The Economist

FEBRUARY 21ST–27TH 2015

Economist.com

India's chance to fly

The New Navigator.
When you're taking on the world,
it's what's inside that matters.

Contents

On the cover
India has a rare opportunity to become the world's most dynamic big economy: leader, page 11. Next week's budget must be bold enough to turn a cyclical recovery into a sustained boom, page 37. Why China will not devalue the yuan, page 71

***The Economist* online**

Daily analysis and opinion to supplement the print edition, plus audio and video, and a daily chart
Economist.com

E-mail: newsletters and mobile edition
Economist.com/email

Print edition: available online by 7pm London time each Thursday
Economist.com/print

Audio edition: available online to download each Friday
Economist.com/audioedition

The Economist

Volume 414 Number 8926

Published since September 1843
to take part in "a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress."

Editorial offices in London and also:
Atlanta, Beijing, Berlin, Brussels, Cairo, Chicago, Hong Kong, Johannesburg, Lima, Los Angeles, Mexico City, Moscow, New Delhi, New York, Paris, San Francisco, São Paulo, Singapore, Tokyo, Washington DC

Fractured British politics Britain's long-standing two-party political system is under unprecedented pressure. The result will be instability and a crisis of legitimacy: leader, page 12 and briefing, pages 24-26. David Cameron and the Tories have tried to woo ethnic-minority voters, and mainly failed: Bagehot, page 57

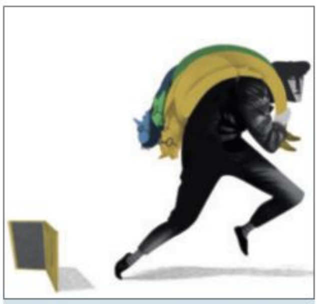
Rahm Emanuel By standing up to his own party's vested interests, Chicago's mayor is a model for national politics: leader, page 13. He has made big strides in getting the city back on track, but it is still broke and crime-ridden, page 27

Anti-Semitism in Europe Jews feel threatened and deserve protection: leader, page 16. The Copenhagen shootings, like the Paris terror attacks, are raising new fears over the safety of European Jewry, page 49

Contents continues overleaf

Deflation Falling prices can be a good thing. But the current version is pernicious: leader, page 13. Low or negative inflation is spreading around the world, page 69. The problem with negative interest rates: Free exchange, page 75

Kurdish independence The case for a new state in northern Iraq: leader, page 14. Iraq's Kurds are independent in all but name. They must play their cards cleverly if they are to break away completely, page 58. How the rise of Islamic State has changed history in the Middle East, page 80



Tech talent In the battle to employ talented software geeks, other industries can learn from Silicon Valley: Schumpeter, page 66. Tech firms eye up the car industry, page 61

Science fest An annual meeting of American scientists looked at contacting aliens, perceptions of smell, curing blindness, mysterious portraits, greedy galaxies and how vaccines can be made faster, better and cheaper, pages 76-79

Subscription service

For our latest subscription offers, visit
Economist.com/offers
For subscription service, please contact by telephone, fax, web or mail at the details provided below:

Telephone: **1 800 456 6086** (from outside the US and Canada, **1 636 449 5702**)
Facsimile: **1 866 856 8075** (from outside the US and Canada, **1 636 449 5703**)
Web: **Economistsubs.com**
E-mail: **customerhelp@economist.com**
Post: **The Economist Subscription Services, P.O. Box 46978, St. Louis, MO 63146-6978, USA**

Subscription for 1 year (51 issues)

United States	US$160
Canada	CN$165
Latin America	US$338

Principal commercial offices:
25 St James's Street, London SW1A 1HG
Tel: 020 7830 7000

Rue de l'Athénée 32
1206 Geneva, Switzerland
Tel: 41 22 566 2470

750 3rd Avenue, 5th Floor, New York, NY 10017
Tel: 1 212 541 0500

60/F Central Plaza
18 Harbour Road, Wanchai, Hong Kong
Tel: 852 2585 3888

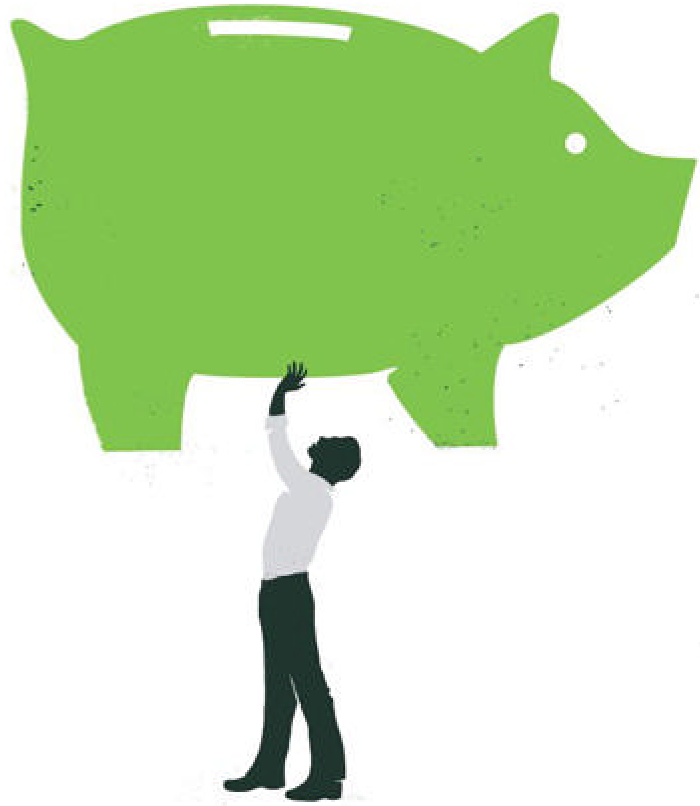
Other commercial offices:
Chicago, Dubai, Frankfurt, Los Angeles, Paris, San Francisco and Singapore

PEFC/29-31-58

PEFC certified

This copy of *The Economist* is printed on paper sourced from sustainably managed forests certified to PEFC
www.pefc.org

recycle



Politics

Fierce fighting continued in south-eastern **Ukraine** despite the recent "ceasefire" agreed in Minsk. Under continuing heavy attack from pro-Russian rebels, the Ukrainian government pulled its troops back from the contested town of Debaltseve. Western leaders called in vain on Russia's Vladimir Putin to persuade the rebels to respect the ceasefire that Russia had accepted.

In two attacks, a gunman of Palestinian descent shot dead two people in **Denmark's** capital, Copenhagen, one of them a guard outside a synagogue, before himself being killed by police. The Israeli prime minister, Binyamin Netanyahu, said that Jews were not safe in Europe and invited them to move to Israel.

Greece rejected the terms of a proposed extension of its euro-zone bail-out, which expires on February 28th. It later renewed a request to the Eurogroup for a bridging loan, promising that it would be more disciplined. But its proposal met with almost immediate rejection from Germany.

The Socialist government in **France** pushed through liberalising reforms by decree, meaning they pass in parliament unless the government loses a vote of confidence. Despite having to resort to such forceful tactics, French leaders promised more reforms in the spring.

Italy's foreign minister linked the surge in **migrants** crossing the Mediterranean to Libya's slide into chaos. More than 5,300 migrants arrived on Italian shores in the first six weeks of the year, a 60% rise over the same period last year.

Striking back

In **Libya** jihadists aligned with Islamic State released video footage showing the beheading of 21 Egyptian Christians who had previously been taken captive. **Egypt** responded by conducting air strikes on what it said were weapons stores and training facilities operated by IS in Libya, and claimed it had killed dozens of militants as "retribution".

Syrian government forces closed their grip around Aleppo, one of the last major cities in rebel hands. The Assad regime appears to have cut the last remaining road into the city, but is promising to halt air attacks on it for six weeks. Few expect the truce to last.

Fighting between **Boko Haram**, a jihadist group, and forces from Nigeria, Chad, Niger and Cameroon intensified. The Nigerian army said it had killed 300 Boko Haram fighters in an operation to recapture 11 towns.

Showtime

China announced that another high-ranking official will be put on trial for graft. Su Rong is a former vice-chairman of an advisory body to China's parliament. He had previously served as the Communist Party's chief in the southern province of Jiangxi, where he is alleged to have traded government jobs for money.

Myanmar declared a state of emergency in the Kokang region after an outbreak of fighting between the army and ethnic-minority rebels, which has forced thousands of people to flee across China's border. The violence began after an exiled rebel leader returned after five years in China.

Thailand's military government formally charged Yingluck Shinawatra, who was deposed as prime minister in May 2014, shortly before the army took power in a coup, of taking money from a rice-subsidy scheme to pay her supporters.

An American military court overturned the terrorism conviction of David Hicks, an Australian who had pleaded guilty to aiding al-Qaeda while imprisoned at **Guantánamo Bay**. The court agreed that providing "material support" to terrorists was not a crime under US law when Mr Hicks was taken into custody in 2001.

The UN reported that last year was the worst for civilian casualties in **Afghanistan** since at least 2009. More than 3,600 were killed during fighting, a 25% increase from 2013.

India's prime minister, Narendra Modi, promised that his government will protect all religious groups following a spate of vandalism on churches in Delhi. His remarks were the first on the issue since the attacks began in December. Mr Modi has been accused by some of failing to respond firmly enough to violence involving Hindu militants.

Border orders

Barack Obama said that he would appeal against a federal judge's ruling that blocked the implementation of his executive orders on **immigration**. Mr Obama issued the orders in November to allow up to 5m illegal immigrants to remain in the United States and in many cases to work legally. But the judge said it is up to Congress, not the president, to change immigration law.

There was some good news for the president on the health-care front: 11.4m people signed up for health insurance under **Obamacare** in the latest enrolment period, just beating the government's own target. But this policy, too, faces a legal challenge, which the Supreme Court will hear in early March.

Ash Carter was sworn in as America's new secretary of defence, after sailing through his nomination hearing in the Senate. He immediately faces the tougher task of navigating through Congress the administration's request to authorise an expansion of military force against Islamic State.

Pennsylvania's governor imposed a moratorium on the death penalty in the state, describing the sentencing system as deeply flawed. It has executed three murderers since 1976, most recently in 1999. A fourth inmate was scheduled to be put to death next month.

Searching for answers

Some 400,000 people attended a silent march in **Argentina** to demand a thorough investigation of the death of Alberto Nisman, a prosecutor who had accused Cristina Fernández de Kirchner, the president, and her associates of trying to hide Iran's complicity in the bombing of a Jewish centre in Buenos Aires in 1994. He was found dead from a gunshot wound in his apartment in January.

Three soldiers in **Colombia** travelling in an armoured vehicle were killed by a bomb. The army said the device was planted by the National Liberation Army (ELN), the smaller of the country's two main leftist guerrilla groups. Colombia is holding peace talks with the larger group, the FARC, but not yet with the ELN. Earlier, the ELN had freed a Dutch hostage whom it had held for more than a year.

Business

Japan's economy hobbled out of recession in the last quarter of 2014, growing by 0.6% compared with the previous three months. At its meeting this week the Bank of Japan left unchanged the amount of assets it is buying in its quantitative-easing programme, which forms the backbone of the central bank's efforts to end Japan's deflationary spiral. Some economists think cheap oil will prove to be a big hindrance to attaining that goal. None of this seemed to worry Japan's investors too much; the Nikkei stockmarket index reached a 15-year high.

Don't mention the "D" word

Cheaper petrol and a supermarket price-war helped push Britain's headline rate of **inflation** down again, to 0.3%. The Bank of England and the government have welcomed "lowflation" as a real benefit to households. The central bank has even predicted that inflation could turn negative in the coming months, as it has in the euro zone, though it thinks the rate will pick up again towards the end of the year as oil prices rebound and labour costs rise.

Plunging energy costs were the main factor behind a 0.8% fall in America's **producer-price index** in January, the biggest month-on-month decline since the series was revised in November 2009.

Congratulations to Kevin Kallaugher, also known as KAL, who draws the illustration for this page each week. He has won the Grand Prix Press Cartoon Europe award for his sketch in our issue dated October 18th 2014, which can be seen at: **economist.com/kalaward**

Meanwhile, **oil prices** continued to recover from the almost six-year low reached in mid-January. The price of Brent crude has risen by 30% since then to $60 a barrel.

The **euro zone's** GDP increased by 0.3% in the fourth quarter of 2014 compared with the third. Not great, but still better than had been expected. Germany's economy confounded the pessimists by chalking up growth of 0.7%.

On the waterfront

Shipping ports on America's **West Coast** reopened after shutting down for four days in a dispute between the dockworkers' union and shipping companies. Both sides have been haggling over contract terms in talks that have turned sour. With ships backed up off the coast of Los Angeles, and supply chains in America and Asia affected by the dispute, the Obama administration has stepped in to try to broker a resolution.

Carlsberg appointed a new chief executive. Cees 't Hart is Dutch and will be the first non-Dane to head the brewer when he takes up the job in June. One of his first tasks will be to revive profits, which have drooped amid falling sales in Russia, one of the beermaker's biggest markets. But even before cheap oil and sanctions induced a hangover in its economy, a government crackdown on street drinking had taken a toll on Carlsberg's Russian revenues.

HSBC's tribulations showed little sign of abating, as Swiss prosecutors raided the bank's offices in Geneva as part of an inquiry into claims of "aggravated money laundering". This came a week after an investigative report published separate allegations against HSBC's Swiss bankers of helping wealthy clients avoid tax.

Jonathan Hill, the European Union's new financial-services commissioner, presented the outline of a plan to create a **"capital markets union"** that seeks to make small- and medium-sized businesses less reliant on Europe's enfeebled banks for funding. The idea is to do this through measures to boost Europe's market in asset-backed securities and a review of financial rules across the EU's 28 member countries that may deter investment.

