On the up

UK economy After employers held on to more staff than in previous recessions, a jobs revival is under way – but its strength varies by sector and government austerity has yet to bite, writes Brian Groom

City on the move: the dome of St Paul's Cathedral reflected by One New Change, a shopping centre that opened in October. Business services are hiring but retailers may be held back by a rise in VAT Getty

Evie Vanezi is in one of the hottest spots of a fast recovering part of the UK's surprisingly healthy labour market. After four years as a regulator at the Financial Services Authority, the 26-year-old has made the leap to become a management consultant with KPMG, one of the big four professional services firms.

Ms Vanezi, originally from Cyprus, now advises banks, asset managers and hedge funds on their risks and stress testing. "I wanted to get more commercial experience," she says. "The fact that it's a hotspot is what makes it challenging. There is room for career progression both within the field and in the firm."

She is far from alone. KPMG, Deloitte, PwC and Ernst & Young are each hiring hundreds of consultants as they take advantage of a partial recovery in the City of London, with demand from clients strong in restructuring, risk management and regulation. It is part of a Europe-wide recruitment drive, signalling a rebound in sections of the business services industry in spite of government cuts in the use of consultants and public concern about the billions of pounds spent on fees. Some consultancies are said to be paying City staff £30,000 ($47,000) retention bonuses to stop them being poached.

The better times for consultants come as Britain's labour market continues to defy pessimistic forecasts. Unemployment has risen by far less than in previous recessions – except among young people, where it is high – and job creation has recently been rapid, albeit dominated by part-time work. The UK's performance on jobs has been better than that of the US, though not quite as strong as Germany's. This has so far eased the pain of recession – but austerity is looming and a similar question applies to Britain as to other nations: when will employers feel confident enough again to increase their full-time permanent staff?

For the UK, the big question is whether the job recovery will be sustained. Even the most optimistic forecasters expect a tougher time over the coming months amid fragile household finances, tepid consumer spending and deep public spending cuts. Protests by university students over higher tuition fees are set to intensify ahead of a crucial parliamentary vote this week, giving the country a whiff of the 1980s under Margaret Thatcher. So far, however, that era's mix of strikes and soaring unemployment has been avoided. Many economists expect unemployment, currently at 2.45m or 7.7 per cent of the workforce, to rise again next year. Few think it will top the politically sensitive 3m mark, as had been widely predicted a year or two ago.

Beyond that, jobs may start growing again – but where will they come from? Private sector services have been such a huge job creator over three decades that few will be surprised if they are the biggest source of new employment. Nonetheless, the fact that management consultants are in the forefront is raising eyebrows. "I suppose someone has to make money out of our misery," says Ian Brinkley of The Work Foundation, a think-tank. As Norm Augustine, the wise-cracking former US aerospace executive, once put it: "Hiring consultants to conduct studies can be an excellent means of turning problems into gold – your problems into their gold."

Not all parts of the business are going well. The UK government is slashing its £1.5bn annual bill for consultancy, forcing firms to redeploy staff to other sectors. But according to the Management Consultancies Association, which represents 70 per cent of the industry, two-thirds of firms are increasing their headcount after a 15 per cent drop last year.

"There's quite a healthy recruitment battle going on out there," says Alan Leaman, chief executive. "It's a global industry. There are huge untapped emerging markets, the UK is very strong in it and there is a long-term business trend towards buying in services, in as cost-effective way as you can."

Many Britons still cannot believe how well their jobs market has performed. Unemployment has fallen from 8 per cent to 7.7 per cent since the first quarter. Whereas output dropped by 6.4 per cent from peak to trough, the biggest drop since the second world war, employment fell by only 2.3 per cent – and nearly half of that has since been clawed back.

Employers held on to more staff than in the 1980s and 1990s recessions, for reasons yet to be fully explained. Some think that having invested in raising skills, they were loath to shed employees they would need in the recovery. "It's pretty miraculous, not to say slightly odd," says Ben Broadbent, economist at Goldman Sachs, who finds explanations such as the effect of wage restraint and part-time working inadequate, since these have been similar to past recessions. He wonders whether the output drop will prove so deep when finally revised.

In the past six months, numbers employed have grown by 350,000 to more than 29m, driven by increased part-time work and self-employment. Even optimists think this rate of job creation will slow.

The Office for Budget Responsibility – one of the early creations of the Conservative-Liberal Democrat coalition government after it took office in May – expects that unemployment will rise to a peak of 8.1 per cent next year before dropping to 6.1 per cent by 2015. But the OBR – whose forecasts are seen as too rosy by some economists – thinks that over the next five years the private sector will create 1.5m jobs, more than offsetting the 400,000 it expects to be lost in the public sector. This would be a recovery stronger than that of the 1990s.

"We are seeing a whole range of vacancies from a variety of sectors right across the economy. It is fuelled by the fact that we are over the worst of the recession and people are confident enough to move from one job to another," says Steven Kirkpatrick, managing director of Adecco UK, part of the Swiss recruitment agency.

Alistair Cox, chief executive of Hays, another big recruiter, says private sector business is up 25 per cent on last year – but the vast majority is in finding replacements for staff who are leaving. "We are not seeing significant levels of new job creation just yet, particularly in small and medium-sized enterprises."

Since 1980, the UK's strongest net job creating sectors have been health and social work (1.9m), professional, scientific and technical (1.5m), administration and support services (1.3m), education (1.1m), accommodation and food services (590,000), and wholesale/retail (385,000). Financial services come lower down the list at 205,000.

This time there are likely to be differences. The public sector – which grew strongly under the last Labour government and now accounts for one in five of all jobs – will be firing rather than hiring, although health and education are to some extent protected. One question is whether manufacturing will make a contribution to jobs growth after years of decline.

Surveys suggest it will. The last time the UK enjoyed a recovery based on exports and investment, in 1993-98, manufacturing added a net 230,000 jobs. Something similar might be possible again, although how far it can reverse a decline from 6.3m to 2.5m in 30 years is a moot point. With only an 8 per cent share of employment, manufacturing is unlikely to be the main engine of job creation.

Expansion is most likely to come from similar areas to the past, though some sectors may struggle to match their previous performance. Retailing may be subdued by next month's rise in value added tax from 17.5 per cent to 20 per cent and the shift to online sales. Creative industries will probably grow but are, as yet, relatively small. Some have high hopes of green jobs, spanning everything from wind farms to electric cars and carbon trading. The previous government said 400,000 could be created in green industries by 2015. But skills shortages are already holding back growth and much of it is capital rather than labour intensive.

