obvious, however, is how long they can go on.

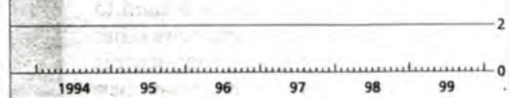
The second, and more puzzling, trend is the apparent shift in the relationship between unemployment and inflation. In recent decades, there was a clear link. Once unemployment fell below a certain threshold (known, inelegantly, as the non-accelerating inflation rate of unemployment, or NAIRU, and traditionally estimated to be between about 5.5% and 6%) inflation began to accelerate. No longer. In recent years, most forecasting models based on traditional estimates of the NAIRU have consistently over-predicted inflation, leading some people to dismiss the whole concept of the NAIRU and the inflation/unemployment relationship on which it is based. Steve Forbes, a flailing Republican presidential candidate calls it a "bogus theory".

That is a mistake, for it confuses a changing relationship with the breakdown of a relationship. Unless the laws of supply and demand have been repealed, it is hard to believe that there is no point at which ever-lower unemployment rates produce wage pressure. The change has been in the dynamics of when, and perhaps how, this takes place.

One important cause of the recent quiescence of wage pressure may be that prices in general are being held down for other reasons. Until mid-1998, lower unemployment was, in fact, triggering higher wages. Only since then has there been the surprising deceleration in wage growth. That may be because the strong dollar and low commodity prices helped keep inflation remarkably low in 1998. With surprisingly low inflation, the argument goes, workers were content with low nominal wage increases. Since inflation rose, albeit modestly, in 1999, this thesis will soon be tested.

A second possibility is that traditional statistical measures of wages are no longer capturing workers' earnings very well. The

More work for everyone
Unemployment rates, %



Source: Bureau of Labour Statistics

increased use of bonuses and stock options makes it harder to gauge exactly what people are earning. A related theory is that compensation is rising stealthily. If a firm redefines a secretary's job as that of an administrative assistant and simultaneously gives the employee a pay increase, this shift would not show up in most earnings statistics.

The other likely explanation is that the level of the NAIRU has actually fallen. Most economists suspect this, but it has been hard to pinpoint why or by how much. Depending on exactly how you construct the equations to calculate it, estimates of the NAIRU vary widely. A study of hundreds of different equations in 1997 found it typically could be anywhere from about 5.1% to 7.7%. With a range that wide, it is hard to gauge when the NAIRU is falling.

Nonetheless, some fall is almost certain, if only because of demographics. Older people have lower unemployment rates than younger ones. In the 1970s, when large numbers of young people and women entered the workforce, the NAIRU rose. In the 1990s, as the workforce has aged, it has fallen.

Other intriguing—and more controversial—explanations have also been put forward. Lawrence Katz of Harvard University and Alan Krueger of Princeton have suggested that rising incarceration rates may have reduced the NAIRU by 0.1-0.2 percentage points. The equivalent of 2% of the male labour force is in prison. Since these men are more likely to be unemployed than the typical worker, they reduce the structural unemployment rate by being in prison and out of the workforce.

Increasing labour-market efficiency is another plausible reason for a lower NAIRU. The 1990s have seen an explosion in temporary employment agencies, such as Manpower Services. Over 10% of new jobs in the 1990s have been filled by these agencies: their services give both employers and employees more flexibility and make it easier to fill jobs quickly. Messrs Katz and Krueger reckon that the rise of temporary workers could have shaved up to 0.4 percentage points off the NAIRU.

Changes in the composition and structure of the workforce are not the only catalysts for altering the relationship between unemployment and inflation. Another possibility, frequently cited by Mr Greenspan, is worker insecurity. At a time of rapid technological change, workers might place a higher premium on keeping whatever job (at whatever pay) they have. Thus, even at low unemployment rates, wage pressure might be muted. Certainly surveys show that people are more concerned about being laid off now than they were in 1989, at the peak of the previous expansion. Nonetheless, it is hard to square serious worker insecurity with other surveys that suggest consumer confidence is buoyant and people reckon it is easier than ever to get a job.

Regardless of cause, it is clear that the simplistic adoption of a constant NAIRU framework is currently a weak tool for formulating policy. Only in the months and years ahead will it become clear whether the NAIRU's apparent fall during the 1990s has been caused by temporary inflation-dampening factors or lasting structural changes. And only when prices accelerate will it become clear that unemployment has fallen to an unsustainably low point. There is undoubtedly a limit to what America's labour market can do. But as with the other characteristics of this expansion, policymakers have a hard task deciding when that limit is.

The Republican race

Who would govern better?

WASHINGTON, DC

"YOU don't understand the role of the president of the United States." Thus John McCain, the Republican front-runner in New Hampshire, to George W. Bush, the favourite nationwide. The charge is the sort of rhetorical exaggeration that comes from campaigning. But it is instructive all the same. Beyond the contrasts of temperament, and gender preference (women prefer Mr Bush by 17 percentage points; men prefer Mr McCain by 14 points), the campaign has thrown up fundamental differences not just over policy, but over how the two men make policy, and how they might therefore govern as president.

These differences have been dramatised by their tax plans. This week, Mr McCain unveiled a cut that is surprisingly modest by Republican standards: $240 billion over five years, half Mr Bush's promised $483 billion reduction over the same period. Moreover, as befits a crusader against special interests, Mr McCain's cut would be partly financed by closing $150 billion in corporate tax breaks. The difference between this approach and Mr Bush's has reopened an old division in Republican ranks between tax-slashing supply-siders and what used to be called "green-eyeshade Republicans"—fiscal conservatives concerned about balancing the budget. At a time when tax cuts are losing some of their appeal, Mr McCain seems to be trying to reverse 20 years of supply-side dominance in his party.

Policies, of course, change all the time. For a president, it is just as important to know how people make policy. The tax debate has revealed something about this too—partly inadvertently. The weeks of campaigning have shown Mr McCain to be an improviser, relying on his instincts as much as on a small team of little-known advisers. When he first started outlining his tax proposals, he seemed not to know the details of the so-called "marriage penalty" or the earned-income tax credit. Even now, it is unclear which corporate loopholes will be closed completely. Similarly, when he first released details of his health-care plan, most of the figures turned out to be wrong.

Had Mr Bush stumbled in this way, he would have been torn apart by the press. But in contrast to Mr McCain, he has gathered a huge team of Republicans, the best and the brightest, and used their expertise to present his policies as a carefully thought-through agenda. Last year, in a series of speeches, he not only went into detail on his education, welfare and tax proposals but also tried to show how they fit together under the umbrella of "compassionate conservatism".

The difference is that between a commander-in-chief, setting the broad aims of policy but making up the details as he goes along, and a chairman of the board, using teams of advisers to think through issues in fine detail. One is not necessarily better than the other. It is a common political distinction. But if carried through to the White House, the contrasting tendencies would produce very different styles of government, with Mr Bush likely to favour a more collegiate, cabinet-dominated style, while Mr McCain would presumably act, in the words of Bob Packwood, a McCain supporter and former senator from Oregon, as "his own chief of staff".

The two differ not only on individual policies but also on their range of interests. Mr Bush has a traditional broad Republican agenda. In contrast, Mr McCain seems like a

The scourge of the Senate, I presume

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kind of music those individuals might want to listen to.