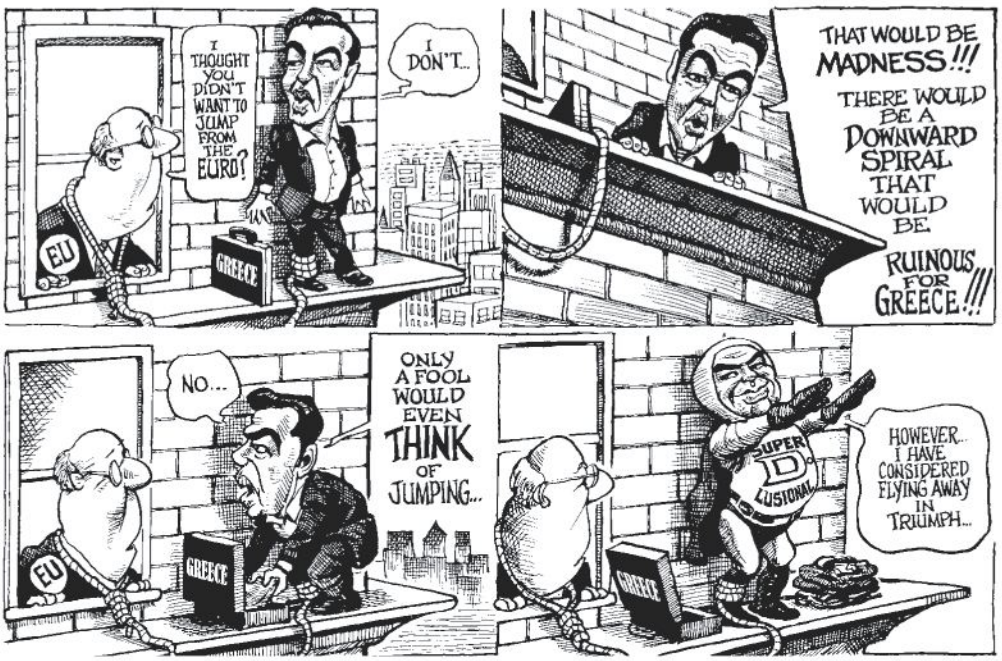
Kaspersky Lab, a **cyber-security** firm based in Moscow, reported that a criminal gang with members from Russia, China and Ukraine had hacked into bank systems in 30 countries and stolen up to $1 billion. It did not name any of the banks that it says were targeted, and none has come forward to confirm they were robbed.

America's Federal Aviation Administration published long-awaited draft rules on the use of commercial **drones**. The measures are up for consultation but at present do not require a pilot's licence for ground operators. However, the operators will have to keep the drones in their line of sight at all times, which would hamper the ability to deliver goods over a long range.

Beauty, and the beast

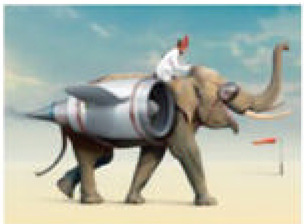
In a week when there was much speculation about the extent to which Apple was investing in electric, and possibly driverless, cars, **Rolls-Royce** announced plans to move into the more conventional market for sport-utility vehicles by building a four-wheel-drive monster. It is a first for the luxury-car brand, though others, such as Porsche, are already rolling out their own SUV models.

Other economic data and news can be found on pages 88-89



A chance to fly

India has a rare opportunity to become the world's most dynamic big economy



EMERGING markets used to be a beacon of hope in the world economy, but now they are more often a source of gloom. China's economy is slowing. Brazil is mired in stagflation. Russia is in recession, battered by Western sanctions and the slump in the oil price; South Africa is plagued by inefficiency and corruption. Amid the disappointment one big emerging market stands out: India.

If India could only take wing it would become the global economy's high-flyer—but to do so it must shed the legacy of counter-productive policy. That task falls to Arun Jaitley, the finance minister, who on February 28th will present the first full budget of a government elected with a mandate to slash red tape and boost growth. In July 1991 a landmark budget opened the economy to trade, foreign capital and competition. India today needs something equally momentous.

Strap on the engines

India possesses untold promise. Its people are entrepreneurial and roughly half of the 1.25 billion population is under 25 years old. It is poor, so has lots of scope for catch-up growth: GDP per person (at purchasing-power parity) was $5,500 in 2013, compared with $11,900 in China and $15,000 in Brazil. The economy has been balkanised by local taxes levied at state borders, but cross-party support for a national goods-and-services tax could create a true common market. The potential is there; the question has always been whether it can be unleashed.

Optimists point out that GDP grew by 7.5% year on year in the fourth quarter of 2014, outpacing even China. But a single number that plenty think fishy is the least of the reasons to get excited. Far more important is that the economy seems to be on an increasingly stable footing (see page 37). Inflation has fallen by half after floating above 10% for years. The current-account deficit has shrunk; the rupee is firm; the stockmarket has boomed; and the slump in commodity prices is a blessing for a country that imports four-fifths of its oil. When the IMF cut its forecasts for the world economy, it largely spared India.

The real reason for hope is the prospect of more reforms. Last May Narendra Modi's Bharatiya Janata Party won a huge election victory on a promise of a better-run economy. His government spent its early months putting a rocket up a sluggish civil service and on other useful groundwork. But the true test of its reformist credentials will be Mr Jaitley's budget.

The easy part will be to lock in India's good fortune, with fiscal and monetary discipline. In addition India's public-sector banks need capital and, since the state cannot put up the money, the minister must persuade potential shareholders that they will be run at arm's length from politicians.

If India is to thrive, it needs bold reforms and political courage to match. The tried-and-tested development strategy is to move people from penurious farm jobs to more productive work with better pay. China's rise was built on export-led manufacturing. The scope to follow that model is limited. Supply-chain trade growth has slowed, and manufacturing is becoming less labour-intensive as a result of technology. Yet India could manage better than it does now. It has a world-class IT-services industry, which remains too skill-intensive and too small to absorb the 90m-115m often ill-educated youngsters entering the job market in the next decade. The country's best hope is a mixed approach, expanding its participation in global markets in both industry and services. To achieve this Mr Jaitley must focus on three inputs: land, power and labour.

Jumbo on the runway

All are politically sensitive and none more so than land purchases. In China the state would just requisition the land, and let farmers go hang. But India has veered too far the other way. A long-standing plan to build a second international airport in Mumbai is on ice. An act passed in the dying months of the previous government made things worse by calling for rich compensation to landowners, a social-impact study for biggish projects and the approval of at least 70% of landholders before a purchase can go ahead. Mr Modi has used his executive powers to do away with the consent clause for vital investments. It is a temporary fix; Mr Modi needs to make it permanent and to win that political battle he needs to show that prime locations do not go to cronies, but to projects that create jobs.

Power, or rather the shortage of it, also stops India soaring. According to one survey half of all manufacturers suffered power cuts lasting five hours each week. Inefficiency is rampant throughout the power network, stretching from Coal India, a state monopoly, to electricity distributors. The first auctions of coal-mining licences to power, steel and cement companies, which began this week, are a step forward. More effort will be needed to open distribution to competition. Regulators are cowed by politicians into capping electricity prices below the cost of supply—though people will pay up and leave the politicians alone if they know that the supply is reliable.

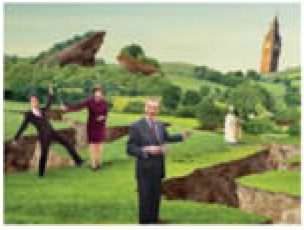
The third big area ripe for reform is India's baffling array of state and national labour laws. Compliance is a nightmare. Many of the laws date to the 1940s: one provides for the type and number of spittoons in a factory. Another says an enterprise with more than 100 workers needs government permission to scale back or close. Many Indian businesses stay small in order to remain beyond the reach of the laws. Big firms use temporary workers to avoid them. Less than 15% of Indian workers have legal job security. Mr Jaitley can sidestep the difficult politics of curbing privileges by establishing a new, simpler labour contract that gives basic protection to workers but makes lay-offs less costly to firms. It would apply only to new hires; the small proportion of existing workers with gold-star protections would keep them.

Adversity has in the past been the spur to radical change in India. The 1991 budget was in response to a balance-of-payments crisis. The danger is that, with inflation falling and India enjoying a boost from cheaper energy, the country's leaders duck the tough reforms needed for lasting success. That would be a huge mistake. Mr Modi and Mr Jaitley have a rare chance to turbocharge an Indian take-off. They must not waste it. ■

British politics

The great fracturing

Britain's slide into six-party politics presages instability and a crisis of legitimacy



ALONG with Sherlock Holmes and the rules of football, one of the great legacies of Victorian Britain is the Westminster parliamentary system. If voters want their voices to count, they have to choose between two large, boring parties. Excitable fringe groupings and a smallish third party, spread thinly across the country, struggle to make their mark. In return for putting up with such rank unfairness, Britons are promised strong, stable governments that can get things done. Plenty of countries have thought that trade-off worth copying.

But with three months to go until a general election, the mechanism is broken. In 1951 the Conservative and Labour parties together scooped 97% of the vote; in May, opinion polls suggest, they will each win barely a third. Membership of the Tory party has fallen from 3m in the 1950s to about 150,000. Labour, which used to rule Scotland, could be reduced to a handful of seats there. Support for the Liberal Democrats, tarnished by coalition government, has collapsed. Almost all the running has been made by three insurgents: the Scottish National Party (SNP), which wants Scotland out of Britain; the UK Independence Party (UKIP), which wants Britain out of Europe; and the Green Party, which wants "hyper-capitalism" out of both Britain and Europe. It is the biggest shake-up since the early 20th century, when Labour displaced the Liberals.

Political insurgency—from Syriza in Greece to the Tea Party in America—is a feature of many Western democracies. But it will hit Britain especially hard. Unaccustomed and ill-adapted to multi-party politics, Britain is more likely to get weak, unstable governments. That will only fuel the dissatisfaction with career politicians in the main parties. And if the parliamentary system comes to be seen as both unfair and ineffectual, then it is in for a crisis of legitimacy.

Grief in the land of Gladstone

Some within the Tories and Labour hope that Britain's political duopoly will re-establish itself as memories of the financial crisis fade or the first-past-the-post system bulldozes the smaller parties. That is unlikely to happen soon, because long-run forces are at play (see pages 24-26). As the British class system has given way to a mish-mash of socio-economic groupings, tribal loyalties to Labour and the Conservatives have evaporated. Voters no longer belong to the left or the right. They have become political consumers who shop around. More recently, proud Scottish, nostalgic English or anxious green identities have counted for more than whether someone works on the factory floor or oversees those who do.

Waiting for the rebirth of the two-party system would also be harmful. Although the insurgents promise voters choice, the fracturing of politics is dangerous. One reason is that they have no agenda for governing. Although the Greens, the SNP and UKIP promise an end to politics as usual, all they put forward in its place is an escape from hard decisions. None has a plausible economic plan. Nor are they likely to be forced into coming up with one by the sobering experience of a big role in government. Having seen the Lib Dems' collapse, UKIP and the Greens have ruled out joining a coalition. The insurgents can spoil politics, but without being able to break the grip of the two big parties. They are revolutionaries without guns.

The other reason to worry is that the system's unfairness could become destabilising. A familiar injustice is that a disproportionate share of MPs will continue to be Tory or Labour—in May their two-thirds of the vote could win 90% of the seats. But layered upon that is a second, new distortion. Because their support is thinly spread, the Green Party and UKIP could together win a quarter of the votes, but only six or seven seats out of 650 in the Commons. In contrast, the SNP, is on track to win just 4% of the vote—putting it in sixth place—yet could scoop 40 seats to become the third-largest party.

If Labour and the SNP form a coalition, policies carried by SNP votes against the wishes of a majority of the electorate will seem especially illegitimate. Imagine, for example, a reversal of welfare cuts or a promise to remove Britain's nuclear submarines from Scottish waters. The SNP might also demand a second independence referendum as its price for coalition.

All coherence gone

The political process needs to adapt. If no party wins a majority in a general election, a few weeks should be set aside for them to thrash out a deal, as happens in much of Europe. MPs from the coalition parties should then vote on their agreement, so that backbenchers cannot argue (as some Tories now do) that they were bounced into a coalition against their will. The Fixed-Term Parliaments Act, which encourages weak governments to limp along, should go.

More fundamentally, mainstream politicians must deal with the fear and resentment that is driving voters away. Trying to outdo the insurgents on immigration and fracking is harmful and doomed to failure. Rather than ape the insurgents' policies, mainstream parties should copy their methods by becoming looser and better able to rally ad-hoc groups to worthwhile causes such as pensions reform and house-building. Rather than look to career politicians, they could recruit and promote outsiders. Rather than peddle fantasy, they should be honest, telling voters frankly that the forces of technological change and globalisation are unstoppable and inescapable—and that years of difficult reform lie ahead.

But constitutional change will be needed, too. This newspaper has long argued for proportional representation (PR)—a version that combines first-past-the-post, to preserve a direct, singular link between MPs and their constituents (a rare aspect of British politics that is popular and works), with a top-up based on the national share of the vote. A dose of PR would not only deal with the system's unfairness, it would also counteract the unhealthy regional polarisation of seats in which Scotland belongs to the SNP, northern England to Labour and the south to the Tories.

The battle over the details will take shape after this election, and future ones. Meanwhile Britain's voters should strap themselves in. It is going to be a bumpy ride. ■

America's mayors

The anti-charm of Rahm

By standing up to his own party's vested interests, Chicago's mayor is a model for national politics

ALL politicians, when faced with disappointing poll numbers, comfort themselves with the idea that unpopularity is a measure of their boldness. Sometimes it is even true. Chicago's coolness towards Rahm Emanuel, who is seeking a second term as mayor on February 24th, is partly due to his abrasive personality and fondness for Anglo-Saxon epithets. Yet the bigger reason is that he has confronted vested interests that would normally support his party, the Democrats. This is a rare virtue, and one that national politicians should emulate.