In that context, the buoyancy of the professional, scientific and technical category – which includes consultants as well as lawyers, accountants and marketing staff – seems welcome. "Britain has a historical legacy in private business services going back over a couple of hundred years of our trading history," says John Philpott of the Chartered Institute of Personnel and Development.

A crucial question is how to identify the most promising job creators and what, if anything, can be done to help them. Research last year by the National Endowment for Science, Technology and the Arts (Nesta) found that just 6 per cent of UK businesses with 10 or more employees created 54 per cent of all net new jobs between 2002 and 2008.

David Cameron, the prime minister, has leapt on this finding. "We've got to back the big businesses of tomorrow, not just the big businesses of today," he told the CBI employers' group in October.

But how can these be spotted? "It's impossible to identify specifically the companies that will be the fast growers in the future," says Nesta's Stian Westlake. "The most we can do is put in place policies that are more likely to be helpful to companies that have a good chance of becoming high-growth companies." The fast growers, he says, tend to be innovative and adept at spotting market opportunities, often in industries that are restructuring. They are surprisingly well spread across sectors and across the country, and are not just start-ups: most are at least five years old.

Mr Cameron says the state will invest in projects to help industries where Britain has a competitive advantage, such as green technologies, pharmaceuticals and advanced engineering. Mr Brinkley says public organisations, instead of trying to support a vast number of businesses, should respond to the needs of high-growth companies – such as sorting out planning problems and helping them forge links with universities.

In spite of the labour market's relative buoyancy, there are anxieties. One is whether growth will be evenly spread or whether regions more dependent on public spending – such as parts of northern England – will suffer disproportionately.

Another is the UK's performance on skills. Industrial relations are generally good and it is not bad at graduate-level skills, where it lies 12th among 30 countries of the Organisation for Economic Co-operation and Development. But the country has a historic weakness in intermediate skills – apprentices, technicians, supervisors – where it is two-thirds down the table.

Employers worry about literacy and numeracy standards among school-leavers. "It's going to become tougher. If we get over the literacy and numeracy doomsday scenarios, we can be a business services hub for generations to come," says Mr Kirkpatrick at Adecco. "But if we haven't turned the corner in literacy and numeracy, I believe the long-term prognosis is that we are in trouble."

'We are seeing vacancies across the economy. People are confident enough to move from one job to another'

Steven Kirkpatrick
Managing director, Adecco UK

Self-employment surge

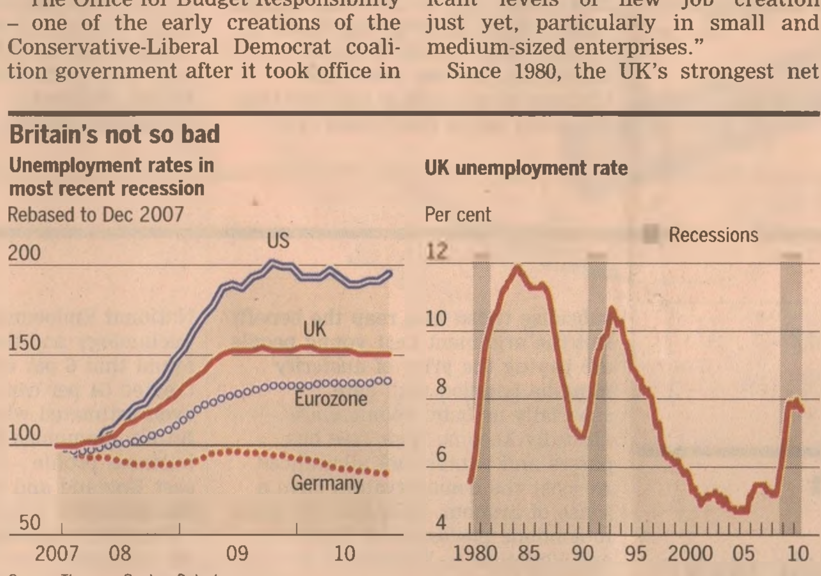
British people are turning increasingly to self-employment rather than trying their luck in a still uncertain jobs market. The numbers working for themselves recently reached a record 4m, up 157,000 on a year ago.

The last big surge was in the 1980s: self-employment dipped during the 1990s recession but has risen in the past decade. Ian Brinkley of The Work Foundation think-tank says that whereas the phenomenon used to be found mainly in skilled manual trades, today more white-collar workers such as consultants are opting to be self-employed.

Britain's not so bad

Unemployment rates in most recent recession Rebased to Dec 2007

UK unemployment rate Per cent



Source: Thomson Reuters Datastream

ANALYSIS REVIEW

FT experts debate just how radical the UK's Con-Lib Dem coalition is **www.ft.com/analysis-review**

Rapid-growth retailer

'We really go for it and we don't beat ourselves up when we get it wrong'

Companies do not grow much faster than Asos. The online fashion retailer was founded a decade ago with just three employees; today it has a staff of more than 1,200 and is listed on London's Alternative Investment Market.

Including temporary workers taken on ahead of the pre-Christmas peak, it has 1,500 on its books. This time next year the total is likely to be 1,900 – 900 at the north London head office and 1,000 at a new warehouse in Yorkshire.

The rise of Asos does not necessarily spell good news for the labour market overall: the growth of online retailing is likely to constrain job creation in bricks-and-mortar shops.

But the business fulfils all the criteria of high-growth companies. "We have an entrepreneurial spirit at our core. It's constant change, we are a really fast-paced organisation. We really go for it and we don't beat ourselves up when we get it wrong," says Andrea Anderson, head of the people team.

Originally called As Seen On Screen and catering to demand for clothes worn by celebrities, it quickly widened its appeal and now sells more than 850 high-street and niche brands to 16- to 34-year-olds.

High-growth companies, clearly, need the ambition to grow. The mantra of Nick Robertson, founder and chief executive, is: "We can be as big as we want to be." In the first half of this year Asos more than doubled overseas sales after launching sites in the US, France and Germany.

Like all fast-growth companies, it is innovative. It has launched Asos Marketplace where anyone can buy and sell clothes in return for paying a commission. In Asos Life, users create profiles and communicate through forums, blogs and groups.

Such companies also tend to exploit opportunities in industries that are restructuring. Asos, for example, was able to respond to changing consumer behaviour more nimbly than shop chains.

Can the government encourage growth-hungry companies? "It's about how we educate the talent that's coming through, so that they come out of whatever form of education equipped for really restless organisations and fast-paced industries," says Ms Anderson.

Asos, seen as a desirable place to work, has no difficulty finding staff, even among those such as web developers and digital creatives who are in high demand. It hires a mix of people from fashion and software houses and media.

