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The enemy inside every company

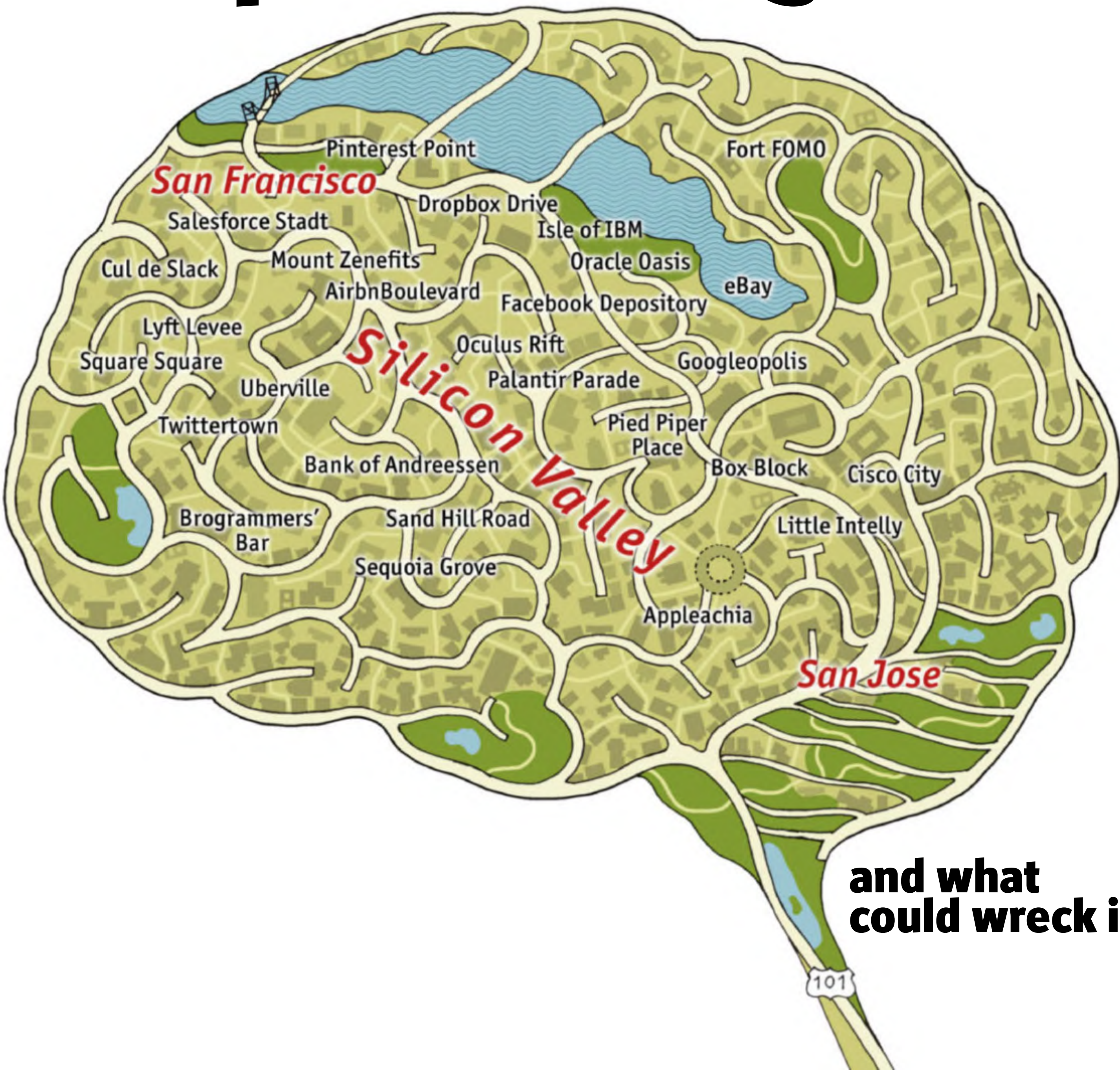
Minimum-wage mania

Was Confucius a communist?

Medical trials—and errors

The politics of procreation

Empire of the geeks



and what could wreck it

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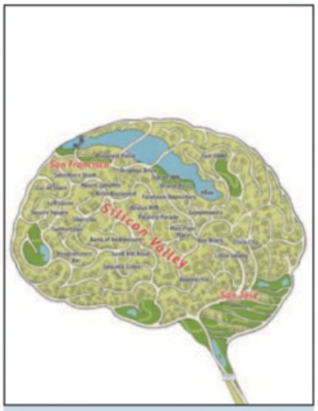

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The world this week

Politics

The **United States** and **Cuba** restored full diplomatic links after a 54-year interruption. Relations have been improving since Barack Obama announced in December that the United States would ease its embargo on trade with the island. Raúl Castro, Cuba's president, followed up by freeing some political prisoners. Marco Rubio, a Republican senator from Florida who is running for president, has threatened to block the Senate's confirmation of an American ambassador to Cuba because of a lack of progress on the island.

Prosecutors opened an investigation into allegations that **Brazil's** former president, Luiz Inácio Lula da Silva, improperly lobbied foreign leaders, including Cuba's, to award contracts to Odebrecht, a construction company.

Eduardo Cunha, the Speaker of Brazil's Congress and a member of the centrist PMDB party, which is in the coalition government led by the president, **Dilma Rousseff**, said he will switch to the opposition. He was angered by allegations, which he denies, that he had asked for a $5m bribe to promote legislation favouring suppliers to Petrobras, a state-controlled oil company. Mr Cunha says Ms Rousseff's party is encouraging a witch-hunt against him.

Aiming for the heartland

Investigators suggested that a gunman who shot dead five members of the armed forces at a naval facility in Chattanooga, **Tennessee**, may have turned to radical Islam after a trip to Jordan. Muhammad Abdulazeez, who was killed in a subsequent shoot-out with the police, was born in Kuwait before moving to America and becoming a citizen. His family claim he was suffering from depression.

America's Equal Employment Opportunity Commission, a federal agency charged with enforcing civil-rights laws in the workplace, ruled that the ban on sex discrimination in the Civil Rights Act now includes **sexual orientation** and applies to discrimination against gays and lesbians.

John Kasich, the governor of Ohio, became the 16th **Republican** to enter the presidential race. Donald Trump continued to amuse and infuriate the public, especially when he implied that John McCain was not a war hero because he had been captured. Mr McCain was shot down in his plane and tortured in Vietnam. Mr Trump avoided the draft "because of the fact that I had a very high lottery number".

Forging a relationship

After talks in Washington with **Nigeria's** new president, Muhammadu Buhari, Barack Obama set off on his fourth trip to sub-Saharan Africa since he became president. He will visit **Kenya**, the homeland of his father, and **Ethiopia**.

Meanwhile, Mr Buhari said he would be prepared to negotiate with the leaders of **Boko Haram**, the jihadist group that has terrorised north-eastern Nigeria, for the release of 200-plus schoolgirls who were kidnapped from the town of Chibok in April last year.

America's defence secretary, Ashton Carter, headed to Saudi Arabia in an effort to reassure King Salman and his government that the recent deal with **Iran** on its nuclear programme will not leave the kingdom vulnerable to its Shia rival as sanctions end. In Washington the Speaker of the House of Representatives vowed to kill the deal, though the Republicans lack the votes to overturn a presidential veto.

Saudi Arabia launched a big crackdown on militants, announcing that it has arrested 431 people it suspects of being connected to **Islamic State**.

Amid widespread criticism across Africa and in the West, President Pierre Nkurunziza of **Burundi** looked certain to be elected for a third term, despite the constitution's two-term limit and street protests in the past three months that have left scores of people dead.

Deadly incursion

At least 32 young aid volunteers in **Turkey** were killed by a suicide-bomb in the town of Suruc near the border with Syria, which was blamed on Islamic State. In the adjacent part of Syria IS and Kurdish forces have been battling for control of several strategic towns. The bomb triggered protests against President Recep Tayyip Erdogan, who is accused of being faint-hearted in the fight against IS. Kurdish militants killed two Turkish policemen in revenge.

Alexis Tsipras, the **Greek** prime minister, faced fresh objections from the left wing of Syriza, the radical party he leads, as he drew on opposition support to push a set of harsh reforms through parliament to help secure a new bail-out package. The country's banks reopened after being shut for three weeks.

Thousands of supporters of a right-wing nationalist group, Right Sector, demonstrated against the government in Kiev, the capital of **Ukraine**. Earlier this month there were armed clashes between Right Sector and local authorities in a region of south-western Ukraine bordering Hungary and Slovakia.

It's never too late

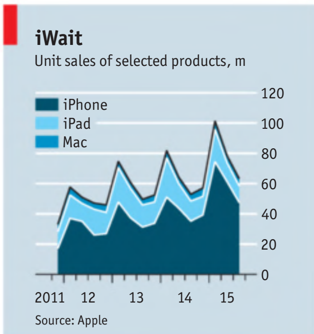
Mitsubishi Materials, an affiliate of the Mitsubishi group, became the first **Japanese** firm formally to say sorry for treating American prisoners as forced labour during the second world war. On August 15th, the 70th anniversary of Japan's surrender, Shinzo Abe, the prime minister, is expected to make a statement that addresses lingering resentments over the war.

Mistaking them for Taliban, American helicopters opened fire on Afghan soldiers in an outpost in Logar province, eastern **Afghanistan**, killing seven. The Taliban then attempted to assault the outpost. Morale is already low among soldiers fighting the insurgency, with desertion rife.

In **China** Ai Weiwei, perhaps the country's best-known artist, who was detained in 2011 and has been barred from travelling since, was given his passport back. A show of his work at London's Royal Academy opens in September, and he now hopes to visit it.

About 180,000 soldiers in the paramilitary branch of China's **People's Liberation Army** tried out new footwear to replace the ubiquitous green canvas "liberation shoe" that has been in service since the 1950s. Though the plimsolls had "passed the test of revolutionary years", one soldier said that his dorm no longer honked of smelly feet. China's defence budget is growing by 10% a year, though other secret weapons remain off-budget.

Business



Apple reported a bumper set of quarterly earnings for the three months ending June 27th. Compared with the same period last year net profit was up by 39%, to $10.7 billion; revenue grew by a third, to $50 billion; and sales in China increased by 112%. But Apple's share price plunged because unit sales of the iPhone, which account for two-thirds of its revenues, fell 22% by comparison with the previous quarter. Consumers normally delay buying an iPhone in the spring in anticipation of new Apple products in September, but the fall was steeper than expected.

Countdown to 10

Microsoft reported a quarterly net loss of $3.2 billion, its biggest to date, mostly because it has had to write down the mobile-phone business it bought from Nokia. The money Microsoft rakes in from licensing Windows fell ahead of this month's release of a new version of the operating system, but revenue from its Xbox gaming business, Surface tablet and cloud services grew strongly.

After years of delay and an often tetchy debate between Wall Street and America's regulators, the **"Volcker rule"** at last came into effect. Named after Paul Volcker, a former chairman of the Federal Reserve, the rule stops big banks from engaging in certain kinds of risky speculative bets, activities that produced handsome profits for some before the financial crash. Most banks have cut back their investment activities to take account of the rule.

The Federal Reserve finalised its new requirements for the amount of **additional capital** that America's "most systemically important" banks will have to hold to protect against losses. JPMorgan Chase had its minimum capital requirement raised by 4.5% of assets, more than any of the seven other banks that the regulation applies to.

Gold prices dropped to a five-year low of around $1,090 per troy ounce, partly in reaction to the Fed repeating that it is on course to raise interest rates this year. The news that China's central bank, which wants to boost the yuan as a trading currency, had made much smaller purchases of gold reserves than had been thought was also a factor.

Whirlybirds

Lockheed Martin agreed to buy **Sikorsky**, which makes the Black Hawk helicopter for the American army, from United Technologies in a $9 billion deal. It is Lockheed's biggest acquisition since 1996.

Sony announced plans to start a new business using **drones** for a variety of services. The announcement came a few days after the first government-approved delivery by drone (of medicine to a clinic in Virginia) took place in America. But the pace at which the technology is being adopted by unregulated hobbyists is worrying some. Drones flown over blazes in California were said to be hindering firefighting operations. And Britain's Civil Aviation Authority warned about the dangers of flying drones near airports. This came after news of a near-encounter between a drone and Lufthansa jet as it approached Warsaw airport.

An independent committee found that **Toshiba** had overstated profits by ¥152 billion ($1.2 billion) over seven years, in one of the biggest accounting scandals to hit Japan's corporate world in years. Hisao Tanaka stepped down as chief executive of the electronics and nuclear-power group after the panel's report described the problems as "systemic". Half of the board's 16 members also resigned.

Maurice Obstfeld was appointed the **IMF's** new chief economist. He will succeed Olivier Blanchard in September. Born in New York, Mr Obstfeld is a professor at the University of California, Berkeley, and sits on Barack Obama's Council of Economic Advisers.

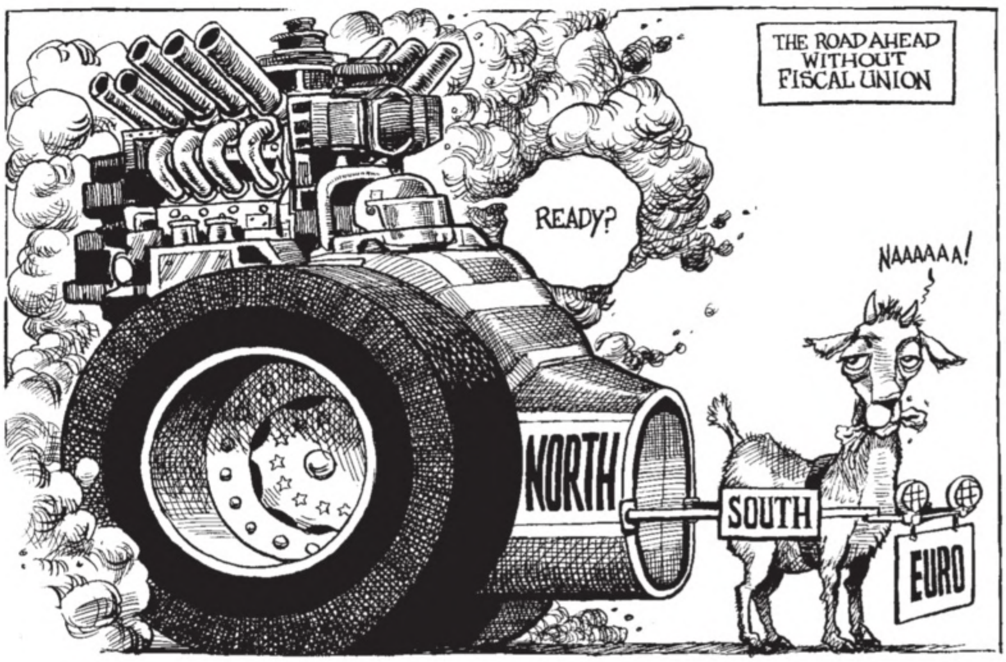
The British government told **Martin Wheatley** that it would not renew his contract as head of the Financial Conduct Authority. Mr Wheatley said he was disappointed, as he had "unfinished business" still to do. The FCA has taken a tough approach towards wrongdoing in the City, but with the scandals in banking receding, the government is now hinting at a lighter regulatory touch.

The European Commission ruled that a **tax break** granted to Électricité de France by the French government in 1997 was illegal and ordered it to repay €1.4 billion ($1.5 billion). The case was reopened two years after Europe's top court criticised an earlier investigation by the commission.

A not-so-discreet encounter

Adulterers fretted after a cyber-attack on **Ashley Madison**, a website that specialises in matching married people who want to have an affair. The hackers threatened to release confidential details of its customers, including their credit-card details and "secret sexual fantasies". The firm's members number 38m in 48 countries.

Other economic data and news can be found on pages 72-73



Empire of the geeks

Silicon Valley should be celebrated. But its insularity risks a backlash

THE English have Silicon Fen and Silicon Roundabout, the Scots have Silicon Glen. Berlin boasts Silicon Allee, New York Silicon Alley. But the brain of the tech world is the ecosystem in and around San Francisco. Silicon Valley's entrepreneurs and innovators, technologists and moneymen are busy revolutionising nearly every aspect of the global economy.

A place named for its skill in making silicon-packed semiconductors is transforming how firms make decisions, people make friends and protesters make a fuss. Startups touch more people, more quickly than ever before. Airbnb, a seven-year-old firm that helps people turn their homes into hotels, operates in 34,000 towns and cities around the world. "On-demand" firms like Uber are changing what it means to be an employee. Just as the big platforms like Google, Facebook and Apple benefit from "network effects", because each new user makes the service more valuable for all the others, so the Valley's success as a venue to launch, fund, staff and sell a technology firm is feeding on itself (see pages 17-20).

As a result, American capitalism has a new hub in the west. Wall Street used to be the place to seek fortunes and make deals; now it is increasingly the Valley. The area's tech companies are worth over $3 trillion. Last year one in five American business-school graduates piled into tech. Jamie Dimon, the boss of JPMorgan Chase, has warned of mounting competition for Wall Street. Goldman Sachs recently held its annual shareholder meeting in San Francisco.

The enormous, disruptive creativity of Silicon Valley is unlike anything since the genius of the great 19th-century inventors. Its triumph is to be celebrated. But the accumulation of so much wealth so fast comes with risks. The 1990s saw a financial bubble that ended in a spectacular bust. This time the danger is insularity. The geeks live in a bubble that seals off their empire from the world they are doing so much to change.

Silicon lining

The American economy would be hit hard by a repeat of the financial shock that followed the dotcom crash in 2000. With the NASDAQ index near its record high, this is a common fear. Fortunately, although money and talent are pouring into the Valley, there is not yet much danger of a disastrous bust. That is because tech companies today not only have more robust business models than their dotcom predecessors did (ie, many actually make money), but they also rely on a smaller group of financial backers.

Today's firms are staying private for longer. Tech firms that went public in 2014 were on average 11 years old; back in 1999 they waited only four years before listing their shares. Tapping wealthy investors means risk is borne by people who can afford to take losses. It is easy to lament the decline of the publicly listed company (though even when founders do list they keep a tight rein), but if tech firms fall short of their promises, ordinary investors are less likely to see their wealth destroyed.

Staying private allows entrepreneurs to avoid the headaches that come from being quoted: the nuisance of activist investors, the drudgery of compliance, the vision-crushing ritual of quarterly reporting. In theory, a coterie of investors is better than an anonymous multitude of shareholders at making sure managers act in the interests of all a firm's owners.

But staying private has risks, too. One is that firms under no obligation to make public a full set of audited accounts will remain veiled from the scrutiny of analysts and short-sellers and so act irresponsibly. America's tech "unicorns"—firms that have reached a valuation of more than $1 billion—are worth around $300 billion between them. The danger that some of this capital is being misallocated is high.

The other risk is that a charmed circle with great wealth becomes cut off from everyone else. For a group rewriting the rules for industry after industry, that is a special danger.

The empire of the geeks draws its strength from a culture of techno-evangelism that enables entrepreneurs to rethink old systems and embrace new ones. Many denizens of the Valley believe that tech is the solution to all ills and that government is just an annoyance that still lacks an algorithm. So far the public's relationship with the tech titans has been mostly harmonious. Consumers enjoy their taxi-hailing apps, music streaming and voice-recognition software.

Yet cracking open established industries inevitably results in conflict. Uber is the firm most embroiled in controversy, whether facing licensed taxi-drivers on the streets or demands from its own drivers in the courts. European regulators are also scrutinising firms like Facebook and Google for everything from antitrust concerns to data protection. And American regulators are reportedly looking at whether Apple has abused its clout in the music business.

Critics are often from industries wanting to protect their privileges; the geeks' aggressive behaviour is sometimes part of the creative destruction that leads to progress. But that is not the only source of anger. Silicon Valley also dominates markets, sucks out the value contained in personal data, and erects business models that make money partly by avoiding taxes. There is a risk that global consumers will feel exploited and that the effects of a shrinking tax base will infuriate voters. If the perception takes root that enormous profits from exploiting data and avoiding taxes are crystallised in the fortunes of a few people living on a patch of ground near San Francisco, then there will be a backlash.

Mind the techlash

The Valley's firms are hardly the only ones to push against taxes and regulation. They are free to operate as they like within the law. But they risk becoming targets because they are so global. They should remember that the law can change. If they want a seat at the table when it does, they need to be part of the markets they sell into, not isolated from them. Even private firms run by geniuses need a licence from society to operate.

At its best Silicon Valley is an expression of iconoclastic freedom and creativity. It would be a terrible shame if it became an unpopular and remote manifestation of elitism. ■

Drug testing

Trials and errors

The evidence base for new medicines is flawed. Time to fix it

WHEN patients are prescribed a drug, they might assume it had been subject to the closest scrutiny. They would be wrong. The results of about half of all clinical trials are never published. Companies are allowed to run many tests and publish only the ones with results they like. Unsurprisingly, negative results are far less likely to appear in public.

Regulators can see the results of every trial. But that provides only so much comfort. Officials may well be convinced that a particular drug has enough value for a few patients to pass the bar for approval, but that does not tell doctors whether the drug is better to prescribe than other treatments. And the regulators have limited resources. They cannot match the sort of scrutiny that comes from making all trial results public. Independent evaluations were important in raising concerns about the heart-attack risks associated with Vioxx, a painkiller that was recalled in 2004.

At best, this bias in published results has produced a polluted evidence base. Patients have been prescribed antidepressants that look much less effective when unpublished data are taken into account. The British government's decision to stockpile antiviral drugs in case of a flu pandemic looks less clever now that previously unpublished data have called their efficacy into question. At worst, the skew has caused demonstrable harm. Some patients may have died because data about potentially dangerous side-effects were not published; volunteers in clinical trials may have suffered harm for no reason.

Legislators in America and Europe want the problem of missing trials fixed (see page 62). New legislation comes into force in Europe in 2016 that will require the registration of clinical trials and the prompt publication of results. The question is how tightly these rules will be enforced. America laid down similar requirements in 2007, but they have been more observed in the breach. That is not good enough. Everyone involved in clinical trials—regulators, drug firms and academics—has a compelling reason to do better.

Regulators first. America's Food and Drug Administration has the power to fine companies that fail to report trial results within a year of their completion, but has not yet exercised it. Expected new rules should make this easier. The public interest in the registration and release of all trial results is clear. Compliance needs to be monitored and enforced.

Drug firms are bound to be leerier of releasing negative trial results. But the ground is shifting. Now that campaigners have brought the issue to public attention, there is real concern that patients will lose interest in taking part in trials if the data are never going to see the light of day. And investors are waking up to the financial risks inherent in incomplete publication of trial results. About 30% of a drug company's valuation is based on results from its Phase-III trials (when drugs are extensively tested in humans). Investors are now urging the industry to disclose more data, both to ensure more accurate valuations and to lower the risk of future litigation.

If anything, academics have an even worse record of disclosure than firms. Those who pay for their research ought to weed out grant applicants who routinely fail to publish results.

Phase haze

Even if all new trials are registered and published, the problem remains of what to do about the evidence base for drugs already in use. There is no legal obligation on researchers to publish data from old trials, but there is a moral one. A patient who is taking the wrong drug for his cancer because of inadequate disclosure is being denied the opportunity to receive better treatment. That could not be more wrong. ■

Barack Obama and Africa

Neglected

The American president should do more to boost a growing continent

HE HAS taken more than six years, but on July 24th Barack Obama is to arrive in Kenya on his first trip to his father's home country since he became president in 2009 (see page 30). This less-than-hasty filial visit has fed the long-running criticism that America's first black president has neglected Africa.

That is not entirely fair. Last month Mr Obama overcame gridlock in Washington, DC, to renew the African Growth and Opportunity Act (AGOA), a Bill Clinton-era law that lets Africans sell many goods tariff-free to America. That will benefit millions of Africans in the next ten years. And Mr Obama has some schemes to his name. One of the most promising is Power Africa, a public-private partnership to tackle one of Africa's greatest constraints by building electricity plants. Even so, the critics have a point. In a continent of 1.1 billion souls that includes five of the ten fastest-growing economies in the world, China is making more of a splash than America.

During his first term, Mr Obama visited sub-Saharan Africa only once, dropping in for less than 24 hours to make a speech in Ghana that raised expectations of greater engagement that went unmet. His second term has been better, but only a bit: two trips so far, including one to attend the funeral of Nelson Mandela; plus an African summit in Washington.

Policy has been allowed to drift. Mr Obama has passively continued with the actions of his bolder predecessors. Even his successes have underwhelmed. Mr Obama did not extend AGOA to farm products, for example. Power Africa, which began in 2013, is yet to live up to its transformative rhetoric. On aid and development, nothing Mr Obama has done can rival George W. Bush's launch of the Millennium Challenge Corporation, which promotes reforms (ranging from better vocational education to stronger property rights) in willing African countries, or his huge AIDS-relief effort, which has saved millions of lives. And on security, which critics argue ought to be Mr Obama's priority in Africa but has not been, the situation has deteriorated. Boko Haram, an Islamist insurgency with a taste for enslaving young girls, has spread from northern Nigeria into Chad and Cameroon. The Shabab, a similarly brutal group, is terrorising Kenya as well as Somalia. A dozen sub-Saharan countries face jihadist threats.

Part of the trouble is that a president's time is limited, and much of Mr Obama's has been filled by the chaos in the Middle East, the rise of China and the predations of Vladimir Putin. Mr Obama himself has exacerbated this tendency with his management of foreign policy. His administration trusts its diplomats too little and tries to micromanage them too much using the National Security Council, a body that lacks the bandwidth to master Africa's everyday complexities.

On security, now that Muhammadu Buhari has replaced the incompetent Goodluck Jonathan as president of Nigeria, America needs to become more involved in the struggle against Boko Haram. Mr Buhari was in Washington this week seeking (non-lethal) military equipment, as well as help with training and communications. In Kenya America has been closely engaged with the security services, as well as with the African Union force that has pushed the Shabab back in neighbouring Somalia. But its efforts are small-scale. For what remains of his term, Mr Obama needs to explore ways of getting more equipment, expertise and spying power to the new front line in the battle against jihadism.

Come on Barack

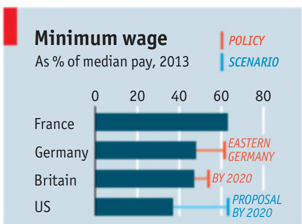
Overall, Mr Obama needs to show more imagination. America could, for example, promote better governance in Africa by digging up and sharing more intelligence about corrupt officials and companies. It should also join the International Criminal Court, which polices the world's worst human-rights abuses. With American backing, the court would have more credibility to prosecute—and therefore deter—powerful abusers, of whom Africa has too many. Alas, Congress says no.

There is plenty of scope for America to forge closer ties with Africa. Not for sentimental reasons nor to exclude China: the efforts of the two superpowers to foster African development are usually complementary. The reason for Mr Obama to try harder is that it is in America's interest to work closely with a continent which will become steadily more important in the future than it is today. ■

Minimum wages

A reckless wager

A global movement toward much higher minimum wages is dangerous



WHEN prices rise, demand falls. Exceptions to the most basic rule of markets are curiosities—the kind of thing an economist might bore you with at a dinner party. Set carefully, minimum wages can provide such an example. But policymakers must not assume this is a cast-iron law. Big rises in minimum wages are a gamble with people's futures.

Modest minimum wages do not seem to sap demand for labour. Truckloads of studies, from both America and Europe, show that at low levels—below 50% of median full-time income, with a lower rate for young people—minimum wages do not destroy many jobs. When Britain set a new minimum wage in 1998 doom-mongers forecast that jobs would vanish. Employment proved resilient. Minimum wages help offset firms' bargaining power over employees reluctant to risk moving elsewhere. They may even boost productivity and reduce staff turnover by making workers value their jobs.

Encouraged by this evidence, many are clamouring to make minimum wages far more generous. In America campaigners want the federal minimum wage more than doubled from today's stingy $7.25 an hour to $15 an hour, or 77% of median hourly income. They have had some success; several big cities, including New York this week, plan to phase in a $15 minimum wage, and Hillary Clinton's two rivals for the Democratic nomination support the policy (see page 34). In Britain the Conservative government is overruling the technocrats who usually set the wage floor to shift it from 47% to 54% of median pay. Germany has introduced a minimum wage which is reasonable in, say, Cologne but is worth a generous 62% of median pay in the poorer east of the country.

By moving towards sharply higher minimum wages, policymakers are accelerating into a fog. Little is known about the long-run effects of modest minimum wages (see page 60). And nobody knows what big rises will do, at any time horizon. It is reckless to assume that because low minimum wages have seemed harmless, much larger ones must be, too.

One danger is that a high minimum wage will push some workers out of the labour force for good. A building worker who loses his job in a recession can expect to find a new one when the economy picks up. A cashier with few skills who, following the introduction of a high minimum wage, becomes permanently more expensive than a self-service checkout machine will have no such luck. The British government's defence of its new policy—that a strong economy will generate enough jobs to replace those lost to a higher minimum wage—is disingenuous: the jobs are still lost. That is why Milton Friedman described minimum wages as a form of discrimination against the low-skilled.

This is the worst time to be raising the cost of workers. Technological advances are enabling firms to replace more and more people with computers and robots, imperilling jobs. ▸▸

Some low-skilled positions, such as cleaning, are hard to automate. But millions of low-skilled workers sitting at checkouts and receptions, picking products off warehouse shelves and even driving lorries are vulnerable to replacement. An ever-higher minimum wage will encourage investment in the technology to replace them. Higher minimum wages will also affect workers in tradable sectors such as tourism and manufacturing, where they risk losing ground to foreign competitors.

The irony is that minimum wages are a bad way to combat poverty. The Congressional Budget Office reckons that only one-fifth of the income benefits go to those beneath the poverty line. The richest 10% of British households will benefit more from the higher rate than the poorest 10%, because many low-paid people are their family's second earners.

What is more, a minimum wage is not free. Someone must pay. The common refrain that companies will shoulder the burden is the product of hope rather than evidence. If the cost is passed on to consumers, the minimum wage turns into a subsidy funded by a sales tax—a revenue-raiser that, again, falls heavily on the poor.

Minimum thought

Better tools are available. Tax credits (income top-ups for low earners) are a much more efficient way for governments to help the poor—about three-quarters of the benefit ends up with employees. To the extent that firms benefit, they are encouraged to employ low-skilled workers rather than automate jobs. Minimum wages have a powerful emotional and political appeal. But governments should deal in evidence not sentiment. Minimum wages can work as part of the policy mix only if they are modest. Set too high, they harm the very people they are supposed to help. ■

Demography

Baby love

There are good and bad ways to prop up a country's population

A FEW years ago Singaporeans were treated to a song urging them to get busy for the sake of the nation. "I'm a patriotic husband, you my patriotic wife, lemme book into ya camp and manufacture life," went the ditty, accompanied by a video depicting a thrusting cartoon heart. This being Singapore, a stern caveat was appended: "Only financially secure adults in stable, committed, long-term relationships should participate."

Some poor countries fret about excessive fertility. A typical woman in Niger, for example, will have seven babies. But birth rates have fallen so fast as the world has grown richer that many places now have the opposite problem (see page 48). The fertility rate is 1.1 in Hong Kong, implying that each generation its population will fall by roughly half. In Japan, Italy and Germany it is 1.4 or less. As populations age and shrink, governments wonder: who will pay taxes or look after the elderly?

The cheapest and best way for rich countries to rejuvenate their populations would be to allow more immigration. Migrants need not be coaxed into being, and can start work straight away. However, an influx large enough to save, say, South Korea from demographic collapse would be politically unfeasible. Hence many rich countries (and some middle-income ones like Iran and Turkey) are trying to persuade their citizens to procreate more enthusiastically.

Plenty of environmentalists object, arguing that fewer people would be better for the planet. Maybe so, but people matter too, and countries with wildly different fertility rates can reasonably have different policies. Too sudden a population crunch can be excruciatingly painful. Just ask the Greeks, whose disastrous unfunded pension system was weakened by a fertility rate of 1.3, or China's legions of only children, who will one day have to support their more numerous parents.

Many liberals argue that the state should keep its nose out of family matters, but in practice this is hard. Simply by creating pension systems paid for out of general taxation, governments have drastically reduced the private incentive to have children—who were once the best security parents had in their dotage. A more useful question is which baby-boosting policies work.

Many do not. Nagging videos, even saucy ones, are probably ignored, as are medals for heroic childbearing (plenty of Soviet-era ones can be found on eBay for a few dollars). Subsidies that governments offer to encourage births are often pocketed by people who would have had children anyway. And evidence from Europe suggests that longer parental leave does not encourage couples to have more children—though it has other good effects, such as making fathers into better parents.

Nurseries for nippers

The thing that seems to boost fertility most is subsidised child care. By cutting the cost of combining work and motherhood, this encourages both. Subsidised nurseries were pioneered in France, a country that has worried about national vigour ever since it was thrashed in the Franco-Prussian war of 1870. It has been rewarded with one of the highest fertility rates in Europe. Cheap nurseries have also helped boost Quebec's birth rate from one of the lowest of all Canadian provinces to one of the highest.

Few rich countries will ever go back to a fertility rate of 2.1, the magic number which means that the population remains stable. And persuading women in southern Europe or East Asia to have more sprogs will be especially hard. Birth rates there have fallen so far and so fast that they may never bounce back. Countries like South Korea are stuck in a cultural bind: women fought their way into university and good jobs, but family life is far less egalitarian (see page 44). Many women face a stark choice between an interesting career or a life making bulgogi and tempura.

Yet a culture can change, and the state can nudge it. Creating lots of good, subsidised nurseries would signal that women can keep pursuing a career, if they want to, even after having children. That would be good for women, good for productivity and good for the public coffers. ■

Apax and TPG

Your article "Private equity: Another Greek tragedy"(June 20th), which wrongly seeks to blame the 2009 WIND Hellas note default on Apax and TPG, is false and defamatory. Your failure to report basic, publicly known facts is irresponsible.

In 2005, when funds advised by us invested in TIM Hellas, it was significantly underperforming. We supported new management who implemented significant improvement to the company's operations, pricing, marketing and infrastructure, with corresponding dramatic improvement in the company's performance.

As a result, there was significant market interest in the company. In late 2006, a firm bid of €3.2 billion was received. However, Apax and TPG rightly believed the company was worth more and decided not to sell.

The company was refinanced in December 2006. All aspects of the refinancing were disclosed to noteholders, including the resulting debt level, the use of the funds raised and the sum to be paid to investors. Luxembourg's tax authorities reviewed and approved the tax aspects. Allegations that this refinancing was "fraudulent" are false.

Just a few months after the refinancing, Weather purchased the company at a valuation of €3.4 billion—materially more than that used in the 2006 refinancing. In connection with the sale to Weather, noteholders were entitled to be repaid at a premium, but they declined, choosing to hold their investments.

In 2007, under new management, the company met its performance targets, and enjoyed near-equal 2008 performance. The notes did not default until late 2009, almost three years after the refinancing and sale of the company and in the midst of the historic financial crisis hitting Greece. In its insolvency filings, Weather blamed the default on the economic crisis and changes in telecom law, not on us or the 2006 refinancing.

The attempt by liquidators and noteholders to pin the default on us is meritless. We are vigorously and successfully defending their many lawsuits. Six of the noteholders' lawsuits have already been dismissed, with noteholders sanctioned to pay substantial legal costs for misconduct.

Your grossly misleading article should never have been published and should now be retracted.

APAX PARTNERS AND
TPG CAPITAL

Legal activity

The decisions you cite by the Supreme Court had very little to do with "political stalemate" ("Change is gonna come", July 4th). The Obamacare and Fair Housing Act rulings addressed legislation passed by Congress. The same-sex marriage decision looked at laws passed by state legislatures. The Arizona redistricting judgment was centred on a law passed by popular initiative. Indeed, the Court's very role is to review or interpret duly enacted laws—the very antithesis of political stalemate.

The better question to ask is when, and why, the Court should review those laws in a way that does not reflect the view of the majority that passed them. This is what Alexander Bickel, a constitutional scholar, called the "counter-majoritarian difficulty." A data set of the Court's decisions from one term will not answer that question.

GEORGE W. HICKS JUNIOR
Former law clerk to Chief Justice John Roberts
Washington, DC

Atrocities in Nigeria

The crimes carried out by Boko Haram in Nigeria are undeniably horrific, with more than 5,500 people killed between 2014 and March 2015 and at least 2,000 women and girls abducted ("Bombs are back", July 11th). But Nigerian military forces have also committed serious crimes. Amnesty International revealed in its June report that at least 8,200 people have also been murdered, starved, suffocated and tortured to death by the armed forces in counter-insurgency operations.

Atrocities committed by Nigerian forces amid attempts to flush out Boko Haram go far beyond the corrupt generals you mentioned. The recent decision by the president, Muhammadu Buhari, to dismiss all of his senior military commanders, including two of the nine we named in our report, presents an opportunity for Nigeria to draw a line under the mistakes of the past.

I hope Mr Buhari's commitment to investigate all allegations of crimes and violations committed by the military will be upheld. Nigeria cannot win its fight against this deadly insurgency without addressing the cycle of impunity.

ANNA NEISTAT
Senior director of research
Amnesty International
London

Puerto Rico's debt

Lexington contends that appointing a financial-control board "with powers to impose reforms on debt-ridden Puerto Rico" would be unlikely to craft lasting reforms and would smack of colonialism (July 11th). The evidence is to the contrary. The chief financial officer appointed through the congressionally mandated control board for Washington, DC, was sufficiently successful that he was subsequently elected mayor. Reforms imposed by the financial-control boards for New York city in the 1970s, and retained today, brought transparency and stability to the city's budgetary process. The new mayor of Detroit continues to implement many of the structural changes begun by the state-appointed emergency financial manager.

A lack of electoral accountability allows appointed boards to approve budgets free from the political dealmaking that often generates fiscal distress. A centralised government's temporary imposition of a non-democratic financial-control board on one of its jurisdictions is more readily explained by the desire to avoid moral hazard than by imperialistic goals.

CLAYTON GILLETTE
Professor
New York University School of Law

The gun to Greece's head

If poor fiscal discipline were sufficient grounds for Greece's ruthless economic punishment ("The way ahead", July 11th), then what kind of fine does Congress deserve given America's $18 trillion deficit?

As Clint Eastwood said in "Unforgiven", "Deserve's got nothin' to do with it".

LEFTERIS KAFATOS
Gardena, California

The Greek drama reminded me of the famous opening line to Barbara Tuchman's "The March of Folly": "A phenomenon noticeable throughout history regardless of place or period is the pursuit by governments of policies contrary to their own interests."

MON VANDEROSTYNE
Leuven, Belgium

Jeremy Josse pointed to ancient evidence that the Greeks were not always bad debtors (Letters, July 11th). But there is little hope of change. The last words of Socrates may have been, "Crito, we owe a cock to Asclepius; pay it and do not forget", but the sacrifice was paid with Crito's money, not his own.

STEPHANOS KASSIMATIS
Athens

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
More letters are available at:
Economist.com/letters

European Commission

DIRECTOR-GENERAL
(grade AD15)

Directorate-General for Justice and Consumers, Brussels
COM/2015/10360

The Directorate-General for Justice and Consumers aims to vindicate and strengthen the rights of people living in the European Union, whether they are acting as citizens, as entrepreneurs, as consumers or as workers, wherever they are in the EU.

The European Commission is seeking to appoint a Director-General for its Directorate-General for Justice and Consumers, whose main responsibilities will reside in the strategic direction, management and governance of the DG.

Your responsibilities:
- To provide overall strategic direction and lead the policy development of the European area of justice and consumers;
- To ensure effective planning and management of the activities of the Directorate-General, providing guidance, supervising and controlling its performance;
- To ensure coherence and consistency of the policies of the Directorate-General with the overall policy objectives and priorities of the European Commission.

Your skills:
- Excellent leadership and managerial skills to direct and motivate a team of highly competent professionals;
- A high level of negotiating skills and experience being able to represent the European Commission at senior level and to develop and maintain excellent relationships with all stakeholders;
- Experience of policy development and implementation, being able to understand the challenges in the fields of justice, consumers and equality.

Please consult the Official Journal C218A of 3/7/2015 for the detailed vacancy notice as well as the eligibility and selection criteria.

Registration for applicants:
https://ec.europa.eu/dgs/human-resources/seniormanagementvacancies/

The closing date for registration is **31/7/2015, 12.00 noon Brussels time.**

European Commission

DEPUTY SECRETARY-GENERAL
(grade AD15)

Secretariat-General of the European Commission, Brussels
COM/2015/10361

The Secretariat-General is one of the central services of the European Commission, facilitating its smooth and effective functioning. It is at the service of the President, of the College, and of the European Commission's Directorates-General, managing decision-making processes and ensuring the alignment of EU policies with the political priorities of the European Commission.

