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Losing the Middle East

Why America must not abandon the region


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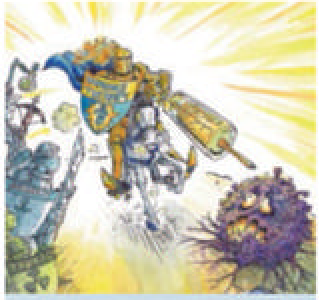

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Politics

The American Senate passed an act that revamps the rules for the collection of phone metadata by the **National Security Agency**, requiring instead that the intelligence services obtain records in counterterrorism operations on a case-by-case basis from phone companies. The new USA Freedom Act replaces parts of the Patriot Act that came into force after the 9/11 attacks. Rand Paul (above), a libertarian-minded Republican running for president, had put up stiff resistance to even the modified version of the act.

A man suspected of sympathising with Islamic State and who was allegedly overheard discussing plans to behead police officers was shot and killed in a confrontation with an FBI agent and a policeman in **Boston**. The authorities said that Usaamah Abdullah Rahim was an "imminent threat". He was brandishing a large knife when shot.

Dennis Hastert, a former Republican Speaker of the House of Representatives, was charged with making false statements to prosecutors and improperly concealing bank withdrawals. The case reportedly relates to payments Mr Hastert allegedly made to a man to stop him from going public about unspecified misconduct by Mr Hastert in his previous job as a high-school wrestling coach.

Politicians from all sides in America sent their condolences to **Joe Biden** on the death of his eldest son, Beau, from brain cancer at the age of 46. Mr Biden is the first vice-president or president to lose a son or daughter while in office since the death of John F. Kennedy's two-day-old baby boy, Patrick, in 1963.

Definitely getting warmer

The United States removed **Cuba** from its list of state sponsors of terrorism. The decision will enable banks in the United States to offer services to Cuba and will probably hasten the restoration of diplomatic relations between the two countries, which were severed in 1961.

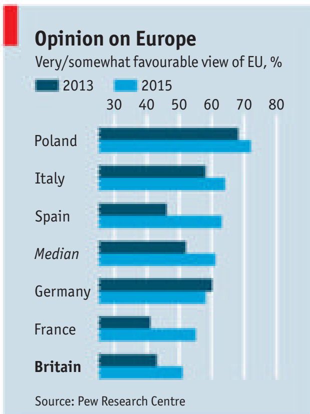
Mexico's government suspended its proposed evaluations of teachers, the most important element of its education reform. A radical teachers' union had threatened to boycott congressional and regional elections. Fearing that the evaluations would be restored after the vote, the union started a strike that has kept more than 1m children out of school.

Brazil's economy shrank by 0.2% in the first quarter of 2015. That was less than most analysts had expected: investment has dropped for seven straight quarters and household spending fell year on year for the first time since 2003. Despite the weak economy the central bank raised interest rates by half a percentage point to curb inflation.

They think it's all over

Sepp Blatter, the embattled president of FIFA, the international football federation, resigned just a few days after being re-elected. This followed a series of arrests of FIFA officials requested by American authorities on charges of corruption. Mr Blatter conceded that FIFA needed reform and admitted that "nobody's perfect". His staff gave him a ten-minute standing ovation.

Ahead of a big Greek debt repayment, the European Union, the IMF and **Greece** traded offers in last-minute negotiations over new conditions that the Greeks would fulfil in exchange for a further bail-out. Greece's prime minister, Alexis Tsipras, warned that his room for concessions was limited amid talk of a new Greek election.



A poll by Pew found that support for the **European Union** was rising from the low levels reached in many countries two years ago. The exception is Germany, where the number with favourable views has slightly fallen. The poll also found that if an in/out referendum were held in Britain today, 55% would vote to stay, against only 36% voting to leave.

The president of **Ukraine**, Petro Poroshenko, appointed a former Georgian president, Mikheil Saakashvili, as governor of Odessa. The choice angered Moscow: Russia fought a brief war in 2008 against Mr Saakashvili when he was running Georgia.

After weeks of street protests, political leaders in **Macedonia** agreed to hold early elections next April. It is not clear who will run the country until then.

Welcome to office

A few days after Muhammadu Buhari was sworn in as **Nigeria's** president, Amnesty International accused the Nigerian army of responsibility for the death of 8,000-plus men and boys by extrajudicial execution and through ill-treatment in detention camps. The alleged atrocities took place in the country's north-east, where Boko Haram, a jihadist group, stepped up its rebellion four years ago.

Saudi Arabia offered a reward of $1.3m for information leading to the arrest of 16 people it said were involved in two bombings at Shia mosques, killing 26 people, for which Islamic State has claimed responsibility.

It was revealed that American diplomats have secretly met representatives of **Yemen's** Houthi rebels in neighbouring Oman to discuss a political solution to the country's conflict. Since March, Saudi Arabia has been launching air strikes against the rebels, who have seized much of Yemen and sent the internationally recognised government fleeing. More than 2,000 people have died. Some hope that a political deal may be in the offing.

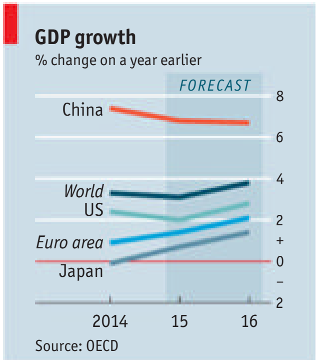
Call for order

America's defence secretary, Ash Carter, called for an "immediate and lasting halt" to land reclamation by China in disputed areas of the **South China Sea**. At a gathering in Singapore of regional defence chiefs, he said China's actions in the area were "out of step" with international rules.

A cruise ship capsized on **China's** Yangzi river with 458 mostly elderly people on board. Only 14 have been rescued: the others are feared to have drowned. It could be China's worst boat disaster since the Communist Party came to power.

Beijing imposed strict curbs on smoking. Puffing away is now banned in public places, including offices, restaurants and buses. Offenders are subject to fines of up to 200 yuan ($32). China has more than 300m smokers, about one-third of the world's total.

Business



Source: OECD

The OECD altered its outlook for **global growth** this year and predicted that world GDP will increase by 3.1%, a sharp reduction from the 3.7% it forecast last November. The first three months of 2015 were the weakest on average for growth in any quarter since the financial crisis. The OECD described the global economy as "muddling through" and gave it a B-minus. To achieve an A more investment is needed. One factor holding back spending is uncertainty in the markets over the possibility of a Greek default.

Price promises

The OECD also said that the risks of deflation have receded. As if to confirm this, consumer prices rose in the **euro area** for the first time for six months in May, with annual inflation reaching 0.3%. That is still well below the **European Central Bank's** target of 2%. At its latest meeting the ECB said that it stands ready to boost its quantitative-easing programme to attain that target, but sees no reason to do so at present.

America's economy contracted at an annualised rate of 0.7% in the first three months of the year, according to revised official figures. A first estimate had recorded growth of 0.2%, but with the dollar riding high, exports fell and imports rose more than had been expected. The large **trade deficit** in the quarter—it was at its highest monthly level in March for six years—knocked 1.9 percentage points off GDP. Better news was found in separate data for April, which showed the trade deficit dropping by 19% to $40.9 billion for the month.

Meanwhile a stronger-than-expected jump in mining exports helped **Australia's economy** to expand by 2.3% in the first quarter compared with the same three months last year. Joe Hockey, the Treasurer, said the figures reflected the "deep resilience" of the economy. But with consumer spending still weak, the Reserve Bank of Australia erred on the side of caution and kept interest rates on hold at a record low of 2%.

Petrobras returned to international capital markets for the first time in more than a year by issuing a 100-year bond in dollars. The Brazilian state oil company has become mired in a political corruption scandal that caused a delay in reporting its quarterly earnings.

Chips with everything

There was another mega-deal in the chipmaking business, with **Intel** making by far its biggest-ever acquisition when it agreed to buy **Altera** for $16.7 billion. This came just days after Avago Technologies announced that it was taking over Broadcom for $37 billion, the biggest acquisition in the technology industry since the bursting of the dotcom bubble in 2000. Intel has specialised in producing chips for computing; Altera's expertise is semiconductors used for communications and data centres.

Speaking in Hong Kong, Ben Bernanke, the former chairman of America's Federal Reserve, blamed the American Congress's refusal to allow emerging-market countries a greater say in the IMF for China's decision to create the **Asian Infrastructure Investment Bank**. The AIIB's articles of agreement are expected to be approved by the end of this month by its founding countries, which include Britain and Germany. America has refused to sign up, claiming the AIIB lacks transparency.

Anbang and Fosun, both Chinese companies, were reported to have presented the two highest bids for **Novo Banco**, a Portuguese bank that emerged from the wreckage of Banco Espírito Santo's collapse last year. The offers, due to be presented by the end of this month, are said to be worth around €4 billion ($4.4 billion). China's appetite for European assets is growing, marked by investments this year in Pirelli and Club Med.

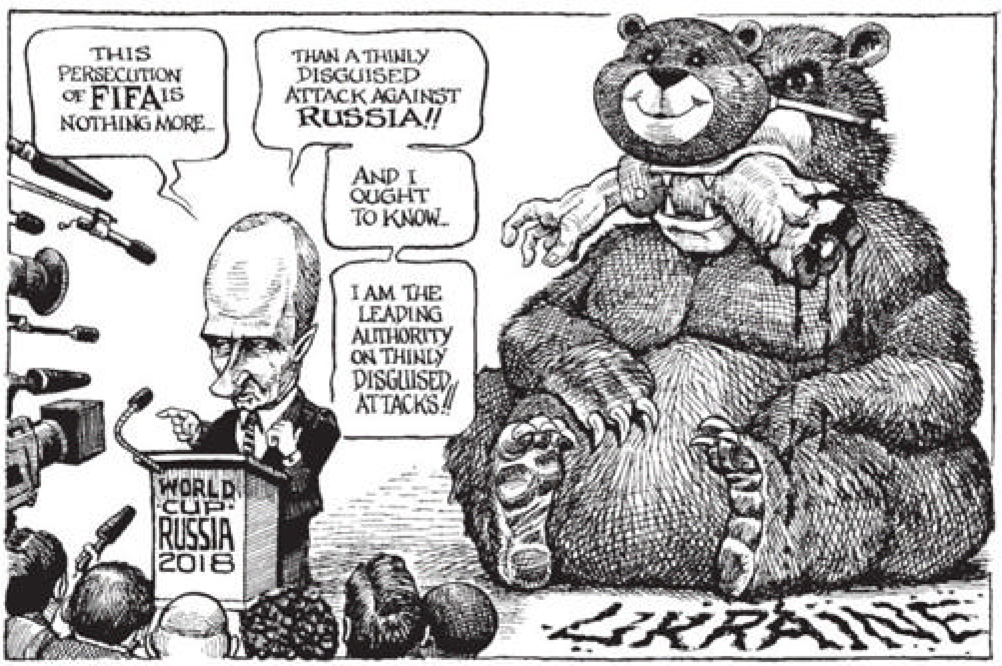
AO World, a British online retailer of large electrical appliances, reported an operating loss for the year to March 31st of £2.2m ($3.5m). AO World's IPO in February 2014 raised eyebrows in the City when it floated with a market capitalisation of £1.2 billion despite a pre-tax profit of only £8m in the previous year. Its share price has plunged this year.

A preliminary investigation into the crash of an **Airbus A400** military cargo aircraft last month concluded that three of its four engines did not respond to cockpit commands. Reports suggested that this was because of faulty software. The A400 crashed after taking off on a test flight from Seville airport in Spain, killing four of the six crew.

St Paulson

John Paulson, whose hedge fund made a fortune in 2007 by betting that the housing market would collapse, donated $400m to **Harvard's** engineering school. It is the biggest gift in the history of the university, which has a $36 billion endowment. Mr Paulson gets to have the school renamed after him.

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



Entangled

Why America must stay engaged in the Middle East

IN THE mid-1990s a celebrated Syrian playwright captured the anguish of living under an Arab autocrat with the lament, "We are condemned to hope." Almost 20 years later, even hope has withered.

The Middle Eastern order sustained by the United States has collapsed. Civil wars are devouring Syria, Iraq and Libya. Black-robed jihadists from Islamic State (IS) have carved out a caliphate. Vying with Iran for regional influence, Saudi jets are strafing Shia rebels in Yemen. Peace may not return to the Middle East for a generation.

For most Arabs, including presidents and kings, the lesson is that American power has had its day. For most Americans, including the man in the White House, the lesson is that outsiders cannot impose order on chaos. Both claims are exaggerated. The Middle East desperately needs a new, invigorated engagement from America. That would not only be within America's power, it would also be in America's interest.

Desperate times

The starting-point is to understand what has gone so disastrously wrong in the Arab world. Democrats in Washington will tell you that the villain is George W. Bush, who invaded Iraq in 2003, creating a bloodthirsty Sunni insurgency and, across the region, a hunger for rebellion. Republicans insist that the fault lies with Barack Obama for letting Iran dominate Iraq and failing to curb the villainy of Syria's Bashar Assad.

In fact there is more than enough blame to go round. As that Syrian playwright suggested, the roots of the Arab malaise run deep. After the second world war, centuries of infantilising colonial rule gave way to woeful self-government. Arab economies were regulated, subsidised and planned so clumsily that they failed to provide for Arab citizens. Leaders, lacking legitimacy, took refuge in Arab nationalism and came to depend on coercion instead of consent. Young populations without prospects found comfort in religion, some in the zealotry peddled by the likes of IS. For years America propped up its client states in this failing order. But the Arab spring showed that the stability Mr Bush shattered at such great cost was already doomed. Mr Obama's inaction only added momentum to an unfolding catastrophe (see pages 16-18).

All the more reason to stay out, perhaps. Except that America has interests in the Middle East. Today's chaos is trashing human rights and torching values that many, including this newspaper, look to America to defend. Not everyone will agree—some Americans are tired of their country acting as a global policeman, and others rightly point out that its geopolitical priority is China's growing ambition (see Banyan). But even allowing that, the Middle East still matters.

Terrorism in places like Libya or Syria sooner or later ends up striking at the West. IS's successes in Ramadi in Iraq and Palmyra in Syria attract money and fighters. Minimising the threat means doing more in places where jihadism flourishes.

Then there is oil. Thanks to fracking, the United States has become the world's swing producer, and within a decade or so the North American continent stands to produce as much energy as it consumes. But the oil price is global, and the Middle East still accounts for one in every three barrels of seaborne crude. Pricing power and self-sufficiency do not make America immune to upheaval in energy markets. If it cannot keep the oil flowing, its economy will suffer grievously and so will its claim to global leadership.

Last is nuclear proliferation. America has sponsored a deal to prevent Iran from gaining the bomb for at least a decade. If the talks succeed, America will need to act as enforcer-in-chief. If they fail, it must be at the centre of efforts to prevent Iran crossing the nuclear threshold. Either way, it must be a brake on other regional powers who might think of launching weapons programmes of their own.

Mr Obama has identified all these interests. His diplomats were in Paris this week to talk about IS. This month they will be thrashing out the nuclear deal with Iran. He has personally pledged to ensure oil supplies flow. And yet his goals are undermined by his determination to stand back from the region. His aim has been to force the Middle East to take more responsibility for running its own affairs. But the vacuum he has created has only exacerbated the strife and disorder.

Instead, Mr Obama needs to set out a strategy of constructive containment. No actor can simply put the Middle East together again, but America can help stop the damage spreading.

The first requirement is better diplomacy. Mr Obama has shunned the State Department, preferring a coterie in the White House. Partly as a result, America was ill-prepared for the coup by Abdel-Fattah al-Sisi in Egypt. When Mr Obama withdrew troops from Iraq, he should have emphasised diplomacy and built up Iraq's institutions. Instead, Iranian influence grew and the Shia-led government alienated Iraq's Sunnis. More political engagement is needed. America must not give up striving to end the conflict between Israel and Palestine. But Mr Obama also needs to work with Turkey to create a moderate force in Syria and with Saudi Arabia to stop the fighting in Yemen. And he should encourage economic and political reform in the Gulf and Egypt, which cling to a moribund "stability" for fear that change will run amok. He must be ready to use force. Mr Obama's taboo about deploying American soldiers against IS in Iraq has led to a self-defeating shortage of special forces to guide air strikes to their targets.

Desperate measures

This work is dogged and often thankless. America must accept that its relations with Arab countries will be pragmatic. Fighting alongside Iran in Iraq and opposing it in Syria is a contradiction. Get used to it: the region has not stopped shifting in unreconcilable ways. The Iraqi Kurds are useful allies even though—against American policy—they want their own homeland. America may need to deal with Mr Sisi to calm Libya.

The idea has taken root that America no longer has what it takes to run the Middle East. That it ever could was an illusion. But America still has a vital part to play. If it continues to stand back, everyone will be worse off—including Americans. ■

Devolution in Britain

Time for a civic surge

England's regional cities have the best opportunity for a renaissance in decades. They must not waste it

WITH their towering columns and gilded clock-faces, the Victorian town halls of England's northern cities look like the seats of empires. And so they once were. Bradfordian woolmen and Mancunian cottonspinners led Britain's Industrial Revolution, bringing their cities national clout and global fame. But a century-long suction of power to the capital has turned Britain into an extraordinarily centralised country. Ninety-five per cent of taxes are raised in London, leaving the grand council chambers of the regions to hear debates on parking fines and dog fouling.

Now there is a chance for England's cities to win back some of their long-lost power. Seeking savings and an answer to English envy of Scotland's growing autonomy, George Osborne, the chancellor, has offered to cede billions of pounds of spending on transport, education, policing and health to clusters of cities that agree to join together and be run by an elected mayor (see page 46). The new freedoms, which represent the biggest change to the way Britain is run since the second world war, would allow England's cities to thrive again. They must seize the chance.

Going south

The London power-grab was well meant. Labour's creation of a welfare state in the 1940s centralised power in the name of equality. Aneurin Bevan, who set up the National Health Service, declared that the crash of a bedpan dropped in a local hospital should resonate in Westminster. Margaret Thatcher snatched more powers in the 1980s in a bid to raise standards (as well as handicap "loony left" city strongmen in the north).

But the pooling of power in London has suited the capital better than anywhere else. Though southerners complain that their taxes flood to northern welfare claimants, the south receives more in-kind benefits, such as transport subsidies, than the rest of the country. Public investment in infrastructure is more than twice as high per person in London as in the North East, where average income is a quarter less. Britain is absurdly top-heavy: whereas half a dozen German cities have economies three-quarters the size of Berlin's, no English city's economy is even a quarter the size of London's.

Handing back control over intrinsically regional matters like transport and policing will help cities run more smoothly. Giving them control over skills budgets should boost growth, by matching training to businesses' needs. Devolving health care, and combining it with social care, will save billions. And directly elected mayors will be more visible, accountable heads of government than anonymous council cabinets. Manchester, a trailblazer of city autonomy, has grown faster than any other northern city in the past decade.

Still some cities are wary because the offer requires them to merge with neighbouring towns. That works in Manchester but is contentious in Bradford, which smarts at the idea of joining its rival, Leeds. Towns in the East Midlands have no star city around which to orbit. And the North East may be too big: its mayor would govern from Berwick to Barnard Castle (imagine London's mayor running Calais). Sceptics expect incompetence and corruption, as seen in Tower Hamlets (see page 47). But voters can kick out the failures—and London bureaucrats have hardly presided over a triumph. Regional experiments can show which policies work and which do not.

This deal offers a chance to claw back power, make savings and reshape English governance. Cities should grab it. If they would rather answer to Whitehall than share power with their neighbours, let them. But they must remember that those town halls were not built to discuss bin collections. ■

Business in Japan

Meet Shinzo Abe, shareholder activist

At last Japan has introduced corporate-governance reforms that will make a difference

"STUPID, greedy, adulterous, irresponsible and threatening." At least the Japanese vice-minister for the economy, speaking about equity investors in 2008, was being honest. Indeed, he could not have summed up most Japanese politicians' contempt for shareholders any more pithily. But as Shinzo Abe, the prime minister, tries to boost a flaccid economy, official attitudes are changing at last.

Japan's companies are sitting on ¥231 trillion ($1.9 trillion) in cash, an amount nearly half the size of the economy itself. Mr Abe wants that hoard to boost capital expenditure or wages, or to be returned to investors, who could put it to better use. He thinks a dose of shareholder capitalism will do the trick. Government bigwigs, including Mr Abe himself, now offer meetings to foreign activist investors. A new governance code, which came into force this week, seeks to break open the cosy world of the Japanese boardroom by requiring firms to appoint at least two outside directors (see page 53).

Big deal, say the sceptics. Japan's corporate-governance revolution has had many false dawns. However keen the politicians now are on a bit of Anglo-Saxon greed and menace, firms themselves retain a deeply insular culture. Only 274 of some 40,000 directorships are held by foreigners. A mesh of share- ▸▸

holdings still binds big firms together. Japan's business lobby group, Keidanren, fought to dilute the new reforms. The banks still keep weak companies afloat: the fact that not one of Japan's listed firms went bankrupt last year, for the first time since 1991, reflects not just a zippier economy, but also lenders' clubby ties to borrowers. For all his reformist zeal, Mr Abe has yet to embrace measures that make it easier for firms to hire and fire. Hobbesian, Japan is not.

Even so, there are three reasons to think that real change is under way. The first is that market pressure is adding to the political pressure. Institutional investors are increasingly benchmarking firms by their returns on equity; and no investor has more clout than the Government Pension Investment Fund, Japan's enormous national fund, which made a big move into equities last year. Shareholder-advisory firms are doing their part, by recommending investors to ditch underperforming managers. At the moment firms are bumping up returns by buying back their shares; in time they will have to increase earnings, too.

Some of Japan's most prominent companies are also changing their stripes. Hitachi has got rid of unprofitable units to focus on sectors like railways and infrastructure, and last autumn it severed the link between length of service and wages. Fanuc, a robotics firm with an activist on its shareholder register, set up an investor-relations hotline this year and authorised a share buy-back and bigger dividends. A showdown over awful corporate governance at a famous family-owned furniture manufacturer, Otsuka Kagu, ended this spring with a reforming daughter worsting her 71-year-old father. Conformist cultures can change quickly once a new orthodoxy forms.

Third, the need for firms to absorb hard-to-employ Japanese workers is diminishing. Lifetime employment, coupled with pay and promotion that are linked to age, not performance, has long been part of the social contract in Japanese firms. But now the working-age population is shrinking, bringing down unemployment. Panasonic, an electronics firm, has shut its "banishment room", where surplus staff used to while away the hours with nothing to do. The argument for Japanese firms to act as a safety net is less potent than it once was.

From grey to black

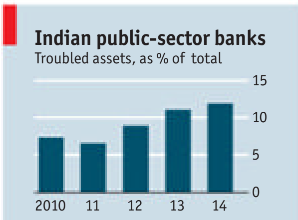
But the biggest transformation must be inside companies themselves. Although relations between firms and their shareholders are becoming more productive, change has yet to penetrate within the office walls. The likes of Hitachi aside, too many firms still function as risk-averse bureaucracies. The incentives to take risks are muted if time served matters more than profits generated. Young executives still pledge obedience to older bosses to win advancement. And since older bosses receive little extra reward for outperforming—the average pay packet for chief executives at large Japanese firms is around $1m, a modest sum in international terms—it is unsurprising that few do. Introducing pay for performance would add entrepreneurial vim to Japan's formidable strengths in technology and team spirit.

Changing corporate cultures is hard, but not impossible. Before the second world war Japan had powerful shareholders, no insistence on lifelong employment and firms were able to lay off staff when times were hard. Forget "Anglo-Saxon" capitalism. A revived Japanese sort could work just as well. ■

India's bad-debt problem

Rump stake

Privatising India's public-sector banks is the only way to fix them



IN THE beauty contest among big emerging markets, India has a fair claim to the crown. Growth is above 7%, inflation below 5%. Interest rates are falling, if slowly; the rupee has been fairly resilient. Yet India's economy looks rather less handsome in one regard: the finances of many of its companies and the public-sector banks that fund them are in rotten shape.

An analysis last year by the IMF showed that India's corporate sector has a higher level of debt relative to equity than that of any other emerging market, bar Brazil. A third of the 3,700 listed companies sampled in a recent study by Credit Suisse paid more in interest than they earned. Not surprisingly, the incidence of Indian public-sector bank loans that are troubled has risen—to 12% at the last count—and that could grow further. Among private banks the share of troubled loans is 4%. Public-sector banks account for more than 70% of India's loan stock. These banks already require around $40 billion of fresh capital by 2018 just to conform to internationally agreed rules on minimal capital standards. Add in the rising share of bad debts, and the worry is that banks will not be able to fuel the investment that India's economy needs.

Banks are at least being made to come clean about their souring assets. The Reserve Bank of India (RBI) has clamped down on the practice of making new loans to the chronically indebted in the usually vain hope that the old ones might be repaid. From April 1st this year, banks have been told to treat loans that have had their terms softened as if they were non-performing and set aside 15% of their value as a precaution. If a bank reports a dud loan, the RBI will assemble the firm's lenders to agree on remedial action. That will stop indebted firms from playing one bank off against the other. The government of Narendra Modi has also promised a new bankruptcy code that will help creditors take over troubled firms.

Loans freed from their bonds

More, however, must be done, particularly to change the banking culture that has given rise to the bad-debt problem. Many of the troubles that afflict public-sector banks, including political interference, a lack of talent in the boardroom and the herd mentality that encourages them to charge into the same bad bets, stem from majority state ownership (see page 63). Mr Modi has so far been timid about privatisations. But to create a financial system that can fund the growth India needs, he must get the state out of the business of running banks.

India has historically sold off small equity stakes in state-owned firms to fund its budget deficits. The government's holdings in public-sector banks have fallen to levels of between 57% and 82%. Mr Modi has pledged to reduce them to 52% across the board, but no further. He wants the state to remain in control, but has promised to reduce government meddling, to lure chief executives from the private sector and to give them longer tenures. Those are welcome gestures, particularly a pledge to end phone calls from officials in Delhi putting in a good word for a favoured businessman in search of credit. But commitments of this sort cannot bind future governments. Not surprisingly, few top-notch bankers are interested; senior vacancies in India's state-run banks are piling up.

Mr Modi needs to be bolder by turning over banks to be run as private companies, with a minority government stake. End government control, and many of the management constraints that have contributed to the poor performance of these banks would disappear. For instance, the limits on public-sector pay scales would go, enabling banks to attract the best staff at board level and below. An intermediary body to manage the state's shareholdings would rein in political interference—as long as it is independent. Private investors would then be happier to provide the extra capital the banks need to fund India's next investment upswing.

Core capital

The alternative to privatising India's state-owned banks is a continual top-up of capital buffers to make up for losses, using money that might better be spent on public goods, education or targeted welfare. And unless the banking sector is fixed, the economy cannot flourish. If Mr Modi is serious about reform, he will have to discredit the shibboleth that banks can only serve society's ends if they are state-owned. ■

Cleaning up sport

Bigger than Blatter

The problem of corruption in sport transcends FIFA and is too serious to ignore

SO THE stubborn septuagenarian resigned from the tiddlywinks committee. Why all the fuss and headlines, some eye-rolling observers have been wondering? What does it matter who runs FIFA, football's abstruse governing body, or where its tournaments are held? All these shenanigans, like the furores that occasionally erupt in other sports, are absurdly overblown. Football belongs on the back pages, not the front.

That view, common among sports non-enthusiasts, rests on the mistaken notion that corruption in sport is also a sort of game, in which rubicund rogues harmlessly siphon off gate receipts. Even many fans, perturbed by the disruption of their hobby, miss its real gravity. Because at bottom this is not a recreational issue but a criminal one. Neither harmless nor victimless, sports corruption is perpetrated by crooked officials, abusive governments and gangsters, sometimes in concert. It matters—and, welcome as Sepp Blatter's demise is, the problem goes well beyond him, FIFA and football (see page 49).

Corruption in sport has four main, related drivers. One is the needlessly pharaonic scale of mega sporting events. For kleptocratic regimes such as that of Russia—venue of last year's ludicrously costly winter Olympics and, on current plans, of the football World Cup in 2018—these are superb opportunities to embezzle public funds. The victims are the host country's short-changed taxpayers, pensioners and public services.

Second, top-level sport is now a global commodity, eliciting vast sums from marketeers and broadcasters (real-time sporting drama is one of the few remaining draws for live audiences). As the American inquiry that helped topple Mr Blatter suggests, kickbacks sometimes lubricate the fat contracts that arise. Thus sports corruption is inextricable from the wider scourge of corporate graft. A third factor is the under-regulated globalisation of gambling, and its exploitation by match-fixers and money-launderers. Dodgy betting is hardly new: the rigging of baseball's World Series of 1919 is immortalised in "The Great Gatsby". But worldwide fan bases and the internet have made it more rife and much more lucrative, attracting serious mafiosi from Asia and eastern Europe.

Last, the governance of too many sports is opaque, juicily monopolistic, badly monitored—and wholly unsuited to the big-money age. Some sports (such as professional tennis) and places (such as Finland and South Korea, which have cracked down on match-fixing in football) have caught up. Others have, like FIFA, proved ill-equipped to combat predation and too hospitable to unscrupulous officials. Football is not the only vulnerable game; scandal has struck pastimes as obscure as handball. Villainous politicians, such as some of the many involved in Indian cricket (a swamp of fixes and backhanders), are often in on the act.

Jail time, not yellow cards

In many ways globalisation has been a boon to sport, and not just for well-paid players and the car dealerships they patronise. It has produced higher standards, better stadiums and slicker spectacles. But to cope with the concomitant risks, sports need to be run as transparent, rigorous businesses. In some cases their rule-setting and game-nurturing functions should be split off from their marketing and event-organising roles. Corporate sponsors should be quicker than they have been in FIFA's case to dissociate themselves from thievery.

Yet because sports corruption is a reflection of wider problems—sport merely being an organism to which criminal succubi attach themselves—it is too formidable for sporting organisations to tackle alone, even if they are inclined to. Precisely because it is a nexus for broader crime and malpractice, more governments and law-enforcement agencies should emulate America's Justice Department (and India's Supreme Court, which is trying to clean up cricket) by pursuing the embezzlers, bribe-payers and money-launderers, and dishing out serious punishments to those they catch. Too often the authorities have shared the misconception that corruption in sport is essentially benign. Worried about appearing killjoys, they have let it be. FIFA's shame should mark the end of such naivety. ■

Debt is a taxing issue

I agree that deducting tax for mortgage interest is a misguided policy ("The great distortion" and "A senseless subsidy", May 16th 2015). But your call to limit the tax deductions on interest expenses incurred by businesses as well is absurd. If a company didn't reduce its taxable income for expenses, including interest paid to lenders, income would be taxed twice.

The irony is that corporate profits are often taxed twice under our current system: at the corporate level and then when realised by shareholders. Governments may reduce associated tax rates as a fudge, but it remains an unnecessary complication. You should have argued, as you have in the past, to eliminate corporation tax and for tax rates on dividends and capital gains to be set at the same levels as regular income.

STEVEN SIGRIST
New York

In most countries interest is not deductible in all instances. Specifically in private-equity backed buy-outs, the interest on private-equity investments is rarely deductible. Furthermore, in Britain the mortgage subsidy was removed a generation ago. If the thesis that interest deductibility drives up property prices were true, we might expect places where there is no such deduction to be characterised by fewer bubbles and less excess. As I look out of my office window onto the streets of London, this does not seem to be a remotely plausible description of the circumstances of the British property market.

When the data do not fit the theory, the theory is usually wrong.

JOHN GILLIGAN
Partner
Corporate finance
BDO
London

There are two remedies to address the corrosive effects of tax relief for interest expenses. To encourage the trimming of mortgage-interest deductions it may be easier politically to enact loan-to-asset caps on tax relief and to describe such policy as being "macroprudential". However, the case for denying tax deductions for interest expenses at companies is harder and would create greater economic distortions. Again, the best answer may be capping, using a maximum debt-to-equity ratio to limit deductible interest.

GLYN THOMAS
Hong Kong

Abolishing corporation tax would result in rich people shovelling their wealth and income into tax-free shell companies. This would make the tax system more, not less, complex. Ending it would also pump up idle corporate cash reserves at the expense of demand-creating government spending and investment. This would harm economic growth. If governments do not levy corporate taxes, they have less incentive to make companies transparent and accountable about their financial affairs, as we see in many zero-tax havens.

The corporate-income tax is one of the most valuable of all taxes, though constant pressure from lobbyists puts it at risk of disappearing entirely.

JOHN CHRISTENSEN
Director
Tax Justice Network
Chesham, Buckinghamshire

You concluded with the same fantastic maxim that is always trotted out in favour of relatively efficient new levies. By using the proceeds to reduce a less attractive tax, the result could be "revenue-neutral". Or they could be used to fabricate wings to allow pigs to fly.

CARL DANNER
Alamo, California

The good works of Rotarians

Rotarians and individuals who have benefited from generations of Rotary service were disappointed to see the organisation's good work reduced to a point of comparison to the motorcycle gangs responsible for the deadly shoot-out in Waco, Texas ("Rotarians with chains on", May 23rd). Rotary International is a global humanitarian organisation with 1.2m volunteers whose mission is to advance understanding, goodwill and peace. Rotary members are committed to improving health systems, supporting education, empowering youth, building communities and ending poverty.

And, as *The Economist* has reported before, thanks to countless volunteer hours and $1.3 billion in contributions, Rotary members have played a leading role in the effort to eradicate polio. Nothing to do with Texan biker gangs.

JOHN HEWKO
General secretary
Rotary International
Evanston, Illinois

Summertime is here

The derivation of "barbecue" from the Spanish for "beard" and "tail" (Letters, May 16th) is a popular etymology but false. *Barbacoa* was an Arawak Indian word for an interlaced frame of wood supported on posts and used either to sleep on or to preserve meat and fish by drying. Eventually in Spanish it described meat roasted over such a frame and in time entered English as "barbecue".

STUART JAY SILVERMAN
Hot Springs, Arkansas

The Rohingyas

"Adrift" (May 16th) referred to the Rohingya people in Myanmar as "originally from Bangladesh". In fact, the Rohingyas evolved as a distinct ethnic group over centuries with the amalgamation of people coming not only from Bengal, but also from other parts of the subcontinent as well as Central Asia and the Middle East. Those who came after the British annexation of Arakan (currently Rakhine state in Myanmar) in 1825 also became indigenous over the years.

Since Myanmar's independence, census results have revealed no significant rise in the size of the Rohingya population in relation to the national average growth rate. This is largely because of the continued exodus of the Rohingyas from Rakhine to Bangladesh and elsewhere.

Establishing the citizenship of the Rohingyas is crucial for finding a lasting solution to their current situation. Your article rightly underlined the need for addressing the root cause of the evolving trafficking trend in the Indian Ocean, but it attributed a grossly simplified and mistaken identity to these people.

SIKDER BODRIUZZAMAN
Director-general, external publicity
Ministry of Foreign Affairs
Dhaka, Bangladesh

Best not to combine the two

You documented several liberal policies in Utah ("Young, tolerant and surprising", May 2nd). However, one's daily life here is still coloured by conservative and religious influences.

On Sundays, for example, the liquor stores are closed, but the gun shops are open.

DENISE LASH
Salt Lake City

It's graft time in the game

There was a popular joke that did the rounds when the hosting of the 2018 football World Cup was awarded to Russia in murky circumstances ("Polishing up a tarnished trophy", May 30th).

What does FIFA stand for? The Russian national anthem.

GARY DONAHUE
Athens ■

Letters are welcome and should be addressed to the Editor at
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Gland, Switzerland

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RUSSELL REYNOLDS ASSOCIATES

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Head of Research

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Contact: Human Resources Department, MNB, 1054 Budapest, Szabadsag ter 8-9, Hungary. Email: job@mnb.hu

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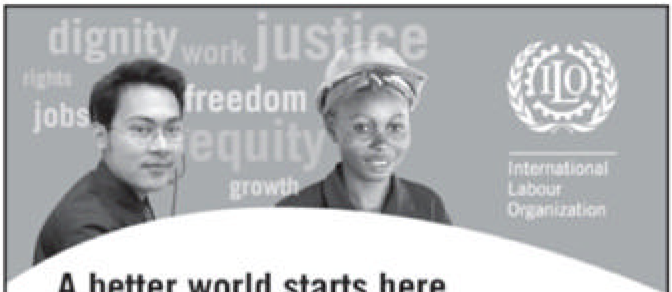

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A dangerous modesty

WASHINGTON, DC

America has learnt the hard way that it cannot fix the problems of the Middle East. But Barack Obama's deliberate neglect risks making them all worse

IN THE white-marbled amphitheatre of Arlington National Cemetery, on the final Monday of May, Barack Obama delivered a short oration that said much about his view of the exercise of American military power. "Today", the president said, "is the first Memorial Day in 14 years that the United States is not engaged in a major ground war." America's military presence in Afghanistan, which once stood at more than 100,000 troops, has dwindled to a tenth of that number. It has even fewer troops in Iraq (some of whom are pictured above), providing training and air support, not fighting.

On the day that America remembers its fallen soldiers, 7,000 of them lost in the conflicts that followed the attacks of September 2001, Mr Obama spoke from the belief that the country had had enough of wars. Little matter that Afghanistan is worryingly unstable. Or that Iraq and Syria are in pieces, their chaos filled by Sunni and Shia militias of all stripes. Or that Libya and Yemen are also torn by civil war. Or that America's friends, Israel and Arab monarchies alike, feel abandoned.

When the world is falling apart it is inevitable that people will blame whomever is in the White House. This is especially true in the Middle East, a particular focus of decades of American policy for a host of strategic reasons: stopping cold-war Soviet expansion; preserving access to the Gulf's oil; supporting Israel in its conflicts with Arab states; containing revolutionary Iran; and changing the regime in Iraq as a putative first step to promoting democracy across the region.

Deciphering Obama

Now, in part as a result of the 2003 invasion which brought down Saddam Hussein, the region is in turmoil. The Arab spring of 2011 toppled more strongmen and brought change aplenty, but rarely of the sort America would like. A democracy may be putting fragile roots down in Tunisia. But Egypt under Abdel-Fattah al-Sisi has reverted to a harsher authoritarianism than that of the ousted Hosni Mubarak. Next door Libya is in meltdown; elsewhere Iraq and Syria are in the grip of civil wars, with the new ugliness of the so-called Islamic State (IS) holding territory in both. Iran and Saudi Arabia are engaged in proxy conflicts in Yemen and elsewhere. Countries that have withstood the turmoil, like Lebanon and Jordan, are awash with refugees.

Mr Obama stands accused, at home and abroad, of having no strategy to deal with the mess. Jeb Bush, a candidate for the Republican presidential nomination, accuses the president of alienating America's friends and failing to inspire fear in its enemies. Critics say Mr Obama is so keen on his "pivot" to a security policy focused on East Asia that he neglects the Middle East—or that he is simply too gutless to act.

The alternative is to see Mr Obama's position on the sidelines as a deliberate choice. For a president elected to extricate America from its wars in the region it makes sense to commit American forces only in circumstances of great need and on a limited scale. In general he will intervene only when convinced that to do so will not make things worse—which is to say, in the Middle East, rarely.

Mr Obama is no pacifist and no isolationist. The charge that he has ignored the Middle East is denied by insiders. One White House veteran says "it never felt like we pivoted away from the Middle East. About 80% of our main meetings at the National Security Council have focused on the Middle East." At such meetings Mr Obama often stands at the most reluctant end of the spectrum covered by his advisers. But he has been willing to act; even as he has scaled back America's main military operations, he has intensified counter-terrorist drone strikes. He has bombed targets in Afghanistan, Pakistan, Somalia, Yemen, Libya, Iraq and Syria. And he ordered the operation that killed Osama bin Laden.

A recognition of the limits of the possible, though, does not absolve Mr Obama from all the charges against him. The bill of particulars runs as follows: the fine words about promoting democracy in his "new beginning" speech in Cairo in 2009 were not followed up by meaningful action; an erratic response to the Arab spring upset both the army and the Islamists in Egypt; ▸▸

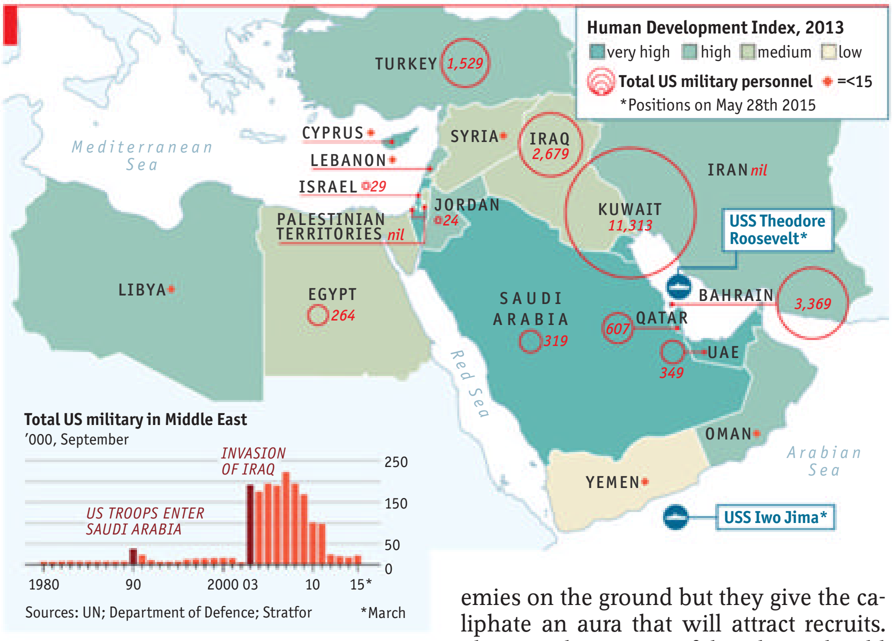
the French- and British-led military intervention against Muammar Qaddafi in Libya, with America consciously "leading from behind", was squandered by the failure to help rebels create a stable government; the withdrawal from Iraq in 2011 was too hasty.