America's third-largest city has no shortage of troubles, from violent crime on the streets to ancient water pipes below. For a long time Chicago's most efficient public service was the smooth exchange of government jobs and contracts for votes. Mr Emanuel has taken a meat cleaver to such back-scratching mediocrity. He has put two of the city's tottering pension funds on a path to solvency and promised to tackle two others. He has closed 50 failing schools, incurring the wrath of the city's teachers' unions, and opened some publicly funded but privately run charter schools in their place. He is expanding free education for the Windy City's pre-schoolers and has made the school day longer for older pupils. He has achieved all this without a big tax rise and with the support of many of the city's businessfolk, who appreciate his fiscal sobriety and red-tape slashing (see page 27). Left-wing critics deride him as "Mayor 1%", favouring the privileged few.

Contrast this with New York, another big city with a Democratic mayor. Bill de Blasio has not bashed the rich as energetically as he implied he would on the campaign stump. But he has awarded generous pay increases to city workers without so much as a hint that they might do their jobs better. He has pandered to teachers' unions, blocking the charter schools that might help poor New Yorkers one day get a job in one of the skyscrapers on the southern end of Manhattan. Mr de Blasio's budget, unveiled on February 9th, assumes that tax revenues will remain unusually healthy and, if not, that he can tap the city's reserve funds. Like Mr Emanuel, he is expanding free pre-school education, but his approach to governing seems to be to throw money at every project that comes across his desk rather than to choose between them.

A tale of two cities

New York, which was well governed for two decades before Mr de Blasio took over, has more room for error than Chicago. If Mr Emanuel wins, his second term is likely to be even harder than his first. His budgets will be still tighter and he will have to do more to tackle gun violence, a problem fed by lax firearm laws in neighbouring states (during an interview, the mayor offered to drive to Indiana to buy *The Economist* a gun to prove how easy it was).

The outcome of Chicago's mayoral election matters beyond the shores of Lake Michigan. After a poor performance in November last year, only 18 states have Democratic governors. This erosion of the party's strength in big executive offices robs it of possible candidates for the presidency, as shown by the absence of serious rivals to Hillary Clinton. More important, the Democrats need places to try out their ideas, not least since the party's pitch to a sceptical nation is that government can be made to work.

With federal government gridlocked, the most plausible laboratories are the big cities, most of which are solidly under Democratic control. It is here that the party's ideas for reforming schools, reducing crime and defusing the public-pensions time bomb can be tested and refined. Mayors such as Mr Emanuel should be judged by their results—not their words. ■

Deflation

Feeling down

Deflation can be a good thing. But today's version is pernicious

Consumer prices

% increase on a year earlier

FALLING prices sound like something to cheer. In 1950 talk was not cheap. It cost $3.70 to place a five-minute call between New York and San Francisco—or $36.35 in today's money. Now that same call costs you nothing. The emergence of the sharing economy is driving down the price of a taxi ride and a bed for the night. More recently tumbling prices for natural resources, especially oil, have boosted the spending power of consumers from Detroit to Delhi. Mark Carney, the governor of the Bank of England, reckons that falling energy prices are "unambiguously good" for the British economy. Mr Carney is not wrong. Nonetheless, the world is grievously underestimating the danger of deflation.

The problem is that aggregate prices are dipping in so many places at once. Deflationary pressures are visible far beyond food and energy, and in countries that cannot claim to be leading the charge towards the new economy. In the euro zone, where deflation grips tightest, consumer prices fell by 0.6% in the year to January; Germany, Italy and Spain all saw falls. Prices in Greece have been declining for 23 months. Ultra-low inflation is also widespread. America, Britain and China each have inflation rates of less than 1%. This looks less like a welcome jolt to prices than a sign of entrenched weak demand. ▸▸

Deflation poses several risks, some well-understood, one not (see page 69). One familiar danger is that consumers will put off spending in the expectation that things will get even cheaper, further muting demand. Likewise, if prices fall across an economy but wages do not, then firms' margins will be squeezed and employment will stagnate or decline. (Neither of these dangers is yet visible; indeed, America and Britain are seeing strong employment growth.) A third, well-known risk is debt deflation: debts become more onerous because the amount that is owed does not fall, even as earnings do. This is a big worry in the euro zone, where many banks are already stuffed with dud loans.

The least-understood danger is also the most serious, because it is already here. Deflation makes it harder to loosen monetary policy. When inflation is at 4%, the central bank can take real (ie, inflation-adjusted) rates well below zero, to -4%, by keeping headline rates at zero. But as inflation falls and turns negative, low real rates get harder and harder to achieve—just when you need them most. Most rich-world central banks have already cut their main policy rates near to zero in order to pep up demand. A growing number of European economies are using negative interest rates to encourage spending, although charging people to put money in the bank will eventually prompt them to use the mattress instead (see page 75).

All of which means that policymakers risk having precious little room for manoeuvre when the next recession hits. And sooner or later it will—because of a sharp slowdown in China, say, or the effect of a rising greenback on dollar-denominated corporate debt, or from some shock that comes out of the blue. The Federal Reserve has cut its policy rate by an average of 3.9 percentage points in the six recessions since 1971. That would not be possible today. The break-glass-in-case-of-emergency option of depreciating the currency massively against a fast-growing trading partner is of limited use when so few big economies are growing rapidly and prices are falling, or close to it, in so many places.

Change the target

Policymakers should be more worried than they appear to be, and their actions to avert deflation should be bolder. Governments need to boost demand by spending more on infrastructure; central banks should err on the side of looseness. (Next month the ECB will start quantitative easing—and about time too.) Now is also the moment to consider revising the monetary rule book—in particular, to switch the central bankers' target from the inflation rate that most now favour to a goal for the level of nominal GDP, the total value of spending in an economy before adjusting for inflation. With such a target there is no need to distinguish between good and bad price shocks. And the change in rules would itself send a signal that policymakers are serious about banishing the threat of deflation.

Central bankers change course slowly, and their allegiance to inflation targets runs deep. Conservatism often serves them well. But in this case it could cost the world economy dearly. ■

Kurdistan's right to secede

Set the Kurds free

The case for a new state in northern Iraq

THE Kurds, at least 25m-strong, are one of the world's most numerous peoples without a state. Other small nations in their region have a home alongside the Arabs, the Persians and the Turks: the Jews created (or, in their book, re-created) Israel after the second world war; Armenia and Georgia re-emerged as independent as the Soviet Union fell apart.

The Kurds have twice come close to fulfilling their dream, once after the first world war and the Ottoman empire's collapse, when they were promised a state by the treaty of Sèvres, and again after the second world war, when for ten brief months the Kurdish republic of Mahabad rose up in what is now north-western Iran. Today the Kurdish Region of Iraq, home to at least 6m people, is independent in all but name (see page 58). It is that benighted country's only fully functioning part. Since 1991, when the West began to protect it from Saddam Hussein, it has thrived. In due course, it deserves its place in the community of independent nations.

The principle, promoted by America's President Woodrow Wilson a century ago, is that nations should have the "unmolested opportunity of autonomous development". A country should be able to gain independence if it can stand on its own feet, has democratic credentials and respects its own minorities. To qualify, Iraq's Kurds should confirm (again) in a vote that they want their own homeland. As well as being economically and democratically viable, the new state must be militarily defensible and disavow any intention to create a Greater Kurdistan by biting chunks off Turkey, Iran and Syria. It needs its neighbours' endorsement. And it must settle terms with Iraq's government, including where to draw its boundary.

Marriage misguidance

A sustainable economy is within the Kurds' grasp. They are exporting increasing amounts of oil, and Iraq's central government in Baghdad has at last agreed a formula that will let them keep the lion's share of the profits. Soon they hope to produce 800,000 barrels a day, worth $17 billion a year at today's prices.

Democracy is established, though still rough-edged. Iraqi Kurdistan has regular elections, a boisterous parliament, an array of political parties and a raucous media. Certainly its courts are weak, its leaders' habits feudal, its journalists sometimes harassed and its human-rights record far from spotless. But it is more democratic than most of the region—and far safer than the rest of Iraq, even though the fanatics of Islamic State press against its long border. Suicide-bombings and atrocities of the sort committed by sectarian militias in Baghdad and elsewhere in Arab Iraq are mercifully rare.

The regional politics are trickier. Turkey and Iran have long been opposed to an independent Kurdistan carved out of Iraq, lest their own Kurds try to follow suit, if Iraqi Kurdistan becomes a magnet for neighbouring Kurdish rebel movements. ▸▸

Yet even here there has been progress for the Kurdish cause. Syria, which is unlikely soon to recreate a centralised state, is hardly in a position to object to secession for Iraq's Kurds. Iran has forged a pragmatic relationship with them. Relations between Iraqi Kurdistan and Turkey, the most concerned of its neighbours, have warmed remarkably. For now, the Kurds of south-east Turkey, far more numerous than those in Iraq, seem genuinely to have forsaken their desire for a separate state, seeking autonomy instead. Moreover, most of Turkey's Kurds, assimilated in Istanbul and elsewhere, do not want secession. Hence Turkey might accept an independent Kurdistan across its south-eastern border.

The longer-term prospects are also good. Other countries based on an ethnic group—Albania, for instance—have resisted the temptation to incorporate the territory of their brethren in neighbouring states. Landlocked Iraqi Kurdistan will need access to markets for its oil, making it all the more vital that it is on decent terms with its neighbours, especially Turkey. Western countries should make plain that an independent Kurdistan will get no help if it stirs up secessionist Kurds across its border.

As for Iraq's Arabs, the longer they fail to govern their bit of the country the less right they have to stop the Kurds governing theirs. Secession sets a precedent in the Middle East. Even so, the Iraqi Kurds know they must work with the powers in Baghdad and go through a difficult negotiation over oil. Since the fall of Mosul (where Islamic State holds sway), Kurdistan has crept towards de facto independence, with its capital in Erbil. While Islamic State's maniacs are howling at the gates of Baghdad, a divorce cannot take place. But in due course separation would give the Kurds international protection from any violent Iraqi Arab attempt to reassert control. The Kurds want a country of their own. They have earned it. ■

Anti-Semitism

The return of Jew-hatred

Europe has an obligation to protect its Jews

TOULOUSE, Brussels, Paris and now Copenhagen. The list of European cities where Jews have lately been murdered for being Jews grows longer. It adds poignancy that this should happen in Denmark, which saved most of its Jews from the Nazis by helping them flee to Sweden. There are many smaller outrages, such as the desecration of Jewish graves. And what to make of Roland Dumas, a former French foreign minister, who claims that Manuel Valls, the prime minister, acts under "Jewish influence" because his wife is Jewish?

No wonder Jews in Europe ask themselves questions they hoped had been banished long ago: is it safe to wear a *kippah* (skullcap), send one's children to Jewish schools or attend synagogue? And, given the rise of populist and far-right groups, is it time to leave Europe (see page 49)?

Such worries are understandable, but they need to be put in context. The shooting at the Great Synagogue on Krystalgade does not herald another Kristallnacht. Jews are targets, but so are groups of non-Jews: commuters, off-duty soldiers and, above all, cartoonists. The jihadists are shooting at all Europe's liberties: not just the right of Jews to assert their identity, but the right of all Europeans to speak about religion, even to give offence. When Israel's prime minister, Binyamin Netanyahu, says that he is preparing for "mass immigration from Europe", he is partly posturing ahead of next month's election.

To state the obvious, Europe does not have state-sponsored pogroms or discriminatory Nuremberg laws. In western Europe Jews are more integrated than ever; often their real worry is of decline through assimilation. In much of the east, there has been a flowering of Jewish life since the fall of the Berlin Wall. Berlin itself boasts Europe's fastest-growing Jewish community. The far right in Hungary really is anti-Semitic, but in France and the Netherlands these days populists now abjure anti-Semitism, even as they denounce Muslim migrants.

Moving to Israel may fulfil a religious, cultural or political longing for some Jews—but it is hardly safer. As the Danish chief rabbi rightly put it, emigrating to Israel should be out of love, not fear. European democracies must ensure that this remains so. Given their dire history of Jew-hatred—from the Norwich blood libel in 1144 to the expulsion of Jews from Spain in 1492 to the Nazi Holocaust—Europeans must be ever-vigilant against any sign of anti-Semitism, whether of the old endemic Christian sort or the newer Islamist variety.

Like all Europeans, Jews must be able to live free from the fear of violence. This means greater protection for Jewish institutions. Security forces must try to protect innumerable soft targets, and these days these almost always include Jews. More broadly, European governments must redouble their effort against jihadists in their midst: better intelligence to identify potential attackers, especially in prisons where criminality meets Islamic radicalism; measures to prevent citizens from joining jihadists in Syria and elsewhere; and policies to deradicalise as many as possible of those who return and to limit their access to firearms and explosives.

The balance of freedoms

The dilemma for European governments is to defend free speech while curbing anti-Semitic hate-speech, particularly when uttered by Muslim minorities that feel themselves to be victims of Islamophobia, often with good cause. A measured public discourse about Israel would help. There are fuzzy but real boundaries between anti-Semitism, anti-Zionism and rightful criticism of Israel's treatment of Palestinians. Jews collectively are not responsible for the actions of Israel; legitimate censure of Israeli occupation policies should not extend to delegitimising Israel as a refuge for Jews. Likewise, it would be wise to distinguish between the faith practised by most Muslims and the jihadist justification of barbarity.

By proximity and make-up of its population, Europe is bound to feel the upheavals of the Middle East. Its task is to show that tolerance can be maintained in the face of bloodshed. The jihadists detest few things more than the sight of European Muslims declaring "*Je suis Charlie Hebdo*". ■

Real-life economics

I share many objectives with Rethinking Economics, a group that wants to reform teaching in the profession, but I do not agree that the solution to the problem of a narrow orthodoxy in the subject is to broaden the curriculum to cover a wide variety of "schools of thought" ("The demand side", February 7th). We saw the dangers of that "heterodox" approach when macroeconomics was presented to students as a choice between the beliefs of monetarists and Keynesians, a stand-off reminiscent of the Big-Endians and Little-Endians encountered by Gulliver. I want to teach my students to be economists, not adherents of one or more schools of thought.

