

COMMENT & ANALYSIS

FINANCIAL TIMES

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Friday November 8 2002

A new policy divide across the Atlantic

Monetary policy has rarely been so different

Their analysis was so similar: the US Federal Reserve said on Tuesday that "inflation and inflationary expectations remain well contained". Wim Duisenberg, the European Central Bank's president, concurred yesterday when he talked about "reduced inflationary pressure".

The Bank of England, too, deserves a mention. It left UK rates at 4 per cent yesterday but its economic analysis is impossible to fathom because it has yet to become as transparent about its decisions as its more important counterparts.

The FOMC's concerns that after its action "the risks are balanced" with respect to the prospects for price stability and sustainable economic growth.

The SEC's new start

Paul Volcker is the man to fill the void

To paraphrase Winston Churchill, Harvey Pitt did the honourable thing this week. But only after he had exhausted every possible alternative.

The resignation of the chairman of the US Securities and Exchange Commission, tendered at the dead-end election night on Tuesday, is a welcome end to one of the more remarkable episodes in the history of regulatory mismanagement.

Mr Pitt's reign of error harmed investors, undermined the SEC and sowed confusion among financial institutions. It is not simply that his unique combination of klutziness andchutzpah was a distracting sideshow from the drama of corporate greed and accounting fraud.

There is one candidate who fits all these bills. Paul Volcker, the former Fed chairman, has the experience, skills and stature to lead the SEC out of its mire. He is, or was, a Democrat, which means he has the trust of the Bush administration.

Ring out the old

China's new leadership must evolve or die

The spectacular skylines and manic energy of modern China overwhelm the first-time visitor. But the country's opaque and antiquated process for transferring power dulls the senses of old-time China watchers.

Today, the leadership of the Chinese Communist party goes into a huddle to conjure up a new line-up of leaders. But all the requisite backslapping, arm-twisting and hard bargaining have already taken place in a succession of smoky, closed-door meetings over the preceding months.

It seems almost certain that Hu Jintao, the colourless vice-president, will eventually succeed President Jiang Zemin, while Wen Jiabao, vice-premier, will replace Premier Zhu Rongji.

A seamless transition will seemingly be effected between China's third generation of Communist party leaders and its fourth - without the need for messy and unpredictable elections.

Some observers may therefore take comfort from the fact that the old guard does not look as though it will

The world needs the US to continue promoting trade liberalisation

From Mr Daniel J. Aronoff, Sir, Martin Wolf persuasively makes the fundamental case for liberalising agricultural trade.

"It is the greatest opportunity because [agriculture] is the sector in which there has been the least liberalisation... the economic benefits of liberalisation are correspondingly large."

Dismissing trade barriers and developed countries are essential for developing countries (Letters, November 6) but his evidence does not stand up to scrutiny.

He observes that developing countries queue up to join such pacts. But if nearly everyone is in a gang, you may just as well be in one yourself.

He asserts that customs reform and the development of regional infrastructure are promoted by regionalism but fails to note that they can be pursued without trade preferences if the partners wish.

He argues the need for north-south alliances to galvanise the Doha round into large-scale global liberalisation but fails to show how free trade agreements assist such alliances.

He notes that developing countries usually have the opposite effect, the rems they create tenders to oppose multilateral liberalisation. What was the Africans' quid pro quo for the Doha round?

He notes that developing countries are critically short of negotiating capacity but claims that FTAs will add to capacity, North-south negotiations are costly and complex -

supported the Cairns group's call for elimination of all trade-distorting subsidies. Upon taking office, the Bush administration articulated a "trade, not aid" approach to the developing world, which placed free trade at the centre of its agenda.

The world needs the US to promote trade liberalisation. Let us hope it soon proves Doha's wrong.

Daniel J. Aronoff, President and CEO, The London Companies, Bloomfield Hills, MI 48304, US

Trade preferences have divisive effect

From Professor L. Alan Winters, Jeffrey Schott says trade pacts with developed countries are essential for developing countries (Letters, November 6) but his evidence does not stand up to scrutiny.

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Positive effects of climate levy

From Mr Rebecca Willis and others, Sir, The Confederation of British Industry is wrong to suggest that businesses do not support energy taxation ("Industry hit by flawed climate change levy", November 1). A survey undertaken by the Policy Studies Institute and Green Alliance, with support from the WWF, shows that most businesses favour taxation as the best way of reducing carbon dioxide emissions and tackling climate change.

They want government to make it more expensive to pollute the environment and cheaper to protect it, by switching to renewable energy, for example.

In contrast to the CBI, our survey saw positive effects of the levy, including a switch to renewable energy, and more investment in energy efficiency. Businesses want the government to send clear signals that the UK is serious about tackling climate change, so that they can have the confidence to change investment patterns.

The CBI's negative stance undermines progress on an issue that we all, even trade associations, will need to face up to before long.

Rebecca Willis, Director, Green Alliance Professor Paul Ekins, Head of Environment Group, Policy Studies Institute Robert Napier, Chief Executive, WWF-UK

Contribute please email: letters.editor@ft.com or fax: +44 (0) 20 7873 5938 Include daytime telephone number and full address

Airlines should charge for excess body 'baggage'

From Mr David Sinclair, Your article by Michael Skapinker ("Facing the facts on fat", November 6) only scratched the subcutaneous layer of the obesity problem in relation to airlines.

An airline is paid to defy gravity and move weight from one point to another. Their charge for excess baggage reflects their desire to limit that weight and thus save fuel costs.

Airlines should adopt a system like that used by postal services and couriers.

They should sell tickets at different prices depending on the weight of the "package" to be carried. At check-in, the passenger and his/her baggage would be weighed together and, if the appropriate ticket had not been purchased, there would be an excess charge.