And above all these others stands Mr Obama's action—or, rather, his inaction—in Syria. When Bashar Assad slaughtered protesters, Mr Obama said the dictator had to step down. But he did little to support moderate rebels. He said clearly in 2012 that Mr Assad would be crossing a "red line" if he used chemical weapons. But when a sarin nerve-gas attack in Ghouta, outside Damascus, killed more than 1,000 civilians in August 2013 the dictator did not suffer the "enormous consequences" that Mr Obama had threatened. A diplomatic deal removed a lot of Syrian chemical weapons, which was good; Israel no longer feels it has to issue gas masks to its people. But even Obama loyalists agree that the lack of retribution left America's standing diminished.

A few weeks later, in response, Mr Obama summarised his policy on the Middle East in a speech to the UN. There were four core interests in defence of which America was prepared to deploy "all elements of our power, including military force": protecting allies against "external aggression"; ensuring the free flow of oil and gas; preventing terrorist attacks against America; and stopping the spread of weapons of mass destruction. On these America would be willing to act alone; to promote its other interests, such as the spread of democracy and access to free markets, it preferred multilateral action. In the near term, America would focus on pursuing two elusive diplomatic goals: a peace deal between Israel and the Palestinians, and an accord with Iran to limit its nuclear programme. Syria's civil war, he suggested, could not be resolved by American force: "The United States has a hard-earned humility when it comes to our ability to determine events inside other countries."

Is that humble, or heartless? The costs of Mr Obama's humility, unlike those of George W. Bush's hubris, cannot be clearly seen; lost opportunities are hard to measure. But on humanitarian grounds standing back from the Syrian civil war in the face of more than 200,000 deaths and the continued use of chemical weapons (now in the form of everyday chlorine) seems callous. You do not have to believe that America could have stopped, or won, the war to believe that it could have done more, perhaps through stronger and better judged support for some rebels, perhaps through no-fly zones.

With more American support, would Syria's mainstream rebels—the "farmers and dentists and folk who have never fought," as Mr Obama dismissively called



them—have been able to defeat Mr Assad or even hold more extreme jihadists at bay? No one can say. But without it they could not. That allowed IS to take over much of eastern Syria and, in 2014, to sweep across northern and western Iraq, take Mosul and declare a caliphate.

Embracing enemies, alienating friends

Thus, like Michael Corleone in "The Godfather, Part III"—"Just when I thought I was out, they pull me back in"—Mr Obama was compelled to return to the bloody business he thought he had escaped. He ordered air strikes, ostensibly to protect American officials working in Baghdad and Erbil, in northern Iraq. The murder of two American hostages led to a broader strategy to "degrade and ultimately destroy" IS.

This involved two separate but related operations. In Iraq, American and Western trainers would rebuild the hollowed-out army and provide air support to help it roll back IS. In Syria, American and Arab air forces would disrupt IS by bombing its rear bases, while training a "third force" of moderate Syrian rebels. Mr Obama insisted there would be "no boots on the ground".

The training of the new Syrian force has been slow. The tempo of air operations has been moderate. IS has lost towns in both Iraq and Syria, but though under strain it has proved resilient: in May it pushed the Iraqi army out of the town of Ramadi, the long-contested capital of Anbar province, and evicted the Syrian army from the oasis town of Palmyra. At a meeting in Paris on June 2nd the Iraqi prime minister bemoaned the lack of American support. American surveillance drones, he said, were only "surveying one area at a time, but IS is mobile." The jihadists' recent victories may reflect the weakness of their enemies on the ground but they give the caliphate an aura that will attract recruits. That nearly a year of bombing should leave IS in such a position is an embarrassment for Mr Obama.

Iran openly mocks America's timidity. "Obama hasn't done a damned thing" in Ramadi, said Qassem Suleimani, the head of the Quds Force, which runs Iran's numerous foreign operations; only Iran and its militia clients were willing to fight IS.

Yet it is on the possibility of a deal with Iran that Mr Obama's best hope for a positive legacy in the Middle East lies. Under the terms of April's "framework agreement" on Iran's nuclear programme, the Islamic republic's capacity to enrich uranium and produce plutonium will be curtailed and subjected to unprecedented monitoring in return for the lifting of sanctions. The capacity constraints, though not the inspection regime, would ease off after a decade. Iran says it with then greatly enlarge its programme, bringing its "breakout time" (the time needed to produce enough fissile material for a single bomb) down from the year or so that the deal is meant to guarantee to weeks or days.

Mr Obama sees the deal, due to be finalised at the end of this month, as making good his promise to curb weapons of mass destruction. But it upsets old allies. Israel's prime minister, Binyamin Netanyahu, has openly agitated against it, aggravating relations with Mr Obama already strained by rows over settlement-building and the lack of progress on a Palestinian peace deal. White House officials now say America might no longer block all UN resolutions that Israel dislikes.

And the Arab monarchies are aghast at the prospect of an Iran free from sanctions stirring up even more trouble. At a summit in Camp David last month, the leaders of the six-member Gulf Co-operation Council did not get the American commitment to contain Iran that they wanted. Mr ▸▸

Obama reassured them about America's readiness to defend them against a direct attack; but behind closed doors he told them the likelier threats were internal, and "asymmetric" prodding by Iran, for instance on the safety of shipping lanes.

The allies' worries are not helped by Mr Obama's mixed signals. Sometimes he presents the nuclear negotiation as a transaction with which to secure a specific arms-control goal; at other times he talks of the possibility of a broader rapprochement with Iran creating a "new equilibrium" in the region. Some critics suspect Mr Obama wants to align America more closely with Iran. But for Jeremy Shapiro, a former State Department official, now at the Brookings Institution, a think-tank, "the Iran deal is not an attempt to get into bed with Iran; it is an attempt to get out of bed with Saudi Arabia." He argues that America's dependence on Gulf oil has diminished, and the price has become less sensitive to political crises in the region (see chart). If the threat of an Iranian nuclear bomb is set aside, says Mr Shapiro, America could disengage more easily, relying on a lighter military presence to keep the Gulf's sea lanes open.

But if America retains an interest in the region's overall stability, such disengagement would not serve it well. Even if a deal strengthens Iran's doves, its hawks may either try to sabotage the deal or demand greater latitude to expand their influence abroad as the price of acquiescence. On the evidence of the Saudi-led coalition's actions against the Houthis Iran supports in Yemen, nervous Gulf allies can be expected to react forcefully, even overreact, to perceived Iranian adventurism. They may, despite American entreaties, seek to develop a nuclear capacity to match Iran's; a deal to halt nuclear weapons proliferation may lead instead to the proliferation of nuclear-threshold states. And Israel makes no secret of the fact that another round of fighting with Lebanon's Hizbullah, Iran's main proxy, is only a matter of time.

In a recent book, "National Insecurity: American Leadership in an Age of Fear", David Rothkopf, the publisher of *Foreign Policy* magazine, sees a fateful symmetry between the policies of Mr Obama and his predecessor, Mr Bush. One president went too deep into Iraq, the next got out too soon; the first over-reached, the second under-shot; the Republican wanted to use American power to strike enemies everywhere; the Democrat often seemed to treat American power itself as dangerous. But whereas Mr Bush improved in his second term, writes Mr Rothkopf, Mr Obama has not learnt from his mistakes.

The way we were

Return to the centre

Few in Washington expect any change to Mr Obama's do-little policy in his final 19 months. So the city's myriad foreign-policy experts are busy drafting presentations and memos advising the next president on how far to swing back towards action. Opinion polls, which long gave Mr Obama a higher approval rating on foreign policy than for his overall job performance, now give him poorer marks for his handling of the world, suggesting such a swing might be welcome.

Mr Obama's likeliest successors, including the Democrats' front-runner, Hillary Clinton, will want to be seen as more forceful. In the Republican camp there is one isolationist, Senator Rand Paul, who blames his own side's "hawks" for the mess in Iraq and Syria. The rest talk of doing more—much more in the case of Senator Lindsey Graham, who is calling for the deployment of 10,000 troops in Iraq (see page 26). Some Republicans have hinted that they would repudiate an Iran deal.

Between these positions, though, there is a centre ground that both Jeb Bush—who has said that, had he known in 2003 what he knows now, he would "not have gone into Iraq", as his brother did—and Mrs Clinton might well stake out. You can see it in the recommendations of a bipartisan group of foreign-policy panjandrums issued by the Washington Institute for Near East Policy: inflict large enough losses on IS to reduce its recruiting appeal; build up a moderate opposition in Syria with a haven from which it can "change the balance of power"; improve ties with Egypt as the starting point for rebuilding the states of the Arab world; and halt the fraying of relations with Israel.

The authors know the next president will operate under constraints. The budget cuts of the so-called sequester will limit Pentagon spending. Russian expansionism and Chinese muscle-flexing will demand attention and resources. The public will not want war. Tellingly, the authors say that American "ground forces are not the answer" to IS. They also accept that a nuclear deal "can provide the basis of an effective control regime", although it should be matched by clear American warnings about the consequences of cheating. If Sunnis are to be mobilised to confront IS, "Iran cannot be a putative ally".

The next president may well be warmer towards Israel, and more willing to turn a blind eye to new settlements in the occupied territories. He or she might do more to reassure Gulf monarchies and speak more sternly to Iran. In Iraq, special forces might be allowed out of their bases to help spot targets for air attack, and to stiffen Iraqi units. In Syria, a more robust effort to train a moderate force, if only to gain a place at the negotiating table, could be instituted. There might be no-fly zones of some sort.

Such moderate activism could do good—though it could also lead to reverses which, unlike Mr Obama's lost opportunities, are plainly visible. What it will not do is change the fact that the Middle East, still a vital source of energy and the cradle of great religions, is undergoing a profound upheaval. Discredited Arab states, many created out of the ruins of the Ottoman empire after the first world war, are collapsing in their turn. America cannot stop that. By taking an active role it may be able to help in the transition to some new, possibly better, arrangement, and to stave off the worst outcomes. But the process will still be bloody, and long-drawn-out. ■

Less shocking

Brent crude price 90 days before and after start of Middle East crises

Price at start of conflict=100

Sources: BP; IEA; Thomson Reuters; *The Economist*

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The Democrats

In two minds

BALTIMORE

New challengers to Hillary Clinton underline the party's weaknesses

A CURIOUS mixture of cockiness and angst grips Democrats as they contemplate the next presidential election season, which—dreadful to relate—is now under way. For their party is at once in a strikingly strong position, and has not looked so weak in years.

Start with the party's strengths. Hillary Clinton, the former secretary of state, senator and first lady, announced that the first big rally of her campaign for the presidential nomination would take place on June 13th, on an island off Manhattan. The event is certain to be packed out. Mrs Clinton is not just very famous; she enjoys poll leads over every Republican thought to be running for the White House (a pack that looks like growing to 16 contenders).

Democrats now also know that Mrs Clinton will face a contest for the Democratic presidential nomination, allowing her to hone her campaign skills and messages. On May 30th Martin O'Malley (above), a telegenic, guitar-playing former governor of Maryland, launched a challenge to her. He spoke at a sun-dappled event overlooking Baltimore harbour, flanked by artfully chosen representatives of fast-growing voter blocs that twice helped Barack Obama to win the White House, including Hispanics, urbanites and young women. Mr O'Malley was introduced by a young, gay Afro-Latino student without legal immigration status, who thanked him for supporting migrant rights and gay marriage in the state.

Nor are fans of economic populism forgotten. Activists have reluctantly concluded that their heroine, Senator Elizabeth Warren of Massachusetts, is not running, suspending their "Run Warren Run" campaign. But they are rallying to Senator Bernie Sanders, a snowy-haired tribune of the left who began his campaign in earnest on May 26th, and who has been wowing meetings in Iowa.

On paper, then, the party is well-placed to mobilise different elements of the Obama coalition. The so-far-declared Democratic candidates sound in near-lockstep on big progressive causes. All support gay marriage and the right to abortion. They believe that government must tackle climate change, and want millions of migrants currently in America without legal papers to be allowed to stay and eventually enjoy a path to citizenship.

On one day every four years, when the presidency is at stake, the voter blocs of that Obama coalition pose a daunting challenge to Republicans. Whit Ayres, a pollster advising Senator Marco Rubio, a Floridian Republican running for president, summed up the problem in a recent book: "2016 and Beyond: How Republicans Can Elect a President in the New America". Demographic groups that form the core of Republican support—older whites, blue-collar whites, married people and rural residents—are declining as a share of the electorate, Mr Ayres notes. In 2012 Mitt Romney, the Republican presidential candidate, picked up 59% of white votes. But he won just 17% of non-white votes. In 2016 America will be still less white, so that even if Republicans match Mr Romney's performance among whites, they will need 30% of non-white votes to take the White House—a feat the party did not achieve in 2012, 2008 or even in 2004, when George W. Bush, trading on his popularity in Texas, enjoyed the backing of Hispanics in his re-election.

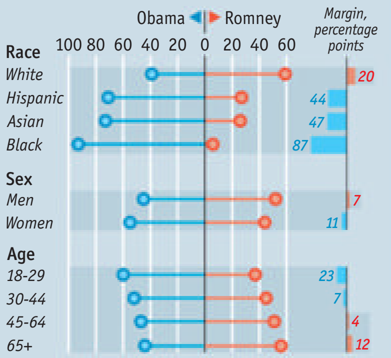
Yet Democrats have serious weaknesses, too. Put bluntly, Mrs Clinton is their only serious candidate for the presidency. The crowd at Mr O'Malley's launch was neither large nor confident that Maryland's ex-governor has any chance of overtaking Mrs Clinton. Indeed, many in attendance did not want Mrs Clinton stopped, instead expressing hopes that Mr O'Malley's entry into the race might simply tug the front-runner a bit to the left. Mr O'Malley drew most applause when he cited claims that big bank bosses would be happy to see Mrs Clinton or Jeb Bush, the former Republican governor of Florida (and a son and brother to presidents) win the White House. "Well, I've got news for the bullies of Wall Street," Mr O'Malley declared. "The presidency is not a crown to be passed back and forth by you between two royal families." The cheers were mostly venting: a CNN poll on June 2nd showed 60% of Democrats backing Mrs Clinton for the presidential nomination. Her nearest rival, Vice-President Joe Biden, was on 14%, though (especially since the death on May 30th of his son Beau) he shows no signs of running. Mr O'Malley was on 1%.

The CNN poll gives Mr Sanders 10% of the Democratic vote. But activists at Sanders rallies are indulging in a holiday from political reality when they cheer his calls ▸▸

Party patterns

Presidential election 2012

Percentage of each group that voted:



Source: *New York Times* exit polls

for state-run universal health care, free tuition at public universities and taxpayer-funded elections. That might be a fine platform in France. It is unserious in America (as is the proposal of Lincoln Chafee, a former Republican senator and independent governor of Rhode Island, who launched a Democratic presidential bid on June 3rd, to switch America to the metric system).

Mrs Clinton's dominance worries even supporters, who know they have few options if she stumbles, or is overtaken by scandals related to her family's charitable foundation or her use of a private e-mail server as secretary of state, to name just two possibilities. Weeks of news reports probing the finances of Mrs Clinton and her husband, Bill, have already left a mark. Two new polls show sharp falls in the number of Americans who trust her.

In part, Mrs Clinton's stature explains the Democrats' lack of a deep bench of swing-state governors or senators with eyes on the presidency. But in part their thin bench reflects a broader weakness in recent non-presidential elections. The reasons are complex. The Obama coalition includes many sporadic voters who skip state and local contests. Lots of Democratic votes are packed inefficiently into super-safe urban districts (many with gerrymandered boundaries). The results are simply brutal. In Washington Republicans enjoy their largest majority in the House of Representatives since 1946, while the elections of 2014 were a bloodbath for Democratic senators in conservative states. Republicans control 69 of 99 state legislature chambers, and 31 of 50 governors' mansions.

If Democrats are united by their strengths, and on how to woo the Obama coalition, they disagree about how to tackle their weaknesses and win back Middle America. Mr O'Malley and Mr Sanders propose a sharp left turn. Mrs Clinton, by contrast, has been cagey about her views on the policies that divide Democrats. She is right to be cautious. Many numbers favour her party; but many do not. ■

Domestic spying

A little sunshine

The modifications to the Patriot Act are modest but welcome

FOR just over a day, those who wish America's domestic security services could be hacked back to their state on September 10th 2001 got their way. On May 31st parts of the Patriot Act, the law which granted an increase in the government's powers of surveillance and detention, lapsed. On June 2nd the Senate met and passed the USA Freedom Act, which replaces and reforms a lapsed provision of the Patriot Act (no legislation in this area is complete without an Orwellian title).

Lawmakers largely avoided debate over sundry amendments, ensuring that the same bill passed by the House last month went straight to Barack Obama, who swiftly signed it into law. This was a blow to hawks such as Mitch McConnell, the majority leader and senior senator from Kentucky, who argue that the changes hurt national security. Before the final vote on the bill, Mr McConnell took to the Senate floor to lament that it will "take one more tool away from those who defend our country every day." It was also a knock for Rand Paul, the junior Kentucky senator, who led the opposition to renewing the Patriot Act and then to its modified version.

The new law will stop the indiscriminate harvesting of phone-call records by the National Security Agency (NSA), America's signals-intelligence branch. Under the revamped rule, call metadata records would be kept by phone companies, not the government. Federal officials will be required to request records using "a specific selection term" on the basis of "reasonable, articulable suspicion" that the call information is linked to international terrorism. Broad search terms, encompassing everyone in Ohio, or everyone on an AT&T plan, are out.

The law also contains changes intended to shine some light on the secret federal court established by the Foreign Intelligence Surveillance Act—better known as the FISA court. First, the law requires the government to declassify FISA court decisions that are deemed "significant". Second, the court must now appoint five *amici curiae* to advise it on matters of privacy and civil liberties when new "significant" cases come before the court.

Because of the nature of secret programmes, it is hard to weigh what effect the reforms will have on fighting terrorism. Apart from the spies themselves, nobody has much information on whether the NSA's powers under the Patriot Act were useful in hunting down bad guys. Many civil libertarians argue that the new law's constraints are still too loose. The new FISA court advocates, for example, will be hand-picked by the court and given only the information the court deems safe for their consumption. But it is still a step forward. The mere fact that the court will have to publish any significant ruling or interpretation of the "specific selection term" requirement brings some transparency to a system that has hitherto been opaque.

This helps explain why Mr Paul is drawing flak from civil libertarians. Most greeted the passage of the USA Freedom Act in the House with applause, believing it offered the best hope of attaching oversight to a lawlessly sweeping surveillance programme. For a man who has orated at length on the perils of government peering eyes, Mr Paul's defiance seems short-sighted. In using his posturing and filibustering to earn headlines and raise money, he probably did more for his presidential campaign than his cause. ■

The future's Asian

For decades, Mexicans have been the largest contingent in America's 41.3m foreign-born population. But the annual inflow has slowed dramatically. In 2013 Mexico was overtaken as the biggest source of new migrants by both China and India, according to the Census Bureau. In 2007, just before the recession, Mexicans made up 23.6% of all annual migrants. By 2013 more jobs at home and tighter border controls had reduced this to 10%, while China's and India's combined share rose to a quarter. These new migrants are even younger, and well-educated. Around a third of America's 1.1m foreign students are Chinese, and some 70% of H1B visas for highly skilled jobs go to Indians.

Annual immigrant flow into the United States

By selected country of birth, '000

Sources: Eric Jensen; Census Bureau

*Includes Hong Kong, Taiwan and Macau

Corruption in Illinois

Where's mine?

CHICAGO

A famous name is indicted in one of the nation's most corrupt states

"I WILL send a clear signal to everyone in our state…that business as usual is over. It stops now." Thus declared Bruce Rauner on January 12th in his inaugural address as governor of Illinois, one of the most mismanaged and corrupt of America's states. Illinois is burdened with the country's lowest credit rating and one of the highest numbers of federal public-corruption convictions. The day after his inauguration, Mr Rauner signed an order to improve ethics and accountability in the executive branch of government. It banned the "revolving door" by which state employees pass on to lobbying firms, tightened restrictions on gifts to state employees and expanded the required disclosure of their economic interests.

Only a few months later, on May 28th, the United States attorney for the northern district of Illinois announced that Dennis Hastert, a former Republican Speaker of the House of Representatives and a former congressman from Illinois, had been charged with lying to the FBI and numerous instances of "structuring": making cash withdrawals of just under $10,000 from several bank accounts to avoid reporting requirements He is alleged to have tried to hide the fact that he was paying someone $3.5m "to compensate and conceal prior misconduct" years ago. The indictment does not specify the misconduct, but leaks suggest that it involved his relations with a male student when Mr Hastert was a wrestling coach in Yorkville, a small town in Illinois.

Most people at first assumed Mr Hastert was indicted for the usual things, bribes and corruption, says Dick Simpson of the University of Illinois at Chicago. (Mr Simpson is the co-author with Tom Gradel, a consultant, of a book called "Corrupt Illinois".) After retiring from the House Mr Hastert held a lucrative job at Dickstein Shapiro, a lobbying firm, from which he resigned almost immediately after the indictment. In 2006 he made a $2m profit when he sold farmland in Illinois close to a proposed highway for which he had managed to get $207m in federal grants as Speaker of the House. Yet his alleged crimes seem to relate to a personal failing rather than the "pay to play" schemes that have stained his state's reputation for so many decades.

Illinois remains the country's third-most-corrupt state after New York and California, and Chicago is still the corruption capital of America, according to a report by Messrs Simpson and Gradel and others that was published on May 28th. With 45 public-corruption convictions in 2013, almost one a week, and 1,642 convictions between 1976 and 2013, the federal judicial district for northern Illinois reported more public-corruption convictions than any of the country's 92 other judicial districts. All this carries both a dollar cost and an intangible one, says Mr Simpson. He estimates ▸▸

The Supreme Court

Speak some evil

NEW YORK

The justices toss out a man's conviction for writing violent Facebook posts

ANTHONY DOUGLAS ELONIS may have won his Supreme Court case on June 1st, but no one would mistake him for Pennsylvania's most charming resident. When Mr Elonis's wife left him in 2010, he turned to Facebook to lambast her under the *nom de plume* "Tone Dougie". "There's one way to love ya, but a thousand ways to kill ya," he wrote. "And I'm not going to rest until your body is a mess, Soaked in blood and dying from all the little cuts. Hurry up and die bitch".

These online scribblings, among others, earned him an indictment under a federal law that prohibits "any communication containing any threat…to injure the person of another". Mr Elonis insisted that his posts were "therapeutic", not threatening, and that he was just emulating the graphic lyrics of Eminem, a rapper. The jury disagreed and sentenced him to 44 months in prison.

On appeal, Mr Elonis claimed the jury had been given bad instructions. As a result of being asked to consider whether "a reasonable person" would view his statements as threats, the jury had wrenched his words from the context of his innocent intentions. The Third Circuit Court of Appeals rejected this contention and upheld Mr Elonis's conviction.

In *Elonis v United States*, the Supreme Court reversed the appeals court. It was not enough, the justices said, for a jury to decide that reasonable listeners would interpret Mr Elonis's nasty words as threats. Chief Justice John Roberts wrote in the 8-1 ruling that "wrongdoing must be conscious to be criminal". "What Elonis thinks", he added, "does matter."

Here things get tricky. If a speaker purposely threatens someone, or knows that his statement "will be viewed as a threat", the court held, he could face conviction. But how low should the bar go? The state must now do more than prove that he should have known his post would scare somebody—ie, that he was negligent. But the court took no position on whether "recklessness"—knowing the words might frighten, and not caring—is enough to convict.

Justice Samuel Alito agreed to overturn the conviction, but criticised the chief justice for failing to answer this key question. Avoiding the issue, he wrote, "is certain to cause confusion" among lawyers and judges, who "are left to guess" what level of intent is necessary to nab someone under the law. The lone dissenter, Justice Clarence Thomas, would have upheld Mr Elonis's conviction. "Our job is to decide questions," he wrote, "not create them."

As long as they have no intention of hurting anybody, people should now feel safe posting even the vilest content on social media. *Elonis* won't clean up the internet, but it seems it will keep the feds off your Facebook page.

Or make enemies

the monetary loss from corruption to be at least $500m a year for Illinois. And the intangible cost is much higher, as companies avoid investing there because of the state's reputation and citizens fail to report corruption because they are used to it, and assume that officials always act that way.

Corruption in Chicago dates back to at least 1869, when city officials were paid for painting City Hall but used cheaper whitewash and pocketed the difference. As a rapidly growing industrial hub at the end of the century, the Windy City attracted immigrants from Ireland, Scandinavia and southern and eastern Europe. Because they faced discrimination in getting jobs, they organised themselves politically to gain power. Public office became a forum for jobs, contracts and helping friends and family.

The opportunity for corruption was far greater in Illinois than in Idaho or Iowa in the late 19th century, as Chicago was a big railway hub and the state was deeply involved in industry. This created a rotten political culture and a sense of entitlement, says Kent Redfield at the University of Illinois in Springfield, and it continues to this day. Four of the last ten governors of Illinois went to jail. Some cases of corruption were almost surreal. Rita Crundwell, comptroller from 1983 to 2012 of Dixon, the small town where Ronald Reagan grew up, operated what is believed to be the largest municipal fraud in American history by embezzling $53m of town funds to pay for her racehorse-breeding stables. Otto Kerner, a governor of Illinois in the 1960s, accepted bribes in the form of racetrack shares, a fact discovered only after a track owner deducted her bribes on her tax return as a cost of doing business. And mop-haired Rod Blagojevich, who as governor of Illinois had the power to appoint Barack Obama's successor in the state Senate after he was elected to the presidency, endeavoured shamelessly to sell the seat to the highest bidder, among other crimes for which he is still serving a 14-year prison sentence.

Many decades ago Mike Royko, a Pulitzer prize-winning journalist, ran a contest to design a new city seal for Chicago. He provided the highly appropriate motto, *Ubi Est Mea?*, Where's Mine? The winning entry came from a reader who drew a picture of an outstretched palm underneath it. (Mr Royko's own idea of what the seal might look like appears on the previous page.) The city and its state have made progress since but, according to Mr Simpson, it will take at least a decade and at least eight stages of reform to end corruption in the place. Among his proposals is the public financing of political campaigns and the introduction of civic education in schools. In May the state's legislators passed a bill that requires all high-school students to do a term of civics in order to graduate.

On that subject, however, on June 1st, Barbara Byrd-Bennett, the head of Chicago's Public Schools (CPS), resigned in the midst of a federal investigation. The feds are looking into a $20.5m no-bid contract awarded by CPS to the SUPES Academy, a company that used to employ Ms Byrd-Bennett, for providing "leadership-development services" to the city's cash-strapped public schools. Some leadership, and some development.

Meanwhile, Mr Hastert will appear in federal court in Chicago on June 9th. He is expected to enter a plea bargain. If it comes to a trial, salacious details are likely to be revealed. Either way, it will be a sad end to the career of a man who was partly chosen as Speaker in the wake of Bill Clinton's impeachment because, people thought, he had no skeletons in his closet. ■

Homelessness

Nipped in the bud

NEW YORK

Paying to keep people in their homes can sometimes save cities money

BELGICA explains in Spanish why she is getting kicked out of the small two-bedroom apartment she shares with her two children in the Bronx, in New York City. Her husband was sent to Rikers Island jail in February, the same month that she lost her job at a local restaurant. She now owes nearly $5,000 in back rent, for which her landlord is hauling her to court. As Belgica tells her story, her hands rest uncomfortably on her swollen belly: her third child is due in a matter of days.

If Belgica loses her home, she and her children will probably end up in a homeless shelter. This would cost the city a bundle. By law, New York must provide emergency shelter to anyone who needs it, at more than $100 per night for a family. Families then linger for around 415 nights, on average, as placing them in new homes is both costly and difficult (landlords dislike tenants who have been evicted). When children become homeless, the secondary costs are higher, as studies show they are more likely to enter foster care, drop out of school and wind up in jail. With around 60,000 people now in shelters, up from about 38,000 in 2010 (see chart on next page), the city is spending over $870m a year on emergency beds alone.

So it makes sense to keep people like Belgica in their homes, and this is exactly what New York is trying to do. Bill de Blasio, the city's mayor, recently pledged an extra $100m in the 2016 budget to cover new rent subsidies and provide legal help to fight evictions, among other benefits. The city has also doubled to $42m the budget for a programme called Homebase, started in 2004, which offers specialised services to people on the verge of eviction. For example at BronxWorks, one of 23 Homebase outposts, a caseworker will help pay off Belgica's debts and contest her eviction in court. She will also get financial counselling and, in a few months, some job training. Of the 16,000 families taken on by Homebase caseworkers this year, ▸▸

New York's mayor, centre, inspects the new facilities

Needing a bed

People in homeless shelters in New York City each night, '000

Source: Coalition for the Homeless

95% are still in their homes. It pays off; Abt Associates, a consulting firm, has found that for every dollar Homebase spends, the city saves $1.06 in shelter expenses.

Sometimes an emergency grant of $1,000 makes all the difference. Because over a third of New Yorkers spend more than half of their income on rent and utilities, unexpected expenses, such as an illness or a car accident, can wreck an entire budget. Between 2002 and 2014 the percentage of families entering shelter after being evicted nearly doubled to 32%, according to the Coalition for the Homeless, an advocacy group. With more poor people doubling up with friends and family (a nearly 4% rise from 2012 to 2013, according to national census figures), some clients simply need help getting along better with their mothers.

But for a programme like Homebase to be cost-effective, the city has to make sure it is reaching the people who are most likely to enter the shelter system. The biggest indicator of future homelessness is past time spent in a shelter. Applicants with limited education, young children and a history of moving around also ring alarm bells. Screeners now subject every candidate to a questionnaire that calculates a risk score, which has helped improve the targeting of resources by 26%, according to a study by Marybeth Shinn, a professor at Vanderbilt University who studies how to prevent and end homelessness. Homebase also plots the addresses of people who are either destined for housing court or applying for shelter, allowing them to be contacted before they are on the street.

Homebase is the biggest homelessness-prevention programme in the country, but other cities have been trying similar schemes. This approach is especially popular in places with high homelessness rates and mandatory-shelter laws, such as Massachusetts, which offers emergency grants of $4,000 to struggling families. In Hennepin County, Minnesota (around Minneapolis), where about half the state's homeless people live, a new pilot programme has found that simply checking vulnerable families every few months can reduce shelter use by 20%. In Washington, DC, where the homelessness rate is nearly seven times the national average, the new mayor, Muriel Bowser, is drawing up a plan informed by Homebase.

Critics of such programmes say it is foolish to divert resources away from people who are already homeless. Defenders claim that modest, well-targeted interventions keep shelter beds free for the most urgent cases. "The closer you get to the shelter door, the more expensive the intervention," says Melissa Mowery of CAMBA, a Homebase operator in New York. Now that the number of Americans who spend more than half their income on rent has risen by 49% since 2003, according to the Department of Housing and Urban Development, this seems a lesson worth spreading. ■

FAO Schwartz

Too much fun to make money?

FIFTH AVENUE, NEW YORK

A city icon closes down

MORE adults than children queued for their turn on the "Big Piano", a giant floor keyboard, in FAO Schwarz, America's oldest toy shop, on June 1st. A couple of millennials half-heartedly tried to play "Chopsticks", before deciding to skip instead along the enormous keys. Someone else made a valiant effort to play a few bars of "Heart and Soul". Both the songs and the piano featured in the film "Big" starring Tom Hanks, which helped propel the shop to global fame. Nearby, a little boy was building and customising his own toy car, with assistance from the shop's "mechanic". Downstairs other customers were picking out eyes and noses for their personal Muppet puppet. Red noses had sold out. A large clock played "Welcome to Our World of Toys", the shop's theme song.

The clock will not play the song much longer. FAO Schwarz will close its doors on Fifth Avenue next month. Even for New Yorkers, well accustomed to change, the news has been a shock. The shop's owner, Toys "R" Us, announced it was giving up its lease nearly two years early to save money, with no definite plans to open anywhere else. It remains committed to the brand, it says; but not to that building, in that place.

FAO, as locals call it, has had a presence in the city since 1870. Its current spot, near an Apple Store, Bergdorf Goodman, the Plaza Hotel and Central Park, is the most expensive retail space in the world, at $3,500 per square foot ($37,700 per square metre). But although millions of people visit the store each year, most of them tourists, few end up buying anything. They go for the experience and then buy elsewhere, more cheaply: typically on Amazon or at Walmart.

Unlike other toy shops further downtown, such as the Lego Store or American Girl Place, FAO never worked out a way to monetise the fun of going there, which was thrilling even for adults. The three-storey shop was—still is—more like Toyland or Santa's workshop than a place of business. Life-size Lego figures of Star Wars characters, giant cuddly snow-leopards and a nursery full of baby dolls seem designed to enthrall, not sell. Children of all ages are encouraged to play with the stock. As Chris Byrne, a toy-industry analyst, concluded, "Maybe they should have charged admission."

The (almost) last changing of the guard

Lexington | Why Lindsey Graham matters

A long-shot for 2016 shows how to talk about immigration

THE really inspiring thing about Senator Lindsey Graham of South Carolina, who on June 1st announced a bid for the Republican presidential nomination, is "his message that the whole world is going down the tubes". That was the slightly bleak endorsement offered by Stephen Young, a retired business-owner looking on when the senator launched his campaign in Central, the blink-and-you-miss-it country town where he grew up.

Mr Graham's ability to project gloom about American weakness in a nasty world resonates with a lot of folks, Mr Young and his wife Linda explained. More important, the couple hopes that the senator's hawkish foreign-policy views rub off on Republican rivals, because they do not actually believe that their hero can win his party's nomination. "We're with him all the way," Mr Young beamed, before adding: "It may be a very short run."

There was a lot of that sort of double-edged praise in Central. Mr Graham offered rhetorical red meat to fans gathered in front of the tiny former pool hall and bar where his parents brought him up. He thundered that "radical Islam is running wild". He charged both President Barack Obama and some Republicans with wanting to disengage from the world, rather than heeding Ronald Reagan's doctrine of "peace through strength". His audience, full of snowy-haired pensioners and flag-clutching military veterans, cheered. Yet an unscientific straw poll found just one person who believed that the senator could win the Republican primary in South Carolina, let alone his party's nomination. A broad consensus was that Mr Graham was a fine man doomed by his habit of working with Democrats on issues such as immigration.

Many in Central placed themselves to the right of the senator on the subject of the 11m people thought to be in the country without legal papers. Since being elected to the Senate in 2002, Mr Graham has backed several immigration bills that would bring such migrants from the shadows and offer a path to citizenship. He was accused of proposing a "Grahamnesty" for illegal immigrants, and more than once hardliners mounted primary challenges for his seat. Each time Mr Graham survived, beating back Tea Party types who call him an establishment sell-out and libertarians who think him a war hawk (his best friend in the Senate is another interventionist, John McCain).

On a national level Mr Graham barely registers in early presidential polling. Yet fans at the Graham launch were only half-right when they call him a long shot for the White House, whose distinctive role will involve speaking out on foreign policy. He is a long shot. But the Republican field is full of security hawks quoting Reagan. Though it might seem paradoxical, Mr Graham's really distinctive contribution could involve teaching more timid rivals how to advance sensible views on immigration, without being driven from office by the far right.

Mr Graham's survival in South Carolina offers several lessons. The first is that even deeply conservative places are not monolithic. South Carolina peach-farmers, for instance, are both powerful and desperate for migrant labour, because their delicate fruit cannot be picked by machine (and locals dislike the work). In recent years some evangelical Christian pastors have joined business leaders in publicly backing immigration reform, citing biblical injunctions to welcome strangers and preserve families. Most voters in South Carolina hate the idea of rewarding law-breakers. But most also know that 11m people cannot be rounded up and deported without turning the country into a "concentration camp", says Dale Sutton, a Southern Baptist pastor who has spoken out for reform. Thus they know that some sort of compromise is unavoidable.

A second lesson is that Mr Graham has never run from his beliefs, being certain that voters hate hypocrisy more than a difference of opinion. That makes him both braver and cannier than such rivals as Jeb Bush, a former governor of Florida who is also expected to run for the presidency. In 2012 Mr Bush supported a pathway to citizenship for undocumented migrants, then in 2013 called the granting of citizenship an undeserved "reward" for bad conduct. More recently Mr Bush has started saying that migrants need a path to some kind of legal status, "not necessarily" involving the status of citizen. Mr Graham shuns such flip-flopping. Without any chance of citizenship, millions would be left living out their lives as "the hired help", he told USA *Today* in May. "That's not who we are."

Bolder and blunter

Mr Graham is more outspoken than another rival for the presidential nomination, Senator Marco Rubio of Florida, who was a Senate ally on immigration until he faced a conservative backlash. Now Mr Rubio says that voters cannot tolerate even a "conversation" about legalisation until they believe the border is impregnable. Mr Graham calls Mr Rubio's "enforcement-first" stance impractical. Comprehensive immigration reform cannot be done by one party alone, he has told interviewers: and Republicans will struggle to win the White House if they continue to sound hostile to Hispanic voters. Yet in Mr Graham's (persuasive) analysis, congressional Democrats will never give Republicans what they want on border security without knowing what is on offer for those 11m migrants in limbo.

Mr Graham's bluntness points to a final lesson. For a vocal minority of Republicans, his candour about immigration disqualifies him. But most voters weigh politicians in the round. Because they know the senator has very conservative views on foreign policy, gun rights, abortion and more, most Republicans in South Carolina forgive him when they disagree. That is probably not enough to sustain Mr Graham outside his home state, where he is more vulnerable to attacks based on sound-bites. But if he emboldens Mr Bush or Mr Rubio to face down the anti-immigrant hard right, he may yet do his party historic service. ■

Also in this section

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Brazil's economy

Eating greens

SÃO PAULO

Despite a sagging economy and a weakened president, the government is regaining its credibility on budget policy

PEOPLE who live in São Paulo say their restaurants are the equivalent of Rio de Janeiro's beaches: the main sites of recreation and refuge from the teeming city. These days they are emptier than usual. When they eat at home, *paulistanos* are switching from beef to chicken and vegetables, which are cheaper.

This change in dietary habits is caused by the gloom that has enveloped Brazil for much of the past year. A recession is looming (see chart 1). The economy shrank by 0.2% in the first three months of 2015, and by 1.6% between that period and the same quarter a year before. Employment and real incomes are contracting (see chart 2); interest rates and inflation are rising. The country feels leaderless: the president, Dilma Rousseff, has been weakened by a mammoth scandal at Petrobras, the state-controlled oil company, as well as by the economy's dismal performance.

Sources: Credit Suisse; IBGE

And yet Brazil's embattled government is making progress. In particular, it is beginning to restore the economic credibility that Ms Rousseff squandered during her first term as president, from 2011 to 2014. She has given strong backing to her budget-cutting finance minister, Joaquim Levy. The Central Bank has turned serious about fighting inflation since she was re-elected in October. Brazil's obstreperous Congress, which is dominated by unreliable allies of the government and outright opponents, has so far not managed to thwart them. "This is Brazil under new management," says Marcelo Carvalho of BNP Paribas, an investment bank.

Mr Levy's top priority, to hold on to Brazil's investment-grade credit rating by cutting the budget deficit, came closer to realisation last week when Congress approved cuts to welfare spending, in particular to unemployment insurance and to survivors' pensions. This should save the government 8 billion reais ($2.6 billion) in 2015. Earlier he had slashed 70 billion reais from planned discretionary spending for 2015, the biggest such cut in history, and raised taxes, including fuel duty, which should yield 26 billion reais in revenues this year.

Mr Levy has not got everything he wanted. A bill to end costly payroll-tax breaks faces opposition in Congress. Legislators tacked on to the welfare reform an innocuous-sounding measure that would change how pensions are calculated for civil servants who retire early. It would double the government's pension bill to 15% of GDP in less than a decade, calculates Fabio Klein of Tendências, a consultancy. Ms Rousseff is expected to veto it.

Few analysts expect Mr Levy to hit his main targets, a primary surplus (before interest payments) of 1.2% of GDP this year and 2% in 2016. This year's surplus is likely to be little better than half what he promised, says Mansueto Almeida, a public-finances expert. But that may be enough to satisfy credit raters. The policy shift under Mr Levy has been bigger than expected, says Lisa Schineller of Standard & Poor's.

Financial watchdogs are equally impressed with Alexandre Tombini, the Central Bank's governor, who has not allowed the threat of recession to deter him from fighting inflation, currently above 8%. On June 3rd the bank raised interest rates by half a percentage point, to 13.75%. Mr Tombini's goal is to bring inflation down to 4.5%, the midpoint of the bank's target range, by next year. That may require further rises in interest rates.

