



"Without fear and without favour"

Tuesday September 6 2011

## UK must face up to Libyan echoes

Accountability should be established if the law was broken

Documents have come to light in the wake of Muammar Gaddafi's dethronement that – if proved genuine – could incriminate the British intelligence services for complicity in abuse and torture of terror suspects at Libyan hands. For both the British people and the intelligence services themselves, it is crucial to establish the truth and full political accountability for what has or has not been done.

The UK-Libyan intelligence relationship that developed under former prime minister Tony Blair's entente with Col Gaddafi is well known. But the documents imply a degree of cosiness that contradicts the intelligence services' defence of their anti-terrorism tactics.

One indicates that MI6 welcomed the opportunity to interrogate Abdul Hakim Belhadj, once a member of a jihadist group and now head of the militia controlling Tripoli, after his illegal rendition to Libya by the US Central Intelligence Agency. Another suggests that the UK mounted its own rendition of Abu Munthir, an alleged plotter of terrorist attacks in the UK, from Hong Kong to Tripoli.

If either is true, it will undermine intelligence service claims to have been, at worst, slow to detect abusive practices linked to US renditions, and not to have engaged in rendition on its own account.

It is welcome that the Gibson inquiry, set up to probe claims of UK complicity in rendition or torture of Guantánamo Bay prisoners, has swiftly announced it will also look into allegations prompted by information from Libya. The Gibson inquiry has been criticised for being too secretive. But it is understandable that not all information can be made public. It is incumbent upon inquiry members to apply secrecy only when national security truly demands it, and never to spare political figures from embarrassment. The whole truth must finally be told.

Two principles must guide judgments on whatever facts are in the end verified. First, no intelligence service can do its job – especially in the years shortly after 9/11 – without dealing with unsavoury regimes. But it is a false dichotomy between no contact at all and outsourcing interrogation to services whose assurances that no torture will occur are only believable to the wilfully ignorant.

Second, a state of law must be protected by legal means. If intelligence officers complied with expectations to act outside of the law, that is to their discredit. If their political masters nourished such expectations – by preferring not to know how intelligence is acquired – the greatest disgrace is theirs.

## Old friends fall out

The Israeli-Turkish estrangement risks benefiting Iran

In 1949, Turkey became the first Muslim-majority country to recognise the newly created state of Israel. By the late 1990s, the two countries were engaged in close cooperation on military and intelligence matters. But over the past three years friction has steadily replaced friendship, a trend that culminated last week in Turkey's announcement of a sharp downgrade in diplomatic relations and the suspension of military ties.

The breakdown of the relationship is fraught with complications for the US, which for decades has made expensive military, diplomatic and economic investments in both countries. Since the 1979 Islamic revolution in Iran, Turkey and Israel have been the linchpins of US policy in the region. Unfortunately for Washington, it is unrealistic in the short term to expect much warmth to return to Israeli-Turkish ties.

For one thing, there is much national and personal pride at stake – not least for Recep Tayyip Erdogan, Turkey's imperious prime minister, and for Benjamin Netanyahu, his stubborn Israeli counterpart. More important are the structural causes of the strains. The relationship was always awkward and top-heavy, relying on contacts between the political, military and intelligence

elites of the two countries rather than on networks of trust and cooperation among businessmen, cultural figures, academics and society at large.

Then, Mr Erdogan's Justice and Development party (AKP) took power in 2002 and began to reshape Turkish foreign policy. The AKP sought to position Turkey as a bridge between the west and Muslim countries, a stance that brought closer relations with the Arab world and, conversely, cooler ties with Israel. The Gaza conflict of 2009 reaped rewards for Mr Erdogan in that his condemnation of Israeli military strikes played well with the Arab street and Turkish domestic opinion.

To control tensions, the Israeli government should reconsider its refusal to apologise for the deaths of eight Turks and a Turkish-American during last year's Israeli raid on a Gaza-bound flotilla. It must also recognise that its blockade of Gaza is wholly inadequate as a long-term policy for the territory. For its part, Turkey is not helping matters by terming the UN report on the flotilla affair "null and void". Each side needs to remember that its most determined rival for regional influence is Iran. Neither would benefit if the Iranians emerged as the ultimate winner.

## Malema dilemma

Young firebrand puts racial sting back into South Africa

Only three and a half years after Thabo Mbeki was ousted from the leadership of the African National Congress, South Africa's ruling coalition is becoming embroiled again in a high stakes power struggle. It is a distraction for a country that faces acute economic and social challenges if it is to retain its position as a leading voice in Africa and the developing world.

