Northern exposure

Europe Public resentment is threatening to destabilise governments in fiscally more prudent parts of the eurozone just as reforms to end the debt crisis come into view, write **Peter Spiegel** and **Quentin Peel**

Wide gulf: Angela Merkel sets out her position at a Berlin joint press conference with José Socrates, prime minister of Portugal. Timo Soini (below), leader of the popular True Finns, opposes further bail-outs AFP

Even among Brussels' tightly-knit cadre of European Union operatives, Timo Soini is not particularly well known.

Heavy-set with bushy eyebrows and a bulbous nose, he seems more likely to walk out of the grounds of Millwall – the London football team whose scarf he religiously wears in Belgium's grey winter – than the glass and steel of the European parliament, where he is a member from Finland.

But by this time next month, Mr Soini could be the new face of Europe. True Finns, the party he heads, is within striking distance of becoming Finland's largest bloc in national elections on April 17 – using a potent mix of economic populism and anger at recent EU bail-outs.

"We have been doing our homework: we don't have a budget deficit, we have done quite well tackling unemployment," says Mr Soini in his spartan Brussels office, whose walls are adorned only with a Christian cross and a photograph of his young children. But nations such as Greece, whose previous government falsified economic data, had not. "Now [we must help] those people who have lied – this is the suspicious mind up north, because quite many people think the south is milking our cow."

Much has been made about growing public anger in Europe's periphery over Brussels-imposed austerity measures, from rioting in the streets of Athens to the overthrow of the long-ruling Fianna Fáil party two weeks ago in Dublin. But less well documented has been the seething bitterness in the eurozone's fiscally prudent north that Mr Soini represents.

That public resentment is threatening to destabilise governments in Germany, Finland and the Netherlands just as the EU enters the final stretch of negotiations over a much-touted "comprehensive package" of reforms aimed at, once and for all, putting an end to the eurozone's debt crisis.

According to officials involved in the talks, leaders from those three eurozone countries – all triple-A rated, all with strong balance sheets and all obliged to sign up for further financial guarantees if the EU were to enlarge its rescue system – have become the most significant roadblock to giving the Union new fiscal tools that many believe are essential to shoring up the continent's debt-ridden economies.

The northern bloc has banded together to oppose any reduction in the rates imposed on the bail-out loans that many EU officials see as essential for countries including Ireland and Greece – and potentially Portugal – to return to sustainable debt levels. All three also oppose the use of the eurozone's €440bn ($613bn) bail-out fund to purchase bonds of struggling countries on the open market, another measure urged by officials to bring down borrowing costs.

Analysts have warned that without those kind of urgent changes, the grand bargain under negotiation – which has its first big test on Friday – could lead to a deal that satisfies no one, least of all the financial markets. On Friday, eurozone leaders are to hold an informal gathering in Brussels to prepare proposals on economic governance, as part of a comprehensive package to be approved at an EU-wide summit later in the month.

Already, bond traders appear to fear the worst. On Wednesday, Portugal's benchmark 10-year bond yields hit their highest point since the country's entry into the single currency. Lisbon officials have expressed exasperation at the northern bloc's new-found reluctance, with Fernando Teixeira dos Santos, finance minister, saying last month that it was affecting "the stability of the euro, the eurozone and all the countries that belong to it".

Leaders of the three northern countries argue that their stubbornness is based on principled policy choices drawn from firm economic analysis. But concern is growing that their embattled political positions at home are backing all three into corners that could lead to an unravelling of the grand bargain the EU has promised by the end of March.

"The political conditions further down the road will be less favourable than today," says George Soros, the financier who has served as an informal adviser to European leaders on the need to take bold action this month. "The divergence between the surplus countries and the deficit countries is going to get wider."