In the near term, the diligence of Messrs ▸▸

Sources: Haver Analytics; CAGED; Morgan Stanley

Levy and Tombini will further empty São Paulo's restaurants. The economy is even weaker than it looks at first sight. Investment, already low by the standards of emerging economies, dropped for the seventh quarter in a row in the first three months of 2015. Household consumption fell for the first time year on year since Ms Rousseff's left-wing Workers' Party came to power in 2003. Without a reduction in imports, the annual decline in the economy would have been even bigger. Mr Levy has made most of his savings by raising taxes, which will depress today's growth, and by slashing investment, which will hold back tomorrow's.

Restoring credibility is not enough. Brazil must also get rid of "supply-side bottlenecks", noted Christine Lagarde, the IMF's chief, who visited Brazil in May. They include an enterprise-crushing tax system, inadequate infrastructure and antiquated labour laws. Brazil's new managers have barely begun to deal with all that. ■

Indigenous Canadians

Truth and consequences

OTTAWA

Making amends for "cultural genocide"

FOR more than a century, Canadian governments removed aboriginal children from their homes and put them in residential schools modelled on Victorian poor houses. Some 150,000 passed through 139 of these Dickensian establishments from 1883 to 1998. In the 1940s they housed nearly a third of aboriginal children of school age. Half were physically or sexually abused and around 6,000 died. Today Canada's 1.4m aboriginal people have lower incomes on average and higher rates of incarceration, suicide and disease than the general population. Those brutal boarding schools are part of the reason.

In 2008 a "truth and reconciliation commission" was set up as part of the settlement of a class-action lawsuit brought by survivors against the government and churches that operated the schools. The government has so far paid out C$4.4 billion ($3.5 billion) in compensation. On June 2nd, after seven years of sometimes excruciating testimony, the commission issued 94 recommendations. Together, they are meant to be a blueprint for reconciliation between non-aboriginal Canadians and the country's three indigenous groups, the First Nations (who are like native Americans in the United States), the Inuit and the Métis (mixed-race descendants of French settlers).

Britain instituted the policy of forced assimilation, which Canada's government continued after self-rule began in 1867. This tried to eradicate indigenous peoples as distinct legal, cultural and religious groups. The residential schools were part of that project, which the commission described as "cultural genocide". Canada eventually abandoned the policy; the constitution enacted in 1982 recognises indigenous rights.

The commission wants an ambitious programme of reparation, which goes far beyond damage caused by the residential schools. Many of its recommendations address how Canada teaches history. They call for revision of textbooks to reflect aboriginal groups' contribution to building the country, especially during the early years of colonisation, when European settlers needed their help to survive. This, and the later history of mistreatment, should be part of the curriculum in all primary schools, the commission says.

It calls on the government and churches to repudiate the "doctrine of discovery", a 15th-century notion, once endorsed by the Catholic church, that Europeans were entitled to colonise lands they found. Breaking with the doctrine would not reverse the expropriation of indigenous lands but it would, the commission thinks, help aboriginal people come to terms with it. The commission wants the government to improve welfare for today's indigenous children and to issue annual reports on aboriginals' economic and social conditions.

In 2008 Stephen Harper, the prime minister, apologised for abuse in residential schools, raising hopes that relations between aboriginal Canadians and their fellow citizens could be mended. The commission's chairman, Murray Sinclair, himself of aboriginal descent, is cautiously optimistic that Mr Harper will act on the report's recommendations. But experience argues against it. The findings of a royal commission on aboriginal affairs in 1996 were largely ignored. This time, says Mr Sinclair, "words are not enough." ■

Hello, assimilation

Crime in Latin America

Quickie kidnappings

CARACAS

As abductions get faster, the poor are being targeted along with the rich

TWO cars pulled up as a university student and her boyfriend were leaving a party in Caracas last December. Four men wrestled the student into one, her boyfriend into the other. "They drove around the city and negotiated with us over the phone while my daughter sat in the back seat," says the student's mother, Martha González, a teacher. The car never left Caracas; the abduction lasted just two hours. A ransom was agreed; Mrs González's daughter and her boyfriend were freed.

Classic kidnappings are elaborately planned, with rich victims and prolonged negotiations. If all goes well for the miscreants, large ransoms are paid at the end. In Latin America such set-piece kidnappings are increasingly outnumbered by swifter abductions with lower pay-offs. In Venezuela, where the number of abductions is rising, "express kidnappings" are the most common sort, according to the Venezuelan Violence Observatory (OVV), a think-tank based in Caracas.

Elsewhere, the total number of kidnappings appears to be dropping while the proportion of express abductions is probably rising. In Colombia the number of snatches dropped from 3,572 in 2000 to 277 last year, in part because the FARC, a leftist guerrilla group, has largely pulled out of the business. The value of ransoms has fallen in tandem, say police. In some Brazilian cities "lightning kidnappings", in which victims are nabbed and then forced at gunpoint to withdraw cash from multiple ATMs, are the most frequent type. That is also a problem in Ecuador.

As abductions have become faster and cheaper, the targets have expanded to include poorer people. Using a survey conducted in 2010, the OVV estimates that nearly 17,000 kidnappings took place over the course of a year in Venezuela (many

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more than official statistics record). Half the victims were poor, 47% middle-class and less than 3% were rich. "Anyone is a potential target, including the very poor," laments Andrés Schloeter, a councillor in the district of Sucre, one of the poorest in Caracas. Terra Firma, a security firm with a branch in the city, has noticed that kidnappings surge every two weeks, when most people get paid their wages, which suggests that the victims are working-class.

Quickie kidnappers are not master criminals. Unlike traditional kidnappings, with their drawn-out negotiations and dollar ransoms, a lightning abduction "does not require an extensive network", notes Mr Schloeter, just "a single delinquent with a weapon". Tougher law enforcement has weakened gangs in the Brazilian state of São Paulo, leading to a drop in big-ticket kidnappings, says the state's department of public security. What is left is the quick-and-dirty kind.

Economic hardship is one reason for the persistence of low-rent kidnapping. In Venezuela, where the economy is in a slump and foreign currency is scarce, fewer hostages can pay big-dollar ransoms, says a negotiator from Terra Firma. Some criminals even accept names of people who are *secuestrable* (kidnappable) as partial payment from their victims.

A bigger factor may be impunity. Many kidnappings are never reported. Victims' families often negotiate directly with the abductors, says Javier Gorriño, a Venezuelan criminologist and former policeman. That is partly because of well-founded fears that the police have connections to the perpetrators, or that the victims will be hurt if a rescue is attempted. With express kidnappings, the incentive to call in the police is even weaker. That keeps the snatchers in business. The rewards may be small, but so are the risks. ■

Bello | Mixing tequila and caipirinha

If only Latin America's two giants co-operated more

YOU can tell that a relationship is dire when one of the parties trumpets that it is being "reinvented" while the other urges that the couple shouldn't "turn their backs on each other". The first declaration came from Enrique Peña Nieto, Mexico's president. The second was made by Dilma Rousseff, his Brazilian counterpart, who was paying her first state visit to Mexico on May 25th-27th. The two promised a new start. They pledged to boost trade and signed agreements to facilitate investment and expand air links. And they toasted each other with Mexican tequila and Brazilian cachaça, the cane liquor used in caipirinhas.

Brazil and Mexico are the two giants of Latin America. Between them they account for more than half of the region's population, GDP and exports. And yet they have largely ignored each other. True, bilateral trade has doubled over the past ten years, but only to $9.2 billion a year; neither is among the other's top seven trading partners. When in 2012 Brazil found itself with a negative trade balance in cars under a free-trade pact, it tore this up and replaced it with a quota system.

Investment is an exception to the general coolness. Brazil is now second only to the United States as a destination for Mexican foreign investment. "There's no big Mexican firm that isn't in Brazil," says José Antonio Meade, Mexico's foreign minister. Mexico's investment of $23 billion dwarfs Brazilian investment in Mexico (of $2 billion), though that is now growing.

The presidents agreed to start talks in July on revamping their modest (non-car) trade agreement. The plan is to increase from 800 to 6,000 the number of items covered by the accord, broadening it to agriculture, services and government procurement. Ms Rousseff said she hopes bilateral trade will double again by 2025.

It is easy to be cynical about the visit. Both presidents head unpopular governments wounded by scandal. Some of their predecessors made similar promises of a new closeness that proved empty. In practice their countries often act as adversaries. Both fielded candidates to lead the World Trade Organisation (Brazil won). Brazil failed to back a strong Mexican for the top job at the IMF. They do not co-ordinate at the G20 group of leading powers; nor on climate change, about which both worry.

All this is because more has divided the two countries than united them. They are separated by language and distance (a non-stop flight between Mexico City and São Paulo takes almost ten hours). Above all, they have different views of the world and their places in it.

By joining the North American Free-Trade Agreement with the United States and Canada, which took effect in 1994, Mexico accepted that its economic destiny lies mainly to the north, not the south. It has embraced free markets and globalisation. It paid little attention to South America, at least until it joined Chile, Colombia and Peru in the free-trading Pacific Alliance in 2012. In international politics, Mexico remains a timid power: Brazil has almost three times as many diplomats.

Brazil has spent the past 20 years trying to build a South American bloc whose core is Mercosur, a protectionist would-be customs union. Its economic instincts are dirigiste and its foreign policy prizes "autonomy" (meaning from the United States). Recently, it has made the BRIC grouping that joins it with Russia, India and China a priority. "It's part of Brazil's foreign policy to exercise leadership in Latin America by exorcising Mexico because of its ties to the United States," says Andrés Rozental of the Mexican Council on Foreign Relations, a think-tank.

But Ms Rousseff, grappling with a recession, faces demands from Brazilian business to seek new markets. She has quietly put more stress on increasing trade. In response to the Pacific Alliance, she is seeking to speed up agreements under which Brazil's trade with Peru and Colombia will become tariff-free (it already is with Chile). She is due to visit Washington this month in an effort to improve fractious relations and talk business with the United States.

She spoke of a new "tequila-caipirinha axis" between Brazil and Mexico. Latin America would benefit were this to come into being, and not just economically. If its two big powers worked together, the region would be closer to co-operating on such problems as the flouting of democratic norms in Venezuela.

Yet Ms Rousseff's overture to Mexico looks to be part of a tactical shift, not a fundamental change, in foreign policy. And Mr Peña shows no real sign of abandoning Mexico's long habit of punching below its weight in the world. Tequila and caipirinha are both intoxicating but most people prefer not to blend them. ■

Also in this section

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Pakistan and China

Dark corridor

ISLAMABAD

Conflict in Balochistan must be resolved for a trade-corridor between Pakistan and China to bring rewards

DISGUISED in the uniforms of paramilitary police, gunmen checked the ID cards of the passengers of a Karachi-bound bus before slaughtering all those they considered not native to the western Pakistani province of Balochistan. A total of 22 Pashtuns were killed in the attack on an isolated road south of Balochistan's capital, Quetta, on May 29th. Responsibility was claimed by the United Baloch Army, part of a tangle of separatist groups in the province.

The insurgency began a decade ago and is now the most violent and long-lasting of five rebellions that have broken out in Pakistan's largest, most thinly populated and least developed province since the country's independence from Britain in 1947. That makes Balochistan, one of the most troubled areas of Pakistan, a surprising location for what officials hope will become one of the world's great trade routes, linking the deepwater port of Gwadar with the city of Kashgar, a trading hub in the western Chinese region of Xinjiang (see map). During a visit to Pakistan in April by China's president, Xi Jinping, it was announced that China would invest $46 billion by 2030 in new roads, the upgrade of existing ones, power plants, pipelines and other projects to fulfil this dream—far more than America has invested in Pakistan in recent years.

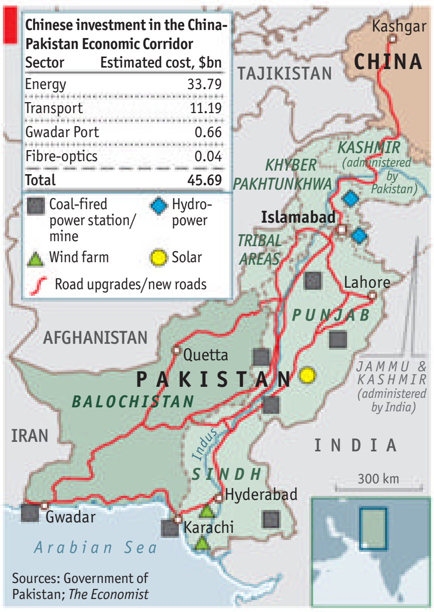
China hopes that the China-Pakistan Economic Corridor (CPEC), as it is called, will enable oil and gas from the Persian Gulf to be piped through Balochistan, over the Hindu Kush mountains, and into Xinjiang. Chinese goods would have a much shorter route to world markets than the one through the Malacca Strait, which China frets is at the mercy of America's navy.

China has pledged investment before in Pakistan that has not proved as large as promised. This time, Pakistani officials say that nothing, not even the treacherous topography of the border with China, will be allowed to get in the way. Recently a tunnel was completed around a lake 14 miles (23km) long that had submerged a section of the Karakoram Highway traversing the two countries' border. The lake was created by a landslide in 2010.

But Balochistan's turmoil is a good reason to doubt that Chinese investment will flow in quite the abundance suggested during Mr Xi's trip, at least not into that province. Despite evidence to the contrary—an attack by Balochs in January on the electricity grid knocked out power in 80% of the country, including the capital—officials dismiss it as a low-level insurgency run by infighting separatists whose ethnic group barely forms a majority in Balochistan. All will be fine, they say; thanks, not least, to the help of a 10,000-strong force that Pakistan promised Mr Xi would be set up to protect Chinese workers.

China, however, still worries. There have been occasional kidnappings and killings of Chinese workers in Pakistan in recent years, including in Balochistan. In March Baloch separatists attacked tankers carrying fuel to a Chinese company working on a mining project. Gwadar port, which was recently put under the management of a Chinese state-owned company, is a particular target. Militants do not want to see it developed unless Balochistan becomes independent. They fear that if it were ever to become a thriving port, then outsiders would flood in. That could weigh the province's demographic balance even further against Balochs.

Pakistan's previous attempts at pacifying Balochistan do not inspire confidence. Gung-ho generals intent on brutally suppressing the insurgency have succeeded only in intensifying it. The army rejects ▸▸



Chinese investment in the China-Pakistan Economic Corridor

Sector	Estimated cost, $bn
Energy	33.79
Transport	11.19
Gwadar Port	0.66
Fibre-optics	0.04
Total	**45.69**

Sources: Government of Pakistan; *The Economist* such charges: security in the province, it says, is in the hands of civilian-controlled police and the paramilitary Frontier Corps. These forces, however, have close ties with the army and intelligence services.

Since he took office in 2013, Pakistan's prime minister, Nawaz Sharif, has tried to encourage Baloch moderates. With his support, they took control of the provincial government that year and started a dialogue with the rebels. But the new government has found it difficult to persuade the security forces to curb their excesses. Hasil Bizenjo, a leading Baloch politician, says that although there has been a hiatus in the killing and dumping of the bodies of suspected militants, the problem of "forced disappearances" continues. He believes the army will only support a political dialogue for a few more months, after which it will fight the militants "in a big way".

Some Pakistanis believe the CPEC will help boost Balochistan's economy and thus restore stability. If they prove wrong, much of the trade it generates is likely to skirt most of Balochistan; more of it would flow through less-troubled Punjab. Baloch politicians believe the Punjabi establishment is hoping for just that outcome. ■

Rohingyas

Still in peril

SINGAPORE

Myanmar's repression of Rohingyas continues apace

CONFRONTED with haunting images of ships stuffed with desperate Rohingyas and Bangladeshi migrants floating helplessly in the Indian Ocean, and evidence that hundreds of other migrants' journeys had ended in mass graves in traffickers' camps in Malaysia and Thailand, South-East Asia's politicians did what they do best: they held a summit.

On May 29th representatives from 18 Asian countries, as well as Switzerland, America and several UN agencies, met in Bangkok where they produced expected statements of "grave concern" and calls to establish task forces, improve communication and boost data-sharing and co-operation among various law-enforcement agencies. Mercifully, Indonesia and Malaysia had already taken steps a few days earlier to ease the crisis, by agreeing to stop pushing boats with stranded migrants back to sea. The passengers would be given shelter until they could be repatriated or resettled. Nearly 3,000 have now been registered as having landed, but hundreds remain adrift at sea.

Still, the meeting produced some signs of progress. Not least was its being held at all: South-East Asian politics is notably conflict-averse, and meetings at which politicians discuss a source of regional shame in public are rare. Then there were the attendees: Bangladesh and Myanmar were absent from the earlier talks involving Indonesia and Malaysia, but they sent representatives to Bangkok. One participant said that the word Rohingya was used several times, even by delegates from Myanmar (ethnic Burmese tend to call Rohingyas "Bengalis", as a way of distancing Myanmar from the problem). The UN High Commissioner for Refugees and the International Organisation for Migration (IOM) were promised access to the migrants. America pledged millions to the IOM; Australia did the same for humanitarian aid in Myanmar. A joint statement called for "addressing root causes" of the exodus.

On shore at last

That is where things get tricky. Myanmar's representative to the meeting in Bangkok rejected a suggestion from a UN official that his country's treatment of the Rohingyas had prompted them to flee. But Rohingya migrants are indeed escaping ghastly mistreatment by the Burmese, who have corralled them into camps.

One week before the Bangkok meeting, Myanmar's president signed the Population Control Health Care Bill into law. This measure grants local authorities the power to mandate that mothers in areas deemed to have high rates of population growth have children no fewer than three years apart. Buddhist chauvinists in Myanmar have fomented fears of high birth rates among Muslims; this measure is likely to be used against Rohingyas.

Many worry about what may happen when the world's attention drifts. The trafficking networks may have been shut down for now, but as long as people remain desperate to flee they will re-emerge. Election season approaches in Myanmar. No Burmese politician has ever benefited by standing up for the Rohingyas. ■

Corruption in Indonesia

A damnable scourge

Jokowi's arduous task in cleaning up the government

AMONG the many slogans, songs, signs and banners that supporters of Joko Widodo chanted, sang and waved during last year's presidential campaign, one string of words encapsulated his appeal: "*jujur*, *bersih*, *sederhana*" (honest, clean and humble). Unlike both his opponent, Prabowo Subianto, and the president they were vying to replace, Susilo Bambang Yudhoyono, Mr Joko has a humble background. Jokowi, as he is best known, is the son of a timber collector who grew up in a flood-prone shack.

Unlike many Indonesian politicians, he had risen to power untainted by suspicions of corruption. As a candidate he promised to make government more transparent. But eight months into his presidency Jokowi is learning a hard lesson: condemning graft is a lot easier than doing something about it.

Indonesians of all stripes gripe about sticky-fingered officials. America's Commerce Department says foreign and domestic businesses in Indonesia regard corruption and ineffective courts as "serious problems". Transparency International, a watchdog, ranked Indonesia 107th out of 175 countries last year in its index measuring how corrupt countries' public sectors are perceived to be. That is worse than India, China and four of the ten countries belonging to the Association of South-East Asian Nations (ASEAN). It is not where a country arduously seeking to attract foreign investment wants to be.

One way Jokowi has tried to fight corruption is by removing opportunities. As governor of Jakarta, the post he held before assuming the presidency, he moved many government services online, depriving bribe-hungry bureaucrats of chances to extort backhanders. A move towards online procurement, which began under Mr Yudhoyono, has saved Indonesia billions of dollars. In May Jokowi urged local governments and state-owned enterprises that had not shifted to e-procurement to do so. It would not only make government more ▸▸

Missing map? Sadly, India censors maps that show the current effective border, insisting instead that only its full territorial claims be shown. It is more intolerant on this issue than either China or Pakistan. Indian readers will therefore probably be deprived of the map in the first story of this section. Unlike their government, we think our Indian readers can face political reality. Those who want to see an accurate depiction of the various territorial claims can do so using our interactive map at **Economist.com/asianborders**

accountable, he said, it could also save them billions of dollars.

Jokowi has also moved to clean up the oil-and-gas sector. In November he replaced the entire board of Pertamina, a state-owned oil-and-gas firm. In May the government decided to liquidate Petral, an offshore trading arm of Pertamina that has long been suspected of being controlled and plundered by Indonesia's "oil-and-gas mafia". Jokowi also appointed a former head of the Corruption Eradication Commission (KPK) to head SKK Migas, an upstream oil-and-gas regulatory agency whose former boss, Rudi Rubiandini, had been sentenced last year to seven years in prison for accepting over $1m in bribes.

The KPK, however, is struggling. Its trouble began in January when Jokowi nominated Budi Gunawan to head the national police force. Mr Gunawan is close to Megawati Sukarnoputri, a former state president and head of Jokowi's political party. In his appointment many saw Jokowi doing his political patron a favour. Soon after the nomination, the KPK declared Mr Gunawan a suspect in a bribery case.

As public pressure mounted on him to withdraw the nomination, Jokowi remained aloof, apparently wanting to damage neither his anti-corruption bona fides nor his relationship with Ms Megawati. After dithering for ages, he withdrew Mr Gunawan's appointment. Soon after the KPK named Mr Gunawan a suspect, the police identified Abraham Samad and Bambang Widjojanto, the KPK head and his deputy, as suspects in separate criminal cases. By law KPK commissioners must recuse themselves while under investigation (no such requirement exists for police who are suspects). The commission has therefore spent the past several months crippled. The police seem to believe they have effectively neutered the KPK: last week the chief of detectives refused to divulge his net worth to it, as he is required to by law.

The KPK and the police have often been at odds and no doubt will be again. But this particular fight will blow over. Last month Badrodin Haiti, whom Jokowi appointed as police chief in April (Mr Gunawan is now his deputy), ordered his force to obtain his permission before investigating KPK officials. Jokowi has named a nine-person committee (all women) to suggest candidates to replace KPK leaders whose terms end in December.

But doubts raised by how Jokowi handled the fight will linger. How many more appointments will he have to make at Ms Megawati's request, and what happens if the KPK starts investigating them? Incoming KPK commissioners may think twice about investigating the police. Jokowi has been globetrotting in search of foreign investment in his country's infrastructure. Many Indonesians wonder whether he has the resolve and political capital to allocate such projects fairly. Weeding out corruption will be a hard battle, but Indonesians elected him to wage it. ■

Badly positioned

Doing business and corruption perceptions
Country rankings, 1=best, 2014

Sources: World Bank; Transparency International

Politics in Japan

Right side up

TOKYO

A powerful if little-reported group claims it can restore the pre-war order

IT IS only 18 years old, and its name is innocuous—Nippon Kaigi simply means "Japan Conference". Yet as one of Japan's most powerful lobby groups it has a shopping list of nationalist, indeed blatantly revisionist, causes: applaud Japan's wartime "liberation" of East Asia from Western colonialism; rebuild the armed forces; inculcate patriotism among students brainwashed by left-wing teachers; and revere the emperor as he was worshipped in the good old days before the war. Far from crediting America's post-war occupation for bringing democracy, Nippon Kaigi's supporters say that the occupation, and the liberal constitution that sprang from it, has emasculated Japan. Oddly, the group receives little attention from the media in Japan, despite its strong and growing influence at the heart of government.

Nippon Kaigi has backroom clout, with over 280 local chapters, 38,000 fee-paying members and a network that reaches deep into the political establishment. A former chief justice was its last chairman. About a third of the Diet (parliament) are members of the group's parliamentary league, as are over half of the 19-strong cabinet of Shinzo Abe, the prime minister. Mr Abe is the group's "special adviser".

Its firepower is dedicated to making Japan a "normal country", says Yoshiko Sakurai, a leading supporter. Education must water down imported notions of Western rights and stress duties to the state and the emperor. The group says that the nation should rearm, stoutly defend disputed territories against China and scrap the constitution of 1946 which renounces war as a means for settling disputes. It says its aim is to reflect Japan's "true, original characteristics".

Nippon Kaigi has a formidable ability to mobilise. A decade ago it collected 3.6m signatures demanding reforms to the education law making it compulsory to teach children patriotism. Enacting a law with this requirement was one of the few things that Mr Abe accomplished in his first, inglorious term as prime minister from 2006 to 2007. Its members have consistently campaigned against anything that shows Japan's wartime aggression in a bad light—bombarding exhibitions on war crimes, for example, with petitions and phone calls.

Most of the group's current energies are aimed at getting signatories—10m is the target—calling for a national referendum on revising the constitution. It wants the removal of the pacifist section, Article 9, and supposedly traditional family values to be enshrined in it. A draft of a new constitution drawn up by the ruling Liberal Democratic Party (LDP) in 2012 reflects much of Nippon Kaigi's agenda. Ms Sakurai is one of the campaign's figureheads. This is a recognition by Nippon Kaigi, says Tomomi Yamaguchi at Montana State University, that changing the attitudes of women, many of whom admire Japan's long-standing pacifism, will be crucial.

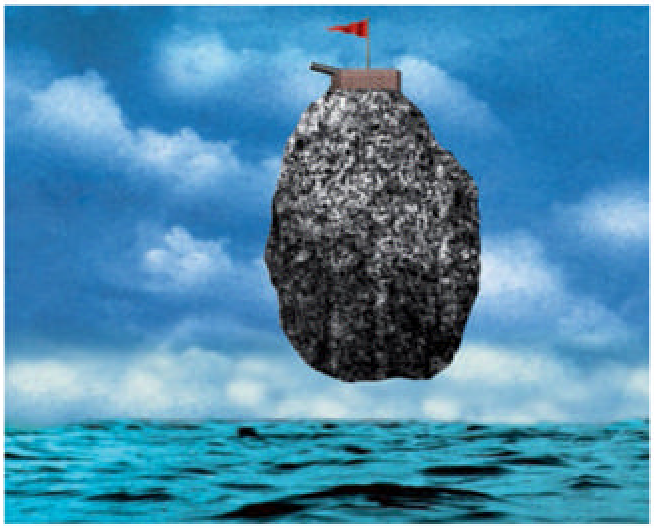
Nippon Kaigi gives nationalists in China and South Korea an excuse to claim that Japanese militarism is on the rise again. It wants Mr Abe to continue to visit Tokyo's Yasukuni shrine, which deifies Japan's war dead, including those who led the nation to war in 1931-45 with disastrous consequences not just for Asia but for Japan itself. It also rejects what its supporters call Japan's apology diplomacy. Nippon Kaigi is lobbying for Japan's admissions of war guilt to be reversed this year, the 70th anniversary of the country's surrender.

A closely allied group is the Shinto Association of Spiritual Leadership. From the late 19th century Shinto, Japan's oldest religion, was reinvented as a tool of state, serving as an ideology that helped mobilise Japanese to fight wars in the emperor's name. In 2007 lobbying by the association and Nippon Kaigi helped to persuade the government to make April 29th a national holiday in honour of Hirohito, the emperor of Japan during the war.

Even opponents are impressed at how reactionaries have quietly transformed the landscape of Japanese politics. Nippon Kaigi members, however, are frustrated over what they see as the slow pace of change. One of their aims in future is to help Japan find support for their causes from abroad and "build friendship with other nations". It is possible they may achieve the opposite. ■

Banyan | Whose splendid isolation?

In the dock for its aggressive expansionism in the South China Sea, China seems undeterred



THE Shangri-La Dialogue, an annual powwow in Singapore for Asia-Pacific defence chiefs, has begun to follow a pattern: America and its friends in Asia line up to criticise China for its alleged transgressions in the seas around its coast; China issues fierce, mendacious and unconvincing rebuttals; everybody goes home. Last year, China's crimes were its declaration of an Air-Defence Identification Zone (ADIZ) over an area including islands it disputes with Japan; and its dispatch of an oil-rig to drill in waters claimed by Vietnam. The row was vitriolic. This year, it has been building frantically in contested waters in the South China Sea. At Shangri-La, both the criticism and its response were more measured. But the disagreements seem even more profound and irreconcilable than a year ago, and China even more isolated.

Five of the six countries with claims to all or some of the reefs and islets in the South China Sea have built structures on them, often after reclaiming land. China, however, has taken this to unprecedented lengths. In his speech at the Dialogue, America's defence secretary, Ash Carter, said China had filled in over 2,000 acres (810 hectares), "more than all other claimants combined ...and more than in the entire history of the region"; and all in the past 18 months. He called this a "source of tension".

China argues that the sea is peaceful and stable—far from the kind of security threat the Dialogue should have been discussing. It insists its sovereignty is "indisputable", and that its building work is for the international common good: search and rescue; disaster; meteorology; conservation; and so on. But American officials believe otherwise. They say satellite pictures show that China brought two mobile-artillery vehicles to one of its man-made islands (though the weapons since seem to have been removed). It has also added harbours and, on one or two islands, airstrips. This has enhanced their military potential and, China presumably hopes, created evidence of its control and sovereignty. Mr Carter warned against "further militarisation" of the sea.

America takes no position on the sovereignty disputes, of which those with Vietnam and the Philippines are the most active. But like many other countries it is worried about "freedom of navigation": a huge chunk of global trade traverses the sea. To show the threat that this freedom is under, an American surveillance plane in late May flew close to the expanding islands, with a television-news crew on board. The Chinese navy told it repeatedly to go away. China's neighbours worry that eventually it will declare an ADIZ over these waters too.

Around the world, American forces sail and fly through areas of tension to prove that they have the freedom to do so. But such behaviour in the South China Sea infuriates China, which claims that freedom of navigation is not under threat. It has always objected to America's insistence that one such freedom is the right to send surveillance planes and ships up to the edge of China's territorial waters. This disagreement has led to incidents such as one in 2001 when a Chinese jet collided with an American spy-plane; and another in 2009 when America complained about Chinese "harassment" of one of its surveillance ships.

Another potentially alarming confrontation looms. Mr Carter demanded an "immediate and lasting halt" to the land reclamation by China and other claimants. China shows no sign of stopping, and it seems inconceivable that America would resort to force. But it is under pressure to go further in asserting its right to use the contested waters and airspace. Also at the Dialogue was a delegation of senators led by John McCain, who is chairman of the Senate's Armed Services Committee. Mr McCain said he hoped America would disregard any "territorial waters" China may claim around the man-made islands.

This is a complicated issue. China's claims are unclear. Its maps show a "nine-dash line" encompassing most of the sea. But under the United Nations Convention on the Law of the Sea (UNCLOS), sovereignty depends on the land. Countries can claim 12 nautical miles (22km) of territorial sea and 200 nautical miles of "exclusive economic zone" (EEZ) off the coast of their mainlands and habitable islands. Uninhabitable "rocks" get the territorial waters but no EEZ; rocks that are submerged at high tide have no waters at all. The status of the places where China is building is uncertain. It is clear that, pre-construction, they were not "islands"; but some may be rocks with territorial waters; some "low-tide elevations" with none. Only "natural" features count, however, and America does not want to give the impression a low-tide elevation can become a rock, or a rock an island, thanks to construction. Despite never having ratified it, America does adhere to UNCLOS. And though it is not clear who does own these rocks and reefs (America, as one naval officer jokes, is "pretty sure they're not ours"), the United States takes a keen interest in whether territorial lines have a basis in international law.

Don't be troublesome, please

The impression the Dialogue gave was of a world united in outrage at China's bullying in the South China Sea. But if America goads it with intensive surveillance around its maritime claims, China may succeed in portraying the United States as the trouble-maker. Moreover, China knows America itself does not want to ruin what both countries regard as a crucial relationship just to make a point about island-building. The two countries have their annual high-level get-together, the Strategic and Economic Dialogue, in Washington, DC, at the end of June; and China's president, Xi Jinping, is due for a state visit in September. Preparations for both events are on track, despite the bickering.

As for the complaints it endures at the Shangri-La Dialogue, China may simply respond by stepping up efforts to develop its own, friendlier, alternative: an annual meeting in Beijing called the Xiangshan Forum, "Asia's own platform for security dialogue". Interfering American officials are not invited. ■

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Civil servants

Who wants to be a mandarin?

BEIJING

Public service is less fun if you can't take bribes

GOVERNMENT jobs have long been prized in China. Most years new records are set for the number of people sitting civil-service exams. University students, for all their disenchantment with politics, have been flocking to join the Communist Party in the hope of getting a leg-up into the bureaucracy. Such a career has offered security and perks aplenty. The only drawback has been pitifully low wages. This month officials are to get their first pay rises in nearly a decade; even so, many are heading for the door. Students are showing signs of losing interest in the career. Civil servants are anxious.

The reason is President Xi Jinping's campaign against corruption, the most intense and sustained in the party's history. It has made it harder to trouser the bribes that have traditionally supplemented those meagre official salaries. Many civil servants now fear a knock on the door by agents of the party's anti-corruption department. In 2014 it punished 232,000 officials, 30% more than in the previous year. That was still only about 3% of officialdom, but the publicity surrounding these cases has compounded anxieties. Many officials are being taken, with their spouses, to learn a lesson by visiting their former colleagues in prison.

A Chinese job-search website, Zhaopin.com, reported that in the three weeks after the lunar new-year holiday in February more than 10,000 government workers quit their jobs to seek greener pastures, mainly in the finance, property and technology industries—an increase of nearly one-third over the same period in 2014. The company attributed this to a new emphasis on frugality in government work. Lavish meals are now banned (much to the chagrin of restaurants, which have suffered falls in profits). Governments are no longer allowed to build fancy offices for themselves. Stricter controls have been imposed on the size of ministers' offices and temperature settings in government buildings. The receiving of gifts and donations of cash, once common features of bureaucratic life, has become far riskier. Earlier this year an investigation revealed the diversion by the Shaanxi provincial government of 89m yuan ($14.4m) in disaster relief funds toward the construction of new homes for civil servants. Officials do receive housing benefits, but not enough to cover the kind of well-appointed accommodation to which they aspire.

Li Zhong, a spokesman for China's human-resources ministry, said in April that the report of an exodus was "unfounded". He acknowledged that some government workers were looking for work elsewhere, but he said this reflected a "normal flow of talent in the job market". But other numbers also suggest waning enthusiasm for a life of shuffling official papers. For the most recent annual exam for the national civil service, held on November 30th, there were 1.4m applicants, 110,000 fewer than the previous year. Of those, more than one-third failed to show up. There were 40 test-takers for each available position, the lowest ratio in nine years. As recently as 2010 it stood at 59:1. Recent opinion polls have found respondents born in the 1990s to be much less keen on civil-service careers than their elders.

In January the central government announced that the monthly salaries of civil servants would be increased by an average of 300 yuan—the first rise since 2006, starting at the end of June and with further rises every one or two years. State media trumpeted the increase as a hugely welcome and long overdue improvement for civil servants. But it will do little to boost the appeal of a civil-service job. The modest increases are on a base of monthly salaries below 1,000 yuan for the lowest-level village officials and 7,000 yuan for those at ministerial level. As one government adviser pointed out last year during a legislative session, this leaves the earnings of most government officials on a par with those of migrant workers. Offsetting the pay increases is a decision to end civil servants' exemption from contributing towards their pensions.

Some online commentators are far from sympathetic. Officials' salaries may be low, they note, but they are boosted by bonuses and subsidies. Others say that since so many officials spend their time reading newspapers, sweeping their office floors and waiting for work to find them, they do not deserve any more.

Such scepticism would make it hard for the government to copy the example of Singapore, whose bureaucracy the party admires, by offering high salaries that both attract talented people into the civil service and spare them the need to seek illicit income. One side-effect of the anti-graft campaign, and its revelations about crooked officials, is that public cynicism about officialdom is hardening. ■

Debt

The everything creditor

SHANGHAI

Bad loans for sale in online auctions

FROM shoes to furniture and cosmetics to cars, shoppers in China can find just about anything on Taobao, the country's biggest online marketplace. They now have one more category to choose from: distressed assets. Cinda, a state-owned bank set up to manage non-performing loans, will launch an auction on Taobao later this month of bad debts with a face value of 4 billion yuan ($646m)—backed by collateral such as bankrupt factories and even unused mines. As the economy slows, such debts are piling up. This innovative technique may help the state to offload some of them.

Bad loans in the Chinese banking system reached more than 982 billion yuan at the end of March, more than double their level three years earlier. Non-performing loans are only about 1.4% of the total on banks' books, reportedly. But this ratio would have been higher were it not for banks shuffling off their dud loans to Cinda and China's three other asset-management companies (AMCs).

Established 15 years ago, the AMCs were initially treated as an expedient way of cleaning up banks' balance sheets. Bad loans accounted for about a quarter of banks' assets at the time. The AMCs struggled to recoup much of their paper worth. But as economic growth surged, the assets increased in value (a bankrupt factory, for example, became a prized piece of real estate). So did the AMCs themselves. With the recent downturn in the economy, they have started to look for bad loans that might turn a profit. Last year Cinda bought some 149.5 billion yuan of distressed assets—two-thirds more than in 2013—from banks but also from property developers and industrial companies. It is now trying to recoup money from them, either by finding buyers willing to pay a higher price or by increasing their value through restructuring of the businesses.

The decision to sell some of the assets on Taobao, a website normally associated with consumer goods shipped in boxes, might seem odd. But Taobao, one of the main portals of Alibaba, China's e-commerce giant, has operated an auction platform since 2012 for assets seized by courts. That site features luxury cars, parking spots, rare tea and more. A few banks have used it to auction repossessed homes.

China is not alone in trying to sell bad debts online. In America, dedicated auction websites for troubled real-estate assets grew rapidly after the global financial crisis. But the size of the Taobao sales is unusual. Cinda ran its first Taobao auction of non-performing loans as a small trial in March. It sold debts owed by a steel mill for 20m yuan and those of a cleaning-supplies company for 4.4m. With that success, Cinda judged that the market was strong enough for a much larger offering. Its big auction of assets will begin on June 20th. China's other AMCs are expected to follow its lead by selling on Taobao as well. Savvy buyers should be able to find goodish debts at reasonable prices but also plenty of assets beyond salvation. They would do well to remember: caveat creditor. ■

Bad upturn

China's non-performing loans:

Source: Wind Info

A ferry disaster

Tragedy on the Yangzi

BEIJING

More than 400 people are feared lost in China's worst accident in years

IT APPEARS to have been the deadliest disaster on water in the 66-year history of Communist-ruled China, and the worst accidental loss of life during the tenure of President Xi Jinping. On the evening of June 1st the *Oriental Star*, a tourist ferry with 458 people on board—most of them old—capsized on the Yangzi river in what officials described as a tornado (the upturned hull is pictured above). By the time *The Economist* went to press, official media had reported the rescue of 14 passengers and crew (the captain and an engineer were detained). It was feared that the others on board were unlikely to have survived.

The stakes for any government are high when an accident this horrible occurs. In South Korea last year the poor response to the sinking of a ferry, which left 304 dead, severely tarnished the image of that country's president, Park Geun-hye. Following the Yangzi disaster, China's state media were quick to note Mr Xi's urgent instructions on the rescue. The prime minister, Li Keqiang, flew to oversee the effort.

The media have carefully controlled the flow of information—anxious, it appears, to prevent a speculative frenzy that might cast doubt on the government's competence or compassion. They have posted frequent updates on Chinese microblogs as well as in English on Twitter, which is blocked in China. But early updates came only from the Communist Party's most trusted news services. Other Chinese media have hewed closely to these accounts. Officials have restricted access by foreign journalists to the scene in the county of Jianli in Hubei province. Microblogs are being quickly purged of any critical comment.

Not much, however, has so far emerged that reflects badly on the government. Numerous online comments have appeared praising officials' efficiency—and even their transparency.

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African energy

The leapfrog continent

CAPE TOWN

The falling cost of renewable energy may allow Africa to bypass the carbon-intensive sort—up to a point

BRIGHTLY POLISHED mirrors flash light across the dusty khaki scrubland of South Africa's inhospitable Northern Cape province as they rotate slowly to follow the sun, producing electricity for 80,000 homes. The inauguration in March of this concentrated solar power (CSP) plant costing 7.8 billion rand ($640m) is but the crest of a wave of renewable energy projects sweeping across Africa.

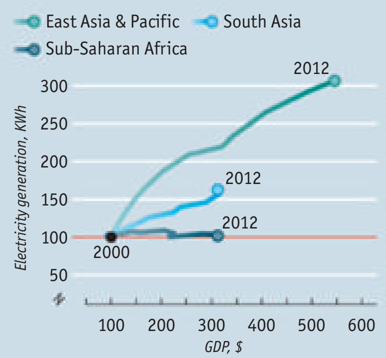
Projects such as these cannot come quickly enough for a continent starved of energy. In South Africa, where four more CSP plants are already being set up, the economy has staggered to a crawl in the first quarter of 2015 because of crippling power shortages. Across sub-Saharan Africa shortages of electricity are holding back economic growth by as much as 4% a year, reckons the World Bank. Businesses are forced to buy generators, paying 50 cents or more per kilowatt-hour, which is many times the cost of grid power.

It is not just energy-intensive industries that are stunted. So too are dairy farms in Nigeria (see next article) or even businesses that sell mainly brainpower. Ozioma Obiaka, the founder of TalentBase, a firm based in Lagos that provides payroll and other software to companies, says he often has to send employees home early because the power conks out.

Poor families are even harder hit. A new report by the Africa Progress Panel, a group of experts led by Kofi Annan, a Ghanaian who once headed the UN, reckons that more than 600m poor people do not have access to grid electricity. They may spend as much as 16% of their income on energy and pay up to $10 per kWh for fuels such as kerosene or disposable batteries for cooking and lighting: about 100 times more per unit than people in the richer world.