The European Commission is seeking to recruit a Deputy Secretary-General to support the overall activities of the service. The successful candidate's particular responsibility will reside in the oversight of the European Commission's relations with other institutions, as well as in protocol matters.

Your responsibilities:
- To represent the European Commission at CoRePer and the European Parliament and to liaise with the Economic and Social Committee, the Committee of the Regions and national parliaments;
- To ensure the overall management of the Directorate in charge of relations with other institutions and the Protocol Service.

Your skills:
- Strong background and professional experience as a manager and communicator, being able to lead and motivate large teams, set priorities and take decisions;
- Outstanding level of strategic judgment, high professionalism and conceptual ability;
- Excellent negotiation skills, preferably combined with experience of high-level international negotiations;
- General knowledge of the European Union's activities and relations between the different Institutions.

Please consult the Official Journal C218A of 3/7/2015 for the detailed vacancy notice as well as the eligibility and selection criteria.

Registration for applicants:
https://ec.europa.eu/dgs/human-resources/seniormanagementvacancies/

The closing date for registration is **31/7/2015, 12.00 noon Brussels time.**

European Bank
for Reconstruction and Development

CSE ECONOMISTS LONDON

EBRD is an international financial institution promoting open market economies by investing in more than 30 countries.

The Country and Sector Economics (CSE) department of the EBRD is looking for new economists to join its team. Drawing on your sector experience, you'll provide expert advice to both EBRD's bankers working on investments as well as to governments on policy initiatives and reform programmes. You'll ensure consistency and quality of EBRD's analytical products in your sectors of expertise, and contribute to building and managing the knowledge of the Bank. We are recruiting the following open roles:

- Energy Economist – Eastern Europe and the Caucasus (Kiev)
- Energy and/or Infrastructure Economist – Central Asia (Almaty)
- Industry, Trade and Competition Economist – Turkey and Balkans (Istanbul)
- Energy Economist – Southern and Eastern Mediterranean (Cairo)
- Inclusion Economist – (London)

You'll have a higher degree in economics, experience in the relevant sectors and – ideally – knowledge of the related regions of operation.

For a more comprehensive job description and details of how to apply, visit www.ebrdjobs.com

Closing date: 16th August

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GENEVA CENTRE FOR HUMAN RIGHTS ADVANCEMENT AND GLOBAL DIALOGUE

Position: Executive Director

The Centre is an independent NGO based in Geneva, Switzerland. Its aim is to enhance, through global dialogue and awareness promotion, the implementation of the International Bill of Human Rights.

The Centre is seeking to employ an experienced and dynamic professional for the Executive Director position at the Centre reporting directly to the Board of Management. The Executive Director (ED) who is appointed for a three-year term is responsible for achieving the Centre' mission and strategic plan. The ED's key responsibilities include the following:

- Provide strategic advice to the Board,
- Manage the Centre, oversee the Centre's financial targets and its efficient performance,
- develop and implement strategies, plans and programmes pursuant to its aims and meet the Centre's objectives,
- Build effective partnerships and productive relationships with community groups in the MENA regions as well as with appropriate international organizations, charities and agencies,
- Establish a positive, healthy and conducive work environment,
- Implement other related tasks as requested by the Board.

Salary:
Up to 18.000 SF gross monthly.

Essential Requirements:
A PhD or Master' degree in International Affairs / International Public Law / Humanities, and Fluency in two of the three following languages: Arabic, English, French and a working knowledge of the third language; At least ten (10) years' multilateral experience at executive level whether at the intergovernmental or non-governmental level; Demonstrated commitment to the Centre's aims.

Submission Requirements:
A CV accompanied by a motivation letter of a thousand words to be submitted by midnight on 31 August 2015 by email to the following address:
candidacy.ed.gchragd@gmail.com

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Together to End AIDS

International HIV/AIDS Alliance

Together to end AIDS

Executive Director

Brighton, UK

The International HIV/AIDS Alliance ("the Alliance") is seeking a new Executive Director to lead it in realising its vision of a world without AIDS.

The Alliance works with communities through local, national and global action on HIV, health and human rights. Since 1993, it has supported over 3,000 projects, in over 40 low and middle income countries, reaching millions of people.

The new Executive Director will join a strong organisation, with a pre-eminent role in coordinating and resourcing civil society's response to the HIV/AIDS pandemic. The Alliance intends to build on its successes, re-energise the fight against HIV/AIDS, augment its donor base, and develop new means and new funding sources to meet needs in vulnerable communities. A concerted effort in the next five years could ensure that by 2030 AIDS is no longer a public health threat. The new Executive Director will ensure the Alliance plays its part in making this a reality.

Candidates for the role will bring experience of senior positions in networked organisations. They will be committed to working internationally, with deep understanding of developing countries and the partners in government, multi-lateral and bilateral donor agencies, civil society and locally-based communities with which the Alliance works. An inspiring leader and accomplished manager of complex programmes, relationships and competing priorities, the next Executive Director will be a compelling advocate for the Alliance with audiences in both the global North and South.

The Alliance has retained Russell Reynolds Associates to assist with this appointment. For further information on the position and additional details on qualifications, requirements, terms and conditions of service and how to apply, please visit: **www.rraresponses.com**

The closing date for applications is 10th August, 2015.
Interviews are expected to be held in London on 28th August, 2015.

The International HIV/AIDS Alliance is committed to equal opportunities and welcomes applications from appropriately qualified people from all sections of the community. Qualified people living with HIV are particularly encouraged to apply.

Russell Reynolds Associates

THE AFRICAN DEVELOPMENT BANK

Position us as the employer of choice for those working on African Growth and Development

Director, Corporate Human Resources Department

The African Development Bank seeks to appoint an exceptional Human Resources Director to strengthen the management team, drive people change throughout the Bank and deliver on the People Strategy. The Director will be expected to lead high profile strategic initiatives whilst overseeing the management of and activities of the department's four divisions, namely HR Client Services, HR Shared Services, Programmes, HR Policy, Programs and Strategy, and Employee Relations.

This is a very challenging and visible leadership role requiring someone with a strong work ethic, vision, drive and energy, and unsurpassed partnering, influencing and diplomatic skills. You will have a personal commitment to delivering results, and self-motivated to ensure that HR meets the needs of the Bank's business operations and strategies. You must be able to lead and manage HR to deliver a first class service to internal and external customers in line with the Bank's objectives, vision and values. You will be a coach and mentor to the team and a genuine business partner to clients. Your work will be varied incorporating high level thought process, discussions and presentations to senior management and the Board, to working on hands on operational issues to guide and support staff and management.

The Director must have at least 15 years of extensive and progressive experience in Human Resource Management of which 7 years should have been at senior managerial level. That experience will be backed up by a Master's Degree or its equivalent in Human Resources or related disciplines. Finally, you should be fluent in either English or French, preferably with a good command of the second language.

This position is based at the Bank's headquarters, Abidjan, Cote d'Ivoire. Applicants must be nationals of one of the Bank's member countries.

The African Development Bank has retained IRC Global Executive Search Partnership to assist with this appointment. For more information please see **http://www.afdb.org/en/careers/**

To apply, please send a full Curriculum Vitae (CV) together with a supporting statement, briefly highlighting your experience and skills against the requirements of the role, to **ess@lecinternational.net** or **leadingedge@cobranet.org** including job role in the subject title. The closing date for applications is **Friday 15th August 2015**.

www.afdb.org

IFAD

Investing in rural people

The International Fund for Agricultural Development (IFAD) is an international financial institution and a specialized United Nations agency dedicated to eradicating rural poverty and hunger. It does so by investing in rural people. IFAD finances programmes and projects that increase agricultural productivity and raise rural incomes, and advocates at the local, national and international level for policies that contribute to rural transformation.

IFAD is looking for professionals with strategic vision, a solid team orientation, proven capacity to generate results, and a deep understanding of and commitment to development. IFAD is currently seeking to recruit in its **Independent Office of Evaluation (IOE):**

Senior Evaluation Officer, grade P-4
An accomplished and qualified professional, who leads country programme evaluations and project evaluations, and provides technical and managerial leadership in all stages of the evaluation process.
A senior expert, who has solid and in-depth knowledge of contemporary quantitative and qualitative impact evaluation techniques.

Evaluation Analyst, grade P-2
A dynamic professional who, as part of a team working under technical supervision, provides analytical support to the full evaluation cycle of work. A qualified professional with field experience related to agricultural and rural development, who has good knowledge of evaluation methods and processes, including statistical skills and quantitative analysis.

IFAD offers a competitive remuneration and benefits package that includes tax-free salary, dependency allowance, education grant up to university level, medical and group life insurance, home leave and pension plan.

IFAD is committed to achieving diversity and is seeking a balanced workforce from its Member States. Women are particularly encouraged to apply.

For detailed information, visit our website www.ifad.org/job.
Please send your application through the IFAD online system by 16 August 2015.

To fly, to fall, to fly again

SAN FRANCISCO

The tech boom may get bumpy, but it will not end in a repeat of the dotcom crash

LOOK out from Crissy Field, in San Francisco, on a fog-free day and chances are you will see some technology entrepreneurs leaping into the sky. The hybrid sport of kitesurfing has become a favourite pastime of the Bay Area's startup crowd. Lifted by high-tension rigging, unpredictable gusts and a delight in daring, they fly up into the air before splashing back to the cold surf. Some landings are smooth; others are not. The sport requires skill, good equipment and hard-won experience, but chance and ambition also play a part. And even the most experienced cannot control the winds.

On shore, too, exhilaration and risk go hand in hand. San Francisco, Silicon Valley and the strip of land that runs along the shore of the Bay between them have had a tremendous decade as the hub of the global technology industry. The area's biggest companies have soared to heights once unimaginable, coming to represent all that the world finds most exciting about American capitalism. Even its smaller fry have attracted mountains of money. The Valley has reshaped lives and languages, creating new verbs—to google, to facebook, to uber—and repurposing old ones—to tweet, to message, to like.

Every year new ideas grow from specks to spectacular. Startups are so commonplace that in San Francisco's Mission district you can buy greeting cards that say "Congratulations on closing your first round." Uber, a six-year-old taxi-hailing company, is valued at $41 billion; Airbnb, a seven-year-old firm through which people turn their homes into hotels, is valued at $26 billion. Each week bosses arrive from far off places to tour and learn from the centre of innovation. There is a pervasive sense of something wonderful afoot. Living in San Francisco today, with its bustle and big ideas, feels like "living in Florence during the Renaissance," effuses Sander Daniels, the fresh-faced founder of Thumbtack, an app that matches skilled labourers with tasks that suit them.

Last year around 20% of American business-school graduates went to work for a technology firm, the highest percentage since 2000. As in gold rushes past, the influx generates grumbling from old-timers and newcomers alike. In every coffee shop from downtown San Francisco to Palo Alto you hear complaints about eye-watering property prices and unbearable traffic.

And at the same time, you hear the worry that the boom underpinning those problems cannot last. The NASDAQ has been hitting all-time highs, most recently on July 20th. Investors scrambling to profit from the next new thing are pushing up the valuations of the most popular, fast-growing startups by billions of dollars. Money has warped entrepreneurs' expectations. When Facebook paid $1 billion for Instagram, a photo-sharing site with 13 employees and no revenue, three years ago many onlookers thought the price wildly generous. Kevin Systrom, Instagram's 31-year-old founder, became the pin-up for startup success. Last year Facebook paid an astonishing $22 billion for WhatsApp, a messaging firm with just $10m in sales. Now people say Mr Systrom sold too soon.

Greed, profligacy, tiny companies with outlandish valuations: it is not hard to detect echoes of the turn of the century, when the dotcom bubble burst spectacularly and America's economy stumbled as a result. But to see history as about to repeat itself is to miss how deeply things have changed. Today's technology businesses are selling services and products from which they already generate income, rather than just saying that one day they might. And the group of people doing the investing is much smaller now than it was then. The risks are on fewer shoulders.

A new breed of hero

That is not totally reassuring. If risks are limited to a smaller number, so too are benefits. The chance to invest in many of Silicon Valley's most exciting companies is restricted to a charmed circle of connected, wealthy insiders. That not only excludes the average investor; it also shields firms from the scrutiny public companies receive. Such shielding may be letting weak ideas go further than they should, increasing the chances of a reckoning.

The nagging fear of 2000 redux stems in large part from the sheer scale of that bust. In the three years to 2000 the NASDAQ index tripled as millions of Americans used their newly opened online-trading accounts to buy internet stocks. Companies like Garden.com, a website where garden- ▸▸

Legendary startups

Biggest American "unicorns"
(Date founded)

Unicorn *(noun)*: Any startup worth more than $1bn

Company	Business	Company valuation, $bn*, July 2015	Funds raised, $bn	Revenue, $m, 2014†	Employees, '000†
Uber (2009)	Taxi hailing	41	6	800	7.5‡
airbnb (2008)	Accommodation for tourists and millennials	26	2.3	450	3.0
Snapchat§ (2011)	Ephemeral messaging app	16	1.2	nil	0.4
Palantir (2004)	Big data	15	1.1	600	1.5
SpaceX§ (2002)	It is rocket science	12	1.1	825	3.0
Pinterest (2009)	Photo sharing	11	1.3	15	0.7
Dropbox (2007)	Cloud-based file sharing	10	1.1	400	1.5
wework§ (2010)	Office space provision	10	1.0	145	0.4
theranos (2003)	Diagnostics through blood sampling	9	0.1	45	0.2
Square (2009)	Mobile-payments system	6	0.6	900	1.3

Sources: CB Insights; Mattermark; PrivCo; *The Economist* *Latest post-money †Estimate ‡Drivers are not employees §Not in Silicon Valley

ers would buy supplies and exchange tips, were taken public with no proven business model and no cash reserves. When in early 2000 several telecom companies went bankrupt the whole edifice collapsed; the decline in the NASDAQ wiped out some $4 trillion between March and December 2000. Silicon Valley was devastated; many of its firms went bust. The ensuing "nuclear winter", when tech deals were at a standstill, lasted for years.

Look beyond the mere size of that boom and bust, though, and the differences with today's situation are clear. For one thing, the base of today's success is broader. In 2000 some 400m people around the world had access to the internet; by the end of 2015 3.2 billion people will. And the internet reaches into these people's lives in many more ways than it could 15 years ago. "Technology is no longer a vertical industry, as it's been understood by everyone for four decades," says John Battelle, a journalist and entrepreneur who launched the *Industry Standard*, a magazine which reported on the dotcom boom before itself going bankrupt in 2001. "Technology is now a horizontal, enabling force throughout the whole economy."

Smartphones have opened up global business opportunities that could never have existed previously—a taxi-hailing business like Uber could not work without them. Turning such opportunities into embryonic businesses is easy. The cloud, which allows companies to expand their processing power and data storage with no capital investment, keeps costs low; so does open-source software. Firms can use free social media for marketing.

Those advantages apply well beyond the San Francisco Bay; there are thriving tech scenes elsewhere. But nowhere else rivals San Francisco's special elixir of brains, experience and money. The total value of Bay area tech companies worth more than $1 billion is now a hair over $3 trillion, a figure that has been growing healthily for almost a decade.

Though most technology firms going public today are unprofitable, just as they were in 1999, they have more realistic business models; most are losing money in a premeditated effort to expand, rather than through having no alternative. Last year the average American technology firm that staged an initial public offering (IPO) was 11 years old and had $91m in sales, compared with an average age of four years old, with $17m in revenue, in 1999, according to Jay Ritter, a professor at the University of Florida who studies public markets.

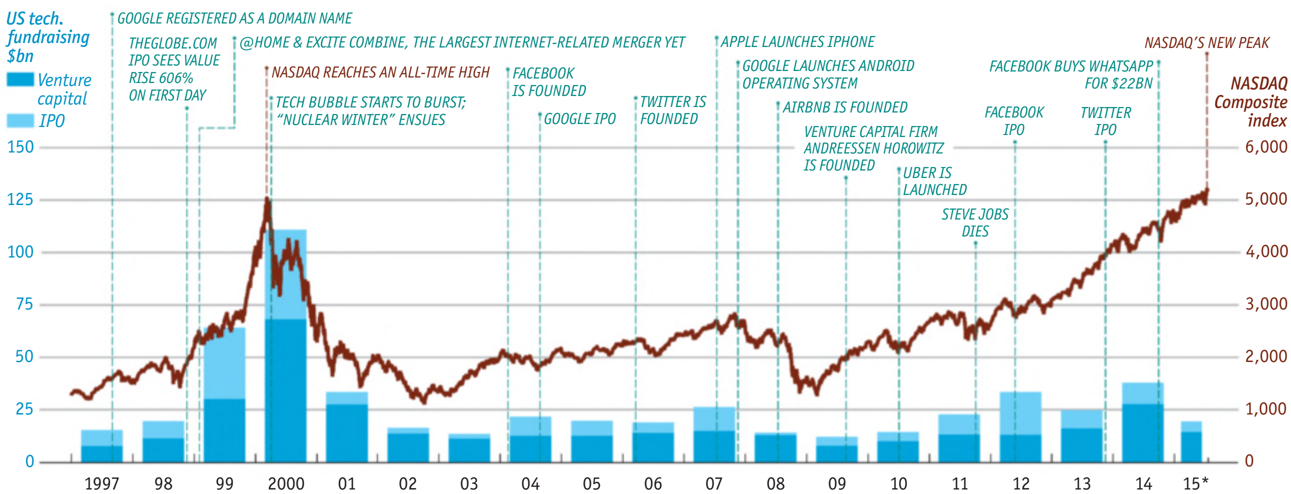
Public investors, some of whom quit their jobs to trade stocks during the 1990s, are less feverish today. Of 632 tech IPOs in 1999 and 2000, around 29% saw the companies double in value on day one, according to Mr Ritter. Of the mere 53 technology companies that went public in 2014, only two "popped" that dramatically. In the first quarter of 2000 the average price-to-earnings ratio on NASDAQ was almost 170. For the billion-dollar tech companies in the Bay area today the ratio is a modest 21.

But this relative sobriety masks two trends towards excess: the ever higher values placed on bigger companies that stay privately held and the amount of cash investors are giving them to spend in order to dominate their business category. Both will continue to have far-reaching impacts on the dynamics of startups, public companies and the city of San Francisco.

Sudden impact

Starting a tech firm has never been easier. Not only does it cost less, but there are more "angel" investors who are willing to write small cheques to breathe life into founders' ideas. It's the next stage that demands nerves and deep pockets. Most entrepreneurs and venture capitalists sub-

The steady return



Sources: Bloomberg; Jay Ritter, University of Florida; National Venture Capital Association/PwC; *The Economist* *As of June 30th, estimate scribe to the view that technology markets work on a winner-take-most basis. Businesses like Uber's thrive on "network effects"; the bigger their presence, the more it makes sense for drivers and passengers to do business with them, rather than their rivals. Thus the company that establishes itself early enjoys disproportionate rewards. "First prize is a Cadillac Eldorado…Second prize is a set of steak knives. Third prize is you're fired," explains Stewart Butterfield, the boss of Slack, a two-year-old software company with a $2.8 billion valuation, quoting from David Mamet's play "Glengarry Glen Ross". Such beliefs produce a positive feedback loop. More funding leads to a higher valuation, which generates more interest from the press, which makes it easier to attract and retain employees, which makes it possible to outperform rivals, which brings in more funding.

Investors are willing to stomach high spending on gaining customers and intimidating competitors in an attempt to create what they call, in hushed whispers, "natural monopolies". Bill Gurley, a venture capitalist at Benchmark, calls it the "grand experiment". "There is no precedent of giving all these companies hundreds of millions of dollars, growing them so big, and telling them we don't care if they are profitable." And it is an experiment in which everyone has to participate. "If your competitors are acting like capital is free and doesn't matter, then you have to live in that world," says Mr Gurley.

As startups grow faster than ever before, many are also staying private longer. It used to be extremely rare to find a startup valued over $1 billion, but today there are 74 such "unicorns" in America's tech sector, valued at $273 billion (see chart). That is 61% of all the unicorns in the world by number, according to CB Insights, which tracks the private market.

Many entrepreneurs view life as a public company, with its quarterly appraisals and activist shareholders, as akin to being the giant effigy at the focus of the annual "Burning Man" gathering in the Nevada desert: yes, you may be quickly built into the biggest thing around, but the experience promises more than a little pain. And drumming up capital without the help of the public markets is unprecedentedly easy. In the face of low interest rates, investors have scrambled to find any sort of yield. Mutual funds such as Fidelity and T. Rowe Price are investing in unicorns in late-stage rounds, as are hedge funds, sovereign-wealth funds and large firms.

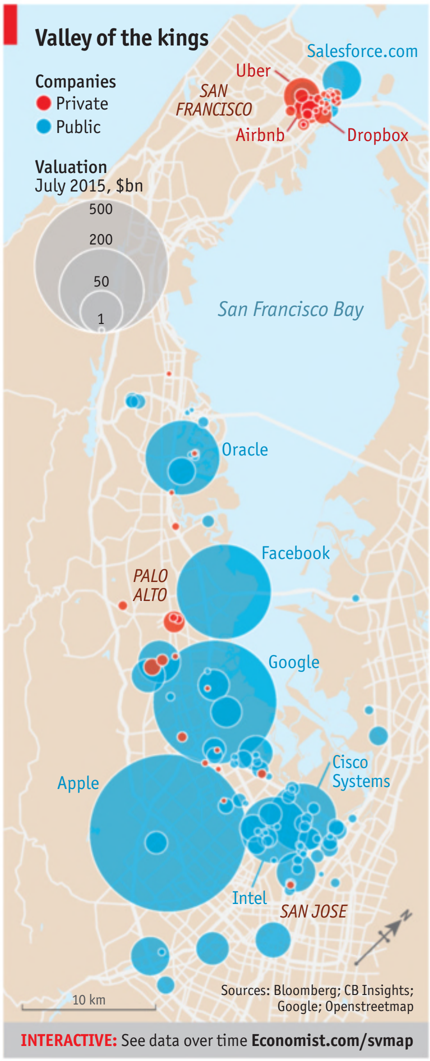
Foul play

As waiting to go public becomes the norm, the attraction of investing early grows. Nice as it was to be an early investor in Google, Amazon or Microsoft, most of the value at those older companies was created after they went public, which gave later investors a chance to make a killing too. By contrast, the venture-capital firm Andreessen Horowitz points out that at LinkedIn, a professional networking website, 40% of the company's value was created before its 2011 IPO; for Twitter, all the value creation took place before its IPO.

Mark Mahaney, an analyst at RBC Capital, a Canadian investment bank, says it was Facebook that changed the way that investors thought about high prices. Started in 2004, it stayed private for eight years. In 2007, when a $240m investment by Microsoft valued the social-media firm at $15 billion, critical onlookers said the price was a "nosebleed". Considering Facebook's $276 billion public valuation today, most wish in retrospect that they had been able to join in the nasal discomfort.

The lack of other investment opportunities and the fear of missing out—an emotion so widely felt as to have earned its own acronym, FOMO—have driven unicorn valuations that are hard to justify using the firms' financial performance. For example Pinterest, a website that allows users to share photos of things they would like to buy, has negligible revenues but a valuation of $11 billion. "We call [them] 'private market' valuations, but it's not really a market. It's a handful of optimists" who are setting prices, says one banker.

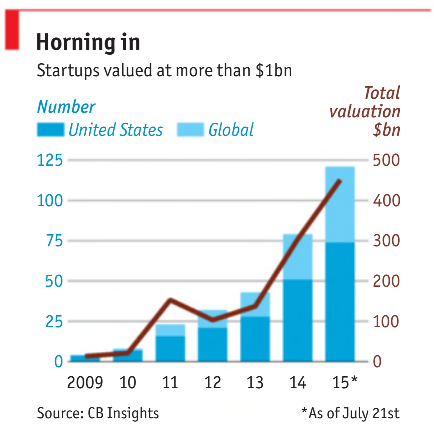
One cynical venture capitalist sees many of the valuations as relying on a "squint test": if by squinting you can convince yourself that a company looks vaguely like one which has already commanded a high price, you should value it as people have the other one. For example, squint at Snapchat, a messaging service anomalously based in Los Angeles with more than 100m monthly users but no proven revenue model, and it might look a little like WhatsApp, which sold itself so lucratively to Facebook last year. That could go some way to explaining its $16 billion valuation, despite the firms' very different offerings.



Magnum force

High valuations obviously come with a risk for investors. As tech firms move into new markets they can face a lot of regulatory uncertainty. Uber, for example, is sparring with regulators across much of the world and risks being forced to recategorise some of its drivers as employees instead of freelancers, which would damage its lean business model. Homejoy, a house-cleaning service backed by venture capitalists, has announced it will shut down at the end of July because of lawsuits over whether its workers should be categorised as employees or contractors.

Less obviously, the valuations can damage the unicorns themselves. When a young entrepreneur desperate to join the "three comma" club accepts an overvaluation he runs the risk of a subsequent "down round"—a lower valuation when looking for future funding or going public. That is a reputation killer in a place where reputation has come to matter a lot. In 1999 the mainstream media were just beginning to home in on Silicon Valley; now the press covers it assiduously. "Today the cast of entrepreneurs is acting like Hollywood stars," says Randy Komisar of Kleiner, Perkins, Caufield & Byers, a venture-capital firm. "There is a lot of strutting and vogue-



ing for the cameras."

Some unicorns have grown so big that they are sitting in a "valuation trap", too expensive to be sold to a corporate buyer like Facebook, Google or Apple and unable to successfully float on public markets for what they are claimed to be worth. The high valuations across the board also make it harder for the unicorns to thin their ranks, or to ease the competitive pressures that are forcing them to spend so freely, by turning to eat each other. At least one mooted merger between unicorns in the same sort of business has fallen through because of the rate at which their values rose during the negotiations.

Another problem brought on by the enthusiastic investment in young companies is bidding up talent. Competition for skilled workers "is more intense than I have ever seen it," says Jim Breyer, a prominent venture capitalist. The average software engineer in San Francisco now earns $150,000, according to Glassdoor, a database for employer reviews and job listings. In HBO's comedy series "Silicon Valley", the fictional startup Pied Piper finds itself so desperate for a good engineer that it is willing to make an offer to one who claims to be a cyborg, only to be turned down because he has so many other employers to choose from. It is the sort of exaggeration with a nub of truth that makes the show as popular among San Francisco techies as "Sex and the City" was among women in New York.

A particular bone of contention when it comes to hiring is common stock, which startups give to new hires. The value of common stock is assessed by outside firms, but the appeal of a low value, which maximises the upside for employees, leads some companies to try to make sure the assessment comes out that way. Public companies cannot play such games. Many employees have become wise to this and understand the arbitrage of going to work for a startup instead of a public firm. "Wall Street used to be the only place where there was profit without value," says the boss of a public technology company. "Now there is the potential of this happening in Silicon Valley."

The technology industry is starting to look like Wall Street in other ways, too. Ambitious young things who would once have headed for banks now go into tech instead. "The upside is better, the hours are no worse, and the economy is moving more in the direction of technology," says Jon Bischke of Entelo, a software company that helps firms recruit. The attraction is not limited to those fresh from college: in some circles Uber is known as "Goldman West" because of its phalanx of former bankers. At a time when Wall Street has had its purse strings pulled tighter by regulations designed to curtail big bonuses, Silicon Valley can still offer spectacular reimbursement, as Google surely did when it recently hired Ruth Porat from Morgan Stanley to become its chief financial officer. Anthony Noto, Twitter's CFO and a former Goldman Sachs executive, received over $70m in compensation last year.

The last stand

The backlash against such excess has not yet reached the scale achieved by the "Occupy Wall Street" movement in the wake of the financial crisis, but cause for resentment is building, particularly in San Francisco. In the 1990s most of the activity was to the south, in Palo Alto, Mountain View and Silicon Valley itself, which is still where the area's big public companies are mostly based (see map on previous page). Today's startups tend to be much closer to the city itself; Uber, Dropbox, Pinterest and Airbnb all have their headquarters there. Brash young "brogrammers" who work for companies farther south prefer to live in the city and travel to work each day by a luxurious company bus. Property prices have soared as a result. Districts that were once affordable, like Soma and the Mission, are being overrun by engineers and entrepreneurs, pricing out people who have long called them home.

Demand for office space is as heated as the housing market. Venture-capital firms once happy with just a spot on Palo Alto's Sand Hill Road, which runs along the side of the Stanford University campus, have opened offices in San Francisco to be near the young, urban entrepreneurs who find the Valley distant and boring. Rents are rising fast enough—for San Francisco as a whole the price per square foot is up by over 30% since 2010—that some failed companies have made up a good bit of their losses thanks to the increased value of their office space. As in the dotcom bubble, startups are signing leases for offices far larger than they need so that they can lock in space at today's high prices rather than tomorrow's stratospheric ones. Those who think the property market is bad now should wait until more of the San Francisco-based firms go public, says Naval Ravikant of AngelList, a website that helps startups get funding.

Suspend your disbelief

As sure as the fog will roll in, at some point San Francisco's tech economy will slow down. A rise in interest rates could make investors less enthusiastic about technology, because they could earn a higher yield elsewhere. A few well-known unicorns could collapse, killing the prospects of other startups raising funds. A sequence of down rounds across the sector could spook investors.

But the correction will not be like that of 2000. It will not be as indiscriminate, as deep, or as quick. The fact that so many of the large technology companies are private gives them more time to adjust to a market correction than technology companies had last time. Their investors could mark down the value of their investments slowly, as private-equity firms did during the financial crisis of 2008. In the dotcom bust many firms saw their values fall to zero. Many firms may be overvalued this time, too, but few are worth nothing.

A lot of the unicorns have strong underlying businesses and could pull in their horns if the market turned against them. Indeed, some firms are raising money so they have extra cash on hand just in case. "I've asked the board, what's the best way to store fat for the winter," says Mr Butterfield of Slack, the software company. "The best answer is cash. You can't really store up goodwill." According to Mr Butterfield, his firm has "hundreds of millions of dollars in the bank" and is close to breaking even. Many other unicorns have money that could help cushion them. Palantir, which does data analysis, had $1 billion in cash at the end of last year.

Booms and busts are part of the history of Silicon Valley, and California more generally. But the Valley's influence over the future of consumers and capitalism is here to stay. It has become a nexus of dealmaking and fortune-seeking, a realm of creativity and wild ideas, and it will remain so. But the geeks and dreamers who populate the Valley will need to be able to navigate both smooth and rough waters. Some will try to go too high and wipe out into the bay. Others will be diverted by wild winds. But many will make it safely back to shore—only to head back out again for the thrill, the challenge and the future. ■

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France's role in the world

The president's thankless burden

PARIS

The more François Hollande does on the world stage, the less he excites his voters

"FRANCE is only really herself if she is in the lead," wrote the founder of the modern republic, Charles de Gaulle. For the current French president, François Hollande, leadership abroad has involved a steep learning curve: before taking office in 2012, he ran the provincial council of rural Corrèze. Yet in power Mr Hollande has shown a rather steadier hand in conducting foreign affairs than he has displayed running his own country.

His activity abroad reaches wide. This week he was busy in Paris gathering support for a climate conference, to be hosted by France in December, which he hopes will lead to a binding accord on carbon emissions. His foreign minister, Laurent Fabius, held a particularly firm line during six-country talks with Iran, which resulted in a nuclear deal on July 14th. It was a French idea, for instance, to create a "snap-back" mechanism allowing sanctions to be reimposed automatically if Iran breaks its word. Now the French are capitalising on the deal. Mr Fabius will fly to Tehran to meet President Hassan Rohani on July 29th—although, to the dismay of eager French business types hoping for a seat on the plane, this is to be a political trip only.

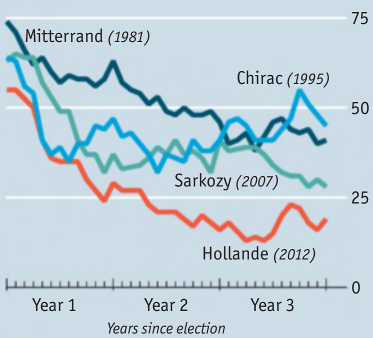
There has been no such bashfulness in France's dealings in the Gulf. Where America has lost favour because Barack Obama was talking to Iran, France has quietly stepped in. Mr Hollande has jetted off four times to Saudi Arabia since his election, most recently in May when he was the first foreign guest for many years at a Gulf leaders' summit. The French are beginning to see a commercial pay-off. Before seeing the Saudis, Mr Hollande sold Qatar a squadron of Rafale jets, built by France's Dassault, worth €6.3 billion ($7 billion). It was the third Rafale export deal on his watch. Hopes of commerce also underpinned his trips to Cuba in May and Angola in July.

Even the Greek economy's near-death experience could be seen as a victory for Mr Hollande. While Germany's finance minister, Wolfgang Schäuble, favoured a Greek exit from the euro zone, Mr Hollande had only one aim: to keep Greece in the currency area. As a co-creator of that currency, France had a founder's interest in its health, as well as worries about its own vulnerability to unstable bond markets should the zone break up. Mr Hollande sent French finance-ministry officials to help Alexis Tsipras, the Greek prime minister, draft reform proposals, and acted as a go-between in talks with a sceptical Germany. "France, in these negotiations, ensured that it was Europe that emerged victorious," Mr Hollande gloated afterwards.

Going down, staying down

Confidence in French presidents, % of respondents

(Year of election)



Source: TNS-Sofres

Mr Hollande may be a lesser player than Angela Merkel, Germany's chancellor, in dealings with Russia over Ukraine. But his belated suspension of war-ship sales to Russia was an important signal.

And France, with Britain, remains one of Europe's only two weighty military powers, each spending roughly 2% of GDP on defence, the target set by NATO. Indeed France recently aborted a planned four-year freeze of military spending, adding €3.8 billion in real terms to its defence budget from 2016, to reinforce its counter-terrorism capability. And France uses its fire-power. Mr Hollande has sent soldiers to repel jihadists in Mali, and to stop genocide in the Central African Republic. Before America pulled back, France had fighter jets ready to bomb Syria in 2013. As one foreign observer puts it, the French now have a rare mix of armed muscle and readiness for action. France held off from the 2003 assault on Iraq, so the public has not turned against such ventures. It has soldiers in Africa and the Gulf, and the president has the constitutional power to deploy them.

The mystery is how poorly Mr Hollande manages to project himself as a force in diplomacy. The big French role in the Iran talks largely got lost from view, at least outside France. And Mr Hollande's attempt to flag it up, during an interview on Bastille Day, came across as fanciful. Mili-

Cider in Poland

Apples, apples everywhere

WARSAW

When drinking is a national duty

TOMASZ SOLIS dreams of the day when the countryside round Lublin, on the eastern edge of Poland, turns into another Tuscany: a place where motorists or cyclists make leisurely tours, stopping to refine their palates by sipping a delicate drink which only the local *terroir* could produce. But the beverage would be cider, not wine.

Admittedly, there is still quite a long way to go. For older Poles, cider conjures up memories of communist times when people home-brewed alcohol out of any fruit at hand. (This was illicit but tolerated, perhaps because a plastered population was less likely to plot counter-revolution.) One housewife recalls that she used to make cauldrons of strawberry jam in the hope that its sweet scent would mask the reek of fermenting fruit that her husband was concocting.

But things have changed. All over Europe, cider and its pear equivalent, perry, are being promoted as treats for sophisticates; the up-market bars of Warsaw are no exception. And since last year, when Russia barred fruit from Poland, the country has had a big surplus of apples. If you can't export them, locals reason, why not drink them?

Poland's cider sales are surging (an expected 18m litres this year, up from 1.9m in 2013) and producers like Mr Solis hope it could rival beer as Poland's national drink. As vice-president of both the national fruit-growers' union and an association of cider-lovers, he calls the newly popular tipple a "strategic development opportunity" in several senses. As he puts it, the Russian ban was meant to "kill us"—the orchard-owners of Poland—but instead has made them "stronger by forcing us to be innovative".

As liquor-makers in other places could attest, innovation in the world of drink often means reviving dormant traditions—or inventing them. Bailey's Irish Cream is now a beloved old product of the Emerald Isle along with shillelaghs and tweed, but it was first cooked up in the 1970s as a way to mop up a milk surplus by mixing it with whiskey. Perry was marketed about the same time, as a fun fizz for women, even though its makers could say, honestly, that such stuff had been made in England since 1066.

Mr Solis need not go so far back; his grandfather made cider. And now he sees a patriotic duty to dust down the presses and encourage everybody to gulp.

tary matters aside, Mrs Merkel is the public face of Europe in Washington, DC, and the main external actor in Greece's drama.

Part of the explanation is temperament. Nicolas Sarkozy, Mr Hollande's predecessor, used look-at-me hyperactivity to disguise France's weakening role within the Franco-German axis. By contrast, Mr Hollande's consensus-seeking instincts and unassuming presence seldom command attention. His grand proposals for further integrating the euro zone, announced on July 19th, went largely unnoticed.

Perhaps most importantly, Mr Hollande's activity abroad is overshadowed by a poor economic record at home. After near-zero growth for the past three years, French GDP is expected to increase by just 1.1% this year. This raises longer-term questions about how far France can sustain its robust internationalism. More immediately, it explains why Mr Hollande has failed to translate foreign feats into poll numbers.

Elected to tax the rich and create jobs, Mr Hollande quickly discarded his 75% top income-tax rate; and unemployment remains stuck at over 10%. The austerity he vowed to end in Europe is now being applied, with his consent, to Greece. "He has not only lost authority but there is a sort of indifference towards him," says Laurent Bouvet of the University of Versailles. Mr Schäuble's tough line is approved by 70% of his compatriots. By contrast, Mr Hollande languishes at 19%, worse than any other modern French president three years into a first term. Even de Gaulle, who was finally disowned by the French, never saw his second-term rating dip below 52%. He was revered by some citizens, hated by others; many seem unmoved by Mr Hollande, whatever his global mission. ■

A terrible bomb in Turkey

Why one attack could augur worse

SURUC

Syria's agony advances north

"FOLLOW the flies; you'll find human flesh." These grisly directions were offered at the scene of a suicide-bomb attack by a suspected Islamic State (IS) terrorist in Suruc, a town on Turkey's border with Syria, on July 20th. Sure enough, flies hovered over charred remains in the garden of the Amara cultural centre, where at least 32 people were killed and around 100 more injured.

The bomber was identified as Seyh Abdurrahman Alagaoz, a 20-year-old from Adiyaman, a conservative province in the mainly Kurdish southeast, which is prime recruiting ground for jihadists. Should his links to IS be proven, the implications will be dire. This would be the group's first big strike inside Turkey; it would serve as a warning that support for Syrian Kurds could cause violence to spill across the border, and complicate the American-led campaign against the jihadists. It would also increase tensions between Turkey's ruling Islamists and its own restive Kurds. On July 22nd Kurdish militants said they had killed two Turkish policemen in "revenge" for the big bomb.

Images of dismembered bodies appeared on social media, stirring violent anti-government protests. The authorities briefly blocked access to Twitter on July 22nd, calling for offensive content to be removed. The real aim, say activists, was to stop demonstrators from organising.

Most victims were university students, who had come from across Turkey to help rebuild Kobane, over the border. They hoped to erect a library and playground. Their possessions—stuffed animals and furry boots—were set in a makeshift shrine. "I gathered their arms, their legs," sobbed Yusuf Polat, a retired chemical engineer who was part of the group. "We

Source: Institute for the Study of War

were going to bring peace to Kobane."

Kobane, the first of three Kurdish-run cantons in northern Syria to declare autonomy from Damascus in 2012, has emerged as a symbol of Kurdish resistance. It was largely destroyed last year when IS fighters sought to wrest control from the main Syrian Kurdish militia, the People's Protection Units (YPG). The YPG retook Kobane in January with American air support. IS struck back in June, killing hundreds, but was repelled by the Kurds. Many Kurds from Turkey are now joining the fight.

Suruc was tempting to IS. A drab mix of cinderblock buildings and rutted roads, it houses thousands of refugees from Kobane and is run by the Peoples' Democracy Party (HDP), a pro-Kurdish bloc that won seats in parliament for the first time in June, thus stripping the Islamist Justice and Development (AK) party of its majority. The HDP does not hide its sympathy for the outlawed Kurdistan Workers' Party (PKK), which has fought on and off for decades for Kurdish self-rule inside Turkey, though in 2013 it called a ceasefire to help rekindle talks involving its jailed leader, Abdullah Ocalan. The YPG is the PKK's Syrian franchise and helps it battle against IS.

In June there was relief in many quarters when the Kurds drove IS from the town of Tel Abyad, which had served as an IS supply route for arms and fighters slipping in from Turkey. But Osman Baydemir, an HDP deputy from Sanliurfa, sees no room for complacency now: "IS are planning further attacks for sure." Like many, he thinks AK has done too little to stop the flow of jihadists and their arms. Others even say the Islamist president, Recep Tayyip Erdogan, and the AK are secretly backing IS so as to sabotage the Kurds' experiment with self-rule in parts of Syria.