The ebullient leader of the ANC's youth wing, Julius Malema, has manoeuvred his way to the centre of the storm. He helped galvanise support for Jacob Zuma's ascent to the party leadership and presidency. Against a backdrop of growing factionalism within the ANC, he has now turned against his mentor, whose popularity is waning amid disenchantment with the government's record.

Mr Malema, 30, is the kind of radical populist South Africa can ill-afford at this time. The country's economy, 17 years after the end of white minority rule, is languishing. Despite being one of the world's leading minerals producers it has become uncompetitive and has missed out on the commodities boom. Nor are there enough alternative sources of employment: a generation of South Africans is growing up with little hope of jobs.

As worrying for future stability is the meagre progress towards a

more egalitarian society. White-owned businesses still control the lion's share of companies listed on the Johannesburg stock exchange and white farmers still own the bulk of farming land.

Mr Malema has capitalised on resulting discontent. The populist policies he and the ANC youth league champion – including nationalisation of the mines and seizing white-owned land – would be disastrous. The former would bankrupt the state and deter the investment needed for growth. The latter would undo progress towards taking the racial poison out of South African politics.

However, in the absence of well-articulated alternatives to address gaping inequalities, it is no surprise that the youth league's ideas have been gaining traction. That is why Mr Malema is dangerous. He is filling a vacuum that more sober politicians have failed to fill. The disciplinary hearing he now faces as a result of controversial outbursts is a test for South Africa. Simply removing him will not be enough. South Africa's government has been drifting and the ANC, like other liberation movements before it, is becoming more of a patronage network than a channel for fresh ideas. The return of rabble-rousing, racial politics is a sign that it is time to stop the rot.

## Letters

### Emerging markets are a shelter from the storm

From Mr Yonghao Pu.

Sir, What has always surprised me is that the west's perception of emerging markets never seems to change. For example, in his article "Do not count on EMs coming to the rescue in a double-dip" (August 31), John Plender insists that "the emerging markets as a group are in surplus overall on the current account, which means they are a drag on global growth rather than a spur".

The statement ignores the fact that the surplus as a percentage of gross domestic product has been declining – from a peak of 4.7 per cent in the first quarter of 2007 to about 2.2 per cent in the first quarter of 2011 – indicating that domestic demand has been increasingly taking over the driver's seat in emerging market economies. India has been consistently running deficits, while Brazil has switched from surplus to deficit since 2008. Even China, widely

depicted as a major villain for the global imbalance, has halved its current account surplus as a share of GDP from 10.6 per cent in 2007 to about 4 per cent this year. And even for the purpose of preventing currency appreciation, the emerging markets have been recycling a bulk of their surpluses to developed markets, providing desperately needed funds to fill their financing gaps.

More shockingly, Mr Plender claims to see little sign that the Chinese government is willing to shift China's growth model from being export-driven to one led by domestic demand. The facts beg to differ. Beijing has been engineering nationwide wage increases in past years. This year, the average increase has exceeded 15 per cent, with low-skilled workers receiving at least 20 per cent more. Such wage increases are happening in most emerging markets, including

Indonesia and Thailand. Not surprisingly, one can easily spot Chinese tourists flocking to luxury shops in New York, London, Paris or Zurich. Meanwhile, Asian currencies have been appreciating against a basket of global currencies, if moderately – 5.4 per cent in 2010 and another 2.8 per cent year-to-date – thus sharing the burden of a weaker dollar. Coupled with their solid balance sheets and better economic growth outlook, this has been attracting investors to hide their money in emerging market bonds and currencies. So yes, the emerging markets may not yet be the saviour of the world, but surely they are a shelter from the storm today and a growth engine for the world tomorrow.

**Yonghao Pu,**  
Chief Investment Strategist, Asia Pacific,  
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Hong Kong

### The golden age of the baby boomers is gone – forever

From Mr Paul Hodges.

Sir, Martin Wolf is absolutely right to highlight that the current downturn is among the longest seen in modern times ("We are floundering in our longest depression", Comment, September 2). The sad thing is that its cause is obvious, yet seemingly overlooked by most policymakers and investors.

It is the demographic time-bomb caused by the ageing of the baby boomers, those born between 1946 and 1970. The UK and other developed economies saw an economic supercycle develop between 1970 and 2000, as these boomers entered the 25-54 age range, when people's consumption normally peaks. By 2000, there were 384m in this range, 41 per cent more than in 1970.