Ms Anderson says: "From a cultural point of view, we look for people who make things happen. They need to be dynamic and able to cope with the pace of change which we have."

Seen on Asos: one of the online store's 850 brands

FINANCIAL TIMES

"Without fear and without favour"

Tuesday December 7 2010

Clegg accepts the high price of power

Liberal Democrats should support raising university fees

When Nick Clegg, the Liberal Democrat leader, entered a coalition with the Conservatives in May, some inter-party disagreement was inevitable. Battles within Mr Clegg's own party, however, particularly over raising fees for university students, will be more damaging in the long term.

Mr Clegg is right to vote with the Tories on Thursday to triple the cap on tuition fees. Increasing contributions for English students will be unpopular and controversial – particularly when Scottish and Welsh undergraduates pay less or nothing. Since government contributions to higher education will be cut by 40 per cent, however, raising the cap on fees is the only way to maintain funding.

Mr Clegg is persuaded by this argument. His problem is that his party is not. Opposing tuition payments is a totemic Lib Dem policy, moreover. Though Mr Clegg had expressed doubts about the line, he rallied behind it during the election campaign and publicly backed the National Union of Students agreement to abolish fees.

It is not just that party colleagues are unhappy about abandoning a cherished policy. Some fear it will cost them support and seats at the next election. The Lib Dems are well represented in university towns.

The coalition agreement foresaw that there would be disagreement on this issue and gave Liberal Democrat MPs a way out: abstaining on tuition fees. Now Mr Clegg realises it would be irresponsible for Lib Dem ministers not to vote for a key government policy.

There is no easy answer for the Liberal Democrats. The existence and level of university fees is among the most divisive questions in British politics; Labour faced a bigger backbench revolt on fees than on any other issue – including the Iraq war.

Mr Clegg showed admirable courage in taking his party into the first liberal peacetime government in more than 70 years. This week's vote is a further test of his leadership. He has been criticised for wavering, but he was right to consult his party. Issuing a diktat would simply have inflamed matters further. He has come down on the right side. Those Lib Dems who feel they cannot vote "aye" should abstain. A three-way split would be embarrassing but would hurt Mr Clegg more than the coalition.

Voting to increase fees is a vote to maintain Britain's world class education system. Voting against is a vote to condemn a small party to oblivion. The choice for the Lib Dems should be clear.

In bonds we trust

Common bonds are an idea that bears closer examination

Proposals for common eurozone bonds have been around for as long as the euro itself. For years they made no progress. Germany understood that it would incur higher interest rates as a result of sharing bonds with Greece and other fiscal delinquents. In the end, German taxpayers would pick up the bill – an unacceptable proposition, whatever the notional attractions of European solidarity. These arguments were just as compelling in countries such as Austria, Finland and France whose bonds enjoyed top-quality status.

With financial market pressures piling up on eurozone governments, the idea of common bonds is enjoying a revival. In Monday's Financial Times, Jean-Claude Juncker, head of the group of eurozone finance ministers, and Giulio Tremonti, Italy's finance minister, called for a European Debt Agency with a mandate to issue "E-bonds" equivalent to 40 per cent of the European Union's gross domestic product. Scarcely had this proposal peeped over the parapet than it was shot at by the German government. But as a way to avoid liquidity crises in national debt markets, this proposal is worth a look, especially in parallel with plans for a sovereign default procedure.

Common bond issuance would create a more liquid market than anything that exists at present in Europe. There would be as little chance of a speculative run on E-bonds as there is today on German Bunds. Moreover, the bonds would presumably benefit from rock-solid EU government support.

That said, the proposal raises difficulties. Common bonds would require a change to the EU's Lisbon treaty. This would not be a minor treaty revision. Governments already plan to amend Lisbon without public consultation in order to create a permanent mechanism for handling debt crises. To launch common bonds by stealth would stretch this questionable procedure too far.

A second question is whether all governments would be jointly liable for new eurozone debt. As events throughout the crisis have shown, half-formed proposals invite retribution; clarity is essential. Lastly, the launch of E-bonds would drive up yields on outstanding national debt. For weaker countries, this would imply a high risk of restructuring. Mr Juncker and Mr Tremonti undoubtedly know this – which is why they suggest swaps of national bonds for E-bonds at a discount. But if their message is that some eurozone debt is so impaired that bondholders should prepare for losses, they should say so clearly.

Extend the cuts

Congress should not let US taxes rise next year

The failure of Barack Obama's deficit commission to issue a long-term deficit-cutting plan backed by the needed supermajority was expected, but still disappointing. The report was supported by 11 of 18 commissioners – fewer than the 14 required to force a vote in Congress – and is a good, balanced proposal. Until an alternative emerges, the country's long-term fiscal prospects continue to be clouded. This Congress or the new one taking over next month should vote on the plan anyway.

The economy is sagging and needs a new short-term stimulus. This would be more palatable to US voters and financial markets if it were coupled to a medium-term deficit-reduction plan. Otherwise a sufficiently vigorous further stimulus, such as a payroll tax holiday, might cause alarm. The failure to marry long-term deficit control with adequate short-term stimulus is the worst of the many failures of US politics.

Meanwhile Washington is arguing, still, about the Bush administration's tax cuts. Unless Congress acts, these expire at the end of the year and tax rates will rise for all Americans in 2011. Democrats in the House have passed a measure to let the cuts expire only for households making more than $250,000 a year, over strenuous Republican objections. Republicans (and a handful of Democrats) in the Senate have blocked this measure from coming to a vote, and have likewise stalled a plan to raise taxes only for those making more than $1m a year.

That second plan should have been greeted as a workable compromise – and it might have been adopted had Mr Obama promised to veto anything else. Even so, as things stand, the White House looks willing to let all the tax cuts be extended in exchange for action to renew soon-to-expire unemployment benefits and (maybe) ratification of the delayed Start accord with Russia on nuclear weapons reduction. This too should be seen as an acceptable deal. Standing in the way is the hostility of many in the president's own party, who have made higher taxes for the rich their overriding priority.

Why make that, of all things, your highest goal? Even odder is the argument about whether any or all of the tax-cut extension should be temporary or permanent – meaning, "not scheduled to expire". However that is resolved, the extension will be temporary. Everybody's taxes are going up in the end regardless. The only question is whether financial markets or, finally, the US government will take the initiative.

Letters

EU funds have been vital to the Welsh economy

From Carwyn Jones AM.