In Suruc, some protesters cried "Killer Erdogan". It did not help that he lamented the fall of Tel Abyad, or that pro-government titles screamed in its aftermath that the YPG was a "bigger threat" than IS. The president caused more dismay by failing to call a day of mourning for the Suruc horror.

AK strongly denies any secret agenda. Turkish police have detained more than 500 suspected IS militants and sympathisers this year. But although Turkey is formally part of an American-led coalition against IS, it will not let its airbase at Incirlik be used to hit the jihadists. This dragging of feet drove America to team up with the YPG; and that enraged Turkey's army which equates the YPG with its PKK foes.

In the past, Mr Erdogan was praised for his Kurdish policy. As prime minister he was the first Turkish leader to hold formal talks with Mr Ocalan. But since being elected president in August he has grown hawkish. In October he outraged Kurds by crowing that Kobane was about to fall to IS, and he initially blocked Kurdish pleas to resupply Kobane via Turkey, yielding only after America dropped arms of its own. He has disavowed a peace plan agreed between AK and Mr Ocalan in March, claiming not to have known about it. And AK insiders say Mr Erdogan is keen to send Turkish troops to Syria to thwart Kurdish advances.

Sorrow in Suruc

He may be courting nationalist votes, expecting a new election if AK fails to form a government. And his policy of distancing Turkey from the anti-IS fight may be prompted both by dislike of Kurdish nationalism and by fear of jihadist terror. If that is the strategy, it is not working—as the bombing in Suruc showed. ■

Refugees in Greece

A choppy route to freedom

LESBOS

From Levantine war zones to leaky Aegean boats, people pour in

JUST five nautical miles of turquoise sea separate Turkey from the tourist town of Molyvos, on the Greek island of Lesbos. But the boat got stuck halfway across, says 24-year-old Mohammed Mahmoud. He and a half-dozen university friends fled their bombed-out home town of Aleppo, Syria a month earlier, making their way across Turkey. In Izmir they each paid €1,000 ($1,100) to smugglers who put them on a night bus with blacked-out windows, then ordered them out on a desolate hillside. They scrambled down to the water, young women clutching small children, and into a rubber dinghy, 54 in a boat made for 20. In mid-voyage the outboard motor died, says Mr Mahmoud: "We tried to fix it, but it fell off and sank."

"He's lying," says Rafail Tsamouras, chief petty officer on the Hellenic Coast Guard patrol boat that picked the migrants up. The smugglers know the system, he says, and many tell the migrants to dump their motors once they enter Greek waters. The coast guard is required to rescue and transport them to the island's migrant processing camps. Migrants who reach shore on their own must often walk 60km to the camps outside Mytilene, Lesbos's capital.

This summer, ten or more such boats have arrived on Lesbos every day. Greece has replaced Italy as the main route for migrants fleeing the Middle East. Over 75,000 came in the first half of this year, seven times more than 2014. Most are Syrian, and most come to Lesbos. In the week to July 17th some 8,500 landed on an island with a population of 86,000. At Moria, the main migrant camp, they are fingerprinted, receive papers, and continue to Athens. But police have just two of the fingerprinting machines provided by Frontex, the European Union border agency, and can register at most 500 people per day. A backlog of 1,500 migrants has built up at Moria. In March the city opened another camp, called Kara Tepe, to cope with the overflow.

The municipality has no legal authority to spend money on migrants, but it does so anyway. Spyros Galenos, mayor of Mytilene, says he is "keeping up the fight": the island cannot afford wandering bands of refugees scaring tourists. It must find ways to house them and move them on to Athens. At Kara Tepe, rubbish blows between the tents and toilets have clogged up. The city had to replace a fuse-box after migrants cracked it open to recharge their phones. Six coast-guard officers provide security for 3,500 or more migrants. They sometimes spill out towards the neighbouring supermarket, blocking the main road in the hope of catching a ride.

The migrants do not want to stay in Greece. They are heading for Germany or other parts of Europe's wealthy core. Europe has done little to help Lesbos, apart from occasional Frontex boat and helicopter patrols. Change may be on the way: EU countries have just agreed to distribute 32,256 asylum applicants between them (see Charlemagne). Still, that many come here in a month. The UN High Commissioner for Refugees and charities like Doctors Without Borders do what they can.

In Molyvos, the migrants lounge on the breakwater of the harbour across from the quayside tourist cafes, waiting for the bus to the camps. They undo the cellophane they have wrapped around their mobile phones for the crossing, and call relatives to tell them they have made it. Volunteers distribute sandwiches and water. Soon, Mr Mahmoud hopes, he will be in Germany; perhaps he can finish his pharmaceutical degree. He and his companions are laughing and joking, for all the world just a gang of university mates in basketball jerseys, starting out on their first trip to Europe. ■

Charlemagne | The birth-pangs of a policy

It is agonising to watch, but a new European approach to migration may slowly be emerging

LAST week a Danish surveillance aircraft spotted a rickety fishing boat stuffed with would-be migrants 24 nautical miles off the Libyan coast. It alerted the Italian coast guard in Rome, which in turn dispatched *Poseidon*, a Swedish multipurpose vessel on patrol in the Mediterranean. Three hours later the ship's crew ran into 613 men, women and children, from places as far apart as Nigeria and Bangladesh. One by one they clambered aboard, where they were given food, water and a quick health check before awaiting their delivery to shore. Like trophies, pictures of the vessels the *Poseidon* has intercepted adorn a stairwell below the ship's mess hall. Since its deployment to Sicily on June 1st as part of an expansion of Operation Triton, the European Union's border-surveillance mission in Italy, *Poseidon* has taken part in 14 rescue operations and saved 2,600 souls.

If only Europe's governments could co-operate as happily. This week marked their latest failed attempt to reach a piddling goal: the relocation of 40,000 asylum-seekers from Italy and Greece, which are groaning under record arrivals, across most of the EU's other members. Despite Stakhanovite efforts from Luxembourg, which as the holder of the EU's rotating presidency was charged with securing national contributions to reach the number, the pledges reached just 32,256. Five times as many migrants reached Italy and Greece in the first half of this year alone. Explaining their opposition, sceptical governments speak airily about tackling the "root causes" of migration instead. As these include civil war in Syria, tyranny in Eritrea and a Libyan state that has lapsed into gangsterism, this is code for doing nothing.

Faced with such small-mindedness one can despair. For a continent that aspires to be a force for good Europe has been a dismal failure at dealing with migrants from outside its borders. Thousands have drowned in the Mediterranean. Legal channels for skilled migrants are uneven and often ineffective. Even the sole European success this week—a deal to resettle 22,504 refugees from outside Europe—loses its sheen when set against the size of the problem: there are an estimated 4m displaced Syrians alone, most languishing in Turkey, Jordan and Lebanon.

Yet Charlemagne finds reasons to hope. This week's numbers are puny but they are more than the zero the EU had previously been able to agree on. Triton's expansion, which relies on support from 27 European countries, will be hard to reverse, for Europeans no longer seem prepared to see the Mediterranean turn into a graveyard. Officials are thinking seriously about other parts of the problem, from Europe's fractured asylum system to a permanent relocation mechanism, to be triggered when migrant arrivals spike. Most European governments now seem to accept that migration is a problem for all of them, not just the littoral states—even if they disagree on the solutions. A year ago, says an Italian official, we could not have dreamed of a permanent relocation scheme. Now we are at least talking about it.

What explains the change? The death of around 800 migrants off the Libyan coast in April helped shame politicians into action. But previous disasters have prompted little more than wrung hands and empty promises; it is the sheer scale of the movements that has woken Europe up. Over 160,000 unauthorised migrants have reached the EU this year. Human-rights groups talk of the worst refugee crisis since the second world war. Such numbers make it hard for even the most dedicated isolationists to pull up the drawbridge and lock themselves inside Fortress Europe.

It might seem odd to detect cause for cheer. After all, at last month's summit of EU leaders the relocation proposal sparked arguments fiercer than anything over Greece's euro membership. Some countries are reverting to atavistic impulses; witness Hungary's construction of a fence along its border with Serbia. But migration is a charged topic, and Europe's governments have competing interests. America, a unified state with vast federal assets, has struggled to get a grip on its illegal-immigration problem. It was always going to be harder in Europe. But if a common migration policy is to emerge, it would inevitably begin like this.

From Basra to Bratislava

Still, several tripwires lie ahead. One is the unprecedented experiment of the relocation scheme. Its fiercest foes, largely in eastern Europe, must start planning now for the Eritreans, Iraqis and Syrians who will arrive from October. Few have much experience in integrating foreigners. Moreover, asylum-seekers are often not agnostic about their place of refuge. Migrants who end up in, say, Slovakia, may rush to join compatriots or kin in Sweden, even if they forfeit social benefits under rules which may be dreamed up to discourage such moves. If large numbers of migrants up sticks as soon as they are relocated, the Italian dream of a permanent relocation scheme will die.

A second potential pitfall is the struggle of many European countries to send failed asylum-seekers home. Improving the rate of return is tricky, says Liz Collett of the Migration Policy Institute, a think-tank. Governments that do it well, such as Britain's, invest in complex, granular relationships with migrants' home countries. The formulaic "readmission agreements" on which the EU relies are much less effective. Yet to win support for the new asylum-seekers they will soon receive, European governments, particularly those under siege from populist right-wingers, must show voters that they are dealing with the old, failed ones.

Perhaps the hardest fact to swallow is that no policy, however well-crafted, can hope to keep pace with the epic forces that drive people from their homelands. A refugee surge from Ukraine, for example, could overturn Europe's strategy. And new policies bring their own challenges: resettling refugees is humane, but it may establish communities that go on to attract new illicit migrants. Such are the dilemmas thrown up by today's era of mass migration, and Europe must adapt. Happily, it has started to. ■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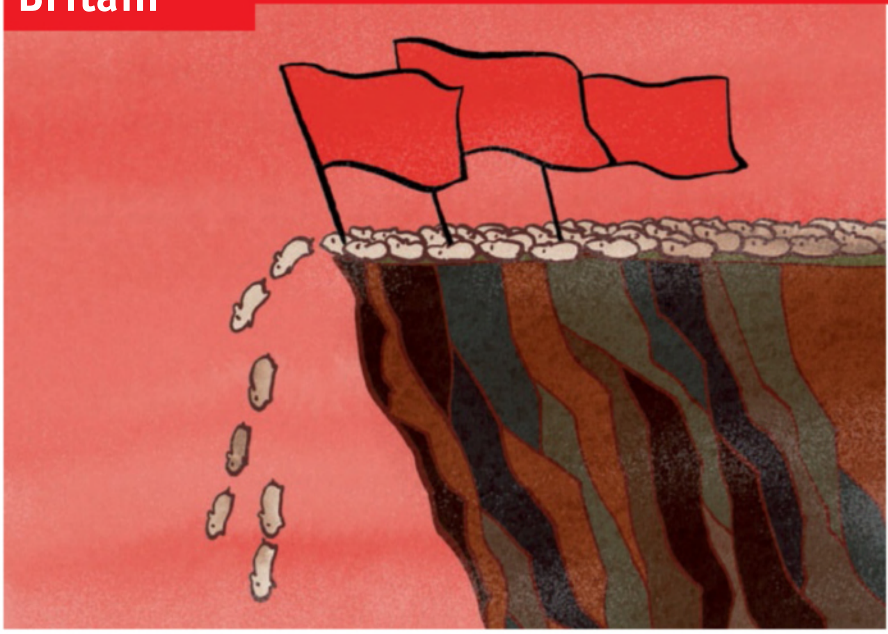

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Labour's leadership race

Forward, comrades!

The opposition charges leftward, towards electoral oblivion

IF EVER there were a time for the Labour Party to take a reality check, it would be now. Its share of the vote in May's general election was its third-worst since 1918. The new Conservative government will soon redraw constituency boundaries to its own advantage and is moving onto Labour's traditional ground, increasing the minimum wage and wooing northern cities. To win the next election, in 2020, Labour must make deep inroads into Tory England, producing a swing away from the Conservatives on the scale of its landslide victory under Tony Blair in 1997.

Instead the party is hurtling into the wilderness. Of the four candidates for its leadership, vacated by Ed Miliband hours after the election defeat, three—Yvette Cooper, Andy Burnham and Jeremy Corbyn—have concentrated less on broadening its appeal than on telling members what they want to hear. The result has been a lacklustre, self-indulgent contest and a stark illustration of Labour's leftward shift during Mr Miliband's five years in charge.

The myopia is not universal. The fourth candidate, Liz Kendall, a shadow health minister, has urged her party to claw back the economic credibility that it lost before the election. She has front-bench allies, most notably Chuka Umunna and Tristram Hunt, who warned in a speech on July 15th that the party could vanish "overnight" if it did not change. On July 22nd even Mr Blair waded in, telling an audience of supporters that there need not be a conflict between "the pursuit of power and the purity of principle".

Such admonitions are, however, confined to the contest's margins. Ms Kendall has been branded a "Tory" by her Labour opponents and looks likely to come last when the contest culminates on September 12th. Meanwhile Mr Burnham, the leftish shadow health secretary and long-time favourite, rails against a "Westminster elite" of which he is conspicuously part and claims the manifesto on which the party stood in May was the best in its recent history. Ms Cooper, his main rival, hedges her every statement in a bid to win through sheer inoffensiveness (a nod to Labour's electoral system, which rewards the least unpopular candidate). Neither has offered a hard-nosed account of the party's defeat—or substantial ideas for its future.

Two recent developments have highlighted Labour's resistance to harsh realities. First, Mr Corbyn, a hardened socialist who admires the Syriza government in Greece and advocates much higher taxes on business and the wealthy, is doing remarkably well. The MP for Islington North has more nominations from constituency branches than any other candidate. A poll of Labour and union members by YouGov for the *Times* on July 22nd even suggested that he would win—an eventuality that would wreck the party's already gloomy electoral prospects.

Second, the party missed a chance to take a symbolic step forward. On July 13th Harriet Harman, its capable interim leader, decreed that Labour would not resist welfare cuts without identifying alternative savings. Mr Burnham, Ms Cooper and Mr Corbyn all condemned her order to abstain in a vote on benefit restrictions on July 20th. Forty-eight Labour MPs—nearly one in five—rebelled, an embarrassing blow to her modest bid to break with the Miliband years, when the party opposed changes (like capping welfare entitlements at average earnings) that were popular not just with the electorate at large but with most Labour supporters, too.

The house that Ed built

Rare optimists among Labour's centrists say the party is merely stunned by its defeat in May. In truth, its funk has deeper roots. At the last leadership election, in 2010, most Labour members and MPs backed David Miliband, the most credible of the candidates. But overwhelming support from the unions pushed his more left-wing brother, Ed, across the line. The party changed under his leadership. Experienced centrists were sidelined; others, dismayed at Labour's direction, left politics. Unions extended their influence over the party's messages and candidate selections. The hue of the membership reddened as comrades who had quit during the Blair years returned to the fold, and beardy Liberal Democrats disappointed by their party's coalition with the Tories defected.

That generational churn is reflected in the party's divisions. Almost half of the welfare rebels of July 20th are in the new intake of MPs. Twelve members of the class of 2015 nominated Mr Corbyn, compared with two who backed Ms Kendall. Anecdotal evidence suggests that the influx of new members since Labour's election de- ▸▸

feat—about 50,000 in total—is disproportionately left-leaning. At several hustings candidates have been booed and heckled for backing things like Britain's nuclear deterrent that were relatively uncontroversial in the party a few years ago.

Conservatives are predictably chipper about Labour's march towards electoral oblivion, their delight amplified by the fact that the Lib Dems, too, are retreating to their comfort zone. On July 16th Tim Farron, a serial critic of the coalition, won that party's own leadership election. He immediately moved it back towards familiar protest politics, criticising both the government's welfare cuts and its plans to bomb Islamic State in Syria (see next story).

But even Tories should worry about the direction of left and liberal politics in Britain. If Labour and the Lib Dems are consumed by irrelevance, the remaining opposition force will be the Scottish National Party, which wants to leave the country altogether. The government will go without proper scrutiny, its more illiberal and isolationist tendencies unmitigated by a credible counterweight. The next election will be uncompetitive. The sappy, introspective state of the opposition is terrible for its members. It is bad for Britain, too. ■

Foreign policy

We'll be with you in Syria

David Cameron pledges more military back-up to America

BY APPEARING on last weekend's *Meet the Press*, an American current-affairs programme, David Cameron was sending a message to his local audience that Britain was back as America's closest and most reliable ally. Although much of the interview was about the prime minister's support for the nuclear deal with Iran, what Mr Cameron really wanted to convey was that Britain would "step up and do more" in the fight against Islamic State (IS) in Iraq and Syria. "Be in no doubt," he said, "we are committed to working with you to destroy the caliphate in both countries." He acknowledged that he would still need to persuade Parliament to extend Britain's bombing campaign to Syria, but left little doubt over his intentions.

The murder on June 26th of 30 British holidaymakers on a Tunisian beach by a jihadist gunman with links to IS has had a galvanising effect on Mr Cameron. He believes that the atrocity has reminded voters that what he sees as the "poison" of Islamism has to be confronted militarily as well as ideologically. In a speech on July 20th he declared that "passive tolerance" of extremism and jihadist propaganda was unacceptable.

That is not all. Since his election victory in May, Mr Cameron has been at pains to reverse a growing impression among Britain's allies that the country has lost its strategic ambition at a time when threats are multiplying. In Washington there was concern over British defence cuts that seemed destined to intensify. American diplomats had started referring to "Great Shrinking Britain". A particularly hurtful gibe was that America now saw France, after its dashing intervention against Islamist militants in the Sahel, as a more spirited military ally than Britain (see page 21).

Barack Obama himself lobbied Mr Cameron on the importance of Britain sticking to its commitment to meet NATO's totemic defence spending target of 2% of GDP (on some projections, it was due to fall to 1.7% by 2020/21). Mr Cameron reacted tetchily, saying that any decision must await a spending review in the autumn. But the criticism must have hurt, because on July 8th the chancellor, George Osborne, announced that Britain would after all meet the 2% pledge for the rest of the decade, with defence spending growing by a real 0.5% a year. In addition, a new joint security fund of £1.5 billion ($2.3 billion) a year would be shared between the Ministry of Defence and the intelligence agencies, the chancellor said.

This has created a very different backdrop for the quinquennial Strategic Defence and Security Review that is now under way. The government can claim that Britain will remain Europe's biggest defence spender and that the armed forces will be getting the £160 billion worth of shiny new kit (including two aircraft carriers) over the decade from 2013, as they had been promised.

Doubts linger. In Iraq and Syria, Britain's role is constrained by the absence of a coherent American strategy. An expanded mission for the Royal Air Force will have little bearing on the outcome of the war against IS. On current plans, fast-jet strength will reach an all-time low by 2019, calling into question the sustainability of Britain's contribution. Mr Cameron must also win permission for a Syrian campaign from the House of Commons, where he has a majority of only 12—and where only two years ago he failed to persuade MPs to punish the Assad regime's use of chemical weapons. Above all, public support for military efforts abroad is fragile. The results will need to be better than those of the recent past to maintain it. ■

The queen's Nazi salute

Royally embarrassed

A tabloid newspaper enrages the palace

THE tabloid *Sun* newspaper, owned by Rupert Murdoch, has form when it comes to tweaking the noses of the royal family. On July 18th, however, the paper surpassed itself by publishing a film clip that showed the queen as a seven-year-old girl apparently giving the Nazi salute, egged on by her mother and uncle Edward, who was briefly king before he abdicated over his wish to marry the divorced Wallis Simpson.

Her majesty's more loyal subjects were outraged, and Buckingham Palace instigated an inquiry into how the *Sun* got hold of the 1933 home movie. The paper, meanwhile, pointed to the public interest in further exposing the nefarious ways of Edward VIII, a known Nazi sympathiser, who does indeed seem to be orchestrating the little family hand-stretching routine at Balmoral.

The queen herself has scarcely been ruffled by the brouhaha. Historians have queued up to exonerate her. She was too young to know better, let alone gainsay her wicked uncle. And anyway at this time Hitler was still a bit of a Chaplinesque joke in Britain, so the family might have been mocking the newly installed Führer. Nonetheless, the footage is a

So that won't be Sir Rupert

reminder of how many in Britain's upper classes did admire Hitler and the Nazis, including two of the famous Mitford sisters, one of whom married the British fascist leader Oswald Mosley. The palace must hope that no one produces a soundtrack for the film.

Bagehot | The psychology of a peninsula

Britain's debate on the EU pivots on a deeper question: is it a European country or not?

IN THE 1380s, half a century after King Edward II's painful demise—rectally impaled on a red-hot poker—John Trevisa, a Cornish scholar, was trying to translate a Latin account of the incident into plain English. He settled on a delicate formulation ("sleyne with a hoote broche putte thro the secret place posteriale") but as he did so was troubled by his reliance on French loan words. English, he fretted, was under threat from such terms, because ordinary folk were copying the speech of their Norman masters. But as time went by, Trevisa changed his tune. He later wrote that "schoolchildren are turning from French, and this is a harm for them if they should cross the sea and travel".

His *volte-face* on French, and with it the importance of Britain's links to the continent, recently popped up in a spat between two groups of academics. "Historians for Britain" is the smaller but has more stardust, counting among its supporters the likes of David Starkey, a dyspeptic television personality. Looking ahead to Britain's referendum on its EU membership and citing its global links, its legal system and its "milder political temper", they argued that the country's history and traditions render it naturally separate from its European neighbours. A larger group of historians, dragooning Trevisa, countered that Britain's fate has always been bound up with that of the continent; that, in other words, the country is essentially European.

Few expect this symposium to have much bearing on the upcoming vote. On Fleet Street commentators pontificate, not incorrectly, about Britons' mercurial view of the EU and their immunity, forged in 1940 in the skies above southern England, to grand talk of Europe's destiny. The Yes and No campaigns agree, convinced that the plebiscite—expected to take place in just over a year—will turn on whether EU membership puts cash in British pockets or immigrants in British job centres. They are thus locked in an arms race of quotidian factoids and charts with which to harass voters (Business for Britain, a leading anti-EU outfit, has already produced a 1032-page doorstopper of them).

Bombarded with statistics by slick spokesmen sporting natty websites and social media accounts, how will Britons pick a side? The typical undecided voter, surely, will allocate the benefit of the doubt according to his hunches about the sort of country Britain is. If he views its past and present glories as an encyclopedia of its resistance to and dismissal of the continent, the No camp's talk of a post-European Britain trading with the wider world will appear credible to him. But he will give more credence to the Yes campaign's arguments about the jobs and investment that depend on the EU if, by contrast, he perceives in modern Britain an interdependence with the continent of which it is geographically part. In short: Britons will vote according to brute self-interest, but their perception of that will be moulded by more emotional considerations. The head is, after all, connected to the gut.

The No camp gets this. Business for Britain claims that every British household would be £933 ($1,455) better off every year outside the EU. But it couches the claim in larger arguments about Britain's otherness among European states, asserting that the country should reorient its economy and foreign policy towards former colonies to which it is "culturally and psychologically" closer than to its neighbours. The organisation, from which "Historians for Britain" was spun, has even produced a map drawn according to its world view, on which Britain is as near to India, Australia, America and "The Stans" as it is to Calais.

On this front, as on everything from funding to cross-party co-ordination, the pro-Europeans are currently lagging. Polls suggest that more Britons lean towards a Yes vote than towards No. But that cannot be taken for granted. Those who want Britain to remain in the EU need voter-friendly facts (not least a reply to Business for Britain's dubious £933 claim). But they also need to root these in counter-arguments about what the country's history and present reveal about its interests and identity.

Channel vision

They have no shortage of material. Though an island with strong links to other continents, Britain has the political and economic character of a peninsula; idiosyncratic, but nonetheless part of the mainland. Perhaps the two most consistent features of the country's history have been the overspill of events on the continent into the British Isles, from the Black Death to the euro-zone crisis, and the to-and-fro of traders, soldiers, thinkers and other migrants. Today there are about as many Britons living in the EU—two million—as there are nationals of other EU states in Britain. Even the most striking institutional examples of British exceptionalism—its language, legal system and church—are the products of centuries of communion with its neighbours.

An effect of this web of interdependence and intermingling is the attitudinal overlap between Britons and other Europeans, whose views towards the individual, the state and religion they share to a much greater degree than those of Americans (according to a Pew study, for example, Britons agree it is more important for the state to spare citizens from need than to leave them free to pursue their goals). Even Margaret Thatcher, the patron saint of Euroscepticism, noted (quoting one of her predecessors) that: "We are European, geographically and culturally and we cannot, even if we would, disassociate ourselves from Europe."

Bagehot, readers may be starting to detect, finds this reading of British history the more convincing. But he welcomes "Historians for Britain" to the debate as keenly as he does their pro-European sparring partners. The upcoming referendum must settle the EU question for at least a generation and, whatever its result, the consequences will be momentous. Quite right, then, that authorities on both sides of Britain's great debate are raising their eyes from footling claims about gas bills and farming subsidies and asking the essential question: who are we? ■

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Africa and America

The prodigal grandson returns

NAIROBI AND WASHINGTON DC

Barack Obama is popular in Africa, but has not paid the continent enough attention

WHEN Barack Obama touches down in Nairobi this weekend for the first visit to Kenya of his presidency, he will be given a noisy reception. Despite security protocols so strict that his arrival date was not officially announced until the last minute, the whole nation will celebrate.

Welcome posters the height of buildings are in place. Corporate bosses jockey with do-gooders for a spot on the rope line. Even more babies than usual are being named after Kenya's most famous grandson. An elderly relative wants to bake him a cake, local newspapers report.

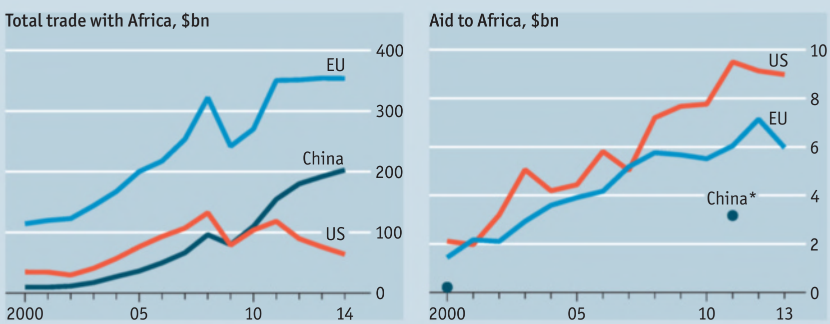
American commentators too are excited. Few have been able to resist the comparison with John Kennedy's presidential visit to Ireland. Yet whereas Ireland was leaning America's way in the cold war, even if nominally neutral, Kenya has been outright hostile of late. That Mr Obama is visiting anyway shows a desire to bolster America's influence in Africa at a time when growing populism, Islamic extremism and Chinese economic might are undermining it. His trip follows a visit to the White House by Nigeria's new president, Muhammadu Buhari. After stopping in Kenya, Mr Obama will also drop in on neighbouring Ethiopia.

The president so far lacks a signature achievement in Africa. Bill Clinton introduced the African Growth and Opportunity Act (AGOA), which slashed American tariffs on most goods from many sub-Saharan countries. Under George W. Bush, America dramatically ramped up aid spending, mostly targeted at HIV and AIDS programmes. Under Mr Obama, these programmes have largely been maintained. AGOA was recently renewed; America's aid agency, USAID, is still at the forefront of HIV and AIDS prevention across Africa. But as a result of the government sequester agreed in 2011, official aid has fallen somewhat, even if private American donors such as Bill Gates give lavishly. China has replaced America as Africa's largest single trading partner. Mr Obama's African policy now largely focuses on promoting economic development and tackling Islamic extremism.

Meanwhile, he has had to deal with a rise in anti-American sentiment. In Kenya, the problems started when its president, Uhuru Kenyatta, and five other prominent figures were indicted for involvement in the mass slaughter following an election dispute seven years ago. Although Kenya had originally asked for help from the International Criminal Court (ICC) in The Hague, the accused managed to whip up nationalist fervour against the court's Western supporters. During the most recent election, two years ago, Mr Kenyatta's henchmen verbally battered foreign diplomats to shore up popular support, attacking in particular the British high commissioner to Kenya and the American assistant secretary of state for Africa.

China's open wallet is making Kenya and other African countries less dependent on western investment, though they still seek it. A growing populism has also made relations trickier. In Kenya and elsewhere, elections are becoming more competitive as urbanisation, technology and anti-corruption measures shrink traditional patronage networks. Politicians have to work harder to win supporters. Railing against western imperialism is a vote-win-

Signs of slippage



Sources: OECD; Chinese Ministry of Commerce; IMF

*Government figures, other data unavailable ner in some countries, and requires no skill on the part of the politician.

All that is meant to be forgotten when the first African-American president of the United States lands in what Kenyans say is his home, even though he has spent almost no time there. Both sides now wish to see a change of tone, not least given new opportunities to co-operate in commerce and counter-terrorism following strong economic growth and ever more terror attacks. The thaw has been made easier by the collapse of the case against Mr Kenyatta at the ICC (partly because witnesses were intimidated or killed). And so the two presidents hope to sign joint-venture contracts in public and deepen a security partnership behind closed doors.

In Nigeria Americans have seized on the election of Muhammadu Buhari as a chance to mend ties and push reform. Mr Buhari has been put up in Blair House, which is reserved for the most important guests of the president. No other African leader has visited the Oval Office so soon after taking power.

Under Mr Buhari's predecessor, Goodluck Jonathan, the Leahy law, which stops America from supporting military units known to have committed atrocities, limited the amount of military aid that Washington could supply to Nigeria. Mr Buhari has vowed to reorganise and clean up the country's military, which ought to make it easier to supply vetted units with intelligence, equipment and cash. Since the election, Washington has committed $5m in new funding towards a regional military force—and more may follow. Equipment supplied is likely to be mostly non-lethal, but could include such things as night-vision goggles.

America is embracing Nigeria because, as Johnnie Carson, a former assistant secretary of state for Africa, argues, it is now "the most important country in Africa". Bilateral ties were strained when Mr Jonathan was in charge because his government was so corrupt and incompetent. Last summer America stymied Nigerian plans to buy American helicopters from Israel, for fear that they might be used against civilians. Mr Buhari's election is an opportunity to change tack. American officials point hopefully to his decision to sack the country's senior general staff as proof of his determination to root out graft.

As well as security, aid policy is now aimed more directly at boosting American investors' fortunes and American social-policy aims on the continent. Power Africa, one of Mr Obama's favoured projects, is a typical example: this costs the American taxpayer relatively little directly, but instead uses loan guarantees and diplomacy in an attempt—though so far with only modest results—to convince private firms to invest in power generation.

American diplomats increasingly talk of tying aid to good governance, economic openness and liberal social policies. Last year, for example, America cut aid to Uganda to protest against a new law that would lock up homosexuals for life. (An earlier draft had called for the death penalty.) In Washington Mr Buhari was encouraged to improve conditions for gay people in Nigeria. Such nagging does is not always consistent: Mr Obama's visit to Ethiopia is intended to improve trade and security links, officials say, even as they admit that Ethiopia has become more authoritarian.

All of this adds up to incremental, rather than transformational progress, and Mr Obama can rightly be criticised for failing to make Africa a priority. Still, he can argue that he has renewed a good trade accord, is boosting electrification and has expanded the number of training missions to fight terrorists. That is probably more than Kennedy did for Ireland. ■

Iran and Saudi Arabia

Proxies and paranoia

CAIRO

The kingdom fears a resurgent Iran as sanctions come off

OFFICIALLY, Saudi Arabia is pleased to see Iran shelve its nuclear ambitions in return for sanctions relief. But behind that thin veil lurks alarm about the potential empowerment of the Sunni kingdom's long-standing Shia rival. "The Iranian regime is like a monster that was tied to a tree and has finally been set loose," warns a column in *Al Sharq al Awsat*, a normally staid Saudi daily that reflects government views. Private opinions are no less dark. "Iran before the agreement was an enemy, a powerful hungry regime," says Hussein Shobokshi, a Saudi businessman and commentator. "After the agreement it has become a devil, a mad hulk with green eyes."

Metaphors are one thing, actions another. On July 14th, the very day that Iran's nuclear deal was clinched in Geneva, Saudi-backed forces were dealing their biggest blow yet in a campaign to contain what they see as an Iranian-sponsored insurgency in Yemen. Bolstered by Saudi air strikes, factory-fresh armoured cars and special forces from a Saudi-led coalition of Arab states, Yemeni fighters—loyalists to the government that was toppled in March—surged into the port city of Aden. Within three days they had chased the last of the rebels from Yemen's second-biggest city, ending a messy four-month occupation.

The move is not only the first big setback for the Houthis, as the largely Shia Yemeni insurgent group is known. The Saudi coalition's foothold in Aden may presage a redivision of Yemen, a country only united in 1990, into southern and northern halves, an arrangement Saudi Arabia prefers. The first aircraft to land at Aden's reopened airport, on July 22nd, was a Saudi military transport bearing aid, more weapons and the commander of the Saudi navy.

Yemen is only the latest of many theatres in which Saudi Arabia and Iran have sparred over the three and a half decades since an Islamic revolution ended Iran's own monarchy. The Saudis and their Gulf allies funded Saddam Hussein when he in-

Welcome back to Aden

vaded Iran in 1980, while Iran's proxy in Lebanon, Hizbullah, battled Saudi-backed militias during the 1975-90 Lebanese civil war. In 2011 Saudi Arabia and its allies poured troops into the neighbouring kingdom of Bahrain to help quell a popular revolt. The demands for democracy in a country that is 60% Shia were seen as an Iranian plot to gain power.

Ongoing wars in Iraq and Syria have opened more brutal battlegrounds. While Iran has spent as much as $20 billion, by some estimates, to prop up the government of Bashar al-Assad, a recent increase in Saudi backing for his motley foes is widely viewed as explaining a series of military setbacks for the increasingly beleaguered Syrian regime.

Accusing Iran of fuelling unrest among Shias across the region, including among the kingdom's own 10% Shia minority, Saudi rulers have for decades given free rein, as well as funding around the globe, to Sunni preachers spewing venom against the rival, smaller branch of the faith. A recent trove of Saudi diplomatic documents revealed by the whistle-blowing group WikiLeaks exposes a near-obsessive fear of Shia influence. In one cable, the kingdom's embassy in the Egyptian capital, Cairo, warns that the change of a green-coloured shroud for a black one to cover a Sufi saint's tomb reflects a creeping Shia tide.

The fears are mutual. Iranian officials mutter that Islamic State (IS) and other Sunni jihadist groups are Saudi pawns. Nuri al-Maliki, the Iran-backed former Iraqi prime minister whose antipathy to Sunnis is widely seen as having paved the way for IS's rise, suggested, absurdly, that Saudi Arabia be annexed by the UN because it had "lost control" of Wahhabism, the root cause of terrorism.

Rather than seeing the reduction of an Iranian nuclear threat as an advantage, the Saudi government frets instead that its oldest ally, America, is poised to abandon the kingdom and appoint Iran as its new regional policeman. These worries explain a barrage of official American messages and visits intended to smooth ruffled feathers. John Kerry, the American secretary of state, plans to parley with Gulf leaders next month, following on the heels of the secretary of defence, Ashton Carter, who was there this week.

"We believe if you are going to push back against Iran, it's better to push back against an Iran without a nuclear weapon than with one," says Mr Kerry in defence of the deal. The Saudis, whose new king, Salman, has given his son Muhammad sweeping powers to prosecute military action, will want to push back hard. They will also want to push back fast, before Iran realises a windfall of at least $100 billion from frozen funds released by the end of sanctions. That portends little relief from the heat in places like Syria and Yemen. ■

Dubai's bright prospects

The nuclear deal's other winner

CAIRO

Many firms looking to do business in Iran will go through Dubai

AT DUBAI CREEK in the United Arab Emirates the dock workers load everything from computers to cigarettes onto dhows headed across the Persian Gulf to Iran. At the airport, some ten minutes away, men with suitcases full of dollars board planes bound for Tehran. Dubai, the busiest entrepot in the Gulf, has long been the back door through which smugglers have entered Iran to swap goods and cash in breach of Western sanctions. It is now hoping to become Iran's front door as well.

The nuclear deal between Iran, America and five other world powers will gradually lift most sanctions if the mullahs keep their end of the bargain. This has raised fears that a more prosperous Iran will step up its meddling in Arab affairs (see previous article), and that its renewed oil sales will lead to yet lower prices and a battle for market share. But others see an opportunity, as the region's largest market—home to nearly 80m mostly young and typically well-educated people—reopens. Dubai is best placed to take advantage.

Of the 400,000 or so Iranians who now call the UAE home, many live in Dubai. The emirate also plays host to nearly 10,000 Iranian businesses and trading companies, by one estimate—though some are mere fronts for smuggling. Little wonder, then, that the UAE is Iran's second-largest trading

Driving in Lebanon

Buckle up

BEIRUT

Will a new law do anything for road safety?

AS ANYONE who has ever set foot in Lebanon knows, the country's drivers are a force to be feared. Motorists on the winding mountain roads think nothing of overtaking on a blind corner, at twice the speed limit. Keeping up-to-date with phone messages is a must, in the driver's seat or otherwise. Seat belts? Often still covered in plastic wrapping.

Little wonder then that three months after a tough new law on driving came into force it is still the topic of conversation around Beirut, the traffic-clogged capital. As regulations go, this one is particularly stringent. Status-enhancing yet dangerous manoeuvres, such as driving a motorbike on one wheel, can entail a fine of up to 3m Lebanese pounds ($2,000) and even time behind bars. Dark-tinted windows are banned. Children under ten cannot be taken on motorcycles, thereby outlawing one of the region's favourite modes of family transport. Learner drivers must take proper lessons rather than being taught by relatives, themselves home-schooled in the art of dodging pedestrians and potholes.

Lebanon's government says all this is to improve road safety. The UN reckons the tiny country of 4m has an annual fatality rate on the roads of 22.3 per 100,000. That is better than Saudi Arabia, where young men lacking any other entertainment race cars for fun. But Lebanon still fares worse than parts of Africa.

There are signs that hitting citizens where it hurts—their wallets—is working. Drivers hastily pull on seat belts when entering central Beirut. They pay a little more attention to red lights, at least in the city centre. Passengers may even detect the odd taxi driver putting a lighter touch on the gas, especially in areas where police are known to linger.

Yet, like the widely ignored smoking ban, few reckon even these superficial signs of compliance will last for long. Lebanon is so corrupt that people with *wasta* (connections) are effectively above the law and others can pay a bribe to get off the hook. Most Lebanese think it a joke that the government, which even when it isn't in one of its frequent periods of collapse cannot ensure regular electricity, is trying to enforce such a thing. And they would like to know where the money from fines goes. "They want us to act like Europeans," says Imad, a motorist. "OK, but in return we'd like some European-style services."

partner, after China, even though commerce between the countries has slowed since sanctions began to bite in 2011. If the Iranian economy grows fast, as analysts predict, the amount of cash, goods and tourists crossing the Gulf will likely surge.

It so happens that the three sectors of the Iranian economy worst hit by sanctions are ones where Dubai excels. Start with air transport, which has suffered in Iran due to a lack of spare parts for its ageing and increasingly unsafe fleet of planes. Dubai, meanwhile, has created a vast air-services hub, including maintenance and manufacturing facilities, around its airport, one of the world's busiest.

Similarly, Iran's oilfields have been crippled as sanctions kept needed equipment out of the country. Much of the investment in new Iranian infrastructure will now run through Dubai's port at Jebel Ali, which is a hub for everything to do with pipes, pumps and rigs.

The third sector is finance, where sanctions have left Iran completely outmoded. Dubai, by contrast, hosts the regional headquarters of most big banks. Rouzbeh Pirouz of Turquoise Partners, an investment firm in Tehran, is reminded of Hong Kong, where global financial institutions and multinational firms set up to gain access to the young Chinese market. "Dubai can play a similar role [for Iran]," says Mr Pirouz. It is already a hub for firms looking to do business in the Middle East and Africa. Tehran is just two hours away by plane and trade links between the countries are centuries old.

There are already about 50 flights a week between Dubai and Tehran, and dozens more between various other cities in the UAE and Iran. FlyDubai, a discount carrier, has increased the number of Iranian destinations it serves from two to nine this year. Emirates, the region's biggest airline, already flies to Tehran and will now also connect with Mashhad, Iran's second most populous city and a Shia pilgrimage site. Meanwhile, the port at Jebel Ali, which saw shipping volumes from Iran fall as a result of the sanctions, is set to bolster its place as a main trans-shipment point for Iran-bound goods.