Reducing the number of people and companies without access to reliable grid electricity may require investment of as much as $55 billion a year, compared with current investment of about $8 billion, the panel reckons. Yet it is starting to increase. McKinsey, a consulting firm, reckons that generation capacity installed by independent power producers has increased at rate of more than 14% a year since 1992.

Powerless in Africa
Per person, 2000=100



Source: Africa Progress Panel

Much of the investment into new power is going into fossil fuels, such as coal or gas-fired generation. But an ever-growing share is going into renewable sources. In 2010-12 Nigeria's renewable power production posted the world's fastest growth, at more than 15% a year, according the World Bank's latest assessment.

Across Africa a relatively simple technology is reviving: CSP, which uses the heat of the sun to make steam and in turn electricity. Although it is chunkier than photovoltaics, which makes electricity directly from sunlight, it can store some of the heat and keep producing power for a couple of hours after the sun sets. Africa is leading the embrace of this idea: it hosts six of the ten biggest CSP plants being built around the world.

Big dams and hydropower offer even greater potential. McKinsey reckons they could provide about 15% of Africa's power by 2040 compared with a little under 10% from solar power. Ethiopia will increase its electricity production more than four-fold from 4 gigawatts in 2011 to 17GW by 2020. A large chunk of this will come from the Grand Ethiopian Renaissance Dam.

Although renewable energy in Africa will not overtake all fossil fuels, it will overshadow the dirtiest of them, coal, which now produces more than half the continent's power. That figure will probably shrink to 23% by 2040, says McKinsey.

What accounts for this sudden rise in renewable energy? One big reason is that Africa has some of the world's best untapped resources, such as huge rivers that are not yet dammed, sunny deserts and windy uplands. For years engineers have looked longingly at the Congo river where it plunges down the Inga falls, between Kinshasa, the Congolese capital, and the Atlantic ocean. This could be by far the world's biggest hydropower station, generating almost 40,000MW, 20 times what the vast Hoover dam in the United States produces. Now the World Bank is funding studies of how to dam it.

A second reason is that many renewable energy sources can be built quickly to meet immediate shortages. South Africa has added more than 4,000MW of renewable power to its grid in just four years, producing about 10% of the country's total energy. Many big coal-fired power stations have taken decades to plan and build and are still not producing power. Costs per unit of electricity from renewable sources have fallen almost 70% in South Africa as it has run successive auctions, offering to buy power from the cheapest supplier.

Another reason is the high cost of existing supplies in much of Africa. Though solar and wind power may not yet be cheaper than coal or gas, they are much cheaper than running a generator in the back yard. Netcare, a South African private-hospital group, is putting solar heating and electricity into 35 of its hospitals in the coming years to offset an increase of 160% in its energy costs since 2009. Renewable energy can also supply villages that are not connected to the main grid much more cheaply than extending power lines to remote areas, where connection costs run to several thousand dollars per customer.

This dash for renewables could speed up even faster. Prices for solar panels have dropped by more than half in recent years and should keep falling. Given the right regulatory environment and access to finance, Africa should leap ahead as one of the world's leading producers of clean energy—making the continent richer as well as greener. ■

Dairy farming in Nigeria

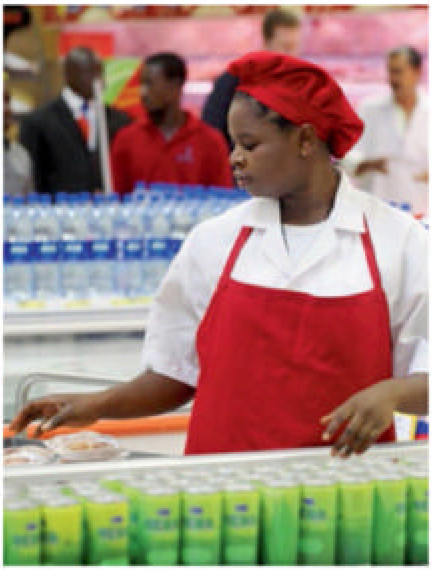
Uncowed

KANO

What the milk trade reveals about the country

FOR Muhammadu Abubakar, life is an uphill struggle. Farming in Nigeria is tricky at the best of times. Only the brave or the downright crazy would think of dealing in a perishable product like milk.

On his ranch on the dusty fringes of Kano, the biggest city in Nigeria's north, he faces a daunting array of problems. The electricity grid is hopeless. So, at the gateway, two generators splutter away 24 hours a day. Diesel sets Mr Abubakar back about 1m naira ($5,100) a month. "We've had two hours of power in three days," he says. "There's no option."



In search of pastures new

There are no good cows for sale nearby, so Mr Abubakar's company, L&Z Integrated Farms, plans to start importing its own. There are no good seeds for fodder; he brought in cuttings on a commercial flight from Kenya. There is no mains water, so he must drill boreholes to irrigate his fields. Fertile land has a tendency to turn to dust. He has to train his own staff to use complicated machinery. Plenty of batches get spoilt along the way. By the time it is processed, a litre of milk has already cost about 320 naira (£1) to produce.

Then the milk has to get to market. "Three or four years ago we used to fly our milk down to Lagos," he says. "It cost a fortune. The milk would spoil sitting in the airport. We had to pay off customs. It was a nightmare." Nowadays, the firm uses costly refrigerated trucks instead. Drivers must brave day-long journeys on disintegrating roads. Each truck requires about 200,000 naira ($1,000) in opaque licence fees every month. Even when those are paid, local authorities send thugs out to get more.

"They make you buy new paperwork," one trucker says. "We probably pay 3,000-4,000 naira (roughly $15-$20) every journey." When the milk finally arrives on supermarket shelves, it costs around three times what it would in Europe. Cheap long-life imports sell for less than half the price of local milk. Nigeria spends roughly $1m a day on imported milk powder, according to Sahel Capital, a private equity group which recently invested the same amount into Mr Abubakar's business in the hope of changing that.

Other types of farming are equally fraught. Nestlé finds it cheaper to bring starch in than to buy it locally. Olam, a Singapore-listed agribusiness, says that processing costs up to 30% more than in other countries. Mukul Mathur, who heads its Nigerian business, says that moving a container from Kano to Lagos costs as much as from Lagos to Osaka, though the distance to Japan is 13 times greater.

Agricultural reforms have begun in the past four years, including the introduction of new subsidies for smallholders. The arrival in Nigeria of foreign supermarkets such as Shoprite and Spar provides a guaranteed market for some growers. Domestic production appears to be rising, though Nigeria still has hardly any companies that add value to basic crops, for example by turning fruit into juice. And larger problems such as lousy roads, a shortage of finance and the insecurity of land tenure remain unchanged.

Until the 1960s, Nigeria was a net exporter of food. Now it imports $3 billion a year more than it exports. Agriculture contributes almost nothing to government coffers. As oil revenues plummet and foreign reserves dry up, this matters.

Mr Abubakar remains one of a depressingly small group of commercial farmers in Nigeria. Most of his dairy competitors, he says, are politicians who "can afford to sink money into it". Yet for all the difficulties he faces, he is struggling to meet demand. "We are making a very good profit," he says. "If you can do that with milk, you can do it with anything." ■

Qatar's migrant workers

Still slaving away

DOHA

A year after a vow to improve the lot of foreign labourers, little has changed

SO NUMEROUS are the controversies surrounding Qatar's hosting of the World Cup in 2022 that there is a 3,000-word Wikipedia page dedicated to them. Since it was chosen in 2010, many have wondered how the tiny country with no football culture and a sweltering climate won the right to host the sport's most prestigious tournament. As the Americans and Swiss probe possible corruption in the bidding process, and with the resignation of Sepp Blatter as president of FIFA, football's governing body, there is now much talk of taking the World Cup away from Qatar.

The Qataris have dismissed the speculation. They claim already to have been cleared by FIFA and hint at a terrible fallout if the first Middle Eastern host is replaced. So thousands of migrant workers continue to build stadiums. Their treatment, more than any other controversy, should provoke outrage, say human-rights groups. In total the emirate hosts 1.5m migrants who toil under a system that has been compared to slavery. In May 2014 Qatar promised reforms to protect labourers. But over a year later, little has changed.

At the heart of the abuse is the *kafala* system, under which local employers sponsor migrant workers, generally from poorer countries such as India, Pakistan and Nepal. They are thus allowed to enter Qatar, but prohibited from changing jobs or leaving the country without their employer's permission. Many owe money to unscrupulous recruitment agents back home. Desperate for cash and lacking leverage, they are often forced to work long hours in unsafe conditions. Employers have also been accused of withholding wages, confiscating passports and cramming workers into filthy dormitories.

Abdullah bin Saleh al-Khulaifi, the minister of labour and social affairs, says he is "90% hopeful" that the *kafala* system will be replaced by the end of the year. The new system would rely on employment contracts lasting up to five years, after which employees could change jobs. Workers would also be given more freedom to leave and return to the country. But few other proposed reforms have actually been implemented. A requirement that wages be paid into designated bank accounts, due in August, may be delayed and will not cover those paid in cash. Even with the reforms, employers will still have considerable sway over workers.

Housing is one area where the government has made progress. Qatar is building seven new "cities" to house 258,000 migrant workers. The largest, Labour City, boasts spacious dormitories with air-conditioning, as well as a 24,000-seat cricket stadium. The number of housing inspectors is increasing. But so is the migrant-labourer population, which is expected to reach 2.5m by 2020. If Qatar loses the 2022 cup, though, that could change. ■

Dubai's economy

Growing up

DUBAI

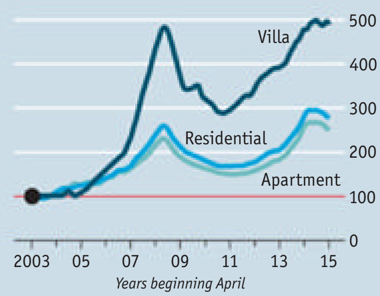
The Gulf state's expansion is more sustainable than its previous boom

TRAVELLERS flying into Dubai often look down and marvel at the man-made islands with the luxury villas. These outlandish creations came to symbolise the emirate's economic boom in the mid-2000s—and the crisis that followed in 2009, when it needed help to pay its debts, many related to property development. But once on the ground, travellers see signs of a more sustainable prosperity. The airport is bustling—more international travellers use it than any other.

Dubai has bounced back from the crisis, which saw its economy contract by around 2.5% in 2009. It is expected to grow by around 5% this year, as it did last year. The question is whether it has found a more solid underpinning for its growth. There are reasons to worry. Property prices reached a new peak least year (see chart), raising concerns that the market was again overheating. But along with the airport, Dubai's commercial areas and seaports are also buzzing. These are signs of growth, and also maturity, say analysts.

The rebound

Dubai sales price index, 2003=100



Source: Reidin

Dubai long ago used up most of its oil reserves, so the government has for years tried to diversify the economy. While skyscrapers and palaces grabbed headlines, this less glamorous work has slowly paid off: Dubai is now a regional hub in several areas. The airport, which already serves some 70m travellers a year, is set to expand to serve over 200m, eventually. Emirates, the local airline, is world-class. The port at Jebel Ali is by far the busiest in the Middle East, the cargo it handles growing by nearly 12% last year. It is likely to become the biggest container port in the world by 2030.

Three decades ago Jebel Ali became the Middle East's first big "free zone" (a place where foreign firms can operate, unusually, without a local partner and with less red tape and lower taxes than in the rest of the emirate). Now it is the world's largest, and Dubai has 22 such zones in total, most based around particular industries. Dubai's free zone for finance even has its own judicial system, based on common law. The number of companies in it grew by 14% in 2013 and 18% last year, to reach 1,225. More growth is expected, with $1 billion worth of new development planned.

As the economy has rebounded, so too have property prices, which had plunged during the crisis. They surged in 2013 and 2014. But the government has taken steps to prevent another bubble, for instance by capping loan amounts and imposing new rules on flipping. These measures, along with an increase in the supply of housing and the low price of oil, have cooled the market. Prices are now falling and analysts think they could drop by 20% in some areas. Some are happy to see a potential bubble deflated.

The government-run companies that nearly sank the economy in 2009 have repaid or restructured most of their debts, often by extending maturities. "It is supportive of investor confidence that Dubai's debt burden has become more manageable," says Trevor Cullinan of S&P, a ratings agency. Most of Dubai's investors are from the region. Surrounded by volatility, many see it is a haven for their cash. Some, like the rulers in Abu Dhabi, a fellow member of the United Arab Emirates (UAE) and Dubai's saviour in 2009, also have a political stake in its success, and so have tolerated a remarkable lack of transparency. Dubai's bonds, though popular, are not rated. It is not even clear how much public-sector debt it is carrying, or when it comes due.

Another worry has to do with UAE citizenship, which is difficult for foreigners to obtain. Expats make up around 85% of Dubai's population of 2m—and nearly all of its workers. Most residents, therefore, have little interest in laying down roots. Many ditched their cars at Dubai airport on their way out of town in 2009. Locals, meanwhile, play a small role in the economy.

Still, many more foreigners are expected. Planners expect Dubai's population to reach around 3m by the time it hosts the World Expo in 2020. The Chinese are increasingly using it as a logistical hub for their African ventures. Dubai also stands to benefit if sanctions are lifted from Iran, with which it already has strong economic ties.

As it grows, the government hopes to avoid new white elephants. But it is bad at saying no to flashy projects. Earlier this year a state-owned firm announced plans to build the world's largest Ferris wheel, on yet another artificial island. ■

Getting beyond the glitz

Egypt's demography

The too fertile crescent

CAIRO

The challenge of Egypt's rising fecundity

MOTORISTS stuck in the traffic on Cairo's Salah Salam highway need only look up for a clue to one cause of their misery. Looming above the road, a red digital ticker on the wall of the statistics agency displays Egypt's population in real time: over 88m people, and counting. During one ten-minute jam in April the number went up by 21, tweets an aghast driver.

Population growth in the Middle East, though higher than everywhere but sub-Saharan Africa, has been slowing thanks to falling fertility rates, the measure used by demographers for the number of children a woman is likely to have. But after 50 years of decline, the fertility rate in Egypt, the region's most populous nation, is now back up to 3.5. That is lower than in Iraq and Yemen where it is over four, but above Saudi Arabia and Iran, which with 77m has the second-largest number of people in the region. Since infant mortality is falling and life expectancy increasing, the population will surely start growing faster.

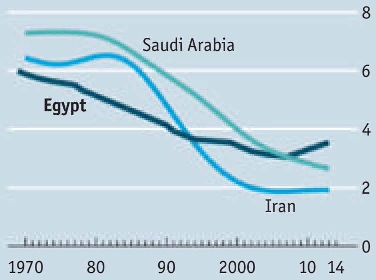
That would be "catastrophic", says one researcher in Cairo. By 2050 the UN thinks Egypt could be home to up to 140m people; and they live on just over 5% of its land, along the Nile and coast, since the rest is desert. Only with fewer than 55m people would the country escape being classed as "water poor" (with less than 1,000 cubic metres of water per person a year), says Atef al-Shitany, head of family planning at the health ministry. Shabby schools and hospitals are increasingly overburdened.

Hosni Mubarak, who ruled Egypt for 30 years from 1981, campaigned to reduce the fertility rate to 2.1, the level at which a population remains roughly stable. By 2005 it had almost halved to three, but it then stuck. Population policy has been adrift in the post-revolutionary chaos. So when Abdel-Fattah al-Sisi, who took power in a coup two years ago, appointed Egypt's first population minister in March—Hala Youssef, a respected doctor—many guessed there would be a new push.

Yet in a country awash with prickly patriotism some officials are loth to accept that a soaring population could pose a problem. A national strategy published on Mr Sisi's watch in October shied away from setting a target for the fertility rate, though some officials talk of 2.4 by 2030. Instead it emphasises informed choice. The government says it will improve family-planning services and encourage girls to stay in school longer. It is piloting cash transfers to some poor families in the hope they will no longer depend on their children as potential earners.

A new bump

Fertility rate, births per woman



Sources: World Bank Development Indicators; DHS programme

The use of contraception fell slightly during the period that the fertility rate rose, but not because of ignorance: surveys show that 99% of Egyptian women know about preventing pregnancy. Instead, Egyptians may just want bigger families. The rural poor still have the most children, though they have been receptive to reducing the number, driving the drop. By contrast "the urban middle class has always stuck to the three-child model," says Dalia Abd al-Hameed of the Egyptian Initiative for Personal Rights, an NGO in Cairo.

Persuading couples to have fewer offspring is far trickier than handing out condoms. Few appreciate the state prying into their bedrooms; but in nearly all countries fertility tends to fall as people grow richer and women are better educated. In Iran it fell from 6.5 in 1980 to 1.9 today, because of rising incomes and a big push by the government for birth control. The government used to urge men to get vasectomies; now it is struggling to persuade women to have more children.

The increasing number of births will rob Egypt of some of its imminent demographic dividend—the economic advantage of having few old people and children relative to the number of working adults. "Meeting the demands of this population will require strong, sustained economic growth and redistributive policies," says Jaime Nadal Roig, who heads Egypt's branch of the UN's population fund. Sadly for Egypt, making the economic indicators tick up fast enough is as hard as making the fertility rate go back down. ■

Stopping riots with stink bombs

A whiff from hell

JERUSALEM

Skunk, a high-tech Israeli weapon against stone-throwers

IT SMELLS like raw sewage mixed with putrefying cow's carcass, and it might soon be Israel's latest high-tech export. Skunk, as it is appositely called, has been used by Israeli soldiers since 2008 to disperse Palestinian protesters. Now it has attracted the interest of law-enforcement agencies in America which, after riots in Ferguson and Baltimore, crave better ways to scatter rioters without killing or injuring them.

The liquid, first developed by the Israeli police, is manufactured by Odortec, a pesticide specialist near Jerusalem. Made from a secret formula including yeast and protein, it was authorised for use on civilians by the Israeli attorney-general and the army's medical corps. It is non-toxic and, the developers maintain, even drinkable—were it possible to ignore the stench. Those hit by Skunk have not reported any side effects beyond the difficulty of getting the smell out of their bodies and clothes for days.

Skunk has been used mainly to deal with the weekly protests against Israel's "separation fence" that cuts through the West Bank; and increasingly over the past year at demonstrations in East Jerusalem. Sprayed from water-cannon, it has become the characteristic odour of Israeli-Palestinian confrontation.

B'Tselem, an Israeli human-rights group, reports that it found no health hazard, but still criticises it as a humiliating method used so far only against Palestinians. In some cases, it was sprayed on homes and shops in neighbourhoods of East Jerusalem in what B'Tselem calls "collective environmental punishment". Israeli police insist it is used "carefully and very efficiently and prevents casualties to protesters and security personnel".

Last July the Internal Security Ministry placed a follow-on order for Skunk, worth $45,000. So far the noisome substance has not been used abroad, though American police chiefs are regular visitors to see how riot-control is done in the Holy Land. A report this week that Skunk is now being sold to American local police departments was initially confirmed by a Maryland-based company claiming to be the vendor; but then swiftly retracted. The company's website, which offered the stuff in various-sized canisters, has since gone offline. In Israel, Odortec's phone was also out of order and inquiries sent through its website remained unanswered. Maybe the whole thing just smells too awful.

Also in this section

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Germany and America

Waiting for Schindler's list

BERLIN

Germans are angry not only with America's spies but also with their own

KONSTANTIN VON NOTZ, the leading Green politician on the Bundestag committee investigating American spying in Germany, embodies German ambivalence over America. He asks if the German-American relationship is a "friendship or a mere partnership". Partnership implies a cynical "mathematics of interests", so he prefers friendship. But that requires "shared values", including strict parliamentary supervision over government snooping. That is why he will insist on June 8th, when the Bundestag goes back into session, on seeing what has become known as "the list".

This list has become a potential time-bomb both for Germany's ruling coalition and for the transatlantic relationship. It refers to the documentation of millions of "selectors"—search terms for phone numbers, e-mail addresses and so on—that America's National Security Agency (NSA) has over the years fed into the computers of its German equivalent, the BND. The Germans monitored these and passed the intelligence back to America. Under a 2002 deal, the selectors may not point to German citizens, European firms or European Union governments.

But for years the BND failed to check the selectors, according to parliamentary testimony by Gerhard Schindler, its president. It began doing so properly only after revelations of American mass surveillance by Edward Snowden in 2013. The BND then rejected thousands of search terms as impermissible, apparently because they aimed at European firms and governments, including France's. A big question is just how many problematic selectors had got through. Mr Schindler says he was informed of the situation only in March. How much Chancellor Angela Merkel knew is unclear.

German spies have been left looking like marionettes of the Americans. This is embarrassing for Mrs Merkel. During the 2013 election campaign, after revelations that the Americans had tapped her mobile phone, she said that "spying among friends is just not on." She gave the impression that Germany would negotiate a mutual no-spy agreement with America. But e-mails leaked to the German press suggest the Americans ruled out such a deal. The opposition parties, and even the centre-left Social Democrats who are Mrs Merkel's coalition partners, believe Mrs Merkel misled the voters in 2013.

Germany's allies have notably failed to register outrage. France, an alleged victim of snooping, has not complained. Indeed, after the *Charlie Hebdo* massacre in January the French are going in the opposite direction, giving more latitude to their secret services. Many in Berlin suspect the French would rather not explain what they have been up to. The British spy as merrily as the Americans, according to Mr Snowden. In 2012 Britain even asked the BND to tap German data pipes and swap information. This operation, code-named "monkey-shoulder", was stopped by Mr Schindler only in 2013. The Germans seem touchier than others about spying.

America is itself reconsidering the balance between security and freedom. This week it passed the Freedom Act, which gives more privacy protections to the telephone data of Americans—though not of Germans or other foreigners (see page 20). Yet Germans increasingly see America as a bully and threat to their privacy.

Resurgent anti-Americanism is a clear worry. The German Marshall Fund of the United States, a think-tank, has put together a "task force" to improve German-American relations. Among its findings is that German trust in America has dropped, for reasons going far beyond spying—such as Guantánamo Bay, Abu Ghraib or even American capitalism, which many Germans blame for the 2008 financial crisis. A majority (57%) of Germans want to become more independent in their relationship. Such attitudes cloud other business, notably talks on a planned transatlantic trade and investment deal.

Yet some remain sanguine. "Trust runs deeper than expected," says Annette Heuser of the Washington branch of the Bertelsmann Foundation, a German think-tank. With the Pew Research Centre, Bertelsmann surveyed Germans in late February (before news of the BND's deals with the NSA) and found that 62% still consider America "a reliable ally", more than see Britain as one.

The list of selectors could still cause big problems. The Social Democrats, in coalition with Mrs Merkel but running against her in 2017, see a chance to dent the chancellor's popularity. So, naturally, do the Greens and the Left, in opposition. They want Mr von Notz's committee to get ▸▸

the list or else take the case to the constitutional court. A different committee, overseeing the BND, also wants the list, and this week threatened to restrict the BND's mandate if it did not get it.

The Americans want the list to stay secret, fearing it could compromise their intelligence and the security of allies, including Germany. They have restricted co-operation with the BND and could turn off more information taps. As Mr Schindler conceded, "we need them more than they need us." The search for a compromise is on. To examine the list and report to parliament in secret, a recognised expert might be picked. But by Mrs Merkel or by the Bundestag? Mr von Notz says only the second would be acceptable. That is why the list, not to mention its contents, could prove so explosive. ■

Ukraine and Russia

Misha's moment

The choice of a new governor of Odessa is designed to provoke Russia

THE new governor of Odessa in southern Ukraine has many useful attributes. He once implemented a boldly successful anti-corruption campaign, sacking all the traffic police. That is valuable experience in a region that, even in a country as crooked as Ukraine, is renowned for graft. He speaks numerous languages, a plus in a polyglot maritime area. As an out-of-towner, he is not implicated in the oligarchic in-fighting that blights Odessa and much of Ukraine.

Saakashvili riding into town

The oddity (and perhaps problem) is that the new governor, Mikheil Saakashvili, is not just any out-of-towner. He is a former president of Georgia, on the other side of the Black Sea—although, after leaving office in 2013, he faces allegations of abuse of office (which he denies) and cannot safely return. Mr Saakashvili led the "rose revolution" of 2003 and tried to steer Georgia towards membership of the European Union and NATO—a strategy that led Russia's Vladimir Putin into a war with his small Caucasian neighbour in 2008. As with Ukraine after the orange revolution of 2004, Georgia's fitful progress westward was hampered by the Kremlin's determination to keep it in Russia's orbit.

It is not unusual for embattled governments such as Ukraine's to enlist foreigners to help the transition to democracy and clean up corruption. When uncompromised local talent is scarce, that makes sense. And it isn't only struggling countries that do it: in 2013 Britain's government brought in Mark Carney, a Canadian, as boss of the Bank of England. Nevertheless Mr Saakashvili's recruitment by Petro Poroshenko, Ukraine's president, is strikingly eccentric.

To begin with, it is unorthodox for the former president of one country to assume a relatively lowly job in another (though Ronald Mutebi, a Ugandan king, is said to have sold double glazing while in exile in London). It is a risk to entrust a sensitive governorship to a foreigner (or ex-foreigner: with the job, Mr Saakashvili acquired Ukrainian citizenship). Odessa is coveted by Russian-backed separatists with whom Ukraine's forces have been fighting in the east—violence that flared up again this week, after a brief lull. More than 40 people, mostly pro-Russian activists, died in a fire after a street confrontation in Odessa last year. It has been quietish since, but tensions simmer.

Above all, the appointment is an insult aimed at Mr Putin, who loathes Mr Saakashvili: during the war of 2008, Mr Putin reportedly threatened to "hang him by the balls". At a moment when finding peace with Russia, however bellicose its leadership, is one of Ukraine's main challenges, installing Mr Saakashvili in Odessa is a provocative move.

Turkey's election

How big will the protest vote be?

ANKARA

Why the ruling AK party may not do as well on June 7th as in the past

THE Justice and Development (AK) party has won three general elections in a row, most recently in 2011. Yet although it seems certain to win over 40% of the vote and remain the largest party after the election on June 7th, it is losing ground. Many things that helped AK are being reversed. The economy, its strongest suit, has run out of steam. Recep Tayyip Erdogan, AK's charismatic former prime minister, who became Turkey's first directly elected president in August, has become increasingly despotic and out of touch. And some opposition parties now look more appealing.

The main centre-left Republican People's Party (CHP) has changed tack. Its leader, Kemal Kilicdaroglu, has ditched his shrilly anti-Erdogan rhetoric of old and is hitting AK hard on the economy. His pledges to double the minimum wage and to improve the lot of some 11m pensioners may sound populist, yet they have resonance. Two-thirds of CHP candidates were elected in primaries. And Mr Kilicdaroglu has managed to bring in female candidates such as Selina Dogan, an ethnic Armenian lawyer, and Selin Sayek Boke, a respected Arab Christian economist. Ultra-secular dinosaurs have gone.

Alas, the newly colourful CHP is still not expected to add much to the 26% it got in 2011. But that is partly because some supporters are defecting to another opposition party, the pro-Kurdish People's Democracy Party (HDP). The HDP is a challenge to Mr Erdogan because his dream of an executive presidency depends on its share of the vote. Previously the Kurds fielded independent candidates to get around the minimum 10% threshold for seats in the parliament. But the HDP is now running nationally. Should it get over 10% of the vote, it will pick up 50-60 seats, leaving AK well short of the minimum 330 deputies required to propose constitutional changes, including an executive presidency.

Some pollsters think AK might even fall short of the 276 seats it needs for a simple majority. It would then have to form a coalition with the third main opposition party, the far-right Nationalist Action Party (MHP), since both the CHP and the HDP say they will not go into government with AK. If, however, the HDP does not clear the 10% hurdle, AK will inherit all its seats, clearing the way not just for a renewed single-party government but perhaps for Mr Erdogan's executive presidency.

The HDP owes its rising fortunes in part to its co-chair, Selahattin Demirtas. With his youthful looks and biting wit, the former human-rights lawyer from Diyarbakir makes Mr Erdogan seem a has-been. All over Turkey, bejewelled dowagers, hipsters and factory workers say they may vote HDP either because they "like Demirtas" or because "it's the only way to stop Erdogan." This is a sea change. The HDP was long seen as the political arm of the Kurdistan Workers' Party (PKK), the rebels fighting for Kurdish self-rule since 1984. Few doubt ▸▸

that the PKK and its imprisoned leader, Abdullah Ocalan, still hold much sway. But a ceasefire that has held since March 2013 has legitimised the HDP. Winning more seats in parliament would propel the Kurds further into the mainstream and loosen the rebels' grip. Being shut out would have the opposite effect.

Although it was Mr Erdogan who initiated peace with the Kurds, he has hit the campaign trail, Koran in hand, ranting about Mr Demirtas's supposed "terrorist connections" and lack of faith. The HDP has to lure pro-AK Kurds into switching sides if it is to squeak past the threshold. "Kurds in the big western cities like Istanbul and Izmir hold the key," concludes Behlul Ozkan, a political scientist. The HDP's victory is "by no means guaranteed". ■

Italy's regional elections

Renzi checked

ROME

The Italian prime minister loses some of his shine

THE tourist posters call Umbria the "green heart of Italy". "Red heart" might long have been apter: until less than ten years ago some Umbrian towns were run by unreconstructed communists with mostly ex-communists in opposition. Yet in regional elections on May 31st, Matteo Renzi's Democratic Party (PD), largely built on the ruins of Italy's Communist Party, came close to losing Umbria to the right.

Overall, the vote was no disaster for Mr Renzi, the prime minister and leader of a PD-dominated coalition. His party triumphed in five out of seven regions, losing Liguria but gaining Campania. But the results showed the dangers Mr Renzi faces from the PD's traditional base. Although the numbers are not strictly comparable with the 2014 European elections, one estimate is that the PD's share of the national vote dropped from over 40% then to below 31% on May 31st.

That reflects disillusionment with the slow pace of Italy's recovery, even though the economy emerged from its longest-ever recession in the first quarter and unemployment fell in April. But in the two regions where the PD lost, voters balked at candidates handpicked by Mr Renzi. Elsewhere, they preferred more traditional left-wingers, including the new governor of Campania, who has a conviction for taking illegal advantage of his position as mayor of Salerno. That suggests other factors at work: dissatisfaction with the government's business-friendly agenda and the prime minister's Margaret-Thatcher-like put-up-or-shut-up approach to governing.

Decisiveness has long been lacking in Italian politics, especially over reform. If Mr Renzi can temper his country's tradition of compromise, he will do it a service. But the regional elections were a reminder that he is operating in a different political environment from Mrs Thatcher's. She led a party more sympathetic to free markets, whose members were reluctant to desert and set up parties of their own. Mr Renzi has neither advantage. The PD lost Liguria largely because votes went to a candidate sponsored by one of Mr Renzi's defeated rivals for the leadership, who had resigned from the party in protest at the government's policies.

The new governor of Liguria is Silvio Berlusconi's latest protégé, Giovanni Toti, a former executive of his Mediaset TV empire. But Mr Toti's victory was deceptive. He was backed by an alliance including the Northern League, a party of regional populists. Voting for the regional assembly showed the League winning twice as much support as Mr Berlusconi's party. In the regions where votes were held, it was ahead by more than a point—a rebuff for Mr Berlusconi, who was campaigning for the first time since being lightly punished for tax fraud. Unless he can reverse his movement's decline, the Northern League's pugnacious leader, Matteo Salvini, will demand that he lead the right into the next general election. If that happens, it will be a different right: shriller, more Eurosceptic and anti-immigrant.

Despite its growing success, the League still trails the ex-comedian Beppe Grillo's Five Star Movement (M5S), which confirmed its position as Italy's second-biggest party, albeit on a reduced share of the vote. Fervently anti-establishment and revolutionary in demanding direct, internet-based democracy, the M5S is only slightly on the centre-left. Austerity may have prompted large numbers of Italians to look beyond mainstream parties for populist alternatives. But so far it has driven only a few into the arms of extremists. It remains to be seen if Mr Salvini will change that. ■

Renzi reflects on Umbria

Portugal's government

Austerity without the anger

LISBON

Perhaps surprisingly, anti-austerity and populist parties are not doing well

PORTUGAL is no country for young men. A third of the under-25s are out of work. Of graduates under 35 with a job, almost half earn less than €900 ($1,000) a month. This is "the 500 generation", referring to the minimum monthly wage that many earn on short-term contracts in call-centres or supermarkets. Emigration is at levels unseen since the 1960s.

Greece and Spain, where youth unemployment is even higher, have also suffered in the euro crisis. Yet Portuguese voters are at odds with their fellows. In January Greeks elected a government led by a left-wing populist party, Syriza. Radical anti-austerity parties like Podemos in Spain pose a threat to the big established parties. In Portugal, by contrast, a naturally conservative electorate has stuck with the political establishment: there is no sign of any big populist upstart party.

In polls ahead of the general election due this autumn, the two right-of-centre ruling parties that have presided over four years of austerity are neck-and-neck with the main opposition centre-left Socialists (PS). One poll puts the centre-right Social Democrats (PSD) of Pedro Passos Coelho, the prime minister, and his smaller coalition partners, the People's Party (CDS-PP), just a tenth of a point behind the PS.

After four years of spending cuts and tax rises that sparked Portugal's worst recession in 40 years, most analysts expected the anti-austerity PS to enjoy a big lead and the ruling coalition to be bickering. Instead, the coalition, which two years ago almost collapsed in a dispute over austerity, has been more united than ever. "It's easy to understand what's at stake," Mr Passos Coelho said recently. "Do we want to build something positive on what we have already achieved, or do we want to return to the days of debt and uncertainty?"

He was speaking at celebrations to mark the anniversary of Portugal's exit from its three-year euro bail-out. The current account has moved from a deficit of 12% of GDP into a surplus. The government says the budget deficit this year will fall below 3% of GDP for the first time in 15 years. The economy has been growing for four quarters in a row; it should expand by 1.7% this year. Portugal is now widely held up as proof that "austerity works".

Even so, António Costa, the former mayor of Lisbon, who took over as PS leader last November, promises to "turn the page on austerity", saying it has produced "nothing but poverty". Despite the bail-out, he notes that the public debt has risen to 130% of GDP, a level many economists see as unsustainable. He wants to lift growth by putting more money into voters' pockets, reversing public-sector wage cuts, reducing taxes and perhaps lowering workers' social-security contributions from 11% to 7% of pay.

The prime minister dismisses this as reckless. But the fine print of PS's programme reflects a toning down of its previous rhetoric. Even as Greece's radical Syriza leaders ratchet up their anti-austerity crusade against euro-zone creditors (see Charlemagne), the PS, like most Portuguese voters, is moving to the centre—the politically crucial ground on which this autumn's election will be fought. ■

The Roma

Left behind

STARA ZAGORA, BULGARIA

Life is not improving for one of Europe's biggest and most ostracised minorities

"NO ROLE models," says Zvezdelina Atanassova when asked why education is not valued in Lozenets. In this Roma (gypsy) neighbourhood in Stara Zagora, a town of 138,000 in south-eastern Bulgaria, she is a rarity: a Roma, a woman and a student. Girls here rarely study beyond primary school. Boys drop out around 15, as soon as they can get a driving licence. Asked about their aspirations, seven in ten say they want to become pimps, laments Gantcho Iliev, who runs a charity working with Lozenets' youth. No other occupation comes with a big house, posh car and the attention of attractive women.

Roma make up 5% of Bulgaria's population, says the census. Yet this is an underestimate, as many distrust officials and refuse to register, or misstate their ethnicity because prejudice equates it with backwardness and petty crime. In six central and eastern European countries the Roma are thought to make up 7-10% of the population (see chart 1). Across Europe, half of Roma lack such amenities as running water. Only 15% have secondary education.

The Roma population is also younger and faster-growing. One in five labour-market entrants in Bulgaria and Romania is a Roma, says the World Bank; one in six in Hungary and Slovakia. Yet their job prospects are little better than their parents'. School dropout rates are high (see chart 2). Custom values a bride's virginity and traditional household role over education. Many parents, worried about their daughters mingling with boys, pull them out of school and marry them off. In the poorest families children often skip school to work.

Schools in Roma neighbourhoods, where 30-60% of them live, are dismal. Segregation is common. Over a quarter of Roma pupils in Bulgarian and Romanian schools, and half in Hungarian ones, are taught in separate classrooms. Segregation in Hungary is rising, partly driven by "white flight".

A third of pupils in Czech schools for the mentally disabled are Roma, a higher share than two years ago. This prompted the European Commission in September to launch a case against the Czech Republic for discrimination. In April it did the same for Slovakia. If these countries do not change, they could face hefty fines. Yet politics stands in the way of reform. Anti-Roma sentiment is increasing in Bulgaria and Hungary, where minority-bashers gained parliamentary seats last year. Hungary's Jobbik, led by the founder of a black-clad brigade of thugs who terrorised Roma neighbourhoods until banned in 2009, took 21% of the vote. Other parties now court anti-Roma voters.

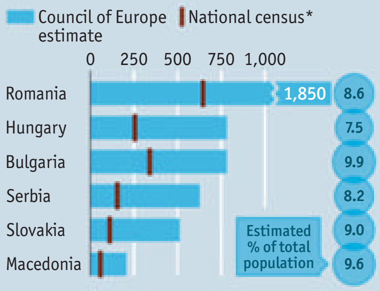
Slovakia's prime minister, Robert Fico, is no stranger to anti-Roma talk. Neither is Hungary's Viktor Orban; his government's best-journalist award in 2013 went to a broadcaster who was fined by the media regulator for calling Roma "apes". Such indulgence gives the nod to discrimination. One 11-country analysis by the UN Development Programme found that in 2011 Roma men with only primary education earned 11% less than non-Roma men; for those with secondary education the gap was 24-39%. Last year Slovakia's Financial Policy Institute sent a batch of fictitious job applications to employers; 37% of those with Roma names got a response, against 69% of the rest.

Such prospects, says Zeljko Jovanovic of the Open Society Foundations, drive Roma who succeed through education to hide their ethnicity and cut ties with the places where they grew up, depriving these areas of good examples. Migration data are lacking, but Roma are present in most rich EU countries, getting a mixed reception—from having makeshift camps bulldozed in France and Italy to being offered help in Belgium and Germany.

Many are drawn by generous welfare systems. Some seek more lucrative lawbreaking, from pickpocketing to serious crimes. But surveys find that most who migrate do so for work. Around a fifth of Roma households in Bulgaria have a family member working abroad, says Alexey Pamporov of the Bulgarian Academy of Sciences. Many go back and forth for seasonal jobs in construction or agriculture. But not all. "Are they looking for nurses in England?" asks Ms Atanassova, who will soon be one. ■

More than you think 1

Roma populations, '000

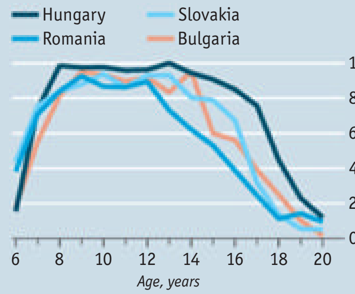


Sources: Council of Europe; national censuses

*All census data for 2011 except Macedonia, 2002

Not at their desks 2

Roma at school, % by age, 2011



Source: Gatti *et al* (2015) "Equality of Opportunity for Marginalised Roma", World Bank

Charlemagne | Chronicle of a struggle

Agonising over a short-term fix for Greece must not hide longer-term problems

SINCE taking office in January Greece's radical-left government has been a model of inconstancy and incoherence. Yet one of its messages has been admirably consistent: that Greece's problems belong to the entire euro zone. Over the past four months Greece's creditors have become wearily accustomed to batting away grandiose proclamations by Alexis Tsipras's band of merry men. But as their talks with the Greeks approach a crunch, this is a proposition they should take seriously.

Excluded from capital markets, Greece needs bail-out money to stay afloat. In exchange its creditors demand reforms and budget cuts designed, as they see it, to put Greece's finances on an even keel. Elected to reject such austerity, the Syriza government began negotiations with smiles and good cheer. Yanis Varoufakis, the finance minister, toured Europe to explain that the euro zone would work for the benefit of all if only its leaders would abandon their self-defeating obsession with austerity. But as the mood has soured and talks have gone nowhere, the message has taken on a darker tone. In an opinion piece for *Le Monde* this week Mr Tsipras declared that the strategy adopted by Greece's creditors risked "the split and division of the euro zone, and consequently of the EU". Those who wish to maintain this approach, he suggested, should re-read Hemingway's "For Whom the Bell Tolls", a brutal account of the Spanish civil war.

It is understandable that the leader of a country staring into the abyss might be drawn to apocalyptic imagery. But Hemingway's clipped sentences do not quite capture the absurdity that has marked the latest episode of the Greek saga. A better guide is surely Kafka. For the Greeks, the impenetrable "institutions" they have encountered, seemingly impervious to reason and answering only to their own mysterious laws, resemble the bureaucracy that breaks the spirit of Josef K in "The Trial". Euclid Tsakalotos, a senior Greek negotiator who has a Marxist background, likens the creditors' robotic insistence on demand-killing labour reform to the intransigence of Soviet pen-pushers.

For Greece's euro-zone partners, by contrast, the experience of dealing with Mr Tsipras and Mr Varoufakis after years of more-or-less pliant Greek governments recalls the shock delivered to the family of Gregor Samsa in Kafka's "Metamorphosis". One day they wake up to find their hard-working son inexplicably transformed into a hideous insect, whose attempts at communication reach their ears as incomprehensible screeches and squeals. No efforts to accommodate the creature succeed; ultimately only its expulsion or death will do.