They were the richest, and largest, generation that the world has ever seen. Unsurprisingly, they created a

truly golden age for housing, auto sales and overall consumer demand. Manufacturers were forced to invent the concept of "outsourcing", as they struggled to keep up.

Policymakers became used to the concept of "pent-up demand". Any increase in interest and mortgage rates meant boomers had to postpone purchases. But the kids were still growing and more boomers kept entering the 25-54 age group. So demand then returned with a rush when rates were reduced again.

But since 2001, the boomers have been entering the 55-plus age range, when people typically spend less and save more. It is not surprising, therefore, that recent "recoveries" have proved relatively weak, in spite of unprecedented amounts of stimulus. The boomers simply do not need more housing or new cars. And they have to save more, to fund their extra decade of life expectancy

compared with their parents' generation.

By 2020, an unprecedented 33 per cent of the developed world population will be more than 55 years old. We cannot move forward, therefore, in terms of stimulating demand, until we recognise that there is no way back. Equally, though, we could then open our eyes to the opportunities that will exist in this new normal.

These will come from developing a new growth paradigm, based on the emerging megatrends of increasing life expectancy and the need to improve water availability and food production, while reducing carbon footprint. The longer we ignore this demographic change, the longer Mr Wolf's depression will last.

**Paul Hodges,**  
Chairman,  
International eChem,  
London N7, UK

### Bond market credibility is about fiscal responsibility and growth

From Dr Nicholas Spiro.

Sir, In his critique of Martin Wolf's recent Comment on the "great contraction", Desmond Lachman (Letters, September 2) accuses him of paying insufficient attention to the fiscal strictures faced by many heavily indebted advanced economies. Yet it is not Dr Lachman who ought to be criticised for his blinkered focus on fiscal retrenchment?

Dr Lachman's clarion call for fiscal tightening in economies with excessive levels of public debt is not one that even the bond market vigilantes espouse unequivocally. This is because debt sustainability is a fuzzy concept. Fiscal balance and government debt to gross domestic product ratios are no more than crude indicators of sovereign creditworthiness.

With regard to the US, the focus of Dr Lachman's letter, it is obvious that Washington needs to come up swiftly with a credible plan to put the nation's public finances on a sustainable path. Yet if Dr Lachman's intention is to provide a compelling case for fiscal

retrenchment, he should not be basing it on the views of Standard & Poor's and the International Monetary Fund. While those of the former are of little relevance to the US Treasury market, those of the latter are highly nuanced, with the IMF having just advised the US not to pursue "fiscal consolidation that is unduly hasty".

Bond market credibility is about fiscal responsibility and growth.

These are two sides of the same coin. If an economy is flat on its back, fiscal tightening can quickly become self-defeating. Some economies, like the US and the UK, have more wriggle room than others. Yet even in countries under pressure from the markets, aggressive austerity measures have not led to a marked improvement in perceived creditworthiness. Dr Lachman may think this is because not enough austerity has been undertaken. The bond markets evidently believe other factors are at work.

**Nicholas Spiro,**  
Managing Director,  
Spiro Sovereign Strategy,  
London EC2, UK



Tunnel vision over gold price?

### Wrong bubble

From Mr Mike Teulon.

Sir, Perhaps the recent comments on a gold price bubble indicate tunnel vision. It is fiat currencies that are bubbles and have been since 1971.

**Mike Teulon,**  
London N6, UK

### People are dismayed by the thought of 'ticky tacky' boxes

From Mr Mark Dampier.

Sir, John Stewart, director of economic affairs at the Home Builders Federation, may make a reasonable point that more houses built on greenfield sites would cover only 1 per cent of England's land area (Letters, September 1).

However another reason many of those in the countryside do not want to see a proliferation of new houses must surely be that most of them look so awful.

Huge housing estates with houses all made out of "ticky-tacky, which all look just the same", as an old song went, sums up to many the

quality and look of new housing being built. It is as much this that dismays people as the ripping up of green sites.

Perhaps as a director of the HBF Mr Stewart could address this problem first.

**Mark Dampier,**  
Sidcot, Somerset, UK

## Notebook



**Brian Groom**

### Insurrection in the sceptred isle

Forget mindless rioting in the cities. Rebellion in the countryside could yet be a more insidious problem for David Cameron. He may be the first prime minister from the shires since Anthony Eden, but many of his policies are going down worse there than those of "townie" Tony Blair used to do.

