The year of the unconventional
Lionel Barber

Seven themes that shaped 2010 As long-held assumptions were tested and at times toppled, business and politics both found promising new approaches, writes Lionel Barber

By any measure, 2010 was the year when conventional wisdom was challenged, redefined or comprehensively overturned. A Conservative-Liberal Democrat coalition assumed power in Britain and the sky did not fall in; the eurozone ceased being a shelter and became a source of instability; Barack Obama succeeded where so many had failed and pushed through healthcare and financial services reform; Silvio Berlusconi survived a string of sex scandals; Tony Blair, reputedly one of the most hated men in Britain, wrote a best-selling memoir; and Qatar, an up-and-coming oil-rich emirate, won the right to host the 2022 World Cup, alongside a Russian bid for 2018 that saw off England.

The global financial crisis and its aftermath continued to preoccupy policymakers. Viewed from Delhi, Singapore or São Paulo, the crisis appeared less acute than in Dublin, Madrid or Washington. The impact of US-led unconventional monetary measures to head off deflation was inescapable and highly controversial. Currencies in emerging markets rose sharply against the dollar, gold soared in value and relatively open economies, such as Indonesia and South Korea, experimented with capital controls to curb the flow of hot money.

After the crash of Lehman Brothers, whose second anniversary passed without celebration in September, the inexorable advance of globalisation looked less certain. BHP, the Anglo-Australian mining giant, abandoned a $40bn bid for Potash, largely because of opposition in the Canadian fertiliser group's home province of Saskatchewan. Rupert Murdoch's bid to take full control of BSkyB was put on hold by the UK government, a rare if perhaps only temporary setback for him in Britain. Across the globe, regulators - shoved aside during the credit boom - staged a comeback.

There were extraordinary acts of courage, such as the 33 Chilean miners who survived nearly 70 days buried 2,300ft (700 metres) underground and the defiant dignity of Aung San Suu Kyi, the Burmese opposition leader released after spending almost 15 of the past 21 years under house arrest. Overall, however, seven themes helped to shape 2010.

1 From banking crisis to sovereign debt crisis

The 2009 recapitalisation of the banks, coupled with massive deficit spending, saved the world from a 1930s-style Depression. In 2010, the bill came due in the form of a sovereign debt crisis. Markets woke up to the fact that liabilities and risk had simply been transferred from the private sector to the state. The eurozone suffered the most serious crisis in its 12-year history. Debt-laden Greece, followed by Ireland with its insolvent banking system, were forced to apply for rescue aid that together approached €200bn.

The German public was outraged. Angela Merkel, chancellor, insisted on new rules to deal with fiscal profligacy and future bail-outs. Spain and Portugal wobbled as markets took fright about peripheral economies. By year's end, the European Central Bank was obliged to delay phasing out its emergency provision of liquidity to stricken banks, and to buy government bonds (though not in sufficient quantity to upset the Germans or to convince the markets that this really was "shock and awe", with more to come).

The original rules for governing the eurozone proved to be either inadequate or unenforceable. The Maastricht treaty made no provision for bailing out a sovereign member but, in the heat of the crisis, Greece and Ireland had to be saved. Maastricht mandated curbing budget deficits to 3 per cent of gross domestic product, but the rules had earlier been ignored by France and Germany. These same rules failed to address what had become the problem at the heart of the eurozone's troubles: the huge current account deficits run up by the likes of Greece, Spain, Portugal and Ireland at the height of the boom.

In 2010, Germany, supported gingerly by France, started to rewrite the rules. Many concluded that if the eurozone was to survive it would be on German terms, including the appointment next year of a German (Axel Weber?) to succeed Jean-Claude Trichet as ECB president.

2 American power weakens as China rises

In 2010, China overtook Japan as the second-largest economy in the world and will soon be the world's largest manufacturer. China also became more assertive, much to the discomfort of its neighbours. Japan was forced into a humiliating climbdown after it arrested a Chinese trawlerman accused of trespassing in its waters. US pleas to Beijing to adjust the value of the renminbi were largely ignored, while at the Group of 20 summit in Seoul, US-led efforts to address global imbalances ran into a wall of Chinese-organised opposition.

Behind the new-found swagger, not all went according to plan in China. A wave of labour unrest swept through factories midyear, though foreign-owned businesses were most affected. Food prices rose, a reminder of how a burst of inflation preceded the street protests around Tiananmen Square in 1989. The authorities clamped down further on the internet, helping to drive Google offshore. The furious official reaction to the award of the Nobel Peace Prize to Liu Xiabao, a long-time human rights activist, underlined the regime's insecurity.

In the US, the recovery faltered, forcing the Federal Reserve to order a fresh round of quantitative easing, dubbed QE2. Mr Obama's popularity fell and the Democrats suffered a "shellacking" in the midterm elections. The populist Tea Party gained congressional seats and Sarah Palin's popularity rose. So did the stock of Glenn Beck, a rabble-rousing Fox News television host who regularly accused the president of being "unAmerican". Yet Mr Obama still has no credible challenger in the Democratic or Republican party.