This merger, then, brings forward the shift to narrowcasting. Some people fear the social consequences. In an age when the bonds of family and community are loosening, they say, broadcast television brings people together, listening to the same news, talking about the same issues, addicted to the same soaps. If that common ground disappears, so will some of the glue that holds society together.

Yet social glue, surely, is made of better stuff than soap. And broadcasting has always pandered to the lowest common denominator. In the words of George Gilder, new-media prophet, "Television is not vulgar because people are vulgar—it is vulgar because people are similar in their prurient interests and sharply dif ... erns." Sex, shopping and violence, ... ople have in common. What diffe ... isiasm for folk music, tropical fish ... dcast medium could never cater ... ot enough people shared them. A

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Mr Levin and Mr C ... heir huge empire to address indi ... d sensitivities of their 100m-or-s ... oubt agree with Mr Gilder that the ... ld a better place. And they no do ... ey will be changing the world in a ... hey might just make a huge amount of money as well.

Turkey's long haul

Sandy
fgx - BC

Prime minister Bulent Ecevit wants his country to join the European Union. It will need patience in the West and a constitutional upheaval at home

IT WILL be a great day for the European Union when a fully democratic, prosperous and peaceful Turkey joins the western world's premier club as its first mainly Muslim member. But, though the Union decided last month to let Turkey back into its main band of applicants, it is no good pretending that it will happen soon. For Turkey will have to undergo a huge transformation—greater even than the ex-communist countries of Eastern Europe—to qualify for membership. That is why Turkey's current leaders, and their well-wishers in the EU, must lose no time in embarking on the task of dragging the country irrevocably westwards.

Turkey's value as a strategic pivot in a most dangerous part of the world has rarely been as high as it is today. It is a valued member of NATO. It is a source of common sense in the combustible Caucasus. It is respected by Russia, still a force for mischief in the area. It has strong links with the post-Soviet countries of Central Asia. Insofar as it is possible to be a calming influence on the Balkans, where Turkey has historic memories, it has done its bit. Most encouraging of all, Turkey's relations with its old foe Greece have improved.

At home, there have also been changes for the better. The economy, though stuttering, has grown fast. The centrally-planned system beloved by the founder of modern Turkey, Kemal Ataturk, has been yielding to the market and privatisation. A proliferation of private radio and television stations has loosened people's minds. More Turks are jibbing against the country's more authoritarian traditions as a youthful and energetic middle class emerges. Few topics are taboo any more—even the authorities' disdain for human rights, the biggest block in the way of Turkey's membership of the EU.

Indeed, the current left-of-centre prime minister, Bulent Ecevit, and his foreign minister, Ismail Cem, sound sincere in wanting Turkey to do better on that score. Improvements are slowly taking place. This week the government agreed that the death sentence passed last year against Abdullah Ocalan, the Kurdish guerrilla leader, should be suspended while his appeal to the European Court of Human Rights is heard.

Yet several big obstacles must still be overcome. For a start, the current government, a coalition, is weak. A significant member, the Nationalist Action Party, is fiercely chauvinist and has been linked in the past to gangsters and assassins. It will hardly wish to help Mr Ecevit make judicial reforms.

Two other problems are of longer standing: how to handle Turks who want an Islamic political system and how to deal with Turkey's large Kurdish minority. Many Turks fear that giving full rein to the Islamists, who briefly ran the government until the generals had them removed in mid-1997, might put multi-party democracy at risk. And most Turks still fear that giving Kurds even local autonomy would risk triggering a break-up of the state.

Yet it is clear that, if democratic norms are to be applied, such risks have to be taken—which highlights an even deeper problem. The core of Turkey's constitution, written by generals in 1982, goes against the western liberal grain. "No protection shall be given", proclaims its preamble, "to thoughts or opinions that run counter to Turkish national interests, the fundamental principle of the indivisibility of the Turkish state and territory, the historical and moral values of Turkishness." It is thus illegal to advocate separatism, even peacefully.

Time to update Ataturk

Other sections of the constitution and legal code make it a crime, by the by, to broadcast or educate, even privately, in a non-Turkish (read Kurdish) language. And the constitution gives the armed forces a special role in government. A plethora of clauses both in the constitution and in the penal code run counter to the principles of free expression taken for granted in the West. It is against the constitution, for example, to "insult the president" or "the moral personality of the military or security forces". Moreover, torture is still widespread. The judicary is weak. Corruption is rife. The police get away, sometimes literally, with murder.

Change the constitution then. Two top judges have said so. Mr Ecevit, it is reported, is not against. But it would mean, in effect, overturning the entire secular-but-authoritarian tradition handed down, on sacred stone, from Ataturk. Such upheavals take time. A vast change of attitude is required—and remarkable leadership. The EU must be candid but patient. The Turks must get moving. It will be a long, hard road.

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prietary trading outfit, most of which it has now closed down. Although this was not, on the face of it, a good deal for shareholders, it did not deter the firm. It then bought a sizeable chunk of Nikko, a big Japanese securities firm, in the middle of 1998, and later that year merged with Citibank to create the world's largest financial-services firm. Salomon Smith Barney, its investment-banking arm, has done well everywhere except in Europe where, while its American competitors have been lapping up business and staff, it remains rather small: in fact, about the same size as Schroders.

The claimed logic of this latest merger is that the whole will be more than the sum of the parts. Perhaps it will: the two banks are a decent fit. Both are too small to compete effectively in Europe's fast-changing investment-banking business. "If there were not a bull market for everything, there would be only four or five companies in this business," says Mr Carpenter. In M&A, SSB is 11th in Europe and Schroders is 16th. Putting the two operations together will push the combined operation up the league tables, though not to the top ranks.

Schroders, moreover, has, in equities, a good local presence in Milan, Madrid and more recently Paris; SSB's team is organised by industry rather than geography. Schroders has very little trading expertise, and none at all in bonds—which SSB can bring to the merger. There are bound to be overlaps: it is unlikely that any of Schroders's American operations will survive, for example. But SSB thinks European markets will continue to grow swiftly. Mass sackings are unlikely: SSB apparently would like to settle personnel questions by the end of this month.

Mass defections are another thing. On top of the £1.36 billion, SSB is putting aside some £250m to entice Schroders's 200 top staff to stay. Perhaps that will be enough, but investment bankers are in short supply, so money, for good ones, is not a problem. They want a good life. Schroders was about to move from its rather drab and dated offices in Cheapside in the City to posher ones nearby, next to St Paul's Cathedral. SSB is about to move to Canary Wharf, a London location unlikely to appeal to Schroders's toffs. Mr Carpenter claims that the new SSB is very different from the famously aggressive Salo-

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Lions 3, tigers 1

WHICH will be the world's fastest-growing economy this year? China? South Korea? Or perhaps the United States? The surprising answer, according to a new report, "World Outlook 2000", from the Economist Intelligence Unit, a sister company of *The Economist*, is Mozambique. Even more startling to learn is that no fewer than three of the world's five fastest growers in 2000 are expected to be in Africa (see chart), against only one Asian tiger, Singapore.

Nor, it seems, is this just a one-off. Mozambique has been one of the world's fastest-growing economies for the past four years. GDP growth there has averaged 10%. Botswana, tipped to be second in this year's global growth league, has enjoyed average growth of 7% over that period.

