



"Without fear and without favour"

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India's dangerous political vacuum

As elections loom, voters confront a dearth of good options

In times of crisis, people turn to desperate solutions. In India, desperation has a name: Narendra Modi. Mr Modi, once politically crippled by his alleged complicity in the killings of several hundred Muslims in Gujarat, is visibly edging towards the premiership. Business, especially, is turning towards him as a saviour.

Indian leaders are not directly elected. They emerge from the political soup. Still, Mr Modi, the chief minister of Gujarat and now the official candidate of the Hindu nationalist Bharatiya Janata party, probably stands a better chance than anyone after general elections that must be held by May. To his supporters, Mr Modi's record speaks for itself. Gujarat is among the fastest-growing states. It has attracted substantial direct investment and Mr Modi has a reputation for personal integrity and swift action. Those are qualities that would be welcome at national level where growth has stalled and the Congress-led coalition has been floundering for years. Mr Modi, the son of a tea stall owner, would also make a change from a Nehru-Gandhi dynasty that has plucked the fruits of Indian democracy as though it owned the tree.

Yet there are grave doubts. The Gujarat model is not all it seems. Growth under Mr Modi is not the

great outlier often portrayed. It is not clear that his no-nonsense efficiency could be mapped on to the complex national scene. Mr Modi is not alone in being tainted by communal violence, tragically common in a country where Muslims make up 15 per cent of the population. In 1984, Congress failed to prevent the massacre of thousands of Sikhs in revenge for the assassination of Indira Gandhi. Her son, Rajiv, infamously said of the killings: "When a big tree falls the earth must shake." That this has happened before is no excuse. Mr Modi's lack of public contrition for events that happened on his watch in 2002 is disturbing. So is his failure to appoint Muslim ministers in Gujarat. Many around him regard secularism as a dirty word. A tin-pan such as India could do without such sparks.

Those who rightly worry about the prospect of a prime minister Modi should press Congress to form bolder, clearer policies. It also needs a better candidate than Rahul Gandhi, the 43-year-old heir apparent whose main qualification is his name. The Supreme Court recently ruled that Indians should be allowed to vote for "none of the above". Given a choice between Mr Modi and Mr Gandhi this looks like the best option. That is a tragedy for India.

Wounded demos

Greece begins to tackle the violent far right, but needs help

Greece's far-right Golden Dawn party poses a quandary for democrats within the country and beyond. It bears a disturbing resemblance to neo-Nazi movements that display scant regard for democratic values. Nikos Michaloliakos, the party's leader, is sometimes greeted by its members with Nazi-style salutes and flanked by black-clad bodyguards in combat fatigues. The party's supporters chant racist rhetoric and have been associated with tens of violent attacks against immigrants.

Yet it won 7 per cent of the vote in elections last year, taking 17 seats in parliament. Democrats can hardly dismiss such expressions of popular support.

For more than a year, the authorities reacted timidly to mounting evidence of the party's violent nature. That changed two weeks ago when Pavlos Fyssas, a 34-year-old anti-racism rapper, was murdered by a Golden Dawn supporter. The government has replaced several senior police officials in recent weeks after suggestions that the police have turned a blind eye to crimes committed by the party's followers. At the weekend, the authorities went further, arresting Mr Michaloliakos and four of his fellow MPs. They are expected to be charged today with funding and partici-

pating in a criminal organisation. The government deserves credit for recognising the seriousness of the threat that rightwing extremists pose, and for summoning the will to confront it. It was no doubt emboldened by a public outcry after the death of Mr Fyssas, which reversed the gains the party had been making in opinion polls.

But despite these hopeful signs, this is a moment of danger. Golden Dawn will try to portray the arrests as a politically motivated vendetta. The proceedings could become a rallying point if prosecutors suffer setbacks in court or are perceived to have acted unfairly. Principles of legal propriety must be scrupulously upheld.

The rise of the far right since 2009 testifies to many voters' complete loss of hope. Greece's economy is expected to shrink about 4 per cent in this, the sixth year of recession. Almost three in 10 Greeks, and two-thirds of young people, are unemployed. The brutal effects of an austerity programme imposed by international lenders should alarm democrats everywhere. The government can arrest the criminals in Greek politics but it will take an improvement in the economy's fortunes – or more international help – to alleviate the resentment that underpins their support.

Osborne's recipe

Only a sustainable recovery can lift UK living standards

George Osborne's fourth speech at the Conservative party conference as chancellor was one of his easiest. The UK economy is running at a good clip, allowing Mr Osborne to claim that his austerity medicine is working. Ed Miliband's tilt to the left at last week's Labour conference offered Mr Osborne the chance to paint the economic choice facing voters in primary colours.

The chancellor seized it. For weeks the Labour opposition tried to redraw the political battle lines around the rising cost of living and its impact on the "squeezed middle". The chancellor brought it back to his chosen battleground: the importance of keeping the public finances in check. His logic is sound: the way to improve living standards in the long run is to ensure the recovery is sustainable.

