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Politics



At least 6,000 people were killed when an earthquake of magnitude 7.8 struck **Nepal**, one of Asia's poorest countries. Aid agencies struggled to reach remote areas in Gorkha district, near the border with Tibet, where many more bodies are expected to be found. The tremor triggered avalanches on Mount Everest, killing 18 climbers.

In **Pakistan** Sabeen Mahmud, one of the country's leading liberal activists, was shot dead in Karachi by unknown gunmen, shortly after she left an event to highlight the cases of the 5,000 people thought to have been abducted and killed by the security forces.

Australia recalled its ambassador to **Indonesia** after the Indonesians executed two convicted Australian drug smugglers, along with six others. The gang was arrested in 2005 trying to take 8kg of heroin out of Bali. Tony Abbott, the Australian prime minister, called their executions "cruel and unnecessary".

Sticks and stones

The governor of Maryland sent the National Guard to **Baltimore** to quell rioting, the worst in the city since 1968. Six police officers were seriously injured and hundreds of rioters arrested when violence broke out hours after the funeral of a black man who had died from spinal injuries that he had sustained while in police custody. Rioters burned down their own neighbourhoods, torching buildings and looting shops. Barack Obama called them "thugs".

America's Supreme Court heard arguments about whether **gay couples** have a constitutional right to marry. Its decision is expected in June.

Loretta Lynch was sworn in as America's new **attorney-general**. The Senate took five months to approve her appointment but the final vote was 56-43, with ten Republicans joining the Democrats to support her.

Jerry Brown, the governor of **California**, set new and tougher state targets on curbing greenhouse gases. He called for carbon emissions to be cut by 40% by 2030 from what they were in 1990. The previous target was for an 80% cut by 2050.



Shinzo Abe visited Washington, where he became the first prime minister of **Japan** to address a joint meeting of Congress. In his speech he promoted the benefits of the Trans-Pacific Partnership, the negotiations for which are said to be close to completion, though stumbling blocks remain, especially over cars and agriculture. During his trip new guidelines were unveiled for Japan's alliance with America, which will allow Tokyo to take on a more assertive role in international security.

Royals flushed

King Salman changed the line of succession in **Saudi Arabia**, appointing his nephew, Muhammad bin Nayef, crown prince and naming his son, Muhammad, who has been leading the war in Yemen, as second in line. Separately, the interior ministry said that 93 people, most of them Saudi citizens, had been arrested in the country since December

on suspicion of being members of Islamic State.

Iran seized a container ship in the Strait of Hormuz, which connects Gulf states to the open sea. Iran said the vessel, registered in the Marshall Islands, had been taken because of a commercial dispute. It said it respected freedom of navigation, although it has previously threatened to close the strait in protest at international sanctions over its nuclear programme, on which it is negotiating with six other countries.

Binjamin Netanyahu was poised to complete the formation of his new cabinet, following his victory in Israel's general election in March. Mr Netanyahu appeared to have assembled a 67-seat strong coalition, including the orthodox religious parties and the parties of the political right, rather than opting to include the Labour Party in a government of national unity.

It emerged that the French government is investigating allegations that French peacekeeping troops raped boys as young as nine years old in the **Central African Republic** last year. The claims were first made in a classified UN report that was leaked to the press.

In **Burundi**, protests against President Pierre Nkurunziza's bid for a third term were met with a violent response by the army and police. At least six people are reported to have died, and there have been hundreds of arrests. The protesters say the constitution bars Mr Nkurunziza from seeking re-election.

Friends indeed

A summit in Kiev between the European Union and **Ukraine** produced no new pledges of support. Ukraine wants more generous bail-out funds for its economy, military aid, and a EU peacekeeping mission to secure its ceasefire line with Russian separatists. The EU declined to provide any military help and said aid would be contingent on reforms.

A **Finnish** naval vessel dropped two small depth charges after detecting what is believed to be a Russian submarine in Finnish waters. Nordic countries have become increasingly concerned over Russian intrusions into their territorial waters and air space.

The **Greek** government sidelined its controversial finance minister, Yanis Varoufakis, removing him from responsibility for negotiations with finance ministers from the euro zone. Mr Varoufakis's mercurial style had been blamed for a loss of trust in Greece's government, which is scrambling to come to an agreement to unlock billions of euros in bail-out financing.



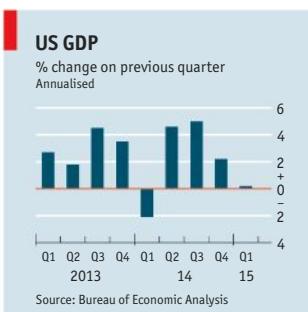
Britain's political parties began a frantic last week of campaigning ahead of an election on May 7th, while new data showed the economy growing in the first quarter at its slowest pace in two years. If the polls are correct, no party will hold a majority on May 8th, meaning another coalition government will have to be formed.

Repairing relations

Chile's president, Michelle Bachelet, said she would introduce measures to fight "corruption and ethical lapses". They include eliminating anonymous donations to political parties, state financing for parties and the writing of a new constitution. Ms Bachelet's son has been at the centre of an influence-peddling scandal.

Venezuela's government decided to shorten the workday for public employees, from eight or nine hours to five-and-a-half, to save energy. Electricity, that is, not the workers'. ►

Business



America's economy grew by just 0.2% in the first quarter at an annualised rate compared with the previous three months. There was no single explanation, though bad winter weather and a labour dispute at California's ports played a part. With energy firms curtailing their exploration activities, investment in wells and mines slumped. At its latest meeting the Federal Reserve blamed "transitory factors", but the timing of a rise in interest rates looks ever more uncertain.

Brazil raised its benchmark interest rate by half a percentage point to 13.25%, the highest level in six years. It was the latest in a long series of consecutive rate rises from the central bank, which is trying to tame soaring inflation. Meanwhile, **Sweden's** Riksbank stepped up its fight against deflation by enlarging its quantitative-easing programme. But it surprised markets by leaving its main interest rate unchanged at -0.25%. **Thailand's** central bank reduced its key rate to 1.5% to boost the country's flagging economy.

Sans Ferdinand

Ferdinand Piëch shocked corporate Germany by resigning as **Volkswagen's** chairman. He went after the carmaker's board backed Martin Winterkorn, the chief executive, in a spat between the two. A grandson of the inventor of the Beetle, Mr Piëch has been the driving force behind vw for the past two decades. His family retains considerable clout through its share holdings, giving it a say in choosing a new chairman.

Deutsche Bank presented its long-awaited reorganisation plan, which involves shrinking its investment bank, selling its Postbank retail subsidiary and trimming its debt load. There was little detail on cutting costs. Deutsche's leadership insisted that it would still compete with the titans of Wall Street, but investors, expecting something more ambitious, sent its share price down. Earlier, Deutsche paid \$2.5 billion to settle claims by American and British authorities that it manipulated **LIBOR**, a benchmark interest rate, the biggest such fine to date.

In the latest example of a crackdown on graft, China's authorities accused the president of **Sinopec**, one of the country's oil giants, of "serious violations of discipline and law", code for corruption. Sinopec said that Wang Tianpu had promptly resigned.

A drug triangle

Mylan, a drug company in Pennsylvania, roundly rejected a \$40 billion takeover bid from **Teva**, which is based in Israel. Mylan wants to pursue its own takeover of **Perrigo**, which is incorporated in Ireland, raising its offer this week to \$36 billion—an approach that Perrigo immediately spurned.

Wishing it could plug a leak as easily as deleting a tweet, **Twitter** saw its share price plunge by 18% after its earnings were accidentally published on its website and tweeted by a financial-data firm while markets were still open. Revenue grew by 74% in the first quarter, to \$436m, but this was less than investors had hoped for. It made yet another net loss, of \$162m. With growth tepid in its user base, Twitter also lowered its annual profit outlook.

Time Warner Cable was rumoured to be seeking a new merger partner, following **Comcast's** decision to pull its \$45 billion takeover offer in the face of opposition from regulators to a deal. A combined company would have carved out roughly 30% of America's cable-TV market and provided almost 60% of broadband connections, which was a concern to Netflix and others in the rapidly growing streaming-TV industry.

Comcast was not the only company to have its ambitions thwarted by competition regulators this week. A merger between **Applied Materials**, which is based in California, and **Tokyo Electron** that would have created the

world's biggest producer of chipmaking equipment was called off because of antitrust concerns in America.

Apple sold more iPhones in China than in America for the first time in the latest quarter, which helped push net profit up to \$13.6 billion. In a now familiar tale, **Samsung** reported another drop in quarterly profit, to 4.6 trillion won (\$4.3 billion), as it continued to be squeezed in the smartphone market between Apple and lower-cost Chinese rivals.

BP kicked off the earnings season for big oil firms, reporting a profit of \$2.6 billion for the first quarter. This was 20% lower than in the same period a year earlier, when Brent crude averaged \$108 a barrel, compared with \$54 in the first three months of 2015.

It was either that or Walmart
Ben Bernanke, who retired as chairman of the Federal Reserve in 2014, has joined the ranks of workers with multiple part-time jobs. Having already taken a position at Citadel, a hedge fund, this week he joined **PIMCO**, an investment firm, as a senior adviser.

Other economic data and news can be found on pages 80-81



Who should govern Britain?

Despite the risk on Europe, the coalition led by David Cameron should have a second term



BRITAIN is a midsized island with outsized influence. Its parliamentary tradition, the City's global role, the union of England, Scotland, Wales and Northern Ireland, membership of the European Union and a history of leading revolutions in economic policy mean that British elections matter beyond Britain's shores. But few have mattered more than the one on May 7th, when all these things are at stake.

Though you would never know it from the campaigns' petty squabbling, the country is heading for profound and potentially irrevocable change. The polls suggest that no combination of parties will win a stable majority—which could be the death knell for strong government (see page 49). May 7th could also mark the point of no return for the troubled union between England and Scotland, thanks to a surge in support for the secessionist Scottish National Party (SNP). The Tories have promised to renegotiate Britain's relations with the EU and put the result to an in/out referendum on membership by the end of 2017. Meanwhile Ed Miliband, Labour's leader, wants to remake British capitalism in pursuit of a fairer society. If he had his way, he would be the most economically radical premier since Margaret Thatcher.

A balance of risks

If the stakes are high, the trade-offs are uncomfortable, at least for this newspaper. Our fealty is not to a political tribe, but to the liberal values that have guided us for 172 years. We believe in the radical centre: free markets, a limited state and an open, meritocratic society. These values led us to support Labour's Tony Blair in 2001 and 2005. In 2010 we endorsed David Cameron, the Tory leader, seeing in him a willingness to tackle a yawning budget deficit and an ever-expanding state.

Five years on, the choice has become harder. The Tories' Europhobia, which we regretted last time, could now do grave damage. A British exit from the EU would be a disaster, for both Britain and Europe. Labour and the Liberal Democrats are better on this score. But such is the suspicion many Britons feel towards Brussels that a referendum on Britain's membership of the EU is probably inevitable at some point. And we believe that the argument can be won on its merits.

The Lib Dems share our welcoming attitude towards immigrants and are keen to reform the voting system. But they can at most hope to be the junior partner in a coalition. The electorate, and this newspaper, therefore face a choice between a Conservative-dominated government and a Labour-dominated one. Despite the risk on Europe, the better choice is Mr Cameron's Conservatives.

Our decision is based on the economy, where the Conservative-Lib Dem coalition has a stronger record than many realise and where Labour poses a greater risk. Admittedly, the macroeconomic signals are mixed. The budget deficit, at 5% of GDP, is still the second-highest in the G7. As Britons consume more than they produce, the current-account deficit is a worrying

5.5% of GDP. And although employment is high, living standards have suffered and productivity is weak. Adjusted for inflation, wages have fallen every year since 2009.

The Tories have made this squeeze on British living standards more painful, particularly for young people. They have protected pensioners from budget cuts and showered them with tax giveaways, forcing bigger sacrifices elsewhere. A failure to boost housing supply has led to soaring prices, also hitting the young. Some of the Tories' election promises—to spare houses worth up to £1m (\$1.5m) from inheritance tax and to sell social housing at a discount—are economically indefensible vote-buying gestures that will only add to the unfairness.

But three things count in the Tories' favour. The coalition has cut the deficit more pragmatically than it admits and more progressively than its critics allow. When the economy weakened, the Tories eased the pace (although not by as much as this newspaper would have liked). Though the poorest Britons have been hit hard by spending cuts, the richest 10% have born the greatest burden of extra taxes. Full-time workers earning the minimum wage pay a third as much income tax as in 2010. Overall, inequality has not widened—in contrast to America.

The record on public services is good. Government spending has fallen from 45.7% of GDP in 2010 to 40.7%, yet public satisfaction with the police and other services has gone up. Although almost 1m public-sector jobs have been cut, Britain has a higher share of people in work than ever before. From extra competition in education (with new free schools and academies) to the overhaul of the benefits system, public services are being revitalised. Some innovations have failed, including a rejigging of the National Health Service (NHS), but Britain's reform of the state has been energetic and promising.

And lastly, in the short term, Britain's weak productivity is the corollary of a jobs-rich, squeezed-wage recovery. Wage stagnation, as our briefing explains (see pages 18-20), is not an exclusively British malaise. It is also preferable, both in economic efficiency and social equity, to the French or Italian disease of mass joblessness. Better to recover from a financial crash and deep recession with a flexible labour market in which wages adjust than through unemployment. Britain will be a model for Europe if the Tories can boost productivity—and they aim to do so by improving schools and infrastructure, giving power and money to cities and investing in science.

Statism masquerading as progressivism

Labour has a different way to tackle what it calls the "crisis" in living standards. In fiscal terms, its agenda belongs to the moderate centre-left. Mr Miliband also promises deficit reduction, and at a pace that makes more macroeconomic sense than the Tories' plan—though his numbers are vaguer, and Labour's record makes them harder to believe. He proposes a bit more redistribution: Labour plans tax increases for the wealthy, including raising the top rate of tax back to 50%, from 45%, and imposing a "mansion tax" on houses worth more than £2m. Individually, many of these proposals are reasonable. (The annual mansion tax on a £3m London house would be only £3,000, a fraction of the levy on New York property.) But, taken ➤

▶ together, these plans risk chasing away the most enterprising, particularly the footloose global talent that London attracts.

Labour's greater threat lies not in redistribution, but in meddling. Mr Miliband believes that living standards are squeezed because markets are rigged—and that the government can step in to fix them. He would freeze prices while “reviewing” energy markets, clamp down on the most flexible “zero-hour” labour contracts and limit rent rises. Along with this suspicion of private markets is an aversion to competition in the public sector, leading to proposals for, say, a cap on profit margins when private companies contract to provide services for the NHS.

Mr Miliband is fond of comparing his progressivism to that of Teddy Roosevelt, America's trustbusting president. But the comparison is false. Rather than using the state to boost com-

petition, Mr Miliband wants a heavier state hand in markets—which betrays an ill-founded faith in the ingenuity and wisdom of government. Even a brief, limited intervention can cast a lasting pall over investment and enterprise—witness the 75% income-tax rate of France's president, François Hollande. The danger is all the greater because a Labour government looks fated to depend on the SNP, which leans strongly to the left.

On May 7th voters must weigh the certainty of economic damage under Labour against the possibility of a costly EU exit under the Tories. With Labour, the likely partnership with the SNP increases the risk. For the Tories, a coalition with the Lib Dems would reduce it. On that calculus, the best hope for Britain is with a continuation of a Conservative-led coalition. That's why our vote is for Mr Cameron. ■

Illegal drugs

The wars don't work

As one war on drugs ends, another is starting. It will be a failure, too



IN 1971 Richard Nixon fired the first shot in what became known as the “war on drugs” by declaring them “public enemy number one”. In America and the other rich countries that fought by its side, the campaign meant strict laws and harsh sentences for small-time dealers and addicts. In the poor, chaotic countries that supplied their cocaine and heroin, it meant uprooting and spraying coca and poppy crops, and arming and training security forces. Billions of wasted dollars and many destroyed lives later, illegal drugs are still available, and the anti-drug warriors are wearying. In America and western Europe addiction is increasingly seen as an illness. Marijuana has been legalised in a few places. Several countries may follow Portugal, which no longer treats drug use as a crime.

But even as one drug war begins to wind down, another is cranking up across Asia, Russia and the Middle East (see page 52). Echoing Nixon, China's president has called for “forceful measures to wipe [drugs] out”; his Indonesian counterpart has declared drugs a “national emergency”, and in January sent six traffickers to a firing squad. This week Indonesia executed eight more, despite international pleas for clemency. Iran is executing five times as many drug-smugglers as it did a few years ago. Russia is arguing for the spraying of opium-poppy fields in Afghanistan, and is trying to get its neighbours to follow it in banning methadone, an opioid used to wean heroin addicts off their fix. Earlier this year China lobbied the UN's drug-control body to place tighter restrictions on ketamine, an anaesthetic, though it failed—for now, at least.

Prohibition suits criminal gangs, which enjoy exclusive control of a global market worth roughly \$300 billion annually. It is also convenient for corrupt politicians and officials, who can extract rents for turning a blind eye. Several of those whom Indonesia executed this week claimed that judges offered them clemency in exchange for huge bribes. In the main, though, what drives the new drug warriors is the same conviction that animated the old ones: the sincere, if mistaken, belief that cracking down on traffickers and users will make addic-

tion go away. The lesson of the first war is that it will not.

When Peru drove away its coca growers, they moved to Colombia. When Colombia kicked them out, they went back to Peru. After the Caribbean cocaine-trafficking route was sealed, new, bloodier ones sprang open in Mexico, and then in Central America. A shortage of one drug caused by a big seizure seldom lasted long; in the meantime addicts turned to alternatives, sometimes more dangerous ones. When clean needles were hard to get hold of, they used dirty ones. The drug war turned Latin American “cartels” into bands of sadistic, well-financed killers whose reach extended into governments, security forces, judiciaries and jails. Those preparing to prosecute the next drug war need only look west to see what lies ahead of them: more violence and corruption; more HIV/AIDS; fuller jails—and still the same, unending supply of drugs.

Meanwhile, rules meant to stop opioids leaking to the black market have left the innocent to die in avoidable pain. Multiple-sclerosis sufferers and cancer patients undergoing chemotherapy have been denied the relief that cannabis can bring. Some researchers think that LSD (acid), MDMA (Ecstasy) or psilocybin (the active ingredient in magic mushrooms) might help treat depression. But nobody knows, because drug laws have made trials close to impossible. The row over ketamine is an unwelcome reprise. A safe, orally administered anaesthetic, it can be used outside hospitals, even for caesarean sections and amputations. If China succeeds in tightening restrictions on the drug, poor people in countries with weak health systems will suffer and even die unnecessarily.

A better prescription

In the West few politicians have been ready to admit the drug war's failure—even as they quietly moderate their policy. They need to be honest with their own voters about the misery it has caused. Only then can they make a good case to the rest of the world that drug addicts need treatment, not prison, and that supply should be managed, not suppressed. A UN meeting next year to take a fresh look at the international conventions that shape national drug laws would be an excellent place to start. The first drug war caused devastation enough. For history to repeat itself would be a tragedy. ■

The South China Sea

Sea of troubles

A disputed sea is a growing security nightmare—and increasingly an ecological one



America and its friends in Asia have long worried about the South China Sea becoming a Chinese lake—a vast stretch of water, through which half the world's commercial shipping passes, falling under the control of China's fast-expanding navy and coastguard. In the past few months these fears have been amplified by satellite pictures showing Chinese barges pouring sand onto disputed reefs, in order to turn them into islands. On several of these remote outcrops, unsuited to civilian habitation, China appears to be building airstrips and harbours to accommodate jets and warships.

With this show of military force, China is asserting a long-standing, if outrageous, claim to ownership of virtually the entire sea. This is a dramatic change of tack (see page 37). China still claims to believe in settling territorial disputes by diplomacy. Yet, by going ahead and planting its flags, it is ignoring the protests of its neighbours, not to mention America.

This change is even more unsettling, given that for years China has been trying to win friends in South-East Asia. The ten-country Association of South-East Asian Nations (ASEAN) is usually reluctant to criticise the giant next door. Yet on April 28th its leaders ended an annual summit in Malaysia with an unusually blunt statement: reclamation work on the reefs, they said, had "eroded trust and confidence" in the South China Sea and threatened to "undermine peace, security and stability". And in Washington, standing next to Japan's prime minister, Shinzo Abe, President Barack Obama said that "real tensions" had arisen in the South China Sea and that China's muscle-flexing was "the wrong way" to go about things.

There has always been a risk that rivalries in the South China Sea could flare into military conflict. In 2002 China and ASEAN agreed that disputants should resolve differences peacefully, "exercise self-restraint" and adopt a formal code of conduct for their activities. But China has shown no eagerness to develop such a code. The Philippines, fed up with its obduracy, has challenged the basis of its territorial claims before a UN-backed tribunal. China has refused to co-operate. All sides are now digging in their heels.

ASEAN is right to speak with a united voice (at last). If it sticks together, it stands a better chance of persuading China to embrace a code of conduct. But ASEAN is weak and will become weaker if its largest member, Indonesia, fails to play a leading role—as may happen under the country's new president, Joko Widodo (see page 34). Although China has signed up to the UN Convention on the Law of the Sea, which sets the rules for territorial claims, America has yet to ratify it. That makes the convention's principles easier to ignore.

Greening the way to peace

Security is not the only concern in the South China Sea. The environment is also under threat. Like the Mediterranean, the sea is shallow and largely enclosed. An ecological catastrophe is taking place, as reclamation destroys reefs, agricultural and industrial run-off poisons the water and overfishing depletes fish stocks. The littoral states ought to be working together to manage the sea, but the dispute over sovereignty fosters the fear that any collaboration will be taken as a concession.

If they are to save the sea, the regional states must urgently put aside their differences. Indeed, if they could only co-operate over the environment, they might just find the territorial disputes easier to settle, too. ■

Gay marriage in America

Bless it

The legal case for allowing gay marriage is as clear as the moral one is urgent



APRIL DEBOER and Jayne Rowse have lived together for ten years and want to get hitched. However, the state of Michigan, where they live, won't let them. So they cannot formally adopt each other's children and there is no guarantee, if one of them dies, that the rest of the family will be allowed to stay together. Another gay couple, Ijpe DeKoe and Thomas Kostura, were married in New York. But after Mr DeKoe, a soldier, finished serving in Afghanistan, the couple moved to Tennessee, which does not recognise their union. Both couples are suing to have their states' bans on same-sex marriage struck down. The case, named *Obergefell v Hodges*, reached Ameri-

ca's Supreme Court on April 28th (see page 21). Many expect the justices to make gay marriage legal throughout America.

That would be a slap in the face of democracy, some say. Marriage has long been a matter for the states to regulate, not the federal government. In several liberal states lawmakers have given the go-ahead to same-sex unions; in conservative states they have not. If voters do not like this outcome, they are free to elect different politicians. If advocates of gay marriage want to rewrite the rules of an ancient institution in Michigan or Tennessee, they should persuade Michiganders and Tennesseans of the justice of their cause, rather than relying on the courts to overrule the will of the people.

This is not a foolish argument. In general, big social controversies are better settled democratically than by judicial fiat. However, the court's first duty is to uphold the constitution, ►

► which means striking down laws that violate it. It has sometimes overstepped its authority. In 1973, for example, when abortion was legal in some states but not in others, the court ruled in *Roe v Wade* that it should be legal everywhere, citing a right to privacy that is nowhere mentioned in the constitution. This newspaper favours legal abortion, but in *Roe* the justices invented the law rather than interpreting it, substituting their preferences for those of voters. That power-grab has poisoned the debate on abortion in America ever since.

Opponents of same-sex marriage worry that the court is planning to do the same thing again. But *Obergefell v Hodges* is not like *Roe v Wade*; it is more like *Brown v Board of Education* (which barred racial segregation in schools in 1954) or *Loving v Virginia* (which struck down state bans on interracial marriage in 1967). The constitution says that no state may "deny to any person within its jurisdiction the equal protection of the laws". Limiting marriage to heterosexuals plainly denies such equality to gay people. So the court should strike down all remaining bans on same-sex marriage. The legal case is clear. The moral one is compelling.

Traditionalists will certainly object. But the backlash will be nothing like as severe or long-lasting as the one that followed

Roe v Wade. (To this day, no candidate can win the Republican presidential nomination without swearing to appoint judges who will try to overturn that decision.) Same-sex marriage is not like abortion. There are no difficult trade-offs: allowing gay couples to wed has no effect on the health or stability of heterosexual unions. And there are no victims: anti-abortion campaigners can wave placards showing bloody fetuses, but campaigners against gay marriage will struggle to find anyone who has been harmed by it.

The right to be smug and boring

Some Republicans in Congress are threatening to cut funds for any federal enforcement of a court ruling they do not like, but they will not get far. Indeed, many in their party will be glad to see the issue taken out of their hands, for they know this is a battle they will lose sooner or later. Public opinion has changed fast, and in a relentlessly liberal direction. The most religious and conservative states are now less hostile to gay marriage than the most secular, liberal ones were a decade ago. The justices will no doubt have an eye on history as they deliberate. With luck, they will reach a decision they will not be ashamed to explain to their grandchildren. ■

Business in France

Double trouble

Treating shareholders unequally will not help French firms conquer the world



FRANCE has always been proud of its corporate champions. But these are worrying times. Only one French firm is in the global top 50 by market value. The country's stockmarket is just 3% of the world's total, down from 5% a decade ago.

An American activist fund, PSAM, has just mauled Vivendi, a media firm. Flagging Gallic contenders, among them Alstom (engineering), Alcatel (telecoms) and Lafarge (cement), are being bought by foreigners. The Chinese are coming. Peugeot has sold a stake to Dongfeng, a carmaker from Wuhan that doubtless hopes to take control eventually. Club Med, a holiday firm managed by the son of a French president, is now in the hands of a billionaire who began by selling bread in Shanghai.

Enter, stage left, the French government, which has legislated to strong-arm firms to give souped-up voting rights to loyal shareholders. It reckons this will protect firms from speculators and raiders, and allow them to punch above their weight. The idea has plenty of support across Europe. In reality, it will do more harm than good.

A revolutionary idea

The "Florange law" was passed in 2014 and will come fully into force in March 2016. Shareholders who have owned stock in a listed French company for more than two years will then see their voting rights double. The change is automatic unless two-thirds of shareholders vote to amend their firms' constitutions, as some are now scrambling to do (see page 56).

The rule is bad for two reasons. First, it will add clout to an elite of insiders whose record is mediocre. Two-thirds of firms

in the CAC-40 index have a long-standing anchor investor—usually the state, a family or a mogul. They will become more powerful. Vincent Bolloré, a tycoon, will take creeping control of Vivendi. The government will probably get more sway over Renault, to the irritation of its boss, Carlos Ghosn.

Supporters say that such anchor investors allow firms to plan for the long run. Google, for example, is controlled by its founders and can ignore Wall Street's whims. But mature firms often stagnate if insulated from outside threats. Orange (formerly France Télécom) and Bouygues, a conglomerate, are protected by the state and a family respectively and have drifted since the 1990s. Bosses in Italy are adept at creating fiddly capital structures that fortify their control and feeble at building competitive multinationals.

Second, France is attempting to impose double voting rights as a default option. One-share-one-vote is not a divine right; nor is a wholly free market for takeovers. Firms should be allowed to issue whatever securities they want—though, if they protect themselves, they will pay a higher cost of capital and may perform worse. Even countries that think an open approach to ownership breeds more ruthless and valuable firms will block deals that genuinely threaten the public interest.

But when a country systematically tries to enforce unequal shareholder rights (and even worse, does so on already-listed firms) there are high costs. The voting power that France is taking from newer investors has a value: shares without votes typically trade at a discount of 5-10% to those that do, and as much as 40% when managers are mistrusted. The higher cost of capital will apply to all French firms; their valuations will be lower than their peers' in investor-friendly places; and they will find it harder to issue shares to pay for expansion or takeovers. That will hardly help them command the global stage. ■

Polling issues

You argue that allowing online voting in Britain would increase the number of youngsters who participate in elections ("Apathetic fallacy", April 18th). But where is the proof? Actually, the evidence is that internet voting does not increase voter participation. A recent study in British Columbia concluded that it has increased turnout in some elections, but when other factors such as the closeness of the race and a spike in interest in particular contests are taken into account, internet voting does not generally cause non-voters to participate. Instead, "internet voting is mostly used as a tool of convenience for individuals who have already decided to vote."

There is also the issue of online security. In a recent election in New South Wales, Australia, 66,000 people voted online before a security hole in the system was discovered and patched. No one knows if those votes were tampered with, since it is impossible to determine whether or not the electronic versions of the ballots accurately reflect the will of those 66,000 people. Voters' computers can also be targeted by election-rigging malware that could modify their selections without their knowledge.

The idea that election officials can protect their computing systems from attacks when large organisations such as Google and the Pentagon are unable to do so is ludicrous. There is a consensus within the computer-security industry that all the current online-voting systems are insecure and are subject to hacking. Please do not encourage the practice in Britain.

BARBARA SIMONS
Chair
Verified Voting
San Francisco

It was disappointing to see *The Economist* recommend replicating Estonia's online-voting process. A study of the Estonian system in 2014 by a team from the University of Michigan and Open Rights

Group, a digital-privacy organisation, found that there were "abundant ways" by which "an attacker could disrupt the voting process or cast doubt on the legitimacy of results", and that the level of security needed to make online voting as secure as paper-ballot voting does not exist yet.

A hacked election, or worse still, an election in which online voters buy and sell votes, would be a disaster for democratic legitimacy. Even in this digital era, the secret paper-ballot is still the way to go.

KEVIN McDougald
Winnipeg, Canada

Rescuing migrants at sea

Your leader on "Europe's boat people" (April 25th) contains sound analysis of the crisis in the Mediterranean and the lack of action by European Union states. But your suggestion, under the heading "The cruel seafarers", that merchant ships routinely turn their radios off to avoid rescuing migrants is an unacceptable slur, given that almost 1,000 commercial ships have already been involved in the rescue of 40,000 distressed people from small boats, at considerable risk to the seafarers concerned.

The obligation to come to the aid of anyone in distress at sea, whatever the circumstance, runs very deep in our industry. The source of your unsubstantiated claim does the world's merchant seafarers a great disservice.

PETER HINCHLIFFE
Secretary-general
International Chamber of
Shipping
London

Malaysia's malaise

Malaysia's recent curtailment of liberties follows a wider trend being set by the government of Najib Razak ("Lurch to illiberalism", April 11th). In his early years as prime minister Mr Najib set out a vision of a diverse and united country under his "1Malaysia" liberal economic plan that also promised to tackle corruption. But after six years we are witnessing the creeping return of

discriminatory ethnic-based economic policies. A state-owned enterprise that Mr Najib leads, 1Malaysia Development Berhad, is demanding protection from free-trade pacts such as the Trans-Pacific Partnership. No one is accusing him of corruption, but there are still many unanswered questions regarding the governance of 1MDB.

Mr Najib made glorious promises of reform, but he forgot to transform his own party and it has now become a big obstacle to his plans. For many years I was excited by his speeches on reform, but that is all Mr Najib has delivered: words.

WAN SAIFUL WAN JAN
Chief executive
Institute for Democracy and
Economic Affairs
Kuala Lumpur

25th). If reiteration of the truth were all that was required, there would have been no post-referendum bounce for the nationalists.

There is still one more effective way for Scots to stop the SNP wrecking Britain's politics and Scotland's economy: not sending SNP MPs to Westminster. A recent survey commissioned by Scotland In Union found that 14% of Scots are voting tactically. Add those who would back a leading non-SNP candidate anyway, and we might just be spared the outcome which many want to avoid.

ALASTAIR CAMERON
Director
Scotland In Union
Glasgow

What could have been

I hold no torch for Ed Miliband, but David, his "abler" brother according to Bagehot (April 18th), simply did not do enough groundwork to prepare for the eventual contest to become leader of the Labour Party. Ed did. British politics is littered with would-beens who were arguably better than those who eventually became party leaders, but who lacked the spark or organisation needed.

David did not have sufficient hunger or drive to become leader. So Ed's ability, where it counted, was greater than David's.

LEE HORWICH
Geje, South Korea ■

Scotland, be brave

I wish I shared your optimistic belief that "exposing their fallacies" is sufficient to stop the Scottish National Party from gaining seats in Parliament at the general election ("Northern exposure", April

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

Director Essential Medicines and Health Products

Geneva, Switzerland



The World Health Organization (WHO) is the directing and coordinating authority for Health within the United Nations system, responsible for providing leadership on global health matters, shaping the health research agenda, setting norms and standards, articulating evidence-based policy options, providing technical support to countries and monitoring and assessing health trends.

The Essential Medicines and Health Products (EMP) department is situated within the Cluster of Health Systems and Innovation (HIS). Its mandate and vision are to ensure that people everywhere have access to the essential medicines and health products that they need; that the medicines and products are safe, effective and of assured quality; and that they are prescribed and used rationally, and affordable to the health systems and patients.

The Role:

To lead the Essential Medicines and Health Products (EMP) department with around 160 people, serving as the definitive and responsible authority for the EMP department's performance, and responding for WHO on all issues related to essential medicines and health products.

The Candidate:

- An advanced university degree in medicine, pharmacy, or other health science, plus post-graduate training (Master or PhD level) in health science, or public health, or (health) economics or management.
- Extensive knowledge of essential medicines and health products issues, policies and regulations at the national, regional and global levels.
- Demonstrated ability to mobilize resources.
- Proven people leadership and managerial experience.
- Ability to represent the Organization and interact effectively with national and international authorities.
- Excellent communication and negotiating skills.
- Expert knowledge of English. Knowledge of French or another official WHO language will be an asset.

Please find all details of the position and apply online via the WHO website at www.who.int/employment "Current Vacancies".
Vacancy Notice No: HQ/15/HQ/FT182. Closing date is May 25, 2015.



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UNITAID is hosted by the World Health Organization (WHO). The principal functions of the Secretariat are to carry out and manage the day-to-day operations of UNITAID, including implementing the work plan as approved by the Board, managing and coordinating relationships with Partners, and coordinating and facilitating technical support and advice to the Board. Please refer to the UNITAID website (www.unitaid.org) and the WHO website (www.who.int).

UNITAID is recruiting:

DIRECTOR, OPERATIONS

- Leads and manages UNITAID's Operations department in the development and implementation of grants, building of partnerships, and the management of risk.
- Provides senior leadership in portfolio management, implementing an approach to measuring Value for Money (e.g. return on investment) and implementing a framework and tools for managing risk at organizational, portfolio and grant levels.

- The successful candidate must have excellent skills in delivering success across complex multi-sectorial grant or project portfolios and have a track record in the development and implementation of a strategic vision at an organization-wide or division-level.
- Experience in program management including design, implementation and financial management at a high level.
- Experience in public health and/or international development, especially in Africa, is highly desirable.

DIRECTOR, STRATEGY & RESULTS

- Leads and manages UNITAID's Strategy & Results department and is responsible for leading the strategic approach and identification of innovative global health interventions, and for contributing to the development and evaluation of a complex portfolio of grants.
- Provides senior leadership in the development of vision and strategy for UNITAID's funding priorities.
- The successful candidate must have excellent skills in development and implementation of organizational strategy in multiple private and public organizations and possess knowledge of analytical frameworks for impact assessment and for measuring value for money (e.g. return on investment).
- Experience in market analysis, health product evaluations and forecasting at an international level, especially in Africa, is highly desirable.

These positions are based at WHO in Geneva, Switzerland. A detailed job description and information on how to apply can be found on the following websites:

- www.unitaid.org/en/who/employment
- www.who.int/employment/vacancies/en/

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Deadline for applications: 16th May 2015.

To find out more about this and **other interesting EIB opportunities**, please go to <https://erecruitment.eib.org>

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Vice President – COL

Location: Metro Vancouver, Canada

Closing date: June 30, 2015

Commonwealth of Learning (COL) helps governments and institutions to expand the scale, efficiency and quality of learning by using new approaches, appropriate technologies, and open and distance learning (ODL) methodologies. Headquartered in British Columbia, Canada, COL promotes innovation and works with national and international partners to facilitate learning in support of development goals.

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To Apply: A full job description is displayed on COL's web site at www.col.org/opportunities. Interested applicants must provide a resume and cover letter highlighting their professional background. Applications must be submitted by email to opportunities@col.org with the subject: Vice President - COL position.

Executive Focus



The African Export-Import Bank (Afreximbank) is a pan-African Multilateral financial institution established in 1993, for the purpose of financing and promoting intra and extra African trade. For more information on Afreximbank please visit www.afreximbank.com. The Bank is recruiting for the positions below:

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Director D2, Communications

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- Ability to leverage strategic communications to achieve the highest possible impact related to significant international events and milestones;
- Subject-matter expertise in public outreach, through social media channels;
- In-depth knowledge of cutting edge communications and media approaches and tools;
- A strong public speaker and writer, able to articulate big problems while generating empathy and support among target audiences;
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- Demonstrated ability to provide leadership to a large and diverse communication function. Constructive, open and able to develop and empower staff to communicate strategically and effectively.

For further information and details on how to apply,
please visit: wfp.org/apply

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Investing in rural people

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Global Director, Human Resources

International Union for Conservation of Nature

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IUCN is looking for an experienced international leader in the field of Human Resources who will be responsible for the strategic leadership of IUCN's Human Resources Management Group (HRMG) and in doing so provide oversight and guidance over HR management related roles from initiating, developing, operationalising and implementing HR policies and processes.

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This position is part of IUCN's Leadership Team (senior management) residing in Gland, Switzerland with regular international travel, when required.

A detailed job description and instructions to apply for this position (VA # 1072) is available at: <http://www.iucn.org/involved/jobs/>

For more info about this position please write to hriucn@sri-executive.com

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Executive Focus



Director of Custom
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Oxford, United Kingdom

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For a conversation in confidence, please contact: Alex Acland or Jake Gordon-Clark at said@heidrick.com

Closing date: noon, Monday 1st June 2015.

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Chairperson – Extractive Industries Transparency Initiative

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The term of the Chair is the three year period between ordinary Members' meetings, at which the whole Board is appointed. A Chair can serve a maximum of two terms. The present Chair, the Rt Hon Clare Short, is due to step down at the next Members' meeting in early 2016.

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- Significant international standing esp. ability to expand implementation and support for the EITI.
- Understanding of the role of transparency and accountability in promoting development. Understanding of the extractive industries.
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- Fluent English and ideally French, with Arabic, Spanish and Russian being an advantage.

The previous Chairs have worked pro-bono but alternative arrangements could be considered. All work-related expenses will be covered. A dedicated office including an executive assistant and necessary office and communications equipment could be considered.

More details, including how to state interest, are available from Eddie Rich via erich@eiti.org.



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When what comes down doesn't go up

Salaries in rich countries are stagnating even as growth returns, and politicians are paying heed. They may struggle to improve things—and could make them worse

ACCORDING to the rich world's politicians, economics has a new villain. The modish scoundrel of the past seven years—the immoral banker outwitting inept regulators—has been edged out by a returning blackguard: the tight-fisted boss crushing the hopes of honest workers with miserly pay. In America workers have been demonstrating for higher pay and stronger union rights in the profitable but poorly paying food industry. Hillary Clinton has blasted CEOs who earn 300 times what the average worker does, pledging that her run for the presidency will champion the “everyday Americans” who have the “deck stacked” against them. In Britain Ed Miliband, leader of the opposition Labour Party, has told the electorate that he plans to punish “predatory” capitalists that exploit the low-paid; his electoral rival David Cameron retorts that his Conservatives are the “party of working people”. In Japan Shinzo Abe has sworn to lift salaries, and cajoles and threatens Japanese bosses to deliver on his promise.

The facts give such rhetoric resonance. In most places the recession that followed the financial crisis had dire effects on wages. Despite five years of growth Ameri-

can real wages are still 1.2% below what they were at the beginning of 2009. In Britain, real wages fell every year between 2009 and 2014, the longest decline since the mid-1800s. In 2014 median pay was 10% below its 2008 high. Germany, a haven during the euro-zone crisis, has done better, but wages are still 2.4% below their 2008 level. While there are exceptions—median pay has risen since 2008 in Canada and France—these have generally been bad years for wages.

Sin of wages

Flat and falling pay does not just matter to the people afflicted and to those who worry generally about growing inequality (a linked problem, but not quite the same one). Workers are also shoppers. Across the G7 group of rich countries household consumption ranges from 55% (France) to 68% (America) of GDP. While it makes sense for an individual boss to hold down pay, low pay across the economy as a whole threatens to put a lid on the growth that one would otherwise expect after a recession. If it does not there's a chance it will be because households are again borrowing to spend in an unsustainable way.