As Europe's effective paymaster, Germany has reluctantly played the lead role in the Brussels negotiations. Angela Merkel, German chancellor, moved from a tough initial refusal to bail out Greece to backing an entirely new €750bn eurozone rescue system last May. Declaring that "if the euro fails, Europe will fail", Ms Merkel gained a margin for manoeuvre in Brussels by talking tough at home. The package now on the table is a largely German concept, combining a permanent €500bn rescue system with closer fiscal and economic policy co-ordination.

But Berlin's recent reluctance to support the array of proposals to help countries cope with unsustainable borrowing costs has engendered hand-wringing within the European Commission, the EU's executive branch, and at the European Central Bank. The fear is that Ms Merkel has lost the initiative at home.

Over the past month she has suffered a series of setbacks, from defeat in elections in Hamburg – the first of seven states to vote this year – to the embarrassing resignation of her popular defence minister. Backbenchers in her coalition parties insist that no further concessions be made in Brussels. The chancellor's carefully plotted strategy to keep her options open seems to be unravelling.

Ms Merkel's dilemma is acute. Failure to agree on a new package of rescue measures in Brussels could add to the impression that her centre-right coalition in Berlin is confused and directionless. But if she agrees to put significantly more German taxpayers' money on the line to guarantee the debts of "budgetary sinners", she could alienate supporters.

The three state elections are all likely to provide a severe test of the popularity of her Christian Democratic Union. If they go badly, her own leadership will be called into question – although there is no other alternative leader in sight.

Normally, European issues would not affect the results in the German Länder, which traditionally are very local affairs. "Europe does not decide any votes in Germany, and certainly not any regional elections," says Frank-Walter Steinmeier, parliamentary leader of the opposition Social Democratic party.

But the most critical poll for the CDU, on March 27 in the south-western state of Baden-Württemberg, falls just two days after the EU summit that is supposed to finalise the eurozone deal. Baden-Württemberg is the heart of wealthy, conservative Germany, where the "Swabian housewife" is a symbol of good housekeeping, and fiscal rectitude is a core value. If a coalition of the SPD and environmentalist Greens were to win, it would be a "disaster" for the chancellor, even loyal supporters admit.

Such a loss could lead to a rebellion by disillusioned conservatives. Supporters say she even worries about a new more conservative party, based in part on increased euroscepticism, being launched to challenge the CDU. Doubt among German voters about the euro and the EU in general has grown since Berlin reluctantly led the Greek rescue last year.

An Allensbach poll in January showed 68 per cent of Germans lacked trust in the euro. Public opinion is still essentially pro-European, but confidence has slipped. In May 2005, 62 per cent of Germans questioned agreed that "Europe is our future"; this January, only 41 per cent agreed, while 34 per cent disagreed.

Ms Merkel has operated on several fronts to widen her margin for manoeuvre in Brussels. She insisted on a change in the EU treaty to reassure the German constitutional court, by enshrining in law the principle that a future bail-out would be possible only if the stability of the euro itself were at risk. Now she wants a "pact for competitiveness" to reassure her own backbenchers that German financial guarantees will be backed by much closer economic and fiscal co-ordination in the eurozone.

But events have conspired to derail the plan. Her Free Democrat coalition partners, desperate to revive their own popularity, have been taking an ever-tougher line against German concessions in Brussels. In alliance with CDU backbenchers, they drafted a parliamentary resolution to limit her room for manoeuvre in Brussels. "She hated that," says one adviser.

Some of her advisers think she should drop her opposition to the measures being proposed in Brussels and show she can act "as a leader in Europe", arguing that it would have a positive effect on the Baden-Württemberg poll. But if the opinion polls look bad, they fear panic-stricken calls from Stuttgart, Baden-Württemberg's capital, begging her to act instead as the Iron Chancellor, in case it might make a difference on election night. That could spell trouble for a eurozone deal.

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As nervous as Ms Merkel may be, her standing is relatively safe compared with that of her Dutch and Finnish counterparts, whom officials say have occasionally become even more strident than Germany in closed-door negotiations as their political fortunes have waned.

"The Finns and the Dutch have become terrible bedfellows," says one person involved in the negotiations.