Abroad, the US military campaign in Afghanistan picked up pace but corruption and weak civil institutions undercut the strategy. Mr Obama blinked first in the stand-off with Israel over settlements in the West Bank. More significant in the long term was Hillary Clinton's statement that the US had vital interests in the Pacific, a belated recognition of China's growing power in the region.

3 Nick and Dave double-act defies the doom-mongers

Before the UK general election in May, it was received wisdom that a "hung parliament" (whereby no individual party gained a parliamentary majority) would be disastrous. Financial markets would react badly and the British people would be denied "the firm smack of government". Yet David Cameron, the Conservative leader who fought a timid campaign, and Nick Clegg, the feisty head of the Lib Dems, seized the moment and forged a coalition, leaving Gordon Brown and the Labour party on the sidelines after 13 years in power.

Mr Cameron and Mr Clegg opted for a comprehensive deal that included electoral reform, a share-out of cabinet seats and an ambitious programme of spending cuts to shrink the deficit. The markets were impressed. So was Mervyn King, governor of the Bank of England. Mr King had urged tough action ahead of the election, lest Britain suffered a slump in confidence like countries caught in the sovereign debt crisis. Some colleagues on the Bank's independent Monetary Policy Committee thought the governor should keep his nose out of fiscal policy. With hindsight his warnings about the need to reassure the bond markets appeared pertinent.

What surprised many commentators - and many Whitehall civil servants -was the shoot-first, ask-questions-later tendency within the coalition. The National Health Service, welfare and student fees were all targeted for reform, though there were signs of second thoughts about the NHS. The spending review was brutal in numerical and rhetorical terms, especially in respect of defence where Britain is only just hanging on as a serious military power. Violent student protests against tuition fee rises foreshadowed trouble ahead. The true test of the coalition's durability will be in 2011.

4 The reassessment of risk

Successive earthquakes in Chile and Haiti reminded us of the misery inflicted by natural disasters, but it was a man-made calamity that dominated the news. BP'S oil spill in the Gulf of Mexico cost the company billions of dollars and forced the resignation of Tony Hayward, the cherubic chief executive who became a hate figure for environmentalists and politicians. BP was sneeringly called by its old name of British Petroleum, which may explain why the board chose an American - Bob Dudley - as Mr Hayward's successor.

The Macondo well explosion illustrated the risks of operating on the frontiers of technology, several miles underground, in search of oil. Although the risks of an accident were judged to be infinitesimal, the actual disaster proved disproportionately damaging - a little like the global banking crisis. A similar story unfolded in the Chilean mining accident, though the company San Este-ban Primera - escaped the same degree of attention as BP.

At year's end,. Rolls-Royce, another top British company and world-class aero-engine maker, struggled to deal with the fallout from a far less serious accident: the failure of one of its Trent 900 engines on a Qantas Airbus 380. In spite of its excellent safety record and proven technology, the company was put on the back foot, partly because of the new super-jumbo's iconic status.

5 Bankers still don't 'get it'

The passage of the Dodd-Frank measures marked the most far-reaching reform of the US financial services industry since the 1930s Glass-Steagall Act that separated commercial and investment banking. Wall Street lobbied ferociously to prevent a return to Glass-Steagall but accepted some curbs on the ability of banks to trade on their own book. The future business model of big investment banks such as Goldman Sachs remains open in a world of lower leverage and correspondingly lower returns.

Bonuses remained a source of controversy. Bank bosses complained about a one-off tax in Britain and muttered about leaving the City of London. John Varley, the outgoing chief executive of Barclays, quietly tried to rally fellow bankers around "Project Merlin", an effort to cap bonuses, settle tax issues and promote a better image for the industry. But it proved impossible to organise agreement, not least because banking is a worldwide business and the Wall Street players had no intention of joining a "little England" effort.

Stories of excess continued to emerge, especially in Ireland where the banks' irresponsible lending on real estate was laid bare. There was anger when the Financial Services Authority, the UK's financial watchdog, exonerated Sir Fred Goodwin and the board of Royal Bank of Scotland of mismanagement - a decision made worse by the FSA's initial refusal to publish its own report.

6 WikiLeaks and the world of open source(s)

A previously obscure computer geek-turned-gadfly called Julian Assange turned the worlds of diplomacy and journalism upside down. Mr Assange and his internet site WikiLeaks engineered two industrial-scale dumps of confidential US government data. The first involved dispatches from the front lines in Iraq and Afghanistan, and offered vivid - if partial - snapshots of modern war. The second featured 250,000 classified diplomatic cables featuring tittle-tattle about leaders such as Nicolas Sarkozy, Vladimir Putin and Silvio Berlusconi. But there were far juicier extracts offering insights into US involvement in Yemen, as well as concerns in Saudi Arabia and Gulf emirates about Iran's nuclear programme and their apparent willingness to support US military action against Tehran.

As the leaks turned into a cascade, Mr Assange was arrested in London, though later released on bail. He faces deportation either to Sweden to face rape allegations or extradition to the US where prosecutors are scrambling to prepare charges, possibly under the 1919 Espionage Act.

Fonte: Financial Times, London, December 31 2010, Primeiro Caderno, p. 7.