To drive home his point, Mr Osborne spelt out the Tories' fiscal plans if they win the next election. Having criticised the previous government for failing to fix the roof while the sun was shining, the chancellor promised the Tories would not fall into the same trap. A Conservative government would run a surplus by the end of the next parliament.

This is a challenging objective. The UK has run a surplus in only seven of the past 50 years. But Mr

Osborne is right to stress the importance of bringing down the public debt. The move is likely to open a new dividing line with the opposition as Labour is unlikely to match this pledge.

The chancellor did not set out in detail where he would find the new savings. But he promised, wisely, to increase investment spending by at least the rate of economic growth. The burden will have to fall on current spending.

Mr Osborne painted a bright picture for the UK, and he did not neglect some sweeteners to keep the party's spirits up. These are for the most part gimmicky. The marriage tax break will complicate the tax system further without making much difference to those who benefit from it. The freeze on fuel duty is a riposte to Mr Miliband's energy price freeze. The government-backed mortgages in the Help to Buy programme may look good for would-be homeowners but will result in higher house prices in the absence of planning reform.

The commitment to keep the public finances in check will be a serious constraint on how much the Conservatives can give away in the future. Mr Osborne has painted himself as the iron chancellor but when the goodish times come back we will see his true mettle.

Fragmented derivatives market may cut global risk

From Prof Nicholas Dorn.

Sir, If "US rules are endangering derivatives reforms" (report, September 27) then should we be worried or heartened? Until recently, "reform" implied action in the public interest. However, the adoption and globalisation of the reform agenda by special interests merits a second glance, whether the new reformers are derivatives creators, platforms, traders or broader financial service firms.

The FT reports that the US Commodity Futures Trading Commission wants derivatives exchanges to conform to the US rule book if trading with a US counterparty. This would mean either that exchanges outside the US

have to follow US rules as well as their "home" jurisdiction's rules; or, in order to be able to follow only their "home" regulator's rules, that non-US exchanges would have to exclude US trades.

So, the global derivatives market could fragment along regional lines. That might be anathema for some – yet might make for a safer, less globally connected and also more constrained market. Such considerations do not have to hang on a comparative analysis of US rules versus those of other jurisdictions. Rather, the mere decline in the extent and inter-regional connectedness of derivatives trading could make for less global risk.

Perhaps on reading this, some global derivatives advocate will write in with a pen portrait of how an inter-regional derivative – say one priced in dollars, traded through Paris and referencing the wheat harvest in Russia – actually assists the real economy. Alternatively, advocates might claim that derivatives trading promotes systemic stability, all the more so when global. Or would the industry's considered judgment be that nobody any longer buys such arguments and that it just has to argue its own interests? Hold the front page.

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Response to chain reactions begins with co-ordination

From Mr Frank Vogl.

Sir, Gillian Tett cogently highlights six elements in her article "Insane financial system lives on post-Lehman" (Insight, September 13) – permit me to add a seventh: the connectivity conundrum.

Official authorities greatly underestimated the immediate impact on global financial markets of allowing Lehman Brothers to collapse. The reaction across markets highlighted the intense degree of connectivity between all manner of participants in the financial system. There remains today a lack of clarity as to how best to map the multiple connections across the financial system's landscape; build early warning approaches that can counter vulnerabilities; and find means of regulatory intervention to ensure that the failure of one institution does not – as Lehman's collapse did – trigger a chain reaction that unleashes financial market chaos.

These shortcomings by regulatory authorities have made matters worse over the past five years. Almost certainly, the degree of connectivity across the financial system has increased as new technologies continue to accelerate the tempo of market actions and reactions. Fears of systemic risks have led official authorities to be ultra cautious: for example, US officials have admitted to concerns that some institutions may be "too big to fail". The argument is that the criminal prosecution of a major bank, for example for international money laundering, could trigger sudden dangerous reactions across the financial system.

Responses to the connectivity issue by regulatory authorities have been piecemeal. There have been initiatives led by the Financial Stability Board to impose special requirements on "systemically important financial institutions". This ignores the fact that smaller institutions in today's highly connected world can do enormous damage (Lehman and Northern Rock, for example, would have been too small to be on the systemically important financial institution list).

Inadequate progress has been made on developing resolution systems and seeking to end the "too big to fail" phenomenon. For example, the European Union's current efforts amount at best to a rough sketch for implementation many years hence. For example, major banks have not fully agreed to publishing and regularly updating fully transparent "living wills".

The response to the connectivity conundrum needs to start with increased co-ordination among the multitude of financial regulatory authorities. They need to work together in ways that acknowledge that the financial system today – including financial speculators and institutions engaging in financial crime – does not recognise national borders. The FSB and the International Monetary Fund should be far more assertive leaders.

There is also a need to bring the Financial Action Task Force, or a new multilateral institution with some teeth, fully into the frame so that it is better understood that risks to the financial system come not only from inefficient financial institutions, but also from those who use corrupt practices and money laundering to boost their profits.