Mark Rutte, the Dutch prime minister, has been fighting an uphill battle since forming a centre-right minority government last October, which depends on the Freedom party of nationalist Geert Wilders to get measures through parliament. In addition to garnering headlines for his anti-Muslim rhetoric, Mr Wilders is deeply eurosceptic. That forces Mr Rutte, from the liberal VVD, to rely on a hodgepodge of opposition parties to pass assistance measures for the euro.

Mr Rutte struggled in December, for example, to win parliamentary support for Dutch participation in the Irish bail-out. Last month he faced a united front of anti-EU anger when a group of parties from across the political spectrum – from Mr Wilders on the far right to the Socialist party on the far left – passed a motion condemning any new controls by Brussels over national economic policy.

The anti-Europe opposition has been buoyed by regional elections last week, where gains by Mr Wilders may lead Mr Rutte's coalition with the Christian Democrats to be without a majority in the senate as well as the lower house.

Wouter Koolmees, a former Dutch finance ministry official who is now an MP from the pro-Europe D66 opposition party, says that like Ms Merkel's troubles, the recent setba[illegible] do not bode well for Mr Rutte's abi[illegible] to push through the new measures the grand bargain envisages. "That's difficult, especially combined with the 'no taxpayer money to Greece or Portugal' sentiment in the Netherlands," says Mr Koolmees.

But nowhere do the best-laid plans of eurozone policymakers have more chance of going haywire than in the smallest of the three-country bloc, Finland. Because of the need for unanimity on nearly all measures being discussed by eurozone negotiators, Mr Soini's sudden rise is ringing alarms among those who closely watch European politics.

Since the Greek crisis last spring, his True Finns have rocketed from barely 6 per cent in public opinion polling to nearly 17 per cent in February, just four points behind the leading National Coalition party headed by Jyrki Katainen, finance minister. That makes Mr Soini a dark-horse candidate for prime minister.

Mr Soini insists he will not m[illegible] o pull Finland out of the EU o[illegible] e euro. But he makes clear he intends to throw a wrench in Europe's efforts to find ways of rescuing the debt-ridden economies on the eurozone's periphery. "How on earth could I or my ministers or my party vote for the bail-outs and the enlargement of this money vehicle?" Mr Soini asks, referring to the centrepiece of the new proposed measures, the €500bn permanent rescue fund to be backed by all 17 eurozone members.

"My policy is usually that if Finland is committed to something, we fulfil that commitment," he adds. "It will mean, for this, that when we are in [propping up] Ireland and Greece, that's it. But no more."

In the capitals of northern Europe, it is a sentiment that could soon dominate.

A union divided

Sources: Thomson Reuters Datastream; Eurobarometer; Allensbacher

15 Additional seats won by eurosceptic Party for Freedom in 2010 Netherlands election

11% points Increase in share of voting preference for eurosceptic True Finns party since Jan 2010

'Up north, many people think the south is milking our cow'

European Central Bank

'For economists a fiscal federation is the ideal, but it is politically naive'

Watching the political battles over the eurozone's future closely – and with increasing concern – is the European Central Bank, the single currency's monetary guardian.

With no one political counterpart to share the burden, the ECB has spent the past year fighting almost single-handed to shore up investor confidence in the 12-year-old currency. Most noticeably, since last May it has intervened in member states' debt markets. Until last week it had spent €77.5bn, almost certainly largely on Irish, Greek and Portuguese bonds.

Now, it wants rules changed and plans put in place to prevent a repeat of the sovereign debt crisis. Jean-Claude Trichet, ECB president, will be active behind the scenes in coming weeks. He wants to give future European Union rescue funds the power to intervene in bond markets, relieving the ECB of the task. He also wants stronger surveillance of economic and fiscal policies, with sanctions imposed automatically on miscreants.

So far he has given governments and Brussels low marks for effort. European Commission proposals on strengthening eurozone governance were "not the quantum leap that we had judged appropriate", he said last week. He called on the European parliament to beef up the plans, which had been weakened further by governments. "We are counting very much on the parliament to help Europe."