Sir, I refer to your article "EU growth funds lie idle under red tape" (November 30) and would like to take this opportunity to highlight how the European Union structural funds are being spent in Wales and how they are playing a critical role in helping to boost the Welsh economy and are supporting people into work and training.

It is important to recognise that the EU programmes are delivered over a period of between seven and nine years.

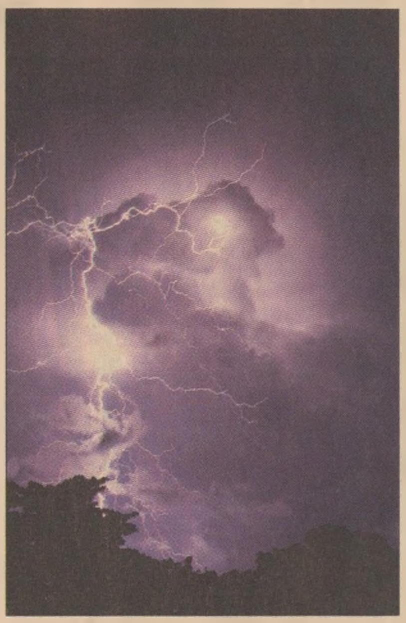
Almost half way into the delivery of the current 2007-13 EU programmes, the Welsh Assembly government has already committed nearly 80 per cent of EU funds (£1.45bn) to a range of innovative projects, representing a total investment of £3bn in Wales during what are proving to be very difficult financial, economic and social times for us all. These innovative EU projects have not only reported the creation of more than 5,300 jobs and 1,300 enterprises in Wales, but have also assisted 22,375 people into work and 48,580 individuals have gained qualifications. These figures are more reflective of EU funding achievements rather than commitment and expenditure levels.

EU projects in Wales are spending in line with the nine-year programming profile agreed with the European Commission. To date, our EU funds expenditure is almost double the EU average reported in your article. We are also confident, based on our performance so far, that we will achieve all of our annual expenditure targets, as we did over the previous programming period (2000-06). Indeed on expenditure, Wales is among the best performing regions in Europe.

Our achievements were recently recognised by European Commission president José Manuel Barroso during his visit to Wales, where his comments acknowledged Wales' progress in maximising the opportunities presented by the programmes, with such benefits continuing to increase as projects are delivering on the ground.

Our progress so far, where we expect to meet and in some cases exceed our targets, demonstrate our commitment to utilise vital EU funds so that they add value to our strategies in Wales. Indeed, the Welsh Assembly government is determined to maximise the impact of EU funds.

Carwyn Jones,
First Minister of Wales,
National Assembly for Wales,
Cardiff, UK



Caught in the middle of a storm

Berlin reveals lack of EU leadership

From Ms Katinka Barysch.

Sir, Philip Stephens ("Europe's leaders recoil from unity", Comment, December 3) writes that Germany is leading Europe into an era of petty nationalism that might ultimately destroy the European Union. Berlin, he says, does not have the political will to rescue the single currency. If the euro unravels, so will Europe.

It is not nationalism that is guiding Berlin but panic. The Germans find themselves stuck in a monetary union where the central bank is hoovering up government debt and huge sums have been ring-fenced for propping up weaker neighbours. Germany is struggling to reconstruct the eurozone in the middle of a storm.

Angela Merkel's timing may be clumsy and her proposals unrefined. But where are the alternative sources of genius and leadership in the EU?

Germany's northern neighbours tend to back Ms Merkel's tough stance but let her take the flak. The southern Europeans lack credibility just now. France wants a "gouvernement économique" but has few concrete proposals. The European Commission, unfortunately, is too weak to push for a truly European solution.

Berlin leads but does not enjoy it. As one German government official put it to me recently: "If our European neighbours want to set up a bail-out mechanism without us, that's fine by us too."

My sense is that the Germans remain determined to save the euro. But if they feel accused of wilfully destroying the single currency their resolve may weaken.

Katinka Barysch,
Deputy Director,
Centre for European Reform,
London SW1, UK

Big business destroys microfinance

From Mr Robert J. Cave.

Sir, If ever there was a misapplication of big business commercial ambition supported by venture capital dollars it's the mess that is now the microfinance industry ("Small loan, big snag", Analysis, December 2).

Last year I had the privilege of witnessing a microfinance meeting in a tiny village within the deserts of Burkina Faso, west Africa, run and attended by nine of the women villagers. The key to its success was blindingly obvious: trust and friendship. Debts don't default because one neighbour does not want to default on another. That simple concept has been buried by the myopic profit requirements of lending institutions that simply see, in this case south Indian women, as an asset class. Well, shame on them, and let us hope that the principles and ideals as first presented to the developing world by Muhammad Yunus and Grameen Bank can return the sector to sanity.

Robert J. Cave,
Director,
Plan International (Ireland),
Dublin, Ireland

Clients are vulnerable and fragile

From Mr Tom Sanderson.

Sir, Regarding the article "Small loan, big snag" (Analysis, December 2): I want to comment that the microfinance industry needs more transparency. There are now many players, many models, many motives and – as you say – everyone has an opinion. My own view is that we need greater transparency so that consumers, investors and donors know what they each expect, including the risks and the unintended consequences.

There are a number of initiatives in this line: MFtransparency.org and the Smart campaign are examples.

I believe strongly that client training is vital, and non-government organisation – rather than commercial – models are likely to provide more (and more suitable) training to MF clients.

Remember, such clients are much more vulnerable and fragile than your average banking customer.

Tom Sanderson,
UK Director,
Five Talents registered charity,
Croydon, Surrey, UK

More pupils are coalition's challenge

From Mr Peter Martin.

Sir, Rising school numbers is the critical education issue at a time of fiscal challenge ("Primary schools face big squeeze on places", December 2).

A 20 per cent increase in the birth rate in Surrey between 2002 and 2008 and a recession-driven swing from private education are already placing huge demands on primary school places. This year alone the rise in the number of applications for school places in Surrey added up to enough pupils to fill two primary schools costing £11m.

Surrey has invested heavily in its 300 successful primary schools over the past two years but we see the need for a further 8,000 places – equivalent to about 25 new primary schools costing more than £150m.

The Labour government ignored this ever-growing need but I'm hopeful the coalition will rise to the challenge. After all, parents have given five years' notice and the requirement to expand will be repeated in seven years at secondary level. In addition, a backlog of major maintenance and refurbishment not funded when times were good needs to be tackled.

Peter Martin,
Cabinet Member for Children and Learning,
Surrey County Council

Happy and fulfilling years at Lazard

From Ms Dinah McKenzie.

