

INSIDE: A SPECIAL REPORT ON MENTAL ILLNESS

# The Economist

JULY 11TH–17TH 2015

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Greece:  
the way ahead

Stub out smoking



Turkana, a glimpse of Africa's future

The travels of an Indian towel

**China  
embraces  
the markets**



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TO EVERY RULE.

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## Politics



Prospects for keeping **Greece** in the euro zone seemed to get worse. Leaders from the European Union were set to gather for a last-ditch deliberation on July 12th over the country's bid for fresh financial aid in return for a package of reforms. Alexis Tsipras, the Greek prime minister, promised the European Parliament "concrete proposals, credible reforms" after fellow members of the euro zone insisted that the ball remained in Greece's court following its referendum on July 5th, which rejected one set of proposals from creditors. Greek banks remained closed and cash withdrawals severely restricted.

George Osborne, **Britain's** chancellor of the exchequer, presented a budget, the first from a Conservative government free from the constraints imposed by a coalition partner since 1996. As predicted, Mr Osborne announced £12 billion (\$18 billion) in welfare cuts, but smoothed the pace of their introduction. He also introduced a national "living wage", which will rise to £9 by 2020. Corporation tax will be reduced from 20% to 18%.

Jean-Marie Le Pen, the 87-year-old founder of **France's** far-right National Front party, won a second judicial reprieve when a court suspended a ballot on his dismissal as honorary chairman. He is in a feud with his daughter Marine, who wants to distance the party from its extremist roots.

Russia vetoed a **UN** Security Council resolution backed by Britain and the United States

that would have condemned the genocidal killing of 8,000 Bosnian men and boys at **Srebrenica** in 1995. Acting at the behest of Serbia, Russia denounced the resolution as "confrontational". American diplomats retorted that the Russian action was a harsh blow to those bereaved by the killings.

The Kremlin accused Hillary Clinton of making "absolutely inappropriate and unfounded comments" when she included Russia (along with North Korea, Iran and China) in a list of countries that threaten American security and commerce by sponsoring hacking.

### Rifts over reefs



The leader of **Vietnam's** Communist Party, Nguyen Phu Trong, paid the first visit to America by a holder of his office. Mr Trong said he raised concerns with Barack Obama about recent activities in the South China Sea "that are not in accordance with international law"—a reference to China's recent efforts to reclaim land on reefs there. An international tribunal in The Hague has begun hearings into a case lodged by the Philippines disputing China's claims in the sea. China has refused to take part.

A teenager in **Singapore**, Amos Yee, was freed by a court after being found guilty of hurting religious feelings. The case had aroused concern among human-rights activists, who said the government was suppressing free speech. Mr Yee had posted a video online which disparaged Singapore's founding prime minister, the late Lee Kuan Yew, and mocked Christians.

Representatives of the Taliban in **Afghanistan** held talks with officials from the Afghan government about ways of ending the escalating conflict between them. The meeting took place in Pakistan's capital, Islamabad. It is not clear whether the Taliban members who took part have the full backing of their increasingly splintered rebel movement.

### Furling the flag

**South Carolina's** legislature voted to take down the Confederate flag that flies outside the state's legislative building, three weeks after a racist gunman shot dead nine black people at a local church. The Republican governor, Nikki Haley, an Indian-American, had said the flag must go. But that didn't stop some members of her party voting to keep it in place, because its removal "won't change history".

A week after the governor of **Puerto Rico** declared that the island's \$72 billion in debt "is not payable", Hillary Clinton called for Congress to give the American territory the authority to let its towns and public corporations seek bankruptcy protection. A bill to do just that has been held up for months.

### Down to the wire

Talks aimed at curbing **Iran's** nuclear ambitions, in return for relief from UN, European and American sanctions, missed yet another deadline. The delay means that, even if a deal can be reached, the American Congress will probably get an extra 30 days to review and perhaps unpick it.

The bloodshed in **Yemen** grew worse, with hundreds of civilian casualties reported following increased Saudi Arabian air strikes on civilian areas. The internationally recognised government, whose president is now living in exile in Riyadh, reportedly offered a truce.

The **UN** reported that the number of **Syrian** refugees living in neighbouring countries has risen to 4m, 1m more than just ten months ago.

More than 225 people have been killed in the past two weeks by Boko Haram, an Islamist group in **Nigeria**, in a series of attacks that have included churches and mosques among their targets. Meanwhile, six weeks after his inauguration as president, Muhammadu Buhari had yet to name his cabinet despite concerns that the country is facing a financial crisis.

### A fresh start

The FARC, a left-wing guerrilla group that has been fighting the **Colombian** government for 50 years, declared a one-month ceasefire that will start on July 20th. Peace talks have been taking place in Havana, but outbreaks of violence have made the negotiations more difficult. Dozens of fighters on both sides have been killed since April. The government welcomed the ceasefire, but did not declare one itself.

Medical examiners in **Guatemala** decided that Efraín Ríos Montt, who is 89 and ruled the country during a civil war in the 1980s, is not competent to attend a retrial for genocide. In 2013 a court convicted him of ordering massacres in which 1,700 indigenous Guatemalans died, but the country's supreme court dismissed the judgment.



**Pope Francis** began his first trip to Spanish-speaking countries in South America since becoming pope in 2013. He celebrated mass in Guayaquil, on Ecuador's coast, and in Quito, its capital, attracting hundreds of thousands of people. Next stop was Bolivia; his tour ends in Paraguay. The pope emphasised the church's commitment to the welfare of poor people.

# Embracing the Future



## Temasek Net Portfolio Value since Inception



## Active Investor

We are an owner of our portfolio. We invest and manage our assets based on commercial principles to deliver sustainable value to our stakeholders over the long term.

Our portfolio has more than doubled over the past decade, from S\$103 billion in March 2005 to S\$266 billion in March this year.

### Global Exposure<sup>5</sup>

**42%**  
Asia ex-Singapore

**26%**  
North America and Europe, Australia & New Zealand

**28%**  
Singapore

**4%**  
Latin America, Africa, Central Asia & the Middle East



Sector <sup>6</sup> (%)	2015	2014	2013
Financial Services	28	30	31
Telecommunications, Media & Technology	24	23	24
Transportation & Industrials	17	20	20
Consumer & Real Estate	15	12	11
Energy & Resources	5	6	6
Life Sciences & Agriculture	3	2	1
Others	8	7	7

Liquidity (%)	2015	2014	2013
Liquid & sub-20% listed assets	34	36	35
Listed large blocs ( $\geq 20\%$ share)	33	34	38
Unlisted assets	33	30	27

### Credit Profile

Our Credit Profile provides a snapshot of our credit quality and the strength of Temasek's financial position<sup>6</sup>.

#### Dividend over Interest Expense<sup>7</sup> (x)

**16x**  
Dividend over interest expense  
S\$7.9 billion dividend income over S\$0.5 billion interest expense

#### Portfolio Value over Debt<sup>7</sup> (x)

**19x**  
Portfolio value over debt  
S\$266 billion net portfolio value over S\$13.8 billion debt

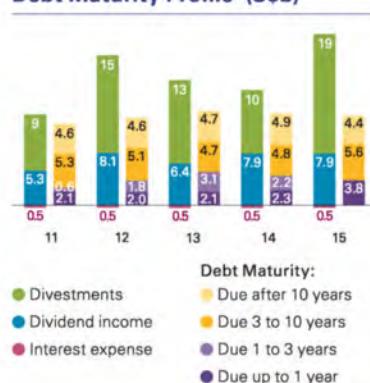
#### Capital and Liquidity Management

We take a prudent approach to capital and liquidity management. Leverage and liquidity are managed to ensure resilience and flexibility of our balance sheet, even in times of extreme stress.

Our primary sources of funds include divestment proceeds, dividend income from our portfolio, and distributions from our investments in funds. These are supplemented by our Temasek Bonds and Euro-commercial Paper.

We proactively maintain a well distributed debt maturity profile comprising long term and short term debt for funding flexibility and cost efficiency. We manage our cash flow to ensure dividends and income from investments cover our non-discretionary expenses.

#### Key Credit Parameters vs Debt Maturity Profile<sup>7</sup> (\$b)



<sup>1</sup> Incorporation of Temasek on 25 June 1974.

<sup>2</sup> Financial year 75 began on 25 June 1974 and ended 31 December 1975.

<sup>3</sup> Financial year-end was changed from 31 December before 1993 to 31 March from 1994 onwards.

<sup>4</sup> FRS39 *Financial Instruments: Recognition and Measurement*, introduced during the year ended 31 March 2006, requires available-for-sale financial assets to be measured at fair value.

<sup>5</sup> Distribution based on underlying assets.

<sup>6</sup> Covers Temasek Holdings (Private) Limited and its wholly owned Investment Holding Companies.

### Net Portfolio Value<sup>7</sup> (S\$b)

**Up S\$43b**

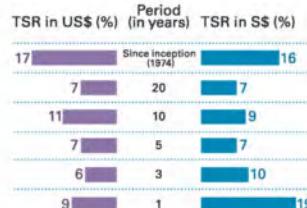
From last year



### US\$/S\$ Total Shareholder Return<sup>8</sup> (%)

**11%**

Ten-year US\$ TSR



### Investments & Divestments<sup>7</sup> (S\$b)

**S\$30b**

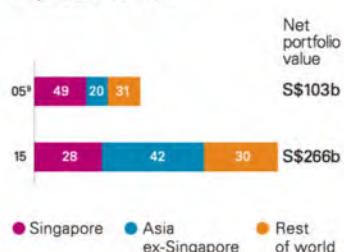
Invested during the year



### Portfolio by Geography<sup>5</sup> (%)

**70%**

Exposure to Asia



## Expanding Our Horizon

### Transforming Economies



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Health and beauty retailer.

#### Olam

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We are a professionally managed investment company, anchored in Asia.

We are guided by four investment themes in our investment focus.

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Leveraging growing consumer demands of the middle income populations.

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### Deepening Comparative Advantages



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### "Make a Difference" Programme

**100%** of our staff completed CPR and First Aid training over the past two years as part of the programme to promote personal ownership and responsibility.



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**530** staff,  
**27** different nationalities.



### Sharing with the Community

**16** philanthropic endowments touched over **240,000** lives across Asia since Temasek's inception in 1974.

TEMASEK

<sup>7</sup> As at 31 March.

<sup>9</sup> Restated distribution basis.

<sup>8</sup> As at 31 March 2015.

## Business

### CSI 300 stockmarket index

December 31st 2004=1,000



Source: Thomson Reuters

**China's stockmarkets** continued to tumble throughout much of the week. The government introduced more emergency measures to try to halt the slide, including a six-month ban on selling stakes in companies by large investors, the suspension of IPOs and caps on short-selling. Hundreds of companies suspended trading in their shares. Commodity markets were also affected as worries spread that the authorities were panicking; the Hong Kong and Tokyo markets swooned, too.

The Chinese plunge, combined with heightened anxiety about a Greek exit from the euro zone, made it a febrile week for investors. Adding to the frenzied atmosphere, the **New York Stock Exchange** suspended trading for a few hours because of a "technical issue".

### The comedy of errors

**Didi Kuaidi**, a ride-sharing startup in China that competes with **Uber**, was valued at up to \$15 billion after a new round of investor fundraising, which saw it raise \$2 billion before China's stockmarkets went into meltdown. Uber will curse its luck; it also wants to tap Chinese investors, but may find it more difficult after this week's events.

Antony Jenkins was sacked with immediate effect as chief executive of **Barclays**, apparently over frustration among non-executive directors at the continuing poor performance of its investment bank. Mr Jenkins had been in the job for three years. John McFarlane,

the British bank's new chairman, will take on the chief executive's duties on an interim basis until a permanent appointment is announced, probably next year.

**BP's** share price lost most of the gains it made after the announcement on July 2nd that it had settled federal, state and local claims for the **Deepwater Horizon** oil spill in 2010 for \$18.7 billion. The settlement, which was larger than had been expected, will be paid over 18 years. It included a record \$5.5 billion penalty under the federal Clean Water Act, less than half the maximum fine BP could have incurred. The company's cumulative pre-tax charge associated with the spill stands at \$53.8 billion.

### Measure for measure

The IMF's annual review of the **American economy** urged the Federal Reserve to delay an increase in interest rates until the first half of 2016 because of lingering uncertainties about the strength of the recovery. It also warned of the "potential for a rise in global imbalances" if the dollar, which has risen by 20% against most big currencies over the past year, were to appreciate more. The Fed is also worried, according to the

minutes from its **latest meeting**, making the timing of a rate rise all the more uncertain.

**Samsung's** estimate of its second-quarter earnings disappointed investors. The South Korean firm thinks that profit and revenue will come in lower in the quarter compared with the same three months last year, which suggests that sales of its new Galaxy S6 smartphone have fallen short of expectations. One reason is that Samsung has struggled to meet demand for the curved-edge version of the S6.

**Microsoft** said that it would lay off another 7,800 workers in the smartphone business that it bought from Nokia just last year and booked a \$7.6 billion write-down on the business.

America's second-biggest supermarket chain, **Albertsons**, launched an IPO. It bought Safeway earlier this year, increasing the number of stores it operates to 2,205.

**Rolls-Royce** issued its third profit warning in a year. The engineering company's marine-equipment business has been hurt by the curtailment of exploration projects in the oil industry, and the deliv-

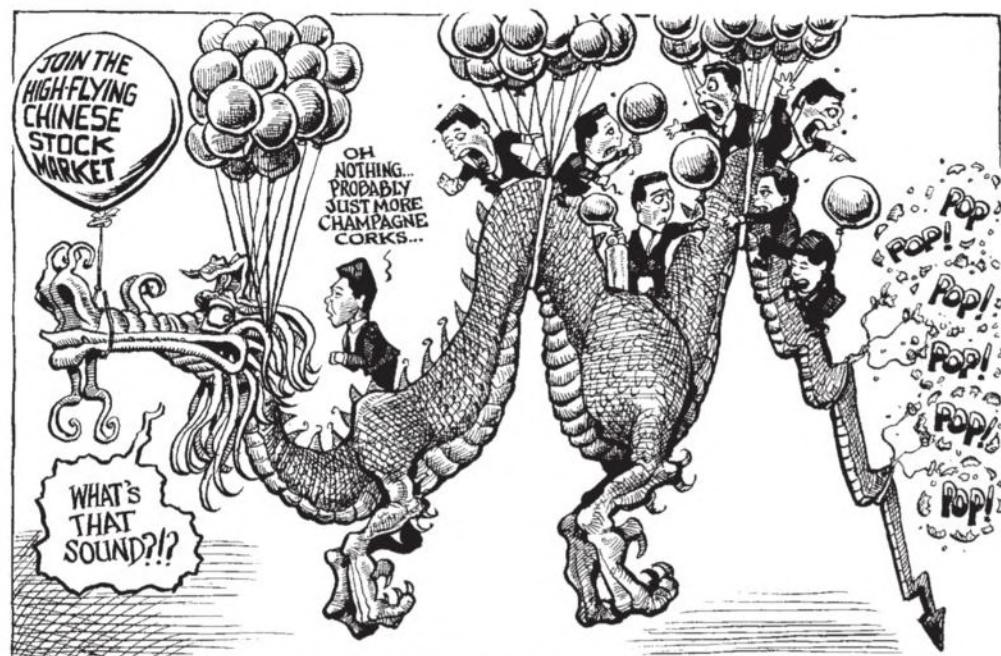
ery schedule for its new Trent 7000 aircraft-engine has become snarled in production delays at Airbus, which is mounting the engine on the A330neo. Rolls-Royce issued the profit warning a day after Warren East took the helm as chief executive.

### All's well that ends well

The recent courtships among America's giant **health-insurance companies** finally resulted in two of them pairing up, when Aetna offered to buy Humana for \$37 billion. Obamacare is driving consolidation in the health-insurance industry. Aetna's deal comes two weeks after the Supreme Court upheld tax subsidies that are central to the new health-care regime.

IBM showed off prototype **computer chips** with features just seven nanometres apart (the width of a few strands of DNA), a world first. Though smaller single transistors have been made, the semiconductor industry is fast approaching the physical-size limit beyond which smaller transistors will not lead to faster chips. The 7nm "node" is perhaps the last at which it is economical to try.

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





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# China embraces the markets

A panicked response to tumbling stocks casts doubt on the pace of reform



FOR nearly two years, hopes of economic reform in China have rested on the faintest of rhetorical shifts. At a conclave in late 2013 the Communist Party declared that it would let market forces play a “decisive role” in allocating resources; previously, their influence had been just “basic”. A slender reed perhaps, but it supported a great expectation: that the state would ease its grip on business, trade and finance.

These hopes have been dealt a blow this week by China’s stockmarket crash. By the end of July 7th trading in over 90% of the 2,774 shares listed on Chinese exchanges was suspended or halted. Shares have fallen by a third in less than a month, wiping out some \$3.5 trillion in wealth, more than the total value of India’s stockmarket. It is not the plunge in share prices, however, nor the implications for the Chinese economy that are worrying, so much as the government’s frenzied attempts to bring the sell-off to a stop.

The market mayhem is the first grave economic blemish on Xi Jinping and Li Keqiang, China’s leaders. Officials’ botched attempts to repair the damage have only made a bad situation worse. The danger now is that the party draws the wrong conclusions—leaving China more vulnerable to instability.

## Red flag

The first mistake—often made by China pessimists—is to think that the market crash presages an economic collapse. That is most unlikely. True, the stockmarket is down by a third in a few weeks, but it has fallen back only to March levels; it is still up by 75% in a year.

Lost in the drama is the fact that the stockmarket still plays a small role in China. The free-float value of Chinese markets—the amount available for trading—is just about a third of GDP, compared with more than 100% in developed economies. Less than 15% of household financial assets are invested in the stockmarket, which is why soaring shares did little to boost consumption and their crash should do little to hurt it. Many stocks were bought with debt, and the unwinding of these loans helps explain why the government has been unable to stop the rout. But such financing is not a systemic risk; the loans are about 1.5% of total assets in the banking system. The economy is solid. Growth, though slowing, has stabilised. The property market, long becalmed, is picking up. Money-market rates are low and steady, suggesting banks are stable.

To be fair, Chinese officials understand this. The trouble is that they are less willing to accept the two fundamental causes of instability: the structure of markets and China’s brittle politics. Take each in turn.

From mid-2014 until early June, ChiNext, a market for start-ups, more than tripled. China’s mania derived partly from the way the market functioned. Regulators act as gatekeepers over initial public offerings, in effect deciding which firms list, when and at what price. Because the government was initially slow to approve new IPOs, those firms already lucky enough

to have ChiNext listings became financing vehicles. Investors pumped their shares higher, knowing that the capital could buy firms waiting in the long queue to list. Hence the wooden-flooring company that remade itself as an online-gaming developer and the fireworks-maker that became a peer-to-peer lender, among dozens of similar mutations. Before long, the ChiNext price-to-earnings ratio had reached 147, putting it in the same league as NASDAQ during the dotcom era.

China’s repressed financial system helped inflate the bubble by pumping money into the stockmarket. Banks pay interest rates well below the level that would be expected without regulatory caps, and China has yet to develop alternatives for savers looking to park their cash elsewhere. The hunt for good returns has over the past decade sparked investment frenzies in property, stamps, mung beans, garlic and tea. Steps to give investors better access to foreign markets and to free up bank rates all aim in the right direction but progress has been halting. Equities were as ripe for a bubble in 2015 as they were in 2007, the last time China experienced a stock frenzy.

If economic stability is not in peril, the best explanation for the interventions is politics. When the stockmarket was soaring, the press cheered the bull run as an endorsement of the economic reforms of the Xi-Li team. Now that it is falling, regulators want to shore up the leadership’s reputation.

It is not just the motive that is dodgy; the nature of the intervention is also unwise. Cutting interest rates as support for the economy when inflation is so low is fair enough. But regulators capped short-selling; pension funds pledged to buy more stocks; the government suspended initial public offerings; and brokers created a fund to buy shares, backed by central-bank cash (see page 63).

Just as the Communist Party distrusts market forces, so it misunderstands them. Botched attempts to save stocks suggest it is losing control, while a successful rescue would have made buying shares a one-way bet—inflate the bubble still further. One of the persistent illusions about China’s governance is that, whatever its other shortcomings, eminently capable technocrats are in control. Their haplessness in the face of the market turmoil points to a more disconcerting reality.

China is not the first country to prop up a falling stockmarket. Governments and central banks in America, Europe and Japan have form in buying shares after crashes and cutting interest rates to cheer up bloodied investors. What makes China stand out is that it panicked when a correction of clearly overvalued shares had been expected. Rather than calming investors, its barrage of measures screamed of desperation.

## Go faster

The journey from command to market economy is a long and dangerous one. China has managed it well. But, in financial markets, it still has a long way to go. After the bedlam of this week, it must realise that being partially liberalised presents investors with perverse incentives and policymakers with extraordinary demands. China must not go slow or turn back. That would be the most dangerous path of all. Instead, the real lesson from this week is that it must let the markets decide. ■

Greece

# The way ahead

**A deal between Greece and its creditors would be best. But if there has to be a Grexit, here is how to do it**



**I**N A crisis studded with missed deadlines, Sunday July 12th really could mark the denouement of the Greek debt drama. The leaders of the euro zone along with those of all the EU's 28 member countries will gather for a set of meetings in Brussels.

If Alexis Tsipras, Greece's prime minister, can strike a deal with his creditors that day, his country will stay afloat inside the euro. If there is no such deal, Greece is heading inexorably towards the whirlpool of Grexit. Donald Tusk, the president of the European Council—a Pole not prone to hyperbole—calls it “the most critical moment in the history of the EU”.

All sides insist that their aim is not to eject Greece from the euro, but rather to find a way to keep it in. But the more honest European politicians admit that the likelihood of Grexit has never been higher. Betting now puts it at around 50%. Shockingly, for something so imminent, probable and with such dramatic consequences, there has been remarkably little public debate about how Greece would leave the euro. The best outcome for Europe would still be a deal on July 12th that keeps Greece in. But it is also time to make contingency plans for the sort of Grexit that does the least harm.

## Tsipras rows, again

In principle, a deal between Greece and its creditors should not be hard. The reforms Mr Tsipras promises are tantalisingly close to those demanded by the other euro-zone countries and the IMF. No one, from Angela Merkel, Germany's chancellor, to Mario Draghi, the president of the European Central Bank (ECB), wants to be held responsible for pushing the Greeks out. The need for debt relief, the totemic issue for Mr Tsipras, is underscored by the IMF, and—privately, at least—acknowledged by most European politicians who can count. Rational self-interest should also push both sides towards a deal. Grexit will hit Greece's economy harder than staying in and it will cost the creditors a lot more money. If it leaves the euro, Greece will not just default on its loans from European governments but also its liabilities to the ECB. The total—€340 billion (\$375 billion) or more than 3% of euro-zone GDP—is far more than the relief needed to make Greece's debt burden sustainable.

But rational actors would never have got this far. The Greek government's erratic behaviour—it arrived at a last-ditch meeting this week with old, handwritten proposals—and its inflammatory statements have generated the sort of ill-will that can make small obstacles insurmountable. Germany's attitude towards debt repayment has its roots in moralising sermons and an obsession with rules rather than economic self-interest. Political constraints bind, too. Mr Tsipras cannot shout defiance in Athens one week, and roll over in Brussels the next. If northern European taxpayers voted on whether to hand money to Greece without conditions, they would vote No, too. For all these reasons, the meeting on July 12th could well fail.

What then? Greece will probably drift towards Grexit by default. Banks will stay closed. One member of the ECB govern-

ing council has said emergency liquidity will be cut off on July 13th. Without cash to pay wages and pensions, the Greek government will have to issue IOUs, which will quickly become an informal parallel currency, trading at a huge discount. From essential medicines to energy, there will be shortages of vital imports. A new currency will be introduced amid chaos.

Some of that chaos can be avoided, but doing so will demand forward planning and generosity from the creditors, two virtues that have been in short supply. One task is to clarify the legal uncertainties. (Is Greece permanently out of the euro or just temporarily issuing IOUs? Can it remain in the EU if it is not in the euro?) The second is to ensure that an exiting Greece has both the policies to stabilise its economy and avoid high inflation and the cash to pay for critical imports.

## Pulled by the current

Some Europeans suggest the legal tangles of Grexit can be avoided by pretending that Greece is not actually leaving. Wolfgang Schäuble, Germany's finance minister, has spoken of a “temporary” Grexit. If the Europeans allowed the Greeks to issue scrip or temporarily to introduce an emergency parallel “currency”, Greece might in effect suspend its membership of the single currency without technically leaving (see page 26). Such a non-Grexit exit would allow European politicians to put off pesky problems such as how to deal with the losses on the ECB's balance-sheet. Technically, it could also be reversed if Greece struck a deal with its creditors at a later date.

This halfway house might buy time, but it cannot be a permanent solution. And the longer Greece lives with such a dual currency, the less likely it is to return to the euro. But even if the door to the euro zone closes, other doors need not. Greece should be allowed to stay in the EU. Domestic support for Mr Tsipras since his election in January has been animated above all by a sense that Greece's dignity has been trampled upon. The humiliation of Grexit would be compounded if Greece found itself cast out of the wider union as well. EU law is woolly on the subject, but preserving easy access to European markets for Greek exporters and visa-free access to Greece for European holidaymakers would be a huge boost to the post-lapsarian Greek economy. It would also enable EU funds for poorer regions to keep flowing and help prevent Greece from becoming a failed state on the EU's flank.

To maximise its chances, Greece would need to match a euro exit with budget discipline and an independent central bank credibly targeting low inflation. Europe should provide humanitarian aid and balance-of-payments support for the fledgling drachma. This could either be direct (just as the EU helps Ukraine) or more creative—for instance, euro-zone states could put themselves at the back of the queue of Greece's creditors, helping the country tap private markets again.

The irony is that the new lending and debt-forbearance by Europe needed to prevent Grexit from causing a catastrophe are the elements needed to keep Greece in the euro. Equally, a sundered Greece would have to resort to much the same austerity it is resisting. That is all the more reason for both sides to cut a deal. But it is no excuse to put off planning for the worst. ■



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## The lessons of Srebrenica

# Stop genocide early

### What Europe should learn from its worst massacre since the second world war



**I**N FOOTAGE of the fall of Srebrenica on July 11th 1995, Ratko Mladic, the Bosnian Serb commander, strides past the nervous Dutch peacekeepers whose UN “safe area” he has just overrun. He hands out sweets to Muslim children, even as his soldiers prepare to round up their fathers and older brothers—all the men of fighting age. About 8,000 were slaughtered, the worst atrocity in Europe since the second world war.

Twenty years later in the dock in The Hague Mr Mladic wears the same stubborn glare. He denounces the court; in his own eyes he is not a war criminal but a defender of his people and the victim of a Western conspiracy. Many of his compatriots sympathise: a recent poll in Serbia showed that, while 54% of people accept that a brutal crime took place in Srebrenica, 70% deny that it was genocide (see page 47). More depressing is the fact that Russia, at Serbia’s behest, vetoed a British-backed UN resolution deplored the genocide.

The lessons of the massacre seemed clear enough at the time. Mr Mladic acted with impunity because America and NATO were deadlocked over the use of air strikes against the Bosnian Serbs. Srebrenica broke the impasse, and allied bombing led to the Dayton accords that ended the Bosnian civil war. The intervention paved the way for the UN’s adoption of the doctrine of “Responsibility to Protect”, which states that nations have a moral duty to stop genocide in other countries. Investigation of the massacre bolstered the credibility of the Yugoslavia tribunal, enhancing the case for the International Criminal Court (ICC) that followed. The European Union’s accession process, it was hoped, would knit candidate states (including Bosnia and Serbia) into a peaceful European order.

None of this has worked out as planned. Bosnia and Serbia

remain corrupt and imperfectly democratic, their EU candidacies stalled. The momentum of the European project is ebbing. The ICC has proved agonisingly slow, its judgments often rejected in the home countries of the accused. After Iraq and Libya, humanitarian military intervention has acquired a dirty name (despite successes elsewhere, such as Sierra Leone). Syria’s atrocities dwarf Srebrenica’s, yet the world does little.

Even Srebrenica’s history has become more complicated. A Dutch documentary broadcast last month, citing newly released papers from the administration of Bill Clinton, charges that American spies knew of Mr Mladic’s plans weeks in advance and of the risk that many Muslims might be murdered. America, the film suggests, failed to press for air strikes partly because it wanted UN peacekeepers out of the way, to clear the field for NATO to use overwhelming force against the Serbs.

Yet the evil of Srebrenica has led to some lasting good. The Yugoslavia tribunal has jailed dozens of war criminals. Its meticulous investigations have established an accurate history of the war; the world knows what happened, even if most Serbs refuse to believe it. Without the tribunal, Mr Mladic might have had a successful political career. Instead he has spent most of the past 20 years in hiding or jail. Bosnia and Serbia are corrupt, but they have not relapsed into war. Tarnished as the EU may be, most Bosnians and Serbs still want to join it.

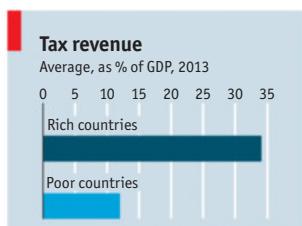
### Sorrowful Srebrenica

Western powers share blame for the massacre. It was their half-measures that convinced Mr Mladic that he could do as he liked. Some of today’s crises, such as Syria, are like Bosnia in 1995. Those who had the power to intervene dithered and squabbled instead. Perhaps this is the chief lesson of Srebrenica: governments should heed the early signs of mass slaughter and act swiftly to prevent it. If they wait until corpses fill the TV screens and voters demand action, it is probably too late. ■

### Financing development

# Beyond aid

### An unheralded meeting in Africa is a way to get beyond sterile arguments about development



**L**ATER this year governments around the world will make sweeping commitments in two of the most important areas of global public policy, development and the environment. They will do so by signing up to two compacts: the first a vast wishlist of sustainable-development goals at a meeting in New York in September; the second a global treaty to rein in climate change in Paris in December. These promises will mean practically nothing without money. Hence the significance of a third, far less-heralded conference, on financing development,

that is due to be held in Addis Ababa on July 13th-16th.

The Addis event provides a platinum opportunity to move development financing away from a sterile debate about aid. For decades, the test of whether rich countries are serious about improving global welfare has been how much money they are willing to hand over. But aid has long provided a small share of development finance, compared with money raised via taxation or from private investors (see page 67)—and its share is dwindling further. Developing-country governments are raising more than \$10 trillion a year domestically, dwarfing aid flows of about \$140 billion. The real question for Addis is what constitutes the right balance between aid, concessional loans, borrowing and taxes. ►



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► The guiding principle is that the shift away from aid should be encouraged. Aid has its uses. But it makes countries less accountable for spending decisions and, in the long run, undermines good governance. In many poor countries, public revenue accounts for less than 15% of GDP, compared with an average tax take for rich countries of 34%. At such low levels, it is impossible to provide even basic education, health care or law and order. These are areas where the government has to play a big role, either directly (running schools and hospitals) or through co-ordination, regulation and the provision of funds. These things are also vital to growth. So, counter-intuitive though it may sound, poor countries often need more, not less, government. At the conference, they should set an informal target for themselves of raising and spending 20% of GDP.

Western countries can help make that threshold achievable. Poor and middle-income countries fear that foreign firms operating on their territories run rings around naive and inexperienced taxmen. Encouraging corporate transparency, especially by piercing the murky layers of beneficial ownership,

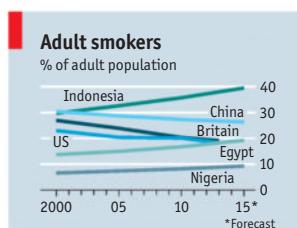
would help. But developing countries must bear the main burden of improvement themselves. They need to simplify their tax systems and broaden the base, to make tax collections easier, perhaps using aid money for technical assistance (at the moment only 1% of aid goes on tax systems).

Developing countries' biggest financing need is for infrastructure. But the match between their huge unmet demand and sources of private capital needs to be improved. To encourage a bigger market for infrastructure bonds, governments at Addis should urge development banks (such as the World Bank) to offer a wider, more standardised menu of credit guarantees. Western agencies also ought to develop new financing mechanisms to help municipalities in emerging markets tap capital markets. Given the rate of urbanisation in Africa and Asia, the difference between good and bad development will be largely determined by cities. If the Addis conference can shift the spotlight away from aid and on to these questions, it will be a Cinderella that outshines its Ugly Sisters in Paris and New York. ■

## Smoking

# Quitting is so hard

**Everybody now knows how people can be persuaded to stop smoking. So all countries should be doing it**



continues to fall in some countries—such as America and Britain—elsewhere they are rising. That's true not just in the poor world, where people are getting prosperous enough to take up the habit, but also in bits of the rich world: on some measures rates are plateauing in Germany, France, Belgium and Portugal after decades of decline. It is time to push them down.

### How to stub it out

Banning smoking would be wrong. It would be not only illiberal—people should be allowed to indulge in their pleasures, even lethal ones—but also ineffective. As the decades-long “war on drugs” shows, when people really want to get hold of a mind-altering substance, be it heroin or tobacco, they will. Bans on legal sales fuel illegal ones. But discouraging smoking is entirely legitimate: smokers pollute the air other people breathe, they damage their families when they die prematurely, and the addictive nature of the habit weakens the argument that smoking is a freely chosen pleasure.

The most effective measure against smoking is taxation. Fiscal engineers need to be careful to set the rate neither so high that it encourages smugglers, nor so low that it fails to deter smokers. The WHO reckons that it should be at least three-quarters of the value of a pack. And, as they raise the tobacco tax, governments need simultaneously to tighten their borders. Britain cut the smugglers’ share of the market from 21% to 9% by sharpening customs operations.

Bans on smoking in public places can have immediate

benefits. In eight countries in Europe and the Americas, admissions to hospital for heart disease fell by an average of 17% in the year after the implementation of such a ban. Gruesome public-information campaigns can help. America’s “Tips From Former Smokers” campaign, which showed people crippled by smoking-related diseases, persuaded around 100,000 people to quit. At a cost of \$480 per person, it was a good investment: according to a Danish study, the lifetime benefits to men of giving up smoking at 35 are around €25,000 (\$27,400), most of that in increased productivity. Costa Rica and the Philippines send aspiring quitters text messages with handy tips on giving up: a trial suggested that doubled quit rates. And electronic cigarettes can help: 7% of British quitters use them.

But according to a WHO report published on July 7th (see page 53), Turkey is the only country to have introduced all the necessary measures. Some countries, such as Indonesia, still have hardly any regulations. Others have too many loopholes. In France, for instance, the availability of covered patios undermines the ban on smoking in restaurants.

For governments that overcome tobacco-company lobbying and political inertia, the benefits can be huge. After Turkey adopted its comprehensive package, the male smoking rate dropped from 52% to 41% in eight years. In Europe 30% of those who have ever smoked are now ex-smokers. Getting people to quit at that rate in China, where 1.4m a year die early from tobacco, would avoid 35m premature deaths.

The idea of developing countries leapfrogging rich ones is familiar in technology, but it can apply to social policy, too. Over the past half-century, the rich world has learned slow and painful lessons about how to persuade people not to take up smoking, or to quit it if they already have. Low and middle-income countries can adopt those measures before their citizens get addicted. At virtually no cost, many millions of people can be saved from painful, premature deaths, and their families from misery. ■

**Britain's budget**

# The new Conservatism

**George Osborne's political vision is brave, bold—and on many counts wrong**



**B**RITAIN'S chancellor is credited with turning received wisdom on its head. George Osborne steered the Conservative party to a stunning, if narrow, majority in May, because of—not despite—painful cuts and the promise of more. Britain is

now growing faster than any of its G7 peers, employment is at record levels, and wages are rising. The opposition Labour Party is in disarray; the Tories in raptures. Unthinkable a couple of years ago, the austerity chancellor is now Britain's most likely next prime minister.

On July 8th Mr Osborne rose to give the budget—his seventh, and the first by a majority Conservative government in 19 years—and outline what he called a “new settlement” for Britain (see page 50). He announced plans to cut the deficit further, while trimming rates for business, slashing inheritance tax and furthering radical devolution to England's neglected cities. Boldest of all, he declared an overhaul of the welfare system, replacing benefits with a higher minimum wage. With this, and measures to raise the personal tax allowance and double free child care for parents, he marched his party onto ground once considered too left wing even for Labour.

Mr Osborne's rebranding of the Tories as the party of working people, chasing poor, northern votes that Labour has long taken for granted, is welcome and impressive. So is the alchemy by which he has turned fiscal rectitude into a vote-winner—other European countries should take note. Yet this was a budget whose slick politics hid economics that were often wrong and sometimes dangerous. The flagship substitution of tax credits for wage floors is a bad mistake; cutting benefits to the very poor while reducing inheritance tax for the wealthy is indefensible. And when it came to low productivity and strangled housing supply, the biggest economic questions facing Britain, the bold Mr Osborne had too little to say.

## George's marvellous medicine

The budget began with a sensible admission of austerity's limits. Mr Osborne originally planned to bring the public finances screeching back into the black by 2018-19. He rightly changed his mind. Britain's deficit will be 3.7% of GDP this year—sizeable, but not crushing. The country has plenty of fiscal wiggle room, as the IMF's economists have pointed out. Growth should do much to reduce borrowing. Mr Osborne's decision to extend his deadline by a year, to 2019-20, was correct.

So was the decision to add defence to the departments protected from cuts. Britain will now meet NATO's target of spending 2% of GDP on defence each year, to sighs of relief in a Washington worried about European firepower. Letting university tuition fees rise in line with inflation will help English universities to stay at the top of international league tables (in contrast to Scotland, whose once-proud colleges are buckling under a policy of free higher education). And cutting corporation tax, from 20% to 18% by 2020, will bring business to Britain.

Then things took a turn for the barmy. In perhaps the daftest

economic policy of the decade, inheritance tax was cut—but only on houses. A new allowance for homes means that estates worth up to £1m (\$1.5m) will escape taxation. Even if dead millionaires were good candidates for tax breaks—doubtful, especially given fiscal pressures—there is no good economic reason to privilege houses over other assets. Indeed, the policy will encourage the well-off to buy bigger homes. In a country facing a severe housing shortage, that is irresponsible.

Going easy on heirs and heiresses also damages Mr Osborne's claim to stand for working people. To this, he had a bold answer: the shake-up of welfare. He has long promised to cut £12 billion from the welfare budget, having already pared it back by £25 billion since 2010. As expected, many of the cuts were achieved by reducing tax credits, wage top-ups for low earners. In their place will come a “national living wage” of £7.20 per hour, due to rise to £9 by 2020.

This is radical—especially from a Tory government—but it is mistaken. Minimum wages do little harm when low, but create unemployment as they rise—indeed, Mr Osborne admitted that the higher wage floor would cost 60,000 jobs. Tax credits, by contrast, are an incentive to hiring. Some complain that they subsidise employers, but around three-quarters of the benefit goes to employees. Despite its fanfare, the new “living wage” is fairly modest. But swapping tax credits for minimum wages as a policy for alleviating poverty could do enormous damage in a world where firms are increasingly buying technology rather than paying workers. Ask France, with a generous minimum wage—and joblessness of more than 10%.

## The twits

Mr Osborne makes much of “fairness”, but his cuts to welfare are skewed by outrageous favouritism. Despite austerity, the basic state pension has grown by 16% since 2010. Such rises benefit rich rather than poor oldies, since other benefits raise the incomes of the less well-off above the state pension. If he were serious about shrinking the state, Mr Osborne would have cut the pensions of the better-off; but the elderly vote.

Instead he curtailed worthier spending. Productivity, which has been flat since the crisis of 2008, needs investment. Mr Osborne announced a fund for roads, to be paid for by car tax. But a fortnight earlier a planned rail upgrade to link northern cities was put on hold for lack of funds. The same fate may await other plans to boost productivity.

Nor were there answers to the housing shortage. Mr Osborne said that a tax break for buy-to-let landlords would be cut, which may ease pressure on prices. And, in a diktat that could have come from Ed Miliband, Labour's former leader, he ordered social housing providers to cut their rents by 1% a year. These steps do not come close to solving the housing crisis, which will need a shake-up of planning laws.

It was a beguiling budget: policies of the left given a Conservative justification, and cuts recast as a reshaping of the state. In the past five years Mr Osborne has played a dreadful hand well. But this was a budget built on economic mistakes. The chancellor's revamped Conservatism is characteristically daring. Economically, it is disappointingly thin. ■

**Drug charges**

Your call to end America's war on drugs in order to reduce the country's prison population is wrongheaded ("Jailhouse nation", June 20th). Some states, such as Tennessee, encourage courts to consider sentencing alternatives including probation and community corrections, but decriminalising drug abuse ignores the heart of the problem. In the judicial district where I serve, 61% of the new cases filed in the year ending June 30th 2014 were drug-related property crimes. Feeding a drug addiction will not become less urgent to the addict if drugs become legal.

Yes, legalising drugs would reduce the number of people convicted of drug dealing to zero, but such a policy would do nothing to abate the ravages of addiction and the crimes committed to support it. My district saw an increase of four percentage points in addiction-related offences in the year to June 2014. Treatment may be more productive in reducing the crime rate than punishing addicts. But even the most effective programme measures success one graduate at a time.

JOSEPH WOODRUFF  
Circuit judge  
*Franklin, Tennessee*

More than half of America's prisoners suffer from a mental-health condition and 20% have been diagnosed as psychotic. These people generally receive minimal psychiatric care and in many cases are subject to isolation and physical abuse. It is very likely that the steep rise in incarceration can be explained by the concomitant reduction in resources for treating mental health.

The number of psychiatric beds in public hospitals fell from 420,000 in 1970 to 43,000 in 2010 because of the well-intended policy push to move mental-health patients out of institutions. An act from 1963 that had allocated federal funds to support community services was repealed in 1981 and states have not stepped in to plug the gap. The result is a woeful lack of affordable

mental-health care, with untrained police and prison officers replacing mental-health professionals.

DAVID THEOBALD  
Board vice-chair  
Mental Health America  
*Alexandria, Virginia*

**The end of a proud industry**

I enjoyed Bagehot's column on the imminent closure of Britain's last remaining deep mines (June 27th). I grew up in Edwinstowe, the home of Thoresby Colliery which will close this month. Both my parents were teachers there and all the fathers of their pupils were coalminers. My dad always wanted to know what working conditions were like for the parents of those kids, and when he went underground I got to tag along.

I will always remember the ribald teasing of the workers down the pit, and never forget the blasting horror of the coalface cutting machine that operated laterally and horizontally. A year later our family attended the packed funeral of a miner who had fallen onto that machine. It was not an open casket. After reading the column I might start to blame Bagehot for the pit-bottom nightmares that occasionally plague me, but his "awe" is certainly appropriate.

CRAIG DIXON  
*New York*

**Trade barriers**

Your article detailing the arrest, conviction and lifetime sentence handed down to Zhou Yongkang, China's former security chief, was serendipitous, as it appeared shortly after the expulsion from the Communist Party of Sun Hongzhi, the former vice-minister for the State Administration for Industry and Commerce, or SAIC ("After Zhou, who?", June 20th).

The Chinese government has used SAIC and other regulatory agencies as a backstop to the otherwise salutary effects of China's entry into the WTO and other bodies. Microsoft, Qualcomm and OSI Group have all been targeted

in the past year. Although China ostensibly hews to the edicts of the WTO to limit tariffs and non-tariff barriers, it nonetheless manages to prosecute its mercantilist trade policies by arbitrarily punishing the foreign companies that dare to compete against domestic businesses within China. These actions hurt not only Chinese consumers but also the Chinese employees of those companies, some of whom languish in jail while awaiting criminal charges that have little basis in fact.

Endemic corruption within China imposes a significant cost to its citizens, but the extralegal cosetting of Chinese firms imposes a higher cost to the economy and poses a threat to China's wholesale acceptance into the ranks of developed countries.

IKE BRANNON  
Senior fellow  
George W. Bush Institute  
*Dallas*

**Muslims in Britain**

Sectarian tension among British Muslim communities has been a concern of the Muslim Council of Britain for some years now. Far from denouncing anti-Shia graffiti on a mosque in Bradford "only after a call" from your newspaper ("Ramadan ding-dong", June 27th), the Muslim Council was delicately attempting to facilitate a strong response with local people.

There is much more to be done to ensure better intra-faith solidarity among British Muslims, but, as you suggest, there is a far more amiable atmosphere here than in the Muslim world at large.

NASIMA BEGUM  
Media office

Muslim Council of Britain

*London*

London probably has the most diverse Muslim diaspora in the world, but the city has already witnessed sectarian squabbles between Sunnis and Shias. This took place several years ago along Edgware Road and it was clearly aimed at Shias. Such acts of religious hatred should not be tolerated. Coun-

ter-terrorism efforts must take note of this trend as foreign conflicts reach London's streets.

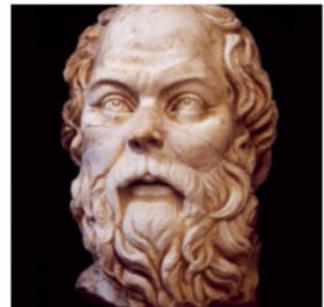
Moreover, although I am not sure we will ever be able to sort out the sectarian squabble theologically, I only wish we could at least agree on the day when the month of fasting, Eid al-Fitr, ends. Now that would be some achievement.