Analysts caution that the economic impact of Iran's opening will be delayed. Sanctions will be lifted at intervals, and only if Tehran complies fully with the agreement. America's own trade embargo, related to terrorism, will remain in place. Companies looking to trade in Iran will also encounter a range of bureaucratic hurdles (see page 50). The country is a woeful 130th on the World Bank's ease-of-doing-business list. Some firms may choose to wait. The smugglers of Dubai Creek will not go out of business just yet. ■

Israeli politics

Bibi blue

JERUSALEM

The prime minister's tiny majority starts to trouble him

ONE of the low points for Binyamin Netanyahu in Israel's election campaign early this year came in response to a report criticising his government's handling of the housing crisis. The prime minister declared: "There's talk of house prices and cost of living. I don't forget life itself, living—but the greatest challenge we are facing in our lives as Israeli citizens and this state is the threat of Iran's arming with nuclear weapons."

He went on to confound the polls and win a fourth term as prime minister; but "life itself" has become an ironic catchphrase for many of his opponents. To them it symbolises how Mr Netanyahu's administration has focused on the Iranian threat at the expense of dealing with pressing issues closer to home. Now that the world's powers have agreed on a nuclear deal with Iran, these problems are coming home to roost. Ten weeks after it was sworn in, the new government looks shaky.

The political turmoil which led to early elections prevented the passage of a state budget for 2015, and the five-party government is struggling to find over 8.5 billion shekels ($2.25 billion) to meet promises made during the long coalition negotiations. A staunch believer in fiscal discipline, Mr Netanyahu has already had to agree to relax next year's deficit target from 2% to 2.9% of GDP. The Treasury warns that if the coalition's demands are met, the deficit could go as high as 3.5%.

These budgetary woes are further complicated by two long-term economic issues now roiling Israeli politics. The government has been forced to postpone a vote on the future of Israel's natural-gas sector, amid accusations that Mr Netanyahu has struck a poor deal with a consortium of the local Delek Group and the America-based Nobel Energy that currently holds most of the licences to extract gas from Israel's offshore Mediterranean gasfields.

A government report on the defence budget was published this week, which called for a reduction of 12% in the number of career officers and for shortening conscription for men from three to two years. The report prompted an angry counter-briefing from the Israel Defence Forces General Command. Mr Netanyahu will now have to choose between doing what the report advises, as many of his ministers are demanding, or siding with his close political ally, Moshe Yaalon, the defence minister, who supported the generals by calling the report "shallow" and "delusional".

Backed by only 61 members of the 120-strong Knesset (parliament), Mr Netanyahu is at the mercy of every backbencher. Threats by the most right-wing elements in the coalition not to support the government in crucial votes if it continues an unofficial freeze on new building in Jewish settlements in the occupied Palestinian territories led last week to the issuing of 906 permits for new housing units for Israelis in the Palestinian West Bank.

Mr Netanyahu is gearing up for another fight over the Iran deal, which he wants the US Congress to block. But he will almost certainly lose, and is beginning to realise that his troubles are closer to home than Tehran. His hopes that the Labour party would join his coalition, easing his domestic problems, were dashed on July 19th when its leader, Yitzhak Herzog, told a party conference that "the Netanyahu government failed in preventing the nuclear deal" and that "we have to send him packing." At this point, the embattled prime minister can ill afford defeats both in Congress and the Knesset. ■

Hanging on

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Wages and 2016

Ways of seeing

The presidential candidates' ideas for boosting wages reveal different diagnoses of how the economy has changed over the past 40 years

WITH unemployment low, decent growth anticipated for this year and the Federal Reserve preparing to raise interest rates, America's economy looks rosier. That has not stopped candidates for president from worrying about it. With the economy back on its feet, the presidential hopefuls want to address a longer-term condition: stagnant wages. Median household incomes remain lower in real terms than in 1989, and only 11% higher than in 1970. Talk of the death of the American dream is rife. The candidates have suggested a variety of reviving strategies, each of which reveals a different diagnosis of the underlying problem.

The first idea is to boost growth. Most economists reckon GDP rose by around an annualised 2.5% in the second quarter—strong, by today's standards. But it lags the pace achieved, say, from 1996 to 2000, when annual growth topped 3.5%, and real median incomes grew by 10% to boot.

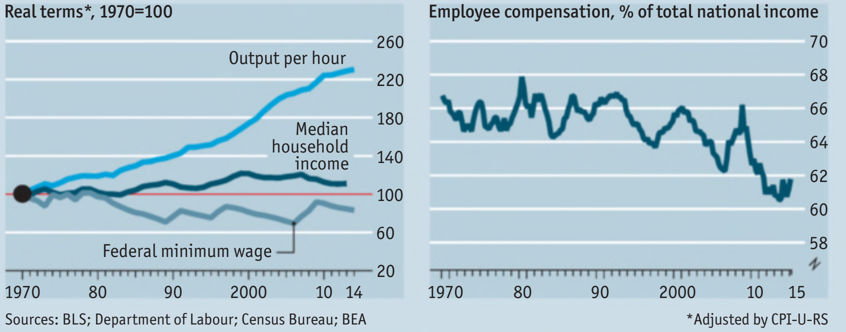
Jeb Bush, the front-runner for the Republican nomination, wants a repeat of this superlative economic performance, and is promising to target growth of 4%. With such a fast expansion, argues Mr Bush, "the middle class will thrive again".

That is probably true, but the ambitious target has raised plenty of eyebrows among economists, many of whom think the economy's potential for growth is permanently lower today. Mr Bush's plan is light on details, but in an interview with a New Hampshire newspaper on July 8th he said part of the solution might be for Americans to work longer hours. The Democrats immediately lambasted him as out of touch; Americans already toil for longer than any other workers in the G7 group of large rich countries.

Mr Bush may have a point all the same. There are 6.4m Americans in part-time jobs who want to work full-time, up from 4.5m on the eve of the recession. The Federal Reserve reckons these workers form part of the slack in the labour market which holds wage growth down. Still, it is not clear what Mr Bush could do about this, were he to win the White House. Labour-market slack is a short-run issue that is usually the domain of the Fed.

A more promising approach is to try to boost productivity in the hours already worked—another natural way to get wages up. In a thoughtful speech on July 7th Marco Rubio, one of Mr Bush's many rivals for the Republican nomination, focused on this route to riches. The plight of the middle class was not, he said, the result of a cyclical economic downturn. Instead, Americans need help adapting to the new world of high-tech jobs. Just as textile workers in the industrial revolution had to retrain to learn to use the power loom, and became richer as a result, Americans today will thrive only if they learn to harness the tools of the global techno-economy.

To that end, Mr Rubio wants to overhaul higher education. A four-year college course is unnecessary for many students, and too expensive for workers looking for new skills, he argues. Mr Rubio wants to make it easier to set up cheaper, shorter courses and break what he calls the "cartel" of colleges controlling accreditation. He would also introduce a new funding model for students, who could offer up a fixed percentage of their future incomes to investors willing to finance their studies. ▸▸



Sources: BLS; Department of Labour; Census Bureau; BEA
*Adjusted by CPI-U-RS

Boosting skills and productivity is necessary to increase wages. But Hillary Clinton, the probable Democratic nominee, likes to point out that this is not, on its own, enough. Americans have not reaped the fruits of their labour in recent decades Since 1970, productivity has more than doubled, while median incomes have risen only 11% (see chart on previous page).

That makes the problem look like one of pie-cutting rather than pie-cooking. The labour share—the proportion of GDP that flows to the pockets of workers—has been in decline since the turn of the century, with capital gobbling up an increasing share of the economy's spoils. Mrs Clinton wants to arrest this trend by encouraging firms to share profits with workers. She would offer a two-year tax credit to firms that do so, worth up to 15% of whatever was paid out. The hope is to nudge firms towards schemes that they will continue after the tax break is withdrawn. The firms may find this is good for them: there is strong evidence that profit-sharing boosts productivity, argues Joseph Blasi, an economist at Rutgers University who advised the Clinton campaign on the policy.

Pie-eyed

One problem is that wages may fall to offset the profit share. To begin with, this would be spotted easily. But over time it would be harder to detect (for instance, wages might grow at a slower pace with profit-sharing in place). The only way of ensuring that workers shared company profits in the long-run would be to encourage employee ownership of firms.

Mrs Clinton's challengers on the left have a more rudimentary approach. Both Martin O'Malley, a former governor of Maryland, and Bernie Sanders, a senator from Vermont, say they will more than double the federal minimum wage from $7.25 to $15 an hour. Seattle, Los Angeles and San Francisco are already phasing in such a policy. On July 22nd a panel of experts recommended a $15 minimum wage for fast-food workers in New York. A much higher minimum wage would boost median incomes, because many low-wage workers are their household's second earners. But the minimum wage is a blunt instrument, and economists know little about the long-run impact these increases would have on employment (see page 60).

The candidates do not seem short of ideas to improve the fortunes of average Americans. And the renewed focus on wages is welcome; economic growth matters little if it does not boost living standards. Most of the front-line candidates have correctly identified the causes of the malaise (Scott Walker, who sees no problem, is an exception). But slower growth, weak productivity and a declining labour share of income are global trends. The next president will need to fight all three. ■

The Iran deal

Not déjà vu all over again

The nuclear agreement with Iran is very different from the one with North Korea

FOR many of those opposed to the deal to curb Iran's nuclear programme struck on July 14th, the issue could hardly be more straightforward. The wily Iranians have got the better of a naive president (and five other leaders) who would rather appease a rogue state than confront it. No agreement with a country like Iran is worth the paper it is written on. The Iranians will cheat and get the bomb at a time of their own choosing, when the world is not looking.

A more sophisticated, and thus more persuasive, version of this critique is the claim that the deal with Iran is no different from the one struck by the Clinton administration with North Korea in 1994. Marco Rubio, the junior senator from Florida, has made the comparison, as has Senator Tom Cotton of Arkansas. "I think this is a repeat of the mistake of North Korea," Israel's prime minister, Binyamin Netanyahu, told CBS's "Face the Nation".

Barack Obama's announcement last week welcoming the deal did indeed echo claims made by Bill Clinton 21 years earlier. "Today, after 16 months of intense and difficult negotiations with North Korea, we have completed an agreement that will make the United States, the Korean Peninsula and the world safer," Mr Clinton de- ▶▶

The funeral trade

A grave business

NEW YORK

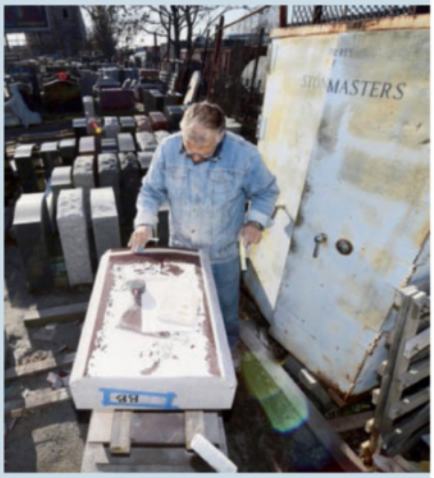
A tussle over headstones in New Jersey may end up before the Supreme Court

DEATH is tricky, but burials are fairly straightforward. Secure a cemetery plot, buy a coffin, order a headstone and hope for a sermon with a fortifying Robert Frost poem. In 2013 the Roman Catholic archdiocese of Newark, New Jersey sought to simplify this process further by selling headstones and mausoleums directly to parishioners shopping for a plot at one of its 11 cemeteries. This was convenient for mourners and provided a handy income for the church. The problem, the archdiocese would soon learn, is that this was someone else's turf.

Within months of the archdiocese's first headstone sales, the Monument Builders Association of New Jersey, a trade group, sued the church, alleging foul play. The association lost its battle in court—the church was not doing anything illegal—so took its case to New Jersey's legislature. The lobbying paid off: in March Governor Chris Christie signed into law a ban on religious cemeteries operating funeral homes or selling memorials or mausoleums. The law, which takes effect next year, applies to any religious cemetery, but it was crafted to curb the Newark archdiocese's sudden burst of funerary entrepreneurialism.

"The law is one of the most blatant examples of economic protectionism in the country," says Jeff Rowes, a lawyer with the Institute for Justice, a libertarian law firm which argues the law is unconstitutional in a federal lawsuit filed on July 21st. Wilson Beebe, executive director of the New Jersey State Funeral Directors Association, disagrees. He argues that the Newark archdiocese's "natural vertical monopoly" (as a one-stop funeral shop) and tax-exempt status give it unfair advantages. He adds that after 18 months of gravestone sales, the church had cornered around a quarter of the market at its cemeteries and was on course to dominate sales. The church handled around a tenth of the state's deaths in 2012.

"They are going to put us out of business," says John Burns, president of the Monument Builders Association. Though the case has been billed as a fight between industry heavyweights and the beleaguered church, he insists that it is really a clash between small local businesses and a powerful body that already enjoys government handouts. "When we're gone, the archdiocese will have a monopoly and the consumer will lose," he warns. A grim thought.



A monumental case

clared then. "Under the agreement, North Korea has agreed to freeze its existing nuclear programme and to accept international inspection of all existing facilities...Compliance will be certified by the International Atomic Energy Agency." Eight years later, that deal unravelled. Another four years on, North Korea conducted its first nuclear-weapons test.

There are some similarities between the agreements with Iran and North Korea. Both countries have flouted international norms regarding human rights, terrorism and non-proliferation. The deal with Iran rewards bad behaviour by offering economic benefits in exchange for future compliance, as did the one with North Korea. But there the resemblance ends.

For Iran, the incentives to abide by its undertakings are far more compelling than they were for North Korea. The Iran deal is notable for the highly specific way in which it establishes the verification protocols and the mechanisms for dealing with potential violations. As George Perkovich of the Carnegie Endowment for International Peace points out, the North Korean framework ran to only four pages and contained no specifics about verification.

The contrast with what has been agreed with Iran is striking. In a meticulously detailed document which, with appendices, extends to well over 100 pages, the most intrusive nuclear-inspection arrangements ever designed are described. Not only will inspectors have a right to visit any site they deem suspicious, but every stage of the fuel cycle will be monitored, as will Iran's nuclear supply chain. This deal implicitly assumes that Iran will attempt to cheat unless it knows it will get caught. The North Korean agreement showed no concern about uranium-enrichment activities, which, in due course, the regime in Pyongyang exploited. With Iran, Mr Obama was right to say that its every pathway towards a bomb has been blocked.

Just as important as the technical differences between the two agreements are the differences between the two societies. North Korea is the most hermetically sealed country on earth. Ending its isolation by exposing its terrified, impoverished people to outside influences was the last thing the Kims wanted. Iran has a large population of well-educated young people who use the internet and social media. The election of President Hassan Rohani was brought about by businesses and citizens painfully aware of the economic damage done by sanctions. Opportunities to trade with the rest of the world could revitalise Iran's economy.

That there are bits of the regime that disapprove of the gamble taken by the supreme leader, Ali Khamenei, points to another distinction. In Iran, against a backdrop of limited democracy, factions compete for power. Even Mr Khamenei has to exercise his authority with care. North Korea is the most totalitarian society in the world. For the Kims, the survival of the regime is personal. The country's pariah status is something it relishes. Brandishing nuclear weapons are the only way it knows to guarantee it will be left alone.

The incentives for Iran to abide by what its negotiators have laboured to deliver are powerful, while the penalty of sanctions being reimposed in the event of non-compliance would be devastating and humiliating. For North Korea, reneging on its commitments was relatively painless and even had a strange kind of logic. The deal with Iran is far from perfect; but whatever else it may be, it is not déjà vu all over again. ■

The 2016 field

The Kasich conundrum

COLUMBUS, OHIO

Given a chance, the governor of Ohio could be a formidable candidate

"THE Lord will record what you have done for another in the Book of Life," John Kasich, the Republican governor of Ohio, told an admiring crowd of a couple of thousand people at Ohio State University on July 21st. "The Lord wants our heart to reach out to those that don't have what we have." Sounding more like a preacher than a candidate, Mr Kasich spoke of faith and empathy in a meandering 45-minute address which also contained an announcement that he is running for president.

Speaking without a teleprompter and seldom consulting his notes, Mr Kasich reminisced about his uncle Steve, the son of a coalminer, who saw people dying in Iwo Jima and was plagued by nightmares in which he spoke Japanese; his uncle George, now patriarch of the Kasich clan; his father John, a postman; his mother. In policy terms, he joined Republicans who worry that the American dream is now beyond reach for many people.

The governor's message may not always have been clear, but it was filled with moral purpose. "I'm just a flawed man [...] trying to honour God's blessings," he said. Mr Kasich's supporters say his evangelical faith is key to understanding his contradictions (he is known for both his righteousness and his righteous temper). This is not empty talk. Mr Kasich infuriated Republican activists when he decided to accept federal funds to expand access to Medicaid—the federal health scheme for the poor—as part of the Affordable Care Act, a decision he justified in religious terms.

Though Mr Kasich opposes gay marriage, he has no plans to stand in the way of the recent Supreme Court decision to legalise it. He backs Common Core, a set of national education standards that most conservatives oppose, and he believes climate change is happening. He even has good things to say about immigration, suggesting the country should be kind to its 11m undocumented immigrants.

He has an impressive CV: he won nine terms as a congressman, including a stint as chairman of the House Budget Committee when the federal budget was balanced under Bill Clinton. As a member of the House Armed Services Committee for 18 years, he has more foreign-policy experience than most other candidates. And Mr Kasich never fails to mention the "Ohio Story" of economic recovery. When he took over as governor in 2011, the state was \$8 billion in the red with an economy in the doldrums. Today it has a surplus of \$2 billion, and its workforce has increased by 350,000. He has even managed to dole out \$5 billion in tax cuts.

This mixture of centrist appeal and experience would make Mr Kasich a formidable candidate in the general election, if only he could get there. Yet he is launching his presidential bid late and near the bottom of the pack. The Republican field now numbers 16 hopefuls. The RealClearPolitics average of polls puts Mr Kasich a lowly 11th, on only 1.5%.

As a crowded swing-state, Ohio is key in any presidential election. No president since John Kennedy has won without carrying the Buckeye State. "Some say that he is positioning himself for the vice-presidency," says John Becker, a state representative. This is not far-fetched. Mr Kasich, who won re-election by a landslide in November, could well bring Ohio with him. If the Republican Party were more interested in winning than in ideological purity, he would have a shot at the top job. Which means he will probably have to settle for something less. ■

Civil-war memorials

Too big to veil

COLUMBIA, SOUTH CAROLINA AND STONE MOUNTAIN, GEORGIA

The flag on South Carolina's statehouse represented the beginning, not the end, of a struggle over history

MUCH like a cruise in a convertible Cadillac, a gallop on Little Sorrel was comfortable, swift and airy. If a petition circulating in Georgia succeeds, the two conveyances will have something else in common: a Cadillac steered by the hip-hop duo OutKast will be etched into Stone Mountain alongside Little Sorrel, his rider General Stonewall Jackson and two other mounted leaders of the Confederacy. A whimsical idea, yet the debate over how to commemorate America's civil war—supercharged by the racist massacre in June at a black church in Charleston, South Carolina—is serious. And it has barely begun.

On a pine-scented summer evening, it is easy to see why Stone Mountain Park is Georgia's leading tourist attraction. The biggest draw is its laser show, in which an eccentric hotchpotch of celebrities and luminaries are projected onto the mountainside. The three huge likenesses carved into the granite (Jackson, Jefferson Davis, the Confederate president, and Robert E. Lee, its most feted officer) haunt the display; but amid the zany images, mini-golf and ersatz geysers, visitors might forget that the whole place honours an armed rebellion intended to keep 4m people enslaved.

Some, however, are outraged. One young black visitor sees the sculpture as "a symbolic representation of hatred". Richard Rose, of the local chapter of the NAACP, thinks that by celebrating the Confederacy, the state of Georgia (which owns the park) glorifies white supremacy. He wants the carving to be erased, along with all state-sponsored memorials to the rebels. Vincent Fort, a Democratic state senator from nearby Atlanta, wants to scrap Confederate Memorial Day, still marked in Georgia and elsewhere. He "would not lose a wink's sleep" if Stone Mountain were "sandblasted to hell".

Stone Mountain—reputedly the world's largest bas-relief sculpture—is the Confederacy's biggest, strangest shrine. But similar campaigns are underway over humbler statues of greycoated warriors in Baltimore, Memphis and New Orleans. Defenders of the effigies are mustering, too.

Segregated memory

On July 18th at South Carolina's statehouse in Columbia, where the Confederate battle flag was emotionally lowered after the Charleston shootings, the Ku Klux Klan and its sympathisers held a motley rally—a chaotic pageant of cranks revelling in a fleeting notoriety, protesters challenging each other to fights that the police prohibited, and mass mutual filming on mobile phones. A Klansman from Kentucky gave warning that if "they take down our monuments and dig up our gravestones", black cemeteries would be desecrated.

Reconstituted on Stone Mountain in 1915, the Klan is now sinking towards oblivion; these days anyone can don a few Boy Scout-style badges and call himself a wizard. But reverence for the Confederacy is much broader. The Southern Poverty Law Centre, a think-tank, reckons over 100 pro-Confederate-flag rallies have been called since the Charleston atrocity. Many who do not march remain wedded to the version of civil-war history these symbols represent—in which the North was the aggressor, southern soldiers were chivalrous and secession was not, repeat not, motivated by a defence of slavery (which was anyway more paternalistic than cruel). "A large swathe of southern white opinion is reluctant to give up this form of mythology," says Melton McLaurin of the University of North Carolina at Wilmington.

Why ask them to? "A flag is not worth a job," remarked Robert Bentley, Alabama's governor, explaining that he jettisoned Confederate flags to safeguard economic development. Some black activists make the same argument, but in reverse, considering rows over lumps of stone a distraction from bigger issues, such as the fact that across the South black children are at least twice as likely to grow up in poverty as white ones. Lowering a flag is simpler than disposing of a three-acre carving, but even that would be easy compared with improving the lot of all black families.

The strongest response to that view is that Confederate tributes have always been intertwined with headline struggles over race, discrimination, victimhood and attitudes to the federal government. As David Blight of Yale University puts it, "Memory is always about the present." This fusion has been especially visible at three points in history. Many Confederate memorials were erected in the late 19th and early 20th centuries, when the exculpatory version of civil-war history took hold in the South and when segregation was entrenched. The second point came in the 1960s, around the war's centenary (most of the work on Stone Mountain was done then). That was the peak of the civil-rights movement, when hoisting Confederate flags and statues was a form of defiance to rampant liberalism outside the South.

The third such period may now be underway. Many bids to remove Confederate markers will be protracted: some states have laws designed to prevent such interference. Some of these were passed only recently: Tennessee's dates from 2013. (Stone Mountain is protected by a Georgian law of 2001.) More are in the pipeline. Gerald Allen, a Republican state senator proposing a new heritage-protection bill in Alabama, says he wants to stop history being whitewashed so that its mistakes will not be repeated. Maybe so; but in the context of newly vocal black activism, all this looks like a contest that is as much about contemporary politics as ancient history.

Another case against disturbing Confederate memorials is that, like the Lenin busts littering the former Soviet Union, they are ubiquitous—not just in the South but from Florida to Alaska, not only in capitols and squares but in the names of umpteen roads, schools and military bases. In this sense the Confederacy has spread everywhere. To those who trace America's residual racial problems back to the civil war and slavery, that is rather the point. ■

Lexington | El Donald

In Europe Donald Trump would have his own party and seats in a parliament

IT WAS a winter night in 1854 when nine men broke into the building site of the Washington Monument, stole a slab of marble and—according to a later confession—heaved it into the Potomac river. The stone, which once belonged to the Temple of Concord in Rome, was a gift from Pope Pius IX. The attackers belonged to an anti-Catholic political movement, nicknamed "Know-Nothings" on account of their strict code of secrecy. Their movement considered Catholic immigrants a menace to the republic. At its peak, followers included dozens of congressmen, some governors and an ex-president. The Know-Nothings feared that the papal stone was a coded call to arms, sent to spark an immigrant uprising. Their vandalism helped to halt the monument's construction for years. To this day a change in stone colour, part-way up the obelisk, betrays that nativist moment.

There is nothing secret about the nativist views of Donald Trump, a dyspeptic business tycoon running for the Republican presidential nomination. His finger-jabbing speeches about Mexican rapists and murderers, flowing across the border "like water", and American jobs being shipped to China have taken him to the top of most polls. More dismaying, his apparent popularity has unmanned more conventional presidential rivals, only some of whom have chided him for his bigotry.

Mr Trump eventually managed to provoke a Republican backlash only after he attacked the war record of the Republican Party's presidential nominee from 2008, Senator John McCain. Incensed after Mr McCain accused him of stirring up hard-right "crazies", Mr Trump declared that the former Vietnam war pilot—who was shot down, imprisoned, tortured and declined to be released earlier than his fellow prisoners—was "not a hero". "I like people that weren't captured," he later added, sarcastically. The tycoon and reality-TV star himself avoided service in Vietnam, in part thanks to a medical deferment due to bone spurs in his heel (in a press conference following the remarks about Mr McCain, he could not recall whether it was the right or the left one).

The Trump surge has been startling. After all, lots of conservatives growl about immigrants changing America, and shops full of cheap Chinese goods, without enjoying such success. Mr Trump is funding his campaign himself, which means he has no need to flatter donors. Is it this outsider status as a non-politician that marks him out? Or perhaps the unfiltered quality of his rage?

The Trump technique involves confiding in unhappy Americans that they are victims of a plot—and a plot, what is more, that could be easily thwarted. In his telling, scheming foreign governments have outwitted a soft political elite in Washington and preyed on America's openness and generosity. He is tapping into a political tradition with deep roots. The Know-Nothings are only one example. The "America First" movement of the early 1940s accused decadent Europeans and well-connected Jews of conspiring to drag America into a new world war. In the 1960s the John Birch Society saw communist cunning at every turn.

To difficult questions Mr Trump offers appealingly simple solutions, starting with this most painful puzzle for conservatives: if America is the mightiest country in the world, how come it feels so weak? His answer goes beyond blaming Barack Obama and the Democrats. The fault, he insists, lies instead with the governing class in both parties, which has betrayed a great nation.

Mr Trump rails repeatedly against the "stupidity" of American leaders, who have allowed a scheming Mexican government to export its worst citizens across a porous border. He talks a lot about his dealmaking skills—"I went to the Wharton School of Business," he told a rally in Arizona, "I'm like, a really smart person." Armed with that business acumen, he promises to build a border wall and make Mexico pay for it. He suggests fining Mexico $100,000 every time its government "really intelligently" sends a migrant over. It is the same with China. The Chinese are ripping America off because "their leaders are much smarter".

A President Trump would bring jobs back by levying punitive taxes on firms that move factories overseas. America still has all the cards, he says soothingly. It is just that today's American leaders don't understand the game. The harshest blows to national morale are ascribed to elite naivety. Islamic radicals are growing rich from Iraqi oil, Mr Trump notes: this just shows that America should have seized Iraq's oilfields. As for national security, a President Trump would hire a modern-day General MacArthur to run the army, and "nobody will be pushing us around."

The leaning tower

Pundits disagree on what happens next. But Mr Trump's fall will have to be steep and swift to keep him off the stage at the first Republican TV debate on August 6th, an important showcase reserved for the ten candidates doing best in national polls (converting a half-dozen other hopefuls into also-rans).

What is clear is that he will not win the Republican presidential nomination. Being horrible does have a political cost. Were he European, he could look forward to playing king-maker—channelling his spleen into a protest party capable of winning seats in parliament, and making life miserable for establishment rivals as they tried to build a governing coalition.

As it is, America's two-party system offers him a bleaker choice: to stay on and heckle in the primaries or to play wrecker as a third-party candidate. Yet the Trump slump, when it happens, will not spell the end of the forces that have propelled him so far. Anti-politics rage is buffeting rich democracies across the world, and America is not immune to it.

Modern Washington is home to several gifts from the Mexican government, including a statue of a national hero, Benito Juárez, standing temptingly close to the Potomac. Until a mob hurls that into the river, look on Mr Trump and remember that candidates could be worse and, indeed, they sometimes have been. ■

Also in this section

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Brazilian politics

The power behind the throne

SÃO PAULO

A junior partner in government is running the country

IN THE three decades since the restoration of democracy in Brazil, the centrist Party of the Brazilian Democratic Movement (PMDB) has rarely been out of power. The two presidents with no PMDB ministers in their cabinets had cause to regret it. One was impeached with the party's help. Another was humiliated by a congressional vote-buying scandal—precipitated, many reckon, by his reliance on small parties-for-hire. A maxim of Brazilian politics is that "no one governs without the PMDB."

Governing with it is no picnic, either. The PMDB is an indispensable part of the coalition led by Dilma Rousseff, who belongs to the left-wing Workers' Party (PT). Her vice-president, Michel Temer, is the PMDB's chairman; the presidents of both houses of Congress are members. They have been cantankerous allies. Ms Rousseff has been beset by a sagging economy, high inflation and a huge bribery scandal at Petrobras, the state-controlled oil company. The PMDB has tortured her by weakening fiscal austerity, the basis of her economic policy, and by joining opposition parties in threatening impeachment.

On July 17th Eduardo Cunha, the Speaker of Congress's lower house, announced that he would defect to the opposition (without leaving the PMDB). This was a furious response to allegations, made in court by a lobbyist, that in 2011 Mr Cunha had demanded a $5m bribe in return for supporting legislation helpful to some of Petrobras's suppliers. He denies that. The government is goading prosecutors to pursue him as a way to curb Congress's autonomy and divert attention from the PT's own role in the scandal, Mr Cunha claims. The Planalto, Brazil's presidential palace, is run by a "band of nutcases".

It is the person, not the party, that is abandoning the coalition, the PMDB was quick to declare. Still, Mr Cunha's exit is a worry for the president. Last week came news that police are investigating her predecessor and political mentor, Luiz Inácio Lula da Silva, for possible influence-peddling on behalf of construction firms. He denies the allegation. That is a further blow to the battered PT. Ms Rousseff needs the PMDB more than ever if she is to survive until the end of her term in 2018. Increasingly, it is running the show.

Office parties

Elected officials, Brazil
2015

	PMDB	PSDB	PT
Senators	17	11	13
Federal deputies	67	53	63
Governors	7	5	5
State deputies	142	97	108
Mayors*	1,022	695	637
Local councillors*	7,967	5,262	5,184

Sources: Government statistics; Jairo Nicolau
*Based on 2012 municipal elections

If numbers were all that mattered, the PMDB would be the most powerful party by far. Besides having more seats in Congress than any other, it outguns its main rivals, the PT and the centre-right opposition Party of Brazilian Social Democracy (PSDB), in state and local governments (see table). The PMDB has 2.4m card-carrying members, more than the PT's 1.6m.

Brazil's military dictators laid the ground for this success, says Natalia Maciel of Rio de Janeiro's State University. The generals forced parties to merge into two big blocks, one favouring the regime (called ARENA), the other in opposition to it (then called the MDB). The MDB, renamed the PMDB in 1979, played a crucial role in bringing back democracy in 1985. José Sarney, the first (indirectly elected) president of the democratic era, was a PMDB leader. With the help of the electoral machine it had built under the junta, it won a majority of seats in Congress and all but one governorship in a general election a year later.

The regime had hounded out the MDB's more radical figures, leaving a party dominated by moderates. To maintain its broad appeal, it kept its ideology flexible. Asked what the PMDB stands for, grandees start with freedom of speech—then clam up. Its programme brims with platitudes: its only firm position is against the death penalty. It is more pro-business than pro-market, often lobbying for local and industry-specific benefits. Critics accuse it of *fisiologismo*, the trading of political support for government jobs (or, in some cases, cash). The party prefers to think of itself as the guardian of "governability". One (pro-PSDB) banker says the PMDB is "one reason Brazil will never become Venezuela".

But its clout has rarely matched its girth. In part, as Mr Cunha's solo defection shows, that is because it is more a label ▸▸

used by independent-minded politicians than the champion of any political philosophy. It has not fielded a candidate for the presidency since 1994, leaving the more ideological PSDB and PT to compete for the top job. The winners turn to the PMDB for support, but not for guidance on how to govern the country.

Ms Rousseff's woes could change that. Mr Temer plays the part of a prime minister. Joaquim Levy, the budget-cutting finance minister, meets him more often than he does the president, say Mr Levy's aides. The PMDB's leaders have recently been saying that the party will put up a candidate for the presidency in 2018. Possible contenders are Messrs Temer and Cunha, as well as Eduardo Paes, Rio's go-getting mayor (if the Olympic games he will host next year go well).

That may be idle talk. The PMDB always threatens to run, only to extract patronage from the government of the day, observes Marcos Nobre, a philosopher who has written a book about the party. He thinks it will continue to distance itself from the government without pulling it down. If it is serious about leading the next government, it will have to figure out what it stands for. ■

Venezuela's currency

Crackers in Caracas

CARACAS

As the government prints money, hyperinflation looms

THIS month Venezuela's currency, the bolívar, passed a melancholy milestone: its value on the black market is now a hundredth of what it is supposed to be at the main official exchange rate. The government insists that there are 6.3 bolívares to the dollar, but it will cost you 630 to buy one from a willing seller. As the country's stock of hard currency shrinks and the central bank prints money to plug a huge budget deficit, the bolívar's collapse is accelerating (see chart). It is worth a thousandth of what it was in 1999, when Hugo Chávez, Venezuela's late autocrat, came to power.

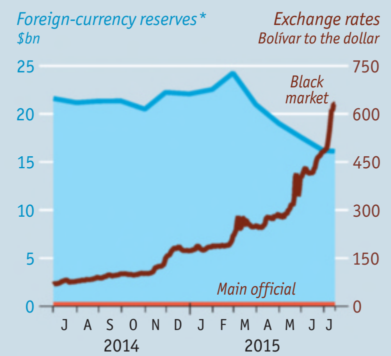
The country may be on the verge of hyperinflation. Most economists reckon that the inflation rate is already 120% a year (the central bank stopped publishing price data, so no one is sure). Some expect it to reach 200% by the end of 2015.

The government uses a labyrinthine system of price and exchange controls to shield Venezuelans from soaring prices. But these make matters worse. Price ceilings have devastated local production; factories are operating at half-capacity and more than two-thirds of food is imported. Affordable goods are in short supply.

With a dollar's-worth of bolívares, you can in theory buy 33kg (73 pounds) of maize flour, the national staple. But only if you can find a supermarket that has some and you are willing to queue for hours (repeatedly, since flour is rationed). For the same price, consumers could fill the tank of the family car 140 times with subsidised petrol. That amount of fuel is worth $5,000 across the border with Colombia. Guess what? Enterprising Venezuelans smuggle it across.

Officially nuts

Venezuela



Source: Thomson Reuters *Including gold

Cuba's sports defectors

The 90-mile sprint

Athletes are making a dash for freedom—and sometimes fortune

IN ONE night on July 15th Ariel Martínez, Cuba's leading striker, twice showed a nifty turn of foot. On the field he set up the only goal of the game against Guatemala in a regional soccer tournament in Charlotte, North Carolina. Then, after taking a jubilant team bus back to the hotel, he gave his coach a hug and reportedly bolted "into the darkness".

He was the fourth Cuban footballer to defect to the United States in the 19-day Gold Cup tournament. In the same week four Cuban rowers at the Pan American games in Canada gave their handlers the slip and are assumed to have sped across the United States border. A fortnight earlier, two national baseball players went missing after a friendly match with American rivals in North Carolina. They have not been heard from since.

The rash of defections comes at a sensitive time. On July 20th the United States and Cuba resumed diplomatic relations after 54 years (see page 50). But like the long-running trade embargo, America's "wet-foot, dry-foot" policy remains in place, offering a path to citizenship to any Cuban on its soil (as opposed to in its waters). Worried that rapprochement will close that window, thousands of "boat people" have crossed the shark-infested Florida Strait this year, desperate to make it to American soil 90 miles (145km) away. Athletes are taking a short cut. "It's as simple as getting into a car and driving away," says Joe Kehoskie, an American former baseball agent.

For many of these sportsmen, neither fame nor fortune awaits in the United States. Instead they just hope to make a better living than on the Communist-ruled island. But baseball, Cuba's national sport, offers juicier opportunities. Peter Bjarkman, an American author writing a book on the subject, says that in the past two years up to 140 talented Cuban players, ranging from young sluggers to veterans, have defected. The lure has been contracts of up to $80m offered to players good enough for a Major League Baseball (MLB) team. Such is the exodus that Cuba is about to cut its once-hallowed baseball league in half, from 16 regional teams to eight, he says.

It can be an ugly business. When a Cuban outfielder, Yasiel Puig, was whisked in a cigarette boat to Mexico in 2012, he was chasing a $42m contract with the Los Angeles Dodgers. The Zetas, a murderous drug-running gang, helped move him to the United States border. His agent, who orchestrated part of the illegal manoeuvre, was sentenced to a month in an American prison in March. He forfeited some of his $2.5m cut.

The American embargo and Cuba's own policies have perverse effects. The former forbids American agents and scouts from scouring Cuba for talent, or from buying directly from Cuban teams. Instead the MLB can only sign players from third countries, such as Mexico or the Dominican Republic, encouraging what some call "human trafficking". Since 2013 Cuba has allowed some athletes to play out of season in foreign countries such as Japan. But it would be as loth to sell its ball players to the United States as it would be to sell its rum distilleries back to the exiled Bacardi family, Mr Bjarkman says.

So the defections will probably continue. Political analysts doubt that Barack Obama will risk changing the wet-foot, dry-foot policy for fear of a backlash at home—at least until the embargo is lifted. Plus there are fringe benefits. Partly thanks to the absence of Mr Martínez and his teammates, in the next football match the United States crushed Cuba 6-0.

Venezuelans check prices on the Twitter account of DolarToday, a Miami-based outfit which publishes updates based on transactions in the Colombian border town of Cúcuta. This is where Colombians go to exchange pesos for bolívares, often to buy cheap fuel and other price-controlled goods in Venezuela for smuggling across the border. Transactions are few; the dollar rate is calculated indirectly, from the value of the Colombian peso. The result is erratic, but more realistic than the three official rates. Although it is illegal, many Venezuelan retailers mark prices based on deals struck in the Colombian backwater.

The government of Nicolás Maduro, Chávez's hapless heir, calls the website a conspiracy to sabotage the economy and has tried repeatedly to block it. This month Elías Jaua, the influential "minister of communes", said the government would ask the United States to arrest and extradite the "fugitive bankers" he thinks are behind it. Venezuela's banking and stockbrokers' associations condemned the "manipulation" of the exchange rate and called on Venezuelans to ignore all unofficial rates—and presumably also the law of gravity.

The "spiral of inflation and poverty" will not be resolved by asking Venezuelans to undertake "an act of faith", wrote Angel Alayón, an economist and blogger. That will happen only when Mr Maduro reforms the economy by reducing the deficit, overhauling the state-owned oil company and eventually dismantling exchange controls. With parliamentary elections due in December, and the government trailing in the polls, he is likely to balk at the short-term pain such measures would cause. He is caught between a left-wing faction, which thinks that the economy needs still more controls, and a military-based mafia that profits from arbitrage under the current rigged system. Poor Venezuela. ■

Bello | The Duracell leaders

Latin American politicians need to know when to retire

FOR many Brazilians Fernando Collor is a half-remembered figure from a darker past. He achieved notoriety as the president who was impeached for corruption in 1992. Despite his impeachment, Mr Collor has been a senator since 2007. This month he was back in the headlines: federal police raided his home in Brasília, seizing a Ferrari, a Lamborghini and a Porsche, as part of their probe into allegations that some 50 serving politicians received corrupt payments from Petrobras, the state-controlled oil company. He denies the allegations against him.

"All political careers end in failure," observed Enoch Powell, a British politician. But in Latin America, some seem never to end at all. Take José Sarney, Mr Collor's predecessor as Brazil's president, who went on to spend 24 years as a senator, eight of them as the chamber's president. He stepped down in January, aged 84, but still exercises influence through his son, who is a federal deputy.

Álvaro Uribe, Colombia's president in 2002-10, now leads the opposition to his successor, Juan Manuel Santos, from a seat in the Senate. In Chile Ricardo Lagos, a statesmanlike former president, is said to be thinking of running for the job again in 2017, when he will be 79. One of the three main putative candidates in Peru's presidential election next year is Alan García, who has twice held the job before. Tabaré Vázquez, Uruguay's president, held that job from 2005 to 2010.

Mexico was once an exception. In its seven decades of one-party rule, it found a way to enforce political renewal: the president was omnipotent for six years and then an official nobody. That has begun to change. Carlos Salinas, a former president, is an occasional adviser to the current one, Enrique Peña Nieto. Margarita Zavala, the wife of Felipe Calderón, Mr Peña's predecessor, is running for the presidency in 2018.