Sir, Having read Fiona Wollocombe's letter (November 24) on discrimination at Lazard, I feel I must write to balance the picture a little. I too was interviewed for Lazard's 1985 graduate trainee scheme – fortunately not by the same interviewer – and joined it that September. Two of us on the scheme were women, representing about a quarter of the group, I think – low, admittedly, but not zero. After training in accounting and law that has stood me in good stead ever since, and a six-month tour of the bank, both she, I believe, and I were offered a good range of roles – the one I chose reporting to a senior, female, director.

Venerable, yes, fusty, no; the four years I spent there before leaving probably too soon, in retrospect, were happy, fulfilling and unclouded by any discrimination that I could sense. Certainly I was lucky never to come across the "charming old boy" described by Ms Wollocombe.

Dinah McKenzie,
Richmond, Surrey, UK

Dismal failure of efforts at reform

From Mr Richard Tudway.

Sir, I refer to your general comments on the published findings of the Financial Services Authority on the stewardship of the Royal Bank of Scotland (Editorial, December 4) and those of your Lombard columnist ("FSA ensures lessons of RBS boardroom stay unlearnt", December 4).

It is truly astounding that the lessons of the RBS boardroom stay both unlearnt and unstated. The major events associated with the triggering of the global financial crisis serve to show, beyond any reasonable doubt, that unitary corporate board structures in Anglo-American jurisdictions, as a matter of urgency, need overhauling.

The mixing of execution and supervision as foreseen in these structures in the case of RBS and in a number of other instances in recent times has led to a failure to rein in or otherwise challenge the power of dominant executive directors. Can it possibly, ever, be otherwise?

The evidence is blindingly clear. The efforts dating back to the Cadbury recommendations in the 1990s through to Higgs and beyond, aimed at establishing a better balance of power at board level and more effective supervision by non-executive directors, have mostly failed. Institutional investors, as ever, are impotent shareholders in driving forward reform. Without fundamental reform events such as this will continue to destroy wealth.

Richard Tudway,
Centre for International Economics,
London WC1, UK

The moment I knew it was over

From Mr Bernard H. Casey.

Sir, In "Bend it like Blatter" (cartoon, December 4), I could not help but notice that Russia and Qatar had hand-balled it. Does this mean that red cards will be shown or that the World Cup host awards for 2018 and 2022 will be disallowed, in any case? Of course, I knew the English bid was doomed when I heard the culture secretary Jeremy Hunt say on the *Today* programme that they were in Geneva "batting for England".

Bernard H. Casey,
Twickenham, Middx, UK

Error spellchecker couldn't catch

From Mr Colin Campbell.

Sir, I am surprised the Financial Times made the schoolboy blunder of spelling the element phosphorus as "phosphorous" no fewer than seven times in "'Weird' microbe lifts alien life hopes" (December 3). "Phosphorous" is, of course, an adjective describing the trivalent state of the element phosphorus and, for the sake of completeness, the more stable pentavalent state is "phosphoric", as in phosphoric acid, that essential ingredient of American colas.

Colin Campbell,
Claymont, DE, US

COMMENT ON FT.COM

Westminster blog
Alex Barker: the Lib Dem original sin on tuition fees
www.ft.com/westminster

Energy Source blog
Cancún: the water's lovely but there's no one in it
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Notebook

Brian Groom

Protests with style, but a bum note

Young people, or some at least, are at their angriest since the early 1970s. There have been protests since then – against the Newbury bypass, globalisation, the Iraq war – but the demonstrations against student tuition fees and (in smaller numbers) corporate tax avoidance are more widely based.

They have arguably more to be angry about than my generation. The pursuit back then of a "counter-culture" now looks fanciful, the product of rising affluence. Some causes were indulgent. I was among Oxford students who occupied buildings in 1973 to demand a central students' union (as indeed was Chris Huhne, one of the Lib Dem ministers now so embarrassed about tuition fees). We did not offer to pay for it: we wanted the taxpayer to do that.

Today's students face graduating with huge debts, poor job prospects, and may have nowhere to live because their parents built too few homes. That is not to say the protesters are right. Why should those who do not go to university subsidise those who reap the benefit? But the argument that young people are paying the price of austerity must be handled with care, especially as baby boomers are absurdly keeping their free bus passes and winter fuel allowances.

At least the demonstrators have a sense of humour. One does not have to condone protesters at Topshop and Vodafone to be amused by their claim to be mounting a "big society" initiative on behalf of the understaffed Revenue & Customs.

Some protests are dafter than others, though – the call by Eric Cantona, the former Manchester United star, for everyone to withdraw their money from banks today is as stupid as they come. "If there are a lot of people withdrawing their money the system collapses," he says. "No weapons, no blood, or anything like that." Just the recession, pain and poverty that financial collapses cause.

Growth champions

Notebook's Rebalancing Watch always looks for hopeful signs, so it was pleasing to see a report by Experian that fast-growth smaller companies over the past 10 years have been situated across the UK, with hotspots in Northumberland, Tyne and Wear, Manchester, Cornwall and South Wales.

Experian said 10 per cent of companies generated two-thirds of all jobs created by small and medium-sized enterprises over the past decade – similar to a study by the National Endowment for Science, Technology and the Arts, which found that 6 per cent of companies created 54 per cent of jobs. Experian even estimated where potential future champions lay, based on their business profile – it reckoned north-east England and the Midlands had the healthiest concentration.

Experian says champions exist in all industries, so it urges the new local enterprise partnerships and regional growth fund not to over-emphasise the high-tech or green sectors. The best thing may simply be to help companies overcome obstacles to growth, such as planning problems, and forge links with universities.

'It's as if WikiLeaks doesn't even know I exist'

Gushing

Not a lot of oil barons come from the north Wales town of Blaenau Ffestiniog, so congratulations to 51-year-old Kevin Roberts, voted oil baron of the year by peers in the Middle East, Africa and Asia.

Mr Roberts, who lives in Kazakhstan, built a marine and offshore hydraulic service company. "I love to speak Welsh because it's my first language," said. "It's still home, even though I've been away for 30 years. Coming from the 45 degrees of Dubai in June, misty rainy Wales really isn't so bad."

Hayward's accolade

There is no such thing as bad publicity, it used to be said – surely the dumbest of aphorisms. Ask Tony Hayward, the former BP boss. According to Sweet & Maxwell, he was the most mentioned FTSE 100 chief this year, featuring 1,931 times in UK national press articles – four times last year's number, when he came 10th. I imagine he would prefer to have stayed there.

Deathly slip

Jim Naughtie's Spoonerism over Jeremy Hunt's name is hardly the first such BBC mistake. David Owen, former Social Democratic party leader, was once introduced on *Newsnight* as "Dr Death", his Private Eye nickname.

