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Closing In on Hedge Funds

At first glance, the market-beating returns of hedge funds are impressive. But on closer inspection, things look less showy. Performance measures are based on voluntary reporting by hedge funds and thus tend to reflect outperformers rather than laggards and losers. And even some of the winners' outsized returns are overstated because they are not adequately adjusted to reflect the huge risks that go hand in hand with big gains.

In addition to those concerns, Jenny Anderson of The Times has now articulated another: the strong possibility that hedge funds' returns are juicy by insider trading.

Over the past several years, largely unregulated hedge funds have become a towering presence in the stock market, now accounting for roughly half of all trading on the New York and London exchanges. More recently, they have become major players in the debt market as lenders to companies, buyers of banks loans and investors in tricky derivative securities tied to companies' credit quality.

The loan market is far larger than the stock market, and as such, of vast importance to the performance of the overall economy — a fact that on its own should entice regulators to inquire more about hedge funds' potentially destabilizing positions and activities. A more immediate problem is that loan-market participants routinely deal in confidential information, including all of the details a company must divulge to qualify for a loan and frequent —

nonpublic — financial updates while a loan is outstanding. With virtually no government oversight and generally fewer institutional controls than banks, hedge funds that are active in both equity and debt markets face huge temptations to trade on insider information.

Ms. Anderson reported that the Securities and Exchange Commission is looking into whether certain hedge funds improperly traded the shares of Movie Gallery, a movie rental chain, after taking part in a confidential conference call for the company's lenders. Such an investigation may be just the tip of an iceberg. Even if it doesn't uncover any wrongdoing, it has opened a window on how information travels on Wall Street.

On Monday, Senator Charles Grassley, chairman of the Senate Finance Committee, sent a letter to Treasury Secretary Henry Paulson Jr. and several other administration officials and members of Congress, soliciting views on how Congress could improve hedge fund transparency. The replies will, at the least, create a record of officials' ability and willingness to respond to the obvious problems posed by hedge funds — before those problems become crises.

It is time for Congress and federal regulators to take an unflinching look at how deals really get done in today's markets, and to come up with enforceable rules and laws to ensure market integrity and the overall soundness of the financial system.

It's Voter-Fooling Time in America

The homestretch of the campaign season historically puts treacherous distortions of the truth before the voters, none more so this year than a mysterious California letter informing thousands of Latino-Americans that immigrants have no right to vote. "You are advised," begins the Spanish-language letter, dripping with authority, that if "you're an immigrant, voting in a federal election is a crime that can result in incarceration." It now appears that someone in a Republican Congressional campaign conjured a contemporary spin on a classic scare tactic from torchlight politics.

Comparable outrages surface daily now, with an ad for black voters in six states misrepresenting the Rev. Martin Luther King Jr.'s politics in a staged chat between two black women: "Dr. King was a real man," says one actress. "You know he was a Republican," the other chimes in.

Democrats are no less tempted to flash bare-knuckle mischief. In a prime example, Representative Nancy Johnson, a Connecticut Republican, is being portrayed by Chris Murphy, the Democrat, as heartlessly unresponsive to a woman whose child needed insurance coverage for a cleft lip and palate. Of course, Ms. Johnson has represented Mr. Murphy as being opposed to the surveillance of terrorists.

So it goes, with some ethically challenged spinners creating false news clippings and tucking them knife-like into campaign videos of real stories. Even Lincoln is being falsely quoted by defenders of the Iraq war. The 16th president never said that Con-

gressional critics who damage wartime morale "should be arrested, exiled or hanged."

One of the more widespread canards is rooted in the divisive and fruitless immigration debate. Democrats in more than two dozen races are being falsely accused of wanting to give Social Security benefits to illegal immigrants — a distortion of a proposal to actually block immigrants from being credited for benefit days worked before they had legal status. One Web site coated with obvious racism and xenophobia is MuchasGraciasDebbie.com, which skewers Senator Debbie Stabenow, Democrat of Michigan, dressing her digitally in a sombrero, grinning and declaring, "No problema!"

What to do, beyond celebrating the continuing pungency of free speech across the nation? The most obvious answer is that voters need to pay ever closer attention to what the candidates say in this world of mixed media and mixed messages. The Internet is a powerful ally.

The head of Google, Eric Schmidt, is cautioning politicians stuck in the sound-bite era that "truth predictor" software is in the works so that computer-wise voters will be instantaneously able to check on the probability, if not the certainty, of what candidates claim as fact. Actually, careful parsing of egregiously misleading campaign ads is already available on the Web at factcheck.org, a nonprofit service that thinks voters should be treated as intelligent consumers entitled to the plain facts. If only the candidates saw it that way.