MURAD QURESHI  
Member of the London Assembly

**From Russia, with love?**

"My big fat Greek divorce" (June 20th) mentioned the "footsie" being played between Alexis Tsipras and Vladimir Putin. Based on my experience with NATO exercises during the cold war, I am convinced that comrade Putin would love to come to the rescue of Greece if it does exit the euro zone. Russia's naval units based in Syria or Cyprus would take less than half a day to reach Piraeus, turning Greece immediately into another Crimea right on our Mediterranean doorstep.

BRUNO VAN DE WALLE  
*Concarneau, France*



Some argue that the Greeks have a problem with their economic culture. But perhaps there is hope of change, for they were not always such bad debtors. The last words uttered by Socrates were: "Crito, we owe a cock to Asclepius; pay it and do not forget."

JEREMY JOSSE  
*New York* ■

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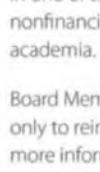
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## So, we meet again

BERLIN AND BRUSSELS

To stay in the euro zone, Greece's prime minister will have to jettison almost every promise he has made to his own voters

LIKE most things deemed unthinkable, Greece's departure from the euro zone has been thought about a lot. Its open discussion at the highest levels of the European Union, though, has long remained taboo. The two weeks since June 26th, when Alexis Tsipras, the Greek prime minister, abandoned talks with the EU and IMF on a further bail-out and called a referendum on their terms, have put paid to that. Most euro-zone leaders now believe Greece has no place in the euro. Even those genuinely supportive concede that things may not go their way; François Hollande, the French president, openly discussed Grexit at the euro-zone summit which took place in Brussels on July 7th. On the same day Jean-Claude Juncker, the president of the European Commission, announced that the commission has a fully realised plan for Grexit.

Whether that plan will be put to use depends on discussions set for Sunday July 12th. Donald Tusk, the president of the European Council, describes this as Greece's "final deadline". The leaders of the 19 euro-zone countries will discuss a list of reforms and cuts that Greece was due to present after *The Economist* went to press. That list is intended to convince Greece's euro-zone partners to begin negotiations on a new three-year bail-out. The

same day will see a summit of all 28 European Union leaders at which preparations for Grexit will be discussed in earnest. The leaders will discuss post-Grexit humanitarian aid to be paid for out of the EU budget (it was as a net contributor to that budget that Britain insisted on all 28 being involved in the discussion). Mario Draghi, the president of the European Central Bank (ECB), will explain measures for seeing off speculators looking to attack other weak links in the euro zone. Legal niceties aimed at allowing Greece to leave the euro zone without quitting the EU—an eventuality for which there is neither precedent nor protocol—may be discussed, too.

During the brief referendum campaign Mr Tsipras urged Greek voters to reject the earlier bail-out terms, assuring them that a strong No vote would strengthen his bargaining position in Brussels. They duly gave him the No he wanted (see next story); but the creditors he had walked out on, and insulted during the campaign, were quietly planning to greet him on his return with a tougher line—and his rhetoric gave them a new stomach for Grexit if he did not toe it.

At the July 7th meeting they made their position abundantly clear to Mr Tsipras on four counts. First, the short-term loans his government had sought would not be

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forthcoming in the absence of a full bail-out. Second, there could be no backtracking on commitments the Greeks had already made on issues such as pension reform and value-added tax. Third, reforms must come before any discussion on restructuring Greece's debt, which is now almost 180% of its GDP (the issue could be revisited in October, mused Mr Juncker). And finally, the third bail-out would involve fresh conditions in areas like product-market reform and collective-bargaining rules.

To agree to this would cut against everything Mr Tsipras's government has done this year. But as the rest of the euro zone has been arguing repeatedly over the past weeks, Greek democracy does not enjoy priority over everyone else's, and the voters in many other countries are fed up with bailing Greece out.

Should Mr Tsipras somehow find the stomach to submit reform proposals that the Europeans find credible, plenty more hurdles remain before any funds can be disbursed. A sum must be agreed on: one senior commission official puts it at up to €100 billion (\$111 billion), and notes that the figure rises every day as capital controls eat into Greece's economy. Greece would have to begin implementing some of its reforms. And several euro-zone parliaments ➤

► would have to assent to a third bail-out.

Greece's most vocal foes in recent weeks have been the euro zone's poorer members, such as Slovakia and Lithuania, who compare the Greek record on reform unfavourably with their own. Germany has been more restrained, exercising its responsibility as the euro zone's de facto leader. But a new deal would be highly unpopular there, both with the people and the politicians.

The Bundestag would have to vote twice to pass a new bail-out: once, to authorise Angela Merkel, the chancellor, to negotiate it; again to ratify it. The Social Democrats, the junior partners in her government, would probably be willing to back her. The party has historically been supportive of Greece although its boss, Sigmar Gabriel, is one of those to have taken a much more hawkish line since Mr Tsipras called his referendum. Mrs Merkel's bigger problem is her own parliamentary group, consisting of the Christian Democratic Union and its more conservative Bavarian sister party, the Christian Social Union. Many in the CDU resented being cajoled into backing an extension to Greece's second bail-out in February. In recent weeks the chorus of CDU and CSU members calling for a Grexit has grown. Mrs Merkel will prevail in the votes, but she will be weakened and embarrassed in the process. Much depends on how enthusiastically her finance minister, Wolfgang Schäuble, helps her sell a deal in parliament. Mr Schäuble sees the Greeks as an impediment to his dream of deepening integration among the other euro-zone members; in Athens he is the personification of German cruelty.

### The fundamental flaws

However it ends, the Greek crisis has raised a number of awkward questions. The role of the ECB, which has been keeping Greece's banks alive, is one. Nicolas Véron, a senior fellow at the Bruegel think-tank, notes that the way in which the euro zone is governed puts the ECB in an "impossible position". The bank is the closest thing to a federal agency in the euro zone, and therefore carries much of the decision-making burden, particularly in times of crisis. But because there is no central political authority, every government wants a say. That exposes the ECB to political pressure, not least via its own governing council, which includes the central-bank governors of all 19 euro-zone countries. One day it faces accusations of meekly doing the creditors' bidding by turning the screws on the Greeks by limiting the banks' liquidity, causing them to close. The next it is accused of a leniency that comes close to violating its own prohibitions on monetary financing of states.

A related, even deeper problem is an unavoidable part of a currency union not backed by a political one: democratic defi-

cit. Greece's creditors are right that 18 members of the euro zone cannot be bound by the decisions of one. At the same time if Greece remains in the euro it will be because Mr Tsipras has had to capitulate entirely despite clear backing from his fellow citizens. At best, that will leave Greeks feeling more demoralised than ever, and probably more embittered. Conditions agreed to under duress may not be met; stereotypes of bloodsucking Germans and indolent Greeks may spread. "It's starting to eat Europe," says a demoralised EU official. The sort of political imagination needed to

help Europe's citizens see each other as the same sort of people involved in a common project has never been more necessary and less apparent.

Such concerns will not soon be addressed; more immediate tasks are at hand as Greece is either bound back in to the euro zone in a way not to its liking or pushed out. Mr Tusk, for one, is worried about Grexit playing to Russia's advantage. And Mr Tsipras faces a grim dilemma: to betray the hope he stirred in the long-suffering Greek people, or to lead them to a devastating Grexit they do not want. ■

### Vox pol

## Reactions to a referendum

"If we remain stationary, prisoners of rules and bureaucracies, Europe is finished. Rebuilding a different Europe will not be easy after what has happened in recent years. But this is the right moment to try to do it all together. Italy will do its bit."

MATTEO RENZI, prime minister of Italy, on Facebook, July 6th

"[Tsipras has] torn down the last bridges over which Europe and Greece could have moved toward a compromise."

SIGMAR GABRIEL, German economy minister, vice-chancellor and leader of the Social Democratic Party, quoted in *Tagesspiegel*, July 5th

"No, we are not ready to ease Greece's debt burden. We have already done that."

ALEXANDER STUBB, Finnish finance minister, to journalists, July 7th

"France will spare no efforts to reach a deal."

FRANCOIS HOLLANDE, president of France, on Twitter, July 7th

"Greece is no longer able to take on the disciplines of the euro zone...We need to help to organise its exit, without drama."

ALAIN JUPPE, former prime minister of France (1995-97), on his blog, July 6th

"If [the troika] doesn't break definitively with the austerity project, the peoples [of

Europe] will end up turning their backs on them."

PABLO IGLESIAS, leader of Spanish Podemos party, at a press conference, July 6th

"I advise [Greece]...not to show up tomorrow with some trashy story. To say 'Listen, other 18 euro-zone countries, our voters won't accept that programme you wanted, so would you mind taking a look at a different one with much softer measures?' That simply won't cut it."

MARK RUTTE, prime minister of the Netherlands, to parliament, July 6th

"It's a No of freedom in the face of despicable propaganda...which shows that the people will not let themselves be trampled on by the fanatic defenders of the European Union."

MARINE LE PEN, leader of the French National Front, press statement, July 6th

"I have no doubt that this is the most critical moment in the history of the EU."

DONALD TUSK, president of the European Council, press conference, July 7th

"Kali nichta, Hellas – Goodnight, Greece."

ANDREAS SCHEUER, general secretary of Germany's Christian Social Union, on Twitter, July 5th



After the vote

## A moment of triumph

ATHENS

**The landslide for No felt good at the time**

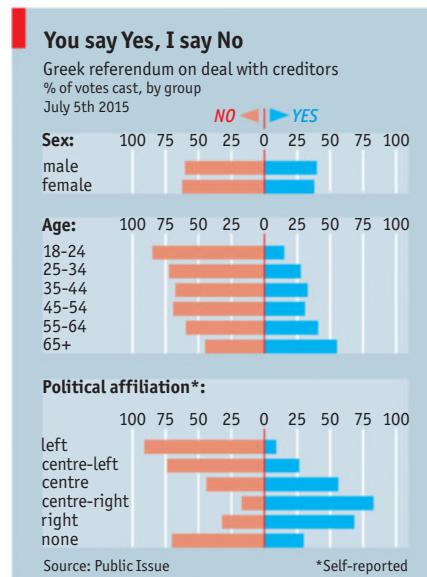
IN SYNTAGMA Square, outside Greece's parliament, the No vote in the July 5th referendum was a cause for celebration—a moment of in-your-face triumph for voters fed up with five years of joblessness and powerlessness. "Tsipras, we love you," they sang. "We voted for a revolution for all the people of Europe," said an unemployed 24-year-old; "We voted against broken dreams," said a fresh-faced student.

The exhilaration was due, in part, to the unexpected size of the No majority, which at 61.3% was far higher than any poll had suggested. The margin differed according to age and political inclination (see chart) but the No campaign won in every region, including the conservative borderlands adjoining Bulgaria and Turkey. Only a handful of Athens's wealthiest enclaves, along with the shipowning island of Andros, fielded a majority for Yes. The defeat was so resounding that Antonis Samaras, one of a number of former prime ministers who urged a Yes vote, immediately resigned from his position as leader of the main opposition New Democracy party.

This all added up to a personal triumph for Alexis Tsipras, prime minister and head of the left-wing Syriza group in parliament. But it was hardly one to savour. Mr Tsipras had promised the voters that a No would strengthen his hand in last-ditch negotiations with the European Union and IMF and that it would not entail the departure from the euro that more than 75% of Greeks wish to avoid. Without help he cannot honour either promise.

Careful to avoid sounding triumphant, Mr Tsipras immediately made the conciliatory gesture of sacking Yanis Varoufakis, the finance minister whose hectoring tone and heightened rhetoric—he referred to the creditors as "terrorists"— vexed and offended the euro-zone politicians who had to deal with him. Euclid Tsakalotos, a soft-spoken Oxford-trained economist who had earlier replaced Mr Varoufakis as negotiator with the EU and IMF, replaced him as finance minister, too.

Hoping to rally the country's other political parties behind him Mr Tsipras called their leaders together. The meeting was sour in its mood; it took almost seven hours to hammer out a statement calling for a deal that would be socially fair, limit austerity to the minimum, include generous funding for growth and address the country's debt. "We backed him not because we think the premier will necessarily



likely pull off a deal but because if the worst happens we'd all go down together," said an MP from To Potami (The River), a centre-left party.

If Mr Tsipras does get an agreement, though, it will not be one which meets the aspirations of that all-party statement. The rest of the euro zone is in no mood for compromise (see previous story); it wants a harsher deal than previously offered. The 40-year-old premier would have to acquiesce to tax increases and cuts in wages, pensions and spending he has long fought.

Backing from the centrist opposition means that a new bail-out agreement would be able to pass a vote of approval in parliament, but it would probably split Syriza; the ensuing turmoil could force Mr Tsipras to resign and call an election. "We're about to find out whether Tsipras has grown up enough to put country before party," said a former centre-left politician who helped steer Greece into the euro a decade and a half ago.

If, instead, there is no bail-out and Grexit ensues, some analysts fear a level of social unrest that would drive Mr Tsipras to adopt authoritarian measures. Panos Kammenos, the defence minister, and leader of the small right-wing Independent Greeks party, Syriza's coalition partner, caused uproar last week when he said the army can always "guarantee the country's internal security." Others imagine Grexit would bring with it a government of national unity led by a non-political public figure.

Meanwhile Greeks line up to withdraw the daily €60, which is all their ATMs have allowed them since capital controls were imposed at the end of June and the banks partially closed. In practice, apparently due to a shortage of €20 notes, many only get €50. Old people wait outside the handful of banks allowed to open to pay pensions in temperatures well over 30°C. "For a government that promises to protect pen-

sioners, it's very disappointing," says Dimitris, a 76-year-old post-office worker who voted for Syriza in January but, having failed to get his full pension last week, voted Yes on the 5th.

Despite the withdrawal limits, queues at ATMs stay long, and not just because they are hotbeds of gossip; Greeks recognise that a banknote has more lasting value than a line in a bank statement which can be redenominated into a new currency, or subjected to a "haircut", at any time. "Everyone I know has a stash of cash under the bed," says Stamatia, a call-centre worker. One of the only businesses to have boomed in past months has been home-security and safe installation.

One unexpected consequence of the desire to keep bank balances low enough to avoid any haircut is an uptick in electronic income-tax payments; although businesses prefer cash, the government can hardly be seen to do so. Dimitris Mardas, the deputy finance minister, says that this means the government may be able to pay civil servants their mid-month salary on July 13th, something which had previously seemed very unlikely. It is, though, the smallest and most temporary of silver linings. With liquidity assistance to the banks capped (see box) the ATMs will soon start running dry. A senior banker in Athens says debit cards and online banking cannot outlast the cash system by more than a few days, or a week at the outside. ■

### Avoiding the very worst

## Gradations of Grexit

Could a parallel currency within the euro zone be possible?

ACCORDING to IMF estimates made in 2012, any currency with which Greece replaced the euro would quickly halve in value. Greece would lose a prompt 8% of GDP and see inflation surge to 35% as the cost of imports rocketed. Confidence would be battered and confusion would reign, exacerbated by the months it would take for the new currency to come into circulation. This is all probably as true now as it was then.

For the rest of the euro zone the direct effect would be much less—but still appreciable. Official loans to Greece from the rest of the euro area are close to €185 billion (\$204 billion); they would have to be written off. The Bank of Greece owes the European Central Bank (ECB) over €125 billion borrowed to finance capital outflows ("TARGET 2" debt) and to issue extra cash, according to Barclays, a bank. And then there's €27 billion of Greek sovereign debt ►

held by the ECB. The tally would be close to €340 billion, over 3% of euro-zone GDP.

A full exit looks bad enough for both Greece and the rest of the euro area that the search is on for alternatives. Wolfgang Schäuble, Germany's finance minister, suggested in a recent interview that a "temporary" exit from the euro zone might be Greece's best option. One way to do this, though not necessarily one Mr Schäuble

would approve of, would be for all domestic assets and liabilities, including those of the banks, to be redenominated in "new drachmas" while external obligations remained in euros. If the new drachma were temporary, or simply treated as such, Greece might be able to stay in the euro area under such a dispensation.

By continuing as part of the Eurosystem through which the ECB and national cen-

tral banks manage the euro zone's affairs, the Bank of Greece might retain credibility which it would otherwise lack. That would strengthen its hand in the fight against spiralling inflation which would surely follow redenomination. The Greek economy might not slump as far as it would otherwise, and the drachma might keep more of its value. The prospect of eventually returning to the euro proper—the Greeks may miss what they have forsaken—might give the government an extra incentive to control its finances and introduce growth-enhancing reforms.

Doing things this way would also render moot worries about Greece falling out of the EU altogether and thus losing access to the single market and regional development funds. There is no legal path for leaving the euro zone and not the EU, and some lawyers see such an out-yet-still-in exit as impossible. In practice there may be ways round this adamant attitude—some are being explored in Brussels. But if Greece were to remain part of the euro zone they would not be needed, which would be one less thing to worry about.

There would be advantages for the creditor nations, too. They would be spared, at least in the short term, the recriminations that would follow if Greece was expelled. Moreover, a temporary or merely notionally temporary exit would mean that potential losses could be fudged. The debt would remain unpayable. But none of the principal on the official loans has to be repaid until the early 2020s anyway. If the Greek central bank remained part of the Eurosystem its debts to the ECB could simply stay on the books.

The EU knows that Grexit will require it to offer humanitarian aid to Greece to cover the costs of essential supplies, including vital drugs. Back-of-the-envelope calculations suggest that around €15 billion would be necessary to help Greece this way to deal with its very short-term needs. If a halfway-house approach makes Greece more stable that bill might be reduced—or the amount of help the same amount of money could bring might be increased. In addition to this help the euro area would probably have to provide more general balance-of-payment support to Greece. Again the amount required may be relatively limited; the Greek current account was in surplus in 2013 and 2014, a huge improvement from the 10% of GDP deficit that Greece was running in 2010, when it was first bailed out.

The complexity and lack of credibility inherent in such an attempt to soften the blow of Grexit may make it unfeasible. It would look like, and might indeed prove, a way of postponing, not avoiding, the pain. But attempts to postpone the worst are not hard to find in kick-the-can history of the Greek debt crisis. Nor is such postponing essentially ignoble. ■

### The tottering banks

## On the cusp of the cusp

### The financial system is barely hanging on

GREECE'S banks are suffering from two acute and intertwined problems. They lack liquidity: on their own they cannot meet depositors' demands for cash. And their solvency is in question: the value of their assets may not cover their liabilities (money they have borrowed, notably from their depositors).

The liquidity issue started to bite when, after Syriza was elected in January, people began to hoard cash and left the banks short of it. To deal with the problem the European Central Bank (ECB) has over the past five months greatly increased the support it offers Greek banks under its Emergency Liquidity Assistance (ELA) programme; the figure now stands at €89 billion (\$98 billion).

That allowed the banks to keep the ATMs full. But after bail-out talks between Greece and its creditors collapsed on June 26th ELA was capped. This was because the benefits of ELA may only be extended to solvent institutions, and because a lot of the banks' assets are underwritten by the government their solvency depends on the creditworthiness of the nation as a whole. For as long as bail-out talks continued, the ECB was minded to give the government the benefit of the doubt on this. When they broke down it felt it could no longer do so. Seeing the banks as potentially insolvent it capped ELA, triggering bank closures and capital controls.

The ECB could have taken Greece's failure to make a €1.6 billion payment to the IMF on June 30th as evidence that the country was genuinely broke, and the government-backed banks thus truly insolvent. Instead it chose to see their insolvency as still merely potential. If there is no bail-out agreed at the July 12th euro-zone summit things will be harder to fudge; Christian Noyer, a member of the ECB's governing council, has said ELA would be entirely withdrawn in those circumstances. If ELA survives, the €3.5 billion payment due to the ECB on July 20th will force the issue. If Greece cannot



Pensioner supports bank

pay the ECB what it is owed, then the notion that its banks are solvent enough for the ECB to support becomes untenable. At that point the banks will be obliged to pay back the €89 billion forthwith. When they do not, they will fall.

It may well be that some of the banks are insolvent regardless. Non-performing loans were running at 34% even before the escalation of the crisis. To be put back on their feet they will need to be recapitalised. No private investors will help in such a venture, but fresh creditor cash provided through a new bail-out might.

Without a bail-out, and with no money in state coffers, the banks will probably have to solve their problem by taking money from their depositors. Reports suggest a 30% haircut on all depositors over €8,000 is being considered. The alternative—or possibly the next step—would be for the government to create a new currency with which to recapitalise the banks and reimburse their depositors. And the likelihood that that new currency would lose half its value before stopping for breakfast should keep Greeks queuing at the ATMs for as long as they are still working.



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## America's industrial heartland

## Reinvention in the rust belt

GALENA, ILLINOIS, GARY, INDIANA AND SOUTH BEND, INDIANA

## Do former industrial cities in the Midwest have a future?

**T**HIER biggest concern is the abandoned buildings," says Karen Freeman-Wilson, the Democratic mayor of Gary. She holds weekly one-to-ones with residents, 15 minutes each, to find out what most worries them. Gary, which is southeast of Chicago on Lake Michigan, has some 5,000 boarded-up houses, around a quarter of the city's buildings. They are an eyesore, many of them are dangerous and criminals like to hide in them.

Ms Freeman-Wilson is devoted to her job; she ran three times to get it until she won in 2011. Before that, she was the state's attorney-general. She wants to reinvigorate the city she was born in and, crucially, give citizens confidence in its future. One of her recent victories was the demolition of Gary's tallest building, a former Sheraton hotel once dubbed "the gateway to Gary's future", which, for three decades, loomed as a vacant skeleton next to city hall, a daily reminder of the city's descent into urban blight.

Reviving it is a tall order, and progress is sometimes frustratingly slow. Gary is a miniature version of Detroit, an industrial city hit brutally by the decline of the heavy industry that had sustained it for decades. It struggles with poverty, high crime rates, unemployment, poor schools and a general sense of hopelessness. The population, which is 85% black, has shrunk from 180,000 in the 1960s to fewer than 79,000 today. Its poverty rate is 38%; both the per-

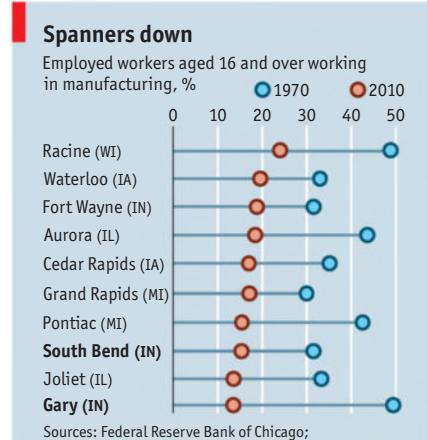
capita murder rate and the high-school dropout rate are among the highest in the country. The official unemployment rate is 6.5%, but real unemployment is 30%, says Ms Freeman-Wilson, when you include the many people who have never had a job.

Gary used to be known as "Magic City". It was a bustling, prosperous metropolis

with handsome buildings lining Broadway, decent public schools, well-stocked flower beds in dozens of parks and numerous shops, restaurants, cafés and movie theatres. This elegance had solid underpinnings: it was founded in 1906 by the United States Steel Corporation for Gary Works, its new plant, and named after Elbert Henry Gary, co-founder of US Steel. Its fortunes, however, rose and fell with those of the industry. When US Steel struggled to compete with cheaper steel from Asia, it laid off workers. Today Gary Works employs around 5,000 people compared with 30,000 in the 1970s. And the lay-offs continue: in April US Steel fired more than 300 workers as it shut down its own, Gary-based, coke plant.

The city is one of many former industrial hubs in the rust belt, a term which, according to a report for the "Industrial Cities Initiative" put together by Chicago's Federal Reserve Bank, often turns out to be an epitaph for cities large and small throughout America's north-east and Midwest. Their decline started 40 years ago and has accelerated over the past decade. In 1970 employment in manufacturing in America, much of it in the Midwest, accounted for about a third of the labour force. Since then its share has dropped continuously until, in 2010, it accounted for around a tenth of workers. It is now recovering in places, but only in baby steps.

Bruce Katz at the Brookings Institution, a think-tank, says that industrial cities must reinvent themselves to survive. His suggestions are not new, but almost a return to fundamentals: they have to use their geographical advantages (meaning, these days, tourism and logistics rather than geology) and build as much as possible on "anchor" institutions such as universities and hospitals. What they must not do is distract themselves by construct- ►



▶ing an enormous stadium or a theme park that may turn into a white elephant. It is a very rare city that has helped itself by hosting international sports.

A good example of Mr Katz's first precept, making full use of geographical assets, can be found in Galena, Illinois. Galena is a smallish city that lies the whole breadth of Illinois away from Gary, on the Mississippi that marks the Iowa border. Its sudden decline came earlier than in other midwestern industrial towns. In the early 19th century it was a thriving lead-mining centre and a steamboat transport hub that was bigger than Chicago. Then, in the 1850s and 1860s, zinc supplanted lead and railways took over from steamboats. "Everything changed by the time of the civil war," says Daryl Watson of the local historical society. Galena's last hurrah was the triumphant return in 1865 of the Union general, Ulysses Grant, to the town he had made his home before the start of the war.

In subsequent decades Galena struggled—and shrank. In its heyday the city had 12,000 inhabitants; today there are just 3,500. But in the 1960s it found a new way to earn a living by making the most of its looks: the lovingly restored historical centre and the verdant, hilly landscape behind it, a unique feature of the "Driftless Area" in the otherwise pancake-flat Midwest. Today Galena has around 1m visitors a year. More than 80% of the city's downtown buildings are on the National Register for Historic Places. Thanks to restrictions on electric signs, Main Street looks more like a well-preserved town in Europe, with plentiful craft shops and a lot of cast iron. It has done well.

The second possible route to survival for the Midwest's battered cities—building heavily on notable local institutions—can be seen about 60 miles east of Gary, in South Bend, Indiana. South Bend, too, started to decline long ago. It used to be a company town: the headquarters of Studebaker, one of the big four American carmakers in the first half of the 20th century. Yet Studebaker struggled with the modern era: it went bankrupt during the Depression and then faced even more problems in the 1950s, thanks to poor labour relations and fierce competition from carmakers in Detroit. When the firm permanently closed its plant in 1963, thousands of local men and women lost their jobs. "Today South Bend is a company town without a company," says Pete Buttigieg, the city's Democratic mayor.

Yet South Bend has "anchor" institutions in Notre Dame, one of America's leading Catholic universities, and the Memorial Hospital of South Bend. Until recently, Notre Dame showed little interest in its hometown; but this is changing as administrators realise that when students apply to a college, they also care what the town surrounding it can offer. The univer-

sity, which is South Bend's biggest employer, is now working more closely with the government to channel investment into the city.

Mr Buttigieg does not want South Bend to reinvent itself as a company town—dependence on a single employer proved too devastating. Instead he is trying to lure technology and data companies with promises of cheap power, low corporate taxes and cold weather (data centres need cool temperatures as they generate so much heat). In recent years some of Studebaker's plants have been torn down and an empty site has been named Ignition Park, which Mr Buttigieg hopes will become a leafy hub for high-tech companies. (Ignition Park has a sister site, Innovation Park, developed by Notre Dame across the street from its campus.) Ignition Park's second confirmed tenant is the Notre Dame Turbomachinery Facility, a joint venture between the university and five public and private partners, which will research and test gas-turbine engines used by military and commercial aeroplanes.

### Powers of persuasion

South Bend still has a long way to go. Studebaker's vast half-derelict factory buildings continue to dominate the cityscape. The city's rate of violent crime remains nearly twice the Indiana average; 28% of its inhabitants live below the poverty line and 75% of children in public schools are eligible for the free lunches offered to low-income families. Tensions occasionally erupt between the city's ethnic groups: South Bend's inhabitants are 13% Latino, 27% black and 60% white, primarily of Polish, Hungarian, German and Irish descent.

"Holding the community together is one of my biggest challenges," says Mr Buttigieg, who regularly compares notes on this and other topics with his counterpart in Gary.

Mr Buttigieg and Ms Freeman-Wilson are both seeking re-election later this year. Both are likely to be re-elected and get a chance to continue what they started. Not long ago, after Gary lost more than half its annual budget because of a change in Indiana's property-tax rules, city officials felt so bleak that they mooted a plan to cut services for almost half the city (and move everyone to the half that would still receive them). But Gary is now starting to get help from both the state and federal governments, thanks in part to Ms Freeman-Wilson's powers of persuasion. Last year the White House announced that it was one of seven distressed cities that will receive federal funds through the "Strong Cities, Strong Communities" initiative. It has received \$6m from the state government for the demolition of abandoned buildings. And it is applying for a \$21m grant from a special programme run by the federal Transport Department to encourage investment in public transport.

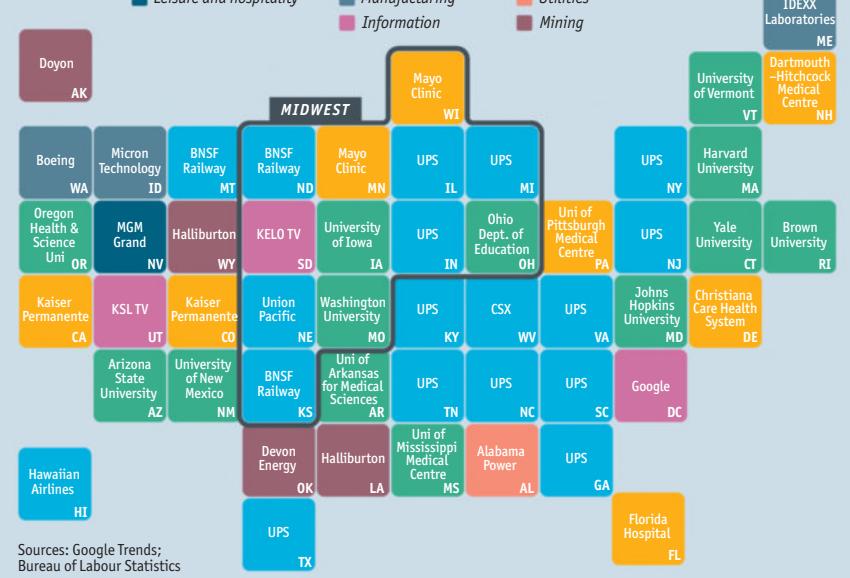
Gary has an international airport, three railway lines and direct links to four of the nation's busiest interstate highways. It sits on the shore of one of the world's biggest lakes and just 24 miles south-east of downtown Chicago. It lost time and wasted federal funds, under a previous mayor, by building a baseball stadium and hosting Donald Trump's Miss America beauty pageant. But as a transport hub, so close to America's third-biggest city, it may have a chance to remake itself rather than just manage its decline. ■

### In manufacturing's wake

Most searched-for employer by job-seekers using Google, 2014-15

By US state and sector

- Transport & warehousing
- Educational services
- Health care & social assistance
- Leisure and hospitality
- Manufacturing
- Utilities
- Information
- Mining





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## Immigration

# Building Afromerica

WASHINGTON, DC

**America's fastest-growing migrant group may challenge the country's fraught race relations**

THE Eritrean Cultural & Civic Centre in Washington, DC is housed in a modest building near the city's convention centre. Despite its name, it is less of a centre and more of a bar and restaurant where Eritrean cab-drivers, students and pensioners chat politics and chow down on lamb stews served on spongy "injera" bread. On its notice board are adverts from a shipping company, an immigration lawyer and a taxi firm seeking drivers. Eritrean flags hang from the ceiling and the walls are lined with trinkets from the country.

With roughly 170,000 African residents, Washington and its surrounding suburbs have, proportionately, the largest African-born population of any large city in America. Their numbers are still small: even in Washington, Africans make up just 14% of all immigrants, and 3% of the total population. But they are among the fastest growing. Between 2000 and 2013—the latest available figures—the number of people from sub-Saharan Africa in the United States more than doubled, from 690,000 to 1.5m. Since 1980 it has increased more than tenfold. Their experience reveals the successes of America's unusual legal-immigration policies. Over time, their growing numbers may help to change what it means to be "African-American".

The free migration of Africans (as opposed to the slave trade) has existed since the 19th century, when New England whaling ships picked up crew members from the Cape Verde islands. Even today, Cape Verdeans are among the most common African migrants in Boston and Providence. Since the 1980s, however, plenty more have joined. In Washington, DC, Ethiopians and Eritreans are the most numerous. In New York, Egyptians and Ghanaians are. Around Houston there are plenty of Nigerians. In Minneapolis there is a substantial Somali community.

Relatively few Africans are illegal immigrants (those who are have almost all overstayed their visas). Instead, they have particularly benefited from the Refugee Act of 1980, which brought more refugees to America, and the Immigration Act of 1990, which created special diversity visas, issued by lottery, for people from under-represented countries. According to analysis by the Pew Research Centre, 28% of legal African immigrants who arrived between 2000 and 2013 came as refugees; 19% of them arrived on diversity visas. For all legal immigrants, the equivalent figures



**Blacks who came freely**

were 13% and 4%.

As the migrants have put down roots, they have inspired others. Bahda Gide, an Eritrean-born retired social worker, arrived in America in the 1970s. Now Eritrean migrants go home for visits, he says, and impress their friends and relatives with their smart clothes and plump wallets. An established community helps penniless people find their way in an expensive foreign

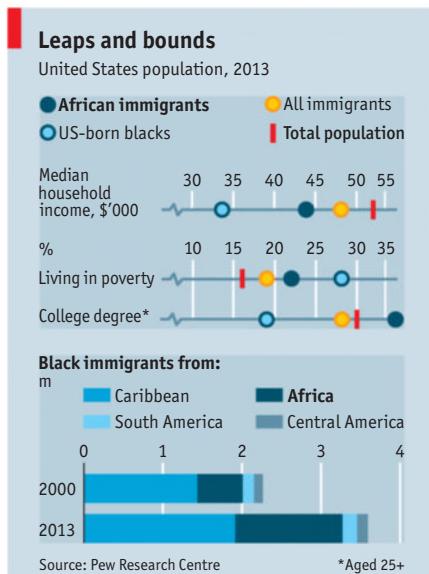
land: "Traditionally, you cannot ignore any countryman in a foreign country," says Mr Gide. America's relatively generous system of family reunion, which allows citizens and migrants with legal residency to apply to bring siblings and parents to America, helps to keep up the flow.

African migrants stand out from American-born blacks. Indeed, on most measures, they have little in common but their colour. With the exception of some refugees, who are often resettled in areas with cheap housing, they live mostly in the suburbs, rather than in inner cities. In Washington Ethiopians and Eritreans cluster in Silver Spring, a part of Maryland at the edge of the District of Columbia. They are older—the average African-born black in America is 37, against 29 for American-born blacks. And they are far more likely to be married: 52% are, against a figure of just 28% for American-born blacks.

They also tend to be well educated, according to Pew's data. In 2013 35% had a bachelor's degree or better, against a figure of 30% for all Americans and just 19% of American-born blacks (see chart). But despite these qualifications, they earn slightly less than most Americans. In 2013 the average household income for black Africans was \$43,000. That is sharply higher than the \$33,500 American-born blacks earn, but lower than the amounts earned by other immigrants and by white Americans. In Washington, Ethiopian and Eritrean men disproportionately work as taxi drivers, or in the city's many East African restaurants.

Still, over time, they find their way. Research by Randy Capps of the Migration Policy Institute, a think-tank, found that in 2009 more-established African immigrants were far less likely to be working in unskilled jobs than new arrivals. This suggests that well-qualified migrants are getting on in the world, says Mr Capps. He thinks that those Africans who have settled in relatively affluent suburbs may face some discrimination, but they will succeed nonetheless, because their education and motivation will allow them to climb into the middle class.

What does this mean for America as a whole? Africans are just one group of black immigrants in America—Caribbeans and people from Latin America bring the total of people who identify as black and were born overseas to around 3.8m. One possibility is that their growth in numbers may help soften the historical racialised division of America's population between those whose descendants moved willingly and those whose descendants were enslaved. In the meantime, the definition of the term African-American may already be changing. In a few weeks, Barack Obama will pay his first visit as president to Kenya, the homeland of his father. However Americans see him, there he will be both African and American. ■



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## City policing

## Back on the beat

NEW YORK

## The Big Apple's top cop unveils a startlingly retro new plan

BILL BRATTON'S favourite childhood book was called "Your Police". It has long been out of print, but it described the New York Police Department (NYPD) for little folks, and the commissioner (who is on his second stint in the job, after a highly successful first in the 1990s) still carries it round like a talisman. The last paragraph of the book begins: "We must always remember that whenever you see a policeman, he is your friend." For many New Yorkers, particularly minorities, that is the last thing they think.

Most New Yorkers feel safe in the city: last year the murder rate was the lowest since before John Kennedy was president. But only half think the police are doing a good job. According to the NYPD's own research, whiter, wealthier neighbourhoods have more positive opinions of the police, and blacks and Latinos have poorer ones. The lowest approval ratings are in the areas with the most violent crime. This is not rocket science, but at least it is spurring Mr Bratton and his boss Bill de Blasio, New York's mayor, to try to change perceptions of the force.

Morale is also low on the police side. Relations between the mayor and rank-and-file officers have been fraught for nearly a year. Last summer Eric Garner, an unarmed African-American, died at the hands of a white policeman. Thousands of New Yorkers took to the streets to protest about a grand jury's decision in December not to indict the officer who caused Mr Garner's death, and a deranged man shot two cops dead in apparent revenge as they sat in their patrol car eating lunch.

The police say they feel unsupported by City Hall. In an internal police-department survey in 2014, around 70% said that fear of being sued kept them from making lawful interventions against criminal activity on the streets. Many of the 35,000-strong force

feel ill-prepared and undervalued.

So on June 25th the mayor and the commissioner unveiled their neighbourhood policing plan: "One City: Safe and Fair—Everywhere". It has five elements, "the five Ts", which sounds more like a Motown group than a police plan: tactics, technology, training, terrorism and trust. The idea is to keep crime low, continue to deter terrorists and, meanwhile, improve relations between police and New Yorkers. Other cities, such as long-struggling Camden, New Jersey, have embraced the same ideal of community policing and have seen impressive drops in crime. New York tried a version of it for a spell in the early 1990s, but ultimately abandoned it.

This time round, the idea is for officers to spend more time getting to know the people who live and work in the areas they serve. Some cops will be exempt from responding to 911 calls so that they can concentrate on building trust. Others will be moved out of desk jobs. Mr de Blasio called it a return to "the cop on the beat". There will be more of them: Mr Bratton, after months of begging, at last persuaded Mr de Blasio to budget for 1,300 new officers.

Mr Bratton predicts that by getting close to the public the police will learn which people are reliable informants, and thus who the criminals are. Information-gathering is key. Each cop will be given a smartphone and each patrol car will have a tablet, allowing officers to get real-time analysis and intelligence.

Training will be overhauled. All uniformed officers will have annual sessions and the chance to attend special courses related to their assignments. They will learn, among other things, how to deal with the mentally ill. New recruits will be trained differently, too. Rookies used to be sent almost unsupervised to "impact zones" with high crime; now they will be spread across the city.

"Your Police", after describing each officer as a friend, goes on to say: "He is there to protect you. He has dedicated his life to the preservation of the laws and the property and the civil rights of the people in the community he serves. He would not hesitate to save your life at the cost of his own." Perhaps Mr Bratton's favourite book should be reprinted, too. ■



## Crime and immigration

## A delicate balance

WASHINGTON, DC

## Politicians hyperventilate over a "sanctuary" case in California

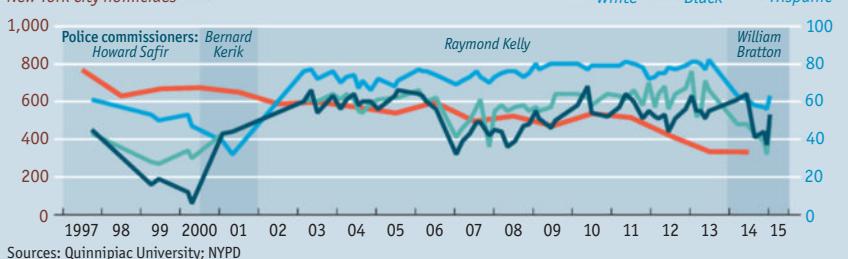
THE pattern is all too familiar. A tragedy makes headlines, and partisans on right and left shout that it could have been prevented—if only their favourite policies had been followed. The latest outbreak of we-told-you-so-ing follows the murder of Kathryn Steinle, a 32-year-old Californian shot, seemingly at random, as she strolled on a pier in San Francisco on July 1st. Her death is fuelling fresh rows about immigration because her alleged killer, Juan Francisco Lopez-Sanchez (above), is a Mexican with numerous drug convictions and five deportations on his record. He was at large because San Francisco officials—heeding a "sanctuary city" policy of limited co-operation with federal immigration agencies—disregarded a request from immigration officials to keep him locked up.

The case made national waves after Donald Trump, a businessman running for the Republican presidential nomination on a platform that includes angry rhetoric about immigrants spreading crime and disease, called the murder "yet another example of why we must secure our border immediately." On the left, San Francisco's mayor, Ed Lee, denies that his city's sanctuary policies shield "repeat, serious and violent felons". San Francisco's elected sheriff, Ross Mirkarimi, blamed Immigration and Customs Enforcement (ICE) for failing to issue an arrest warrant for Mr Lopez-Sanchez. The White House spokesman, Josh Earnest, accused Republican critics of President Barack Obama's immigration policy of blocking reforms that would focus ICE resources on dangerous felons and increase border security.

Alas, awkward facts undermine many ►

## Safer, but not happier

New York City homicides



► partisan claims being made about the San Francisco killing. Start with Mr Trump, whose noisy, finger-jabbing populism has sent him surging in the opinion polls. The alleged killer was not at large because border controls failed. He has been repeatedly caught crossing the border, most recently in Texas in late 2009, an illegal entry that landed him in federal prison for almost four years. The “wall” that Mr Trump wants to build on the Mexican border would not have saved Ms Steinle’s life. The same objection applies to White House talking points that chide Republicans for blocking extra border security.

What happened next, however, undermines the don’t-blame-us claims of San Francisco’s mayor and sheriff. At the end of the alleged killer’s sentence, the federal prison sent him to San Francisco on the basis of an outstanding warrant for a 20-year-old marijuana charge, which was swiftly dropped by a local court. Mr Lopez-Sanchez walked out of a local jail on April 15th after Sheriff Mirkarimi ignored a federal request to hold him and notify ICE so that he could be deported. Under a city ordinance passed in 2013, San Francisco officials and police work with ICE only when presented with a court order or warrant, undermining the mayor’s case that repeat felons have no place to hide. But it makes no sense for the sheriff to complain that he was not sent an arrest warrant, notes Julie Myers Wood, who ran ICE from 2006 to 2008. Mr Lopez-Sanchez had already served prison time for his most recent border-crossing, and there was no new immigration crime with which to charge him.

There are real lessons to be drawn. Police and mayors in a growing number of cities turn to sanctuary policies for pragmatic reasons. They fear that if officers alert immigration agents when undocumented migrants are booked into their cells—even for fingerprinting after being caught driving without a licence—then frightened immigrant communities will stop reporting crimes. In 2014 state and local jurisdictions declined more than 12,000 ICE “detainer” requests to hold someone for immigration purposes. For comparison, about 300,000 migrants are expelled annually, two-thirds of them soon after illegally entering the country.

Other reasonable conclusions may be drawn. Comprehensive immigration reforms that bring millions in from the shadows would do much to eliminate the need for sanctuary-city policies, says John Sandweg, a former ICE boss. In the meantime, he adds, San Francisco has chosen an “extreme” version of non-co-operation. For her part Hillary Clinton, the Democratic presidential candidate, says San Francisco “made a mistake”. Alas, Ms Steinle’s murderer is now part of the presidential election cycle. In that context, reasonable conclusions are not at a premium. ■

## Local food regulation

# Is lemonade legal?

NEW YORK

### Testing the limits of silliness in east Texas

ZOEY and Andria Green, who are seven and eight respectively, only look innocent. With their baby faces and cunning, they managed to lure patrons to their illicit enterprise: a lemonade stand outside their home in Overton, Texas. The girls were in business for about an hour in June, selling popcorn and lemonade to raise money for a Father’s Day gift, before local police shut the operation down. Not only were they hawking without a \$150 “peddler’s permit”, but also the state requires a formal kitchen inspection and a permit to sell anything that might spoil if stored at the wrong temperature. As authorities are meant “to act to prevent an immediate and serious threat to human life or health”, the officers understandably moved swiftly in.

Americans increasingly like to buy local food. The number of farmers’ markets offering local produce, cakes and jams around the country has more than doubled to nearly 8,300 in a decade. Sluggish job growth has also encouraged more people to start home-based businesses. But regulating the sale of goods made in ordinary kitchens is a “gray area”, says Emily Broad Leib of the Harvard Law School Food Law and Policy Clinic. So states are passing “cottage-food laws” allowing people to sell “non-potentially hazardous” foods, such as baked goods and almost anything canned, from their homes. But the rules are often odd or fussy, and no two states are alike.

Rhode Island, for example, allows farmers to peddle their wares but bans everyone else. In Oklahoma the law applies only to bakers, who may sell up to \$20,000-worth of breads and cakes as long as the sales take place in their

homes, not a market. In Wisconsin residents may sell only homemade canned goods, not baked ones, and sales must be capped at \$5,000 a year. A lawsuit against a similar limit in Minnesota was dropped on June 16th after state lawmakers voted to raise the annual cap to \$18,000 for sellers who register with the state and take a safety course. Some states explicitly ban internet sales, as products sold across state lines are subject to more stringent federal food laws.