African skies
Fastest GDP growth, 2000 forecasts, %

Source: EIU

Despite Africa's disadvantages, such as climate and disease, some political stability, prudent fiscal policies and business-friendly reforms can work wonders, even in desperately poor countries. African countries are also expected to benefit this year from higher commodity prices. So even Angola, plagued by a long-running civil war, is tipped to reach the top five in 2000, thanks mainly to rising oil prices and higher oil production.

Indeed, the EIU expects sub-Saharan Africa to be the world's fastest-growing region in 2000, with average growth of 3.9%, compared with 3.4% in Latin America, 2.9% in North America, and only 2.7% in Asia, where strong growth in emerging Asia is likely to be offset by the continued sluggish performance of Japan, which has a big weight in the region. However, Africa's population is growing faster than in other developing regions, so GDP per head is likely to grow much more slowly, by an average of only about 1.5% next year.

What about the economic snails? Ecuador and Venezuela bagged that prize last year: the EIU estimates that their GDPs contracted by 8% and 6% respectively. And poor Yugoslavia probably saw its economy shrink by one-third. This year Jamaica and Moldova are expected to be bottom of the league—the only economies where the EIU expects GDP to decline.

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YOU are a farmer or an energy company. Hedging the price at which you sell your wares is, thanks to forward contracts, fairly straightforward. But how much will you sell? The quantity is at the mercy of the weather. So why not develop derivatives that allow those affected to hedge themselves? As it happens, just such a market has been developed. In the past couple of years the trade in weather derivatives has taken off in America. So far, there have been some 1,500 deals in the over-the-counter market, worth perhaps $2.5 billion.

Weather comes in many forms: cold, hot, wet or dry, to name but a few (Eskimos, supposedly, have masses of different words for snow). Last September, the Chicago Mercantile Exchange (CME) launched weather futures based on cold weather. The market is based on the utility-industry's benchmark of 18.3 degrees Celsius: below that temperature, reckon energy experts, customers will need to heat their homes (and so buy energy). The contracts are based on temperatures in New York, Chicago, Atlanta and Cincinnati; traders and hedgers bet on the number of days a month on which temperatures in these cities climb above or fall below the contract's standard. On January 30th the CME will add six new cities to the four it already covers. It will also begin trading derivatives tied to warm temperatures, and lengthen the maturity of its contracts.

Interest is growing elsewhere, not least in Britain where, as everyone knows, weather is the main topic of conversation. On January

To Sid B
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THE PRESIDENT HAS SEEN
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Incumbency starts to hurt

POLITICS everywhere has its ephemeral qualities. But something in the British practice of politics encourages especially wild swings of mood and opinion. Last week in this space Bagehot argued that voters were beginning to notice that Tony Blair's government was not quite as special as it thought it was. This week the casual follower of British politics could be forgiven for thinking that the wheels were coming off the whole New Labour project.

Consider the evidence. There is all of a sudden a "crisis" in the health service, which has allegedly panicked Mr Blair into promising spending increases which he allegedly cannot afford. The government that promised to be tough on crime and the causes of it has had to admit that recorded crime has risen for the first time in six years. The government that promised to promote human rights has decided to let General Augusto Pinochet return unpunished to Chile, on questionable grounds of infirmity. The government that boasted about its prosecution of an ethical foreign policy is resuming arms sales to Indonesia, on the questionable grounds that this will shore up the confidence and improve the behaviour of a struggling new democracy. Mr Blair seems to be losing his argument on Europe, with an ICM poll in the *Guardian* showing a record 63% of voters against joining the euro and only 25% in favour. Another ICM poll, in the mass-market *Mirror*, resulted in banner headlines announcing a huge slump in the personal popularity of the prime minister himself. Mr Blair even suffered the indignity of being briefly heckled by his own party members at a public meeting, as he urged them not to adopt a populist left-winger, Ken Livingstone, as Labour's candidate for London mayor.

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Podesta

How serious is this procession of troubles? Mr Blair's prospects are certainly not as bad as they suddenly seem. For a start, there are some simple structural reasons why party politics can seem more ephemeral in Britain than in other places, and more ephemeral than it really is. Britain has a highly centralised national press, with a highly developed herd instinct. The rituals of politics are centralised too. The political class pays exaggerated attention to the stylised weekly clash during prime minister's questions in the House of Commons, which most voters scarcely notice. All of this means that a short sequence of accidents and setbacks is often enough to reverse the prevailing wisdom about the parties' respective fortunes. Just before Labour entered its current vale of tears, the Tories were reeling from the disgrace of Lord Archer, their former candidate for London mayor, and the defection of one of their MPs, Shaun Woodward. Just before that opposition setback, the government had to contend with the damage caused to its own reputation by its inept "beef war" with France and a flare-up in the prime minister's vendetta against Mr Livingstone. Today the health service looks set to be Labour's most damaging failure. But only yesterday it was going to be public transport, and tomorrow it may be crime.

If you allow for all of this, the proposition that the wheels are coming off the New Labour project is hard to sustain. Although many small things may be going wrong for the government, one big countervailing thing, namely the economy, is going spectacularly right. Mr Blair's personal standing may have fallen in the opinion polls, but from an unprecedented high, and without conferring any measurable benefit on the Conservative leader, William Hague. For all the brave faces on the front bench of the Conservative Party, there is little talk in private of winning the next election, only glum speculation about whether Mr Hague can win back the 50 or so seats he will need to if he is to emerge with some honour and preserve his own job. Divided on Europe and a good deal else, the Tories have yet to present themselves as a competent team of alternative managers, let alone as possessors of an election-winning idea. A few subscribe to the illusion that Euroscepticism can be that idea. But even if they were right, it is entirely possible that Mr Blair will deprive them of it, by making it clear before the election expected next year that on sober reflection he too has decided after all against taking Britain into the single currency for the time being.

The wheels are not coming off New Labour. But, if you pardon the mixing of metaphors, the halo is coming off. Having been given the benefit of the doubt for almost three years, the government is at last suffering from the usual disadvantages of incumbency. The only puzzle is how it has managed to avoid these for so long. Was the previous government really so dire that this one could do anything and still be trusted? Or has the new one comported itself so well that it has not yet deserved criticism?

Neither explanation is adequate. What has also protected Mr Blair during the early years of his government has been his successful portrayal of his administration as a radical government, one busily "modernising", "thinking the unthinkable", doing perpetual battle against the "forces of conservatism" wherever they might be found. In its wisdom, the British electorate deemed this thrilling, especially since, unlike Thatcherism (the previous bout of change, radicalism and starting anew), Blairism promised that this time round the surgery would require no anaesthetic, and deliver gain without pain. This government would be tough both on crime and on the causes of crime; it would improve public services and yet keep taxes low; devolve power to Scotland and Wales but not too much of it; become a good European but still hang back on the euro; run an ethical foreign policy but still sell arms; promise "tough choices" but also refrain from making any.

This was not only a tall order. As crime mounts and the health service passes through familiar traumas, more people will conclude that it was also a tall story. Barring a miracle, they will re-elect Mr Blair for running a sound economy. But much of the excitement that New Labour generated has begun to fade.

The doctor's dilemma

Can Tony Blair spend his way out of trouble on health?

AFTER a fortnight of frenzied debate about the state of the National Health Service (NHS), there are two things that "everybody knows". The first is that Britain spends too little on health. The second is that the prime minister has promised to increase health spending vastly, but will struggle to do this without busting the government's budget. Both propositions are distinctly questionable.