The battle over the state forestry sell-off, which forced a U-turn, was just the start. A dispute over high-speed rail through the Chilterns rumbles on. Protests are growing over giant pylons that are planned to sweep across beautiful areas to link wind turbines to new power stations. And now come planning changes to introduce a presumption in favour of sustainable development.

You cannot fault the bravery of Mr Cameron and his planning minister, Greg Clark: taking on the National Trust and a swath of Tory-voting rural dwellers takes nerve. The English, in particular, have an idealised affection for their green and pleasant land that predates the industrial revolution: think of

Shakespeare's "This other Eden, demi-paradise". The notion of a rural idyll is held dear even though 80 per cent of people live in towns.

The issues are not purely English: there have been protests over 150ft pylons planned in mid-Wales and the Scottish Highlands, as well as for Dedham Vale – immortalised by Constable – the Kent Downs and the Forest of Bowland. Liam Fox, defence secretary, facing pylons in his North Somerset constituency, wrote to Sir John Huhne, energy secretary, to argue that burying power lines underground or underwater could be cheaper in the long term.

Pressures on MPs will surely grow. Nicholas Ridley, the 1980s environment secretary, wanted to build new towns in southern England to meet housing shortages. It was he who imported the term Nimby, or not in my back yard, from the US – and then was revealed as a Nimby for objecting to new homes near his Cotswold rectory.

Is there a way through these polarised debates? An independent study of the long-term cost of burying power lines would help. As for houses, your city-dwelling Notebook writer has a degree of sympathy with the conservation cause: it is surely right to insist on high densities, full use of brownfield sites and extensions to towns where transport already exists. But not enough homes were being built even before the downturn. To fight homelessness and poverty, there has to be some relaxation.

### Eye of the beholder

In all this, the question of what is beauty raises its head. Pylons have divided opinion for 80 years. There is a Pylon Appreciation Society, created by a photographer. The poet Stephen Spender wrote admiringly of:

*Pylons, those pillars  
Bare like nude, giant girls that  
have no secret.*

The British pylon, based on a design by the US Milliken Brothers submitted in 1928, under the guidance of classical architect Sir Reginald Blomfield, has a certain severe splendour. Many people consider them ugly, but why then is Blackpool Tower, for example,



### Debt overhangs stop the banks acting normally

From Mr Daniel J. Aronoff.

Sir, Tim Congdon et al point out, with considerable justification, that the omission of a commercial banking sector from mainstream macroeconomic models, such as the canonical model developed by Michael Woodford, is a serious shortcoming that, inter alia, obscures the role of banks in the transmission channels of monetary policy (Letters, September 1). But Prof Congdon's assertion that "when the quantity of bank deposits rises significantly in a short period, strong forces to boost national income and wealth come into play", which certainly applies in normal times, misses an important feature of our current economic predicament.

The debt overhang on bank balance sheets weakens the link connecting deposit increases, which are generated by monetary expansion, and growth in bank lending. In normal times, when banks are well capitalised and desire to increase lending, an increase in deposit liabilities will induce them to raise the required additional capital to meet the reserve requirements enabling an increase in lending. But when banks are undercapitalised, capital is scarce and markets are saturated in fear, an increase in deposits will often lead banks to engage in offsetting reductions in other liabilities or, if available, to increase deposits in interest-bearing central bank accounts.

In western economies today, near-zero nominal interest rates and crippling debt overhang on banks have caused the traditional channels of monetary transmission to seize up: the interest rate channel of monetary transmission has melted into a "liquidity trap" and the bank lending channel has broken. Monetary policy has become irrelevant.

**Daniel J. Aronoff,**  
President and Chief Executive,  
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### Split will not damage lending

From Mr Michael Stern.

Sir, The recent pressures that government ministers and the prime minister have come under from the heads of our major banks would be comical were the stakes not so high. The concerted attacks both directly and through the media and major corporate borrowers should raise suspicions.

There is no evidence I am aware of that splitting banks into separate entities according to their activities (retail and commercial banking versus investment banking) would damage lending.

On the contrary, the US Glass-Steagall Act of 1933 enforced such a division. The US experienced strong economic growth within the usual economic cycles since the act was implemented, with no evidence of any restricted lending. The act was effectively repealed and recent events are evident to all.

**Michael Stern,**  
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### Lucky, 63 years ago

Men bore the brunt of unemployment in the recession, but now it is rising faster among women. Novelist Linda Grant suggested at the Edinburgh book festival recently that 1948 was the luckiest year to be born a woman in British history: they got not just the NHS and sexual liberation, but a final salary pension too. Is that really true? Opportunities have surely grown since then, albeit inadequately.

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