But if there is good reason to be worried about wages, the political heat also has a concerning side. To design sound policies it is vital to understand why wages have stopped rising, what the implications of a flat-wage world would be, and the likely impact of pay-propelling policies. But economics is still only just getting to grips with these questions.

Part of the problem is that, even before the recession, wages had not been improving as straightforward economics might suggest—which is to say, in line with productivity. The two moved in tandem following the second world war (between 1947 and 1960 both rose by 51% in America) but have been drifting apart since the 1960s: since 1960 productivity in America has risen by almost 220%, but real wages by less than 100%. Many other advanced economies have seen the same sort of trend. The result is that labour's share of GDP has fallen. And of the share that goes to labour, more and more has been going to the people who earn the highest salaries, exacerbating the problem for the rest.

Scholars seeking to explain this decline in the labour share reckon a number of big forces are at work. One is that the income from capital—especially from housing—has been increasing more than the income from labour. Another is that, in many industries, capital goods have become a lot cheaper and/or better. Bosses can choose whether to spend money on machinery or people, and declines in the price of the kit required for a given amount of output—which can come about either because ex-►

Existing machines get cheaper or because new ones can do more—reduce demand for labour.

Globalisation can reduce the demand for rich-country labour, too. Michael Elsby of the University of Edinburgh and Bart Hobijn and Aysegul Sahin of the Federal Reserve have shown that in industries where imports became a more important part of the supply chain between 1993 and 2010 the labour share fell the most. And the decline of trade unions reduces labour's bargaining power. The share of the American workforce unions represent has fallen in every decade since the 1960s, and similar declines have been seen across the G7 (see chart 1).

The new part of the puzzle—the bit that makes the lack of wage growth after the recession perplexing—concerns the other factor that, in the past, economists have seen as crucial in the setting of wages: unemployment. The usual assumption is that once unemployment gets below a certain rate, idle labour becomes scarce and competition to hire already employed workers heats up. As firms outbid each other for talent, new workers get better starter salaries and valued staff secure juicy raises. Estimating the unemployment rate at which wage-driven inflation kicks in the NAIRU (non-accelerating inflation rate of unemployment)—is part of the core business of central banks.

Matching quandaries

Following a major recession, the NAIRU often goes up. Periods of unemployment have lingering effects on workers, from a loss of vim to clinical depression. Time out of work can mean skills dwindle or become mismatched to the needs of the market; the skills needed by industries that flourish in the recovery may differ from those central to the industries which laid people off in the slump. All this means some unemployed workers will find it harder to get back into the workforce—indeed, some may stay unemployed until they reach pensionable age—and their

Different recessions



Sources: ONS; OECD; BLS; Federal Reserve; Insee

presence on the unemployment rolls thus does little to hold down wages. So after a big crisis the NAIRU rises; inflation should kick in sooner rather than later.

In the wake of the current recession, though, this rule of thumb has been broken in a number of countries (see chart 2). In 2013 the OECD, a rich-country think-tank, thought wage-driven inflation would kick in in Britain if unemployment got back below 6.9%. But joblessness was well below that throughout 2014 and average real wages still declined by 0.6%. In a 2013 paper Federal Reserve economists estimated a stable unemployment-wage rule for America: every percentage-point reduction in unemployment should lift inflation by 0.3% over the next year. But despite the fact that joblessness has fallen by more than two percentage points since then, median hourly wages were the same in the first quarter of 2015 as a year earlier. In Japan, unemployment averaged 3.6% in 2014, well below its pre-crisis average, but real pay fell by 2.5%.

Odd, but if temporary perhaps not too troubling. And there is evidence that real-term wages might now be shaking off their sloth. In late February IG Metall, Germany's largest union, brokered a 3.4% raise for its members, well above the current inflation rate, 0.3%. The latest British data show average salaries up by 1.7% in a year; with inflation close to zero this is a decent real-terms rise. In America, average real pay is up by 2.2% over the past year. If this continues as unemployment falls it would mean a return to pre-crash normality, with sustained wage inflation eventually triggering central-bank interest-rate hikes.

There is, though, another possibility: that the recent hints of a wages bump are largely an artefact of unexpectedly low inflation, and that the underlying wage stagnation continues. Average pay data in America and Britain may be hiding the continuing plight of the median worker be-

hind the success of the most sought after. It may be that the damage this recession did to the labour market—the loss of skills and the mismatch between industries where workers have experience and those where there are vacancies—is being expressed not in the form of long-term unemployment but as lasting low pay. If that is true, and low pay locks in, sustained inflation might not return even with low rates of unemployment. That labour-market shift would chart a very different course for central banks, which would keep rates low. It would also mean the politics of low pay could be here to last.

What might account for a change of this sort? One likely factor is that, in many places, more flexible labour contracts make it easier to fill posts without raising wages. In Germany “mini jobs”—positions with pay under €400 (\$440) per month—are rocketing. In Britain, “zero hours” contracts, in which neither employer nor employee commits to a fixed number of hours, have been becoming more common. By making it easier to fire workers these contracts aim to take the worry out of hiring. By making workers’ positions more fragile they cut bargaining power.

Not for the long haul

The ever larger “staffing industry” may be having a similar effect. It is important across a much wider swathe of the economy than is often realised; having started out in the 1960s supplying office temps, today temping companies like Kelly Services, Adecco and Randstad mainly supply light manufacturing and industrial workers. In 2013 Kelly Services was America’s second-largest private-sector employer, after Walmart, with 750,000 staff. America’s 2.9m temps account for 2% of its jobs.

Temping is flourishing across the G7. In Japan, once the land of the *shūshin koyō*, or job for life, transient employment is ever more common; in 2014 Recruit, the coun-

Falling dues



Source: OECD

try's largest temp agency, listed for \$19 billion on the Tokyo stock exchange. In Britain everything from the Olympics on down comes with temporary security guards supplied by G4S and temporary caterers provided by Compass, the country's largest and third-largest private employers, respectively.

The industry provides flexibility for both workers and firms, and its ability to match workers on its databases to jobs may be very helpful: the 2010 Nobel prize was awarded for work showing how better job search and matching could lower unemployment. But labour aggregators that compete for business on the basis of helping lower clients' staff costs have an incentive to keep pay low. In 2014 a report by Rebecca Smith and Claire McKenna of the National Employment Law Project, an American lobby group, claims that staffing agencies cut temps' bargaining power.

Across the G7 politicians are mulling three ways to overcome the problems low pay poses. The first and least appealing is re-regulating the labour market so as to limit flexibility. In Germany trade unions are critical of mini jobs, arguing that they cannibalise higher-paying ones. The evidence suggests that this is not the case; mini jobs are growing fastest in industries where full-time jobs are up strongly too, according to the IAB, a government research institute. In Britain, the Labour Party is promising voters it will outlaw zero-hours contracts.

Credit where it's due

This push will not make workers better off. For one thing many workers like the two-way flexibility temping provides. Temping is popular with some Japanese workers, allowing women with young children and retired workers seeking a pension top-up to enter the workforce. And making the market less flexible raises the risk that an economic downturn will cause mass layoffs. France has the G7's least flexible labour market, and a 10% unemployment rate. Since 2010 the French economy has created around 140,000 new posts. Ultra-flexible Britain has created 1.6m. Although politicians are right to ensure that work pays, the hard truth is that in a wounded economy a low-paying job is better than none at all.

The second approach to low pay is tax cuts. Britain provides a good example of how they can help. In 2010 a worker in Britain earning the minimum wage—then £5.93 per hour—was liable for tax on £5,900 of the £12,300 he would have earned that year. Today the equivalent total is £13,520 (\$20,870), but increases in the tax-free allowance mean only £2,920 is taxable.

The problem is that such tax cuts are untargeted, so the better- and indeed best-off gain too. This makes them popular, but expensive. To focus low tax on the poorest,



instead, many countries use tax "credits", like the Working Tax Credit in Britain or the Earned Income Tax Credit in America, which provide refunds to those on the lowest pay. In Britain, for example, someone earning £13,100 or less receives a top-up of £1,960. Since there is no cost to the employer any urge to hire remains robust.

But there are concerns here too. Some worry that stingy bosses are able to rely on tax credits rather than raise pay. Low-paid workers flipping burgers at McDonald's, Burger King or Wendy's, America's largest fast-food chains, or those pulling pints at JD Wetherspoon, Britain's biggest pub group, will be getting substantial tax credits. Yet critics point out that these outfits are profitable and returning cash to their shareholders. Other companies find higher pay affordable: Walmart plans to raise its minimum wage from \$7.25 to \$9, a step which should be easily manageable given profits of \$27 billion and dividends of \$6 billion in 2014. Indeed it may pay for itself through reduced churn and better motivation; studies of Britain's economy find that

higher pay helps firms retain workers.

And even though targeted tax credits are cheaper than across-the-board cuts their costs add up: the British exchequer spent £30 billion boosting low pay like this in 2013-14, more than twice what it paid a decade earlier. A recent report from the Centre for Labour Research and Education at the University of California, Berkeley, calculates that between 2009 and 2011 America spent \$227 billion (around 6% of the annual federal budget) on top-ups for low-paid workers. Two major outlays—tax credits (\$67 billion) and food stamps (\$71 billion)—aim to pep up purchasing power directly. The other—Medicaid (\$83 billion)—offsets the fact that companies provide less health insurance than they did, with coverage falling from 67% to 59% of workers between 2003 and 2013.

A third approach—higher minimum wages—would shift the burden back to firms. The legal floor to pay varies a lot across the G7: Italy has no minimum; France tops the pack at €9.61 (see chart 3). Many on the left would like to see higher rates. In America, Barack Obama wants the minimum wage boosted by nearly 40% to \$10.10. In Britain, the Scottish National Party wants to hike the minimum to £8.70; the Living Wage Foundation, a think-tank, reckons workers outside London need £7.85 an hour and those in London £9.15—41% above the current minimum.

In general, setting floors and caps to prices is risky. Energy-price caps can stop firms investing in power stations, wage floors can stop them from hiring workers. France's lofty minimum wage comes with high unemployment. Yet most studies suggest that at moderate levels they do little to worsen unemployment. A study focusing on employment and wages during Britain's sharp recession of 2009, carried out in 2012 by Mark Bryan, Andrea Salvatori and Mark Taylor of the University of Essex, found no evidence that the minimum wage prevented firms hiring. Left-leaning think-tanks reckon politicians should go further: American cities, free to set their own pay floors, often demand wages well above the federal minimum, and a 2011 study of San Francisco, Santa Fe and Washington, DC, by John Schmitt and David Rosnick of the Centre for Economic and Policy Research found that this had no impact on employment.

Work must be a route out of poverty, not a way to stay stuck in it. To that extent new political interest in stagnant and falling pay is welcome if it really boosts what poorly paid workers take home while not deterring job creation. But although the new world of ultra-flexible labour markets has its flaws, those on the left looking for a restored rigidity are playing a dangerous game: the unemployment that could result would help neither those rendered jobless nor those scraping by. ■



Temporary solutions



Equality before the law

Showtime for gay marriage

WASHINGTON, DC

The Supreme Court ponders the biggest case of the decade

NINETEEN years after a district court first allowed gay couples to marry in Hawaii, the Supreme Court could be poised to do so nationwide. If so, its ruling will be final, unlike the one in Hawaii, which was swiftly rejected by voters. Everything hinges on how the nine justices respond to the two-and-a-half-hours of oral argument they heard on April 28th.

Popular support for gay marriage has surged (see chart). Some 27% of Americans supported it in 1996; today, 55% do. Nearly 400,000 gay couples have tied the knot, estimates Gallup. Over two-thirds of Americans live in states where same-sex marriage is legal. Only 13 states still ban it, including Ohio, Michigan, Kentucky and Tennessee, which are parties to the four cases before the court collectively known as *Obergefell v Hodges*.

These cases involve gay couples who have suffered because the state where they live frowns on same-sex marriage. For example, Pam and Nicole Yorksmith (pictured) were married in San Francisco but live in Kentucky. One day their four-month-old son had breathing difficulties. Pam rushed him to a hospital just over the border in Ohio. But the hospital did not recognise that a child can have two mothers, and Nicole's name was already in their records. So Pam was not allowed to give a parent's permission for doctors to treat her child. It took an hour for hospital staff to

reach Nicole, as the baby coughed and wheezed. All the other couples have tear-jerking stories, too. Indeed, such stories are now common (see page 22), as is inevitable when some states allow marriage equality and others don't.

The argument for striking down state bans on same-sex marriage is simple. The constitution says that no state may deny anyone within its jurisdiction "the equal protection of the laws". Telling gay people they cannot marry would appear to violate that. Also, the constitution requires each state to give "full faith and credit" to "the public acts, records, and judicial pro-

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ceedings of every other state". This suggests that gay marriages performed legally in one state should be valid in others.

Arguing in favour of the state bans, John Bursch, a lawyer for Michigan, contended (seven times) that changing the definition of wedlock would bring undesirable consequences for society. Marriage would become unmoored from its *raison d'être*: raising children. A child who grows up "believing that marriage is about keeping that couple bound to that child forever" might fare better than a child whose parents' marriage "is more about their emotional commitment to each other," he said.

Liberal justices were not persuaded. By opening marriage to same-sex couples, "you're not taking anything away from heterosexual [ones]," Justice Ruth Bader Ginsburg said. Justice Stephen Breyer noted that plenty of gay couples have kids, and "a very high percent" of heterosexual couples do not or cannot procreate. Justice Sonia Sotomayor asked why a "feeling which doesn't make any logical sense" should ➤

Like Brown and Loving, not Roe

Percentage of Americans saying they approve of:

school desegregation the decision in *Roe v Wade* marriage between blacks and whites same-sex marriage

Supreme Court actions:

Brown v Board of Education: Outlaws racially segregated schools

Loving v Virginia: Overturns state bans on interracial marriage

Roe v Wade: Strikes down state bans on abortion

Obergefell v Hodges:

Debates gay marriage



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Gay marriage

The cost of delay

ATLANTA

What life is like for gay couples who cannot wed

ELIZABETH WURZ was sitting in an ambulance with her sick son last month, struggling to convince paramedics that she was, indeed, his mother. Gay marriage is illegal in Georgia, and only spouses can adopt a child jointly. Ms Wurz's son has two mothers, but only one is legally recognised. So on paper, she is a stranger. If permission were needed to perform some tricky operation, she could not give it. "People don't realise the fear you feel at a time like that," she says.

The harm that gay marriage might cause to heterosexual families is entirely theoretical. The harm that continuing to ban it does to gay people is real and palpable. Same-sex couples in the 13 states where they cannot marry are denied the rights and benefits that wedlock confers on straight couples. They lose out on big tax breaks, inheritance rights, health insurance that covers spouses and the custody of jointly raised children if one of them dies.

Shelton Stroman and Christopher Inniss, a Georgian couple, are bringing up a son together. Mr Inniss has legally adopted him; Mr Stroman cannot. Mr Stroman went to court to change his surname to "Inniss", in the hope of stop-

ping enquiries about whether he was really the boy's dad when he tried to pick him up early from school. But the judge to whom he presented his case described this wish as a "mockery", Mr Stroman recalls, adding that he walked out of the court and wept. "We don't want to be second-class citizens," he says.

Support for gay marriage in Georgia has nearly trebled since 2004, to 48%. Still, the Altamaha Baptist Church in rural south Georgia declares that gay weddings undermine "a healthy society". And a local franchise of Alpha-Graphics, a printer, in Suwanee refused to produce wedding invitations for a gay couple hoping to marry later this year (when they hope it will be legal). Horrified executives at the company's national headquarters in Salt Lake City, Utah apologised and offered to print them without charge.

Georgia's attorney-general, Sam Olens, has fought to defend the state's ban on same-sex weddings. But on April 22nd he said that if the Supreme Court overturns it, "it's not time for criticism. It's not time for banter. It's time for the lawyer to play lawyer, and to ensure that everyone follows that law."

▶ "control our decision-making". Justice Anthony Kennedy, who is often the swing vote on the court, criticised Mr Bursch's argument that "only opposite-sex couples can have a bonding with the child". That, he said, is "just a wrong premise".

Still, several justices seemed nervous about tinkering with an institution that has existed for millennia. Chief Justice John Roberts observed that no dictionary "prior to about a dozen years ago" would have described marriage as anything but a "unity between a man and a woman". Others worried that it would be presumptuous for the court to overrule voters. "It's very difficult for the court to say, 'oh, well, we know better,'" said Mr Kennedy. Perhaps it would be wiser to wait and see whether gay marriage does, in fact, cause some kind of harm, wondered Mr Breyer.

Donald Verrilli, the solicitor-general, delivered a thundering rebuke to such arguments. "Gay and lesbian couples live openly as our neighbours...raise their children side by side with the rest of us [and] contribute fully as members of the community." It is "simply untenable", he said, that "they can be required to wait" for equal protection. "They deserve it now." A decision is expected in June. ■

Where's the boom?



Sources: Bureau of Economic Analysis; Thomson Reuters

Net exports (ie, exports minus imports) have certainly been boosted by the lower oil price. America exports very little oil, but imports a lot: about 9m barrels a day. With the oil price roughly \$60 below its peak, Americans now send \$500m less abroad every day—or about \$200 billion a year.

Add to this the lower price of domestically produced oil, and Americans have received a windfall, akin to a juicy tax cut. That cash could be spent or invested at home. But consumers are reluctant to splash out, perhaps because wage growth has been so miserable. The monthly growth rate of retail sales—not including those at petrol stations—has stumbled in the past few months.

The fourth component of GDP, investment, is also sluggish. Until recently lots of money was thrown at jazzy equipment to extract oil from difficult places: from 2010 to 2014 investment in mining exploration, shafts and wells increased by 80%. Now firms are cutting back, says Fitch, a rating agency. Investment in mining structures shrank at a 60% annualised rate in the first quarter of 2015, says Capital Economics, a consultancy—enough to subtract 0.8% from overall GDP growth. Lower investment goes hand-in-hand with job cuts. In March Texas, an oil state that in recent years has seen rapid job growth, saw its largest month-on-month drop since 2009.

Yet despite all this dour news, low oil prices have helped in one important way (besides the obvious one of easing motorists' pain at the pump). They have pushed down inflation. The headline rate is now hovering around zero—well below the Federal Reserve's target of 2%. When prices are rising so slowly, the Fed can keep policy very loose. Indeed, at a meeting on April 29th it decided to keep interest rates at rock bottom, as it has done since late 2008. Such ultra-low rates stimulate growth without the threat of inflation.

In the past few weeks, however, the oil price has stopped falling, so this deflationary effect is wearing off. Economists are left wondering how what seemed like such a big bonus for the American economy could have had so little effect. ■

The economy

Oil be damned

The economic boost from lower oil prices is smaller than you might expect

IN 2014 oil prices crashed. Americans jumped for joy. Small wonder: each year the average American consumes more energy than a Briton and a Japanese person put together. The oil-price drop pleased economists, too. Many were sure that it would give the economy a nice boost. However, the oil bust was followed not by a boom but a slowdown (see chart). Figures released on April 29th showed that growth in the first quarter of this year was just 0.2%. All this leads wonks to wonder: are lower oil prices such a good thing?

Gross domestic product (GDP), the total annual output of an economy, is made up of four things: government spending, net exports, consumer spending and investment. The oil price does not much affect government spending, but has a big impact on the other three.

Baltimore's riots

Why rioting makes things worse

BALTIMORE

Angry youths burn their own neighbourhood

OUTSIDE a gutted pharmacy in West Baltimore, William Tyler, a 41-year-old youth worker, illustrates the dilemma of policing in his city. Speaking about Freddie Gray, a 25-year-old who died on April 19th after being arrested by Baltimore's police, he complains that: "None of these polices ever go to jail, they don't get fired. Police is nothing but gangs too." Yet looking at the building behind him, burnt out by riots that followed Mr Gray's funeral, he adds, "and look at this store! This is where my mom gets her medicine. The police just stood right there and watched it happen. This weren't the time for protocol. This were the time to go, go, go!"

Baltimore exploded into violence on the evening of April 27th after several days of largely peaceful protests against Mr Gray's treatment. Soon after the funeral, angry teenagers, some apparently stranded by a shutdown of the city's transport network, began attacking a mall in the north-west of the city.

By sunset, large areas of West Baltimore had descended into lawlessness. Groups of young men and women looted bars and corner shops, set fire to buildings and joy-rode through the streets. By the following morning, the National Guard, state police and cops from neighbouring counties had flooded the city to enforce a citywide overnight curfew.

The riots were the most dramatic unrest in a large American city since 2001. Some see them as an outpouring of understandable rage at police brutality. Others wonder how torching the local pharmacy could possibly be the answer to anything. Barack Obama condemned the rioters as "criminals and thugs".

In the neighbourhood where much of the violence took place, a third of homes were already vacant and more than half of working-age residents do not have jobs. The median household income is \$25,000, less than half the national average. Chain stores are rare: residents rely on expensive little shops that sell groceries through hatches in bulletproof screens. Prices are high because competition is weak: few shopkeepers want to work in such a dangerous neighbourhood.

The riots will surely make all this worse. More businesses will flee, making jobs even harder to find and groceries even more costly. In Wonderland Liquors, a local store that was looted, volunteers sweep up the broken glass. "Everything is gone;

it's surreal", says Daniel Kim, a relative of the owner. At least \$100,000 of inventory was stolen, he reckons. The store is insured but it will take time to reopen and premiums will probably soar.

Baltimore's tragedy has intensified the national soul-searching about the relationship between African-Americans and the police that began with similar disturbances in Ferguson, Missouri last August. Hillary Clinton called for an end to mass incarceration, for police officers to be equipped with body cameras and for reforms intended to rebuild trust in policing.

Yet the problems in Baltimore are different from those in Ferguson. There, a newly arrived and more middle-class black population faced a mostly white police department and white city leaders who essentially treated them as a source of revenue by constantly fining them for minor infractions. In Baltimore, by contrast, blacks have been a majority for decades. The mayor, Stephanie Rawlings-Blake, is a black Democrat; her police chief is black, and most police officers are non-white. Baltimore's problems are deeper: in many ways, the city has simply failed.

Crime is rife. In 2013, 233 people were murdered in Baltimore, giving the city a higher murder rate than South Africa. Even as thousands of cops in riot gear enforced a curfew on April 28th, police scanners reported carjackings, robberies and one murder—none of them connected to the protests. Gangs are common and visible. In the

aftermath of the riots, young men in the uniforms of the Bloods and Crips gave interviews claiming to have done a better job than the police of preventing looting.

This failure has its roots in a previous era. As in many north-eastern and mid-western American cities, black migrants seeking industrial jobs in the 1950s and 1960s faced violence and racist housing policies which concentrated them into ghettos. Middle-class whites fled, particularly after the riots that followed the murder of Martin Luther King in 1968. In the 1970s deindustrialisation sucked away jobs; in the 1980s, heroin and crack cocaine filled their place. As police adopted tough tactics to try to stop the drugs trade, violent crime instead flourished.

The legacy of state failure is difficult to fix. An investigation by the *Baltimore Sun* in September revealed that between 2011 and 2014 alone, the city paid out \$5.7m to settle lawsuits over allegations of brutality. One case was of an 87-year-old woman who was pushed over by a police officer after calling because her grandson had been shot. In 2012 the FBI found 51 of the city's cops involved in a corruption racket.

Some attempts to lower crime seem to have worsened things. Under the orders of the then mayor Martin O'Malley (who now seems likely to run for president), the police adopted a "zero tolerance" strategy. In 2005 there were 100,000 arrests among a population of just 635,000. Few African-Americans trust cops to enforce the law fairly, so many crimes are not reported, and police struggle to get witnesses to testify. Barely half of the city's murders are solved.

Some things were improving before the riots. Graduation rates in the city's public schools have climbed in recent years; a 60-year population decline has finally been stemmed. Alas, a few days of delirious mayhem could set the city back for a decade or more. ■



Where will you buy your groceries tomorrow?



A FOUNDATION IN THE CLOUD: CREATING A DATA-DRIVEN, MOBILE WORKFORCE

Takeshi Numoto

Microsoft

The evolving workplace is an undeniable reality of global business today. No longer constrained by office walls, employees expect to have access to the necessary tools, resources and information to be productive while working from any location — in a word: mobility.

The path for businesses seeking to embrace the mobile workforce can pose challenges equaled only by the crucial question: Why?

To understand the potential, first consider the proliferation of connected devices. Fueled by increasingly pervasive connectivity and often referred to as the Internet of Things (IoT), the number of these connected “things” — smartphones, wearables and other enterprise assets — could reach more than 200 billion in the next five years.

Staggering Numbers

While this number is staggering on its own, the value ultimately comes down to empowering employees with anytime, anywhere tools that can help create actionable insights from the influx of data simultaneously

generated and consumed by these devices. Accomplishing this requires businesses to think of mobile and cloud as equal parts of a larger whole — a new world of cloud-based solutions that impact how we live and work.

“Today, it’s not just about phones, the band on your wrist or the billions of other Internet-connected devices,” says Takeshi Numoto, corporate vice president, Cloud and Enterprise, at Microsoft. “With cloud and mobile technologies, businesses can help employees be productive from anywhere by connecting them to intelligence drawn from business applications and processes, as well as social media, IoT and other sources.”

Companies can begin by consolidating their various structured and unstructured data sources. Then, using business intelligence and advanced analytics, they can extract insights from that data to drive better customer

“With cloud and mobile technologies, businesses can help employees be productive from anywhere by connecting them to intelligence drawn from business applications and processes, as well as social media, IoT and other sources.”

experiences, improve production and operations, and lower costs. Finally, companies can facilitate knowledge-sharing and collaboration by making data and analytics tools more accessible — tools that can uncover “small patterns” in big data to drive innovation.

“Simply put, the cloud gives businesses of all sizes access to the kind of intelligence and computing capabilities previously out of reach for all but the largest companies,” says Numoto. “New cloud services can provide economical, on-demand access to business applications and intelligence, and solutions that can scale as an organization grows from start-up to large enterprise.”

Bring Your Own Device

However, Numoto cautions that data access and self-service business intelligence are only part of the equation. “Enterprise-grade reliability, scalability, compliance and security, which are critical elements of an effective cloud program, become even more complex in an era of ‘bring your own device,’ he says. “It takes experience and systems that are designed to gracefully handle failure cases and meet evolving performance requirements.”

Microsoft’s answers to these challenges include enterprise-mobility solutions, which can help businesses of any size manage identities — on nearly every type of device — with integrated data and application protection, as well as the 99.95% availability, tech support, round-the-clock service health monitoring and the scalability of Azure.

“Microsoft continues to embrace mobility, IoT and big data as key drivers of our innovation,” says Numoto. “Today, we deliver more than 200 Internet-scale services worldwide to over 20 million businesses in more than 90 markets. And we’re continuing to lead the way with machine learning, support for nearly any architecture or any OS, and a steady stream of new features that make Microsoft’s cloud offering the most intelligent in the industry.”

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Roland Fryer

From the hood to Harvard

A hotshot economist with lessons for Baltimore and other trouble spots

WHEN Roland Fryer was a teenager, he hung out with a bad crowd. Surrounded by drug dealers and getting into fights, he used to sell counterfeit handbags to make a bit of extra cash. Asked by a friend where he would be at 30, he replied that he would probably be dead. In fact, at that age, in 2008, he became the youngest African-American to win tenure as an economics professor at Harvard. On April 24th the American Economic Association (AEA) announced that he had won this year's John Bates Clark medal—the profession's second-highest honour after the Nobel prize. He is its first black winner.

The Clark medal—awarded to the most promising American economist under 40—was given for Mr Fryer's work on improving “our understanding of the sources, magnitude, and persistence of US racial inequality”. His research has sought to explain why black children do so much worse in life than their white peers—and why relatively few have, like him, overcome their rough backgrounds.

One of his early studies asked why black kids do worse than whites at school. He found that, after controlling for such things as income, there was no gap in kindergarten. But over time, black pupils lost ground in virtually every subject. By the middle of third grade (at around nine), they were 20% less likely than whites to be able to perform tasks such as multiplication.

One explanation, long dismissed as an urban myth, was that black pupils do not study hard because those who do are accused by their peers of “acting white”—and ostracised. Mr Fryer found a novel way to test this notion. He measured how popular pupils were by asking them to name their friends. To guard against fibbing, he counted a friendship as real only if both children named each other. He found that the myth was true. Black high-school students with good grades had fewer friends than those with mediocre ones. For whites, the reverse was true.

How, then, to persuade slackers to study harder? Mr Fryer suggested offering small cash rewards to children who meet certain goals, such as memorising their times tables. This was surprisingly effective. One of his experiments in Houston's elementary schools showed that, for every 10% increase in incentive payments, pupils worked 8.7% harder. (By comparison, a similar increase in wages spurs adult males to work only 3.2% harder.)



Roly polymath

Mr Fryer's next challenge is to study racial inequality outside the classroom. He plans to test whether there is a racial bias in police shootings. This is much harder than it sounds. It is not enough to show that cops are more likely to shoot black citizens than white ones (which they are). You have to show that they are more likely to shoot blacks than whites *under the same circumstances*. It should be possible to use police data to control for things that might prompt a cop to open fire, such as whether a suspect was holding a gun when being arrested. The results, Mr Fryer says, may help the police figure out how to reduce the death toll. With Baltimore in flames and Ferguson still reeling from riots over police heavy-handedness, such dispassionate research is urgently needed. ■

Education

One door closes, another opens

NEW YORK

Shutting failing schools helps pupils

ABANDONING schools can be perilous for politicians. When Rahm Emanuel, Chicago's mayor, decided in 2013 to shut down 47 public schools that were half-empty and had atrocious results, he sparked protests that nearly cost him the next election. In New York Michael Bloomberg, who once ran the city, infuriated teachers' unions because he sometimes allowed charter schools to replace traditional public schools that didn't work.

In 2013 Philadelphia closed 23 schools. Parents, teachers and activists held rallies and candlelight vigils to protest. Two years

on, bad feelings remain. People are attached to their neighbourhood schools. Parents worry that closure could disrupt their children's education. Children do not want to lose their friends. Teachers worry about their jobs.

However, a new report from the Thomas Fordham Institute, a think-tank, may encourage future closures of bad schools, because it suggests that they are good for students. Researchers looked at 23,000 displaced pupils from shut-down district and charter schools in eight Ohio cities between 2006 and 2012. Ohio's urban public schools have long struggled with competition from charter schools and declining populations (the state's eight largest cities have lost more than 50,000 students in the past eight years). Those who stayed found themselves in empty or failing schools.

Critics argue that shutting schools destabilises and, in some cases, derails the academic progress of pupils. Not so: the Fordham study found that closures ultimately benefit pupils from wretched schools. Once a school had closed, most of the children ended up in better ones, where they eventually got higher grades. Three years after the closure, children were found to have gained the equivalent of at least an extra month of learning in their new schools. Those who went from a failing charter school to a high-performing one did even better, gaining 58 more days of learning in reading and 88 days in maths.

Most of the closed district schools were in deprived areas. Nearly three-quarters of the children were black and more than 90% were poor. The report concluded that “though fraught with controversy and political peril, shuttering bad schools might just be a saving grace for students who need the best education they can get.”

They do. And nationwide, many are not getting it. The National Assessment of Educational Progress, which periodically tests sample-groups of America's children on various subjects, this week released disappointing results for history, geography and civics for 13-year-olds. Pupils showed no improvement since 2010. Most know little about history: only 1% earned an “advanced” score in that subject. Geography scores are even worse. Most did not understand time zones, and a quarter thought Canada was a dictatorship. Results have been flat since 1994.

Civics scores were also stagnant, and included some howlers. Asked which of four options “is a belief shared by most people of the United States” about the sort of government America should have, only a third gave the correct answer: that it should be a democracy. More than half thought that the government should guarantee everyone a job. That was the wrong answer as far as the examiners were concerned, but perhaps an accurate reflection of what a lot of voters think. ■

Utah

Young, tolerant and surprising

SALT LAKE CITY

Some lessons in practical conservatism from the desert West

MUCH of America was built by religious exiles. Utah was founded by exiles from the United States. After leading his disciples from Ohio, Illinois and Missouri in 1847, Brigham Young, the polygamist leader of the Church of Jesus Christ of Latter-day Saints, chose a plain fringed by the snow-capped Wasatch mountains deep in the desert West as the place to found his Zion, Salt Lake City.

For the next 40 years the Mormons' insistence on polygamy stopped their homeland being fully accepted into the United States; only after the practice was formally renounced in 1890 could the Utah Territory become a state.

Utah's curious history still defines it: the state's population is nearly two-thirds Mormon. And so it may seem a strange place to look for lessons for the rest of America. Yet in recent years Utah has taken a surprising political path. The state is among the most Republican: in 2012 just 25% of its people voted for Barack Obama. Its governor, both senators and the entire congressional delegation are all Republicans. Yet, oddly, it is not the most conservative state in America. In several aspects of policy, Utah is quietly forging a model of constructive Republicanism.

In March Utah's state legislature passed a bill that banned discrimination in housing and employment on the ground of sexuality. The bill did not extend to most public services, leaving open the possibility that businesses could refuse to serve gay customers (though few do). Nor, predictably, did it apply to religious organisations. But, says Clifford Rosky, a professor of law at the University of Utah and an advocate of gay rights, it strengthened the legal protections offered to gay people and passed with a thumping majority.

In the same session, the state also passed a bill which changed many drug offences from felonies to misdemeanours and redirected money towards treatment for the mentally ill and persistent drug users. A similar policy of harm reduction is applied to homelessness. Over the past decade Utah has reduced by around 75% the number of people living permanently on the street, by giving them homes without first insisting that they quit alcohol or drugs or solve their mental-health problems. This policy was controversial, says Gordon Walker, the head of Utah's housing division. But, he argues, because such people use the emergency services a lot, it

Utah's liberalism should not be overstated. This year the state passed a law reintroducing the firing squad for murderers. It has not yet accepted Obamacare's expansion of Medicaid, the federal-state health programme for the hard-up, though it may do soon. It continually fights with the feds over environmental policies and land ownership (over half of the state is owned by the federal government). Yet Utah is different, argues Spencer Cox, the state's young lieutenant-governor. "Our brand of conservatism is...very practical," he says.

The clearest way in which Utah differs is in its religion. Mr Cox reckons that Mormons, long persecuted themselves, are tolerant of other people's opinions. Because many serve overseas as missionaries, they are more open to foreigners, he says. Whether that is true or not, the Mormon church has a direct influence on the state's politics. The sexual-discrimination bill passed largely because the church supported it, says Tim Chambliss, a political scientist at the University of Utah.

Mormons also make the demography of Utah unusual. The state is 92% white; and yet, because Mormons marry young and have large families, it is the youngest state in America. It also has the lowest level of income inequality and one of the lowest poverty rates. That is partly thanks to a highly successful economic policy: it has a flat income tax of 5% and invests heavily in infrastructure. In recent years Salt Lake City, which is a more liberal, less religious place than most of Utah, has become a magnet for finance and tech companies.

Can Utah's model be exported? Its demography, history and religion are unique. In other equally Republican-leaning places, such as Texas and the Deep South, politics is more raw and fiercely fought. Yet even if political culture cannot be exported, ideas can be. Perhaps what Utahns need is a little more missionary zeal. ■

Land of the pioneers

Liberal Utah

- Bans discrimination against gay people in housing and jobs
- Offers treatment rather than prison to many drug offenders
- Issues driving licences to illegal immigrants
- Houses the homeless before they give up booze

Illiberal Utah

- Has not expanded Medicaid
- Reintroduced the firing squad for murderers

Source: *The Economist*

saves money.

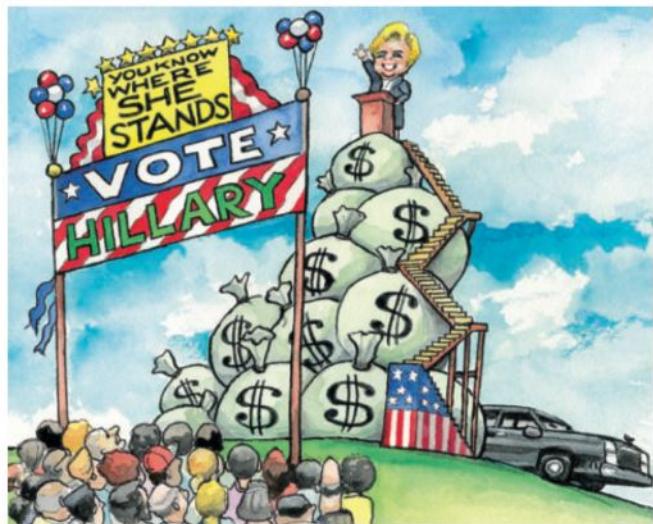
On immigration, the state has long been fairly tolerant—and much more so than its neighbour Arizona. In 2010, when Arizona passed a law compelling police officers to check immigration papers, Utah became the first in America to issue a special class of driving licence available to illegal immigrants who can prove their residency. That was followed in 2011 by a law which proposed to introduce state-level work permits for illegal residents: an idea ultimately blocked by the federal government, but which was meant to send a message. The state is also among 18 which allow certain illegal-immigrant students to claim in-state tuition benefits, and it enthusiastically takes in refugees under the federal resettlement programme.



Party on, Utah

Lexington | Hillary's money woes

The Democratic front-runner has a troubled relationship with more than one kind of bill



IN AMERICAN public life, surprising angst is generated by the task of finding private jets for political bigwigs to borrow. The chore is easy when a big corporation makes a plane available. Some billionaires relish flying political chums around, which is even handier. But sometimes, when all else fails, flights end up being cadged from frankly unsavoury jet-owners. This does not matter much once a political leader has left office and hit the global-grandee circuit—a lucrative world of paid speeches, charity work and discreet consulting gigs. But it does if a politician still has campaigns left to run.

The private-jet conundrum sheds light on a challenge facing Hillary Clinton. Her husband Bill long ago passed through what might be termed the “money door”, cashing in his celebrity, eloquence and connections to become a rich man. Fair enough; he is a private citizen and a brilliant speaker. Unlike the Brits, who treat Tony Blair as a pariah these days, Americans do not necessarily think it outrageous that a former head of government should become rich. Mr Clinton’s allies add that personal wealth holds little interest for him. Given a pile of money, he might buy an expensive watch but that is about it, admirers maintain.

His wife’s relationship with big money is more complicated. Mrs Clinton is described—to put it politely—as intently focused on her family’s financial security. She, too, has given lots of speeches for six-figure sums. But unlike Bill, she is now attempting something hard: to reverse her passage through the money door, quit the life of the global grandee and reinvent herself as a tribune of the people. Instead of jetting to Iowa to start her campaign, she trundled from New York in a van. Even her friends thought this an unconvincing show of solidarity with the working stiff. Barack Obama joked that the economy had got so bad for some people that: “I have one friend, just a few weeks ago, she was making millions of dollars a year, and now she’s living out of a van in Iowa.”

In a recent fundraising letter to small donors she talked of her immigrant grandfather who worked as a child in the lace mills of Scranton, Pennsylvania, and thundered that “The deck is still stacked for those at the top.” Meanwhile, news outlets posed awkward questions about her family’s pursuit of wealth since leaving the White House 15 years ago. In particular she has been asked about the foreign governments and businesses that show-

ered speaking fees, philanthropic donations and, indeed, private jet flights, on her husband and family-run charities while she served as secretary of state from 2009 to 2013.

Many of the questions were inspired by a fiercely disputed forthcoming book, “Clinton Cash: The Untold Story of How and Why Foreign Governments and Businesses Helped Make Bill and Hillary Rich”, by Peter Schweizer. Some of the most pointed concern donations made to the Clinton Foundation, the family’s philanthropic arm, by a group of Canadian businessmen at the same time as they struck politically sensitive deals to snap up uranium assets worldwide, including a fifth of America’s uranium reserves. Their uranium holdings were later sold to the Russian state—a sale which required approval by the State Department led by Mrs Clinton. Mrs Clinton’s campaign staff say there is not a “shred” of evidence that the former secretary of state used her office to help donors. To be sure, no smoking gun has been found; but Clintonland sounds defensive.

The Clinton Foundation—which seeks to reduce childhood obesity, lower the cost of HIV drugs and other good things—has announced that while Mrs Clinton is running for office it will accept donations only from foreign governments that are already funding programmes. The foundation added that it would refile any tax returns which misreported some overseas donations, acknowledging accounting “mistakes”. This burst of interest in the Clinton family’s finances follows revelations about Mrs Clinton’s use of a private e-mail server throughout her time as secretary of state, allowing her to delete tens of thousands of e-mails as she saw fit rather than preserve them in government archives.