It is true that Britain spends less of its wealth on health care than other rich countries. Health spending as a proportion of GDP is at the bottom end of the international range (see chart 1). In cash terms Britain also spends relatively less; about $1,454 a head in 1997, compared with a European Union average of $1,884 a head and over $4,000 a head in the United States.

But does this really matter? Judged in terms of life expectancy, the answer seems to be no (see chart 1). Arguably, rather than being an "under-funded" disgrace, the NHS could be seen as a bit of a triumph—a system that provides health care for all cheaper and more efficiently than any other system in the developed world.

Of course, life expectancy is a crude way of assessing a health system, since it reflects many other things such as lifestyle and wealth. There are other measures in which the relatively small amount of money Britain spends on health does show up. Survival rates from some serious diseases are poor. According to researchers at the London School of Economics (LSE), British women under 65 who are diagnosed with breast cancer have one of the worst survival rates in Western Europe. And a British woman with heart disease is four times more likely to be killed by it than a woman with the same disease living in France.

People also care about comfort. Even if somebody is not actually killed by lying around on a hospital trolley for hours, they may feel poorly treated. The same goes for the notorious "waiting lists" for NHS treatment for things like hip replacements.

A relatively poor record in the treatment of cancer and heart disease, and long waiting lists for operations, are the flip side of two of the factors that make the NHS so cheap to run: a relative paucity of doctors and nurses in Britain, allied to the difficulty of getting access to specialist treatment. Britain has the lowest number of doctors per 1,000 patients among the G7 nations (see chart 2). Nurses and in-patient beds are also in short supply. Britain has around half the number of beds per patient as France or Germany, and fewer nurses as well.

The system continues to function in part because Britain makes it much harder for a patient actually to get to hospital or to see a specialist. Patients can get to see a specialist only if they are referred by a general practitioner. Elias Mossialos of the LSE says Britain has "the strictest gatekeeping system in Europe". But the gatekeepers may become increasingly resented as patients become more demanding and less deferential.

Where the money comes from

The combination of an ageing and better-informed population, and advances in medical technology, inevitably creates pressure for more spending. And although the Blair government is keen to foster the impression that the NHS was starved of funds during 18 years of Tory rule, in fact health spending has been rising in real terms for the past 20 years (see chart 3 on next page).

Mr Blair has promised to increase spending even faster. His new aspiration is to increase British spending on health until it reaches a proportion of GDP equal to the average for the European Union. This is reckoned to entail increases of 5% a year in real terms for at least the next five years.

Health spending is already planned to rise by 5% a year in each of the next two years. So Mr Blair's new commitment will not make any difference until 2002, after the next general election. Part of Mr Blair's political problem is that in its first two years, the government confined itself in a straitjacket by promising to stay within the Tories' spending plans. Bigger sums have been available since April 1999, but it takes time for the money to feed through into better services.

Higher health spending obviously puts

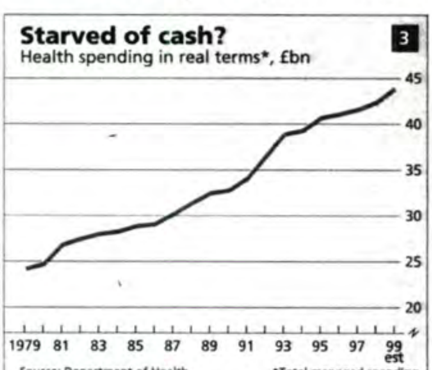
pressure on the overall level of public spending, but need not blow a hole in the public finances. The extra money now being spent on health was allocated under the comprehensive spending review (CSR) undertaken by the government in its first year in power. The CSR covered three years. It allows Mr Blair to meet his pledge to raise the share of national income devoted to both health and education, because meanwhile his chancellor, Gordon Brown, has increased taxes. Much of this extra tax is going to health and education.

The government is now undertaking a new spending review, which is meant to be concluded this July. Once again, there will be a three-year planning horizon, although the first year of the new review, which runs from April 2001, will overlap with the last year of the CSR. Mr Blair's promise that health spending will keep going up in real terms implies further tax increases. But Treasury officials talk hopefully of finding savings, by "explicitly linking inputs to outputs". Departments will get extra cash only in return for specific policy targets. If those targets are not met, the money may be withheld. Departments will also move to "resource-based accounting", which should encourage them to flog off unnecessary assets.

Paying by results might be a politically less painful way of raising money for health than, for example, making cuts in welfare. Ministers hope to announce the conclusions of the latest spending review in July, so as to avoid overshadowing the autumn party conference season with ministerial conflicts over money.

But political pressures may encourage the government to break its own rules. First, the Treasury's strictures about outputs will be effective only if senior ministers lead by example. But this week's promise from Mr Blair shows how hard it is for politicians to avoid throwing unconditional cash at a crisis—even if, as in this case, the new cash will not be handed out for some time. Second, and perhaps more important, the new review covers only expenditure from April 2001, too late to have much impact on an election likely to take place that year.

The Treasury's coffers are bulging, thanks to tax changes and good times. Some economists estimate that the government is sitting on a surplus of over £6 billion ($9.8 billion). So the test of the government's commitment to medium-term planning of public expenditure will come in the budget in March. The temptation to bend the rules and offer an early pre-election bribe may prove overwhelming.



Northern Ireland

Deroyalled

THE government's plan to transform the overwhelmingly Protestant Royal Ulster Constabulary into a new police service for Northern Ireland, with no overt British symbolism and 50% Catholic membership, brought raucous protest in Westminster this week. Angry unionists objected in particular to the symbolic changes—changing the name of the force and its cap badge. They immediately suggested that the move had fatally undermined David Trimble, the leader of the Ulster Unionists and head of Northern Ireland's power-sharing government.

The unionist reaction served only to reinforce the point that the RUC as it stands is tarred as partisan, regardless of the bravery and fairness of many of the force's officers. Peter Mandelson, the secretary of state for Northern Ireland, heaped praise on the RUC's record and promised generous severance pay for retiring officers. But he insisted that transformation of the force, including the name change, is essential to win widespread allegiance for Northern Ireland's new political institutions. Unionist politicians continue to characterise the plan as an insult to the 302 officers killed during the Troubles—all but a handful of them by the republicans of the IRA.

The Mandelson outline, which implements pretty much all of the Patten Report issued three months ago, said the first recruits to the new Police Service of Northern Ireland would not pass out under that name until late 2001, and deferred the new badge and other changes. Although the plan had been loudly and comprehensively trailed for weeks, unionists have not modified their position or adapted their tactics. Their response was still a howl of pain and anger.

Senior RUC officers led by Sir Ronnie Flanagan, their chief constable (whom the plan retains), have been keen to make clear that although hurt by the name change, they welcome anything that will broaden membership and normalise policing. Mr Mandelson emphasised that reforms will be introduced gradually and with regard to the security situation, with reduction of numbers from the present 13,500 to around 7,000 through voluntary redundancy.

Potential police resentment has apparently been somewhat mollified by the generosity of severance arrangements, expected to be taken up by many of the longest-serving officers. A sergeant with 30 years' service, on £40,000 ($65,000) plus a year, might hope to come out with a £120,000 lump sum and a pension of over half previous salary.