The Frankfurt-based central bank is not calling for a fully fledged fiscal union comparable with the US, however. The consensus view is that the euro has, and should retain, unique characteristics. Some argue that establishing an overarching political authority would not necessarily produce better results.

"The crisis has shown that even politically integrated federations like the US encounter major difficulties," noted Lorenzo Bini Smaghi, who is on the ECB executive board, in a recent speech. The US experienced a greater deterioration in its fiscal position between 2007 and 2009 than the eurozone average, he said. "It can actually be argued that, with the market pressure which arises in a monetary union, its members have to think more about the long-run stability of their public finances."

The ECB's ideal is of a self-correcting monetary union, in which governments have the right balance of carrots and sticks to keep their finances in order and economies growing at a sustainable pace. Only in extreme cases would rescue mechanisms be used.

But is it just a dream? Even with better rules and incentives in place, the temptation for weaker countries would be to look for ways to leverage the benefits of eurozone membership at the expense of stronger neighbours.

"From an economist's point of view, this idea of a fiscal federation that has strong competitive elements is the ideal – it would be the most efficient solution," says Ulrich Kater of Deka Bank in Frankfurt. "But it is politically naive. You would inevitably still end up with transfers between countries – and politics would extract a high price in terms of economic effectiveness."

Ralph Atkins

FINANCIAL TIMES

"Without fear and without favour"

Thursday March 10 2011

Who's afraid of Barack Obama?

Republican candidates are wary of running in 2012

In the aftermath of November's mid-term elections, the sound of Republicans crowing could be heard across the US. After wresting back control of the House of Representatives from the Democrats, and coming within a whisker of regaining the Senate, Republican luminaries were falling over themselves to predict that the White House would be in Republican hands after 2012. The severity of the voters' verdict on two years of Democratic dominance in Washington prompted President Barack Obama, to concede that his party had taken a "shellacking".

So it is striking that barely five months on, the main contenders for the Republican nomination are coy about their plans for 2012. At this stage in the last electoral cycle, there were already eight Republican and 10 Democratic declarations. This time around, more Republicans have ruled themselves out than in. Admittedly, back in 2007, the incumbent president could not stand again. But the first primary is less than a year away. That is not long for aspiring White House occupants to organise and raise funds.

This reticence is not due to a sudden outbreak of modesty among Republican hopefuls. Despite November's drubbing, Mr Obama retains formidable advantages. Only three sitting presidents have been ditched by voters since the second world war and, though his first two years have been difficult, Mr Obama's approval rating remains at about 48 per cent. Moreover, the president is among the best fundraisers American politics has seen. Running against him will not be cheap.

A more capricious factor that could work in Mr Obama's favour is the economy. Though jerky and fragile, growth is starting to pick up. True, $100-oil will do the economy no favours, and unemployment remains stubbornly high at 8.9 per cent. But jobless figures recently nudged downwards, and hiring is spreading across a range of industries. If he is lucky, the economy may have turned decisively in time for re-election, though the jobless rate will remain critical to the outcome.

The luxuries of undeclared candidacy may also be slowing Republican contenders: declared candidates face limits on fundraising activities and media exposure; they also need policies of their own, not just a knack of criticising those of others.

But perhaps the most important factor is the Tea Party's emergence. The Republicans have always had to juggle the competing demands of appealing to independents as well as their highly charged base. But the Tea Party's radicalism will make this trick especially difficult in 2012. Centrist Republicans may calculate that it would be easier to wait four years, when the Tea Party's appeal may have ebbed.

It would be a shame if such considerations robbed the Republicans of a credible candidate. Big issues are at stake in 2012, and on some of them, Mr Obama is vulnerable.

That more Republican candidates have ruled themselves out than in is not due to a sudden outbreak of modesty

Most glaring is the US's fiscal position. Despite receiving a plausible blueprint from the Bowles-Simpson commission, Mr Obama has yet to lay out a credible plan to cut the US's ballooning deficit. The cuts he proposed in his budget fell about $3,000bn short of par.