With luck, Greece can avoid that fate. On June 3rd, with Greece's reserves running perilously dry ahead of some hefty debt repayments, Mr Tsipras flew to Brussels, where he was presented with detailed reforms drawn up by the three institutions that monitor Greece's bail-out: the European Commission, the European Central Bank and the IMF. Mr Tsipras's agreement, and the Greeks' implementation of the measures, would unlock the funds Greece needs to stay afloat. But that would require painful Greek concessions, particularly on pensions, which Syriza has vowed to protect. The meeting ended without a deal; talks will continue.

Outright rejection could spell disaster for Greece, as deposits flee banks (see page 66) and the ECB reduces liquidity support. That in turn might mean capital controls, the first step on a road that could lead back to the drachma. It has become fashionable among some euro-zone politicians to suggest that a Greek exit from the euro would be manageable. But this complacency is not shared by the OECD, a rich-country think-tank, which has warned that failure to resolve Greece's problems could hurt growth and imperil the public finances of other euro-zone members. The Americans have also started to voice concerns. An initial deal within the next week now looks quite likely, although plenty of hurdles would remain, such as ratification in difficult parliaments like the Bundestag. Mr Tsipras would also face resistance at home if Syriza backbenchers sniff capitulation.

But the arguments over resolving Greece's liquidity crisis have made it harder to focus on larger challenges such as the sustainability of its debt pile, which at 180% of GDP is far bigger than it was ever meant to be. A third bail-out may nod towards this by, for example, further extending debt maturities. But there is no real vision for Greece's economic future. The large primary surpluses demanded of the country—creditors have asked for 3.5% of GDP from 2018 in perpetuity—bear witness to intellectual exhaustion in the euro zone.

Wanted: a vision

The Greeks must shoulder much of the responsibility for their predicament. Mr Tsipras's strategy has been back-to-front: to find an audience for his views on European democracy, he needed first to earn the trust of his creditors rather than shatter it. Unlike every other country that has received a bail-out, no Greek government seems fully to have accepted the need for reform.

But the Europeans are hardly blameless. Presented with the first authentic democratic challenge to their rules, they pettifogged on detail and fretted about moral hazard. One problem has been the presence of the IMF, which is more concerned to ensure its sums add up than to paper over the political troubles of the euro zone. It is running out of patience with the Europeans. But the Germans insist on keeping it involved to counter what they perceive as softheadedness in the commission. This is what passes for strategy inside the euro zone these days.

Kafka's tales often follow their own spirals of logic towards grisly, even tragic conclusions. The final chapters of Greece's story remain to be written. An author is desperately needed. ■

Also in this section

England's cities

Spreading their wings

NEWCASTLE

Plans for a "Northern Powerhouse" could transform English politics

ANYONE wondering what George Osborne, the chancellor of the exchequer, has in mind when he talks about creating a new "Northern Powerhouse" should visit a patch of land between Newcastle train station and the river Tyne, a few miles from the vast Angel of the North sculpture (pictured). By a large construction site is a long, slightly shabby building, its brickwork worn with age. Here, in 1829, Robert Stephenson, a local-born engineer, built the *Rocket*, one of the world's first steam locomotives.

Now, inside two glass office pods within the old workshop, a graphic-design company and a software firm have set up shop, part of a growing tech cluster in the North East that epitomises what Mr Osborne is trying to foster. Last year the chancellor announced that he wanted to use science and technology, improved transport and devolved political power to regenerate the north. Then, after his Conservative Party's surprise election victory last month, he confirmed that commitment, stating baldly that the old model of running everything from London was broken. Cities can now apply for control over areas such as housing, transport and training, as long as they accept an elected mayor.

The plan would upend what is currently one of the most centralised and economically unbalanced countries in Europe. The gap between London and its regional cities is gaping (see chart on next page). Seven of the eight biggest cities outside London perform below the national average in terms of GDP per person; in Germany, by contrast, the eight largest cities outside Berlin all consistently outperform the national average.

Part of the problem is that local government is so toothless. Central government raises 95% of British taxes. "It's crazy," says Nick Forbes, the affable head of Newcastle council. "We can't even regulate private landlords." Core Cities, a body representing England's eight biggest cities, believes that with devolved powers they could generate an extra £222 billion ($339 billion) and 1.2m jobs by 2030.

A convergence of events may now bring this about. The devolution of powers to Scotland to appease secessionists has sparked demands for similar autonomy in England. Meanwhile, the need to make huge spending cuts has sent the central government looking for ways to streamline government. Finally, especially after Labour's dreadful performance in last month's election, Mr Osborne spies an opportunity to boost Tory fortunes in the north, where Conservative MPs are greatly outnumbered. Though some initially scoffed at the Northern Powerhouse as an empty southerners' slogan ("It sounds a bit like the name of a gay club I used to go to in the 1990s," says Mr Forbes), it is now clear that the chancellor is serious about change.

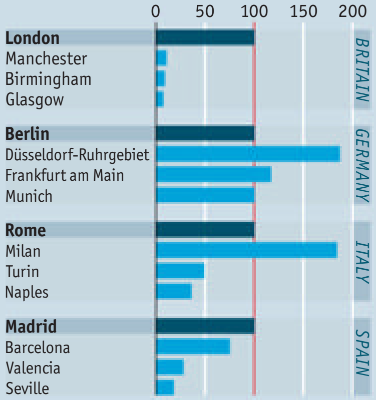
Over-centralisation is a strange problem for Britain to have. In the 19th century northern towns were like city states, run by Victorian worthies who set up civic institutions and superb infrastructure. It was only with the coming of the welfare state in the 1940s that London took control. Tony Blair tried to devolve power in England but his attempt to set up an elected assembly in the North East was rejected in a referendum in 2004, mainly because there were no real powers attached. The coalition government then offered a mayor to ten cities in 2012, but only Bristol voted in favour.

Manchester, meanwhile, has been leading the way in bottom-up transformation of local government. In 2011 ten local councils combined to form the Greater Manchester Combined Authority (GMCA). Last year Mr Osborne gave this super-council control of the city's transport policy, as well as a £300m housing-investment fund and £500m to spend on skills and training. Most radically, in February he announced that he would devolve control of the GMCA's entire £6 billion health and social-care budgets, allowing the city to integrate the two. EY, a consultancy, says that if other cities follow suit, such integration could save the taxpayer between £9 billion and £21 billion over five years.

The chance to save money gives local leaders a big incentive to buy into devolu- ▸▸

Capital punishment

GDP, capital city=100, 2013 or latest



Source: IPPR North

tion. The central government's austerity programme has forced councils to cut their budgets by up to 25% over the past five years. Councils can now see that if they gained control of budgets for health care and other areas they, too, would be able to make savings and free up money for other decimated local services.

Other city-regions, and not just those in the north, are signing up to the plan. On May 18th the head of Coventry council, Ann Lucas, agreed to join a proposed West Midlands Combined Authority, reassuring locals that "power is moving from Whitehall to the West Midlands, not from Coventry to Birmingham." Leeds, Bradford and Wakefield are reassessing whether a mayor is a price worth paying for the benefits a deal could bring to West Yorkshire.

The newly formed North East Combined Authority now faces the same decision. It is not a natural constituency for a single mayor, with its large chunk of rural Northumbria and competing urban centres whose rivalries are legendary. ("Be careful, pet," urged the receptionist at your correspondent's Newcastle hotel, when told he was heading to Sunderland.) Devolution of health care is not a priority, says Mr Forbes. With unemployment at 7.7%, control of "inefficient and fragmented" training budgets is more important. "It cannot be just one-size-fits-all," he says of the plans, which some council leaders complain have been copied from Manchester without much regard for different regions' circumstances. In the end, though, the deal on offer may prove too good to miss. "I think you will see six metro mayors in place by the time of the next election [in 2020]," says Tony Travers of the London School of Economics.

Strengthened regional leadership could also help to create a better transport system to connect the north. Government spending on transport per person per year in London has been more than double that in the North East over the past five years, according to the Treasury. Although air connections are improving—direct flights have opened from Newcastle to New York and Dubai—rail links can feel like they have not moved on since Stephenson's *Rocket*. It is quicker to travel by rail from London to Paris than from Liverpool to Hull, which is less than half the distance. A new high-speed railway will link London with Birmingham by 2026 and with Manchester and Leeds by 2033, with a possibility that it could be extended to Hull and Newcastle after that. Cross-country motorways are also in need of improvement. The main artery between Leeds and Manchester, the M62, is often jammed. Most of the road from Newcastle to Scotland is single lane.

Despite the challenges, there is optimism. "We're in a different world now," says Mr Forbes. Where that leads is another question. Scottish devolution has brought sweeping fiscal powers to Edinburgh. If devolution to English cities goes well, they might want them, too. The Northern Powerhouse could end up not just rebooting northern cities, but restructuring how England itself is governed. ■

Elected mayors

When it all goes wrong

The mayoralty in Tower Hamlets is a mess, but it is unusual

SPARKS flew at a recent hustings for a mayoral election in Tower Hamlets, due on June 11th. At the event, organised by Rainbow Hamlets, a group representing gay and transgender folk, candidates blasted the previous mayor, Lutfur Rahman. He had created an atmosphere of "poisonous politics", said one. The east London borough had become one of the country's most corrupt local authorities, growled another. In April Mr Rahman, who became Tower Hamlets' first elected mayor in 2010, was found guilty of corrupt practices (as well as the unusual charge of exerting "undue spiritual influence") and banned from office for five years. Does the mess undermine the government's push for more mayors?

No other big vote is set for June 11th so turnout will probably be low. That may favour Rabina Khan, an independent candidate endorsed by Mr Rahman, since Bangladeshi residents are more likely than others to vote, and to plump for her, reckons Ted Jeory, a local journalist.

Lutfur Rahman, rogue mayor

Tower Hamlets is an unusual case, in part because of its concentration of Bangladeshis, who constitute a third of the borough's residents and have shown a strong willingness to act in a politically corporate way. Even places such as Bradford, with many Pakistani voters, do not bear comparison, argues Parveen Akhtar of Bradford University, who studies British Muslim politics. A striking amount of money sloshes around the borough, whose acute poverty means it gets lashings of government funding, even as the presence of London's second financial district, Canary Wharf, means private money abounds.

Despite Mr Rahman's skulduggery, Tower Hamlets has flourished in recent years. It is among England's worst local authorities in terms of child poverty. But the proportion of poor children getting five good GCSEs, the exams taken at 16, was the third-highest in the country last year. Its politics may be rotten but they are more dynamic than they were in the 1960s, when the borough was created and when as many as a third of all council seats were uncontested.

But the saga points to a problem with devolved powers: lack of local scrutiny. Mr Jeory set up a blog to detail the borough's corruption because he felt that the *East London Advertiser*, where he worked, was no longer properly holding the dysfunctional council to account.

Tower Hamlets is an example of when things go wrong. But in next-door Hackney, the elected mayor has resolved the infighting and factionalism that dogged the council. And conventional councils seem just as prone to scandal: in one recent episode, it emerged that Rotherham council, in Yorkshire, had ignored widespread child abuse for years. The failings of one elected mayor are not a reason to reject them wholesale.

Bagehot | Death of a Liberal

The sad demise of Charles Kennedy is awkward for Britain and awful for his many friends

CHARLES KENNEDY died alone in his Scottish bungalow on June 1st, bereft of his deceased father, of his ex-wife and the adored son who lives with her, of the Highland voters he had represented, until last month, for 32 years, and of his professional faculties. "On a good day," lamented Nick Clegg, Mr Kennedy's successor as leader of the Liberal Democrats, he had more political talent "in his little finger than the rest of us put together." Yet by the time of the 55-year-old politician's premature, unexplained, but somehow predictable death, those days were too few.

In the weekly gathering of Lib Dem MPs, before their number fell from 56 to eight last month, he sat apart, with the party's aides, sometimes trembling. The booze had got him. It was why, in 2006, less than a year after he led the Lib Dems to their best ever electoral performance, yet after a bung-eyed public embarrassment too many, he was unseated by Mr Clegg and others.

It was a humiliation made worse by the fact that his successors, from the party's liberal wing, not the social democratic one Mr Kennedy inhabited, took the party much further to the right than he was. Almost alone among Lib Dem MPs he opposed going into government with the Conservatives in 2010. And, in private, he continued to rail against the Tory policies, especially welfare cuts, that he struggled to justify in public. Yet he stayed loyal; albeit that, as he succumbed to the grog, he fast became such a peripheral figure that it might not have mattered much either way.

Like bottles of Scotch, Mr Kennedy's political heft was drained by his addiction. That was plain ahead of last year's Scottish independence referendum, in which he had been expected to shine. The British and European unions, two threatened causes, were his political lodestones; the latter was a big reason why, as a student debating champion, he followed his hero Roy Jenkins from the then-Eurosceptic Labour Party into the new Social Democratic Party. "A Highlander, a Scot, British and European": that is how he styled himself. Yet he had such little influence on the campaign to keep Scotland in the United Kingdom that Alex Salmond, the Scottish nationalist leader, felt able to claim, mendaciously, that his "heart wasn't in it". There is no reason to suppose Mr Kennedy would have been more effective in making the case, as British Europhiles now must, for staying in the European Union. Then why, in a tearful House of Commons this week, and beyond, was this busted politician so mourned?

Partly, because of the tragic timing of his demise—three weeks after his party's worst ever defeat and Scotland's near-total capture by the secessionists. Mr Kennedy was hardly to blame. Indeed, had Mr Clegg followed his advice, and stuck clear of the tainted Tories, his party would not now be so broken. Yet poor, tragic Charlie has nonetheless become an emblem of these twin failures, for his party and the union, with a pathos sharpened by the memory of how good, on his day, he once was.

He was an uncluttered thinker and, with his ribald, smoker's voice and pithy wit, an entertaining speaker. He was perspicacious too, and at times bloody tough. His opposition to the 2003 Iraq war, presented in a packed and hostile House of Commons, against catcalling from both Labour and Tory MPs, exhibited all these qualities. His critics called him an opportunist, because the threatened war was, unusually in belligerent Britain, unpopular. Yet, in their hearts, they knew that his opposition to the war was based on principle; it also turns out to have been right. "Looking back," said David Cameron, the Tory prime minister, "it is easy to forget just what a stand that was, taking abuse from the major parties on both sides of the House and adopting a position that wasn't even supported by the previous leader of his own party."

What Mr Kennedy was for, was sometimes harder to discern. Though he often presented himself as a classical liberal—his literary credo, "The Future of Politics", is a treatise on all sorts of freedoms: from poverty, from government, to innovate, and so forth—he was not obviously one. He had more faith in the state than most liberals and was so predictably to the left of them that it was tempting to wonder why he had not returned to Labour.

His critics grumbled that it was because he also wanted freedom from responsibility. After all, he put an end to an earlier alignment that had promised his party power—with the New Labour government, as arranged by his predecessor, Paddy Ashdown. It was a fair dig. Mr Kennedy always retained an air of the earnest, but faintly impractical, student debater. It was not easy to imagine him accepting the mucky compromises that inevitably come with power. Though perhaps, too, there was something of the Highland spirit he laid claim to in that: an independent-mindedness with the charm, an obduracy alongside the slight dreaminess. And, in a way, he was intensely practical. The Lib Dems were unelectable yet strong under Mr Kennedy; after Mr Clegg, they look finished.

Life after politics

Bad times for his party, the union, Britain's place in Europe: Mr Kennedy's death speaks to all these. Yet for the many who mourn him, it is above all dreadfully sad, because he was delightful, and in fact this was the main reason for his success. He was, extraordinarily in politics, without malice. He was never, despite his remarkable precociousness, pompous. His jokes, which were frequent, were usually aimed at himself, the institution he served, or both.

Narrating a television documentary on the House of Commons last year, he glanced up, on camera, at a mosaic of St Andrew that towers over Central Lobby. The patron saint of Scots, he quipped, had been positioned to signal the way to the bar. Though he was a political insider—an MP at 23, for goodness sake—Mr Kennedy's plain good humour always suggested he had a foot in that ruder soil, the real world, which matters most. And that, O politicians, is why he was loved. ■

Also in this section

The FIFA scandal

Taxi for Blatter!

The resignation of Sepp Blatter is a necessary but insufficient condition for reform at football's tainted global governing body

IN THE afterglow of his re-election for a fifth term as president of FIFA, Sepp Blatter posed the question himself: "Why would I step down? That would mean I recognise I did wrong." Four days later, on June 2nd, the 79-year-old Swiss who has run football's governing body for 17 years announced his resignation, which will take effect when a successor is chosen at a special congress by March 2016.

Accounts differ as to why Mr Blatter decided to call time on his 40-year stint at FIFA. One likely explanation is that he had been warned that investigations into corruption at FIFA by the FBI and Swiss prosecutors were already lapping at the door of his Zurich office and that his lawyers advised him that he would be in a better position to fight charges, should they come, if he were to resign.

Mr Blatter will have been disturbed by reports the day before that American investigators were linking his deputy, Jérôme Valcke, to payments worth $10m in 2008 to people including Jack Warner—the disgraced and now-indicted former head of CONCACAF, the governing body of football in North and Central America and the Caribbean. The payments are alleged to have been a bribe for supporting South Africa's successful bid for the 2010 World Cup. Mr Valcke denies knowing about the specifics of the payments. The source for the allegation is Chuck Blazer, Mr Warner's former deputy, who is co-operating with the FBI as part of a plea bargain struck with prosecutors in 2013, some details of which were published on June 3rd. In his statement, Mr Blazer admits also facilitating and accepting bribes relating to Morocco's failed bid for the 1998 World Cup.

Others may yet follow the path chosen by Mr Blazer. The seven senior football officials arrested at America's request on May 27th who now reside in a Swiss jail will be coming under pressure to spill the beans in exchange for lighter sentences. Mr Blatter may not have been personally corrupt—his reputed $10m a year salary and other perks would have provided some shield against financial temptation. But prosecutors are clearly out to find proof of his complicity in a profoundly corrupt culture and his willingness to exploit it to serve his own ends.

Despite the relief that many will feel at Mr Blatter's demise, his departure is a necessary rather than sufficient condition for the deep reform that FIFA desperately needs. In the first place, it would be entirely in character for Mr Blatter to use the time left to him to try and settle old scores and secure the election of a chosen successor.

None of the candidates who have emerged so far inspires much confidence. Prince Ali bin al-Hussain of Jordan, who became the default choice of Mr Blatter's critics in last week's election, achieving a respectable tally of about a third of the votes cast, bravely ran on a platform of transparency and distributing more money to football in needy places. But he is short on charisma and even supporters suggest that he lacks the political skills needed to operate in the FIFA snake-pit.

The other joint favourite with the bookies is Michel Platini, president of UEFA, the rich and powerful governing body of European football. Once a gifted midfielder, he also knows how to play the FIFA game. A member of its 25-person executive committee (known as Exco) for 13 years, he was Mr Blatter's anointed successor until the two fell out over the president's limpet-like attachment to office. Mr Platini's candidature is, however, tarnished by his puzzling support for Qatar's bid for the World Cup in 2022. Moving the competition to winter to escape the savage summer heat, the current plan, will disrupt the European football leagues that Mr Platini represents.

Mr Platini insists that his vote was "for the good of football". But he does not deny that in November 2010, ten days before Qatar was chosen, he attended a lunch at the Elysée Palace with Qatar's prime minister, its crown prince and Nicolas Sarkozy, France's president at the time. The following year trade deals were concluded between Qatar and France; Qatar Sports Investments, a state-owned firm, bought Paris Saint-Germain, the team Mr Sarkozy supports; and soon afterwards Mr Platini's son became the boss of Burdda, a Qatari-owned sports-kit company.

For FIFA's many critics, who believe that the 2022 World Cup was bought by bribing Exco members, the litmus test of serious reform would be a reopening of the bidding. That will not feature in Mr Platini's prospectus unless evidence uncovered by prosecutors makes it unavoidable.

Whoever succeeds Mr Blatter, the reality is that FIFA's structure nurtures corruption. Each national football federation can cast one vote at FIFA's decision-making ▸▸

congress regardless of how tiny or poor it is. Mr Blatter won the loyalty and gratitude of federation chiefs in Africa and Asia by dispensing patronage from FIFA's television and marketing rights (worth $5.7 billion across the previous World Cup cycle). Supposedly to develop football facilities, few questions were asked if some of the money failed to leave the pockets of Mr Blatter's fan-base.

The membership of Exco, which votes in secret to decide which country will host the World Cup, is chosen by the continental football confederations: CONCACAF, the prime target for the FBI's digging, has three seats on Exco. The decision to hold the bidding for both the 2018 and 2022 World Cups at the same time (the former won by Russia) could not have been better designed to encourage vote-trading.

Last week Mr Blatter won 133 out of 209 votes. It is hard to see how any candidate committed to derailing the FIFA gravy train will prevail under the current voting system. No doubt some worthwhile reforms that have previously been recommended by FIFA's own Independent Governance Committee and Transparency International, a lobby group, will be back on the agenda. There will be talk of new anti-corruption protocols, greater financial disclosure and term limits for executives. Without (highly improbable) structural change, though, this could turn out to be little more than putting lipstick on a pig. ■

Corruption beyond FIFA

Good money, bad money

NEW YORK

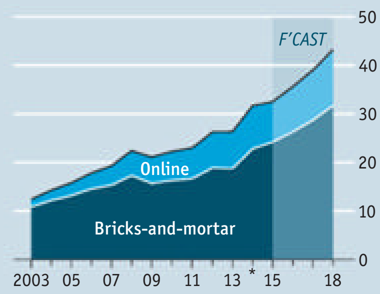
Cash corrupts, but it can also help clean up sport

SPORTS fans love to lament the corrupting influence of money on their favourite games. And the scandal at FIFA would appear to prove them right. If only athletes could just exemplify virtues like perseverance and teamwork, as the organisers of the Olympics insist they do. In the real world, however, sport cannot be separated from money. And the very trend that the purists decry—the transformation of supposedly innocent games into big business—provides some of the best protection against malfeasance.

Corruption in the sports world comes in three flavours: cheating to win (such as doping), cheating to lose (match-fixing) and cheating off the field (kickbacks for marketing rights and other business deals). The first, regrettably, is widespread and almost impossible to eradicate. Competitive athletes will always seek an edge and their chemists will always be one step ahead of

Awash in cash

Global revenue from sports gambling, $bn



Source: H2 Gambling Capital
*Estimate

the testers. The other two are patchier, because they emerge from poor management, and are a little easier to attack.

Match-fixing has faded from most Western fans' memories since the "Black Sox" scandal of 1919, when American baseball players took bribes to throw a title to their opponents. But in much of Asia it has become endemic. Legitimate gambling is growing globally (see chart) and far greater sums are bet illegally. Some of that money finds its way into players' pockets.

In 2013 four cricketers were caught fixing in the Indian Premier League (IPL), the country's biggest domestic tournament, and two team owners were charged with illegal betting. Virtually every football league in East Asia has fallen victim to regular fixes, some reaching comic proportions. In 2009 a player for a team in eastern China took a shot at his side's own goal, apparently on orders from the club's owner—but missed. In the decade following the exposure in 1994 of rampant match-fixing in the Malaysian Football League, attendance fell by three-quarters.

The problem is almost as dire in second- and third-tier footballing nations in Europe. A 2013 survey by FIFPro, the global players' union, found that 13% of Greek footballers had been approached to fix a match in the past year—and 64% believed that matches in their league had indeed been fixed. Matches between national teams have also proven vulnerable. A FIFA investigation found "compelling evidence" that bribed referees rigged a series of friendly matches held in South Africa immediately before the 2010 World Cup. In 2011 Pakistani cricketers were found guilty of deliberately bowling "no-balls" at Lord's Cricket Ground in a fake fix involving a tabloid newspaper.

Corruption off the field may be less galling to fans, but it probably involves far larger sums. America's FIFA indictment alleges that some $150m in bribes were paid to secure media rights and votes for hosting the World Cup. A review by the International Olympic Committee (IOC) of the bidding process for the 2002 Winter Olympics found strong evidence that as many as 20 of the committee's 110 members had received compensation for their votes. The Sochi Olympics last year cost an estimated $51 billion, funded mostly by the Russian government. They enriched dozens of well-connected construction and hospitality firms.

Yet there are a few oases of relative integrity. The leading European football leagues and the best players in individual sports like tennis and golf are pretty clean. So are America's professional baseball, basketball, American football and hockey leagues—though the odd bad apple turns up: in 2007 a referee in the National Basketball Association admitted to betting on games and passing information to punters.

It helps that corruption is generally rare in these countries. But the big European and American leagues also suggest that good money can drive out bad. With annual league revenues in the billions of dollars, mainly from broadcast rights, and free agency, players are routinely paid huge sums. Even referees receive generous salaries. It would take a truly giant bribe to persuade players in the big leagues to risk their large legitimate incomes, particularly in heavily scrutinised leagues where the risk of being caught is high. Though the IPL is hardly perfect, it has been argued that Pakistan's often ill-paid cricketers might be less prone to corruption if they were allowed to play in it.

An invitation to misbehave

Following the Department of Justice's spectacular charges, many observers have rightly criticised FIFA's lack of transparency, democracy and accountability. As a Swiss-based association, it is exempt from most government oversight and also from disclosure and compliance rules that are standard for private companies. This weakness is compounded by its one-country, one-vote system, which gives represen- ▸▸

tatives of tiny states something valuable that they can trade for cash.

But before wealth flows corruptly it must first be created. FIFA and the IOC get it from broadcast and sponsorship rights, which are large: after all, they have monopoly power over global sporting events. Unlike professional sport teams, though, they do not then disburse much of this cash to athletes (nor does much flow to the venues where they compete). Instead it goes to supposed good causes—and can be creamed off.

Similarly, American university sports teams limit players' compensation to the value of a scholarship while often paying coaches and athletic directors colossal wages. Unsurprisingly, students have been paid illicitly and have occasionally been drawn into "spot-fixing" scandals, where they have conspired to produce bettors' desired margin of victory.

One possible solution, proposed by Stefan Szymanski of the University of Michigan, would be to split both FIFA and the IOC into for-profit and charitable arms. World Cup (or Olympics) Inc could auction off hosting, media and sponsorship rights, and pay players handsomely for their participation. Their earnings would fund non-profit organisations, whose sole goal would be to promote the growth of their games around the world.

That would do little to placate critics who see money in sport as the problem: the leaders of those companies would surely be well-paid, just as university-endowment managers are. But at least the rewards would accrue to the athletes and executives whose skills generated the revenue, rather than to middlemen and the match-fixers. ■

America's legal reach

The world's lawyer

Why America, and not another country, is going after FIFA

Lynch shoots. She scores!

TO RUSSIA'S foreign ministry, the American mass indictment of FIFA officials is just another example of the superpower trying to "set itself up as a judge far outside its borders". Few would take Russia's counsel on international law, but in this case it is on to something. American prosecutors like Loretta Lynch (pictured) do indeed reach much farther than their peers elsewhere—sometimes too far.

They can do so partly because of America's financial pre-eminence and the global status of the greenback. America's crime-busters claim the right to go after anyone who uses its banking system (including indirectly, using "correspondent" banks to clear payments) or plans an illegal scheme on its soil. Some of the accused FIFA officials and marketing executives allegedly discussed or engaged in palm-greasing while in America. Several banks and branches that handled transactions are American, and some of the implicated associations and marketing companies have offices there.

American prosecutors are also unusually creative, using a different law when the one that appears most relevant lacks teeth. The Department of Justice has not charged anybody at FIFA with bribery: federal bribery laws cover only payments to government officials. Prosecutors have instead alleged racketeering, wire fraud and money-laundering conspiracies under the Racketeer Influenced and Corrupt Organisations (RICO) Act, which was intended for use against the Mafia.

Odder still, officials have been charged with violations of the Travel Act, which says that it is illegal to engage in interstate or foreign travel, or use "any facility in interstate commerce" to carry out an illegal activity (it helps that some states have laws against commercial bribery). Any relevant transaction with an American link can be targeted—such as the one in which an employee of a Bahamas-based bank flew to New York to pick up an alleged bribe of $250,000.

A third explanation for American zeal is the prevalence of plea-bargaining. Prosecutors commonly collar people they suspect of being part of a conspiracy, threaten them with all sorts of charges and decades in prison, then offer them leniency in a plea deal if they testify against others. Chuck Blazer and the sons of another former FIFA official have pleaded guilty and reportedly spilled beans.

In comparison, European judicial systems discourage plea-bargaining because of the risk that suspects will not so much sing as compose, inventing stories that implicate others. Europe is also more wedded to the doctrine of "comity", which holds that courts should not act in a way that demeans the jurisdiction, laws or judicial decisions of another country. "In practice, this translates into keeping your collective nose out of other nations' legal affairs, with a few exceptions, such as war crimes," says Stephen Platt, a barrister and an expert on financial crime.

America has successfully bashed global banks. Last year it wrung $9 billion out of BNP Paribas for knowingly processing through New York transfers that violated sanctions against Iran, Cuba and Sudan. It has clobbered HSBC for its facilitation of Mexican money-laundering.

But when it comes to bribery, America has sometimes been too audacious. The recent punishment of BHP Billiton was a legal stretch: the Anglo-Australian mining group was fined $25m for paying for African and Asian officials to attend the 2008 Olympics in Beijing, even though there was no evidence of a specific quid pro quo. Banks complain that regulators have gone too far by suggesting that the hiring of officials' relatives counts as bribery.

In April an American court dismissed charges against two Ukrainians, in a case in which the only American link was the tangential involvement of a federal agency. The judge slammed the case as a deeply misguided attempt to turn America into the world's policeman. Welcome though their assault on corruption in football is, America's crime-busters cannot hit every ball out of the park. ■


Q:
When will artificial intelligence not be artificial?
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Japanese companies

Winds of change

TOKYO

The prospects for shaking up Japanese firms have never looked so good

FEW investors come in more belligerent form than Daniel Loeb, an American activist shareholder known for attacking lacklustre chief executives in the most personal of terms. Yet Mr Loeb has lately found a second home in Japan, a country where shareholders with opinions have hitherto been about as welcome as skunks at a garden party.

Late last year Mr Loeb's fund, Third Point, took a stake in Fanuc, a secretive and highly profitable robotics firm which until recently seldom made direct contact with its investors, choosing instead to hoard a vast and expanding pile of cash. No one expected Mr Loeb's gambit to succeed. In the past, successive waves of investors have tried to encourage Fanuc to change its ways, only to throw in the towel, usually at a loss. So the firm's surprise news in March, that it would start talking to shareholders and return some of its cash to them, reverberated far and wide.

Mr Loeb has since taken tea with Fanuc's president, Yoshiharu Inaba, at its headquarters in the foothills of Mount Fuji. He is receiving further encouragement from the very top of government. He has had private meetings with Shinzo Abe, the prime minister, with Taro Aso, the finance minister, and with Haruhiko Kuroda, governor of the Bank of Japan. "Can you imagine him getting in to see David Cameron or Angela Merkel?" remarks a friend in Tokyo. "Third Point loves it here."

Such signals from the apex of the establishment, in a place where business heeds the government more than in perhaps any other big democracy, have not gone unnoticed among corporate leaders. And the government is offering more than gestures. On June 1st its new corporate-governance code came into effect, with the aim of shaking up companies' slothful boards by, for instance, calling on them to appoint outsiders (many have none at present). This is the first time a Japanese government has laid down detailed rules on how firms should conduct their affairs.

Mr Abe's attempts to make companies change their ways are one element of Abenomics, his grand plan to restore vim to the Japanese economy. The corporate reforms, along with monetary easing by the Bank of Japan, are the most tangible elements so far of the prime minister's programme. His government has stood up to pressure from the Keidanren, Japan's biggest business lobby, which tried its best to get the code watered down.

The code for companies follows another, for institutional investors, that came into force last year, which seems to be emboldening them to make demands on companies to improve their returns. The Tokyo Stock Exchange is also seeking to shame the laggards into action, with a new index of well-behaved firms. The reforms seem to have captured the public mood: books with titles like "Changing Japan, the Poorest Nation for Return-on-Equity" are flying off the shelves.

A prized skill for leaders in Japan lies in being able to "read the air", or to sense what is important but unstated. What is in the air now, reckon foreign and Japanese investors alike, is nothing less than a revolution in companies' attitude to both shareholders and returns. This, in turn, should prompt them to think hard about their strategies. The companies, like Fanuc, that have begun to change their ways are so far the exceptions rather than the rule, but their numbers are growing.

Dazzling no more

Change is undoubtedly needed. Japan's post-war economic miracle produced firms such as Sony and Sharp that dazzled the world, yet today many of them have lost direction. In consumer electronics and appliances they have been left behind by the likes of Apple of the United States, Samsung of South Korea and Haier of China. For years, Japanese firms of all kinds have lagged behind those in the West on such measures as profitability and return on equity (see chart 1, next page). Instead of investing their modest profits wisely, to expand their businesses—or at least handing them back to investors so they can reinvest the money elsewhere—many companies have sat on growing piles of cash.

To be sure, Japan can still produce firms such as Uniqlo, a seemingly unstoppable fashion retailer; and its strongest compa- ▸▸

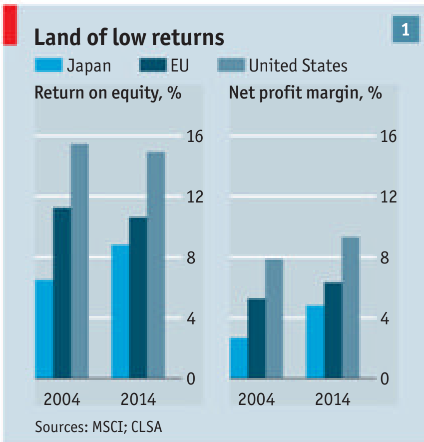
nies, such as Keyence, which makes high-precision measuring equipment, can still be world leaders in their industries. Yet the country's few technology startups have underwhelmed. Indeed, there are few signs of entrepreneurship in the world's third-largest economy. Only 4% of the working population was engaged in starting a business last year, compared with 14% in America, according to the Global Entrepreneurship Monitor, compiled by the London Business School and Babson College. The dearth of entrepreneurship inside large firms is no less of a problem.

Among established companies, a sense of crisis over mounting losses and tumbling global market share is already prompting some to think more clearly about their business portfolios. Panasonic has boldly shifted focus from consumer electronics, in which it was struggling, to supplying components for cars and energy-efficient homes. A bevy of firms have gone on overseas acquisition sprees.

More companies are abandoning a tradition of always appointing their next boss from among time-serving insiders, and looking outside—or even abroad. Last year Suntory, a drinks firm, made waves by appointing its first boss from outside the firm, choosing Takeshi Niinami, a Harvard-educated executive previously at Lawson, a retailer. And Takeda, a drugmaker, chose Christophe Weber, a Frenchman, as its new head. Foreign bosses are not unknown at Japanese firms: Nissan, a carmaker, is run by Carlos Ghosn, a Brazilian, and Sony was for several years run by Howard Stringer, a Welshman. But they are becoming less uncommon.

There is no firm that better embodies the results that reform can achieve than Hitachi. It was formerly one of Japan's most conservative: the consummate "community" firm, at which employees and their families, and suppliers and their dependents, all took precedence over shareholders. In 2008 it notched up the largest loss on record by a Japanese manufacturer. Since then it has spun off its consumer-related businesses in flat-panel TVs, mobile phones and computer parts to refocus on selling infrastructure such as power plants and railway systems. More recently Hitachi has made efforts to change its internal culture. Last year it all but abandoned one of the central pillars of Japanese business: the seniority-wage system, in which salaries are based on age and length of service rather than on performance. The results of all this have been stellar. Its operating profits in the year to March rose by 12% to ¥600 billion ($5 billion).

Now, says Kathy Matsui of Goldman Sachs in Tokyo, stockmarket investors are all searching for the next Hitachi. Activists and private-equity firms are sensing an opening up of opportunities. Seth Fischer, an activist investor, says the government's backing makes all the difference when it comes to shaking up firms. He is preparing to take on two industrial giants, Canon, a camera-maker, and Kyocera, an electronics and ceramics manufacturer, over their complex corporate structures.

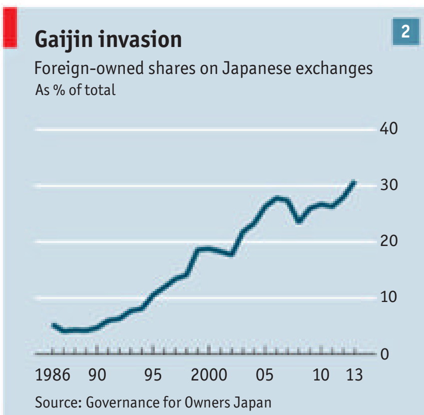


Land of low returns

The growing proportion of shares in Japan's listed companies owned by foreigners (see chart 2) has undoubtedly added to the pressure on firms to change. But it is not just foreigners who are making the running. Early this year the country was transfixed by the spectacle of an elderly corporate patriarch and business founder seeking to oust his daughter from the top of the family's furniture firm, Otsuka Kagu. Kumiko Otsuka had defied her father by bringing in outside directors to sit alongside family members on the firm's board. There is no doubt, says Ms Otsuka, that her success in staying on as president was in part down to the altered attitudes on corporate governance. The institutional investors who backed her in the fight might otherwise have sat on their votes.

Stooping to conquer

Many companies that are not yet ready for an internal revolution are at least making some efforts to appease newly empowered investors, by buying back shares or lifting their dividends. The total value of share buy-backs rose to ¥3.7 trillion in 2014, the highest level since the global financial crisis in 2008. For several giants, including Mitsui, a trading house, and Toray Industries, a textiles and chemicals group, it is the first time that they have ever stooped to conquer shareholder approval in this way. Investors have responded by lifting the total value of companies listed on the main board of the Tokyo Stock Exchange to match its former peak in 1989.



Gaijin invasion

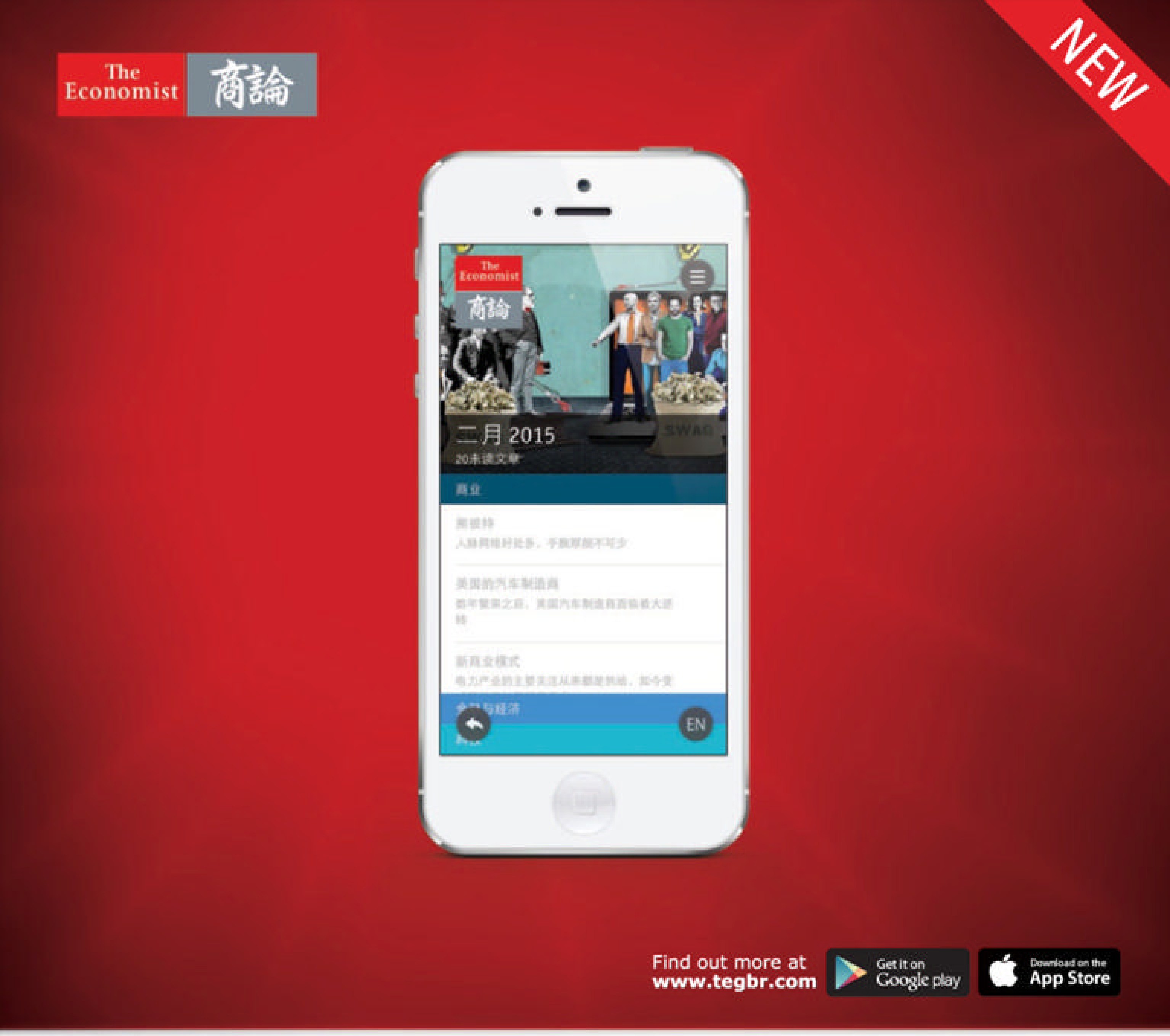
The government's aim is certainly far more ambitious than getting firms to distribute some of their vast cash piles. It wants to see Japanese industry regaining its global competitiveness. One important reason for the slippage has been quiescent boards. Although Japanese boards are no longer the charade they might have been in the past, says George Olcott, a seasoned director who currently sits on several of them, too few conduct a proper debate on the company's strategy, and too many still see their main purpose as simply ratifying decisions already taken by management. The new corporate-governance code will oblige firms to employ at least two outside directors on their boards, and gives those boards explicit duties to scrutinise the work of managers and communicate with shareholders.