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Clegg learns the lessons of a breach of trust

Philip Stephens

Coalition was never going to be easy for Nick Clegg's Liberal Democrats. It is in the nature of such arrangements that the smaller partner is disadvantaged – sharing the opprobrium for unpopular decisions and getting fewer plaudits for its successes. Mr Clegg decided the risk was worth it. His party could not forever wag a finger from politics' sidelines.

Some wounds, though, are self-inflicted. The Lib Dems' torture over university tuition fees is one of them. Whichever way Lib Dem MPs go in this week's House of Commons vote – and the signs are that they will split three ways – the increase in charges to as much as £9,000 a year will long haunt Mr Clegg.

The anger will not be confined to the young people who have been taking to the streets in protest, though any Lib Dem MP relying on the student vote now has a decidedly precarious political future. Plenty of middle- and lower middle-income parents will be more than unhappy at the idea of their children accumulating debts of £30,000 and more, including maintenance, as the starting price of a university education.

What makes this doubly painful for the Lib Dems is the blatant breach of trust. Nothing could have been as unequivocal as their pledge to vote against any rise in fees. This was not tucked away in the small print, but front and centre of the Lib Dem election campaign. Now the average charge is set to double. The U-turn cannot be blamed on an unexpected widening of the government's deficit. The underlying financial position looks better now than then.

Circumstances change. Labour's Ed Miliband is wholly opportunistic in saying the system should be replaced with a graduate tax. Mr Clegg is right on both of these counts. Neither excuses his own volte face. The tuition fees decision comes in two parts: the first is to raise the present cap from just above £3,000; the second to abolish overnight the government teaching grant for most undergraduate degrees. Mr Clegg could have accepted the first change and vetoed the second. Charges for most students would then have risen only modestly.

The argument for some student contribution is a strong one. The top universities can also make a case for charging more. In both instances, though, the arguments are not quite as overwhelming as their cheerleaders suggest.

It is not self-evident that once

The deputy prime minister decided the risk was worth it. His party could not forever wag a finger from the sidelines

students reach the age of 18 education ceases to be a public good. There is a balance to be struck between the public and private advantage conferred by a university degree. Transferring to students virtually the entire cost of undergraduate teaching is a mistake.

If Britain is to compete, it needs a better educated workforce. That means improving access to higher education. Yet the burden of higher fees will fall most heavily on universities catering for first-generation undergraduates from low-income families. These institutions will see their teaching grants wiped out. They know from experience that the prospect even of notional debts of tens of thousands of pounds will deter large numbers of students.

Vince Cable, the Lib Dem business secretary, has improved the repayment terms for the less well off. His position, though, echoes Margaret Thatcher. There is no alternative: savings have to be found from somewhere. This is a canard. The cut in university funding was a political choice.

Before the election, David Willetts, who now serves as Mr Cable's (Tory) deputy, wrote an eloquent treatise protesting that postwar baby-boomers had put their own wealth and welfare ahead of the interests of the next generation. As irony would have it, there could scarcely be a better example of such inter-generational selfishness than reducing spending on education while protecting benefits for the affluent elderly.

The Treasury could have made its savings by means-testing winter fuel grants and free bus passes handed out indiscriminately to pensioners. The reason it balked? Politics. David Cameron had promised to protect the benefits. Much better that Mr Clegg renege on a pledge to students than the prime minister go back on his word to the elderly.

Perhaps it is unfair to blame Mr Cameron. Possibly, Mr Clegg did not fight his corner. Downing Street officials say the deputy prime minister is overwhelmed by the effort to keep up with a flood of policies from Conservative-controlled departments.

This is embedded in the structure of the coalition. The Treasury, the big spending departments such as health, work and pensions, education, local government and home affairs, and the foreign office, are all in the hands of Tory ministers.

The result is a dynamic in which policy formulation and initiative and the setting of priorities rest almost entirely with Mr Cameron's party. Mr Clegg's role is essentially reactive. Somehow, the deputy prime minister has to change the balance of power. If not, the tuition fees fiasco may well turn out the first of many.

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University reform will create a fairer Britain

Nick Clegg

The argument over the funding of higher education has generated more heat than light. Students and young people are angry. The government's proposals are controversial. But I am convinced that they are the fairest way to keep Britain's higher education sector strong, even as we cut the deficit that endangers our economy.

A vibrant university sector is a hallmark of a prosperous, civilised nation, and in recent years ours has expanded hugely. When I was a student in the late 1980s, one in seven young people went to university. Now one in three do. This is good news. But an expanding HE sector means expanding public costs, too. In an ideal world it would not be necessary to ask graduates to pay more towards their degree. But we do not live in an ideal world. We have an economic mess to clear up.

Given this difficult financial backdrop, one option was to slash university places. But reversing the gains of recent years here would have been economically and socially suicidal. So the only responsible answer was to change the balance in funding between graduates and the government. In tough times, just as everybody else is making sacrifices, it is reasonable to ask graduates – who on average earn more than non-graduates – to pay more towards the cost of their education.

Our reforms of HE do not represent a retreat from the objective of boosting social mobility. Quite the opposite. Social mobility is the overriding social policy goal of this government. That is why we have provided extra money for policies that will increase the life chances of disadvantaged children, in early years education for poorer toddlers and in a pupil premium for disadvantaged schoolchildren. These policies represent a £5bn attack on the opportunity gap that blights the life chances of the poorest.

The uncomfortable truth is that the growth in the university population has done little or nothing to boost social mobility

The uncomfortable truth is that the growth in the university population in recent years has done little or nothing to boost social mobility. The student population has become more middle-class dominated. The coalition is intent on making universities more effective engines of social mobility.

The proposed new £150m national scholarship fund will give additional financial help to the poorest applicants. Tougher access requirements for those who want to charge up to the £9,000 cap will open the doors of the best universities to a wider mix. For the first time since Labour introduced fees, part-time students will also be brought into the same funding system as full-time students. This means they will no longer be singled out, unfairly, to pay up-front fees.

The Liberal Democrats said when we entered the coalition that we would judge HE reform proposals against the goals of promoting social mobility and improving the social diversity of university intakes. The new system should achieve these aims, although it will of course be many years before we know for sure.

By contrast a pure graduate tax, favoured by the National Union of Students and by some of Labour's front bench (some of the time) is not the best option. Graduates who moved abroad could escape their obligations. Many graduates would face higher payments. Under our scheme, a care worker starting on £21,000 will pay an average of just £7 a month over their career. Under a "progressive" graduate tax, that would increase five-fold, to £36 a month. This may be why in 2003 the Labour government produced a publication entitled "Why Not a Pure Graduate Tax".