Consolidating Food Safety

According to the United States Government Accountability Office, the federal responsibility for food safety is scattered across some 15 separate agencies. That is a historical accident, and in the world of bureaucracy, historical accidents don't usually lead to efficiency or effectiveness. Over the years, the idea of merging all those pieces of our food inspection system into a single food safety administration has surfaced again and again. It's a good idea, and it has gained some momentum thanks to the recent E. coli outbreak caused by contaminated spinach.

Yet the legislation that would create a single food safety administration always seems to get devoured in committee. The sponsors of the Safe Food Act of 2005 called upon the chairman of the House Energy and Commerce Committee to hold hearings before Congress adjourned, but no such luck.

There is enormous inertia in the way things are — both from the view of the federal bureaucracy itself and from the view of the industries being regulated and inspected. The National Academy of Sciences has recommended an integrated food safety system, and the G.A.O. has reported on the generally positive results of consolidation in other countries. Meanwhile, the federal agencies in question seem happy doing business as usual.

It should not take a health crisis to force a reorganizing of America's food safety apparatus, and there are good reasons to reorganize in a deliberate manner, without a sense of emergency. This is not just a question of how to merge various bureaucracies. Congress needs to make sure a new agency is not only well-organized but has the powers and authority it needs to control the American food supply in a way that keeps everyone safe.

A Survivor's Optimism

When Sigmund Strochlitz was starving in Auschwitz and Bergen-Belsen, and, later, mourning his wife, parents and two sisters, who died at Birkenau, he could not have imagined the rich and varied years still to come.

Mr. Strochlitz, who died Monday at 89 in his New London, Conn., home, typified the determination of so many Holocaust survivors. He refused to allow grief to immobilize him. He remarried, emigrated to America, raised children and began a business. In time, he became one of the dearest friends of the Nobel Peace Prize winner Elie Wiesel, and traveled thousands of miles with him to ensure remembrance of the millions of Jews who were murdered during World War II.

Mr. Strochlitz worked to inspire each state and Washington, D.C., to dedicate one day of Holocaust remembrance during the year, and was a member of the council that established the national Holo-



caust Memorial Museum.

His life was rooted in gratitude. He was generous, because the memory of having nothing was never far from his mind. He was fluent in five languages.

He met popes and presidents, yet he spoke with wonder of the love of his children, grandchildren and his wife Rose, to whom he was married for 56 years.

Every day, the ranks of Holocaust survivors like Mr. Strochlitz dwindle. Their lives defied their losses. Their families died, and they started over. Their homes were destroyed, and they built again. Their communities were wiped out, and they emigrated, often to America, to begin anew.

The triumphs of Mr. Strochlitz, and of the others, are measured not merely by length of years, but by the children they raised, the stubborn optimism of their lives, and a legacy of kindness. Would that we could all say the same. MAURA J. CASEY

Bush, the Prisoners and Our Rights

To the Editor:

"A Dangerous New Order" (editorial, Oct. 19) is a much-needed reminder of how much the Bush administration has eroded the Constitution. It has replaced habeas corpus for all with a system that operates at the whim of the executive branch.

The actual "war on terror" declared by this administration has been waged ineptly at best. The invasion of Iraq, repeatedly stated to be part of that war, has created more dangers for America both overseas and at home.

This, the pandering of fear, and the craven passage of the military tribunals law, provide proof that the "war on terror" is actually the war against the Constitution.

This is a "war" we can stop by voting. CARL IAN SCHWARTZ
Paterson, N.J., Oct. 19, 2006

charges and repeatedly intimidated, degraded and, yes, tortured despite his innocence, would you still think that our government was acting in your best interests?

ROBERT J. INLOW
Charlottesville, Va., Oct. 19, 2006

To the Editor:

It is really sad to see that the president and the Republican Congress are unwittingly doing exactly what the terrorists aspire to do themselves: chipping away at the pillars of liberty and freedom of the Western world, one law at a time.

In this particular instance, the American judicial system has been torpedoed.

The president and the Republicans may have won a battle with the Dem-

To the Editor:

Re "President Signs New Rules to Prosecute Terror Suspects" (news article, Oct. 18):

It is astounding that the president of the United States could state that "it is a rare occasion when a president can sign a bill he knows will save American lives." This referred to the bill he signed allowing coercive interrogation.