Just as important is the code brought in last year for pension funds and other institutional investors, which aims to transform them from supine rentiers into responsible stewards. The code, which is modelled on Britain's, tells fund managers to engage in active discussion with companies' boards about their strategy and performance, and to publish information on how they voted at shareholder meetings.

There are grounds for hope that big investors will do their bit. To give them further impetus, early this year Institutional Shareholder Services (ISS), an adviser to foreign fund managers and some Japanese ones, recommended that funds vote against the managers of any firms in Japan that had failed to notch up an average return on equity of at least 5% over the last five years. (It had planned to set the bar at 8%, but since the five-year average was just 4.6% last summer, when the measure was being discussed, companies fought hard to lower it.)

Some Japanese life insurers, which have hitherto been especially loth to speak out on poor performance, say they will adopt return-on-equity targets for firms they invest in. One of the largest, Nippon Life, says it will use ISS's 5% benchmark. Since around a quarter of the 1,891 firms in the Topix index currently fail to achieve it, their bosses could face significant votes against them in the annual shareholder-meeting season, later this month. Many chief executives are feeling vulnerable, says Ms Matsui of Goldman Sachs.

Some institutional investors, most notably the vast Government Pension Investment Fund, say they will pay special atten-



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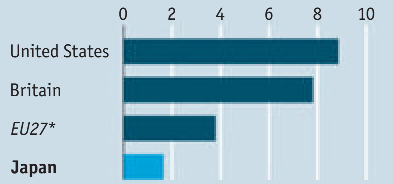
No deal 3

Mergers and acquisitions as % of GDP, 2014



Sources: Dealogic; IMF; *The Economist* *Excluding Britain

tion to the "shame index" introduced last year by the Tokyo Stock Exchange, which includes the 400 best companies as measured by return on equity and some other factors. To avoid the embarrassment of being left out of the index, the bosses of some big firms have scrambled to enact changes. Amada, a toolmaker, promised to return its entire net profits to shareholders for the next two years.

But it would be deeply disappointing, says Mr Niinami of Suntory—one of the architects of Japan's new corporate-governance framework—if companies restricted themselves to simply re-engineering their balance-sheets through such things as buy-backs, while failing to tackle the underlying reasons for their poor performance. One such is the tangle of stakes that companies hold in other companies, which help protect many ailing firms from takeover (as well as disadvantaging minority investors). These, and Japan's hitherto hostile attitude to shareholder rights, mean that mergers are a lot less common than in countries like America and Britain (see chart 3). As a result, many industries are fragmented and inefficient.

Companies must rationalise their unwieldy structures and put their cash hoards to work, says Mr Niinami. If they have not embarked on these tasks by 2020, he says, their competitiveness may be eroded beyond the point of no return.

Perhaps the hardest reforms of all for Japanese firms will be those involving the way they manage people. Changing this is one of the main aims of the government's new corporate-governance rules, says Yasuhisa Shiozaki, the minister of health and labour. Companies have long argued that it is unreasonable for the government to expect them to post dizzy shareholder returns while they are unable by law to lay off excess workers. Corporate Japan in effect forms part of the country's welfare state, by keeping on more staff than are needed. Some of the "zombie" firms and subsidiaries kept alive through cross-shareholdings and *keiretsu*, or informal business groupings, exist mainly to provide places to park unneeded workers.

For all its reforming zeal in other areas, there is so far little sign that the government of Mr Abe will move swiftly to make it easier to lay off staff. And even if labour laws were changed, there would be a huge cultural barrier to overcome: since companies currently get rid of permanent staff only in the most dire circumstances, they will be reluctant to shed surplus workers in case their customers and suppliers get the impression that they are indeed in desperate straits.

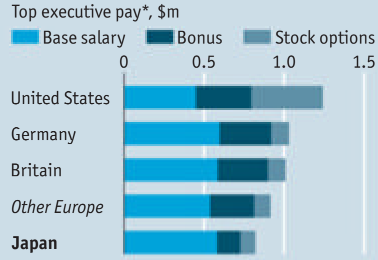
Japanese firms have clung to their traditions of lifetime employment in a single workplace, and of paying and promoting people according to seniority, because they believe those traditions have merits. Indeed, they foster loyalty, and thereby encourage firms to invest in training graduates without fear of them being poached by rivals, argues Yoshito Hori, the founder of GLOBIS, a business school. However, it is no way to produce the sort of managers needed to lead modern, knowledge-based industries. "Imagine if you took managers at Apple, Google and Amazon and replaced them with people promoted on the basis of length of service rather than merit," says Atul Goyal, an analyst at Jefferies, a stockbroker. "How long do you think those companies would last?"

Young and frustrated

The voice of Japan's young workers, who are generally underpaid and underpromoted, recently found an outlet in a surprise hit television drama, set in a fictional version of Japan's largest bank. Much of the country seemed to identify powerfully with the show's talented hero, Naoki Hanzawa, a loan manager, who kicks back against the bank's higher-ups and refuses to take the blame, as Japanese corporate culture dictates he ought, for the bosses' many profit-destroying blunders.

Less pay, less flexible 4

Top executive pay*, $m



Source: Pedersen & Partners *Companies with 50,000 employees or more

Hitachi's salarymen are similarly cheering the firm's shift to performance-related pay and promotion. If you are in your late 40s you might be nervous, since the ascent of the corporate ladder now comes with some uncertainty, says one. But younger hires are ecstatic. It won't even matter as much if you went to the wrong university as long as you work hard, exults another employee. Panasonic, Sony and Toyota are also moving towards more performance-related pay and promotion.

Those who plod their way to the top of Japanese firms tend too often to be conservative and narrow-minded. The way they are rewarded does not provide much incentive to try hard: not only is their pay smaller than that of their peers in other developed economies, it is less tied to their performance (see chart 4). When it comes to aligning the interests of bosses and shareholders, Japan is stuck roughly in the 1970s, says Jesper Koll, an economist and adviser to the government.

Although a few firms are beginning to change, it will take years for ambitious youngsters to thrust their way upwards through the layers of hierarchy. In the meantime, Japan Inc remains in the grip of lifetime salarymen who rose in the traditional way. And this is what advocates of better corporate governance, more investment and more risk-taking in Japan worry about most of all: roughly half of the present leaders of large blue-chip firms should be turfed out, argues one pro-reform boss.

It is not yet certain that corporate Japan has the will to take the drastic steps that are needed to restore its competitiveness. Grounds for scepticism are plentiful. The last great effort to open up firms to outside capital and takeovers, in the 1990s and early 2000s, petered out as the establishment closed ranks following the departure of Junichiro Koizumi, an earlier reform-minded prime minister. This time, at least, the government is having success in getting Japanese institutional investors and companies on board. However talented and determined Mr Loeb and other foreign activists are, it will be locals who decide whether the changed atmosphere on corporate performance is merely fleeting, or an irreversible change. ■

The Algosaibi affair

Edging towards a settlement

A deal with creditors of a collapsed Saudi conglomerate looks possible

THE company's boss is merely "cautiously optimistic". Not everyone is on board. But there are good reasons to believe that the six-year deadlock over one of the Middle East's biggest corporate collapses could be broken before long.

Ahmad Hamad Algosaibi & Brothers Company (AHAB), whose interests range from industrial products to fast food, defaulted in 2009, amid claims—still untested in court—that it had suffered a huge fraud. Attempts to reach a settlement with creditors got nowhere until April this year, when AHAB agreed terms with a steering committee representing foreign creditors. This week it presented the plan to all the 95 international banks and hedge funds concerned, which between them are owed $4 billion. Their response was "encouraging", says an adviser to AHAB, who is confident that "the vast majority" would have voted for the plan if asked to do so after the meeting (in practice it is the firms' credit committees that must decide).

Having last year spurned an offer of at least 20 cents on the dollar, they are now being offered a minimum of 28 cents. They will also get their hands on AHAB's property portfolio if the company's recoveries from litigation against other parties fail to meet a certain threshold. AHAB, which is now run by former forensic accountants from Deloitte, has locked horns with, among others, the liquidator of related companies in the Cayman Islands; and with Maan al-Sanea, a Saudi businessman who used to run AHAB's financial units, whom the company accuses of misappropriating assets (he vigorously denies this).

Settlements now look possible in all the court actions. An unnamed "senior Saudi figure" is mediating talks with Mr Sanea, from whom AHAB seeks 15 billion riyals ($4 billion). A member of the steering committee thinks creditors should get over 50% of their money back, and perhaps closer to 70%, if settlement talks go well.

A dozen Saudi banks, together owed a further $2 billion, are not yet engaged in the process. They have tried to get judgments for the full value of their claims enforced in a Saudi court, but the judge they applied to said all creditors must be treated equally under *sharia* law. This week's meeting will add to the pressure on them to join.

AHAB plans to take the deal to the judge for approval, even if the Saudi creditors do not accept it. The hope is that a final agreement can be reached by next spring, allowing money to start flowing.

This is, though, uncharted territory. There is no guiding precedent or legal principle: the kingdom has never seen a corporate debacle remotely like this one. The country has no formal creditor "cramdown" mechanism, so the level of support that would be needed to force through the deal is as clear as sand.

On the plus side, some in the Saudi government will be loth to let this sore fester at a time when it is trying to attract more capital from foreigners. (Later this month they will be allowed to buy Saudi shares directly for the first time, within limits.) As for the holdout creditors, they have growing reasons to consider selling out rather than continuing to sulk or make trouble: the positive vibes emanating from this week's meeting sent the price of AHAB's debt up to 17 cents on the dollar, almost double its level a year ago. ■

European business and climate change

Walking the walk

PARIS

Firms increasingly believe that saving the planet is good for business

SIX big European oil and gas firms called on June 1st for a globally co-ordinated price on carbon-dioxide emissions, to restrain the impact on the climate of burning fossil fuels. It was a bombshell, in its way. Five years ago no one would have expected the move: as producers of much of the world's dirty fuels, their industry was disinclined to join forces and advocate accelerating the switch to cleaner ones. "It is a sort of revolution," says Patrick Pouyanné, the boss of one of the six, Total. And it is not just the energy firms. As world leaders prepare to meet in Paris in December to produce an agreement on reducing greenhouse-gas emissions, attitudes towards climate change have altered profoundly among businesses of all kinds.

In 2009, when a global conference in Copenhagen failed to come up with a new agreement to replace the Kyoto protocol, many businessmen were not much worried about either the failure or global warming itself. They saw Europe's host of related regulations—along with a carbon-trading system of limited impact—as little more than a burden on firms' competitiveness. Three things have changed.

First, the price of renewable sources of energy—especially solar—has dropped dramatically, and their share in power generation is growing. Second, consumers care more about climate change than before. And third, investors—especially long-term ones such as pension funds—have woken up to the risks of owning firms with assets and business models likely to decrease in value as the world "decarbonises". Some are beginning to divest from the dirtiest fuels, such as coal (see box on next page), to invest in cleaner ones and to press for greener policies all round. "The cost of not doing things is starting to be higher than the cost of doing them," says Paul Polman, chief executive of Unilever, an Anglo-Dutch consumer-products maker. "Our motives are not exactly altruistic," admits another European boss. "Our clients and stakeholders demand such initiatives."

All sorts of firms are changing their inputs and processes and designing products that spare the environment, while helping suppliers do the same. L'Oréal, a French cosmetics-maker, says its CO_2 emissions fell by 50% between 2005 and 2014, even as its output rose by 22%. Its target for 2020 is a 60% reduction. To avoid contributing to deforestation, Unilever already buys all its palm oil (of which it is one of the world's biggest users) through an audited sustainability scheme, and by 2020 it plans to buy it from certified and traceable sources.

IKEA, a Swedish retailer, will have invested or committed to invest €1.5 billion ($1.7 billion) in wind and solar power by the end of 2015, and the firm and its charitable foundation have just pledged a further €1 billion to developing renewable energy and to helping people in places affected by climate change. In Italy 54% of medium-sized manufacturers interviewed by Mediobanca, an investment bank, and local chambers of commerce, said they were investing in green technologies in 2015, compared with 37% in 2010.

A big German energy utility, E.ON, is hiving off its renewables business from its old power-generation business to focus on ▸▸

Plugged in to climate concerns

the former. Enel, Italy's largest utility, has pledged to halt all new investments in coal, decommission fossil-fuel-powered plants in Italy and work towards carbon neutrality by 2050. Renault and BMW have been enthusiastic in promoting electric cars.

Kering, a French luxury-goods group, has pioneered an environmental profit-and-loss account to measure the impact of its business across its entire supply chain. Sodexo, a French catering company, reckons that over half of the 34% of emissions the firm has pledged to cut by 2020 will come from its suppliers. Many businesses now use a shadow carbon price internally when allocating capital, to judge whether an investment will still make sense if and when carbon is dearer.

Firms say that besides savings from greater energy efficiency they gain less quantifiable benefits from an enhanced reputation, a motivated workforce and the like. But big, disruptive investments in new energy sources or industrial techniques may take years to justify their costs, if they ever do. Is greenery paying off?

Yes, broadly, argues Paul Simpson, the boss of CDP, a research outfit that collects environmental data on more than 5,000 firms worldwide. Those with published targets for cutting their CO_2 emissions are more profitable, delivering a return on invested capital of 9.9%, compared with 9.2% for those with no targets, according to research published by CDP in May. The Low-Carbon 100 Europe index compiled by Euronext, a stock exchange, which includes the European firms with the lowest CO_2 emissions in their respective industries, has risen by 60% since the end of 2010. This compares with a 45% rise in the broader STOXX Europe 600 index, from which its components were selected.

Green because good, not vice versa

However, it could just as well be that green firms are more profitable not because they are green, but because they happen to be better run; and that their shares perform better because investors see greenness simply as a proxy for good management. The six European energy firms calling for an effective carbon price acknowledge that if the Paris conference succeeds in agreeing on one, it will add to their costs.

But at least, they said, it would provide a "clear road map" for their future investment. The six are heavy on gas—it now accounts for around half of Total's output, for example, up from 35% ten years ago. So they are hoping that carbon-pricing would lead to a switch from coal to gas—which they say produces half as much CO_2 as coal, for each unit of electricity generated from burning it. The overall impact of all this on profits would not be known for years, says Mr Pouyanné. But, like others in Europe's boardrooms, he has concluded there is no choice in the matter. ■

Coal

Black moods

Coal's woes are spreading. But it still has its fans

CHEAP but dirty now, clean and still affordable sometime in the future. That used to be the coal industry's pitch. But changing public moods about pollution, and stubbornly costly new technology, are denting the coalmen's mood.

The biggest surprise is the slowdown in consumption in China, which burns half the world's coal. Last year's fall in demand no longer looks like a blip. In the first four months of 2015 it fell 8% year-on-year (and imports dropped by a stonking 38%). Environmental worries are spurring China to increase energy efficiency and boost its use of natural gas and renewables, particularly wind power. The economic slowdown has especially hit demand for the higher-quality (and more profitable) coal used in steelmaking.

Another big blow to the coal industry comes from cheap natural gas in North America. This is by far the cheapest fuel for power generation. Between early last year and the end of next year, coal-fired stations equivalent to more than a tenth of America's power-generating capacity will close or be switched to gas.

European coal consumption is dropping too: In the European Union it fell by 4.7% overall, and in electricity generation by 4.2%, between 2008 and 2013, according to Carbon Tracker, a think-tank.

Investors are taking fright. The market capitalisation of America's four largest coal companies is now \$1.2 billion, down from \$22 billion in 2010. Restructuring looms. One big, lossmaking producer, Arch Coal, faces delisting from the New York Stock Exchange, after its share price fell to below \$1—down by more than 80% in a year. Norway's huge (\$900 billion) sovereign-wealth fund is getting out of coal. Other investors, most recently Bank of America, are also categorising coal as too risky. Unlike shares in oil majors like ExxonMobil and Chevron, coal is not a must-hold stock for investors. Coal miners are mostly more thinly capitalised than other energy firms, and thus more vulnerable to divestment campaigns aimed at cutting off fossil-fuel producers' access to capital markets.

Environmentalists rejoice at this. Coal mining squanders water, and burning the black stuff emits poisonous mercury plus lung-choking acids and soot. It is the most carbon-intensive type of fossil fuel.

In theory, clean-coal technology (which burns pulverised coal at a high temperature, scrubs the emissions and stores the carbon) could give the industry a lifeline. But the prospects for that are dimming. On current form, the technology raises the cost of coal-powered electricity generation by up to 80%, and cuts efficiency by 30%. A clean-coal project in Mississippi (at \$6.2 billion the costliest fossil-fuel plant ever built) is so over budget and behind schedule that a big investor, the South Mississippi Electric Power Association, has pulled out.

Coal may be unpopular, but it is not doomed. Its share of world primary-energy use is falling from a peak of 30% in 2010, but only to a likely 25% in 2035, according to BP's annual energy forecast. For poor countries which prize growth over greenery, coal seems indispensable: cheap, abundant and reliable. India in particular is betting heavily on it.

Online advertising

Block shock

Internet users are increasingly blocking ads, including on their mobiles

IN ADVERTISING, an old adage holds, half the money spent is wasted; the problem is that no one knows which half. This should be less of a problem in online advertising, since readers' tastes and habits can be tracked, and ads tailored accordingly. But consumers are increasingly using software that blocks advertising on the websites they visit. If current trends continue, the saying in the industry may well become that half the ads aimed at consumers never reach their screens. This puts at risk online publishing's dominant business model, in which consumers get content and services free in return for granting advertisers access to their eyeballs.

By some estimates, more than 200m people worldwide are now regular users of ad-blocking programs (see chart). Eyeo, the maker of Adblock Plus, the most widely used such software, says it has been downloaded more than 400m times. Until fairly recently, ads were mostly being blocked on desktop and laptop computers but now people are installing the software on their mobile devices, which are expected to account for a growing share of their time online.

Ad-blocking software used to be fiddly to install, and thus its use was restricted to a technically adept minority. But now it typically comes in the form of an add-on to a popular web browser such as Chrome or Firefox, which can be installed in a few clicks. Websites' use of ever more in-your-face advertising formats (videos that play automatically, pop-ups that obscure the text you are trying to read) have driven ever more people to seek ways to block them. Younger consumers seem especially intolerant of intrusive ads, and as they get older, overall ad-blocking rates are bound to rise further, predicts Peter Stabler of Wells Fargo Securities, one of the authors of a recent report on the phenomenon.

Not many publishers put a figure on their losses from ad-blocking, but ProSiebenSat.1, a German media group, has said that in 2014 the practice cost it €9.2m ($10.4m)—about a fifth of its web revenues. Publishers with a male, technophile audience are worst hit, says Sean Blanchfield of PageFair, an Irish startup that helps publishers quantify and manage ad-blocking. At some online video-game sites more than half of ads get blocked.

Small wonder that web publishers have started to take action. Some are switching to subtler means of advertising, such as promotional articles written in a similar style to the site's editorial content. Others are trying to educate their audience. Ad-blocking visitors to the website of the *Guardian*, a British daily, for example, are greeted with the message: "We notice that you've got an ad-blocker switched on. Perhaps you'd like to support the *Guardian* another way?"

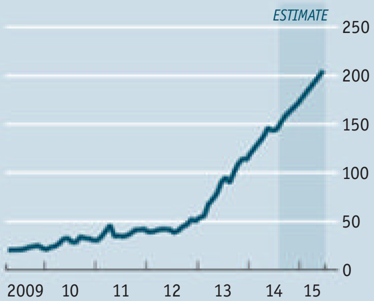
A few are taking a more robust approach. Some sites, such as Hulu, an online video service, block users who try to block its ads. In Germany several media groups have sued Eyeo. Its software lets some ads through, as long as they are not too intrusive, and in the case of the most popular websites, as long as they pay for the privilege. Some internet firms, including Google, are said to have cut a deal with Eyeo to have their ads included on the firm's "whitelist" (Google declined to comment on this). The plaintiffs in the court cases argued that this is extortion. Eyeo, for its part, argues that the scheme lets publishers make at least some money, and that it does need some way of covering the cost of maintaining the whitelist.

In two cases so far, German courts have sided with Eyeo, and ruled that its product and its business model are legal because users are informed about the whitelist before installing the software. But even if other cases go against it, this is unlikely to stop ad-blocking. Most such software is based on a shared list of ad-serving computers, maintained by volunteers. So if the online publishers succeeded in making Eyeo go away, other providers would take its place.

The online firms had grounds for hope that, as consumers spent more time on smartphones and tablets, the ad-blocking problem would fade, since Apple and Google, which provide the operating systems for most such devices, can control which apps may be installed on them. In 2013 Google banned ad-blocking apps by Eyeo and other providers, arguing that they interfered with the workings of other apps.

Ad nausea

Adblock users per month, m



Source: PageFair, Adobe

However, these mobile walled gardens are not impenetrable. One way in is for users to download an alternative web browser to the one that came installed with their device, which incorporates ad-blocking features. One such, UC Browser, already claims 500m users, particularly in China and India. Last month Eyeo released its first ad-blocking browser, which so far is available only on devices running Google's Android system.

Since such browsers only block ads on web pages that are viewed using the browsers, it is hard to claim they are interfering with other apps. That means they cannot block ads that appear within apps. However, even this sort of ad may not be immune to being blocked for long. Shine, an Israeli firm, has developed equipment that would allow mobile-network operators to block ads of any kind—those to be displayed inside apps as well as those for web browsers—before they reach subscribers' phones. Shine says that it is in discussions with a number of wireless carriers, and that some will start using its product soon. One European operator has reportedly installed Shine's product in its data centres and plans to turn it on before the end of the year.

Transatlantic tensions

If mobile ads were blocked by default, this would violate the principle of network neutrality, which holds that internet providers should treat all types of traffic equally. In 2013, when Free, a French internet provider, installed ad-block software on its modems, the government forced it to make the service optional. But even if it is left to smartphone users to turn on ad-blocking, the results could be controversial. If lots of mobile subscribers did switch it on, it would give European carriers what they have long sought: some way of charging giant American online firms for the strain those firms put on their mobile networks. Google and Facebook, say, might have to pay the likes of Deutsche Telekom and Telefónica to get on to their whitelists.

If that happened, the online firms would surely fight back. If an operator were, say, to block the ads on Google's search service, Google could retaliate by trying to stop that operator's subscribers from accessing their Gmail accounts. Such a tit-for-tat is not as far-fetched as it may seem: Google closed its news-aggregation service in Spain after a new law required it to pay for using excerpts of publishers' content. If the mobile firms are not careful, they could start the world's first digital trade war. ■

Schumpeter | Sex in the boardroom

Claims that women manage differently from—or better than—men are questionable

ONE by one, the glittering prizes are falling to women. General Motors, IBM, PepsiCo, Lockheed Martin and DuPont are among a couple of dozen giant American companies with female bosses. Oxford University is about to follow the footsteps of Harvard and appoint its first female leader; and next year the United States may elect its first woman president. Women still have an enormous way to go: the *New York Times* points out that more big American firms are run by men called John than by women. But the trend is clear: women now make up more than 50% of university graduates and of new hires by big employers.

Will this growing cadre of female bosses manage any differently from men? Forty years ago feminists would have found the very question demeaning. Pioneers such as Margaret Thatcher argued that women could and would do the same job as men, if given a chance. But today some management scholars argue that women excel in the leadership qualities most valued in modern firms. Some ask whether the financial crisis would have been as bad had Lehman Brothers been Lehman Sisters, given research suggesting a link between testosterone levels and risk-taking.

Supporters of this position are fond of quoting two studies by McKinsey, in 2007 and 2008, of large groups of managers in a variety of businesses. The consulting firm found that five "leadership behaviours" are seen in women more frequently than in men: people-development; setting expectations and rewards; providing role models; giving inspiration; and participative decision-making. It argued that such behaviours are particularly valuable in today's less-hierarchical companies. By contrast, the two that men were found to adopt more often than women sound rather old-fashioned: control and corrective action; and individualistic decision-making.

Those who say women are better suited to taking charge of today's companies also lean on two other arguments. The first is that women are better at "androgynous" management—that is, combining supposedly "male" and "female" characteristics into a powerful mixture. This is particularly valuable in businesses undergoing great upheaval, which need a combination of command-and-control and caring-and-sharing. The second is that women differ from men not so much in their leadership styles as in the values that they bring to the job. They are much more influenced by compassion and fairness than men.

McKinsey's studies rest on taking snapshots of managers' opinions and scoring them. But opinions about management are in a constant flux; and managers tend to tell interviewers what they think they want to hear. The argument that women are better at managing androgynously is a bit more plausible—though the data to support this are scant. The final argument, about the human values women bring to the job of leadership, has the best supporting evidence. Around the world women are more likely to vote for parties that place a higher value on compassion than men. American private companies run by women lay off significantly fewer workers than ones run by men. *Fortune* 500 companies with more women on their boards donate more to charity. However, even when it resonates, the claim that women make better leaders needs to be weighed against three considerations.

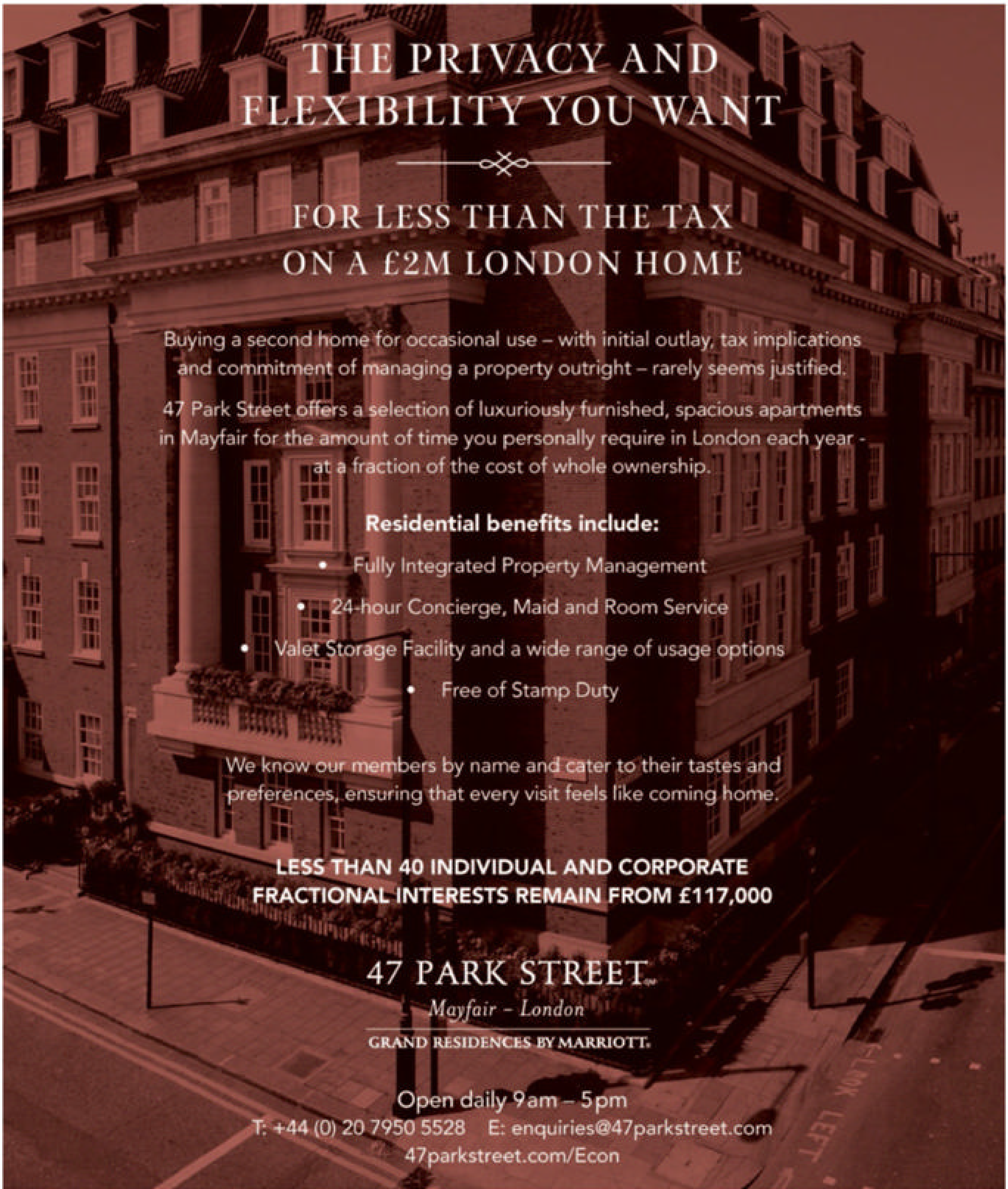
The first is that lumping women bosses together obscures the huge differences between them. There are plenty of female bosses who are as hard-headed as any male. After Harriet Green took charge of Thomas Cook, a struggling travel business, she got rid of 2,500 staff and cut senior management posts by one-third. Jill Abramson, the first female editor of the *New York Times*, was removed for "arbitrary decision-making", a "failure to consult" and "inadequate communication". Even if women as a whole are more compassionate than men, that is no guarantee that a highly selected group of women, such as those who reach the top of companies, are also more compassionate.

That leads to the second consideration: that both male and female managers are perfectly capable of adapting their leadership styles to meet changing circumstances. Male managers are increasingly embracing a collaborative approach to leadership, as they adapt to a society that has become less deferential. In a 2013 study of 917 managers in Norway—a country that has led the way in female-friendly policies, from board quotas to public child care—Anne Grethe Solberg, a sociologist, concluded that: "Men and women don't have different styles of leadership."

Vive la difference?

The third, and main, problem with the argument that women do a better job in running a company is the lack of solid evidence that putting more women into senior jobs improves a business's performance. Several early studies in this field found that companies with more women in their executive suites and on their boards had better financial outcomes. But more recent research has cast doubt on this. A study of a large sample of American firms by Renee Adams and Daniel Ferreira, two economists, found that: "The average effect of gender diversity on firm performance is negative." A large study of the influence of diversity on group performance in companies, by Hans van Dijk, a Dutch academic, and two colleagues, found that gender diversity has no overall effect. Two studies of public companies in Norway, following legislation requiring them to give at least 40% of board seats to women, found that increasing the number of women had a negative effect on profits.

Those arguing that women leaders are different, and better, may have the best of intentions. But they are piling flimsy evidence on dubious argument to produce politically correct hokum. In some societies such claims risk reinforcing stereotypes about the sort of job that women are "good for". The only enlightened policy for selecting leaders is to judge people purely on their individual merits. Anything else is just prejudice in disguise. ■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India's public-sector banks

Terms of Indira

MUMBAI

The economy's prospects rest on broken banks that are only slowly being repaired

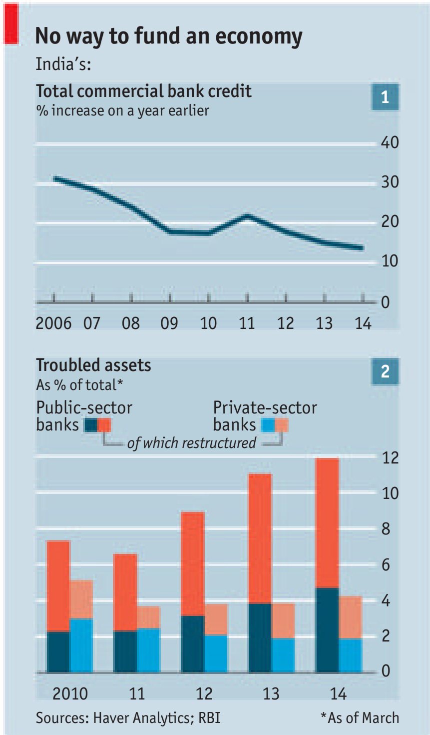
IN JULY 1969 India's embattled prime minister, Indira Gandhi, sacked her finance minister and took the job for herself. The next day she told a senior bureaucrat to take 14 of India's biggest private banks into public ownership. Nationalisation was cheered in the streets. Banks were seen as servants of rich industrialists that ignored the needs of poor folk. The work of a few hours transformed the prime minister's political fortunes.

These days public-sector banks can scarcely raise a loan, never mind a cheer. Credit growth in India is feeble (see chart 1). A large and growing chunk of the loans advanced to firms during an investment boom that ended in 2012 is turning bad. Problem loans in India's public-sector banks—those that are six months or more in arrears plus those whose terms have been altered to make repayment easier—were 12% of their assets at the last count (see chart 2). The mess is larger than at privately owned banks and is of greater importance, because public-sector banks account for more than 70% of India's stock of loans. A growing concern is that the banks are so hampered by bad assets from the last boom that they are unable to fund a new cycle of investment.

It is a problem that weighs on the Reserve Bank of India (RBI), the banks' regulator. On June 2nd it cut its main benchmark rate by 0.25 percentage points for the third time this year, to 7.25%, despite official figures published a few days earlier showing that India's economy grew by 7.5% in the year to the first quarter of 2015. The RBI said in a statement that concerns about the weak growth in bank credit and investment spending trumped anxiety that inflation, presently below 5%, might shoot up. The central bank called for capital to be pumped into public-sector banks to get credit flowing again. It should be targeted, it said, at banks that have acted to clean up their balance-sheets.

The RBI has tried to get banks to do just that. It has recently insisted that they treat so-called restructured assets (loans that have had their terms eased) with the same caution as a non-performing asset (a loan on which repayment has dried up). Since April 1st banks have been required to make provisions of 15% against both sorts of troubled asset. The idea is to make it costlier for banks to make fresh loans to debt-laden companies on the outside chance that they might make good on the original ones. It has also set up an early-warning system of "special-mention accounts" (SMAs). Banks are now obliged to report loans that look troublesome even if they are not yet overdue. Once a bank reports that a borrower is more than 60 days in arrears, the RBI will convene all its creditors to thrash out a corrective-action plan.

The government of Narendra Modi is also waking up to the problem of bad debt. After a summit in January that brought together finance-ministry bigwigs, bank bosses and senior figures from the RBI, Mr Modi pledged that, in a break with tradition, there would be no political interference in the running of banks. A few weeks later the government sent a message that failure would not be rewarded by electing to put fresh capital only into banks that had reached a satisfactory level of profitability. Just nine of the 20 public-sector banks qualified. In his budget speech in February the finance minister, Arun Jaitley, promised a new bankruptcy code within a year to make it easier for banks to wrest control of debt-ridden companies from their owners. He said the government would set up ▸▸



an autonomous bureau to make senior appointments at state-owned banks, advise on strategy and help with capital-raising.

Jayant Sinha, the junior finance minister, says the government is doing more to ensure the success of public-sector banks than any other since they were privatised. But worries remain. Some analysts fear that the 5-25 scheme, a recent RBI initiative that allows banks to extend debt on long-lived projects for up to 25 years, with a window for refinancing every five years, will be used to disguise unviable lending. As much as 800 billion rupees ($12 billion) of troubled loans might be revamped under the scheme in 2015-16 alone, according to CRISIL, a credit-rating agency.

The government's selective recapitalisation of banks, meanwhile, may induce weaker ones to mask problems in order to prevent their capital from shrinking below the minimum levels demanded by regulators. Progress on the bank bureau has been slow, leaving several public-sector banks without bosses. History suggests that if the government's political fortunes weaken, its resolve not to meddle will too. A paper published in 2008 by Shawn Cole of Harvard Business School found a marked increase in lending to Indian farmers in election years, especially in regions where the vote was close.

Wise heads think India's banking sector will only flourish if it is fully unshackled from government. A report last year from an RBI commission chaired by Pangal Jayendra Nayak, a banker and former civil servant, recommended a three-stage reform process: repealing the laws that dictate a specific governance structure for public-sector banks; beefing up their boards with experienced and independent-minded bankers; and reducing the state's stake to a minority. The latter change is crucial, says Mr Nayak, since that will

Buttonwood | Signs of a slowdown

A weaker yen poses problems elsewhere

THE efficacy of Abenomics, the reform programme of Japan's prime minister, Shinzo Abe, is a matter of vigorous debate. There have been periods of decent economic growth and higher inflation since Mr Abe became prime minister in 2012, but they have not lasted. Japanese GDP is forecast to rise by only 0.8% this year and headline inflation is just 0.6% (the core rate is even lower, at 0.3%).

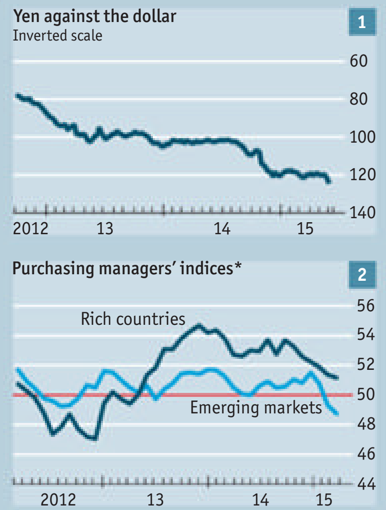
Where Abenomics has clearly made a difference is in the value of the yen. At the end of 2012 it was trading at ¥87 to the dollar; this week, it fell below ¥125, a decline of more than 30% in 30 months (see chart 1). That is down to the Bank of Japan's massive programme of quantitative easing (QE), which involves creating new yen to buy assets; the Bank is printing ¥80 trillion ($644 billion) a year.

A weaker yen creates two challenges for the rest of the world. First, it makes Japanese exporters more competitive and thus weakens the position of rival exporting nations. That is happening at an especially inconvenient time. Over the past three months, all the main emerging markets bar China and Hong Kong have seen weaker exports than in the same period of 2014, according to UBS, a Swiss bank. Global exports fell slightly in May, the first decline in nearly two years.

Some of the recent sluggishness in global trade may be down to changes in the Chinese economy. Chinese manufacturers used to import parts from the rest of Asia and then export finished goods to the rest of the world; now China may be making more of the parts itself. The result is a decline in intra-Asian exports.

That explanation, however, is of scant consolation to other Asian exporters. South Korea's exports have fallen 11% in dollar terms (although less by volume); export growth in the Philippines has slowed to an annual rate of 1% from 13% in the last quarter of 2014. The purchasing managers' indices in many emerging markets have fallen below 50, indicating a contraction in manufacturing (see chart 2).

Beggaring its neighbours



*A reading above/below 50 indicates manufacturing is expanding/contracting compared with the previous month

Sources: Thomson Reuters; Haver Analytics; UBS

The second challenge posed by the weaker yen is the potential deflationary effect. Cheaper Japanese goods will make it more difficult for competitors to raise prices. Lower commodity prices have led to falling headline inflation rates around the world. Central banks have been cutting interest rates in response. The latest example is India, which reduced rates for the third time this year on June 2nd.

A fall in commodity prices is a benign event for consuming nations, the equivalent of a tax cut that supports demand. Fears of a plunge into deflation in Europe have eased somewhat, with both headline and core inflation now positive. But falling prices for finished goods from Asia could yet have a bigger impact. A broad-based measure of Chinese inflation, the GDP deflator, is now showing falling prices. The prices of goods produced by Chinese factories have been falling for more than three years.

The continued willingness of both the Bank of Japan and the European Central Bank to pursue QE indicates continued concern about weak demand and deflation. In such an environment, central banks are happy to see their currencies weaken. The problem is that this exports deflation to the rest of the world.

For financial markets, however, QE means that central banks are absorbing an awful lot of new government debt. That has helped keep sovereign-bond yields low, despite a recent bout of volatility, which has encouraged investors to buy risky assets and allowed stockmarkets to shrug off weak economic data.

American GDP fell in the first quarter, and early indications for the second quarter are wan: the Atlanta Fed's GDPNow model suggests annualised growth of just 1.1%. Britain also had a weak first quarter and the euro zone, although recovering, is hardly sprinting: its composite purchasing managers' index (covering both services and manufacturing) fell in May.

Throw in the weak emerging-market data and it might seem as if the global economy is slowing significantly. But investors remain convinced this a blip. A survey of global fund managers by Bank of America Merrill Lynch in May found that 70% expected stronger economic growth this year, and only 11% thought it would weaken. If recent trends continue, investors may be in for a nasty shock.

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free them from a raft of constraints on state-owned firms, including hobbling civil-service pay scales and recruitment practices, and oversight by anti-corruption agencies that stifles new lending for fear that it will be seen as motivated by kickbacks.

Mr Nayak is said to have received a respectful hearing at the bankers' summit in January. But the government appears to be set on a watered-down version of his reform plan. Despite the clear lead in profitability and stockmarket valuation that private banks enjoy, there is too little challenge in India to the belief that banks should be publicly owned. Indira Gandhi set the terms and they have been slow to change. In government hands, the revival of banking is likely to be fitful. That will inevitably put a limit on how fast India's economy can grow. ■

Investing in airports

Flying high

Why buying airports has taken off

IMAGINE owning a shopping centre that your customers are forced to stay in for several hours. Better yet, everyone who visits is relatively rich, and many are in a giddy holiday mood. Now imagine that the number of these special shopping centres is strictly regulated, giving you a near-monopoly. On top of this you get paid a fee per visitor. No wonder buying airports has become something of an investment fad.