Resistance to loosening the rules largely comes from health officials, who worry about the risks of unlicensed kitchens. But cottage-food laws have mushroomed in recent years without any boom in botulism, says Baylen Linnekin of Keep Food Legal, a lobby group. Advocates argue that raising sales caps and reducing red tape would not only help to satisfy a growing demand for all things artisan, but also encourage more small-scale entrepreneurs. Research from the Institute for Justice, a libertarian group, found that California’s more relaxed cottage-food law of 2013 launched more than 1,200 new businesses within a year. In Texas, where lawmakers eased homemade food rules in 2013, more than 1,400 people are now licensed to sell their treats from home.

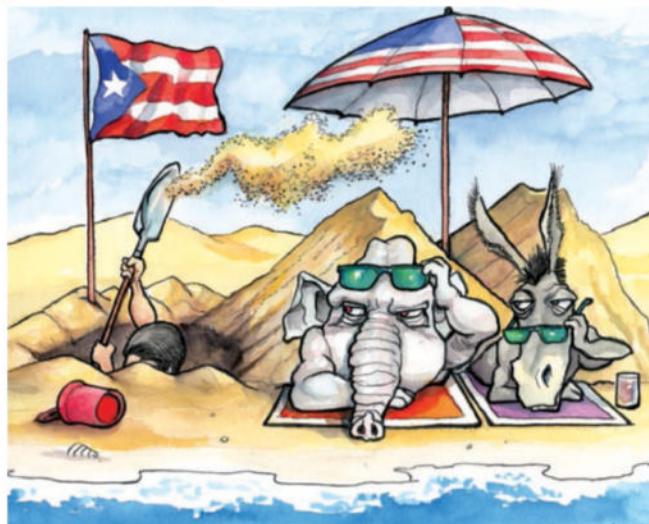
Alas for the Green girls, lemonade is not covered by Texas’s cottage-food law, as it might spoil if it is not properly stored. But the pair have learned a valuable lesson about commerce and regulation. They discovered that if they gave the lemonade away free, but put a box on the table for tips, they could still make money because the “payments” thus became donations. Their father must be proud.



Out of the hands of babes

# Lexington | The Puerto Rico problem

For many reasons, mainland politicians find the territory too hard a place to talk about



POLITICIANS do love a morality tale. Just ask the Greeks. American political leaders, in common with so many around the world, relish casting Grecian agonies as an Aesop's fable for modern times (pitting northern European ants against Mediterranean grasshoppers). That makes it striking—and revealing—that mainland political bosses seem reluctant to sermonise about a debt crisis much closer to home, in the autonomous American territory of Puerto Rico.

The island's governor, Alejandro García Padilla, last month conceded that public debts of \$72 billion are "not payable". For politicians on the right, Puerto Rico's fall looks like a ready-made parable. It is a tale of big government and policies that look kindly but instead trap the poor in listless dependence. To take just one measure, the island's workforce-participation rate is a dismal 40%, thanks in part to rigid labour laws and welfare schemes that too often pay better than taking a job. For those on the left, this is a chance to preach against investment funds which piled into Puerto Rican bonds in search of high returns, and now want islanders to take the pain after that gamble went wrong. Republicans and Democrats hardly held their tongues when similar debt crises broke in Europe, or in such American cities as Detroit.

Yet among mainland political leaders, debate about Puerto Rico has been distinctly cautious and technocratic—when bigwigs discuss the island at all—and centres on such questions as the island's bankruptcy laws, which are in the hands of Congress in Washington. On July 7th Hillary Clinton, the Democratic frontrunner in the 2016 presidential contest, ended days of equivocation and called for Congress to grant Puerto Rico the same access to federal bankruptcy protections that the 50 states enjoy when trying to save indebted municipalities or public services. Some conservative groups call that approach a "taxpayer bail-out", and accuse Democrats of plotting to let Puerto Rico walk away from its debts like Argentina, Venezuela or other leftist scofflaws. Those critics would be on stronger political ground if Mrs Clinton's ideas were not almost a carbon copy of a proposal by one of her main Republican rivals, Jeb Bush. Mr Bush, a former governor of Florida, argues that Puerto Rico should be granted the same bankruptcy rights as the 50 states—not least because he thinks the island should one day become state number 51.

In part, this bipartisan mood of caution is explained by a crude calculation: Puerto Ricans have become too important to offend. Though the 3.5m inhabitants of Puerto Rico cannot vote in presidential elections and only send a non-voting delegate to Congress, they are American citizens and enjoy full voting rights if they move to one of the 50 states. For decades, the votes of the Puerto Rican diaspora hardly swayed national elections, because most lived in New York or New Jersey where Democrats romp home in presidential contests. But since 1990 legions of Nuyoricans, or Puerto Ricans living in New York and the north-east, have migrated to the battleground state of Florida, drawn by sunshine, cheap homes and jobs. In the past decade they have been joined by hundreds of thousands of islanders fleeing economic stagnation and high crime. There are about 5m Puerto Ricans on the mainland now, a fifth of them in Florida. One last quirk gives these new arrivals extra influence. In Puerto Rico, political parties are organised around such local issues as statehood, and match up imperfectly with America's partisan camps—though leftists are in general more sceptical of statehood, possibly because the island's bloated public sector would have to shrink and taxes fall to converge with mainland norms. In Floridian elections, this makes many Puerto Ricans that rarest of animals: true swing voters, willing to elect both moderate Republicans (especially if they are Puerto Rican) and Democrats.

Darren Soto, a Democratic state senator from central Florida, represents a sprawling suburban district that 20 years ago was cow pastures and orange groves. Though a quarter of his constituents are Puerto Rican, he has not heard one of them advocate a federal bail-out for the island. His voters include educated workers who yearn for institutional changes on the island. They do not want federal tax dollars "thrown at the crisis", says Mr Soto.

## Colonial guilt

Alongside electoral maths, there is another reason why mainland politicians may be reluctant to talk too much about Puerto Rico. It involves guilt. America is proud to be a superpower that never built an empire. But Puerto Rico was, in essence, grabbed as a colony in 1898, after a brief war ended four centuries of rule by Spain (islanders went from being "fervently Spanish" to "enthusiastically American" within 24 hours, grumbled one of the vanquished Spanish commanders at the time).

To this day goods must be shipped between the mainland and Puerto Rico on expensive American-flagged vessels, under a law of 1920 that Congress declines to repeal. Under Rexford Guy Tugwell, appointed governor by Franklin Roosevelt in 1941, the island was one large experiment in central planning, down to the creation of favoured industries, from tuna canning to pharmaceuticals. The island was further subsidised during the cold war as a counter-example to Cuba, but never became competitive.

Luis Fortuño, a conservative who tried to boost growth by cutting taxes and public payrolls as the island's elected governor in 2009-13, says he often felt he was "fighting Tugwell's phantom". Today, some on the American right want Congress to create a "financial control board" with powers to impose reforms on debt-ridden Puerto Rico, as was done to Washington, DC in the 1990s. That sounds unblushingly colonial, and is no way to craft reforms that might stick.

Small wonder that many American politicians prefer to ignore Puerto Rico. Alas for them, the debt crisis is muscling into the 2016 race. Sooner or later, this tale will need a moral ending. ■



## Also in this section

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37 Street theatre in Bogotá

37 Death of a spokesman in Mexico

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## Canada's economy

## A rough ride

OTTAWA

**A recession may already have started. For the government, which is facing an election, the timing could not be worse**

THERE are many ways for a government to spin the news that the economy it manages may have entered a recession. Stephen Harper, Canada's Conservative prime minister tried breeziness. "I've seen a lot worse," he said at the Calgary Stampede, a rodeo that attracts about 1m visitors (pictured above). Joe Oliver, the finance minister, went for stubborn optimism. "We are going to see solid economic growth this year," he insisted.

The numbers argue against him. The economy contracted at an annual rate of 0.6% in the first quarter of this year. The second was no better, says Emanuella Enenajor, an economist at Bank of America. If so, the economy was technically in recession. This is awkward for Mr Harper, who hopes to win another term in office in a national election to be held on October 19th.

He had planned to achieve that by boasting about the Conservatives' economic record. Until recently he had grounds to do so. Canada indulged less than others in the credit spree that led to the 2008 financial crisis in Europe and the United States. As the crisis ebbed it grew faster than most other big economies, thanks to a boom in commodities, especially oil (see chart 1).

But with the sharp fall in oil prices over the past year, Canada now threatens to move from leader to laggard. The conser-

sus forecast for economic growth is around 2% in 2015, which would put Canada in the middle of the pack of G7 economies, but that will probably be revised downward. In that rich-country group, only France and Italy have higher unemployment rates.

Growth is now dangerously dependent on consumer credit and rising house prices, both of which could swiftly drop (see chart 2). The average price of a detached house in Vancouver is C\$1.4m (\$1.1m); in Toronto it is C\$1.1m. The central bank thinks housing is overvalued by as much as 30%; the biggest domestic risk to

growth is over-borrowing by consumers, most of which is housing related, it warns. Philip Cross, a former chief economist at Statistics Canada, points out that the share of income that households need to service their debt is at an all-time low. But he worries about what will happen if interest rates or unemployment suddenly rise. Canada, which escaped the worst effects of the rich world's credit bubble, may be creating a smaller one of its own.

As energy industries slowed, others were supposed to take over. Economists expected that a weaker Canadian dollar would boost demand for manufactured goods, especially from the United States. That has not happened. Exports to Canada's southern neighbour, including oil, were 6.5% lower in May than during the same month last year. Manufacturing output shrank in April for the fourth consecutive month.

Partly as a result, private investment is falling. Energy firms, which account for ➤

## A leader no longer

GDP, % change on a year earlier

- G7 minus Canada
- Canada

Sources: Statistics Canada; IMF; *The Economist*

As a % of Canadians' disposable income:

- Household interest paid
- Household debt



\*Forecast

▶ around a third of capital spending, are expected to slash investment by nearly 40% this year. This is just the first wave of cuts, warns Jock Finlayson of the Business Council of British Columbia.

Manufacturers have little more appetite for risk. In 2012 Mark Carney, who was then governor of Canada's central bank, chided firms for sitting on "dead money". "That money is still dead," says Glen Hodgson of the Conference Board of Canada, a think-tank. The only bright spot is tourism, which is not a big enough industry to lighten the national gloom.

Mr Harper could, if he chose, provide a

boost. Canada's government debt burden as a share of GDP is the lowest among G7 countries. It therefore has room to borrow and build more roads and bridges. But the Conservatives, who believe in small government and low taxes, are loth to do that. Mr Oliver has ruled out spending any more on infrastructure than the C\$5.8 billion he promised last November.

The central bank faces a trickier task. It unexpectedly cut its benchmark lending rate to 0.75% in January, when the economy was already looking sickly. There is speculation that the bank will lower it yet again at the next opportunity, on July 15th.

But that could push up house prices still further and encourage consumers to borrow even more.

So the government's main tactic for dealing with the slowdown seems to be hope. One possibility is that the slump in exports to the United States, by far the biggest foreign market, will prove to be temporary. Mr Cross argues that the recent drop was largely due to cold weather in the eastern United States and a dock strike in the west. If so, exports should pick up, lifting production and investment. Mr Harper must pray that happens soon. If it does not, he risks being unhorsed by angry voters. ■

## Bello | The Peronist pope

### Francis's balancing act in Latin America

**I**F ONE can apply the term to a 78-year-old prelate who has turned lack of ostentation into an art form, then Pope Francis is a rock star. Or at least that is how he is being greeted in Latin America this week. Hundred of thousands have turned up for open-air masses in Ecuador, with more to follow in Bolivia and Paraguay. Yet the eight-day tour—the longest foreign trip so far in this papacy and the first to Spanish-speaking America—may do more than underline the popularity in his home region of Jorge Mario Bergoglio, the first Latin American pope. It may add political definition to his papacy.

Still home to 40% of the world's Catholics, Latin America has seen a swift advance of evangelical Protestantism in the past 40 years. Yet according to the Pew Research Centre, a think-tank in the United States, Paraguay (where 89% are Catholics), Ecuador (79%) and Bolivia (77%) remain bastions of the faith, along with Colombia and Mexico.

The pope's most obvious purpose is to keep them that way by making the church more welcoming and more relevant. In Guayaquil, in Ecuador, in a mass celebrating the family ("the best social capital") he spoke of his concern for those excluded from it—a reference to the quiet battle he is waging for more tolerance towards gay couples and divorcees. The issue will be taken up by a synod in October.

The three countries he is visiting are all fairly small and poor, with large Amerindian populations. They were chosen carefully. Francis, who used to be a Jesuit priest in Argentina, values pastoral work with those on the margins of society, respects popular piety and promises a "poor church, for the poor".

His words have enthused supporters of liberation theology, a set of leftist ideas that were influential in Latin America in



the 1970s and 1980s. Francis speeded up the beatification, which took place in May, of Oscar Romero, a Salvadorean archbishop who was gunned down by a right-wing death squad while celebrating mass in 1980 and is a hero to the left.

Yet Father Bergoglio always rejected Marxism and violent revolution, which some leftist priests supported. Rather than embracing liberation theology, he is reinterpreting it for a post-Marxist age. Romero's "option for the poor wasn't ideological but evangelical," says the Vatican. The pope's criticisms of free-market capitalism chime both with traditional Catholic social doctrine and with Peronism, Argentina's populist-nationalist political movement, to which he was once close.

Two of the pope's hosts, Ecuador's president, Rafael Correa, and Bolivia's Evo Morales, are hard-left allies of Venezuela's authoritarian regime. They proclaim that they will take from the rich and give to the poor, while quietly squelching the opposition. Mr Correa, who calls himself a "Christian leftist", publicly implied this week that the pope backs his policies. In a barely veiled rebuke to his host, the pope stressed

the value of pluralism and warned against "dictatorships, personality cults and the eagerness for sole leaderships".

Francis has already shown himself to be a highly political pope. His support for the secret talks that led to a diplomatic thaw between the United States and Cuba was crucial. When embassies reopen later this month after 54 years, he can claim some of the credit. He has five times received Argentina's president, Cristina Fernández, a Peronist with whom he clashed when archbishop of Buenos Aires.

With a presidential election in October (in which Ms Fernández herself cannot stand), those meetings have provoked grumbling from opponents. But the pope is "very subtle in exercising influence in Argentina", says Sergio Berensztein, a political scientist. His aim in entertaining Ms Fernández is to encourage a smooth democratic handover, avoiding the violence and chaos that have marked political transitions in Argentina in the past.

Some observers worry that the pope is overplaying his hand politically. His plan to go to Cuba—for four days—in September en route to the United States will anger Republicans and risks undermining the American half of that trip.

The biggest test of Francis's political skill will be whether he can help to bring about a peaceful and democratic transition in Venezuela, where the unpopular government of Nicolás Maduro faces likely defeat in a parliamentary election this year—if it is free and fair. "Behind the scenes he is trying to do everything he can in Venezuela to defuse confrontation," says Jimmy Burns, the author of a forthcoming biography of Francis. Expect that to include the application of priestly pressure to Mr Maduro's allies, Presidents Correa and Morales, this week.

**Street theatre in Bogotá**

## Dramatic solutions

BOGOTÁ

**A city uses actors to teach people better manners**

THE stage is a bus stop. The audience consists of bemused commuters. The actors are real theatre folk. The plot: a mother cradling a baby (played by a doll) boards a crowded imaginary bus. None of her fellow passengers gives up his seat. As the bus lurches, the baby slips from the mother's grasp, bouncing from one inconsiderate passenger to the next. The lesson: be nice to mothers holding infants.

The impresario behind this pavement performance is the city of Bogotá, Colombia's capital, which is using street theatre to discourage bad behaviour on its overtaxed transport system. There is plenty of it. Some 70,000 people a day ride the buses without paying; eight fare-dodgers died in accidents last year. More than half of women report suffering sexual harassment on the network.

In January Bogotá's transport office hired three troupes of actors to fan out across the city daily to educate, cajole and in some cases shame anti-social Bogotanos. People who barge onto buses before others get off might be met with intimidating stares from actors planted among the passengers. In one skit, played out on an articulated TransMilenio bus, an actor on a mobile phone described how his cousin was hit by a bus as he tried to dash on to another without paying. After the actor hung up, two real fare-dodgers quizzed him about the fictitious cousin's fate.

The misbehaviour of the moment sometimes calls for new material. Drunken revelry during the Copa América football tournament (played in Chile in June and July) prompted a skit about the dangers of drunk driving: a farcical match with a bottle of aguardiente, the local liquor, replacing the ball. "We want people to go home and think: 'What on earth just happened to me today?'" says Hugo Bancarel, of Asociación Lope de Vega, one of the transit troupes.

This is a revival of an idea first tried by Antanas Mockus, a mathematician who served two terms as Bogotá's mayor between 1995 and 2003. To cope with the city's gargantuan problems on a meagre budget, he used stunts and gestures—changing software rather than hardware, as he put it. He dissolved the deeply corrupt traffic police and replaced them with 420 mimes, who directed traffic and poked fun at jaywalkers. Drivers were provided with red and white cards to punish or praise other road users.



**Laugh—and learn some manners**

There is no real evidence that such tactics did much good, but they apparently did little harm. Bogotá's murder rate dropped by 70% between 1995 and 2003 and traffic deaths fell from 1,300 a year to 600. Mr Mockus's idea of fighting loutishness with theatre fell out of favour when he left office. But this year Gustavo Petro, Bogotá's unpopular left-wing mayor, re-hired the transport thespians.

The revival could have a limited run. Critics say it is a waste of money. Bogotá's next mayor, to be elected in October, may bring down the curtain. ■

### Mexico's media

## Death of a spokesman

MEXICO CITY

**A perfect gent in the service of a perfect dictatorship**

JACOBO ZABLUDOVSKY, who died on July 2nd, aged 87, was for half a century the courteous, unflappable face of Mexican television news. He dressed impeccably, in a suit, black tie and thick spectacles. He had a nose for a good story and such a voice of authority that the phrase "Jacobo said it" was, for many, a mark of truth. His stature was akin to that of Walter Cronkite in the United States. His biography would serve as a history of modern Mexico.

Yet for much of his career he betrayed the trust Mexicans placed in him by broadcasting on behalf of a regime known as the "perfect dictatorship", which he almost never challenged. His motives for serving his audience and his profession so badly remain a mystery.

It is hard to separate the life of Mr Zabludovsky, the son of Yiddish-speaking immigrants from Poland, from the fortunes of

the Institutional Revolutionary Party (PRI), which monopolised power in the second half of the 20th century (and is back in office, now in a more democratic guise, after a 12-year hiatus). He started as a journalist in 1946 when the PRI was flowering. He resigned from the dominant broadcaster, Televisa, just before the party lost the presidency in 2000.

For most of that time, his news programme, according to Enrique Krauze, a historian, "not only stuck to the official line. It was the official line." Presidents and ministers called in to his show, passed through by his assistant, Lupita, who invariably referred to him as "Licenciado"—a pompous title, meaning "university graduate", that epitomises Mexico's devotion to hierarchy. Mr Zabludovsky was capable of being more than a government mouthpiece. He proved that by being the only Mexican journalist to accompany Fidel Castro to Havana in 1959, the year of Cuba's revolution. But his boss and friend, Emilio Azcárraga Milmo, insisted that Televisa should be "a soldier of the PRI". Mr Zabludovsky was the party's bugler-in-chief.

There were insidious repercussions. After an army massacre of students in Mexico City in 1968 he began a newscast with a now-notorious phrase: "Today was a sunny day". When a vibrant opposition to the PRI eventually emerged, he ignored it, and the murder of its activists. He won praise in 1985 for his courageous reports of earthquake destruction in Mexico City. Yet he failed to note how the government's shoddy handling of the quake marked the beginning of the PRI's slow downfall. For the next 15 years, his reputation followed the same trajectory.

Televisa is again a dutiful messenger of the government. Mr Zabludovsky underwent a conversion. The aesthete—he was an authority on tango, a bullfighting fan and a friend of the late Gabriel García Márquez, a Colombian novelist—showed a more mischievous side on radio, becoming Mexico's most popular lunchtime host. His politics shifted: he spoke up for his friend, Andrés Manuel López Obrador, a leftist firebrand and scourge of the PRI. Mr Zabludovsky wrote charming newspaper columns, mostly about Mexico City; his last, ten days before he died, described his first cradle as, appropriately, a soapbox at the market where his parents sold dishcloths.

He never adequately explained his slavishness to the PRI. In an interview with *El País*, a Spanish newspaper, in 2013, he declared that "self-censorship was the worst thing". Yet he excused his own conduct, saying "we were all under this omnivorous, absolute power". Perhaps, in a failing that many Mexicans would forgive, he simply felt friendship and loyalty were more important than free speech. Or he just loved being a perfect gent in the service of a perfect dictatorship. ■

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**Japan's security**

## Gloves off

TOKYO

**A pacifist nation inches closer to taking responsibility for its own security**

**F**OR months Japan's Diet (parliament) has been debating one of the country's most important legislative changes since the second world war. Shinzo Abe, the prime minister, wants to make it easier for Japan's armed forces to join military activities abroad and defend allies under attack—principally America. But Mr Abe's long-cherished aim of loosening the shackles of the country's pacifist constitution is proving unpopular at home.

The government wants to ram a clutch of security bills through the Diet's lower house by July 16th. Despite complaints about this by some of Japan's neighbours who are still haunted by memories of its role in the war, the laws would not involve sweeping change. Japan would still not send combat troops abroad, even on peacekeeping missions. It would be able to use military force to protect its allies, but only if Japan itself were deemed to be in a "survival-threatening situation". Worryingly for Mr Abe, however, public support is receding ever farther.

A recent poll by the state broadcaster, NHK, found that almost half the population did not understand the bills. Even *Sankei Shimbun*, a strongly pro-government newspaper, says that nearly 60% oppose passing them this summer. Public backing for the government has dipped below 40% for the first time since Mr Abe called—and won—a snap election last year, according to the *Asahi Shimbun*, a liberal newspaper.

Mr Abe's difficulties were highlighted last month when three legal experts testified before the Diet that the government's plans violated the constitution, article nine of which says that "the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes." One expert, Yasuo Hasebe, had been asked to testify by the prime minister's own Liberal Democratic Party (LDP).

Mr Abe says he does not want Japan to become embroiled in foreign conflicts. But he does value the alliance with America, which wants him to find ways of enabling his country to play a bigger security role. Both Japan and America worry about the rise of China and North Korean military madness. Neither government wants Japan to be hogtied by old rules should an emergency arise, such as an attack by China on an American ship defending Japan. One aim is to achieve "inter-operability" with American forces, in line with new guidelines for the two countries' military relationship that were adopted during a visit by Mr Abe to Washington in April.

During that trip Mr Abe had no problem convincing his hosts of the need for new security laws in Japan. But he angered lawmakers at home when he told America's Congress that his legislation would be passed by both houses of the Diet this summer. At that stage, the bills had still not even been submitted. His pledge looks in-

creasingly rash; the lower house may be close to passing the bills, but there will still be haggling in the upper house where the LDP lacks a majority.

Much of the debate relates to the constitution, especially article nine, which is treasured by many Japanese. But those who accuse Mr Abe of violating it ignore the fact that it has long been interpreted loosely. The document, for example, permits no army, navy or air force; but Japan has had all three since the 1950s. (It got around the ban by calling them "self-defence forces".) It was Mr Abe's predecessor, Yoshihiko Noda of the Democratic Party of Japan, who raised the idea of allowing Japan to engage in "collective" security, as defending allies from attack is described.

**You say army, I say self-defence force**

Mr Abe is eager to make Japan a more normal military power, but he has failed to convince many citizens that this is necessary. The government has found only a handful of leading scholars to support its view publicly. Critics, meanwhile, have been having a field day: an academic group campaigning against the laws has gathered support from 9,000 scholars, including some who normally support Mr Abe. This has led to recriminations. Mr Hasebe, the constitutional scholar, has been bitterly attacked by LDP members who once respected him. At a meeting in June at the LDP's headquarters, several lawmakers blamed the media for failing to help the public to understand the bills. They proposed leaning on advertisers to smother negative coverage of them. (Mr Abe distanced himself from their comments.)

One reason why Mr Abe has been having trouble selling the legislation is that he is reluctant to describe specific scenarios that might require "collective defence". China would be enraged if he were even to ➤

► hint that its behaviour might be a cause for Japanese concern. Mr Abe has given only one possible example: joining allies to end a blockade in the Strait of Hormuz, through which flows much of the oil on which Japan depends.

Asked about his struggle over the legislation, Mr Abe told *The Economist* that it took 25-30 years for the majority of Japanese to accept the need for a security treaty with America (pushed through in 1960 by his grandfather, the then prime minister, Nobusuke Kishi)—implying that the public would eventually support the latest bills too. But it will burn up political capital that Mr Abe badly needs to push ahead with long-delayed economic reforms. He has been talking to right-leaning opposition parties in an effort to garner support in the upper house. Even if the bills are rejected there, they could become law by September if the government can muster a two-thirds majority in the lower house. That should be possible if the LDP can get Komito, its coalition partner, to co-operate. An extra-long Diet session may help: on June 22nd, with boycotts and protests bogging down parliamentary debate, the government decided to keep the legislature open through the summer.

Mr Abe may take heart from China's relatively muted response so far. Though state media in China have issued their usual warnings about a revival of Japanese "militarism", its government has moved in recent months to restore stability to an often turbulent relationship with Japan. After long shunning high-level contacts with Mr Abe's administration, the Chinese government is now more willing to talk to it—even about ways of ensuring that the two countries do not come to blows. ■



Rajapaksa, rejected, returns

since been plotting his return. After his defeat he gave up both the presidency and his leadership of the Sri Lanka Freedom Party (SLFP), the dominant party of the ruling coalition. His successor in both posts was Maithripala Sirisena, a former colleague. Luckily for Mr Rajapaksa, the new president has shown little authority or resolve.

Mr Sirisena has been slow at delivering on promises made during the presidential election, a problem shared by his ally, Ranil Wickremesinghe, who became prime minister of a minority government. They have faced strong opposition from Mr Rajapaksa, whose loyalists launched no-confidence motions and prevented parliament from agreeing even to routine financial measures, such as a proposal in April to extend government borrowing.

Thus cornered, the new government has achieved little. It did push through a constitutional amendment reintroducing a two-term limit for the presidency, which Mr Rajapaksa had scrapped in 2010. It also removed some of the president's powers. But it failed to move ahead on promises to overhaul the voting system, shrink government or deliver a right-to-information bill. Worryingly, on July 2nd Mr Sirisena re-established a press council that can wield wide-ranging and punitive powers against journalists, a move that editors condemned as threatening.

In the meantime, Mr Rajapaksa has been rallying supporters, especially in the south of the country. He remains popular among the majority Sinhala Buddhists, notably for his record in leading a victory over Tamil Tiger rebels in 2009, putting an end to civil war. Fans have crowded to his home every day since he left office. He has toured temples, offering flowers to deities and delivering speeches to cheering crowds. In effect he has been campaigning ever since his defeat.

The fact that Mr Rajapaksa's political fortunes have brightened, however, hardly explains a baffling decision announced on July 3rd by the United People's Freedom Alliance (UPFA), now headed by his successor and rival, Mr Sirisena. The president had earlier dissolved parliament and called parliamentary elections for August 17th. The UPFA, of which the SLFP is part, said it would field none other than Mr Rajapaksa as its prime ministerial candidate. And, through gritted teeth presumably, Mr Sirisena said he would offer "blessings and advice" to Mr Rajapaksa in the election.

All this smacks of betrayal to those who united behind Mr Sirisena precisely in order to keep Mr Rajapaksa as far as possible from government. The decision came after weeks of negotiations between the two men in which Mr Sirisena evidently lost out. Critics accused him of political skulduggery and claimed that, despite his protestations of being "apolitical", he cares mostly about the interests of his party, the SLFP. It is likely to do fairly well in elections with Mr Rajapaksa at the front, who is expected to whip up a sense of nationalistic triumph over his war record.

Voters will get their say. To keep Mr Rajapaksa at arm's length they could instead back the interim prime minister, Mr Wickremesinghe, and his United National Party. However, he has difficulties of his own, notably questions over the behaviour of a friend, the central bank governor, who faces allegations of impropriety in office. It is unlikely that Mr Rajapaksa will be swept aside in the forthcoming polls. A fragmented result, with nobody getting a comfortable majority, is quite possible. If so, much would rest on politicians' skills at horse-trading and building coalitions of small parties. It is worth remembering that Mr Rajapaksa, with his fighting spirit, has a record of being especially good at that. ■

## Sri Lankan politics

### Rajapaksa redux

COLOMBO

**A general election is called and an ex-president plots his comeback**

GIVE credit to Mahinda Rajapaksa, a former president of Sri Lanka (pictured), for his fighting spirit. In early January voters unexpectedly and narrowly denied him a third successive term in office. An opposition alliance of Tamil, Muslim and disaffected Sinhalese had tired of his authoritarian rule and the presence of several of his brothers in government. Despite steady economic growth, voters disliked inflation, rising debt and blatant corruption. His overly powerful presidency also appeared to threaten democracy.

Rather than accept the end of his political career, however, Mr Rajapaksa has

## Uranium in Central Asia

# Poisoned legacy

MAILUU-SUU

A vast region suffers the Soviet Union's radioactive hangover

**D**O YOU have a radiation meter?" asks Emilkhan Osekeeva, a family doctor, as she walks up a dirt lane called Engels Street. "The woman here died of stomach cancer," she says, nodding at a mud-brick home on the right. "Her youngest son died of leukaemia before his 30th birthday. On the left, the mother also died of stomach cancer. Up there the woman died of uterine cancer."

Dr Osekeeva's 38 years practising family medicine in this idyllic-looking valley in southern Kyrgyzstan make her a cataloguer of death. Cancer rates are rising, she says, and she thinks she knows the culprit. Buried along the river in and around Mailuu-Suu, a town of some 20,000 people, lurks the poisonous legacy of the Soviet Union's first atom bombs: 2m cubic metres of radioactive waste leaching into the water supply.

Mailuu-Suu was once closed to outsiders. Its well-paid workers were treated as members of the elite: they received perks such as handouts of beer and beach vacations in Crimea. Over the years, they mined and milled 10,000 tonnes of uranium ore into yellowcake, ready for conversion into bomb material. Uranium was also sent from as far as East Germany and Czechoslovakia to be processed here.

With the collapse of the Soviet Union and local industry in 1991, the specialists left. Supervision of the town's 23 tailings sites—dumps containing the hazardous leftovers—became sporadic. Fences and warning signs have been looted for scrap metal (a surviving sign is pictured). Today, cows graze atop the invisible menace. Goats sleep inside an abandoned uranium mineshaft. Local dairy products and meat are often unsafe; kitchen taps spew silty river water laced with heavy metals.

The local health effects are anecdotally heartbreakingly, if poorly studied. Neighbouring countries worry. The river through Mailuu-Suu is prone to earthquakes and floods. It is only about 15 miles (25km) upstream from Central Asia's breadbasket, the Fergana Valley, which is home to over 10m people. Every few years landslides block the flow, threatening to flood the dumps and wash radionuclides over the melon patches and cornfields downstream. A European aid official warns of a "creeping environmental disaster".

Mailuu-Suu is only a small part of the picture. Dotting hills above the Fergana—straddling the post-Soviet republics of Kyrgyzstan, Tajikistan and Uzbekistan—lie dozens of other tailings dumps (see map). Many also contain other heavy metals such as lead, arsenic and cadmium, which can be more dangerous to the body than radiation. Few are secured or monitored.



Kyrgyzstan, Tajikistan and Uzbekistan—lie dozens of other tailings dumps (see map). Many also contain other heavy metals such as lead, arsenic and cadmium, which can be more dangerous to the body than radiation. Few are secured or monitored.

The three countries are hardly on speaking terms, so cross-border co-operation is non-existent. Secretive Tajikistan and Uzbekistan have done little to develop legislation on how to handle the waste. An official at Kyrgyzstan's Ministry of Emergency Situations says his budget allows him to do little more than fill in holes where people have scavenged for metals.

Kyrgyzstan, however, has made a little progress. Between 2010 and 2012, an \$8.4m World Bank-led project moved 150,000 cubic metres of waste from one of the most accident-prone tailings dumps in Mailuu-

Suu to a safer spot up the hill. But locals complain they were not briefed properly about this. They say workers stirred up radioactive dust; many claim cancers have grown more frequent since the transfer.

The government is appealing to the European Union for \$50m to deal with ten sites at Mailuu-Suu it says are in need of "urgent" relocation. Others estimate that even this relatively small project would cost hundreds of millions. Kyrgyz officials grumble that donors are slow to make decisions, spending millions on assessments that take years.

The International Atomic Energy Agency says the landslides and flooding make Mailuu-Suu "high risk" and a top priority. But donors can be forgiven for hesitating. Corruption and inertia have eroded many government institutions in Kyrgyzstan and its neighbours.

Mailuu-Suu's deputy mayor, Zamirbek Rasolov, says that his town educates the community about the tailings' dangers, in schools and through public-awareness campaigns. But awareness is little in evidence. Questioned about the government's efforts, over a dozen residents ranging in age from 12 to 63 say they have never heard officials mention the danger. Five high-school boys say their teachers have not spoken of it either.

What little is known circulates by word of mouth. Inaccurate rumour sometimes serves only to make the threat greater. A pharmacist suggests drinking vodka to prevent getting sick from radiation—advice, no doubt, that many relish taking. Such beliefs may explain why 60-year-old Svetlana Kazaeva, born and raised in Mailuu-Suu, thinks there is no danger at all. The mines closed decades ago, she argues, so "now there is no effect". ■



Warnings ignored



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### Fertility

## Tales of the unexpected

BEIJING

**China has relaxed its one-child policy. Yet parents are not rushing to have a second**

**W**EIJIA is a typical Chinese seven-year-old. He loves riding his bike and anything to do with cars; he is a badminton fanatic and has lessons twice a week. In a few months' time, however, he will become rather less typical. He will have a brother or sister—something most urban Chinese children lack.

His parents are taking advantage of a relaxation in November 2013 of the country's strict family-planning rules. Couples are now allowed to have a second baby if one parent is an only child. After more than 35 years of often brutal enforcement of the one-child-per-couple policy, some had expected a mini baby-boom to follow. The National Health and Family Planning Commission estimated that the new rules would allow 11m more couples to have a second child (there were already exemptions for some). It thought that 2m of them would try in the first year. But by the end of 2014 fewer than 1.1m people had applied for the necessary permit.

That worries the government, which has tweaked the rules not out of sympathy for lonely only children or for parents who want a spare heir, but because of a population crunch. The country is ageing rapidly. In 2012 its labour pool shrank for the first time in 50 years. In the largest cities the fertility rate—meaning the number of children an average woman is likely to have during her lifetime—is among the lowest in the world, at around one. For the country

as a whole it is less than 1.6—far below the level of 2.1 needed to keep the population steady (see chart).

The one-child policy did not curb Chinese fertility as much as its boosters imagine. By the time it was introduced in 1979, the fertility rate had already fallen to 2.8 from 5.8 in under a decade, thanks to usually less coercive efforts to encourage fewer births. Ruthless enforcement of the new policy resulted in widespread forced abortions and infanticide. It inflicted misery on parents who wanted larger families. But its overall impact on births was limited. In most countries, rising affluence has led to fewer babies. India's fertility rate fell steadily over the same period without such formal policies, even though its econ-

omy did not grow nearly as fast as China's. In wealthy South Korea the birth rate has fallen to 1.3 children per woman, down from six in 1960.

China's authorities have now changed tack, from relentlessly proclaiming the virtues of having only one child to encouraging eligible couples to "procreate legally". But they should not be surprised that this is failing to achieve the desired effect.

Since the 1980s rural families whose first child was a girl have been allowed to try for another. More recently, couples who are both single children have been allowed to have a second. Yet the uptake has been low. Academics, including Cai Yong of the University of North Carolina, Chapel Hill, conducted a study in 2007–10 in the coastal province of Jiangsu. They found that among 2,500 urban and rural women they surveyed who were entitled to have a second child, only 6.5% did so. Ethnic minorities (nearly a tenth of the population), have long been allowed to have two or more. But on average each ethnic-minority woman bears only about 1.5 children, according to a census in 2010.

Mr Cai believes that rising incomes have been a big cause of shrinking family size. "Development is the best contraceptive," he says. Births would have plummeted even without the one-child policy, he reckons, though not as fast or as low. Families worry about the expense of having babies: good education and health care are increasingly pricey. A study by Credit Suisse in 2013 found that couples typically spend over 22,500 yuan (\$3,600) a year to raise a child to the age of 18. That is more than three-quarters of the average annual disposable income per person of urban households. A government report in 2015 said that in the first five years of a child's life, city parents spend twice as much as rural ones, even before the high cost of urban ►



► housing is included—particularly near the best schools (see next story).

Chinese families want their offspring not only to get a good education, but also to gain an edge in the global jobs market. Hence Weijia's parents spend nearly 15% of their annual income just on classes for him, including weekly English lessons. Over half of children under six take extra classes in addition to those at kindergarten, according to iResearch, a Chinese market-research company.

Grandparents help to reduce the cost of child care (they often live with their grown-up children). But since people marry and have children later than they used to, the age of live-in grandparents is rising too; fewer are sprightly enough to deal with two children. It has become so common in China to have only one child that society is no longer geared to handle multiple offspring: hotel rooms for two children cannot be booked online (parents must call); play vehicles in parks seat two adults and one youngster; toothbrush-holders in family bathrooms often have space for just

three brushes.

Decades of propaganda about the benefits of single children have changed the way parents think, says Wang Feng of the University of California, Irvine. A belief that China has too many people is widely shared, as is a conviction that the country would have been far worse off without the one-child policy. Many Chinese are surprisingly willing to blame the country's terrible traffic and its air and water pollution on overpopulation, rather than bad planning. Having just one child still has the whiff of the patriotic about it.

The government's next step may be to allow all couples to have two children. There is much speculation that the country's parliament will approve this next year. Family-planning bureaucrats still fret about what might happen if restrictions were to be lifted. But the same factors of cost and hassle will continue to suppress the birth rate, regardless of how fast the policy is adjusted. Growing numbers of young Chinese people now prefer not to marry or have children at all. ■

in most places after a frothy few years, but not near good schools. Now even the most rundown properties in such areas may cost ten times the city average per square metre. The room in Wenhua Lane costs ten times the average. Its lack of cooking or toilet facilities would be of little concern to buyers: they would only use the space for "proving" residency, rather than to live in.

The privileges of wealth will thus be preserved. And that suits the best schools just fine, since their status is self-reinforcing. Those able to attract the wealthiest and best-connected—as well as the brightest—are able to recruit the best teachers, and—with the help of parents' cash—pay for swanky equipment and facilities. (The state turns a blind eye to such glaring inequalities among the schools it runs.) What many parents prize most highly are the connections that such schools help their students to build; the alumni networks of China's best state-schools are as good at opening doors as those of their private equivalents in Britain.

Students can still get a leg-up with intelligence; hence the fierce competition for places at the best kindergartens in order to prepare children for school admission exams (which are common, though not officially allowed). But parental wile is still crucial. A commonly used term for the ordeal of getting children into good schools is *pindie*, which literally means daddy race.

The authorities in Beijing say they want to level the playing field: posh state schools are being encouraged to share facilities with less well-endowed ones, and to open branches to make access to them easier. "You must trust the government," says one wealthy mother over espressos at Moi, a Finnish café in Beijing. After relying on her family pedigree to get her seven-year-old daughter into the same school as the grandchild of a Chinese leader, she has bought a 5m yuan apartment close by to assure her toddler son a spot. ■

## Education

# Rigging the daddy race

BEIJING

## How pushy Chinese parents get their kids into the best schools

**I**Nside the red-lacquered door of No. 39 Wenhua Lane in central Beijing is an old-style single-storey home built around a small courtyard. Its owner, an elderly man in a vest, sits on an upturned bucket near a jumble of cooking pots; a pile of old cardboard rests atop a nearby shed. Next to the man, two estate agents hover at the entrance to a room just big enough for a bed, a wardrobe and a rickety desk. They say it costs 3.9m yuan (\$630,000). At 353,990 yuan per square metre, this makes it pricier than posh digs around New York's Central Park—and it does not even have its own bathroom and kitchen. It is, however, close to the state-run Beijing No. 2 Experimental Primary School, one of the best in the city.

Until recently, that would have had little bearing on the price of the room. For years it has been officially required that admission to a school be based solely on how close a child lives to it. Schools have paid little attention. Backhanders and connections have counted for much more. So too have entrance tests, designed to exclude the less able (unless they were rich—those with inadequate scores could always buy places). In March, however, the Ministry of Education stamped its feet again: by the beginning of the new school-year in September, all primary-school students and 90%

of those in junior secondary schools must attend the school closest to their registered home address (some state agencies will still be allowed to reserve places for children of employees). Schools appear to be taking this latest order more seriously than previous ones.

So too, it seems, are parents. In recent months house prices have been stabilising



Learning to keep tabs on the property market



# The age of unreason

THEY SAY  
know your business  
inside out

WE BRING  
the outside in

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# The age of unreason

**As the world grows richer and older, mental illness is becoming more common. John Prideaux considers the consequences**

IT ALL BEGAN when she lost her head. According to legend, Dimpna, a 7th-century Christian heroine, fled her native Ireland when her father, mad with grief at the death of his wife, developed an incestuous passion for his daughter. The father came after the girl and, rebuffed once more, beheaded her in the flatlands of what is now northern Belgium. Dimpna was canonised, and in medieval Europe developed a reputation for divine intercession that could heal madness. Her cult centred on Geel, a small Belgian town that forms one point of a triangle with Brussels and Antwerp. By the 19th century Geel had developed a system of foster care for the mentally ill in which patients, or guests as they are referred to, are adopted by families. It continues to this day. When at the turn of the 20th century the Belgian government threatened its existence with a decree that the insane should live in institutions, the whole town designated itself as an asylum.

Geel's system can make heavy demands on the host families. Not everyone is deemed suitable for a foster placement—a high suicide risk and a penchant for pyromania are two counter-indications—but the list of exclusions is not so long,” says Bert Lodewyckx, who runs a team at the local hospital that looks after elderly patients. In a town of just 35,000 souls, about 270 families have people living with them who would otherwise be kept in an institution. Foster families are

told nothing about the psychiatric history of their new companions. “For a time, being a foster family was prestigious, a bit like owning a Mercedes-Benz,” Mr Lodewyckx explains. Host families are paid about €20 a day, but their main motives are tradition and altruism.

The way the mentally ill are treated in Geel is unusual. At most times and in most places, caring for such people has been the responsibility of the biological family, which is not always kinder than strangers. Medieval Europeans sometimes locked up family members in basements or shut them away in pig pens. In China, where care of mental patients continues to fall largely on their families, such treatment is sometimes still being reported. In one case a man fashioned a homemade restraint for his son by fitting chains to a chair; in another a woman suffocated her sister with a pillow to lift the burden on the family.

China's psychiatric system, such as it was, was largely shut down after 1949; the new Communist government made no provision for mental illness in a rationally ordered society. Yet as the country has grown richer and more urbanised, demand for mental-health care has grown. In 2012 China passed its first national mental-health law.

This is a typical pattern. The rise of psychiatry in America coincided with the post-war economic boom. Surveys by the World Health Organi-



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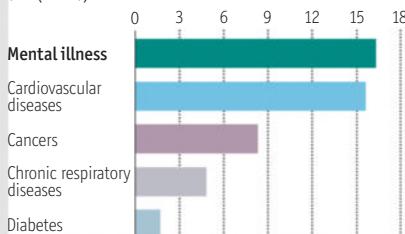
## ACKNOWLEDGMENTS

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## Mind-blowing

Forecast loss of output caused by non-communicable diseases worldwide, 2011-30

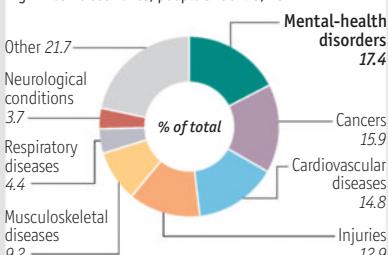
\$trn (2010 \$)



Sources: World Economic Forum; Harvard School of Public Health; Mental Health Atlas; WHO; *The Economist*

Cause of disability-adjusted life-years\*

High-income countries, people under 70, 2012



\*Total years of life lost to premature death and disability

world, these conditions taken together affect about 20% of the population at any point in time. America's federal government estimates that in 2013 about 44m of the country's population of around 325m suffered from some kind of mental illness, with depression and anxiety the most common.

The OECD, a club of mostly rich countries, reckons that the direct and indirect costs of mental illness already exceed 4% of GDP in some places. A report from the Harvard School of Public Health and the World Economic Forum says that between 2011 and 2030 mental illness worldwide will cost over \$16 trillion in output forgone (in 2010 dollars), more than physical ailments such as cancer,

heart disease or diabetes (see chart). But such predictions should be treated with caution, for reliable numbers on mental illness, both within and across countries, are very hard to come by.