The implication, of course, is that since the detainees must be guilty, we can treat them any way we want to. It assumes that we will get all their information regarding illegal terrorist activities and will save American lives.

Of course, we can hold them, interrogate them, cause suffering and harm to them and their families even if they are innocent, even if they know nothing about terrorist activities and even if they are taken by mistake.

It is an abomination that President Bush has been allowed to frame this discussion in terms of how we treat the guilty.

Without due process, we don't know if they are guilty. The president has signed a bill that fundamentally allows the United States government to torture possibly innocent people.

The question was never about how we treat the guilty (although that is a valid question in a country that has a Constitution). The question should always have been about how we determine guilt and are we harming the innocent. ELAINE M. EDELMAN
Staten Island, Oct. 18, 2006

To the Editor:

Re "A Dangerous New Order" (editorial, Oct. 19):

Speaker J. Dennis Hastert, speaking for the Bush administration, states cynically that those who oppose the new Military Commissions Act "would gingerly pamper the terrorists who plan to destroy innocent Americans' lives."

This demagogic is insulting to our intelligence.

The issue is not about coddling evil; it is about preserving fundamental checks and balances.

While many of those held at Guantanamo are bad men intent on bad deeds, hundreds of other detainees have been quietly released without charges or apology or compensation after years of captivity and harassment.

If these individuals had been granted basic habeas corpus rights, this shameful injustice would have never occurred.

To those who say it's better to be safe than sorry, I'd ask:

If it were your father or son who was spirited away, jailed without

Hong Kong's Air Quality

To the Editor:

Re "Something in Hong Kong's Air" (editorial, Oct. 13):

Far from your claim of a missed opportunity, Hong Kong's chief executive, Donald Tsang, laid out a comprehensive strategy to deal with pollution in his policy address.

We have adopted a Joint Air Quality Management Plan with Guangdong Province with clear targets to cut about 50 percent of major air pollutants by 2010.

Effective measures include the restriction of using only natural gas for all new power plants and progressive tightening of vehicular emission standards.

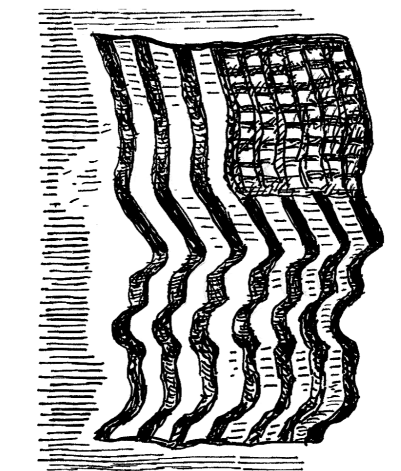
For Hong Kong, our public transport policy has resulted in 95 percent of the traveling public using the public transport system, a model for many cities to follow.

The chief executive also announced a \$410 million plan to help phase out 74,000 older diesel vehicles, and financial concessions to encourage people to buy environmentally friendly cars.

We spare no efforts to promote the sense of environmental stewardship in our community, and together we will succeed in combating environmental pollution in our metropolis.

SARAH LIAO
Secretary for the Environment,
Transport and Works
Hong Kong, Oct. 18, 2006

The Times welcomes letters from readers. Letters must include the writer's name, address and telephone number. Those selected may be shortened to fit allotted space. Send e-mail to letters@nytimes.com, faxes to (212)556-3622 or postal mail to Letters to the Editor, The New York Times, 229 West 43rd Street, New York, N.Y. 10036-3959.



David Suter

ocrats, but they should take a step back to see that we are slowly losing the war on terror by compromising on the principles and ideals laid down in the United States Constitution. KIRAN ACHYUTUNI
Bangalore, India, Oct. 19, 2006

To the Editor:

As an Australian citizen concerned about the welfare of my fellow citizen David Hicks, who is one of the hundreds of inmates at Guantanamo Bay, I am horrified at the new American law on military tribunals.

Your editorial quite correctly points out that these new laws do nothing for the reputation of the United States as a democratic society and should be of great concern to all Americans.

The idea that if you don't like the decision of the umpire (the Supreme Court, in this case), you just change the rules to suit your purpose may work on some sporting fields, but it should not be used by a national government to undermine the justice system. LORIE WERNER
Melbourne, Australia
Oct. 19, 2006

To the Editor:

What a sad day for the United States, and for the rest of the world witnessing this event, that a bill has been signed into law that allows torture.