The new CORE economics curriculum developed by Wendy Carlin at University College London provides students with tools that they can use to build economic models, to analyse and explain evidence from the world around them, and set economic questions in social, political, ethical and behavioural contexts. These are the skills they will need to predict and avert the next crisis, and to understand things like wealth creation and innovation, inequality and environmental sustainability. To address these issues the content of CORE has departed significantly from conventional courses. It is not heterodox, but it is not mainstream either. It is, as the CORE strapline says, "teaching economics as if the last three decades had happened".

MARGARET STEVENS
Professor of economics
University of Oxford

Jaffa's history

It is worth noting that Jaffa was not a "Palestinian" city at partition, or even an Arab one ("From Bauhaus to doghouse", February 7th). In late 1947 30% of its 104,000 inhabitants were Jews, so it was a mixed city. Your review of Sharon Rotbard's book suggests that Jews destroyed Jaffa's kasbah. Actually, it was demolished by British forces in 1936 in Operation Anchor, a security measure to improve their strategic control of the settlement. Menachem Begin may (or may not) have rolled barrel bombs and fired mortars into Jaffa's residential districts, but during the hostilities around 100 residents of Tel Aviv were killed and more than 1,000 injured from gunfire emanating from Jaffa. And so on and so on.

But what matter all these facts, when the main issue is not to spoil the Israel-bashing narrative?

STANLEY WATERMAN
Emeritus professor of geography
University of Haifa
Haifa, Israel

Sizing up the government

In his farewell leader, *The Economist*'s outgoing editor described John Stuart Mill and William Gladstone as "progressives who...believed in smaller states" ("The case for liberal optimism", January 31st). Smaller than what? The label is a misleading 20th-century invention. Mill's "Political Economy" set out classic reasons why government should not interfere with business. But he also listed tasks that only government could be counted on to perform, including public works, child protection, social welfare, consumer protection and state schooling. "On Liberty" argued eloquently against interfering in people's personal lives. Mill's target this time was less the police powers of the state than the oppressive weight of majority prejudice.

Gladstone was indeed against bigger central government. But he favoured strong local government. If a mining town wanted shorter hours, for example, Gladstone thought the mine's owner should give way. Gladstonian budgets had unintended consequences. By concentrating central-government finances in the Treasury, Gladstone created an instance of fiscal control so trusted that it soon proved as adept at increasing, rather than limiting, spending.

The actual 19th-century state Mill and Gladstone had to deal with was, warfare aside, underpowered, ill-organised and frequently corrupt. A more accurate label for these two exemplary liberals would be "progressives who believed in better, more effective states".

EDMUND FAWCETT
London

Singapore's currency policy

You asserted that Singapore adjusted the trading band of its currency, allowing the Singaporean dollar to weaken against the American dollar to make sure that its exports stayed competitive ("Moneychangers at bay", February 7th). The adjustment was in fact made in view of the significant changes to the inflation outlook, and not to boost exports. Currency weakening in an economy as open as Singapore is not effective in enhancing competitiveness.

EDWARD ROBINSON
Chief economist
Monetary Authority of Singapore

University challenge

We were intrigued to read a letter from the University of Oxford (February 7th) about the historic competition between Oxford and Cambridge, which quoted the report that Sherry Coutu wrote for the government in November. Although a direct comparison of Oxford and Cambridge shows that Cambridge has nearly three times more companies with a turnover above £1m ($1.5m) than Oxford—701 versus 262—and five times as many startups per head than Oxford, a much more important reason for Cambridge's success is that it has developed a culture of collaboration. Cambridge has more than 60 networks bringing together academics, industry and capital to help companies succeed. We said as much in our report.

Collaboration and networking are a better way forward and we would like to see Oxford and Cambridge working together for the benefit of Britain. Let's be positive about what both cities have to offer, rather than seeing each other as opponents. After all, the issue is global competition, not local rivalries

SHERRY COUTU
SIR HERMANN HAUSER
Cambridge, Cambridgeshire

Our meaty index

Having avidly consumed your burgernomics update ("Oily and easy", January 24th) I can only conclude that a Big Mac is little more than a ground beef patty between two puns.

NIGEL CHRISTOPHER
Mount Pleasant, Texas

Left all at sea

The illustration accompanying Bagehot's column on Labour's problems in Scotland (January 31st) depicted Jim Murphy, the party's leader there, wearing a US Coast Guard officer's uniform. But the medals, ribbons and pins were all on the wrong side, which may have contributed to Mr Murphy's improper left-handed salute.

In an article with several nautical terms—"dockyard", "fair wind", "sunk"—might I suggest that the sinking of the *SS Labour* in a sea of "Yes" for independence was caused by dockyard workers applying the same mirror-image effect while tightening the ship's valves, thereby breaking the cardinal rule of engineering, "righty tighty, lefty loosey".

CAPTAIN GREGORY SANIAL
United States Coast Guard
Washington, DC ■

Letters are welcome and should be addressed to the Editor at
The Economist, 25 St James's Street, London SW1A 1HG
E-mail: letters@economist.com
More letters are available at:
Economist.com/letters

IBM Watson:

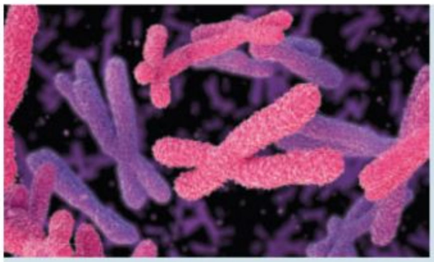
Watson is ready to go to work with you.

There’s a new way to compute. IBM Watson™ has been trained by experts in industries ranging from retail to travel to healthcare so it can reveal hidden patterns and make recommendations. Accelerate innovation at ibm.com/madewithibm

Smarter industries are made with IBM.

Digital highlights

Visit economist.com for news, blogs, audio, video, interactive graphics and debates
Links to all the stories below can be found at: economist.com/dh107



Epic genomics
Specialisation of cell function gives animals and plants their edge in the struggle for life. How that specialisation comes about is understood only hazily—but that is changing, as biologists dig deeper into cells' inner workings

Australia's asylum policy
"I am a bird in a cage," says a 14-year-old girl locked in an island detention-centre. Australia has imprisoned hundreds of child asylum-seekers in "deeply shocking" conditions, according to a rights watchdog. The prime minister is unmoved

A secret sect in Iraq
They are neither Shia nor Sunni. The Kakai, a small, secretive group, are monotheistic and revere Imam Ali, the hero of Shia Islam. However, unlike most Muslims, they accept reincarnation. That mix makes them a big target for Islamic State

From our blogs

Pope Francis and the Copts
The pope starts a debate about the "mixed blood of Christians" after commenting on the massacre of 21 Egyptian Coptic Christians by Islamic State

The Berlin Film Festival
The most absorbing and convincing of the films was Oliver Hirschbiegel's "13 Minutes", which celebrates a hero of anti-Nazi resistance, Johann Georg Elsery

Hotel Wi-Fi
In years to come we will look back at hotels that charged for internet access with a kind of incredulous nostalgia. But how far in the future will that be?

Most read on Economist.com

1 **The view from the Kremlin**
Putin's war on the West

2 **The Economist explains**
What Russia is up to in Ukraine

3 **What Russia wants**
From cold war to hot war

4 **Starbucks in Britain**
A loss-making machine

5 **United Airlines**
A first class cock-up

Featured comment

"Pluto's 'reclassification' was a political attempt by a small group of astronomers to impose their view on the entire world. The message they are sending is that science is done by decree from on high, even if it is based on interpretation of the facts rather than on the facts themselves."—on "Why Pluto is no longer a planet", February 16th

Follow us @TheEconomist

Links to all these stories can be found at:
economist.com/dh107
or by scanning this code

To subscribe go to
econ.st/Sb6Prb

AFREXIMBANK — CA GLOBAL, BANKING · INSURANCE, LEGAL & FINANCE

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

All positions offer Tax Free Salaries in USD along with Diplomatic Immunities and Privileges

Manager, Internal Audit: Cairo
Internal audit

Manager, Business Development East Africa: Nairobi
Originating & completing trade finance transactions

Manager, Business Development, Anglophone West Africa: Abuja
Originating & completing trade finance transactions

Manager, Treasury Service (Operations): Cairo
Treasury Services, middle and back office

Assistant Manager, Legal Services (Francophone): Cairo
Assisting in the provision of internal legal services

Manager, Treasury Services (Long Term Funds): Cairo
Treasury fund raising activities

Manager, Legal Services: Cairo
Provision of internal legal services

CA Global Headhunters have been exclusively retained to search and select the final short-list for these positions. For more information please contact us on +27 (0) 216599200 or to apply visit our website at www.ca-finance.com/careers

InterExec is the global leader in getting top executives to the pinnacle of their careers. Using our unique international network and in-depth market knowledge, we act discreetly to provide unrivalled access to prime opportunities which are rarely published.

Inter Exec
UNIQUE NETWORK ◆ OUTSTANDING TALENT

Are you a high achiever earning £150k to £1m+?
+44 (0)207 562 3482 or
email: london@interexec.net www.interexec.net

Head of Resources and Support Department
(RESU) (AD12)

efsa
European Food Safety Authority

European Food Safety Authority, Parma, Italy
EFSA/X/AD/2015/002

Do you want to play an active role in an organisation that makes a difference to the lives of 500 million EU citizens? The European Food Safety Authority (EFSA) is at the heart of the EU's risk assessment system for food and feed, providing scientific advice which helps to ensure that people across the continent have access to safe, nutritious food.
EFSA is looking for a dynamic and inspiring manager to lead a customer service-oriented department of 130 people, to champion innovation, and to ensure efficient management of its resources.

Your key responsibilities:
- Provide strategic and operational leadership for managing EFSA's resources;
- Lead and manage the department to be a top-class Business Partner;
- Develop and deploy a culture of service in interfacing with its stakeholders;
- Act as a catalyser of innovation and changes;
- Contribute to enhance EFSA's reputation in the provision of excellence in services.

Your skills:
- Experience in strategic leadership;
- Experience in implementing strategies to ensure sound resource management;
- Experience in change management and business transformation;
- Detailed knowledge of the relevant EU regulatory framework;
- Excellent knowledge of both written and spoken English.

Applications/information:
For more information on how to apply online, please consult the detailed vacancy notice as well as the eligibility criteria and competencies required at:

http://www.efsa.europa.eu/en/jobs/vacancies.htm

The closing date for submission of applications is **03/03/2015** midnight Italian time.

The Commonwealth

As the inter-governmental body of the Commonwealth, comprising 53 sovereign states, our aim is to provide sustainable and people-centred development through professional advice, transfer of best practice and the enhancement of skills and knowledge.

Based in central London, we now have two high-profile opportunities, each attracting a salary of £106,790, and calling for at least 15 years' senior management experience.

Director, Communications Division

Using your strategic creativity and innovative approaches, you will project our shared values and achievements while leading a team presenting official pan-Commonwealth views with impact as well as tact and political sensitivity. Individually, you will advance communications and public affairs and become spokesperson.

With ten or so years' experience of international media and working in an inter-governmental organisation, you will have developed and delivered multi-faceted media and communications strategies.

Director, Political Division

Sound political judgement and management skills are prime qualities essential for success in this role which focuses on leadership, collaborative partnerships and programmatic interventions; advising on political issues; overseeing the election observation and democratic processes and institutions; and supporting work on conflict prevention and resolution.

Degree-qualified, your experience must include dealing with political analysis, policy development or international relations, and working within the public administration of a member government, entailing diplomacy and tact as well as analysis and advocacy.

To be considered for either post, you must be a citizen of a Commonwealth country. The closing date is 16 March. To find out more, please visit **thecommonwealth.org/jobs**

The Global Fund

Head of Audit, Office of the Inspector General
Deputy Chief Risk Officer,

GENEVA, SWITZERLAND

The Global Fund intends to appoint two senior auditors to different parts of its senior team. The Head of Audit in the Office of the Inspector General leads and manages all of its audit activities and assists in the overall leadership of the office. The Deputy Chief Risk Officer (Deputy CRO) is a member of the Secretariat and will lead the implementation of a new risk and assurance framework. These are critical roles in ensuring the Global Fund can provide accurate and timely assurance to its patrons.

As the leading financier of programs to prevent, treat and care for people affected by or at high risk of HIV/AIDS, tuberculosis and malaria, the Global Fund raises and invests nearly US$4 billion each year in programs run by implementers in more than 140 countries. To date, it has invested more than US$30 billion in such programs. It operates with core principles of partnership, country ownership and performance based funding. Global Fund staff, all based in Geneva, Switzerland, come from various professional backgrounds and from more than 100 different countries, are united in their dedication to the defeat of these epidemics.

The successful candidates for the roles will be seasoned audit professionals with authority as technical specialists. Equally important will be their relationship building skills. Both will be accomplished managers and builders of high-performing teams. The Head of Audit is likely to come from an internal audit background, the ideal experience for the Deputy CRO will be in an external audit function. Qualified candidates from both professional backgrounds are encouraged.

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

The closing date for applications is 16 March 2015.

All appropriately qualified people regardless of sex, sexual orientation and/or gender identities, and individuals who are living with HIV are encouraged to apply. The Global Fund Board is highly committed to diversity.

Department for International Development

Chief Scientific Adviser and Director Research & Evidence.

The Department for International Development will appoint their next Chief Scientific Advisor (CSA) and Director of Research & Evidence Division, to take up the post in October. In this senior role the post-holder is responsible for: the quality of scientific and technical advice to Ministers and the Department; a significant research programme; professional leadership of specialist cadres; managing a budget of around £345m a year and 180 staff. They will also have a cross-Government role. CSA's are usually senior academics seconded to Government part-time, although other profiles and work patterns will be considered. Pay will either be on the Director scale, or secondees will keep their current T&C.