Some former presidents wisely play the role of elder statesman, exercising discreet influence without trying to return to power. That applies to Colombia's César Gaviria (and hitherto to Mr Lagos). It goes, too, for Brazil's Fernando Henrique Cardoso. He remains, at 84, the unofficial leader of the opposition partly because of the lack of younger pretenders. But his towering presence may have made renewal of his Party of Brazilian Social Democracy (PSDB) harder. As for his chief foe, Luiz Inácio Lula da Silva, he has sometimes seemed to act as a back-seat driver for Dilma Rousseff, the current president, though their relations are now strained. Prosecutors are investigating Lula, in his case for influence-peddling on behalf of construction companies, claims which he vehemently denies.

Why do so many former presidents prefer the role of elderly practitioner to elder statesman? One factor is rising life expectancy and better health: 80 is the new 60. Latin Americans tend to respect their elders. The tradition of the *caudillo* and the cult of the leader survive. Some politicians cling to office to gain legal immunity. Weak party systems in some countries give greater prominence to individuals. And name recognition helps a lot in politics—just ask the Clintons or the Bushes.

Only four Latin American countries—Mexico, Guatemala, Honduras and Paraguay—bar presidents from serving more than one term. (Honduras's president now wants an constitutional amendment to allow a second consecutive term.)

To keep in the public eye, front-rank Brazilian politicians often accept jobs in lower tiers of government. The PSDB's José Serra was both governor and mayor of São Paulo between two failed presidential bids. But in Brazil's genuinely federal polity such jobs have real clout.

The political activism of former presidents means that "younger generations are growing old before they can get a shot at running the country", wrote Patricio Navia, a Chilean political scientist, this month in the *Buenos Aires Herald*, a newspaper. "New ideas, practices and technologies that are rapidly embraced by the rest of society find it difficult to make their way into the political arena." The disrepute into which politics has fallen may also be deterring promising potential leaders from entering the field.

Elder statesmen are a valuable political resource. Youth is in itself no guarantee of political acumen. Mr García's first term in Peru, starting in 1985 when he was 36, was a hyperinflationary disaster. The difficulties of Mr Peña, who became president at 46 and has failed to respond adequately to public disgust with crime and corruption, owe something to inexperience. It would be ageist to deny the right of sprightly pensioners to continue to seek high office. But it is not necessarily wise to vote for them. Politicians, like batteries, eventually go flat.

Also in this section

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Asian security

Small reefs, big problems

BEIJING, TAIPEI AND TOKYO

Asian coastguards are in the front line of the struggle to check China

EVERY ten or so days, and rarely at weekends, the Chinese coastguard arrives at eight in the morning, in time for the Japanese foreign ministry to deliver a formal complaint to its Chinese counterpart by lunchtime. It is something of a ritual these days. Chinese vessels breach the 12-mile territorial limit of Japan's Senkaku islands, which China claims and calls the Diaoyu islands. Japanese coastguard cutters shadow them warily until the Chinese decide that national honour has been satisfied and sail away. Call this little dance an improvement: in 2012, with anti-Japan fervour at its height, aggressive incursions into Senkaku waters highlighted the risk that China might even provoke a war with its neighbour over the uninhabited rocks.

That the dance is carried out by coastguard vessels, white-painted and minimally armed, also allows both sides to disengage more easily. Yet gunmetal-grey warships lurk nearby. One reason China has backed off in recent months is the solid presence of the Japanese navy just over the horizon. And were the two countries ever to come to blows over the Senkakus, America has made it clear it would come to Japan's aid. (It claims no view over the territorial dispute, which did not stop it using the Senkakus for bombing practice during its post-war occupation of Japan.)

Facing pushback in the East China Sea, China has turned to softer targets: the islands, reefs and atolls of the South China Sea. These have long been the subject of territorial disputes among littoral states, especially involving the Philippines and Vietnam. But China has increased the tensions sharply in the past year. First, without consultation it towed an oil rig into Vietnam's claimed Exclusive Economic Zone (EEZ). More troubling is confirmation of China's massive landfill work on disputed reefs and islands a very long way from China's shores. In contrast with Japan, China's neighbours to the south are poorer and weaker, and they lack cast-iron American security guarantees. A vacuum has existed in the South China Sea since American forces withdrew from the Philippines in 1992.

Game of shadows

China's neighbours are unnerved by its rapid increase in defence spending, in particular its pursuit of a blue-water navy. They note a Chinese president, Xi Jinping, who is not shy about flexing Chinese muscle. He likes to talk of China's "peaceful rise" and of a "new type of great-power relationship"—one that appears to leave little space for small countries.

In both Beijing and Washington, strategists have long liked to grapple with whether America and China are destined to fall into a "Thucydides trap". In the original, the Spartans' fear of the growing might of Athens made war inevitable. The modern parallel states that an existing power (America) is bound to clash with a rising one (China). In Japan the point is made differently: at sea modern China is behaving with the paranoid aggression of imperial Japan on land before the second world war. "They are making the same mistakes that we did," says a Japanese official.

For now, it is a game of diplomacy, legal manoeuvre, positioning and the creation of facts on the ground (or, rather, on the water). It is played mainly by non-military forces: dredgers and barges; oceanographic and other survey ships; and, above all, coastguards. China insists that its landfill work is intended to provide public goods such as lighthouses, typhoon shelters for fishermen, weather stations and search-and-rescue facilities. But American defence officials are certain the purpose is, in fact, military. At Fiery Cross reef a new airstrip 3km (1.9 miles) long could take any of China's military aircraft, and what look like hangars for fighters are being built. Artillery has been seen at another outpost. American planners say that these positions are vulnerable—"aircraft carriers that can't move", as one puts it—and would quickly be put out of action in any conflict. But short of war the artificial islands would serve as useful forward bases to project Chinese power.

China claims an ill-defined U-shape, the "nine-dashed line", that encloses much of the South China Sea (see map on next page) and clashes with the claims of several of its neighbours. Again, America affects to take no position on who owns what. Its priority, it says, is to preserve the right of free navigation by both air and sea. It periodically sends military reconnaissance aircraft near the newly built islands to make this point.

China is not the first country to build in the South China Sea, but it is now by far the most energetic. By shredding trust with ▸▸

South-East Asian claimants, China's actions make a long-promised code of conduct for dealing with territorial disputes ever more elusive. Its assertiveness has pushed several South-East Asian countries closer to America, lending justification for the American "pivot" to Asia. Countries alarmed at Chinese assertiveness have rushed to buy military equipment.

In the face of strong domestic opposition, Japan's prime minister, Shinzo Abe, is pushing new security bills through parliament that would loosen the constraints on Japan helping its American ally. He would, for instance, like Japan to join the American navy in South China Sea patrols. Japan is also financing the construction of ten new coastguard vessels for the Philippines and six for Vietnam. It is all part of a concerted "anti-coercion strategy", says Narushige Michishita of the National Graduate Institute for Policy Studies in Tokyo.

Meanwhile, Vietnam's relations with America go from strength to strength (while it increases arms purchases from Russia). The Philippines has signed a new defence pact that would allow America to return to its former base in Subic Bay as well as other bases. And it plans to beef up its neglected armed forces. The shopping list includes new fighters, frigates and maritime reconnaissance aircraft. But, given the scale of the country's corruption, some wonder how much of a punch the extra pesos will deliver.

Many are now closely watching the proceedings of a UN-sponsored arbitration panel at The Hague, where the Philippines is seeking a ruling on whether China's building on submerged reefs confers the right to territorial waters and EEZs under the UN Convention on the Law of the Sea (UNCLOS). The panel cannot settle the question of ownership, but the Philippines is hoping for a moral victory that will undermine China's vague but sweeping claims. China has refused to take part in the process, but is being drawn willy-nilly into the legal argument.

One China, one claim

At the junction of the East China Sea and the South China Sea lies Taiwan, which China claims. Tensions across the Taiwan Strait have greatly eased in recent years, as the Taiwanese president, Ma Ying-jeou, and his Kuomintang (KMT) have sought reconciliation with the mainland Communists. But a test of relations is on the horizon with a presidential election that is likely to see Mr Ma replaced by Tsai Ing-wen of the more independence-minded Democratic Progressive Party (DPP). She has tried to assuage American worries of cross-strait crisis by speaking of her desire to maintain stable, predictable relations with the mainland. But China does not trust her party.

Besides, the South China Sea disputes have the potential to become a new bone

of contention between Taiwan and China. Taiwan shares identical claims to China's in the East China Sea and the South China Sea. Indeed the nine-dashed line was first drawn up by the KMT in 1946 (it had 11 dashes then) when it still ruled China and set out to retake islands following Japan's surrender. Identical claims actually suit China, since they reinforce the pretence that there is just "one China" (with China and Taiwan disagreeing over precisely what it is). But America recently pressured Mr Ma to clarify Taiwan's claim as a means of undermining the absurdly sweeping nature of China's.

Mr Ma, a Harvard-trained lawyer who is keen that his country is seen to be upholding international law, said that under UNCLOS Taiwan claims only the 12-mile limit around its islands, not all the seas within the nine-dashed line. A DPP government might adopt a still narrower position. Ms Tsai insists that Taiwan will defend Taiping or Itu Aba, the largest island in the Spratlys, which it holds, but is vaguer about other features.

Diplomatic nuance will not change the inexorable shift that is taking place in Asia's balance of power. Military experts offer the following rough reckoning: Taiwan lost the ability to halt a Chinese invasion on its own several years ago; Japan may be able to keep protecting its farthest-flung islands only for another 10-15 years. So the longer-term questions are: can either country inflict enough damage on China to deter it from attacking and, more importantly, how far is America still willing or able to tip the scales? Two decades after a cross-strait crisis in which China fired missiles close to Taiwan, would America again deploy aircraft-carriers nearby as a warning? Few offer an unqualified "yes".

Military thinking is changing markedly. America is seeking new weapons to try to break through China's growing "anti-access/area denial" (A2/AD) capability. This involves, for example, anti-ship missiles designed to hold back the Americans, perhaps at the "first island chain" (which runs from Japan to Taiwan, the Philippines and Indonesia). Such is the mismatch that neighbours are now planning their own A2/AD strategies to fend off China.

Toshi Yoshihara of the US Naval War College thinks that Japan should focus on things like shore-based anti-ship missiles, submarines, "guerrilla warfare at sea" with fast missile boats and mine warfare. America is quietly pushing Taiwan to adopt similar tactics. And Japanese officials privately admit that Taiwan's security is essential to Japan's. Andrew Krepinevich of the Centre for Strategic and Budgetary Assessments, a think-tank in Washington, DC, suggests that America should help extend what he calls "archipelagic defence" to the Philippines.

If you can't beat them, contain them

Such advice may be a counsel of despair, an admission that the East China Sea and South China Sea are bound to become Chinese lakes, and that the best that can be done is to contain China within them. Nobody wants to test such notions, not least because of the risk tensions pose to global prosperity. The aim in the coming years must be to draw a rising China into co-operative relationships with its neighbours, while deterring bad behaviour.

China is hardly without internal problems, or indifferent to external pressure. Some experts in Beijing think their country has been too assertive at sea of late. China has said its land reclamation in the South China Sea is coming to an end. Mr Xi will want to avoid too many controversies ahead of his visit to America in September.

For now, whether competition in Asia can be prevented from turning into conflict may come down to whether the crews on lightly armed coastguard ships in the waters around China can keep their heads. ■

South Korea's singletons

I don't

SEOUL

As more women ditch or delay marriage, men tie themselves in knots

"PLAN B", a guidebook for unmarried women living in Seoul, the South Korean capital, begins with a test. "Have your parents chided you for wanting to live alone?" "Are you often told that a woman's best chance of happiness is being a wife and mother?" Too many noes will land the reader in the "soft tofu" category—unprepared for the rigours of life as a single woman in socially conservative South Korea. (Other types include thick-skinned "watermelon" and die-hard "walnut".)

The guide, put together last year by the Seoul metropolitan government and the Unni Network, a women's organisation, and distributed in 600 offices and public places, offers tips for staying safe, good reads on living solo and information on dining clubs for young singles. The proportion of single people in Seoul more than doubled between 1990 and 2010, and they now account for 16% of households. Four in ten South Korean adults are unmarried, the highest share among the 34 OECD countries. In Seoul over a third of women with degrees are single.

One reason is that wedding expenses, mostly met by the groom and often including the couple's first home, have become prohibitive for many. Another is that Korean families used to be so desperate to have sons that in the 1980s they aborted lots of daughters. Now one in seven men of marriageable age lacks a potential partner.

Also, some women want to "marry up", which is harder now that so many women have degrees and good jobs. Many others are no longer prepared to play the role of a traditional wife. The mean age at which women marry has risen from 25 in 1995 to 30 today.

Social expectations have yet to catch up. The Unni Network wants to popularise the neutral term *bihon* (single) over *mihon* (not yet married). It has held public *bihonshik*, ceremonies for women who choose not to wed and vow to live happily as singles. Some studios are offering "single weddings": photo shoots for unmarried women in bridal gowns. Park Hong-joon, who owns a photo agency in Seoul, has heard wedding guests say they wanted their special-day snaps to be taken in their prime. He now offers dresses and stylists as part of a single-wedding package.

Clients sometimes invite friends to join the photo shoot. Quite a few are unmarried women in their late 30s and 40s who want portraits for their homes. Some hope to add a husband later. Others want to celebrate their solo status, says Mr Park. In Japan, where the idea arose, an agency offers male models as grooms, but no women there have opted for the service.

Men have poured scorn on single weddings, says Mr Park, calling the concept "absurd". Some snipe that these women's "marriage strike" is selfish and unpatriotic, by which they mean that they would like women to carry on shouldering nearly all the burden of housework, child care and looking after ageing in-laws. Even otherwise modern-minded online men's clubs, such as "I Love Soccer", have taken to deriding feminists and calling women's forums childish. Birth rates in most rich countries have plummeted in recent decades (see page 48)—but further and faster in South Korea than almost anywhere else.

Successive governments have regarded the promotion of traditional marriage as a way to boost procreation, says Kwonkim Hyun-young, a lecturer in gender studies at Sungkonghoe University in Seoul. This does not seem to work. Granted, the stigma against cohabitation remains strong: only 0.2% of Korean households consist of unwed couples, compared with 10% in Britain and 19% in Sweden. But rather than getting hitched, many women remain single. And many married couples are having only one child: the number of children beyond a first fell by 37% between 2010 and 2013. So long as South Korean wives and mothers are expected to behave like their mothers did in the 1960s, many women will opt to fly solo instead. ■

Rohingya refugees

Exile island

HATIYA

Oppressed in Myanmar, Muslim Rohingyas are unwelcome in Bangladesh, too

THE watchtowers and the high-security fence on the border between Myanmar and Bangladesh make this frontier look impregnable. Yet thousands of Rohingyas cross into Bangladesh each year. Rohingyas are a Muslim group whose persecution in their mainly Buddhist home state of Rakhine in Myanmar is long-standing but has recently escalated. The Myanmar government does not recognise Rohingyas, many of whose ancestors originally hailed from Bengal during British colonial days, as one of the country's many official ethnic minorities. Denied nationality since 1982, they are in effect stateless.

In Myanmar the Rohingyas are dismissed as foreign Bengalis. But they are not welcome in Bangladesh either. Some 500,000 Rohingyas were already living in Bangladesh before this latest wave of refugees. Many had come in previous surges in the 1970s and 1990s, when Myanmar's military junta encouraged their flight.

Last year the Bangladeshi prime minister, Sheikh Hasina, ordered officials to resettle the 30,000-odd refugees living in camps near Cox's Bazar, a tourist spot with the world's longest unbroken beach. The chosen location is a barren island in the Bay of Bengal, called Thengar Char. It was formed about a decade ago by the sediments of the Meghna river, the confluence of the Ganges and the Brahmaputra rivers. The island is exposed and prone to flood-

Life's no easier when they get to Bangladesh ing during spring tides. It does not appear on most maps.

"It is prime minister Sheikh Hasina's desire that we rehabilitate the Rohingya people," says Mohammad Nazrul Huda, the local police chief of Hatiya, the nearest inhabited spot to Thengar Char. The town lies about 90 minutes away by speedboat. Mr Huda places a map on his desk and draws a circle representing Thengar Char. It is, he says, a "very excellent" site for the Rohingyas, and he has recommended it to bureaucrats up at the home ministry in Dhaka, the capital.

The chairman of the local *upazila*, or district council, Abu Hasnat Moyeenuddin, produces a letter from the central government about the Rohingyas. One stipulation is that a new location for them must "minimise conflicts between Bangladeshis and Rohingyas". What were the selection criteria? Distance from the mainland was very important, says Mr Moyeenuddin.

News of the planned relocation has spread fast. Mohammad Ishtaq, a labourer in Hatiya, says the Rohingyas are welcome to settle on Thengar Char, so long as they do not cause any disturbances. Others worry that they might worsen the problem of piracy in nearby waters.

The Rohingyas themselves view the proposed relocation to Thengar Char with deep suspicion. There is little information about how they would be housed, or who would pay. Stina Ljungdell, the representative in Dhaka of the UN's refugee agency, says the government has not officially informed her agency of its plans. Yet the relocation is consistent with Bangladesh's long-standing policy of making itself as unappealing as possible as a destination for Rohingyas. ■

Politics in Malaysia

Soldiering on

KUALA LUMPUR

Malaysia's prime minister battles claims of corruption

WHATEVER the truth of them, the accusations levelled against Najib Razak, Malaysia's prime minister, have astonished a country that some had thought inured to scandal. In early July the *Wall Street Journal* reported that it had seen documents produced by government investigators suggesting that nearly $700m from companies linked to a troubled state-backed investment fund had been paid into what they believed to be Mr Najib's personal bank accounts. With worries about an oil-dependent economy, the controversy is the last thing Malaysia needs.

The allegation is that the money was received shortly before the general election in 2013, in which a coalition dominated by Mr Najib's party, the United Malays National Organisation (UMNO) scraped home, despite narrowly losing the popular vote. The prime minister helped launch the fund, known as 1MDB, in 2009 and chairs its board of advisers. It has acquired land and power plants, yet has struggled to service debts of around $11 billion. The firm's affairs were already the subject of official investigations, but until this month no one had claimed to have evidence that the prime minister himself had received any money.

Mr Najib has vigorously denied wrongdoing, including ever having used public money for personal gain. He called the allegations "political sabotage" and blamed Mahathir Mohamad, a nonagenarian UMNO grandee who was prime minister

Najib intends to roll on, not over

from 1981-2003, for waging a campaign against him. For months Dr Mahathir has been calling for Mr Najib's resignation, warning that under him, UMNO—which has ruled Malaysia since independence in 1957—may lose an election due by 2018.

The opposition has demanded that the prime minister step down until a special task force, now investigating the allegations, has finished its work. Campaigners known in the past for organising big protest rallies against Malaysia's heavily gerrymandered electoral system are thinking of calling for fresh demonstrations against the prime minister. But Mr Najib says he is not budging. Outwardly at least he appears still to have his party's support. A government agency has warned Malaysians against discussing the allegations on social media and has started blocking an indefatigable British website, the *Sarawak Report*, which has written a lot about 1MDB. Police say they are conducting an inquiry which may uncover the source of the *Wall Street Journal*'s report.

A boon for Mr Najib is the paucity of obvious substitutes within UMNO. One possibility is Muhyiddin Yassin, a deputy prime minister who had been tipped for the top job when it fell vacant in 2009. Another replacement might be Hishammuddin Hussein, the defence minister and Mr Najib's cousin (who for now appears loyal). But neither man seems any more likely than Mr Najib to find the vim required to rejuvenate UMNO, which has grown quarrelsome and complacent after six decades in power—and which, in stemming its ebbing popularity, has taken to exploiting old fears among ethnic Malays that their prospects are threatened by Malaysia's Chinese and Indian minorities.

As for the opposition, it is in disarray. Since its leader, Anwar Ibrahim, was imprisoned on a dubious sodomy charge earlier this year, the opposition coalition has been torn apart by tensions between the DAP, an ethnic-Chinese party, and PAS, a Malay Muslim one, over the latter's efforts to enforce strict *sharia* punishments in Kelantan state in the north. Some in PAS now look minded to mend fences with their old foes in the ruling party. Hadi Awang, PAS's leader, has argued that Islam requires that the *Wall Street Journal* should produce four witnesses to support its reporting.

All this has distracted attention from Malaysia's pressing economic problems. Hobbled by low oil prices and slowing Asian economies, the value of the ringgit has sunk to a 16-year low against the dollar. Meanwhile, politicians of all stripes have scrambled to deny that race played a role in scuffles this month in Kuala Lumpur, when a mob of mostly Malay youths confronted the largely ethnic-Chinese employees of an electronics mall—all sparked, apparently, by an instance of shoplifting.

Even if Mr Najib is cleared of wrongdoing, the brouhaha is sapping his standing among ordinary Malaysians. It was already hurt by the recent imposition of a disliked value-added tax. If his popularity keeps sliding, it is difficult to imagine UMNO sticking by him until the next general election. The end of Ramadan, which concluded in Malaysia on July 17th and during which Muslim politicians are supposed to avoid unseemly squabbles, may bring fresh attacks from dissident factions. But Mr Najib is rumoured to be mulling a cabinet reshuffle, presumably to silence critics there. If he can blast through this crisis his opponents may well wonder what, if anything, will bring him down. ■

Politics

Confucius says, Xi does

Also in this section

QUFU

The Communist Party turns to ancient philosophy for support

TWO emerging cults are on display in Qufu, a city in eastern China where Confucius was born. One surrounds the ancient sage himself. At a temple in his honour, visitors take turns to bow and prostrate themselves before a large statue of Confucius seated on a throne. For each obeisance, a master of ceremonies chants a wish, such as for "success in exams" or "peace of the country". On the other side of the city the tomb of Confucius is the scene of similar adoration—flowers adorn it as if he were a loved one recently lost.

The other cult in Qufu surrounds the country's president, Xi Jinping. People still recall with excitement the trip he made to the city in 2013. It was the first by a Communist Party chief in more than two decades; in fact, though Mr Xi has visited Qufu he has not, since becoming China's leader, paid respects at the birthplace of Mao Zedong at Shaoshan in Hunan province. Today plates decorated with Mr Xi's image are for sale in Qufu's trinket shops. His beaming face is on display on a large billboard outside the Confucius Research Institute, together with a quotation from the modern sage: "In the spread of Confucianism around the world, China must fully protect its right to speak up," it begins.

Since he came to power in 2012, Mr Xi has sought to elevate Confucius—whom Mao vilified—as the grand progenitor of Chinese culture. He did not go so far as to pay homage at the Confucius temple in Qufu, where Mao's Red Guard mobs once wrought havoc (one of their slogans, "Revolution is not a crime", still survives daubed on a stone tablet). Neither did his few published remarks include explicit praise for Confucian philosophy, which still raises hackles among party hacks brought up to regard it as the underpinning of "feudal" rule in premodern China.

To emperors, who were regular visitors to Qufu, Confucianism was practically a state religion. "Uncle Xi", for all the mini-cult surrounding him, does not seem keen to be viewed as a latter-day emperor. But like leaders of old, he evidently sees Confucianism as a powerful ideological tool, with its stress on order, hierarchy, and duty to ruler and to family. Unlike the party's imported, indigestible Marxist dogma, Confucianism has the advantage of being home-grown. It appeals to a yearning for ancient values among those unsettled by China's blistering pace of change.

Though the party has quietly been rehabilitating Confucius for some time, under Mr Xi the pace has quickened. In February 2014 he convened a "collective study" session of the ruling Politburo at which he said that traditional culture should act as a "wellspring" nourishing the party's values. Official accounts of the session made no mention of Confucius, but party literature made it clear that the values Mr Xi spoke of—such as benevolence, honesty and righteousness—were those espoused by the philosopher. In September Mr Xi became the first party chief to attend a birthday party for Confucius (who turned 2,565). China, he told assembled scholars from around the world, had always been peace-loving—a trait, he said, that had "very deep origins in Confucian thinking". In May state media reported that the link between Marxism and Confucianism, which some might consider rather tenuous, was the "hottest topic" in the study of humanities in 2014.

Add plenty of sage

Under Mr Xi the party has tweaked its ideological mantras to sound more Confucian. At the party congress in 2012 that marked Mr Xi's assumption of power, slogans about "core socialist values" were distilled into 12 words, each formed by two Chinese characters and plastered all over Beijing and other cities. The ideas are a hotch-potch. Some are strikingly Western, such as democracy, freedom and equality. There is a nod to socialism with "dedication to work". Others, such as harmony and sincerity, look more Confucian. Zhang Yiwu of Peking University notes a similarity with the "shared values" adopted by Singapore's government in 1991. Authoritarian Singapore, where officials hold Confucianism in high regard, has been an inspiration to China, Mr Zhang says.

There is certainly a competitive streak in the party's growing fondness for the sage. China is surrounded by countries that think of themselves as Confucian, including Japan, which China sees as a rival, ▸▸

as well as South Korea, Taiwan and Vietnam. When, a decade ago, China began setting up language schools abroad to enhance its soft power, it called them Confucius Institutes. That was partly an effort to gain control of the Confucian brand (and partly because "Mao Institutes" would somehow have lacked appeal). There are now 475 such institutes in 120 countries.

A few scholars would like Mr Xi to go much further, by setting up a new form of government based on Confucianism. Prominent in this camp is Jiang Qing, who runs a Confucian academy in the south-western city of Guiyang. In a co-written article published by the *New York Times* in 2012 Mr Jiang proposed that China set up a tricameral parliament. One of the chambers would be led by a descendant of Confucius. (There are plenty of them, including roughly a quarter of Qufu's population. This correspondent's taxi driver boasted that he was a 77th-generation descendant.) Another chamber would be made up of "exemplary persons" nominated by scholars steeped in Confucian classics.

Mr Xi, a staunch defender of the party's monopoly on power, would never agree to Mr Jiang's plan. Yet there is an open-ended tone to another slogan now draped across bridges in Beijing: "The people have faith, the nation has hope and the country has strength." Faith in what, it does not say—but Confucianism, it can be guessed, would have the party's blessing. The two cults are now entwined. ■

The Christian church

Render unto Caesar

WENZHOU

Party leaders persecute churches even as they try to co-opt them

THE Communist Party is struggling to manage the only cult in China bigger than itself—the Christian church. All down the country's eastern seaboard it is hard to find a village that does not boast a spire or tower topped with a cross. To some in the party, this is a provocation, especially in the south-eastern province of Zhejiang around the coastal city of Wenzhou. Over the past 18 months, party leaders have ordered the demolition of such crosses. But this month the provincial branches of the Catholic Patriotic Association and the Protestant Christian Council—two of the government bodies that administer the official churches allowed in China—each issued an open letter to provincial officials condemning the demolitions.

The letters accuse the party of violating its own commitment to the rule of law. They add that the incidents have damaged the Communist Party's image at home and abroad. It is, says Yang Fenggang of Purdue University in Indiana, the first time that leaders of official churches have come out openly on the side of ordinary believers against the Communist Party.

Normally it is "house churches"—unofficial congregations meeting in homes or rented office space—that bear the brunt of official persecution. But, according to the Protestant letter, there are many official churches among the 1,200 it says have had their crosses removed. Some churches have even been demolished.

Zhejiang's party chief is known for his hostility to Christianity. But Christians wonder whether the onslaught against their churches, which began in earnest in 2014, with a new wave this year, is being directed from Beijing. Xi Jinping, the Communist Party's general secretary, visited the province in May. "I think it is hard to imagine that this second wave is happening without his approval," says Mr Yang. A centrally directed campaign would be in step with other attacks on civil society around the country. In recent weeks several hundred human-rights lawyers and other activists have been rounded up.

Mr Xi is well aware of churches' role in the fall of Communism in Eastern Europe. The Presbyterians also played a part in Taiwan's democratisation. In May Mr Xi warned that religion in China should be "independent of foreign influence". He has also reiterated that party members must not be religious believers. The issue of religious freedom is complicated by the fact that Islam and Buddhism are closely linked to two ethnic minorities, the Uighurs and the Tibetans, with restive tendencies and resentment over Han rule.

The party's problem is that it increasingly needs people like the law-abiding Christians in its fight against corruption. It also needs them to play a greater part in the social work it cannot do itself. Most Christians are apolitical. One Wenzhou pastor says when he tells his flock to be more politically engaged, he is met with blank stares. "They don't want to know," he says.

Strangely, the assault on officially sanctioned churches comes as attitudes to house churches appear to be softening. On his first visit to China last month, Britain's Archbishop of Canterbury, Justin Welby, was surprised when Yu Zhengsheng, one of Mr Xi's six comrades in the standing committee of the Politburo, the party's highest body, admitted there were as many house-church Protestants as the 38m worshippers in official state Protestant churches. (China might have as many as 100m Christians in total.) To date many officials, not to mention Politburo members, have pretended that house churches do not exist. Senior house-church Christians in Beijing say that the authorities have recently approached them about the possibility of dialogue. They speak of renewed hope that their congregations could be formally recognised by the party.

With official churches less compliant and house churches more ready to talk, the lines are more blurred than ever. The party seems to be groping around with a stick in one hand and a carrot in the other, looking for ways to bully and coax Christians into serving its ends. Archbishop Welby quotes Edward Gibbon, the great historian of the Roman empire: religions in Rome "were all considered by the people as equally true; by the philosopher as equally false; and by the magistrate as equally useful." ■

Its cross to bear—for now

Also in this section

Pro-natalism

Breaking the baby strike

URLA

People in rich countries can be coaxed into having more children. But lazy husbands and lovely cities stand in the way

"THERE are no families with many children in this area any more—they all have one or two," says Hasibe Enc, who lives in the small, affluent city of Urla in western Turkey. That is irksome for her, since she runs a kindergarten called Pink Dreams. But it is also a crisis for Turkey—or so the national government believes.

Although it is the youngest country in Europe, Turkey is no longer delivering enough babies to sustain its population in the long term. Recep Tayyip Erdogan, its president, rails against abortion and tells women to bear at least three children. To sweeten these vinegary exhortations, the government is introducing "birth aid" payments for each baby born to a citizen and longer parental leave for civil servants.

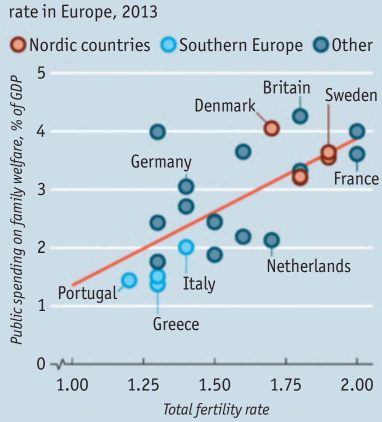
In Singapore couples receive S$6,000 ($4,450) for having one child, another S$6,000 for a second child and a further S$8,000 for a third. Families with babies go to the front of the queue for government housing, in which most Singaporeans live. In South Korea the state reminds lovers that they can marry cheaply, without throwing an expensive wedding. In Russia couples are encouraged to get it on for the sake of the motherland on an official "fertility day"; a patriotic woman who gives birth exactly nine months later might be entered into a raffle to win a car.

In every rich country except Israel the total fertility rate (a measure of births per woman) is below 2.1—the level required to keep the population stable. In Japan it is 1.4. Some not-so-rich countries, including China and Russia, are also below the replacement rate. Singapore watches its fertility the way other countries track their balance of payments. Mathematically, that is foolish (see box on next page). But it is understandable: Singapore's fertility rate is just 1.2. South Korea's is no higher (see page 44).

A country that worries about having too few young people to pay old folks' pensions might be able to import workers. But that tends to bring the natives onto the streets. And home-grown citizens are handy for conscripting into armies. So, as birth rates decline, more countries are turning pro-natalist (not long ago, Iran and Turkey worried that their populations were growing too fast, and handed out free contraceptives). And the baby-boosting is becoming fervent, even desperate.

Buy, buy baby

Family-welfare spending and fertility rate in Europe, 2013



Source: OECD

The trouble with babies is that costs and benefits are misaligned. Couples must pay for them directly, in the form of clothing, extra bedrooms and school fees, as well as indirectly, by cutting back on paid work to look after the little horrors. In Europe a single child is reckoned to cost 20-30% of household income. Parents get scant economic return on this investment. Their children might help them in their dotage, but are rarely forced to do so by law in the way that parents must care for their children. Some of the fruits of their children's labour, which they might reap, are instead taken in taxes.

Almost all pro-natalist policies try to improve this dismal deal by introducing a third transfer, from the state to parents. This might be a per-baby lump sum or an ongoing child-benefit payment. It might be generous paid leave or subsidised nurseries—Nordic countries tend to offer both. It might be child tax credits or tax breaks. The last measure particularly encourages high-earners to have children, which might be good for the exchequer but is hard to defend politically. François Hollande's government has pruned France's once-generous tax breaks for parents.

At least in the rich world, the more governments spend, the more they seem to get (see chart). Nordic countries shell out the ▸

most and are rewarded with more babies; stingy Mediterranean countries have the fewest babies in Europe. The causation may not be all one-way, of course. It could be that more babies means a bigger parents' lobby, which can vote fatter benefits for itself.

Yet not all state baby bribes are equal. "The kind of spending matters more than the amount," says Olivier Thévenon, who tracks natalist policies at the OECD, a club of mostly rich countries. Longer maternity and paternity leave are nice but seem not to encourage childbearing. Cash payments and gifts encourage couples to have babies more quickly but not to have more than they otherwise would.

The clear winner, according to Mr Thévenon's research, is subsidised child care. Decent, affordable nurseries make it easier for women to combine work and motherhood. They seem to be the main reason France and Sweden have robust fertility rates—though mass immigration from more fecund countries has helped them a little, too.

Sebastian Klüsener of the Max Planck Institute has studied German-speaking women living close to the Belgium-Germany border. Belgium has long subsidised nurseries, whereas Germany did not until recently—explicit pro-natalism of any kind is politically dicey in Germany because the Nazis were keen on it. On the Belgian side of the border, women born in the late 1950s had 1.8 children, on average; on the German side they had 1.65.

So that would seem to be the solution. If a country wants more babies, it should spend more money on nurseries. And this is probably the best policy any government can pursue. Unfortunately, it might not work anywhere else as well as it has worked in north-west Europe.

In countries such as Turkey, the problem is less cash than culture. Ask Turkish women about work and motherhood, and the response is a torrent of grievances. Husbands do little housework. Grandparents are too far away to help much, and lack energy—a consequence of older parenthood. Employers are unsympathetic. In short, mothers are generally still expected to stay at home, says Nigar Goksel of the International Crisis Group, an NGO. Until that changes, Turkish women will perceive a sharp choice between work and parenthood, and often plump for the first.

In east Asian countries such as Japan and South Korea the expectations heaped on wives and mothers are even harder for educated women to bear. Working hours are so long that it is almost impossible to combine work and any active parenting role. Children must also be tutored for make-or-break exams, raising the cost of child-rearing. And, unlike in western Europe or Scandinavia, women must sign up for the whole wife-mother package: births outside marriage are rare.

It ought to be possible to loosen this bind. Governments could make it easier to combine work and parenting; marital expectations could evolve. But for some it will be too late. Countries like Germany seem to have grown accustomed to single living and low birth rates. And in Asia and Europe alike, a new problem has grown: cities have become too nice.

No place for a child

In many countries, fertility is highest in rural areas, middling in small towns and suburbs, and lowest in the cores of large cities. Though it may be hard to believe amid all the Bugaboo prams and bulging primary schools, inner London has a fertility rate of 1.5, compared with 2 in outer London. Of course, many people move to suburbs and small towns to have children. But research on Britain and Nordic countries shows that the discrepancy remains even when you account for the people who move.

It might be that city-centre property prices have risen so high that urbanites feel they cannot afford to allocate space to children. It might be that the amenities of spruced-up inner cities are now so great that the opportunity cost of childbearing (all those nice restaurant meals forgone) is intolerably high. It is also likely that emerging patterns self-reinforce. People living in suburbs with lots of babies are encouraged to have babies; people in childless areas are more likely to skip procreation entirely. "Fertility is contagious," says Hill Kulu of Liverpool University, an expert on this matter.

The Japanese government is convinced that big cities are actually causing infertility, and wants to prevent young people from moving to them. Economically, that is loopy: people are more productive in big cities. But if the prescription is wrong, the analysis might not be. It could be that a combination of urban redevelopment and restrictions on housing supply have created streets that are lovely, wealthy, exciting—and childless. ■

Demographic statistics

Lies, damned lies, and Lysistrata

A superior—but, sadly, slower—way of measuring fertility

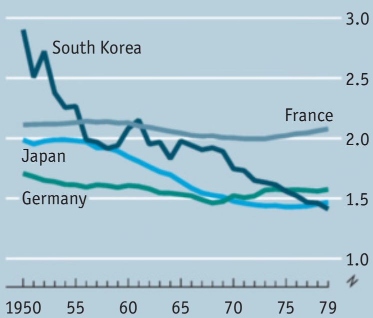
"OUR women know what to do and when," crowed Vladimir Putin, Russia's president, after a recent uptick in the country's fertility rate. A fall in America's, by contrast, produced gloom. Both reactions were absurd. The conventional measure of fertility is a poor guide to how many babies people produce.

Imagine a Lysistrata scenario in which nobody procreates for a year. The commonly cited "total fertility rate"—the number of births each woman would have, assuming that in each year of her reproductive life she had the average number of children for women of that age in the current year—would fall to zero. Once the sex strike ended, though, it would bounce back, perhaps even rising higher than before, if couples try to make up for lost time. The "cohort fertility rate"—the actual number of children born to each woman in her lifetime—would change little.

Life is not a Greek comedy, yet something like this has happened in many countries. Parenthood now starts later than it used to. The total fertility rate falls as births are delayed; once older parenthood becomes widespread, it rises again. The ebb and flow of babies is a nuisance for hospitals and schools, but does not mean that babies are going in and out of fashion.

Bye-bye, baby

Cohort fertility rate, selected countries



Source: "New cohort fertility forecasts for the developed world" by Mikko Myrskylä, Joshua Goldstein and Yen-hsin Alice Cheng

A cohort's true fertility rate cannot be known until its women finish having children. But three demographers associated with the Max Planck Institute for Demography in Germany have tried to estimate it using various assumptions (see chart). The broad picture is the same: places with low total fertility also have low cohort fertility. But the new measure gives some countries cause for cheer. German women born in 1979 are expected to have more children, on average, than those born in 1970. The same is true of French ones. Even the Japanese seem to have become a little more fecund, starting with those born in the mid-1970s. But South Korea is still on a steep downward slope. The baby strike continues.

Also in this section

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Cuba and Iran

When the sanctions come off

HAVANA AND TEHRAN

Foreign businesses eye new frontiers. But many obstacles lie in their way

IF THE lobbies of Tehran's more expensive hotels are any guide, the rush is already on. Six months ago they sported only the odd Chinese businessman. Now they are alive with Westerners jostling for deals. Trade delegations have started to arrive. First off the mark after Iran struck a nuclear deal with world powers earlier this month was Germany's vice-chancellor, Sigmar Gabriel, who took a group of executives to Iran's capital on July 18th.

In Havana, too, hotels are bustling. Even before America and Cuba opened embassies in each other's countries on July 20th, bookings were up. Ever since the two announced a rapprochement late last year, Cuban-born American lawyers have been arranging business trips to the Cuban capital for their best clients, with the added promise of fine rum, cigars and tropical nostalgia. American businesses are eager to catch up, having long watched Canadian, Spanish and other firms steal a march.

This unusual conjuncture of two long-isolated countries heading back into the commercial mainstream is good for consultants, too. At the start of the year ILIA Corporation, a Tehran advisory firm jointly run by a German and an Iranian, had no foreign companies on its books. By April it had three; it now claims 18. At American law firms, meanwhile, experts on other areas are being drafted into the Cuba teams to handle the workload. Pedro Freyre of Akerman, one of those firms, sums up the mood: "Oh my gosh. My phone has not stopped ringing. It's been insane."

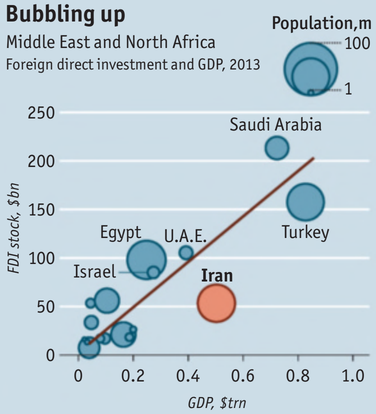
All the activity notwithstanding, the initial rush to reconnoitre Cuba and Iran will slowly but surely give way to a more measured approach for most. It will be months, if not years, before the sanctions on both countries will be lifted. Even then foreign firms will face big obstacles to conducting business, let alone making profits.

The Cuban and Iranian economies are starkly different: one is a tiny island lying off the tip of Florida, the other a Middle Eastern power sitting on an ocean of oil. The type of sanctions on the two countries differ, too. Those against Cuba apply almost exclusively to Americans. In the case of Iran, they also bind non-American entities. European and Asian banks that do business with Iran without official approval, for instance, risk seeing their accounts shut down.