Mistakes were made

Republicans say all this is (fresh) evidence that the Clintons are calculating and corrupt. Mitt Romney, the Republican presidential nominee in 2012, told conservative radio that he saw “every appearance that Hillary Clinton was bribed to grease the sale of, what, 20% of America’s uranium production to Russia,” and that e-mails were later erased to cover up the scandal. Democrats loyal to the Clintons closed ranks, telling media outlets that partisans are concocting allegations out of nothing, and that all charges will prove unfounded. Among diehards on the right and left, this latest fuss will probably change few minds. The approximately 40% of Americans who would not dream of voting for Mrs Clinton will scorn her a little more. On the other side, roughly 40% of Americans so dislike today’s Republican Party that talk of influence-seeking by donors in Clintonland will not sway them.

But there are Americans whose support cannot be taken for granted by either party. These include young people and minorities who only sometimes vote, as well as several million working-class whites who stayed at home in 2012 rather than vote for Mr Romney, an awkward plutocrat. Extended discussion of the Clinton family’s wealth, and whether any of it was ill-gotten, is likely to exhaust and alienate such voters. When they hear Mrs Clinton complain about bosses’ pay or money in politics, they will roll their eyes. This problem will persist even if no vast scandals are unearthed by further digging into the Clinton Foundation, or indeed into the more than \$100m that the former first couple are estimated to have earned from speechifying. America has spent years listening to the Clintons defending themselves against charges of greed, and of sticking to the letter rather than the spirit of rules and undertakings. The prospect of another 18 months arguing about such things is not a happy one. ■



Mexico and its NGOs

The new movers and shakers

MEXICO CITY

They don't wear balaclavas or wave banners, but they are bringing about change

VIRIDIANA RÍOS is a 32-year-old activist who grew up in the impoverished suburbs of Mexico City. But she is no left-wing firebrand. She is the Harvard-educated head of an NGO that uses analysis, statistics and cheeky social-media campaigns to agitate for clean government. Instead of adopting the rabble-rousing tactics of the street, she is part of a movement of civil-society wonks who are gaining big influence in Mexico. Their weapons are hard facts and solid arguments. "We are the technocracy of civil society," she says.

In recent months, after the murder of 43 students in the south-western state of Guerrero in September and widespread allegations of corruption, these organisations have come into their own. They have persuaded the government of Enrique Peña Nieto to go further than he originally wanted in a constitutional reform to tackle corruption. "I would go so far as to say that, without them, this reform wouldn't have happened," says Fernando Rodríguez Dosal of the opposition National Action Party, which drafted the law.

In April NGOs and think-tanks lobbied successfully for laws opening up greater access to government information. They also launched a "civil observatory" to monitor the building of a vast new airport near Mexico City; the government says it will cost 169 billion pesos (\$11 billion), but has not said where the money will come from.

And an education charity, Mexicanos Primero, headed by a member of a prominent industrial family, is taking legal action to force the interior ministry not to cave in to radical teachers who are opposed to a sweeping education reform.

The NGOs' methods include "name and shame" campaigns that play well on social media. Ms Ríos's outfit, México ¿Cómo Vamos? (How are we doing, Mexico?), has designed an anti-corruption "breathalyser". It shows in real time which states have and have not approved the anti-corruption reform that will, for the first time, subject them to federal audits. Within a week of approval in the federal Congress on April 22nd, ten of the 32 states had ratified it. This delighted Ms Ríos.

Recently, two NGOs, the Mexican Competitiveness Institute (IMCO) and Transparencia Mexicana, created a platform called Three out of Three, which encourages candidates in mid-term elections on June 7th to go beyond legal requirements and make public their assets, interests and proof of tax payments. IMCO's head, Juan Pardinas, says the aim is to overcome a political credibility crisis in Mexico. He urges voters to send tweets to candidates, offering to vote for them only if they provide the information. By April 29th, 100 politicians had responded, including nine candidates for state governor.

It has not been easy for NGOs to attain

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this influence in a country where the technocratic elite used almost automatically to join the government. For much of the 20th century, Mr Peña's Institutional Revolutionary Party (PRI) co-opted civil society. Its mishandling of rescue efforts after the 1985 Mexico City earthquake produced an upsurge of grassroots activism. Civil-society groups gained further prominence by fighting fraud during elections in the 1980s and 1990s, until the PRI finally lost its 72-year-old grip on power in 2000.

Once Mexico had become more democratic, the American foundations that had bankrolled some of these NGOs moved elsewhere, says Shannon O'Neil of the Council on Foreign Relations, an American think-tank. But a new law in 2004 gave charities more access to government support and the tax authorities have slowly made it easier to make tax-deductible donations. American money has come back. By one estimate, donors such as the Ford Foundation account for more than half the funding of large NGOs. Mexican business foundations play a small but growing role.

After a lull, the number of NGOs grew again as Mexico's domestic security troubles increased in the late 2000s. Some, supported by Mexican business groups, became highly effective in getting the government to deal with drug-related violence in such northern cities as Ciudad Juárez and Monterrey. There was, however, a social split, says Juan Salgado of CIDE, a government research institute. Because violent crime affected both rich and poor, well-heeled victim-support groups emerged with powerful government connections. He calls these VIP NGOs. The grassroots anti-crime organisations tended to be poorer, more ideological and more focused on the causes of crime and on human rights. They find a stronger echo in ►

► street protests than in the government.

The grassroots organisations can be dismissive of their more technocratic brethren, labelling them neoliberal and government stooges. Indeed, some of their leaders are graduates of ITAM, one of Mexico's most prestigious universities, which spurns the ideological biases that afflict most others. It instils an evidence-based approach to learning that often leads students (such as Ms Ríos) to Ivy League universities in the United States.

The technocrats have a pragmatism that makes their agenda hard to pin down. For instance, IMCO supports energy reform, as does business. But it also campaigns against obesity, which is partly blamed on the food industry. On corruption and transparency, many NGOs have banded together. They also rely on mass movements to put the government on the defensive, as in the street protests last year against Mr Peña over the students' deaths and over his wife's role in a potential conflict-of-interest scandal.

Such incidents forced the government to come out of its bunker, says Luis Rubio, head of CIDAC, a think-tank. "They have a new pragmatism. In the end they realised they needed some legitimacy." He says the NGOs' job is not just to help write good laws but also to make sure they are implemented. For this, they need support from social and mainstream media. As Ms Ríos puts it, "We have a voice. But the press and social media are our megaphone." ■

Alberta's election

Where you been so long?

OTTAWA

The opposition may end the longest winning streak in Canadian politics

JIM PRENTICE had every reason to feel confident when he called an election for May 5th. His Progressive Conservative party has governed Alberta without interruption since 1971. It held 70 of the 87 seats in the provincial legislature. Wildrose, the main opposition party (named after Alberta's official flower), seemed to be self-destructing: late last year nine of its 14 legislators, including the leader, joined the ruling party after Mr Prentice became premier. How could he lose?

Yet opinion polls now suggest that he might. Wildrose is running ahead of the Progressive Conservatives, and both are trailing the left-leaning New Democratic Party (NDP). Its victory would be a shock for a province that is, as one political scientist puts it, conservative in every sense of the word. And it would worry Canada's prime minister, Stephen Harper, whose



Conservative Party has links to both right-of-centre provincial parties. Alberta is his adoptive home; he hopes to win re-election in October.

Mr Prentice's biggest problem is the economy, which has sagged along with the oil price (see chart). After several years growing faster than the national average, Alberta's economy will barely expand this year and may even shrink. This has cast a pall over the province. Firms that operate in the oil sands are slashing investment and jobs. Organisers of this summer's Calgary Stampede, a wild-west jamboree, fret that corporate sponsors will serve hot dogs rather than steak.

The weak economy has made a hole in Alberta's budget. The province is projecting deficits of almost C\$5 billion (\$4.1 billion) in this fiscal year and C\$3 billion in the next one. Mr Prentice has responded by proposing higher taxes and user fees (though Alberta remains the only province without a local sales tax). He called elections a year early because, he said, he needed a new mandate to enact such big tax increases. The real reason may have been to avoid a vote next year, when the economy could be even weaker.

The stratagem might fail. Mr Prentice's tax plans have given new heart to Wildrose, which was founded in 2008 by disaffected Conservatives who wanted the government to rein in spending and taxes. Hostility to tax increases seems to be the party's only deeply held belief, but it resonates with Albertans. By splitting the right-of-centre vote, Wildrose has created an opening to the NDP, which wants to raise taxes on companies and the rich. It would spend the extra revenue on health (it promises 2,000 long-term care beds) and education (it would shrink class sizes and freeze university tuition fees).

Mr Prentice is a sensible moderate. After stints as Canada's industry and environment minister and as vice-chairman of

Correction: In our article about Rio de Janeiro's Olympics ("Sobriety at the carnival", April 25th) we wrote that more than 50 tonnes of dead fish had washed into Guanabara Bay (the venue for sailing events). They were in fact found in the lagoon where rowers will race.

a big bank, he became premier in September after his predecessor was felled by scandal. He wants to reduce Alberta's dependence on oil and has tried to improve relations with indigenous people whose co-operation is needed if Alberta is to develop other natural resources.

But Mr Prentice has hurt himself with policy u-turns and campaign gaffes. His government at first exempted religious institutions from a law obliging schools to tolerate clubs supporting gay students, then reversed itself, angering social conservatives. In a joust with the NDP's leader, Rachel Notley, during a television debate he patronisingly observed that "math is difficult". That provoked a feminist furore (on Twitter at #mathishard and elsewhere).

The pollsters were wrong in 2012, when they predicted a Wildrose victory. A fifth of voters remain undecided. Mr Prentice is confident that his land of petroleum and prairies "is not an NDP province." He must hope that the pollsters are wrong again. ■

Colombia's judiciary

Trouble at the top

BOGOTÁ

Even the highest courts are not immune from scandal

COLOMBIANS do not have a high opinion of their judiciary. They see it as slow, corrupt and prone to letting wrongdoers go free. A three-month strike starting last year by workers in the judicial system further tarnished its image. But until now Colombians have held the top courts in higher regard. The Constitutional Court won their gratitude by securing access to health care and upholding the rights of 5m displaced people. The Supreme Court prosecuted politicians who had colluded with right-wing paramilitary groups.

That esteem is now being tested. The Constitutional Court's president, Jorge Pretelt, faces allegations that he solicited a bribe of 500m pesos (\$210,000) to issue a ruling in favour of Fidupetrol, an oil company, in a dispute with the government. Mr Pretelt denies the charge and has temporarily stepped down as the court's president (though not as a judge) to defend himself before a congressional commission.

"The crisis reaching the Constitutional Court is the last straw," says Farid Benavides, a law professor at the Universidad de Los Andes in Bogotá. Two-thirds of Colombians say they mistrust the high courts, according to a poll taken in March, after news of the scandal broke. Some critics called for the resignation of all high-court magistrates; others proposed a constitutional assembly to overhaul the judiciary. ►

Colombia's president, Juan Manuel Santos, favours less drastic measures. The scandals should not lead Colombians to "go to extremes and demonise" the judiciary, he advised. Instead, he added new provisions to a grab-bag constitutional reform bill, which was already making its way through Congress.

These would strip high-court judges of their role in choosing other senior officials, such as the comptroller-general, a government spending watchdog. "We want magistrates to concentrate on justice and not get distracted by electoral business," said Mr Santos. The reforms would also

end the practice of judges from one high court naming judges on another, which encourages cronyism.

This does not address the biggest problems, says José Manuel Acevedo, a lawyer who leads SOS Justice, a group that campaigns to make the judicial system more accessible and transparent. These stem from a "crisis of values" among lawyers, prosecutors and judges. One solution, he thinks, would be to require lawyers to pass a bar exam, as American lawyers must. Mr Santos's reform takes a first step, by providing for the creation of a bar that lawyers would have to join.

A change of culture could take generations. Colombia needs reform sooner than that. The government is holding peace talks with the FARC, a leftist army, to end their half-century war. If they reach agreement, the courts will have to consider whether to bring criminal charges against thousands of demobilised guerrillas.

Predictably, the FARC has seized on the Constitutional Court scandal. The group said it would not be judged by "this corrupt judicial system". Nor would it tolerate a reform that "maintains the most abject problems." The quality of Colombia's courts has become a matter of war and peace. ■

Bello | Latin America's rural dream

Farming is part of the region's future as well as of its past

"I...has a dream hidden away in their heads, the secret dream of land, a small plot of land that makes them feel secure, a hidden reserve against the thousand misfortunes that might happen." So says Pilar Ángel, one of three siblings who are the narrators of "La Oculta", a new novel by Héctor Abad Faciolince, one of Colombia's leading writers.

La Oculta ("The Hideaway") is the Ángels' 150-year-old family farm in Antioquia, Colombia's most entrepreneurial and conservative province. Mr Abad's finely crafted novel not only expounds its narrators' contrasting attitudes towards sex, rural life and tradition in a modernising country, but also tells in fictional form the true story of an attempt to create a rural middle class in Colombia. In doing so, it throws an evocative light on the enduring pull of the land in Latin America—and the undercurrent of violence that has gone with it.

Conflict over land is the region's oldest story, dating to before the Iberian conquest. This installed a uniquely unequal pattern of landholding, sustained by serfdom and slavery. That lies at the root of the region's inequality, and it made land reform one of the big ideological battles of the 20th century. When it came, reform too often destroyed efficient farms without creating a workable alternative—and was too late to stop poor peasants from flooding into the cities.

But there were exceptions. Mr Abad relates the colonisation of south-western Antioquia, then a remote mountainous tract of nothing but "trees, wild beasts, birds, torrents, thickets, snakes, butterflies, ravines and mosquitoes." In the 1850s two merchants to whom the government had granted the area in repayment of bonds gathered together young



families and offered them plots in return for communal labour. Their pioneering vision was of "a free society of landed proprietors, comfortably off and happy."

Thanks to the arrival of coffee, it worked. Unlike in Central America or Brazil, most of Colombia's coffee has been grown by small and medium-sized proprietors. The hills of Antioquia and the provinces to the south are studded with flower-decked, brightly painted farmhouses.

But Arcadia was lost. For the past seven decades rural Colombia has seen persistent violence, partly a battle for land but mainly for plunder and ideology. FARC guerrillas and kidnappers come to La Oculta, and then paramilitaries using chainsaws as murder weapons. Since the 1980s some 5m Colombians have fled the land to escape threats or violence.

It is family disunity that dooms La Oculta. Jon, a black New Yorker who is the partner of Antonio, Pilar's gay brother, does not share or understand the *antioqueño* "madness for farms", "this ancestral, anachronistic attachment to a peasant past". But most Latin Americans do. For centuries, they drew their identity and

only hope of economic security from the land, the still-venerated *pachamama* (mother earth) of the Incas. If they moved to the cities, it was because they wanted more than subsistence. Many migrants retain ties to their ancestral villages. They keep their family plots and dream of returning to them. One reason for Latin America's low rate of saving is its people's preference for land, bricks and mortar.

Farming is rooted in Latin America's past but it is also part of its future. The region is somewhat less urbanised than is often thought. Although officially 76% of Latin Americans are urbanites, a study by the World Bank in 2005 found that 42% live outside big cities in what could be classed as the countryside.

Blessed with abundant land, Latin America can help feed the world. Many countries have enjoyed agricultural revolutions in the past two decades, applying technology to commercial export farming. There is scope for this to benefit smaller-scale farmers as well as agribusiness. The main things missing are good transport, public services and security in the countryside.

In Peru a burst of rural roadbuilding and the spread of mobile phones are transforming poorer parts of the country. Rural incomes rose by more than 7% a year between 1994 and 2011, according to a study by Richard Webb, a former president of the country's Central Bank.

Connectivity will itself help to make the countryside more secure. That is also the biggest potential prize from peace talks between Colombia's government and the FARC. "La Oculta" ends with Pilar clinging on in the farmhouse, having sold the land for weekend homes that take advantage of a planned motorway link to Medellín. One way or another, the rural dream remains alive in Latin America.



After Nepal's earthquake

To the rescue

DELHI AND KATHMANDU

A 7.8-magnitude earthquake brings tragedy, and reveals political shortcomings

ACLOUD of brown dust filled with rock doves rose over Kathmandu, the Nepali capital, when the earthquake struck on April 25th. As the Indian tectonic plate lurched three metres (10 feet) northward, the ground shook so violently that people struggled to stand. The earthquake rattled windows in Delhi, India's capital, 1,000 kilometres (620 miles) away.

Older parts of Kathmandu are now rubble. A 62-metre tower put up in the 19th century, Dharahara, collapsed. More buildings fell down in Durbar square, a UNESCO world heritage site that is home to old temples. Both sites had been thick with locals as well as foreign visitors. Many were trapped and died. At least one newish hotel also folded, killing dozens. But for the most part, the city's glass-and-concrete structures stayed standing, despite notoriously poor enforcement of building codes.

Credit is due to public campaigns by NGOs and the UN. They have trained builders to strengthen the joints of concrete beams. Hundreds of schools have been reinforced in recent years. Thanks to that, experts' worst fears of a big earthquake flattening three-fifths of the capital and killing 100,000 were not borne out. Luck also played a part: the main earthquake (there were aftershocks) came at noon on a Saturday, when schools and offices were closed and people were outside.

Even so, the suffering was horrific. By mid-week over 6,000 were confirmed dead. The prime minister, Sushil Koirala, predicts a final toll of 10,000. It could go quite a bit higher. Most victims were in the Kathmandu valley, which has seen rapid and haphazard urban growth over the past couple of decades, partly because a civil war that ended in 2006 pushed villagers towards the capital. The valley's buildings are especially vulnerable since they rest on sediment layers that are prone to liquefaction. Rebuilding the stricken areas could cost \$10 billion—a huge bill for one of Asia's poorest countries.

Three days after the quake, the roads

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from Kathmandu were thronged with people taking food and tents to nearby villages. In Kavrepalanchok district villagers camped in fields under plastic sheets. They complained of the stench from human corpses and dead livestock. They badly needed water, food and medicine. Two parents digging in the rubble for the body of their 16-month-old daughter said local police would not help.

Next door in Sindhupalchok district, every mud-and-stone house was cracked, and many had collapsed outright. The government guesses that 530,000 houses were damaged in all, and over 70,000 destroyed. Almost nobody has insurance. The UN says 8m people in a population of nearly 30m are affected in some way.

The epicentre was 80km north-west of the capital, in a steep and mountainous area. Landslides reportedly swept entire villages off the hillside. Aerial footage shows houses that have collapsed into circles of dust. Unseasonal rain and cold, and continuing aftershocks, including one with a magnitude of 6.9, have left many



► survivors exposed.

On Mount Everest, east of Kathmandu, tremors set off an avalanche that crushed at least 19 climbers and Sherpas. It has been a bad period for Nepali tourism. In October freak snowstorms killed 43 on a lower-altitude trail. And a year ago an avalanche on Everest killed 16. Nothing puts off determined climbers, but a tourism industry that is vital to the economy looks to be in trouble.

In India the quake killed over 70 people, but concern was directed largely at the neighbour. In a radio address, India's prime minister, Narendra Modi, vowed to "wipe the tears of every Nepali", adding that Nepal's pain was also India's. Millions of Nepali migrants live and work in India, sending remittances home. These will now be even more badly needed.

Mr Modi wants to be seen to be in charge. He appears to be guiding the relief effort better than Nepal's own leaders. Within hours of the first jolts, the Indian army began delivering aid. There is a geopolitical dimension to the help. A Modi adviser talks of an Indian strategy of becoming "more confident abroad".

That starts with winning influence in the region. Mr Modi has twice visited Nepal since he came to office a year ago, after a gap of 17 years during which no Indian prime minister deigned to pay a bilateral visit. He promotes Indian investment in Nepali hydropower. And Nepal is a main beneficiary of India's trebling of aid over the past three years, to 94 billion rupees (\$1.5 billion) a year. China presumably features in Mr Modi's calculations. Its influence in Nepal has often appeared to be in the ascendant.

After the quake China sent a rescue team and promised \$3m in immediate aid. Several countries and UN agencies quickly promised financial and other help. Indeed, so many donors rushed search-and-rescue teams, field hospitals, blankets, tents and medical equipment to the main airport in Kathmandu that it grew overwhelmed.

As for Nepal's own government, it faces huge challenges. Rescue and immediate relief operations are now making way for more sustained help for the survivors. Distributing materials for proper shelter and ensuring good sanitation are urgent priorities before the monsoon rains arrive in a couple of months. The sowing season also starts soon, so distributing seeds and farm supplies is pressing.

Jamie McGoldrick, who leads the UN in Nepal, worries that it is the most rural and remote areas, where the poorest, lowest-caste Nepalis live, that are at risk of neglect. Though the needs of the countryside's poor are greatest, the lion's share of foreign attention and aid goes to Kathmandu, home to the political elite, the bulk of foreign workers and much of the country's rich cultural heritage. Mr McGoldrick also

warns about weak governing capacity. He sees bureaucratic rivalries as well as sloth as impediments to the country's relief efforts. Others point out that politicians have long been interested mainly in their own well-being, fruitlessly debating a new constitution for the past seven years while paying little attention to governing.

Effective local councils would be the most useful form of administration to have in place now. Yet Nepal has had no local elections since 1999. Instead civil servants run things. Many are notorious for being unaccountable, corrupt and prejudiced towards the lowest castes. Donors are in a quandary, wondering how much to trust questionable partners while rushing to help. Nepal has never been an easy place in which to make aid work. In this grievous emergency, it will be harder yet. ■

Pakistan's economy

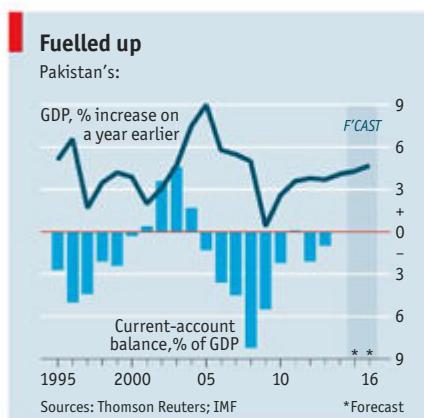
Fuel injection

LAHORE

Lower oil prices prove to be a boon

THOSE in search of a thriving stock market, a stable currency and low inflation would not normally pitch up in Pakistan. It is more readily thought of as a pit of instability than as a source of opportunity. Yet Pakistan is enjoying a rare period of optimism about its economy.

The IMF reckons that the economy will grow by 4.7% next year, the fastest rate in eight years. Consumer prices rose by 2.5% in the year to March, the smallest increase for more than a decade. Twice already this year the central bank has lowered its benchmark interest rate. Some indicators are pointing to an upturn in spending. Compared with a year earlier, cement sales, which are a guide to how much construction is taking place, rose by 5.5% from July to March. Car sales rose by 22% over the same period.



A fall of two-fifths in the oil price is a huge slice of luck for a country such as Pakistan. It relies on imported fuel oil for two-fifths of its power supply and is prone to periodic balance-of-payments crises (see chart). The country's import bill can easily overwhelm the foreign-exchange earnings from textile exports and the remittances that Pakistanis working in the Middle East and Europe send home. In 2013-14 Pakistan's net import bill for oil came to \$12.6 billion, or around 5% of GDP. But if oil prices stay low, Pakistan could save a total of \$12 billion in the next three years, says the IMF. The money could be spent on things with more local content and give the economy a lift.

The government of Nawaz Sharif takes some credit for the economy's new stability. It has stuck to an IMF programme agreed to in 2013, a few months after it came to power in Pakistan's first-ever handover from one civilian government to another. Foreign-exchange reserves have more than doubled, to \$17.7 billion. Electricity tariffs have been raised, and some unpaid bills collected, easing the cash burden on hard-pressed distribution companies. Tax receipts have risen, albeit from pitiful levels, in response to efforts to broaden the base and cut exemptions. The revenue agency has sent over 150,000 tax notices to non-payers. More retailers are being drawn into the indirect-tax net. A draft budget aims to bring the budget deficit below 4% of GDP in 2015-16, from a peak of over 8%.

A privatisation drive that stalled last June resumed in April, when the government sold its stake in Habib Bank, the country's largest lender, for \$1 billion. Three-quarters of bids came from foreign investors. Pakistan's stockmarket has doubled in dollar terms since the start of 2012, thanks in large part to such foreign interest. Privatisations will only add to the market's variety and appeal. Listed companies are highly profitable, although in part because they often face too little competition.

Visitors to Pakistan are surprised to discover good roads and a strong business culture. The country is mid-table in the World Bank's ease-of-doing-business rankings, well above India. The infrastructure is solid enough to support big fast-food chains: McDonald's, KFC, Pizza Hut and Subway have 187 outlets between them, more than in all of Sub-Saharan Africa's "frontier" economies combined, says Daniel Salter, of Renaissance Capital, a stockbrokers.

The progress in providing economic stability is encouraging. But Pakistan needs sustained growth of 5-7% a year if it is markedly to cut poverty—at the last count, nearly a quarter of Pakistanis were below the poverty line. There are doubts to whether Mr Sharif has the strength and authority to implement deeper reforms. Despite a better electricity industry, power shortages remain a bugbear. Big firms in textiles, which

Australia and Indonesia

Chill factor

SYDNEY

Drug executions strain relations

TWO days before he was to die, Andrew Chan married his fiancée in his island prison on Nusa Kambangan. Myuran Sukumaran, his fellow Australian on death row, spent his last days painting self-portraits and an Indonesian flag dripping with blood. On April 29th the two men were executed by firing squad, along with four Nigerians, a Brazilian and an Indonesian. A Filipina, who was also due to be executed, won a last-minute temporary reprieve. All had been convicted on drugs charges.

Australia swiftly withdrew its ambassador from Jakarta, Indonesia's capital. Tony Abbott, the prime minister, described this as "very unusual, indeed unprecedented". His Liberal-National coalition government has suspended ministerial contacts. Mr Abbott called it a "dark moment". It has pushed the relationship with Australia's closest northern neighbour into yet another trough.

Mr Chan and Mr Sukumaran were the alleged ringleaders of the so-called Bali Nine, arrested in Bali in 2005 and later convicted of trying to smuggle heroin into Australia. The two men's prison stories struck a chord with Australians: while Mr Sukumaran painted, Mr Chan was ordained a priest. Australia called on Indonesia to recognise their rehabilitation and their work with other prisoners as a reason to spare their lives.

Julie Bishop, the foreign minister, calls for the abolition of the death penalty in the region (it was last used in Australia in 1967). Australia has not always taken such an unequivocal stand. After a death sentence was imposed on a terrorist behind the Bali bombings of 2002, which killed 88 Australians, John Howard, the conservative prime minister at the time, said that if Indonesian law provided for the death penalty "that is how things should proceed".

Australia has much at stake in what Hugh White of the Australian National University calls a "very difficult relationship to manage". Soon after Mr Abbott

came to power in 2013, relations with Indonesia were rocked by revelations that Australia had tried to tap the phone of Susilo Bambang Yudhoyono, Joko Widodo's predecessor as president. Indonesia is also angry over naval incursions into Indonesian waters in fulfilment of Mr Abbott's campaign promise to turn asylum-seekers packed in boats back to Indonesia, their main embarkation point.

Indonesia is Australia's biggest aid recipient. In calling for clemency for Mr Chan and Mr Sukumaran, Mr Abbott asked Indonesia to remember the A\$1 billion (\$740m) that Australia sent after the 2004 tsunami. An Indonesian spokesman called the remark a threat.

Mr Abbott is now trying a tough but tempered approach. The relationship was "very important", but it "cannot be simply business as usual". Aaron Connally, of the Lowy Institute in Sydney, argues that withdrawing the ambassador could prove counter-productive. As Mr Abbott spoke, the bodies of Mr Chan and Mr Sukumaran were handed over to their families. But the latest fiasco in the relationship will last long after they have been put to rest.



Joko Widodo did not help

► account for over half of Pakistan's exports, have long taken to generating their own electricity.

Security is a less tractable problem. A textiles executive says that buyers need to look at and feel the products for themselves before they buy. Yet the representatives of big European retailers are often too scared to come to Pakistan. Fear may fade over time. Optimists point to a sharp de-

cline in recent years in the number of deaths from terrorist attacks—despite frequent grim headline news, such as a school massacre in Peshawar in December. Now the army is stepping up operations in regions bordering Afghanistan that harbour the Pakistani Taliban and other militants. "If we had more security," says another businessman, "we could double or triple our orders". ■

Indonesia's foreign policy

A thousand jilted friends

JAKARTA

The new president charts a markedly different course

WHEN Joko Widodo came to power last year, he promised to be decisive and to stand up for Indonesia. On April 29th he seemed to fulfil both promises when Indonesia went ahead with the executions of eight convicted drug-smugglers, all but one of them foreign (see box).

Their fates, which hung on the pen of the president, have strained Indonesia's foreign relations. Australia has snapped, withdrawing its ambassador, for now (see box). The executions may throw light on how Jokowi, as he is known, intends to conduct his foreign policy. If so, he risks damage to Indonesia's international standing. Only a few months ago, pundits said the chief risk under Jokowi was that handling foreign matters would hardly feature at all.

In terms of its population (250m) and its economy (\$870 billion), Indonesia is the giant of South-East Asia. But geographically disparate, chronically underdeveloped and wracked by political instability after the fall of Suharto in 1998, it has punched below its weight diplomatically. That began to change under Jokowi's predecessor, Susilo Bambang Yudhoyono. Indonesia joined the G20, took an increasingly assertive role in climate-change talks and encouraged pluralism among developing countries at the Bali Democracy Forum. Indonesia assumed a larger role within the often dithering ten-country Association of South-East Asian Nations (ASEAN). Other members welcomed it.

Mr Yudhoyono pursued a foreign policy of "a thousand friends and zero enemies". By the end, it came to look less like an expression of universal goodwill than an excuse to avoid hard choices. Still, Indonesia began to play a role on the world stage that was more commensurate with its size. Mr Yudhoyono seemed a foreign-affairs heavyweight compared with Jokowi, a former mayor with no foreign-policy experience.

Yet even before the latest executions (Mr Yudhoyono introduced a moratorium on capital punishment), Jokowi had signalled a break with the past. He abandoned the "thousand friends" policy after returning from his first foreign trip as president. He said that he would favour those countries "who give the most benefit to the people. What's the point of having many friends if we only get the disadvantages?"

Closest to home, the approach entails a more hard-nosed view of ASEAN. Rizal ►



Jokowi the enforcer

► Sukma, a Jokowi foreign-policy adviser and a one-time advocate of Indonesia playing a more assertive regional role, says that whereas Indonesia once called ASEAN “the cornerstone of our foreign policy, now we change it to a cornerstone”. An ambassador in Jakarta says Jokowi would like ASEAN to be “a place where he can get business done”. He seems to have little patience for its consensual, process-driven flummery.

If that counts as a kind of assertiveness, then it is on display along with another aspect of what is presented as Jokowi’s foreign policy, his new “maritime doctrine”. Millions of Indonesians live off the sea, mainly from fishing, while much of the vast archipelago’s trade moves by sea. Jokowi wants to spread prosperity by making fisheries more productive, assert control over Indonesia’s sovereign waters and build marine infrastructure to help bring Indonesia’s poor and far-flung eastern islands into Java’s relatively prosperous orbit. But that entails a crackdown on illegal fishing by other countries’ vessels—as many as 5,000 a day, according to the president. Indonesia has few working patrol boats. Jokowi has promised to boost the naval and coastguard budgets as he doubles the share of GDP spent on defence (to 1.5%) over the next five years.

In the meantime, Jokowi has plumped for theatrical displays of deterrence. Since he took office in October the navy has blown up 30-odd foreign boats fishing illegally, most of them from Thailand or Vietnam. ASEAN neighbours complain about Indonesian shin-kicking. Even an Indonesian foreign-policy hand calls the boat-burning “the act of an insecure power” designed to appeal to a domestic audience.

Yet the resolve fades when it comes to China. The Indonesian authorities have seized Chinese vessels, but they have not sunk them. Indonesia says it has no territorial disputes with China in the South China Sea, unlike Vietnam and the Philippines

(see page 37). But Indonesia would prefer not to pick a fight, even as it hedges its bets by boosting defence ties with Japan, calling for a more visible American military presence and sending more soldiers to its Natunas islands (which China does not claim, but whose waters fall within the “nine-dash line” it has drawn around nearly all of the South China Sea).

Does this add up to a new foreign policy of clear-eyed realism? Regrettably not. It is true that Jokowi cares deeply about a drugs scourge and the damage to national interests caused by illegal fishing. But his prescriptions of executions of drug-traffickers and blowing up fishing boats (except China’s) are more the outward manifestations of a domestic nationalism than anything more considered. Such displays may have to grow less frequent. Having friends counts for something. ■

Extremism in Central Asia

Enemies of the state

OSH

RECruits to the Islamic State trickle out from under Kyrgyzstan’s heavy hand

SITTING under an apricot tree in a village in Kyrgyzstan, a 28-year-old speaks with mixed pride and shame about his brother’s path from moderate Muslim to “martyr”. He was jailed, like dozens of ethnic Uzbeks, after unrest in southern Kyrgyzstan in 2010. The family paid a bribe of \$10,000 to get him out. After continued harassment by security forces and another jail term, he left for Syria, where he died fighting last May. His brother wonders if he should follow. He knows of six others in the village who have already left.

There is plenty of disaffection in poor, nominally Muslim but largely secular Kyrgyzstan.

As in much of the former Soviet Union, the courts are a sham and jobs rely more on connections and kickbacks than merit. An unknown but considerable number of Central Asians have travelled to Syria and Iraq to wage jihad, most recently for the Islamic State (is). Authorities say that most of those from Kyrgyzstan are ethnic Uzbeks, who officially account for 14% of the population. They suffered disproportionately in the 2010 pogroms, which left over 400 dead—both from the violence and from the show trials afterward.

Central Asian leaders use claims of extremism and instability engendered by Afghanistan to justify repression and requests for military aid, from both Russia and the West. This suits Russia, which wants to expand its military and political influence in a region that, economically, is drifting towards China. Hardly a week passes without a report that alleged extremists have been arrested, sometimes for “plotting to join” is. Human Rights Watch, a monitoring group, says neighbouring Uzbekistan has jailed over 12,000 Muslims on vague charges related to their faith.

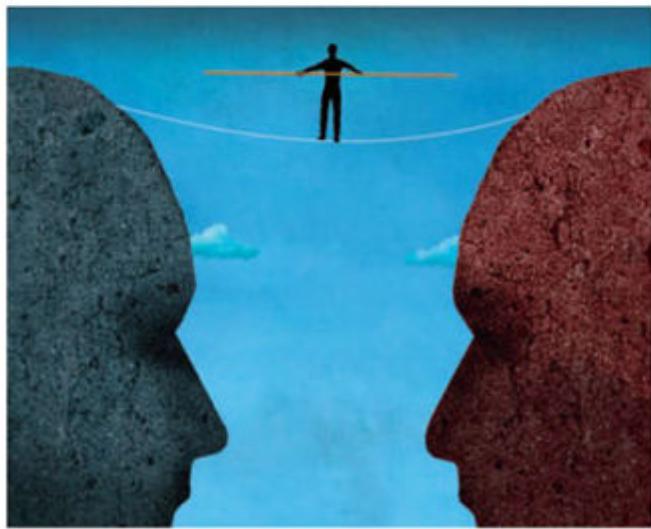
In February Kyrgyzstani police arrested Imam Rashot Kamalov, a popular ethnic Uzbek preacher, for talking of an is caliphate. The charges referred to a sermon he had given eight months earlier, and came just days after he publicly accused the secret police, the GKNB, of using bogus charges of extremism to extort money from young Uzbeks, thus fuelling radicalism. The authorities say that he encouraged jihad; a congregant says Mr Kamalov had denounced is and urged his followers to stay home.

On March 27th the GKNB raided the office of Mr Kamalov’s lawyer, Khusanbay Saliev, in Osh, Kyrgyzstan’s second city, as well as his home and that of a colleague. Mr Saliev says they seized files and computers, including his only recording of the sermon in question and records detailing three cases of alleged GKNB abuse. (A spokesman for the agency confirmed that files were seized but refused to discuss their content.) His father and brother have been questioned. An American journalist who had called on his NGO, Bir Duino, was arrested, threatened with charges of extremism and deported.

Activists “exaggerate” when they complain of abuses, says a senior police officer in Osh, hinting that their aim is to please foreign donors. Many believe the security forces are behind a push in parliament to impose restrictions on NGOs which, like Bir Duino, receive foreign funding. Similar rules in Russia are used to harass government critics and even shut them down. In Osh security goons tell local journalists: “You’re either with us or against us.” Self-censorship is rife. But silencing conversations about terrorism is not the same as fighting it. ■

Banyan | Shield and spear

A row over missile defence tests South Korea's friendships with America and China



IN SOUTH KOREA economic forces and security policy seem to be in a tug-of-war: commercial ties with China are ever more important, yet the country relies for its defence on an alliance with the United States. So far, so like Japan. But unlike Japan, South Korea enjoys excellent relations with China, while it faces a serious military threat from a third party, its bellicose and now nuclear-armed neighbour, North Korea. The tension in South Korea between reliance on China's economy and America's armed forces can be acute. As the *Korea Times*, an English-language newspaper, put it this week: "South Korea is walking a tightrope".

This week, too, Japan's prime minister, Shinzo Abe, visited Washington, DC, agreeing with Barack Obama's administration on a revision of guidelines covering the two countries' defence co-operation, in effect strengthening the bilateral alliance. That is reassuring to Japan, given the risk that its territorial dispute with China might lead to a confrontation. But for South Korea, managing the alliance with America, which has nearly 30,000 troops on its soil, is more delicate. Both America and China harbour suspicions about the other's intentions. South Korea, close to both, at times finds itself at odds with one or the other.

This year South Korea has already defied America as one of several allies that ignored advice to shun the new Asian Infrastructure Investment Bank (AIIB) that China is setting up. But South Korea has also issued a rare rebuke to China. In March, after what a Chinese deputy foreign minister visiting South Korea called "a very candid and free dialogue" (ie, a blazing row), a spokesman for the South Korean defence ministry sniffily noted that although a "neighbouring country" might have its own opinions, "it should not try to influence our security policy."

At issue was America's suggestion that it might deploy a new missile-defence system in South Korea, known as Terminal High Altitude Area Defence, or THAAD. America says this is needed to protect South Korea from the threat of conventional or nuclear missile attacks from the North (presumably America hopes it would help defend Japan as well). China, however, claims that the deployment is directed against it. In October it said THAAD would damage "peace and stability in the region" and it warned "relevant countries" that they should "not take their own security concerns as excuses for damaging others' security interests."

South Korea has plenty of reasons not to anger China, which takes a quarter of its exports and is also its biggest source of imports. (In February China and South Korea reached agreement on a free-trade deal.) Helped by the apparent personal rapport between the two presidents, Park Geun-hye and Xi Jinping, relations between South Korea and China have blossomed. Both sides are united in their suspicion of Mr Abe, whom they accuse of trying to rewrite the history of Japanese militarism in the first half of the 20th century—and even of wishing to revive it. Moreover, China's traditional ties with North Korea increase its importance as a partner for the South. No longer are China and North Korea "as close as lips and teeth", and China has yet to receive the young dictator, Kim Jong Un, for a visit. But it remains the only country capable, in theory, of exerting any restraining influence on his erratic regime.

Not that North Korea shows much evidence of restraint. Last year it conducted 19 missile tests involving at least 111 projectiles. Test firings into the sea have continued this year, including of two missiles in early April, just before America's defence secretary, Ashton Carter, arrived in Seoul, the South's capital. A senior American military officer has postulated that North Korea may now have the capacity to launch intercontinental missiles from a mobile launcher. In February in Beijing, a Chinese expert told a seminar with some American counterparts that North Korea may already have as many as 20 nuclear warheads, twice as many as had been thought. At a conference in Seoul this week organised by the Asan Institute, a think-tank, a former Chinese diplomat once deeply involved in nuclear negotiations with North Korea, Yang Xiyu, said that even if ten was the more likely number, a new North Korean nuclear test (the fourth) was a matter of "not whether, but when".

The debate in South Korea about how the country should defend itself is not resolved, however. Both South Korean and American officials say formal talks on THAAD have not yet begun. Deployment, if it happens, is at least two years away. It will be controversial, needing a lot of land, and an exclusion zone because of the dangers to health and the environment of the radar that the system uses. Some in South Korea advocate another system, developed indigenously. Nor is it clear who would pay for the expensive installations.

THAAD's not the way to do it

So it is puzzling that China should have made such a public fuss about THAAD now. Experts dismiss its ostensible worries about its purpose: the intrusiveness of the radar, and the "interoperability" of the system—ie, the fear that it might be linked up with those already deployed in Japan and Guam, and that it might eventually even be rolled out in India, encircling China. In fact, say analysts, China knows THAAD will have no impact on the effectiveness of its missiles. Nor is it likely to provoke more than the usual hysterical reaction from North Korea.