For further details of the position and how to apply, please see link to Civil Service Jobs: https://www.civilservicejobs.service.gov.uk
Vacancy ref: 1443281

Regulated by The Commissioner for Public Appointments

UKaid from the British people

The Economist Intelligence Unit

Regional director, Latin America

As the research and analysis division, The Economist Intelligence Unit (EIU) helps leaders prepare for opportunity, empowering them to act with confidence when making strategic decisions. The EIU is the global standard in providing quality, actionable intelligence to the public and private sectors, assessing issues that impact the marketplace for over two hundred countries.

Based in London, your role would be to lead the EIU's Latin American regional team, fostering intellectual debate and publishing high quality and timely forecasts, reports and articles on economic, political and business developments.

Your degree in economics, international relations or similar, will have been followed by experience writing political or economic analysis and forecasting for a business audience as well as managing an editorial operation in an international environment. In-depth knowledge of Latin America and the market for country-analysis products and services; the ability to convey ideas and opinions coherently and with authority; and good numerical, economic and analytical skills are essential.

If you are an accomplished presenter keen to build positive relationships; motivate and stimulate high-calibre individuals; and work corroboratively to organise and produce outstanding results, please find out more and apply by searching job reference 1774 at **www.economistgroupcareers.com**

Non-EEA applicants will need to obtain a UK work permit.

The Economist Group values diversity. We are committed to equal opportunities and creating an inclusive environment for all our employees. We welcome applicants regardless of ethnic origin, national origin, gender, race, colour, religious beliefs, disability, sexual orientation or age.

LinkedIn

The Economist Group

Prepare for opportunity.

OSCE

Can you help us bridge differences and build trust between and within 57 states for the benefit of all?
That's what we do at the Organization for Security and Co-operation in Europe, the world's largest regional security organization.

Director, Office of the Representative on Freedom of the Media (D1)

We are looking for a qualified candidate to:

- Co-ordinate the work of the Representative with OSCE institutions, field operations, other international organizations and international media NGOs;
- Assess and respond to major policy issues, procedures and practices to improve the effectiveness and to increase the visibility of the Representative;
- Oversee and contribute to the output of the Office and maintain the necessary contacts to diplomatic representations of OSCE participating States.

Tax-free salary, excellent benefits and the opportunity to work in a unique multinational, multicultural environment in Vienna.

To apply for this position, visit the OSCE website at:
http://www.osce.org/employment

Closing date: Tuesday 10th March 2015

The OSCE is a major regional security organization active in early warning, conflict prevention, crisis management and post-conflict rehabilitation. The RFOM provides early warning on violations of freedom of expression and promotes full compliance with OSCE press freedom commitments.

U.PORTO FEP
ECONOMICS AND MANAGEMENT

INVITATION FOR APPLICATIONS FOR THE POSITION OF DEAN OF THE SCHOOL OF ECONOMICS AND MANAGEMENT, UNIVERSITY OF PORTO (FEP)

The School of Economics and Management, University of Porto (FEP) hereby publishes this public notice of the application procedure for the position of Dean.

POSITION
The Dean is the person responsible for the governance and representation of the School of Economics and Management within the University of Porto and externally. The Dean is elected by a secret ballot of the Board of Regents for a four-year term of office and performs his/her duties on a full-time basis.

REQUIREMENTS
Applications are open to Professors and Researchers of this University, as well as to those of other Portuguese or foreign Universities, or Research institutions, who have a tenure track position and are not ineligible or subject to an incompatibility clause in the law, in the bylaws of the School of Economics and Management, University of Porto, or in the FEP Bylaws governing the Election of the Dean.

PROFILE
Eligible applicants must:

a) Be of recognized merit and have professional experience relevant to the position;
b) Have strategic vision, as reflected in an action programme, in line with the FEP mission and objectives, as defined in its bylaws;
c) Have the ability to promote scientific, humanitarian and cultural values, in a collegial and inclusive environment.

APPLICATIONS
Applications must be submitted, in Portuguese or English, to the President of the Board of Regents, **by the 11th of March 2015**, and should include the following:

a) A curriculum vitae;
b) Proof that the applicant meets the requirements;
c) A statement under oath that the applicant is not in any of the situations of ineligibility in the electoral rules;
d) The action programme that the applicant proposes to pursue.

Applications must be sent by mail in both print and digital form to:
School of Economics and Management, University of Porto (FEP)
Rua Dr. Roberto Frias, s/n
4200-464 Porto – Portugal

The legal and statutory provisions and regulations governing the election of the Dean are available at **www.fep.up.pt**

EFMD

FEP is a member of AACSB International - The Association to Advance Collegiate Schools of Business.

IIF
INSTITUTE OF INTERNATIONAL FINANCE

The Institute of International Finance (IIF) is one of the world's largest global associations of financial institutions with nearly 500 members in 75 countries. We provide economic and financial analysis to our members, serve as a forum for exchanging views and developing proposals on global regulatory issues; and represent our members from the private financial community in discussions with the public sector on global economic and financial policy issues.

Chief Economist
European Department

The position will have primary responsibility for IIF's analysis of countries in emerging Europe as well as providing coverage and insight into developments and policy issues in the euro area. Applicants should have a graduate degree, preferably a Ph.D., and at least 10-15 years of senior leadership experience, preferably within the financial services industry, in macroeconomic analysis of countries in both emerging Europe and in the euro area. Applicants should also have extensive experience in developing innovative research products and conducting rigorous analysis. Strong English writing ability is essential, along with sound quantitative, spreadsheet and database skills.

Senior Financial and Regulatory Economist
Regulatory Affairs

This position will focus on the IIF's efforts in analyzing the cumulative impact of regulatory changes on the positions and business models of financial services firms, and on market structures and practices. Applicants should have a graduate degree, preferably a Ph.D., and at least 10 years of experience in credit and capital market analysis related to financial markets and institutions, especially during periods of rapid regulatory change. Experience should include the design of studies and economic models using econometrics, statistical analysis, modeling techniques, and financial analytical tools as they relate to cost-benefit analyses and the impact of regulation. Strong English writing ability is essential, as is the ability to write clear, concise and informative reports and to present the results of research effectively in oral or written form.

Senior Policy Advisor
Regulatory Affairs

The responsibilities of the position will include analyzing and advising on key regulatory initiatives by global policy and standard setters, as well as the Federal Reserve, the OCC, FDIC, SEC and CFTC. S/he will contribute to the development of global industry positions on a wide range of challenging regulatory issues; develop position papers, response documents and other analytical pieces; support the work of high-level industry committees and working groups; and engage in dialogue with policymakers on behalf of IIF members. Applicants should have at least 10 years of professional experience in a leading financial services firm in the areas of finance, risk, legal or government/public affairs, or in a related trade association or regulatory agency; strong command of the US regulatory regime for financial services firms; a graduate degree in a related discipline; and excellent English oral and written communication skills.

Policy Advisor, Insurance
Regulatory Affairs

This position will be responsible for analyzing new international regulatory initiatives by groups such as the G20, FSB, IAIS and the Joint Forum; contributing to the development of global industry positions on insurance regulatory issues; supporting the work of high-level industry committees and working groups; and engaging in active dialogue with international policymakers on behalf of IIF members. Applicants must have a full command of the global regulatory framework for insurance firms and have strong technical and analytical skills. Applicants should have at least 5 years of experience in a leading, global insurance firm in the areas of finance, risk, legal or government/public affairs, or in a related trade association or regulatory agency; graduate degree in finance, mathematics/actuarial science, law, economics; solid knowledge of IAIS standards; proven proficiency in actuarial concepts/methodologies; and excellent English oral and written communication skills.

Cover letter, including specific salary requirements, and resume are required to apply. Applications should be sent to personnel@iif.com.

For more information on the IIF, please refer to our website at
www.iif.com.

The breaking point

CAMBRIDGE AND CUMBERNAULD

The two-party political system is under unprecedented pressure

THE distance between the front benches in Britain's House of Commons, it is said, is that of two drawn swords: it is a fittingly archaic and combative conceit. The Victorian chamber is not as urgently in need of rebuilding as some of the Palace of Westminster—it does not actually leak, falling bits of cornice do not routinely endanger life and limb, the electricity supply is reasonably reliable—but it is still arranged for the politics of a bygone era. Members of Parliament are arrayed behind the ministers and shadow ministers to whom they owe their tribal loyalty; at Prime Minister's Questions jeers, roars and braying from both sides reverberate from the oak panelling. "I count my blessings for the fact I don't have to go into that pit," President George H.W. Bush once remarked.

The pit is the product not just of Parliament's adversarial architecture, but of the electoral system that supports it. The MPs in the House of Commons, the elected and more powerful of Parliament's two chambers, are the individuals who won the largest share of the vote in each of 650 constituencies. This constituency-winner-takes-all system, known rather oddly as "first past the post" (FPTP), took its current form in 1885. By its nature, FPTP squashes small political parties; the dynamics of what political scientists call "Duverger's law" doom them to irrelevance or merger, a process that will reliably lead to duopolies on power. Defenders of FPTP argue that by giving voters two broad parties to choose between, instead of a plethora of more focused ones, it delivers durable single-party governments rather than flimsy coalitions. This allows governments to do more—and lets voters hold parties to account for either doing or not doing in office what they promise to do at elections.

The system's detractors say that disenfranchising people who vote for small parties is a price that outweighs these purported benefits. And this problem has recently been getting worse. The general election to be held on May 7th will see some widely popular parties winning very few seats, but it is quite unlikely to produce a strong single-party government. If increasing costs in fairness offer fewer compensating benefits, both Britain's people and its politicians may decide it is time for a change.

Not a tale of two parties

The most two-party election held since FPTP took its modern form was that of 1951 (see chart 1 on next page); the Conservatives got 48% of the vote and Labour got 49%. It was a time when class loyalty trumped almost all other concerns. A study of Labour supporters in Bristol in 1955 found that only a third held political views vaguely resembling the party's; the rest presumably voted for it because their families, neighbours and workmates did. At the other end of the scale the Conservatives were the only game in town.

Now people do not feel so constrained. "My father was a steelworker, my uncles went down the mines," explains Peter Short, who last year stood as a council candidate for the UK Independence Party in Yorkshire. "I was a Labour voter all my life. But I've had it with them." Much the same can be heard from new supporters of the left-nationalist SNP and the left-somewhat-libertarian Greens. All told, UKIP, the SNP and the Greens commanded one in 18 votes in the 2010 election. Some polls put the equivalent figure today at around one in three. The share of the vote for the biggest two parties in May may be below 70% and could fall nearer to 60%.

Party activists are redesigning their canvassing sheets to accommodate newly nuanced voting intentions: "I suppose I am your classic Tory-Green-Labour swing voter," says one resident of Cambridge, a seat so plural that five parties could all win more than 10% of the vote there. A number of previously safe seats are up for grabs, not because they will be lost to the new parties, but because those new parties will eat into past margins of victory. John Curtice, a psephologist, predicts a "lottery election" in which small shifts in the vote will make big differences in the Commons.

The complexity is in part a reaction to Britain's first coalition government for 70 years, which has left its members with weakened flanks. The Conservatives have ▸▸

lost right-wing voters to UKIP. The Lib Dems have lost some more left-wing voters to the Greens and Labour. Labour, for its part, has seen its support in Scotland plummet after campaigning against independence in last September's referendum. Stagnant living standards, blamed by each of the major parties on the other, have fuelled a "stuff the pair of them" attitude which benefits the small fry.

But longer-term trends are also in play. Half a century ago one in four voters said they identified with one of the main parties very strongly; now only one in ten does. Under Margaret Thatcher and Tony Blair this breakdown proved quite compatible with two-party politics. In the 1980s Thatcher courted working-class voters who would once have reflexively backed Labour; Mr Blair turned the tables a decade later. But either because the process has gone too far, or because they have no similarly gifted successors, neither of the two big parties now seems able to turn the collapse of allegiance to its advantage.

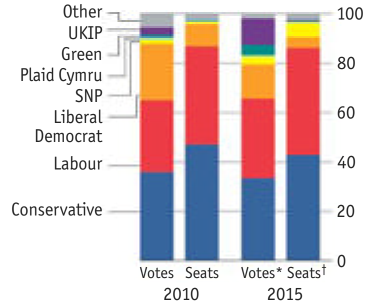
Who's like us?

A second, related trend is that voters expect more from politics. They are more used to "shopping around" in their everyday lives, says Tim Bale, a political scientist at Queen Mary University of London. But whereas supermarkets offer wider choice and better value than ever before, politics does not. Quality has not improved and the differences between parties seem to many to be harder to see. Ever fewer politicians have significant experience outside Westminster. And FPTP means that many hardly even need to try and sell themselves. In 69% of seats the incumbent has a majority of ten percentage points or more; in those seats only half the voters had any contact with a politician in 2010. Voters paid no heed by the big parties return the favour.

The resultant disdain encourages people to vote for marginal candidates—what, after all, are they losing—or not to vote at all. In 1979's general election 76% of voters

And then there were six 2

Share of general-election votes and seats in the House of Commons, %



Sources: YouGov; electionforecast.co.uk *Projected from current polls †electionforecast.co.uk modelling

participated; by 2005 turnout had fallen to 61%. The proportion rose slightly to 65% in the narrow 2010 election and may nudge up a little further this time. But the trend in safe seats is clear. A 2012 by-election in the utterly safe Labour seat of Manchester Central achieved the dubious honour of the lowest turnout in an election since 1945. Only 18% of voters participated.