Bubbling up

Middle East and North Africa

Foreign direct investment and GDP, 2013



Sources: UNCTAD; World Bank

But Cuba and Iran do have one thing in common: they are developed enough that they could thrive once the restrictions are lifted. Iran in particular ought to be able to attract much more foreign direct investment, given its size (see chart). Many other countries targeted by sanctions are more chaotic and have less well-educated populations, and are thus "not poised for a growth spurt once sanctions come off", says Gary Hufbauer of the Peterson Institute for International Economics.

Some early moves in Cuba have been promising. Charter airlines have done a good trade ferrying the 12 categories of Americans (excluding tourists) now allowed to travel to the island. And tapping into Cuba's booming private rental market, Airbnb executives say some 2,000 people have listed space in their homes via the online agency, charging up to ten times the average $25 monthly salary per rental.

As befits the larger economy, opportunities in Iran are grander. "Few countries have such immediate investment requirements," says Rocky Ansari, a commercial lawyer and business analyst in Tehran, who estimates Iran's pent-up need at over $1 trillion. In the next five years the country needs an estimated $230 billion-$260 billion of investment in oil and gas, according to analysts. Infrastructure badly needs an overhaul. Iran Air, starved of investment since the Islamic Revolution in 1979, wants to buy several hundred planes.

Some green shoots with foreign roots are already in place. Debenhams, a British chain of department stores, has several outlets across Iran, including one on a ▸▸

main thoroughfare in Tehran. Boeing is back bidding for business, and after an earlier round of sanctions relief in November 2013, is again selling spare parts. "Click here to apply for a franchise in Iran," reads the website of McDonald's, a fast-food chain.

In both countries, however, chickens are yet to hatch, let alone get turned into nuggets. Big food companies are hungry to enter Cuba, but the embargo prohibits them from using American banks to get letters of credit in order to make the deliveries. Even industries with permission to trade with Cuba, such as agriculture, medicine and telecoms, find obstacles in their way. The biggest is finance. Though the Obama administration removed Cuba from its "state-sponsor-of-terrorism" list in April, easing restrictions on banking, the response has been slow. On July 21st Stonegate Bank in Florida became the first American bank to set up a correspondent account in Cuba, allowing financial transactions between the two countries.

Similarly, even if the Iran nuclear deal passes Congress, the Islamic Republic still has to implement 11 related measures, and a plethora of sub-clauses. A dispute over any one of them could "set everything kicking off again," fears a businessman travelling from London to Tehran. A 65-day "snapback" mechanism to reimpose sanctions if the deal is breached will discourage banks from again transacting with their Iranian counterparts. As long as they hold back, much of Iran's $100 billion in oil revenues held abroad will remain there.

Jon Epstein, a lawyer at Holland & Knight in Washington, DC, says his advice to clients is not to try and be the first American firm into Cuba, but to give themselves a five-year horizon for entering the market. He believes that the experience there—more than half a year of ups and downs—has been a useful reality check that businesses are now applying to Iran. "At this stage we're only talking of potential sanctions relief," says Nigel Kushner, a British lawyer advising firms on Iran.

The biggest obstacle to post-sanctions growth may be the two countries' own governments. Cuba's embrace of private enterprise has been halting, to put it kindly. Authorities have been slow to vet foreign-funded projects in the Mariel special economic zone; only five have been approved in the past 18 months. Cuban bureaucrats are fanatically risk-averse and inscrutable. "It's not knowing the 'who' to approach and the 'how' to go about it that's the problem," says Thomas Goodman of the Cohen Group, a consultancy.

In Iran Mohammad Javad Zarif, the foreign minister, presented the nuclear deal to parliament as a triumph. But behind his smiles a host of problems dog the economy. Iran ranks 130th on the World Bank's table of easiest countries for business. Its absence from the International Centre for Settlement of Investment Disputes, a World Bank-run commercial-arbitration service, give investors pause. Corruption is rife, and revisions to an old commercial law are bogged down in parliament.

For all his election promises, President Hassan Rohani has barely begun to tackle the vested interests that relished sanctions as a form of protectionism that kept competition out of the market. The Revolutionary Guards control huge swathes of the economy. "Ali Khamenei [the Supreme leader] sees globalisation as a national-security threat, and wants the Revolutionary Guard as the economy's shock-absorber" against such forces, says Ali Alizadeh, a political analyst in London. Lifting sanctions will open the door to investors. But only if the rulers in Havana and Tehran want reform will economies be transformed. ■

Toshiba's accounts

A load of tosh

TOKYO

Corporate Japan is reeling after a big accounting scandal at Toshiba

"INCREASING profits is important," declared Hisao Tanaka, the chief executive of Toshiba, a conglomerate, as he resigned on July 21st, "but it must be grounded in a basis of fair accounting." The audience might have questioned his right to carry on preaching. The day before, an investigative panel found that Mr Tanaka and two predecessors had incited subordinates to cook the firm's books and inflate profits by ¥152 billion ($1.2 billion) over seven years to 2014. It is one of Japan's biggest-ever accounting scandals.

Tanaka's lost face

The employees' techniques hailed from accounts-fiddling 101: overstating profits, booking them too early, and pushing back losses and the recording of charges. Yet what makes their actions unusual in the annals of book-keeping shenanigans is that they received no explicit instructions. Instead, top management set impossible targets and relied on a Japanese corporate culture of obedience and loyalty that led people lower in the hierarchy to do whatever it took to meet them.

The false accounting began under Atsutoshi Nishida, the chief executive between 2005 and 2009, who still wielded power as an adviser to Toshiba until this week. In 2008, according to the panel, he heard that the firm was heading for a loss of ¥18.4 billion, and called the figure "so embarrassing that we cannot announce it". His underlings allegedly doctored the number into a profit of ¥500m. Mr Tanaka says he did not instruct people to falsify accounts and was unaware it was going on.

The firm's targets set off a vicious circle: divisions of Toshiba would manipulate the accounts to meet them, fearful of being shrunk if they didn't, and were then given even tougher goals for subsequent years. The company at first claimed the irregularities were confined to its infrastructure business, but the investigation detected manipulation across the entire sprawl of its semiconductor, personal-computer and television divisions.

In another big accounting scandal, in 2011, Olympus, a camera-maker, was found to have covered up $1.7 billion of investment losses. Its bosses were viewed by many in Japan as having protected a great firm in a largely harmless book-keeping fudge. It will be harder for the bosses at Toshiba to excuse the systematic padding of profits over such a long period. Their fall is also more dispiriting for the corporate establishment. Mr Tanaka's predecessor, Norio Sasaki, who also resigned from Toshiba's board, was a vice-chairman of Keidanren, Japan's main business lobby group, and a member of an economic panel advising Shinzo Abe, the prime minister.

Toshiba's fall from grace also comes just as foreign investors were shedding some of their habitual cynicism about Japanese corporate governance. Mr Abe is trying to instil a more shareholder-friendly culture, and has brought in a new governance code. Toshiba seemed to tick the right boxes, with, for instance, four outside directors (though at least three of them had little business training). Neither the board's audit committee nor the external auditor, Ernst & Young ShinNihon, an affiliate of the global firm, detected anything amiss.

Toshiba says it will now add more outside directors, but that may not mean much. The real test, according to a person close to the board, will be whether the firm can for the first time conduct a fair and transparent nomination process for a new boss. In Japan it is considered the prerogative of outgoing bosses to appoint their successors; at Toshiba, the board has been largely bypassed on such decisions, with disastrous results.

Japan's finance minister, Taro Aso, has warned that the scandal could damage the market's trust. The deferential corporate culture laid bare this week, after all, is hardly unique to Toshiba. Perversely, Mr Abe's emphasis on lifting shareholder returns could even increase the temptation for other firms to try to push the accounting envelope, says George Olcott, who sits on several Japanese boards. It would certainly send a helpful signal if Toshiba's top brass are now held accountable by regulators, owners and by the misled firm itself. ■

Helicopters

Rotor slayed

The rapid rise of the chopper business has come to an end

HELICOPTERS appear to be on the up and up. On July 20th Lockheed Martin, America's biggest defence contractor, agreed to pay $9 billion to buy Sikorsky, which makes helicopters, from United Technologies (UTC), a conglomerate. It is the largest deal the defence business has witnessed in two decades, but it may not be the wisest. Offloading Sikorsky is a sensible move for UTC; buying it is a gamble for Lockheed.

Five big companies dominate the civil and military markets for helicopters—Sikorsky, Airbus, AgustaWestland, Bell and Boeing. All have hit thinner air, because demand for helicopters is unlikely to grow as strongly as it did over the past ten years, a period of booming sales.

The oil-and-gas industry, destination for over half of all civil helicopters, is showing softer demand. Helicopters are routinely used to shift people and equipment to oil platforms. Aberdeen, which serves the North Sea, is the world's busiest heliport. Years of high prices encouraged oil companies to head offshore to exploit new reserves. The recent collapse has prompted them to slash costs and abandon some expensive schemes, along with the helicopters that went with them. Sikorsky recently revised its forecast for revenues for civil sales in 2015 from growth of 5-7% to a contraction of up to 20% compared with 2014.

Helicopters used for transport, medical emergencies, such as air ambulances, and search and rescue will need replacing in rich countries; such services are becoming increasingly prevalent in Asia and the Middle East. Over the past decade an average of 550 civil craft were delivered each year, according to Alix Leboulanger of Frost & Sullivan, a consulting firm. Over the next ten years that will rise to around 900 annually. However, the problem, says Ms Leboulanger, is that these jobs are performed by smaller helicopters that sell for $2m-3m a piece rather than larger ones with a price tag of $10m-15m that serve oil platforms. Total revenues from civil sales doubled between 2005 and 2015 to $6 billion a year, but will fall to an average of $5 billion a year for the next decade.

What about the armed forces? Military craft barely registered the buffeting of the financial crisis, because America's armed forces, the world's biggest customer by far, needed choppers to fight in Iraq and Afghanistan. Military helicopters are loaded with plenty of equipment and constantly upgraded. Airbus reckons that its military machines will make up less than half the total number of helicopter sales but three-quarters of the revenues over the next ten years.

But in recent years defence budgets around the world have flattened or fallen. Helicopter programmes have been scrapped or delayed. Military sales will rise by a very modest 2.5% a year to hit $23 billion by 2020, according to Mordor Research, another consulting firm.

Sikorsky already supplies two-thirds of the choppers to America's fighters, and this is the main prize Lockheed is after. It is adept at selling hardware to governments and may reckon that owning Sikorsky will help it to win more business at home. Sales abroad could grow as armies in developing countries upgrade and modernise. But

This is not a drone

it will face competition both from the companies that vie with it in rich countries and firms from the likes of Russia and India that make less technologically advanced but cheaper machines.

Lockheed, which also makes an array of unmanned aircraft, may do a better job of managing the disruption that drones will surely bring by offering craft with or without a pilot's seat. Already smaller choppers used for news gathering, mapping and farming are being replaced by drones, which cost far less. Unmanned military reconnaissance and resupply missions, once performed by helicopters, are now common. The good news for helicopter firms is that unmanned passenger flights are still far off. But in the meantime, there is still plenty to worry about. ■

Diageo in India

Scotch, not so neat

MUMBAI

Why a British drinks giant bought a troubled company in a corruption-prone industry

BEFORE he was lured by Diageo to run United Spirits Limited (USL), in which the British drinks giant secured a majority stake last year, Anand Kripalu had spent 30 years working for branded consumer-goods firms. Most of that time was at Unilever, a maker of soaps and shampoo. India's booze industry is grubbier, and Mr Kripalu wants to clean it up. "We will do what it takes to change the reputation of United Spirits and of the drinks industry in India," he says.

For a distiller of premium-branded Scotch, such as Diageo, India is an attractive market. It is by far the biggest whisky market by volume, if not by value. People drink spirits rather than beer or wine, in part because of history—a taste for whisky goes back to the days of the British empire—but also because alcoholic drinks are taxed by volume. What is more, Indians are brand-conscious and the types of drinks they know are mostly European—in contrast to China, where the bulk of the spirits market is local liquor.

United Spirits is the dominant firm in Indian spirits, supplying around half the market. Much of what it sells looks like whisky but is distilled from molasses with flavour and colouring added (often a dash of matured grain Scotch). It also sells bulk-imported Scotch, bottled in India, for better-off drinkers. By dint of the sheer number of cases it shifts, the firm has an enviable distribution network, which reaches 80,000 outlets in 23 of India's 29 states.

Yet India is a complicated market. Its constitution aspires to prohibit alcohol for all but medicinal purposes. Government often has a lock on wholesaling, and in some states oversees retail. Permits are required to import, manufacture, bottle, transport and sell alcohol—and even, in some places, to drink it. Booze is also heavily taxed: on bottled Scotch the import duty is 100%. Complex bureaucracy and high taxes are an invitation to graft.

The country has always been tricky for Diageo. In the early 1990s its antecedent, United Distillers, tied up in India with United Breweries, a beer-and-spirits empire run by Vijay Mallya, a flamboyant businessman. When that joint venture was severed a few years later, Diageo decided it could build a sales network in India on its own. But that proved tough against Mr Mallya's might. Attempts to get him to sell USL, which by then had been carved out of United Breweries, came to nothing.

Diageo had all but given up when Mr Mallya's injudicious empire-building left him in urgent need of cash. His desire to match Diageo and Pernod Ricard in the global spirits market drove him to overpay for Whyte & Mackay, a Scottish drinks maker, in 2007. A disastrous move into the airline business further squeezed his finances. His Kingfisher carrier, named after a best-selling lager, was grounded in 2012, weighed down by bank debts, unpaid wages and fuel bills. To get some breathing space, he sold a big chunk of USL to Diageo. The British firm then bought another block of shares in the market, taking its stake to over 50% in July last year.

It put Mr Kripalu at USL's wheel in part because of his branding nous, but also to instil a business culture more fitting to a multinational. Any sense of triumph was short-lived. Diageo knew enough about the Indian drinks market to fear there might be trouble. The new owners soon struggled to make sense of USL's accounts. It belatedly reported quarterly results last September after it had thrice failed to have them cleared by auditors. In April an internal inquiry found "improprieties" in payments made to Mr Mallya's other firms. Mr Mallya vigorously denies wrongdoing.

On his way to better drinking

Few industry observers were shocked to learn that USL's accounts were messy. But a clean-up of the firm's day-to-day dealings has hurt sales by more than expected. "People hassle you, make life difficult," says Mr Kripalu. "Until you are seen as a firm that will not compromise, people will harass you. If it takes three months to get a vital permit, you lose business."

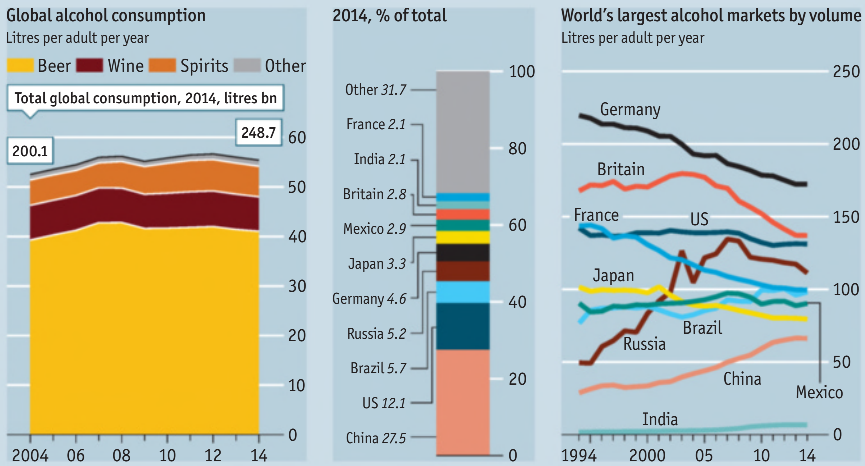
He is far keener to talk about the building blocks in place for long-term success. It helps that there is no overlap between USL's 140 brands, mostly in the mass and mid-market, and Diageo's high-end offering. USL brands, long starved of investment by the need to generate cash, are being given a makeover. Savings have been made, for instance by putting some of the mass-market spirits in same-sized bottles. Fresh air has been let in on a stuffy internal culture. Lifts and parking spaces at the company's Bangalore headquarters, once reserved for the top brass, are now open to all staff. Mr Kripalu says he learned of such divisive practices at lunches he has arranged with young employees.

The hard work of transforming USL is worth it, he argues, when set against the long-term dividend. India is a huge market. Consumption of booze per head is low (see box). India is at the steep part of the "s-curve", a concept beloved by consultants: it plots rising consumption against the increase in incomes. More than 19m Indians reach the legal drinking age each year. As the number of Indians with discretionary income grows, more abandon illicit (and often deadly) moonshine for the manufactured sort. And attitudes to drinking are changing. Dry weddings were once the norm; now "your choice of liquor is the image of the wedding," notes Mr Kripalu. "Everyone is drinking better."

Diageo looks well placed to benefit from Indians trading up to premium booze. But shareholders will need to be patient. Accounting glitches and short-term hits to sales mean it might be 2017 before Diageo can show a comparable set of numbers by which progress can be judged. The alternative would be worse, however. The USL network is a vital route to market for Diageo's premium brands: to meaningfully break into the Indian market and make the economics of distribution add up, the firm needed a volume-driven spirits business. When USL unexpectedly came on the block, it could scarcely pass it up. ■

The changing geography of drinks

The world may be getting warmer, but it is not getting much wetter. It quaffed 249 billion litres of alcoholic drinks in 2014, a modest increase of 1 billion over the preceding year. When measured by intake per head of the drinking-age population, consumption is down a little from a peak of 56.6 litres in 2012 to 55.4 litres in 2014. People in rich countries are the ones imbibing less—a moderation that has not (yet) been matched by a corresponding binge in emerging markets. India, for instance, is the ninth-largest alcohol market, yet consumption per head is low. Small wonder that drinks companies see an enormous market waiting to be tapped.



Source: IWSR

Schumpeter | The enemy within

Rogue employees can wreak more damage on a company than competitors

EMPLOYEES are often said to be a company's biggest resource. It is equally true that they are its biggest liability. Scarcely a week goes by without a company falling victim to employees-turned-enemies-or-embarrassments. On July 20th Ashley Madison, a website for married people looking to have an affair, announced that it had been hacked. Noel Biderman, the company's chief executive, says that he thinks the attack was "an inside job". On July 6th HSBC fired a group of employees when it emerged that they had filmed themselves engaged in an "ISIS-style mock beheading" of an Asian colleague dressed in an orange jumpsuit.

The most familiar type of enemy within is the fraudster. The Economist Intelligence Unit, a sister organisation of *The Economist*, conducts a regular poll of senior executives on the subject of fraud committed by insiders. In 2013 the poll discovered that about 70% of companies had suffered from at least one instance of fraud, up from 61% in the previous survey. Fraud is often petty: a survey of British employees for YouGov in 2010 found that a quarter of staff eligible for expenses admitted to inflating claims. But fraud can also be more audacious and more harmful: think of former employees setting up rivals using stolen technology and purloined client lists.

Even more dangerous than the fraudster is the vandal. Thieves at least have a rational motive. Vandals are driven by a desire for revenge that can know no limits. David Robertson of K2 Intelligence, a company that specialises in corporate investigation, recounts the story of a British manufacturing company that was undergoing restructuring. A member of the information-technology department discovered that his name was on the list of people whose services would no longer be required. He built a "backdoor" into the company's IT system from his home computer and set about wreaking damage—deleting files, publishing the chief executive's e-mails and distributing pornographic pictures.

Some enemies-within start out as star employees. A striking number of the worst corporate scandals in recent years have been the work of high-flyers who bend and then break the rules in order to please their bosses. Barings, a collapsed British investment bank, showered Nick Leeson with rewards before it discovered that he had produced his outsized results because he took outsized (and unauthorised) risks.

Other enemies-within are the very opposite of high-flyers. The HSBC execution squad are only the latest example of low-level employees who have either wittingly or unwittingly used the power of the internet to blacken their employer's reputation. In April 2009 two employees of Domino's, a fast-food chain, posted videos of themselves "abusing takeaway food". And in July 2012 a Burger King employee posted photos of himself online which showed him standing in a tub of lettuce in filthy shoes along with the caption "This is the lettuce you eat at Burger King".

One of the most effective ways for outsiders to damage a company is to strike up a relationship with an insider. This can sometimes be fairly crude: bribing a cleaner to replace a keyboard with a carefully-modified lookalike or swapping a USB stick for a virus-laden doppelganger. But it is often more sophisticated. Many of the biggest corporate disasters in recent years are likely to have involved collaborators. Security experts suspect that the hackers who stole the personal information of about 40m customers from Target, an American retail chain, in 2013 may have had help from insiders (the store refuses to comment).

What can companies do to reduce the threat from these wolves in sheep's clothing? A lot depends on which particular sorts of wolves you are dealing with: traps that work for vandals may not work for fraudsters, for example. And even the best-managed companies are fighting an uphill battle. Information is getting harder to control. A single USB stick can contain more data than 500m typewritten pages. A mobile phone can be hijacked and turned into a listening device. People regularly log in with their electronic devices in crowded places where they can be watched, filmed or hacked.

Fifth column, three principles

Yet three precepts are always worth bearing in mind. The first is that firms need to focus on the people who have the greatest capacity to do harm—those who control the money and information. The more complicated companies become, the harder it is to identify where power really lies. But one thing is clear. The more dependent on information firms get, the more IT specialists can compromise the whole business. The least companies can do is to keep a careful watch on the IT department—and, if you're going to sack somebody from that team, do so immediately.

The second is that the human touch is still invaluable. Companies can certainly strengthen their hand by installing software that can identify anomalous behaviour or monitor e-mail, or by employing forensic accountants to double-check the accounts. But rogue employees are usually a step ahead of their employers: they will simply shift to text messaging if they think that their e-mails are being watched. Companies can probably do more by listening to company gossip. Corporate-security firms get some of their best results by using "spies" to hang around in the smoking room or go out for drinks after work.

The best way to fight the enemy within is to treat your employees with respect. And this third principle is where many firms fail. They may embrace the rhetoric that nothing matters more than their people, but too many workers feel that nothing matters less. According to a recent survey by Accenture, a consultancy, 31% of employees don't like their boss, 32% were actively looking for a new job, and 43% felt that they received no recognition for their work. The biggest problem with trying to do more with less is that you can end up turning your sheep into wolves—and your biggest resources into your biggest liabilities. ■

Finance and economics

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The Trans-Pacific Partnership

Into the home stretch

PENANG, MALAYSIA

For all its flaws, the biggest trade deal in years is good news for the world

FIVE years of trade negotiations, 29 chapters of dense rules and hundreds of tariff lines culminate, in one corner of Asia, in whirring spools of white fabric. Negotiators are still wrangling over the text that aims to establish a new Pacific trade zone, tying together 12 countries from America to Vietnam. But Penfabric, a textile company in Penang, north-western Malaysia, is not waiting around. In one of its mills, bright yellow flags distinguish rolls of high-end fabric from cheaper cloth. Lately, these flags have started to multiply. "We need to be in tune with what America wants," says H. S. Teh, Penfabric's managing director.

The zone, dubbed the Trans-Pacific Partnership (TPP), is the most important free-trade agreement in years. If completed, it will be the largest regional trade deal ever, with its members accounting for nearly 40% of the world economy. The countries leading the negotiations want to set a new standard for what trade agreements cover. They are taking on the morass of regulations, such as local-content rules determining how much of a product must be made from local inputs, that have replaced tariffs as the main obstacle to the free flow of goods across borders. After repeated failures to seal big global deals—the World Trade Organisation (WTO) has turned its focus to specific industries rather than comprehensive agreements (see box on next page)—the TPP actually has a good chance at success. A meeting of trade ministers in Maui from July 28th to 31st is expected to put the final touches on the deal.

Gauging the exact benefits of the TPP is tricky, not least because the trade talks are still confidential. Critics have bemoaned the lack of disclosure but conducting negotiations in the open would have been a sure way to undermine them. Governments will have several months to review the final deal before deciding whether to give their assent.

Even when the details are known, it will still be hard to assess the impact. The most authoritative study, published by the Peterson Institute for International Economics, reckons the TPP will enlarge the economies of the 12 member states by $285 billion by 2025. But, as with any economic model, reality is more complex. Benefits could be smaller if exemptions on tariffs blunt its impact—Japan, for one, is still trying to protect its "sacred" food, such as rice, wheat and beef, from imports. But through knock-on effects—if, say, Vietnamese industry becomes more efficient—the gains could also be larger.

Trying to pin down the exact value of the deal misses the point, though. First, the TPP is not at its final destination. It is supposed to expand, drawing in more countries. The Philippines, South Korea, Taiwan and Thailand have expressed interest in joining. The hope is that it will eventually also attract China. If the initial 12-country zone is expanded to 17, the benefits could be much bigger (see chart on next page). Second, TPP is not mainly about cutting tariffs (these are already low after years of trade liberalisation) but rather about setting new rules for global commerce.

By leaving China out, America has, to a certain extent, rigged the talks in its favour. Much as state-owned companies in Malaysia or Vietnam want to defend their fiefdoms, they do not have the clout to push back as strongly as their peers in China might have done. But if the TPP gets under way and proves successful, China may yet be compelled to join, or at least to agree to pacts with similar standards. "If China doesn't promote its own ideas for trade, it will be influenced by those of others," says Zhou Mi, a researcher in a think-tank under China's commerce ministry.

The rules that America is pushing have faced criticisms, some valid, some not. Particularly controversial has been a demand from big pharmaceutical firms for a 12-year freeze on sharing data on a group of new medicines called "biologics", which they say is necessary to spur more innovation. Groups such as Médecins Sans Frontières say that this would go too far and hinder the development of the cheaper alternatives needed for poorer countries. People familiar with the negotiations say the data-exclusivity term is likely to be pared back, perhaps to seven years.

Other rules are more welcome. Some economists have noted the TPP's focus on intellectual property and its mechanism ▸▸

INTERACTIVE: A guide to global trade-deals in graphics at Economist.com/trade2015

allowing investors to sue states, and concluded that it is more a political agenda than a free-trade agreement. But such provisions are not unique to TPP. And its boldness in tackling the rules gumming up the gears of global trade is laudable. Firms that straddle borders know that local-content rules can be just as distortionary as tariffs. "In South-East Asia, you basically have to build cars in the country in which you want to sell them," says Matt Hobbs, vice-president of government relations at General Motors.

The TPP talks have dragged on since 2010 and there could be drama yet in the final weeks. Some think Canada could quit the group if its dairy farmers are not insulated. Malaysia might be pushed out because of American concerns about human trafficking. In America, Congress could scupper the deal, though goodies for beef farmers, carmakers and drug companies should tip the balance in favour. Japan will also face domestic blowback if it opens its door to agricultural trade. But as a hub of innovation, it has a strong interest in TPP. It has been a crucial ally for America in demanding more rigorous trade rules, says Matthew Goodman of the Centre for Strategic and International Studies.

The China syndrome

Ultimately, for TPP to really make a mark, it has to be bigger. Leaving out China is an expedient to get the deal done but, if kept that way, it would be a huge gap. China is the world's biggest manufacturer. Any Asian trade zone without it faces one of two sorry fates. Either, because of China's centrality to Asian supply chains, the deal is so riddled with exemptions that it becomes worthless. Or, if the zone gains traction, the effect is to divert trade away from the most efficient Chinese companies and hurt the global economy.

The TPP is likely to face both problems. In textiles, for instance, Vietnamese and Malaysian mills expect to be allowed to continue to source fabric from countries such as China or India that those inside the trade zone cannot produce. This exemption may be vast. Meanwhile, Vietnamese and Malaysian garment makers admit the exclusion of Chinese finished goods will help shelter them from their toughest competition—hardly the ideal of free trade.

In other areas, though, TPP could make waves of a good kind. Rules to protect labour rights, strengthen environmental safeguards and limit subsidies to state-owned companies should go further than any previous trade deal. Officials in China, who previously viewed TPP as a gambit to isolate it, now drop hints about wanting to join the club. "It won't be the gold-standard deal they've been talking about, and they will be lucky to get a silver. Perhaps it will be a bronze," says Jayant Menon of the Asian Development Bank. With other ambitious trade talks gathering dust, however, even a bronze would glitter. ■

Trade deals

Bargaining chips

The World Trade Organisation draws close to its first deal for nearly two decades

"WHEN you've already settled the price of the car, there's no point quibbling over whether the gas tank is full." Thus did Roberto Azevedo, director-general of the World Trade Organisation, urge WTO ambassadors this week to conclude the second Information Technology Agreement (ITA-II). They duly agreed to eliminate import tariffs on 201 new electronics products, such as high-end semiconductors, medical equipment and game consoles.

The 54 countries involved cover 90% of the trade in such goods, which in turn amounts to 10% of all world trade. The deal extends the product list of the original ITA, in 1996, which included floppy disks and tape recorders, to include modern technologies such as the flash drives for smartphones. A final agreement was expected on July 24th.

ITA-II is the first big WTO trade deal since the original ITA and has been haggled over for three years. The slowness of progress was largely due to China, Japan, Taiwan and South Korea fighting over the inclusion of goods produced by infant industries they had been protecting from international competition. India stayed away from the talks altogether, citing the impact that the first ITA had on its fledgling electronics sector. China left early on, worried that South Korean flat-screen TVs and Japanese car radios would out-compete its domestic firms.

The final push for ITA-II came last November, when China agreed its own bilateral extension of the ITA with America, spurring the rest of the WTO to finish its deal. China, which has rejoined the deal, has been building up its domestic computer-chip industry for at least 15 years. In 2013 it imported more than $230 billion-worth of materials for its semiconductor industry—more than it spent on oil.

The deal is likely to save $13.8 billion a year in tariff payments on the $1.3 trillion global trade in electronic goods, says the WTO. Removing tariffs will open up new markets, particularly China, which has the highest levies on such goods. Tariffs on semiconductors, used in electronic circuits, are as high as 25% in some countries. Although the precise effects of the deal have not yet been studied, it will increase trade in electronics between East Asia, Europe and North America. All three regions both import and export large amounts of electronics—the EU exports €82 billion ($90 billion) and imports €68 billion.

Few African or South American countries participated in the negotiations, but the WTO believes that all will benefit. More trade should be good news for a global electronics supply chain that buys materials and labour from around the world. As tariffs fall on inputs like semiconductors, the rest of the developing world ought to enjoy cheaper finished electronic goods, which could very well speed innovation at home. High-tech industries played a big part in the South Korean and Taiwanese development miracles. These took place behind tariff barriers, however. Whether those developing countries that adopt ITA-II can advance without such shelter is unclear.

The reopening of Greek banks

The long march to normality

ATHENS

Rebuilding confidence in the banks is bound to be hard

AFTER three weeks of closure the reopening of Greek banks on July 20th was a positive step. But the banks remain enfeebled; a liquidity crisis has turned into a solvency crisis. Until worries about their viability are quelled after the summer, when stress tests to determine their capital adequacy will be held, they will struggle to get back to some semblance of normality.

Although the shutters have gone up and there are no longer queues at ATMs, little has changed in practice this week. Customers can pay in cheques and gain access to safe-deposit boxes in banks where they have stashed cash. However, strict capital controls still prevent transfers abroad and the existing limit on cash withdrawals remains in place, with only a cosmetic change from the previous daily cap of €60 ($65) to a weekly limit of €420.

Yet the position could have been far worse. After eking out a limited amount of cash over three weeks, the banks were close to running out altogether. What made the difference was the decision by the European Central Bank (ECB) on July 16th to raise the amount of emergency liquidity assistance (ELA) that the Bank of Greece can provide to the banks. Although the increase of €900m was relatively small, further rises appear likely, especially since a temporary €7 billion loan from a fund backed by the EU allowed the Greek government to redeem bonds worth €3.5 billion held by the ECB, together with €700m of interest, and to repay its arrears of €2 billion to the IMF on July 20th. As part of the deal with creditors, the Greek Parliament passed another set of reforms early on July 23rd.

As Nikolaos Karamouzis, chairman of Eurobank, one of the four big Greek banks, says, what matters now is allowing the banks to support businesses. The hope is that, with continuing tight limits on cash withdrawals, additional ELA can be passed on to companies that urgently need trade credit. Since many firms need to buy vital imports this would be combined with an easing in capital controls.

Any such improvements are likely to rely heavily on extra ELA rather than a return of deposits. The banks previously experienced a big run when two elections were held in the early summer of 2012, arousing fears of a forced exit from the single currency and a redenomination of euro bank accounts into drachmas. Even after this risk receded after the second election in June 2012, deposits were slow to recover. Although concern about a "Grexit" has subsided once again, households and especially businesses may now worry about a "bail-in" of big deposits (above €100,000)—converting some of them to equity—in order to recapitalise the banks, as happened in Cyprus in 2013.

Show us the money

Although Danièle Nouy, head of the ECB's supervisory board, which is now in charge of overseeing the four big Greek banks, said in early June that the Greek banks were solvent, they have undoubtedly been the main victims of this year's crisis. The run on them, which started in December, ahead of the election that brought Syriza to power in late January, has made them heavily dependent on central-bank funding, which now actually exceeds private deposits.

The protracted liquidity squeeze on the economy, exacerbated by the extraordinary developments of the past month, is taking its toll on businesses. Prospective losses from a surge in non-performing loans, already very high at 34% at the end of last year, will eat into bank capital. Quite how much damage has been done will be revealed in the autumn.

It nonetheless seems very unlikely that depositors will be bailed in to recapitalise the banks. For one thing, the EU's bail-in rule is not supposed to apply until 2016 (although, within the euro area, Austria and Germany have already introduced it this year). That should rule out raids on deposits, restricting the sacrificial victims to shareholders (together with small amounts of subordinated debt).

Even if bail-ins were allowed they would be extraordinarily counter-productive. In Cyprus there was a case for using this approach on the ground that many of the deposits affected were ultimately owned by Russians and Ukrainians and were of dubious provenance. But in Greece they would destroy the working capital of small and medium-sized businesses, the backbone of the country's economy.

But until the banks have been sorted out and recapitalised this autumn depositors will remain nervous. Mr Karamouzis says that, if the rest of Europe could offer swift reassurance to Greek depositors that they will not be bailed in, it would have a catalytic effect in restoring confidence and getting deposits back into the banks. But as things stand it will be several months at the least before there is a return to normal. Whatever that now means in Greece. ■

Small banks in America

Bank free or die

NEW YORK

The opening of a new bank in America provides hope that more will follow

BARREN, dry, desolate. These are words you might choose to describe the terrain left by California's ongoing drought. But they apply just as readily to the landscape for bank startups in America. In the 25 years before Lehman Brothers collapsed, new banks were licensed at an average rate of 164 per year. Since, the industry has been suffering a seriously arid spell. In 2011 no new banks were licensed, making it the first such year since at least 1934. When Primary Bank, based in New Hampshire, opens its doors on July 28th, it will be just the second lender in America to do so in five years. And it will be a welcome sight, given that small banks play a vital role in the economy.

The new bank began in the mind of Bill Greiner, a New Hampshire businessman who had grown frustrated with large ▸▸

banks. In early 2008, he applied for a commercial-property loan from Citizens Bank, then an American subsidiary of the embattled Royal Bank of Scotland. But despite a proven track record and a 50% downpayment, he was turned away. Baffled, he turned to Hampshire First Bank, a local lender. The relationship was happy, but short-lived: in 2012, the bank was purchased by another institution. Soon after, another local bank was acquired. As small banks disappeared from New Hampshire, Mr Greiner detected an opportunity and, joined by four other local businessmen, resolved to open his own.

In a state where residents assert their uncompromising independence with the slogan "live free or die", it should be no surprise that Mr Greiner found considerable local support. Ownership of the bank is spread across more than 360 shareholders, most of whom are from New Hampshire. Each represents a potential customer or advocate. According to one investor, the bank has created a "buzz in the air".

The banking industry has been consolidating since the 1980s, when lawmakers loosened interstate banking restrictions. The number of commercial banks peaked at around 14,500 in 1984 before falling to 5,570 today (see chart on next page). But even as the growing behemoths of the industry gobbled up their smaller brethren, new banks would always sprout up to help offset the decline.

Researchers from the Federal Reserve Bank of Kansas City reckon there is a link between consolidation and startups. When large or out-of-state banks acquire smaller ones, service suffers, encouraging new banks to set up shop and fill the resulting void.

Today there are lots of such voids. Since 2010 hundreds of small banks have been bought by large or distant rivals. But in the

Buttonwood | Bypassing the voters

Technocratic solutions may come back to haunt politicians

"THE people have spoken. The bastards." Dick Tuck's reaction to defeat in a Californian state Senate race in 1966 is not that far from the attitudes of the authorities since the 2008 financial crisis. They have tended to act first, and hope that voters approve of their actions afterwards. Often this has involved the introduction of improvised measures that the people might not have favoured, and the use of bodies that were free from democratic constraint.

The unpopularity of the Bush administration's bank bail-out in 2008 created a strong sense of caution among elected leaders. Congress initially voted the rescue down in response to a backlash among constituents that eventually created the Tea Party. Although the bail-out was pushed though in the end, many of those who voted in favour lived to regret it.

Given the public's views, letting the central bank take the main role in generating economic recovery made a lot of sense. Getting Congress to sign up to further fiscal stimulus became impossible after the Republicans took control of the House of Representatives in 2010. The Federal Reserve kept interest rates at historic lows and unveiled further quantitative easing (QE) to drive down bond yields. Some Republican Congressmen still grumble about the Fed's actions to this day but they have been powerless to do much about it.

This shift of power is clear in the financial markets. For traders, what really matters are the decisions of Janet Yellen, the chairman of the Federal Reserve (and, before her, Ben Bernanke). The Fed has been hugely effective in shoring up asset prices; the fear is that when it starts pushing up interest rates, maybe later this year, markets will suffer. It is hard to think of a decision by Barack Obama or Congress that would be anything like as influential.

In the euro zone, politicians fumbled and prevaricated but Mario Draghi, the president of the ECB, was the one who stopped the rot in 2012 with his "whatever it takes" speech about saving the currency. For European governments, institutional and democratic constraints ruled out what might have been the simplest solution: a write-off of debt and a direct transfer of funds from governments in Germany, the Netherlands and others to struggling countries like Greece and Ireland. Instead, European leaders created the European Financial Stability Facility (EFSF) and its successor, the European Stability Mechanism (ESM). They also summoned the help of the IMF, a body with much experience in sovereign rescues.

These collective funds may have been approved by national parliaments but they resemble the kind of off-balance-sheet vehicles that were popular before 2007 in the American mortgage market. In the case of the EFSF, countries agreed to guarantee the debts of the vehicle, rather than put up hard cash (even if Eurostat does treat the guarantees as debt). For the ESM, euro-zone countries had to stump up €80 billion ($87 billion) in real money as initial capital but another €620 billion could theoretically be needed if the fund suffers losses. The amount of taxpayers' money at risk was rather less clear to voters than it might have been.

But that risk was very clear when EU negotiators were haggling with Greece about its latest bail-out deal, and helps explain why they were reluctant to accept debt restructuring. It was all very well for economists in America and Britain to urge a debt write-off but their countries' voters weren't being asked to take the hit. There were fine words from the IMF and the ECB on the need for debt restructuring—but no sign that they were willing for their own balance-sheets to be shredded.

Democracy is a double-edged sword for economists to wield. There was much talk about the refusal of the EU to respect the wishes of Greek voters when negotiating the latest deal; rather less discussion of what voters in the creditor countries might have said had they been allowed to express an opinion on the negotiations. There is no easy democratic way of reconciling the wishes of voters in one country with those of another.

Voters may also want inconsistent things: lower taxes, higher spending and a balanced budget at the same time. Politicians ought to make those tough choices. To the extent that they pass the buck to technocrats, or to international bodies making backroom deals, politicians lose control of their own destiny. Indeed, the feeling that their elected leaders are not in control may be one reason why voters in some countries are so angry, and are turning to parties outside the mainstream.

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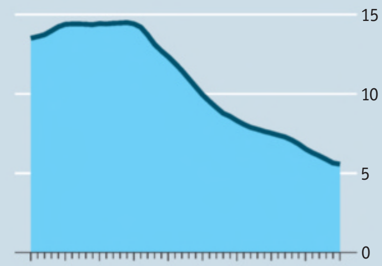
wake of the financial crisis, would-be bankers have faced a shaky economy and heightened scrutiny from nervous regulators. Low interest rates have also made life difficult for small banks. Such lenders usually concentrate on the traditional activities of gathering deposits and making loans, and so their profits are largely determined by the spread in interest rates between the one and the other. When rates are low, as they have been since 2010, this spread narrows and lending margins fall.

The resultant dearth of bank startups is troubling. Although small banks accounted for just 22% of all bank lending in America in 2014, they held 51% of all small-business loans and 77% of all agricultural loans, according to a study from Harvard University. That is partly because their loan officers can use their personal knowledge of a borrower and the local economy to evaluate credit risk.