Some suspect that it is for symbolic reasons that China has decided to pick a fight—to show that in the emerging Asia which China expects to dominate, it wants a say in decisions that it reckons affect its own security. If so, it seems to have overplayed its hand, antagonising South Korea by bullying it—just as America blundered when it tried to stop its allies joining the AIIB. The moral seems to be that China's economic clout can win it commercial acquiescence, but that when it comes to arm-wrestling over matters of national security, America still has the muscle. ■



The South China Sea

Making waves

Also in this section

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BEIJING

China tries to strengthen its hand in a dangerous dispute

IN NOVEMBER, after months of frantic land reclamation in the South China Sea aimed at boosting its vast territorial claim there, China tried a subtler approach. It opened a think-tank in Arlington, Virginia—an outpost of its National Institute for South China Sea Studies on Hainan, a tropical (and indisputably Chinese) island on the sea's northern shore. One role for the new think-tank is to make an academic case for China's vaguely backed assertion that most of the strategically vital waters are within its domain—despite rival claims by South-East Asian countries.

On April 16th the Institute for China-America Studies, as the Virginia-based centre is called, held a conference at a hotel in Washington. Its Chinese-government connections clearly had pull. Henry Kissinger, a former secretary of state whom Chinese leaders much revere, spoke in a pre-recorded video about the importance of ties between Beijing and Washington. Cui Tiankai, China's ambassador to America, attended in person. Mr Cui told participants that his country would act with "restraint" in the South China Sea, although he also said it would vigorously defend its interests there.

China's efforts to put a scholarly gloss on its claims (which, on its official maps, are represented by broken lines of striking crudity) are unlikely to convince many in America or in South-East Asia. China's recent construction spree on more than half a dozen reefs has caused widespread alarm among the other claimants, which include Brunei, Malaysia and Vietnam, as well as the Philippines, an American ally. On April 28th leaders of the ten-member

Association of South-East Asian Nations (ASEAN) issued an unusually strong statement. They called the island-building effort, much of it near the Philippines, a potential threat to "peace, security and stability". In Washington, President Barack Obama, speaking during a visit by Shinzo Abe, Japan's prime minister, expressed "concern" at the reclamation and accused the Chinese of "flexing their muscles". In Beijing a foreign-ministry spokesman retorted that China's actions were "beyond reproach" and not targeted at anyone.

None of the claimants is blameless: island-building has long been a common tactic in efforts to stake out claims (see

map). But the pace and scale of China's construction activities have been remarkable. This month IHS Jane's, a consultancy, published satellite photographs showing China's rapid building this year of installations in the sea that could have military uses. These include an airstrip that could, when finished, reach a length of 3km (nearly 2 miles) on Fiery Cross Reef (the pictures above show the reef today compared with its appearance in August). The reef is now three times bigger than the largest natural island in the Spratly archipelago. A few weeks ago satellite images published by IHS Jane's and the Centre for Strategic and International Studies (csis), an American think-tank, showed similar activity on Mischief Reef, also in the Spratlys.

China's behaviour is also striking for its inconsistency with other recent trends in its foreign policy. These include an effort since late last year to mend fences with Japan, with which it has a separate maritime dispute. And as part of an attempt to draw closer to India, with which it disagrees over long stretches of their land border, China will give India's prime minister, Narendra Modi, a warm welcome in Beijing next month. In the South China Sea, Chinese authorities say they are just catching up with what others have been doing. But officials in South-East Asia complain that China's construction activity breaks the spirit of an agreement that it reached in 2002 with ASEAN to exercise "self-restraint" in the area. Many analysts see it as part of efforts to give China more room to project its power in an area previously dominated by the Americans.

China's reclamation efforts conform to ►



► a pattern of assertive behaviour in the South China Sea. In 2011 Chinese patrol boats harassed Vietnamese and Philippine oil-exploration vessels near the Spratlys. In 2012 China occupied Scarborough Shoal after a stand-off with the Philippines, which also has a claim. Last year a Chinese state-owned company sent an offshore oil rig into waters claimed by Vietnam, leading to violent anti-Chinese protests in Vietnamese cities. The rig withdrew months later. China has responded angrily to a case challenging the basis of its claims in the South China Sea which was filed in 2013 by the Philippines at a UN-backed arbitration panel. It has refused to co-operate with the hearings; a defeat, which some Chinese experts acknowledge is likely, will make China even crosser.

It appears prepared, however, to accept the consequences, including the risk that America's so-called "pivot" to Asia (now referred to as a "rebalancing")—which has often been seen by America's friends in the region as something of a fiction—will become more of a reality. The Philippines and America last year agreed on an "enhanced" defence co-operation pact (in recent days the two countries have been holding their biggest combined military exercise in 15 years). During Mr Abe's trip to Washington, America signed a new defence agreement with Japan that would allow greater military co-operation between them. America has also been establishing closer military ties with its (and China's) erstwhile enemy, Vietnam.

The Chinese state-controlled media dutifully respond with stridently worded screeds, which appear to enjoy the approval of China's easily aroused online nationalists. But the new think-tank in Virginia is part of an effort to make China's case more persuasive abroad. In September the Collaborative Innovation Centre of South China Sea Studies at Nanjing University in eastern China enrolled its first group of doctoral students. One of their intended roles, presumably, will be to scour archives for documents that might support China's claim (which dates back to the 1940s, shortly before the Communist Party seized power). Shen Dingli of Fudan University in Shanghai, who attended the recent conference in Washington, says the government is particularly keen to invest in research related to the South China Sea. The purpose, he says, is to enable Chinese to "tell our story effectively so that people cannot only hear us, but hear us rightly".

That will not be easy. One challenge Chinese academics face is the secretive behaviour of the country's armed forces (even civilian leaders do not always appear entirely aware of what they are up to). It is only thanks to foreign satellites that the recent reclamation work in the South China Sea has come to light. Hong Nong, who heads the new institute in Virginia, admits

that she was "surprised" by the recent photographs showing rapid construction on the Spratly reefs (she first saw the images on the website of csis). Ms Hong goes so far as to say that she understands the concerns of China's neighbours, and that China should reassure them by talking more and making itself more "transparent".

There is a broader message that China is trying to convey, beyond simply (as it sees it) the correctness of its claim. Carlyle Thayer of the University of New South Wales says China's strategy is, through soft power and other means, to persuade its neighbours "gradually" to accept the idea of a dominant role for China in the East Asian order. Mr Shen essentially admits this. The goal, he says, is that "everybody may win, but China wins more." ■

Corruption

Not so far away

BEIJING

Anti-corruption officials try to extend their reach abroad

"THE mountains are high; the emperor is far away," goes a Chinese saying that has always given comfort to bureaucrats who play fast and loose with the law in remote parts of the country. But often, these days, distance is not enough. Those who hanker after the added protection of a foreign jurisdiction are often called "naked officials". The term describes people who have moved families and assets abroad in readiness for escape themselves. Now, however, anti-graft officers are trying to extend their reach beyond China's borders.

Since late last year, as part of the most intense and sustained anti-corruption drive in the history of Communist-ruled China, officials have been stepping up efforts to persuade foreign countries to send back those who have fled with their ill-gotten gains. On April 22nd they released a wanted list, together with mugshots, of 100

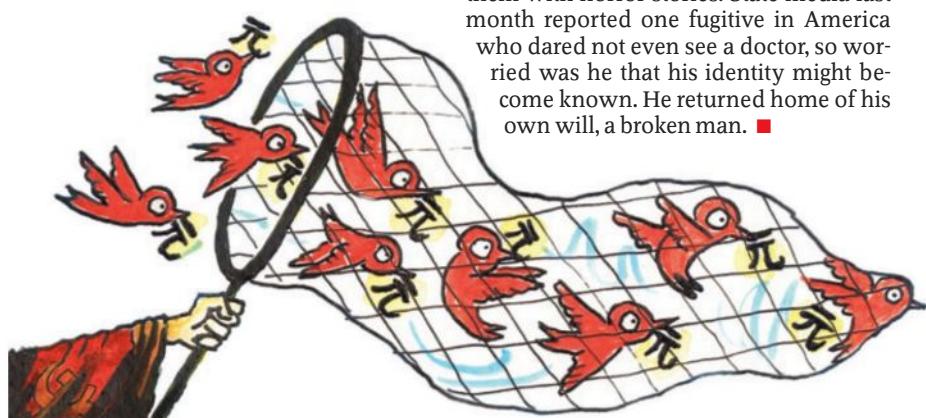
such people, as part of a new operation called Sky Net. The list was compiled by a Communist Party body, the Central Commission for Discipline Inspection (ccdi), whose agents often hold suspects in secret detention and torture them. "We will apprehend them no matter where they flee to," Fu Kui, a member of the ccdi, told state media. The operation involves other agencies such as the police, the central bank and the foreign ministry.

Among the wanted fugitives, for whom Interpol has issued arrest warrants, 48 were the most senior officials in their workplaces. One was the deputy head of a provincial construction bureau accused of fleeing to America with 250m yuan (\$40m) in embezzled funds. Another was a county-level finance official who allegedly took 94m yuan to Singapore.

Officials say that Sky Net is a new phase of Operation Fox Hunt, a campaign launched by the police last year to secure the repatriation of criminals (not just the corrupt). Officials say the exercise has been a success, having secured the repatriation of 680 fugitives from 69 countries. On April 27th the state prosecutor's office said a further 61 people suspected of "dereliction of duty" had been arrested after spending time on the run abroad. Many had turned themselves in.

But anti-corruption officials have a big problem: the 39 countries with which China has extradition treaties do not include America, Australia or Canada, which are among the favoured destinations of corrupt fugitives. China has been pressing these countries for more co-operation. After a visit to Beijing in April by Jeh Johnson, America's secretary for homeland security, state media said America "actively" supported China's efforts. The Americans say they have agreed to a more "streamlined" procedure for handing back Chinese nationals whom they decide to repatriate. But they insist that such cases be handled according to American law and "values".

China says it has sent 61 agents abroad (it has not said where) to "persuade" accused fugitives to return and face justice. It has also been trying a new tactic: scaring them with horror stories. State media last month reported one fugitive in America who dared not even see a doctor, so worried was he that his identity might become known. He returned home of his own will, a broken man. ■





Israeli politics

Netanyahu v the Supreme Court

JERUSALEM

The prime minister takes on the judiciary

ISRAEL'S Supreme Court has long been a solid pillar of the Jewish state's democracy, holding to account governments of all political stripes. But as the prime minister, Binyamin Netanyahu, puts the finishing touches to his fourth coalition after an election in March, he is preparing for an unprecedented fight to muzzle the court. The outcome of the contest—between politicians and judges, and between nationalist and universal values—could tear his government apart, and determine the future character of Israeli politics.

A new coalition is likely to be agreed on in the next few days. Five of its six parties are committed to vote for new legislation that would fulfil the long-held aspiration of right-wing and religious parties to limit the Supreme Court's power to strike down laws passed by the Knesset.

Mr Netanyahu favours an “override clause”, under which the court could overturn laws only if eight or more judges vote to do so (currently a simple majority of the bench, for big cases usually 11 judges from a total of 15, is needed). Even then the Knesset would be able to push the law through with another vote. He also plans to expand the judicial appointments committee, which chooses all of Israel's judges. By adding a minister and an additional Knesset member to the existing nine-strong committee, politicians would gain the upper hand; the legal profession currently has a majority, with three Supreme Court

justices and two members of the bar association. The change could open the way for the government to pack the court.

Just how interventionist the Israeli Supreme Court has been is open to debate. Some civil-rights groups think it is too timid, especially on security-related issues. In a landmark decision in 1992, the court opposed the mass expulsion of 415 Hamas members to Lebanon; but after a 14-hour pause it allowed the government to proceed. Two weeks ago, in another decision that angered the left, the court upheld a law that allows cases to be brought against Israelis who call for any form of boycott against Israel and its settlements in the West Bank. The court, however, struck down a clause allowing compensation to be awarded without proof of damage.

But such rulings in favour of the government and security forces have not endeared the court to the right. Likud and its allies were incensed by two rulings in recent years that struck down laws allowing the authorities to hold African migrants in long-term detention without trial. The ultra-Orthodox parties see the court as a secular enemy, because of its rulings on issues of state and religion—including a judgment that yeshiva students should not be exempt from serving in the army.

The biggest obstacle before Mr Netanyahu is the second-largest partner in his proposed coalition, the centrist Kulanu Party, which opposes his changes. Without

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Kulanu's ten members, the prime minister has only 57 votes, four short of a majority. In discussions this week Mr Netanyahu made it clear that he was resolved to pursue his campaign. One option is to keep up the pressure on Kulanu's leader, Moshe Kahlon, the intended finance minister, to accept judicial changes in return for greater freedom to reform the economy.

Ironically, Likud was historically the party of both Jewish nationalism and deep respect for the judiciary. Its first leader, Menachem Begin, was admiringly (though mistakenly) quoted by followers as accepting an unfavourable ruling with the words “there are judges in Jerusalem!”

Today Likud is run by a leader who has sworn to break the power of the “old elites” and whose colleagues see the Supreme Court judges as remnants of a privileged left-wing establishment which disregards Jewish values in favour of secular and universal principles. The struggle to limit the powers of the Supreme Court is part of a broader contest over the nature of Israel—pitting religious and nationalist activists against advocates of a more liberal and secular-minded country.

There are a few survivors of the old Likud spirit. One is Mr Netanyahu's rival, President Reuven Rivlin. On April 29th Mr Rivlin made a rare political intervention by criticising the new proposals, saying “we have to ensure a strong democracy.” The Supreme Court's president, Miriam Naor, also departed from protocol, declaring that “the court is the last barrier preventing harm to human dignity and other basic rights. It is one of the reasons Israel is seen as a member of the family of democratic nations.” What she might have added is that, with Israel facing potential indictments for war crimes at the International Criminal Court, it can ill afford to tarnish the image of its Supreme Court. ■

Israel and Syria

Hizbullah in the crosshairs

JERUSALEM

The Israeli army raises the stakes in the fight against its arch-foe

IT WILL seem paradoxical, but for all the tumult around it, Israel has rarely seemed more secure. Egypt, after the counter-revolution of Abdel-Fattah al-Sisi, is a close friend that shares Israel's loathing of the Islamist Hamas movement in Gaza. Saudi Arabia is an undeclared ally against Iran. Iraq is debilitated by civil war. Syria has imploded, and has given up enough of its chemical weapons for Israel to halt distribution of gas masks. The jihadists who have filled the vacuum are too busy fighting Arab foes to worry much about the Zionist enemy.

That leaves two worries. One is Iran. Israel is convinced that the Islamic republic is seeking to build nuclear weapons under the guise of a nuclear-power project. Israel has denounced America's talks with Iran as a "bad deal". But if a nuclear accord is signed, the threat of an Iranian bomb should be delayed by a decade or more. The second, more immediate, concern is Iran's Lebanese client, Hizbullah.

Israeli intelligence reckons the Shia militia-cum-party is armed with around 100,000 missiles of various ranges. Israel is anxious to stop it acquiring more accurate missiles which, as well as sowing fear in Israeli towns, can target specific strategic installations and might be armed with chemicals. "They are closing the qualitative gap," said the outgoing head of the home front command, Major-General Eyal Eisenberg, warning darkly that, in any future confrontation, Hizbullah would launch "between 1,000 and 1,500 rockets daily."

Hizbullah has long cast itself as the leading force of resistance against Israel, but it is now fighting fellow Arabs in Syria and Iraq. Once a proxy of Syria, it has become the main guarantor of President Bashar Assad's regime. This means that Israel's northern border with Syria on the Golan Heights, which used to be the quietest, has become unstable. Israeli generals give warning of Hizbullah "opening a second front against Israel on the Golan".

In January an Israeli drone strike hit a convoy near the border, killing the commander of Hizbullah operations on the Golan and a general from Iran's Revolutionary Guards, among others. Hizbullah retaliated with a missile attack on an Israeli patrol, killing two soldiers.

Now tension is rising again, after a series of incidents near the border. On April 24th a Syrian army missile base in the Qalamoun mountains near the Lebanese bor-



We're watching you

der was hit by an air strike. Two days later Moshe Yaalon, the defence minister, all but acknowledged that Israel had carried out the attack. "They are aware of the red lines Israel has set and has no intention of compromising on," said Mr Yaalon. "We will not allow high-grade weapons to be transferred to the terror organisations, chief among them Hizbullah."

That evening brought two more incidents. Aircraft attacked and killed four men who were laying explosive devices along the Israeli side of the Golan border; a second attack took place at another Syrian base on Qalamoun. Uncharacteristically, Israel took responsibility for the first strike, although "Israeli sources" denied involvement in the second, suggesting it was the work of local rebels.

Through all this murk, Israel may be sending a signal: it is ready to strike Hizbullah, either because its presence on the Golan is becoming a greater threat or because Israel thinks Hizbullah is too stretched by its operations in Syria and Iraq to risk another big conflict with it. Although the Israeli government has little desire for a wide-scale military campaign so soon after the Gaza conflict of last summer, it appears more willing to risk one.

Many in the army think a showdown with Hizbullah is inevitable. Right now, the militia is embroiled in other wars and is suffering many casualties; it may have lost 1,000 fighters, some Lebanese sources reckon. In a few years' time, Hizbullah's battle-hardened fighters could be back home. In the meantime, Israel may be seeking shorter-term gains. If trouble on the Golan serves to present Hizbullah's actions in Syria (and by extension Iran's behaviour) as destabilising, it could strengthen Israel's campaign to portray any nuclear deal with Iran as a menace to the region. ■

Repression in Egypt

Worse than Mubarak

CAIRO

Abdel-Fattah al-Sisi has restored order in Egypt, but at great cost

IT IS hard to gauge the popularity of Abdel-Fattah al-Sisi, but most Egyptians seem to approve of their president. The turbulence of recent years, starting with the overthrow of Hosni Mubarak in 2011 and through the chaotic presidency of Muhammad Morsi, who was himself toppled in 2013, has left many longing for order and stability. Mr Sisi, a former general, has provided both. The sense of relief is captured in a catchphrase of pro-government types: "At least we are not Iraq or Syria."

But at what price? As Mr Sisi has kept Egypt from descending into mayhem, he has unremittingly repressed critics. Several thousand dissidents, both secular and Islamist, have been jailed; at least a thousand were killed. "We don't have the luxury to fight and feud," says the president. But his authoritarian habits leave Egypt looking a lot as it did before the Arab spring, when Mr Mubarak, another military man, ruled with an iron fist. The repression is even worse now, say many.

The Muslim Brotherhood of Mr Morsi has borne the brunt of the crackdown. Mr Sisi, the power behind the coup, has stripped the Islamist group of power and crushed it, labelling it a terrorist organisation. Hundreds of its supporters have been killed by state-security forces during protests. The politicised judiciary has handed down death sentences (many since commuted) to hundreds more. Mr Morsi got off relatively lightly on April 21st when he received a 20-year sentence for, ironically, inciting the killing of demonstrators in 2012. But he still faces two more capital charges.

Bemoaning the dismal political climate, several opposition parties decided to boycott parliamentary elections that had been scheduled for March. These would have been held in an "environment full of oppression, hatred and vendetta", said the Building and Development Party, which is Islamist. The liberal Constitution Party criticised the government's "grave human-rights violations". The vote was postponed after the law governing it was found to be unconstitutional. Critics say that it was designed to create a parliament in thrall to the president, who continues to rule unchecked. But few think the new law, expected by the end of the year, will be fairer.

Mr Sisi has urged all parties to form "one inclusive coalition" that he could back—and, presumably, would back him. This is a favourite tactic. The president often appeals for unity. Last year he asked ►

► the press to “be gentle with the Egyptian people” and “take care of what you’re saying.” But in portraying himself as Egypt’s protector, he has turned his critics into enemies of the state. And his government’s less public appeals for solidarity sound rather more like demands.

During Mr Sisi’s run for the presidency in 2014, his aides allegedly instructed television presenters on how to promote his candidacy, according to leaked audio recordings. (Mr Sisi was to be portrayed as a modest man.) Pro-Brotherhood media outlets have been closed down. Most of the private media, controlled by a small elite, have refrained from criticising the government, while parroting its views. Noting the self-censorship, Kholoud Saber of the Association for Freedom of Thought and Expression says “the general atmosphere of the media is the worst ever now.”

That said, some outlets have grown more assertive, and they have also come under the cosh. Several papers, both private- and state-owned, have recently criticised abuses by the police and the interior ministry. The ministry has responded with arrests and intimidation. Foreign reporters have been targeted, too. Three journalists for Al Jazeera, the Qatari satellite television network that is sympathetic to the Brotherhood, spent 400 days in jail for allegedly harming national security. Their trial was a sham, say human-rights groups.

Civil society has fared no better. Under Mr Mubarak NGOs were tolerated, so long as they trod lightly; under Mr Morsi they were largely ignored. But under Mr Sisi “there is no hope,” says Muhammad Zaree of the Cairo Institute for Human Rights Studies. His group has moved most of its staff to Tunisia after receiving threats. Other groups, such as Human Rights Watch and the Carter Centre, both based in Amer-

ica, have left.

Those that remain have been obliged to register with the aptly named ministry of social solidarity under an old but rarely enforced law that gives the government broad authority over their activities and funding. Vaguely worded bans on protests and terrorist groups have been used to harass NGOs and imprison staff. A terrorism law decreed in December could ensnare more activists: those who seek to “harm the national interest”, “compromise national unity” or “breach security or public peace” face life in prison if they are financed by foreigners. Most big civil-society groups in Egypt get money from abroad because it is hard to raise at home.

The government has aroused ordinary people’s fear of foreign meddling—supposedly by America, Europe and Israel—to rally Egyptians behind its crackdown, even as it asks many of the same foreigners to invest in Egypt’s economy. In fact, activists complain of a lack of pressure on Mr Sisi from abroad. Many foreign governments see him as a bulwark against Islamic extremism in the region. America, which could influence the government by withholding military aid, is still sending arms.

Mr Sisi thinks he is misunderstood. Wooing foreign investors at an economic conference in March, he emphasised the stability that his rule has brought. Security and prosperity, he argues, are necessary precursors to greater liberty. But often he appears more interested in enhancing his own power, and his actions may be self-defeating. Egyptians now have few outlets for their grievances. Faced with such oppression in the past, some have found other, often violent, ways to express their opinions. Bombings by radical groups are becoming more frequent—giving Mr Sisi even more reasons to tighten his grip. ■

The Saudi succession

Palace intrigues

RIYADH

King Salman’s royal reshuffle brings in young faces and bolsters his line

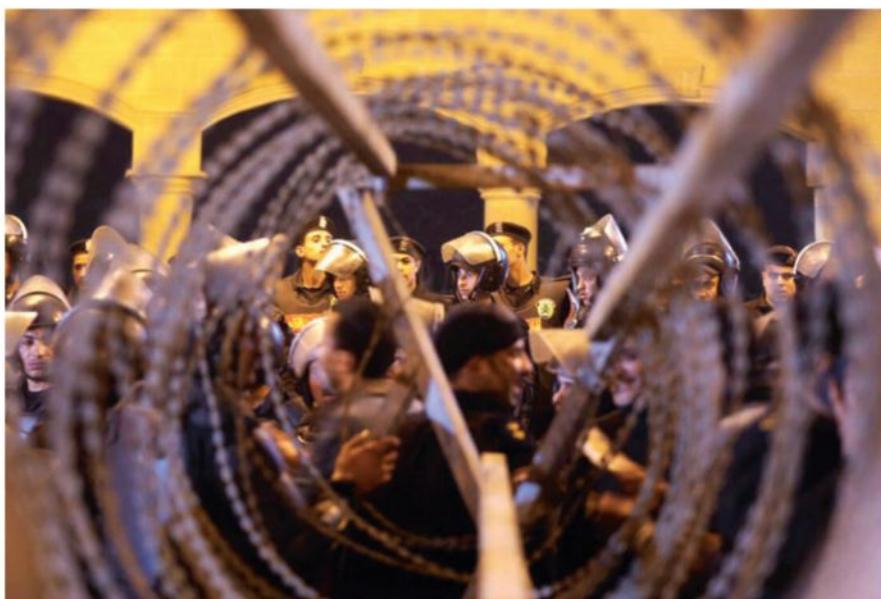
SAUDI ARABIA woke on April 29th to a political upheaval in the royal family, one of the world’s most opaque. At 4am the state media announced that King Salman had appointed a new heir to the throne, and the successor to that heir. Muhammad bin Nayef, the interior minister and second-in-line to the throne, was elevated to crown prince. He replaces Muqrin, the king’s half-brother and the youngest living son of Abdel Aziz al-Saud, who founded the modern kingdom in 1932. The new deputy crown prince is the 30-something son of the king, Muhammad.

Muhammad bin Nayef’s elevation means the crown will pass to the next generation on the king’s death, ending a 60-year tradition of rule passing between brothers. Many Saudis will welcome this, since the ruling generation is ever more remote from its youthful population. King Salman is 79, while almost 70% of his 29m citizens are under 30. The ousted crown prince is 69. The new one is 55.

But the moves also reek of dynastic intrigue. They shore up Salman’s branch of the royal family—the Sudairis, the seven sons and their descendants of one of Abdel Aziz’s many wives—at the expense of the rest. Since Salman came to the throne in January he has relentlessly promoted his favourite child, Muhammad, despite his lack of experience. He appointed him head of his royal court, defence minister and head of a powerful new body overseeing the economy. He has been the face of the war in Yemen, while Muqrin, although a former air force pilot, has barely appeared in the media.

Muhammad bin Nayef is popular thanks to his record on security. He crushed the local al-Qaeda affiliate that carried out a bombing campaign in Riyadh between 2005 and 2007 (surviving members fled over the border to Yemen, where they are profiting from the chaos of war). Only a day before the reshuffle Saudi Arabia announced the arrest of 93 militants for ties to Islamic State, including two whom it alleges were planning to bomb the American embassy in Riyadh, the Saudi capital.

Among the other changes announced in the small hours, Saud al-Faisal, who has been foreign minister for 40 years, was replaced by Adel al-Jubeir, a non-royal who until this week was ambassador to America. Sudairi or not, the House of Saud needs to make sure that it, not Iran, remains the Americans’ main ally in the region. ■



Now we rule the streets

Burundi's president v term limits

Après moi, moi

More Africans are resisting presidential efforts to flout constitutional term limits

PIERRE NKURUNZIZA is the latest in a string of African presidents to risk a conflagration by refusing to step down when the constitution says their time in office is up. His announcement on April 25th that he would seek a third term in an election due at the end of June sparked riots in Bujumbura, the capital. So far at least six people have been killed and 25,000 are said to have fled across the border.

The UN, the African Union and Western governments have urged Mr Nkurunziza to think again before things spin out of control. As the constitutional court prepares to hear the case, the president's loyalists are arguing that his first term in office, starting in 2005, does not count, as he was elected to his first stint by parliament rather than directly by the people, as the constitution requires. So he is entitled to suppress what they call an insurrection.

Burundi is at the best of times highly flammable. Since independence in 1962 it has been plagued by coups, massacres and the killing of several presidents, against a backdrop of ethnic strife between the country's Tutsis, who make up a tenth of the 10m-plus population, and the Hutus, who comprise most of the rest. Mr Nkurunziza, a Hutu, came to the fore as a rebel leader in the 1990s after many thousands of Burundians, including his father and most of his siblings, had been murdered. A fragile peace has more or less held since 2000, initially thanks to the mediation of South Africa.

Mr Nkurunziza's fate will be watched warily across Africa, for the issue of presidential term limits is increasingly fraught. Since the early 1990s, when a breeze of democracy swept across the continent, at least 34 of Africa's 54 countries (55 since South Sudan was recognised in 2011) have put term limits on their presidents, usually giving them a maximum of two five-year spells, as in Burundi.

Most have stuck to the rules. A handful—Zambia's Frederick Chiluba in 2002, Malawi's Bakili Muluzi in 2004 and Nigeria's Olusegun Obasanjo in 2007—stepped down only after trying in vain to wangle extensions. Last year mass protests prevented Burkina Faso's Blaise Compaoré from hanging on, and he was forced to flee.

Other backsliders have had more success. At least half a dozen presidents have cajoled their legislatures, by foul means or fair, into ditching the limits. Uganda's Yoweri Museveni, once confined to ten more

South Africa's kings

More trouble than they're worth?

JOHANNESBURG

Traditional rulers can cause much embarrassment

IN ZULU the king is modestly known as "the mouth that tells no lies." When King Goodwill Zwelithini, the Zulu traditional head, made anti-foreigner remarks recently that whipped up attacks on black migrants, South African political leaders were loth to rebuke him (he claimed his words had been mistranslated). The response was similar when King Goodwill called homosexual relationships "rotten" a few years back. Then, as now, some South Africans wondered why King Goodwill continues to be bankrolled by taxpayers given his pronouncements that clash with the country's progressive constitution.

King Goodwill is just one of ten traditional kings, and one queen, each receiving a yearly public stipend of about \$110,000. Some 8,000 other traditional leaders, including chiefs and headmen, get smaller amounts. But King Goodwill, unlike the others, will also receive \$4.8m this year for the upkeep of his household: seven palaces, six wives and at least 28 children. He has been criticised for reckless spending. In April, his household bought seven Mercedes-Benz sedans—six for his wives, plus a backup vehicle.

Do unelected traditional rulers have a place in modern, democratic South Africa? In rural areas, far from the courts, chiefs and headmen play a practical role in mediating disputes. But customary law often stands at odds with South Africa's Bill of Rights, which protects women and minorities, among others. The Traditional Courts Bill, proposed in 2012, would have handed greater judicial powers to male leaders. In some cases, women would have had to rely on male relatives to speak for them. It was sharply criti-

cised and withdrawn.

Land rights are a pressing concern. Much of South Africa's communally held rural land is also the richest in minerals. When traditional leaders strike deals with mining companies, the danger is that chiefs and their families will benefit most. Last year the Restitution of Land Rights Amendment Act made it easier to lodge land claims. President Jacob Zuma, a Zulu, has encouraged traditional leaders to file claims before the deadline in 2019; King Goodwill is claiming rights to the entire province of KwaZulu-Natal.

Much of South Africa's traditional leadership was entrenched under apartheid's Bantustan system of black "homelands". Non-compliant chiefs were swiftly dismissed. Under black-majority rule, traditional leaders—in particular King Goodwill—have become a valuable link between the ruling African National Congress and rural voters—despite the cost and political embarrassment.



Zwelithini's Zulu style

years in office by the constitution of 1995, has now served 29 years in all. Paul Biya, another rule-changer, has presided over Cameroon since 1982. This month Togo's Faure Gnassingbé was re-elected to a third term, extending his family's unbroken tenure to 48 years.

Others suspected of wanting to stretch their terms in defiance of the constitution include Joseph Kabila in the Democratic Republic of Congo, who should retire next year, and Denis Sassou-Nguesso, across the river in Congo-Brazzaville, who has ruled for most of the past 31 years. Linda Thomas-Greenfield, the top American official for African affairs, has warned that term limits are "under threat".

Some leaders seek cannily to retain a

veneer of constitutional propriety even while flouting its spirit. Friends of Paul Kagame, Rwanda's dynamic but authoritarian ruler, talk of a "Putin-Medvedev scenario" that would let him stay merrily in charge, perhaps as prime minister, when his supposedly final term as president ends in 2017. In Ethiopia the presidency is limited to two six-year terms, but Meles Zenawi ran the show for 17 years as prime minister, with no hint of cutting short his rule, until his death in 2012. And Zimbabwe's Robert Mugabe, who has held power (as prime minister and president) since 1980, signed a new constitution in 2013 that limits the head of state to two terms—but only from that date. So he hopes to retire as a sprightly 99-year-old. ■



Russia's Victory Day celebration

Great patriotic war, again

MOSCOW

Vladimir Putin twists the memory of the Soviet Union's victory over Nazism to justify his struggle against the West

ON MAY 9th 150 Russian military aircraft will streak across the Moscow sky, 16,000 troops will march through Red Square and three intercontinental ballistic missiles will be put on display, all in celebration of the 70th anniversary of the Soviet Union's victory over Nazi Germany. Vladimir Putin, the national leader with a fast-developing personality cult, will claim Russia's ownership of the most important Soviet holidays. He will talk about Russia's continuing struggle against fascism (in Ukraine) and attempts by its sponsor (America) to impose its dominance on the world.

The leaders of America, France, Britain and Germany will not be there. Mr Putin may be flanked by China's Xi Jinping, but few other notables. As Andrei Zorin, a Russian cultural historian, says, Western leaders' decision to abstain will be seen by Russians as confirmation of their continued struggle against the West.

The feelings of isolation and aggression stoked by the Kremlin in the build-up to Victory Day could hardly be more different from those that reigned in Moscow in the early hours of May 9th 1945, when thousands of people kissed and danced in the streets in a spontaneous outburst of joy and liberty, mixed with sorrow at the deaths of 27m compatriots. People waved American and British flags. Many went to the American embassy to embrace the allies. "Someone picked up an American

sailor or soldier and lifted him in the air," recalls Inna Solovyova, a Russian scholar who was 17 at the time. "It was a genuinely happy day. It was the victory of the people, of every one of us." Fighting against fascism was a liberating experience for people who were terrorised by Stalin. The dictator himself, possessed by paranoia, was too scared to come out onto Red Square. In the evening a vast illuminated banner with his face appeared in the sky.

Stalin did not let the Russians enjoy their victory for long. A new wave of repression began a year later. In 1948 Victory Day celebrations were cancelled altogether. The feelings of freedom and compassion inspired by the victory were not to be encouraged. To avoid reminding people of the staggering losses, the limbless veterans who once dotted Moscow's streets were shipped off to a former monastery on an island. Stalin feared victory celebrations would enhance the popularity of Soviet military commanders such as Marshal George Zhukov, who signed Germany's surrender along with the allies.

Official celebrations resumed only in 1965, a year after the fall of Nikita Khrushchev. By that time, most military commanders were too old to pose a challenge. Zhukov had been sidelined. The Soviet leaders who came to power as a result of the coup against Khrushchev used Victory Day to boost their legitimacy. It was the

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only unifying Soviet holiday that caused no disagreements between the people and their leaders. While the memory of the war was used by the Kremlin to assert Soviet power, it also served as a common denominator between the Soviet and American leaders who belonged to the war generation.

Mr Putin has appropriated the iconography of Victory Day, along with other Soviet symbols, to assert the dominance of the Russian state and its place in the world. Western leaders used to oblige him, taking part in celebrations meant to mark the country's resurgence after the Soviet collapse. A decade later, the memory of the second world war was cynically exploited by the Kremlin as a pretext for the annexation of Crimea and the war in Ukraine.

During the second world war, Ukrainians ended up on both sides of the lines. Western Ukrainian nationalists who sought independence allied with Nazi Germany and fought against Ukrainians serving in the Soviet army. For much of Ukraine's post-Soviet history these divides were dormant. But the failure of the Ukrainian government in the past quarter-century to build a nation-state has allowed the Kremlin to use history as a weapon.

Russian state television described the modern pro-European Ukrainians who ousted their corrupt and authoritarian president Viktor Yanukovych as nationalists and Nazi collaborators, planning to annihilate Russians in Crimea. It planted fake stories about Ukrainians crucifying children, while showing a Russian soldier in Crimea holding a small child in his arms—a reference to the giant statue of the Soviet Liberator Soldier erected in Berlin in 1949.

But after a year-long war against Russian aggression, Ukraine is fighting for its own right to celebrate the Soviet victory ➤

over fascism. A recent Ukrainian advert opens with a shot of a model Soviet plane in soft light. A phone rings. A boy at a modern-day military base calls to speak to his grandfather, a Soviet Red Army veteran. "Happy Victory Day, grandpa," says the boy, who then dons his combat helmet and dashes onto a foggy battlefield. "Glory to Ukraine," the grandfather replies, referring to Ukraine's current struggle.

To reconcile Ukraine's Soviet past with its European future, the president, Petro Poroshenko, announced that this year the country will honour both the Western victory celebration on May 8th and Soviet Victory Day on May 9th. The traditional Russian orange-and-black St George's ribbon has been swapped for the British crimson

poppy. Alexei Navalny, the Russian opposition leader, says Mr Putin's "project" has destroyed any hope of a larger Russian world built on common memories. Even Alexander Lukashenko, the dictatorial president of Belarus, decided to celebrate Victory Day separately.

The display of Russia's newest weapons is expected to be followed by a procession of 100,000 people holding photographs of those who died in the war. Yet the ideas propagated by the Kremlin seem eerily similar to the ones which Soviet soldiers defeated 70 years ago. Vladimir Medinsky, Russia's minister of culture, recently argued that Russia's view of its own history does not have to be acceptable to "civilised humanity". "Let me remind you:

this 'civilised humanity' is only civilised to the extent that the Soviet people and the Soviet soldier forced it to be in 1945. It is time to formulate our own perception of ourselves as the descendants of a great, unique Russian civilisation."

For all the uniqueness of Russian culture, the celebration of Victory Day, just like the war in Ukraine, has been packaged into patriotically-themed consumer entertainment. "Celebrate the 70th Anniversary of Victory with Wargaming," advertises a maker of computer games. "The World of Tanks game allows you to virtually operate armoured vehicles and better remember the heroic deed of our people in the Great Patriotic War."

Russia's virtual wargames have real consequences. Alexei Levinson, a sociologist, writes that "under this light moral aesthetic, the country is getting used to actions which only a short while ago seemed unthinkable and impossible." Opinion polls show that 90% of Russians are prepared to discuss the possibility of nuclear war. While 57% of older Russians say that such a war cannot have any winners, 40% of younger people are convinced that Russia would defeat America and NATO. As Mr Levinson puts it, "A real war starts to look like a TV show or a computer game in which you have ten lives in reserve." ■

Germany's war remembrance

Guilt and reconciliation

BERLIN

As the anniversary approaches, Germany draws the right lessons

GERMANY'S way of remembering the 70th anniversary of the second world war's end is the opposite of Russia's grandstanding. Germans see the occasion as an exhortation to humility and moral honesty. They commemorate their own suffering, including mass rapes of German women by the Allies. But mainly they accept responsibility for the suffering that Germans inflicted on so many others. Marking the liberation of the Bergen-Belsen concentration camp in April, Joachim Gauck, the president, talked of his country's "immeasurable guilt". On May 3rd, Angela Merkel, the chancellor, will strike a similar tone on the anniversary of Dachau's liberation.

By chance the commemorations coincide with what may be the last big trial of a former Nazi. Oskar Gröning,

now 93, was a book-keeper of sorts in Auschwitz-Birkenau. His job was to count the money of the arriving inmates and transfer it to Berlin. He says he sometimes stood at the ramp where the trains disgorged the victims, but only to guard luggage. Mr Gröning is now accused of being an accomplice in the murder of about 300,000 Jews who arrived on trains from Hungary.

Unusually for such a case, Mr Gröning admits his responsibility. "For me it is beyond question that I share the moral guilt," he told a court in the northern German town of Lüneburg, adding that the trial must decide whether that makes him guilty legally. "With humility and remorse," he said, "I ask for forgiveness."

Just as unusually, one Auschwitz survivor, Eva Mozes Kor, who is one of the 65 co-plaintiffs, did offer her forgiveness. She was ten when she was brought to Auschwitz, but survived because she had a twin sister and was kept alive for medical experiments by the infamous Josef Mengele. Impressed by Mr Gröning's honesty, she approached him in court and embraced him. In a statement, 49 of the other co-plaintiffs said that Ms Mozes Kor was speaking only for herself.

Germany will thus observe May 8th, the day it capitulated, in a solemn spirit. (Because the surrender took effect after midnight Moscow time, the Russians celebrate on May 9th.) In 1985 Richard von Weizsäcker, then president, urged his compatriots to see it as the date not of their defeat but of their "liberation". Today, says Mr Gauck, Germany "pledges to defend the dignity of human beings—we will put an end to injustice wherever we can."



Asking for forgiveness

Ukraine and Europe

Commitment anxiety

KIEV

Brussels and Kiev both want more from their relationship than they are getting

THE romance between Ukraine and the European Union is full of unmet expectations. Ukraine wants commitment from the EU; the EU wants proof that Ukraine has really changed. When EU officials visited Kiev on April 27th for a joint summit, they snubbed Ukraine's requests for a peacekeeping force in the Donbas, for additional military aid and for visa-free travel. Western financial assistance is trickling in, but Ukraine wants more. "Greece already received \$300 billion, with no war, with no Russian tanks," Arseniy Yatsenyuk, the prime minister, said after the summit. Ukraine, he complained, has received just one-tenth as much.