Republican proposals are hardly more convincing. But the party has both serving and former governors who have made a good fist of balancing the books at state level, including Chris Cristie in New Jersey, Mitch Daniels in Indiana, and Mitt Romney in Massachussets.

The Republican primaries will have served their party well if they produce a candidate who recognises that the solution to the US's fiscal woes must involve tax rises as well as spending cuts, and that Medicare cannot be exempted from these. If this drives Mr Obama to start serious bargaining over the deficit, Americans voting in 2012 will have the luxury of picking between two credible alternatives.

Europe meets the Arab awakening

EU must offer a generous vision of long-term partnership

The new sanctions on Libya that European Union leaders will announce in Brussels on Friday are a welcome, but overdue sign that the EU may at last be catching up with the fast pace of events in north Africa and the Middle East. The measures aim to freeze the Libyan Investment Authority's assets in EU countries and will extend to Libya's central bank and other financial entities. They are intended to send a robust, united message about Europe's attitude to an outlaw regime. Alas, it is doubtful that the sanctions will repair the wider damage inflicted on EU foreign policy by the bloc's reaction to the political awakening of the Arab world.

The EU has not covered itself in glory since the unrest began in Tunisia in December. Hesitancy and incoherence have combined with inexcusable attempts to defend discredited Arab rulers. The EU's External Action Service, the much-touted diplomatic corps set up by the Lisbon treaty and led by Lady Ashton, has been all but invisible. The responses of certain national governments have not been much better. France's foreign minister – now, mercifully, removed from her post – offered Tunisia's autocrat the expertise of French security forces in suppressing pro-democracy protests. One week before Hosni Mubarak fell from power, Silvio Berlusconi, Italy's premier, called Egypt's authoritarian president "the wisest of men".

John Dalli, Malta's member of the European Commission, brushed aside Colonel Muammer Gaddafi's atrocities last week with the suggestion that Europe should leave the bloodstained Libyan dictator alone. Mr Dalli owns a house in Tripoli and is a former director of a glass manufacturing company there. A low point was reached when the EU trailed the UN Security Council, seldom the speediest of international actors, in imposing a first set of sanctions on Libya.

At Friday's summit, EU leaders have a chance to try again. They will discuss proposals, drafted by their foreign policy experts, for a long-term "partnership for democracy and prosperity with the southern Mediterranean". They foresee European support for setting up and strengthening political parties, an independent judiciary, civic associations and other institutions that are the lifeblood of free societies. Correctly, they identify a need to improve transparency in public administration, eliminate corruption and introduce efficient financial management.

They also recognise that economic injustices and under-development contributed to the Arab upheavals and require a European response in the form of intensified trade and investment. Here it will be important to draw on the experience of the European Investment Bank, which has financed projects in Turkey since 1965, and the European Bank for Reconstruction and Development, which after 1991 played an important role in promoting the economic transformation of post-communist countries.

If there are grounds for scepticism, they lie in the fact that the EU has run various aid programmes for the region since 1995 without much impact. Governments in southern Europe are reluctant to open EU markets to Arab agricultural and textile exports. It is a concern that the EU proposals talk of free trade accords merely as a medium- to long-term project. Too many EU governments continue to think of north Africa primarily in terms of a potential migration crisis.

Nonetheless the proposals are a start. The authors even admit that the EU's Union for the Mediterranean, a wretched foreign policy instrument if ever there was one, "did not deliver the results we expected" and "needs to reform". Better still, it should be wound up. If the EU is serious about helping the Arab world, it ought to put its own house in order as well.

Letters

'Right thing' for PRs is not to deal with tyrants

From Mr Kirk Hazlett.