Though potentially lucrative, airports tie up a lot of capital, which is why governments around the world are selling them. Some are being listed on stockmarkets, others sold to private investors. The Japanese government is selling 30-40-year concessions to run some of its airports. France is flogging its regional airports: it sold a 49.9% stake in Toulouse airport to a Chinese-led consortium in December. Investors include pension funds, sovereign-wealth funds, infrastructure specialists and private-equity houses.

What sets airports apart from most investments in infrastructure is their dual income stream: they bring in money both on the aeronautical side (landing fees, contracts with carriers) and from passengers (parking, shopping, hotels). If you own a toll road and traffic dwindles, there's not much you can do. But with an airport there are lots of levers to pull, such as cutting capital costs, firing staff and upping the price of parking. "We love them because they pay a steady income for our retirees, protect against inflation and are a diversifier," says Andrew Claerhout of the Ontario Teachers' Pension Plan (OTPP), which is an investor in four European airports including Birmingham and Copenhagen. Best of all is the bonus that comes from being a monopoly. Returns from well-run airports tend to be in the double digits, markedly higher than more boring assets like bridges.

One way to boost profits is to increase the number of passengers who can be herded through the buildings. Investors including OTPP and Macquarie, a bank, as well as the Belgian government, recently helped to upgrade Brussels airport by linking the European and international terminals, thus centralising security and shopping. Ardian, an investment firm that owns a stake in Luton airport, near London, helped to convince the local train company to increase London-bound services during rush-hour. It also removed a bottleneck at security by opening more lanes and hiring "smiling people" in yellow T-shirts to point passengers to the shortest queue. An upgrade of the terminal, aimed at increasing the number of passengers from 12m to 18m a year, is next.

When an airport has been in public hands, the non-aeronautical parts of the business have often been especially neglected. Buyers often invest in good parking (ie, under a roof and close by), which can become one of the biggest single sources of income. But not all airports are created equal. Those serving capital cities tend to be safer bets, with a steady supply of visitors, come rain or shine (unlike holiday destinations). Ensuring the airport is not dominated by a single carrier is another golden rule, as this makes it vulnerable to strikes or bankruptcy. Buying a stake in an airport of which the government owns a controlling share is risky, as public and private interests are not always aligned.

Europe is currently the hub for airport investing, accounting for more than half of all deals since 2011, according to Preqin, a data firm. That compares to 15% in Asia, 14% in Australasia and 9% in America. But European valuations are reaching dizzying altitudes: Ljubljana airport was sold last year to Fraport, a German airport specialist, reportedly for a lofty 20 times annual earnings. Michael Burns of PWC, a consultancy, points out that the number of passengers is growing twice as fast at many Asian and African airports. By 2020 Indonesian airports will have more traffic than British ones, predicts PWC. More adventurous investors may end up flying long-haul. ■

You can check in any time you like, but you may never leave

America's economy

Blip or blight?

Economists debate the meaning of a contraction in the first quarter

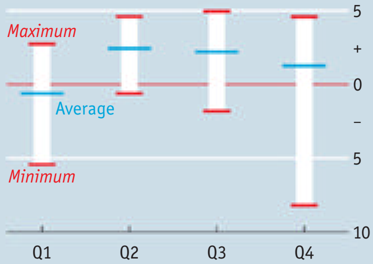
FOR the world's largest economy, 2015 has been a series of disappointments. In March builders began construction on just 944,000 new homes, well short of the million or more that had been expected. In April the number of people out of work and claiming benefits exceeded economists' predictions. And on May 29th official data, which had previously suggested the economy had grown by 0.2% at an annualised rate in the first quarter, were revised to show a contraction of 0.7%. Consumption slowed, investment slid 2.8% and exports dropped by 7.6%.

America still accounts for 23% of the world's output, so a sustained slowdown would have global impact. Happily, most economists offer a comforting explanation: this is all temporary. Start with America's dreadful weather. Though this year escaped the "polar vortex" (the weather system that dragged down temperatures and output in 2014), it was bitterly cold. Thermometers showed record lows in many eastern cities in February. With streets so icy and air so cold it is no wonder consumption expanded at just 1.8% at an

The cruellest quarter

US GDP, quarterly growth rates since 2007

% change on previous quarter, annualised



Source: BEA

annualised rate, much lower than the 4.4% of the previous quarter.

A simple analysis by Aneta Markowska of Société Générale, a French bank, tracks the correlation between anomalous temperatures and GDP. It suggests that the freeze lowered first-quarter growth by around 1.9 percentage points. The good news, she argues, is that the trend should reverse with improving weather.

Oil markets, boiling last summer, have cooled too. In the second half of 2014, the price of America's benchmark crude, WTI, dropped from $106 a barrel to below $60. With the reward for finding oil falling sharply, the amount spent searching for it and extracting it has tumbled too. According to data from Baker Hughes, a firm that provides services to oil companies, the number of rigs drilling for oil fell from 1,866 a year ago to 875 on May 29th.

With time, cheap oil should help the economy, by leaving consumers with more to spend on other things. At the start of June petrol (gasoline) prices were $2.67 a gallon, nearly a dollar cheaper than a year ago. Some shoppers, fearful that they would soon rise again, may initially have saved this windfall. But inflation has now disappeared for goods like food, which cost a lot to transport and so are affected by energy prices. As the benefit of cheaper oil feeds through the supply chain, the increase in income may seem more permanent, and so spur spending.

America's anaemic exports may gain strength too. Millions of tonnes of petroleum products and chemicals are shipped out through the ports of Los Angeles and Long Beach each year. A strike sapped activity at both by more than 3% in the first quarter. With the dispute resolved, they are now exporting record amounts. The exchange rate may help. The dollar rose by almost 9% in trade-weighted terms in the second half of 2014, as the American economy strengthened, making exports more expensive for foreigners to buy. That run-up has since reversed, with the greenback down 2% since March.

Those who believe that the economy's contraction is a blip also advance an even simpler argument. Whatever the reason, since the onset of the subprime crisis in 2007, the first quarter has consistently been a bit of a dud. The average outcome has been a contraction; even in the best first quarter of late (that of 2013), the economy grew by only 2.7% on an annualised basis (see chart). That logic, and the host of temporary factors hitting consumption, investment and exports, suggests much more can be expected from the second quarter. If it too is a disappointment, optimists will find the news much harder to shrug off. ■

Social isolation

With a little help from my friends

Poverty is about who you know as much as what you earn

"I LIKE money and nice things, but it's not money that makes me happy. It's people," says one woman in a World Bank survey. She's not alone: research has found that social integration is more important for well-being than income, and also decreases poverty. Loneliness, conversely, can be deadly: one study found it did more damage to health than smoking. This week, policymakers from 40 countries met in Colombia to ponder ways to measure deprivation that take account of more than just income, including isolation. Several Latin American countries are devising or have already adopted such "multi-dimensional" measures of poverty.

Income can be a misleading measure of need because poor people end up living in different degrees of hardship depending on their intangible resources. Having strong social bonds eases financial deprivation. Friends and relatives can lend money, pool risk, mind children and bring news of job openings. Researchers from the London School of Economics found that when a group of Bangladeshi women were given business training and free livestock, not only did they move up the income ladder, but their friends' lot improved too. A year later the friends' consumption had risen by almost 20%, and they claimed to have become savvier about business as well.

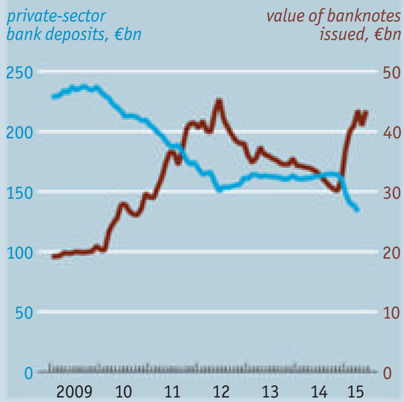
The downside is that not having the right friends can cement hardship. The more concentrated the poverty, the less helpful social networks tend to be. In Atlanta, living in a poor neighbourhood decreases the chance of having a friend with a job by almost 60%, and of having a friend who had been to university by over a third. A global survey conducted in 2014 by Gallup, a polling firm, found that 30% of people in the poorest fifth of their country's population had nobody to rely on in times of need, compared to 16% of the richest fifth. It is doubly unfortunate, then, that poor people are often socially excluded precisely because they are poor. Chileans and Venezuelans see poverty as a bigger cause of discrimination than gender or ethnicity, according to researchers from Oxford University.

Several countries have experimented with schemes that connect lonely old people and deprived youth. Germany, for instance, has built "multi-generational" community centres where older visitors get computer coaching from teenagers. With luck, these connections will help: one American study found that in poor neighbourhoods, three-quarters of jobholders found work through friends. Perhaps Germany's centres will furnish income as well as company.

Stuffing mattresses

As *The Economist* went to press, Greece was locked in talks with its creditors (see Charlemagne). Without a deal, its ability to pay its bills, starting with €300m ($338m) due to the IMF on June 5th, was in doubt. Greek depositors seem to fear that a default might lead the government to shore up the country's finances by freezing accounts or converting them to a new, less valuable currency. At any rate, since December they have been withdrawing money at a more frenetic pace than at any point in Greece's long crisis, much of it in cash. That has forced the central bank to print more euro notes.

Greece's:



Sources: Bank of Greece; Bloomberg

Banks and money-laundering

A fearful number

A bank rejects American accusations that it abetted financial crime

NO NUMBER strikes fear into bankers' hearts like "311". That is the section of America's Patriot Act of 2001 that gives the Treasury sweeping powers to act against those who facilitate financial crime, anywhere in the world, by labelling them a "primary money-laundering concern". For firms badly behaved or unlucky enough to be targeted, a 311 designation is more often than not a death sentence.

The latest use of the power, in March, was against Banca Privada d'Andorra, a small money-manager based in the mountainous financial haven nestled between France and Spain. The move in effect shut the bank and its subsidiaries out of America's financial system, preventing them from concluding any transactions denominated in dollars—an essential function for almost any bank. BPA's Spanish unit has since been liquidated. The parent has been placed under the control of the Andorran authorities.

FinCEN, the arm of Treasury that handed out the black spot, accuses the bank of aiding money-launderers from China, Russia and Venezuela. It alleges that high-level managers knowingly facilitated untoward transactions, as well as €20m ($22m) of cash payments for a Chinese client linked to a criminal group engaged in human trafficking. The bank's chief executive is in custody in Andorra.

BPA's controlling shareholders, the Cierco family, are pushing back. They admit that they are not directly involved in the bank's management, and cannot be sure there was no wrongdoing. But the instances of alleged laundering highlighted by FinCEN are generally several years old, they point out; in one case the bank was forced by an Andorran court to release funds from an account the bank had frozen. Moreover, BPA had undergone regular anti-money-laundering audits by KPMG and Deloitte since 2003 and had, as far as the family is aware, acted on the auditors' recommendations. They question whether the American authorities took sufficient account of the impact of their action on the vast bulk of the bank—which, they claim, had no part in the alleged transgressions.

Regardless of who is right in this case, there are several reasons to question the use of 311. FinCEN does not use this nuclear option often: in 13 years it has been dropped on just over a dozen financial firms and four countries (it can be applied to an entire jurisdiction if the authorities are deemed to be complicit in the misconduct). When it does, the target is generally small or strategically unimportant. "They are cracking small nuts with a giant sledgehammer," says a lawyer who has worked on one of the cases.

Some see double standards in this. It is striking that no 311 measures have been taken against banks in strategically significant Middle Eastern countries where money-laundering is a big concern, such as the United Arab Emirates, or against any banks from Western countries, including America itself, that have been caught facilitating money-laundering on a large scale or operating with woefully inadequate controls, such as Wachovia and HSBC. A lawyer who alerted American officials to a big money-laundering scheme in Bahrain and Saudi Arabia says they showed no interest. America applies 311s "in a political way", says Jason Sharman, an expert in financial crime at Australia's Griffith University, even if some or all of the recipients have indeed done what they are accused of.

Another alarming feature of 311s is that there is no requirement to make detailed evidence public, or even available to a court, to justify the action. It is an administrative procedure, not a judicial one. Only the Treasury knows how much evidence it has, and how reliable it is. Moreover, there is scant recourse for those targeted. Challenges can be heard by a federal court, but the bank has to show that the action was "arbitrary and capricious", which is especially hard to prove given the secrecy of the process.

If the Treasury is shown to have made a mistake in designating a bank, or changes its mind for other reasons, it is almost impossible to repair the damage. Several targets have succumbed right away. Even those that have had their 311 lifted struggle to be rehabilitated.

Banco Delta Asia, a small outfit based in Macau, was hit with a 311 in 2005 on suspicion of helping North Korea evade sanctions. Other American government departments objected, fearing the move would undermine talks on North Korea's nuclear programme. But even though the Treasury revoked the designation, other banks still refused to do business with Banco Delta Asia. The measure "had unleashed the private sector to isolate rogue financial behaviour—like antibodies in the international financial system, rejecting the virus of North Korean contact", says Juan Zarate, a former official, in his book, "Treasury's War". The Federal Reserve had to step in to help return depositors' funds. It will come as small consolation to BPA's owners that Banco Delta Asia is still in business and has challenged the 311 procedure in an American court. ■

Financing capital goods

Keeping the grease

NEW YORK

Why GE is retaining one bit of its finance arm

THE headlines focused on the fact that GE, a big industrial conglomerate, is beginning to sell off its $500 billion finance arm in small chunks. This week it put a $40 billion portfolio of corporate loans up for sale. But not all of GE Capital will end up on the block: GE is keeping the $90 billion division that finances purchases of medical equipment, power-generation gear and aeroplanes, or leases them to users. In part, that is because those fields are critical to GE: it makes all or part of the products being financed or leased. But it is also because the financing of old-fashioned capital goods is a booming business.

The gear GE sells is expensive; would-be buyers often lack the capital to buy it outright. For GE, therefore, the financial engineering that underpins the use of its wares is as important as the mechanical engineering that created them. Many hospitals, for instance, do not buy expensive scanners from GE, but lease them instead. When it develops improved versions, it helps the hospitals swap the new generation for the old, by passing the outmoded gear to another, thriftier institution, and so on down a long chain. By the same token, the sale of a plane that appears to be from Boeing to an airline may in fact be a sale to GE and a lease to the airline. In 85% of these cases, the plane will have engines made by ▸▸

Elementary

Element Financial share price, $

Source: Bloomberg

GE or a joint venture.

Manufacturers have financed purchases of their own products for a long time, with mixed results. General Motors started its own finance operation, General Motors Acceptance Corporation (GMAC), in 1919, which helped it to expand its customer base and thus boosted its profits for decades. Eventually, and disastrously, GMAC expanded into mortgages. Just before the crisis, GM sold half of GMAC to raise money. Its subsequent collapse and nationalisation contributed to GM's own bankruptcy in 2009.

Yet in 2010, shortly after GM had emerged from bankruptcy and while it was still under government control, it spent $3.5 billion in cash—a vast amount given its straitened circumstances—to purchase AmeriCredit, a Texan subprime auto lender. The company has since been renamed GM Financial. Its assets have grown from $11 billion to $49 billion in five years, an astonishing rate for a financial institution in recent years. China, where car-buyers are beginning to rely more on credit instead of buying with cash, is one area where it is growing fast.

Toyota continues to own a bank in America to help customers finance car purchases. BMW does as well. Car loans, after all, proved much more resilient during the crash than other forms of credit. For companies that do not have such financing arms, often because they use all the capital they can raise cheaply in their core business, a relationship with a finance firm is vital. This is all the more true, says Vincent Caintic of Macquarie, a bank, as ever stricter regulation makes it increasingly expensive for banks to offer car loans and the like.

Element Financial, a Canadian firm, has carved out a lucrative niche financing specific items, such as the railcars produced by Trinity Industries, an American conglomerate, and the small diggers made by Bobcat, part of a South Korean one. It went public in 2011 and its shares are up fourfold since (see chart). Over the same period, the S&P index of North American firms in financial services has not even doubled. ■

New rules for IPOs in America

Open season

NEW YORK

A new era begins in America's securities markets

SOMETIMES revolutions have small beginnings. SeedInvest is a three-year-old company with 20 employees sharing space in a second-tier building near Wall Street. But it has positioned itself to be at the heart of a fundamental change in America's capital markets.

On June 19th Title IV of the JOBS (Jumpstart Our Business Startups) Act of 2012 goes into effect. It will change how small companies raise money. Those seeking $20m-50m will be able to offer their shares to the public while skipping some of the most costly regulatory requirements that normally involves, including being vetted by state officials, issuing quarterly reports and listing their shares on an exchange.

In the past, firms that did not meet those requirements could only raise money from investors with a net worth in excess of $1m or $200,000 in annual income. Ten thousand people who did pass that test have signed on to SeedInvest's system. With the lifting of the rules on income, any adult American can now invest in small share offerings, according to Ryan Feit, SeedInvest's chief executive.

A wide range of companies could benefit. Last year 14% of conventional initial public offerings were for less than $50m; so far this year it is 22%, according to Renaissance Capital, a research and fund-management firm. Such companies can now benefit from crowdfunding, the raising of capital from a large numbers of investors, each contributing small amounts. SeedInvest is among a handful of new electronic platforms that are designed to facilitate the process. In its brief existence, it has already channelled $25m to 40 firms. Qualifying companies must meet certain standards, such as having a functional prototype of any planned product (not just an idea), customers, and reasonable investment terms. Only 1% of applicants pass the test.

Hyped listings no longer required

Sam Guzik, a California lawyer, predicts many firms will take advantage of a "test the waters" provision in the rules allowing them to float the idea of an offering, discussing it with the media and investors, before paying to have a formal proposal prepared and reviewed by the Securities and Exchange Commission (SEC). In the past, it was feared that such marketing might allow small investors to be suckered by unsubstantiated hype. State officials still have concerns on that score. In 2013, as the SEC deliberated over the rules implementing the act, William Galvin, the secretary of state of Massachusetts, wrote to it to say he was "dismayed and shocked" that state vetting of public offerings would be curtailed. Small offerings, he claimed, were particularly vulnerable to risk and fraud. On May 21st Massachusetts asked a court to block the new rules, and Montana quickly followed suit.

Are their fears justified? One reason for optimism is the experience of Kickstarter, a platform used to raise money for projects in exchange for rewards rather than equity. Kickstarter projects have no disclosure requirements, making it easier to defraud contributors. Nevertheless, after reviewing more than two years' worth of data, Ethan Mollick of the University of Pennsylvania concludes that fraud is almost nonexistent at Kickstarter. The completion rate of projects that receive their desired level of funding is 86%, suggesting that commitments are largely honoured.

Mr Mollick attributes this lack of fraud to what has become known as "Linus's Law", after the originator of Linux, a free computer operating system. He argued that mass vetting would quickly expose any glitches. One example on Kickstarter was a fraudulent effort to fund jerky made from Kobe beef. Initially seen as a brilliant idea, it was quickly exposed by potential users who questioned the use of fatty beef for a stringy product, and pointed to the scarcity of appropriate livestock.

Crowds, it appears, are attentive to details. A spelling mistake in an offering document reduces the chances of a Kickstarter funding by 13%. And 90% of the manufacturing projects that were fully funded have ended up becoming functioning firms. Platforms offering a financial return might have a different outcome, of course. But there is no reason to expect that people hoping to make money would be any less exacting than those giving it away. ■

Are you asking enough questions about the way your wealth is managed?
In life, you question everything. The same should be true when it comes to managing your wealth. Do you know what your broker is basing their recommendations on? Do they stand by their word? Do you know how much you're paying in fees? And how those fees affect your returns? Ask your broker, and if you don't like their answers, ask again at Schwab. We think you'll like what our Financial Consultants have to say.
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Free exchange | The force assaulting the euro

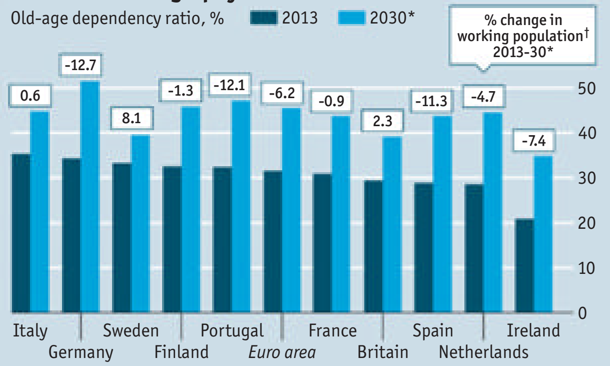
Europe's ageing population poses a long-term threat to monetary union

THE euro area has been doing better of late: growth of 0.4% in the first quarter (1.6% on an annualised basis) was the strongest in the two-year recovery; unemployment has fallen to 11.1%, its lowest in three years; and inflation is positive again. There has even been a surge of hope that Greece's membership of the currency may yet be preserved. But even if a deal is stitched together to keep Greece in, the euro will soon face a broader crisis. The slow growth and strained government finances of recent years will soon be dramatically amplified by demography. And the member facing the most severe onslaught is not a small Mediterranean country but Germany, the euro area's muscleman.

The economic impact of an ageing population is initially positive but ultimately negative. The big generation born after the second world war contributed for many years to higher growth by making the workforce larger, both in absolute terms and relative to the population as a whole. But as baby-boomers retire, they are being replaced by smaller generations born when fertility was much lower. Unless there are offsetting improvements in productivity or retirement ages rise sharply, that will pull down potential growth, since there will be fewer people available to work. The shift is determined by births that occurred many years ago and medical advances that are stretching longevity, and is therefore inexorable. An influx of young migrants can only temper it, since the native population is inevitably much bigger than the number of new arrivals.

The fiscal impact of an ageing population also has two phases. In the first, public budgets enjoy a bonus as the rising number of workers swells tax receipts while the relatively smaller number of the old restrains the cost of pensions. But as the baby-boomers retire the bonus turns into a penalty. There are fewer people in the working-age bracket to pay taxes while the growing number of retirees pushes up age-related spending in two main ways. More people begin drawing public pensions, and their health care, which is mainly provided by governments, becomes more expensive. Although expenditure on education tends to fall, the savings are relatively small.

America's post-war baby boom began earlier than Europe's, right after the war. Its birth rate peaked in the late 1950s. That has meant that the first of its baby-boomers are already retiring. But because its fertility has stayed close to the replacement rate (just over two children per woman) and immigration has been relatively high, its working-age population continues to grow.



The toll of demography

Source: European Commission, *The Economist* *Forecast †20-64-year-olds

In contrast, Europe's baby boom only really got under way in the 1950s and peaked in the mid-1960s, so Europe is only now entering the negative phase. But Europe's baby boom was weaker than the American version and its fertility rate fell further and faster after it. It dropped well below the replacement rate in the 1970s and has stayed especially low in southern Europe and Germany. (In Britain and France it has risen back to American levels in recent years.)

That means the effect of the inflection will be especially profound in the euro zone. New projections recently published by the European Commission spell out both the magnitude and the imminence of the shift. Between 2013 (the base year for the forecasts) and 2030 the euro zone's working-age population will decline by 6% (see chart). The decline is likely to be particularly pronounced in Germany, where the pool of potential workers will shrink by 13%. The fall in France, in contrast, will be only 1% and Britain will experience a small increase, of 2%.

As the working-age population falls, the ranks of pensioners will be growing. That double squeeze pushes up the old-age dependency ratio (defined as those aged 65 or more relative to 20-to 64-year-olds). In the euro area as a whole the ratio moves up from 32% in 2013 to 45% in 2030. The demographic change is especially intense in Germany, where the number of pensioners will rise by 5m (an increase of 30%) even as the working-age population falls by over 6m. That will drive up its dependency ratio from 34% to 52% in 2030—the highest in Europe apart from the small Baltic state of Latvia.

No rest for the childless

These adverse demographic influences do not automatically condemn the euro-zone economy to even more sluggish growth. In principle higher productivity growth could compensate for the declining number of workers, which by the mid-2020s will be pulling down Germany's GDP growth by around 0.7 percentage points a year, according to the Commission's projections. However, even before the financial crisis, productivity growth in the euro area had slowed. It has been nugatory during the euro crisis of the past four years. For it to recover even to its previously disappointing rate of 1% a year would be an achievement in itself.

The most obvious response to an ageing population is for older people to carry on working and for pensions to be paid later in their lives. Changes made in Italy in 2011, for example, yanked up the retirement age. This could potentially raise the labour supply sharply as more 50- and 60-somethings stay in the workforce. Similarly, in or out of the euro zone, Greece needs to tackle early retirement. Even with such reforms, however, the zone will struggle to grow at a reasonable rate in the next 15 years. That will make it tough to tackle the big private- as well as public-debt overhangs that afflict many of its member states, leaving them vulnerable to further setbacks.

The fact that ageing will be especially pronounced in Germany matters because of its weight in the monetary union. The resilience of its economy bolstered the euro area during the crisis. But demography will weaken the zone's biggest economy. Indeed the new projections show Britain (assuming it stays together and remains in the European Union) supplanting Germany as the most populous country in the EU by 2050. The ageing of its population will hobble the euro area's strongman. ■

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Oncology

And then there were five

CHICAGO

Doctors are trying—with some success—to recruit the immune system to help with the war on cancer

THERE are, broadly speaking, four ways to fight cancer. You can cut a tumour out, with surgery. Or you can try one of three different ways of killing it. Radiotherapy targets tumours with radiation. Chemotherapy uses chemicals that poison all rapidly dividing cells, cancerous ones included. "Targeted therapies", as their name suggests, recognise particular features specific to cancer cells.

Singly and in combination, these four types of treatment have contributed to a steady increase in the survival rates for most kinds of cancer. Now they may be joined by a fifth. At this year's meeting of the American Society of Clinical Oncology (ASCO), in Chicago, the assembled researchers heard about the latest progress in "immuno-oncology".

Modern medicine provides every reason to think that the immune system—which, after all, is there to keep the rest of the body safe—can and does attack cancers. People whose immune systems have been weakened, either by disease or by medicines designed to help them tolerate organ transplants, run a greater risk of malignancies. Many risk factors for cancer, such as a bad diet, heavy drinking, stress and smoking are known also to affect the immune system. Exercise, thanks to the boost it gives the body's defences, can improve cancer survival rates.

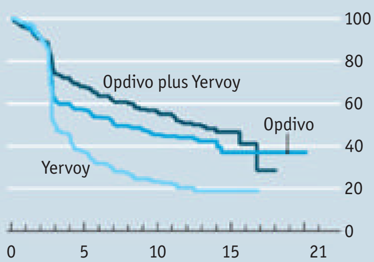
But attempts to give more specific jolts have been unimpressive. Vaccines have had mixed results. The successful ones, such as the vaccine for cervical cancer, work by fending off ordinary bugs that happen to be associated with tumour formation. A true cancer vaccine—which would stimulate the immune system to recognise telltale proteins produced by cancer cells themselves—has proved elusive.

Now, though, a new generation of treatments offers new possibilities. Like targeted treatments, these new approaches often use antibodies—proteins that match up to other proteins with great specificity. Unlike the targeted therapies, though, the new treatments do not directly attack cancerous cells, but instead unleash the immune system on them.

Cancer seems to use three strategies to evade the body's defences, says Edward Bradley of MedImmune, a drug-development firm based in Maryland. One is to present itself to the body in such a way that the immune system fails to recognise it as something that should be killed. Another is to interfere with the abilities of T-cells, whose duty it is to carry out such killings and which, by hanging around for decades in the body, provide durable immunity to a given disease. Lastly, there are all sorts of ways in which the immune system as a whole can be suppressed.

Better, longer

Patients whose melanoma did not worsen, %
When treated with:



Months since start of trial

Source: *New England Journal of Medicine*, 2015

Oh no you don't

It is the second escape route that many of the firms attending the ASCO meeting hope to cut off. A lot of tumour cells express proteins on their surfaces—so-called "checkpoint" proteins—that bind to complementary molecules on T-cells in a way that persuades the immune system to leave the tumour alone. In 2011 Bristol-Myers Squibb, a drug company, introduced a product called Yervoy, an antibody that binds to one of these deceptive checkpoint proteins, CTLA-4, and thus thwarts its attempts to fool the immune system. Yervoy was the first drug to prolong the lives of patients with melanoma; compared with the standard treatment it reduced their risk of death by about a third. Excitingly, tumours in a small number of patients went away and did not come back.

Last year Merck, another big drugs firm, brought out Keytruda, an antibody that targets a checkpoint protein called PD-1 in a similar way. After a year, 74% of those who received Keytruda were still alive, compared with 58% for those on Yervoy. Bristol-Myers Squibb has since developed Opdivo, another PD-1 drug; Roche and AstraZeneca, two more drug companies, have similar treatments in the pipeline.

Since there are now treatments aimed at more than one checkpoint protein, one question was whether a combination might be more effective than any one drug ▸▸

alone. Research presented to the conference suggests that it is. Progression-free survival in melanoma (in other words, the amount of time during which a patient's cancer did not become worse) was 6.9 months for those on Opdivo alone and 2.9 months for those taking only Yervoy. Patients given both, though, posted an average time of 11.5 months (see chart).

Checkpoint inhibitors seem to work with other types of cancer, too. Keytruda is effective against some colon cancers and in metastatic head-and-neck cancers. Opdivo, now approved to treat a common form of lung cancer, has shown early promise against liver cancer. Propitious results have also been seen in bladder and kidney cancers. For late-stage lung cancer, where the best treatment is chemotherapy, the fraction of people still alive after five years is typically just 5%. Combinations of immuno-oncology drugs have boosted this to between 20% and 30%. A blizzard of treatment-comparison studies is under way.

Miracles are rare in medicine, and doubly so in oncology. Those encouraging—even spectacular—lung-cancer numbers hide big disparities. Although some patients get a long-term reprieve, there are more for whom checkpoint inhibitors make little difference, or even none at all.

One theory is that some tumours may be employing Dr Bradley's first avenue of escape; instead of (or as well as) trying to hide from a T-cell response, they try to avoid provoking such a response in the first place. Juno Therapeutics, in Seattle, hopes its CAR-T therapy will close that route off, too. This involves extracting T-cells from a cancer patient and modifying them with gene therapy so that they produce a tumour-recognising protein on their surfaces. These cells are multiplied in a dish and put back into the patient's body.

Immune Design, another Seattle firm, wants to do something similar, but from within. It has created a virus that can alter the genetic make-up of dendritic cells, the immunological sergeant-majors responsible for educating T-cells about new threats. Alongside the virus are an antigen and an adjuvant, harmless substances that stimulate T-cell production. The hope is the cocktail will produce an army of primed T-cells.

Checkpoint, counterpoint

Some, maybe many, of the patients who do not respond to checkpoint blockers at the moment might do better if they were given a simultaneous dose of T-cells that already recognised the enemy. It might also be prudent to revisit cancer vaccines to see if their effectiveness improves when used in combination with checkpoint inhibitors. Perhaps they were doing a good job in setting up an immune response only to have the tumours promptly dampen it.

If combining the different forms of immunotherapy with each other offers promise, so does combining them with the mainstays of cancer treatment—an area in which there is now a lot of research. They might be useful just after surgery, for instance, to mop up any stray cells that the surgeon's knife has missed. They may work well, too, with the targeted therapies that try to choke off tumour growth at the source. Tumours often develop resistance to such targeted therapies; hitting them with a biological double-whammy might make that less common.

The new treatments look promising. But they do not look cheap. Yervoy costs $130,000 per patient per year, Opdivo about $150,000. As more drug companies pile in, patients can hope that competing drugs will hit the market soon. But as the rich world grows older, fatter and therefore more cancer-prone, one salient question is how lucrative immuno-oncology might prove for drugs firms—and how affordable for the insurers and governments that would have to buy them. ■

Helicopter technology

Chop-chop

Strange new rotor-blade arrangements make for faster helicopters

HELICOPTERS have clear advantages over fixed-wing aircraft. But they also have a big drawback: they are slow. The fastest struggle to exceed about 320kph (200mph)—less than the cruising speed of a second-world-war-era propeller plane.

At an aircraft-testing facility in Florida, though, a strange-looking helicopter has taken to the skies that may help to close that gap. There are two striking things about the Sikorsky S-97 Raider. The first is its set of two rotors, mounted one on top of the other and turning in opposite directions around a central shaft—much like the radio-controlled helicopters sold in toy shops. The second is the absence of a tail rotor. In its place sits a backwards-facing "pusher" propeller.

Start with the rotors. Such a "coaxial" arrangement has been found in a few helicopters over the years. Kamov, a Russian company, makes one that is often used to lift heavy loads. But the mechanical complexity and the risk of the blades hitting one another has made such machines unpopular. Modern engineering methods, together with the use of stiffer carbon-composite blades that are less likely to flex and collide, promise to reduce such problems.

And twin rotors provide several advantages. They offer inherent stability—which is why children can fly the model choppers equipped with them. The single set of rotors on a standard helicopter produces a rotational force, or torque. Without a tail rotor to counter it, the fuselage would spin in the opposite direction to the rotors. The counter-rotating blades of the Sikorsky machine cancel each other's torque.

They also allow more speed. Like a fixed wing, a rotor blade provides lift proportional to the amount of air flowing over it. In forward flight an advancing blade moves faster, relative to the surrounding air, than a retreating one. That creates uneven lift that tries to roll the chopper over.

To deal with the problem, helicopters can tilt the blades themselves, and thus vary the amount of lift they generate, as they spin—but only up to a point. Since coaxial rotors have an advancing blade on each side of the aircraft, they produce balanced lift at all speeds.

Well, almost all speeds. A helicopter also uses its blades to provide forward thrust. The faster it goes, the faster the tips of its rotors spin. Eventually they will exceed the speed of sound, which causes shock waves that make the machine unflyable. That is where the S-97's propeller comes in. By providing much of the forward thrust, it allows the rotors to turn at a slower speed, sufficient only to maintain lift. The upshot is that Sikorsky reckons the S-97 will be able to cruise at 440kph.

A second prototype of the S-97 should be in the air later this year. Sikorsky hopes that American's armed forces will order some. But it may face competition from the V-280 Valor, which is being developed by two other American firms, Bell and Lockheed Martin. This is a smaller version of the V-22 Osprey, which is already used by American forces. Both are "tilt-rotors", which means they use rotors mounted on the end of a pair of stubby wings that tilt through 90 degrees. This allows the aircraft to take off like a helicopter when the rotors are pointed upwards, but fly like a fixed-wing aircraft when they point forward. It is possible that both technologies will find favour, giving vertical-take-off aircraft a range of new looks. ■

Portable robots

A handy collaborator

SEATTLE

How to combine man and machine without creating a cyborg

THE most popular event at the International Conference on Robotics and Automation, held in Seattle at the end of May, was the Amazon Picking Challenge. Dozens of humanoid robots competed to move items ranging from rubber ducks to paperback books between shelves and a plastic bin, thus simulating the process of assembling an order at the retailer's warehouse. An enthusiastic crowd of academics and roboticists gathered to applaud every success. In the event their cheers were few and far between. Many robots failed to grasp a single item. Even the winner picked just ten during its 20-minute test.

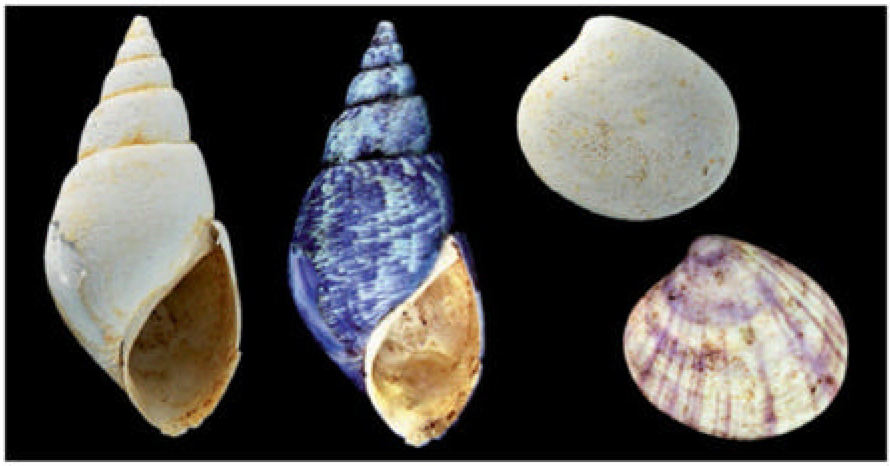
The problem is that although robots are good at precise, complex activities like welding a car, they are terrible at tasks humans find trivial, such as recognising objects and planning how to navigate or work around them. Building a robot that can move (slowly) through a home or workplace also requires lots of computing power, sophisticated actuators (a type of motor), a host of sensors and a hefty battery. Little surprise, then, that some of the robots in the Amazon competition cost as much as half a million dollars.

A more sensible solution, according to Walterio Mayol-Cuevas of the University of Bristol, in England, is to use people for navigation and planning and give robots the freedom to do what they do best. In a paper he presented at the conference, Dr Mayol-Cuevas described an intelligent hand-held robot which he and his graduate student Austin Gregg-Smith have built. Using a grass strimmer as a base, they designed a tentacle-like robotic arm that can move freely in any direction. Motors pull cables that flex a carbon-fibre rod, at the end of which a variety of tools can be attached. In the prototype, these included a magnetic gripper for placing floor tiles in a specific arrangement and a virtual paintbrush for colouring on a computer screen. A human operator carries the robot to the right place and pulls its trigger. The robot then goes to work automatically, twisting its head to paint a preprogrammed picture or to grab a tile of the colour needed to complete a pattern.

Dr Mayol-Cuevas and Mr Gregg-Smith have also built a second prototype, with a spinning brush at its tip. This, they suggest, could make the perfect cleaning tool. As Dr Mayol-Cuevas observes, human cleaners can get sloppy—not scrubbing thoroughly enough or, perhaps, missing a spot. In a place like a hospital that can matter a lot. But a robot can keep track of what has and has not been cleaned and direct the operator there. It may even be able to reach into spaces that are inaccessible to a person.

Dr Mayol-Cuevas's robots employ basic gestures to communicate with their users, such as pointing at places where they would like to be put to work or shying away from tiles of the wrong colour. Tests suggest the devices reduce both the time required to complete a task and the difficulty of doing so. Dr Mayol-Cuevas thinks that, as well as helping experienced operators to do a better job, hand-held robots will eventually let unskilled users tackle difficult tasks like bricklaying. He hopes that might lead to civic "crowd-building" efforts, in which passers-by simply pick up smart tools and contribute to the construction of new houses and schools.

At the moment, though the prototypes have internal batteries, they rely on external computers and motion-capture sensors to provide the information needed to guide their human operators. However, the two researchers hope to change that for their next robot by incorporating a Kinect, a motion-tracking device developed by Microsoft for use in video gaming. Dr Mayol-Cuevas also wants to improve the robots' communication skills, perhaps by adding a small screen or giving them the power of speech. Whether that is wise remains to be seen. The idea of having an argument with a paint brush about whether a wall has been painted properly sounds surreal. ■



See shells

The pigment molecules that give living things their dazzling colours are delicate things that degrade over time, which is why the palaeontological specimens in museums often look dull. But a trick discovered in the 1970s helped: dipping ancient shells in sodium hypochlorite (the active ingredient in household bleach) and then exposing them to ultraviolet light revealed colours and patterns that could not otherwise be seen. The approach remained little-known, but this week a study in *PLOS ONE* hugely extends the age of shells examined with it. Specimens from the Jurassic period, unearthed in France, showed complex patterns that researchers thought did not arise until 100m years later. The shells' colours arise from leftover, degraded pigment fragments, so they are unlikely to be those the creatures displayed in life. But the patterns will be a great help in piecing together how these ancient gastropods and bivalves led to today's.

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Economic and social justice

Mind the gap

Anthony Atkinson, the godfather of inequality research, on a growing problem

CONTEMPORARY books on inequality are divided into those published "BC", or before "Capital in the Twenty-First Century" by Thomas Piketty, or "AP", for after Piketty. The 44-year-old French economic historian's study of rising wealth and income inequality, which first came out in French in August 2013, caused a storm when it was published in English seven months later and became an international bestseller. The book did an excellent job of focusing people's minds on the subject. It also set the lines of empirical battle and even offered a possible remedy: a global tax on wealth. If Mr Piketty whetted the public's appetite for discussions of inequality, he also made it far more difficult for subsequent authors to say something new and original about it.

That is unfortunate for Sir Anthony Atkinson, a British economist who has now written his own book. Sir Anthony, who is 70, has been working on inequality and poverty for more than four decades. He was an academic mentor to the young Mr Piketty and they worked together on building an historical database on top incomes.

