

Swaps, spots and bubbles

SIR – You give a balanced treatment to the debate on excessive speculation in commodities markets and its effect on prices (“Buttonwood”, June 26th). There are, however, two problems with your analysis.

First, the OECD report you cite, which argues that speculation has no effect on prices, is highly flawed. The report uses a Granger causality test to measure the relationship between the level of commodities futures contracts held by swaps dealers, and the prices of those commodities. Granger tests, however, are of dubious applicability to extremely volatile variables like commodities prices. Furthermore, the Commodity Futures Trading Commission estimates that less than half of swaps dealer positions in energy markets are related to index fund speculation, which is the primary focus of the debate. Yet the OECD analysis assumes that the holdings of swaps dealers provide a perfect proxy for index speculation.

Second, the article shares the common misconception that futures prices cannot affect spot prices because speculators do not take delivery of physical commodities, and therefore do not “hoard” in the traditional sense. The reality, however, is that spot prices of many consumable commodities, including oil and corn, are set by long-term contracts that are based on futures prices, allowing the tail to wag the dog.

There is strong evidence that speculation exacerbated the last oil and food bubble. Speculation will fuel the next one too, unless meaningful speculative position limits are established.

SIR RICHARD BRANSON

Founder
Virgin Group
London

MICHAEL MASTERS
Chief executive
Masters Capital Management
St Croix, American Virgin Islands

DAVID FRENK
Executive director
Better Markets
New York

Slow progress

SIR – It is a myth that India’s infrastructure development is being hampered by a dearth of sufficient available capital (“Infra red”, July 10th). In my dozen or so years of experience, no bankable project has been abandoned or delayed mainly because of lack of available equity or debt capital. If anything, the scarcity of such projects has caused cut-throat competition among investors and bankers to participate in schemes that do eventually fructify.

The fundamental issue with most projects is a lack of dependable revenue models—a result of both “ability to charge” and “willingness to pay”—justifying commercial rates for what are essential public goods.

Since 2004, the Indian government has adopted a “supply” led approach to infrastructure—focusing on increasing the level of investment without effectively addressing the fundamental problems of institutional and governance structures for delivering public services. This is the easy way out. Reforming the delivery systems entails challenging powerful vested interests, not something that most governments want to do unless forced by external circumstances. Furthermore, usually such reforms are the responsibility of state governments, not necessarily known for their reforming zeal. The states with the best infrastructure are the ones with the most effective governments.

ANSHUL RAI
Dubai

Nuclear treatment

SIR – Your article on wheat rust (“Rust in the bread basket”, July 3rd) warned of the “wheat plague”, Ug99, capable of decimating crops on which millions depend. In 2007 the International Atomic Energy Agency, the Food and Agriculture Organisation and more than 20 countries affected by the disease joined forces to use nuclear technology to find a Ug99-resistant wheat variety.

Through mutation induction, wheat seeds exposed to gamma rays can express new characteristics, such as the vigour to survive drought or resist diseases like Ug99. This technique is cost effective, environmentally friendly and mimics nature’s own spontaneous mutations. Our most recent harvest this year raised hopes that we might produce the first Ug99-resistant mutant plants. Should their offspring thrive, we may in the near future find a variety that could defeat this wheat plague globally.

MIRIAM GACERI KINYUA
Moi University

Eldoret, Kenya

PIERRE J. L. LAGODA

Head of plant breeding and genetics
IAEA
Vienna

Well-being at work

SIR – Some of Schumpeter’s concerns about the movement to improve psychological health at work are misplaced (July 10th). In our experience, the C-suites of many large corporations are rife with dysfunction and at times even pathology. Interventions designed to unearth, deal with and remedy these malignancies not only benefit individuals but also promote psychological health within the executive team and throughout the organisation.

Also, nobody measures the value destroyed by overly aggressive leaders who create cultures of fear. Psychological dysfunction in the boardroom often becomes emblematic of the whole organisation. Just look at Enron for proof.

Our evidence is incontrovertible: diagnosed early, and with follow up and support, companies who supplant their physical wellness programmes with some attention to individual and organisational psychology not only help talent retention, weed out bad apples and improve satisfaction at work, but also increase operational efficiency and create value.

GRAHAM WARD
INSEAD Global Leadership Centre
Fontainebleau, France

SIR – Companies do not wait for employees to have bad backs before providing ergonomic desks, and mental health should be no different. By providing a culture where employees can talk about their psychological well-being and by making adjustments when they do so, employers can prevent minor problems spiralling into major ones. This is not “sticking their noses where they have no business”, just basic human decency and good business sense.

PAUL KING

Chief executive
Hammersmith & Fulham MIND
London

Preferable premiums

SIR – Readers in America are likely to be envious of the “sky-high” premiums Italian pay for car insurance (“Claim and misfortune”, July 10th). You stated that the unlucky Italians pay an average of \$5,000 a year which is over twice as much as the French pay. The average in America is over \$800 while in my home state New Jersey, one pays over \$1,200 a year.

PAUL WALDENMEYER
Belmar, New Jersey

The battle continues

SIR – General David Petraeus is surely equal to and possibly better than General Stanley McChrystal (“More than a one-man problem”, June 26th). However, he has no magic wand for Afghanistan. If we think he has, we might as well believe Afghani corruption has ended, Hamid Karzai is a credible leader, poppies are grown for their beauty, women are equals, warlords have embraced the government and the Taliban have beaten their swords into plough shares.

JERRY AUTRY
San Francisco ■

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James’s Street, London SW1A 1HG
E-mail: letters@economist.com
Fax: 020 7839 4092
More letters are available at: Economist.com/letters