The third and possibly most significant trend is a change in the shape of politics. A two-party system works best when debates can be collapsed on to a single axis—say from command-and-control economics to free markets. In Britain as elsewhere such a one-dimensional scheme does ever less justice to how people think. As class has lost salience, cultural issues have increasingly taken its place as a way of defining people's politics. This has been helped along by the unusually large gulf in the experiences of younger voters and older ones that has come with the huge expansion of higher education over the past few decades. James Tilley, an Oxford academic, has argued for a while that Britain's political maps are increasingly in need of a libertarian-authoritarian axis to supplement the old left-right economic axis. The rise of fresh-faced (if bearded) libertarian Greens and the support greying authoritarians offer UKIP proves he is on to something, though the fit is far from perfect: there are libertarian 'kippers, including Douglas Carswell, one of UKIP's two MPs; Green do-what-thou-wilt-ishness does not extend to fox hunting.

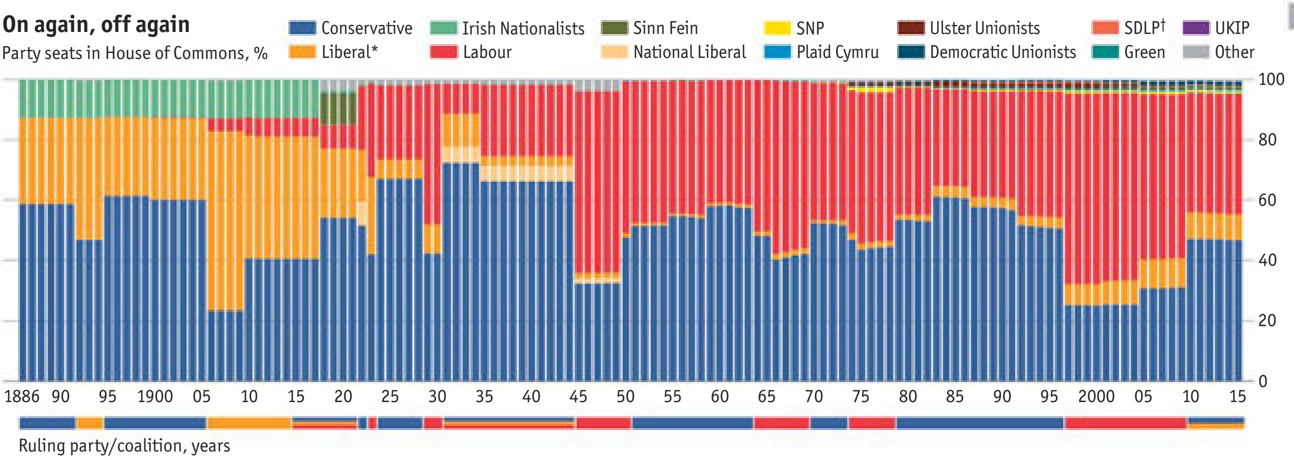
The politics of national identity have strengthened too. UKIP is a beneficiary; the SNP is another. Represented in Westminster since the 1960s, for decades the party defined what it was to be marginal. The devolution granted to Scotland in 1998—designed in part to sate the appetite for self-rule—provided it with a Scottish Parliament at Holyrood which included a degree of proportional representation (PR); its seats are allocated more or less in line with the popular vote. Re-energised and able to make every vote count the SNP became a minority government in 2007 and won an absolute majority in 2011, when it promised an independence referendum.

It lost the referendum, but its fortunes are better than ever. In Cumbernauld, Kilsyth and Kirkintilloch East, a seat east of Glasgow until recently as solidly Labour as Manchester Central, SNP membership has surged from some 300 before the referendum to over 1,600 now. Local members are dazzled by their success: one branch had to move its meetings from an official's living room to a school gymnasium. "We are struggling to train people as fast as they join," buzzes Jamie Hepburn, the local SNP member of the Scottish Parliament. Some polls have the SNP winning 40 of Scotland's 59 Westminster seats in May.

The party is popular because it has successfully promulgated the idea that Scots are different: given to tolerance, solidarity and greenery in a way that sets them apart from the right-wing, authoritarian and insensitive English. The party emphasises the sort of issues that were until recently the preserve of single-issue campaigners. Both fracking and nuclear weapons are likely be key features of negotiations with Labour if it seeks the support of the SNP's Westminster MPs in some way on May 8th.

On again, off again 1

Party seats in House of Commons, %



Sources: Rallings and Thrasher; House of Commons; "British Electoral Facts, 1832-2006" *SDP-Liberal alliance, 1981-88, Liberal Democrats thereafter †Social Democratic and Labour Party

Such inter-party arrangements, either full coalitions or looser promises of support, look likely outcomes in Mr Curtice's lottery (see chart 2 on previous page). The Lib Dems look as if they could lose two dozen seats or more, and the SNP could make gains on the same scale. If UKIP and the Greens pick up a handful of seats, too, the number of seats held by the two main parties will shrink and the chances of a minority government, or a coalition of some sort, will rise. Political advisers and civil servants are dusting off histories of the period from 1976-79, the last in which Britain had a minority government. Political folklore has MPs at death's door brought into the Commons on stretchers to vote.

Back then a minority government could seek a stronger mandate at any time by going to the polls. That is no longer possible. The Fixed-Term Parliaments Act, passed by the current coalition as a guarantee of its durability, requires the agreement of two-thirds of MPs to approve an immediate dissolution. The opposition may thus reject new elections if the timing does not suit it; that happened in Canada's legislature, which uses the Westminster model, in 2008. Thus a weak minority government could persist for some time.

The alternative worry is a government which is not inherently wobbly but which the ever more grotesque distortions of FPTP strip of legitimacy. Polling suggests that UKIP could come third in share of the vote and sixth in number of seats; the SNP, on the other hand, could come sixth in share of the vote, third in number of seats and get to choose the government. The Greens and UKIP could together obtain a quarter of votes but only 1% of the seats. Labour could win more seats than the Conservatives with many fewer votes. It is indeed conceivable, though unlikely, that Labour could win an absolute majority with less than 30% of the vote.

An added complication is the House of Lords. In Labour and Lib Dem circles the talk is of turning it into a senate elected by PR of some sort. That might to some extent mollify small parties; but by highlighting the unrepresentative nature of the Commons it might well also make that chamber's legitimacy harder to defend.

Britain may muddle along, as it has done when its electoral system has creaked in the past. Weak governments in the 1970s gave way to more than a decade of handsome Tory majorities as FPTP squashed the attempts of the Liberals, allied to the Labour absconders in the Social Democratic Party, to split the two-party system. (In the 1983 election Labour, with 28% of the vote, got 209 seats; the SDP-Liberal alliance, with 25%, got 23.) People seeing their votes for small parties wasted and no likelihood of that changing might return to Labour or the Tories—one of which might yet come up with a leader and programme that appeals both to its ideologically hardcore members and to centrist voters. And it is worth remembering that though it favours a two-party system, FPTP has in the past allowed the identities of those parties to change, with Labour supplanting the Liberals. Perhaps, after a period of turbulence and realignment, a new two-party configuration will emerge and stable majority governments will return. Duverger's law is strong.

But it is also possible to imagine Britain responding to its great political fragmentation by giving up, or modifying, FPTP. The Lib Dems, a merger of the Liberals and the SDP, have steadfastly favoured PR (and

after the 1980s who could blame them?). The Greens do, too, and so do some in UKIP—including Nigel Farage, its leader. It is easy for small parties to favour a reform that gets them more seats. It is more notable that the SNP, which looks likely to do very well out of FPTP in May, also favours PR at Westminster. And so does a substantial body of opinion in Labour.

Wellington calling

Only the Conservative Party is resolutely anti-PR. The party is conservative by temperament as well as name. It sees itself as the "natural party of government" and finds it inconceivable that in any two-party system it will long be out of power. Forced by the Lib Dems to hold a referendum on an uninspiring modification of FPTP called "alternative vote" as a coalition dowry, nearly all Tories campaigned for a "No". Yet the party's interests are shifting.

The current system is punishing Tory voters for being increasingly concentrated in rural and wealthy parts of the country; it is that concentration which makes it possible for Labour to get more seats than the Tories with fewer votes. Some senior Conservatives—including, it is said, the prime minister—favour introducing PR in local elections to establish a presence for the party in parts of the country where it lacks local councillors, let alone MPs. (It has no representatives on the councils of Manchester, Liverpool, Sheffield or Newcastle.) Mr Bale, an expert on the party's recent history, says that the sight of UKIP taking many votes from the party yet failing to translate them into a largely supportive bloc of right-wing seats in Parliament might finally make first-past-the-post intolerable. And if enough people across the major parties favour it, reform will become possible, even inevitable.

Even if the Conservatives do not change their stance, grossly disproportionate election results could still force the issue. That was the case in New Zealand in 1993 when, after years in which the two main parties had lost a lot of votes but only a few seats to smaller outfits under FPTP, the public voted for reform in a referendum. Admittedly this was in part because of an earlier non-binding referendum which the then prime minister had offered by accident (he misread his notes in an interview and chose not to correct himself). But chance always has a role to play.

The fact that an FPTP system like that of New Zealand before the 1990s—so majoritarian people called it "more Westminster than Westminster"—gave way fairly easily to a form of PR suggests the same could happen in Britain, too. Indeed, such systems are already in use in the London and Welsh assemblies as well as Holyrood.

The contrast between the architecture of Holyrood and that of Westminster illustrates the differences between the two systems: one is rigidly divided, opposing winners and losers; the other offers a spread of possibilities for compromise and deal-making. Scotland's legislators speak from individual desks in a horseshoe (they tend to sit in groups, but can take any seat in the chamber if they want) in an airy complex that feels like a modern airport: all bright, wide galleries full of seating.

The architectural parallel has one further dimension. Like Britain's electoral system, the Palace of Westminster was completed in the second half of the 19th century, survived occasional blows through the 20th century, and is poorly suited to today's politics. Like the electoral system, it is close to falling to bits. A drastic restoration is planned for the next parliamentary term; some or all MPs may have to move out. For Britain's constitutional reformists—which include this newspaper—this presents a golden opportunity to fix both the physical and electoral architecture of British politics. The edifice may survive the next parliament, and even the one after that. But without drastic renovation it could easily collapse. ■

Also in this section

For daily analysis and debate on America, visit
Economist.com/unitedstates
Economist.com/blogs/democracyinamerica

Chicago's mayoral election

Rahmbo prepares for round two

CHICAGO

Chicago's mayor, Rahm Emanuel, has picked the right fights. But the city remains broke and crime-ridden

THE diminutive mayor jumps to his feet and slaps a piece of paper on the table. "If you know of another multimillion dollar investment for the South Side, give me a call," he cries. He was reacting to a question about opposition to the University of Chicago's proposal for a library dedicated to President Barack Obama, which involves construction on historic park land. "It's only four acres," says Rahm Emanuel, the Democrat who runs Chicago. "I will replace those four acres [of park land], in fact I will double that."

Mr Emanuel has an abrupt manner at the calmest of times, and these are tumultuous days for the mayor, who is up for re-election on February 24th. Whereas four years ago he won comfortably, with 55% of the vote in the first round, it is uncertain this time whether he will get the required 50%-plus-one-vote to avoid a run-off. If not, he is likely to face Jesus Garcia, a Cook County commissioner, on April 7th. (His other three challengers trail him by a huge margin in the latest polls.)

In spite of his achievements during his first term, Mr Emanuel is not widely loved. Granted, his approval rating has improved since August last year, when a poll by the *Chicago Tribune*, a local daily, found that it had plummeted to 35%. But it has been an expensive slog to regain voters' sympathy. In recent weeks Mr Emanuel's campaign has spent millions of dollars on TV and radio advertisements.

One features Mr Obama, who laughs off his former chief-of-staff's "hard-headed" style as proof of his passion for Chicago. Last time Mr Emanuel ran, his former boss did not campaign for him—a sign of their tetchy relationship. This time the president will visit Chicago on February 19th, to designate a neighbourhood on the far South Side a national monument, and he will let himself be photographed with the mayor.

During his first term, Mr Emanuel has made a good start in improving Chicago's underperforming public schools and its awful community colleges. He has re-energised the local economy and galvanised job creation. All this has helped to halt the decline of Chicago's population. Between 2000 and 2010 it lost 200,000 people; since then it has remained stable at 2.7m.

His record on crime is mixed, but the murder rate is falling and he has put more policemen on the streets. Public finances are still a mess, though a slightly smaller one than four years ago.

He has made plenty of enemies. After he took office in 2011, he demanded merit pay for teachers and a longer school day (Chicago's was only 5 hours 45 minutes). He also earmarked for closure 50 half-empty schools, largely on the rundown south and west side of the city. Teachers went on strike for the first time in 25 years and managed to keep their seniority-based pay system, but Mr Emanuel got the longer day and the closures went ahead. The graduation rate at public schools has risen from 58% in 2011 to nearly 70%. More children than ever attend free full-day kindergarten. Mr Emanuel often stresses that the gap between the wealthy, mainly white north of the city and the poor, largely black south begins in early childhood.

The mayor has ploughed some of the money saved by the closures into charter schools. This made him even more unpop- ▸▸

Rahm's report

	Performance	Grade
Education	Closed 50 failing schools. Extended school day. Graduation rates are up	A-
Public finances	Has tried to address vast hole in public-worker pensions, but they are still only 37% funded	B
Business	Cut red tape. Wooed investors. Promoted tourism. But taxes will rise (see "public finances")	A
Crime	Murder rate down but still awful. Tried to curb guns but they're happy to sell you one in next-door Indiana	B
Manners	Barack Obama said that when Mr Emanuel lost his middle finger it rendered him "practically mute"	F

Source: *The Economist*

ular with the teachers' union, whose fiery boss, Karen Lewis, was one of his most plausible challengers in the mayoral election until she had to pull out of the race for health reasons. But many of the privately run, publicly funded charter schools have worked well in Chicago, with lower dropout rates and better results on the ACT, a college-readiness test, than public schools.