Such local knowledge does not fit neatly with the impersonal lending procedures used by big banks, which are more geared towards large borrowers which have hard data, such as financial statements and credit ratings. Although new platforms—such as peer-to-peer lenders—are emerging, they are young and limited in size. In the meantime, America's small businesses hope that more will follow in Mr Greiner's footsteps. ■

Closing counters

Commercial banks in the United States, '000



Source: FDIC *As of March 31st

The Volcker rule

Much ado about trading

NEW YORK

The next great regulation to tame banks is now in place

FIVE years is the length of a modern British Parliament and one of Stalin's economic plans. Apparently, it is also the time needed to bring in a new American financial regulation. When the Dodd-Frank act was passed in 2010, the so-called Volcker rule was seen as one of its key provisions. But the rule only formally took effect on July 21st this year.

The pertinent clause of Dodd-Frank amounts to all of 165 words (with the key points covered in 40). Banks are banned from two activities: proprietary trading and ties (through investment and relationships) to hedge and private-equity funds. Putting that into practice involved a collaboration of five regulatory agencies: the Federal Reserve, the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency (OCC). This group produced an 891-page preamble leading to a 71-page rule, all of it written in dense bureaucratese.

The aim of the rule is to stop banks (and their worldwide affiliates) with the implicit support of the American government from indulging in speculation and becoming enmeshed in conflicts of interest. In reality, distinguishing such activities from more beneficial financial operations has proved daunting. "It's impossible for banks to know if they are completely in compliance with the rule, because there are so many interpretive questions remaining," says Gabriel Rosenberg of Davis Polk & Wardwell, a law firm.

Exceptions have been carved out for market-making, risk-mitigation, underwriting and (surprise!) trading American government bonds. But complying with the rule has forced banks to close or sell whole divisions. Goldman Sachs has closed down two proprietary-trading operations without much ado, and wound down various funds in which it co-invested with clients, without suffering any visible calamities. JPMorgan Chase has done the same.

Banks have created compliance systems designed to ensure that every single transaction meets the Volcker standard. This has not been easy. Every time a bank buys or sells a security it is in effect taking part in a proprietary trade. This is also true, for example, when it expands its holdings of foreign currency in anticipation of demand. Bank examiners will not only have to judge assets and liabilities, but also intentions. Some foreign banks, judging that they simply lack the political clout to navigate such a complex regulatory environment, have cut back their American operations, to the delight of their American competitors.

Has this upheaval been worth it? Although many provisions of the Dodd-Frank act require cost-benefit analysis, the Volcker rule does not. The OCC has provided some cost-benefit estimates, which could be the basis of further investigation.

The benefits, the OCC concludes, are largely unquantifiable but include better supervision, better risk management, greater safety, fewer conflicts of interest and the hope that a crisis will be avoided. Compliance costs, inevitably, come with a more explicit price tag. The OCC reckons the seven "market-making" banks (ie, the biggest) will have collectively spent over $400m in 2014 and a bit less going forward. The OCC's annual supervision costs will rise by $10m. Another 39 banks it examines will have additional direct costs of only several million dollars a year.

The largest costs, however, like the biggest benefits, can be hard to quantify. There may be less competition for large banks because smaller rivals will want to avoid the steeper compliance costs. With banks now forced to limit their efforts to make markets in securities only to activities that can be tightly linked to customers, their inventory of securities has declined.

Reduced dealer inventories in the corporate-bond markets has already become the subject of investor concern. They reduce the possibility of big bank losses in a crunch, but they also decrease market liquidity. Investors have usually required a higher return to compensate for holding less liquid securities, raising the cost of capital for some companies and making it harder for others to raise money. Perhaps the most likely outcome is that trading shifts to unregulated firms in the "shadow banking" sector. Instead of being extinguished, financial risks may just become harder to spot. ■

Better call Paul

Free exchange | Destination unknown

Large increases in the minimum wage could have severe long-term effects

FED up with pay increasing only at a snail's pace, politicians are resorting to the law instead, by increasing the minimum wages that businesses must pay. But this is taking them into uncharted territory. Britain's recent minimum-wage increase will take it from the average among OECD countries to the upper ranks. Germany's new minimum wage, introduced in January, stands at 62% of average earnings in east German states. If a $15-an-hour federal minimum wage were implemented in America, as campaigners want, it would apply to two-fifths of workers.

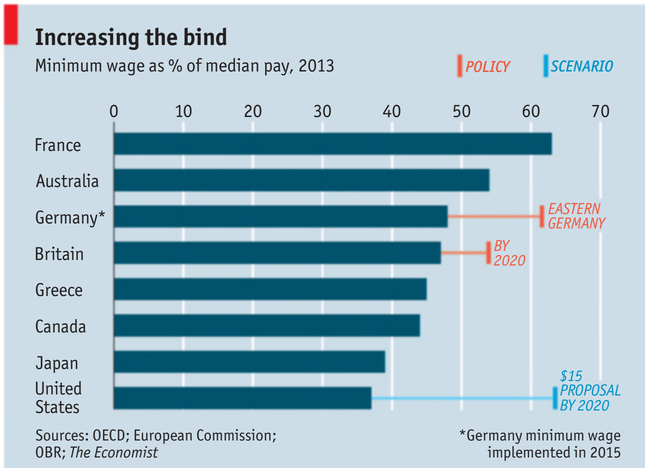
In the past, cash increases in the minimum wage have been eroded by inflation. America's federal minimum wage was last set, at $7.25, in 2009 and has not been changed since, so its value has faded over time. This means that in reality most countries have only ever temporarily increased the real minimum wage. If the recently proposed increases are maintained over time (as the electorate will surely expect), there could be long-term effects. Historically, economists have worried that high minimum wages boost the pay of those in work but at the expense of jobs. Take a burger bar, which is forced to pay its employees a higher legal minimum. To avoid making a loss, it might have to raise prices, putting off customers and reducing the need for staff. A permanent increase in the minimum wage could tip the balance in favour of burger-flipping machines, away from employees. Supermarkets have already replaced many cash-till operators with self-checkout machines. Displaced workers might find different jobs, though they might struggle to do so if they are low-skilled.

The evidence seemed to support the scepticism of dismal scientists until a study in 1993 by David Card and Alan Krueger found that employment in New Jersey restaurants actually increased in response to a minimum-wage rise. This sparked a huge debate and heated criticism from two rival economists, David Neumark and William Wascher, who used different methods to show that minimum wages did indeed hurt jobs. Twenty years later, the debate is still not settled, but the sides have converged. The debate is now largely between those arguing that there are small negative effects and those who say there are none at all.

That makes higher minimum wages look like electorally popular policies; they do not require unpleasant tax rises, and do not seem to lock the poorest out of work. As a result, proposals for large increases in the minimum wage abound. Some propose tying the minimum wage to inflation or earnings, which would make the increases permanent. But three new papers suggest a more cautious approach would be more sensible.

In the first Isaac Sorkin of the University of Michigan argues that firms may well substitute machines for people in response to minimum wages, but slowly. Mr Sorkin offers the example of sock-makers in the 1930s, which took years to switch to less labour-intensive machines after the federal minimum wage was brought in. He also explains how this finding squares with other research. Most studies look at past minimum wage increases that were not inflation-proofed. Firms may decide not to go through the hassle of investing in labour-saving machines if the minimum wage will affect them less over time. But they could respond differently to a more permanent increase.

Mr Sorkin crunches the numbers, using a model of the American restaurant industry in which companies choose between employees and machines. He investigates the effect of a permanent (ie, inflation-linked) increase in the minimum wage and shows that the tiny short-run effects on employment normally seen are fully consistent with a long-run response over 100 times larger. The lack of evidence for a big impact on employment in the short term does not rule out a much larger long-term effect.



In a second paper, written with Daniel Aaronson of the Federal Reserve Bank of Chicago and Eric French of University College London, Mr Sorkin goes further, offering empirical evidence that higher minimum wages nudge firms away from people and towards machines. The authors look at the type of restaurants that close down and start up after a minimum-wage rise. An increase in the minimum wage seems to push some restaurants out of business. The eateries that replace them are more likely to be chains, which are more reliant on machines (and therefore offer fewer jobs) than the independent outlets they replace. This effect has not been picked up before because the restaurants which continue to operate do not change their employment levels, so the jobs total does not shift much in the short run.

Young, gifted and fired

The third cautionary paper is from Jonathan Meer of Texas A&M University and Jeremy West of the Massachusetts Institute of Technology. Studies typically hunt for a fall in employment in response to a minimum-wage increase. But if the increase affects the rate of growth in employment, rather than the level, differences would appear slowly over time. Standard measures would struggle to pick up this more subtle effect.

Their results suggest that a 10% increase in the minimum wage, made permanent by linking it to inflation, could cut job growth by 0.3 percentage points a year. Over a long period, this could amount to a very large difference indeed, though the authors stress that such long-run extrapolations are difficult given the limited experience of such permanent changes. Worryingly, the effects on jobs growth they see are concentrated among people under 25, and those without a degree. These are vulnerable groups who risk being locked out of the labour force for good.

The evidence so far may therefore be a poor guide to the effects of the latest wave of minimum-wage rises. Although the short-run effects seem mild, large increases could be storing up big problems for the future. ■

* Studies cited in this article can be found at www.economist.com/minwage15

Economist.com/blogs/freeexchange

For daily analysis and debate on science and technology, visit
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Clinical trials

Spilling the beans

Failure to publish the results of all clinical trials is skewing medical science

"I'M THE one who looks the patient in the eye and tells them the trial is beneficial," says Tim Crater, a research physician at the Hutchinson Clinic in Kansas. Dr Crater runs drug tests for large pharmaceutical firms. He says volunteers are interested in more than just the promise of payment. "A lot of people want to help, they are altruistic to a certain degree and want to advance science." Dr Crater's experience is typical. Those who participate in trials often believe that they are, in a small way, contributing to the advancement of medicine and that any suffering on their part will help others.

Unfortunately, this is not always the case. Though pertinent trials carried out by companies do have to be reported to those responsible for licensing drugs and medical devices, there is no obligation on firms to make them public. That means such trials cannot be scrutinised by outsiders. The licensing authorities look at them, of course, so anything approved should, in theory, be safe, and have at least some beneficial effect. But the practitioners who go on to use them do not know all the details.

Some estimates suggest the results of half of clinical trials are never published. These missing data have, over several decades, systematically distorted perceptions of the efficacy of drugs, devices and even surgical procedures. And that misperception has sometimes harmed patients.

In America, where most of the world's drugs first receive approval, the law was changed in 2007 to try to deal with this problem. Trials, with the exception of early safety evaluations, are supposed to be registered on a website, clinicaltrials.gov. Then, within a year of the completion of data collection, their results are supposed to follow suit. That, at least, is the theory. Practice seems different.

A unfined mess

Earlier this year, a report in the *New England Journal of Medicine* combed through clinicaltrials.gov, looking to see how quickly after completion trials were reported. It found that, after the legal maximum of a year was up, just 17% of those paid for by industry had had their results published. Drug firms were not, though, the worst offenders. Only 8.1% of trials paid for by the National Institutes of Health, the American government's main conduit for medical-research money, were reported within a year. And just 5.7% of the ones paid for by other government agencies and academic institutions were (see chart on next page). Moreover, even though the Food and Drug Administration (FDA), the agency which monitors the website, has the power to fine companies that do not comply, it has never actually done so.

The assumption is that the missing trials tend to be those that show drugs in a less flattering light. Drug companies have an obvious incentive to play such trials down. Academic researchers, keen for glory and their next grants, may often prefer not to waste time on writing up results which show little effect. And journals are also culpable, for they notoriously favour papers which demonstrate that something works over those which demonstrate that it does not. As a result, many medicines look better than they are.

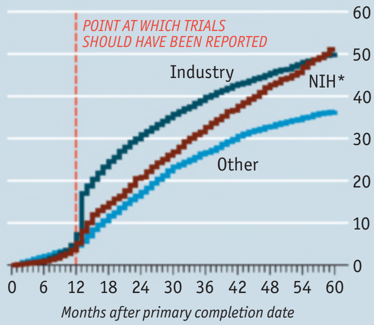
Ben Goldacre, a British doctor and author, is one of the instigators of an international campaign called AllTrials, which is designed to force researchers to publish all of their clinical trials. One drug he talks about is an antidepressant called reboxetine (branded as Edronax by its makers, Pfizer) that he used to prescribe to his patients. He says a couple of trials were published showing that this is as good for depression as any other drug. However, unpublished data, collected in trials involving three times as many people as participated in the published trials, showed it was not.

Something similar is true in the case of another class of antidepressant—selective serotonin-reuptake inhibitors (SSRIs), such as Prozac. These were introduced in the late 1980s, but it was not until 2006 that an analysis of all clinical-trial data on SSRIs, submitted to the FDA over the years, showed that their use by adolescents was associated with an increase in the risk of suicide. That fact might have been discovered earlier if all those data had been publicly available. An independent review in 2008 showed that 94% of published trials of SSRIs suggested they produced positive results, whereas this was the conclusion of only 51% of the (more numerous, but often unpublished) trials submitted to the FDA.

Even when no medical harm is done, fi- ▸▸

Trials and tribulations

Cumulative % of trials reported to ClinicalTrials.gov



Source: *New England Journal of Medicine* *National Institutes of Health

nancial harm can be. Since 2006, the British government has spent £424m ($660m) stockpiling Tamiflu, an antiviral drug, in order to anticipate an influenza pandemic. At the time the decision was taken, 60% of the trial data about this drug remained unpublished. Those data have now been analysed, and that analysis has raised questions about Tamiflu's effectiveness in reducing hospital admissions, and thus about whether creating the stockpile was money well spent.

Nor is it just drug trials that are plagued by non-publication. In 1994 a study on surgery for bowel cancer found that, among those whose tumours returned, a second visit to the operating theatre to remove the resurgent carcinoma made no difference to life expectancy. Had this information been made public then, rather than as it was in 2014, countless very ill patients could have been spared surgical procedures. Also, and just as importantly, the wider question of how useful repeat surgery of this sort is on other parts of the body would have been raised sooner.

Opening up

There are signs, though, that real change is afoot. AllTrials, and the groups behind it, such as Sense About Science, a British charity, have helped shape legislation that will regulate clinical trials in Europe when it comes into force in 2016. That law, like the existing American one, will require drug trials to be registered and their results to be published. In America, meanwhile, regulators are proposing to write rules that will clarify and extend the scope of the existing legislation, in order to remove the wriggle-room that has made them hard to enforce.

Another reason to think companies might actually toe the line this time around is that their shareholders are increasingly concerned about the missing data. Helena Viñes Fiestas, who studies companies' financial sustainability at BNP Paribas, a big bank, says many owners of drug-company shares support the push for publication, and are asking the firms in which they invest to publish plans that will make sure trials past, present and future are registered and their results reported.

Cynics may be surprised by this shareholder desire for transparency, since it could result in lower sales. But long-term investors would prefer the truth straight away, to reduce the level of risk in their portfolios. According Ms Viñes, around 30% of a drug company's value is tied to the results of trials.

There is also a more direct risk to firms that do not publish all their trial results. Between 2007 and 2014, the 21 large pharma companies that Ms Viñes follows incurred collective fines of $40 billion. Her studies showed that around half of this sum was a consequence of a lack of clear reporting of side effects, which are often missing because trials containing these sorts of data go unpublished.

Sense About Science is working on an index, to be published later this year, that will rate pharma firms according to the extent of their commitment to publish all trials. This will, no doubt, be of interest to shareholders.

The future, then, may be more transparent. But the past remains opaque. It is likely that most drugs in use today have a few skeletons in their cupboards, in the form of unpublished trials, but no one (except those who actually ran them) knows how many. A few firms have started to open their archives. GlaxoSmithKline has published the results of all trials completed since its formation (via a merger) in 2000. Pfizer, founded in 1849, goes back to 2007. Others, though, do nothing.

Earlier this year the Institute of Medicine, the national academy of America's doctors, said in a report that sharing data from old trials offers both risks and benefits, and should be considered case by case. One of the things the institute worried about was whether participants in old trials, which often happened before technological change made the question relevant, had given appropriate consent for the sort of sharing of their data which modern standards of transparency demand.

As that observation shows, digging up the past has its dangers. But the advantages of knowing the truth about past trials mean it is worth trying to overcome these. In any case, there is no excuse for not dealing with the trials of the future. Only if that is done will those such as Dr Crater, who perform the actual testing, be able to continue to look patients in the eye and tell them that their contribution really is making a difference. ■

Dementia

Flattening the slope

A glimmer of hope in the fight against a dreadful illness

ALZHEIMER'S disease is incurable, and only barely treatable. Drugs such as Aricept bring temporary relief, but nothing halts its onward march. There was therefore a lot of excitement, among researchers and journalists alike, in the lead-up to a lecture given on July 22nd at the Alzheimer's Association International Conference, in Washington, DC. The talk was entitled "Delayed Start Studies in the Assessment of Potential Disease Modifying Effect". Translated into English, that meant the researchers presenting the paper, who work for Eli Lilly, a big pharmaceutical company, thought they had come up with something which slows down the illness's progression.

Their something is an antibody, called solanezumab by its inventors, that sticks to beta amyloid. This is one of the proteins which contribute to the plaques and tangles of matter in the brain that are characteristic of the disease. The researchers hoped, when they began the study, that solanezumab might slow down plaque formation and give a patient extra years of lucidity.

When Lilly tested the drug in 2012, they found little evidence of success—except in those with mild, early-onset Alzheimer's, for whom there were hints that the progression of the disease had been slowed. But by extracting this group from the rest, and concentrating on them, the firm's scientists have discovered something more hopeful.

Their delayed-start trial worked like this. Three and a half years ago, the 1,300 qualifying patients were divided into two groups. One lot were put on solanezumab immediately. The others were given a placebo for the trial's first 18 months, and thereafter switched to the real thing, which they have now been taking for two years.

In cognitive tests that use a quantitative scale of dementia's effects, those in the delayed group fell behind the others in the months when they were on the placebo. Once they switched to the drug, their rate of decline slowed to match that of those who had been on treatment since the beginning. The antibody appeared, in other words, to be slowing the disease's progress. This is nowhere near a cure. It may, however, point the way to one. Perhaps a different antibody, or a combination, would have a greater effect.

Artificial vision

Seeing triple

Compound eyes like those of insects may help drones find their way around

GIVING sight to robots is an important goal, but a tricky one. Most attempts use cameras that produce the sort of image a human being is used to, and then apply computing power to simplify it (for example, by searching for the edges of objects) in ways that tell a robot what it needs to know (ie, do not blunder into that edge).

Dario Floreano of the Swiss Federal Institute of Technology, in Lausanne, has, however, taken a different approach. If simplicity is what is required, then simplicity is what needs to be supplied in the first place. Dr Floreano went to the natural world to look at a group of animals—the insects—that have often inspired robot-makers, with a view to copying the way that they organise vision. As he and his colleagues report in the *Journal of the Royal Society Interface*, the result is an artificial version of an insect's compound eye.

Insect eyes are made of thousands of hexagonal columns called ommatidia, each of which focuses light through a lens down a transparent tube called a rhabdom to a set of photosensitive cells at the bottom. Such eyes do not have the resolving power of single-lens vertebrate eyes, but they are far better at detecting motion. This is a particularly valuable skill when much of the world views you as lunch, and any moving object may thus be a threat. But it is also true, from the point of view of a moving animal, that the environment itself appears to be moving. The motion-detecting skills of ommatidia can be used to analyse this apparent movement.

Each of Dr Floreano's artificial ommatidia weighs a mere two milligrams. Each also has a tiny polymer lens that focuses light through a transparent glass stack (which stands in for the rhabdom), onto an array of three photodetectors arranged as an equilateral triangle. The stack has opaque walls, to stop light leaking into neighbouring stacks, so Dr Floreano's artificial ommatidia can, like natural ones, be bundled together to form compound eyes.

Natural ommatidia detect movement through a phenomenon called "optic flow". This is the pattern of apparent motion of objects in the visual field they are looking at, caused by the actual movement of the insect they are attached to. Objects close by, for example, will appear to move faster than more distant ones (think of the view from the window of a moving train). A predator will move at an angle to most other things in the field, so is easy to notice.

The idea of using optic flow for drone vision is not new, but Dr Floreano's approach certainly is. Previous attempts have employed either standard (albeit miniature) cameras, which suffer from the same initial-complexity problem as those that work by looking for edges, or unsophisticated ommatidia that are able to measure optic flow in only one direction (left-right, up-down, near-far) at a time.

One of these old-fashioned ommatidia works by pairing up with a neighbour to analyse movement along the axis between the pair. Linking the outputs of several nearby pairs, aligned in different directions, permits the optic flow of one part of the visual field to be analysed completely. In Dr Floreano's arrangement, by contrast, each of the vertices of the triangle of detectors inside a single ommatidium can pair with each of the others, to form three pairs in all, aligned at 120° to each other. A lone ommatidium is thus able to keep track (via some nifty computing) of everything going on, optic-flow-wise, in the part of the visual field it is pointing towards.

The team tested their new ommatidia by rotating them individually inside a room with patterned walls, and also by attaching an array of them to a wheeled platform that was sent travelling down a similarly patterned corridor. They measured the artificial eyes' outputs, and compared them with a calculation of what they thought these should have been, given the patterns on the walls and the speed at which the ommatidia were moving. The two matched well: the ommatidia were behaving as they should. That suggests the signals they were producing could be relied on to steer at least an earthbound robot, once the algorithms needed to interpret these signals have been perfected.

Tests on drones will follow. These will be constrained by the weight of the computer needed for the processing. But if that can be miniaturised, the researchers will have taken a useful step towards robot aircraft that can see where they are going. ■

The eyes have it

Science and justice

Looks could kill

Criminals with untrustworthy faces get harsher sentences

PEOPLE decide quickly how trustworthy a stranger is, based on what his face looks like. And experiments show that, regarding any particular individual, they generally come to the same conclusion. There really are, it seems, trustworthy and untrustworthy faces—though, surprisingly, there is little consensus among researchers as to whether someone whose face is deemed devious really is more likely to betray a trust. The perceivedly untrustworthy do, however, suffer for their phizogs. And a study published in this month's *Psychological Science* suggests that in extreme cases—in America at least—this suffering may be fatal.

John Wilson and Nicholas Rule, psychologists at the University of Toronto, looked at convicted murderers in the American state of Florida, which retains the death penalty. They selected 371 prisoners on death row and a further 371 who were serving life sentences. To avoid confounding variables, all those chosen were male and were either black or white (no Asians or other ethnic groups). Each sample included 226 white convicts and 145 black ones. A group of 208 volunteers whom Dr Wilson and Dr Rule had recruited were then invited to rate photographs of each convict's face for trustworthiness, on a scale of one to eight, where one was "not at all trustworthy" and eight was "very trustworthy".

The results of all this work revealed that the faces of prisoners who were on death row had an average trustworthiness of 2.76 and that those serving life sentences averaged 2.87. Not a huge difference, but one that was statistically significant (it, or something larger, would have happened by chance less often than one time in 100). That suggests untrustworthy-looking defendants are more likely to face a lethal injection, if convicted, than trustworthy-looking ones.

To show that this was not a result of people with untrustworthy faces actually committing more heinous (and therefore death-penalty-worthy) murders, Dr Wilson and Dr Rule also looked at the faces of those who had been convicted of murder, sentenced and then acquitted on appeal, usually on the basis of DNA evidence. These innocents, too, had more often been sentenced to death in their original trials if their faces were rated untrustworthy. In Floridian courts, at least, it seems that your face really is your fortune. ■

Looking for extraterrestrials

The optimistic gamble

A bold new programme financed by a Silicon Valley tycoon will revitalise the hunt for alien civilisations

IN 1959 a young astronomer called Frank Drake was working at the Green Bank radio observatory in West Virginia. Thinking about the capabilities of the 26-metre dish under construction there, he realised that, if it were used to transmit radio waves rather than to receive them, it would produce a signal that a similar telescope on a planet orbiting another star would be able to pick up. For the first time, human beings had a technology for communicating with other solar systems—an idea which led immediately to the speculation that, if there were any aliens out there, they might already be doing something similar.

Dr Drake put his idea to three colleagues over burgers at a nearby diner. Two were distinctly unimpressed. The third, a physicist of far-reaching interests called Lloyd Berkner, was enthusiastic. And since Berkner—who had a reputation as an "optimistic gambler", Dr Drake recalled in his memoirs—was the one who controlled the money, Dr Drake got to carry out his search. In 1960 he spent 150 hours pointing the Green Bank telescope at two nearby stars, Tau Ceti and Epsilon Eridani, and scanning for signals. Thus began the search for extraterrestrial intelligence, or SETI.

Five and half decades on, Dr Drake joined Stephen Hawking, a physicist, and Martin Rees, Britain's Astronomer Royal, to launch Breakthrough Listen, the latest incarnation of the search. It is an undertaking that would have seemed unbelievable back then. As of 2016, an unprecedented 15% of the observing time at Green Bank's latest dish—which at 100 metres across has 15 times the area of its first—will be devoted to seeking signals from aliens. Rather than looking at just two stars, Breakthrough Listen will observe the nearest 1m, as well as looking more generally in the core and disc of the Milky Way, and 100 other galaxies to boot. Later in 2016 the project will add the 64-metre dish at the Parkes Observatory, in Australia, to its workforce. In time, further observatories will be pressed into service. Back in 1960, Dr Drake could listen in to just one radio channel at a time. The new effort will use cutting-edge electronics to scan some 10 billion simultaneously.

Many such searches, most privately funded, have been attempted before. But Breakthrough Listen will have 50 times the sensitivity of any previous effort, will cover much more of both the sky and the radio spectrum, and will also use an optical telescope to search systematically for laser

Be seeing you...

transmissions, should they turn out to be E.T.'s preferred mode of discourse. All of the petabytes of resulting data will be freely available for anyone with an internet connection to analyse. The team behind Breakthrough Listen says it will do as much searching every day as any of the previous projects managed in a year.

Let the dice fly high

The optimistic gambler responsible for this new effort is Yuri Milner, a Russian entrepreneur and investor who has made a fortune in Silicon Valley. Mr Milner has a background in physics and a long-standing interest in space. Indeed, his parents named him after Yuri Gagarin—who, in the year of Mr Milner's birth, became the first human to orbit the Earth. In 2012 Mr Milner helped found the Breakthrough prizes, awarded to researchers who have helped answer big questions in biology, physics and maths. Convinced that the existence of extraterrestrial life is the biggest question of all, he has committed $100m over ten years to Breakthrough Listen.

Mr Milner reckons there are three reasons why the moment is right to go big on SETI. One is that *Kepler*, a space telescope run by NASA, has shown that there are a lot of potentially habitable planets out there. Geoff Marcy, an astronomer at the University of California, Berkeley, who will run Breakthrough Listen, says *Kepler*-based studies suggest that perhaps one star in ten has planets that are "Earth-sized and lukewarm"—not obviously too massive, too hot or too cold for vaguely Earthlike life.

The second reason is the relentless rise of signal-processing power. The ten-billion-channel system Dr Marcy is working on would have been impossible just a few years ago. That all of the resulting data can easily be made available to other scientists and enthusiastic amateurs is another sign of progress. Some 3m people already participate in the SETI@Home project, which lets people use spare computing time to sift through previous SETI data. Since the project has now linked up with Breakthrough Listen, more will surely join it. Free access to data will almost certainly generate false alarms, but Dr Marcy accepts that as part of the price of doing business.

A third motive for the push is that an unprecedented amount of time is now available on first-rate radio telescopes. Government-funded research has seen its purse-strings drawn tight recently, and instruments like that at Green Bank need new sources of income.

Nevertheless, hunting for aliens will always be a long-odds bet. Breakthrough Listen will surely discover some interesting pulsars, quasars and other, possibly novel, natural phenomena, but it could get through its $100m with no SETI results at all, and no clear sense of whether another $100m would be likely to change the matter. That, and the fear of ridicule from those who question the very notion of alien-hunting, has made governments reluctant to pay for SETI, despite its demonstrable appeal to many taxpayers.

Breakthrough Listen is not the only initiative that Mr Milner has in mind. It already has one offshoot, Breakthrough Message—a competition challenging people to create a message by which humans might announce themselves to the outside world. The prize fund for that is $1m, though as yet there is no promise any message will actually be transmitted. Mr Milner thinks there is a debate to be had before deciding on such a course of action.

And life in the universe is a question that can be approached in other ways. Mr Milner recently hired Pete Worden, a retired American air force general and an astronomer by training, to run his projects. Both at the Pentagon, where he worked on the "Star Wars" missile-defence programme, and as boss of the research centre that is home to *Kepler*, Mr Worden has championed small, innovative space missions. It seems likely, then, that future bids to answer Mr Milner's questions about life in the universe will employ a more *Kepler*-like approach—looking for promising nearby planets from orbit. As they say in SETI circles, watch this space. ■

Also in this section

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The evolution of growth

Multiplier effects

A physicist explains how order is born

Why Information Grows: The Evolution of Order, from Atoms to Economies. By César Hidalgo. *Basic Books; 232 pages; $26.99. Allen Lane; £20*

THE question seems basic, but economists have yet to find a comprehensive answer: why and how do economies grow? Additional capital and labour were long considered the main factors. Then the focus shifted to higher productivity and increased human capital, the knowledge embodied in members of society.

César Hidalgo tackles the question in another way. Economies grow, he says, because the information contained in them grows—not just in people's heads, but also in the social networks that connect everyone and even in the objects that populate the world. What is more, this ever-expanding pool of information did not start with humans, but dates back to the beginning of time. "[W]e are born from it, and it is born from us," he writes gnostically.

As such sweeping phrases make clear, adding to economic-growth theory is not the only goal motivating Mr Hidalgo, a statistical physicist who teaches at MIT's Media Lab and is a pioneer in visualisation tools, which extract meaning from piles of data. His aim is nothing less than to lay out a universal theory of information—one that applies to everything, from the lifeless to the living, and to all scales, from atoms to economies.

This may sound foolishly ambitious, but the heart of Mr Hidalgo's conceit is the way he defines information: it is not facts and the like, but physical order. To make his point, he compares birth with time travel: inside the womb the experience of modern babies is not much different from that of their fetal forebears 100,000 years ago. But outside, the world has changed completely, because matter is arranged differently, thanks to the information which has been accumulated over the intervening time.

Mr Hidalgo first asks how, in a universe that according to the laws of thermodynamics moves inexorably towards entropy and randomness, order—and hence information—is born and can grow. In the case of nature, he takes more than one page from the works of Ilya Prigogine and Erwin Schrödinger, two noted scientists, to suggest that order arises from chaos when a physical system is thrown out of kilter.

Think of a bathtub. Left alone, the water molecules move in random directions. But pull the plug and a whirlpool forms above the drain, so the water takes on a more ordered, information-rich state. Such "steady states of a non-equilibrium system", as physicists call them, are legion. In fact, Earth itself, because it is spinning around the sun, is a system that is constantly out of equilibrium—and is hence a pocket in which information is generated even though the universe around it is growing increasingly random.

When the water is gone, however, the whirlpool disappears: systems that move back to equilibrium lose the information contained in them. So to make information enduring and help it grow, nature has a few other tricks. Order can be stored in solids: DNA, for example. Physical systems can compute, and provide different outputs depending on, for instance, how much energy is provided as an input. In other words, Mr Hidalgo sees nature as a big computer that has been "growing" information for billions of years and whose physical incarnation is nature as we know it.

Humans are arguably the highest form of order thus created. And since they started roaming the planet, they have generated information themselves. In contrast with most other species, humans are able to turn their thoughts into tangible objects. They do this to share their knowledge and to augment their lives. And since their individual capacities are limited, they divvy things up and form ever more complex networks to co-operate. "Ultimately, the economy is the collective system by which humans make information grow," writes Mr Hidalgo.

If some countries are richer than others, he explains, it is because some economies are better than others at making information—and thus themselves—grow. Culture and institutions can be big obstacles. If members of a society do not easily trust each other, for instance, they will be less likely to form the networks that are necessary to share knowledge and know-how.

In the first chapters of "Why Information Grows" Mr Hidalgo succeeds brilliantly in bringing his complex subject to life. ▸▸

His book is also full of nuggets, from memorable phrases to interesting metaphors. He calls man-made objects "crystals of imagination". A "personbyte" is the maximum amount of knowledge any individual can carry. He wrecks an imaginary Bugatti Veyron with a sticker price of $2.5m to explain why atoms need to find their right place for any order to come about.

Yet, as the book goes on, there are fewer such highlights. The language grows more convoluted and the arguments patchier. Mr Hidalgo jumps quickly from atoms and cells to economies and societies, leaving the steps in between largely unexplained. He provides little in terms of policy recommendations other than unsurprising generalisations, for instance that to become richer economies must build institutions that help information grow. Strangely, he omits to discuss a crucial source of information: science. That may be because it complicates things. Humans do not just crystallise their imagination in physical objects—but in words and symbols, for example, so they can be widely shared.

At the end one is tempted to ask: might this be no more than an entertaining new way to look at the world, one that gives information God-like importance but has few practical consequences? It is not. Mr Hidalgo is on to something. But he should take more time off from the "overtravelled, overscheduled and overworked academic life" about which he complains in the acknowledgments and rewrite the second half of his book to fit the first. It could turn "Why Information Grows" from an interesting book into a great one. ■

Spain's golden age

Global power

Spain: The Centre of the World 1519-1682. By Robert Goodwin. *Bloomsbury; 587 pages; $40 and £30.*

HABSBURG Spain in the 16th century was the world's first global superpower, with an empire stretching east across most of Europe to the Philippines and India and west across the Atlantic to the Americas. It was an age of expansion and cultural efflorescence and ended with Spain's steep decline from which it never fully recovered.

Robert Goodwin's new book begins with the arrival in Seville in 1519 of the *Santa María*, the first ship to reach Europe from the newly conquered coast of Mexico, laden with such riches that "there was no other ballast than gold", and ends in 1682 with Juan Valdés Leal's gruesome painting "In Ictu Oculi" ("In the Twinkling of an Eye"), an allegory of death—and for the author a perfect symbol for the "end times" of Spanish imperialism.

Spanish spearhead

Mr Goodwin, a research fellow at University College London, has mined deep in the archives and produced a wealth of wonderfully evocative and offbeat detail that is both scholarly and accessible to the general reader. The most coveted office in the monarchy's Privy Chamber was Groom of the Stool, who attended on the king's defecation and looked after the royal chamber pot. The physical closeness naturally led this most intimate of courtiers to become someone in whom much confidence was placed and with whom many royal secrets were shared.

The author's cast of protagonists during this Counter-Reformation period when costly wars were waged against Protestant heretic enemies, most notably the Dutch, includes the chronically ill mystic St Teresa of Avila, who believed that every time she heard a thunderclap God was communicating with her soul, and Sister María de Ágreda, the closest confidante of Felipe IV, who claimed to be in two places at the same time (evangelising Indians while she was asleep). The Inquisition's torturers forced a strip of linen down a suspected heretic's throat, held the victim's mouth open by an iron plug and poured water slowly, causing a sensation of suffocation. The method was later abandoned in favour of more "merciful" treatment. Waterboarding was a scandal long before it came to the fore in the administration of George W. Bush.

In the most fascinating section, Mr Goodwin explores the paradox of a possible correlation between the artistic and literary splendours of the Golden Age and political decadence. As well as the imperial victories recorded in magnificent paintings, including Diego Velázquez's "The Surrender of Breda" and Titian's "Equestrian Portrait of Charles V" (pictured), there were the dark monk paintings of Francisco de Zurbarán, the plays of Lope de Vega, Tirso de Molina and Calderón de la Barca, the poetry of Góngora and the sacred made real in the lifelike images of Christ, carved in wood, for Holy Week processions in Seville, which today are a tourist attraction.

Mr Goodwin cleverly weaves into his own narrative the social observations in "Don Quixote" by Miguel de Cervantes, widely regarded as the father of the modern novel. Don Quixote's enthusiasm for the heroics of the romances of chivalry mirrors the great exploits of the Spanish in Europe and the New World, whereas his gradual disillusionment in the second part of the book could reflect a sense of decline.

Like Cervantes's hero, Spain's elite had become deluded and had lost touch with reality. By the end of the 17th century the empire had become overstretched on almost every front, while the vast quantities of precious metals pouring into Spain caused massive inflation. The fall in the value of these riches led to unpopular increases in taxation and massive borrowing to sustain the empire. The English and the Dutch were taking over; the new spur to globalisation was inter-imperial rivalry. ■

The economics of Africa

No fear to tread

Africa: Why Economists Get It Wrong. By Morten Jerven. *Zed Books; 160 pages; $21.95 and £14.99*

ECONOMISTS who study Africa use dodgy theory and inappropriate statistical techniques, and at times deliberately mislead. In an interesting and highly readable book, Morten Jerven, himself an economist of Africa at Simon Fraser University in Canada, pulls no punches. He offers a devastating critique of the economics profession and asks provocative questions. But he overstates his case and offers few practical solutions.

For decades people have tried to explain why Africa has stubbornly remained poor. Explanations range from the legacy of colonialism and dependency on natural resources to "some inherent character flaw". To show the relative importance of these factors, economists rely heavily on fancy statistical tests, crunching data from dozens of countries across many decades.

Mr Jerven dislikes this approach. It places too much trust in African data, much of which is horribly unreliable. In 2014 GDP growth in South Sudan was either 5% or 36%, depending on whether you believe the IMF or the World Bank. ▸▸

Estimates vary wildly because African industrial surveys are often out-of-date and many national-statistics bodies treat their economies as if they had not changed in decades.

You might presume that economists would hesitate before conducting even the simplest analysis of the continent. Not a bit of it: plenty of papers employ highly complex statistical techniques to make ambitious arguments. An influential paper by two economists from MIT and one from Harvard argues that income levels in African countries today were shaped by the rate at which colonial settlers died there centuries before. The paper suggests that when areas were disease-ridden, colonists would plunder all they could, then flee. The resulting chaos echoed down the centuries. But when the disease environment was benign, colonists would set up shop, creating a more harmonious society that laid the foundations for growth.

It is an entrancing argument; but Mr Jerven thinks it exemplifies all that is wrong with economists' views of Africa. If people cannot even be sure about African countries' GDP today, what hope for centuries-old data? Yet economists are rarely frank about the uncertainties that plague their data. And they make heroic assumptions to help their analysis along.

The MIT/Harvard paper, like much research on Africa, suffers from another flaw: it compresses centuries of history into whizzy statistical tests. This is something of a current fad. Recent contributions find that African countries' poverty today may be explained, for example, by the fact that in pre-colonial times the tsetse fly thrived there or that their pre-colonial populations could not digest milk. All this wacky economics ignores the complex history in between, he says, and so is of little value.

Here Mr Jerven overplays his hand. He bandies about the word "ahistorical", without saying what that really means. And economists seldom claim to have identified the only factor that determines Africa's income today. The point, rather, is to find the factors that have a systematic influence. That does not obviate the necessity of detailed historical work on individual countries; rather, the two approaches complement each other.

Another argument is also taken too far. Mr Jerven contends that the quest to explain why economic growth "has failed" in Africa is inherently misguided; such failure "never happened". During the 1950s, 1960s, 1990s and 2000s Africa grew rapidly. But economists like to focus on the weak growth of the 1970s and 1980s, leading them to discuss only why Africa has done badly, and never why it has done well.

It seems odd for Mr Jerven to put such weight on this point, given his views on the unreliability of African economic data. And economists will counter that even if the continent's GDP is now growing, Africa still has by far the highest level of infant mortality, the lowest life expectancy and the poorest education of any continent. Investigating why is a far-from-useless research question.

By the end of the book, the reader is at a loss. Mr Jerven's call for economists to "abandon" complex statistical analysis of Africa, instead to focus on "deep contextual studies of history and institutions", sounds appealing but is frustratingly vague. Yet as an introduction to African economics—particularly for non-specialists—his book is certainly worth reading. ■

France, a history

Citoyen, citoyenne

The History of Modern France: From the Revolution to the Present Day. By Jonathan Fenby. *Simon and Schuster; 536 pages; £25*

FRANCE breathes its history, and engraves the past on its landscape. No French town is complete without an Avenue Charles de Gaulle. The boulevards and train stations of Paris—the Gare d'Austerlitz, Avenue de la Grande Armée—recall great battles waged and won. In speeches modern politicians draw on France's past glories in a way that British leaders, say, might feel was an uncomfortable expression of national vanity. So it is always useful to take a fresh look at how history shapes the country's politics today.