Catholic nationalists gave a broad initial welcome to the Mandelson announcement, although both the moderate SDLP and Sinn Fein, the political wing of the IRA, said they wanted to study the proposals. The government is already asking for assurance that they will shortly call on young Catholics to join the revamped force. There was some alarm at the suggestion from Gerry Adams, Sinn Fein's president, that republicans would withhold judgment until the necessary legislation is passed next autumn.

The Mandelson announcement came on the day republicans were at last able to give a ceremonial funeral in Belfast to an IRA man hanged in 1942, 19-year-old Tom Williams. Williams's remains were disinterred from a jail plot only after a prolonged campaign. He was hanged for the murder of an RUC constable, shot pursuing a group of republicans before a prohibited Easter Sunday march. The present-day republican leadership was well to the fore in the reburial ceremony. Among those who took their turn to be pall-bearers were Mr Adams and the 80-year-old Joe Cahill, charged with Williams, and now a totem wheeled out whenever the republican leadership wants to reassure their grass-roots about their fealty to the movement's traditions.

Fittingly, the historical resonances are less than tidy. The policeman was a Catholic, Paddy Murphy: and Williams's surviving relatives refused permission for him to be reburied in a republican plot.

On patrol in Ulster

BusinessWeek

JANUARY 31, 2000

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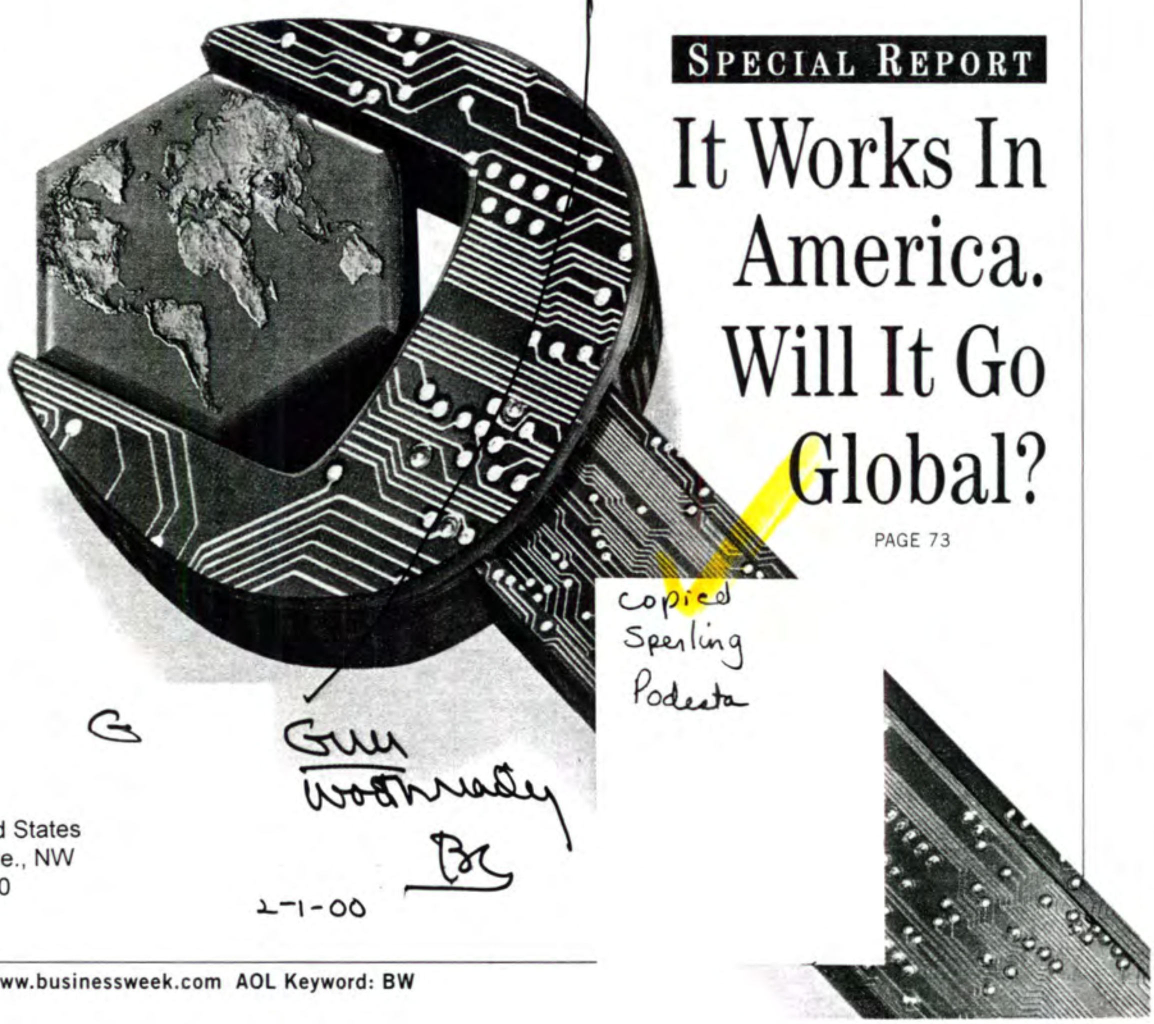
THE NEW ECONOMY

SPECIAL REPORT

It Works In America. Will It Go Global?

PAGE 73



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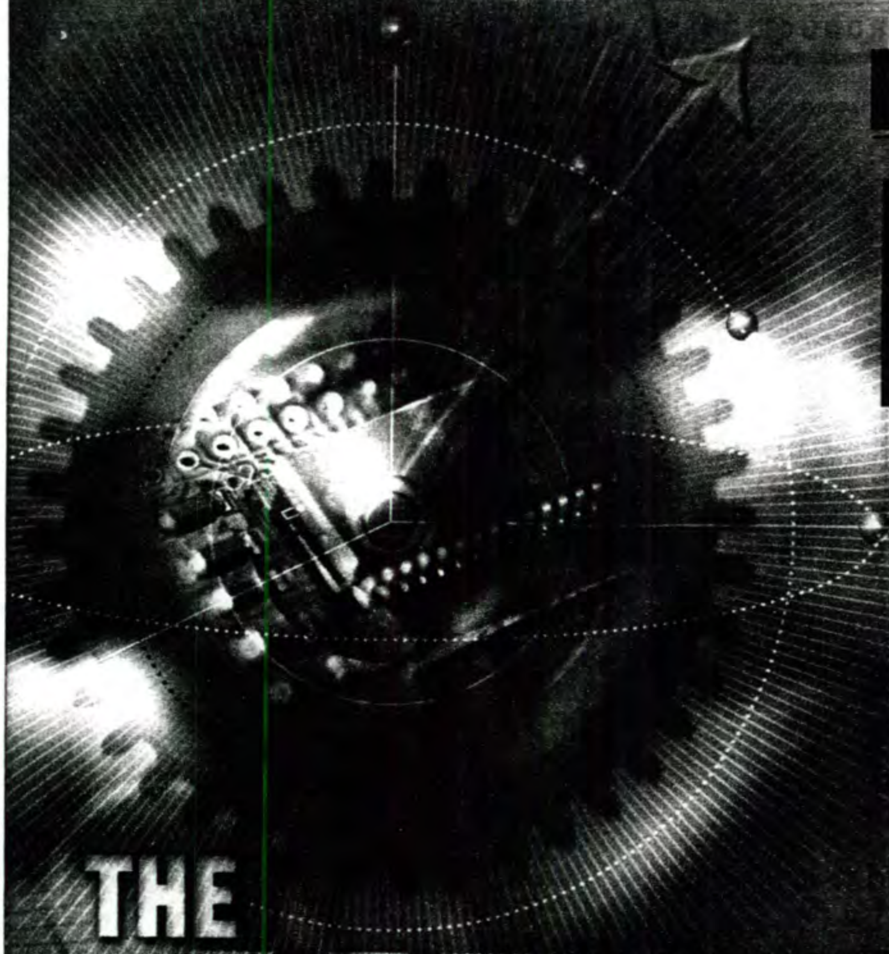