The EU says help will come, but only after reforms. "You keep reforming, we keep supporting," said the European Commission's president, Jean-Claude Juncker. European leaders want to see Ukraine implement its new laws and decentralise governance, as agreed in the Minsk peace plan. Some worry that failure to do this will invite Russia to relaunch the war. Al-

▶ ready violence is ticking up near the rebel capital of Donetsk and the Ukrainian-held port of Mariupol.

Petro Poroshenko, Ukraine's president, takes umbrage at charges that reforms are lagging. Lawmakers recently passed legislation to break up gas monopolies, increase energy-sector competition, and unbundle the state gas conglomerate Naftogaz, a fiscal black hole. Last month Mr Poroshenko picked a head for the newly created National Anti-Corruption Bureau.

Yet the biggest test will be the struggle against Ukraine's oligarchs. The latest battle pits the state against the country's richest man, Rinat Akhmetov. The government wants to end Mr Akhmetov's coal and electricity monopolies, and may let his holding company, DTEK, go bankrupt. Coal miners have taken to Kiev's streets, banging their helmets and calling for the energy minister to resign. Mustafa Nayyem, a reformist legislator, published leaked documents allegedly issued by DTEK that set out plans to engineer protests. DTEK said it "did not know the source of the documents", but did not deny that they were genuine.

Following the miners' march, Mr Poroshenko vowed that those who put pressure on the state "will get their knuckles rapped". In a column in the *Guardian*, a British newspaper, Mr Poroshenko boasted of taking down Ihor Kolomoisky, an oligarch forced to resign as a regional governor last month after he deployed armed guards to protect his oil-industry assets from government reforms. But Europe does not want de-oligarchisation to become a game of whack-a-mole led by Mr Poroshenko, who is himself an oligarch. It wants Ukraine systematically to transform the oligarchs' empires into law-abiding big businesses. Until that happens, Ukraine may feel itself to be in a relationship with the EU, one that could even lead towards membership—but the EU will respond that things are complicated. ■

Corruption in Spain

Inside jobs

MADRID

Research suggests that government cronyism may cripple Spain's economy

SPANIARDS are used to former public officials getting rich from doing business with the state. When news emerged of investigations into a former official in Castile and León who had secured lucrative wind-farm licences from his ex-colleagues and a former official in Andalusia whose companies netted regional contracts for state-subsidised worker-training courses, few were surprised. Corruption and cronyism (the

Divorce in Italy

Arrivederci, darling

ROME

Italy makes it easier to split up

WHEN divorce was legalised in Italy in 1970, it followed a titanic parliamentary battle. Unwilling to accept defeat, conservative Catholics secured a referendum. Only after that vote finally went against them four years later was the issue settled. So it is a sign of changed times that, when Italian deputies voted to liberalise the divorce laws recently, they did so by a crushing majority (398 to 28) and amid little controversy.

Avvenire, a newspaper owned by the Catholic church, predictably railed against the reform. Other critics termed it another blow to an institution fast losing its appeal in Italy. More and more young Italians opt for cohabitation and have children outside marriage. In 2012 the number of marriages per 1,000 inhabitants was the fifth-lowest in the European Union. Yet even observant Catholics were not united in opposition. Domenico Sigalini, archbishop of Palestrina, said that "if the breakdown [of a marriage] is clear and irrevocable, it's unfair to waste time on long judicial battles."

Under the new law, couples can untie the knot after 12 months of separation if the divorce is contested, or six months if it is not. Previously a three-year separation was needed. This is not particularly permissive: at least six other EU countries allow divorce without any separation period. Some critics felt the reform could have been more radical, but amending it might have endangered its passage through parliament.

Italians may be reluctant to wed, but they have also been reluctant to split up.

distribution of political favours to businesses) explain much of the Spanish public's growing disdain for the two parties that have run the country for the past 32 years: the ruling Popular Party (PP) and the opposition Socialists (PSOE).

Distrust reached a nadir with the temporary arrest two weeks ago of Rodrigo Rato, a former PP finance minister who went on to run the IMF in Washington. Police searched Mr Rato's office and home in an investigation into unexplained income. He was already under scrutiny over free-wheeling use of company credit cards during his chairmanship of Bankia, a bank that needed a €22 billion (\$27 billion) rescue under his stewardship. Mr Rato was seen as one of the architects of Spain's economic miracle in the early 2000s. That miracle now seems a distant memory. Unemployment is running at 23%, and the IMF

The number of divorces per 1,000 has risen in recent years, but in 2012 it was still the second-lowest in the EU. The most-cited reasons are complexity and high legal costs, especially when a divorce is contested. That is now changing: last November, parliament approved "do-it-yourself" divorces that can be negotiated between the parties' lawyers, making Italy one of relatively few countries where divorces can be obtained without going to court.

This was part of a package of measures devised by Matteo Renzi's left-right coalition government to speed up civil justice. Acceleration is urgently needed, and not just for estranged couples: more than 5m lawsuits of all sorts are waiting to be heard. In a country plagued by bureaucratic delays, a rise in the divorce rate may perversely be encouraging.

Moving out without splitting

In Italy, "living alone" does not mean "divorced"



says it will take nine years, until 2017, to return the economy to its pre-crisis size.

Researchers are beginning to see links between Spain's excessively cronyistic and corrupt public administration, and the defects that have made it so hard for the economy to recover. The problems may have started well before the crash. From 1995 to 2007, while the Spanish economy was growing at 3.5% per year, productivity declined by 0.7% per year—even as overall EU productivity was growing at an average of 0.4% per year.

Blame has traditionally been pinned on a housing bubble that fostered distorted growth in the construction industry. But a recent paper by a team headed by Manuel García-Santana of the Université Libre de Bruxelles finds that the productivity fall was spread more evenly across all sectors. It had little to do with skills, innovation or ►



Friends in high places

► debt. "We found that bad [less productive] companies grew faster than the good ones," says one of the co-authors, Enrique Moral-Benito. Productivity falls were greater when the government was heavily involved, through contracts, licences or regulations. Luis Garicano, the economics adviser of the liberal Ciudadanos party, says this points to an economy dependent on contacts, corruption and cronyism.

Other explanations are possible as well. Banks may have been happier lending to companies with public contracts, and some more productive businesses may have limited their growth to avoid losing fiscal, labour or social-security advantages enjoyed by smaller firms. Either way, those who successfully negotiated their way around the public administration—whether through luck, knowledge, cronies or backhanders—did best.

Popular anger over cronyism helps to explain why the PP government and its prime minister, Mariano Rajoy, seem likely to take a hammering in elections to regional governments and municipalities on May 24th. Over the past year 500,000 jobs have been created and growth is forecast at 2.9% this year, yet the PP has shed half its support. The Socialists are also low in the polls, while Ciudadanos and the left-wing Podemos party have risen. The elections are now a four-way race. A poor result on May 24th could even force Mr Rajoy to bring forward a general election due at the end of the year.

The government is hunting for every bit of positive news. It trumpeted the latest economic-sentiment figures from the European Commission, which put Spain ahead of the other big euro-zone economies. But if voters are less concerned about the latest figures than about the underlying rot of decades of kickbacks and insider dealing, that may not count for much. ■

Azerbaijan and the European games

Aliyev's party

A dubious host of the first European games appals the human-rights lobby

KHADIJA ISMAILOVA, an Azeri journalist investigating corruption among the country's ruling elite, knew that she was swimming in deep waters. In 2012 Ms Ismailova received a package containing stills from a secretly filmed sex tape of her, and a warning that unless she stopped digging it would be published online. Ms Ismailova ignored the threat, and the video was duly released. She kept on reporting anyway. In December, she was arrested on charges of inciting a fellow journalist, Tural Mustafayev, to attempt suicide. In February more charges were added, including tax evasion and abuse of power. Meanwhile Mr Mustafayev withdrew his complaint, saying that it had been made under "emotional stress". No trial date has yet been fixed.

Ms Ismailova is not alone. Azerbaijan has convicted or imprisoned at least 33 other activists, journalists and bloggers over the past year on politically motivated charges, according to Human Rights Watch (HRW), a New York-based advocacy group. Ill-treatment of prisoners is common. There is growing concern about Leyla Yunus, a leading human-rights activist, and her husband Arif, a historian. They have been in jail since last summer on charges of treason and tax evasion. Ms Yunus suffers from diabetes and liver trouble. Giorgi Gogia, a veteran HRW researcher, says that the situation "is going from bad to worse." Mr Gogia tried to visit Azerbaijan in March to attend the trials of two activists. He was booted out without explanation.

The timing of the crackdown is no coincidence. The oil-rich former Soviet republic will be hosting the inaugural European games next month. These will bring together 6,000 athletes from 50 different countries. Human-rights groups are demanding that world leaders boycott the whole affair. Azerbaijan's authoritarian president, Ilham Aliyev, apparently fears that his critics will seize the occasion to air their gripes. "He locks them up because he gets away with it," says Arzu Geybulayeva, a prominent Azeri blogger. She may be right. Azerbaijan has used its energy riches to enlist powerful friends in Europe and America. But the south Caucasus state offers more than oil.

Wedged between Russia, Georgia, Armenia, Turkey, Iran and the Caspian Sea, Azerbaijan is a strategic prize. Determined pro-secular, it has allowed the Americans to use its bases to attack Muslim ex-

tremists in Afghanistan. This may help to explain why Azerbaijan was allowed to act as chair of the Council of Europe, a Strasbourg-based human rights body, for six months in 2014, even as it jailed dissenters. The dollops of caviar and other perks used to oil Azerbaijan's lobbying machine don't hurt.

Mr Aliyev's bigger headache is the economy. The fall in global oil prices has hurt Azerbaijan's finances. Energy makes up around 95% of the country's exports and 40% of its GDP. Inflation is rising and the government's attempts to prop up the local currency, the manat, have largely failed. Payment of civil servants' salaries has been delayed. The government blames it all on the European games. "This is causing real anger at the government, something the arrests of the activists never could," says a Washington-based analyst of Azerbaijan, who blogs under the name North Caucasus Caucus.

Another worry is tensions with neighbouring Armenia over Nagorno-Karabakh. The mainly Armenian-populated enclave in Azerbaijan fell under Armenia's control after a nasty three-year war that broke out in 1991 when the Soviet Union collapsed. Clashes between Azeri and Armenian troops along the border have become worryingly frequent. Mr Aliyev uses Karabakh to drum up nationalist sentiment and divert attention away from corruption at home.

Mr Aliyev may be overplaying his hand. "When the violence [with Armenia] started in August and all the bodies started coming home, people were calling for blood," the Washington-based analyst recalls. "The government actually had to tamp down popular anger to stop matters from getting out of control." ■



Ismailova, a gutsy lady

Charlemagne | The enforcer

Margrethe Vestager, the Danish competition commissioner, tests her mettle



IF IT'S a Wednesday, it must be Vestager day. Or so it has seemed this month in Brussels, as Margrethe Vestager, the European competition commissioner, has made ambitious moves against formidable adversaries for three weeks in a row. On April 15th it was Google, which Ms Vestager thinks unfairly privileges its shopping service over rivals. A week later she trained her sights on Gazprom, Russia's mostly state-owned gas giant, accusing it of unfair pricing and market meddling. And on April 29th Ms Vestager announced a probe into the subsidies European governments provide to electric utilities, some of which she thinks may amount to illegal state aid. Amid constant reminders of the EU's weakness, from Mediterranean migration to the endless Greek saga, Ms Vestager's shows of strength are a reminder that Brussels has bite.

Ms Vestager, who previously served as Denmark's economy minister, is clearly a tough cookie. But her impact has as much to do with European law as with her personality. Unburdened by the constraints that shackle most of her 27 fellow commissioners, she can block mergers, launch surprise raids on private offices and threaten multinationals with vast fines. The perception of Ms Vestager's power is reflected in the parody Twitter accounts set up in the names of different commissioners. Her colleagues are lampooned as propeller-headed nincompoops or scheming mini-Rasputins. Ms Vestager, by contrast, is portrayed as a medieval warrior queen sporting two giant battleaxes.

For some, the power vested in the competition job is a model of how Europe could work if it took rules seriously. Wolfgang Schäuble, Germany's finance minister, once suggested endowing the economics commissioner, who oversees the euro zone's fiscal rules, with powers comparable to those of Ms Vestager. Others, though, worry about political appointees wielding regulatory authority. Those fears are exacerbated by the tendency of Jean-Claude Juncker, the commission president, to describe his administration as the most "political" in history. Shouldn't competition matters be insulated from politics?

Such concerns have inspired calls for an independent agency to enforce competition law. Ms Vestager will have none of that. She acknowledges that her job is political, but in a noble sense: the single market is an aspect of the EU that enjoys support even

from Eurosceptics, and competition has always been at its heart. In speeches she links her work to the commission's pledges to jump-start Europe's economy. The Gazprom and utility cases fit nicely with one of the commission's political priorities: building a functioning and transparent European "energy union".

Ms Vestager bats away charges that her office may unfairly tilt towards one country or another. On taking office, she says, she asked her staff to dig through the archives to spot any such signs (they came up empty-handed). Some suggest that she launched the cases against America's Google and Russia's Gazprom, both begun by her predecessor, within a week of each other to fend off any allegations of national favouritism. She notes simply that the sequencing shows that competition law pays no heed to a company's ownership. In effect, she has deployed a politician's sense of timing to deflect allegations of political bias.

Charming, thoughtful and armed with a functioning sense of humour, Ms Vestager cuts an unusual figure in Brussels. Even Gazprom's officials have been impressed by her matter-of-fact approach. Americans alarmed by her membership of a Danish party called the "Radicals" were relieved to learn that she is actually a middle-of-the-road liberal (and delighted to discover that she was the inspiration for "Borgen", a trendy Danish political drama). And although fears are growing in Washington that Europe is bent on erecting protectionist barriers against Silicon Valley, American officials are careful to point out that they do not see the Google antitrust probe in this light.

But Ms Vestager's biggest battles lie ahead. Unlike her predecessor, Joaquín Almunia, she is said to have a distaste for back-room deals, preferring to see cases taken to court if necessary. In cases of wrongdoing she has promised to impose fines big enough to be more than "another line in the spreadsheet". She does not shy away from quarrels: in February, when the commission had a blazing row over France's fiscal rule-breaking, Ms Vestager was one of the fiercest advocates of sanctions.

She lost that argument. But she has been more successful at squashing an idea floated by the staff of Günther Oettinger, the digital commissioner, for the regulation of dozens of so-called online "platforms". New rules, it was suggested, might be a snappier way of bringing tech firms to heel than the heavy weaponry of antitrust law. But Ms Vestager is clear. "If you can use existing legislation instead of creating new stuff, you should," she says.

Taxing times

A different test comes with another set of cases inherited by Ms Vestager. Four multinationals—Amazon, Apple, Starbucks and Fiat—face allegations of beneficial and discriminatory tax treatment by the authorities in Ireland, the Netherlands and Luxembourg. These cases, one legal expert says, "test the limits" of state-aid law. They also provide Ms Vestager with the opportunity to upset a lot of people, including her boss: last year newspapers published details of hundreds more tax deals in Luxembourg, struck when Mr Juncker was prime minister. Ms Vestager has pledged to investigate, and says she will wrap up her work by June; her findings could prove awkward.

This points to the downside of the competition commissioner's independent authority: there is nowhere to hide when things go wrong. Mr Almunia is widely seen as a failure for his thrice-thwarted attempts to settle with Google. Ms Vestager did not choose to take on most of the cases that have made her name. But their outcomes will determine how she is remembered. ■

UK ELECTION 2015

Next week Britain goes to the polls
in its strangest, closest general
election for many years



The results are expected early on Friday May 8th

*For all the latest analysis and results
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Politics

Wooing white-van man

HARLOW

The Tory party badly needs working-class votes to hold on to power

COMMUTERS on the A414 in Essex have recently become used to a curious sight. Every day between 7am and 9am, then again from 4pm to 7pm, a man in a peaked cap perches on a small chair by the dual carriageway, beams at the oncoming traffic and gives drivers the thumbs-up sign. "You have to look them in the eyes," explains Robert Halfon, the Conservative MP for Harlow in Essex. Many of the drivers return the thumbs-up gesture and honk their horns. "Halfon, yeah!" shouts one man, leaning out of the window of his van

as it speeds past.

Mr Halfon is no ordinary MP. He has won admirers from across the political spectrum by fighting a series of campaigns on consumer issues, from taxes on bingo halls to surcharges on electricity bills. He is best known for persuading the Tory-Liberal Democrat coalition government to cancel every planned fuel-duty increase since 2010. The MP calls his brand of politics "white-van Conservatism"—a reference to the aspirational working-class voters who make towns like Harlow, north-east of

London, such crucial bellwethers. They voted for Margaret Thatcher in the 1980s and Tony Blair in the 1990s. But this time they are proving especially hard to woo.

The Tories can point to a rebounding economy and an increasingly popular leader in David Cameron (see timeline, below). But with a week to go before the general election on May 7th, they are tied with the opposition Labour Party, as they have been throughout the campaign. In order to form another coalition with the Lib Dems, the Tories must hold almost all of their seats in the House of Commons. Oddly, the greatest challenge to their continued rule does not come directly from Labour: over the course of this parliament few voters have moved from the Conservative camp to the Labour one, or vice versa. The Tories' real problem is the populist UK Independence Party (UKIP) and its strong appeal to white-van man.

Over one in ten people who voted Con-

The downs and ups of government

Net satisfaction*, %

Conservative-Liberal Democrat coalition formed

Deep spending cuts announced in emergency budget

Ed Miliband becomes Labour leader

University tuition-fee cap raised to £9,000

Britain rejects alternative-vote system. SNP wins majority in Holyrood

Riots, lasting 3 days, follow police shooting

Unemployment hits 2.7m (8.5%)

"Omnishambles" budget

Prime minister

Government

Ed Miliband promises to freeze household energy bills

Same-sex marriage legalised

David Cameron promises in-out EU referendum

Scotland rejects independence by 55% to 45%

GDP grows by 1.9%, highest annual rate since 2007

UKIP wins most UK seats in European Parliament election

Former Tory MP Douglas Carswell wins seat for UKIP

Nicola Sturgeon becomes SNP leader

Televised debate with seven party leaders. Nicola Sturgeon triumphs

▲

▼

+

-

0

20

40

60

80

100

Source: Ipsos MORI

Nigel Farage re-elected as UKIP leader

*Satisfied minus dissatisfied †January estimate

2010

11

12

13

14

15

Conservative in 2010 have since left the party for UKIP, which detests the European Union and immigration. The defectors are typically male, white and working-class. Lynton Crosby, the Tories' campaign chief, reckons that the party's typical target voter earns about £15,000 (\$23,000) a year—40% less than the national average—reads the *Sun on Sunday*, a right-wing tabloid, and values economic and national security above all else.

This analysis colours the entire Conservative campaign. In an interview on April 6th Mr Cameron urged UKIP voters to "come home". At the party's manifesto launch on April 14th, he described the Tories as "the real party of working people". Two weeks later he called it the party of "the grafters and the roofers and the retailers and the plumbers". He talks endlessly about security.

The Tories have courted white-van man in their manifesto and in the promises they have made on the campaign trail. The prime minister has pledged to create 50,000 new apprenticeships, expand free child care and take those earning the minimum wage out of income tax. He even promises to legislate against any increases in the government's main revenue-raising taxes until 2020. He has revived Margaret Thatcher's totemic bid for working-class support by promising to extend the "right to buy" social housing to tenants of housing associations.

The pursuit of van-driving voters also partly accounts for the Conservatives' frequent dire warnings about the risk to Britain's economic and political stability of a Labour government propped up by the separatist, left-wing Scottish National Party. Polls suggest UKIP supporters worry more about this than most.

Stuck in a lay-by

Mr Halfon reports that voters are now raising the issue on the doorsteps. He declares himself delighted at his party's campaign; after the election, he plans to frame the newspaper coverage of its manifesto. On April 30th the *Sun* newspaper endorsed the Tories—though, muddling the message, its Scottish edition went for the SNP. Yet the Tories' white-van-man strategy is not yet working well enough. The party has not achieved the long-expected "crossover" with Labour in the polls mainly because it has not squeezed UKIP enough. The insurgent party remains on around 12%, up from just 3% in 2010. Matthew Goodwin, an expert on UKIP, estimates that the party could indirectly cost the Tories around 30 seats. Labour must pick up about 40 English seats to lead the next government.

The best explanation is that many voters still doubt that the Conservatives understand their lives and interests. Mr Cameron takes no pains to hide his poshness. And at times the party has helped to rein-

Our opinion poll

Scotland is another country

What the English really think about their northern neighbours

POLITICIANS and psephologists have tried desperately hard to divine the Scottish mood over the past year. Does this country of 5m people really desire independence? And, after a referendum last September delivered a negative answer to that question, what has driven so many Scots to abandon Labour for the separatist Scottish National Party (SNP)? Rather less attention has been paid to what the 57m inhabitants of England and Wales think of Scotland.

A poll conducted for *The Economist* by YouGov on April 25th and 26th tells us, starkly. By 48% to 34%, more Britons (including Scots) believe that Scotland will be independent in 20 years' time than think it will remain part of the United Kingdom. Few are enthused about this prospect. Only 20% think Scottish independence would be good for England, Northern Ireland and Wales, whereas 49% think it would be bad.

Yet, if Britons tend to think the union would be worse off with Scotland gone, they are absolutely clear on the benefits to Scotland of the current set-up—in which, crudely, the whole of Britain gets North Sea oil but Scotland gets more lavish state spending. By the enormous margin of 70% to 8%, more people think

Scotland gets a good deal out of being part of the United Kingdom than think it gets a bad deal. Even in Scotland, voters divide 48% to 33% on this question.

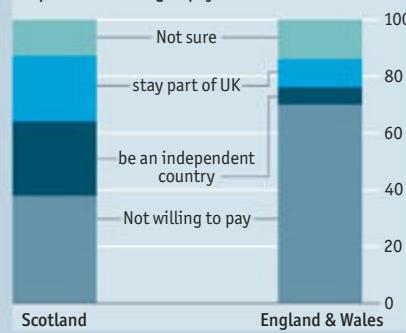
And voters outside Scotland are disinclined to sweeten an already tasty deal. We asked Britons whether they would pay to keep Scotland in the union, suggesting less than £250 (\$385) a year, £250 to £500 a year and more than £500 a year as hypothetical sums. It turns out that 23% of Scots would pay something to stay in, and 26% would pay to leave. In England and Wales, though, only 10% would pay for Scotland to stay and 6% would pay to see the back of it. A colossal 70% would pay nothing at all to secure either outcome. That hints at trouble for the union (see *Bagehot*).

We also asked about the economy. People divided evenly on the question of whether they would be better off under Mr Cameron or Mr Miliband—32% thought the former, 30% the latter, and 29% reckoned it would make little difference. But Mr Cameron holds a decent nine-point lead on the question of whether Britain as a whole would be better off. His difficulty in translating broad economic credibility into votes is the great story of this campaign.

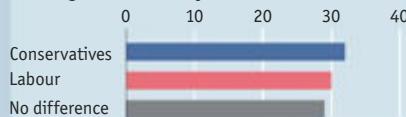
Surly sassenachs

April 2015, %

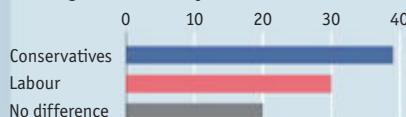
Respondents willing to pay for Scotland to:



Do you think you would be better off financially under a government led by:



Do you think Britain would be better off financially under a government led by:



force this sense: from its chief whip swearing at a policeman (allegedly calling him a "pleb") to the economically savvy but politically masochistic decision to cut income tax on the highest earners in the "omnishambles" 2012 budget.

More damagingly, low-income voters are not feeling better off than they did in 2010. Though unemployment has fallen steeply, this is partly the flipside of insecure

work and stagnant wages. Tories protest, with reason, that low wages are better than none at all—and that at least things are not going backwards. But the van drivers can be forgiven for not being overwhelmed with gratitude to the governing party. As Mr Halfon's roadside vigil demonstrates, it can take extraordinary efforts to persuade such voters that Conservative MPs are truly on their side. ■

Bagehot | Tearing apart the union

This election has been disastrous for the United Kingdom. It may be doomed



THIS ill-tempered, promiscuously focused election should be about the economy—and if the Conservatives pull off the win that their ratings on the issue seem to warrant, it may yet be. But future historians may prefer to recall the existential questions that accumulated in the campaign, little-noticed, like toxic mercury in a dolphin's liver. Who wants to be British? What is Britain for? They will certainly marvel at a massacre of Scottish unionist MPs at the hands of the separatist Scottish National Party (SNP) which, assuming the polls are even half-right, is about to leave Britain's 300-year-old, once swaggeringly successful, union of nations looking desperately enfeebled.

Politicians on all sides are talking on that theme but, a week before a general election, with such fevered partiality that the real issue of Britain's future is being warped or ignored. The Conservatives, discreetly revelling in *Schadenfreude*, warn that Labour will be able to form a government only with support from a party dedicated to dismembering Britain. That is probably true. The SNP looks likely to become Britain's third biggest party, with over 40 seats. And that would not be, as some in Labour mystifyingly imply, somehow the Tories' fault for fulminating on the issue, thus driving Scots into the nationalists' embrace. Yet nor, as Labour counters, would it make Scots much likelier to hive off than they were last September, when they voted by 55% to 45% to keep the union. And it would not in any way be "illegitimate", as Theresa May, a senior Tory, argued this week, for Labour to use the SNP's support to sustain a government.

Opinion polls suggest there has in fact been no post-referendum surge in support for Scottish independence. That the SNP may be about to win twice as many votes as it did in 2010 is because most of the Scottish Labour voters who plumped for independence in September are sticking with the party that promises it. That this will improve the nationalists' fortunes absurdly—with only 4% of the national vote, they may have 8% of seats in Parliament—reflects the unfair workings of the first-past-the-post electoral system, which both Labour and the Tories love. For Labour to take advantage of this would not be illegitimate, but simply a reflection of British democracy.

Nor even would the SNP, in or near power, be able to carry out quite the wrecking job David Cameron, the Tory prime minister,

predicts for it. Ridding Scotland of the Tories was the main slogan of the independence campaign and remains the SNP's battle-cry. The "Nats" could make havoc for a Labour government, but they would almost certainly not bring it down. The last time they did that, in 1979, they annoyed their leftist followers mightily.

All the same, the union is in a desperately poor state. Already, the SNP is mainly concerned about next year's Scottish Parliament elections: specifically over whether to promise a second independence referendum in its manifesto. It might not, because even if it could deliver another plebiscite the polls suggest the result would probably be the same. Yet while they rid Scotland of unionist rivals, and most Scots under the age of 50 are believed to want independence, the nationalists can afford to be patient. Almost half of Britons, according to this week's YouGov poll for *The Economist*, think Scotland will be independent in 20 years' time; the evidence of Scottish opinion suggests they may be right.

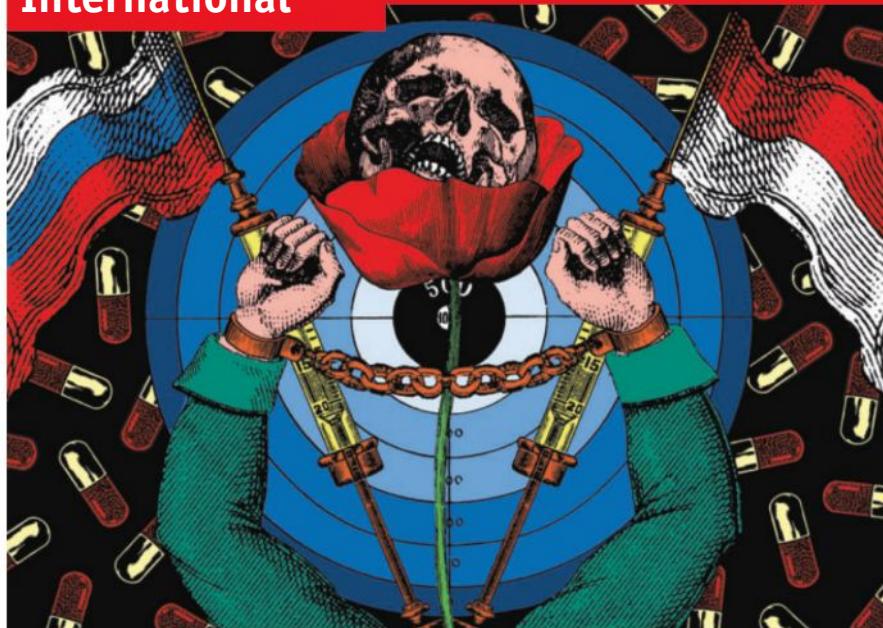
And Scotland is not the only malcontent. Bagehot's travels around Britain during this campaign have thrown up a dismal litany of nationalist and regionalist complaint. In Belfast, he heard middle-class Catholics—who would have recoiled from Republican violence during the Troubles—declare their support for the Irish nationalist Sinn Fein party, whose terrorist wing, the IRA, carried out those killings. In Cardiff, Leanne Wood, leader of the Welsh nationalist party Plaid Cymru, and a minor star in this campaign, described her plausible ambition to ape the SNP's success by dropping the cultural nationalism that long restricted Plaid to a few Welsh-speaking counties and embracing the left-wing Utopianism that has fuelled the SNP. In sunny Kent your columnist sat in a pub festooned with St George's flags listening to Nigel Farage, leader of the UK Independence Party, outline "patriotic" policies that were not written to gladden Celts: UKIP wants no more "English taxpayers' money [to be] shovelled over Hadrian's wall...the English need a fairer deal."

Merry England, Great Britain

Britain has never been in such an all-round querulous state. And if some of this wrestling is inspired by the Scottish Nats, it has a common source. British identity is not nearly as old as, and has never been as strong as, the identities of its constituent parts. England predates the Act of Union that bound Scotland to England and Wales by almost a thousand years. No wonder Mr Farage's demand to make St George's Day a public holiday is popular.

By contrast, British identity is how Britons have tended to dress up for the world—to unite in their common defence, to build an empire, to assert their shared values. It is, again, no wonder this is wilting as British power declines. But, properly understood and argued for, Britain is no less valuable than it ever was. If England, Scotland and the rest retain any ambition to have a say in the world, culturally and commercially if to a diminishing extent militarily, Britain is their beautifully appointed tool. It is a ready-made means to pool security and other risks. And it will remain, as it always has been, a comfort blanket against the intemperate nationalism to which Britons, almost uniquely among their European peers, and for this reason, have remained stolidly immune.

It is no accident the United Kingdom has prospered: all its parts gain from it, all would be poorer alone. And if unionist politicians cannot clinch that argument, against the populists and the disaffected, they had better move aside to let others try. The impending defeat of Scottish unionists will at least provide that opportunity. But that is a pale light in a bleak and stormy sky. ■



Illegal drugs

The new drug warriors

As one side of the world softens its line against illegal drugs, another is getting tougher—and more vocal

THE war on drugs, it seems, is edging towards a truce. Half of Americans want to lift the ban on cannabis, the world's favourite illicit drug. Four states have legalised it, as has Washington, D.C. Latin American presidents whose countries once battled narcos with helicopter gunships now openly wonder if prohibition was a mistake; Uruguay has legalised weed. Much of Europe has decriminalised it; Portugal has decriminalised all drug-use (though not drug-dealing). Heroin addicts in Western countries usually have access to clean needles, substitutes such as methadone and, in parts of Europe, heroin prescriptions. Many governments are starting to believe that managing drug use causes less harm than trying to stamp it out.

In Indonesia, things look very different. On April 29th eight convicted drug offenders, seven of them foreign, were executed by firing squad. Joko Widodo, the president, became convinced of the need for a hard line on drugs as mayor of Solo, a city in central Java, and governor of Jakarta, the capital. Since taking office he has promised “no clemency” for traffickers, despite intense lobbying by other governments and the UN. His seven months in office have seen 14 executions, more than twice as many as in the previous 15 years.

Indonesia is only the highest-profile example of a trend across Asia and the Middle East, the only regions that routinely execute drug offenders. Saudi Arabia

beheads smugglers of cannabis, a drug which is not conclusively linked to a single fatality among the 200 or so who use it each year. China's president, Xi Jinping, called last year for “forceful measures to wipe [drugs] out”. In the first five months of 2014 nearly 40,000 people were sentenced for drug offences in China, 27% more than in the same period in 2013. In June most countries will mark the UN's “international day against drug abuse” with speeches; China often celebrates it with a round of executions.

More enthusiastic still is Iran, where the government is increasingly alarmed about high rates of addiction. Since 2011 possession of as little as 30g of some drugs has been a hanging offence. According to Harm Reduction International (HRI), a drug-focused NGO, in 2008 Iran executed at least 96 people for drug crimes. In 2011 the figure was 540. Amnesty International has counted 241 so far this year. Drug offenders account for a “large majority” of all those put to death in Iran, says HRI; the country may execute as many drug traffickers as China, despite having a population only 6% as big. Afghan smugglers of heroin, some as young as 15, have been hanged near the border as a cautionary spectacle.

Over the past two decades Singapore has reduced its drug executions from several dozen a year to one or two; and Malaysia is using the death penalty less. But these are rare bright spots in a darkening picture.

Also in this section

54 Nuclear disarmament

Execution-watchers are now nervously eyeing Pakistan, which in March ended an informal moratorium on the death penalty (having lifted it last year for terrorism offences). It is not known whether drug offenders among the 8,000 on its death row will have their sentences carried out.

Somebody lighting a legal joint in Colorado or Washington might not care that, in a faraway country, a person selling the same substance could suffer beheading. After all, Saudi Arabia executes people for adultery and sorcery without impeding extramarital flings or witchcraft elsewhere. But the cross-border nature of the drug trade means countries have tried to reach basic agreement about what to ban. Nearly all UN members have signed conventions in 1961, 1971 and 1988, which mandate prohibition of the main recreational drugs.

Policy pushers

Western countries have been the chief enforcers. America, in particular, has taken the fight beyond its borders. In the early 2000s it helped fund Plan Colombia, a multi-billion-dollar military-focused crackdown on Andean coca growers, briefly making Colombia the third-largest recipient of American aid. Failure to co-operate has meant “public shaming, economic sanctions, or back-channel punitive uses of American influence with international funding agencies like the World Bank and IMF,” writes Moises Naim, a former executive director of the World Bank. Each year America names the countries it regards as having fallen short of their counter-narcotics obligations. In 2006 Mexico's congress voted to decriminalise the possession of fairly large quantities of drugs. The president at the time, Vicente Fox, had supported the bill. But he vetoed it after George W. Bush made clear that decriminalisation would jeopardise longed-for ➤

► immigration reform in the United States.

Now America's own inconsistent drug laws are forcing it to soften its line. Marijuana is prohibited by the federal government, but legal according to a growing number of states. William Brownfield, the assistant secretary of state for drugs, has performed linguistic acrobatics in an attempt to reconcile America's legalisation of cannabis with its obligation to uphold the UN conventions that ban it. "The conventions are not rigid...We are allowed to interpret them so long as our interpretation is still consistent with our universal desire to reduce the misuse and abuse of harmful products throughout the world," he said last year. Increasingly America is turning a blind eye to measures elsewhere that it once would have excoriated. In February Mr Brownfield said that Jamaica's plan to legalise cannabis for medical and religious purposes was "Jamaica's own business and Jamaica's sovereign decision".

America's change of heart has led many to wonder if the UN conventions might be reformed to legalise some drugs and treat the use of others as a problem requiring health measures, not criminal or military ones. But as America has drawn back from prohibition, new drug warriors are stepping up to defend it.

Russia is foremost among them. "The Russians have taken over the hard-line role that the US used to play," says Martin Jelsma of the Transnational Institute, an NGO based in Amsterdam. Though Russia does not apply the death penalty for drug-trafficking or any other crime, it is ultrastrict in other ways. It bans methadone, a drug taken orally which most countries with enough money give to heroin addicts to stop them overdosing and to prevent diseases spreading via shared needles. Russia now has 1.2m HIV-infected people, up from 170,000 a decade ago.

Undeterred, it is trying to persuade east European countries also to ban methadone. (After annexing Crimea last year it cut off methadone patients' supplies; some reportedly died after turning back to heroin or committing suicide.) And just as America once believed that the best way to stop its crack-cocaine epidemic was to eradicate coca in South America, so Russia has sent intelligence agents to disrupt the production of heroin in Afghanistan. At the UN it has argued loudly for an aerial-spraying programme, similar to those used in the Andes.

China also wants to tighten drug controls globally. In March, backed by fellow Asian hardliners, it successfully lobbied the UN to put forward a motion to ban ketamine, a widely abused anaesthetic. It is already banned in China, which has many addicts. But the World Health Organisation lists it as an essential medicine, which by the UN's own rules should put it beyond any attempt at a ban. Though the mo-

tion was withdrawn at the last minute, the mere possibility of tighter restrictions rattled African countries that rely on it for emergency surgery.

Other emerging drug warriors include Egypt, where addiction is treated as a form of insanity; South Africa, where a vicious new home-cooked drug called "whoonga" has panicked the authorities into a crackdown; and Cuba, whose isolation and security apparatus have kept a lid on consumption, giving it little incentive to support moving on from prohibition. In recent years India has aggressively campaigned against a proposal to license Afghan opium farmers to supply the legal medical market, in part because its own licensed opium farmers would see their business threatened.

Fifteen years ago almost all funding for the UN Office on Drugs and Crime (UNODC) came from "major donors", dominated by America and EU countries. Now they are responsible for only 60%; most of the rest is stumped up by "emerging donors" (see chart). Their contributions are largely earmarked for projects within their own borders: Colombia, for instance, now the biggest donor, pays the UNODC to run programmes to persuade farmers to grow crops other than coca. Last year \$281m out of a total donated of \$288m was earmarked for such country-specific projects.

Some believe that the result is that the agency has become too quick to do whatever governments will pay for. "The UNODC has become completely unmoored from the central UN budget," says Amir Attaran of Ottawa University, who has worked as a consultant to the agency. A deal to help Iran catch traffickers, many of whom would later be hanged, has attracted particular criticism. A spokesman for the UNODC acknowledges "a significant diversification of our portfolio over the previous years" but says that all projects fall within "clear and substantiated mandates" set out by its governing bodies.

UN bigwigs deny that earmarked donations give countries more power to shape policy. But persuading countries to cough up non-earmarked cash is hard, and "often

those contributions are reflected in terms of [the donor country's] visibility, in terms of positions," one senior UN official admits. In 2010 Russia pledged a one-off donation of \$7m to the UNODC's coffers—44% of the agency's general-purpose funding that year. In the same year a Russian candidate, Yury Fedotov, was appointed its new head. The three previous directors had come from Italy, which often used to be the agency's main source of non-earmarked donations.

A war of two halves

Western countries will find it hard to wind down the war on drugs without wide consensus. Most decisions of the Commission on Narcotic Drugs, the UN's policymaking body, require unanimity among its 53 members. That is why updating its position on such matters as how best to treat addicts has proved impossible. It has yet to pass a resolution mentioning harm reduction, which has been part of everyday drug-policy language for years in many countries, notes Mr Jelsma.

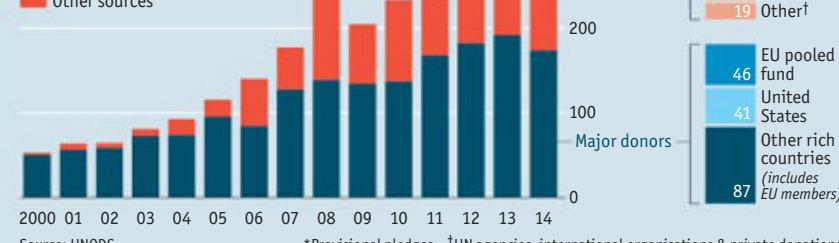
The difficulty of agreeing on change has left the UN's drugs authorities out of step with other agencies. Last year the World Health Organisation endorsed the decriminalisation of drugs. In March a report from the UN Development Programme said that drug-control efforts had been responsible for "creating a criminal black market; fueling corruption, violence and instability; threatening public health and safety; [and] generating large-scale human rights abuses". It argued that "new approaches are both urgent and necessary."

Next April a special session of the UN General Assembly will offer the best chance in years to consider such new approaches. Called by Latin American countries frustrated over the ineffectiveness of present policies, it will review the drug-control system from first principles. At the most recent such session, in 1998, America blocked serious debate. It remains to be seen whether next year's will be more productive—or whether the new drug warriors will condemn the world to decades more fighting an unwinnable war. ■

Calling the shots

UNODC funding*, \$m

- Major donors
- Other sources



Nuclear weapons

Fractious, divided but still essential

Lack of progress on nuclear disarmament could lead to an ill-tempered non-proliferation treaty review

THE conference of the 191 signatories of the Nuclear Non-Proliferation Treaty (NPT) got under way at the UN headquarters in New York this week. The last such meeting, in 2010, produced agreement over a 64-point action plan. This time it is likely to be a much more divisive affair.