Another feather in Mr Emanuel's cap is an expanding job market, largely because downtown is booming. Demand for office space is growing and tech companies such as Groupon, a firm that offers online coupons for bargains at shops and restaurants, and Morningstar, an investment researcher, are based in Chicago. Under Mr Emanuel, Chicago has attracted more tourists. Arrivals rose 23% between 2010 and 2013, to 48.5m; Mr Emanuel has tirelessly promoted Chicago as a good place for conferences.

Mr Emanuel, who briefly worked as an investment banker, has cut red tape, in particular for small firms, and created a business-friendly environment. "Rahm thinks like a businessman, which is rare in a politician," says Kimbal Musk, who opened a fancy restaurant in downtown Chicago a few months ago. David Miniat, president of Ed Miniat, a meat-processing firm, says that when he recently decided to expand his firm's operations in Chicago, the necessary paperwork was done within weeks.

Criminals and pensioners

These successes are largely confined to downtown and the north side. In the poorer districts on the south and west side, unemployment is high and crime widespread. Of the 456 homicides last year, 49 happened in Englewood, a poor neighbourhood that is home to only 2% of Chicagoans. African-Americans, who are around 30% of the city's population, are 80% of murder victims. Michael Pfleger, a Catholic priest and activist, laments that too little is done to break the cycle of violence that is the scourge of his parish, which is close to Englewood.

Yet even Father Pfleger recently endorsed Mr Emanuel, who he says is fighting for tougher gun laws. Chicago already has one of the strongest gun laws in the country, but is surrounded by states with some of the laxest. This infuriates Mr Emanuel. At one point he offered to drive *The Economist*'s correspondents 30 miles to Gary, Indiana to show them how easy it is to buy a gun there.

Mr Emanuel's biggest headache in his second term will be the looming public-pension crisis. Public-worker pensions are only 37% funded—a total shortfall of $22 billion for a city with an annual budget of $7.3 billion. Chicago has the worst credit rating of any major American city except Detroit. And with a $550m payment into the pension funds for police and firemen due at the end of this year, he will have little time to find a solution.

Mr Emanuel refuses to say whether he will raise property taxes or sales taxes, though he admits that the shortfall will need to be plugged with "revenue". According to Laurence Msall of the Civic Federation, a watchdog, the mayor has balanced the budget and reduced "scoop and toss" whereby the city pushes its debt-repayment schedule into the future, but Chicago is "far from out of the financial woods" because of the pension time-bomb. Mr Emanuel will need to work with Illinois state legislators, who created the pension funds and set the rules that govern them; the mayor needs lawmakers' consent for any serious reform.

Dick Simpson of the University of Illinois at Chicago says Mr Emanuel has been a fine economic steward, but has disappointed voters on crime and schools. Mr Simpson's biggest gripe is the mayor's tendency to act without consulting and then ask the city council to rubber-stamp his decisions. "Our experience with long-serving mayors is that they tend to get more tyrannical the longer they are in power," he says. Chicago under Mr Emanuel relies less on patronage and more on data than ever before. But fixing its finances and curbing crime are such knotty tasks that even the man they call "Rahmbo" will need help. ■

The long arm of the IRS

An Englishman's home

LONDON

The mayor of London renounces his American citizenship

BORIS JOHNSON, the mayor of London, is British-American by birth—and by temperament. He mixes the can-do frontier spirit with self-deprecating wit. After being sacked as a shadow cabinet minister, he said: "There are no disasters, only opportunities. And, indeed, opportunities for fresh disasters." He is relentlessly optimistic. "Voting Tory will cause your wife to have bigger breasts and increase your chances of owning a BMW M3," he once promised.

Yet Mr Johnson (pictured) is so fed up with the Internal Revenue Service (IRS) that he is renouncing his US citizenship. He says he wants to affirm his commitment to Britain—a wise move for a man who hopes to be prime minister some day. But he has also talked of "getting a divorce from America" because of its "incredible doctrine of global taxation". He became American by "an accident of birth": his father was studying in New York. Half a century later this made Johnson junior liable for American capital-gains tax on the sale of his primary home, in north London; Britain levies no such tax. He harrumphed last year that this was "absolutely outrageous" and said he wouldn't pay. (He later settled for an undisclosed sum.)


Crikey! Hands off my assets!

The number of Americans giving up their passports has shot up, from less than 1,000 a year in the late 2000s to a record 3,415 in 2014. A new spur is the Foreign Account Tax Compliance Act (FATCA) of 2010, which makes it a lot harder for Americans overseas to get (or keep) bank accounts, pensions and mortgages, because foreign financial firms don't want the administrative hassles that FATCA throws up. The law also increases filing requirements for citizens—and thus stokes fears that honest mistakes will be punished.

A neighbour of this correspondent, who was born in America but moved to Britain as a child, recently received a huge bill from the IRS, out of the blue, for many years of unfiled taxes. He had not realised that he owed anything; he had always paid taxes promptly in Britain. The IRS was so aggressive that he feared he might lose his technology business; he even discussed divorce with his wife as a way to shield their assets. In the end, he settled for a six-figure sum. He, too, has since renounced his citizenship.

Gentrification

Bring on the hipsters

WASHINGTON, DC

Gentrification is good for the poor

IN AN old bar on U Street in Washington, DC—a place that was once a centre of black life and is now an inferno of hipsterdom—Jay, the bartender, is talking about how the area has changed over the past decade or so. "They ain't got barmen any more," he says, with a grin. "They got mixologists." What happens in Washington, he explains, is that young white professionals move in, bars open, "and then you know that all the bodegas and liquor stores on every corner, they ain't got long either."

Such gentrification obsesses the *bien-pensants*. In November the *New York Times* instructed its journalists to stop comparing everywhere to gentrified Brooklyn. A *Saturday Night Live* sketch showed a young man in a tough neighbourhood talking about his "bitches"—only to reveal that he runs a dog-walking business, and even knits matching sweaters for his bitches. In Philadelphia and San Francisco, presumed gentrifiers have been the target of protests and attacks. Elsewhere, the term is used as an insult ("I would hate to be a gentrifier," says one young professional in Detroit). Yet the evidence suggests that gentrification is both rare and, on balance, a good thing.

The case against it is simple. Newcomers with more money supposedly crowd out older residents. In Washington, according to a study by *Governing* magazine, 52% of census tracts that were poor in 2000 have since gentrified—more than in any other city bar Portland, Oregon. Young, mostly white singletons have crowded into a district once built for families. Over the same period, housing in Washington has become vastly more expensive. And many black residents have left: between 1990 and 2010, the number of African-Americans in the District declined by almost 100,000, falling from 66% of the population to 51%.

In New York and San Francisco, which both have rent-control rules, soaring property prices create an incentive for property owners to get rid of their tenants. Stories abound of unscrupulous developers buying up rent-controlled properties and then using legal loopholes or trickery to force residents to leave. Letting a building deteriorate so much that it can be knocked down is one tactic; bribing building inspectors to evict tenants illegally is another.

Yet there is little evidence that gentrification is responsible for displacing the poor or minorities. Black people were moving out of Washington in the 1980s, long before most parts of the city began gentrifying. In cities like Detroit, where gentrifiers are few and far between and housing costs almost nothing, they are still leaving. One 2008 study of census data found "no evidence of displacement of low-income non-white households in gentrifying neighbourhoods". They did find, however, that the average income of black people with high- school diplomas in gentrifying areas soared.

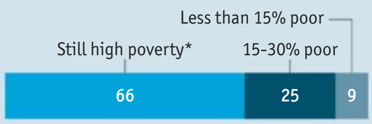
Gentrifiers can make life better for locals in plenty of ways, argues Stuart Butler of the Brookings Institution, a think-tank. When professionals move to an area, "they know how to get things done". They put pressure on schools, the police and the city to improve. As property prices increase, rents go up—but that also generates more property-tax revenue, helping to improve local services. In many cities, zoning laws force developers to build subsidised housing for the poor as well as pricey pads for well-off newcomers, which means that rising house prices can help to create more subsidised housing, not less.

The bigger problem for most American cities, says Mr Butler, is not gentrification but the opposite: the concentration of poverty. Of neighbourhoods that were more than 30% poor in 1970, just 9% are now less poor than the national average (see chart), according to the City Observatory, a think-tank. In Chicago, yuppies can easily buy coffee and vinyl records in northern neighbourhoods such as Wicker Park. But the South Side, where racist housing policies created a ghetto in the 1950s and 1960s, remains violent, poor and almost entirely black. In Brooklyn the most famously gentrified district, Williamsburg, was never all that poor or black in the first place.

However annoying they may be, hipsters help the poor. Their vintage shops and craft-beer bars generate jobs and taxes. So if you see a bearded intruder on a fixed-gear bike in your neighbourhood, welcome him. ■

Gentrification is rare

Of the census tracts that were high-poverty* in 1970, what % of tracts in 2010 were:



Source: City Observatory

*More than 30% of population poor

Crime in Detroit

The great scrap-metal scrap

DETROIT

A city tries to stop looters

THE offices of the Dix Scrap Iron & Metal Company, a scrapyard in south-west Detroit, resemble an outlaw's holdout. A rifle is propped up behind the desk of the owner, John Dingell III (incidentally, the son of a former congressman). Holes are patched in the wood-panelled walls where thieves have broken in to raid the safe or to steal metal from the warehouse behind. Several more guns are concealed about the smoky room, which Mr Dingell shares with a colleague who helps provide security. The business has been in Detroit since 1935. Yet it is now closing down. Its end may signal the decline of one of Detroit's few thriving industries: the sale of scrap salvaged or stolen from the city's many empty houses and businesses.

Motown has always had scrap-metal dealers—the car industry bends a lot of metal. The business grew frenetic after the economic crisis hit: tens of thousands of homes and factories were made derelict by foreclosure just as global metal prices ▸▸

soared. Many jobless Detroiters made a living by raiding empty buildings for copper wiring or stainless steel fittings.

This has not been good for the city. At Southwestern High School, a mile or so from Mr Dingell's scrapyard, little is left of the grand building, which closed to pupils in 2012. Thieves have taken every locker door, torn out every strand of cabling and fully dismantled what was once a covered walkway. In the tiled swimming pool, broken furniture is frozen in place in about two feet of murky ice. The city authorities hoped to sell the building to developers. Instead, it seems likely to join thousands of other looted buildings, most of which would cost more to repair than the land they sit on is worth.

Scrapping is now slowing, for several reasons. First, the easiest pickings have gone. Few empty houses still have copper wiring to steal, and the most dedicated thieves have taken to robbing working businesses, rather than empty ones. Second, metal prices have fallen dramatically over the past year: the price of copper has fallen by nearly a quarter. For businesses such as Mr Dingell's, however, the biggest problem is a new law passed in Michigan last year to stop the metal-strippers.

In the past, scrap-dealers mostly dealt with customers fairly informally. They had to record the identity and fingerprints of most of the people bringing them scrap, but they could still pay in cash instantly. Under the new law, scrappers are required to make any payment of $25 or more by post, sending either a cheque or a bank card which can be used only at an on-site machine fitted with a camera. This, hopes Rashida Tlaib, the Detroit politician behind the measure, will deter criminals, or else make it easier to prosecute them. "I was seeing my neighbourhood being destroyed by these almost invisible transactions," she says.

Mr Dingell says that the new law is driving him out of business and having "precisely zero" effect on thieves. They already mostly sell their wares to fences who will find ways round the new rules, he thinks; most metal can be melted down or cut up so that its origin is unidentifiable. Posting cheques would expose him to identity theft, while installing an ATM would give the thieves yet another thing to steal. Theft should be tackled at its root, he says: when Southwestern High School was first looted, he tipped off the local sergeant, who did nothing.

But with limited resources, it is difficult to respond to every crime. In 2013, 316 people were murdered in Detroit, almost as many as in New York City, which is 12 times larger. Its police officers are poorly paid and overworked. And with every house torn up, the city becomes a little harder to save. Perhaps the fewer scrappers there are, the better its chances. ■

Oregon's governor

Green, but clean?

LOS ANGELES

John Kitzhaber resigns amid a federal probe

TIMES are tough for governors. Bob McDonnell, an ex-governor of Virginia, was sentenced last month to two years in prison for corruption. This month it was reported that federal authorities had launched a probe of Chris Christie's administration in New Jersey, alleging that members of it broke the law. And on February 18th John Kitzhaber, the 67-year-old governor of Oregon, resigned in the wake of federal and state probes into his activities and those of his fiancée and First Lady, Cylvia Hayes (pictured with Mr Kitzhaber).

Trouble and strife

The investigations followed months of media reports alleging that Ms Hayes, a clean-energy consultant, had benefited financially from her relationship with the governor. She is reported to have earned hefty consulting fees from a variety of environmental groups with an interest in influencing state policy.

In an emotional statement, released in audio by his office on February 13th, Mr Kitzhaber complained that he had been "charged, tried, convicted, and sentenced by the media" before any investigation had been completed. He admitted that he had become a liability, but not that he had done anything wrong. Ms Hayes says she was careful to avoid conflicts of interest. Federal prosecutors demanded records about 15 other people besides Mr Kitzhaber and Ms Hayes, including several of the governor's staff. Its sheer scope suggests that, as inquiries go, this is going to be big.

The situation is unusual for Oregon, a state notable for its clean politics. Between 1976 and 2010, there were only 10 corruption convictions for every 1,000 elected officials, says Richard Winters of Dartmouth College. By contrast Florida and Virginia both notched up more than 200.

Mr Kitzhaber's resignation, just 37 days after he was sworn in, comes after years of political success, including three previous terms as governor—a record for the state. Oregon's liberal-leaning electorate voted eagerly for a man who had been an emergency-room doctor, and who wore jeans to one of his inaugurations. Mr Kitzhaber cultivated a reputation as a moderate Democrat who knew how to stand up to the right and temper the left; early on, he earned the nickname "Dr No" for his vetoes.