It seems almost too good to be true. With the information technology sector leading the way, the U.S. has enjoyed almost 4% growth since 1994. Unemployment has fallen from 6% to about 4%, and inflation just keeps getting lower and lower. Leaving out food and energy, consumer inflation in 1999 was only 1.9%, the smallest increase in 34 years. This spectacular boom was not built on smoke and mirrors. Rather, it reflects a willingness to undertake massive risky investments in innovative information technology, combined with a decade of retooling U.S. financial markets, governments, and corporations to cut

THE NEW ECONOMY

It works in America. Will it go global?

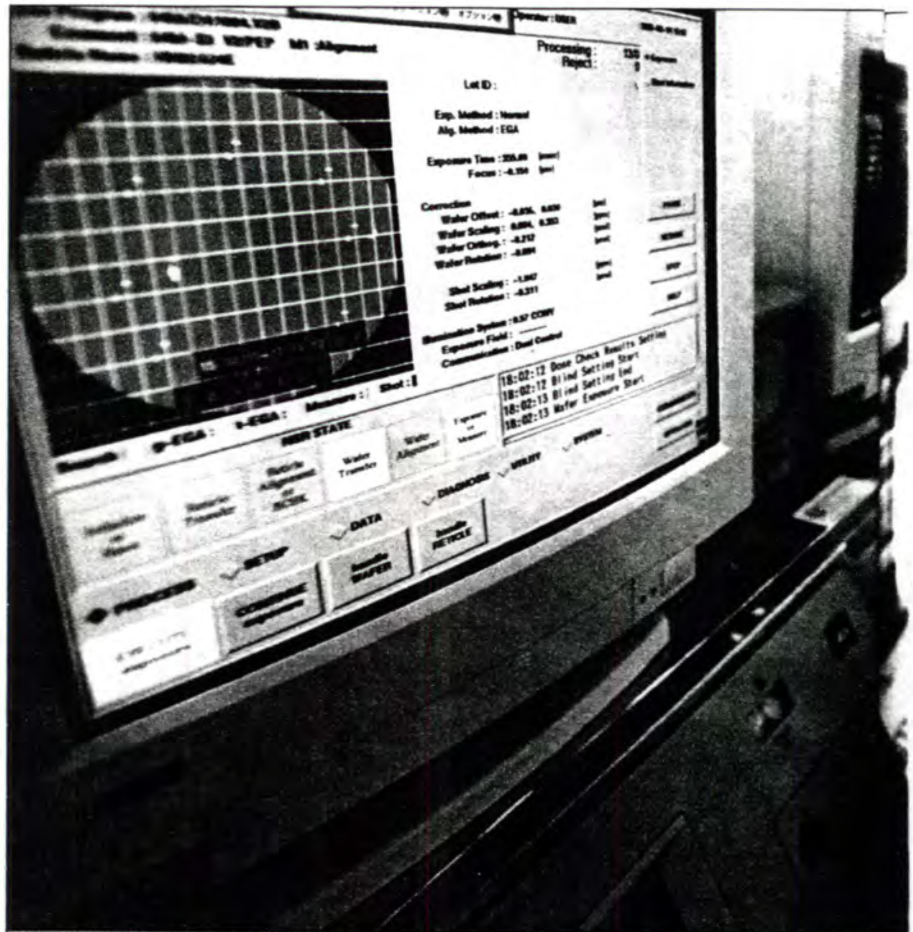
costs and increase flexibility and efficiency. The result is the so-called New Economy: faster growth and lower inflation.

Most corporate executives and policymakers in Europe and Asia, once skeptical about the U. S. performance, have taken this lesson to heart. There are still widespread misgivings about the U. S. model of free-market capitalism. But driven by a desire for faster growth, combined with a fear of being left behind, the rest of the world is starting to embrace the benefits of a technology-driven expansion.

Special Report

But a global New Economy will not happen overnight. True, spending on technology, the most visible part of the New Economy, while not yet up to U. S. levels, is on the rise everywhere. Semiconductor sales were up 17% worldwide in 1999, while the number of Internet users in Western Europe and the Asia-Pacific region is expected to more than double over the next five years (chart). Even in a developing country such as India, the software industry is growing at a rate of 50% to 60% annually.

OLD VIRTUES. But the worldwide proliferation of mobile phones and Web accounts by itself will not bring about a more vibrant global economy. What's also needed are dramatic changes in core institutions that will translate technology into faster productivity growth. That means financial markets better able to fund innovation, more flexibility in corporations and labor markets, a faster pace of deregulation, and increased competition (table). "The New Economy is built on old virtues: thrift, investment, and letting market forces operate," says Treasury Secretary Lawrence H. Summers.



MAKING MEMORIES: *Taiwan's semiconductor companies are feeding Asia's gr*

THE ROAD TO THE NEW ECONOMY

Here's what countries must do to get a high-productivity, low-inflation economy

BOOST INVESTMENT SPENDING on information technology as a share of GDP

RESTRUCTURE CORPORATIONS to cut costs, improve flexibility, and make better use of technology

OPEN FINANCIAL MARKETS to direct capital to the best uses

DEVELOP VENTURE CAPITAL and IPO markets to aid innovative companies

ENCOURAGE AN ENTREPRENEURIAL CULTURE and make it easier to start new businesses

INCREASE THE PACE OF DEREGULATION especially in telecom and labor markets

ADJUST MONETARY POLICY to the realities of the New Economy by waiting for inflation to appear before raising interest rates

There are signs that the process of change has started. With growth picking up in Europe, and Asia emerging from its slump, Merrill Lynch & Co. is forecasting 3.3% world growth for 2000, with inflation slowing down (chart). Corporate restructuring has begun in Europe and Asia, financial markets are being rebuilt to support innovation, and there is more willingness to take risks. "I'm seeing the entrepreneurial response almost everywhere," says Clyde V. Prestowitz Jr., president of the Economic Strategy Institute. "It's not Silicon Valley yet, but there's a lot of ferment." Even in slow-growing Japan, "I think there will be a New Economy," says Toshiba Corp. President Taizo Nishimuro, though he cautions that "it won't be the same as the U. S."

Nevertheless, the process of shifting to a fast-growth track is still in its early stages in most of the world. Europe is at least two or three years behind the U. S., with Asia lagging even farther behind. While there are pockets of entrepreneurial vigor in places such as Finland, it has turned out to be an enormous challenge to reshape cultures to allow more risk-taking in Europe and Asia, where caution is a virtue.

It also takes time for policymakers to adjust to the New Economy. In the U. S., Federal Reserve Chairman Alan Greenspan, an enthusiastic proponent of technology-driven productivity gains, resisted great pressure to raise rates in the face of fast growth and low unemployment. By contrast, the two biggest central banks in Europe, the European Central Bank and the Bank of England, have adopted a policy of aggressively raising rates at the slightest hint of inflation, thus choking demand needed to justify business investment.