This is because, in the absence of a proper understanding of mental illness, the various disorders, syndromes and character traits that are labelled as such are really just thoughtful descriptions of changeable symptoms. In America, health-insurance companies rely on the definitions provided by the American Psychiatric Association's Diagnostic and Statistical Manual (DSM) to determine what counts as sickness and what is merely within the usual range of variations from the norm. Each edition of the DSM removes some disorders and adds others. (The WHO maintains its own system, called the International Classification of Diseases, or ICD, whose definitions differ from the DSM's.)

The most recent edition of the DSM lists around 300 mental illnesses. But the symptoms of mild depression are so different from the disabling effects of the severe sort that the two things probably ought not to share a name, and neither has much in common with, say, post-traumatic stress disorder (PTSD). This special report will try to make sense of this tangle by looking at the main afflictions of the brain at different stages of life. The first sort affects children as their brains develop; the second shows up in adolescents and younger adults; and the third appears as people get older and their brains begin to waste away.

## Chasing a chameleon

The choice of definition, which is itself subject to change, has an effect on the diagnosis. But the thing doctors are trying to pin down is also inconstant. At the beginning of the 20th century it was common for people in the West to be diagnosed with nervous disorders. These have been replaced by conditions such as anxiety and depression. Soldiers in the first world war suffered shellshock, which could cause loss of the power of speech and, in some cases, partial paralysis, with no apparent physiological basis. By the middle of the 20th century other varieties of distress caused by battle had taken over. More recently PTSD has become an increasingly common psychiatric diagnosis for returning soldiers, displaying slightly different symptoms.

Symptoms change not only over time but from place to place. "To say that someone has a conduct disorder does not mean the same thing in Mozambique as it does in Manhattan," says Shekhar Saxena, who runs the mental-health arm of the WHO. In some places hearing voices is considered normal, even desirable when part of a religious experience. In other it might be cause for prescribing antipsychotic medication. The difference is subjective: psychiatrists are usually interested only in voices that are distressingly insistent or say something unpleasant.

► sation (WHO) show that spending on mental-health services increases sharply once GDP per person reaches around \$20,000—the same level at which people start buying insurance, yogurt and other middle-class indulgences.

Two things lie behind this. Richer societies put more resources into diagnosing and treating mental illness, and older societies have more people with dementia. China is on its way to becoming both rich and old. This shift is usually accompanied by an expectation that society ought to shoulder more of the cost of treating mental illness, which can become too heavy for a single family to bear.

The statistical relationship between mental illness and development is new evidence for an old theory. Since the 19th century, people have been arguing that mental illness is a price to be paid for progress. In "Civilisation and its Discontents", Sigmund Freud popularised the notion that neurosis increased in tandem with profit. Before Freud, an American neurologist, George Beard, had noted that a nervous disorder he labelled neurasthenia (and others nicknamed "Americanitis") was on the rise. He put it down to the speeding up of modern life, facilitated by the telegraph, the railway and the press.

Neurasthenia disappeared from the psychiatrist's lexicon in 20th-century America but enjoyed a long afterlife in China; Chairman Mao himself was said to suffer from the condition. It faded from view only after Arthur Kleinman, a Harvard anthropologist, conducted fieldwork in China in the 1980s and concluded that the symptoms of neurasthenia were rather like those of depression. Drug companies spied an opportunity to sell pills that they were already making. Rates of diagnosis for depression, which was virtually unknown in China 20 years ago, are now catching up with those elsewhere.

This is not because economic progress, of which China has seen more than any other country over the past three decades, makes people sick. Rather, it is due to a combination of the profound effect that growing richer has on diagnosis and the less forgiving standards for normal behaviour set by modern service-sector jobs. Dealing directly with customers makes different demands on the brain from work in a factory or on the land.

Surveys suggest that the incidence of serious mental illnesses such as schizophrenia (a condition characterised by hearing voices and withdrawal from society) and bipolar disorder (which causes extreme, uncontrollable mood swings) is fairly constant at between 1.5% and 3% of the population around the world. By contrast, the incidence of milder forms of mental disorder varies much more between and also within countries. This is true for common depression, anxiety, post-traumatic stress disorder, attention-deficit disorder and many others. In the rich

► Other factors that affect the incidence of mental illness include people's willingness to talk about it. Some might not want to admit that they are having problems. On the other hand, eligibility rules for welfare payments may provide an incentive for being diagnosed with anxiety or depression.

Diagnosis is also sensitive to advances in pharmacology. The current popularity of antidepressants, which are taken by one in ten Americans at any one time, has a lot to do with drug companies' success in coming up with a form of drug delivery that is safe and does not have nasty side effects. Antidepressants that act on serotonin, a neurotransmitter that affects mood, have been around since the dawn of the jet age, but became widely used only once drugs such as Prozac, which were convenient and considered safe (and therefore easy for family doctors to prescribe) were developed. Until then, doctors had been fairly free with tranquillisers. In the 1950s Miltown, the brand name for meprobamate, a mild calming drug, was taken by about one in 20 Americans, mostly for anxiety.

The use of psychiatric medication itself sometimes seems like an epidemic in the rich world, but it can go down as well as up. In the late 1990s France was the world leader in malaise, with about 30% of its citizens taking psychiatric drugs, but since then the numbers have come down. Cognitive behavioural therapy, a form of short talking therapy that aims to break self-destructive patterns of thought and replace them with something more positive, has been found to work at least as well as pills for treating mild depression and is becoming more widely available.

### Do not despair

Because mental illness is so hard to pin down and measure, it is easy to lose sight of how debilitating it can be. One widely used yardstick is the "Disability-Adjusted Life Year" (DALY), which the World Health Organisation defines as one lost year of "healthy" life free from physical or mental disability. Mental illness now accounts for a significant chunk of DALYs (see chart, previous page).

A more objective measure used in most health systems is the suicide rate. In Detroit, where a high murder rate, high unemployment and many abandoned houses meet any definition of a stressful environment, the Henry Ford Health System, which looks after much of the city's population, has cut suicide among its patients by systematically assessing their risk.

In 2009, with the effects of the financial crisis still reverberating, the Henry Ford Health System managed to bring the number of suicides among its patients down to zero, an impressive achievement for an outfit that in 2013 counted 3.2m outpatient visits. There is no way of stopping those who are determined to kill themselves—"when someone is telling you that they want to make it look like an accident so their family gets the life insurance, then you know it's really serious," says Doree Ann Espiritu at Henry Ford. But many suicides are opportunistic acts of despair that can be prevented by putting netting under bridges, making it harder to jump onto subway lines and controlling access to large quantities of painkillers.

Because of the link between economic development, ageing and mental illness, the coming decades are likely to resemble an age of unreason. That is why Geel, which has been caring for people with such conditions for half a millennium, is worth paying attention to. What is striking about the town is how thoroughly normal it seems: the town square with its fake Irish pub; American pop music playing at a polite volume on the main shopping street. Mental illness, so often frightening, seems ordinary here. Geel's system embodies principles for dealing with it—dignity, openness, kindness, patience—that should be embraced by societies everywhere. ■

### Children

## Youthful folly

**Childhood conditions such as autism and ADHD are now widespread**

THE REBECCA SCHOOL for autistic children occupies all five floors of a building in midtown Manhattan. Its rooftop playground has a fine view of the Empire State Building. It features colourful classrooms and lots of places for children to lie down and recover from the sensory overload often suffered by autistic people. "My body doesn't feel safe," says one boy curled up in a corridor, asking to be left alone.

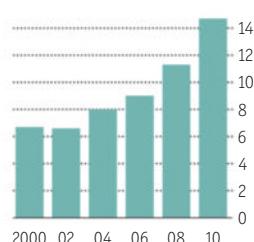
Sufferers from autism focus inward, sometimes so much so that they are unable to speak. Some children at the Rebecca School point to pictures to express anything from emotion to the need to go to the toilet. In about half of all cases autism is associated with learning difficulties; in the other half sufferers' IQs are average or higher. Autism is much more common in boys than in girls; four-fifths of the pupils at the school are male.

To an autistic child, the world seems "relentlessly unpredictable and chaotic, perpetually turned up too loud, and full of people who have little respect for personal space", writes Steve Silberman in "NeuroTribes", a forthcoming book about the syndrome. Autism has been around in various guises for a long time, but seems to have become more common in the past couple of decades. In America, the Centres for Disease Control and Prevention, an agency of the federal government, says that one child in 68 has at least a touch of autism, a considerably higher figure than a decade ago. Most studies suggest something closer to one in 100, a rate that is fairly consistent across different countries.

The apparent increase in numbers has prompted competing theories about its cause. For a few decades after the second world war autism was thought to be caused by bad parenting. In 1944 John Bowlby, a British psychiatrist who worked with children separated from their parents during the aerial bombardment of London, published a study called "Forty-Four Juvenile Thieves", based on a group of tearaways in Canonbury, a part of north London. Bowlby found that almost all the children in the group who seemed incapable of affection had suffered a prolonged separation from their mothers at a young age. Leo Kanner, an Austrian-American psychiatrist who first identified autism in 1943, pointed to unaffectionate "refrigerator mothers" as the cause of the trouble.

### On the spectrum

Prevalence of autism in the US  
Per 1,000 children



Source: Centres for Disease Control and Prevention

Putting the blame for autism on mothers is, thankfully, no longer credible—but neither are many other explanations for its steep increase. Some parents of autistic children believe their problems were caused by exposure to mercury as a fetus; others put their children on an overpromising diet known by its acronym, DAN, which stands for Defeat Autism Now. Assortative mating, the increasing tendency for people from similar professional backgrounds to marry each other, may have ►

► contributed to the rise. But this seems unlikely to be the whole story.

Like most syndromes, autism involves a genetic component, but on its own that does not explain much, since about 500 different genes seem to play a part. Simon Baron-Cohen of Cambridge University argues that the level of testosterone to which a fetus is exposed in the womb is important. To test this theory, his team made use of Denmark's unusual practice of storing amniotic fluid when a pregnant woman has undergone tests, linking this information with the country's national register of people diagnosed with psychiatric symptoms. They found a correlation between autism and elevated levels of testosterone in the womb. "Nature was giving us a clue," says Mr Baron-Cohen, pointing to the male bias in the incidence of autism.

But if that is indeed a cause, it does not explain why autism seems to have become more common. It may be that families, doctors and schools are simply noticing it more and are less reluctant to seek a diagnosis. Blaming refrigerator mothers for their children's symptoms probably acted as a disincentive to speaking up, as did some of the earlier treatments, including the use of electric shocks. Now the condition carries less of a stigma.

One reason why autism seems to be on the increase is that the diagnosis these days takes in some children whose symptoms would once have been described in more demeaning terms. Nobody is labelled as mentally handicapped or retarded any more. The portrayal of autism in books and films, which sometimes suggests that it bestows special mental powers, has increased awareness of the condition and made it seem less frightening. High-performance autism gives hope to parents of all autistic children, even if many of them will never pass an exam. The notion of a spectrum that covers all autistic people may also be comforting, though many people think that what is now called autism actually represents lots of separate disorders.

A modest dose of autism may even be a good thing. Those with the condition sometimes have a special facility with numbers and patterns. Mr Baron-Cohen's team found that rates of autism in the Dutch city of Eindhoven, the home of Philips, a big electronics company, and therefore a place with lots of engineers, were several times as high as in nearby Utrecht and Haarlem. In Silicon Valley Mr Silberman noticed so many autistic children of software engineers that he dubbed it "the geek syndrome" in an article for *Wired*. SAP, a German software firm, announced in 2013 that it was hoping to recruit autistic employees. A company spokesman says the new workers are doing well. Moreover, since autistic people often do not pick up on things that are implied rather than said, they have obliged other members of their teams to be more direct.

Perhaps because of these useful traits, autism, of all the disorders listed in the DSM, is the one most closely associated with the idea that mental illness may be a variation from the norm rather than an aberration. Among those who claim to represent



autistic people, this is a cause of friction. The biggest autism charity in America, Autism Speaks, views the condition as a disorder in search of a cure. The British branch of Autism Speaks is not sure that a cure is desirable, and parted company with its transatlantic parent over this difference.

#### Pay attention, boys

The rise of attention deficit hyperactivity disorder (ADHD) supports the idea that rates of diagnosis can depend on all sorts of things that may have little to do with what is going on inside a child's head. Nearly one in six boys in America under the age of ten has been diagnosed with ADHD, and a majority of these children take medication for it. Though in its current incarnation it is an American invention, it has since spread throughout the developed world, where around one child in 20 is now diagnosed with the condition.

Like autism, ADHD in some form or other has been around for a while. In 1902 George Still, a British paediatrician, described a set of children who were "passionate, deviant, spiteful and lacking inhibitory volition". The counterintuitive notion that children who find it extremely difficult to concentrate can benefit from amphetamine-like stimulants first emerged half a century ago. But the surge in ADHD in America can be traced to three events. The first was the inclusion of attention deficit disorder ►

► (the hyperactivity came later) in the third edition of the DSM in 1980. The second was the development of a stimulant that could be taken once a day and had few side-effects. (Previously children diagnosed with ADD had to take carefully measured doses of stimulants several times a day.) The third was the lifting in 1997 of restrictions on advertising medication directly to customers.

Perhaps oddly, ADHD is much more common in some parts of America than in others. The rate of diagnosis in North Carolina, for example, is two-and-a-half times higher than it is in California. One possible explanation, put forward by Stephen Hinshaw and Richard Scheffler in their book, "The ADHD Explosion", is that much of the marketing budget for Ritalin, the best-known medication for the disorder, was spent on magazine advertising. That matters because more people in the American South than elsewhere subscribe to magazines.

Bill Hussey, who runs the department of Exceptional Children's Services in North Carolina, has seen this at first hand. "When the kids who truly have ADHD are put on medication, the difference is night and day," he says. But too many children are diagnosed and given medication when their real trouble is that they have arrived in the school system unable to do the things that formal education requires of them, like sitting still and concentrating. Besides, says Mr Hussey, give the wrong child medication "and they go through the damn roof." Parents in North Carolina sometimes put pressure on family doctors to medicate their children, he says, and the doctors oblige.

### You may grow out of it

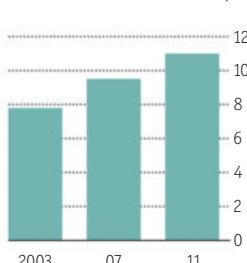
In Israel it is possible to get ADHD medication on prescription to help boost performance at work. Neuro-enhancement is also widespread on American college campuses: the abuse of stimulants prompted the Food and Drug Administration (FDA) to crack down on their supply, though the prohibition was short-lived because it also made it harder for parents to get hold of medication for their children. One professor reports that her students have moved on from Ritalin and now take drugs for narcolepsy so that they can work when suffering from a hangover.

As with autism, there are many more people with just a touch of ADHD than those who have pronounced symptoms. But what becomes of all those children who are diagnosed with a serious case of it and medicated for years? The Rebecca School in New York aims to be a launch pad to a normal life, though in practice some of its students may well have to be looked after for the rest of their lives. But many others will leave most of their symptoms behind as they get older.

Emran Mian, who attended a school for autistic children in New York in the 1980s, tracked down many of his former classmates and wrote about them in a memoir, "Send in the Idiots". One of them had committed suicide in her 20s; another went on to become a successful speechwriter for several Democratic candidates for national office. Mr Mian himself now runs a think-tank in London and writes novels in his spare time. He still considers himself autistic, but the diagnosis has come to matter much less. The same may eventually become true for many children who are currently struggling to behave normally. ■

### There is a pill for it

Prevalence of ADHD\* in the US, %



Source: Centres for Disease Control and Prevention  
\*Youths aged 4-17 years ever diagnosed with attention deficit/hyperactivity disorder

### Young adults

## Making cruel unusual

### The treatment of severe mental illness used to be barbaric. Sometimes it still is

A COUPLE OF miles from Congress in Washington, DC, sits a large complex of buildings in a redbrick Italianate style with terracotta roof tiles. It might be mistaken for a college, were it not for the ironwork in front of the windows to stop people from jumping out. This is the old St Elizabeths Hospital, once one of the largest asylums in America. It now stands empty, awaiting redevelopment for the Department of Homeland Security.

The hospital's walls contain a potted history of the way severe mental illness has been treated over the past 200 years, in particular schizophrenia (whose victims hallucinate and withdraw from society), bipolar disorder (which causes frequent mood swings from mania to despair and back again) and severe personality disorders (a catch-all term for people who behave in various abnormal ways). Their incidence varies little from country to country, affecting 1.5-3% of the population over the course of a life. They most often emerge between the ages of 18 and 25.

In the West the asylum movement, which began in the first half of the 19th century (and was the inspiration for giant hospitals like St Elizabeths), offered a combination of rest and restraint and held out the promise of scientific cures for those afflicted. But once inside, few patients ever got out, undermining the idea that there was any treatment going on. In practice, asylums mainly served to keep the mentally ill off society's back. In the 1950s the world's largest, the Georgia State Asylum in Milledgeville, had up to 10,000 patients at any one time. The hospital's grounds still contain the unmarked graves of 25,000 who died there.

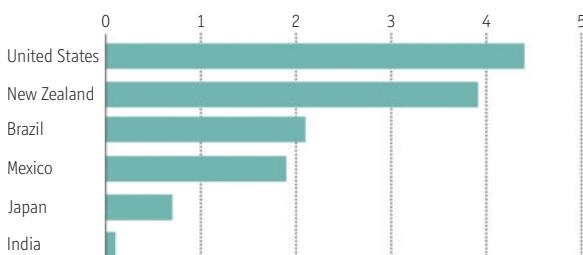
The idea that this was not an acceptable way to treat the mentally ill first gained currency in America. Erving Goffman, a sociologist, spent a year working incognito in St Elizabeths and wrote about his experience in his book "Asylums", published in 1961. He saw a flourishing internal economy that ran on cigarettes and cash earned by washing the hospital staff's cars, and noted that the 7,000 or so patients conducted romantic relationships with each other via a clandestine network of note-passing. There were also a lot of card games. "A readiness to accept an individual as an acceptable participant in a game of poker or blackjack", he wrote, "was sometimes quite independent of his simultaneous manifestation of psychotic symptoms." Goffman's readers were left wondering whether the inmates of his asylum really were mad.

The 1960s saw the rise of an anti-psychiatry movement which argued that madness was invented by society as a way of exercising power over people who refused to conform. The Kennedy family's personal experience played an important part in the re-evaluation of mental illness. Rosemary Kennedy, John F. Kennedy's sister, had been left in a near-vegetative state after a lobotomy performed by Walter Freeman, a doctor who travelled around America severing the frontal lobes of more than 3,000 people with a kitchen ice pick. The operation was supposed to calm down aggressive mental patients. In 1963 John F. Kennedy signed the Community Mental Health Act, which aimed to close the asylums and treat mental disorders more like illnesses and less like crimes.

Shutting asylums turned from being a leftish cause in the 1960s and 1970s to a rightish one in the 1980s. The abuse of psy-

### A question of diagnosis?

Lifetime rate of bipolar disorder, 2011, %



Source: Archives of General Psychiatry (vol.28, no.3)

► psychiatric institutions in the Soviet Union, a country which developed a new diagnosis of "sluggish schizophrenia" to redefine political dissidence as an illness, made asylums in the West seem like local outposts of totalitarianism. As governor of California, Ronald Reagan became an enthusiastic closer of asylums, attracted by the resulting increase in freedom and decrease in government spending.

The decline of asylums in the West ended a shameful chapter in the history of psychiatry but left an important question unresolved: how should society deal with seriously ill people who themselves may prefer to be left to their own devices? Psychiatric patients had often been subjected to cruel and unusual treatment, such as using them for medical research without their consent or administering electric-shock treatment so forceful as to result in broken bones—not to mention more casual unkindness. Now most countries try to strike a better balance between what psychiatrists think is in the interests of their patient and the patient's own wishes.

America is in the middle of a fierce political argument over whether it currently has the balance right. At a meeting in May organised by supporters of a bill proposed by congressman Tim Murphy, Anthony Hernandez told the story of how his son last year tried to kill both him and his wife while they lay in bed one morning. The son apparently wished to sacrifice his parents, thereby sending them to heaven (though he succeeded only in stabbing them and bludgeoning the family dog to death). Mr and Mrs Hernandez had previously been unable to force treatment on their son while he was violent and delusional. After the attack a police officer arrested the son, who is now in a county jail, charged with double attempted murder and animal cruelty. His tearful father says his son is being bullied by other inmates and is not taking his medication. Congressman Murphy's bill aims to give families the power to enforce treatment in such cases.

This might seem a perfectly reasonable proposal, but it has met with opposition from people who still associate psychiatry with the outrage of the asylum. One such person is Dan Fisher. Mr Fisher, who comes from a family of doctors, was doing research into the biological basis of schizophrenia at the National Institute of Mental Health in Bethesda in the 1960s when he himself was diagnosed with catatonia, a condition that often renders its victims mute. He was hospitalised twice, ending up at the Navy Hospital in Bethesda, where he did not speak for a

month, and was so incensed by the way he was treated there that he became determined to get as many patients as possible out of hospital. He trained as a psychiatrist, suffering a few more relapses in medical school, and has since become a leader in the recovery movement, a loose alliance of former patients that draws inspiration from the gay- and disabled-rights movements and has a scratchy relationship with the psychiatric profession.

What both sides can agree on is that a large number of people with severe mental illness are still being treated scandalously badly, sometimes no better than during the asylum era. Part of the old St Elizabeths Hospital has been turned into a new, much smaller one bearing the same name. Its best-known patient is John Hinckley, who in 1981 shot at Ronald Reagan and his press secretary, Jim Brady, who was paralysed by the assault. Demand for the hospital's beds outstrips availability, which means that patients who may need to go into an institution for a while are held somewhere else. That somewhere else is the DC jail. A recent visitor from the federal government encountered seriously ill people arrested for minor offences, such as urinating in public, being held in solitary confinement for 23 hours a day, dosed up on sedatives. (The prison did not respond to several requests to let *The Economist* in.)

The DC jail is not an isolated example: across the country people with serious mental illnesses are more likely to be in a prison than in a hospital. On any given night, Cook County jail in Chicago houses a couple of thousand people diagnosed as mentally ill, a situation that the country's sheriff, Tom Dart, has described as "an abomination". Rikers Island prison in New York has become notorious for its guards beating up inmates with mental disorders. But life for mental patients can be violent outside too: the National Sheriffs' Association estimates that more than 400 people shot and killed by the police in America every year are mentally ill.

Much of this could be avoided by identifying and treating serious mental illness earlier. There is no single gene that predicts someone will contract such an illness later in life, though if one of a pair of identical twins has schizophrenia, the other has a near 50% chance of becoming ill too. On average, people diagnosed with schizophrenia do not receive treatment until three years after the first onset of their symptoms. At that point they are typically hospitalised after a trip to the accident and emergency department where, confused and hallucinating, they are given a large dose of antipsychotic medicine. Unsurprisingly, those who first encounter hospitals this way are keen to avoid them thereafter.

Researchers are now discovering more about what puts ►



▶ someone at risk of developing schizophrenia or bipolar disorder. Some of it has to do with people's circumstances, such as where and how they live. Combined with cognitive tests and family medical histories, such information should make it possible to intervene earlier. John Kane of Hofstra North Shore-LIJ School of Medicine in New York has shown that people who receive proper treatment as soon as their symptoms appear recover more quickly and have a less fraught relationship with their doctors. And they can be treated with far lower doses of antipsychotic medicine than traditionally prescribed. That matters because some of these drugs have unpleasant side-effects, including weight gain, that discourage people from taking them.

### Cheer up

But newer sorts of drug treatment look promising too, particularly for depression. This is the most widespread of mental disorders, yet it remains "nearly incomprehensible to those who have not experienced it in its extreme mode", wrote William Styron, who described his near-fatal encounter with depression in a memoir called "Darkness Visible". Each afternoon after four

## *People who receive proper treatment as soon as their symptoms appear recover more quickly and have a less fraught relationship with their doctors*

o'clock, Styron's head "began to endure its familiar siege: panic and dislocation, and a sense that my thought processes were being engulfed by a toxic and unnameable tide that obliterated any enjoyable response to the living world".

Carlos Zarate at America's National Institute of Mental Health (NIMH) treats people with severe depression and bipolar disorder with intravenous ketamine. Though often taken recreationally, this is a fairly nasty drug. America's Drug Enforcement Agency has given warning that it is being used as a sedative in date-rape cases. Those who snort it over an extended period to get a high sometimes find it makes them incontinent. Yet to the other federal agency that takes an interest in drugs, the Food and Drug Administration, it looks rather attractive. The FDA has given "breakthrough therapy" designation to ketamine as the closest thing to a miracle cure for cases of severe depression and bipolar disorder.

Dr Zarate works with patients who have not responded to six or seven other forms of treatment, sometimes including electroconvulsive therapy. Half of the bipolar patients on whom he has tried the treatment had previously attempted suicide. Over the course of a 40-minute infusion, patients lose track of time, hear sounds as if muffled by a thick blanket, see traces of bright lights and find their thoughts muddled. Yet an hour later more than half of them feel their depression has lifted. "These are patients who a couple of hours ago were saying, 'I want to die, I'm useless,' who are asleep all day," says Dr Zarate. The effects of ketamine last about a week, and tests repeating the experiment over a longer period are now in process. Nobody is quite sure why it works, but Dr Zarate hopes that, by doing lots of brain scanning and gene investigation, he and other researchers will get a better idea.

Advances in medical technology should also help to keep mental patients out of hospital. Dror Ben-Zeev at Dartmouth College has conducted several promising trials using mobile phones to keep an eye on such people. In its most basic form this means using text messages to ask them how they are feeling and remind them to take their medication. In a more sophisticated version people's symptoms are monitored through their smartphones and appropriate care offered. If someone is hearing voices telling them not to go outside or something terrible will happen, says Dr Ben-Zeev, a clinician on the other end of an app can ask them to try it and see, and then report back to him.



Since most smartphone users check their devices when they first wake up in the morning and just before they go to bed, those phones can also serve as basic sleep monitors. Bouts of psychosis are often foretold by irregular sleep patterns. A phone can be used to garner information about a patient's physical activity, too, another useful predictor of distress.

What someone does with their phone can also be telling. Tanzeem Choudhury, who works on this technology at Cornell's department of computer science, points out that people in the manic phase of bipolar disorder often go on spending sprees, using their phones to shop and gamble. If early identification and treatment can be refined and offered more widely, people with serious mental illness may be able to look forward to a brighter future.

Sitting around in a circle with a handful of Dr Kane's outpatients at the Zucker Hillside Hospital in New York, all of them in their 20s and diagnosed with some form of schizophrenia, it is possible to imagine what such a future might look like. The hospital's rooms, with their big windows and plywood furniture, resemble bedrooms in a Scandinavian-inspired business hotel. One of the few signs that they are not the wardrobes, with their doors sloping so that nothing can hang from them.

Michael, who writes poetry and rap lyrics in his spare time, has a complicated relationship with the voices he hears in his head. Sometimes he is able to converse with Voltaire, but if he gets no help they can become a deafening 24-hour-a-day cacophony. Now he hears them only a few times a day, for a minute or so at a time. With luck, he should be able to live the rest of his life without fear of being locked up in places like St Elizabeths. ■

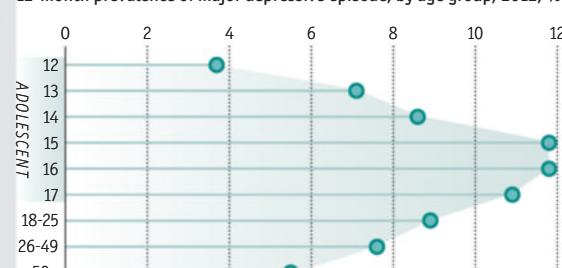
### Feeling down is on the up

United States

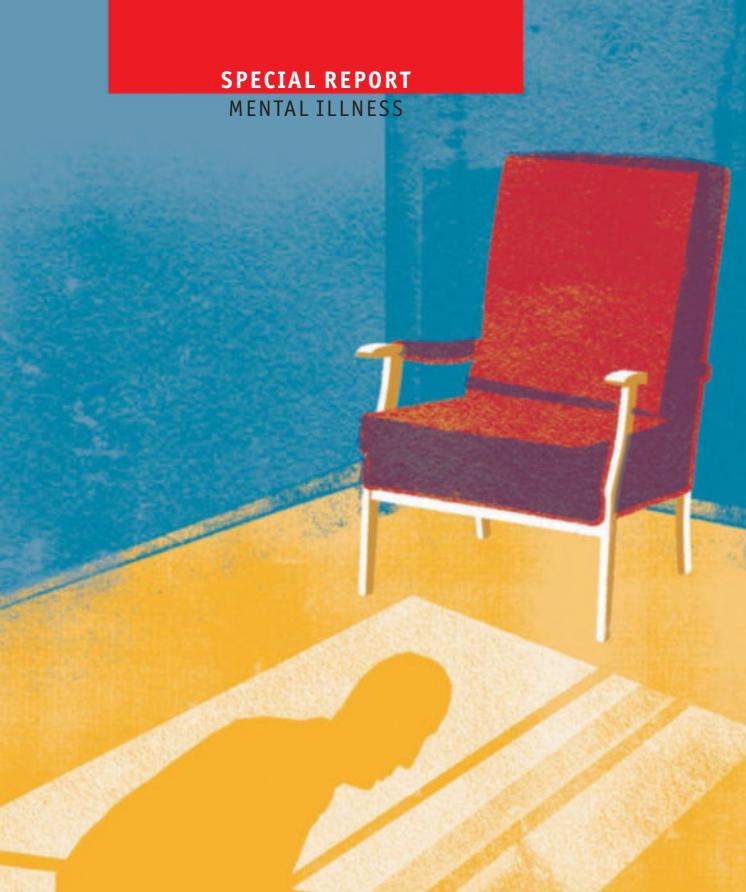
Depression 2005 2010



12-month prevalence of major depressive episode, by age group, 2012, %



Sources: *Journal of Clinical Psychiatry*; National Institute of Mental Health



### Older people

## Second childhood

### As populations get older, more people will suffer from dementia. But the relationship is not straightforward

FOR MOST OF the 1980s, foreigners looked to Japan as the country of the future. In one respect it still is: it has the highest proportion of elderly people of any large country, a distinction which is accompanied by an exceptionally high rate of dementia, a broad term for defects in memory and cognition concentrated mainly among the elderly. These are diseases of the brain as it ages. After the age of 65, the risk of getting dementia doubles every five years. According to the World Health Organisation, 47.5m people suffer from the condition, of whom about 4.6m are in Japan. The most common form, accounting for more than 60% of all diagnoses, is Alzheimer's disease.

By the middle of this century, according to Alzheimer's Disease International, the global total number of people afflicted by the condition will triple to 135m. This is going to cause much suffering, impose a heavy burden on the families of the demented and cost a lot of money. Even America, where the disorder is much less common than in Japan, spent \$109 billion on dementia care in 2010. The burden imposed on family and friends adds about half as much again, and the figures are set to soar over the next 25 years (see chart, next page).

To spread the cost, Japan has introduced a compulsory insurance scheme that pays for long-term care for people with dementia. And to save the elderly from ending up in an *obasuteyama*, or granny-dump mountain, the country has trained 5.4m volunteers who offer some respite to sufferers and their carers and look out for wanderers—those who have got lost and cannot remember where they live. Some retailers train staff to help

shoppers who have become confused, and to deal sympathetically with elderly customers who go off with items they have forgotten to pay for, or try to pay twice.

China, thanks to its huge and rapidly ageing population, has more dementia sufferers than any other country, yet according to the *Lancet*, a British medical journal, in 2013 it had only 300 doctors trained to treat the condition. The one-child policy in force since the 1970s has already drastically reduced the ratio of younger to older people, making it harder to care for dementia patients. In 2013 the government introduced a law obliging children to pay regular visits to parents over 60. Since there are hardly any suitable care homes, people who live in urban areas must either hire someone from the countryside to look after a parent with dementia or settle for a psychiatric hospital, says Michael Phillips, a psychiatrist who directs Emory University's Shanghai mental-health centre.

As with other kinds of mental disorder, the symptoms of dementia are easier to identify than the illness itself. Some sufferers have difficulty processing information or using language. Some experience sudden changes in character or lose the ability to distinguish between right and left. Steve Arnold, who heads the department of geriatric psychiatry at the University of Pennsylvania, once treated a pastor who was saying alarmingly inappropriate things when visiting his congregants in hospital.

In theory, developing drugs to treat Alzheimer's should be relatively simple. Whereas autism, depression or schizophrenia leave no visible traces in the brain, in Alzheimer's patients it is usually easy to see that something has gone wrong. Brain autopsies tend to show a collection of plaques (sticky clumps of tissue made of a protein called amyloid beta) that are absent in a healthy brain. If a way could be found to prevent or remove these plaques, a cure might be on the horizon.

Drugs that stimulate the production of acetylcholine, which is thought to be important in memory function, have been approved for treating the disease. They slightly alleviate some symptoms but do nothing to tackle their cause. For the past decade pharmaceutical companies have concentrated on trying to come up with an anti-amyloid drug, but after investing hundreds of millions of dollars they have made little progress.

Part of the problem is that Alzheimer's is slow-moving. Some symptoms might appear a decade or more before the disease becomes acute, so drug trials have to go on for extended periods. The only thing that can definitely be said to cause Alzheimer's is the presence of a clutch of rare genes, but this applies to under 5% of known cases. All the rest are a result of some combination of genes, poor diet, lack of exercise, hypertension and probably a number of other things yet to be discovered.

### Untangling the mystery

Frustrated by their lack of progress, some of the biggest drug companies have taken the unusual step of pooling their resources. At the request of the British government, J.P. Morgan, a bank, has put together a dementia-discovery fund with \$100m of venture capital to spend. About half of that comes from Britain's Department of Health (\$22m) and GlaxoSmithKline (\$25m), the remainder from Johnson & Johnson, Eli Lilly, Pfizer and Biogen. In addition to funding research, Britain is also emulating Japan in training carers: in February its Alzheimer's Society announced that it now has 1m "dementia friends" who can spot the disease and help sufferers.

A glimpse of the future for dementia sufferers is offered by Laguna Woods, a small city in Orange County, California. It has an unusual foundation story, having started out as a retirement community called Leisure World and incorporated itself as a city, in part to head off the development of a noisy airport nearby. ►

► Most of its 16,400 inhabitants either live or work in Laguna Woods Village, the descendant of Leisure World, so the city's median age is a grizzled 77. It has its own cable-TV station, TV-6, which boasts "100% targeted advertising to the mature audience and the baby-boomer generation".

Ten years ago Claudia Kawas of the University of California, Irvine, began to study what had become of the people who were living in Leisure World in 1981. This turned into the largest longitudinal study of people aged over 90, the fastest-growing demographic group in America. Its participants, now scattered across 36 states, have assiduously filled in questionnaires allowing researchers to look at the correlation between lifestyles, medication, other illnesses and dementia. Many of those who died donated their brains to medical research, providing the most interesting findings of all. The relationship between ageing and brain decay, the research shows, is more complicated than had been thought.

When people aged 70 died with Alzheimer's, the researchers found, the overwhelming majority of their brains showed the plaques and tangles associated with the condition, though in a small proportion they were absent. Among those who died with the disease in their 80s, the share of brains that showed no sign of abnormality rose to about a fifth. But among Alzheimer's sufferers who lived beyond 90, the share of normal-looking brains rose to about half. Intriguingly, though, among the people who died in their 90s without showing any symptoms at all, about half were found to have the plaques and tangles. This poses a riddle for researchers and pharmaceutical companies.

The California study has also upended some assumptions about risk factors associated with the disease. For example, nonagenarians with high blood pressure, previously seen as one such risk factor, were actually less likely to get dementia. And the data are starting to show that nonagenarians who have or have had cancer also have a lower risk of getting the disorder, and conversely that those who have dementia are less likely to get cancer. So far the mechanisms involved can only be guessed at.

### That elusive cure

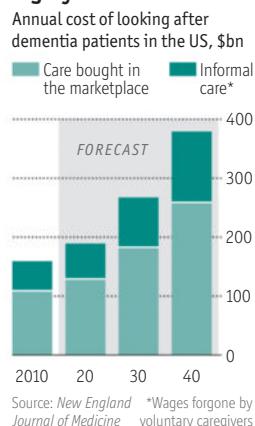
Dr Kawas says that in all the 30 years she has been working on dementia, people have been saying that a new drug to delay the onset of the worst symptoms is just around the corner. She thinks that a more promising approach would be to try to prevent it in the first place, identifying all the things that increase the risk and dealing with them. She points out that with stroke, for instance, there has been little progress in rehabilitating people who

have had one, but a better understanding of its causes has made it less common.

Even if this effort is successful, it will at best slow the rise in dementia. That will leave ageing societies with the same choice between institutionalisation and care at home as for other severe forms of mental illness.

Many scientists, however, refuse to resign themselves to a world in which an ever-growing number of people will have to live with assorted mental conditions. A revolution in neurobiology, they hope, will in time deliver cures for them all. ■

### A grey future



### The brain

## From neurosis to neurons

### Mapping the brain may eventually yield new treatments, but prevention is better than cure

BECAUSE THE WORKINGS of the brain are less well understood than those of any other organ, it is quite common in psychiatry for useful drugs to be stumbled upon. Chlorpromazine, the first drug used to treat the symptoms of schizophrenia, was originally marketed as an anaesthetic before being tried on psychiatric patients. Iproniazid, the first antidepressant, was originally used to treat tuberculosis. For those who view the DSM's 300-plus mental disorders as brain problems with a biological basis, this is a source of frustration.

As director of America's National Institute of Mental Health, the world's biggest funder of mental-health research, Thomas Insel is responsible for deciding how it spends its dollars. He likes to say that we do not even have a parts list for the brain, so he has set about acquiring one. In 2013 the federal government launched the BRAIN initiative, which aims to identify and categorise the different types of neurons in the brain and map the connections between them. This is a giant undertaking. Brain cells come in a bewildering number of shapes, and their number is daunting: a human brain has about 86 billion neurons, connected to each other in many trillions of ways.

Dr Insel argues that pharmacological treatments for mental illness will remain somewhat random until doctors understand its biological basis. In 2013 he announced that the agency would no longer use the American Psychiatric Association's handbook when deciding what to fund. "Unlike our definitions of ischaemic heart disease, lymphoma or AIDS", he explained, "the DSM diagnoses are based on a consensus about clusters of clinical symptoms, not any objective laboratory measure."

America is not alone in putting research money into brain mapping. In 2013 the European Union announced the launch of the Human Brain Project, a ten-year effort expected to cost about \$1.3 billion and involving researchers in 26 countries. At laboratories on both sides of the Atlantic a boom in connectomics—which looks at the wiring diagram of how neurons connect to each other—is under way. The field blends medical imaging and a branch of maths called graph theory, and results in so many data that making sense of them all will require a lot of collaboration.

The idea that personality quirks might be rooted in the biology of the brain can be dated to a workplace accident in Vermont in 1848, when Phineas Gage accidentally blasted an iron rod through the frontal lobe of his brain as he was clearing rock for a railway line. He survived, but some of his contemporaries thought that the accident changed his personality from pleasant to irascible. Remarkably, he also recovered from an operation to repair the damage and lived on for another 12 years.

Brain scanning has given support to the idea that different bits of the brain are designed for particular jobs. When a volunteer lies in an MRI scanner and is given appropriate cues, it is possible to see, among many other things, a change in blood flow and glucose consumption in the amygdala, parts of the brain associated with processing emotion. Connectomics, by showing how brains are wired, promises to yield a greater understanding of the relationship between the brain and its owner.

The lack of a complete map is not holding back those who think that mental illness should be treated like any other disease ►

► of the body. At the Defence Advanced Research Projects Agency (DARPA) in Arlington, Virginia, Justin Sanchez runs a project called SUBNETS, which is developing brain implants for veterans with post-traumatic stress disorder and other conditions. The scientists reckon there is a neural code for these conditions that can be deciphered and altered by fitting tiny wires that deliver electrical impulses, using a kind of pacemaker for the brain. Another DARPA programme aims to do the same for people who have suffered memory loss as a result of traumatic head injuries.

Complicating Dr Sanchez's task, and that of the brain-mapping project more generally, is that the brain is capable of considerable adaptation, known as brain plasticity. When children suffer from life-threatening epileptic seizures, a last resort is to perform an operation called a hemispherectomy in which half the brain is removed. As long as this is done early enough, the remaining hemisphere takes on most of the functions that would have been performed by the missing half.

Research into the phenomenon of brain plasticity has already yielded some treatments. Wicab is one of a handful of companies waiting to commercialise insights into the brain's adaptability. It makes a device for blind people, Brainport, that transforms images from a small video camera into electrical impulses. They are delivered to the tongue and processed in the visual cortex, allowing the patient to read short words. Some researchers hope that brain plasticity will allow people to "unlearn" mental illness. But all this is likely to make brain-mapping even harder.

### The small picture

Most neuroscientists stop short of claiming that their discipline is about to conquer mental illness. The hunt for a biological basis for syndromes has been going on for centuries, and at each stage the unit that seems to hold the key to the mystery keeps getting smaller. Before the 18th century, moods were thought to be determined by the flow of liquids, vapours and humours around the body. The discovery of electricity and advances in dissection started a hunt for the currents that control the brain. MRI scanning focused interest on discrete regions of the brain that perform different jobs. Connectomics zooms in on individual neurons and the connections between them.



The unit of analysis will probably continue to get smaller. Some researchers are now working on the production of neurochemicals by the 100 trillion micro-organisms that live mainly in the human gut. This research may show that much of the activity going on in the brain is affected by things happening elsewhere in the body.

Even if a biological basis for all the various mental illnesses is eventually found, it will not invalidate the evidence about the links between disorders and the previous experiences of the sufferers. Many mental illnesses are shaped by circumstance. For example, second-generation migrants are more likely than their parents to have schizophrenia; a British soldier who was shot by the Taliban in Afghanistan is less likely to suffer from PTSD than one bombed accidentally by his own air force. These things will not be altered by improved medication.

Better treatments, when they come, are less likely to result from a sudden leap in understanding than from many small, incremental changes. Drug development will play a part in this, but currently the most promising research is in trying to identify illnesses early, a principle that works well in other areas of medicine. Many mental illnesses can be treated, even if the way the treatment works is seldom fully understood. And many people do become well again, which is just as mysterious as the initial sickness.

For those syndromes for which there is currently no treatment, such as Alzheimer's, or treatment may not be appropriate, as with some varieties of autism, a different prescription is needed. With some small, simple changes to schools many autistic children can thrive in regular classrooms. The diseases that accompany old age will require more substantial adaptations, both by health systems and within societies, but they need not be impossibly difficult either.

Above all, mental illness should be thought of as being just as workaday as the physical sort. Many syndromes are now understood as points on a spectrum. Most people will have a touch of something at some point, and a large minority will get a longer-lasting illness. Over the course of their lives, nearly 30% of Americans are likely to suffer from clinical anxiety and 20% from a mood disorder such as depression. Mental illness is less extraordinary and exotic than it is currently considered. Better treatment starts with acknowledging that. ■

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*Most diseases of the mind are best understood as something that a large minority of people can expect to experience at some point*



### Oil in the cradle of mankind

## A glimpse of Africa's future

LOKICHA

**Wild, ancient and oil-rich Turkana shows how fast the continent is changing**

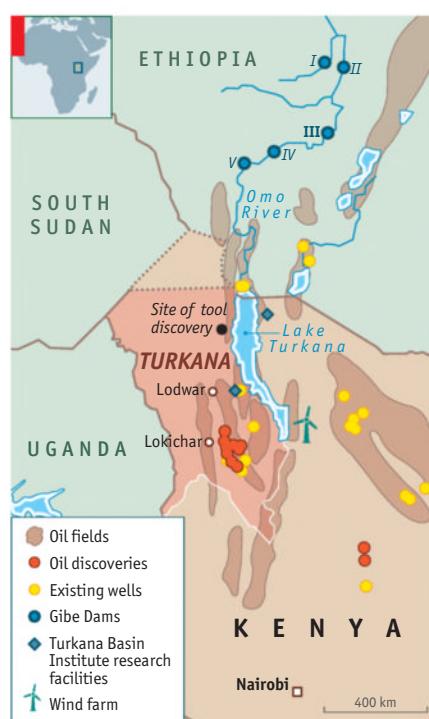
THE world's oldest tools are the size of massive fists, sharpened at the edges and seemingly unblemished, having been preserved in ancient soil. They predate the earliest humans and hint at how long it has taken our species to evolve. When the find near Lake Turkana in north-western Kenya was publicised earlier this year, it pushed back the known start of primitive tool use and hence human ancestral development by 800,000 years.

Today the stone tools lie in a wooden box in a room with open windows at a local research station, the Turkana Basin Institute, perched on a hill above a spindly river. The resident scientists reckon the tools need no special climate protection since they have already been exposed to the elements for 3.3m years.

The region around Lake Turkana, the world's largest desert lake, is known as the cradle of mankind. Over the past century many remains of man's ancestors have been found well preserved in windswept scrubland far from paved roads and modern interference. Life in Turkana remained unchanged for as long as anyone could remember. Even today residents in remote parts live off the land and only a tiny fraction are literate. But in the past few years things have begun to change dramatically.

