

A conglomerate doing well

SIR – If General Electric is “losing its magic touch”, as the headline to your briefing (March 21st) proclaimed, it wouldn’t seem to be reflected in the company’s fundamental performance. Despite the economic slump, GE’s five-year average revenue growth rate has been 12% while the average earnings growth rate has been 7%, both in line with GE’s historic numbers. In 2008 GE outperformed its peers in organic revenue growth, margins, return on total capital and revenue per employee.

No doubt our stock and our earnings have been under pressure because of our presence in financial services, but on a day-to-day basis, GE’s performance continues to be strong relative to the market.

GARY SHEFFER
Executive director
Communications and
public affairs
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Giving credit where its due

SIR – Professor Eric De Keule-
neer’s letter on the pitfalls of
credit-default swaps (CDS) is
fairly representative of the
academic community’s think-
ing on the matter (Letters, April
4th). Actually, the market in
CDS for the companies listed
on the main American and
European stockmarkets is very
liquid, with narrow spreads on
bid offers and dealing sizes of a
minimum of \$10m upwards in
most cases. It would be very
difficult, if not impossible, for
individual participants to
“manipulate” such a large
market by themselves.

The CDS market is a trans-
parent indicator of credit risk,
and is not “opaque”. We can
easily judge this by observing
“the basis”, that is the differ-
ential between the CDS price
and the cash-market bond
price. Investors may compare
the two prices. A low basis
would imply that both prices
represent fair value. A wide
basis indicates mispricing in
one or both markets and is a
helpful measure of relative
value. Prices do not, therefore,

rise “in a void”. CDS prices do
not exist in a vacuum from the
cash-market price, and the
basis will demonstrate any
unrepresentative price. If the
cash-market yield is also rising,
it demonstrates that the mar-
ket is placing a higher pre-
mium for that particular risk.

To suggest that the CDS
market is illiquid or open to
manipulation is to misun-
derstand the symbiotic rela-
tionship between cash and
synthetic markets in credit,
which operate in exactly the
same way and with the same
benefits to investors as the
cash and synthetic markets in
interest-rate products. CDS
represent the pure price of
credit, and the instrument is
often more liquid than the
cash price for the same name.
If it was “forbidden altogether”,
investors would find that
liquidity and transparency
had been reduced, rather than
improved.

MOORAD CHOUDHRY
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Europe Arab Bank
Professor of economics
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German history

SIR – Your article about
Germany’s Constitutional
Court got some history wrong
 (“Judgment days”, March
28th). The “principality of
Baden” (a Grand Duchy, to be
precise) ceased to exist in 1918,
and therefore was not merged
with three other states to form
Baden-Württemberg in 1951.
The three states in question
were Allied occupation-era
entities created from the
historical states of Baden,
Württemberg and
Hohenzollern-Sigmaringen.

You then mentioned that
the proportionality principle
was invented in Prussia in the
18th century “to limit the Kai-
ser’s power”. The 18th-century
rulers being referred to were
kings of Prussia and electors of
Brandenburg, but didn’t hold
the title of Kaiser until 1871. The
only “Kaisers” as such at the
time were the Habsburg mon-
archs in Vienna.

MARK LARGESS
Somerville, Massachusetts

Business incentives

SIR – More people may well
take an interest in co-operative
business models during hard
economic times (“All in this
together”, March 28th). During
economic downturns employ-
ee-owned companies, in Brit-
ain at least, tend to make a
higher return on capital than
companies listed on the stock-
market. But they also make
above-average returns during
good times. Employee-owned
companies create a greater
spirit of internal competition,
vigilance and camaraderie,
leading to long-term innova-
tion, cost cutting and a happier
workforce. In effect, internal
competition within employee-
owned companies is projected
outward against their compet-
itors, which can only be of
benefit to customers.

In Britain, this philosophy
is epitomised by the John
Lewis Partnership. The retail-
er’s 60,000 employees turned
down the opportunity of a
stockmarket listing, and pos-
sible large individual wind-
falls, in 1999. In 2009 it pledged
to create a further 5,000 jobs,
counter to trends among most,
if not all, public retailers.

JAMES GOODWIN
Maastricht, the Netherlands

Witness for the prosecution

SIR – There was an important
factor missing in your explana-
tion of why prosecuting white-
collar crime is more difficult in
Canada than in the United
States (“Too trusting”, April
4th). In the United States pub-
lic lawyers start an investiga-
tion before charges are laid in
white-collar cases. A good
example is Patrick Fitzgerald,
the United States’ attorney
who investigated Conrad
Black. Lawyers are able to
gather and assess evidence in
these matters much better
than the police. In Canada the
police are responsible for
gathering evidence in an in-
vestigation, and are often
ill-equipped and unskilled in
such cases. Crown attorneys
only become closely involved
once the prosecution begins.

MARK COLLINS
Ottawa

City traveller

SIR – I’m afraid your descrip-
tion of Gavin Newsom’s hav-
ing “tidied up the city some-
what and cut the number of
rough sleepers” since becom-
ing mayor of San Francisco
could not be further from the
truth (“Young man in a hurry”,
March 21st). Since his election
the city has become noticeably
dirtier and the homeless have
moved into neighbourhoods,
where they camp openly and
harass people. Driving the
streets in a small car has be-
come a teeth shattering experi-
ence as the roads have crum-
bled from neglect.

MARK FREDENBURG
San Francisco

By a leg

SIR – I was surprised that age
was not a determining factor
in the biometric algorithm
identifying people by their
knees (“Knobbly ID”, April
4th). With a lamentable match-
ing rate of 34%, perhaps the
researchers could learn some-
thing from Hercule Poirot. In
Agatha Christie’s “Cat Among
the Pigeons”, Poirot solves a
case using his insight that “the
knees of a woman of 24 or 25
can never be mistaken for
those belonging to a young girl
of 14 or 15”.

TIM DEYZEL
Sydney

All that hot air

SIR – You described the contri-
bution to greenhouse gases
being produced by the power
plant that heats Congress
 (“Cap and binge”, March 14th).
Did you also consider how
much wasted carbon dioxide
is exhaled into the precious
atmosphere every time one of
our elected officials stands in
front of a news camera?

ANDREW LEBER
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