...ia's growing hunger for information technology

Moreover, investment in risky innovation—a linchpin of the New Economy—depends on open global markets, since national markets do not provide a big enough payoff for taking big risks. But as shown by the demonstrations against the World Trade Organization in Seattle, there are groups in every country who feel threatened by free trade. A widespread backlash against globalization could remove a key underpinning of the New Economy.

Ironically, skeptics also worry that a worldwide investment boom could itself trigger global inflation. The reason? Slow growth in Europe and Asia in the 1990s helped keep commodity prices and interest rates low in the U. S., despite strong growth in America. But as the rest of the world picks up steam, that slack, is slowly disappearing. By sometime later this year or early 2001, unemployment in the major industrialized economies should drop below the level that triggered inflation in the late 1980s. "That's when you get a reasonable test of the New Economy thesis on a global basis," says Stephen S. Roach, chief economist at Morgan Stanley Dean Witter in New York.

ENDURING

" The New Economy is built on old virtues: thrift, investment and letting market forces operate **"**

— LAWRENCE SUMMERS, U.S. Treasury Secretary

But despite these obstacles, a shift to a U. S.-style economic model is looking increasingly attractive as a guide to development. Based on the American example, technology-driven growth creates many more jobs than it destroys. Combined with big productivity gains, that allows the unemployment rate to fall without igniting inflation—something that would be welcome in European countries that have long struggled with high unemployment. Faster growth would also ease the long-term burden of funding the retirement of aging populations in Japan and Europe.

OPEN ACCESS. Moreover, the global economy is not a zero-sum game: Faster growth in the rest of the world would have a big payoff for the U. S. as well. Commodity prices might rise at first, but so would exports, bringing down the swelling trade deficits and creating manufacturing jobs at home. U. S. companies would start to see overseas profits accelerate.

And then there's the innovation factor. For corporations, the most important justification for spending big bucks on information technology is that it supports restructuring and cost-cutting. But from a global perspective, a critical benefit of the Information Revolution is that for the first time it makes data available worldwide. Historically it has taken years, if not decades, for even the most important technological and business innovations to spread across national borders.

But that's changing. Now, an engineer in China, say, can log on to the Internet and have immediate access to the treasure trove of data on U. S. Web sites. More important, engineers in developing countries can communicate much more quickly with counterparts in other countries and learn what works and what doesn't. The gains from faster transmission of innovation can add up to 1% to global growth rates, according

(L TO R) PHOTOGRAPHS BY DAVID HARTUNG/LIAISON AGENCY; DENNIS BRACK/BLACK STAR; CHART BY RAY VELLA/BW

to research by economists Jonathan Eaton and Samuel S. Kortum of Boston University. That's an enormous potential boost.

But new technology has to be nourished within a larger framework of institutional changes. For one thing, openness of domestic markets to foreign trade is vital for turning innovations into real improvements in output. Without competition from overseas, companies make changes slowly and reluctantly. The big gains only come, according to a 1999 study by Catherine L. Mann of the Institute for International Economics, "when trade encourages and diffuses the fullest uptake of globally available technological innovation by all firms within an industry."

Special Report

Equally important for sustained noninflationary growth is access to well-run financial markets that can move savings to the most productive investment opportunities, while cushioning the inevitable excesses to which markets are prone. "Even small improvements in the way capital is allocated in an economy have enormous consequences," says Summers. Under a reasonable set of assumptions, an increase in the efficiency of financial markets that decreases interest rates by 20 basis points can add 6% to output over several years.

AMERICAN ADVANTAGE. One area where the U. S. excels is the ability to fund innovative companies at an early stage. U. S. venture-capital spending doubled to more than $40 billion in 1999. And according to a study by Kortum and Josh Lerner of Harvard business school, a dollar of venture capital produces three to five times more patents than a dollar of research and development spending. "Venture capital is much more potent," notes Kortum.

Other countries in Europe and Asia are trying to catch up. In China, for example, the southern city of Shenzhen has just put together its own $120 million venture-capital fund in an effort to stimulate local high-tech development—just one of several Chinese cities that has done so. The problem is that the new venture funds in Europe and Asia often have corporate or government affiliations, which tend to make them less effective. "They don't have the autonomy that we associate with U. S. venture-capital funds," says Lerner.

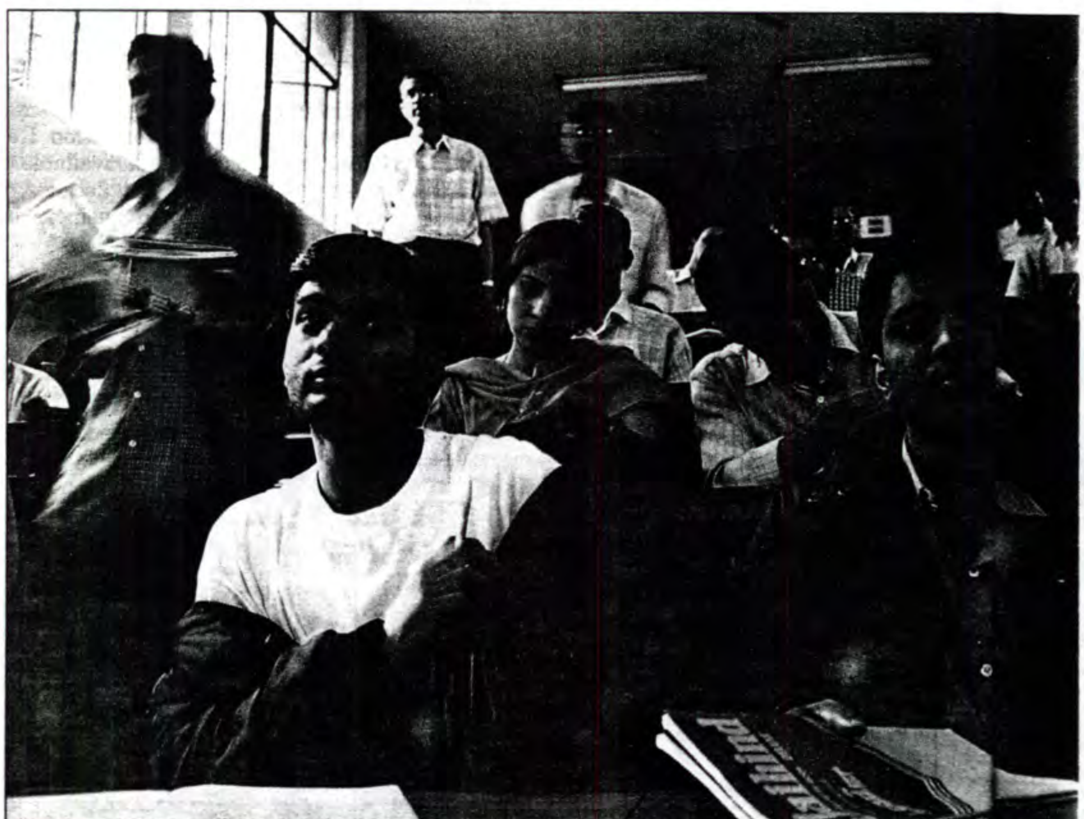
And even if the funding is available, it's a slow process to adopt a culture that favors risk-taking and makes it easier for new businesses to start up. "This won't take six months," says Bernard P. Vergnes, chairman of Microsoft Europe. "We'll have to start in the schools to change the bankers and the politicians of the future and make them less averse to risk."