A turning point came with the discovery of oil in 2012. Kenya joined the increasingly non-exclusive club of countries exploring for hydrocarbons (90% of African nations now do). Turkana saw an influx of

rigs, roads and burly foreigners with big wallets. Tullow and Africa Oil, based in London and Vancouver respectively, found evidence of enough crude oil to make production commercially viable. At the government's insistence, they hired thousands of locals as labourers, filling empty pockets in Kenya's poorest region



### Also in this section

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46 Egypt muzzles the media

46 Libya sinks deeper into chaos

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and erecting Turkana's tallest building, a two-storey house.

Some towns grew by 500% in two years. Itinerant families started building permanent homes. Elijah Kodoh, a local official, says "people are moving very quickly to a sedentary life." Shops have opened where none had ever been. The town of Lokichar got its first mall, the South Gate Business Centre. At lunchtime in the newly opened Yassin Hotel nearby—built with wages from Tullow—a live goat is led through the dining room to be slaughtered in the backyard.

From the beginning, however, relations were fraught. The two nomadic communities, oil engineers and bush pastoralists, distrusted each other. Locals had inflated expectations and suspected they were being cheated. They complained of environmental damage and that outsiders were getting the best jobs. The companies said it was hard to find skilled local people for drilling and seismic work.

In 2013 violent protests erupted; roads were blocked and angry crowds stormed rigs and looted them. Work was suspended for a while. Then the oil price crashed in 2014 and the companies cut their budgets drastically. Jobs were lost—upsetting locals who had not understood the lay-off clauses in their contracts. The economy around Lokichar slumped. Yet rather than inflaming tensions it seems to have eased them. Mutual dependency became an accepted fact. "We are not going to drive away investors," says Peter Ekai Lokoel, Turkana's deputy governor and a former activist. "We need them."

Hopes of a return to the good times rest not just on a rise in the oil price—experts say the fields are profitable at about \$70 per barrel—but also on government plans to build a pipeline to Kenya's coast. Politicians are still arguing about its route, but in the meantime Tullow has built a vast base



**Change is coming**

► outside Lokichar, erecting Chinese-made, air-conditioned housing containers for hundreds of workers over an area the size of six football fields in anticipation of a bonanza around the corner.

If and when it happens, Turkana will get its first paved roads, power stations and water treatment plants. Yet the knock-on effects of the oil boom are already evident and reach well beyond infrastructure. Drillers have found not just oil but reportedly also several large underground aquifers that could supply the bone-dry region with water for decades. Pastoralists might in future be able to grow crops. A man with a jerry-rigged distillery in a thatched hut near Tullow's camp says: "We thought oil would bring us jobs and it's done that—at least for some. But it's so much more, both good and bad."

Inter-communal violence in what has always been a lawless area has spiked in recent years. Armed gangs are trying to gain control of potentially oil-bearing land. They raid villages, steal cattle and make certain routes impassable. A trader at a livestock market for camels says: "Buyers and sellers are robbed." In one attack bandits killed 46 policemen. Their colleagues retaliated with artillery. As oil firms drill more wells, the violence could get worse. Mr Lokoel, the deputy governor, says that "lots of people are suddenly claiming land as their own."

#### Dams, drought and debit cards

Oil is not the only engine of change. Africa's biggest wind farm is being built east of Lake Turkana at a cost of \$1 billion and will bring cheap and plentiful electricity. Even more power will soon flow across the Ethiopian border to the north, where the government is building Africa's biggest hydroelectric dam. The Gibe III project, completed on July 1st, is expected to lower the water level in Lake Turkana by 30 feet (with potentially catastrophic consequences) and to displace tens of thousands of Ethiopian villagers, many of whom will

flee to the lake's shores.

Migrants are already arriving from all directions. Tens of thousands of South Sudanese are fleeing a renewed civil war just to Turkana's north-west, driving up food prices as aid agencies rush in to feed them. Meanwhile plenty of ethnic Turkanas, especially those with an education, are returning to their homeland from elsewhere in Kenya, hoping to join the oil boom, often as officials, wearing extraordinarily large wrist watches.

Until recently, almost nobody in the region had had much contact with any form of government. Locals talk of "going to Kenya" when they travel south. While Nairobi, the national capital, has had public services for more than half a century, the country's north-west remained neglected by the state. That, too, is changing rapidly.

A new Kenyan constitution set up local-government structures in 2010. For the first time Turkana elected its own governor in an election two years ago. He is receiving national funds to expand education and health care. Because it is poor, Turkana gets the second-highest allocation of cash among the 47 newly created counties. A local official calls devolution a "godsend".

But all these changes—oil, roads, electricity and devolution—may not be enough to make Turkana prosperous. The drought is getting worse. And petrodollars can fuel corruption and conflict in countries where institutions are not strong enough to handle the windfall wisely—witness the terrible civil war in neighbouring South Sudan. Kenya is better-run than South Sudan, but it is not exactly Norway, either. Some worry that its newfound oil wealth will prove a curse.

Other observers are more optimistic. Kenya's technology boom has reached even the most remote areas, putting smartphones into goatherds' hands. The central government, supported by DFID, the British government's development arm, has set up a high-tech cash-transfer scheme for the poorest 10%. With the help of a Kenyan

bank, Equity, it has issued debit cards in villages across the county which are used to give away the equivalent of about \$50 every other month to tens of thousands of households in Turkana. Itinerant traders have received card readers from Equity. They now pay out the cash and are reimbursed by a government agency, thus bringing banking services to some of the world's most remote people.

Many recipients have used the cash to start small trading businesses. Ngispaan Topos and his wife buy large canisters of cooking oil with the transfers and sell it by the cup to neighbours at a 30% markup in their village south of Lodwar. They and their six children live in three thatched huts with sandy floors. In one they keep their MasterCard.

Turkana is in some ways typical of Africa. Cherished ways of life are disappearing faster than at any time in the past 3.3m years. The path to development will be bumpy, and elites will eat a disproportionate share of the rewards. Yet it is hard to find anyone in the county who would rather have been born in an earlier age. ■

#### Nigeria's insurgency

## Bombs are back

LAGOS

**The jihadists have switched from holding towns to waging guerrilla war**

POLITICIANS often promise more than they deliver, but those in Nigeria bit off more than most when they campaigned on a pledge to "defeat Boko Haram". Six weeks after the inauguration of its new president, Muhammadu Buhari, the government must be wishing it had promised something less ambitious.

Boko Haram seemed to be on the ropes a few months ago. Despite its threats to disrupt the election at the end of March, the vote was largely peaceful, and the militants had been pushed back from many of the towns they had captured. Yet in recent weeks the group has struck back from its remote redoubts, killing more than 200 people in the week to July 5th (and more since then) in a series of attacks across the north.

Bombs were detonated in the major cities of Jos and Kano, neither of which had been attacked since February. Boko Haram also showed that it can still operate across borders: two suicide bombers struck Chad's hitherto unscathed capital, N'Djamena, in mid-June, blowing themselves up outside police headquarters, killing 34 people. Horseback and motorbike-mounted raiders attacked another neighbour, Niger, twice in two weeks.

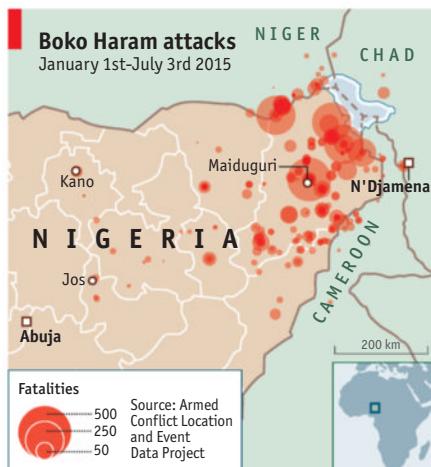
The recent attacks suggest that since ►

► their ejection from urban areas, Boko Haram jihadis have regrouped in the forests and mountains along the border with Cameroon, or have melted into local populations disguised as merchants or beggars. Many of its 6,000 fighters are still active and its leadership is intact. The group may lack the sophistication to administer territory, but it has been honing its skill at hit-and-run attacks since 2009.

Nigeria's army, by contrast, is finding counter-insurgency far more difficult than merely liberating captured towns. It has also lost much of the support that contributed to its victories earlier this year. Mercenaries who helped turn the tide in the north-east have been sent home and Chadian soldiers have pulled back over the border. Morale among poorly equipped Nigerian troops is plummeting again. “[It is becoming] the way it used to be before—[when] one man [was issued with just] one bullet [per target]—it's just the same now,” says one military man.

Things may get still worse. Boko Haram has been formally affiliated with Islamic State (is) since March and has taken to referring to itself as the caliphate's “West Africa Province”. Its most recent attacks coincide with a call by is for violence during the holy month of Ramadan. So far there is no evidence of is training or finance in Nigeria, but those close to the counter-insurgency fear that this will change.

Mr Buhari, a former military ruler, thinks of little else. Already he has moved the army command centre to the north-east, and reinvigorated talks over a regional force, whose troops are set to be deployed this month. But co-ordinating that contingent will be a challenge, as will removing corrupt generals without hollowing out the army. Amnesties for militants forced into the fight may be discussed, but low oil prices leave Nigeria with little cash to wage a war, let alone to address the deeper causes of the conflict, such as joblessness and dysfunctional government. “Boko Haram,” the soldier says, “is not something that could just stop.” ■



## Gaza

# One year on

GAZA CITY

On the anniversary of the most recent war, the strip is still suffering

THE hardest-hit neighbourhoods in Gaza became something of a tourist attraction at the start of Ramadan in mid-June. Television cameras and aid workers descended on Shujaiya and Khuzaa to join residents for *iftar*, the evening meal that breaks the daily Ramadan fast. After a few days, though, the visitors lost interest. “People come to talk to us every month,” said Khaled al-Mahmoum, a resident who lost 13 relatives and his house to an Israeli air strike in August. “They talk, and they leave, and nothing ever changes.”

On July 8th 2014 Israel launched Operation Protective Edge: a series of air strikes followed by a land invasion of the Gaza Strip, in response to a blizzard of rocket attacks from Hamas, the Palestinian Islamic organisation that runs Gaza, and from Islamic Jihad. Hamas called the rockets a response to Israeli air attacks that themselves followed the abduction and murder of three Israeli teenagers, which Palestinians have in turn described as a response to Israel's earlier shooting of two Palestinian youths. The fighting raged for more than 50 days, and left Gaza devastated.

One year on, the 1.8m residents of Gaza feel abandoned by the outside world. Not one of the 17,000 homes that were destroyed has been rebuilt; the authorities have not even finished clearing the rubble. Power cuts last up to 16 hours per day. The World Bank in May said that Gaza has the highest unemployment rate in the world: 43%. Donors pledged \$3.5 billion to rebuild it at a glitzy conference last October in

Egypt. The World Bank surveyed the results in May and found that just 27% of the money had been delivered.

Even the few signs of progress are misleading. Gaza's housing minister said last month that the owners of some 90,000 damaged homes have received stipends to rebuild. Israel has allowed some 1.2m tonnes of construction supplies into Gaza, but that is nowhere near enough (each side blames the other for that), and more than half of the materials were earmarked for a Qatari-funded project to fix two highways.

Mohammed Adwan says he needs \$20,000 to mend the foundations of his house in Beit Hanoun, which was damaged in July by an Israeli shell. The bill is six times more than he received from the authorities. The 31-year-old engineer can afford to make up the difference, but cannot find enough cement and iron. “We've been warned it could collapse, and we have 20 people living here, including children,” Mr Adwan says. “If the materials were available, we would start work right away.”

Gazans have lived through three wars in six years, and have spent nearly a decade under virtual siege by both Israel and Egypt. The policy of isolating Gaza was meant to dislodge the Hamas militants who have controlled the strip since winning an election in 2006. It has shattered Gaza but left Hamas firmly in charge.

Pressure is mounting. Israel accuses Hamas of aiding militants in the Sinai region of Egypt inspired by Islamic State (is). The Egyptians are looking into the matter. Meanwhile, Palestinian jihadist groups, who benefit from the misery in Gaza, have targeted Hamas itself. Their numbers are small, but many of their recruits are disgruntled ex-members of Hamas; men angry that their leaders are not taking a harder line against Israel. Some have launched rockets at Israel, hoping to provoke another war. Others call the Hamas leaders apostates for not enforcing Islamic law.

Israel also blames Hamas for a recent wave of shootings and stabbings in the West Bank and East Jerusalem. Nevertheless, Israeli generals have started calling for a new policy; even Naftali Bennett, the hawkish education minister, believes it is time for a change. “I see they're there,” he said of Hamas last week, describing their rule as an established fact.

The ceasefire under discussion would offer Israel five years of quiet in exchange for an easing of the blockade. There is even talk of a “floating seaport”, anchored offshore, that would give Gaza a badly needed outlet to the world. Donors are reluctant to invest in projects that could be bombed months later. A truce could offer peace of mind. But can Hamas convince its members to back the idea? While its leaders talk with Israel, its soldiers are preparing for another war, building rockets and digging new attack tunnels under the border. ■

## Reporting in Egypt

## Editor Sisi

CAIRO

## The Egyptian regime tightens its grip on the press

**A** FOG hangs over northern Sinai, where the Egyptian army has barred media access as it battles jihadists linked to Islamic State (is). So when the violence reached a new peak on July 1st, with the militants launching simultaneous attacks on half a dozen army posts, there were no reporters to count the dead.

Citing anonymous sources, local and foreign news outlets initially put the number of soldiers killed at between 60 and 70. That would have made this the highest one-day total of military casualties yet in an insurgency that persists despite four years of scorched-earth tactics, now including the use of helicopter gunships and F-16 jets. The army, which says that only 21 of its troops were killed, was not amused. Its official Facebook page warned that Egypt is now fighting on two fronts: on the ground and in "a tendentious and fierce war, run by foreign media".

The government of President Abdel-Fattah al-Sisi is gearing up for that second campaign. To reinforce a battery of harsh laws already on the books, it has proposed a new counter-terrorism bill. Among its 55 articles is one stating that those who intentionally publish "untrue news or data" contradicting the official line will face at least two years in prison.

Egyptian human-rights activists and the national journalists' union have condemned the draft law as both unconstitutional and counterproductive. But, like a controversial law banning street protests that has landed dozens of peaceful activists in prison, it is likely to pass. Under Mr Sisi, a former field-marshall and defence minister, Egypt's regime has grown increasingly militarised. The assassination in June of the country's chief prosecutor, the highest-ranking official of this government to be murdered by disgruntled Islamists, has left it in no mood to bother about little things like freedom of speech.

Mr Sisi, who justifies his authoritarian rule with the promise of stability, gets little trouble from the Egyptian media. Deferential TV networks have yanked critics off the air. Media owners heed pressure from the regime, including directives from the army's powerful Morale Affairs Department. When militants killed 31 soldiers in Sinai last October, the editors of Egypt's most prominent papers, after meeting with Mr Sisi, vowed to limit their criticism of the state. Not for the first time, Egyptian dailies printed almost identical headlines



following the killing of the chief prosecutor. Despite the qualms many Egyptians feel about his role in the mass sentencing of opponents of the regime and the mass acquittals of police accused of torture and other abuses, papers called for avenging the blood of "the people's advocate".

Foreign media have been more critical. Al Jazeera, a Qatari news channel, is ac-

cused of showing sympathy for the Muslim Brotherhood, which Mr Sisi deposed and then blacklisted. Three of its reporters spent 400 days in jail for allegedly harming national security. A correspondent for the Spanish daily *El País* recently fled the country, following a warning from Spanish diplomats that his arrest was imminent. The foreign ministry has handed out guidelines in English. Call terrorists "slayers", "destroyers" or "eradicators", it says, but do not associate them with Islam.

Egyptian reporters face the most serious risks. At least 18 are in prison, mostly on suspicion of sympathising with the Brotherhood. Non-journalists are being silenced, too. A star footballer was recently suspended after describing Mr Sisi as a "failure" on Facebook. Police arrested workers from a local NGO conducting a survey of conditions in a Cairo slum, and deported a French student researching a youth group that was prominent in the 2011 revolution but is now banned. On Facebook, a military spokesman insists that Sinai is now "100% under control". Controlling public opinion may not be so easy. ■

## Libya's civil war

## Five peace plans—and counting

CAIRO

## As its rival governments fail to come to terms, Libya sinks deeper into chaos

**I**T SAYS much about Libya's faltering peace talks that the country's rival political factions negotiated face to face for the first time only in June, nine months after a UN-brokered process began. Till then diplomats had shuttled between the camp siding with the internationally-recognised government in the eastern city of Beida, and the loose alliance supporting the self-declared government in Tripoli, the capital, in the west. Bernardino Leon, the UN's envoy to Libya, has already torn up four drafts of an agreement.

Mr Leon hoped his fifth draft would be a winner. It called for a government of national unity lasting a year. The parliament in the east would become the legislative body; a new consultative chamber would be made up mostly of members of the rump General National Congress (GNC), the unrecognised parliament in Tripoli. On July 7th the GNC rejected the proposal, though it will keep talking.

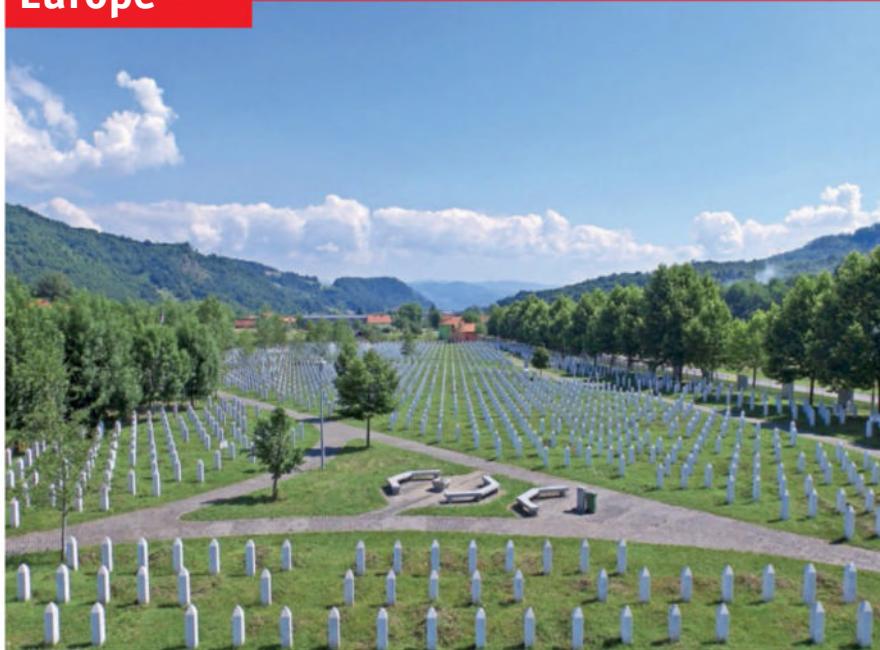
Supporters of the Tripoli government think the new consultative chamber is too weak and that the parliament in the east has been invalidated by the Supreme Court. They also fret over the role of Khalifa Haftar, the commander-in-chief of forces aligned with the Beida administration. The government in the east, meanwhile, fears giving too much power

to Islamists, who are part of the alliance supporting the Tripoli government.

As the negotiations have dragged on, both sides appear to be fracturing. In the west, hardliners led by Salah Badi, a militia commander, have created yet another faction that is likely to keep fighting even if a deal is reached. So too might Mr Haftar, who having failed to meet his own deadline for capturing Benghazi, Libya's second city, now faces challenges to his own authority.

Still, many have grown weary of the war. Key figures in the western city of Misrata, home to several powerful militias, have agreed to local truces. The still-independent central bank is sounding the alarm over the country's precarious economic situation. The war has cut into oil production. Libya could go broke before it is at peace.

The chaos has proven a boon to people-smugglers, who continue to send stuffed boats across the Mediterranean, and to Islamic State, which has expanded its presence in central Libya and, some fear, is eyeing the country's oil infrastructure. The gunmen who attacked tourists in Tunisia in March and June are believed to have trained at is camps in Libya. That group has since been expelled from the eastern city of Derna. But the militia that pushed it out also has a jihadist bent.



### Remembering the Srebrenica genocide

## Amid the solemnity, squabbling

SARAJEVO

**Two decades after the darkest moment in Europe's recent past, consensus about what happened, and what it means, is fraying**

MUHAMED DURAKOVIC wandered the hills and forests for 37 days after Srebrenica, his home town, fell to Bosnian Serb forces on July 11th 1995. He survived, but 8,000 men and boys did not. The victims were, like him, Bosniaks of Muslim heritage, also known as Bosniaks.

The murder of Srebrenica's menfolk, rounded up as they tried to reach friendly territory, was the worst single crime committed in Europe since 1945. According to Mr Durakovic, who runs a summer school where students learn what happened, "some places are meant to be symbols, and Srebrenica is the Bosniak Auschwitz."

Exactly 20 years later, the name of Srebrenica has emerged as a talisman of evil, but it has also become an object of bitter contention, both in the region and globally. At the UN Security Council, a British-sponsored resolution denouncing the Srebrenica genocide and its denial was vetoed by Russia, which said the text was one-sided and lacked the consent of local parties. The last statement is, sadly, true; and it reflects a new flare-up of acrimony.

This marks a troubling reversal. For a decade after American-led military action and diplomacy brought an end to Bosnia's war in 1995, there was broad if grudging agreement about what occurred in Srebrenica, at least internationally, and what it implied for the country's future.

It was accepted that, as the Dayton

peace accord laid down, Bosnia's feuding communities should work together to build a new state where refugees could return and the worst crimes would be exposed and punished. But at least since 2006, when constitutional reforms were blocked, the country has moved backward. In Mr Durakovic's view, hatred between Serbs, Croats and Bosniaks is still alive, and the Bosnian state has atrophied.

That may be a little too gloomy. Hate is hard to measure, but one remarkable thing about post-war Bosnia has been the lack of revenge killings. In everyday life, individual Bosniaks get on well, even in Srebrenica whose population has never recovered from the massacre. But people are jaded with the Dayton deal, which remade Bosnia as a loosely articulated state with a Serb-run north and east and a Bosniak and Croat entity forming the rest.

At the time, Dayton was hailed a great breakthrough. Now many people, albeit mostly Bosniaks who want a unitary state, say they are trapped by the accord's rigid structures. Those structures seem to suit the petty purposes of local politicians who claim to be advancing Serb, Croat or Bosniak interests, and historical perspectives, at the expense of rival groups.

It is both a symptom and a cause of Bosnia's fractured state that progress towards complete agreement on the meaning of Srebrenica has broken down. In 2004 a re-

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Charlemagne is away

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port by the government of the Republika Srpska, the Serb half of Bosnia, acknowledged that mass murder took place. Then the UN war-crimes tribunal in The Hague ruled that what happened at Srebrenica was genocide, the sole act in the Yugoslav wars that clearly deserved that grim title. The International Court of Justice, which adjudicates interstate disputes, agreed.

But despite the detailed testimony of more than 1,000 witnesses at the Hague tribunal, and confessions from some perpetrators, the matter has not been settled in everybody's eyes. Bosniaks have made Srebrenica a central part of their collective identity. But among Bosnian Serbs and their kin in Serbia itself, it is respectable to deny or play down what happened. Serb leaders reject the word genocide.

### Different tribes, different histories

Worryingly, children from Bosnia's rival communities learn different histories. Every Bosniak child hears about the genocide, but many Bosnian-Serb children are taught to see the mastermind of the killings, Ratko Mladic, as a hero, although he is on trial for egregious crimes in The Hague. Bosnian Croat children are not told much because the crime did not affect Croats.

Even among Bosniaks, Srebrenica can be divisive. People from other towns where atrocities took place grumble that they are forgotten. The Mothers of Srebrenica, a group of women whose menfolk were killed, are respected but intensely politicised; they support Bakir Izetbegovic, a member of Bosnia's tripartite presidency.

Signs of a much worse intra-Muslim split emerged recently. A slick video issued in the name of the Islamic State terror group, released last month, calls on Balkan Muslims to murder their non-Muslim neighbours. It says Bosnia's "secular and" ➤



## Balkans timeline 1991-2010



Srebrenica April-October 1995

Apr	Jul	Aug	Aug-Sep	Sep-Oct
Bosnian commander Oric quits, leaving Srebrenica poorly defended by Dutch forces	5-6 Serb attack begins 10 UN agrees in principle to defend Srebrenica using air power 11 Serb forces enter Srebrenica; air strikes called off after Dutch peacekeepers taken hostage	12 Women and children deported; Serbs separate out males aged 12 to 77 13 Dutch accept Serb demand to expel 5,000 people from base 12-16 Over 8,000 male Muslims killed	10 US shows US spy satellite image of mass graves	NATO bombs Bosnian Serb positions Serb forces exhume graves and move remains to conceal them

- ▶ nationalist” leaders were complicit in the 1995 genocide and should be overthrown.

Historical arguments have been especially fierce in the run-up to the 20th anniversary which will draw many celebrities to Srebrenica. Many Serbs admit that a terrible deed was done there but say Serb victims of fighting near the enclave should be remembered, too.

The Serb narrative stresses that the town's Bosnian garrison used UN cover to raid nearby Serb villages; given that the town was a UN-protected "safe area", it should have been disarmed. But in the view of independent observers, the great majority of Serb casualties were military, and the Serbs suffered nothing remotely comparable to the summary killings ordered on a vast scale by Mr Mladic.

A symptom of Serbia's pugnacious mood is its determination to prosecute Naser Oric, who commanded Bosnia's forces in Srebrenica but was mysteriously withdrawn from the enclave in spring 1995. Mr Oric was given two years' jail by The Hague tribunal in 2006 because of the death and mistreatment of Serb prisoners; this conviction was overturned on appeal in 2008. Last month he was arrested in Switzerland under a Serbian warrant, prompting fury among Bosniaks; he was then returned to Bosnia rather than Serbia.

Milorad Dodik, the president of the Republika Srpska, was willing a few years ago to acknowledge Srebrenica as a crime; he now says talk of genocide is a "lie". However strange it may seem to outsiders, some Serbs see Srebrenica as a symbol of their own unjust treatment, not that of the thousands of Bosniak victims.

More happily, there are some liberal-minded Serbs who accept the horror of the things done in their name. In one act of contrition, a group of women began bicycling from Belgrade to Srebrenica to honour the Bosniak victims; in a similar spirit, plans were made for thousands of people to lie down in front of the Serbian parliament to mourn them.

But across the Balkans as a whole, there have been troubling signs recently of politicians delving even further into history to make political capital. In May, for example, Kolinda Grabar-Kitarovic, the president of Croatia, laid a wreath in Austria to Croats who had served the pro-Nazi Ustasha regime. Critics called this an insult to the memory of people, including Jews and Serbs, who were killed by the Ustasha. Meanwhile a Belgrade court sparked a fu-

rore by rehabilitating Draza Mihajlovic, the wartime royalist leader who was executed in 1946. He is a hero to right-wingers but recalled with dismay by people who fought with the communist partisans. If the events of 70 years ago are still putting people at loggerheads, that is surely one more compelling reason why a ghastly episode of two decades ago should be contemplated in a spirit of sober remembrance, not point-scoring. ■

## **Germany's Eurosceptics**

## A bad time to break up

BERLIN

**A party splits just as voters start to like some of its ideas**

**F**OR a political movement like the Alternative for Germany (AfD), the shaking of Europe's foundations should have been a great opportunity. The party was founded in 2013 as Germany's first euro-sceptic (rather than Eurosceptic) party. Back then, this meant opposition to the common currency but not the European Union (EU).

The message changed in 2014, as the euro crisis temporarily disappeared from the front pages of newspapers and the party began attracting people with different interests. These (mainly eastern) new fans dislike immigrants, Muslims, homosexuals, “political correctness” in the media, a perceived anti-Russian bias in foreign policy, and the EU and NATO generally. Bernd Lucke, an economic liberal who was the party’s public face, at first went along with this drift to the nationalist right, in the hope of electoral gains. The AfD duly entered the European Parliament and several regional assemblies.

To Mr Lucke's chagrin, however, the party's growing right wing also spawned some rivals. The most charismatic of them

is Frauke Petry, a mother of four, a (failed) businesswoman and party boss in Saxony. Light skirmishing turned into open fighting within the party, with the far right backing Ms Petry and moderates lining up behind Mr Lucke. At a party congress on July 4th Ms Petry trounced Mr Lucke, winning 60% of the delegate vote to his 38%. Barely suppressing tears, Mr Lucke slammed his laptop shut and left the stage. On July 8th he quit the party altogether.

So did hundreds of his supporters, including four of the party's seven members of the European Parliament. One of them, Hans-Olaf Henkel, warned that the AfD was now an "NPD in sheep's clothing", a reference to a German neo-Nazi party. Ms Petry denied any such tilt. But in effect the AfD is now the German equivalent of France's Front National.

As the week progressed, more memberships were cancelled, and the faction around Mr Lucke was debating whether to found a new political group. If that happens, neither party would reach the thresholds needed to enter national or re-

▶gional legislatures. Germany's Eurosceptics are thus destroying themselves at the moment when they hoped to pick up votes by dominating every news cycle with calls for a Grexit.

And yet their implosion will not slow Germany's shift to a more hawkish stance in the euro crisis. In recent weeks, another factor had pushed the AfD toward the extreme right, says Timo Lochocki at the German Marshall Fund, a think-tank. It was the rightward move by the mainstream parties in the governing coalition of the chancellor, Angela Merkel. Fed up with Alexis Tsipras, the Greek prime minister (whom German headlines liken to a man driving the wrong way on a motorway), Mrs Merkel's own Christian Democrats and even many centre-left Social Democrats are now "indirectly campaigning for Grexit", thinks Mr Lochocki. "Tsipras, not the AfD, moved German politics right." ■

#### French satire

## Don't stop deriding us

PARIS

#### Why politicians love puppets

CRAFTED out of latex rubber, the marionettes of "Les Guignols de l'Info", a French television show, recall a pre-digital age. It takes two puppeteers to manipulate the fingers and facial features of each rubber character. Boxes of dismembered flesh-coloured hands are piled up in backstage store cupboards, along with plastic bags of legless rubber bodies. Yet such is the programme's iconic status among French viewers that reports of its possible demise stirred much indignation, even among the politicians it parodies.

Inspired by a long-defunct British show, "Spitting Image", "Les Guignols" has been lampooning politicians since its launch in 1988. It dressed Jacques Chirac, an ex-president facing corruption charges, in Superman underpants and called his character Supermenteur (Super-liar). Nicolas Sarkozy, another ex-president, is portrayed as a twitchy little figure forever seeking attention. François Hollande (pictured), the current president, appears petrified of Germany's Angela Merkel or Russia's Vladimir Putin, and emits short nervous noises, something like "Eheheh...".

News of a threat emerged when one of its writers launched a Twitter appeal, with the hashtag #TouchePasAuxGuignols (#HandsOffTheGuignols). Rumour flew that the subversive show had fallen foul of Vincent Bolloré, an industrialist and main shareholder in Vivendi, a media group whose TV company, Canal+, makes "Les

#### Anti-Chinese protests in Turkey

## Bashing and wooing China

ISTANBUL

#### Pious Sinophobia won't deflect Turkey's strategic dreams

**I** AM not Chinese, I am Korean," cried a frightened young woman as she was led away from demonstrators chanting anti-Chinese slogans near Istanbul's Blue Mosque. Ultra-nationalists and Islamists were marching in solidarity with China's Uighurs, who are Muslims and ethnic Turks, following reports of deadly clashes between students and police in Xinjiang province.

The incident is the latest in a spate of anti-Chinese protests egged on by media coverage of the plight of the Uighurs. Across Turkey, protesters have burned China's flag and effigies of Mao Zedong. (Mao died nearly 40 years ago, but is better known than China's current president.) Last week a Chinese restaurant in Istanbul was vandalised to cries of Allahu Akhbar. It later emerged that the "Happy China" was run by Turkish Muslims and that its chef was Uighur. "We don't even serve booze," griped the owner.

Turkey's government echoes the protesters' complaints, albeit more diplomatically. The foreign ministry said that news of Uighurs being "banned from fasting and fulfilling other acts of worship had been received with sadness by the Turkish public." Devlet Bahceli, leader of the far-right Nationalist Action Party, asked crudely: "How does one distinguish between Chinese and Koreans? Both have slanted eyes."

China denies that it has banned the fast, but it certainly does curb Uighur

culture and it tells bureaucrats, teachers and students not to observe Ramadan.

Still, Turkey's ruling Islamists want to remain on good terms with Beijing. Unfazed by objections from NATO partners, Turkey is mulling the purchase of Chinese long-range surface-to-air missiles. The Turkish government has denied Rebiya Kedeer, a campaigner for Uighur independence, a visa. Ironically though, Uighurs travel via Turkey to join Islamic State jihadists in Syria, as Firdevs Robinson, a Turkish blogger, observes.

Recep Tayyip Erdogan, Turkey's president, sees high strategic stakes. He says he would ditch efforts to join the European Union if Turkey were accepted by the Shanghai Co-operation Organisation (SCO), formed in 2001 by China, Russia, Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan. The SCO "is better and more powerful, and we have common values with them," Mr Erdogan declared.

If those values include squashing dissent, he has a point. At least 105 people have been indicted over the past year for alleged rudeness about the president. Mr Erdogan's nervousness over a scandal implicating his son and sundry political allies has led to a shake-up in the judiciary and the police and to internet curbs.

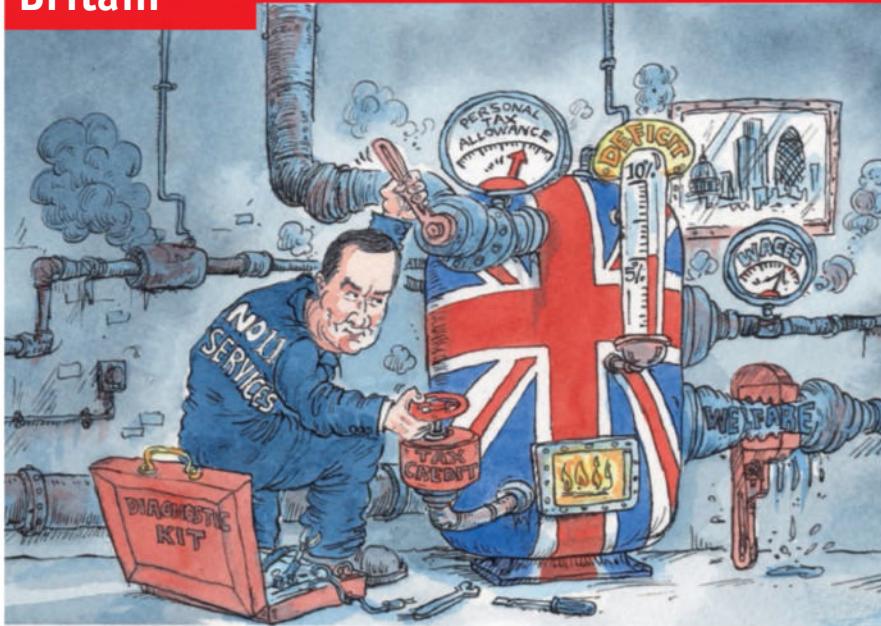
He is expected to travel to Beijing on July 28th. And if this upsets any pious supporters, he can respond with a saying attributed to the Prophet Muhammad: "Seek knowledge, even in China."

Guignols". The ten-minute show requires fully 300 people to make. It has lost market share and some of its cutting-edge bite among younger viewers drawn to alternative humour. Mr Bolloré also happens to be close to Mr Sarkozy, who wants his old job back at presidential elections in 2017. Earlier this year, Mr Bolloré declared that there was "a bit too much mockery" of politicians on Canal+.

It was the politicians, however, who came to the rescue. Mr Hollande called derision part of France's national heritage. Alain Juppé, an ex-prime minister, tweeted that he liked watching his Guignols puppet: "we need them". For a politician, making it onto the show had become a badge of honour. Mr Bolloré, who calls the show an "historic asset" now says it will remain on air after all, though it may be pushed out of prime time. That may be a relief for its targets: there is only one thing worse than being pilloried by puppet, it seems, and that is not being pilloried at all. ■



Rubber ribbing



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## The budget

## Fix, then fiddle

**George Osborne is well on the way to balancing Britain's books. Now, he hopes to reshape the welfare state**

FOR five years George Osborne, the chancellor of the exchequer, has focused on fixing Britain's public finances. Since 2010, when the Conservative-Liberal Democrat coalition took office, he has cut the budget deficit in half, from 10% of GDP to 5% last year. But now that the Tories govern alone, Mr Osborne is ramping up his ambitions. When on July 8th he delivered the first purely Conservative budget since 1996, he set out a new plan to finish the book-balancing job. On the way, he hopes to reshape Britain's welfare state.

In March, in the last budget before the election, Mr Osborne promised to steer the public finances to surplus by 2018-19. His plan for doing so required very steep cuts to government departments for three years. That looked unrealistic; outside a ring-fence protecting health, international aid and schools, budgets had already been slashed by an average of 20%. The plan was also strange: having inflicted harsh cuts, Mr Osborne would then reverse many of them the next year.

The new budget restored some sanity. Mr Osborne, who has been more flexible than his rhetoric promised, delayed the return to surplus by a year, and smoothed the cuts over the whole period. That makes the task easier (see chart). The austerity to come is not just smoother; it is shallower, too, reflecting three factors.

First, the deficit is lower than expected. The Office for Budget Responsibility (OBR),

Britain's fiscal watchdog, forecasts that borrowing in 2015-16 will be £70 billion (\$108 billion), or 3.7% of GDP, down from £75 billion four months ago. For that, thank strong recent growth in tax revenues. An extra year to close the deficit means that there is more time for this welcome trend to play out, filling the Treasury's coffers and obviating the need for cuts.

Second, Mr Osborne's budget raised plenty of new revenue. Higher taxes on dividends, insurance and cars will raise £4.5 billion by the end of the parliament. Tax relief for pension saving will be restricted for those earning over £150,000, raising £1.2 billion. An ongoing crackdown on tax avoidance, tax evasion and "imbalances" in the tax system—including a re-

striction on the controversial "non-domiciled" tax status, which Labour pledged to ban—should bring in a further £5 billion. Overall, the budget will raise taxes by a net amount of £6 billion a year, or 0.3% of GDP, by the end of the parliament, according to the OBR.

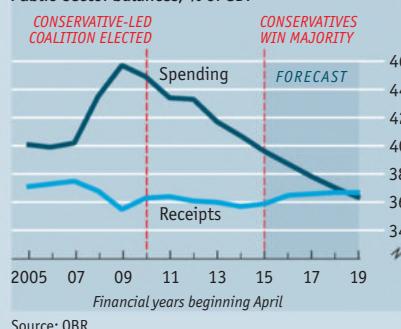
The third and most significant change was to welfare. Freed from the shackles of coalition, the chancellor set out a plan to cut the welfare bill by £12 billion by 2019-20, a move which had been fiercely resisted by the Lib Dems. Nearly half these savings will come from reductions in tax credits, income top-ups for low earners (see Bagehot).

A Tory chancellor slashing benefits for poor families risks looking cold-hearted. But Mr Osborne adroitly compensated for his welfare cuts by raising the minimum wage from £6.50 an hour to £7.20, which will increase to £9 by 2020. He rebranded it a "living wage", a term hitherto used by a campaign for a £7.85 an hour minimum.

This was political cross-dressing at its most flamboyant. Raising the minimum wage to £8 an hour by 2020, and incentivising employers to pay still more, was a La-►

## Sailing towards surplus

Public-sector balances, % of GDP



## Forecast departmental spending

Cumulative change, 2015-16 prices, £bn



▶bour pledge going into May's election. Mr Osborne pinched it and then some. The opposition was already devoid of an economic narrative, thanks to the economy's recent outpacing of the rest of the G7 group of rich countries. With Mr Osborne now championing a higher minimum wage, Labour's territory shrinks further.

Mr Osborne also continued to raise the personal tax-free allowance, a policy swiped from the Lib Dems. This was about £6,500 in 2010; next year, it will hit £11,000. The goal, says Mr Osborne, is to turn Britain from a "low wage, high tax, high welfare" society to a "higher wage, lower tax, lower welfare" one.

That may be harder than the chancellor expects. The higher minimum wage will not always make up for lost benefits, according to the Social Market Foundation, a leftish think-tank. Mr Osborne claims his budget would make a typical family with someone working full-time on the minimum wage better off. But many minimum wage earners only work part-time, and will not reap the full benefits of the hike (or of the higher personal allowance).

The rise in the minimum wage also helped overshadow some aspects of the budget which were more conventionally Tory. Mr Osborne raised the threshold for inheritance tax from £650,000 for a couple to £1m. Bizarrely, this increase will apply only to housing wealth, encouraging Britons to funnel still more of their savings into bricks and mortar.

Mr Osborne also cut taxes further up the income scale. The Tories want to raise the threshold at which the higher, 40% tax band kicks in, from about £42,000 to £50,000. Early in the last parliament, this threshold fell, to help pay for generous rises in the personal allowance. Mr Osborne has begun to reverse that by boosting it to £43,000.

#### Not out of the woods

Having outmanoeuvred his political opponents, the chancellor is riding high. But he should not celebrate yet. Although the cuts planned to public spending look more achievable than they did in March, they remain roughly equivalent to those in the last parliament. Mr Osborne is relying on a 1% cap on total public sector pay rises for four years to help achieve savings across the board. But unlike in the last parliament, when similar pay restraint was imposed, wages in the private sector are now growing strongly (in the past three months, private sector pay has grown at an annualised rate of 4.3%). With such a disparity, the public sector will find it harder to retain staff.

The chancellor's plan also depends on productivity growth—dismal in Britain since the crisis—picking up. The budget did sketch out a productivity plan, which was set to be revealed in full after *The Economist* went to press. The government will funnel

a bit more money towards roadbuilding, nudge large firms to create more apprenticeships and devolve more powers to local councils, particularly those forming Mr Osborne's "northern powerhouse".

This is welcome, but unambitious. A better plan would ramp up investment, which fell slightly in the budget, from its current paltry level of 1.5% of GDP. It would increase funding for research in Britain's universities, and lift restrictions on highly skilled migration. Most of all, it would deal with Britain's chronic housing shortage by relaxing the country's strict planning rules. Mr Osborne continues to produce lots of housing policies—he even seemed to count the inheritance-tax cut as part of his productivity plan—but few which address the fundamental problem of lack of supply.

Economic policy in this parliament will be about much more than just closing the deficit. The government realises that, and has broadened its ambitions. Now it must meet them. ■

**George Osborne**

## Master of all he surveys

**The chancellor's odds of succeeding  
David Cameron look ever better**

DURING the last parliament George Osborne took to slipping sardonic jokes about the opposition Labour Party into his annual budget statements. On July 8th, however, in his first such speech since the election, the chancellor of the exchequer took aim at his own side. Announcing that he would fund the restoration of a command centre used by the Royal Air Force during the second world war, he talked of "the days when aeroplanes flew freely over the skies of west London"—a dig at Boris Johnson, the local Conservative MP and the city's mayor, who opposes the expansion of Heathrow airport.

His willingness to tease his main rival for the leadership of the party betokened Mr Osborne's new swagger. Tory MPs roared with approval as he set out his economic programme. Mr Johnson grinned uncomfortably. Even Iain Duncan Smith, the welfare secretary, who has sparred with the chancellor, bellowed "fantastic", pumping his fists in giddy delight.

It was not always thus. Three years ago Mr Osborne was the face of a wave of public spending cuts deemed not just harsh but also ineffective. Crowds at the Paralympic Games in 2012 booed him. Colleagues and columnists urged David Cameron to move him. But as the economy improved, so did Mr Osborne's standing. The Conservatives' electoral triumph in



**Boris, bested**

May, built on the economic recovery, sealed his resurgence. The prime minister duly made him deputy prime minister in all but name and studded the new cabinet with Mr Osborne's allies. Polling by ConservativeHome, a website, indicates that 22% of Tory members want him to succeed Mr Cameron as party leader, about twice the pre-election figure and only one point behind Mr Johnson.

His budget speech propelled Mr Osborne yet farther towards 10 Downing Street. He told a story of tough decisions taken in the face of loud opposition, of sticking to a plan, of vindication and of new trials ahead. He roamed defiantly across colleagues' policy beats; from education to defence, from welfare to the EU. He wrong-footed Labour by appropriating its popular policies and challenging it to alienate its own base by supporting welfare cuts. He tickled Tory MPs' bellies: to loud cheers the chancellor pledged to boost defence spending and pull prosperous households out of inheritance tax.

Their delight was evident. Ministers banged the cabinet table in approval when the chancellor presented his budget to them before addressing the Commons. After the speech Robert Halfon, a Tory MP, proudly described it as the "workers' budget" of a "workers' party". Ladbrokes, a bookmaker, shortened Mr Osborne's odds of succeeding Mr Cameron and lengthened those of Mr Johnson, making the chancellor the new favourite.