Sir, Philip Stephens is right in calling out the dubious actions of governments, consultants and others who have attempted to appease and counsel Muammer Gaddafi ("A lucrative business in washing reputations", March 7). In the US, the consulting firm Monitor Group has sullied the good work of many ethical professionals by engaging in practices aimed at showing a softer and gentler side of Col Gaddafi; an effort many consider repugnant.

But Mr Stephens' remark that public relations consultants are "practised in explaining how this or that African despot has been sorely misunderstood" is misinformed. The truth of the matter is that the majority of public relations professionals provide services that have absolutely nothing to do with "washing" or "recasting" reputations.

Public relations places an emphasis on counselling reputable organisations and individuals in developing and maintaining beneficial relationships with concerned stakeholders. Col Gaddafi shows no inclination to embrace this fundamental concept; rather, with the aid of certain groups on both sides of the Atlantic, he appears to be most interested in manipulating those who find themselves associated, willingly or not, with him and his dictatorial regime.

The Public Relations Society of America's code of ethics clearly delineates what comprises ethical public relations. Condensed to a single statement, these responsibilities say: "Do the right thing."

Aiding a dictatorial tyrant in the fabrication of a false persona is not "the right thing" and most assuredly not the hallmark of ethical public relations.

Kirk Hazlett,
Board of Directors,
Public Relations Society of America,
New York, NY, US

Get to grips with the zeros by thinking in terms of time

From G.H. Chasens.

Sir, The US national debt at the end of February was $14.2T. We pay $201B in interest on this debt. The individual taxpayer's share of the national debt was $128K.

The three sentences are supposed to tell us that we are in deep financial troubles, but the meaning is lost when the letters K, M, B and T replace the zeros, as they do all too often.

To have some idea of our country's financial situation, we must leave the zeros in. The national debt is $14,200,000,000,000. We pay $201,000,000,000 in interest on this debt. The individual taxpayer's share of the national debt is $128,000. But even with all the zeros in place, how can any human mind understand the enormity of $14.2 trillion?

John Allen Paulos, a professor of mathematics, suggests that we think in terms of time, with one second representing one dollar. There are 60 seconds in a minute and 60 minutes in an hour, so there are 3,600 seconds in an hour and 86,400 seconds in a day. There are 1m seconds in 11½ days, and more than 1bn seconds in 32 years.

And here comes the stunner, the incomprehensible, the unbelievable – the meaning of 1 trillion. A trillion seconds is almost 32,000 years. And our national debt is more than $14 trillion.

But there is one way to reduce the national debt relatively quickly – inflation. Make a dollar worth only 50 cents and you have reduced the national debt by 50 per cent. Make it worth only 10 cents and you have reduced the national debt by 90 per cent. Right?

G.H. Chasens,
Yellow Springs, OH, US

Turenne: quoted by Napoleon

Divine help is for side with best shot

From Mr Philip Porter.

Sir, Philip Stephens ("A waning west still has a story to tell", Book review, March 7) notes that Napoleon used to say that God was on the side of the big battalions. Napoleon was nevertheless simply quoting Marshal Turenne, a general in the army of Louis XIV 100 years earlier. Turenne was killed on the battlefield by a stray cannon ball, a fate that prompted Voltaire to remark that "God is on the side not of the great battalions, but of the best shots".

Philip Porter,
Cugnaux, France

'Democracy' was the wrong word

From Mr Niall Ryan.

Sir, The headline on your March 8 Analysis article on China ("A democracy is built") was a great disservice to your readers and to the Chinese people it described.

It gave accounts of forced evictions and even killings to facilitate the construction of private housing where an affluent few can aspire to form "homeowners' committees".

These developments may be described as many things; the foundation of a democracy is not one of them.

Niall Ryan,
Ardnacrusha, Co Clare, Ireland

Board room needs shop floor lessons

From Mr Mike Cocking.

Sir, As an avid reader of business biographies for the past 35 years, what becomes apparent to me after reading about John Elkann, the chairman of Fiat, is that he will succeed ("The unlikely heir who saved the family jewels", The Monday Interview, March 7),

Why, you ask? Is it because of his global upbringing in a wealthy family or because of his international schooling and pedigree? No, it is because of the lessons learnt on the shop floor – in his case as an incognito worker making headlamps and components.