It may become easier in the future to entice politicians to jump aboard the New Economy bandwagon, as the political advantages become clearer. In India, for example, the new Bharatiya Janata Party government decided to use the vision of an IT-literate India as an election promise. In Sweden, Björn Rosengren, the minister for industry, employment, and communications, is promising broadband in every home. This coming summer, the national government is expected officially to give a contract to develop a nationwide broadband network to Svenska Kraftnat, which operates the main electricity grid.

There is a growing willingness to back away from central control over national economies, even in the most hidebound of regulated industries. The wave of telecom mergers in Europe shows that the old idea of national monopolies is dead. And in Japan, where high telecom charges were holding back e-commerce, Nippon Telegraph & Telephone last fall introduced a flat-rate high-usage Internet access service—aimed primarily at small offices and heavy individual users—for $75 a month in parts of Tokyo and Osaka, the two largest cities. Now it's contemplating cutting the price, possibly by 50%, by the time it launches the service in major centers around Japan in the next year or so.

Nevertheless, the changes are occurring piecemeal. Outside the U. S., there are no definitive signs yet of a productivity acceleration. Countries such as Britain and Japan are actually showing a productivity slowdown, based on measured data. However, it took years in the U. S. before

WELL-CONNECTED: *Finnish schoolc*



TALENT EXPORT: *Indian universities turn out 122,000 engineers each year*

(TOP TO BOTTOM) PHOTOGRAPHS BY ILKKA UIMONEN/CORBIS SYGMA, NAMAS BHOJANI

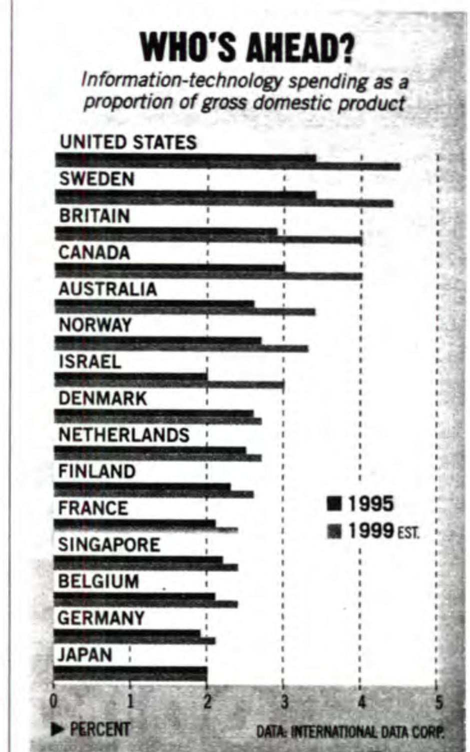
...nish schoolchildren carry cell phones

productivity data reflected the Information Revolution, and the lag in the global statistics could be much longer. The reason? Starting in the 1980s, U. S. statistical agencies started adjusting the economic data to take into account the growing power of computers. Most other industrialized countries have not adopted similar methodologies, so that New Economy effects will take longer to show up in the numbers. "It's become quite an issue," says Jon Beadle, a statistician in Britain's Office for National Statistics.

What could stop the New Economy from going global? Simultaneous rapid expansion in Europe, the U. S., and Asia could push up the prices on world commodity markets. But unless there is a cartel that holds supply down—as in the case of oil—such increases are likely to be temporary and not result in lasting inflation. Take steel, for example. With the world's mills operating at close to full capacity, "we are forecasting a shortage of steel," says Peter Marcus, managing partner of World Steel Dynamics, an Englewood Cliffs (N. J.)-based consulting firm. He predicts that prices of hot-rolled band steel could spike up by 50% later this year.

But as buyers and suppliers of industrial products and tools increasingly move onto the Web, it will hold down prices. "Improvement in e-commerce will make the pricing structure more competitive," notes Marcus. Sandvik Coromant, a unit of Swedish specialty steel manufacturer Sandvik, expects 40% of its Scandinavian sales to be via the Internet within three years, allowing it to cut order costs in half.

Similarly, soaring demand for the core products of the Information Revolution—memory chips, microprocessors, and liquid-crystal displays—is likely to push up prices in the short run. Companies such as Gateway Inc. have already complained of shortages. But recent experience shows that new capacity can be quickly created in these industries.



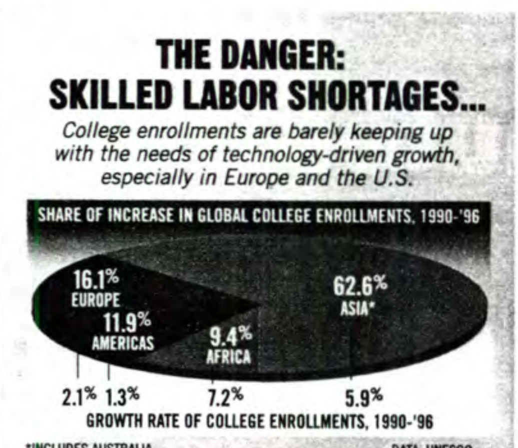
The biggest constraint on the spread of the New Economy globally will not be commodity inflation or product shortages. Rather, the main problem will be finding enough highly skilled and computer-literate workers to staff rapidly growing information industries. Europe and Japan will have to find a lot of highly skilled workers—quickly—as they try to beef up their New Economy industries. "The one big inhibitor is the shortage of skilled labor," says Andrew Milroy of International Data Corp. in London. IDC estimates that the demand for skilled workers will exceed supply by 20% in Western Europe in 2002. And engineers comprise some 40% of China's enormous crop of annual graduates.

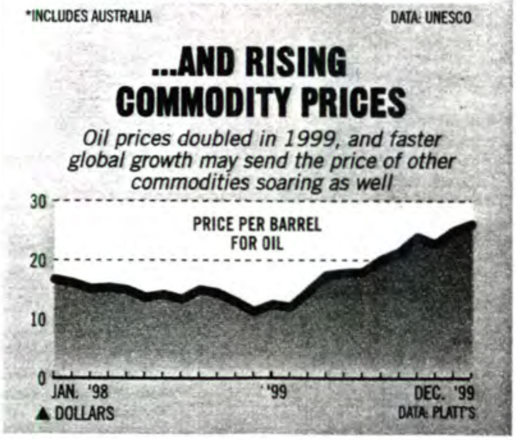
It will be necessary to draw on the enormous supply of college-educated workers in countries such as India and China. Asia accounts for two-thirds of the global increase in college and other post-high-school enrollments in the 1990s. Indian universities turn out 122,000 engineers every year, compared with 63,000 in the U. S. And engineers comprise some 40% of China's enormous crop of annual graduates.

The growth of the U. S. high-tech industry has been fueled by a steady flow of highly educated immigrants and foreign students. Between 1985 and 1996, foreign students accounted for two-thirds of the growth in science and engineering doctorates at U. S. universities. Most of them planned to stay and work in the country.

Like many other aspects of the New Economy, opening up the doors to foreign workers won't come easily in many countries. But the genie is out of the bottle—now that the U. S. has shown that faster growth is possible, no country will be able to resist it. In the end, the benefits will be well worth the pain.

By Michael J. Mandel in New York, with bureau reports





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