Will he do it? The prime minister is expected to stand down in 2017 or 2018, after Britain's referendum on its EU membership. If either the economy or the referendum goes wrong in the meantime, Mr Osborne will suffer; unlike Mr Johnson, his fate is bound up with that of his boss. But such mishaps are surely the mayor's best hope. The wise-cracking George Osborne who stood at the dispatch box on July 8th was an election winner, a canny political strategist and a man who makes the weather. The once downtrodden chancellor is now the one to beat. ■

# Bagehot | George Osborne's sad triumph

The Conservative chancellor has managed a politically tricky welfare cut. Millions may suffer



**W**HERE is the fairness," asked George Osborne, "for the shift-worker, leaving home in the dark hours of the early morning, who looks up at the closed blinds of their next-door neighbour sleeping off a life on benefits?" With that snarling exhortation, in 2012, the Conservative chancellor of the exchequer brandished an axe at Britain's welfare state. Yet, due to the moderating exigencies of coalition rule, he was unable to swing it to his satisfaction until July 8th—when he delivered the first true-blue budget for almost two decades. To test the chancellor's analysis, as he was whetting his blade beforehand, Bagehot paid a visit to the Tulse Hill public housing estate, a little after dawn, searching for resentful workers, layabout scroungers and closed blinds.

He found none of the last; residents of the estate, one of the toughest in south London, are more likely to shut out the light with sheets, patched with beloved national flags, of Portugal, Nigeria, Brazil. And though there were, by 6am, a lot of these drapes still in place, the residents flowing out to the nearest bus-stop paid them no heed. They were hurrying to clean offices, guard doorways and serve breakfasts. "There are always some people who don't want to work," said Nura, a school cleaner, wearing Arab dress and with five children abed. "But most of us do."

That is truer than most Britons imagine. Mr Osborne's ambition to make welfare cuts central to his broader assault on public spending was politically astute. A majority of Britons think the government spends too much on benefits. Yet that is based on an exaggerated idea of how much of the £220-billion (\$340-billion) welfare bill goes on dole. Only about 2% does. Most of the budget is swallowed by pensioner benefits; child, disability and incapacity benefits account for much of the rest. Given that the Tories swore to protect all of those, ahead of the general election in May, Mr Osborne was left to aim at tax credits, a suite of benefits for which shirkers are largely ineligible.

Britain's tax credit regime was introduced by a Labour government in 2003, and is more generous than the American Earned Income Tax Credit it was modelled on. It consists of working tax credits, which top up low wages to encourage work; and child tax credits, which are available to any poor parent. That reflects the fat times in which the benefits were introduced, and a Labour chancellor, Gordon Brown, more motivated by equity than job

creation. Yet their vast expansion over the past decade—originally expected to cost two billion pounds a year, they will cost £30 billion this year—is due chiefly to Britain's lacklustre wage growth. Around three-quarters of child tax credit recipients are in work—including Nura, who collects £150 a week for her five children.

This made the politics of Mr Osborne's hatchet job—which includes a four-year freeze in tax credit rates, a reduction in the tax credit income threshold, and a planned restriction in child tax credit eligibility to two children—high-risk. He had two advantages. Poor Britons are least likely to vote Tory, or at all. (By contrast, around half of Britain's cosseted pensioners voted for Mr Osborne's party.) The chancellor could also claim to be reining in a system designed, with characteristic profligacy, by a discredited predecessor. Yet given that his arguments for cutting welfare were hitherto based on championing the deserving poor against their layabout neighbours, taking money from them was risky. And it is especially so given his party's reputation for being flinty-hearted, which the election has not changed. The Tories won in May because Labour was weak, not because they were loved.

Hence Mr Osborne's effort to cushion the blow to low-earners with a hike in the minimum wage. On the face of it—and on the faces of many Tory MPs, who cheered frenziedly as the policy was announced—this was brilliant. It was counter-intuitive, given the Tories' brand weakness. As spun by Mr Osborne, it seemed also to complete his oft-stated vision for a less dole-dependent, more industrious, more prosperous society. Yet it will take more than what Mr Osborne has just proposed to realise that.

In the short-term, many low earners will be better off. Yet the languishing of British wages is a reality, common to all Western economies, that cannot be fixed by state fiat. Mr Osborne—unlike Labour's inept former leader, Ed Miliband—understands that: the pains he took to mollify business over the new minimum wage, including with a further cut in corporate taxes, suggested the hike represents more an apologetic one-off, to facilitate a ticklish welfare cut, than a paradigm shift in economic policy. The Tories' longer-term hopes to raise wages rest on a big improvement in Britain's pathetically low productivity rate. Yet there was too little in the budget to augur that: some help for universities; no promise of the massive infrastructure investment Britain requires. The fear, until that transpires, is that Mr Osborne remains too mired in the short-term demands of budget-cutting to reflect properly on Britain's future—or on the tough present of its hard-working poor.

## Always with us

Bagehot, who admires Mr Osborne's stated vision for Britain, understands that thoughtlessness—for, as he discovered at Tulse Hill that morning, he can also be guilty of it. He was interviewing Gina, a resident of the estate, at the time, as she trudged home from her night-shift. A single mother of three, heavily pregnant, she had just spent six hours cleaning an office in central London, another two travelling by bus, and was plainly shattered. Yet she answered all your columnist's nosy questions graciously.

Yes, she got tax credits, roughly equivalent to her salary; and, yes, she would be sunk without them. Probably she would have to take her children—who were right then making breakfast—out of school and return to Ecuador, where life was less hopeful, but easier in a way. The coming welfare cuts, heavily trailed in the press, terrified her, she said. Then she smiled and asked after your columnist's six-year-old son. Unbeknown to Bagehot, he is her daughter's classmate, and how fortunate he is. ■



## Smoking

## Time to quit

CAIRO

**Even though it is clear how to get people to stop smoking, rates are still rising in many countries—even some in the rich world**

FOR many Egyptian Muslims it is not the forgoing of food and drink during daylight hours that makes the holy month of Ramadan a difficult time: it is the corresponding restriction on smoking. Take Sayed, the manager of a modest Lebanese restaurant in Cairo. He has not eaten for nearly 16 hours and is surrounded by food. But after the muezzin calls out at sunset, he reaches for a cigarette. So does his staff. Of his 28 employees, only three do not smoke.

In much of the rich world, smoking seems to be doomed. In America, Australia, Britain, Canada and Italy, one in five or fewer people smoke (see chart on next page). The better-off have mostly given up, and the poor are following. There's a lag between a fall in the smoking rate and a fall in deaths from smoking, but even so in America and many other rich countries, smoking-related deaths are in decline.

But in many poor countries, mostly in Africa, more people are lighting up. According to a World Health Organisation (WHO) projection, a quarter of Nigerian men will smoke by 2025. For tobacco firms, Africa, where smoking rates are still low but incomes increasing fast, is turf worth fighting for. On July 2nd, in a case brought by British American Tobacco, Kenya's High Court suspended the new tobacco rules that would have taken effect last month.

They had been eight years in the making. The court found that the constitution required that the company be consulted.

And it is not just in the poor world that rates are increasing. In several rich countries, including Belgium, France, Germany, and Portugal, after years of decline, the trend has recently reversed or faltered.

## Stub it out

Yet everybody now knows how to get people to quit: hike taxes, ban smoking indoors and advertising, publicise the health risks and help smokers to quit. Countries that follow these steps can see smoking rates fall fast: Uruguay's fell from 33% to 25% in just six years, and the share of Turkish men who smoke fell from 52% to 41% in eight years, after both countries strengthened tobacco control in the past decade.

A report by the World Health Organisation (WHO) published on July 7th finds that only Turkey has imposed and enforces toughly all of those anti-smoking measures. A combination of tobacco-firm lobbying and inertia hold others back. Yet vast numbers of lives could be saved: in China alone 35m premature deaths will be averted if its smokers start quitting at the rate of Europe, where 30% of those who have ever smoked have quit.

The most effective way to cut smoking

is to raise prices by taxing cigarettes heavily. A 10% price increase cuts consumption by 4-5%, half of which is among smokers who quit; the effect is two to three times as large among young people, who have less money. Yet only 33 countries, most of them rich, levy taxes that are more than three-quarters of the retail price, as the WHO recommends. In some parts of America, a smoking habit costs no more as a share of the average income now than in the 1970s.

There are bad reasons for not raising taxes—lobbying from tobacco companies—and good ones—worries that high taxes increase smuggling and are regressive. Tobacco lobbyists, says Prabhat Jha of the University of Toronto, often tell finance ministers in developing countries that raising taxes will boost smuggling so much that they will end up with lower revenues and no health gains. In fact the evidence from France, Mexico, South Africa and several other countries is that revenues rise even as the number of cigarettes smoked falls. Between 2000 and 2012 the proportion of cigarettes sold in Britain that were smuggled fell from 21% to 9%, as the government tightened customs checks at the same time as jacking up taxes.

Many countries levy several tiers of percentage and flat per-stick taxes that depend on the length of cigarettes or other such features, says Vinayak Prasad of the WHO. That allows tobacco firms to tweak their product and keep some brands cheap even as taxes rise, thereby diluting the impact. Setting a minimum price per pack, as several countries, including Brazil and Malaysia, have done in recent years, is the most effective approach.

Tobacco taxes do indeed tend to be regressive. In Britain 33% of manual workers ►

► smoke, compared with 15% of professionals and managers; the mentally ill smoke twice as much as everyone else; in some prisons, the rate is as high as 80%. Yet poor smokers are more likely to quit when prices rise, and their families stand to benefit more: in a 2005 survey a quarter of smokers in America and a fifth in Britain admitted spending money on cigarettes that they would otherwise spend on basics such as food and heating.

Health benefits from bans on smoking indoors show up quickly. In several cities across eight countries in Europe and the Americas hospital admissions for heart attacks dropped by an average of 17% in the year after strict smoking bans went into effect; after three years they had fallen by 30%. Scotland saw 18% fewer admissions for childhood asthma in the first year.

But politicians in countries where lots of people smoke worry that bans will be unpopular, and bars and restaurants lobby against them. So loopholes are common, restrictions are usually brought in bit by bit and enforcement can be half-hearted. When France banned indoor smoking in restaurants in 2008, patios were fitted with canopies. The Greeks and the Portuguese pay little attention to no-smoking rules, the WHO report finds. In Beijing a ban on smoking in some public places, enforced through minimal fines, was ineffective. On June 1st a wider ban, accompanied by stiff fines, went into effect.

Less than 5% of cold-turkey attempts to quit succeed. But cessation services, such as free call-lines, counselling and nicotine patches can double or triple the quit rate—and they pay off. Smokers who give up by the age of 40 gain back nearly all of the ten years of life expectancy that smoking costs. A Danish study found that the lifetime economic gains from quitting aged 35 were around €25,000 (\$27,400) for men and €34,000 for women, of which about two-thirds was from increased productivity.

Technology is cutting the cost of lending would-be quitters a helping hand. In Costa Rica and the Philippines smokers can sign up for automated text messages with tips on behaviour and lifestyle

changes that make quitting easier. In a British trial, twice as many of those receiving such messages managed to break the habit than those who did not. Nicotine patches and gum have helped many to quit over the years. Now new nicotine-delivery devices are available, including electronic cigarettes. The market for them is booming, and they help many people quit. In Britain 7% of ex-smokers are using them.

Some fret that smokers who might otherwise be persuaded by anti-smoking rules to quit will mix-and-match instead (vaping indoors and smoking outdoors, for instance). Another fear is that vaping might create a new generation of nicotine addicts. Such fears are overblown, says John Britton of the University of Nottingham: as addictions go, nicotine is no more harmful than caffeine, and electronic cigarettes have far fewer of the harmful chemicals found in conventional ones.

### To vape or not to vape?

In the meantime regulations are going in all directions. Many countries treat e-cigarettes just as they do regular cigarettes; some treat them as medical products; and several, including Australia, Brazil, Switzerland and Norway, ban their sale altogether.

Only 29 countries have total bans on tobacco advertising. In Bulgaria, attractive young women may be found offering cigarette promotions in shops and nightclubs. In Pakistan those purchasing some brands are entered in a lottery to win a tractor. Other common mistakes include allowing “light” brands (which are erroneously perceived as healthier), billboards, and point-of-sale advertising.

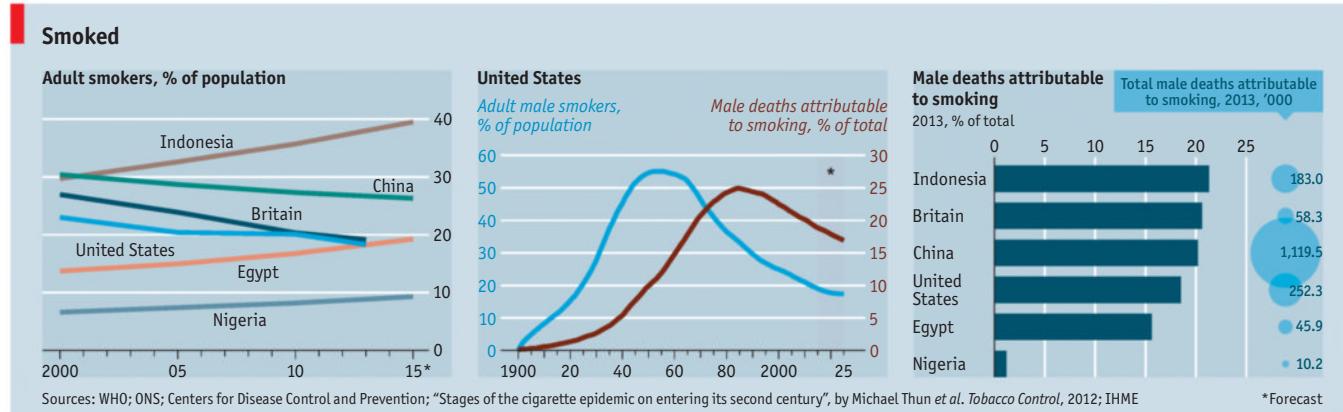
More countries are now running anti-smoking media campaigns, though quality varies: in the past two years only 39 countries ran campaigns considered top-notch by the WHO. They can be highly effective: 1.6m people tried to quit and 100,000 succeeded as a result of America’s “Tips from Former Smokers”, which ran in 2012 and showed people crippled by smoking-related disease; it cost \$480 per smoker who quit, which sounds a lot but is greatly outweighed by the benefits. Australia’s

“sponge” campaign which shows what smokers’ lungs soak up was so successful that the tobacco industry tried to get it banned; China, India, Russia and Senegal have all aired it. Graphic images on cigarette packs are in 50 countries and spreading. In Canada, which was the first to introduce them, they cut smoking rates by 3.5 percentage points, according to a recent study that disentangled the effect by comparing with trends in America.

Australia pioneered plain packs in 2012: they come in drab colours with a gory image. Britain, Ireland, and France have also passed plain-pack laws. But Australia and Uruguay are now being sued on the ground that their rules on how packs should look like violate trade agreements. Malaysia is seeking a tobacco exemption in trade negotiations between America and Asia, for fear that an eventual treaty could be used in a similar way to curb its anti-smoking efforts. In March the charities of Michael Bloomberg and Bill and Melinda Gates, which have spent lavishly on anti-smoking efforts since 2007, launched a fund that will pay the legal fees of low- and middle-income countries in such cases.

While some countries are dawdling, others are mulling tougher rules. Ireland, New Zealand and Scotland have set themselves deadlines to bring smoking to less than 5% in the next decade or two. Finland aims to become nicotine-free by 2040. A bill to ban tobacco sales to anyone born after 2000 is being considered by the Australian state of Tasmania.

America’s public-health authorities are considering a regulation that would set nicotine levels so low that cigarettes are not addictive. Smokers would get their nicotine fix from e-cigarettes and the like. A related concept that has been suggested by academics is to increase cigarettes’ acidity so as to make smoking unpleasant. A “sinking-lid” supply strategy has been floated in New Zealand: gradually reducing tobacco sales to zero. That seems implausible, for the same reason that governments have never been able to stamp out heroin-injecting. But the damage from death sticks can be greatly reduced. ■





## Making towels in India

## Dry run

ANJAR, JALNA AND MUNDRA

## The story of India's biggest maker of towels, and their journey from cotton field to big-box store, offers lessons for other manufacturers

**I**N THE main office building at Welspun's factory in Anjar, in the west of India, there is a replica of the showroom in New York where, twice a year, its sales staff pitch marketing ideas to buyers from American retailing chains. The room is laid out as if it were the home-textiles department of a large store. One wall is covered floor-to-ceiling with shelves subdivided into squares and neatly stacked with bath-towels in a few basic colours. The pricier towels with fluffier pile, elaborate borders and exotic shades are arranged artfully on tables just in front.

The towels on display have many brand labels but all are made by Welspun. A big-box retailer or department store typically relies on a sole supplier for towels and bedding: that firm is said to "own the wall". Welspun owns the wall at some of America's best-known chains, including Walmart, Costco, Target and Macy's. One in every seven towels sold in America is made either at Anjar or at Welspun's smaller factory in Vapi, a few hours' drive from Mumbai, India's commercial capital. In Europe Welspun also supplies IKEA, as well as John Lewis, a posh British department-store chain.

Not long ago American companies were the biggest names in home textiles. They survived in part because of import quotas that were abolished only in 2005, as part of a global trade liberalisation. India might seem an obvious place to find

the firms that most profited from this opening. It is poised to overtake China as the world's largest producer of raw cotton; and textiles is the sort of low-tech industry in which a poor country can gain a foothold. But Welspun's success is the exception in India, not the rule. Other countries grasped the chance more readily than India (see chart), even relatively high-wage China.

Sadly, by the time the global textiles trade was liberalised, India had become a place where factories could no longer thrive. Some of its biggest conglomerates, such as Tata Sons, Reliance and Aditya Birla, had started out in textiles but are now better known for other industries. Manufacturing peaked as a share of the Indian economy in the mid-1990s. Kamala



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Mills in Mumbai, where Welspun has its headquarters, was once a thriving textiles cluster. It is now home to a variety of bars, fancy restaurants, television studios and five-a-side football pitches.

America's consumers expect high quality as well as low prices. Its retailers need suppliers who can deliver vast quantities quickly. Welspun has managed this trick, but few other Indian firms can. Follow an Indian towel's journey, from cotton seed to the shelves of a Western shop, and you begin to see why.

The towel trail starts in Prashant Kharde's farm-supplies shop in Jalna, in Maharashtra. There are 150 varieties of seed on the market but only a handful are in demand, he says. Mahyco and Ankur are familiar brands but there is not much brand loyalty. Farmers will discuss which seeds grew best last season; this will be the main influence on their purchases.

In late May the cotton-growing region around Jalna is a patchwork of red-brown plots. The land is ploughed but is as yet unseeded. This period leading up to the rainy season, from June to September, is usually the busiest for seed sales. But business has been slow. Low rainfall last year meant that the local harvest was poor, leaving farmers short of cash for seeds. Jadgish Matre grows cotton, soya beans and corn on a 30-acre (12-hectare) farm in Haldola, a village near Jalna. His is a large landholding by local standards: 5-7 acres is typical. But even he is feeling the pinch. His crop last season was a third of the normal size. Weak foreign demand kept a lid on prices. Farmers sold much of their crop to the government at its minimum support price, says Vipin Rathi, another seed retailer.

The harvest begins in the northern state of Punjab in October and then moves south. The first crop in Maharashtra is picked in December. The farmers around

► Jalna usually sell to traders who come to their villages. They know the crops' worth. Friends in Mumbai or in other cotton-trading hubs send each day's market prices by text-message. There are no large-scale plantations, so the traders act as aggregators. They then sell the bales they have amassed to another set of middlemen, the cotton brokers. Welspun employs a dozen selectors to buy cotton from the larger brokers. They like to strike quickly. The first pick of the crop has the longest fibre and makes for better-quality yarn.

Once procured, the bales are sent to Anjar by road. Most Indian factories, like its farms, are too small to be efficient. The majority of factory jobs are in firms with fewer than ten workers. Their plant is often outdated: looms with mechanical shuttles are still widely used in India, though in most other places they have long been replaced by ones that use a jet of air to propel the yarn at high speed.

Welspun's factory at Anjar is in stark contrast to the norm. It is modern, covers 800 acres, employs 14,000 and produces a steady 90 tonnes of towelling a day. Its order and tidiness is all the more striking in the barren scrubland that surrounds it. A two-lane road lined with flowers runs between the textiles plant and a larger pipe-and-steel works, also owned by the Welspun group. The smoking chimney of a coal-fired power station looms over the combined works.

It is now hard to imagine, but a decade before the Anjar works was built, Welspun almost went under. It had started operations in 1986 as a yarn-spinning firm (hence the name). It set up as a manufacturer of home textiles in the early 1990s, taking advantage of a government scheme that shielded exporters from duties on imported machinery. Its founders invested 10m rupees (then around \$400,000) in the factory at Vapi. The venture found it hard to attract customers. There was little confidence that goods would be of consistent quality or that deliveries would be timely, says B.K. Goenka, Welspun's founder and chairman (pictured). Interest rates in inflation-prone India were high: the firm paid a punishing 22% on its working capital. The factory was working far below capacity. Welspun came close to bankruptcy.

It was rescued by a lucky break that led to a landmark order. In 1997 a textile agent in Manchester urged Walmart's buyers to visit Welspun's factory in Vapi. At the end of a gruelling 165km trip from Mumbai on a one-lane road, the visitors were surprised to see a state-of-the-art plant fitted with German machinery. American textiles firms were still using kit made in the 1960s. Impressed, Walmart placed an order. It was a turning-point. "Once Walmart starts buying, they buy big," says Mr Goenka. At times, building a reputation for reliability was costly. Mr Goenka recalls that all of



Welspun's profit, one year, went on air freight, as it strove to meet its deadlines.

Orders from other American retailers followed. A second, larger plant was built at Anjar just before the expiry of the textile quotas that had kept high-cost American producers alive. The original plan had been to extend the Vapi factory. A plea from Narendra Modi, the chief minister of Gujarat (now India's prime minister), prompted a rethink. Anjar was then being rebuilt after an earthquake.

Small plots, patchy land records and restrictive laws on how farmland can be used make it hard to piece together large tracts for industry in most of India. But much of Gujarat is unsuited to farming, and Anjar had a big enough plot to accommodate a steel mill, a pipe works, a textiles factory and a power plant. The textiles plant was open by December 2004, just nine months after building work started.

The factory is an integrated spinning, weaving and finishing operation, which means it can respond quickly to shifts in demand. The spinning shed is vast: there are 170,000 spindles, the largest number anywhere under one roof. But it is lightly staffed. A lone worker clearing fluff from the machinery looks lost among the endless rows of spindles. Anjar's hot and humid climate is ideal for cotton spinning. The thread would break too frequently in a

place with drier air.

In the weaving shed next door, the back-and-forth of the looms, like an endless train passing over rail sleepers, is deafening. The air-jet looms at Anjar run at around six times the speed of an old-fashioned shuttle loom. There is a drawback to such productivity. Fabric woven at high speed can look flat and rag-like in contrast to the bouncier cloth produced on shuttle looms. To give it a lift, the finished cloth is fed through a giant tumble dryer at 130°C. But first the cloth is dyed. The plant rolls out 5-6 tonnes of newly dyed cloth every two hours before the colour is changed. Each shade is a mix of two or three dyes from a palette of 80.

Once the dyed and dried cloth is ready, the tasks at the factory make greater use of manpower. The cloth is cut into panels and the hems sewn by hand. Labels are stitched into the hems by seamstresses. The towels are folded by teams of workers, who watch for defects. The packaged towels are fork-lifted into 40-foot containers, which are sealed in front of two excise officers and CCTV cameras.

Welspun runs a fleet of 25 lorries between its loading bay and the port at Mundra, 50km away. Like the Welspun factory, the port is an exception to the rule as regards Indian infrastructure: it is modern, and has been designed with future growth in mind. The oldest of its four terminals—run by MICT, a subsidiary of DP World of Dubai—began operations in 2003. There is room for up to eight terminals, says Hardik Vaidya of MICT. On a spring afternoon, its terminal is occupied by the Dubai Express, a ship bound for New York carrying around 6,000 containers. Perhaps 40-50 of these are filled with towels. It takes 22 days to reach America's east coast if it does not first stop at Oman or Jeddah, says Mr Vaidya. Towels might sit for as long again in Welspun's warehouse in Ohio before an order from a Costco or Target store arrives. ►



Tycoon of towelling

► Welspun has become a vital link in the global supply chain for a single product. The worry for India is that it has become much harder to stake out such a position in other areas. Global trade has slowed. Manufacturing is becoming ever more complex. Chinese firms are doggedly incumbents in many lines of business. Mr Goenka believes his firm has survived, where rivals have fallen away, because of its commitment. It has spent heavily on world-class factories and used expensive air-freight when necessary. It did so to change perceptions about Indian companies and to show it was in for the long haul.

Keeping its position as a trusted supplier is almost as hard as building it was. Manufacturers are often at the mercy of the retail chains that own the brands and have a direct link with consumers. By offering reliable delivery, new products and a tailored service they can discourage retailers from switching to a cheaper alternative supplier. "Our edge is end-to-end service," says Mr Goenka. But Welspun has also patented a "hygro cotton" yarn, which becomes softer and more absorbent after washing. It advises retailers how best to present its products in stores. It carries out local-market surveys of consumers for its retailing clients. It even makes the display palettes for Costco.

Welspun offers some broader lessons for the wider economy. India has trouble producing firms of an efficient scale. It is hard to put together large tracts of land, to ensure reliable power supply, to get goods to market quickly (on the country's poor roads and through its inadequate ports) and to comply with the many complex laws that apply to biggish firms. Welspun succeeded by sidestepping such problems. It set up its biggest factory (with its own power supply) in the business-friendly state of Gujarat, close to a modern port. Its supply chain is fairly simple.

And tellingly, it makes a product that is relatively light on the use of labour, as compared with making clothing, in which the stitching is far more fiddly, and in which Vietnam and Bangladesh have done especially well. Indeed, in most bits of manufacturing, Indian firms are much more capital-intensive than those of China despite India's far lower wages, according to the OECD, an international think-tank. Restrictive labour laws and a lack of decent vocational training are largely to blame.

Welspun is still finding new customers among America's second-tier retailers and its hotel chains. Ninety-five per cent of its revenue comes from exports. But it is now also developing its own brands aimed at middle-class consumers in the domestic market. These days the big untapped source of demand is India itself. And the qualities that make Welspun an exceptional export success should stand it in good stead back home. ■



#### Telecoms in Kenya

## A new east Africa campaign

#### Two African business giants go head-to-head over mobile telecoms and payments

**S**AFARICOM is among the most innovative firms in the telecoms industry worldwide, and east Africa's biggest company. Incumbency has now put the Kenya-based mobile-phone operator in the cross-hairs of insurgent rivals. The company is at the centre of a corporate battle that is being watched intently by the continent's business and government elites.

Few firms have done more in recent years to boost Africa's fortunes than Safaricom. It has built the world's most widely used mobile-money network, called M-Pesa, bringing financial services to the poorest. Almost everyone in Kenya can send funds to almost everyone else instantaneously from any mobile phone (not just smartphones). The value of transactions flowing through the system is equivalent to about 40% of GDP. Its ease of use has made possible all sorts of other economic activity based around the exchange of small payments. It is now being copied in many other poor countries.

Still, even the greatest gift can outlive its usefulness. M-Pesa's success is in part due to what economists call a "network effect"—its utility grows the greater the proportion of the population that uses it. Network effects tend to lead to monopolies, and that is more or less what has happened. M-Pesa accounts for more than 95% of the mobile-money market in Kenya; and

the popularity of the payments system has also helped Safaricom maintain its dominance in terms of calls and text messages.

Safaricom's near-monopoly has arguably been the key to developing a successful mobile-money system. Since Kenya does not have genuine interoperability—in which funds can be sent from one system to another without punitive charges—it would be inconvenient if consumers were divided between several operators, and if customers of one could not send money to those of another.

In the decade and a half since Vodafone of Britain acquired a 40% stake and management responsibility, Safaricom has made the most of, but not outright abused, its power. Its fees for money transfers are high: up to 10% of the face value. The company has also penalised users calling other networks. At the same time, though, it has invested heavily in infrastructure. Its network reaches villages far from paved roads; and in recent months it has started introducing "4G" services, which provide faster data-transfer speeds than the old "3G" standard. There are parallels with the monopoly in landlines that AT&T created in America a century ago, which helped make the telephone universal.

However, just as consumers and regulators eventually came to realise the downside of AT&T's monopoly, in Kenya calls ►

► have grown for official intervention to improve competition. Airtel, one of Safaricom's anaemic rivals, is demanding allocation of 4G radio spectrum. It would also benefit if regulators insisted on cheaper and easier interoperability, bringing its Airtel Money system into the M-Pesa orbit. Its parent, Bharti Airtel of India, is the world's third-biggest mobile-telecoms operator with subsidiaries in 17 African countries. It would like a slice of Safaricom's juicy margins, which exceed even the handsome returns earned by Bharti and Vodafone (see chart below).

Analysts have talked of Safaricom being "too big to fail". Its boss, Bob Collymore, sidesteps such talk but says that if its system went down, it would make him highly unpopular. Local newspapers have reported that a cabinet minister is pressing for action to improve competition. However, two regulators have been squabbling over who is in charge.

Making the matter more complicated, the government is a big shareholder in Safaricom, and the company also happens to be the country's biggest taxpayer: last year it fed the government \$400m in fees, taxes and dividends. Consequently few officials are keen to take on Mr Collymore.

That task has fallen to one of the country's banks instead. Equity Bank, another Kenyan success story, revolutionised local finance in the past decade by slashing fees and helping to bring the poor into the banking sector; the number of accounts rose from around 2.5m in 2005 to more than 20m in 2013 (in a population of 44m). Now Equity has acquired a licence to operate a mobile-phone service in conjunction with Airtel.

On July 15th their joint venture, Equitel, will launch a service that uses "thin SIMS", plastic sheets embedded with microchips that slip over the top of a standard SIM card and let the user switch between operators easily. This makes it more likely they will try, and perhaps eventually migrate to, Safaricom's new rival. Equitel is aiming for 5m users by the end of the year, compared with Safaricom's 23m. Safaricom is only its first target: it plans to break into other markets by similar means, in the hope of having 100m customers across Africa a decade from now. Among the candidates it might consider are Nigeria and South Africa.

Equitel's biggest selling-point is a promise to charge a fraction of Safaricom's fees for money transfers. It is in a strong position, since Equity already banks 10m Kenyans and has branch networks in several countries. Telecom operators like Safaricom will struggle to fight back; getting a banking licence is not nearly as easy as it has been for Equity to move into mobile telephony, which is less heavily regulated.

Mr Collymore has put on a brave face, saying he is not worried and that his real competitors are messaging services such as those of Google and WhatsApp. He has fought back by lobbying in parliament and by trying to get the courts and the country's telecoms regulator to block its rival's use of thin SIM technology. He has warned the public (with some justification) that thin SIMS may present security risks to the money stored on their phones. But his battle to ward off new competition to Safaricom seems lost. ■

#### Rolls-Royce

## Hitting turbulence

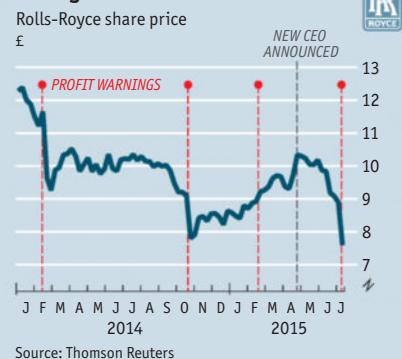
#### A rethink is needed at the world's second-largest jet-engine maker

FOR a firm best-known for building engines to make things go forward fast, Rolls-Royce appears to have stopped dead in its tracks. On July 6th, the day after a new boss, Warren East, started work, it was forced to issue another profit warning—the fourth in 18 months. Having made £1.6 billion (\$2.5 billion) of pre-tax profits last year, it now expects £1.4 billion, give or take £75m, this year. Unsurprisingly, investors' and analysts' grumblings about the firm's strategy are getting louder.

Under Mr East's predecessor, John Rishiton, Rolls had been trying to diversify away from making aircraft engines. Building other equipment for use on land or sea, it was hoped, would help maintain profits, even in lean years for aviation. It was also hoped that shifting investment into these areas—which have produced greater returns on capital than jet engines—would boost the firm's profitability.

But analysts fear that this strategy is no longer working. The various profit warnings have revealed that all areas of the business are underperforming. At first the firm blamed defence cuts for a fall in demand for its military-jet engines. Then, Rolls said the weak oil price, and deteriorating economic conditions, were hurting demand for its power-generation turbines and marine engines. Now the civil-aviation division is also in trouble, according to the latest profit warning. Although demand for

#### Losing altitude



Source: Thomson Reuters

new planes is buoyant, Airbus's delays in producing a new version of its A330 long-range jet are having a knock-on effect on Rolls, whose Trent 7000 engine was designed specially for it.

Some analysts are arguing that Rolls's constituent businesses would do better if they were split apart. Selling or spinning off the smaller land-and-sea division might boost the value of the rest by up to 20%, according to Rami Myerson of Invesco, a bank. This is because investors say they would prefer to risk their money on a firm focused on aerospace than on one that has various distractions.

The company insists that these headwinds are temporary, and that its £76 billion order book should replenish its profits after 2016. But an increased focus on aviation may well be sensible, not least because of the weakness of oil prices. Cheap jet fuel, and thus cheap air tickets, mean that worldwide air-passenger numbers will grow by an average of 4.7% a year for the next 20 years, says Clearwater International, a finance outfit—and this will mean lots of demand for jet engines. At the same time, the weakness of crude prices will depress demand for the marine engines and other equipment that Rolls makes for offshore oil-and-gas firms. With oil futures for 2020 trading as low as \$70, cheap oil no longer looks like a blip.

Focusing more on its jet-engine business would also help Rolls build economies of scale. At present, over 70% of the world's jet engines are made either by GE alone or by CFM International, GE's joint venture with Snecma of France. Rolls-Royce is in a distant second place. Fixed costs are rising: it can now cost more than \$1 billion to develop a new engine model, so size is increasingly important.

The industry also seems to be moving towards a model in which, instead of each type of commercial aircraft coming with a choice of engines from competing manu-

#### Mobile money



Sources: Company reports; Moody's

**Correction:** In last week's article about LG ("Plucky contender", July 4th), we should have said that the firm's second factory making OLED display screens has in fact already opened, although production is still being ramped up.

facturers, the enginemakers are being offered exclusivity, in return for contributing towards the development costs of a new plane. This means the plane and engine are made for each other, optimising their performance. But such deals also make it easier for bigger firms to corner the market.

Some analysts think Rolls—which specialises in building engines for long-haul “wide-body” planes—should perhaps merge with a rival, such as GE or Pratt & Whitney, which is strong in making engines for smaller, “narrow-body” aircraft. But such a deal would be unlikely to get permission from the British government, which still owns a “golden share” in Rolls. Instead, in May the firm said it was looking for a partner with which to build engines for the next generation of narrow-bodies, due to be developed in the 2020s. Short of a merger, such an alliance makes sense. ■

#### Corporate governance in South Korea

## Reconstructing Samsung

SEOUL

**A bid to merge two of the group's companies raises wider questions**

FOR many South Korean consumers, the *chaebol*, family-owned conglomerates that are into everything from electronics to amusement parks, are a source of pride. For investors, they can be a headache. Shareholders were reminded of this in May when Samsung proposed to merge two of its affiliates: Cheil Industries, the group's de facto holding company, and Samsung C&T, the country's biggest construction firm (it put up the world's tallest building, the Burj Khalifa in Dubai).

When the deal was announced, Cheil's share price was around its highest since its IPO in December, and that of C&T was near a five-year low. CLSA, a stockbroker, said the deal would give Cheil the core operations of C&T “effectively for free”, after subtracting the value of its stakes in other group companies. That would suit Lee Jay-yong, the only son of Samsung's chairman, Lee Kun-hee. The elder Mr Lee has been in hospital for over a year since a heart attack; his son is preparing to pay about \$5 billion in inheritance tax while keeping family control of the group, through small stakes in a hairball of cross-shareholdings. The merger allows Mr Lee to consolidate that structure, and to gain more than \$12 billion in stakes in other Samsung companies, including a further 4.1% stake in Samsung Electronics, its flagship firm.

Not so fast, said Elliott Management. The American hedge fund (widely known as a “vulture” fund for its investments in distressed debt) boosted its C&T stake after

the merger was announced, becoming its third-largest investor, and filed a lawsuit to block the deal. Elliott argues that the merger is unfair for C&T shareholders, who it says will lose \$7 billion due to the huge disparity in the two firms' valuations: when the merger was announced, Cheil's stock was trading at over 130 times forecast earnings, whereas C&T's ratio had slipped to around 20. (Firms in South Korea's KOSPI index on average have a forward price-earnings ratio of about 11.)

A court in Seoul has rejected two injunctions filed by Elliott to try to halt the deal; it ruled that the ratio by which shares in C&T will be swapped for Cheil shares did not indicate any price manipulation. South Korean law says that the ratio must be based on average stock prices over the previous month, a formula that Samsung used. Samsung contends that the deal will “ultimately increase shareholder value” by fusing the global network of its construction arm with Cheil's food and fashion businesses, though it is vague on how bringing together outfits from such different industries will save much money.

The conflict will come to a head on July 17th, when C&T's shareholders vote on the deal. Two influential investor-advisory firms, ISS and Glass Lewis, have urged them to reject it. Each side is lobbying other shareholders, made up of foreign investors (who hold about a third of C&T shares), domestic private investors (who have just over a third) and South Korea's National Pension Service (NPS), which has a stake of almost 12% and could be the swing voter. In November an attempt to merge two other group companies, Samsung Heavy Industries and (loss-making) Samsung Engineering, was blocked by the NPS, which threatened to exercise an option to sell its shares in both firms rather than end up with a stake in the merged entity.

Shin Jang-sup, an economist at the National University of Singapore, says Elliott has already benefited handsomely from its investment in C&T, with gains he estimates at more than 100 billion won (\$100m). In Mr Shin's view, South Korea has strict trading regulations and a crippling tax on inherited management rights: it is because the *chaebol* are under such strict regulation, he says, that they have

looked for ways around them.

Sweeping reforms after the Asian financial crisis of 1997-98 boosted shareholders' rights and required large listed companies to bring in more outside directors, for a time placing South Korea ahead of Japan in the strength of its corporate-governance laws. But lobbying by the *chaebol* has since undone much of the good work, says Kim Woo-chan, an economist at Korea University in Seoul. Only one big *chaebol*, LG, has swapped its cross-shareholdings for a transparent holding-company structure. South Korea now ranks at the bottom of Asian corporate-governance league tables, with Indonesia and the Philippines.

The low valuation of South Korean firms relative to their developed-country peers, known as the “Korea discount”, is blamed on corporate-governance worries. Last year Hyundai Motors caused investor concern when it bought land in Seoul for 10.6 trillion won, triple its assessed value, for a glitzy new headquarters. The heads of four *chaebol*—Samsung, Hanwha, Hyundai Motors and SK Telecoms—have been convicted of crimes in the past decade.

The government has begun to push firms to redistribute their huge piles of cash in increased wages or dividends. The president, Park Geun-hye, initially championed “economic democratisation”—passing a law to give the country's Fair Trade Commission greater powers in levying fines on illegal transactions benefiting *chaebol* family members, and another preventing new cross-shareholdings. But she has since focused on reviving a sluggish economy that is dependent on the *chaebol*: last year two of her ministers suggested that convicted tycoons be pardoned if they could contribute to boosting economic growth.

Bruce Lee, head of Zebra Investments, one of South Korea's few funds focused on corporate governance, says that even if Elliott's bid fails, it is only “the start of growing pains”: its challenge comes at a time when succession issues loom at other *chaebol*—and as South Koreans become increasingly frustrated with the families' sense of entitlement. In a rare show of solidarity, a group of small C&T shareholders have delegated their voting rights to Elliott. Some have even bought their first shares in C&T, simply to vote against the merger. ■

#### Keeping it in the family

Shareholdings in Samsung group companies  
2015, % of total

	Samsung Electronics	Cheil Industries	Samsung C&T	Merged Cheil/C&T*	SDS	Samsung Life
Family members	4.7	42.2	1.4	30.0	19.1	20.8
Other Samsung cos.	na	10.2	na	7.3	na	na
Related groups	13.0	8.8	12.2	8.8	39.7	19.3
Treasury†	11.1	14.1	6.1	12.7	na	5.5
Total	28.8	75.3	19.7	58.8	58.8	45.6

Source: CLSA

\*If merger proceeds on current terms †Shares held by the company itself



# Schumpeter | Calibrating Chinese creativity

The sceptics exaggerate: in some industries Chinese firms are innovative



**“YEAH,** the Chinese can take a test, but...they’re not terribly imaginative. They’re not entrepreneurial. They don’t innovate—that’s why they’re stealing our intellectual property.” So declared Carly Fiorina, a former boss of Hewlett-Packard, shortly before announcing her candidacy for America’s presidency earlier this year. Ms Fiorina’s provocation fuelled a global debate over one of the big business questions of the age: can China innovate?

Sceptics make two arguments. They point to the historically lax protection of intellectual-property (IP) rights and the proliferation of copycat business models in China as evidence that Chinese companies cannot create for themselves. An article published in *MIT Sloan Management Review* last year claimed that Chinese theft of IP costs American firms \$300 billion a year. Nay-sayers also argue that the heavy-handed approach taken by China’s government to promoting innovation is in fact retarding it.

Two new publications bang the drum for the opposite side of this debate. “The China Effect on Global Innovation”, a study by the McKinsey Global Institute (MGI), the think-tank of the eponymous consulting firm, argues that Chinese companies do indeed show promise. MGI does not fall into the common trap of conflating innovation with invention: “The proof of successful innovation is the ability of companies to expand revenue and raise profits,” as opposed to filing lots of patents that never get used, or releasing a stream of novelty products that fail to generate a return. And “China’s Disruptors”, a book out on July 14th, by Edward Tse, a management consultant, argues that China’s dynamic private sector has risen with the help of, not despite, government policies on innovation.

The MGI team scrutinised financial data on 20,000 firms from China and elsewhere, to see if they create value for customers and shareholders. It weighed up the extent to which they do so through such things as basic research, by throwing large numbers of engineers at problems (as firms like Huawei, a telecoms-equipment maker, are good at doing), by improving manufacturing processes, and so on. China has spent years, and large sums of money, trying to be an “innovation sponge” that absorbs foreign technologies. Despite this, notes the MGI report, it still lags the West in creating world-class medicines, civil aircraft and cars.

However, it finds that in many other sectors, China is now tak-

ing a global lead in two areas of innovation: in improving consumer products and the business models used to sell them; and in making manufacturing processes cheaper, quicker and better. As a result, Chinese firms now outsell foreign rivals in such things as household appliances, internet software and consumer electronics. They are helped by the fact that their home market is so huge. But they are also fleet of foot. Chinese consumers are ready adopters of smartphones, social media and e-commerce, as well as being value-conscious and brand-licentious. If consumer firms can make it in China, they can make it anywhere.

Chinese firms are inventing new business models. The West’s online firms generate most of their revenue from advertising. But China’s advertising industry is only about one-eighth the size of America’s, so Chinese digital firms have had to find new ways to monetise their users’ eyeballs. Tencent generates 90% of its revenue from online games, sales of virtual items on social platforms and e-commerce. Average revenue per user in 2014 was \$16, which was \$6 more than Facebook. YY.com, an online-video platform, lets viewers buy electronic “roses” to shower upon video artists whose shows they enjoyed. YY says its top performers, who get a cut of the revenue, can earn more than 20,000 yuan (\$3,200) a month, seven times the average factory worker’s pay.

What about the other argument, on the role of the state? The pessimists argue that China’s bureaucrats are bad for private-sector innovation. In a sense Mr Tse is an unlikely person to be challenging this view. He was the top China man for the Boston Consulting Group and then for Booz & Company (two rival consulting outfits). His book chronicles in compelling detail the rise of the mainland’s entrepreneurial economy from the ashes of Maoist policies. And yet this arch-capitalist insists that, “Companies alone cannot make the massive long-term commitment of resources needed to drive innovation in many crucial areas.” Just as American public spending on universities and defence research boosted Silicon Valley’s early stars like HP, in China too, “the state has to lead the way.” He is encouraged by the fact that China now spends more than \$200 billion a year on research and development (public and private), putting it above the European Union as a proportion of GDP, though still behind America.

Mr Tse also points to evidence that, he argues, shows how China’s regulatory and legal infrastructure is becoming more “innovation-friendly”. Baidu, China’s biggest internet-search firm, used to be notorious for hosting pirated music and videos. Thanks to regulatory crackdowns and legal challenges from rights holders, it has cleaned up its act and has become a big, legitimate distributor of foreign TV shows.

## Setting the stage

Ms Fiorina is right that most Chinese firms are not at the cutting-edge of technology, but she is wrong to say they are incapable of value-creating innovation. HP itself has been overtaken by Lenovo of China as the world’s leading computer-maker, helped not just by its bold acquisitions of Western businesses but by its impressive in-house product development. And Mr Tse is right that there is a role for government in setting the stage for innovation. However, in civil aviation and carmaking, the government is also dictating the structure of the industry: in planes, through a state-owned national champion, AVIC; and in cars, via forced partnerships with foreign firms. Chinese firms can innovate. But its government has not yet learned to distinguish between helpful support and counter-productive meddling. ■

## Property

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**China's stockmarket crash**

## Uncle Xi's bear market

SHANGHAI

**China learns that stocks are beyond the Communist Party's control**

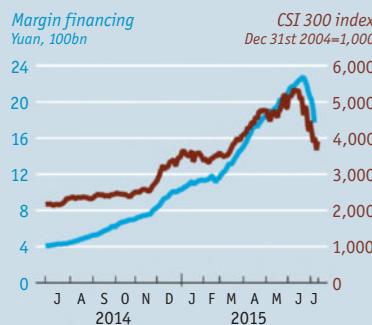
BEFORE it met a violent end last month, China's stockmarket rally was more than just your run-of-the-mill mania. It was political. Many investors called it a "state bull market", believing the government was firmly in control, guaranteeing that shares would only go up. Others said it was an "Uncle Xi bull market", as if it were a gift from China's top leader, Xi Jinping. State media lent their official imprimatur to the frenzy: a *People's Daily* editorial in May, shortly before the bubble popped, predicted the good times were just beginning. Buying stocks "is buying the Chinese dream", proclaimed a top brokerage.