This invaluable insight into what business is all about is summed up in his quote: "... you could immediately have an impact on the workflow and you knew if you weren't doing something well ... in a workplace you need to be valuable or you are ultimately abusing others."

This philosophy applies on the shop floor and in the board room.

Mike Cocking,
Cedarburg, WI, US

Taxpayers can be squeezed just so far

From Mr Michael P. Mulhall.

Sir, Karl W. Eli (Letters, March 2) fails to acknowledge how collective bargaining for municipal public sector unions is raising the costs of government significantly for struggling taxpaying citizens.

In New York state, there is growing political support for taxing families that earn more than $200,000, referring to it as the "millionaires tax", to close an estimated $10bn budget deficit. This is yet another example of the economic incoherence displayed by well-intentioned people such as Mr Eli and others that there is a limitless amount of money that the government can claim from one sector with impunity to the economic consequences. That is false! Affluent New Yorkers are already leaving the state at an alarming rate and will only accelerate their exit should this regressive tax be adopted.

Mr Eli also fails to heed how respected municipal bond analysts such as Meredith Whitney are predicting anywhere from 50 to 100 sizeable municipal bond defaults in 2011. Despite attractive interest rates for potential investors, money continues to shift out of municipal bonds according to data from the fund tracker Lipper. According to Lipper, municipal bond investors' continuing lack of confidence can be observed as $8.6bn has been withdrawn from national muni bonds while more than $5bn has been withdrawn from state-sponsored muni bonds just since the beginning of 2011.

What type of country will the US become should Wisconsin governor Scott Walker succeed in eliminating collective bargaining from municipal unions? A fiscally more solvent, responsible and affordable one.

Michael P. Mulhall,
Managing Principal,
Capco, New York, NY, US

The equivalent of a tax on new ideas

From Gunnar Hökmark MEP and Johnny Munkhammar MP.

Sir, Göran Färm and Olle Ludvigsson (Letters, March 2) ignore our well-established arguments against a financial transactions tax by hoping that such a tax might end "purely speculative" financial practices.

Skype and Bluetooth are two fairly recent European innovations. To improve prosperity, Europe needs to be even more innovative. Investing in any new idea carries a high degree of risk; one might even call it speculative.

Specifically directing a new tax against high-risk investments is thus one way to make Europe less innovative and competitive. Is that what we want?

Gunnar Hökmark,
European People's Party Group,
European Parliament
Johnny Munkhammar,
Moderate Party, Swedish Parliament

Only a mining merger would make sense

From Mr Eric Knight.

Sir, Investors recognise that Xstrata trades at a discount to its peers because of its current ownership structure and uncertainty about how this will be resolved. One proposal that has been mooted is a merger between Glencore and Xstrata (report, March 8).

When this was first proposed a year ago, the reaction of many investors, including Knight Vinke, was that this would be difficult given the lack of transparency surrounding Glencore as a private company. We now understand that to overcome this issue, the proposal is to list Glencore.

We suspect that even as a listed company, Glencore will still be hard for the market to value due to the unpredictable nature of its trading income. There is no truly comparable company of this size and the long-term evidence from the trading activities of banks, for example, suggests that the volatile trading business ought to be valued at a discount to the mining activities.

Xstrata shareholders are rightly concerned about the issue of valuation and will expect the board to stand up for the interests of shareholders.

If the board concludes that some kind of combination with Glencore is unavoidable, perhaps a better way forward might be for Glencore to split its trading and mining businesses, leaving the trading business as a private company (which some insiders believe is an advantage) and the mining company as a public company free to merge with Xstrata. A merger of Xstrata with Glencore's mining business (without its trading activities) would at least have the merit of being easier to value and would create a true competitor for the likes of BHP Billiton, Rio Tinto and Anglo American. It would also remove some of the issues concerning management and governance.