In the heat of the recent row, some unhelpful myths have also circulated. The first is that the new funding system will worsen social mobility, with young people from less affluent backgrounds put off by fear of graduate debt. Yet there is no hard evidence to support this fear. In fact, our scheme will see lowest-income graduates paying considerably less than the current system, while all students will pay less on a monthly basis. Myth number two is that our plans are a withdrawal of state funding from HE. In fact, the government will still be providing at least £2bn of public support every year to universities – almost twice what we spend on the Foreign Office.

The government's plans will fix higher education funding, with a fairer repayment system and more financial security for universities. History teaches that the best and longest-lasting reforms are controversial when introduced. Right now, our plans are causing plenty of controversy. But I am confident that they will stand the test of time.

The writer is deputy prime minister

No escape from Europe's debt woes

Gideon Rachman

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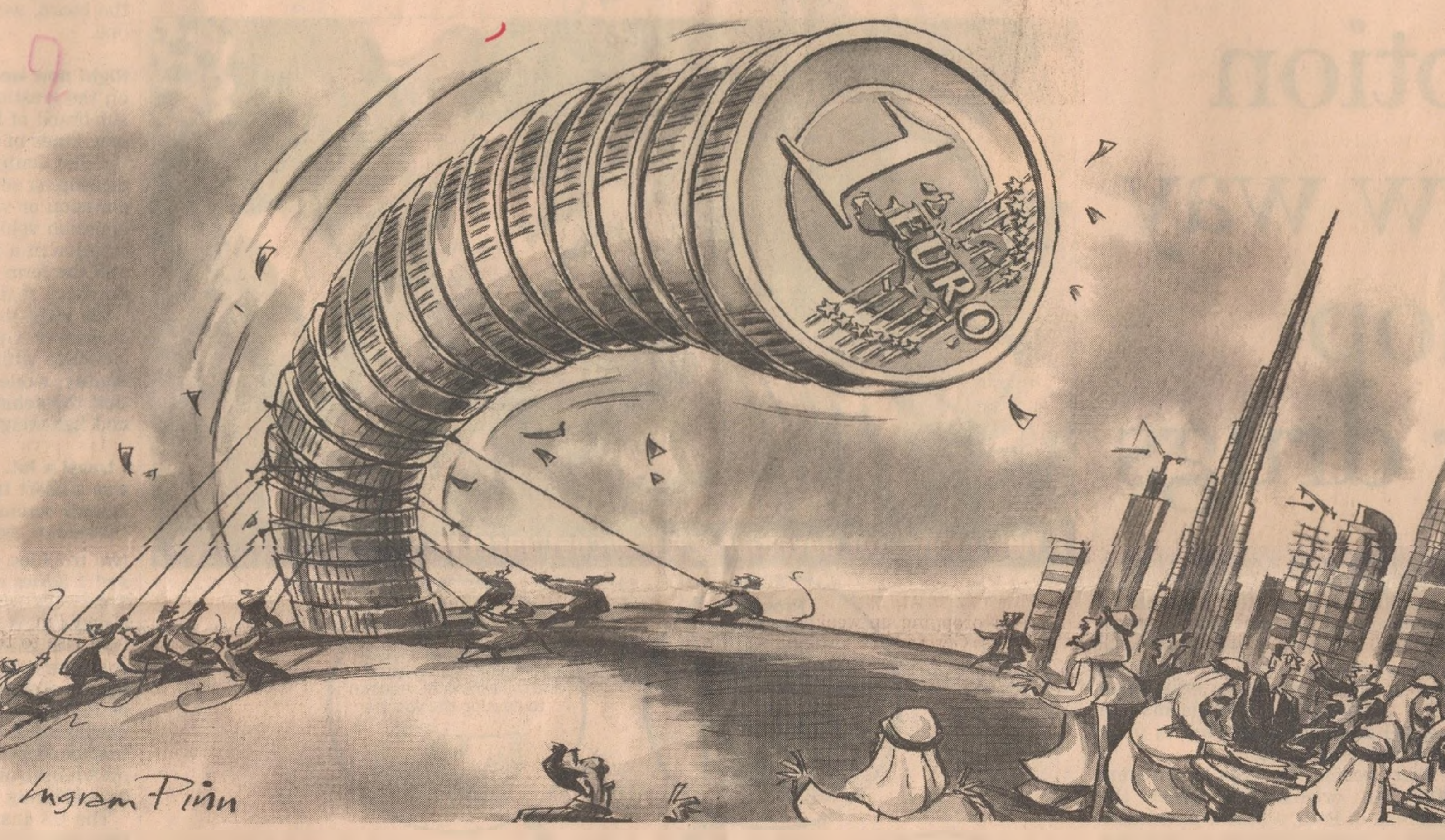

Ingram Pinn

This is the time of year when Europeans dream about escaping to somewhere sunnier. London last week offered an unattractive combination of freezing temperatures, Tube strikes and airport closures. To add to the usual seasonal discomforts, much of Europe is in the icy grip of a debt crisis. For all these reasons, I was grateful to get away to somewhere hotter and more optimistic – and to spend much of last week in Dubai, at a meeting of the World Economic Forum.

But even Dubai cannot offer a complete escape from the travails of Europe. The unpleasant truth is that the whole world would be shaken by an economic meltdown within the European Union. Taken as a whole, the EU is the world's largest economy. A banking or sovereign-debt crisis in Europe could be the second leg of the global financial crisis that began with the collapse of Lehman Brothers, a little over two years ago. The historically minded point out that the Great Depression began in the US with the crash of 1929 – but was gravely worsened by the outbreak of a banking crisis in Europe two years later.

The United Arab Emirates themselves are no stranger to debt problems. This time last year it was events in Dubai, rather than Dublin, that shook world markets. Dubai fell victim to a slump in property prices and had to be bailed out to the tune of $10bn by its richer neighbour, Abu Dhabi.

In the intervening year, however, the Gulf region has recovered its equilibrium. Occupancy rates in the towers that dot the Dubai skyline are still very low – but few are talking about contagious debt crises spreading throughout the Gulf. Instead, the mood in the region is ebullient – all the more so after the decision last week to award the 2022 football World Cup to Qatar.

At a dinner in Dubai last week, held in the shadow of the world's tallest building, the Burj Khalifa, which was opened earlier this year and promptly renamed after the generous ruling clan of Abu Dhabi, a group of Europeans began to discuss the inevitable question – how is the European crisis going to end? Usually, it is sensible for non-Europeans to block their ears and head for the buffet as soon as somebody utters the words "Lisbon treaty" or "stability and growth pact". But perhaps not this time; the whole world has an interest in Europe finding a way out of its financial labyrinth.