The plunge of nearly a third over the past four weeks has left the dream in tatters. Although the market is still up by 75% over the past year, many mom-and-pop investors were late to the party. Less than a fifth of respondents to a large online survey by Sina, a web portal, reported making any money from stocks this year.

For the government, the fall is damaging. Officials are seen to have promised the population a bull market, only to lure them into a bear trap. A flourishing of gallows humour in mobile-phone chat groups captures the sentiment. "Friends, don't run, we're here to save you," cry the valiant soldiers in one joke, representing the state coming to the aid of the beleaguered market. Their refrain soon turns to, "Friends, don't run, or we'll shoot you."

The warning signs had been flashing

### Rout with Chinese characteristics



for some time. ChiNext, a venue for high-growth companies, reached a price-to-earnings multiple of 147 at its height in early June, in the same region as American tech stocks during the dotcom bubble of the late 1990s. When share prices started falling, many assumed that regulators would stay on the sidelines and let the correction unfold. But policymakers lost their nerve after the market fell by nearly 20% and negative headlines started to pile up, even in the domestic press.

Attempts to steady the market have been frantic and largely futile. Interest rates have been cut; short-selling capped; IPOs halted; share-buying schemes, backed by central-bank cash, hatched. "We have the conditions, the ability and the confidence

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to preserve stockmarket stability," blared the *People's Daily*, as the rout continued.

The csi 300, an index of China's biggest listed companies, fell by 16% in the eight trading days after the rate cut. Some \$3.5 trillion was erased from China's stockmarkets, more than the entire value of all listed firms in India. By the end of July 7th trading in over 90% of Chinese stocks had been suspended, either at the request of the firms concerned or because they had tumbled by the daily limit of 10%. "The government won't let us take our money out of the market, and we don't have the confidence to put any more into it," says Wei Xinguo, a chef at a noodle restaurant in Shanghai and one of the country's 90m stockmarket investors.

The preponderance of punters like Mr Wei makes Chinese stockmarkets volatile. Retail investors account for as much as 90% of daily turnover—the inverse of developed markets, where institutions dominate. But the government's inability to calm things down despite such heavy-handed intervention is unprecedented. It stems from the degree to which the rally was predicated on debt (see chart).

At its peak, margin financing reached 2.2 trillion yuan (\$355 billion), or about 12% of the value of all freely traded shares on the market and 3.5% of China's GDP. Both proportions are "easily the highest in the history of global equity markets", according to Goldman Sachs. With Chinese shadow banks and peer-to-peer lenders also offering cash to investors, the actual amount of leverage in the market is likely to have been even higher. That helped propel the original rally. It is now compounding the downturn as investors scramble to sell their holdings to cover their debts.

The sharpness of the slide has raised worries that Chinese growth itself is about to fall off a cliff. Mercifully, the stockmarket

► appears to be as disconnected from economic fundamentals on the way down as it was on the way up. At the same time as shares nearly tripled from the middle of 2014 until early June, China slouched to its slowest year of growth in more than two decades. In the past couple of months the economy has actually started to improve. A burst of government spending on infrastructure looks to have stabilised the industrial sector; property prices, long in the doldrums, have started to tick up again.

The stockmarket is still just a small part of the Chinese economy. The value of freely floating shares is about a third of GDP,

compared with more than 100% in most rich countries. Stocks account for just 15% of household assets, so their slump should have limited impact on consumption. The systemic consequences of the margin debt are also limited. The funding has come from brokers, not banks, and equates to less than 1.5% of total bank assets.

There will undoubtedly be some spill-over from the panic. Futures contracts for raw materials from lead to eggs fell by their daily limit on July 8th as investors sold to realise some cash. On international markets, the price of iron ore, which China consumes the bulk of, slid. Yet risks of a sys-

temic nature remain remote.

The long-term consequences could be severe, however. Like any big, sophisticated economy, China needs a healthy equity market. For investors from households to pension funds, stocks should, in theory, provide a better return over time than low-yielding bank deposits. For companies, equity financing is an important alternative to bank loans, helping to reduce their reliance on debt. The scrutiny and rules that come with a share listing should also help improve corporate governance.

Before the crash, China was inching towards reforms that would fix some of the ►

## Buttonwood | The debt trap

### The developed world has not found an answer to its debt problem

**A**LMOST eight years have elapsed since the financial crisis took hold in August 2007 and still the same issues are being fought over. Who should suffer the most pain—creditors or debtors? Is the best way to achieve growth short-term fiscal stimulus or long-term structural reform? And, in Europe in particular, how does one reconcile local democracy with international obligations?

Debt is a claim on future wealth: lenders expect to be paid back. The stock of debt accordingly tends to expand at moments of economic optimism. Borrowers hope that their incomes are set to rise, or that the assets they are buying with borrowed money will increase in price; lenders share that enthusiasm.

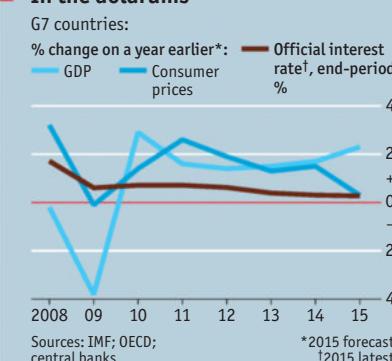
But if wealth does not rise sufficiently to justify the optimism, lenders will be disappointed. Debtors will default. This causes creditors to cut back on further lending, creating a liquidity problem even for solvent borrowers. Governments then step in, as they did in 2008 and 2009.

The best way of coping with too much debt is to spur growth. But developed countries, even America, have struggled to reproduce their pre-crisis growth rates. So the choice has come down to three options: inflate, default or stagnate.

The inflation option means that nominal GDP rises rapidly, reducing the ratio of debt to GDP. The main constraint on this strategy is the speed with which creditors react by forcing up interest rates on newly-issued debt. The longer the maturity of their existing debt, the easier it is for governments to use this option.

In practice, there has been very little inflation in the developed world. (Countries in the euro zone do not control their own currencies so have no power to inflate the debt away in any case.) The debt burden has been controlled by “financial

#### In the doldrums



burst in the early 1990s. But stagnation only postpones the problem. Japan has faced less pressure than most, since it owes money mainly to its own citizens—it does not have to worry about foreign creditors. Yet even Japan has tired of the situation: Abenomics was designed to get the country out of the trap by generating more growth and inflation.

The EU has been heading down the Japanese route. Both places face demographic problems that will sap their growth indefinitely. That increases the need for offsetting improvements in productivity, but reforms to that end face fierce political resistance.

Like Japan, the euro zone has an internal, not an external, debt problem. However, the current crisis has shown that there is not enough political solidarity to support outright burden-sharing. Intra-European transfers are seen as a zero-sum game, in which any aid to Greece is a loss to other nations in the bloc.

This has been a flaw in the euro project from the start. The only answer is political union with a central fiscal authority. But that would require voters in the 19 euro-zone member states to give up sovereignty—something the Greeks are not alone in resisting. And the EU's sluggish growth is adding to the disillusionment with Brussels among European electorates.

So what does all this mean? At the very least, an endless series of crises and European summits. It also means that Syriza will not be the last insurgent party to gain power, that central banks will have to keep interest rates low in order to keep the system going and that, given current high valuations, portfolio returns for investors are going to be mediocre for the foreseeable future.

distortions in its market. A programme launched last year connected markets in Hong Kong and the mainland markets. Though subject to strict quotas, it promised to introduce more of an institutional presence on China's exchanges. Regulators had stepped up supervision of insider trading and had also planned to change the way initial public offerings work, giving firms more control over the timing and size of their listings. But as the government's all-out, if inept, response to the crash shows, it is reluctant to cede control.

Meanwhile, the crash has scarred a generation of investors. Xu Pengfei, a 25-year-old fitness coach, put 100,000 yuan in the market in April, two months before the crash. He managed to get out before losing any money but has no plans to reinvest. "I don't have much faith now." ■

### Barclays Bank

## The trials of Saint Antony

**A new boss will have to figure out what Barclays' main business is**

FEW will soon forget Bob Diamond, the combative ex-boss of Barclays, Britain's second-biggest bank, who beseeched bankers to "stop apologising" for causing the financial crisis in 2008, some years before the British public was ready to call a halt. The same cannot be said of his successor, Antony Jenkins, who tried valiantly to smooth things over after regulators demanded Mr Diamond's dismissal in 2012. A decent chap who did a decent job, "Saint Antony", as he was sometimes depicted, was himself ousted on July 8th. What will change as a result is far from clear.

Mr Jenkins was not the most inspiring banker. He lacked the Diamond-esque gumption of some of his peers, many of whom have energetically driven their institutions into the ground. A retail and commercial banker by training, his understated pitch focused on improving the bank's "culture"—ie, discouraging traders from fiddling foreign-exchange markets and the like. He twice restructured its investment bank, clearly not his favourite division. That seemed tailored to please scalp-hunting regulators.

But Barclays' board is seemingly in the market for gutsier stuff. The bank's newish chairman, John McFarlane, is a veteran financial executive nicknamed "Mac the knife". He is now crafting a new strategy for the group even as he looks for a new chief executive, who will arrive only in 2016. In the meantime Mr McFarlane will also run Barclays day-to-day.

The issues in his in-tray would look fa-

miliar to many of his peers. Like Deutsche Bank and Credit Suisse, Barclays rapidly sprouted an outsized investment bank in the years leading up to the crisis. At all three banks, this business has turned from glittering star to ball-and-chain. The swingeing fines it regularly attracts from regulators do not help.

Perhaps not by coincidence, Deutsche and Credit Suisse have also turned to new bosses recently, having kept hardened investment bankers at the helm for years. John Cryan and Tidjane Thiam, respectively, are expected to recast their groups in a different mould, probably radically so in Credit Suisse's case. Investors point to UBS, a Swiss lender which has ostentatiously throttled its investment bank and seen its share price soar as a result.

What Barclays will do is much less clear. Mr Jenkins didn't have the wrong strategy, his chairman says. Nor was he wrong to implement a change in culture. Barclays "remains committed to investment banking" while seeking to accelerate change there. Whether that means further squeezing its investment bank or beefing it up to help it compete with American rivals is anyone's guess. Such lack of clarity is seldom appreciated by investors.

The current situation is clearly unsatisfactory. In theory the investment bank generated £1.4 billion (\$2.2 billion) of the bank's £2.3 billion in profits last year. But that does not include losses of £1.2 billion at a "non-core" division set up largely to house troubled investment-banking assets. Barclays' cost of equity, the returns its shareholders expect, hovers around 10%, yet its investment bank delivered a meagre 2.7% return on equity last year. (The bank as a whole did a little better, at 5.1%) Not once in the past five years have investors priced Barclays' shares above the value of its tangible net assets (see chart). In theory, it would be better off winding itself up and returning money to shareholders.

Barclays' other problem is its rather odd mix of businesses. Its most lucrative division, British personal and corporate banking, delivers the sort of healthy profits one would expect from an oligopolistic market.

It fits neatly enough with Barclays' big credit-card operation, which is also active in America and elsewhere. But it is hard to see what those divisions have to do with the Africa Banking unit.

Barclays is not global enough to sell itself as a logical worldwide partner for deep-pocketed multinationals. But its operations are far-flung enough to incur many of the administrative costs that plague the banks that can, such as Citi and HSBC. Regulators and investors are both keen on duller, one-trick banks.

Mr McFarlane's only clear goal, meanwhile, is to do away with some of the 375 internal management committees bogging Barclays down. He speaks of "clunkiness" in decision-making and a lack of individual accountability. How better to change that than to fire the boss? ■

### Banks and interest rates

## Aiming for the net

NEW YORK

**Banks once dreaded rate rises. Are they right to look forward to them now?**

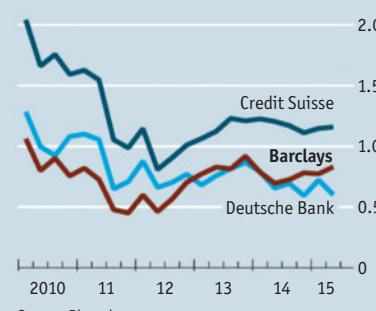
TEXTBOOKS say that banks make money by raising deposits relatively cheaply from savers and lending them, at a higher rate, to borrowers. The difference between the two rates is known in the trade as the "net interest margin" (NIM), and its size is an important factor in banks' profits. But as the financial crisis prompted central banks around the world to lower interest rates almost to zero (and below, in a few cases), banks have been in a quandary. They cannot lower deposit rates enough to be able to lend at a decent margin, since most assume that depositors will not tolerate negative rates. Instead, they have watched the NIM shrink (see chart on next page), and tried to recoup some of the lost profits by raising fees.

America's 5,600 banks have therefore eagerly been awaiting the turn in the interest-rate cycle, in the hope that higher rates will bring a wider NIM and thus fatter profits. Since January 28th, when Janet Yellen, the chairman of the Federal Reserve, suggested the first increase was not too far off, bank shares have risen by 11%, much more than the market as a whole. In a presentation in February, JPMorgan Chase, America's biggest bank by assets, noted that in 2005–10, its net interest margin averaged 2.95%; last year, it was just 2.18%. Raising it by half a percentage point, the bank said, would increase earnings by \$10 billion.

By the same token, HSBC, a multinational bank which has a relatively small retail operation in America, predicted that an increase of a percentage point in the cur-

### Better off dismembered

Price to tangible book value per share



Source: Bloomberg

### An increasingly marginal business

US commercial banks, net interest margin, %



Sources: Nomura; SNL Financial

▶rently negligible price banks charge for overnight loans would add \$100m to its net income. "Custodian banks", such as Bank of New York Mellon and State Street, which have lots of ready money to invest, would also be big beneficiaries.

Rising rates, however, have not always been a heartening prospect for banks. It used to be, as in most industries, that when the price of their main input—money—went up, profits fell. A paper\* published in 2014 by three economists at the Federal Reserve Board explains why. Short-term rates are usually lower than long-term ones. Since most deposits are short-term, but many of the loans banks make, in the form of things like mortgages, are long-term, the gap between short and long rates helps to pad the NIM. But as long-term rates rise, so does the discount rate that must be applied to future earnings, depressing the value of long-term assets more than short-term liabilities. Moreover, higher rates crimp economic growth, curbing demand for loans and raising the number of defaults.

Why have banks' share prices risen, in that case? In theory, banks have learned to insulate themselves from the adverse effects of rising rates. Relatively few banks still follow the textbook model, simply taking in deposits and dispensing long-term credit, notes Frederick Cannon of KBW, an investment bank. Instead, they often sell off the loans they originate or use derivatives to hedge against rate hikes. At the same time, many are raising more funds through certificates of deposits and other fixed-rate, longer-term instruments.

Nonetheless, notes Mr Cannon, similar optimism about the impact of the first rate rise after a long period of rock-bottom rates proved misplaced at Japanese banks in 2006. Loan demand remained sluggish, margins narrow and share prices listless. Even if banks manage to avoid the write-downs on assets that have come with rate rises in the past, they still face another problem: the possibility that the price of attracting deposits rises more quickly than the interest they can charge on loans.

Deposits are normally assumed to be "sticky", meaning that customers do not

### New York Stock Exchange

## Glitch perfect

NEW YORK

### The New York Stock Exchange goes down but markets don't

THE timing was poor. At 11:32am on July 8th, at a time when market turmoil in China and fiscal turmoil in Greece were already causing concerns, trading was halted on the New York Stock Exchange (NYSE), once the epicentre of America's financial markets, on which almost all other trading hinged.

For a moment, the stoppage seemed like grounds for panic. It did not help that a mysterious computer glitch had caused United, one of America's biggest airlines, to ground all its flights shortly beforehand. The excitable speculated that a co-ordinated cyber-attack was under way. The president was being briefed, the White House solemnly declared. Happily, it soon became clear that the problem was an internal failure, not an external assault. United's troubles were unrelated, it turned out. At 3:10pm trading resumed.

Some bemoaned the computerisation



A shockingly insignificant outage

bother to move their money around very often in search of higher rates. Changing banks is simply too much hassle. That effect may be diminishing, however, as technology makes it easier to find and exploit better deals. What is more, other banks are not the only entities competing for savings. Money-market mutual funds, which have ceased to provide much competition to banks as the securities they must invest in provide little return, might become fiercer rivals if rates rose.

of a business that had once relied chiefly on men shouting at one another. But technology had also helped turn the outage into a non-event. All trading in shares listed on the NYSE used to occur at the NYSE. But liberalising regulation and the proliferation of alternative electronic platforms mean that trading is now consummated in numerous venues. The NYSE handles less than 14% of the trading in American shares.

That meant for all but the most finicky, who tried expressly to feed their orders through the NYSE (only to see them immediately rejected), the process of buying and selling shares carried on as normal. The NYSE itself said little, other than to release a brief statement explaining it was suffering from a technical fault it hoped to resolve quickly.

The NYSE, like all American exchanges, was already under strict orders from the Securities and Exchange Commission, America's main market regulator, to improve its technology to ensure glitches are avoided. Such admonitions will presumably become louder now. But the episode shows how the fragmentation of the market has helped protect share-trading against technical problems at any given venue (whether it is impeding efficient pricing is another, more fraught debate).

That is no bad thing, since technical problems are also quite common. A flaw in 2012 that led to massive unintended share purchases almost put Knight Capital Group, one of the biggest market-makers in America at the time, out of business. A less dramatic stumble put most of NASDAQ out of action for three hours in 2013. Last year it was the turn of the Chicago Mercantile Exchange, the world's biggest futures market, to shut up shop briefly. Although people at the NYSE will not be thrilled by the glitch or its consequences, they are doubtless relieved about how little it mattered.

In short, bankers betting on higher interest rates may be disappointed. When banks borrow short and lend long, they are vulnerable to the revaluations rate rises bring. It would be natural to respond by providing ever less long-term credit. But in doing so, they may also deprive themselves of long-term rewards. ■

\*"Interest Rate Risk and Bank Equity Valuations," by William B. English, Skander J. Van Den Heuvel and Egon Zakrajsek

## Financing development

# Tax them and they will grow

Poor countries need to get better at raising tax, and multinational firms need to get better at paying it

**S**OMALIA is not only one of the world's poorest and least developed countries, it is also one of the most dangerous for tax collectors. By one reckoning a fifth of tax collectors in the capital, Mogadishu, were killed in 2012-14. Armed guards now accompany the remainder on their rounds. That may be an extreme case, but most poor countries struggle to raise much revenue, and therefore to pay for basic infrastructure and services.

Such difficulties will be one of the main topics of discussion at a United Nations conference in mid-July in Addis Ababa, the capital of Ethiopia, which will debate ways to finance developing countries' most urgent needs. It is a precursor to two more big powwows this year that hope to set the agenda for development for the next 15 years. At the first, in New York in September, the UN plans to adopt global targets for development, called the "sustainable development goals". At the second, in Paris in December, it hopes to agree a global scheme to combat climate change. Christine Lagarde, the head of the IMF, calls the three meetings a "once-in-a-generation opportunity for global development".

The SDGs are likely to include laudable but expensive pledges to end hunger, halt the spread of AIDS and malaria, and ensure that all children finish secondary school, among other things. The Overseas Development Institute, a British think-tank, reckons that poor countries will need \$148 billion a year to meet them. But with austerity and slow growth across much of the rich world placing aid budgets under threat, poor countries will have to find other sources of finance. One of these is taxing their own citizens.

The idea of spurring development with higher taxes may seem paradoxical, since taxes are usually a drag on growth. Yet in very poor countries, which on average collect just 13% of GDP in tax compared with 34% in the rich world, the opposite is often true: public investment can "crowd in" private investment. "The amount of tax collected is a powerful measure of an economy's health," says Kaushik Basu, the chief economist of the World Bank. "Raising it allows developing countries to invest in education, health and infrastructure, and, hence, in promoting growth."

Maya Eden and Aart Kraay of the World Bank estimate that an additional dollar of public investment increases the private sort by two dollars. One target floated for

the talks in Addis Ababa is to increase the tax take in low-income countries to 20%.

There are many reasons why poor countries don't collect as much tax as rich ones, the most obvious of which is that lots of their citizens are penniless. Another is that their economies are largely informal and thus beyond the reach of taxmen. The cost of tax collection in sparsely populated regions is often higher than the benefits, and around 60% of sub-Saharan Africans still live in rural areas, for example.

Yet there is plenty of room for improvement. A recent paper from the World Bank argues that some obvious reforms, such as improving tax agencies, could lead to much higher collections. Britain's Department for International Development has been sending tax administrators abroad for more than ten years to advise revenue-starved governments. One such expert, Mick Moore, helped to increase annual tax revenue in Rwanda by 6.5 times after automating the collection process, which reduced errors and opportunities for fraud. "Best practice for tax administration is also best practice for businesses," he says. "They like a stable and predictable environment. You don't get that when officials

collect at random."

The developing world could also pick its taxes better. Property taxes, including land taxes, naturally fall on those who can afford to pay most, and are economically efficient, since they do not discourage productive activity. Yet sub-Saharan countries raise only 0.5% of GDP in this way.

Much more is possible. When four local authorities in Liberia simplified their formula for assessing property values, revenues jumped by 3-5 times. Improvements in satellite mapping are bringing down the cost of inspecting land. The Africa Research Institute points out that property taxes are typically implemented by local authorities, which also provide public services. If more power were devolved to local authorities, then better property-tax collection should go hand-in-hand with better services.

Gains would also come from reducing tax exemptions and avoidance, including by foreign investors. Katrin McGauran of SOMO, a Dutch research centre, estimates that tax treaties intended to boost Dutch investment in poor countries cost them \$1 billion in revenues in 2011 alone due to the exemptions they included. The cost of multinational companies deliberately avoiding tax exceeds \$200 billion a year, according to a recent IMF working paper. Angel Gurría, the secretary-general of the OECD, a club of mostly rich nations, reckons that developing countries lose three times more to tax havens than they receive in international aid each year.

The most common way multinationals avoid taxes is through "transfer pricing", in which their subsidiaries in tax havens buy goods cheaply from arms in more exacting countries, and then sell them on at a higher price, thereby shifting profits to the tax haven. The OECD is trying to combat such schemes by persuading tax authorities to require firms to disclose where they generate their profits and share the disclosures. A proposal from 137 developing-world NGOs goes further, calling for the formation of an international tax agency, although it is unlikely to prosper.

Outright tax dodging is an even bigger problem. Undeclared money transfers, false invoices and the like cost developing countries more than \$990 billion in 2012, according to Global Financial Integrity, a think-tank. That figure equates to almost 4% of developing countries' GDP.

Much of the talk at the conference in Addis will be about rich countries giving more aid. In Europe, for instance, non-governmental organisations are lobbying hard for a commitment that rich countries give 0.7% of GDP in official handouts each year, despite the dismal record of official aid in ending poverty. Helping poor countries improve tax collection and limit avoidance may do far more for growth than setting lofty aid targets. ■



Protesting against low taxes

# Free exchange | Costly comparison

Price-comparison websites should help lower prices. But left unchecked, they may raise them



**A**T FIRST glance, price-comparison websites are an example of capitalism at its best. Savvy consumers can use them to hunt down the best available deal for insurance, electricity or a mortgage. Firms providing such items, terrified of losing customers, feel an obligation to improve their offerings all the time. But recent theory and practice suggest the reality is more complex: comparison sites are simultaneously friends and foes of competition.

In 1971 Peter Diamond, an American economist, showed that even small “search costs”, such as the time it takes to walk down the street to see what is on offer at a rival shop, can seriously undermine competition on price. Industries in which it is much harder to compare offerings and switch providers can expect sky-high prices and profits. In the past, this problem was acute in the insurance market. Many consumers, on discovering their insurance was running out, would lazily renew with their existing provider. The hassle of comparing competing offers, and the need to maintain coverage without interruption, hindered competition. That allowed firms to hike prices for existing customers.

Today, things are very different. Comparison sites have made shopping around and switching insurers a matter of just a few minutes’ effort. In the British car-insurance industry, about a quarter of all sales, and more than half of new business, flows through them. That has caused fierce competition on price and eviscerated profits. In 2011 Towers Watson, a consultancy, in a note entitled “Why aren’t we making money?”, said that “unnecessary” price competition following the rise of comparison sites in Britain had cost insurers £1 billion (\$1.5 billion) a year.

Consumers should celebrate that; the firms’ losses are their gains. But there is a catch. Comparison sites, whether for insurance or something else, introduce a new layer of costs, including their own splashy advertising campaigns. In theory, competition in the market for comparison sites ought to keep those costs down. But in a recent paper, David Ronayne of Warwick University argues that consumers often lose out from comparison sites. They earn a commission for each shopper who uses them to buy insurance. That referral cost is incorporated into the price the consumer ends up paying. If the increased costs outweigh the saving the comparison enables, consumers end up worse off.

For instance, suppose some consumers are loyal to a single

comparison site, and do not use any others to compare prices. The lucky website can crank up its referral fees, safe in the knowledge that insurers must pay up if they want access to its captive market. Those fee hikes are then passed on to consumers in the form of higher premiums. In effect, consumers are taxed for their loyalty—just as they were before comparison sites were invented. Mr Ronayne argues that this problem can only be avoided entirely if consumers go to the trouble of checking every site.

These worries are not just theoretical. In 2014 Britain’s competition regulator found that some comparison sites were using their contracts with retailers to ban them from offering cheaper prices elsewhere. That weakened rivals’ incentive to cut fees, because prices on their site could not fall (which would help them gain market share). By keeping prices similar, the contracts also reduced the incentive for consumers to search on multiple sites, thus helping sites retain their users.

Weaker incentives to lower commissions means weaker incentives to lower costs, too. That might explain why comparison websites advertise so heavily, and sometimes offer free gifts to those who use them. In a recent paper, Ben Edelman of Harvard Business School and Julian Wright of the National University of Singapore argue that when a site knows that the prices merchants provide through it will always be the cheapest available, it cranks up investment in attracting customers, safe in the knowledge that the merchants and ultimately consumers will bear the cost.

The anti-competitive contracts are now banned, at least in Britain. But another competition investigation involving price comparison has sprung up. In April the European Commission alleged that Google (whose chairman, Eric Schmidt, is on the board of *The Economist*) had been abusing its dominant position in the market for search by artificially promoting its own comparison site, Google Shopping, in its search results. If most consumers were to rely on Google to compare prices, the search giant would, in theory, be able to attract hefty commissions.

## Searching for search

How can you ensure the market for price comparison is competitive? Asking consumers to check multiple websites defeats the point of using them. One solution is to have only one site, but regulate it as a public utility. Alternatively, the government could run the site itself—much as the American government now runs comparison websites for health insurance under Obamacare.

But creating good search and comparison sites is hard, and governments are unlikely to do a good job of it. The Obamacare websites were riddled with problems on launch. Much better to acknowledge that consumers will always have to do some comparison themselves to “keep the system honest”, argues Tony Curzon-Price of Britain’s Competition and Markets Authority.

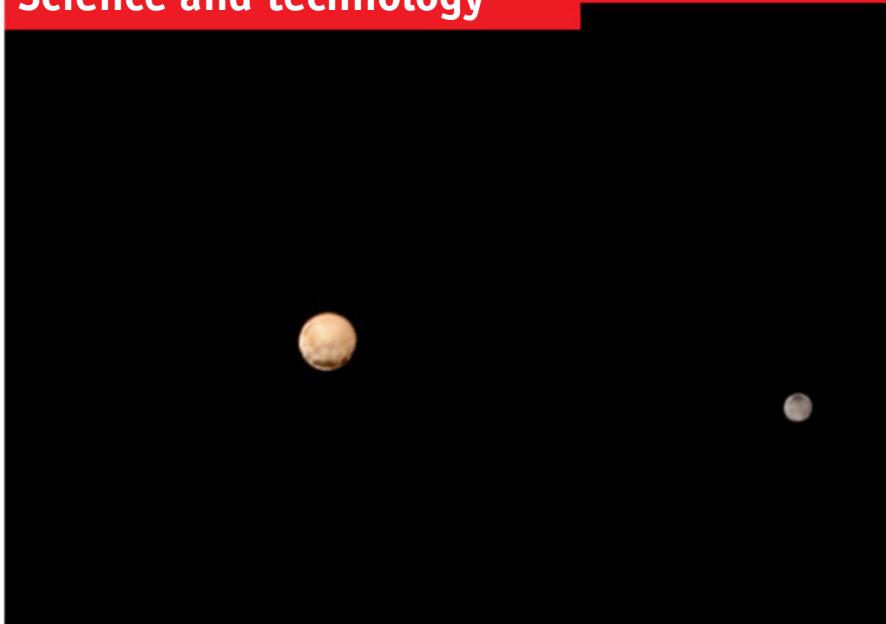
Websites that compare the comparison sites can help, although it is easy to see how they could fall prey to the same problems. Any firm with captive users, be it a comparison site, a search engine, or a social-media platform, can charge a high price for access to the eyes of its customers. For all their innovation, internet middlemen are not unlike supermarkets, which help people select purchases by bringing lots of items to one spot for comparison. Shoppers would never imagine that a single store had the lowest price on all the items they need. They should not believe any website does, either. ■

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## Ex-planetary science

## The final frontier

A rendezvous with Pluto next week will end the trailblazing phase of the solar system's exploration

ALL good things come to an end. And July 14th will see the finale of the Heroic Age of space exploration. On that day a visitor from Earth will fly past Pluto and head off into the Kuiper belt—the icy, rubble-strewn fringe of the sun's sphere of influence. In doing so this visitor, an American craft called *New Horizons*, will fulfil an aspiration that began a mere 60 years ago, to turn the planets from being little more than night lights, whose surface features were visible fuzzily, if at all, in telescopes, into palpable worlds of known geography.

The picky may object that Pluto is not a planet. Technically, they are right. It was regarded as one when *New Horizons* took off, in January 2006, but was downgraded to the status of “dwarf planet” seven months later by a meeting of astronomers who decided, ironically, that the knowledge which earlier spacecraft had brought allowed them to refine their classifications of what did and did not constitute “planeness”. Pluto, to the dismay of many, fell on the wrong side of the cut.

Planet or not, Pluto completes a collection that began with the Moon, went on to the inner planets (Mercury, Venus and Mars, though they were not first visited in that order), the outer planets (Jupiter, Saturn, Uranus and Neptune), and various moons, asteroids and comets. With Pluto in the bag, the photo album of this grandest of tours will be full.

One thing which led to Pluto's demo-

tion was that its mass turned out to be less than a quarter of one per cent of Earth's. Even seen through the mighty *Hubble* space telescope, the place was therefore little more than a pixelated blob. Basic data such as its radius, the size of its core and its internal composition could not be nailed down precisely.

That is changing fast. *New Horizons'* cameras have already displayed the place in unprecedented detail (the picture above, which shows Pluto accompanied by its largest moon, Charon, is one such image). On April 29th NASA reported that the probe had found what looks like a polar ice cap. There are also suggestions of ice volcanoes akin to those found on Neptune's moon, Triton, which resembles Pluto in many ways. There was a glitch on July 4th, which resulted in the loss of a few pictures. But everything now seems set up for the moment—11:50 GMT on the 14th—when the craft will pass within 12,500km (7,800 miles) of Pluto's surface.

### Brief encounter

Photographs of Pluto, though, are only one of *New Horizons'* pay-offs. Of equal scientific interest will be the spectrographs. These should show precisely what Pluto's surface, and its atmosphere, are made of.

Observations from Earth suggest the surface is mostly frozen nitrogen, but there is an intriguing, ever-changing contrast between its dark and light areas. And the

whole planet is tinted slightly orange, a hue thought to be the result of ultraviolet light from the sun causing some of the nitrogen to react with methane that is also present on the surface, to create a class of ruddy chemicals called tholins.

A nitrogen-rich surface means the atmosphere will be mostly nitrogen, too. And, as luck would have it, now is almost as good a time as is possible to observe Pluto's atmosphere, since the orb's most recent perihelion (its point of closest approach to the sun during its highly elliptical, 248-year orbit) was in 1989. Pluto is thus just about as warm as it ever becomes, and its atmosphere, fed by sublimation from its surface, at its thickest.

*New Horizons* will also look at Pluto's moons, of which there are five. Charon was found in 1978. It is about half the diameter of its parent planetoid. Nix and Hydra were first observed in 2005, and Kerberos and Styx were discovered in 2011 and 2012 respectively, whilst *New Horizons* was en route. The whole six-body system is thought to have been the result of a collision between two precursor objects early in the solar system's history—a similar explanation to that often advanced to explain the Earth and its own satellite.

*New Horizons'* data will allow scientists to refine their models of what Pluto looks like internally. The present best guess is of a rocky core surrounded by a mantle of ice. Radioactivity in the core could, conceivably, generate enough heat to keep some of the mantle liquid and give Pluto a subsurface ocean similar to those thought to exist on Europa and Enceladus (moons of Jupiter and Saturn respectively).

All these observations should help turn the present pencil-sketch of Pluto into something resembling a proper portrait. And that, in turn, may permit researchers to engage in a bit of planetary genealogy. ➤

Part of the process that led to Pluto being kicked out of the planetary club was the realisation that it resembled the objects of the Kuiper belt more than it did the rest of the proper planets. Indeed, one of these orbs, called Eris, is 27% more massive than Pluto. It just happened, because Pluto is on the belt's inner edge, that it was the first Kuiper-belt object to swim into the field of vision of an earthly telescope. It was spotted in 1930 by an American astronomer called Clyde Tombaugh.

Like the members of the asteroid belt, which lurk between the orbits of Mars and Jupiter, those of the Kuiper belt are thought to be leftovers from the disc of dust and rock that surrounded the young sun, most of which eventually condensed into plan-

ets. Studying these belts ought therefore to shed light on how the solar system formed, and particularly how its planets came to occupy the orbits they do. Some astronomers, for instance, think Ceres—the largest body in the asteroid belt, and one that is currently under scrutiny by another NASA probe, *Dawn*—is actually an immigrant to the inner solar system from the Kuiper belt.

With luck, *New Horizons* will help settle such questions. NASA hopes to keep it reporting from the Kuiper belt for many years to come, and has already selected three other Kuiper-belt objects that lie close to its post-Pluto trajectory as possible targets for similar flying visits. Perhaps there is room in the album for a few more pictures after all. ■

in two arrangements, called isomers, that have the same chemical formulae but different shapes. One isomer is a poor disrupter of tubule activity while the other is extremely effective. The questions the researchers had to answer were how to convert one to the other using a light beam, and also how to convert it back again.

A bit of chemical brainstorming led them to realise that they could do both by replacing two adjacent carbon atoms in the molecule with nitrogen atoms. The chemical bond thus created means the non-toxic isomer, which does little to disrupt tubules, changes into the highly toxic one when blue light is shone at it. This transformation is reversed simply by switching the light off. And blue light, unlike ultraviolet, is harmless.

As they report in *Cell*, their system works in a Petri dish. They mixed the modified combretastatin, which they call a photostatin, with breast-cancer cells. They then left some samples in the dark while exposing others to pulses of blue light every five minutes. The drug proved 200 times more toxic when exposed to light in this way than it was in the dark.

It was even more toxic (250 times as potent as the darkened control) when exposed to violet light. Conversely, it was only 75 times more toxic when exposed to cyan. Photostatins thus look as if they could be tuned for effect, depending on what was needed.

Announcements such as this, of new potential treatments for cancer, often seem ten a penny. And few, indeed, do get out of the laboratory and into the clinic. But if photostatins do beat the odds and manage the transition it will be a striking advance. The fashionable focus of oncology at the moment is on recruiting the immune system to attack the disease. Work like this shows that there is still life in the idea of improving older approaches as well. ■

### Treating cancer

## Colourful chemotherapy

### Optical switching may abolish the side effects of cancer drugs

**A**S a cell prepares to divide, tiny parts of its internal skeleton, known as microtubules, arrange themselves into a spindle that permits its complement of chromosomes to split into two bundles. These bundles will go on to become the nuclei of the daughter cells, so spindle formation is a crucial part of the process of replication. Because out-of-control cell replication is the underlying cause of cancer, developing drugs that interfere with microtubule activity has long been of great interest.

Unfortunately, most drugs developed for the task sabotage the tubules of both cancerous and healthy cells. This causes horrible side effects and means that doctors must use lower doses than would be ideal if killing the cancer were their sole objective. However Oliver Thorn-Seshold and Dirk Trauner, two chemists at Ludwig Maximilian University, in Munich, hope to change this state of affairs. They are trying to develop a tubule-controlling drug that can be switched on and off using light.

The idea of optically controlled chemotherapy is not novel. Several teams have tried enclosing drugs in molecular cages that can be unlocked by shining light on them. Pointing the light at the right place would ensure the drug was released only where it would be useful. This was clever as far as it went. But it meant that, once free, the drug could not be recalled. It could therefore still cause collateral damage, albeit less than would be done by an uncaged version. Also, the light needed to unlock the cage was intense ultraviolet. This, of itself, was quite harmful.

Dr Thorn-Seshold and Dr Trauner there-

fore thought it better to start from scratch and try to find a molecule which acts as a tubule disrupter but is itself light-sensitive in a way that allows it to be switched on and off. And they think they have discovered one in the guise of a substance called a combretastatin, which is found in the bark of the South African bushwillow.

This tree contains several sorts of combretastatin, and these are remarkably good at disrupting microtubule activity—which, presumably, helps protect the plant from the attentions of pests and parasites. Dr Thorn-Seshold and Dr Trauner have taken a particularly close look at the version known as combretastatin A-4. This comes



Bushwillow: tree of enlightenment

## Wireless communication

## Acoustic chatter

**Graphene may usher in “radios” that do not use radio waves**

FROM Bluetooth and Wi-Fi to FM and AM, wireless communication depends on electromagnetic waves—usually, radio waves. But as any motorist driving through a tunnel or under power lines can attest, such waves cannot always propagate properly past every obstruction. Sometimes, a system that used a different medium of transmission would make communication that bit easier.

As they report in the *Proceedings of the National Academy of Sciences*, Alex Zettl and his colleagues at the University of California, Berkeley, think they have devised such a system. Instead of radio waves they use ultrasound. By exploiting sound at frequencies above the 20 kHz limit of human hearing they can, in principle, send messages that neither affect nor are affected by human conversation and other everyday noises that take place at lower pitches.

Ultrasonic transmitters and receivers have been around for a long time. But they usually employ the piezoelectric effect, whereby an alternating electric current causes them to vibrate if transmitters or, if receivers, to generate an electric current in response to vibration. This means their range is restricted by their resonant frequencies—which in turn restricts their bandwidth, and thus the amount of information they can handle.

More conventional diaphragm-based equipment has a wider frequency range than the piezoelectric sort, but is harder to deploy ultrasonically because the diaphragms are too thick and heavy to vibrate in synchrony with the rapid oscillations of ultrasound. Dr Zettl has therefore been looking for an alternative. And he thinks he has found one: graphene.

Graphene is a form of carbon in which the atoms are arranged in a sheet a single atom deep. This lack of thickness leads to lightness which, combined with graphene's strength (100 times that of steel) and electrical conductivity (better than any unalloyed metal), means the material has attracted a fair amount of commercial hype in recent years. It certainly looks like something thin, light and strong enough to deal accurately with ultrasound. So Dr Zettl and his colleagues have built both loudspeaker and microphone using it.

They have field-tested their microphone by recording bats in a nearby park. The animals' calls range in frequency from 50 to 100 kHz, and the kit's ability to record them accurately shows its potential to act

as a receiver for ultrasonic “radio”. Dr Zettl has gone on to construct such a radio, using the microphone together with a graphene loudspeaker, to broadcast signals within his laboratory.

Whether a graphene version of wireless really is the best way to deal with places that the conventional sort cannot reach has yet to be determined. And on land, the need to shuffle between ultrasound and radio waves according to circumstances means the answer may be “no”. But the technology could have wide application underwater—a place that radio waves do not like to go. Swimmie-talkies for divers, anyone? ■



**Genetically modified crops**

## Something fishy

### How to make farmed salmon into vegetarians

THOSE who fret about overfishing and those who fret about genetically modified (GM) food are often one and the same. Such people will soon be impaled on the horns of a dilemma if Johnathan Napier of Rothamsted Research, an agricultural establishment in southern England, has his way. As he and his colleagues describe this week in *Metabolic Engineering Communications*, they are working on technology that could reduce demand for wild-caught fish considerably. It will do so, though, by feeding farmed fish with GM chow.

Apart from the fact that they taste good, oily fish are also desirable because they are healthy fare. There are many things you can remove from your diet in order to improve cardiovascular fitness, but few that you can add. However DHA and EPA—two molecules often referred to as fish oils—buck this trend. They are known to lower

blood pressure, to reduce the risk of heart arrhythmia and to slow the growth of fatty plaques that block arteries.

Fish do not, though, actually make fish oils. They get them from their food. The synthesis is done by single-celled algae and the molecules then pass up the food chain to small, herbivorous fish and thence to large, carnivorous ones. For this reason, although it would be perfectly possible to feed farmed fish such as salmon on food grown on land, in practice they get healthy helpings of wild-caught species such as capelin and anchovies (pictured) that are not in great demand as human food, in order to boost their DHA and EPA levels. About 10% of what is pulled out of the ocean by fishing boats ends up this way.

Dr Napier's idea was to take an oil-generating plant (he chose *Camelina sativa*, a cousin of rape), add a few pertinent genes from creatures that make DHA and EPA naturally, and see what happened. It sounds easy. In fact, it proved quite hard. But after several false starts he and his team came up with the magic formula: a fatty-acid-elongase gene from a waterborne moss called *Physcomitrella patens*, a fatty-acid-desaturase gene from *Emiliania huxleyi*, a planktonic alga, and so on, all put together as a single DNA package and delivered by a messenger called *Rhizobium radiobacter*, a bacterium that is able to inject bits of its DNA into plant cells.

Tests in greenhouses went well, so last year the researchers planted some modified *Camelina* outdoors. Despite the drought in June and July, and the torrential August rains that followed, yields of DHA and EPA from these field crops were as good as those from the greenhouses.

There seems no reason but prejudice, therefore, why the modified *Camelina* (a species picked in part because it cannot accidentally cross-fertilise with existing commercial oil-seeds) should not be grown on a much wider scale. Whether it would succeed, were that done, would depend on an environment at least as ruthless as that of the natural world—the marketplace. But the new crop should be cheap and can plausibly brand itself as environmentally friendly. Indeed, it may actually be healthier than the existing way of feeding farmed fish because, unfortunately for the animal at the end of this particular food chain (ie, *Homo sapiens*), DHA and EPA are not the only things concentrated by each step of the trophic journey. Heavy metals such as mercury also come along for the ride.

The risks these metals pose can be exaggerated. You have to eat a lot of fish to be poisoned. But some people do worry—often the same people who worry about overfishing and genetic modification—and farmed fish fed the Napier way would be more or less mercury-free. Perhaps, then, it is not a dilemma that the worriers are facing. Maybe it is actually a trilemma. ■



## The Syrian war

## Divided country, divided narratives

## The struggle to paint a fair portrait of Syria's agony

**F**EW dispute that the war in Syria is a tragedy. But the question of what people are fighting about has been bitterly contested since the crisis broke out in 2011. Among many narratives, some see it as a battle of jihadist rebels, including Islamic State, against the nominally secular Assad regime. Others view it as a regional sectarian war between Muslims, fuelled by the proxy conflict between Iran's Shia rulers on one side and on the other the Sunni states of Saudi Arabia, Turkey and Qatar.

One reason why views are so divergent is that it is very hard for anyone to gain access to all areas of the conflict, territory or individuals involved. The Assad regime only wants journalists to see its version of events, so anyone outside Syria has had to make a choice: to report using an official visa, which means being strictly controlled by the regime, or to sneak into rebel-held areas and then face being barred from government-controlled ones. Another is that commentators on the left have found it hard to criticise a regime that they believe belongs to the anti-imperialist camp.

Two new books illustrate this. "Syria Burning" by Charles Glass, an American-British journalist who has long covered the Middle East, is a pamphlet-sized overview of Syria past and present. He draws on trips into the government-held parts of Syria as well as years of reporting on the country. A second, "The Crossing", is by Samar Yazbek, a Syrian writer forced into exile in 2011

**Syria Burning: ISIS and the Death of the Arab Spring.** By Charles Glass. *OR Books*; 137 pages; \$16 and £11

**The Crossing: My Journey to the Shattered Heart of Syria.** By Samar Yazbek. Translated by Nashwa Gowanlock and Ruth Ahmedzai Kemp. *Rider*; 280 pages; £20

for her anti-regime views. Now living in Paris, she recounts three trips she has made since then into rebel-held Syria. It is a personal account of her changing country as seen from the other side of the trenches.