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COMMENT ON FT.COM

Manchester Notebook

Brian Groom: Tories seek a way back in the north
www.ft.com/comment

Mugabe shows no willingness to receive western overtures

From Ms Alison Bethel McKenzie.

Sir, Michael Holman ("Face up to reality and start talking to Robert Mugabe", September 11) suggests that the west should "set aside old scores and take a fresh look at Zimbabwe". Yet the next day, Mr Mugabe seemed to send his own signal to the west, swearing in a cabinet that recycles his old guard, including Jonathan Moyo. As information minister from 2000-

opportunity to far right groups such as the Tea Party in the US or Ukip in the UK not just to enter but, indeed, to capture conservative parties.

Rightwing populism inside conservative parties is ascendant pretty much everywhere; so is the populism of the left, but outside of the traditional reformist parties. The real issue, however, is surely that the world's developed economies can no longer afford the overhead costs of social capital (education, health, pensions, subsidised infrastructure, etc) that is the foundation of economic and social reform. The Tea Party, Ukip and others like them reflect this politically.

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2005, Mr Moyo ushered in restrictive broadcast and media laws and told an international delegation of press freedom organisations (including my own) in May 2001 that there would be no public consultation on the legislation because the public had no say in making laws.

With ministers like Mr Moyo, Mr

Mugabe shows more defiance than a

willingness to receive overtures from

the west. Far from setting aside old

scores, the west needs to keep up the pressure on the Mugabe regime and resist efforts to ease trade and political sanctions. As a former FT Africa editor, Mr Holman should instead be encouraging the increasingly feeble old guard in Zimbabwe to retire.

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Comment

Merkel might rock the boat and turn Green

Stephan Richter

At decisive moments in her political career, Angela Merkel has stood out for courageously breaking with the past. She may very well be about to do so again. Germany should start considering the prospect of a coalition between her Christian Democrats, which won handsomely at last month's elections, and the Green party.

This may shock outsiders, who often think of the chancellor as a safety-first candidate. But consider her record. In 1999, she called on Helmut Kohl, the national reunifier who then still towered over her party, to resign. Then, in 2011, after the Fukushima nuclear disaster in Japan, Ms Merkel ended the decades-long run of nuclear power in Germany. Again, many people, especially in conservative circles, were shocked. But she got her way.

A third opportunity to prove her mettle could present itself if she selects the Green party as her preferred coalition partner. She would shock many conservatives. But Ms Merkel, a former environment minister, regards the energy-environment issue as key for the future. After all, she initiated the *Energiewende*, the transformation of the energy sector that is now

under way in Germany. It is also fair to assume that a replay of a grand coalition, which governed Germany under Ms Merkel from 2005 to 2009, would look like a boring repeat in her own mind. Been there, done that. Where is the challenge in that? It is at least as likely that Ms Merkel would opt for something new.

In any case, the Christian Democratic Union and the Social Democratic party combined would account for almost 80 per cent of all the members of the Bundestag. A government with both of them would not so much be a "grand coalition" as a stifling behemoth – a unity government unbenefiting a modern democracy. The opposition, given those overwhelming numbers, would become a travesty. At a minimum, it is not becoming to democratic sanity.

Furthermore, a profound political strategist, Ms Merkel knows that, by joining forces with the Greens, she would alter the German political landscape for good. In particular, by pushing the SPD into opposition, she would possibly reconsolidate the left wing of German politics. Parts of the SPD are already very torn over joining forces with the Left party. By pushing the SPD to the left, Ms Merkel would change the shape of German politics, essentially establishing the Greens as the new centre element.

Now that the party has shed its leftist leaders, they could occupy space formerly held by the liberal Free Democrats, who were thrown out of parliament at the last election.

There are many who assume that the Greens would never join the CDU in a coalition. But the party must assess soberly its own future prospects. Under Ms Merkel, the CDU adopted in effect a core plank of Green policy. By joining forces with Ms Merkel now, the party will be able to reclaim ownership of the

The chancellor has proved to be a daredevil when transformative moments lay right in front of her

again higher tax take. Ms Merkel and the CDU would be broadly comfortable with that position. The Greens, needing some reinvention, could focus on administrative reform – using "smart government" to modernise the public sector, making it more efficient and accountable.

Since Ms Merkel has done little on the domestic front over the past four years, adding the Greens to the political mix should be really interesting – and should interest the Greens a lot. Topics such as real education reform and improving the Germany's physical infrastructure could only benefit from having a Green seal of approval.

In short, there are plenty of reasons for Ms Merkel to show once again that she really is capable of rocking the boat. She has proved to be a daredevil before at times when it really counted and when transformative moments of German politics lay right in front of her, ripe for the taking.

Now is precisely such a moment. None of that means that Ms Merkel's party should not be negotiating with the SPD first. That's all a matter of negotiating tactics. But a grand coalition should not be a foregone conclusion.

The writer is publisher and editor-in-chief of The Globalist