Yes, the United States has been a shining light of freedom and democracy; now it is quickly becoming a rogue state, characterized by a lust for war, hoping to achieve the quelling of dissent by indoctrination inside the United States and by violence outside of it. A very sad day. KEES SCHEPERS
Antwerp, Belgium, Oct. 19, 2006

To the Editor:

"It can't happen here." It did. GEOFF CARVER
Bensberg, Germany, Oct. 19, 2006

A Palestinian Path

To the Editor:

Re "Abbas Threatens to Dismiss Hamas Government" (news article, Oct. 18):

When the Palestinians elected Hamas, they hoped that it would bolster their dignity by talking tough to Israel.

Instead, it has painfully exposed their lack of self-sufficiency. A permanently outstretched hand is not a dignified pose, no matter how fierce a face you make.

The only dignified route is to work toward self-sufficiency using all available means — recognition of Israel included.

Only recognizing Israel and using foreign aid to build a self-supporting society will give Palestinians true dignity.

This would not be a surrender of their rights, but a recognition of their responsibilities.

No decent person would disrespect the Palestinians if they took this route. ILYA SHLYAKHTER
Princeton, N.J.
Oct. 18, 2006

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A Nobel Prize For Wal-Mart?

To the Editor:

John Tierney ("Shopping for a Nobel," column, Oct. 17) sets his sights way too low in celebrating Wal-Mart as a force to lift the world out of poverty.

Beyond cheap goods and mass employment stand the ugly consequences of 19th-century capitalism: poverty wages, dire factory conditions, evisceration of downtown shopping districts and a track record of making the environment someone else's problem.

To secure our future, today's leading companies are learning how to offer value to customers while minimizing the social dislocation and ecological impact of their operations.

Paying a living wage to its American workers and adhering to local labor standards in manufacturing are the least we can ask of the world's biggest private employer.

ADAM SEITCHIK
Lexington, Mass., Oct. 17, 2006

To the Editor:

Did John Tierney write "Shopping for a Nobel" tongue in cheek? Is he really claiming that there is no more effective antipoverty organization than Wal-Mart?

Drawing parallels between Wal-Mart, the corporate giant, and the Grameen Bank is beyond belief. The Grameen Bank creates wealth and capital and is about empowerment. Wal-Mart rents labor at the lowest possible price and discards people when they are done.

Wal-Mart has long tried to portray exploitation as efficiency, and now, according to Mr. Tierney, it deserves the Nobel Prize.

Yes, any wage is better than no wage, but to state that overseas factory workers have been lifted out of poverty is a fallacy.

It has been widely reported that workers abroad in Wal-Mart's suppliers' factories routinely experience forced labor, minimum-wage violations, maternity-leave violations, overtime pay violations and more.

We need to understand that suppliers overseas perpetuate inhumane conditions in an attempt to maintain the low prices that Wal-Mart demands. ANDREW GROSSMAN
Exec. Director, Wal-Mart Watch
Washington, Oct. 18, 2006

To the Editor:

There are several fundamental differences between the Grameen Bank and Wal-Mart.

The Grameen Bank is owned and controlled by its borrowers. Wal-Mart is not controlled by Chinese laborers.

The Grameen Bank supports self-employment for the rural poor precisely so they don't have to "move hundreds of miles for a job" if they don't want to.

I have spoken with Bangladeshi villagers who were considering relocating to Dhaka to find factory work. They were distressed by the idea of uprooting their families and moving to a slum.

Journalists should not celebrate this option glibly. People make such sacrifices to survive.

But much is lost: social networks are fractured; children lose access to safe and clean places to play; parents cannot be near their children while they work; and employees are often exploited and humiliated on the job. We should try to do better.

The virtue of microcredit is that it goes to the poor person rather than making the poor person come to it. When it works successfully, it offers a measure of self-determination that low-wage employment does not.

It also encourages people to accumulate assets, which stabilizes their lives and makes them more future-oriented.

Wal-Mart creates "jobs." But people are not born simply to sit on assembly lines and eat. The Grameen Bank and thousands of other microcredit lenders around the world are struggling to expand economic options for the poor in line with their full aspirations as human beings.

DAVID BORNSTEIN
New York, Oct. 17, 2006

The writer is the author of books about the Grameen Bank and social entrepreneurship.

To the Editor:

Wal-Mart is indeed deserving of a Nobel, but so are those thinkers who have over the years argued for free markets, private property and liberty.

By creating and supporting these institutions, we can do more to promote economic and moral growth than all the government aid programs put together.

DOUGLAS B. RASMUSSEN
Jamaica, Queens, Oct. 17, 2006
The writer is a professor of philosophy at St. John's University.

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