Ms Yazbek's book makes a valuable contribution to the attempt to explain the turmoil still unfolding in Syria. Mr Glass's work, by contrast, serves to muddy the waters further. He recognises that Syria's war started as an uprising against the Assad dictatorship, a regime that has ruled Syria for more than 40 years. He compares the young Syrians who came out onto the streets in 2011 to the uprising against the French mandate in 1925. (It was put down and the Syrians would have to wait until 1946 for independence.) But he writes that it has succumbed to foreign manipulation; Syria's revolutionary spirit for him is as good as irrelevant.

Foreign powers are undoubtedly playing an unhelpful role, but Mr Glass attributes too much to them. He criticises Tur-

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key and other Arab countries, who have chaotically backed Syria's rebels, while more or less letting off Iran and Russia, who have funded and armed Mr Assad to a far greater degree. Though he is no die-hard fan of the regime, he also downplays its crimes relative to those of the rebels (which are not in dispute).

Sometimes this borders on the outright disingenuous. He writes that chemical weapons are "alleged to have been used not only by the government but by the rebels as well". Yet there is overwhelming evidence against the regime, including of a sarin attack on Damascus suburbs in 2013 that left hundreds dead. By contrast, there is little sign of rebels using chemicals, and certainly not on that scale.

Although Ms Yazbek's book is written exclusively from the rebel-held area of the country, and she considers herself part of the opposition to Mr Assad, her account of weeks spent in the northern province of Idlib is more balanced. She lets people of all stripes speak for themselves: the rebel leader who threatens Alawites (the minority sect to which Ms Yazbek and the Assads belong; see box on next page), Raed Fares, a well-known secular activist, as well as ordinary Syrians, male and female.

She is not blind to the changing nature of the war, as it has turned from a peaceful uprising to an armed, and increasingly religious, conflict. She fears the danger not just of jihadists but of the growing devoutness of ordinary civilians left with nothing to turn to but their faith. Yet in her book, bursting with Syrian voices, the revolution to overthrow the Assad regime continues. One woman, who pleads with Ms Yazbek to tell the world what is really happening, tells her she will never "kneel" to Mr Assad. "I'm going to get pregnant every nine months and keep having children so that we don't become extinct," she says. ➤

Her trips show why: the brutality of the regime is evident on every page. In rebel-held Syria the unimaginable is now the norm: children without limbs; whole families wiped out in barrel bombs; playgrounds turned into burial grounds as cemeteries fill up. Through snippets of these people's lives Ms Yazbek does the important job of putting faces to the numbing numbers of Syria's crisis: over 200,000 dead and 10m displaced. Amid the rubble, many Syrians have an incredible sense of social solidarity and they find ingenious ways to survive. It is impossible not to share her anger at "the great injustice that had fallen on us as a people and a cause".

Ms Yazbek does much to make Syria better understood; her book is gripping. Mr Glass's feels more hastily written and polemical. One can only hope that more Syrians, with better access to and understanding of the country, write their stories. Their take on the war needs to be heard. ■

#### The Alawites

## Paying the price

**Cycle of Fear: Syria's Alawites in War and Peace.** By Leon Goldsmith. Oxford University Press; 306 pages; \$37.50. C. Hurst & Co; £25

THE Alawites, an esoteric Muslim sect living mainly in Syria's coastal hinterland, number only a few million, but they make up a disproportionate part of the state apparatus. Bashar Assad and his father before him, themselves Alawites, used this to shore up their rule; indeed Mr Assad would not still be in power had his co-religionists not stuck by him.

In "Cycle of Fear" Leon Goldsmith, a political scientist at Sultan Qaboos University in Oman, does not see the sect's loyalty as a given. He sets out to explain it by examining their history. He challenges the notion that the Alawites, once so poor they sold their daughters to urban Sunni households as servants, have prospered since one of their own, Hafez Assad, became president in 1971.

Only the Assads and a handful of families (Alawite and others) became rich and powerful. Most Alawite villages are still muddy outposts. The bureaucrats and security men often live in shabby areas of cities such as Damascus and Homs. Today Alawites in the army are dying in droves, and many of their families are disgruntled with Mr Assad.

Mr Goldsmith shows that years of persecution since the sect's founding in ninth-century Iraq have taught its adherents to stick together, and, as things have grown worse, to the regime. Alawites

#### Diplomatic memoir

## Lost in translation

**Ally: My Journey Across the American-Israeli Divide.** By Michael Oren. Random House; 412 pages; \$30

DIPLOMATIC memoirs usually come out long after events, when the main players have left office and the crises and controversies they handled are entering history. Michael Oren has broken this convention with "Ally", his account of being Israel's ambassador to the United States, less than two years after leaving Washington in September 2013. Few in the political establishments of either country are pleased. The leader of his political party even called him in for an official rebuke.



Loyalty's fatal cost

have long been shunned by other Muslims as heretics. (They drink alcohol and believe in reincarnation.) They are secretive about their beliefs, which has only served to feed suspicions about them. In the current conflict the Alawites feared persecution if Syria's Sunni-majority opposition were to prevail—and unfortunately today their fears are quite justified.

This is sad, writes Mr Goldsmith, because the inclusive early days of the uprising offered the Alawites a chance to shed their association with Syria's dictatorship. Now they are prisoners to a regime that is happy to use them as cannon fodder. Mr Goldsmith's writing is dry, but his book is a welcome addition to scholarship on Syria. ■

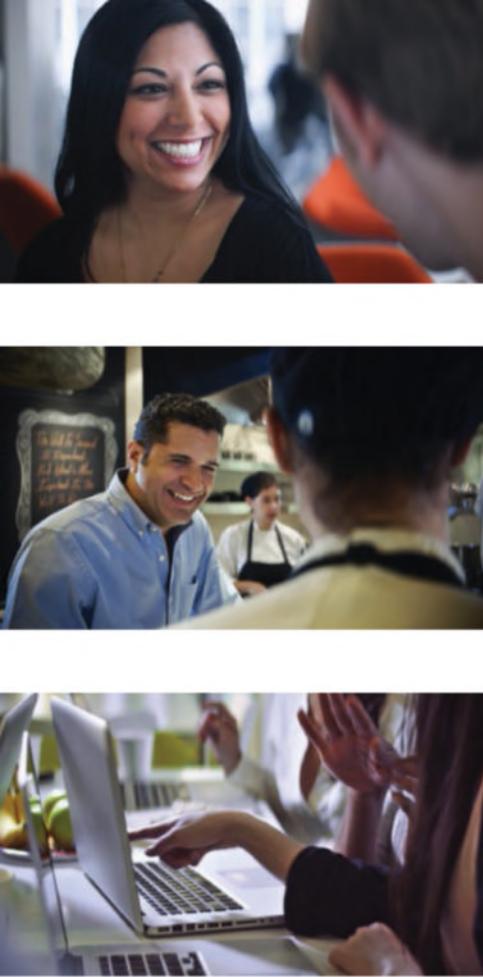
But do readers have cause to be thankful to a historian-turned-diplomat and now junior parliamentarian for lifting the veil from one of the most intriguing alliances?

For all the anger Mr Oren has caused in Jerusalem and Washington, "Ally" is lean on new details about the rocky relationship between the prime minister, Benjamin Netanyahu, and President Barack Obama, the main factor poisoning ties between the two countries. If anything, it attests to the limitations of formal diplomacy in a technological age where governments and leaders have little need of official envoys to convey messages. Not a professional diplomat, Mr Oren was appointed mainly to argue Israel's case to the American public. Never a close confidante of Mr Netanyahu, of whom he seems in awe, he provides little insight into his thinking. In Washington he rarely gets to meet the president and resorts to pop-psychological analysis drawn from the president's memoirs in an attempt to divine Mr Obama's true intentions.

As a historian, Mr Oren wrote two richly detailed books about the six-day war and the roots of America's involvement in the Middle East. Here he is reduced to revealing snippets, such as the fact that at their first White House meeting, Mr Netanyahu gave the president a mint edition of Mark Twain's "Innocents Abroad" and that for security reasons an Israeli prime minister rates the third-largest motorcade when visiting Washington (the second after the president is the pope).

Mr Oren remains a pained, wistful and helpless bystander as the two headstrong leaders clash ever more in a flurry of diplomatic snubs and contradicting initiatives. At one point, following an Obama-Netanyahu summit, Mr Oren speculates that the media's description of a frosty reception "most likely spun by the White House, could just as well have sprung from Jerusalem". He is sidelined by both sides.

American-born Mr Oren, who emigrated to Israel nearly four decades ago, vents frustration at what might be termed America's "soft Jews"; officials and pundits who criticise Israel in order to gain acceptance with their non-Jewish peers. Throughout the book he professes undying love for both his countries. But he is nostalgic for an America that never existed and the Israel he purports to defend seems equally unreal. Mr Oren portrays his country of choice using the language of his idealised country of birth. He calls the member of a not particularly powerful political family "Israel's equivalent of a Kennedy"; a reporter he favours is "Israel's Walter Cronkite". The incongruity of these comparisons along with his unrealistic expectations of America emphasise Mr Oren's position as a perennial outsider, an eager immigrant who has lost his homeland but has not completely arrived in the promised land. ■



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## 21st-century mating

## Luv u l8r

**Modern Romance.** By Aziz Ansari with Eric Klinenberg. *Allen Lane; 288 pages; \$28.95 and £16*

THERE is nothing quite like falling in love. The palms sweat, the heart races. It is a kind of madness that can be measured neurologically. Those early kisses flood the brain's neural synapses with dopamine, the same chemical that is boosted when you take cocaine. But time passes, and, alas, the drug wears off. Nights of endless passion are replaced with snoring. Studies show that married couples can expect around two years of the passionate stuff, and then decades of a companionable slog. So why get married at all? Why not just look for the next dopamine hit?

It is a good question. Many are clearly asking it, as nearly nine in ten people live in a country with a falling marriage rate. In search of answers, Aziz Ansari, an American comedian, teamed up with Eric Klinenberg, a sociologist at New York University, to write "Modern Romance", a lively look at love, marriage and the oddities of mating in the 21st century.

Mr Ansari spent much of his 20s single, which was often fun but also frustrating and confusing. At 31 he began a meaningful relationship, but this raised new questions about how to make something last. His bewilderment is justified. The pursuit of love—and sex—has never before involved so many choices, with so many new-fangled tools and such high expectations. Dating apps and social networking sites ensure that anyone with a smartphone can sample from a seemingly endless buffet of romantic prospects. This makes being single more enjoyable (it is not for nothing that people are taking longer to settle down, particularly in cities), but also more stressful. Now that everyone hopes to find their soulmate, choosing one person to be

## Long-distance running

## Lonely and hard

**Two Hours: The Quest to Run the Impossible Marathon.** By Ed Caesar. *Penguin; 242 pages; £16.99. To be published in America by Simon and Schuster in October; \$26*

"WE ARE hard-wired to discover new ways to test ourselves. The urge resides somewhere in our traveller genes." So argues Ed Caesar in his study of athletics' next frontier, the two-hour marathon. As in many sporting endeavours, marathon runners are reaching the limits of what is believed to be humanly possible. The increasing popularity and professionalisation of running 26 miles and 385 yards (42.2km) saw the world record drop in the four decades to 1990 by nearly 19 minutes. In the last 25 years, elite runners have lowered it by almost another four minutes. In 2014, for the first time, the marathon was run in under two hours, three minutes. A two-hour marathon could be tantalisingly close.

Mr Caesar's search for this ideal leads him to Geoffrey Mutai, a young Kenyan of the Kalenjin ethnic group, who appears as likely as anyone to break the two-hour mark. Mr Mutai has the right

happy with can be a struggle. What if someone even better is only a click away?

Digital wooing helps people to behave like scoundrels. Among the hundreds of people interviewed for "Modern Romance", many admitted to becoming addicted to dating sites. One woman confessed to having hunted for better-looking alternatives while en route to a first date. Others talked about the ease of starting affairs or snooping on partners. Countless women complained of receiving messages from aspiring Lotharios that ranged from lewd to asinine. Requests to "hang out" do not make the heart go aflutter.

genes, an economical technique ("It's as if he is on wheels, not legs") and, most importantly, a willingness to push himself to his physical limits. Mr Mutai set an unofficial world record at the Boston marathon in 2011 by attacking sooner and maintaining his aggression for the entire race; he runs without fear of running out of fuel. Another runner describes the sensation as "like putting your hand in a bowl of hot water. You have to keep your hand in, while the water just keeps getting hotter and hotter. Take your hand out, and you lose the race."

Mr Mutai is a well-chosen protagonist for Mr Caesar. The role played by genetics in top-level sport is well known. "Two Hours" covers this, and the marathon's journey into mainstream athletics. But it breaks new ground by examining the race strategies of the latest generation of runners. Mr Caesar's research leads him to propose the perfect conditions for a sub-two-hour run: windless chilly weather, a flat circular course, an evening start and a world-class field. The missing piece is a sponsor with a great deal of money. Over to you, Nike.

The book treads more novel territory when it considers mating rites farther afield. In Qatar, where the only way for a woman to leave her family's home is "to get married or die" (in the words of one woman), the internet affords more freedom to socialise away from prying eyes. In Japan, where a sluggish economy has left men feeling more insecure, few can pluck up the nerve to ask women out. This has ensured a plunging birth-rate, a thriving sex-toy market and a booming "relationship replacement" industry, in which women are paid to serve drinks and listen attentively, like modern-day geishas.

Readers should not expect a serious work of sociology, but a breezy survey of the relevant research. Though Mr Ansari's jokey tone eventually becomes cloying (his punchlines work better on stage), his quest for answers seems genuine. When it comes to the question of marriage, he reaches a satisfying conclusion. Certainly, fewer people are tying the knot, in part because fewer people need to, and the plethora of potential mates raises the opportunity cost of choosing one. But people in good marriages statistically live longer, happier and healthier lives. The passion may burn up, but a more stable, more trusting love takes its place—and this kind of love only gets stronger with time. ■



## Cricket and life

# The art of batting

## Who Wants to be a Batsman? The Analyst

**Unveils the Secrets of Batting.** By Simon Hughes. *Simon & Schuster; 280 pages; £18.99*

**N**OTHING in sport emulates life and death so acutely as a cricket innings. A batsman, unlike a baseball hitter, usually has one chance to shine. If he messes up, by misjudging the flight or turn of the ball infinitesimally, he may be doomed, his match effectively over. And if he errs against one of the faster bowlers, that may be the least of his problems: cricket balls are smaller, harder and heavier than baseballs and aimed to harm. Bavalan Pathmanathan, a 24-year-old British club cricketer, was the latest batsman killed; he died after being struck over the heart on July 5th.

No wonder it takes a rare character to succeed in batting, as Simon Hughes, a former English professional cricketer, observes. His boyhood dream, from which he never awoke, was to succeed himself. But despite a fierce desire to make runs, he rarely did; he earned his crust as a bowler, a less glamorous calling. Why? he asks.

What follows is a well-observed analysis of batting—and life. Mr Hughes's poor scores were not merely for want of talent. He had good enough eyesight and sharp enough reflexes to hit the world's best bowlers out of the ground, on occasion. Indeed, the greatest of all batsmen, Sir Donald Bradman, had rather poor eyesight. The skills that Mr Hughes lacked, and Sir Don possessed in almost supernatural abundance, were more psychological than physical: a facility to concentrate on demand, enslaving every fickle doubt to a hunger for runs. With that came ironclad self-belief. "Have you ever had an argument with a top batsman?" asks Mr Hughes. "It's a waste of time, they never give in." And he illustrates his admiring gripe with neat portraits of former sparring partners: such as the great Barbadian Desmond Haynes, who would turn up to practice taunting the bowlers—"Come on, give it to me, and I'll give you some licks!"

Most engrossing is another study in failure: Mr Hughes's adored former teammate Mark Ramprakash. When he emerged as a schoolboy genius (better even, Mr Hughes judges, than the great Indian batsman, Sachin Tendulkar) it seemed he would break many records. But in the international game he struggled, undone by diffidence. Such small tragedies, of eternal desire and fleeting perfection, are what make cricket writing such a fine sporting oeuvre, and Mr Hughes has nicely added to it. ■



Doris Salcedo

## Die and do

### An artistry of grief

**O**NE way of teasing out the core values of any society is to study how it mourns. From the pyramids of Giza to a crusader's tomb complete with recumbent knight-on-a-slab, artists have grappled with how to give visible form to absence, to make sense of death for those left behind. Whereas Lenin's tomb exposes the disturbing autocratic heart of the Soviet workers' paradise, the Holocaust memorial close by the site of Hitler's bunker in Berlin reflects the urgent task of simultaneously obliterating and remembering.

No living artist has explored the modern way of grief more movingly than Doris Salcedo, a Colombian who commemorates the often anonymous victims of violence around the world, beginning with her native land. "A Flor de Piel" (pictured) honours one of the victims of that troubled history, a nurse tortured to death. Over 30 years Ms Salcedo has testified on behalf of the dead through sculptures and site-specific installations that dignify suffering and challenge society to pay attention.

A retrospective at the Guggenheim in New York, organised by the Museum of Contemporary Art in Chicago, reveals the artist's uncanny ability to provide the intimacy necessary to give meaning to individual suffering while provoking wider discourse about the failure of empathy that allows atrocity to flourish. These works offer a rebuke to those who may not resort to violence themselves, but who enable cruelty through apathy, indifference and amnesia. In a series begun in 1989 Ms

Salcedo pays homage to workers murdered at Colombian banana plantations. The sculptures are made from starched white shirts, carefully folded and placed on the floor, pierced by multiple steel rods. From these simple elements, one evoking the absent body, the other the industrial tools of violence and violation, she makes monuments of loss.

Much of her work is built around this duality, between soft and hard, intimate and impersonal. Her most extended sculptural series (1989-2008) consists of wooden furniture—cabinets, beds, chairs and cupboards warmed and worn by human touch—half submerged in a suffocating concrete mass. The contrast between the domestic and the industrial suggests that violence often unfolds as an almost geological process, implacable, mindless, indifferent to the lives it swallows.

Like so much of her work, these pieces are reverent rather than strident. There are no in-your-face images of gore; horror creeps up slowly and is all the more powerful for the time it takes to settle into the consciousness. In "Unland: Audible in the Mouth" (1995-98), part of a series inspired by Colombian orphans whose parents had been murdered, the seam between two mismatched tables is bridged by strands of human hair. The table, which evokes the simple ritual of the communal meal, has been repaired but has not been made whole. Like a saintly relic, the gossamer threads that tie the two halves offer the promise of miraculous healing by evoking the vulnerability of the suffering body.

Ms Salcedo made her name with works that addressed crimes against humanity from within the traditional artistic setting of the gallery and museum. But, as a video shown in the Guggenheim's New Media Theatre documents, in recent years she has become increasingly engaged in large, site-specific projects. In a sense, this is where her work belongs—in the spaces where people live, die, debate or come together to share their grief or to demand redress. In her public interventions, as with her sculptures, Ms Salcedo brings both enormous visual intelligence and a deep empathy for her subjects. In "Palimpsest", a work begun in 2013 in Chicago and currently in process, the names of victims of gun violence in America are traced in water that seeps up from the concrete of a vacant building lot, the names rising to obscure others that are faintly painted on the ground. This cycle of emergence and submergence conjures the emotional complexity of mourning, a process that requires both remembering and forgetting.

Despite the painful ground that the artist traverses, her work is ultimately hopeful, affirming the redemptive power of art and the healing balm of grief. It speaks well of contemporary civilisation that it allows Ms Salcedo to memorialise its dead. ■



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If you have any additional question about this REOI, please contact UNICEF at the following e-mail address; [sd.fftender@unicef.org](mailto:sd.fftender@unicef.org) quoting "REOI – UN Inter-Agency Tender for Third-party logistics – freight forwarding services" as subject in all your correspondence.



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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 \$ Jul 8th	Year ago
	latest	qtr*	2015†				latest	months, \$bn	% of GDP 2015†				
United States	+2.9 Q1	-0.2	+2.3	+1.4 May	nil May	+0.4	5.3 Jun	-406.4 Q1	-2.6	-2.5	2.21	-	-
China	+7.0 Q1	+5.3	+6.9	+6.1 May	+1.4 Jun	+1.4	4.1 Q1§	+288.2 Q1	+3.0	-2.7	3.16§§	6.21	6.20
Japan	-0.9 Q1	+3.9	+1.0	-4.0 May	+0.5 May	+0.8	3.3 May	+89.0 May	+2.4	-6.8	0.45	121	102
Britain	+2.9 Q1	+1.5	+2.4	+2.1 May	+0.1 May	+0.3	5.5 Mar††	-180.5 Q1	-4.8	-4.4	2.13	0.65	0.58
Canada	+2.1 Q1	-0.6	+1.6	-2.1 Apr	+0.9 May	+1.2	6.8 May	-42.2 Q1	-2.9	-1.8	1.52	1.27	1.07
Euro area	+1.0 Q1	+1.5	+1.5	+0.8 Apr	+0.2 Jun	+0.2	11.1 May	+302.8 Apr	+2.5	-2.1	0.68	0.90	0.73
Austria	+0.3 Q1	+0.7	+0.6	+0.8 Apr	+1.0 May	+1.0	6.0 May	+6.5 Q1	+1.4	-2.1	1.10	0.90	0.73
Belgium	+0.9 Q1	+1.3	+1.3	-1.1 Apr	+0.6 Jun	+0.4	8.6 May	+12.1 Mar	+1.2	-2.6	1.19	0.90	0.73
France	+0.8 Q1	+2.5	+1.2	-0.1 Apr	+0.3 May	+0.3	10.3 May	-17.1 Apr‡	-0.8	-4.1	1.13	0.90	0.73
Germany	+1.0 Q1	+1.1	+1.7	+2.2 May	+0.3 Jun	+0.5	6.4 Jun	+287.0 Apr	+7.5	+0.7	0.68	0.90	0.73
Greece	+0.2 Q1	-0.7	+1.4	+0.3 Apr	-2.1 May	-0.9	25.6 Mar	+1.9 Apr	+2.7	-3.7	19.34	0.90	0.73
Italy	+0.1 Q1	+1.2	+0.6	+0.1 Apr	+0.1 Jun	+0.2	12.4 May	+43.3 Apr	+2.1	-2.9	2.23	0.90	0.73
Netherlands	+2.5 Q1	+2.3	+1.9	+0.8 Apr	+1.1 May	+0.4	8.9 May	+91.4 Q1	+9.7	-1.8	0.96	0.90	0.73
Spain	+2.6 Q1	+3.8	+2.9	+1.8 May	+0.1 Jun	-0.3	22.5 May	+14.1 Apr	+0.7	-4.4	2.36	0.90	0.73
Czech Republic	+4.0 Q1	+10.5	+3.1	+2.1 May	+0.7 May	+0.3	6.4 May§	+0.8 Q1	-0.3	-1.8	1.18	24.5	20.2
Denmark	+1.5 Q1	+2.0	+1.7	-3.2 May	+0.6 May	+0.6	4.8 Apr	+21.6 Apr	+6.0	-2.9	0.93	6.74	5.48
Norway	+1.5 Q1	+1.0	+0.8	+5.1 May	+2.1 May	+1.5	4.2 Apr‡‡	+39.3 Q1	+9.8	+6.2	1.69	8.22	6.19
Poland	+3.7 Q1	+4.1	+3.4	+2.8 May	-0.9 May	+0.2	10.8 May§	-2.7 Apr	-1.5	-1.5	3.05	3.83	3.03
Russia	-2.2 Q1	na	-3.6	-5.4 May	+15.3 Jun	+14.7	5.6 May§	+61.6 Q1	+4.3	-2.8	10.90	57.5	34.2
Sweden	+2.6 Q1	+1.5	+2.6	+3.3 May	+0.1 May	+0.2	8.0 May§	+38.1 Q1	+6.2	-1.3	0.75	8.46	6.84
Switzerland	+1.1 Q1	-0.8	+0.7	-0.5 Q1	-1.0 Jun	-1.0	3.3 Jun	+53.7 Q1	+7.9	+0.2	nil	0.95	0.89
Turkey	+2.3 Q1	na	+2.8	+0.5 May	+7.2 Jun	+7.3	10.6 Mar§	-44.3 Apr	-4.6	-1.6	9.44	2.69	2.12
Australia	+2.3 Q1	+3.8	+2.4	+2.8 Q1	+1.3 Q1	+1.7	6.0 Jun	-41.9 Q1	-3.2	-2.3	2.75	1.35	1.06
Hong Kong	+2.1 Q1	+1.5	+2.4	-1.6 Q1	+3.1 May	+3.2	3.2 May‡‡	+6.1 Q1	+2.7	-0.1	1.81	7.75	7.75
India	+7.5 Q1	+11.0	+7.6	+4.1 Apr	+5.0 May	+5.4	4.9 2013	-27.5 Q1	-1.0	-4.1	7.78	63.5	59.8
Indonesia	+4.7 Q1	na	+4.9	+5.8 Apr	+7.3 Jun	+6.2	5.8 Q1§	-25.2 Q1	-2.9	-1.9	7.73	13,358	11,711
Malaysia	+5.6 Q1	na	+5.5	+4.1 Apr	+2.1 May	+2.6	3.0 Apr§	+11.3 Q1	+3.4	-4.2	4.06	3.80	3.17
Pakistan	+5.5 2015**	na	+5.7	+5.2 Apr	+3.2 Jun	+4.2	6.0 2014	-2.0 Q1	-0.6	-5.1	9.95†††	102	98.8
Philippines	+5.2 Q1	+1.2	+6.6	+1.4 Apr	+1.2 Jun	+2.6	6.4 Q2§	+14.5 Mar	+3.9	-1.9	4.37	45.2	43.4
Singapore	+2.6 Q1	+3.2	+3.1	-2.4 May	-0.4 May	+0.4	1.8 Q1	+66.3 Q1	+21.3	-0.7	2.54	1.35	1.24
South Korea	+2.4 Q1	+3.3	+2.9	-2.8 May	+0.7 Jun	+1.0	3.8 May§	+98.0 May	+7.5	+0.4	2.48	1,136	1,012
Taiwan	+3.4 Q1	+2.7	+3.8	-3.2 May	-0.6 Jun	+0.4	3.8 May	+72.4 Q1	+12.7	-1.2	1.49	31.1	29.9
Thailand	+2.2 Q4	+7.1	+3.8	-7.6 May	-1.1 Jun	+1.1	0.9 May§	+16.1 Q1	+2.3	-2.0	2.68	34.0	32.4
Argentina	+1.1 Q1	+0.8	-0.4	-0.9 May	—	—	7.1 Q1§	-6.0 Q1	-1.5	-3.1	na	9.12	8.14
Brazil	-1.6 Q1	-0.6	-1.5	-8.9 May	+8.9 Jun	+8.4	6.7 May§	-95.7 May	-4.2	-5.5	12.66	3.24	2.21
Chile	+2.4 Q1	+4.2	+2.9	-1.3 May	+4.4 Jun	+3.8	6.6 May‡‡	-1.3 Q1	-1.3	-1.9	4.61	652	553
Colombia	+2.8 Q1	+3.3	+3.4	-3.6 Apr	+4.4 Jun	+4.1	8.9 May§	-20.7 Q1	-6.5	-2.1	7.24	2,683	1,854
Mexico	+2.5 Q1	+1.6	+2.7	+1.1 Apr	+2.9 May	+3.0	4.4 May	-25.5 Q1	-2.3	-3.4	6.00	15.9	13.0
Venezuela	-2.3 Q3	+10.0	-4.2	na	+68.5 Dec	+76.4	7.9 Jan§	+10.3 Q3	-1.8	-16.5	11.00	6.30	6.35
Egypt	+4.3 Q4	na	+4.2	-0.2 Apr	+13.1 May	+9.8	12.8 Q1§	-10.2 Q1	-1.2	-10.9	na	7.83	7.15
Israel	+2.3 Q1	+2.1	+3.4	+3.9 Apr	-0.4 May	-0.2	5.0 May	+11.7 Q1	+4.9	-3.0	2.15	3.79	3.43
Saudi Arabia	+3.5 2014	na	+2.7	na	+2.1 May	+2.7	5.7 2014	+81.2 Q4	-2.4	-12.1	na	3.75	3.75
South Africa	+2.1 Q1	+1.3	+2.0	-2.6 Apr	+4.6 May	+4.9	26.4 Q1§	-18.7 Q1	-5.2	-3.8	8.26	12.6	10.7

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, May 26.74%; year ago 41.74%. †††Dollar-denominated bonds.

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## Markets

	% change on			
	Index Jul 8th	Dec 31st 2014	in local currency terms	in \$
United States (DJIA)	17,515.4	-1.4	-1.7	-1.7
China (SSEA)	3,675.6	-13.4	+8.4	+8.4
Japan (Nikkei 225)	19,737.6	-2.9	+13.1	+12.0
Britain (FTSE 100)	6,490.7	-1.8	-1.1	-2.7
Canada (S&P TSX)	14,412.1	-1.0	-1.5	-10.4
Euro area (FTSE Euro 100)	1,107.8	-4.6	+6.8	-2.3
Euro area (EURO STOXX 50)	3,327.5	-4.8	+5.8	-3.3
Austria (ATX)	2,360.0	-4.1	+9.3	-0.1
Belgium (Bel 20)	3,503.1	-3.8	+6.6	-2.5
France (CAC 40)	4,639.0	-5.0	+8.6	-0.7
Germany (DAX)*	10,747.3	-3.9	+9.6	+0.2
Greece (Athex Comp)	797.5	nil	-3.5	-11.7
Italy (FTSE/MIB)	21,512.4	-6.2	+13.2	+3.5
Netherlands (AEX)	459.0	-4.9	+8.1	-1.1
Spain (Madrid SE)	1,059.0	-4.5	+1.6	-7.1
Czech Republic (PX)	966.9	-2.0	+2.1	-4.6
Denmark (OMXCB)	835.1	-2.4	+23.7	+12.8
Hungary (BUX)	21,367.3	-2.3	+28.5	+16.7
Norway (OSEAX)	664.0	-1.7	+7.1	-2.3
Poland (WIG)	51,370.0	-3.1	-0.1	-7.2
Russia (RTS, \$ terms)	875.7	-5.9	+5.9	+10.7
Sweden (OMX30)	1,520.9	-3.5	+3.8	-3.9
Switzerland (SMI)	8,852.4	-0.6	-1.5	+3.1
Turkey (BIST)	80,386.6	-1.6	-6.2	-18.2
Australia (All Ord.)	5,456.5	-0.9	+1.3	-7.6
Hong Kong (Hang Seng)	23,516.6	-10.4	-0.4	-0.3
India (BSE)	27,687.7	-1.2	+0.7	-0.1
Indonesia (JSX)	4,871.6	-0.7	-6.8	-13.5
Malaysia (KLCSE)	1,695.8	-1.9	-3.7	-11.6
Pakistan (KSE)	35,328.8	+1.4	+10.0	+8.7
Singapore (STI)	3,285.0	-1.4	-2.4	-4.4
South Korea (KOSPI)	2,016.2	-3.9	+5.3	+1.8
Taiwan (TWI)	8,976.1	-4.3	-3.6	-1.8
Thailand (SET)	1,470.3	-2.3	-1.8	-5.0
Argentina (MERV)	11,511.3	-1.4	+34.2	+24.5
Brazil (BVSP)	51,781.8	-1.8	+3.5	-14.8
Chile (IGPA)	18,369.7	-1.8	-2.7	-9.3
Colombia (IGBC)	10,036.8	-0.8	-13.7	-23.8
Mexico (IPC)	44,497.7	-1.0	+3.1	-3.8
Venezuela (IBC)	14,197.6	+10.1	+268	na
Egypt (Case 30)	7,551.0	-9.8	-15.4	-22.8
Israel (TA-100)	1,412.5	-1.9	+9.6	+12.5
Saudi Arabia (Tadawul)	9,057.9	-0.5	+8.7	+8.8
South Africa (JSE AS)	50,235.8	-3.2	+0.9	-6.9

## The Economist poll of forecasters, July averages (previous month's, if changed)

	Real GDP, % change		Consumer prices		Current account	
	Low/high range	average	2015	2016	2015	2016
Australia	1.9/2.8	2.1/3.3	2.4 (2.5)	2.8 (2.9)	1.7	2.6 (2.7)
Brazil	-2.0/-1.0	0.3/1.3	-1.5 (-1.1)	0.9 (1.1)	8.4 (7.9)	6.0 (5.9)
Britain	2.1/2.7	1.9/3.0	2.4	2.4	0.3	1.6
Canada	1.2/2.0	1.8/2.8	1.6 (1.8)	2.2 (2.3)	1.2 (1.1)	2.1
China	6.5/7.2	6.3/7.4	6.9	6.7 (6.8)	1.4	2.0
France	0.8/1.5	0.8/2.1	1.2	1.5 (1.6)	0.3 (0.2)	1.2
Germany	1.4/2.1	1.5/2.9	1.7 (1.8)	2.0 (2.1)	0.5	1.7
India	7.0/8.1	7.4/8.4	7.6	8.0	5.4	5.5 (5.4)
Italy	0.3/0.8	0.4/1.7	0.6	1.2 (1.3)	0.2	1.1
Japan	0.5/1.5	0.9/2.5	1.0 (0.8)	1.6	0.8 (0.6)	1.1 (1.0)
Russia	-5.0/-2.5	-1.8/1.8	-3.6	0.3 (0.4)	14.7 (15.3)	6.9
Spain	2.4/3.3	1.5/3.0	2.9 (2.7)	2.4	-0.3 (-0.4)	1.1 (1.0)
United States	2.0/2.6	2.5/3.0	2.3	2.7 (2.8)	0.4	2.1
Euro area	1.2/1.7	1.1/2.5	1.5	1.8	0.2	1.3

Sources: Bank of America, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Decision Economics, Deutsche Bank, EU, Goldman Sachs, HSBC Securities, ING, Itaú BBA, JPMorgan, Morgan Stanley, Nomura, RBS, Royal Bank of Canada, Schroders, Scotia Capital, Société Générale, Standard Chartered, UBS. For more countries, go to: Economist.com/markets

## Other markets

	% change on			
	Index Jul 8th	one week	Dec 31st 2014	in local currency terms
United States (S&P 500)	2,046.7	-1.5	-0.6	-0.6
United States (NAScomp)	4,909.8	-2.1	+3.7	+3.7
China (SSEB, \$ terms)	296.0	-28.2	+1.9	+1.8
Japan (Topix)	1,582.5	-3.3	+12.4	+11.4
Europe (FTSEurofirst 300)	1,477.8	-3.7	+8.0	-1.3
World, dev'd (MSCI)	1,724.9	-1.3	+0.9	+0.9
Emerging markets (MSCI)	930.3	-4.3	-2.7	-2.7
World, all (MSCI)	419.2	-1.6	+0.5	+0.5
World bonds (Citigroup)	862.5	+0.2	-4.4	-4.4
EMBI+ (JPMorgan)	699.7	+0.1	+1.1	+1.1
Hedge funds (HFRX)	1,229.7 <sup>§</sup>	-0.3	+0.9	+0.9
Volatility, US (VIX)	17.5	+16.1	+19.2 (levels)	
CDSs, Eur (iTRAXX) <sup>†</sup>	80.0	+8.9	+16.7	+6.8
CDSs, N Am (CDX) <sup>†</sup>	73.1	+5.9	+4.5	+4.5
Carbon trading (EU ETS) €	7.5	nil	+2.3	-6.4

Sources: Markit; Thomson Reuters. \*Total return index.

<sup>†</sup>Credit-default-swap spreads, basis points. <sup>§</sup>Jul 6th.

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

## The Economist commodity-price index

	2005=100		% change on	
	Jun 30th	Jul 7th*	one month	one year
Dollar Index				
All Items	146.1	142.4	-0.8	-15.7
Food	170.5	166.3	+4.0	-11.8
Industrials				
All	120.6	117.6	-7.1	-20.8
Nfa <sup>†</sup>	124.3	120.9	-4.6	-16.0
Metals	119.1	116.1	-8.2	-22.8
Sterling Index				
All items	168.9	168.0	-1.5	-6.4
Euro Index				
All items	163.0	161.9	+2.0	+5.0
Gold				
\$ per oz	1,169.4	1,152.7	-2.1	-12.4
West Texas Intermediate				
\$ per barrel	59.4	52.9	-11.8	-48.9

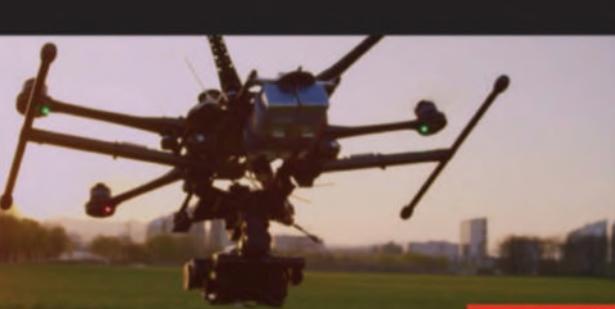
Sources: Bloomberg; CME Group; Cottlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. \*Provisional

<sup>†</sup>Non-food agriculturals.



## Drugs: War or Store?

"Drugs: War or Store?" takes a hard look at new kinds of drugs policy, from Portugal to Colorado



DRONE RANGERS

## Drone Rangers

"Drone Rangers" chronicles the day-to-day work of civilian drone operators in the fields of conservation, disaster recovery and construction



## A job well done

**Sir Nicholas Winton, rescuer of children, died on July 1st, aged 106**

WHEN the letters and the accolades came thudding through the door of his house in Maidenhead, and the filmmakers came calling, Nicholas Winton always protested that he was no hero. Heroes faced danger; he never had. They put their lives on the line; he had just worked at home in Hampstead, after a day being a stockbroker in the City. They dodged bullets and the secret police; he wrote letters, made telephone calls, and composed lists. He liked lists.

The fact that he had rescued 669 children from Czechoslovakia just as the Nazis invaded did not, in his mind, constitute heroism. He hadn't gone out there in 1938 with any burning urge to do good; just for a holiday, in fact. Nor had he gone looking for children to rescue. Instead they and their parents—if they had any, for many were orphaned or abandoned—had come to him, as soon as word got round that he might be able to help them leave Prague and get to the West. From 6am the knocks would come at the door of his room in the Europa Hotel, and he would open it to find some shivering, starving, desperate figure.

He need not have responded. Many would not have done: his colleagues in the City, for example, whose reaction to his stories from Prague was to say that gilts weren't doing well, either. But when faced

with a problem, his instinct was to solve it. So he made lists of the children, took their photographs, got them Home Office entry permits, found them foster families and organised their departure on trains, via the Netherlands, to Liverpool Street. After just three weeks in Prague, he went back to Britain and carried on the work from there.

The British Committee for Refugees from Czechoslovakia gave him almost no help, so he took sole charge himself. The Home Office was slow with entry permits, so he forged some. In search of foster-parents for the children he put their photos in *Picture Post*; in the hope of farther havens for them he wrote to governors and senators in America and even to President Roosevelt, to no avail. He could have rescued at least 2,000 more, he said later, if America had been willing to take any.

### The crate of rings

A hero might have got involved in the stress and distress of individual cases. He avoided that by treating them like a commercial transaction: like the world he knew, in fact. A market was created, takers were sought and any likely bidder would do. Siblings were separated, if necessary. Jewish children—they were almost all Jewish—were often placed with Gentile families. Mr Winton, who had Jewish parents

but was thoroughly agnostic, did not care. He just had to get the children out alive and fast. When they arrived, exhausted, at Liverpool Street he seldom greeted them himself, preferring to stay calmly at a distance. Only one event traumatised him: the disappearance of 250 children on the last transport of September 1st 1939, as war was declared. But this awful thing too he stowed at the back of his mind, realising that he had done all he could and his part was over. The scrapbook of lists, photographs and begging letters went up to the attic; he said nothing about it, and moved on.

He liked it that way. The silent background suited him very well. For 50 years he sat on the Czech story, not supposing anyone would want to know, until in 1988 the scrapbook came to light and, with it, a blaze of publicity, culminating in an evening on Esther Rantzen's "That's Life" TV show when the whole audience suddenly stood up round him, applauding him, and every one was a child he had saved. It was "absolutely awful", he thought; and wept with long-suppressed joy.

He was still no hero, though, in his own book. He had had no itch to improve the world: indeed, not even much idea which job he was best suited for. At his father's suggestion he had tried banking first, having left Stowe with nothing much to show for it. After the war he dabbled in business, but it didn't take. In later years he worked for a mental-health charity and helped to set up homes for the elderly; and wondered why saving the Czech children was deemed more heroic than those things. He had simply done what needed doing at that time, in that place. Surely any decent person would have done the same?

Sometimes, though, heroism was simply that: stepping in to sort out a mess and quietly doing what was needed. The opportunity occurred again, after Prague. In post-war Germany he was tasked with sorting and selling the contents of hundreds of army crates. Some were full of china, others of candlesticks. Some held nothing but watches, cigarette cases or hundreds of gold wedding rings. All this had been taken from prisoners, mostly Jews, as they entered Nazi concentration camps and then approached the gas chambers.

Occasionally, as he worked, thoughts would disturb him. Once the alarm clocks in one crate started ringing, reminding him of the unwaking people they used to rouse out of sleep. But he also had a commercial job to do: to sort these precious objects, get the best price for them and transmit the money mostly to Jewish charities. Again he picked his orderly way through the chaos caused by human evil, the abandoned treasures and forsaken loves, turning them to whatever good was possible; and did not allow himself the luxury of either self-congratulation, or a tear. ■

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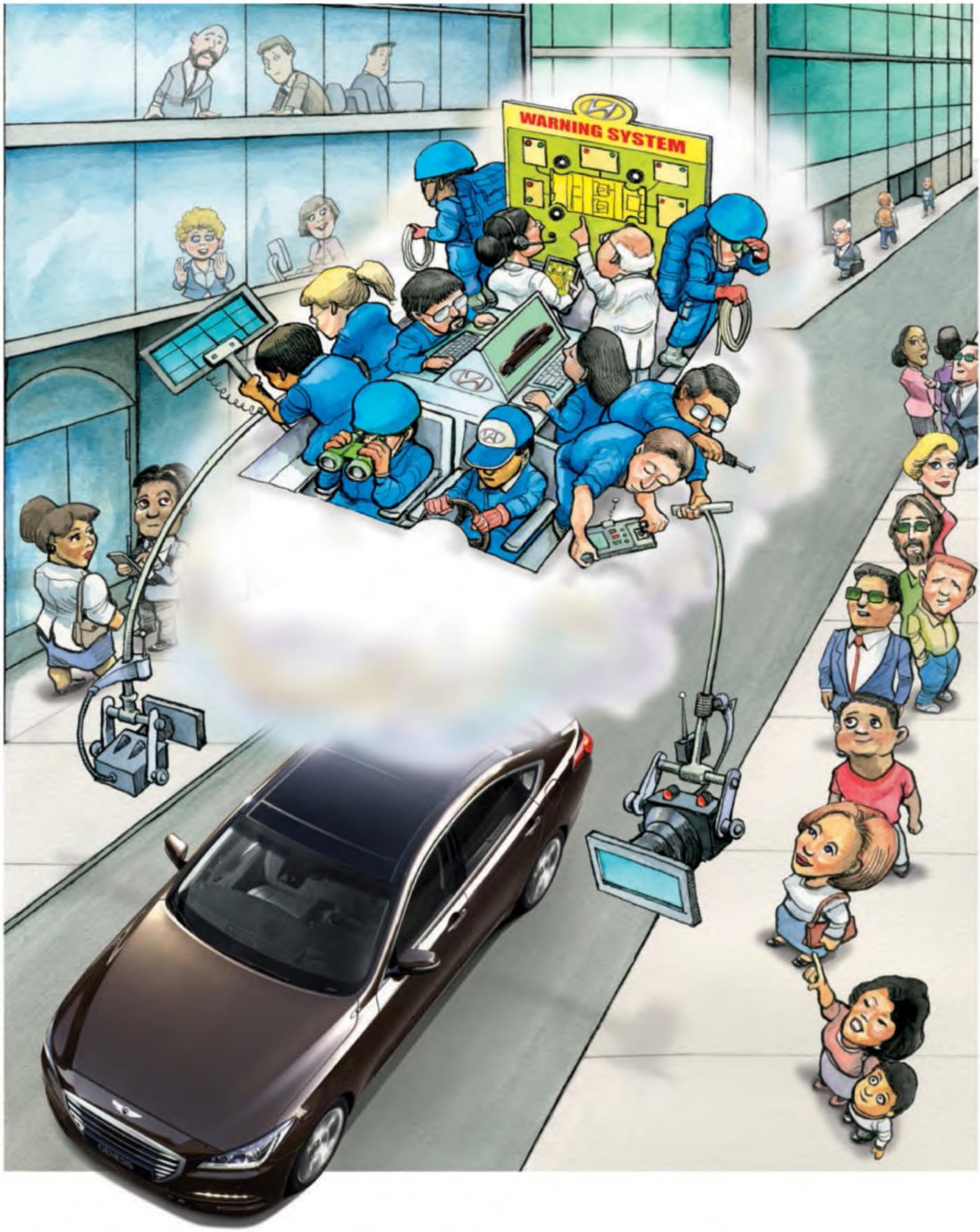
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