Mr Piketty's book sprawled over more than 600 pages, laying claim to the intellectual traditions of David Ricardo and Karl Marx and serving up a neat, all-encompassing (if controversial and widely challenged) theory of long-run inequality. Wisely, Sir Anthony has chosen a more

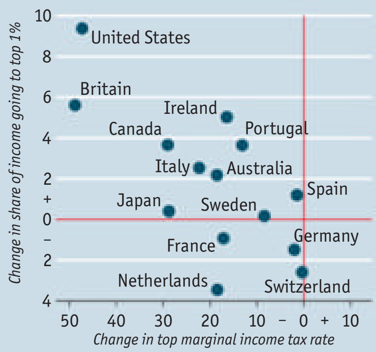
Inequality: What Can Be Done? By Anthony Atkinson. *Harvard University Press; 384 pages; $29.95 and £19.95*

digestible approach; "Inequality" is quieter, shorter and more direct. Whereas Mr Piketty offered long ruminations on Honoré de Balzac, Sir Anthony's is a crunchy book that analyses policy discussions in detail but avoids dullness, thanks to its unapologetic support for aggressive government intervention.

In the event, Sir Anthony is more radical than Mr Piketty; he calls for robust taxation of the rich whom he reckons have got off easily over the last generation (see chart). But that's not all. He believes government should meddle in markets in all sorts of ways to influence the distribution of economic rewards. Sir Anthony's recommendations are a throwback to the 1960s and 1970s, when trade unions were a dominant force in politics and the state was seen as a much-needed check on markets. Even the most egalitarian economists, such as Mr Piketty, are reluctant to recommend employment guarantees and wage controls. Sir Anthony is not. And if his arguments are not always wholly convincing, he may nonetheless succeed in shifting the debate.

More in their pockets

Change in income shares and top tax rates
1960-64 to 2005-09, percentage points



Source: "Inequality" by Anthony Atkinson

"Inequality" begins with a clear statement of the harm done by rising income gaps: they unfairly punish those who suffer bad luck. They undermine economic growth and social cohesion. Perhaps most importantly, inequality in economic resources translates directly into inequality in personal opportunity. Wealth generates comfort even when it isn't being spent; the rich enjoy the fact that they are insured against future hardship or could use their wealth in future to satisfy personal or professional goals.

The book then turns to the data and describes a familiar distributional picture. Inequality across rich countries was high before the two world wars of the 20th century. It fell to striking lows after 1945 and then began growing again around 1980 (see chart next page). Rising income inequality is a feature of most rich countries, especially America and Britain, and parts of the emerging world, including China. Sir Anthony is not interested in outlining any fundamental economic rules. Instead he carefully walks the reader through the ▸▸

ways that different forces have pushed incomes apart historically.

In America, for instance, incomes at the top of the scale began pulling away from the rest quite soon after 1945. Yet household inequality—taking account of taxes and transfers—did not rise until what Mr Atkinson calls the "Inequality Turn" around 1980. Several factors contributed to this, including changes for women and work. After the second world war, when female labour-force participation grew rapidly, high-earning men tended to marry low-earning women; the rising numbers of working women reduced household inequality. From the 1980s on, by contrast, men and women tended to marry those who earned like themselves—rich paired with rich; rising female participation in the workforce exacerbated inequality.

If I were a rich man

Sir Anthony dwells on one class of contributory factors above all others: the subtle (and not-so-subtle) ways the rich are able to influence government policy in order to protect their wealth. When governments prioritise low inflation over low unemployment, or low taxes over investment in infrastructure or education, they are responding to the preferences of the rich.

Rising top incomes (and stagnant low ones) are partly caused by long-running trends like globalisation and technological change. But people should not take those trends, or their consequences, as given, he argues. Government plays an important role in shaping the direction of technological change; autonomous vehicles, which may eliminate millions of jobs for less-skilled workers, owe critical technologies to research sponsored by the American government. A government in which workers' voices rang louder might, instead, have directed research funding into factory technologies that complement the skills of blue-collar workers.

The state should be conscious of its role in the innovation process, Sir Anthony says, and take account of its effects on income distribution. In particular, it ought to invest in human capital—in education and training—and emphasise the advantages of human interaction in the administration of public services. The ability to file tax returns online is a boon to the rich, but the need to file benefit applications online may be a burden to the poor. Employing people to help the poor understand what they need to do to obtain benefits, for example, would mitigate the unbalanced effect of technology in two ways, he says: by reducing the socially isolating effect of technology on those applying for benefits, and by creating public-sector jobs.

Rise of the rich

Top 1% share of income, %

Source: "Inequality" by Anthony Atkinson

Sir Anthony believes that the responsibility of the state goes well beyond investing in training. He outlines 15 proposals that would boost egalitarianism, including setting a minimum wage and a suggested maximum at a multiple of the minimum. He would reinvent social security as a basic "participation income" paid to all those deemed to be contributing to society (through work in the market or public service). And he would provide guaranteed employment, in the public sector if necessary, to those who want it. He reckons that if willing workers can be given useful tasks (like guiding the poor through benefit applications), then it should not matter whether the employment provides skills valued by the private sector—or indeed, whether the worker ever goes on to take a non-public job.

The radicalism of the author's policy proposals makes it tempting to write them off. Some deserve to be. Putting distributional concerns front and centre in competition or innovation policy is a good way to raise the cost of goods and services, from broadband access to home goods, for the very low-income households that Sir Anthony is trying to help. Deregulating telecoms may lead to reduced employment in the affected firms, but poor households that enjoy cheap mobile services as a result might nonetheless be grateful. His instinct to limit the power of entrenched interests to manipulate markets is a good one, but it often strays into a broad distrust of markets in general, which is not.

The author does not mind speaking uncomfortable truths. Among them: that the comfort and opportunity provided by wealth matter just as much as the consumption that wealth affords; that holding down a job may not be enough to provide most workers with a standard of living that keeps up with economic growth; and that economic power helps protect itself in subtle and pervasive ways which might well demand an interventionist government response. Sir Anthony's answer might not be the right one. But if his book reminds the reader how far out of fashion the policies of the post-war decades have fallen, it also conveys how skewed the economy of today might look to an observer from the not so distant past—or, perhaps, from the not so distant future. ■

China's one-child policy

Only and lonely

Buy Me the Sky: The Remarkable Truth of China's One-Child Generation. By Xinran. Translated by Esther Tyldesley and David Dobson. *Ebury; 286 pages; £20*

SINCE Xinran Xue wrote "The Good Women of China" in 2002, she has sought to tell the story of ordinary Chinese people. That first, brilliant book was based on a Chinese radio show that Ms Xue (who writes under her first name only) hosted for eight years, inviting women to call in and talk about themselves. The result was a moving and shocking account of what it was like to be a woman in socialist China.

The country is far more open now than it was even two decades ago, yet the task of recounting the first-person experiences of some of its 1.4 billion people is just as vital—and sometimes as tricky. In "Buy Me the Sky", her seventh book, Ms Xue takes on China's first generation of only children, those born between 1979 and 1984, after the one-child policy was introduced nationwide. Each chapter uses the life and experiences of a "single sprout", as she calls them, to enliven a larger story.

The central question is what developing an idea of children in the singular has done to Chinese society; what happens when those one-and-onlies, so long the sole focus of their parents' and grandparents' love, attention and expectations, go out into the world. Has not thinking about others until adulthood skewed the morality of a generation?

Her thesis is that today's only children are materially better off than their forebears—sometimes hugely so—but that they are a lonely generation whose parents' ▸▸

dreams lie heavy on their shoulders. Economic change has made the generational divide sharp and deep, says Ms Xue. "Chinese children are the property of their parents, and we single children, in particular, are the property of all the generations before us," says one only child she meets. Another woman notes that she spent the nine months of her pregnancy under the "direction and protection" of 12 relatives from two generations above her, every move she made linked to the fate of her family.

No wonder, says Ms Xue, that many find it hard to discover their own path in life: "A bird cannot carry its cage when it flies." One young man is so ill-equipped for adulthood that he cannot pack his own suitcase, yet, away from family scrutiny, he transforms from being a picky eater into a happy omnivore. Several of her onlies embody the spoiled generation of the title, others are "labouring ants". One interviewee moans that in America and Europe people under 30 are knowingly hedonistic and encouraged to explore their options in life, whereas in China, another says, the young instead spend those years studying and setting themselves up in a profession, trying to buy a house and car, making themselves worthy of marriage. A third disagrees: being an only child "has become an excuse for my generation", he says.

Ms Xue raises more questions than she answers—her book is a series of observations rather than a rigorous study, a little too reliant on individuals who have travelled far from China and into the author's path. Weighing the consequences of one of the most extraordinary social experiments on earth is not an easy venture. ■

An African memoir

Ties that bind

The Lights of Pointe-Noire. By Alain Mabanckou. Translated by Helen Stevenson. *Serpent's Tail; 280 pages; £8.99. To be published in America by New Press in March 2016*

THE world knows little about the Republic of Congo, and this travelogue-cum-memoir barely changes that. The author's real achievement is to capture a universal experience, one ever more common in the age of mass migration: what it means to come home after a long absence.

Now living in America and France, Alain Mabanckou, a Congolese novelist who teaches creative writing at the University of California, Los Angeles, and who was recently shortlisted for the 2015 Man Booker International prize, visits his home town on Africa's equatorial Atlantic coast for the first time in 23 years. The resulting encounters, and his accompanying thoughts, are familiar to many passing through international airports today, if rarely expressed so silkily.

Here are the remembered aspirations of parents who bless their children's departure yet regret it nonetheless, and the migrant's sense of guilt for having left behind the less fortunate, of parents ageing alone and dying lonely. Here also are the suffocating embraces of relatives lacking Mr Mabanckou's salon sensibilities. He struggles with the expectations of the greedy and resentful who want him to share his wealth. In a disturbing, yet hilarious, episode he is asked to give up his shoes, shirt and trousers in a bar by two family members.

But none of this extinguishes the urge to give, to be generous, to connect with the help of material means (perhaps the only ones available), not even the suspicion of those convinced that his return is a one-off, a shallow gesture.

As a homecomer he is privy to much that makes the place tick, yet he seems unable to arrive fully. Why did he come? The question looms over everything. He feels like "a criminal returning to the place of the crime to reassure himself that he made no mistakes". He asks, what really brings people together—blood or shared life experience? Still unsure of where he stands by the time he departs, he concludes: "This town and I are in an open relationship, she is my concubine." Few books about Africa will find it easier to attract readers far away.

I dreamed of Africa

The economics of the music industry

From rock to crock

Original Rockers. By Richard King. *Faber & Faber; 252 pages; £18.99*

How Music Got Free: The End of an Industry, the Turn of the Century, and the Patient Zero of Piracy. By Stephen Witt. *Viking; 296 pages; $27.95. Bodley Head; £20*

TWO months ago Geoff Barrow, the instrumentalist for Portishead, an award-winning British rock group, revealed on Twitter that 34m streams of his music had earned him precisely £1,700 ($2,604) after tax. He sarcastically applauded Apple, YouTube and Spotify, and his record label, Universal, for "selling our music so cheaply". Some have quibbled with Mr Barrow's figures, but no one has suggested the band has earned more than a tenth of a penny for each song streamed. What is more, few artists achieve Portishead's level of success, which suggests that writing music has become a lousy way to make a living. Two new books present differing explanations of how the economics of the music industry fell apart.

Richard King's wistful effort, "Original Rockers", reflects on the three formative years in the mid-1990s when he worked at Revolver, a record shop in Bristol, Portishead's home town. It was an establishment that cultivated a high-handed air and "a reputation for stocking and specialising in iconoclastic and esoteric records". Dominated by its anti-social and abrasive manager, Roger, Revolver was not a place to pick up top-40 hits. Instead, it was a real-life version of Championship Vinyl, the fictional record shop in Nick Hornby's 1995 novel, "High Fidelity", in which asking for a lowbrow record risked the ridicule of the staff. Mr King recalls one customer at Revolver emptying the contents of the bin across the floor after Roger had insisted the record he was looking for "was more likely to be found in a skip than in Revolver".

The ethos of the shop was never commercial; its main purpose was to be a cultural centre for those with marginal tastes. For Mr King, daily visits as a student eventually yielded a job and access to "a larger and deeper archive, one that could be reached only with Roger's assessment and approval". During his years in the shop, he discovered reggae and dub and experimental English folk. But his music education came to end when the shop's finances entered a downward spiral. Mr King blames this on the atmosphere that Roger cultivated: "For all our regular customers who visited the shop expecting to engage in badinage, there was a larger number who, having in their eyes been humiliated, decided never to return." Revolver also refused to acknowledge changing tastes: "As customers arrived, looked through the racks, then slowly left, their empty-handed departure gave the impression they had long grown tired of seeing the same wilting sleeves in front of each divider." But were there larger forces at work, beyond Revolver's narrow walls?

In "How Music Got Free", an accomplished first book, Stephen Witt considers the nearly 15,000-strong records he collected in his 20s. He built his archive without ever stepping into a record shop, thanks to music piracy on an "industrial scale". In explaining how he, and millions of his peers, were able to get away with it, he weaves a narrative around three people. Karlheinz Brandenburg is a German audio engineer who created the MP3 format by learning how to record high-fidelity music using very small amounts of data. At a house party Dell Glover recognised music by artists whose work he knew. Mr Glover did not recognise these particular songs because they had yet to be released; the only reason the DJ had them was because they had been smuggled out of the plant where they were being put on CDs. Mr Glover sensed an opening, learned about MP3s and soon became "the world's leading leaker of pre-release music". As the leaks became impossible to ignore, Doug Morris, a senior record-label executive, was forced to get to grips with a technology that he had no desire to understand.

Part of what makes Mr Witt's story so compelling is that none of this trio is quite what he seems. Mr Brandenburg released the software that enabled PC users to digitise their CDs for free, a move that Mr Witt believes "catalysed a golden age of copyright infringement that decimated the music industry" and made him extremely rich. Mr Glover, who undercut the earnings of thousands of musicians, is revealed to be a tireless worker, good with money and devoted to his young son. And Mr Morris's business instincts turn out to be as applicable in the digital age as they were in the analogue period.

There is no happy ending. Piracy became widespread, causing a long-term decline in record sales, whereas legal digital stores, such as Apple's iTunes, enabled songs to be sold on a piecemeal basis. These forces combined to sound the death-knell for the album format, which had provided high profit margins for record labels and desirable editions that facilitated a record-shop culture. Mr Witt notes that customers of next-generation streaming services, such as Spotify, tend not to pirate, but nor, as Mr Barrow suggests, are they paying as much for their music. The piracy-induced switch from owning a record collection to renting one has cost both record shops and artists dear. ■

Japanese printmaking

Riding the crest

BOSTON

Hokusai is known for one image. That narrow view should be revised

KATSUSHIKA HOKUSAI, a Japanese printmaker who died in 1849 aged nearly 90, is one of those artists whose long, impressive career has come to be known for a single iconic work. During his lifetime his images of Mt Fuji and his floral prints were widely imitated in the West. But "Under the Wave off Kanagawa (The Great Wave"—pictured)" is so famous, and has been reproduced in such a wide variety of contexts and formats, that it has swamped his other achievements. It is a testament to the complexity of Hokusai's oeuvre and to the depth of the collection at the Museum of Fine Arts (MFA) in Boston that in wandering through its new exhibition dedicated to the great Japanese printmaker, one could easily overlook this familiar image among the many riches on display. Surrounded by a host of equally inventive and beautifully crafted prints, paintings and drawings, "The Great Wave" appears as an exemplary, but not exceptional, representative of a versatile master's work.

One of the revelations of this show is how fresh Hokusai's works manage to feel two centuries after they were created. Perhaps this has something to do with the fact that he worked largely for a popular audience. Many of his woodblock prints—including his most famous series, "Thirty-Six Views of Mt Fuji" (which includes both "The Great Wave" and another well-known work, "Red Mt Fuji")—were well within many people's reach, costing, according to Sarah Thompson, the MFA's assistant curator for Japanese prints, about "the price of a big bowl of noodle soup".

A wave of Japonisme

Working in this vernacular mode, Hokusai eschewed high-flown rhetoric and pompous symbolism in favour of images that entertain with anecdote and delight with their bright colour and eye-catching compositions. Like media-savvy artists of recent decades, Hokusai appealed to the mass market rather than serving the interests of court or temple. And, like many contemporary artists, he was a master showman, enticing potential customers with bravura performances. On one occasion he whipped up over the course of a few hours a 66-foot-high (20-metre) portrait in ink of Daruma, the founder of Zen Buddhism, a crowd-pleasing stunt that can be seen as a forerunner of 20th-century performance art.

Another reason Hokusai's art feels so modern is that to a large extent it forms the springboard for the West's own leap into the future. When Paul Gauguin and Vincent van Gogh first saw Hokusai's prints, with their vivid colours and startling, off-kilter points of view, it sparked a revolution in their own art. Similarly, the whiplash lines and stylised natural forms of Art Nouveau sway to the rhythms of Hokusai's distinctive lines.

One irony highlighted by this show is that whereas Hokusai's prints were prized in Europe for their "exotic" *Japonisme*, he himself was unusually receptive to Western influences. He often adopts a version of vanishing-point perspective, learned from studying the few European artworks that found their way into Japan's closed society through the port of Nagasaki.

Despite Hokusai's fascination for this foreign invention, though, vanishing-point perspective remained just another tool to enliven a landscape or interior scene, not a scientific means of uncovering the secrets of nature; it was one more "effect" to add to his already capacious bag of visual tricks. His "Newly Published Perspective Picture: One Hundred Ghost Stories in a Haunted House" reveals how Hokusai exploited the telescoping view to bizarre ends, giving his ghouls a plausible space within which to enact their implausible drama.

Above all, Hokusai was a master of line and pattern, inscribing his forms within contours that eddy and spill like the currents of a mountain stream. He styled himself "The Man Mad about Drawing", and his mastery of the abstract quality of line that so captivated the early modernists in Europe is everywhere in evidence. This is true whether he is tracing the undulations of a carp nestled among the reeds or a beautiful woman primping in front of a mirror. "Hokusai" explores in depth the complex legacy of an inventive and thoroughly delightful master. ■

XUNTA DE GALICIA

REQUEST FOR INFORMATION

CIVIL UAVs INITIATIVE

1. The Regional Government of Galicia (Spain) is promoting the **CIVIL UAVs INITIATIVE**, a **four years and €55m strategic initiative** to foster the use of UAVs in the provision of public services. The initiative will be located in Galicia, in northern Spain, using the new **civil UAVs dedicated aerodrome of Rozas**.

2. The implementing agency, GAIN, will select during 2015 one or more **Strategic Technology Industrial Partners**. A Strategic Partner is a leading economic operator to develop a common R&D programme with a first public contribution up to €21m +VAT. Subsequently, technology partners will be selected to develop or test technologies and solutions of UAVs in a real public sector environment, with a first investment up to €16m +VAT.

3. The objective of this RFI is to gather information about companies interested to become a Strategic Partner of the Civil UAVs Initiative, interested in the development or test of their technologies in collaboration with the Civil UAVs Initiative and other potential partners (public or private) with proposals to provide significant thrust to the Initiative or to the aerospace R&D and industrial policy of Galicia.

The deadline for the submission of responses to the RFI is 22th June 2015.

The detailed RFI can be downloaded after registration in **www.civiluavsinitiative.com**

Any other information can be obtained by e-mail in **programas.gain@xunta.es**

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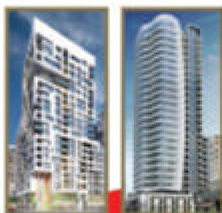

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Economic data

% change on year ago

	Gross domestic product latest	qtr*	2015†	Industrial production latest	Consumer prices latest	2015†	Unemployment rate, %	Current-account balance latest 12 months, $bn	% of GDP 2015†	Budget balance % of GDP 2015†	Interest rates, % 10-year gov't bonds, latest	Currency units, per $ Jun 3rd	year ago
United States	+2.7 Q1	-0.8	+2.3	+1.9 Apr	-0.2 Apr	+0.4	5.4 Apr	-410.6 Q4	-2.4	-2.5	2.11	-	-
China	+7.0 Q1	+5.3	+6.9	+5.9 Apr	+1.5 Apr	+1.4	4.1 Q1§	+291.5 Q1	+2.8	-2.8	3.24§§	6.20	6.26
Japan	-1.4 Q1	+2.4	+0.8	-0.1 Apr	+0.6 Apr	+0.6	3.3 Apr	+68.5 Mar	+1.9	-6.9	0.40	124	103
Britain	+2.4 Q1	+1.2	+2.4	+0.6 Mar	-0.1 Apr	+0.3	5.5 Feb††	-161.3 Q4	-4.7	-4.4	1.95	0.65	0.60
Canada	+2.1 Q1	-0.6	+1.8	-0.6 Mar	+0.8 Apr	+1.1	6.8 Apr	-42.2 Q1	-2.8	-1.8	1.78	1.25	1.09
Euro area	+1.0 Q1	+1.6	+1.5	+1.8 Mar	+0.3 May	+0.2	11.1 Apr	+314.0 Mar	+2.3	-2.2	0.89	0.89	0.73
Austria	+0.3 Q1	+0.7	+0.9	+0.8 Mar	+1.0 Apr	+1.1	5.7 Apr	+3.2 Q4	+1.6	-2.1	0.64	0.89	0.73
Belgium	+0.9 Q1	+1.3	+1.2	+1.8 Mar	+0.6 May	+0.3	8.5 Apr	+7.4 Dec	+0.6	-2.6	1.10	0.89	0.73
France	+0.7 Q1	+2.2	+1.2	+1.3 Mar	+0.1 Apr	+0.2	10.5 Apr	-21.8 Mar‡	-1.0	-4.1	0.80	0.89	0.73
Germany	+1.0 Q1	+1.1	+1.8	-0.1 Mar	+0.7 May	+0.5	6.4 May	+289.7 Mar	+6.7	+0.7	0.89	0.89	0.73
Greece	+0.2 Q1	-0.7	+1.4	+5.0 Mar	-2.1 Apr	-0.9	25.4 Feb	+1.3 Mar	+2.7	-3.6	10.80	0.89	0.73
Italy	+0.1 Q1	+1.2	+0.6	+1.5 Mar	+0.2 May	+0.2	12.4 Apr	+46.9 Mar	+1.9	-2.9	2.17	0.89	0.73
Netherlands	+2.4 Q1	+1.6	+1.8	+1.7 Mar	+0.6 Apr	+0.3	9.0 Apr	+90.2 Q4	+9.0	-1.9	0.86	0.89	0.73
Spain	+2.6 Q1	+3.8	+2.7	+4.7 Mar	-0.2 May	-0.4	22.7 Apr	+13.7 Mar	+0.5	-4.4	1.84	0.89	0.73
Czech Republic	+4.2 Q1	+13.0	+2.9	+6.2 Mar	+0.5 Apr	+0.3	6.7 Apr§	+1.4 Q4	-0.4	-1.7	1.01	24.4	20.2
Denmark	+1.5 Q1	+1.6	+1.6	+4.9 Mar	+0.5 Apr	+0.6	4.8 Apr	+22.4 Mar	+5.9	-2.9	1.05	6.62	5.48
Norway	+1.5 Q1	+1.0	+0.8	+1.5 Mar	+2.0 Apr	+1.5	4.1 Mar‡‡	+39.3 Q1	+10.4	+6.5	1.60	7.76	6.00
Poland	+3.7 Q1	+4.1	+3.4	+2.3 Apr	-1.1 Apr	+0.2	11.2 Apr§	-3.5 Mar	-1.6	-1.5	3.09	3.69	3.05
Russia	-1.9 Q1	na	-3.6	-4.3 Apr	+16.4 Apr	+15.3	5.8 Apr§	+57.1 Q1	+4.3	-2.6	10.57	54.3	35.1
Sweden	+2.6 Q1	+1.5	+2.7	+0.3 Mar	-0.2 Apr	+0.2	8.3 Apr§	+38.1 Q1	+5.8	-1.3	0.67	8.30	6.68
Switzerland	+1.1 Q1	-0.8	+1.0	-0.5 Q1	-1.1 Apr	-0.9	3.3 Apr	+49.1 Q4	+8.0	+0.2	0.01	0.93	0.90
Turkey	+2.6 Q4	na	+3.0	+4.9 Mar	+8.1 May	+7.0	11.2 Feb§	-45.5 Mar	-4.6	-1.7	9.14	2.69	2.12
Australia	+2.3 Q1	+3.8	+2.5	+2.8 Q1	+1.3 Q1	+1.7	6.2 Apr	-41.9 Q1	-3.1	-2.3	2.89	1.28	1.08
Hong Kong	+2.1 Q1	+1.5	+2.4	-3.6 Q4	+2.9 Apr	+3.2	3.2 Apr‡‡	+5.4 Q4	+2.6	-0.1	1.78	7.75	7.75
India	+6.1 Q1	+11.0	+7.6	+2.1 Mar	+4.9 Apr	+5.4	8.6 2014	-27.4 Q4	-0.9	-4.1	7.96	64.0	59.3
Indonesia	+4.7 Q1	na	+5.0	+6.7 Mar	+7.1 May	+6.0	5.8 Q1§	-25.2 Q1	-3.0	-1.9	8.17	13,252	11,780
Malaysia	+5.6 Q1	na	+5.5	+6.9 Mar	+1.8 Apr	+2.6	3.0 Mar§	+11.3 Q1	+3.4	-4.4	3.96	3.69	3.23
Pakistan	+5.5 2015**	na	+5.7	+4.6 Mar	+3.2 May	+4.2	6.0 2014	-2.0 Q1	-0.6	-5.1	9.25†††	102	98.7
Philippines	+5.2 Q1	+1.2	+6.6	+13.6 Mar	+2.2 Apr	+2.9	6.6 Q1§	+12.7 Dec	+3.9	-1.9	4.37	44.7	43.8
Singapore	+2.6 Q1	+3.2	+3.1	-8.7 Apr	-0.5 Apr	+0.4	1.8 Q1	+66.3 Q1	+21.8	-0.7	2.53	1.34	1.26
South Korea	+2.4 Q1	+3.3	+3.1	-2.7 Apr	+0.5 May	+1.1	3.9 Apr§	+98.5 Apr	+6.6	+0.5	2.42	1,108	1,024
Taiwan	+3.4 Q1	+2.7	+3.9	+1.1 Apr	-0.8 Apr	+0.6	3.8 Apr	+72.4 Q1	+12.6	-1.2	1.56	30.8	30.1
Thailand	+2.2 Q4	+7.1	+3.9	-5.3 Apr	-1.3 May	+1.3	0.9 Apr§	+15.9 Q1	+2.2	-1.9	2.71	33.6	32.6
Argentina	+0.4 Q4	+0.1	-0.6	-1.5 Apr	— ***	—	7.1 Q1§	-5.1 Q4	-1.5	-3.1	na	9.01	8.09
Brazil	-1.6 Q1	-0.6	-1.1	-7.6 Apr	+8.2 Apr	+7.9	6.4 Apr§	-100.2 Apr	-4.1	-5.3	12.46	3.13	2.28
Chile	+2.4 Q1	+4.2	+2.9	-0.6 Apr	+4.1 Apr	+3.7	6.1 Apr§‡‡	-1.3 Q1	-1.4	-2.0	4.59	628	550
Colombia	+3.5 Q4	+2.9	+3.6	-0.1 Mar	+4.6 Apr	+4.1	9.5 Apr§	-19.8 Q4	-6.4	-2.1	7.05	2,579	1,898
Mexico	+2.5 Q1	+1.6	+2.8	+1.7 Mar	+3.1 Apr	+3.1	4.3 Apr	-25.5 Q1	-2.3	-3.4	6.09	15.5	12.9
Venezuela	-2.3 Q3	+10.0	-3.7	na	+68.5 Dec	+69.5	7.9 Jan§	+10.3 Q3	-1.8	-16.3	15.43	6.30	6.35
Egypt	+4.3 Q4	na	+4.2	-0.1 Mar	+11.0 Apr	+9.8	12.8 Q1§	-5.8 Q4	-1.3	-10.7	na	7.63	7.15
Israel	+2.4 Q1	+2.5	+3.5	+11.6 Mar	-0.5 Apr	-0.3	4.9 Apr	+9.0 Q4	+4.8	-3.0	2.07	3.83	3.48
Saudi Arabia	+3.5 2014	na	+2.6	na	+2.0 Apr	+2.7	6.0 2014	+81.2 Q4	-2.3	-11.3	na	3.75	3.75
South Africa	+2.1 Q1	+1.3	+2.1	+3.2 Mar	+4.5 Apr	+4.8	26.4 Q1§	-19.1 Q4	-5.3	-3.8	8.43	12.3	10.8

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, Apr 26.8%; year ago 40.26% †††Dollar-denominated bonds.

Markets

	Index Jun 3rd	one week	% change on Dec 31st 2014 in local currency	in $ terms
United States (DJIA)	18,076.3	-0.5	+1.4	+1.4
China (SSEA)	5,141.2	-0.7	+51.7	+51.8
Japan (Nikkei 225)	20,473.5	nil	+17.3	+13.3
Britain (FTSE 100)	6,950.5	-1.2	+5.9	+4.1
Canada (S&P TSX)	15,154.7	+0.3	+3.6	-3.6
Euro area (FTSE Euro 100)	1,190.5	-2.6	+14.8	+6.9
Euro area (EURO STOXX 50)	3,583.8	-2.7	+13.9	+6.0
Austria (ATX)	2,612.4	-0.1	+20.9	+12.6
Belgium (Bel 20)	3,721.8	-1.0	+13.3	+5.5
France (CAC 40)	5,034.2	-2.9	+17.8	+9.7
Germany (DAX)*	11,419.6	-3.0	+16.5	+8.4
Greece (Athex Comp)	838.2	-1.6	+1.5	-5.5
Italy (FTSE/MIB)	23,608.8	-1.1	+24.2	+15.6
Netherlands (AEX)	487.7	-3.1	+14.9	+7.0
Spain (Madrid SE)	1,143.4	-1.2	+9.7	+2.1
Czech Republic (PX)	1,017.3	-1.2	+7.5	+0.9
Denmark (OMXCB)	879.1	-1.5	+30.2	+21.0
Hungary (BUX)	22,389.8	-0.4	+34.6	+26.6
Norway (OSEAX)	703.6	+1.2	+13.5	+10.0
Poland (WIG)	54,749.7	-2.0	+6.5	+2.6
Russia (RTS, $ terms)	947.3	-6.4	+8.2	+19.8
Sweden (OMXS30)	1,641.7	-1.3	+12.1	+5.5
Switzerland (SMI)	9,253.3	-1.5	+3.0	+9.5
Turkey (BIST)	83,393.6	-1.1	-2.7	-15.3
Australia (All Ord.)	5,588.3	-2.4	+3.7	-1.2
Hong Kong (Hang Seng)	27,657.5	-1.5	+17.2	+17.2
India (BSE)	26,837.2	-2.6	-2.4	-3.6
Indonesia (JSX)	5,130.5	-2.3	-1.8	-8.1
Malaysia (KLSE)	1,749.2	-0.3	-0.7	-5.8
Pakistan (KSE)	33,895.3	+3.2	+5.5	+4.1
Singapore (STI)	3,349.8	-2.2	-0.5	-1.7
South Korea (KOSPI)	2,063.2	-2.1	+7.7	+7.2
Taiwan (TWI)	9,556.5	-1.4	+2.7	+5.4
Thailand (SET)	1,482.1	-1.3	-1.0	-3.4
Argentina (MERV)	11,200.3	+2.5	+30.6	+22.7
Brazil (BVSP)	53,522.9	-1.3	+7.0	-8.6
Chile (IGPA)	19,449.4	-0.8	+3.1	+0.1
Colombia (IGBC)	10,262.7	+0.5	-11.8	-18.4
Mexico (IPC)	44,732.7	+0.1	+3.7	-1.3
Venezuela (IBC)	12,442.5	+14.7	+223	na
Egypt (Case 30)	8,905.6	-0.7	-0.2	-6.5
Israel (TA-100)	1,473.0	+0.8	+14.3	+15.7
Saudi Arabia (Tadawul)	9,678.8	-0.8	+16.1	+16.2
South Africa (JSE AS)	51,850.7	-2.0	+4.2	-1.9

The Economist poll of forecasters, June averages (previous month's, if changed)

	Real GDP, % change Low/high range 2015	2016	Real GDP average 2015	2016	Consumer prices % change 2015	2016	Current account % of GDP 2015	2016
Australia	1.9/3.0	2.3/3.5	2.5 (2.4)	2.9 (2.8)	1.7	2.7 (2.6)	-3.1 (-3.2)	-2.9
Brazil	-1.9/-0.3	0.5/2.3	-1.1 (-1.2)	1.1 (1.2)	7.9 (8.0)	5.9 (6.0)	-4.1	-3.7 (-3.2)
Britain	2.1/2.7	1.9/3.0	2.4 (2.5)	2.4 (2.5)	0.3	1.6	-4.7 (-4.3)	-4.3 (-3.5)
Canada	1.4/2.2	1.8/2.8	1.8 (2.0)	2.3 (2.2)	1.1	2.1	-2.8 (-2.7)	-2.4 (-2.3)
China	6.5/7.3	6.5/7.4	6.9	6.8	1.4	2.0	2.8	2.6
France	0.8/1.4	0.9/2.1	1.2 (1.1)	1.6	0.2 (0.1)	1.2	-1.0 (-0.9)	-0.8
Germany	1.5/2.1	1.5/2.9	1.8 (2.0)	2.1	0.5 (0.4)	1.7	6.7 (7.5)	6.4 (7.1)
India	7.0/8.1	7.4/8.9	7.6	8.0 (8.1)	5.4 (5.3)	5.4 (5.5)	-0.9	-1.3 (-1.1)
Italy	0.3/0.8	0.8/1.7	0.6	1.3 (1.2)	0.2 (0.1)	1.1 (1.0)	1.9	2.0 (1.9)
Japan	0.5/1.4	1.0/2.2	0.8	1.6 (1.5)	0.6 (0.7)	1.0 (1.1)	1.9	2.2 (2.3)
Russia	-5.0/-2.7	-1.8/1.8	-3.6 (-4.0)	0.4	15.3 (15.4)	6.9	4.3	4.7 (4.6)
Spain	2.4/3.0	1.7/3.0	2.7 (2.6)	2.4	-0.4 (-0.5)	1.0	0.5	0.5
United States	2.0/2.5	2.5/3.2	2.3 (2.6)	2.8	0.4 (0.3)	2.1	-2.4 (-2.3)	-2.5
Euro area	1.2/1.7	1.3/2.5	1.5	1.8 (1.9)	0.2	1.3	2.3 (2.6)	2.2 (2.5)

Sources: Bank of America, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Decision Economics, Deutsche Bank, EIU, 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

	Index Jun 3rd	one week	% change on Dec 31st 2014 in local currency	in $ terms
United States (S&P 500)	2,114.1	-0.4	+2.7	+2.7
United States (NAScomp)	5,099.2	-0.1	+7.7	+7.7
China (SSEB, $ terms)	532.6	+4.7	+83.0	+83.2
Japan (Topix)	1,670.0	+0.5	+18.6	+14.6
Europe (FTSEurofirst 300)	1,570.8	-3.2	+14.8	+6.9
World, dev'd (MSCI)	1,789.9	-0.2	+4.7	+4.7
Emerging markets (MSCI)	995.8	-2.3	+4.1	+4.1
World, all (MSCI)	436.4	-0.4	+4.6	+4.6
World bonds (Citigroup)	865.0	nil	-4.1	-4.1
EMBI+ (JPMorgan)	705.4	-1.0	+2.0	+2.0
Hedge funds (HFRX)	1,252.3§	nil	+2.8	+2.8
Volatility, US (VIX)	13.7	+13.3	+19.2	(levels)
CDSs, Eur (iTRAXX)†	64.6	+4.3	-1.6	-8.4
CDSs, N Am (CDX)†	65.2	+3.3	-4.6	-4.6
Carbon trading (EU ETS) €	7.5	+3.6	+3.2	-4.0

Sources: Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. §Jun 1st.

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The Economist commodity-price index

2005=100

	May 26th	Jun 2nd*	% change on one month	one year
Dollar Index				
All Items	141.0	142.2	-2.3	-16.9
Food	155.0	157.7	+0.1	-19.7
Industrials				
All	126.5	126.1	-5.3	-13.0
Nfa†	124.8	126.8	+2.1	-13.0
Metals	127.2	125.8	-8.2	-13.0
Sterling Index				
All items	166.7	168.8	-3.2	-9.3
Euro Index				
All items	160.9	158.9	-1.8	+1.7
Gold				
$ per oz	1,189.3	1,192.1	-0.3	-4.2
West Texas Intermediate				
$ per barrel	58.1	61.3	+1.4	-40.3

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

Making labour joyful

Elisabeth Bing, pioneer of "prepared childbirth", died on May 15th, aged 100

BIRTH is an unpredictable affair. One moment you are contentedly showering your enormous, overstretched self, or lying on a hard hospital bed with nothing much to do; the next all hell is breaking loose, the midwife screaming, rubber gloves flying, monitors beeping, partner fled to the loo, and the Mozart tape you brought to usher the new soul into the world completely beside the point. The only entity in control is Nature, crushing through you with a propulsive force sufficient to dislodge the planet.

Now, said Elisabeth Bing, things should not be like that. Birth would often be surprising, but the prospective mother could also stay in charge: awake, alert, undrugged, and even to some degree enjoying herself. First, she should have spent many weeks on relaxation exercises, learning to let the rest of her body droop pleasantly while the uterus did all the work. Next, she would have practised breathing, greeting each contraction with a "deep cleansing breath" and bidding it farewell with a smile. Even the strongest spasms could be crested with a speedy set of puffings and blowings, while her equally well-instructed partner massaged her back and issued useful commands. A young woman instructed by Mrs Bing would arrive at the labour ward perky, decisive, and carrying a bag equipped with talc, sandwiches (for starving partner), stopwatch (to time contractions), tennis balls (to ease back pain) and a bottle of champagne which, wrote Mrs Bing in "Six Practical Lessons for an Easier Childbirth", the nurse should be asked to put on ice "when you arrive".

The fact that so many women, including even this obituarist, attempted at least some of these things was much to the credit of Mrs Bing, who popularised in America the methods taught by Fernand Lamaze in France. When she started hospital work, in the late 1930s, women gave birth either without drugs or with so many—typically the "twilight sleep" achieved by mixing scopolamine and morphine—that they remembered nothing of the experience at all. Her own mother, whom she had imagined giving birth to her rather beautifully in her parents' blue-and-white bedroom in their house by the river in Berlin, had in fact felt paralysed by ignorance and terror. Mrs Bing was not an obstetrician, just a tiny, bright-eyed, cheerful physical therapist with the accent of the country she had had to flee some years before; but as she massaged the limbs of postpartum mothers, confined to their beds for fully ten days afterwards, she began to feel that birth had to be managed in a different way.

A British doctor, Grantly Dick-Read, was already advocating "natural" childbirth. Mrs Bing read his books and hoped to train with him, but the war made this impossible, and in any case she did not entirely like his tone: the idea, for example, that "primitive" women never felt any pain in childbirth, which was largely the result of over-civilised neuroses. Lamaze, whose work she came to know through her colleague Marjorie Karmel, offered a "toolkit" of proper information, education and exercises, which involved no moral judgments and made more sense to her practical self.

Amid the waves

In 1960 the two women set up what became Lamaze International, bringing doctors, nurses, therapists and parents together to make childbirth more rewarding. The great Lamaze barely deigned to notice her, but plenty of American doctors and women did. At first she was thought very crazy indeed, and the breathing techniques just a fad that would soon disappear. She had the luck, however, to catch the interest of Alan Guttmacher at Mount Sinai hospital in New York, and his clout helped overcome the doubts of his colleagues, though by no means all of them.

Childbirth, for her, was a bit of a battle all round. After several miscarriages, she was referred to a psychiatrist; he annoyed her so much that she went only once, and eventually carried a child to term after "drinking lots of orange juice". Then came the birth itself, when she was 40. In her bestselling guide, where the word "pain" was always replaced by "waves", she confessed that she didn't know what to do when confronting the actual ocean, and was liable to get knocked down and flung around. And so it had happened. Her panic over her son's arrival was so acute that she was given laughing gas and an epidural, "the works" in fact. She did not try it again, and although she could sound dauntingly brisk about the process—requiring total focus and commitment to her "very hard" lessons—she also said no mother should feel a failure if she asked for relief from pain. She was sorry, in old age, that epidurals and C-sections were so common in America, but she was not surprised.

The mantra of perfect control evidently had its limits, and not just in the labour room. She was often asked, for example—as she did her busy rounds of TV and radio shows and the lecture circuit—whether she had planned her campaign and foreseen her success, but said no. Starting when she did, she had providentially caught another wave: of flower-children, feminists, protesters, women's-lib types, and a crowd of young women who, like herself, did not want to give birth as their mothers had. "Life just sort of took me into it…and I stayed with it," she said. A pretty good description of childbirth, in fact. ■

The Economist Events

Health Care Forum

WAR ON CANCER

SEPTEMBER 29TH 2015 • BOSTON

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SPEAKERS INCLUDE:

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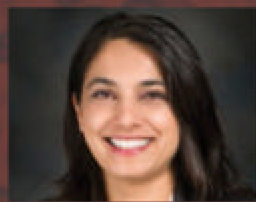
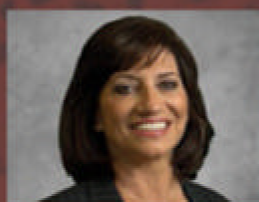
American Cancer Society



Simirit Parmar, MD
MD Anderson Cancer Center



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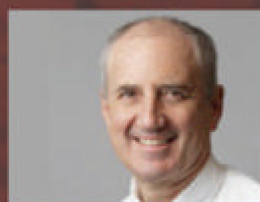

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