Jonathan Fenby, *The Economist*'s correspondent in Paris in the early 1980s, is a veteran and affectionate observer of France, and a biographer of de Gaulle. In his latest book, he takes the long view, recounting the country's modern history, starting in 1789 and ending with the *Charlie Hebdo* terrorist attacks of January this year. The bulk of the book is a well-told narrative account, and so valuable primarily as a text of reference. But he is at his best when he teases out the tensions between the republican unifying ideal and the enduring divisions that periodically emerge to challenge the French nation.

Mr Fenby marshals evidence to suggest that the republican tradition, celebrated in so many French national rituals, is less deeply rooted than is commonly assumed. In doing so, he leans on an idea formulated by Sudhir Hazareesingh, an Oxford scholar, that France is an "unfinished republic". The secular republic, with its impulse to centralise, standardise and unify, has always collided with the fractious forces of rebellion, pitting secularists against Catholic traditionalists, Jacobins against royalists, left against right. For all its revolutionary mythology, the author writes, the nation has never "fully digested that heritage because it has never wanted to shed its other, more conservative character."

The myth of continual progress from the revolution onwards masks a bloody, disrupted history: 1830, 1848, 1871, 1940, 1968. Republican insurrectionists often embraced repression and conservatism. After the overthrow of the Orléans monarchy in 1848, it was a republican government that sent in the troops against the June revolt, resulting in some 10,000 dead or injured. "Society was cut in two," wrote Aléxis de Tocqueville. "Those who had nothing united in common envy; those who had anything united in common terror."

Indeed, Mr Fenby argues that in some ways national unity is a historical exception: under de Gaulle after liberation from Nazi occupation or during fleeting moments such as the post-*Charlie Hebdo* republican marches. Such experiences, he suggests, are "rare and bred by shock". More often, he writes, division, disillusion and conservatism impede constructive compromise. Even the unity expressed on the streets after the *Charlie Hebdo* terrorist attacks fell apart because of a feeling in the country's *banlieues*, or suburban housing estates, that freedom of expression and French secular principles—entrenched to contain the influence of the Catholic church—were a licence for offending Islam.

Perhaps inevitably, after this gallop through more than two centuries of history, the section on the past 20 years feels rushed and a bit jumpy. Rioting that took place in 1997, for example, merges into rioting in 2005, as if the *banlieues* were alight, on and off, all the time. A more analytical text on the same period, and on which this new book directly draws, is the updated version of Mr Fenby's own previous work, "On the Brink". It was first published in 1998, but still rings true today. ■

How Shiism evolved

Powers of persuasion

The Emergence of Modern Shiism: Islamic Reform in Iraq and Iran. By Zackery Heern. *Oneworld; 220 pages; $30 and £20*

WHENEVER the non-Islamic world has confronted the Muslim one, militant movements have arisen from within that impeded crusty regimes from seeing off the external threat. Under attack from Crusaders in the west and Mongols in the east in the early medieval period, jihadist groups and firebrand preachers turned on heterodoxy in the ranks. Saladin overthrew the Shia imamate in Cairo and set troops on the Crusaders. He also established law schools that reduced multiple legal interpretations into rigid codes. In the 13th century Taqi al-Din Ibn Taymiyya, a Sunni scholar in Damascus, adopted the notion of *takfir*, denouncing as apostates Muslims whom he deemed wayward, a crime punishable by death.

Five centuries later, buffeted by Western colonial military and economic might, a crop of Muslim movements turned on their distant all-encompassing Ottoman, Safavid and Mughal overlords in much the same way. Muhammad Ibn Abd al-Wahhab (1703-92) sought to purify Islam of its 1,000-year-old accretions, and eradicate manifestations of what he deemed to compromise the Prophet Muhammad's unalloyed monotheism. His fighters turned on Shia shrines in Iraq, and briefly wrested Mecca from the Ottomans.

Ahmad Ibn Idris (1760-1837) sought to suppress the more eccentric expressions of Sufism, or Islamic mysticism, and re-establish an orthodox line, spawning brotherhoods that revolted against the Italians in Libya and the British in Egypt and Sudan. And Wahid Bihbihani (1704-91) revived and refashioned the waning Usuli school of Shiism, as the Ottoman and Safavid empires lost control of Iran and Iraq. His followers, as expositors of God's word, arrogated immense powers to themselves; in 1979 one of them, Ayatollah Ruhollah Khomeini, turned Iran into a theocracy.

Zackery Heern, an American academic, is primarily concerned with the Shias, Islam's second-largest denomination after the Sunnis. But he refreshingly teases out the parallels between the three movements, rather than their differences as most other commentators have done. He notes, in particular, their shared intolerance of alternatives in their pursuit of a single path to truth. "Sectarianism notwithstanding," he writes, "Wahhabis, Idrisis and Usulis did have a common enemy in popular Sufism and each movement sought to suppress popular rituals that were thought to be un-Islamic."

Historians term the new movements, somewhat kindly, "revivalist". Certainly all three upheld the right to challenge and reinterpret tradition afresh. Both the Wahhabis and the Usulis (unlike their Shia rivals, the Akhbaris) clung to their right to exercise *ijtihad*, or independent legal reasoning, rather than reliance on precedent. But whereas the Wahhabis limited *ijtihad* to interpretation of the sacred texts, Usulis insisted they could deduce rulings from rational arguments as well. Ibn Idris, the Sufi, relied on his intuition to revisit old texts.

But having arrogated the right to interpret God's word anew, they and, even more so, their successors were viciously hungry to exercise the power that gave them, making them no less terrifying to their detractors than Abu Bakr al-Baghdadi's Islamic State is today. Then, as now, their followers filled the spaces left by despots reeling in the face of Europe's technological, military and economic advances. As European merchant shipping sucked trade and revenues from ancient overland routes, uppity tribesmen looked to rebellious clerics to help slough off their tax-farming oppressors appointed by a distant central state.

The Ayatollahs raised their own private armies and taxation systems and inspired the mass conversion of Iran and Iraq to Shiism. Throughout the 19th century they built up their own power base, accepting the state when it did their bidding and slaughtering rivals and apostates. When the state resisted them under the Shah, they overthrew it. Two centuries after the death of the three revivalists, their legacies continue to shake the Middle East. ■

New film

Boxed in

"Southpaw" is being touted as the new "Raging Bull". Sadly, it is not

BOXING is Hollywood's favourite sport. Baseball and basketball may be contenders, but it is boxing that has the violence, the theatricality and the winner-takes-all simplicity which underpin so much of American cinema—hence its central place in films from "Body and Soul" and "Raging Bull" to such recent award-winners as "Million Dollar Baby" and "The Fighter".

How, then, can a new boxing drama do anything that hasn't been done countless times before? "Southpaw", directed by Antoine Fuqua ("Training Day") and written by Kurt Sutter (creator of "Sons of Anarchy"), appears to have solved this problem by starting where its predecessors finish. Its hero, Billy Hope (Jake Gyllenhaal), is already a world champion at the start of the film. He is married to his childhood sweetheart (Rachel McAdams), and they live with their daughter in a mansion bigger than most Loire chateaux. The intriguing question is whether Billy will retire while he is still relatively *compos mentis*, or whether he will sign the $30m contract which his manager (Curtis "50 Cent" Jackson) is waving under his broken nose.

Where's the beef?

But then "Southpaw" switches direction. With improbable speed, Billy loses everything—wife, daughter, fortune, boxing licence—and the film's originality slips away. Like a thousand previous big-screen prizefighters, Billy slopes to a down-at-heel neighbourhood gym, he works with a wise old trainer (Forest Whitaker), and he prepares, via the usual montages, for a comeback bout against an evil antagonist. The worst thing about these fall-and-rise clichés is that even the director seems embarrassed by them. He hurries through the stages of Billy's redemption, final bout included, as if he doesn't feel that any of them is worth dwelling on for long.

The desultory melodrama is a waste of Mr Gyllenhaal. The actor has turned himself into a bestial, brutally muscled brawler who, if he fancied a snack, would bite off your ear. He is said to have put immense time and effort into this extraordinary transformation, and it shows. But it is hard to see signs of the same enthusiasm from Mr Fuqua or Mr Sutter. Should have tried harder.

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Appointments

Transforming Ideas into Impact

GLOBAL INNOVATION FUND

New Board Members

The Global Innovation Fund (GIF) intends to appoint new board members. They will join a group of directors who already encompass public, private, and third sectors in experience. They will help guide GIF in bringing new capital, both intellectual and financial, to the improvement of the lives of the world's poorest people.

GIF is a $200 million joint initiative of the international development departments of the governments of the UK, US, Australia, Sweden and in partnership with the Omidyar Network. Its mission is to support the development and rigorous testing of innovations that will benefit people living on less than $5 a day. It will also help successful innovations to achieve impact at scale. GIF defines 'innovation' broadly to include new business models, policy practices, technologies, behavioural insights, or ways of delivering products and services that benefit the poor in developing countries, in short any solution that has potential to address an important development problem more effectively than existing approaches. GIF supports innovations based on a judgment of their impact, potential to scale, rigorous metrics of success, and the quality of their teams. These investments are divided among innovations at three stages of their evolution: pilot; test and transition; and scaling up.

Please read more about GIF here **http://www.globalinnovation.fund/**

The Board is seeking to add up to three new members: one with a predominantly public sector background; one with an investment, finance, audit, or compliance background, to chair the Audit and Finance Committee; and one from a civil society context. Female candidates and those from the global south are particularly encouraged to apply. In addition, candidates should bring clarity of thought and expression and the ability to be fully engaged board members, with a clear appreciation of the proper role of the non-executive.

GIF has retained Russell Reynolds Associates to assist with this appointment. For further information on the position and additional details on qualifications, requirements, terms and conditions of service and how to apply, please visit: **www.rraresponses.com**

The closing date for applications is 9th August 2015.

Russell Reynolds ASSOCIATES

Tenders

The Federal Democratic Republic of Ethiopia
Ministry of Industry

Call for proposals – Ethiopian National Cotton Development Strategy (2015-2030)

The Ministry of Industry of the Federal Democratic Republic of Ethiopia, in collaboration with its partners, would like to develop a national cotton development strategy and roadmap. The strategy is expected to provide an overall framework that captures the current situation (globally and domestically) and the gaps to be bridged for future prospects, vision, goals, strategies and programs, all to be implemented over 15 years to support Ethiopia becoming a middle-income country by 2025.

The study will be carried out in two stages: (a) an initial scoping phase; and (b) development of a sustainable cotton development strategy for Ethiopia, including an implementation roadmap. The assignment, which requires international and national expertise, will be completed by 31 January 2016.

The Ministry of Industry invites eligible organisations to submit proposals to carry out this work to the Private Enterprise Programme Ethiopia (PEPE).

Interested organisations may obtain the detailed terms of reference for this work by contacting **cottonstrategyethiopia@pepeteam.org**

Deadline for applications: 14 August 2015

INTERNATIONAL TRIBUNAL FOR THE LAW OF THE SEA

TRIBUNAL INTERNATIONAL DU DROIT DE LA MER

The International Tribunal for the Law of the Sea, an international court with its seat in Hamburg, Germany, has the following vacancy:

Senior Translator/Reviser (French into English) - Head of Linguistic Services (P-5)

For qualifications and experience required, as well as further details, please see the vacancy announcement on the Tribunal's website (www.itlos.org).

CGIAR | RESEARCH PROGRAM ON Water, Land and Ecosystems

LED BY: IWMI International Water Management Institute

Program Director

CGIAR Research Program on Water, Land and Ecosystems (WLE)

WLE promotes an innovative approach to sustainable intensification in which a healthy functioning ecosystem is seen as a prerequisite to agricultural development, resilience of food systems and human well-being. The program is a long-term, multi-partner initiative led by the International Water Management Institute (IWMI) and is part of the CGIAR Consortium's constellation of research programs which strive for a food-secure future.

WLE is looking for an experienced global leader in the agriculture and natural resource management sector, who has a clear vision of how agricultural production can contribute to healthy ecosystems, and vibrant and inclusive economic growth in the developing world. The candidate should have strong scientific credentials, and experience in partnership development, and in guiding research towards outcomes and wider-scale development impact.

The position holder will be based at IWMI headquarters in Colombo, Sri Lanka.

Closing date: **August 23, 2015**

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Tenders

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CORPORATE CONTRACTS, NOIDA

Invitation for Bids (IFB) for Long Term Procurement of Imported Coal on CIF Basis for Pudimadaka Super Thermal Power Project (4000 MW) Distt. Visakhapatnam, State of Andhra Pradesh, India (International Competitive Bidding)

IFB No.: 40040902 Date: 20.07.2015

NTPC invites online bids on Single Stage Two Envelope Bidding basis **(Envelope I: Techno-Commercial Bid & Envelope II: Price Bid)** with **Reverse Auction** from eligible bidders for aforesaid package.

Bidding documents shall be on sale from **21.07.2015** to **24.08.2015**. Bids (both Techno-Commercial Bid and Price Bid) shall be received upto **1400 Hrs. (IST)** on **07.09.2015. Techno-Commercial Bid will be opened on 07.09.2015 at 1430 Hrs. (IST).** The date & time of opening of Envelope-II (Price Bid) shall be intimated separately.

For the detailed IFB and bidding documents please visit at **https://etender.ntpclakshya.co.in** or **www.ntpctender.com** or **www.ntpc.co.in** or may contact **AGM (CS-III) or Dy. Manager (CS-III), NTPC Limited, 6th Floor, Engineering Office Complex, Plot A-8A, Sector-24, Noida, Distt. Gautam Budh Nagar, Uttar Pradesh, India, Pin–201301 on Tel. No. +91-120-4946604/2410578/4948630, Fax No.: +91-120-2410215/2410011 or at email: aksingh38@ntpc.co.in/ mohan02@ntpc.co.in.**

Registered Office: NTPC Bhawan, SCOPE Complex, 7, Institutional Area, Lodhi Road, New Delhi-110003, **CIN:** L40101DL1975GOI007966.

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LEI | GLOBAL LEGAL ENTITY IDENTIFIER FOUNDATION

Call for Applications to the Board of Directors

The Global Legal Entity Identifier Foundation (GLEIF) was established as a not-for-profit foundation under Swiss law by the Financial Stability Board in June 2014. The purpose of the Foundation is to support the implementation of the global LEI system for the broad public good. The LEI will provide unique identification of parties to financial transactions. The global LEI system is a key 'building block' to support improvements in the financial data infrastructure.

Article 13 of the GLEIF Statutes sets out the recruitment principles that must be observed with regard to the composition of the Board. Applicants will demonstrate, among other things, executive experience in one of the following sectors: data or technology, financial or nonfinancial industry, not-for-profit organizations such as NGOs or academia.

Board Members are expected to act on an unpaid basis and are entitled only to reimbursement of their effective costs and travel expenses. For more information, please visit **www.gleif.org**. Applications are invited to **boardapplication@gleif.org** by Friday, 28 August 2015 Basel time.

Economic and financial indicators

Economic data

% change on year ago

	Gross domestic product latest	qtr*	2015†	Industrial production latest	Consumer prices latest	2015†	Unemployment rate, %	Current-account balance latest 12 months, $bn	% of GDP 2015†	Budget balance % of GDP 2015†	Interest rates, % 10-year gov't bonds, latest	Currency units, per $ Jul 22nd	year ago
United States	+2.9 Q1	-0.2	+2.3	+1.3 Jun	+0.1 Jun	+0.4	5.3 Jun	-406.4 Q1	-2.6	-2.5	2.36	-	-
China	+7.0 Q2	+7.0	+6.9	+6.8 Jun	+1.4 Jun	+1.4	4.1 Q1§	+288.2 Q1	+3.0	-2.7	3.19§§	6.21	6.21
Japan	-0.9 Q1	+3.9	+1.0	-3.9 May	+0.5 May	+0.8	3.3 May	+89.0 May	+2.4	-6.8	0.42	124	101
Britain	+2.9 Q1	+1.5	+2.4	+2.1 May	nil Jun	+0.3	5.6 Apr††	-180.5 Q1	-4.8	-4.4	2.20	0.64	0.59
Canada	+2.1 Q1	-0.6	+1.6	-2.1 Apr	+1.0 Jun	+1.2	6.8 Jun	-42.2 Q1	-2.9	-1.8	1.54	1.30	1.07
Euro area	+1.0 Q1	+1.5	+1.5	+1.6 May	+0.2 Jun	+0.2	11.1 May	+305.9 May	+2.5	-2.1	0.75	0.92	0.74
Austria	+0.3 Q1	+0.7	+0.6	+0.8 Apr	+1.0 Jun	+1.0	6.0 May	+6.5 Q1	+1.4	-2.1	1.04	0.92	0.74
Belgium	+0.9 Q1	+1.3	+1.3	-1.1 Apr	+0.6 Jun	+0.4	8.6 May	+12.1 Mar	+1.2	-2.6	1.09	0.92	0.74
France	+0.8 Q1	+2.5	+1.2	+2.8 May	+0.3 Jun	+0.3	10.3 May	-10.5 May‡	-0.8	-4.1	1.08	0.92	0.74
Germany	+1.0 Q1	+1.1	+1.7	+2.2 May	+0.3 Jun	+0.5	6.4 Jun	+278.1 May	+7.5	+0.7	0.75	0.92	0.74
Greece	+0.2 Q1	-0.7	+0.5	-4.0 May	-2.2 Jun	-1.0	25.6 Apr	+2.7 May	+2.6	-3.8	12.05	0.92	0.74
Italy	+0.1 Q1	+1.2	+0.6	+3.0 May	+0.2 Jun	+0.2	12.4 May	+45.0 May	+2.1	-2.9	1.95	0.92	0.74
Netherlands	+2.5 Q1	+2.3	+1.9	+2.1 May	+1.0 Jun	+0.4	8.8 Jun	+91.4 Q1	+9.7	-1.8	0.96	0.92	0.74
Spain	+2.6 Q1	+3.8	+2.9	+1.8 May	+0.1 Jun	-0.3	22.5 May	+14.1 Apr	+0.7	-4.4	2.11	0.92	0.74
Czech Republic	+4.0 Q1	+10.5	+3.1	+2.1 May	+0.8 Jun	+0.3	6.2 Jun§	+0.8 Q1	-0.3	-1.8	1.13	24.7	20.4
Denmark	+1.5 Q1	+2.0	+1.7	-3.2 May	+0.7 Jun	+0.6	4.8 Apr	+21.9 May	+6.0	-2.9	0.92	6.83	5.54
Norway	+1.5 Q1	+1.0	+0.8	+5.1 May	+2.6 Jun	+1.5	4.2 Apr‡‡	+39.3 Q1	+9.8	+6.2	1.69	8.16	6.19
Poland	+3.7 Q1	+4.1	+3.4	+7.6 Jun	-0.8 Jun	+0.2	10.8 May§	-1.2 May	-1.5	-1.5	2.90	3.77	3.07
Russia	-2.2 Q1	na	-3.6	-4.7 Jun	+15.3 Jun	+14.7	5.4 Jun§	+68.7 Q2	+4.3	-2.8	10.52	57.3	35.0
Sweden	+2.6 Q1	+1.5	+2.6	+3.3 May	-0.4 Jun	+0.2	8.0 May§	+38.1 Q1	+6.2	-1.2	0.81	8.60	6.85
Switzerland	+1.1 Q1	-0.8	+0.7	-0.5 Q1	-1.0 Jun	-1.0	3.3 Jun	+53.7 Q1	+7.9	+0.2	0.03	0.96	0.90
Turkey	+2.3 Q1	na	+2.8	+0.5 May	+7.2 Jun	+7.3	9.6 Apr§	-44.7 May	-4.6	-1.6	9.45	2.71	2.11
Australia	+2.3 Q1	+3.8	+2.4	+2.8 Q1	+1.5 Q2	+1.7	6.0 Jun	-41.9 Q1	-3.2	-2.4	2.90	1.36	1.06
Hong Kong	+2.1 Q1	+1.5	+2.4	-1.6 Q1	+3.2 Jun	+3.2	3.2 Jun‡‡	+6.1 Q1	+2.8	nil	1.92	7.75	7.75
India	+7.5 Q1	+11.0	+7.6	+2.7 May	+5.4 Jun	+5.4	4.9 2013	-27.5 Q1	-1.0	-4.1	7.83	63.6	60.1
Indonesia	+4.7 Q1	na	+4.9	+8.2 May	+7.3 Jun	+6.2	5.8 Q1§	-25.2 Q1	-2.9	-2.0	8.29	13,413	11,517
Malaysia	+5.6 Q1	na	+5.5	+4.5 May	+2.5 Jun	+2.6	3.0 Apr§	+11.3 Q1	+3.4	-4.1	3.92	3.81	3.18
Pakistan	+5.5 2015**	na	+5.7	+5.9 May	+3.2 Jun	+4.2	6.0 2014	-2.3 Q2	-0.6	-5.1	9.65†††	102	98.8
Philippines	+5.2 Q1	+1.2	+6.6	-3.1 May	+1.2 Jun	+2.6	6.4 Q2§	+14.5 Mar	+4.1	-1.9	4.38	45.3	43.3
Singapore	+1.7 Q2	-4.6	+3.1	-2.4 May	-0.4 May	+0.4	1.8 Q1	+66.3 Q1	+21.3	-0.7	2.65	1.37	1.24
South Korea	+2.2 Q2	+1.2	+2.9	-2.8 May	+0.7 Jun	+1.0	3.9 Jun§	+98.0 May	+7.5	+0.4	2.43	1,157	1,025
Taiwan	+3.4 Q1	+2.7	+3.7	-3.5 May	-0.6 Jun	+0.3	3.8 Jun	+72.4 Q1	+12.7	-1.2	1.49	31.2	30.0
Thailand	+2.2 Q4	+7.1	+3.6	-7.6 May	-1.1 Jun	+1.1	0.9 May§	+16.1 Q1	+2.3	-2.0	2.53	34.7	31.8
Argentina	+1.1 Q1	+0.8	-0.4	-0.9 May	— ***	—	7.1 Q1§	-6.0 Q1	-1.5	-3.1	na	9.17	8.17
Brazil	-1.6 Q1	-0.6	-1.5	-8.9 May	+8.9 Jun	+8.4	6.7 May§	-93.1 Jun	-4.2	-5.5	12.47	3.22	2.21
Chile	+2.4 Q1	+4.2	+2.9	-1.3 May	+4.4 Jun	+3.8	6.6 May§‡‡	-1.3 Q1	-1.3	-2.0	4.53	654	565
Colombia	+2.8 Q1	+3.3	+3.4	-3.9 May	+4.4 Jun	+4.1	8.9 May§	-20.7 Q1	-6.5	-2.1	7.05	2,790	1,846
Mexico	+2.5 Q1	+1.6	+2.7	-0.9 May	+2.9 Jun	+3.0	4.4 May	-25.5 Q1	-2.3	-3.4	6.04	16.1	12.9
Venezuela	-2.3 Q3	+10.0	-4.2	na	+68.5 Dec	+76.4	7.9 Jan§	+10.3 Q3	-1.8	-16.5	11.43	6.31	6.35
Egypt	+4.3 Q4	na	+4.2	+0.2 May	+11.4 Jun	+9.9	12.8 Q1§	-10.2 Q1	-1.4	-11.0	na	7.83	7.15
Israel	+2.2 Q1	+2.0	+3.4	-1.5 May	-0.4 Jun	-0.2	5.0 May	+11.7 Q1	+4.8	-2.9	2.44	3.82	3.42
Saudi Arabia	+3.5 2014	na	+2.7	na	+2.2 Jun	+2.7	5.7 2014	+81.2 Q4	-2.4	-12.1	na	3.75	3.75
South Africa	+2.1 Q1	+1.3	+2.0	-0.4 May	+4.7 Jun	+4.9	26.4 Q1§	-18.7 Q1	-5.2	-3.8	8.11	12.4	10.6

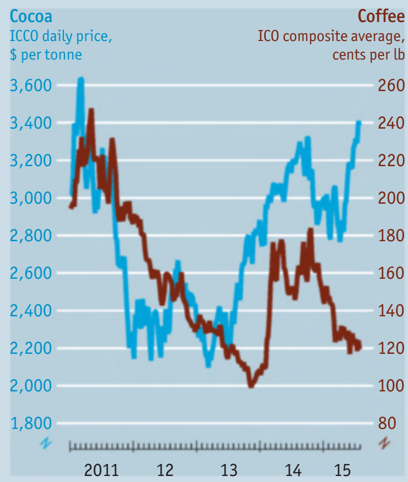
Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, June 26.7%; year ago 39.46% †††Dollar-denominated bonds.

Markets

	Index Jul 22nd	% change on one week	% change on Dec 31st 2014 in local currency	% change on Dec 31st 2014 in $ terms
United States (DJIA)	17,851.0	-1.1	+0.2	+0.2
China (SSEA)	4,218.3	+5.8	+24.5	+24.3
Japan (Nikkei 225)	20,593.7	+0.6	+18.0	+14.1
Britain (FTSE 100)	6,667.3	-1.3	+1.5	+1.8
Canada (S&P TSX)	14,307.1	-2.4	-2.2	-13.1
Euro area (FTSE Euro 100)	1,207.4	+0.5	+16.4	+4.8
Euro area (EURO STOXX 50)	3,635.6	+0.3	+15.5	+4.0
Austria (ATX)	2,521.6	+0.9	+16.7	+5.1
Belgium (Bel 20)	3,806.1	+0.5	+15.9	+4.3
France (CAC 40)	5,082.6	+0.7	+19.0	+7.1
Germany (DAX)*	11,520.7	-0.2	+17.5	+5.8
Greece (Athex Comp)	797.5**	nil	-3.5	-13.1
Italy (FTSE/MIB)	23,681.1	+1.2	+24.6	+12.1
Netherlands (AEX)	496.1	-0.2	+16.9	+5.2
Spain (Madrid SE)	1,166.0	+1.4	+11.8	+0.7
Czech Republic (PX)	1,036.4	+2.5	+9.5	+1.0
Denmark (OMXCB)	911.6	+0.9	+35.0	+21.3
Hungary (BUX)	22,374.2	+0.4	+34.5	+24.1
Norway (OSEAX)	688.6	-0.5	+11.1	+1.9
Poland (WIG)	51,698.1	-2.0	+0.5	-5.5
Russia (RTS, $ terms)	901.8	-0.8	+8.5	+14.0
Sweden (OMXS30)	1,621.3	+1.2	+10.7	+0.6
Switzerland (SMI)	9,289.3	-0.3	+3.4	+6.8
Turkey (BIST)	81,222.4	-1.8	-5.2	-18.3
Australia (All Ord.)	5,603.5	-0.3	+4.0	-6.1
Hong Kong (Hang Seng)	25,282.6	+0.9	+7.1	+7.2
India (BSE)	28,504.9	+1.1	+3.7	+2.9
Indonesia (JSX)	4,906.7	+0.8	-6.1	-13.1
Malaysia (KLSE)	1,729.5	+0.1	-1.8	-9.5
Pakistan (KSE)	36,056.7	+1.0	+12.2	+10.7
Singapore (STI)	3,359.2	+0.6	-0.2	-3.2
South Korea (KOSPI)	2,064.7	-0.4	+7.8	+2.7
Taiwan (TWI)	8,918.7	-1.5	-4.2	-2.9
Thailand (SET)	1,447.8	-2.6	-3.3	-8.2
Argentina (MERV)	11,682.3	-5.0	+36.2	+25.8
Brazil (BVSP)	50,915.8	-3.8	+1.8	-15.8
Chile (IGPA)	18,896.7	-0.4	+0.1	-6.9
Colombia (IGBC)	9,960.6	-1.3	-14.4	-27.1
Mexico (IPC)	44,670.4	-1.0	+3.5	-5.1
Venezuela (IBC)	15,015.7	-1.9	+289	na
Egypt (Case 30)	8,087.2	+2.6	-9.4	-17.3
Israel (TA-100)	1,466.2	+1.1	+13.8	+15.9
Saudi Arabia (Tadawul)	9,381.0	+0.5	+12.6	+12.6
South Africa (JSE AS)	51,977.6	-1.1	+4.4	-2.4

Commodity prices

In contrast to most other commodities, cocoa prices are rising, by nearly a quarter in three months. Consumption is forecast to be 30% higher by 2020, as rising incomes, particularly in Asia, enable more people to enjoy chocolate. Production, mostly by small-scale farmers in West Africa, will struggle to keep pace, because of insufficient use of fertiliser and meagre investment in new trees. Coffee prices, in contrast, have fallen. Output has recovered in Brazil after a drought there, and is at a 20-year high in Colombia after replantings. Demand is rising modestly in established markets, although a move to single-serving pod machines is boosting the value of each cup consumed.



Sources: ICCO; ICO

Other markets

	Index Jul 22nd	% change on one week	% change on Dec 31st 2014 in local currency	% change on Dec 31st 2014 in $ terms
United States (S&P 500)	2,114.2	+0.3	+2.7	+2.7
United States (NAScomp)	5,171.8	+1.4	+9.2	+9.2
China (SSEB, $ terms)	368.5	+9.8	+26.9	+26.7
Japan (Topix)	1,655.4	+0.5	+17.6	+13.7
Europe (FTSEurofirst 300)	1,586.5	nil	+15.9	+4.3
World, dev'd (MSCI)	1,766.6	-0.1	+3.3	+3.3
Emerging markets (MSCI)	931.1	-0.7	-2.6	-2.6
World, all (MSCI)	428.4	-0.1	+2.7	+2.7
World bonds (Citigroup)	860.4	+0.2	-4.6	-4.6
EMBI+ (JPMorgan)	701.7	+0.1	+1.4	+1.4
Hedge funds (HFRX)	1,241.1§	+0.2	+1.9	+1.9
Volatility, US (VIX)	12.1	+13.2	+19.2	(levels)
CDSs, Eur (iTRAXX)†	61.2	-5.4	+2.8	-7.5
CDSs, N Am (CDX)†	68.5	+1.9	+1.7	+1.7
Carbon trading (EU ETS) €	8.0	+2.3	+9.0	-1.9

Sources: Markit; Thomson Reuters. *Total return index. †Credit-default-swap spreads, basis points. §Jul 21st. **Jun 26th.

Indicators for more countries and additional series, go to: **Economist.com/indicators**

The Economist commodity-price index

2005=100

	Jul 14th	Jul 21st*	% change on one month	% change on one year
Dollar Index				
All Items	144.7	142.0	-0.1	-13.7
Food	170.2	165.1	+2.6	-8.0
Industrials				
All	118.2	117.9	-3.8	-20.8
Nfa†	120.1	119.0	-5.3	-16.1
Metals	117.4	117.5	-3.2	-22.6
Sterling Index				
All items	169.0	165.9	+0.9	-5.4
Euro Index				
All items	163.6	161.4	+2.1	+6.3
Gold				
$ per oz	1,155.6	1,107.7	-6.0	-15.2
West Texas Intermediate				
$ per barrel	52.8	50.5	-17.2	-51.5

Sources: Bloomberg; CME Group; Cotlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional †Non-food agriculturals.

Buzz, buzz

Burt Shavitz, co-founder of Burt's Bees, died on July 5th, aged 80

SETTLING back in his rocking chair, feet spread to feel the heat of the stove, Burt Shavitz liked to reflect that he had everything he needed. A piece of land first: 40 acres of it, fields and woods, on which he could watch hawks and pine martens but not be bothered, with luck, by any human soul. Three golden retrievers for company. A fine wooden house, 20 feet wide by 20 feet deep, once a turkey coop but plenty spacious enough for him. From the upper storey he could see glorious sunsets, fire off his rifle at tin cans hanging in a tree, and in winter piss a fine yellow circle down onto the snow, and no one would care.

As the co-founder of Burt's Bees, he could have been a multimillionaire. He had once held a third of the cosmetic company's stock, valued in 2003 at $77m; he had surrendered it a decade earlier for property worth $130,000. In 2007 Clorox, a big corporation famous mostly for bleach, bought Burt's Bees for a sum just shy of $1 billion. A fortune moulded originally from his honey and his beeswax allowed the other co-founder, Roxanne Quimby, once his lover, to purchase 100,000 acres of Maine to return them to their pristine wildness. His romantically bearded younger face, in battered hat, still graced the little tins of hand salve that would set you back $8.99 in Walgreens. But what would he ever want all that money for? He had his corner, and was content.

His dream was to earn just enough to live a simple life. His idea of business, before he met Roxanne, was to load his yellow pickup with honey from his bees in old quart pickle jars, park it beside Route 7 just out of Dexter, Maine, and see who chanced past. He was thought an independent cuss locally, given to swearing and bad manners, but he still sold enough honey—in the months between July 4th and the start of hunting season, before cold weather thickened the product—to pay his property tax, vehicle registration and lighting bill, and buy enough to eat.

Into the wilds

Bees were a marvel that way. They were the sort of livestock even a New Yorker could manage, for that, despite appearances, was what he was. He had been born in Manhattan and in the 1960s became a photographer there, snapping Black Muslim rallies and dandified drug-dealers on the Bowery, while growing steadily disenchanted with city life. A series of pictures of Harlem children showed them caged by metal bars and wire-mesh fences, spending their lives amid macadam and cement. He photographed the old woman who lived opposite his apartment, on 92nd and Third, staring sadly from a frame of lace curtains; she never left that room. At that point he decided to throw his books and a horsehair mattress into a camper van, and leave for the wilds.

He had almost no money and certainly no ambitions. Beekeeping saved him from a hobo's existence. He did not even pay for his bees; he found a swarm on a fencepost as he was driving into Maine, and took it as a good omen. A friend in upper New York State had taught him beekeeping and given him a hive, gloves, mask and smoker, so all he had to do was house the swarm and scatter the hives through the woods around Dexter. And then the honey kept coming. No more hassle until the spring day in 1984 when he picked up the pretty, hippie Roxanne, hitchhiking to her waitressing job at the Dexter Motor Lodge, and everything changed.

They never lived together. That was as well, for the turkey coop was smaller in those days, and Roxanne would have filled it to bursting with her enterprises. He had 200lb of beeswax sitting about with no obvious purpose; she turned it into candles, furniture polish (which didn't sell), lip balm (which sold wildly), hand lotion, even ornaments for the Christmas tree. Together they went to craft fairs all over Maine, he tetchily, she bustling and bright and overflowing with ideas. By 1991 they were a company, called Burt's Bees after the name he had stencilled on his hives in the woods to keep off robbers. By 2000 the company's annual revenue was $23m.

She tried to bring him along, but he didn't much care for it all. He was still the face of the brand, though he never believed (as she did) that he had the pulling power of Colonel Sanders. He followed her when in 1994 she decamped to North Carolina, abandoning the flower-child kitchen candle-dipping in New England for factory production in a place where taxes were lower and unions weaker. But he missed Maine too much, and soon sold out and went back: no longer to keep bees, just to do what he wanted, when he wanted.

He didn't need any of that commercial buzz, the stress and press of it, and especially not the bitterness between him and Roxanne, though that ebbed and flowed. To be an "upper-mobile rising yuppie" was not on his agenda. In 2003 another $4m was passed to him, allowing him to be a rather well-turned-out hermit, with fleece and plaid jackets straight out of L.L. Bean's catalogue and a glimpse of a nice watch under his cuff. When asked he would travel, even as far as Taiwan, to hold up little tubes of lip balm and appear among swarms of small children dressed as bees. For the rest of the time, he would wander into the woods or lie on his lawn to watch the baby foxes play, murmuring "Golly dang!" with simple happiness. ■

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Providing domestic and international shipping,

You Could Get Benefits from a $197.6 Million Settlement

If you or your company used the services of certain freight forwarders, you may be entitled to a potentially significant cash payment from class action Settlements. This is the second notice in this case. Settlements have now been reached with 19 additional Defendants. Settlements were previously reached with 10 Defendants.

The Settlements involve a lawsuit claiming that certain freight forwarding companies secretly agreed to prices for their freight forwarding services worldwide, including on routes in the U.S. and between the U.S. and China, Hong Kong, Japan, Taiwan, India, Germany, the U.K. and other parts of Europe. Some of the companies ("Settling Defendants") that were sued have agreed to Settlements (see list below). The Settling Defendants deny that they did anything wrong. The lawsuit continues against the Non-Settling Defendants.

Freight Forwarders provide transportation, or logistics services for shipments relating to the organization or transportation of items via air and ocean, which may include ancillary rail and truck services, both nationally and internationally, as well as related activities such as customs clearance, warehousing, and ground services.

Who is Included

You may be included in one or more of the Settlements (as a Class Member) if you: 1) Directly purchased Freight Forwarding Services; 2) from any of the Settling or Non-Settling Defendants, their subsidiaries, or affiliates; 3) from January 1, 2001 through January 4, 2011; 4) in the U.S., or outside the U.S. for shipments within, to, or from the U.S. All you need to know is in the full Notice, located at the settlement website: www.FreightForwardCase.com, including information on who is or is not a Class Member.

What Do the Settlements Provide?

The Settling Defendants will establish a Settlement Fund with a minimum of $197.6 million. The amount of your benefits will be determined by the Plan of Allocation, which is posted on the settlement website at www.FreightForwardCase.com.

How to Get Benefits?

You need to submit a Claim Form, online or by mail, by **March 31, 2016** to get a payment from the Settlements. You can obtain a Claim Form by calling one of the numbers below or by visiting the website. If you already submitted a Claim Form for the first round of Settlements, you do not need to file a new claim. You will automatically be paid from this second round of Settlements.

Your Other Rights

Even if you do nothing you will be bound by the Court's decisions. If you want to keep your right to sue a Settling Defendant yourself, you must exclude yourself by **September 18, 2015** from that Settlement. If you stay in a particular Settlement, you may object to it by **September 18, 2015**. The Detailed Notice, available at the website, explains how to exclude yourself and object.

The Court has appointed lawyers to represent you at no charge to you. You may hire your own lawyer at your own cost. The Court will hold a hearing on **November 2, 2015** to consider whether to approve: (1) the Settlements, (2) a request for attorneys' fees up to 33% of the Settlement Fund, plus interest, and reimbursement for litigation expenses. You or your own lawyer may appear and speak at the hearing. At the end of this litigation Class Counsel may ask the Court to award each Class Representative an amount not to exceed $75,000 in recognition of each Class Representative's service in recovering funds for the Class. Notice of any such request will be provided at the website, www.FreightForwardCase.com.

This notice is only a summary. For detailed information:

Call U.S. & CANADA: 1-877-276-7340 (Toll-Free) INTERNATIONAL: 1-503-520-4400 (Toll)

or Visit www.FreightForwardCase.com

The "Settling Defendants" are SDV Logistique Internationale ("SDV"); Panalpina World Transport (Holding) Ltd. and Panalpina, Inc. ("Panalpina"); Geodis S.A. and Geodis Wilson USA, Inc. ("Geodis"); DSV A/S, DSV Solutions Holding A/S, and DSV Air & Sea Ltd. ("DSV"); Jet Speed Logistics, Ltd., Jet-Speed Air Cargo Forwarders Inc. (USA), and Jet Speed Logistics (USA), LLC ("Jet Speed"); Toll Global Forwarding (USA), Inc., Baltrans Logistics, Inc., and Toll Holdings, Ltd. ("Toll"); Agility Holdings, Inc., Agility Logistics Corp., Geologistics Corp., and Geologistics International Management (Bermuda) Limited ("Agility"); United Parcel Service, Inc. and UPS Supply Chain Solutions, Inc. ("UPS"); Dachser GmbH & Co., KG, doing business as Dachser Intelligent Logistics, and Dachser Transport of America, Inc. ("Dachser"); Deutsche Post AG, Danzas Corporation, DHL Express (USA) Inc., DHL Global Forwarding Japan K.K., DHL Japan Inc., Exel Global Logistics, Inc., and Air Express International USA, Inc. ("DHL") for the severed, Japanese claims only; Hankyu Hanshin Express Holding Corporation f/n/a Hankyu Express International Co., Ltd. and its subsidiary, Hankyu Hanshin Express Co., Ltd., and its U.S. subsidiary, Hanshin Air Cargo USA, Inc. ("Hankyu Hanshin"); Japan Aircargo Forwarders Association ("JAFA"); Kintetsu World Express, Inc. and its U.S. subsidiary, Kintetsu World Express (U.S.A), Inc. ("Kintetsu"); "K" Line Logistics, Ltd., and its U.S. subsidiary "K" Line Logistics (U.S.A.), Inc. (""K" Line"); MOL Logistics (Japan) Co., Ltd., and its U.S. subsidiary MOL Logistics (USA) Inc. ("MOL Logistics"); Nippon Express Co., Ltd. and its U.S. subsidiary, Nippon Express USA, Inc. ("Nippon Express"); Nissin Corporation and its U.S. subsidiary, Nissin International Transport U.S.A., Inc. ("Nissin"); Yamato Global Logistics Japan Co., Ltd., and its U.S. affiliate, Yamato Transport U.S.A. Inc. ("Yamato"); Yusen Air & Sea Service Co., Ltd. and its U.S. subsidiary, Yusen Air & Sea Service (U.S.A.), Inc. ("Yusen").