Above a certain weight a passenger might even become entitled (or obliged) to sit in a larger plane. This would also avoid the embarrassment of the flight staff having to make an objective judgment as to whether a passenger was "fat" or not.

An additional bonus to the airlines would be a really accurate record of the payload thus enabling them to take more cargo or less fuel and keep down costs.

David Sinclair, Isington, Alton GU34 4PW

Britain's limited role in Airbus

From Mr Stephen Aris, Sir, Paul Betts gives a most interesting account of the differences between Anglo-American and European business models ("Slump intervenes in capitalist culture clash", November 6).

In the article, he quotes a senior former Airbus executive as saying that "the British brought pragmatism and... helped to impose financial disciplines and commercial skills lacking in their European counterparts".

This is gliding the lily a bit. What has been forgotten is that the British withdrew from the Airbus project before it was properly launched and stayed out for nearly 10 years.

By the time the British decided to rejoin, Airbus had been shaped. Britain's influence thereafter was comparatively minor.

To my mind, our involvement in Airbus closely mirrors our attitude to Europe in general.

Stephen Aris, London SE10 8UJ

Off track

With any luck, this week's tinkering with Britain's train set might get the Fat Controllers to think about an integrated public transport system.

It is a pity that the man charged with the day-to-day running of the network, appreciates the issues more than most.

Patrick's day Let there be no doubt, Sir Patrick Gilliam is definitely stepping down soon as chairman of Royal & Sun Alliance. He says so himself.

He was at it again yesterday, unveiling the insurer's survival plan with an extra assurance that the board would "in the near term" find a new chief executive and chairman.

But some hardened City watchers, who believe Gilliam has hung around too long at the insurer and Standard

LETTERS

Cliffe plan would ruin prosperity

From Mr Chris Pond MP, Sir, The decision by the Local Government Association to support the building of an airport twice the size of Heathrow on marshland at Cliffe, described as "barking mad" by the leader of Kent County Council, is certainly bizarre ("Anger as report ignores Kent's opposition to new airport", November 1).

Because the site is of international scientific importance for wildlife, any decision to go ahead would be fiercely opposed through the courts, delaying the development well beyond the time scales envisaged.

The LGA is well aware that north Kent is an important part of the Thames Gateway, development of which would be blighted by any decision to go ahead with an airport of this size.

Instead of adding to infrastructure investment within Kent Thameside, it would drain that infrastructure foreseen as part of the recently published area investment framework, which has been carefully planned by a partnership between government, local authorities and the private sector.

An airport at Cliffe would damage the prospects of prosperity in an area that has suffered more than its fair share of deprivation.

Chris Pond, House of Commons, London SW1A 0AA

A regulator to match big boys

From Mr Austin Mitchell MP, Sir, John Hopton is right to want the resources and power of the Accountancy Foundation to be beefed up but I hope his complaints do not become a rearguard action to preserve self-regulation for the UK accountancy profession ("Regulator calls for stronger powers to ward off scandals", November 4).

Self-regulation has been ineffective. Audit failures are covered up. It took 10 years to levy punitive fines on the auditors of Polly Peck and Robert Maxwell's Mirror Group Newspapers.

What we need is a genuinely independent, statutorily based regulator with the powers and resources to take on the multinationals that dominate the industry. Auditors must be banned from selling consultancy services to audit clients and the government should consider expanding competition, for example by opening the field for Virgin, Marks and Spencer and the National Audit Office.

Austin Mitchell, House of Commons, London SW1A 0AA

Also online today: Andrew Rose on the World Trade Organisation and how it has failed to stimulate trade

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Observer

Chartered, the bank he also chairs, had obviously feared he might cling on until his 70th birthday next April.

One jaundiced analyst even rang RSA recently to ask cheekily: "When Sir Patrick turns 70 at Standard Chartered, will he also be 70 at RSA?" That's the problem with these guys: miss your earnings forecasts, and they start to doubt everything.

He recently finished a stint as chief executive of TransSys where, Observer discovers, he helped develop the £1.2bn Oyster smartcard project. The electronic ticket, unveiled with fanfare this week, makes hopping between bus and Tube in London easier.

Alas, for commuters to the capital, this particular high-tech world won't be their saviour, as we know. Coucher's card is incompatible with the more advanced smartcard system under development for the national railways.

Let us hope that the man charged with the day-to-day running of the network, appreciates the issues more than most.

They are now being joined by Mike Lee, erudite communications director of Uefa, which governs European football. Lee, a former adviser to David Blunkett, would have to manage the transformation from spinmeister to administrator - but there are many who see him as the ideal choice.

After all, with the Wembley debacle, the very public private partnerships of Sven-Goran Eriksson and the possible public outcry if the Swede leaves (he is meeting FA officials today to discuss his position), who better than a spin doctor to run the show?

Ad lib

To yesterday's Liberal Democrat shadow Queen's Speech. Two highlights of economic policy: to increase the independence of the Bank of England and to adopt the euro. Talk about hedging your bets.

observer@ft.com

Solo thinking from Glocer

The regular e-mails to staff from Tom Glocer, chief executive of Reuters, enjoy a somewhat mixed reception. But the first non-journalist to head the company is seemingly relishing the chance to display his handiwork with the keyboard. Or is it a light sabre?

For a recent Glocer e-missive was full of Star Wars references. Summing up a well-received product day and Reuters' rebuttal of claims it hacked into a Swedish company's system, he wrote: "The Empire Strikes Back."

There follow some dab swipes at "Reuters-bashing in the media" - including, apparently, in this newspaper - worthy of Darth Vader himself. The e-mail concludes: "Markets will remain loud, but we have the power to win. May the force be with you."

Inspiring stuff, no doubt, though as one puzzled employee asks: "When the Empire the bad guys? Didn't they lose in the end?"

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Take us to your leader's bunker