Among the experts in Dubai, very few seemed to believe that the rescue package for Ireland marked the end of the European crisis. There were plenty who thought that eventually Europe's single currency would break up. That prospect is frightening for the EU. But it is also distinctly unwelcome for the cash-rich investors of the Gulf and the emerging Asian powers. Many had hoped that the euro would provide an alternative to the dollar, as a safe haven for their money. But, with the risk of debt defaults across Europe, the eurozone is looking more like a black hole than a bolt-hole.

GIDEON RACHMAN'S BLOG
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One of the hallmarks of the unfolding financial crisis is that even "experts" quickly concede that they do not have answers to most of the really important questions. Among the issues that had people scratching their heads in Dubai, were the following. How do you balance the moral hazards of propping up the banks with the practical hazards of letting them default? Even if you wanted to break up the European single currency, how, technically, would you do it? Would it be possible even to discuss breaking up the euro without provoking capital flight and renewed banking crises in the weaker economies? If the answer to that problem is to reimpose capital controls, how is that compatible with preserving the European single market – or even the EU itself?

The formidable dangers and difficulties involved in breaking up the euro mean that the question is, for now, an academic debate. It is clear that if the debt crisis does indeed spread to Portugal or Spain, the European authorities will once again react by organising a rescue package, co-ordinated by the EU and the International Monetary Fund.

However, one unpleasant consequence of successive rescue packages in Europe is that they impose a financial strain on countries that fund the emergency loans but are themselves heavily indebted – such as Italy and Belgium. That makes it a little more likely that they themselves will run into financial trouble. Germany is looked to as the moneybags of the EU. But German financial firepower and patience are not inexhaustible.

Non-Europeans have already begun to sniff around the edges of the European financial crisis. Last month, Hu Jintao, the president of China, paid a state visit to Portugal and promised "concrete measures to help Portugal overcome the global financial crisis". The Chinese have also offered to buy Greek bonds.

The European financial mess presents dangers to a Chinese government that has a big stake in the global trading system. But it also offers an opportunity to win friends and influence people. Outside China, the other obvious source of ready cash is the Gulf region – home to many of the world's largest sovereign wealth funds. Over the next year, the Gulf nations may play host to European visitors who are after more than some winter sunshine.

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A growing crisis puts the euro in danger

Jean Pisani-Ferry

There are several reasons why markets have reacted poorly to Europe's recent crisis management efforts. The response to the unfolding Greek drama was slow and hesitant. The design of the bail-out for Ireland was flawed. And the eurozone's woes are more and more seen as symptoms of underlying flaws in the currency union. Europe's response to date has been more innovative and effective than many critics realise. But it now must accept that what was once a crisis in the eurozone, is now a crisis of the euro itself.

The recognition of this difference is currently driving market reactions. The threshold of what constitutes a sustainable level of public debt is notoriously hard to assess. Debt intolerance can be especially high when countries borrow in foreign currency. This should not be a problem for eurozone members – unless markets start to believe that the euro might actually break up. If the euro really is threatened, existing debt begins to be seen as no different from foreign-currency denominated debt. This, in turn, can lead a country previously considered solvent suddenly to seem insolvent. The more a break-up looks possible, the higher the risk of a self-fulfilling dynamic. So the European Union cannot afford doubts about the euro's viability to spread and strengthen.

What justifies these doubts? First, questions about the ability of the EU to make decisions. This is a matter of governance. Second, questions about the lack of a fiscal union. This is a matter of design. And third, political sustainability in times of harsh adjustment. This is a matter of remedial action.

On the first, it is easy to deride EU decision-making. It is governance by committee, which works acceptably in fair weather but is not enough when storms break and boldness is required. Improvements are needed. But the absence of a commander-in-chief is deliberate, so there is no point lamenting it. Instead, a fair benchmark would be a system about as effective as the US Congress.

Against this background, the creation of the European financial stability facility and the recent agreement on the European stability mechanism are genuine achievements. They suffer from shortcomings, not least the EFSF's insufficient size, but they also indicate Europe's ability to revisit and reform its old compromises. In the spring, a major difference of views emerged over one of the euro's fundamental principles, the no bail-out clause. Some in Germany said this implied no assistance without debt restructuring. Some outside Germany said the opposite. The fact that

Europe needs a strategy for growth in the affected countries, before the euro is blamed for their difficulties

the change was agreed in the face of disagreement shows the EU is not condemned to agonise over compromises negotiated decades ago. It can learn and reform. This is good news.

It is also easy to claim that the eurozone would work more smoothly with a federal budget. But it is pure fantasy to suggest that such a budget could be built purely for macroeconomic purposes. A common budget will emerge only if Europe decides to spend more at the federal level. In any case, transfers between countries are not necessarily desirable. They already exist between east and west Germany, for example, but have failed to help poorer areas catch up with their more advanced neighbours. Greece and Portugal need to regain competitiveness and resume economic development, not to be put inside an economic oxygen tent.

Yet while the Germans are right to reject a transfer union, the fear of such a system is hampering discussions of sensible projects that could strengthen the euro. One example is the supervision of banks, for which improvements are slow and limited because of the fear of sharing the costs of rescue. Another is the issuance of new European bonds, as endorsed by Jean-Claude Juncker and Giulio Tremonti in the Financial Times. This is being resisted, although it can be pursued without countries ditching their national responsibility for public finances.

The third and final issue is the political sustainability of the euro. Many countries across Europe are making sacrifices in the name of the single currency. The early lessons from Greece are that harsh reforms do not necessarily weaken governments if the population regards them as necessary. But a backlash is likely when conditions set for assistance are inadequate or unfair – as with the strings attached to the cost of the emergency loans offered to Ireland. This is why European leaders must urgently devise a strategy to help foster growth in crisis-affected countries, before the euro is blamed for their difficulties.

A revitalisation programme should involve a strengthening of integration within the single market, particularly in the market for services, to help Europe's economies converge. It must involve new measures to strengthen domestic demand in northern Europe and also to foster private investment in southern Europe. This should start with the unlocking of the EU structural funds earmarked for the less developed regions (which currently remain idle for the lack of co-financing) and their refocusing on growth-enhancing investments.

Europe must realise that a case-by-case approach is no longer sufficient. A bolder, more comprehensive response is urgently needed.

The writer is director of Bruegel, the Brussels-based think-tank