The aim of "RevCon", as it is known, is to take stock of progress (or otherwise) over the previous five years in strengthening the three pillars on which the NPT's "grand bargain" rests: the commitment to pursue disarmament by the five "official" nuclear weapons states—America, Russia, Britain, France and China, also known as the P5; action to stop the proliferation of nuclear weapons; and promotion of the peaceful use of nuclear energy. RevCons are high both on obscure technical discussion, and on diplomatic grandstanding. And the NPT has often been under stress since it came into force in 1970. But without it the world would be a more dangerous place. Only three countries have never signed up—India, Pakistan and Israel. Only one, North Korea, has ever left.

At least one bit of good news for the four-week conference was the announcement on April 2nd of a framework agreement to overcome the decade-long crisis over Iran's nuclear programme. If a comprehensive deal can be reached by the end of June and then successfully implemented, it will go a long way towards vindicating the NPT and the tools it provides to bring those who violate its safeguards back into compliance. Mark Fitzpatrick, a non-proliferation analyst at the London-based International Institute for Strategic Studies, believes that the agreement has strengthened two of the NPT's pillars by upholding the right to a civil nuclear programme and confirming the role of intrusive inspections to ensure that all related activity is indeed peaceful.

Progress in most other areas since 2010 has been modest. The countries that do not have nuclear weapons are most concerned by the failure of the five that do to take further steps to reduce the size of their own nuclear arsenals. The previous RevCon was held in the afterglow of a New START deal between America and Russia to limit the number of deployed strategic nuclear weapons to 1,550 on each side, and the inspirational speech in Prague a year earlier by Barack Obama, America's president, in which he held out the prospect of a world without nuclear weapons.



Looking for lift-off

Since then, despite the establishment in 2009 of the so-called P5 process as a forum for discussing multilateral disarmament, not much has happened. The main reason is the chilling of relations between Russia and the West, which predated Russia's annexation of Crimea. An offer by Mr Obama in 2013 of new negotiations to reduce each side's stock of warheads by a third was met with stony silence.

More recently Russia has, according to America, violated both the 1987 Intermediate Nuclear Forces treaty, by testing a banned missile, and the Budapest Memorandum of 1994 that guaranteed Ukraine's security when it gave up the nuclear weapons it had inherited on the break-up of the Soviet Union. The Russians are also refusing to attend next year's Nuclear Security Summit, a meeting to prevent fissile material falling into the wrong hands.

Without further cuts in American and Russian nuclear forces (which account for more than 90% of the world's nuclear weapons), China, the most opaque of the P5 powers, will block attempts to get multilateral disarmament talks going. However, Rose Gottemoeller, America's under-secretary of state for arms control, praises China

for its leading role in producing a common glossary of nuclear terminology. This may not sound much, but it is seen within the P5 as essential for future negotiations.

Ms Gottemoeller is also keen to stress that, despite the Russian impasse, America has tried to meet its obligations. It is eliminating "excess" warheads at the rate of almost one a day and closing down old bits of nuclear infrastructure. In 2013 it completed the elimination of 500 tonnes of Russian and American fissile material (equivalent to about 20,000 warheads) under a highly enriched uranium purchase agreement. In December it launched a scheme to bring together nuclear and non-nuclear weapons states to develop new approaches to verification.

It is doubtful whether these modest, incremental efforts will cut much ice with the Humanitarian Impacts of Nuclear Weapons Initiative, a movement supported by civil-society groups and championed by Austria, Norway and Mexico. Faced with what they see as foot-dragging by the P5 (which are modernising their nuclear forces to maintain their long-term effectiveness), the initiative's backers, some of which want to make nuclear weapons illegal, may question whether working through the NPT serves any purpose.

Britain and America sent representatives to a conference on the humanitarian initiative in Vienna last December attended by 156 other countries, but Russia, France and China stayed away. Nobody disputes the horror of nuclear weapons, but moral fervour is not a policy. Progress on nuclear disarmament must take account of the complex deterrence relationships between the P5.

Another source of friction is the failure to hold the conference on creating a WMD-free zone in the Middle East that was promised in 2010. Israel, an undeclared nuclear-weapons state, has joined preparatory meetings at a high diplomatic level and is attending the RevCon as an observer. But it insists that regional security arrangements must precede any talks on disarmament, whereas Egypt says the first step is for Israel to accede to the NPT—a non-starter. It is possible that Israel's new chumminess with the Gulf Arabs, the verification measures to ensure the civil nature of Iran's nuclear programme and the chairing of the conference by an Algerian, Taous Ferrouki, may provide some impetus.

For this RevCon to rediscover the spirit of 2010, what is needed is an outbreak of realism among countries without nuclear weapons—and a willingness by the P5, above all Russia, to demonstrate that they are prepared to pay more than lip-service to the vision of eventual nuclear disarmament. That may be a tall order, but, imperfect though the NPT is, most of its signatories know that keeping it alive is better than any alternative. ■



Military aircraft

Battle joined

Three of the world's biggest defence companies are locked in a contest that could reshape the industry

WITHIN the next few months, the biggest defence contract for what will probably be many years to come will be awarded by the US Air Force, to build a new long-range strike bomber. The B-3, as it is likely to be named, will be a nuclear-capable aircraft designed to penetrate the most sophisticated air defences. The contract itself will be worth \$50 billion-plus in revenues to the successful bidder, and there will be many billions of dollars more for work on design, support and upgrades. The plan is to build at least 80-100 of the planes at a cost of more than \$550m each.

The stakes could not be higher for at least two of the three industrial heavyweights that are slugging it out. On one side is a team of Boeing and Lockheed Martin; on the other, Northrop Grumman. The result could lead to a shake-out in the defence industry, with one of the competitors having to give up making combat aircraft for good.

After the B-3 contract is awarded, the next big deal for combat planes—for a sixth-generation “air-dominance fighter” to replace the F-22 and F-18 Super Hornet—will be more than a decade away. So Richard Aboulafia of the Teal Group, an aviation-consulting firm, believes it will be hard for the loser to stay in the combat-aircraft business. If Northrop were to miss out, its investors may press for it to be broken up. If Boeing were to lose, Mr Aboulafia thinks it may seek to buy Northrop’s air-

craft-building business, to ensure it gets the job after all. The production line in St Louis that makes Boeing’s F-18 (the US Navy’s mainstay fighter until it starts to get the carrier version of the new F-35 in numbers) is due to close in 2017. If Northrop were to depart the field, that could leave Lockheed Martin as the only American company with the ability to design combat planes, and thus the biggest winner of the three.

Usually in a contest of this kind, particularly this close to its end, a clear favourite emerges. Industry-watchers rate this one as still too close to call. That is partly because the degree of secrecy surrounding what is still classified as a “black programme” has remained high. Only the rough outlines of the aircraft’s specification have been revealed. It will be stealthy, subsonic, have a range of around 6,000 miles (9,650km) and be able to carry a big enough payload to destroy many targets during a single sortie. The best clues to what it will look like are from earlier “flying wing” design concepts the aircraft-makers have displayed, and from the shrouded “mystery plane” that Northrop showed in a recent television commercial (pictured). But most of all, picking a winner is hard because both competitors are highly credible—and each has different strengths.

Boeing and Lockheed first joined forces in 2007 to build what was then known as the Next-Generation Bomber—a project

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cancelled two years later because its excessive technological ambition was causing costs to soar. They decided to team up again in 2013 to prepare for a new request for proposals that the air force quietly released last summer. Boeing is the team leader and will build the aircraft if their bid is successful; Lockheed will take the main responsibility for its design.

That should be a winning combination. Boeing is as good as it gets when it comes to the efficient construction of large aircraft, and has painfully and expensively acquired expertise in carbon-fibre composites as it developed its 787 Dreamliner, a civil airliner. Lockheed can draw on its “skunk works”, an autonomous design team that works on radical new aircraft technologies; and on its experience developing radar-beating stealth technologies for the F-22 and F-35 fighter planes.

Northrop, on the other hand, built the revolutionary B-2 stealth bomber that entered service in the early 1990s. It was conceived as a deep-penetration nuclear bomber at the height of the cold war. But when the Soviet Union dissolved, the need for America to have 132 of the planes went with it. Only 21 were eventually built, leading the programme into a “death spiral” in which declining orders pushed up the unit price of an aircraft to absurd levels. Once its development, engineering and testing costs were added, each B-2 ended up costing more than \$2 billion. But it was hardly Northrop’s fault that the cold war ended sooner than expected. The plane it built has since proved its capabilities in numerous conflicts, from Kosovo to Libya.

Updated versions of the once-radical technologies that made the B-2 so expensive (both to buy and to operate) will find their way into the new bomber. Another possible advantage for the air force in choosing Northrop is that it might be better ➤

► able to focus on the programme. Boeing is not only grappling with its hugely demanding, and rapidly expanding, civil-aviation business; it is also struggling to deliver the X-46 tanker plane by the target date of 2017. (It snatched that big order from a consortium of Northrop and Airbus, after protesting at the air force's initial decision to award it to its rivals.) Lockheed, for its part, also has its hands full ramping up production of the late and over-budget F-35.

The target for the plane to come into operation is the mid-2020s—if possible, even earlier. In part this is because of fast-emerging new threats and in part because the average age of America's current bomber fleet, consisting of 76 geriatric B-52s, 63 B-1s and 20 B-2s, is 38 years. Keeping such ancient aircraft flying in the face of metal fatigue and corrosion is a constant struggle: just 120 are deemed mission-ready. None of these, except the B-2s, can penetrate first-rate air defences without carrying cruise missiles—and the missiles are of little use against mobile targets.

In the kind of one-sided wars that America and its allies fought in the years after the September 11th 2001 attacks, such deficiencies were not a problem. But during that period China, in particular, has invested heavily in “anti-access/area-denial” (A2/AD) capabilities. These include thousands of precision-guided missiles of increasing range that could threaten America's bases in the Western Pacific, and any carriers sailing close enough to shore to launch their short-range tactical aircraft. Critics of the huge F-35 programme (the Pentagon is planning to buy 2,457 aircraft at a cost of around \$100m each) argue that its limited range was a growing problem even before it entered service. A new long-range bomber that can penetrate the most advanced air defences is thus seen as vital in preserving America's unique ability to project power anywhere in the world.

If getting the new bomber into service fast is a priority, so too is keeping the price low enough to be able to build it in sensible numbers, and thus keep it safe from political ambush. Budget caps imposed by Congress in 2013 have ushered in a decade of defence-spending austerity, and the B-3 will be the first major weapons system to be designed and produced in this new era.

To stay on budget and avoid the risk of having its orders cut, the programme will have to rely on technologies adapted from earlier projects; and any temptation to “gold-plate” its specification with showy but not strictly necessary features will have to be resisted. The B-3 will be a bit smaller than the B-2, and be able to use the same engines as the F-35. The option of being able to fly the bomber pilotlessly, by remote control, seems to have been dropped, as have some highly sophisticated surveillance sensors that were proposed earlier.

The risk of this cautious approach is

that the new bomber might quickly lose its technical edge if faced with new threats or relentlessly improving air-defence systems (thanks to ever faster processors and sensors). But this danger is being seen off in two ways. The first is by designing the planes with what the Pentagon's acquisitions chief, Frank Kendall, describes as an “open architecture and modular approach”, in which companies will compete to provide future upgrades that can be easily plugged in as and when needed. The other is that, despite its stealthiness, the B-3 will be fully connected to a range of “off-board capabilities”, such as electronic countermeasures and the collection of targeting data, provided by other aircraft and orbital reconnaissance satellites, instead of having to carry everything on board.

In keeping with the secrecy surrounding the plane, neither of the two competing teams is prepared to discuss their bids or

why they should prevail in any detail. Such reticence may not survive the awarding of the contract. Although the air force is striving to make its decision as protest-proof as possible, neither Boeing nor Northrop is likely to take defeat quietly. Northrop is still smarting from Boeing's lobbying triumph over the X-46 tanker programme, in which a plane that many military analysts considered superior ended up losing.

The Pentagon likes to share work around so as to ensure there is continued competition for contracts to provide military gear, especially complex ones such as this. In the case of the B-3 it has explicitly ruled out taking such concerns into account when choosing between the two contenders. That may be because it realises that whichever it selects, it will deal a devastating blow to the other. The days when America had a choice of combat-plane suppliers are coming to an end. ■

Shareholder rights in Europe

Short-term or short-changed?

PARIS

Enhanced rights for loyal investors are increasingly touted as a way to make companies think for the long term

A BATTLE over voting rights, pitting the state against company boards and many investors, is raging among French companies. The biggest fight of all involves Renault, a carmaker with global ambitions. According to the so-called Florange law adopted in 2014, after March 2016 listed French firms must begin granting double voting rights to investors who have held registered shares for at least two years—unless two-thirds of shareholders have voted

against this rule. The provision aims to counter “short-termism” by encouraging more loyalty between investors and companies. It will also, fortuitously, allow a government intent on selling down some of its stakes in domestic companies to retain its influence over them while banking the cash.

Renault's outraged boss, Carlos Ghosn, is particularly worried that suddenly doubling the voting clout of the state will upset ►



Long-term owners only, please

its Japanese partner, Nissan, which holds 15% of Renault's capital but no voting rights. The government, determined to defeat the board's resolution to retain one vote for one share, has temporarily raised its stake from 15% to 19.7% in time for a meeting of Renault shareholders on April 30th. The outcome was too close to call as *The Economist* went to press.

Multiple voting rights are no novelty in France. Even before the passage of the new law, 22 of the companies in the CAC-40, the French blue-chip index, had such arrangements, according to PhiTrust, an investment fund that, along with Proxinvest, a proxy-advisory service, has helped to organise opposition to the Florange law. Various ways of altering the proportionality between voting rights and the underlying share of ownership are common across Europe and elsewhere, even though many pundits, and most institutional investors, think that this short-changes some shareholders. What is new in France is that double voting rights are suddenly the default position. The remaining, French-domesticated CAC-40 firms that have up to now had one vote per share are scrambling to sort themselves out before the law's provisions come into force.

Of those firms in which the state has no stake, only one has so far ended up with double voting rights for long-term investors. On April 17th over half of the shareholders in Vivendi, a media conglomerate, voted to stick with one vote per share, but they were short of the two-thirds majority required. Vincent Bolloré, Vivendi's chairman, increased his holding from just over 10% to almost 15% for the event, reinforcing his control over the group.

In contrast, at Vinci, a construction firm, L'Oréal, a cosmetics giant, and Unibail Rodamco, a property firm, shareholders have seen off the introduction of double voting rights. BNP Paribas and Crédit Agricole, both banks, are likely to do the same in May, as are Air Liquide, an industrial-gases company, and Capgemini, a consulting firm. (Swimming against the legislative current, Legrand, an electrical-equipment maker, will propose to its shareholders on May 29th that they move back from a double-to a single-vote regime.)

Things are different at companies where the state has a stake and can throw its weight around to ensure its new law is applied. Shareholders at Veolia, a water utility, failed to secure the supermajority needed to override Florange on April 22nd. Engie, an energy giant that is changing its name from GDF Suez, went the same way on April 28th; the state owns a third of the capital and Engie is thought to be near the top of its assets-for-sale list. Few expect Orange, France's biggest telecoms company which is 25%-owned by the state, to vote down Florange at its shareholders' meeting on May 27th, whatever happens

in Renault's vote.

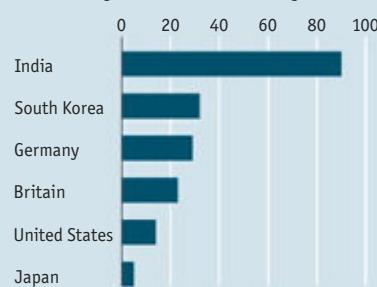
For those who thought the French government had thrown off its old interventionism in appointing a more liberal economic team in 2014, the zeal with which it is pursuing double voting rights and its own interests, especially at Renault, is alarming. But France is not alone in questioning whether the governance rules in their current form are producing robust companies able to plan for the future, or desperate ones sucking up to short-term investors who are apt to trade and run.

Italy adopted its own, much milder Florange law in 2014, removing a decades-old prohibition on multiple voting rights (though Italy allows plenty of other mechanisms for big shareholders to enhance their control) and letting companies give long-term shareholders extra voting power. Its "growth decree" was designed mainly to persuade owners of family firms that they could list on the stockmarket, and thus raise capital to expand, without having to give up control. A number of Italian companies, including Campari, a drinks-maker, have changed their statutes to give extra votes to long-term investors.

Similar changes may sweep across Europe. On May 7th a committee of the European Parliament will debate changes to the Shareholders' Rights Directive of 2007. Among them will probably be a proposal to make all EU countries take at least one of four steps to reward investors who hold shares for two years: extra voting rights, tax incentives, loyalty dividends or loyalty shares. The principle of equal rights for all shareholders is under attack. ■

The cheaper alternative

Generic-drug sales as a % of total drug sales, 2010



Sources: Reuters; European Federation of Pharmaceutical Industries and Associations

Mylan, would create a company with around \$30 billion in annual revenues and, Teva says, \$2 billion in cost savings. As part of its plan to escape Teva's clutches, Mylan has made three successive takeover offers to Perrigo, a smaller Irish rival, only to be spurned each time. Perrigo now seems likely to attract interest from other companies.

For Teva the merger would, besides bringing many economies of scale, allow it to put more effort into copying hard-to-make "biologics"—an increasingly important class of drugs that are manufactured inside animal cells or micro-organisms such as bacteria. It would also increase the firm's global reach. Although Teva already distributes its products in 100 countries, a merger with Mylan would deepen its operations in some regions, particularly Asia-Pacific, says Kathleen Davenport of Decision Resources Group, a health-care consulting firm. (The merged company would have to make some divestments to satisfy the competition authorities.)

The merger proposals have triggered speculation that consolidation could cause the price of generic drugs to rise. All around the world, health-care providers are keen on buying cheaper generic copies of branded drugs whose patents have expired. In big emerging markets such as India, spending on drugs in general is growing fast, because of a combination of population growth, programmes to increase public access to health care and new medicines, and governments' economic-stimulus measures. Generics are getting an even bigger share of drugs spending than in richer countries (see chart).

But prices are a topic of great concern in the rich world, too, especially in America, thanks to some surprising spikes in the cost of some generics. According to Express Scripts, a drug wholesaler, the price of digoxin, a treatment for congestive heart failure, went up by 1,127% last year. This was because, for a period, only two companies were making it. Pricing concerns have triggered a recent congressional investigation as well as a forthcoming review by the Department of Health and Human Services. ►

Generic drugs

Much ado about something

Worries are growing about the effects of dealmaking among generics firms

THE plot is worthy of a Shakespearean comedy. Teva is in pursuit of Mylan. But Mylan dislikes its suitor and runs away to declare its love for Perrigo, while seeking a poison pill in case it is forced to marry Teva. Perrigo, though, rebuffs Mylan. With many suitors, Perrigo is holding out for a better offer—perhaps even from Teva itself. It may not be quite midsummer but the unfolding drama featuring three generic-drug makers could well run until then.

This week Mylan, based in the Netherlands, rejected a \$40 billion bid from Teva, of Israel, arguing that it "lacks industrial logic". To be on the safe side it has enacted a poison-pill defence against hostile takeover. Combining the world's largest generic-drug maker, Teva, with the third-largest,

► There is no consensus among analysts as to the effects that mergers such as that of Teva and Mylan, if it happens, will have on drug prices. Michael Waterhouse at Morningstar, an investment-research firm, says the risk of consolidation leading to higher prices for generics is low, because the barriers to entry are too small. "Eye-popping" increases, such as that for digoxin, are generally isolated events, he says. So far, at least, the overall trend for generics prices has been downwards. Express Scripts' prescription-price index shows that whereas the average price for branded medications in America has risen by 127% over the past seven years, the average for generics is down by 63% over that period.

However, Michael Farr, the CEO of Farr, Miller & Washington, an investment-management firm (which holds a position in

Perrigo), observes that consolidations in the generic industry are an effort to create both scale and negotiating power with purchasers of drugs. This is why, he says, the markets have rewarded consolidators through increases in their share prices. Ms Davenport, meanwhile, thinks a Teva-Mylan merger has the potential to lead to higher generic prices in the short-to-mid term.

Such debates matter. Generics have succeeded in bringing down the overall cost of medicines, by providing competition to branded drugs. Although the barriers to entry for new generics firms are low, they are not non-existent. Getting the approvals needed to make and market drugs is not a trivial matter. So it is important for antitrust authorities to keep an eye on the generics firms, to ensure their romancing does not go too far. ■

the vw badge—which account for almost half of the group's sales by volume—were a worse-than-expected 2%.

vw hopes to boost these margins to 6%, around the group's average. But this will be hard. A €5 billion (\$5.6 billion) cost-cutting plan for vw-branded cars is under way, and the company is introducing across the group the MQB, a modular "platform" that will allow it to make the underpinnings of two-fifths of all its cars from one set of parts. That should eventually save money, though it is proving more expensive than expected to implement.

But shifting work from vw's German factories to foreign ones, or cutting the group's huge research budget, would be almost impossible for Mr Winterkorn, and whoever succeeds him as CEO, to push through. The state of Lower Saxony has a 20% share of the votes on the supervisory board, and thus a veto on strategic decisions under a law passed when the firm was privatised in 1960. Unions also have representation on the board (a union man is acting as chairman until Mr Piëch's successor is chosen). Both are likely to resist any big job cuts in Germany.

Fixing its problems in America will be just as tough. vw's share of the world's second-biggest market, already paltry, is falling. Its range of sport-utility vehicles (suvs), the fastest-growing style of car there, is limited, and has not set pulses racing. vw is belatedly launching what Mr Winterkorn calls "the biggest suv offensive in the company's history". Changing perceptions of the brand in America will be a longer and more difficult task.

Investors hoping that Mr Piëch's departure signals an even more radical shift in strategy look set for disappointment, however. The board may simply have chosen to back Mr Winterkorn, in his late 60s, rather than Mr Piëch, over a decade older, because the younger man is a better long-term bet on things carrying on as before. ■

Volkswagen

Driven out

The carmaker's domineering chairman leaves, but his successor would have trouble changing direction

WHY Volkswagen's chairman, Ferdinand Piëch, failed to remove its chief executive, Martin Winterkorn, is unclear. Most observers reckon that the pair fell out over vw's strategy but are astounded that the wily Mr Piëch (pictured, centre), a member of the family that controls the German carmaker, was forced to resign on April 25th, instead of pushing out Mr Winterkorn (pictured, right). What is obvious is that, in his 22 years as the firm's CEO and then chairman, Mr Piëch's obsession with making it the world's biggest and best carmaker has left it with some significant weaknesses, in its original vw brand and in the American market.

Having got rid of the group's previous CEO, Bernd Pischetsrieder, in 2006, through a combination of a public snub and a behind-the-scenes campaign, Mr Piëch probably reckoned the same trick would work again. In a recent interview in *Der Spiegel*, a news magazine, he said he was "at a distance" from Mr Winterkorn. But other members of the group's supervisory board backed the CEO.

Mr Piëch's defeat leaves Mr Winterkorn in pole position to succeed him as chairman of the supervisory board, a powerful body which appoints the carmaker's executives and must approve big decisions on strategy. The question is what Mr Winterkorn might now do differently.

In many respects Mr Piëch leaves the company on a high. By building factories across the globe and making a string of acquisitions, from Bentley, a maker of luxury

cars, to Scania, a lorry-builder, he has made Volkswagen the second-largest vehicle maker in the world, behind only Toyota. Last year it turned out more than 10m vehicles and made record net profits of €10.8 billion (\$12 billion).

This relentless pursuit of scale is likely to end. Attention will turn instead to tuning some underperforming bits of the business. vw relies heavily on its premium Audi and Porsche ranges for its profits, and thus is vulnerable to a downturn at the top end of the market. First-quarter results published this week showed that operating margins on the humbler cars that bear



The exit is over there, Dr Piëch

Food manufacturing

Slimming down

CHICAGO

America's processed-food makers are having to adapt to declining popularity

I WILL miss treating my ear infections with the Buffalo Ranch McChicken," quipped Jon Stewart recently on "The Daily Show". After sending up McDonald's announcement that it would phase out its use of chicken that had been fed with antibiotics, the television satirist lampooned a decision by the Academy of Nutrition and Dietetics to let Kraft put the academy's "Kids Eat Right" logo on its Singles slices, a "prepared cheese product". That decision was reversed days later.

After decades of rising sales and high popularity, makers and sellers of processed food are under pressure not just from comedians but from policymakers, campaigners for "real" food and an increasingly sceptical public. In February Michelle Obama said she had long banned processed food from the presidential family's table, in particular Kraft's macaroni and cheese, one of its biggest sellers. Last month the company said it would remove the artificial colouring that gives the product its neon-orange glow. On April 28th it announced flat sales and a 16% fall in net profits, year on year, in the first quarter. McDonald's, having replaced its boss in March because of poor sales, said on April 22nd that they were still falling.

Just as restaurants promising more "natural" ingredients have been winning customers from McDonald's in recent years, Kraft and other American processed-food makers have lost out to smaller food firms peddling healthier fare. At the same time, consumers who are less choosy about ingredients have become more picky on price, switching to supermarkets' own-label foods (see chart). Some big food firms are cutting back. In January General Mills, maker of Pillsbury chocolate-chip cookies and Totino's frozen pizza, among other things, announced factory closures and job cuts. PepsiCo has just finished a three-year process to cut up to 8,700 jobs, or 3% of its global workforce.

Americans' growing interest in healthier, simpler fare is providing opportunities for all sorts of startups. Family farms had been going out of business for decades, but now new ones are being founded, promising organic, locally grown produce. Kind, which makes fruit and nut snacks, has gone from nothing to annual sales of more than \$100m in ten years. Even more impressively, Chobani, a maker of Greek-style yogurt, has gone from nowhere to sales of \$1.3 billion in the same period.



One way in which the processed-food giants are reacting is by reformulating their products to answer worries about synthetic ingredients. Just as Kraft is promising with its macaroni, so Nestlé, the world's biggest food firm, is pledging to remove all artificial flavours and colours in more than 250 types of chocolate sold in America. More recently PepsiCo said it would remove aspartame, an artificial sweetener, from Diet Pepsi sold in America. Its arch-rival Coca-Cola is promoting Coke Life, a fizzy drink that contains stevia, a natural, no-calorie sugar substitute.

But this strategy is not without risks. Stevia has a slightly bitter aftertaste that may put off some drinkers. And in 2010, when Campbell's reduced the salt in its soup, customers rebelled, forcing it to add some back. Its soups' market share in America continued to fall.

An increasingly popular, albeit expensive, alternative for the food giants has been to buy small but fast-growing healthy-food brands. In 2012 Campbell's bought Bolthouse Farms, which makes organic juices; a year later it took over Plum Organics, a maker of baby food. In 2013 Coca-Cola bought Innocent, a maker of fruit smoothies. Last year General Mills

bought Annie's, an organic-food firm.

If the decline in processed foods' popularity continues, two further strategies—consolidation and cost-cutting—will become more prevalent. Since they bought Heinz for \$28 billion in 2013, Warren Buffett's Berkshire Hathaway and 3G Capital, an investment firm with Brazilian roots, have swung the axe at its head office and factories. Last year, although Heinz's sales fell by nearly 5%, its earnings before interest, taxes, depreciation and amortisation (EBITDA) rose by almost 35%.

In March Mr Buffett and 3G announced that they were buying Kraft for \$50 billion to merge it with Heinz. Although the talk in public is about the potential for boosting the sales of both firms' brands, there will surely be a drive to apply the same "zero-based budgeting" approach to cost-cutting at Kraft that Heinz has undergone. Mondelez, a snacks-maker spun off from Kraft, has also gone for zero-based budgeting: this week it announced improved operating-profit margins, year-on-year, in its first quarter, despite a 10% fall in revenues.

Mr Buffett and 3G are unlikely to be satisfied with just Heinz and Kraft, reckons Robert Moskow, a food-industry analyst at Credit Suisse: "I think they will keep consolidating the industry." Heinz and 3G say they are planning to cut the debt on their balance-sheet to three times EBITDA in two years. At that point they will be ready to pounce on their next target. Last month Nestlé's chairman, Peter Brabeck-Letmathe, told his shareholders that the two investors have "pulverised the food-industry market, particularly in America, with serial acquisitions," and that their ruthless cost-cutting is having a "revolutionary impact" on other firms in the industry.

They are not the only ones showing how much scope there is for trimming financial fat as well as the culinary sort from the processed-food business. Two years ago Dean Metropoulos and Andy Jhawar, two entrepreneurs, bought Hostess, the collapsed maker of Twinkies cakes. They got rid of inefficient factories and pumped investment into automated production and an improved distribution system. Now Americans are stuffing their faces with the gooey snacks once more.

Hostility from regulators, campaigners and the media; declining popularity; consolidation and cost-cutting. Processed food sounds like it has much to learn from tobacco, an industry that has been shrinking for more than 50 years. "It won't be as bad as tobacco, but a bumpy road lies ahead for Big Food," predicts Alexia Howard of Sanford C. Bernstein, a research firm. As the cigarette-makers have consolidated and cut costs, they have managed to keep profits up and share prices rising. Processed food may also become a steadily declining but still lucrative business offering guilty pleasures to those who cannot resist. ■

Schumpeter | Shredding the rules

A striking number of innovative companies have business models that flout the law



PIONEERING entrepreneurs have often had an uneasy relationship with the law. America's ruthless 19th-century "robber barons" believed it was easier to go ahead and do something, and seek forgiveness later, than to ask permission first. (It helps if you take the precaution of buying up the politicians who dispense the forgiveness.) The first carmakers had to battle against rules of the road that had been designed for the horse and cart. Britain's "pirate" radio stations in the 1960s had to retreat to international waters to bring pop music to the masses.

The tension between innovators and regulators has been particularly intense of late. Uber and Lyft have had complaints that their car-hailing services break all sorts of taxi regulations; people renting out rooms on Airbnb have been accused of running unlicensed hotels; Tesla, a maker of electric cars, has suffered legal setbacks in its attempts to sell directly to motorists rather than through independent dealers; and in its early days Prosper Marketplace, a peer-to-peer lending platform, suffered a "cease and desist" order from the Securities and Exchange Commission. It sometimes seems as if the best way to identify a hot new company is to look at the legal trouble it is in.

There are two big reasons for this growing friction. The first is that many innovative companies are using digital technology to attack heavily regulated bits of the service economy that are ripe for a shake-up. Often they do so by creating markets for surplus labour or resources, using websites and smartphone apps: Uber and Lyft let people turn their cars into taxis; Airbnb lets them rent out their spare rooms; Prosper lets them lend out their spare cash. Conventional taxi firms, hoteliers and banks argue, not unreasonably, that if they have to obey all sorts of regulations, so should their upstart competitors.

The second is the power of network effects: there are huge incentives to get to the market early and grow as quickly as possible, even if it means risking legal challenges. Benjamin Edelman of Harvard Business School argues that YouTube owes its success in part to this strategy. When it launched in 2005, it was one of dozens of video sites competing for both content and viewers. Some, such as Google Video, diligently screened each video for copyright infringement. YouTube was more risk-taking, waiting for copyright owners to complain before taking down videos. The

strategy worked: Google bought it for \$1.65 billion in stock in 2006; and YouTube, which has just celebrated its tenth anniversary, is now huge, whereas many early rivals have faded away.

Advocates of the strategy calculate that, by providing a better service than incumbents, and by portraying their critics as defenders of vested interests, they can mobilise public opinion and get the rules changed, or interpreted, in their favour. They can also rely on politicians' desire to appear forward-thinking. Last year Eric Pickles, a British government minister, announced the scrapping of restrictions on short-term lettings in response to the rise of Airbnb and similar services. "The internet is changing the way we work and live, and the law needs to catch up," he said. Innovative companies that put growth before legal niceties have money to spend on PR and lobbying. Airbnb has sponsored the New York marathon; Uber has hired David Plouffe, formerly one of Barack Obama's leading advisers, as head of policy.

But the strategy can be risky. Napster, an early music-sharing site, was crushed by lawsuits, even though its efforts paved the way for Apple's legal downloading service, iTunes. It is particularly perilous in financial services, where regulators will crack down at the merest whiff of impropriety. Prosper was once America's biggest peer-to-peer lender, and Lending Club a distant second. Prosper dashed for growth, initially ignoring the SEC's warnings, whereas Lending Club shut down its operations for months while its founder figured out a way to comply. That helped Lending Club, which is now a listed firm, to overtake Prosper, whose fortunes revived only when its founder was ousted.

There is also the risk that those who do business with the rule-flouting companies may suddenly decide that it suits them to uphold the law after all. In California lawsuits have been filed by some Uber and Lyft drivers, arguing that they should be classified not as mere contractors but as employees—and thus be entitled to have their petrol and maintenance costs reimbursed—because the companies impose all sorts of petty rules on them, as if they were indeed employees: how clean their cars must be, what they can say to passengers, and so on.

On the straight and narrow

Such legal perils mean that companies need to be capable of pivoting rapidly to a new strategy if they cannot get the law changed in their favour. YouTube did so: although it got its start in life through people posting copyright-infringing clips, it now makes its living by sharing advertising revenue with people who post clips they have created themselves. There may be a lot of such pivoting ahead as disrupters are forced to explain themselves in court. The judge presiding over the Lyft lawsuit has noted that, in being asked to decide whether its drivers are employees or contractors, "the jury in this case will be handed a square peg and asked to choose between two round holes."

Uber and Lyft are probably now well-enough established to be able to compete on the basis of convenience and quality even if they are forced to treat their drivers as employees. MyClean, an app that provides house-cleaners on demand in New York, has replaced its contract workers with employees, having concluded that it can provide a better service to its customers with a better-trained and more stable workforce. But for more fragile firms, it would be better still if legislators and regulators responded to the emergence of so many innovative, law-testing businesses by revving themselves up to internet speed and adapting their rule books for the digital age. ■



Investment in Mexico

The 100-year view

MEXICO CITY

Investors take a century-long bet on boom-and-bust Mexico

AT THE beginning of April international investors made two whopping bets by snapping up the first ever 100-year bond denominated in euros. The first bet was that the euro would still exist a century from now. No bookie would give short odds on that. The second was that the issuer, Mexico, which suffered three long cycles of boom and bust in the past century, would continue to be creditworthy for the next 100 years.

Mexicans, whose country has, as one economic historian puts it, lived longer in moratoria than with access to capital markets, reacted with bemusement. A typically gloomy columnist predicted that, since

Mexico will have run out of oil by 2115, it will have to sell off the country's extremities to repay the bondholders.

Foreign creditors are more bullish. Over the past five years they have extended the equivalent of more than \$5 billion of 100-year bonds to Mexico in three currencies: dollars, sterling and now euros. It is the only country to have tapped the so-called centennial market since China and the Philippines in the 1990s, and it has done so at relatively low yields—of 6.1% on its dollar bond in 2010 and just 4.2% on its euro bond last month. Those are extraordinarily good terms given Mexico's distinctly spotty credit record (see chart), which raises two

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questions. How has Mexico managed to pull off this “sale of the century”? And what are the chances of investors, or their grandchildren, getting their money back?

The answer to the first question is a combination of salesmanship and timing. The finance ministry's bright, American-educated technocrats know how to attract attention from investors who may not have considered Mexico before. The euro-denominated bond, for instance, was sold largely to insurance companies and annuity firms. One advantage of its long life, for borrower and creditors alike, is that it helps avoid the sort of overcrowded redemption schedules that contributed to Mexico's debt crises in 1982-83 and 1994-95.

But in an era when the yields on the bonds of many rich countries are negative, Mexico's main selling-point is a relatively high return for a borrower that last year received an “A” rating from Moody's. On the day Mexico issued its euro-denominated centennial bond, Switzerland sold a ten-year bond at a negative yield—a first.

Mexico also stands out from other ►



Mexican waves

Mexico, selected government-bond yields, %



► emerging markets in several ways. Although the halving of the oil price has hurt the public finances, the peso has done better than many of its peers. Agustín Carstens, the governor of the central bank, says Mexico has an “arsenal” of \$195 billion of international reserves and a \$70 billion credit line from the IMF in case of financial-market volatility. That has helped to attract outsiders: foreigners hold 2.2 trillion pesos (\$144 billion) of domestic debt.

The government has further impressed investors by tightening its belt before times get tougher. It has cut spending in an election year and is attempting to implement a

string of reforms aimed at bolstering competition in areas like energy and telecommunications that have the potential to attract large sums of foreign direct investment. “Mexico is a bright spot among emerging markets. It is one of the few countries that has been fixing the roof while the sun shines,” says Andrew Stanners of Aberdeen Asset Management, a big investment fund.

So why are few Mexicans so sanguine? Gerardo Esquivel of El Colegio de México, a university, describes the government’s approach with a different home-improvement analogy. He likens it to “putting a

bright coat of paint on the exterior of the house, while the inside is rotting away”. The problem, he says, is that the 20 years of macroeconomic stability and flexible exchange rates that have endeared Mexico to foreign creditors have been accompanied by meagre, narrowly based growth that depends heavily on exports.

Growth in output per person has averaged about 1% a year since 1995. Poverty levels have remained stagnant. President Enrique Peña Nieto initially promised his reforms would bring annual growth of 5-6%; his government has since had to lower its forecasts repeatedly. Private-sector ►

Buttonwood | Fifteen years of hurt

Tech stocks were a bubble in 2000 but they are not this time—yet

STOCKS are the best investment for the long run. That is the common mantra among investment pundits. But the recent record high for the NASDAQ, America’s tech-heavy equity index, ought to give investors pause. Like the FTSE 100 in London, it has taken 15 years for the NASDAQ to surpass its previous high (see chart). Even so, that counts as a sprightly performance compared with Japan’s Nikkei 225, which still trades at only half its 1989 peak.

Such statistics make it hard to argue that “there are no such things as bubbles”, as the occasional economist still contends. A very high stockmarket valuation implies the expectation of rapid growth in future profits. The average price-earnings ratio of the NASDAQ back in 2000 was more than 150. In other words, if profits did not rise, a shareholder would have had to wait for well over a century to recoup his original investment.

Perhaps investors were thinking of their great-great-grandchildren, but that was not how it seemed at the time. Technology companies were expected to take over the world and drive “old economy” firms out of business; their profits would soar as a consequence. Some tech companies have indeed performed fantastically well, as Apple’s latest set of bumper profits show.

The problem in 1999-2000 was that everyone thought they were going to make money out of the internet. This prompted lots of bright graduates to set up their own dotcom company with a plan to exploit some niche. Such enthusiasm created its own demand for tech products: the new firms needed routers, desktops and access to fibre-optic cables. That boosted tech earnings for a while.

But it also meant that some sectors were extremely crowded and competitive. This made it more difficult for tech



companies to make money. Earnings crashed after 2000, rather than rising as investors had anticipated. It was not until 2010 that the earnings per share at NASDAQ companies regained the level recorded back in 1997.

Faltering firms were bought up by their competitors; three-quarters of the companies that made up the NASDAQ at the end of 1999 are no longer listed. It is a familiar theme from history: the biggest profits do not always flow to the pioneers. Two of NASDAQ’s current giants, Google and Facebook, had not even gone public by 2000.

Another “rational” explanation for high stockmarket valuations is that investors are prepared to accept lower returns going forward, as values revert to the mean. But that is not what happened at the turn of the century. The NASDAQ rose by 86% in 1999 and investors piled in, hoping to get a piece of the action. They expected annual percentage gains in the double digits. For a while, their enthusiasm bid share prices higher. But as soon as investors lost confidence, the losses were brutal.

This time around, valuations look much more reasonable. The price-earnings

ratio is 26, and the market’s progress has been steadier, rather than exponential: the latest doubling in share prices has taken more than three years. Russ Koesterich, a strategist at BlackRock, a fund-management group, points out that tech stocks comprise only 20% of the overall American market by value, compared with 30% back in 2000.

Biotech is one sector where there are signs of overenthusiasm (up by more than 50% over the past 12 months), although this in part reflects the emergence of some genuinely promising new drugs. Andy Acker of Janus, another fund manager, cites the Sovaldi treatment for hepatitis C made by Gilead: sales in its first year were \$10.3 billion, compared with consensus forecasts of \$1 billion. Many of these drugs are specifically intended to replace expensive alternative treatments. This gives companies more predictable earnings. The maker of one such drug, Celgene, told investors that its earnings would increase by 23% a year all the way to 2020.

Of course, it is not hard to imagine a return of the bubble mentality. It may already have emerged in the world of startups and venture capital. A few more years of zero interest rates and negative bond yields, which force investors to seek higher returns from riskier assets like equities, and who knows what might happen.

