The Economist

NOVEMBER 1ST–7TH 2008

www.economist.com

Can governments spend their way out?

China's financial diplomacy

Israel's election: Tzipi v Bibi

Why ray guns are back

The rise and fall of Lefty Rosenthal

It's time

€5.20

I/N 8604

44

9 770013 061183

Albania	ALL650	Croatia	HRK38	France	€5.20	Ireland	€5.20	Latvia	LVL3.65	Nigeria	Naira 600	Romania	RON18	South Africa	R40.00
Austria	€5.20	Cyprus	€5.20 (C£3.00)	Gibraltar	GIP3.30	Israel	NIS34.90	Lebanon	L£9,900	Norway	NKr48	Saudi Arabia	Rials35	Sweden	SEK50
Bahrain	Dinar3.50	Czech Rep	CZK150	Greece	€5.20	Italy	€5.20	Lithuania	LTL23.10	Poland	PLN20	Serbia	RSD438	Switzerland	Sfr10
Belgium	€5.20	Denmark	DKr45	Hungary	HUF1,310	Kenya	KShs490	Luxembourg	€5.20	Portugal CONT	€5.20	Slovakia	SKK180	Turkey	TRY9
Bulgaria	BGN10.20	Estonia	EEK80	Iceland	IKr400	Kuwait	Dinar2.80	Malta	€5.20	Qatar	Rials35	Slovenia	€5.20	UAE	Dirhams 35

The wealth of nations

SIR – Having been in Asia during the financial crisis a decade ago, I am struck by the similarities between then and now ("Capitalism at bay", October 18th). A property boom gone wild; opaque financial systems (if bank executives can't grasp the complexities of their business, they must be opaque); central banks supporting for years a policy of easy money; rampant short-selling.

The only ingredients missing are the snide voice of the IMF denouncing bank nationalisations and the American trade representative demanding that weak banks go bust. Whatever happened to "let the markets decide", which in 1998 was sold as economic truth to Asian countries? Is the medicine of shock therapy, so liberally handed out to South Korea, Thailand, etc, too bitter for the doctor?

CHRISTIAN KOBER
Chief operating officer
Geberit Shanghai Trading
Shanghai

SIR – It was the actions of politicians rather than the greed of capitalists that caused problems in the financial system to build up until they collapsed under their own weight. Politicians presided over habitual national deficits, undisciplined borrowing and exploding money supply. It is they who claimed it was impossible to spot asset bubbles, except in hindsight, despite systemic, irrational exuberance in property prices and stockmarkets.

They are the ones who turned blind eyes to the concoction of credit and who validated the new paradigm of leveraging inflated assets as a way to spend, rather than saving the old-fashioned way. Let the facts speak for themselves. If politicians had not behaved so recklessly, the world would be a safer, more prosperous place and prudently governed countries like Australia would not have to take costly action to avoid the worst of the contagion.

Government irresponsibility is why we are where we are and if that original sin had not been committed we wouldn't now be talking about bankers' salaries.

MAURICE NEWMAN
Sydney

SIR – Your rather sombre defence of capitalism reminded me of the late John Kenneth Galbraith, who said once that one of man's oldest exercises in moral philosophy is the search for a superior moral justification for selfishness.

MURALI REDDY
Lake Hiawatha, New Jersey

SIR – Those of us who worked at *The Economist* in the late 1940s shared Keynes's consensus view of the hungry 1930s. We believed then that distance had added no enchantment to Stanley Baldwin, a Tory centrist, and Ramsay MacDonald, Britain's last previous too right-wing Scots Labour prime minister. They wasted in mass unemployment a decade of under-demand that should have been used for national development. They echoed the muddle of the 1931 May committee in supposing that tightened budgets were morally needed in great depressions.

Today's clones of Baldwin and MacDonald are not just David Cameron and Gordon Brown. Terrifyingly, they include both Barack Obama and John McCain.

Since the present credit crunch will bring longer under-demand than did the Wall Street crash in 1929, Britain's wisest and most Keynesian policy would be an income-tax holiday for at least the poorer half of its too many income-taxpayers. This temporary increase of about £40 billion ($60 billion) to the annual budget deficit would be spent by its beneficiaries on the (probably mostly service) activities that are a rough snapshot of Britain's next £40 billion of most-likely growth industries once the slump is over. Add in free trade for all imports from countries with cheaper labour, and fears that the budget deficit could bring inflation during the under-demand sound oxymoronic.

The probably imminent President Obama seems intent on punishing bust Lehman banks by making the better-run American banks uneconomic, through imposing such political over-regulation that every First National Bank of Anywhere would have to employ hugely expensive teams of lawyers. Britain's aim should be to avoid such a plague, and to make London the cheapest centre to run any bank from. Instead we are trying to establish international cartels that forbid banking competition between countries, and we boast that these bail-outs will cost mega-billions, which nobody can possibly afford.

NORMAN MACRAE
London

SIR – If I have learnt anything from my 15 years of working in the brokerage divisions of five banks it is that there are very few examples of leadership or teamwork in the banking world. There are hardly any (good) role models to follow, managers with little experience of management, no loyalty, and no corporate conscience, all of which leads to a lack of collective responsibility.

Placing stricter regulations on banks is one thing, but we also need to put real leaders in charge of the banking sector, men and women who are truly ethical and can create a new banking regime and re-engineer the corporate culture of these institutions. We need to recruit financially savvy managers from industrial companies with strong corporate cultures, such as Nestlé and P&G, and let them run the banking world.

As long as banks remain mere collections of individuals, the situation will continue to be like herding cats. Hosing them with water now and then will chase them off and make them wary about returning for a while. But one day they'll be back to feed on our greed and to make a disgusting mess in our backyard.

JAMES AMOROSO
Consultant
Walchwil, Switzerland

SIR – We have heard the justification that banning bonuses "would drive good people out of companies that badly need them" for some time now from those who try to justify the outrageous remuneration paid to managers in the financial industry. It is nonsense. As a former director of a large bank I say let them go. It is plain to see for everybody where the inventiveness of these bonus-maximisers has led us. There are plenty of talented, competent and honest people within the ranks of our banks who are eager to do a better job at a quarter of the salaries paid to their present bosses.

HEINI LIPPUNER
Oberwil, Switzerland

SIR – Your cover portrayed a wounded lion struck by hunters' arrows, symbolising an ailing capitalism. Shareholders like myself would like to indulge in a new sport over the next few years: hunting down arrogant and stubborn bank bosses who lost trillions of dollars. I am certain that when the dust clears we will see a few banking chief executives put behind bars. Now that is a cover of *The Economist* I would like to see.

JULIAN SURESH CANDIAH
Kuala Lumpur

Ending a conflict

SIR – Your advice about the best way to overcome the Taliban was steeped in the old recipe of divide and rule ("No time to go wobbly", October 18th). With war fatigue clearly visible on both sides, it is diplomacy that is now required to nudge the parties to the table. The negotiation process will be arduous, but it will be less painful than continuing current hostilities.

The mothers, wives and children of all sides want an end to this war, but it is being fuelled by unacceptable "collateral damage" from both sides of the border. A Pushtun is a fine and proud person. He loves his rifle and his old wife and strongly believes in revenge if unjustly wronged.

A. RAUF KHAN KHATTAK
Islamabad