If a transaction on reasonable terms cannot be agreed with Glencore, the Xstrata board should not be afraid to say no.

Eric Knight,
Chief Executive,
Knight Vinke Asset Management,
New York, NY, US

Bonuses, bankers and Buddhism

From Mr James Ross.

Sir, During a recent visit to Burma, I repeatedly saw three precepts of Buddhism writ large:

- Do not be envious.
- Do not be greedy.
- Do not be angry.

I wonder whether there is a message here for all participants in the great bonus debate.

James Ross,
London SW7, UK

Correction

- Napster was acquired by Roxio in 2002, not by Bertelsmann as wrongly stated in an article on March 7.

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Comment

Push ahead now for a Palestinian solution

Marwan Muasher and Javier Solana

As revolutionary change sweeps across the Arab world, it is easy to think that now is not the time to push for peace between Israel and Palestine. Until the dust settles on the new Middle East, the old road maps seem dated and conventional wisdom holds that progress towards a peace agreement is wishful thinking in the face of regional upheaval. But the opposite is true. There is a distinct window of opportunity for the US and Israel to push urgently for a lasting settlement.

Everyone needs to start thinking differently. The international community's old approach was to prioritise stability over democracy and pursue Israeli-Arab peace on a totally separate diplomatic track. This policy proved to be a failure – stability over democracy brought neither and isolated peace efforts went nowhere. If the US and other world powers want to make headway on the three objectives – stability, political reform and peace – they need to understand the intimate links among them and chase all three simultaneously and holistically.

The US has been behind the curve from the moment the recent turmoil sparked. It tried to play catch-up as authoritarian governments in Tunisia and Egypt were toppled by popular protest and more regimes have attempted to cling to power. Washington now needs to get out in front; and as the US and the broader international community attempt to address the unfolding events, it would be a mistake to leave the peace process off the agenda.

For the US, broad sympathy for Arabs' yearning for freedom cannot exclude compassion for Palestinians dreaming of lives free of occupation. The Arab world wants dignity and this includes ending the occupation. Washington should not be selective in its support for freedom and democracy. If the US is not seen as an avid supporter of a two-state solution, it will stay well behind the curve and damage its own interests in the Middle East.

Israel also needs to revisit its policies. As political reform achieves results, Israel will no longer be able to claim it is the only democracy in the Middle East; and with conditions changing on the ground it will be harder to ignore Palestinians' need for independence. Israel's concern that the region will grow more hostile will become a self-fulfilling prophecy if new democracies see the Israeli government impeding steps towards a viable and dignified solution. At the same time, a peace process with elected and more legitimate Arab governments will help solidify long-term peace and stability.

With time for a two-state solution quickly running out, a speedy settlement is in everyone's interest. The US, in particular, would be unwise to wait in the hope that more favourable conditions will emerge down the line. If there is no movement towards peace as new Arab democracies take shape, negative views of Israel and the US will harden – and Arab public opinion clearly matters, as we saw in Tahrir Square. Bad perceptions will make a breakthrough even less likely. With new governments less forgiving than the old ones about Israel's continuing occupation of Palestinian lands, the US could end up with less of a role in a new Middle East.

Washington should not be selective in its support for freedom and democracy

Those who argue that peacemaking cannot be successful in a situation in flux ignore the fact that, precisely in these circumstances, outsiders can help shape the process. Pushing the peace process now can help the west win over the Arab public and give the US more sway. We do not need never-ending bilateral negotiations between Israel and Palestine, there needs to be a regional solution.

Tomorrow's Middle East will not be the same as the region we knew a mere two months ago, but its ultimate shape is of course unknown. The US has a chance to get on the right side of history and help shape its direction by supporting real reform and moving forward on a deadlocked peace process. In the end, an uprising against poor governance presents an opening to achieve not only democracy, but also stability and peace – all at the same time. This crisis, just like so many others, would be a horrible thing to waste.

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