But as yet, there is nothing like the sense of euphoria that marked out 1999-2000. Investors are not focused on financial news (CNBC’s 2014 ratings were the lowest since 1995); workers are not quitting their jobs to indulge in day trading. That is one good thing about living through a bubble: it is easier to spot the signs next time.

► economists think growth will average 3.8% over the next decade, according to a poll from the central bank.

The strength of Mexico's exports to America—especially cars—has not translated into booming domestic demand due to decades of miserly wages, economists say. A huge, unproductive informal sector and general lawlessness also drag the economy down. The “pressure cooker effect” of low growth, low wages and rising inequality of income and opportunity could explode, according to Mr Esquivel. “The Peña Nieto administration doesn't understand this. They still talk in terms of trickle-down.”

The government disputes this. Alejandro Díaz de Léon, the finance ministry's point man on the latest 100-year bond, acknowledges that Mexico has underperformed in terms of growth. “Productivity, job creation and wealth creation are the key issues for the future,” he admits. But he says the president's reforms aim to address them. Moreover, he argues, the lessons learned from Mexico's past booms and busts are so embedded among politicians and officials that there is little chance of a slide back into financial chaos. He points to Mexico's independent central bank, open financial markets and free-trade agreements as guarantors of stability.

Demography is another card played by the optimists. A whopping 46% of the population is under 25. Luis de la Calle, an uncharacteristically upbeat Mexican economist, says this alone could turn Mexico into one of the world's biggest economies within the next few decades. He believes that the country will soon rue its 100-year issuance at 4%, because it will be able to borrow far more cheaply. “We'll prepay that bond, no doubt,” he says.

Whether countries repay their debts comes down to questions of political will as much as economic performance, however. Some fret that Mexico's past will return to haunt it. The country inherited a habit of default from the Spanish empire, which reneged on its debts more than a dozen times between the 16th and 20th centuries. Mexicans have also alternated repeatedly between an embrace of globalisation and a reversion to an inward-looking nationalism.

For the first decade of the 20th century, for instance, international bankers threw money at Mexico because of its macroeconomic stability, its railway boom and a global liquidity glut. Then came the murderous revolution of 1910, which erupted partly because the fruits of that prosperity had not been shared. Mexico defaulted on its debt in 1914. It was shut out of capital markets for most of the next three decades. It did not become a big borrower again until the 1970s. For bondholders to get their money back in 2015, Mexico must defy its history and remain open to trade and foreign capital. ■

Managing bank balances

Deposits go walkabout

NEW YORK

A startup puts idle money through its paces

OVER \$13 trillion is sitting in American bank accounts and money-market funds, earning little or no interest. If consumers were even marginally more demanding, they could earn tens of billions of dollars in extra returns. That is the premise behind MaxMyInterest, a year-old electronic service aimed at slothful but yield-hungry savers. It offers to move money from banks that want to shed deposits, and that therefore pay savers low interest, to ones in need of them, and so willing to pay more. At the same time, it makes sure that each account holds no more than \$250,000, the maximum amount insured by the government, providing not just higher returns, but risk-free ones.

The average interest paid on deposits in America is a microscopic 0.09% a year, according to BankRate, a data firm. MaxMyInterest's clients receive 0.75% to 1.05%, with a weighted average of almost 1%. That may seem small, but it amounts to \$2,000 a year for every \$250,000 account, and should rise considerably whenever the Federal Reserve starts to raise rates. (At a meeting this week the central bank left rates unchanged, but it is still expected to start lifting them later this year.)

So far JPMorgan Chase, Citibank, First Republic, Wells Fargo and Bank of America—all titans of American banking—are working with MaxMyInterest to shift excess cash out of the accounts of willing customers. Meanwhile, Barclays, GE Capital, American Express, Ally Financial and Capital One 360 (formerly ING Direct) have signed up to receive money. Each side of the transaction has its own incentives to take part. The recipients want more depos-

its to fund lending: equipment leases in GE's case, car loans in Ally's, and credit cards for the others. MaxMyInterest allows them to raise money cheaply, and therefore to make more loans, without having to build a network of branches.

The incentive to co-operate for the banks relinquishing cash is more complex. They fear that a customer with more than \$250,000 in his account might open a new one elsewhere, to benefit from deposit insurance. The second bank, in turn, might start offering the customer lucrative services such as wealth management. To avoid such competition, the first bank would rather steer the extra cash to less threatening internet-only outfits.

Such an approach also defuses a regulatory problem. Regulators require big banks to hold especially high amounts of liquid assets against uninsured deposits. But banks earn next to nothing on these investments, making such deposits unprofitable. In response, big banks have begun discouraging them by levying fees and the like. That annoys their best customers. Steering such deposits through MaxMyInterest allows the banks to save money while appearing more concerned with their customers' fortunes than their own.

The idea of getting around the cap on deposit insurance is not a new one. A firm called Promontory Interfinancial Network distributes companies' cash in \$250,000 chunks to banks throughout America, for instance. But if outfits like MaxMyInterest succeed in steering a significant amount of deposits to the specialist lenders in need of them, it could spell trouble for money-market funds in particular. They only came into being, after all, thanks to the caps on deposit rates that applied until the 1980s. They are not explicitly insured, and currently offer minuscule returns.

Big banks should beware, too. They may benefit at the moment, but the spread of such services will make it easier for savers to shop around for higher rates. That would squeeze banks' margins, and perhaps even change their funding models. ■



The rouble

The worst is yet to come

Don't mistake a stronger rouble for a Russian economic recovery

RUSSIA'S currency, the rouble, had a terrible 2014. As oil prices collapsed and Western sanctions bit, export revenues slumped. Nervous investors pulled \$150 billion from the country. As a result, the rouble lost about half its value against the dollar (see chart). But over the past few months, it has climbed out of its trough. Russian bonds and stocks have done well, too. The Central Bank of Russia (CBR) has been cutting interest rates—an unthinkable prospect just a few months ago. On April 30th it lowered its main rate from 14% to 12.5%. All this, some say, is proof that investors are too pessimistic about the Russian economy. They are wrong.

Oil prices have risen slightly since the start of the year. That is helpful for an economy where the stuff provides half of all exports. The cheaper rouble has buoyed exports, too. A new deal to end the Russian-backed insurgency in Ukraine, signed in February, has also made investors less jittery.

Nonetheless, the rouble's strength is a puzzle, since in many ways the Russian economy looks worse than it did in December. Inflation, at 16.9%, is 5.6 percentage points higher, a jump that would normally spur depreciation. Real wages are tumbling fast. The foreign-exchange reserves of the CBR have fallen by about \$30 billion so far this year, and by \$130 billion since this time last year. The IMF thinks that the economy will shrink by 4% in 2015—and it is a relative optimist.

Economic fundamentals cannot explain the rouble's strength, but the CBR's behaviour may do. Last year, as the rouble collapsed, it launched a \$50 billion scheme to lend dollars to companies at a concessionary rate. That was especially useful in

December, when Russian firms faced a mound of debt repayments. This year Russian firms, with fewer foreign bills to pay, have used the cheap dollars to invest in much higher-yielding Russian assets, says Timothy Ash of Standard Bank. The effect has been to bolster the rouble and other Russian assets. On April 20th, however, the CBR put a stop to this "carry trade" by making the loans more expensive, halting the rouble's appreciation.

What next for the volatile currency? Things do not look good. Russian firms still have around \$100 billion of external debt maturing this year. Since the rouble remains weak, and their cash reserves have dwindled, repayment may be difficult. Wonks at Capital Economics, a consultancy, think that the Russian state will have to help out again. However, Anders Aslund of the Peterson Institute, a think-tank, estimates that the CBR only has about \$150 billion of liquid foreign-exchange reserves at its disposal. Add in a big government deficit and high capital outflows, and within a few months reserves will be much lower. The Kremlin may then be tempted to try to pay off foreign debt by printing roubles to buy foreign currency. If that happens, expect much more upheaval. ■

Gold prices

Buried

Russia is buying gold, but few others are

UNCERTAINTY is supposed to lift the gold price. But neither upheaval in the Middle East, nor the travails of the euro zone, nor startlingly loose monetary policy in the rich world is brightening the spirits of those who swear by bullion. After a big rally during the financial crisis, the price has sagged to about \$1,200 an ounce, a third below its peak in 2011. Little seems likely to turn it round. "We've seen everything gold bugs could hope for: endless money printing, 0% interest rates (both short-term and long-term adjusted for inflation), rising debt and debt ratios in the public and private sectors...So where's the damn hyperinflation?" asks Harry Dent, a newsletter publisher, in a recent blog post.

The biggest pressure on the gold price comes from the expectation that interest rates in America will rise later this year. Matthew Turner of Macquarie, a bank, says that low interest rates cut the opportunity cost of owning gold. Higher interest rates, by contrast, raise the cost of holding non-interest-bearing assets. Mr Turner thinks expectations of rising rates are already built into the gold price; if they do



An ever more marginal existence

not materialise as quickly as expected, there could even be a rally.

That cannot come soon enough for gold producers. Nikolai Zelenski, the boss of Nordgold, which has mines in Africa and the former Soviet Union, says that half of all producers have negative cashflow. Some are heavily indebted, too. If the price does not rise, production could fall on a scale not seen since the two world wars.

Gold bugs are determinedly optimistic. Gold is priced in dollars, so the fact that it stayed stable while America's currency was rising (making gold more expensive for buyers in foreign currencies) is cause for cheer. Chinese consumers are buying more gold, after a sharp decline sparked partly by an anti-corruption campaign. So are Indians, the world's biggest consumers of gold, after the government removed restrictions on imports last year. Yet the fact remains: gold is in a rut.

One reason may be that investors have so many more options nowadays. Humble citizens who distrust their own currencies can buy assets ranging from shares to bitcoins. Laurence Fink, the chairman of BlackRock, the world's biggest asset-management firm, said in March that gold had "lost its lustre", thanks to the wider availability of property and even contemporary art. "It's become much more accessible for global families worldwide to store wealth outside their country."

The main exception to the trend is Russia, where the central bank has been a notable buyer of gold, tripling its holdings since 2005. It bought 30 tonnes in March alone, bringing its hoard to 1,238 tonnes. The Kremlin's growing stockpile does not so much reflect a belief in gold's prospects, however, as a distaste for the American dollar. Whatever Vladimir Putin's other qualities, most investors would hesitate to take him on as a financial adviser. ■

Out of the rubble



Asian bond markets

The calm before the tantrum

HO CHI MINH CITY

South-East Asian bond markets have performed well recently. But tests loom

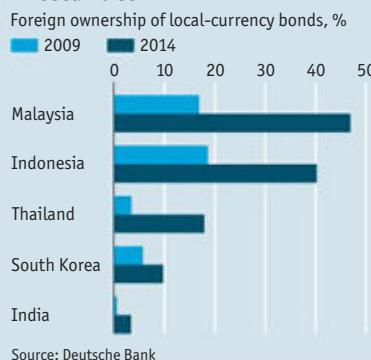
INVESTORS in bonds want high returns and stability. In recent years South-East Asian bond markets have offered both. Yields on ten-year government bonds average 7.8% for Indonesia, 6.7% for Vietnam, and around 4% for Malaysia and the Philippines—far above what is on offer in the rich world. Inflation is low and budget deficits are either manageable or non-existent. Local currencies have lost less value against the dollar than most in emerging markets.

From 2005 to 2014 annual bond issuance from Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam rose from \$38 billion to \$109 billion, according to Dealogic, a financial-data firm. Corporate-bond issuance more than tripled, from \$20 billion to \$78 billion, although most firms in the region still rely on banks for borrowing. Home-grown institutions such as pension funds and insurers are starting to emerge and invest. And foreigners are taking more of an interest too: between 2009 and 2014 foreign ownership of local-currency bonds more than doubled in Indonesia and Malaysia, and more than quintupled in Thailand (see chart).

But some worry that the good times are about to stop rolling. Taimur Baig, Deutsche Bank's chief economist for Asia, fears that capital flows to emerging markets have peaked, "and the next phase could be subject to volatility and outflows." Two fears prompt such concerns. The first is the effect of a strengthening dollar, which will make servicing dollar-denominated debt more expensive, and could push foreign investors in local-currency bond markets to demand higher yields to offset any losses from sliding exchange rates.

During the Asian financial crisis in 1997-98, lots of firms in the region failed

In securities



Deutsche Bank

That's it?

Germany's biggest bank tweaks its strategy

CORPORATE bosses hope for a bump in their share price when they present a new five-year plan. Deutsche Bank's leaders had no such luck on April 27th: their "Strategy 2020" was met by a 10% tumble over three days, reversing a six-week climb propelled by expectations of a more radical overhaul.

Deutsche's new tack is to do a little less of most things. Postbank, a German retail bank it only finished buying in 2012, will be spun off through a relisting. Deutsche will leave up to ten of the 70 countries it does business in. Its dominant investment bank will be trimmed a little, too. Instead, it will invest more in its asset-management arm.

The board of Deutsche had been mulling a far more daring plan to split the bank in two: a staid retail lender including Postbank and Deutsche's own-brand branches on one hand, and an emancipated investment bank on the other. On the face of things that should have appealed to regulators, who have pushed lenders to isolate "casino-like" activities from their deposit-taking arms. Their refusal to allow Deutsche to use Postbank's deposits to fund its investment bank undermined the entire rationale for its purchase—hence the reversal.

But regulators do not seem to like the idea of a European version of Goldman Sachs, either. Even fans of the idea admit that a stand-alone investment bank would probably have struggled to pass stress tests designed to gauge banks'

ability to withstand a downturn. Regulators are not keen on banks with too little diversity in earnings, and income from investment banking is especially volatile. That seems to have left Deutsche with few options.

Investors were also disappointed by the lack of detail, for example on €3.5 billion (\$3.9 billion) of promised cost cuts (the bank promises minutiae within 90 days). Other concerns are also weighing on them, not least the opening of a trial on April 28th in which Jürgen Fitschen, Deutsche's co-chief executive, is among those facing prison for allegedly misleading a court over the bank's role in the collapse of the Kirch media empire in 2002. He denies the charges.

Another long-running case has been put to bed. On April 23rd Deutsche agreed to pay \$2.5 billion to settle American and British regulators' claims it had fiddled LIBOR, a key interest rate, for six years until 2010. Anshu Jain, Deutsche's other boss, was a higher-up at the investment bank at the time, but was not ousted as part of the deal, as other bank bosses have been.

But putting the fine behind it does not mean a rosier financial future for Deutsche. The bank is cutting its target for return on equity by about a third, amid hints that regulators are giving it less leeway in the way it assesses the riskiness of its assets. Whichever way you look, regulators' desires are trumping those of managers and investors.

when their dollar debts became too expensive to service as local currencies fell. Few expect a disaster on a similar scale this time. Philipp Lotter of Moody's, a rating agency, notes that South-East Asian firms issuing dollar-denominated debt tend to be well hedged, either naturally, through dollar-denominated revenue, or with financial instruments. Many have issued bonds without trouble over the past few months, even as the dollar leapt. The average emerging-market corporate bond currently yields 5.6%, according to Bloomberg, another data firm—a full percentage point below last year's high.

The second and related fear stems from the Fed's looming rate rise. In 2013, after Ben Bernanke, then the chairman of the Federal Reserve, raised the prospect of tightening monetary policy, emerging markets saw sell-offs, sharply higher yields, volatility in their currencies and reduced capital flows. Christine Lagarde, boss of the

International Monetary Fund, recently warned that a hike in American interest rates may lead to another "taper tantrum". Among South-East Asian markets, Indonesia was hit particularly hard in 2013; its heavy reliance on external finance and declining exports due to weak commodity prices leave it vulnerable.

Indonesia's foreign-currency reserves are higher and its current-account deficit lower now than they were then. What is more, the Fed has given ample warning that rate rises are coming; it has signalled that they will probably be modest and gradual. Jahangir Aziz of JPMorgan Chase, a bank, believes there will be less disruption than in 2013. "The surprise element has come down significantly," he says. But not everyone has his faith. Yields on Indonesia's ten-year bonds have risen from 6.9% to 7.5% since March, and foreign ownership of government bonds in general has fallen by two percentage points. ■

Free exchange | Forced errors

Making rules about compulsory purchases of land is especially tricky in developing countries



WHEN Tata Motors wanted to build a factory for the Nano, a cheap “people’s car”, the Indian state of West Bengal seized 1,000 acres (400 hectares) of farmland on its behalf at Singur, just up the motorway from Kolkata. The state government invoked a colonial-era law to forcibly acquire the plot in 2006 from 13,000 landholders, many of them unwilling sellers. Protests against the purchase continued even as the factory was being built. Tata eventually fled. Narendra Modi, then the chief minister of Gujarat, offered it a way out by providing it a factory-ready plot there.

The Singur protests have come back to haunt Mr Modi, who is now India’s prime minister. They led to a new law in 2013 which set arduous terms for coercive land purchases. Mr Modi is trying to relax these rules for certain categories of project, such as rural infrastructure, industrial parks and low-cost housing. It is now his government that faces protests from farmers. Yet if India is to become richer, it needs to be able to build roads and factories.

The economic case for allowing the state to acquire property by coercion starts with the Coase theorem, named for Ronald Coase, a Nobel prize-winning economist, which says that private bargaining should produce ideal results for society if property rights are well defined.* Yet the costs of such bargaining—verifying the quality of the asset, say, or legal fees to make the transaction official—are rarely low enough to allow for an efficient outcome, as Coase himself emphasised. This is all the more so where property is fragmented, as it was at Singur.

The problem is not restricted to land or other physical goods. New medicines and electronic gadgets can also be delayed or never made because of “patent thickets”, a term coined in the 1970s to denote clusters of intellectual-property rights. Such logjams long predate the electronic age. In the early years of aviation it was nearly impossible to build an aeroplane in America because of the number of different patent-holders involved, writes Michael Heller in his book, “The Gridlock Economy”.

Economists and legal scholars have justified forced purchases when the transaction costs of stitching together many small properties are too high for a deal to be reached by consensus. More precisely, it can be used to overcome the power of so-called holdouts. A theoretical model set out in a paper published in 2011 by Thomas Miceli and Kathleen Segerson of the University of Con-

nnecticut shows that when a buyer has to negotiate in sequence with sellers of contiguous plots of land, the price at each successive sale will rise. Landholders know the project cannot proceed unless the buyer acquires all the plots he needs. The more he acquires, the greater the cost of abandoning the project. The ransom those yet to sell can demand increases accordingly.

Because of the holdout problem, investments that have big public benefits will often be stymied unless a sale is forced. Laws in many countries, therefore, allow for the compulsory purchase of property (known as “eminent domain” in America), as long as those affected are justly compensated. But in developing countries, where markets for land in particular are often more regulated, less liquid and more corrupt than in the rich world, determining the appropriate compensation can be difficult.

Moreover, an optimal law would have at least one more safeguard. A transaction is efficient in the strictest sense only if it makes some better off while leaving no one worse off. Forced sellers presumably place a higher value on their property than the market price: were that not so, they might already have sold it voluntarily. Ideally, compensation should reflect this additional value. In company takeovers, after all, shareholders are usually paid a premium to give up their rights. Such a premium would discourage excessive use of eminent domain.

India’s current land-acquisition law is simultaneously too strict to pave the way for desirable projects and too lax to protect property owners. Forced land purchase requires the consent of at least 70% of affected landholders and must also pass a social-impact test. Compensation must be twice the market value for urban plots and four times for rural land. Mr Modi wants to ditch the consent and social-impact clauses for certain projects because of the delays involved. He has a point. As Maitreesh Ghatak of the London School of Economics and Parikshit Ghosh of the Delhi School of Economics point out, if farmers are adequately compensated, consent is largely irrelevant.

The price is wrong

Yet compensation in India is based on recent land sales, which are likely to be far lower than the true value of a property due to India’s distorted market. The direct sale of farmland to industry is banned in several states and tricky in many others; instead, land is often sold by a farmer in distress to another farmer. Prices are under-recorded to escape high stamp duty. Appraisal is often crude, if not corrupt. A study of the Singur purchase by Mr Ghatak and others found that, though compensation was on average close to market value, landowners with superior plots were offered too little.

As long as farmers in India believe they might be ripped off, protests against land purchases by the state are likely to continue. A way to counter this, say Messrs Ghatak and Ghosh, is to invite offers to sell from landholders in a plot required for development, but also from landholders close by. A farmer within the bounds of the development who did not accept the price determined by such an auction could instead be given a nearby plot as compensation. These nearby plots would not be subject to the holdout problem as they are not essential to the project. It is not a perfect solution to India’s land-acquisition issue. But it is a better one. ■

* Studies cited in this article can be found at www.economist.com/emanentdomain15

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Dealing with rogue drones

Copping a 'copter

In the hands of criminals, small drones could be a menace. Now is the time to think about how to detect them and knock them down safely

ON APRIL 22nd a drone carrying radioactive sand landed on the roof of the Japanese prime minister's office in Tokyo. It was the latest of a string of incidents around the world involving small drones. Last year more than a dozen French nuclear plants were buzzed by them. In January one crashed on the White House lawn. In February and early March several were spotted hovering near the Eiffel tower and other Parisian landmarks. Later in March someone attempted to fly one full of drugs (and also a screwdriver and a mobile phone) into a British prison. The employment of drones for nefarious, or potentially nefarious, purposes thus seems to have begun in earnest. It is only a matter of time before somebody attempts to use a drone, perhaps carrying an explosive payload, to cause serious damage or injury. The question for the authorities is how to try to stop this happening.

The French government is already taking the issue seriously. In March, it held trials of anti-drone "detect and defeat" systems. These trials used two sorts of drone as targets. One was fixed-wing aeroplanes with a wingspan of up to two metres. The other sort was quadcopters—miniature helicopters that have four sets of rotors, one at each corner, for stability. The results have yet to be reported.

Detecting a small drone is not easy. Such drones are slow-moving and often low-flying, which makes it awkward for radar to pick them up, especially in the clutter of a busy urban environment. "Defeating" a detected drone is similarly fraught with difficulty. You might be able to jam its control signals, to direct another drone to catch or ram it, or to trace its control signals to find its operator and then "defeat" him instead. But all of this would need to take place, as far as possible, without disrupting local Wi-Fi systems (drones are often controlled by Wi-Fi), and it would certainly have to avoid any risk of injuring innocent bystanders.

Bringing down quads

One company which thinks itself up to fulfilling the detection part of the process is DroneShield, in Washington, DC. This firm was founded by John Franklin and Brian Hearing after Mr Franklin crashed a drone he was flying into his neighbours' garden by accident, without them noticing. He realised then how easily drones could be used to invade people's privacy and how much demand there might be for a system that could warn of their approach.

DroneShield's system is centred on a sophisticated listening device that is able to detect, identify and locate an incoming

drone based on the sound it makes. The system runs every sound it hears through a sonic "library", which contains all the noises that are made by different types of drone. If it finds a match, it passes the detected drone's identity and bearing to a human operator, who can then take whatever action is appropriate.

Other ways of detecting drones are also under investigation. Despite the shortcomings of radar, Blighter Surveillance Systems, based near Cambridge, Britain, is having a go. Conventional radars, which search for things by looking for shifts of position, are not good at spotting slow-moving objects like drones. Blighter's approach, based on a radar developed to spot human intruders who are crawling along the ground to evade detection, employs the Doppler effect instead. It can tell how fast, and in which direction, something is moving by comparing the frequency of the radar beam it emits with that of any reflection it receives. The Doppler effect means the beam's frequency rises when it bounces off an approaching object and falls when it returns from a receding one. Once the radar notices something moving, it passes the information to a human operator who can take a look with a camera or (if it is night time) a thermal-imaging device, to determine whether the object is a drone or a bird.

Detecting an incoming drone, then, seems possible. But that does not solve the problem of what to do when you find one. You could try to jam its controls in any of several ways. A crude but effective one is to flood the radio frequency the drone is operating on—or even the entire radio spectrum—with a signal of high enough power to cancel out the drone's control signal and ➤

cause it to crash. Such a crash, though, would be uncontrolled and so might result in damage or injury. Moreover, a spectrum-wide jamming signal could do a lot of other harm.

A more sophisticated approach, drone spoofing, involves the spoofing sending fake GPS signals specifically to the drone. If these are more powerful than the real thing, they can be used to feed false navigation information to the drone's computer, causing the craft to change course or crash in a place of the spoofer's choice. Surprisingly, no one seems to be developing this commercially as a drone defence (at least, no one is admitting publicly to doing so).

An even cleverer idea is to hijack not just a drone's navigation but its entire control system. One person working on this is Samy Kamkar, a security researcher famous in computer-hacking circles for devising, in 2005, the fastest-spreading worm program of all time (within 20 hours of its release it had inserted the text "but most of all, samy is my hero" into the MySpace profile pages of 1m people). SkyJack, the result of Mr Kamkar's drone-related deliberations, subverts the controls of one of the most popular sorts of drone, the Parrot quadcopter, of which more than 700,000 have been sold.

SkyJack is itself a drone. It is a Parrot modified by the addition of a specially programmed Raspberry Pi (a commonly available miniature computer), a battery and two wireless transmitters. It seeks the signals of any other Parrot in the neighbourhood and hijacks that drone's wireless connection by issuing a command to disconnect from the device controlling it. This

creates what Mr Kamkar calls a zombie drone. The hijacker can then fly the zombie wherever he wishes, and also watch its video feed.

If a target drone's controls prove unsubvertible, though, it may be necessary to apply brute force. A shotgun or a rifle can be effective against a drone (indeed, the richer sort of sports shooters are starting to use drones as an alternative to clay pigeons). But shooting drones down, or knocking them out of the sky with interceptor "killer drones" (which has also been tried) comes up, once more, against the problem that you do not know where a disabled drone is going to land.

Net benefits

An alternative is to try to catch and retrieve the target. That is the approach adopted by Malou Tech, a Parisian firm. Malou's hexacopter, the MP200, can be fitted with a dangling net that entangles its prey (see photograph) and brings it back for examination. Doing this requires a skilful ground controller, but Malou has set up a drone school to train people in the art.

Even better, though, would be to retrieve the human operator behind a drone—and that is what ECA Robotics, in Toulon, is trying to do. Once its drone, the ITI80, has located a rogue device, transponders on it can track the intruder's control signal back to a source up to 700 metres away, which the drone then photographs. This means that even if the operator is able to make a getaway, there will still be evidence that may identify him and which can be used in court if he is prosecuted.

Whether any or all of these ideas will prove good enough to set up real air defences against drones remains to be seen. But the only other approach on offer at the moment is to create areas of restricted airspace around obvious targets and require manufacturers to incorporate them into the software of commercial drones as prohibited GPS locations. That hardly seems likely to deter a determined adversary. So far, prison-smuggling aside, the irregular use of drones seems to have been intended mainly to carry out slightly anarchic protests. Sooner or later a drone will be used for something more sinister. ■

Drones and the law

Jail birds

SEATTLE

One American state is proposing a hard line on drone-associated crime

DIRECT action against drones (see previous story) is one way to deal with those that are up to no good. In part of the United States, however, politicians propose to go after drone operators too, by making the use of a drone to commit a felony an aggravating action. A bill now being steered through Washington's state legislature by Pam Roach, a state senator, would create an offence of "nefarious drone enterprise".

So far, Mrs Roach's proposal has passed votes in both houses of the legislature, winning the support of Democrat representatives and senators as well as that of her fellow Republicans. If she can succeed in attaching it to a forthcoming vote on the state's budget, it could become law within weeks.

If that happens, anyone convicted of using an unmanned aerial vehicle to plan or carry out a felony would automatically have a year in prison tacked onto his sentence. Nefarious drone enterprise would thus join such activities as carrying a firearm (up to five years extra), trying to outrun a police car (one year) or being armed with a crossbow or hunting knife (at least six months).

Mrs Roach fears drones may be used to smuggle drugs into prisons, to help burglars scout empty houses or to enable poachers to track the state's protected

herds of Roosevelt elk. Not everyone, though, is convinced of the need for the law. Arguing against it, Paul Strophy, a local defence lawyer, notes that, unlike carrying weapons or travelling at speed to escape a police car, drones do not themselves create much additional risk to the public, so their mere involvement in a crime should not be a reason for additional punishment.

Nor would the penalty apply to crimes that were misdemeanours, rather than felonies. Yet that would exclude many illegal activities in which drones might play a part, such as the surreptitious recording of conversations. Conversely, the law could have perverse effects in some not particularly serious offences that happen to count as felonies. At the moment, for example, peeping toms in Washington typically get a sentence of ten weeks. Peeping with a drone would multiply this by six.

Mrs Roach's answer to the misdemeanour question is that she hopes, if her proposal does pass, that it will be extended in the future to cover them, too. "A year in jail is appropriate," she says, "and my intent is for it to apply to the commission of any crime." Drone operators whose aircraft inadvertently take pictures of skinny-dipping neighbours had better be prepared for the worst.



Gotcha!

Germ-line gene therapy

To the crack of doom

Scientists in China have just crossed one of biotechnology's red lines

ABOLISHING beta thalassaemia is a noble goal. This inherited blood disease, which can cause severe anaemia and consequent organ damage, sometimes fatal, is a scourge to those who suffer it. And abolished it could be, if the broken gene that causes it (which is called *HBB* and encodes part of the haemoglobin molecule) were itself to be abolished.

That is not an abstract thought. A newish DNA-editing technique called CRISPR/Cas9 is able, at least in principle, to make precise changes in particular genes. Several groups of researchers are trying to work out a way to use it to clear up beta thalassaemia in individual sufferers, by genetically modifying the stem cells which generate red blood corpuscles. But it is theoretically possible to go further. By modifying *HBB* in a fertilised egg (known technically as a zygote), and letting that zygote develop into a human being, you would abolish the disease not only in the resulting individual but also in his or her "germ line"—the line of descent. By doing this, though, you would create one of the bugaboos of bioethics: a genetically modified human.

That controversial prospect has just been the subject of a real experiment. Huang Jun-jiu of Sun Yat-sen University in Guangzhou, China, and his colleagues have published, in *Protein & Cell*, a report of an attempt to edit *HBB*, as a proof of principle, in non-viable zygotes. The attempt failed. But it yielded lessons that might make a subsequent try more successful.

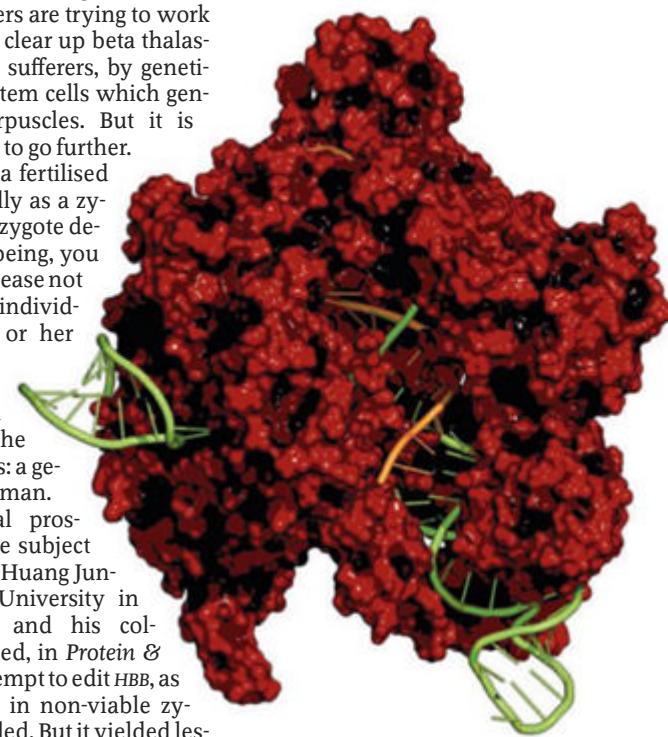
CRISPR/Cas9 is a large bit of molecular machinery (see picture) derived from a bacterial defence system that chops up the DNA of invading viruses. In nature, it recognises DNA sequences that are foreign to the bacterium, but the recognition mechanism can be modified to search for any given sequence and cut the DNA there. If this is done to a gene in an animal or plant cell, the cell will try to repair itself using the other copy of the gene present (for there is one from each parent) as a template. That process can be subverted by injecting an artificial template of the desired DNA sequence, which is then used as a model for repair.

Dr Huang and his colleagues tried this

on *HBB* with 86 zygotes they had obtained from local fertility clinics. These zygotes were unviable because each had been fertilised by two sperm. They were, nevertheless, suitable for experiment.

Of the 86, 71 survived the procedure and 54 of these were tested to see if it had worked. In 28 the DNA had indeed been cut by CRISPR/Cas9 and then repaired by the cell. In only four of these cases, though, had the artificial template been used for the repair. On top of this, Dr Huang found that there were many "off-target" mutations in other parts of *HBB*, or in other, similar genes, which would have caused serious damage if expressed in an actual human being.

On the face of things, then, the experiment did not work. But even failure can provide lessons. Knowing which bits of DNA are susceptible to off-target modification, for example, might allow the ap-



proach to be refined. Moreover, Dr Huang's team are probably not alone in their endeavours. A report in *Nature* says at least four groups in China may be working on human germ-line modification.

The controversial nature of the work also led to the paper's actual publication being a cloak-and-dagger matter. Though neither journal has commented, rumours suggest Dr Huang offered it to *Nature* and *Science* (generally regarded as the world's premier research journals), but both turned it down. Meanwhile *Protein & Cell*, the work's eventual home, labels it as having been received on March 30th and accepted on April 1st. That is a rapidity most researchers can only dream of. ■

Genes and the placebo effect

Are you easily pleased?

The effectiveness of a placebo may depend on someone's DNA

GIVE someone who is sick a sugar pill that you have told him is a powerful drug, and it will often make him feel better. Even if you tell him what it really is, he may still feel better. The placebo effect, as this phenomenon is known—from the Latin for "I shall please"—is one of the strangest things in medical science. It is a boon to doctors and a bane of those running clinical trials, who must take account of it in their designs. But how it works is obscure.

Knowing that would open up a new field of medicine. If placebos could be exploited rationally, perhaps in conjunction with functional drugs, better treatments might be effected. Drug testing, too, would be simplified, as trial designers were able select those more and less susceptible to the effect as the needs of the trial dictated. That would save effort, time and money.

One thing that is known about the placebo effect is that it involves several brain systems, each under the control of a particular type of messenger molecule, called a neurotransmitter. These systems, like everything else in the body, are regulated by genes. This has led some researchers to ask whether different versions of the genes in question might modulate a person's susceptibility to placebos.

A review of these researchers' studies, published recently in *Trends in Molecular Medicine* by one of them, Kathryn Hall of Harvard Medical School, and her colleagues, suggests genes do indeed seem to matter. Dr Hall looked for links between the placebo effect's strength and certain mutations, known as single nucleotide polymorphisms (SNPs), in which a single DNA "letter" in a gene is changed. Altogether she found 11 genes, in four neurotransmitter systems, where SNPs made a difference. Five were in the system mediated by dopamine, which includes the brain's reward centres. Four were in the system mediated by serotonin, which regulates mood. And the opioid and endocannabinoid systems had one each.

As their names suggest, these two systems are affected respectively by opium and its derivatives, and by cannabis and its. The other two are affected by cocaine, which blocks the retrieval of dopamine into nerve cells, thus increasing its power as a messenger; and Prozac, which has the same effect on serotonin, and is used as an antidepressant. It is not hard to imagine a similarity between the workings of these drugs and what happens in the brain ►

► when the placebo effect is operating.

The genes for which most placebo-related SNP evidence exists encode enzymes called catechol- α -methyltransferase and monoamine oxidase. Both of these are parts of the dopamine system, and both are responsible for metabolising dopamine, and thus regulating the amount of it around. (Indeed, monoamine oxidase is the target of a second type of antidepressant, which has a different mechanism from Prozac.) People with different versions of either of these genes experience the placebo effect to different degrees. These various versions, moreover, are all commonplace, suggesting differences in

placebo perception may be widespread.

The studies Dr Hall drew on are all preliminary, so they are better regarded as pointers for further investigation than as prescriptions for action. But if such investigations confirm these results, it may be possible to predict, on the basis of a genetic test, whether someone will experience a strong placebo effect or not. That could allow a doctor to lower the prescribed dose of a drug, if a strong placebo effect is expected. It could also permit drug companies conducting trials to exclude the placebo-susceptible, and thus to get a better sense of the underlying efficacy of what is being tested. ■

developed by ChyronHego, an American graphics company. This sits behind third base and takes 30 snapshots a second. It cannot, however, track the ball as reliably as it tracks the players, for baseballs (which are white) are hard to see when they fly in front of similarly coloured backgrounds. To follow the ball, including measuring its spin using the Doppler effect (see “Copping a ‘copter” earlier in this section), the MLB therefore turned to TrackMan, a Danish radar firm. Their system had a hiccup when it turned out that the giant video screens without which no major-league baseball ground is complete were jamming it. But that has now been resolved.

In theory, following the players and following the ball in this way should provide all the data needed for statistical purposes. But Statcast is designed, in part, for television, and for that purpose yet another camera needs to be added to the mix. This watches the field as a whole, providing coordinates that map the radar and optical data onto broadcasters’ video feeds. And the result does indeed make for compelling TV. It permits commentators to illustrate replays with dazzling visual displays. It was used this way for the first time on April 21st, by MLB Network, the sport’s proprietary cable channel.

It is, though, the trove of information Statcast’s all-seeing eye delivers about how players play that most interests teams. They can use such data to make players better—for example, by telling a pitcher who cannot impart sufficient backspin to try a different grip—and to allocate resources more efficiently, such as moving a fielder with lightning-quick reflexes to third base, a position where such people are particularly valuable.

Teams can also use Statcast to help with recruitment. In 2013, for example, the Houston Astros employed an analysis based on the TrackMan system to acquire an unaccomplished pitcher called Collin McHugh, because of his fast-spinning curveball. They then told him to throw that pitch far more often during the next season, and he blossomed into a star.

Who will have the opportunity to dig into Statcast’s numbers does, though, remain to be decided. When a prototype version was launched in 2007, MLB allowed anyone to download the raw data. That open-source approach led to a flurry of discoveries, many of which have become accepted wisdom. It also helped teams identify and hire promising analysts. Now, those teams with good analysts have an incentive to pull up the ladder. They fear weaker rivals will free-ride on the work of the next generation of amateurs, reducing the edge that employing professionals gives. Rob Manfred, MLB’s commissioner, has promised fans “very good access” to Statcast. What that actually means remains to be seen. ■

Sports technology

Every step they take

NEW YORK

A new tracking system could revolutionise understanding of baseball

IN THE late 1990s Billy Beane, the general manager of the Oakland Athletics, a baseball club, made a radical change to the club’s recruiting methods: he decided to apply some science to them. Instead of relying on the instincts of scouts, he and his deputy Paul DePodesta, a statistically astute Harvard economics graduate, crunched candidate players’ numbers. Baseball is awash with such numbers, and the two men applied simple statistics to them to identify valuable players whom scouts had rejected, and who could thus be hired cheaply. The result transformed the club’s performance. Despite having one of the league’s lowest payrolls, it qualified for the post-season tournament run by Major League Baseball (MLB), the professional game’s organiser, for four years running.

This success, which was the subject of a book (and later a film) called “Moneyball”, caused others to copy the method. Before long, teams had extracted all the information they could from the game’s traditional statistics. To produce even more accurate predictions, they would need better data. And the means to gather those numbers have now arrived, in the form of a system called Statcast developed specifically for baseball by MLB.

Statcast can, pretty much, follow and record everything that happens in a baseball game. It builds on earlier game-tracking technology, such as the Hawk-Eye system used in cricket, but is far more sophisticated. It constantly logs the position of the ball and of every player on the field. It calculates the speed and curvature of a pitch, how rapidly the ball spins and around what axis, and how much faster or slower than reality that pitch appears to be to the

hitter, based on the length of the pitcher’s stride. When the ball is hit, the system measures how quickly it leaves the bat and how its path is affected by atmospheric conditions. It then tracks how long fielders take to react before moving, and the efficiency of their routes to the ball’s eventual landing spot. And it takes just 15 seconds to crunch these numbers and integrate them with video recordings.

Statcast captures the information it needs by fusing data from two pieces of equipment. One follows the players. The other follows the ball. The player-following system is a stereoscopic camera array



Track that, sucker



Ronald Reagan

The great storyteller's story

An excellent new life of America's 40th president, who died in 2004

MORE than a decade after his death, Ronald Reagan still divides people. American conservatives revere him as practically a demigod. He shrank the state, rescued the economy and won the cold war; all Republican candidates must pay homage. The left dismisses him as malign and moronic—a B-movie actor who floated into the White House on an updraft of phoney charm, a man who snoozed during meetings, blew up the deficit and propped up unsavoury third-world despots from Argentina to Zaire.

The truth is more interesting than the caricature, and H.W. Brands's new biography tells the story as well as you could ask for in a single volume. A lucid and witty writer, Mr Brands lays out the facts in short chapters that bounce along like one of the "bare-fisted walloping action" films that Reagan once starred in. He has a talent for letting his sources speak for themselves. They include not only politicians and Reagan himself, but also his children, who were as neglected as those of any famous parent. Invited to speak at his adopted son Michael's boarding school, Reagan failed to recognise his boy under a mortar board. "My name is Ronald Reagan. What's yours?" he said. "Remember me?" came the sad reply: "I'm your son Mike."

The book covers Reagan's acting career—a love affair with the camera that lasted a lifetime. Even his violent films

Reagan: The Life. By H.W. Brands.
Doubleday; 805 pages; \$35

often carried a simple moral message, such as that crime did not pay. "This was a critical matter during the 1930s, when abundant evidence indicated that crime did pay," observes Mr Brands.

Reagan grew up a Democrat, in the Irish tradition, before drifting to the right. Paying income tax at a marginal rate of around 90% in the 1950s was painful, but more important was what he learned about capitalism while working for General Electric (GE). As his film career faded, he was paid to host a television series sponsored by America's biggest industrial firm and to give speeches at GE factories. As he toured the country by train, he read books about economics and history. Everywhere he went, people told him stories of government meddling and how it hurt their businesses. He incorporated these stories into his act, and eventually came to realise that he was a Republican.

Reagan was 69 years old when he became president—slightly older than Hillary Clinton will be in January 2017. He was, if anything, a more experienced politician, having run for president three times and served two terms as governor of California. He was lucky in his choice of opponents: Pat Brown, the sitting governor he

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beat in 1966, once described a tsunami as "the worst disaster since I was elected". Jimmy Carter, the sitting president he beat in 1980, presided over stagflation at home and humiliation abroad. But there was much more to Reagan's rise than luck.

He combined a firm belief in small government with an uncanny ability to make people like him: "Barry Goldwater's doctrine with John F. Kennedy's technique", as he was once described. He governed more pragmatically than he spoke, Mr Brands observes. In California he compromised with Democratic lawmakers to pass a moderate budget, welfare reform and a bill legalising abortion.

As president, he raised taxes when he had to, despite vowing to cut them. He tussled with Democrats in Congress but eventually reached deals to patch up Social Security (public pensions), reform the immigration system and simplify the tax code. Modern-day Tea Partiers who hold Reagan up as an exemplar of conservative purity would be horrified at some of the things he actually did. After leaving the Oval Office, he even backed a gun-control bill named in honour of his press secretary, James Brady, who was crippled by an assassin's bullet meant for Reagan himself.

Reagan's foreign policy was straightforward. He called the Soviet Union an "evil empire", which it was. His strategy for the cold war was: "We win; they lose." He knew that the Soviet state was rotting from within, and understood the power of ideas to hasten its demise. Looking at the Berlin Wall, he challenged the Soviet leader: "Mr Gorbachev, tear down this wall!" Two years later, joyful crowds did just that.

Mr Brands argues that "the strength of Reagan's approach to foreign policy as a whole was his weakness in policy toward the Middle East." He kept his eye on the big

► picture, but misjudged smaller problems. The killing in places like Lebanon was about local grievances, both ancient and modern, and could not be fitted neatly into a cold-war template. "It was no coincidence that the one president to make a lasting mark on the Middle East was Reagan's polar opposite", Jimmy Carter, Mr Brands writes. Without his attention to detail, the Camp David peace deal between Egypt and Israel would never have been signed.

"Reagan: The Life" contains little that will surprise professional historians, but lay readers will find it illuminating. Mr Brands recounts Reagan's triumphs and the scandals even-handedly, and concludes that the Gipper's achievements were comparable to those of Franklin D. Roosevelt, the president who led America most of the way towards winning the second world war. ■

The history of revolution

Aux armes, historiens!

Revolutions Without Borders: The Call to Liberty in the Atlantic World. By Janet Polasky. Yale University Press; 371 pages; \$35 and £25

REVOLUTIONARIES want to tear down walls. Between 1776, when America declared independence, and 1804, when Haiti at last threw off the yoke of French rule, the compartments and divisions of established power became everyone's target. This book assiduously describes how, just as the doctrine of the universal rights of man seized the Western world, so too did an irrepressible iconoclasm.

But what sets "Revolutions Without Borders" apart as a work of history is that Janet Polasky tears down walls, too: scholarly ones. Instead of telling the usual heroic national story, she ranges wherever her wayfaring revolutionaries take her—to Paris and Washington, but also to Poland, Sierra Leone and the Caribbean. Instead of confining herself to the deeds of valiant men, she also gives the stage to women and slaves. The result is a spectacle that conveys the thrill of the Enlightenment as well as the delirium of revolution.

Ordinary people were hungry for new ideas and many of those ideas travelled on paper. Ms Polasky loosely marshals her material by type—one chapter is based on pamphlets, another draws on newspapers, a third is taken from diaries and so on. In the first year of the French revolution, 194 new papers appeared in Paris and 90 in the provinces. In 1788 politics filled only 5% of French journals; a year later the share was two-thirds. And yet, although news was

sought after, it would take weeks or months to reach far-flung outposts, which fuelled rumour and insubordination by commanders and diplomats unsympathetic to the line at home.

Ms Polasky demonstrates how wandering radicals were also vital to the spread of ideas. She includes familiar names, like Thomas Paine, the Englishman who fomented revolt in the Americas before returning across the Atlantic to fight the good fight in continental Europe, but also lesser-known figures, such as Equiano Olaudah, who bought his freedom and wrote about the slave trade; Thaddeus Kosciuszko, who waged war in the Americas and returned to lead a doomed revolution in his native Poland; and Anna Maria Falconbridge, chronicler of the miseries of the black pioneers who, with the backing of British abolitionists, tried to settle in Sierra Leone.

This book is at its best in describing the effect of revolution on the slaves and free men and women in the Americas and the Caribbean. Slaves were not literate—the only one in Guyana who could read and write was executed in 1796—so the historical record comes down from whites.

Some whites tried to find reasons why universal theories did not apply or, failing that, lived in stunning contradiction. Yet notions of liberty and of the rights of man were intoxicating both to those suffering in bondage and also to non-whites, who, although free, enjoyed fewer rights than white landowners. Revolt was never far from the surface. Most of the slaves in Saint-Domingue, for instance, had been on the island for less than a decade and many had fought in African armies. When they rose up in 1791, they seemed to the whites to be alarmingly well organised.

Sometimes the book's pace slackens. Chapters based on novels and intimate letters are designed to show how the revolutionary spirit also spread inward—to mar-



Hitting back

riage and family life. But the claim remains vague and unsubstantiated.

"Revolutions Without Borders" ends on a wistful note. The French Directoire, which ruled from 1795 until it came increasingly under the sway of Napoleon Bonaparte, dispensed with the revolution's universal character. Its armies in parts of Belgium, Germany, Italy and Switzerland became just another occupying force. In America the counter-revolutionaries ensured that the country was hostile to figures like Paine. As the walls went up again, Ms Polasky's wandering revolutionaries were left with nowhere to call home. ■

New fiction

A singular voice

When the Doves Disappeared. By Sofi Oksanen. Translated by Lola Rogers. Knopf; 320 pages; \$25.95. Atlantic; £12.99

BETRAYAL, secrecy and memory are the haunting themes of Sofi Oksanen's accomplished new novel. Like her previous work, "Purge", it features the history of Estonia at the moment when it was caught between Stalin's hammer and Hitler's anvil in the second world war.

Most readers will start the book with only a hazy grasp of the intricacies of Baltic history—a brief but traumatic Soviet annexation followed by a selectively lethal German invasion, and then renewed Soviet occupation which lasted until 1991. But they will be gripped by the dilemmas it created for Estonians, and the ways they are resolved in the book: through bravery, hypocrisy and denial, leading to a mysterious murder. The political and personal dilemmas are elegantly echoed in a subplot involving sexual identity.

Details are provided lightly: they tantalise rather than intrude (though a helpful glossary is provided at the end of the book). The title comes from the bitter winter when hungry German soldiers ate even the pigeons in the capital, Tallinn.

Ms Oksanen's characterisation is similarly sparse, but flawless. The abandoned and sex-starved Juudit takes a seemingly sympathetic Nazi lover. The ghastly and mendacious Edgar starts life as an anti-communist resistance fighter, collaborates enthusiastically with the Germans, and then becomes a Soviet propagandist, expertly libelling the anti-communist émigrés for crimes which they did not commit, but which he did.

Unlike "Purge", "When the Doves Disappeared" does not stretch to the present day. The book ends in the mid-1960s, at a time when the restoration of indepen-

►dence seemed the most hopeless dream. Readers are left wondering what happened to the surviving characters, and whether justice and truth ever triumphed.

The book reflects parts of Ms Oksanen's own family history: she was born in Finland of an Estonian mother, whose family included both collaborators, resisters and bystanders. Secretiveness was everywhere; she remembers being struck as a child by the timid euphemisms she heard when visiting her mother's Estonian relatives—being deported to Siberia, for example, was being “sent to a cold place”. Ms Oksanen's writing stems from puzzlement at two kinds of silence: the self-censorship Estonians practised in Soviet times, and the incuriosity of Finns about the plight of their neighbours and close linguistic and cultural cousins under Soviet rule.

Some Estonians regard her rather sniffily as an outsider, but Ms Oksanen's insights and intuition mean she is fast becoming one of the foremost voices in the ex-communist world. ■

Biology

Heart of the matter

The Vital Question: Why Is Life the Way It Is? By Nick Lane. Profile; 360 pages; £25

“**T**HREE is a black hole at the heart of biology.” Grandiose openings like this are often a warning sign in popular science books, a signal that the author is trying to gussy up a collection of unremarkable observations. Not in this case. Nick Lane, a biochemist at University College London, knows whereof he speaks. His latest book is a persuasive, demanding attempt to answer some of the most fundamental questions in biology.

Science offers a broad overview of how life works, but many intriguing details remain unclear. Mr Lane tackles some of them, including the origins of life, the connections between sex and death and what, if anything, Earth can tell us about the possibility of life elsewhere.

The book's overarching argument is that life is a natural, chemical process, and therefore faces constraints imposed by the iron laws of physics or chemistry. Despite its spectacular surface diversity, those constraints restrict its chemical underpinnings, and that affects how life develops. Such considerations, says Mr Lane, can shed light on some of biology's most profound questions.

The most accessible of those is how life got started in the first place. Most people learn some version of the “primordial soup” theory, which posits that Earth's

Good food

Nose-to-tail eating

Lesser Beasts: A Snout-to-Tail History of the Humble Pig. By Mark Essig. Basic Books; 310 pages; \$27.50

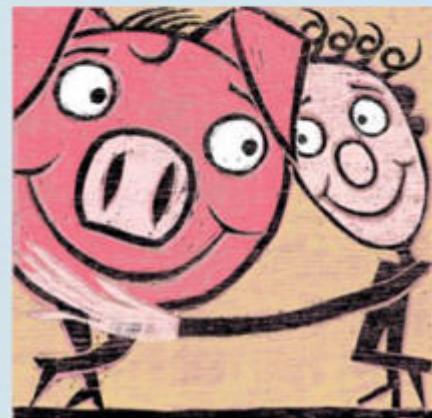
“**I**F YOU are going to kill the animal, it seems only polite to use the whole thing,” says Fergus Henderson of London's beloved piggy restaurant, St John. Mark Essig, a historian residing in the hoglands of North Carolina, would agree. Mr Essig's “Lesser Beasts” concludes by outlining “the dilemma of modern pork”: big agricultural companies sell a lot of bacon to consumers for a pittance, whereas struggling smallholders offer small quantities of high-quality pork at organic markets for four times as much. These farmers can turn a profit only by selling every inch of their animals to adventurous chefs and gourmets.

Mr Essig's broad, well-researched book highlights that this is merely the latest stage in man's on-off-and-on-again relationship with pigs. The curly-tailed animals have proven extraordinarily useful to human development and have been present from the earliest permanent dwellings to modern metropolises. The porcine ability to turn waste of almost any description into protein—thanks to “a simple gut and multipurpose teeth”, which means it can eat almost anything—ensured that in the ancient Near East, Anglo-Saxon England and the Americas it was the perfect beast to sustain rapidly growing and colonising populations.

Yet the pig's indiscriminate appetite has also been its worst enemy. Not for nothing is there a Chinese character, *qing*, that designates both “pigsty” and “outhouse”, and the idea of consuming a beast fed on communal waste has appalled societies from the ancient Egyp-

early oceans contained enough organic chemicals to form spontaneously some kind of primitive self-replicator. But biology has moved on, and Mr Lane gives a convincing account, based on basic chemical principles, of why this theory is almost certainly wrong. There is simply not enough energy available in such a system, he points out, to produce complicated chemicals at anything like the required rate.

Mr Lane's preferred idea is that life got its start in warm vents at the bottom of the ocean, in which hot, mineral-infused water wells up from beneath the sea floor. As the water cools, the minerals precipitate out, forming intricate, honeycombed structures. These tiny mineral chambers, argues



tians to the Jews and 19th-century New Yorkers. Pigs have also been beset by snobbery, given that pork has regularly provided calories to the poorest members of society. After the Black Death carried off a third of Europe, demand for meat plummeted and so did prices. Peasants started eating pork; uppity nobles chewed on birds and beef instead.

Mr Essig's main point is that the better people treat pigs, the more they like them. Romans lavished love and attention on their pigs, allowing them to wander in the woods, eating nuts and grains. In return, they enjoyed delicious meat. Post-war America industrialised pig production, inventing indoor cages and “a litany of horrors” for their sows, and found the meat was mushy and tasteless. As a consequence, pork consumption has been static for 30 years.

Mr Essig ends his entertaining study with a rhetorical question: “How much is a happy pig worth?” For him, such intelligent, efficient companions should command a much higher price.

Mr Lane, provided an early version of the modern cell wall. They kept the chemistry inside the “cell” different from that outside. That, in turn, allowed the formation of a strong voltage gradient across their boundaries. Those gradients were the forerunners of the voltage differences that enable modern cells to manufacture the thousands of chemicals they need to function—and which therefore provide the vital spark for every living thing on the planet.

Although the other questions are perhaps more obscure, they are just as profound. Life began on Earth, as best as scientists can tell, around 3.8 billion years ago (the planet itself is about 4.5 billion years old). For the first 2 billion years of its exis-

►tence, life was relatively simple, divided between the bacteria and the archaea, two groups of single-celled organisms with different takes on metabolic chemistry. Then, suddenly, something new arrived on the scene, complicated “eukaryotic” cells, complete with nuclei, tightly packed chromosomes and all kinds of specialised compartments. Mr Lane posits that the crucial step was the unlikely development of symbiosis between an archaeon and a bacteria. The hyper-specialised descendants of those ancient bacteria, the mitochondria, form the “power plants” inside the cells of all complex life today.

Mr Lane’s prose is clear. Occasionally it sparkles—“the universe is not pregnant

with the idea of ourselves,” he writes, discussing his view that, thanks to the implausible rarity of the symbiosis necessary to give rise to complex life, it is probably rare in the cosmos. But although his ideas are somewhat simplified for a lay audience, they are never dumbed down. Frequent trips to the glossary in the back may help those without a biological background to make sense of some passages.

If that sounds like a criticism, it should not. Mr Lane never patronises his readers, and those willing to make the effort to think about what he is saying will be rewarded with one of the deepest, most illuminating books about the history of life to have been published in recent years. ■

been Shiraga, who died in 2008 and whose paintings have recently become the object of something of a feeding frenzy. Since 2009 the average price of Shiraga’s work has risen more than six times. Last June one of his most famous paintings, “Gekidou Suru Aka” (“Dynamic of Red”—pictured), which served as Gutai’s manifesto when it was unveiled at Expo 70, the world fair in Osaka, sold at Sotheby’s in Paris for \$5.3m. Not surprisingly, blue-chip galleries have begun to take notice: two New York dealers, Dominique Levy and Mnuchin Gallery, featured Shiraga’s work in their shows earlier in the spring; Fergus McCaffrey follows suit this month.

The sudden star power of Shiraga is both understandable and a little disquieting. His paintings are an almost perfect combination of radical aspiration and traditional form—high-mindedness that can easily be packaged and hung on a wall. Dispensing with the manual skill normally associated with painting, Shiraga adopted a technique in which he painted with his feet, manipulating gloopy puddles of pigment while suspended by ropes over paper, canvas and (on occasion) more exotic materials like the hide of a wild boar. The results recall the action paintings of Jackson Pollock—a major inspiration for Yoshihara and his disciples—as well as other members of the New York school, such as Franz Kline and Willem de Kooning.

But Shiraga pumps up the volume, turning Pollock’s ethereal drips or Kline’s slashing brushwork into cosmic geological formations that writhe and bubble as if extruded from a volcanic caldera. They have a presence that blows away much of today’s thin, ironic, media-saturated confessions. They not only ooze, they ooze authenticity—a precious commodity in an increasingly jaded global art world.

The spectacle of a Utopian movement seduced by market capitalism is an old one. The chasm between Gutai’s antimaterialist goals and the world of luxury commodities that has become ubiquitous is made explicit by a video (included in

both the Dominique Levy show and at the Dallas Museum of Art) of Shiraga’s famous performance, “Challenging Mud”, which was first realised in 1955. In it the almost naked artist battled with a recalcitrant pile of sticky goo to create a work that was both temporary and emphatically unmarketable.

Here was an inspiring affirmation of an artist refusing to succumb to the demands of capitalism, throwing himself fully into something that could not possibly be bought or sold, that offered nothing but the spectacle of a heroic struggle against meaninglessness. It seems that many well-heeled collectors today find such total commitment irresistible. ■

The Gutai moment

The other modernism

The rise and rise of an important 20th-century modernist movement from Japan

IN AVANT-GARDE art, as in polar exploration, it’s getting there first that counts. The history of modernism is often viewed as a series of discoveries with the glory going to whomever made the next conceptual breakthrough. As that story is usually told, for the first half of the 20th century the innovative centre was Europe, before the old world was overtaken in the aftermath of the second world war by America.

In recent years that comfortable narrative has been disrupted. In the 1950s and 1960s some of the most daring work began to come not from cities like Paris or New York but from near Osaka, a second-tier city in a nation already considered marginal to the modernist project. The source of this innovation was a movement known as Gutai (meaning something like concreteness). It was founded in 1954 by Jiro Yoshihara, a Japanese painter who encouraged his followers to challenge the conformity that had contributed to the authoritarianism of the preceding decades. In place of the wartime slogan, “one hundred million hearts beating as one”, Yoshihara championed an art of radical individualism summed up by his battle cry: “Create what has never been done before!”

Like Dada, an artistic and literary wave that began in Switzerland in 1916, Gutai was a movement formed in response to the trauma of war. The radical approaches it favoured—including a preference for non-art materials, spontaneity over mastery, ephemeral performances, exhibiting in non-traditional spaces such as city parks and department stores, and a

general rejection of tradition—were intended to undermine art’s complicity with systems of wealth and power. “Let’s bid farewell to the hoaxes piled up on the altars and in the palaces,” Yoshihara urged, “the drawing rooms and the antique shops... Lock up these corpses in the graveyard.”

Given Gutai’s Utopian philosophy, the current market buzz about its work is not without irony. Stimulated by two shows in New York in 2013, “Gutai: Splendid Playground” at the Guggenheim Museum and “Tokyo 1955–1970: A New Avant-Garde” at the Museum of Modern Art (MoMA), as well as a new exhibition now at the Dallas Art Museum, “Between Action and the Unknown: the Art of Kazuo Shiraga and Sadamasa Motonaga” (until July 19th), prices for work by the best-known Gutai practitioners have increased dramatically.

The most spectacular example has



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Notice No. APMDC/GEO-HMBS/1/PPP/2015

Date : 28-04-2015

APMDC invites EOIs on Global basis to develop Integrated Project For Development of Heavy Mineral Beach Sands (HMBS) including exploration & mining, mineral separation and value added plants for the minerals. EOI is for 3 leases with option to submit for one or more. Last date and time for submission of EOIs is 1600 hrs IST on 30.05.2015. For complete details please visit APMDC website : www.apmdc.ap.gov.in from 30.04.2015.

Date : 28.04.2015

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ANNOUNCEMENT

In accordance with the Resolution of the Saudi Council of Ministers which approved the implementation of the King Abdulaziz Public Transport for Riyadh (Metro and Bus Networks), High Commission For The Development Of Arriyadh (ADA) invites World Class Operators, specialized in operating and maintaining unattended transit systems and related facilities (stations, depots...), to apply for Prequalification for the Riyadh Metro Operation and Maintenance Tender.

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Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices latest	Unemployment rate, %	Current-account balance		Budget balance % of GDP 2015†	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$ April 29th	Year ago		
	latest	qtr*	2015†				latest	% of GDP 2015†						
United States	+3.0	Q1	+0.2	+3.0	+2.0 Mar	-0.1 Mar	+0.3	5.5 Mar	-410.6 Q4	-2.2	-2.5	1.95	- -	
China	+7.0	Q1	+5.3	+6.9	+5.6 Mar	+1.4 Mar	+1.4	4.1 Q1§	+219.7 Q4	+2.7	-2.8	3.29§§	6.20	6.26
Japan	-0.8	Q4	+1.5	+1.0	-1.2 Mar	+2.2 Feb	+0.7	3.5 Feb	+46.6 Feb	+2.3	-6.9	0.30	119	103
Britain	+2.4	Q1	+1.2	+2.6	+0.1 Feb	n/a Mar	+0.3	5.6 Jan††	-161.3 Q4	-4.5	-4.4	1.81	0.65	0.59
Canada	+2.6	Q4	+2.4	+2.0	+4.1 Jan	+1.2 Mar	+1.0	6.8 Mar	-39.3 Q4	-2.9	-1.8	1.59	1.20	1.09
Euro area	+0.9	Q4	+1.3	+1.4	+1.6 Feb	-0.1 Mar	+0.1	11.3 Feb	+298.6 Feb	+2.7	-2.2	0.29	0.90	0.72
Austria	-0.2	Q4	+0.4	+1.0	-0.2 Feb	+1.0 Mar	+0.9	5.3 Feb	+3.2 Q4	+1.5	-2.1	0.29	0.90	0.72
Belgium	+0.9	Q1	+1.2	+1.3	-4.6 Feb	+0.3 Apr	+0.2	8.5 Feb	+7.4 Dec	+0.5	-2.6	0.53	0.90	0.72
France	+0.2	Q4	+0.5	+1.1	+0.6 Feb	-0.1 Mar	+0.1	10.6 Feb	-18.3 Feb‡	-0.9	-4.2	0.42	0.90	0.72
Germany	+1.5	Q4	+2.8	+1.8	-0.3 Feb	+0.4 Apr	+0.3	6.4 Mar	+290.1 Feb	+7.6	+0.7	0.29	0.90	0.72
Greece	+1.2	Q4	-1.5	+1.4	+1.9 Feb	-2.1 Mar	-0.9	25.7 Jan	+1.6 Feb	+2.7	-3.5	11.51	0.90	0.72
Italy	-0.5	Q4	-0.1	+0.5	-0.2 Feb	-0.1 Mar	+0.1	12.7 Feb	+45.9 Feb	+1.9	-2.9	1.51	0.90	0.72
Netherlands	+1.4	Q4	+3.2	+1.5	-0.2 Feb	+0.4 Mar	+0.2	8.9 Mar	+90.2 Q4	+9.2	-2.0	0.30	0.90	0.72
Spain	+2.0	Q4	+2.7	+2.4	+1.1 Feb	-0.7 Mar	-0.6	23.2 Feb	+11.3 Jan	+0.4	-4.5	1.32	0.90	0.72
Czech Republic	+1.2	Q4	+1.5	+2.9	+4.6 Feb	+0.2 Mar	+0.2	7.2 Mar§	+14.4 Q4	-0.5	-1.7	0.50	24.6	19.9
Denmark	+1.5	Q4	+2.1	+1.6	-2.3 Feb	+0.6 Mar	+0.7	4.9 Feb	+22.0 Feb	+5.6	-3.0	0.44	6.71	5.40
Norway	+3.2	Q4	+3.7	+0.9	+2.2 Feb	+2.0 Mar	+1.4	3.9 Jan††	+42.5 Q4	+11.5	+7.0	1.45	7.52	6.01
Poland	+3.1	Q4	+2.8	+3.3	+8.7 Mar	-1.5 Mar	+0.2	11.7 Mar§	-5.3 Feb	-1.7	-1.5	2.62	3.60	3.04
Russia	+0.4	Q4	na	-4.1	-0.5 Mar	+16.9 Mar	+15.2	5.9 Mar§	+57.1 Q1	+3.7	-2.6	10.78	50.9	35.6
Sweden	+2.6	Q4	+4.6	+2.6	-3.9 Feb	+0.2 Mar	+0.2	8.0 Mar§	+35.7 Q4	+5.9	-1.3	0.33	8.33	6.56
Switzerland	+1.9	Q4	+2.4	+0.9	+2.7 Feb	-0.9 Mar	-0.9	3.2 Mar	+49.1 Q4	+7.8	+0.3	-0.07	0.94	0.88
Turkey	+2.6	Q4	na	+3.4	+1.0 Feb	+7.6 Mar	+6.6	11.3 Jan§	-42.8 Feb	-4.5	-1.7	9.37	2.66	2.12
Australia	+2.5	Q4	+2.2	+2.5	+3.3 Q4	+1.3 Q1	+1.7	6.1 Mar	-40.1 Q4	-3.0	-2.3	2.60	1.25	1.08
Hong Kong	+2.2	Q4	+1.5	+2.4	-3.6 Q4	+4.6 Mar	+3.3	3.3 Mar‡‡	+5.6 Q4	+2.3	-0.2	1.52	7.75	7.75
India	+7.5	Q4	+4.0	+7.5	+5.0 Feb	+5.2 Mar	+5.2	8.6 2014	-27.4 Q4	-0.9	-4.1	7.81	63.5	60.2
Indonesia	+5.0	Q4	na	+5.2	+2.3 Feb	+6.4 Mar	+5.9	5.9 Q3§	-26.2 Q4	-3.1	-1.9	7.54	12,923	11,555
Malaysia	+5.8	Q4	na	+5.5	+5.1 Feb	+0.9 Mar	+2.9	3.2 Feb§	+15.2 Q4	+3.4	-4.4	3.86	3.54	3.26
Pakistan	+5.4	2014**	na	+5.7	+0.9 Feb	+2.5 Mar	+4.6	6.2 2013	-1.9 Q1	-0.6	-5.1	9.00†††	102	98.4
Philippines	+6.9	Q4	+10.4	+6.7	+4.4 Feb	+2.4 Mar	+3.0	6.6 Q1§	+12.7 Dec	+3.8	-2.0	4.13	44.3	44.5
Singapore	+2.1	Q1	+1.1	+3.1	-5.5 Mar	-0.3 Mar	+0.4	1.9 Q4	+58.8 Q4	+22.2	-0.7	2.19	1.32	1.26
South Korea	+2.4	Q1	+3.1	+3.2	-0.1 Mar	+0.4 Mar	+1.1	4.0 Mar§	+94.4 Feb	+7.7	+0.5	2.40	1,070	1,031
Taiwan	+3.5	Q1	+4.8	+3.9	+6.5 Mar	-0.6 Mar	+0.7	3.8 Mar	+65.3 Q4	+12.6	-1.2	1.56	30.4	30.2
Thailand	+2.2	Q4	+7.1	+3.9	+3.6 Feb	-0.6 Mar	+1.3	0.8 Feb§	+14.2 Q4	+2.2	-1.9	2.49	32.8	32.3
Argentina	+0.4	Q4	+0.1	-0.8	-1.6 Mar	— ***	—	6.9 Q4§	-5.1 Q4	-1.4	-3.1	na	8.90	8.00
Brazil	-0.2	Q4	+1.3	-0.9	-9.1 Feb	+8.1 Mar	+7.6	6.2 Mar§	-101.6 Mar	-3.9	-5.3	12.67	2.96	2.23
Chile	+1.8	Q4	+3.8	+3.0	-3.2 Mar	+4.2 Mar	+3.7	6.1 Feb‡‡	-3.0 Q4	-1.5	-2.0	4.46	610	562
Colombia	+3.5	Q4	+2.9	+3.7	-1.3 Feb	+4.6 Mar	+4.1	9.9 Feb§	-19.8 Q4	-6.1	-2.1	6.67	2,393	1,933
Mexico	+2.6	Q4	+2.7	+2.9	+1.6 Feb	+3.1 Mar	+3.1	4.2 Mar	-26.5 Q4	-2.3	-3.4	5.77	15.2	13.1
Venezuela	-2.3	Q3	+10.0	-3.4	+0.8 Sep	+68.5 Dec	+65.9	7.9 Jan§	+10.3 Q3	-1.8	-15.9	11.03	6.30	6.35
Egypt	+4.3	Q4	na	+4.0	+4.9 Feb	+11.5 Mar	+9.7	12.9 Q4§	-5.8 Q4	-1.3	-10.7	na	7.63	7.00
Israel	+3.4	Q4	+7.0	+3.5	-0.3 Feb	-1.0 Mar	-0.2	5.3 Feb	+9.0 Q4	+4.8	-3.0	1.44	3.86	3.47
Saudi Arabia	+3.6	2014	na	+2.5	na	+2.0 Mar	+2.7	6.0 2014	+81.2 Q4	-1.7	-10.4	na	3.75	3.75
South Africa	+1.3	Q4	+4.1	+2.1	-0.4 Feb	+4.0 Mar	+4.5	24.3 Q4§	-19.1 Q4	-5.0	-3.7	7.93	11.8	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, Feb 30.0%; year ago 32.22%. †††Dollar-denominated bonds.

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Markets

	% change on			
	Index Apr 29th	one week	Dec 31st 2014 in local currency terms	in \$
United States (DJIA)	18,035.5	nil	+1.2	+1.2
China (SSEA)	4,690.8	+1.8	+38.4	+38.5
Japan (Nikkei 225)	20,059.0	-0.4	+14.9	+15.9
Britain (FTSE 100)	6,946.3	-1.2	+5.8	+4.9
Canada (S&P TSX)	15,347.3	+0.3	+4.9	+1.5
Euro area (FTSE Euro 100)	1,196.6	-3.0	+15.4	+6.3
Euro area (EURO STOXX 50)	3,617.1	-2.9	+15.0	+5.9
Austria (ATX)	2,586.5	-1.2	+19.7	+10.3
Belgium (Bel 20)	3,703.4	-2.4	+12.7	+3.9
France (CAC 40)	5,039.4	-3.3	+17.9	+8.7
Germany (DAX)*	11,432.7	-3.7	+16.6	+7.4
Greece (Athex Comp)	798.0	+10.9	-3.4	-11.0
Italy (FTSE/MIB)	22,995.6	-1.4	+21.0	+11.5
Netherlands (AEX)	489.3	-3.3	+15.3	+6.2
Spain (Madrid SE)	1,153.1	-0.3	+10.6	+1.9
Czech Republic (PX)	1,025.1	-1.7	+8.3	+0.8
Denmark (OMXCB)	858.1	-3.6	+27.1	+16.9
Hungary (BUX)	22,321.2	+1.7	+34.2	+29.1
Norway (OSEAX)	686.6	-1.4	+10.8	+10.7
Poland (WIG)	56,559.4	+0.2	+10.0	+8.5
Russia (RTS, \$ terms)	1,031.8	+2.8	+11.1	+30.5
Sweden (OMX30)	1,636.2	-4.1	+11.7	+5.1
Switzerland (SMI)	9,105.1	-2.7	+1.4	+7.4
Turkey (BIST)	85,978.4	+2.6	+0.3	-11.5
Australia (All Ord.)	5,818.2	+0.1	+8.0	+5.8
Hong Kong (Hang Seng)	28,400.3	+1.7	+20.3	+20.4
India (BSE)	27,225.9	-2.4	-1.0	-1.3
Indonesia (JSX)	5,105.6	-6.1	-2.3	-6.5
Malaysia (KLCSE)	1,842.9	-0.6	+4.6	+2.8
Pakistan (KSE)	33,460.0	-0.1	+4.1	+2.9
Singapore (STI)	3,487.2	-0.3	+3.6	+4.2
South Korea (KOSPI)	2,142.6	-0.1	+11.9	+15.0
Taiwan (TWI)	9,853.8	+2.5	+5.9	+9.7
Thailand (SET)	1,522.5	-1.9	+1.7	+1.9
Argentina (MERV)	12,184.6	+4.3	+42.0	+35.1
Brazil (BVSP)	55,325.3	+1.3	+10.6	+0.2
Chile (IGPA)	19,656.2	+0.4	+4.2	+4.1
Colombia (IGBC)	10,772.5	+4.0	-7.4	-7.7
Mexico (IPC)	44,942.2	-0.6	+4.2	+1.2
Venezuela (IBC)	5,726.8	+0.7	+48.4	na
Egypt (Case 30)	8,488.5	-1.6	-4.9	-10.9
Israel (TA-100)	1,433.1	-2.6	+11.2	+12.1
Saudi Arabia (Tadawul)	9,812.4	+2.1	+17.7	+17.8
South Africa (JSE AS)	54,541.7	+0.5	+9.6	+8.1

Grains and oilseeds

Record harvests last year have meant a glut of grains and oilseeds on world markets and a slump in prices. Wheat, maize and soyabean prices have all fallen by a quarter in a year. Demand for American wheat has dropped as a result: exports are expected to fall by 24% in 2014-15, to their lowest level for 12 years. Global soyabean stocks have risen by 55% from last season, after an 11% increase in output. China's price-support policy has led to a sharp expansion in grain output: it now holds about 40% of global inventory. Its maize stocks amount to 40% of its annual consumption, its wheat stocks to 50%. Rice bucks the trend: world stocks are the lowest for five years, as a result of Asian demand.

International Grains Council price indices

Jan 1st 2010=100



Source: IGC

Other markets

	% change on			
	Index Apr 29th	one week	Dec 31st 2014 in local currency terms	in \$
United States (S&P 500)	2,106.9	-0.1	+2.3	+2.3
United States (NAScomp)	5,023.6	-0.2	+6.1	+6.1
China (SSEB, \$ terms)	401.9	+0.7	+38.1	+38.2
Japan (Topix)	1,627.4	+0.3	+15.6	+16.5
Europe (FTSEurofirst 300)	1,581.9	-2.9	+15.6	+6.5
World, dev'd (MSCI)	1,795.9	+0.5	+5.0	+5.0
Emerging markets (MSCI)	1,059.5	+1.1	+10.8	+10.8
World, all (MSCI)	440.6	+0.6	+5.6	+5.6
World bonds (Citigroup)	891.4	+1.3	-1.2	-1.2
EMBI+ (JP Morgan)	717.2	-0.1	+3.7	+3.7
Hedge funds (HFRX)	1,251.5 [§]	-0.2	+2.7	+2.7
Volatility, US (VIX)	13.4	+12.7	+19.2 (levels)	
CDSs, Eur (iTRAXX) [†]	61.2	+2.0	-4.6	-12.1
CDSs, N Am (CDX) [†]	62.7	+1.9	-6.9	-6.9
Carbon trading (EU ETS) €	7.5	+4.9	+2.6	-5.5

Sources: Markit; Thomson Reuters.

*Total return index.

†Credit-default-swap spreads, basis points. [§]Apr 28th.**Indicators** for more countries and additional series, go to: Economist.com/indicators**The Economist commodity-price index**

2005=100

	% change on			
	Apr 21st	Apr 28th*	one month	one year
Dollar Index				
All Items	141.9	143.1	+1.3	-19.4
Food	157.9	156.9	-0.1	-24.7
Industrials				
All	125.3	128.8	+3.1	-11.4
Nfa [†]	118.0	121.6	+2.5	-20.6
Metals	128.5	131.9	+3.4	-7.1
Sterling Index				
All items	172.9	169.9	-1.9	-11.3
Euro Index				
All items	164.3	162.1	-1.0	+1.5
Gold				
\$ per oz	1,199.1	1,212.3	-1.0	-6.7
West Texas Intermediate				
\$ per barrel	55.7	56.1	+7.9	-44.5

Sources: Bloomberg; CME Group; Cottlook; 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.

Confirmed speakers include:



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Director
European department
IMF



Alexis Tsipras
Prime minister
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Karachi's wild child

Sabeen Mahmud, entrepreneur, campaigner and all-round agitator, was killed on April 24th, aged 40

Nobody, of course, had anything to do with it, when Sabeen Mahmud's car was stopped by two men on a motorbike who shot her at point-blank range through the windows. The Pakistani Taliban denied all responsibility. The Inter-Services Intelligence, ISI, promised all possible help to the police. Nawaz Sharif's government ordered the police to find the perpetrators within three days. The police said they were very busy ascertaining a motive.

Really, it wasn't hard to spot one. Here in the midst of anarchic, dysfunctional, crammed, crazy, noisy Karachi was a woman who was even more anarchic, crazy, noisy and in-your-face. She was at the heart of every disturbance, from supporting rank outsiders in the local elections to organising flash protests on social media, and spiced up every organisation she belonged to, which was any outfit committed to challenging discrimination or injustice.

No veil or scarf for her; with her short-cropped hair and black-rimmed glasses, she looked like a New York intellectual and felt like a postmodern hippie child. She loved Jimi Hendrix, Bruce Springsteen and the Beat poets. She'd give you a straight, cool stare, equally straight talk, an easy laugh, and a philosophy of absolute fearlessness. If you were afraid, she'd say, you'd get nothing done: especially not in

army-ridden, intolerant Pakistan, where so much was never to be questioned or discussed, and certainly not by women.

The centre of all she did was the Second Floor (T2F for short), the café/bookshop/performance space she founded in 2007. She had a pittance in the bank at the time, but a reckless dream of copying the old Pak Tea House in Lahore where radicals used to meet. By working on tech projects all the hours she could, maxing out her credit cards and begging money from relations, she gave Karachi a place where talk-about art, science, politics, anything—could flow freely, and citizens could get online and organise. Two years later, when the nervous landlord kicked her out, the café had become such a lifeline for Karachi's free-thinkers that she easily found a better place. She called the performance area "Faraar", Urdu for "escape".

There, in a comparatively shabby street in the posh Defence district, poets on open mic advocated revolution; people sat around for hours discussing life on Mars; musicians tried out their pieces, artists hung weird stuff on the walls, home-made films were screened, and anyone could wander in and shoot the breeze, no matter what their creed or disposition or label—Punjabi, Bihari, or whatever. In 2007, when President Pervez Musharraf fired some Su-

preme Court judges, Ms Mahmud invited lawyers to plot their protests there. In 2013 she organised a hackathon, Pakistan's first, where for a whole weekend people brainstormed new ideas and apps to make Karachi work better. Don't just bad-mouth the government, she would say. Take charge! Change things!

No one paid to belong to T2F, though you could buy good coffee and brownies, as well as alternative books. Those takings covered about half the costs and gave her a salary, not that she cared much. She ran her own media-and-tech consulting firm and was president for a time of the Karachi outpost of an organisation that fostered tech entrepreneurs, but didn't want to make money. The point was to fight the "horrible stuff" going on in Pakistan and the world.

Where had all this adrenalin-boosted energy come from? She blamed her mother, Mahenaz, for instilling "mad ideas at a young age" and supporting her ever after. (Mehenaz was in the car with her, and was hurt in the attack.) But she was spurred on just as much by anyone who told her she could not or must not do a thing. When a computing teacher belittled her at school she decided to master computers by herself, falling in love at 14 with a Macintosh Plus that had Pink Floyd and Lenny Bruce in it, and teaching herself to solder wires and write programs. Small wonder she believed, first, that formal education was stultifying, and second that computers, especially Macs, could shake everything up in the way she longed to see.

Even sport pricked her defiance. Her school, Karachi Grammar, didn't let girls play cricket, so she played it at home with any spare passing males she could find. A bat, stumps and proper hard ball went with her to the office—to whack assailants over the head, apart from anything else.

Inviting enemies in

Abuse and threats came often. She laughed them off. Other dissidents left Karachi, but she loved it too dearly to live anywhere else. Friends said she should put a security guard on the café door; she preferred to invite her enemies in, to eat panini and join the conversation. In 2007 she hosted a talk by an author who had uncovered army finances; ISI people were invited, and some came. On April 24th she had just held a meeting to "un-silence" Baluchistan, Pakistan's most neglected and separatist province, where hundreds of activists and students had been abducted, probably killed. Lahore University had been warned off the subject. There would probably be "blowback", she told a friend; "I just don't know what that blowback entails."

The authorities and jihad-makers were all most extremely sorry. Not half as sorry as the artists, poets and thinkers of Karachi, who suddenly found it hard to breathe. ■



A CALM IS NOT DESIRABLE IN
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