Kate Brown, the Democratic secretary of state, has succeeded him. She will serve at least until 2016, when an election will take place for the rest of the term, which ends in 2019. Ms Brown, at 54, is the first openly bisexual governor. She is also a lawyer, which is not quite so groundbreaking for a politician. She is to the left of Mr Kitzhaber, but because Democrats control the Oregon legislature, the legislative agenda (automatic voter registration, paid sick leave, a higher minimum wage) will not be much affected.

Oregon voters, meanwhile, have had to watch from the sidelines. Many feel aggrieved that, though nobody so far has been formally charged with anything, a man they liked and voted for has been made to step down by the media and local politicians. "Oregon voters…haven't gotten a say in this at all," says Priscilla Southwell, a professor of political science at the University of Oregon. "We've been totally left out of the picture." ■

Water wars in the south-east

Lawns v oysters

APALACHICOLA

Florida blames Georgia for plummeting shellfish harvests

BALANCING on an inflatable ring in a river is not easy. Balancing a cooler full of beer at the same time is only for experts—many of whom can be found among the fun-loving young of Atlanta. Every summer hordes of them gather to "shoot the 'Hooch"—float down the Chattahoochee river in rings.

This is not always as relaxing as it should be. The water has got shallower, so inflatables sometimes burst on sharp rocks poking up from the riverbed. Irritating for water babies: but for oyster farmers in Florida, about 250 miles downstream, the shallow water spells disaster.

Since 1990 Georgia, Florida and Alabama have battled over the water from two river basins: the Alabama-Coosa-Tallapoosa and the Apalachicola-Chattahoochee-Flint. To complicate matters, the fed-


中國東方航空
CHINA EASTERN
SKYTEAM
DEPART FROM THE ORDINARY
By boarding the new luxury fleet of Boeing with unmatched passenger service and comforts for all flights from
Los Angeles ✈ Shanghai
First Class Cabin
Ergonomic leather armchairs transform into a sublime spacious single or combinable double-bed suite plus full in-flight access to an exclusive bar.
Business Class
Herringbone seating provides every passenger with aisle access, augmented privacy, and soothing sleep with fully reclinable 180° flat bed seats.
All classes
In-flight WiFi, universal power outlets for your electronic devices, and a personal entertainment center.

eral Army Corps of Engineers runs dams and reservoirs on the rivers. Georgia's farms, Alabama's factories and Florida's shellfish all depend on their water. Atlanta alone draws in 360m gallons a day; by 2035 the city could suck up twice that.

Oysters need a balance of fresh and salt water to thrive. River flows regulate salinity, provide food and discourage predators such as oyster drills (a type of snail), says Chris Nelson of the Gulf Oyster Industry Council. The Apalachicola river long supplied almost half the fresh water that flowed to Florida's west coast. But between 2008 and 2012 low daily flows (6,000 cubic feet per second or less) between June and September were 40% more common than in all 19 years before.

Oyster production has suffered. In 2012 Apalachicola Bay, a fishing town in Florida, saw 3m lb (1.4m kg) of oyster meat lugged ashore—89% of Florida's total haul and 9% of the national harvest. A year later the area delivered just 1m lb and 2014 "was far worse", says Thomas Lee Ward, an oysterman at the 13 Mile Seafood Market, a local supplier. "Production levels have hit rock bottom. It's a scary time," he adds. Shannon Hartsfield of the Franklin County Seafood Workers Association agrees: "People are not making a decent living any more. I've got friends who've had to move back in with their parents."

Florida's governor, Rick Scott, wants Georgians to water their lawns less. He filed suit against the Peach State in October 2013 demanding, among other things, that Atlanta should withdraw only as much water from the Chattahoochee as it did in 1992. Although the metropolitan area now has 2m more residents, the Supreme Court has agreed to hear Florida's suit.

Georgia filed its answer in January, denying its neighbour's claims and pointing out that Mr Scott told the federal Department of Commerce that the collapse in oyster production was instead "caused by drought conditions and illegal overharvesting". The commerce department seemed convinced, awarding the area $6.3m last year to restore oyster reefs and retrain workers. The Environmental Protection Agency has chipped in too, with $5.4m of the cash wrung from BP for the Deepwater Horizon oil spill in 2010.

According to Mr Ward, the oysterman, a big part of the problem is that small, immature oysters are being scooped up along with the large ones, a practice which damages future harvests. Instead of stopping that, "Everybody wants to blame it on a single problem, like the water flow, because of the money they get that way." Whoever is right, and whatever the Supreme Court eventually decides, one thing is certain: urban growth and climate change between them are likely to trigger plenty more water disputes in America's south-east in future. ■

Lynching in the South

Marking murder

NEWNAN

Small towns find it hard to remember victims of racial violence

A LYNCH mob stopped a car carrying two black couples and their white employer on July 25th 1946. One of the black men, Roger Malcolm, had just been given bail after stabbing a white farmer. The mob tied up all four African-Americans and shot them 60 times. Their white boss, who was not harmed, said he could not identify any of the perpetrators.

The lynching that took place near Moore's Ford Bridge in Walton County, Georgia, is still unsolved. A marker was erected 2.4 miles west of the spot in 1999. But few other such signs exist at similar sites in the South.

Between 1877 and 1950 almost 4,000 black southerners were lynched, according to a new report by the Equal Justice Initiative (EJI), a human-rights group. That is 700 more than previously reported. During the days of Jim Crow, a black man could be murdered for speaking "disrespectfully" or for knocking on the door of a white woman's house. In 1904 a crowd in Mississippi sipped lemonade and nibbled devilled eggs as they watched a black couple being mutilated and burned. "Our willingness to romanticise this period necessitates that we deal too with the racial terrorism and violence at this time," says Bryan Stevenson of the EJI.

Georgia saw more such murders (586) than any other state, followed by Mississippi. Tyrone Brooks, a member of Georgia's House of Representatives, has spent years researching the lynching at Moore's Ford Bridge with the Southern Christian Leadership Conference (SCLC), after past investigations went nowhere—despite the greater willingness of locals to share information about the murders in recent years. He has also organised annual re-enactments since 2005, and believes white anger over blacks trying to vote partly motivated the killings. On February 13th he sent a letter to Charles Grassley, chairman of the Senate Judiciary Committee, asking for an investigation and hearings into what happened. "We have no faith in law enforcement agencies any more, as they've already had since 1946 to look into this case," says Mr Brooks.

His campaign is unlikely to get far. A letter last year to the Judiciary Committee's chairman at the time, Patrick Leahy, went unanswered. And it does not help that Mr Brooks faces trial in April for allegedly misappropriating money from two charities—charges which he denies, and which his lawyer puts down to sloppy book-keeping rather than fraud.

After 69 years the murderers of Moore's Ford Bridge are either dead or very old. The odds of any of them being put on trial are remote. But even if justice cannot be done, other forms of commemoration are valuable, argues Stan Deaton of the Georgia Historical Society. Signs at lynching sites might mark "literally and figuratively how far society has come", he says. However, many small towns are reluctant to erect them, for fear they might "pick off the scab" from old wounds, he says.

Newnan, a pretty town with three markers commemorating Confederate history, is one of them. It has turned down requests for a sign to remember Sam Hose, a black man who was castrated and burned alive there after being accused of rape and murder in 1899. The town refused in part because no descendants of Hose lived there, and because no one wanted to upset the family who allegedly suffered at his hands, says Winston Skinner, a local journalist. "But avoiding the truth does not permit the kind of reconciliation the South needs," says Mr Stevenson. And Mr Deaton agrees: "History is not about condemning or celebrating the past, but about trying to understand the human condition." ■

A victim laid to rest

Lexington | Impeachment lite

Republicans are resorting to dangerous tactics to express their dislike of the president

WITH terror threats on every side, how did Republicans—by tradition the party of national security—find themselves pondering a shutdown of the Department of Homeland Security (DHS)? The quick answer involves political calculation, and a desire among conservatives to be seen fighting President Barack Obama over his plans to shield millions of illegal immigrants from deportation with a few strokes of his pen.

A longer answer involves political weakness. In publicly contemplating a partial government shutdown—the first since the autumn of 2013—Republicans in the House of Representatives are pandering to their party's angriest grassroots supporters, who have convinced themselves that Mr Obama is not just mistaken in his policies, but is a constitution-trampling tyrant.

Calling the president a serial law-breaker helped power Republicans to a thumping win in the mid-term elections last November, handing them control of both chambers of Congress. Since then, Republican leaders have united their fractious party by assailing the constitutionality of Mr Obama's moves to grant temporary legal papers to more than 4m foreigners living in the country unlawfully, who were either brought to America as children, or who are the parents of citizens or legal residents. The charge has been led by John Boehner, the Speaker of the House—a man who, not so long ago, was derided by hardliners as an establishment squish.

The Speaker says that Republicans are duty-bound to fight Mr Obama with a weapon granted to Congress by the Founding Fathers—their powers over spending requested by the executive. In his words: "The Congress just can't sit by and let the president defy the constitution and defy his own oath of office."

Alas for Mr Boehner, the same Founding Fathers made sure those budget powers are both potent and hard to use. House Republicans have passed a bill that amounts to a precision attack on Mr Obama's immigration agenda, surgically cutting money for what they call his "executive amnesty" from the funds that flow through the DHS, while ensuring that billions of dollars are available for border guards, immigration agents, counter-terrorism units and other voter-pleasing things. It is a clever scheme that is also doomed. It cannot pass the Senate, where the Republican majority is too slim. The party is even further from the super-majorities needed for Congress to overcome a presidential veto. As a result, Republicans face some ugly choices. They can either let current funding for the whole DHS expire; or, if that does not appeal, they can surrender, or pass a short-term bill to postpone the crisis a while longer.

Ahead of a February 27th deadline to renew DHS spending, Washington folk have turned to a favourite game: guessing who will be blamed if funds dry up. Some House Republicans aim their fire at party colleagues in the Senate, grumbling that they should re-write their chamber's voting rules in order to ram the House-amended bill past Democrats. Senator Ted Cruz of Texas, a pugnacious right-winger, has an elaborate explanation as to why Democrats will be blamed. If Democrats decline to vote for a spending bill with riders added to destroy Mr Obama's immigration policies, he says, they will be irresponsibly defunding homeland security in an "extreme" bid to protect the president's "lawless amnesty".

The DHS stand-off was complicated on February 16th, when a federal district judge in Texas agreed with a complaint filed by 26 states and temporarily blocked the most recent of Mr Obama's immigration actions, finding that the president had exceeded his powers. The wrangling may yet end up in the Supreme Court.

Finger-pointing fascinates those inside the Beltway bubble. But the shutdown threat raises larger questions about divided government in the Obama era. Mr Boehner and his allies have kept House members content by adopting a staple of Tea Party rhetoric: presenting a policy dispute with Mr Obama as a battle to defend the constitution itself. Once made, that is a hard argument to back away from. If that sort of dogmatism is applied to future budget disputes, gridlock will only worsen.

Government shutdowns in modern times have often involved disputes about abortion, welfare and even nuclear-missile funding, with Democrats questioning Ronald Reagan's strategy for avoiding a third world war. But all sides typically accepted that the constitution obliged them to negotiate and make divided government work. Today, too many Republicans hear the constitution telling them to dig in and seek Mr Obama's surrender.

Fighting, not fixing

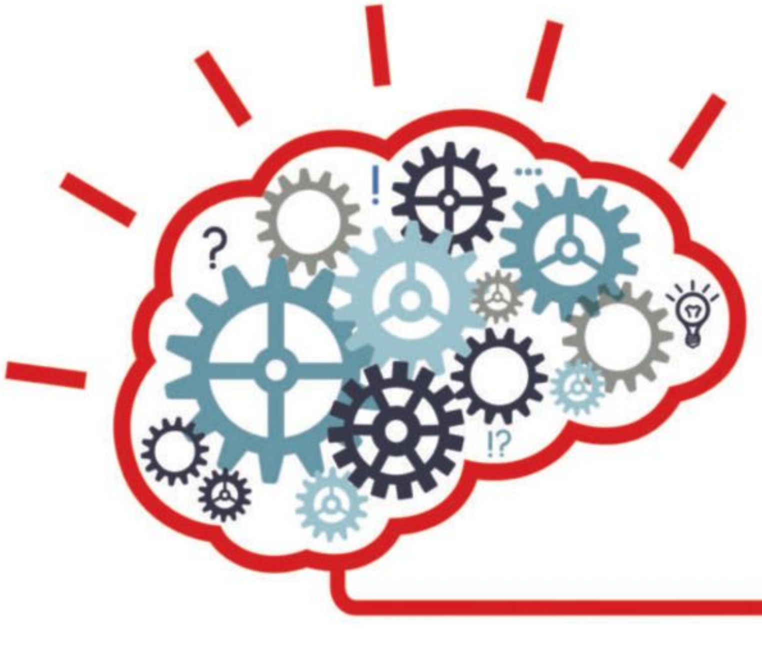
The Founding Fathers did worry about overweening presidents trampling the constitution. They might even have been alarmed at the scope of Mr Obama's immigration actions. That is why they created independent courts as a check on the executive and—for when that failed—gave Congress powers of impeachment. Today's Republicans fear even to use the I-word, remembering the backlash that followed the impeachment of President Bill Clinton. As a result, they seem tempted to use their budget powers as a sort of impeachment-lite.

More pragmatic Republicans, notably in the Senate, are appalled by renewed talk of shutdowns. A rare House moderate, Charlie Dent of Pennsylvania, says a number of his Republican colleagues "are tired of being driven into a ditch by bad tactics". He disagrees with Mr Obama's executive actions on immigration, but says their legality "will be settled in the courts, not in the halls of Congress". Meanwhile, with Islamic State fanatics on the march, Congress should do its job and fund the DHS. If after that Congress still dislikes Mr Obama's actions, Mr Dent concludes, it should take up its own immigration legislation. He is right. Alas, many of his colleagues prefer to be seen fighting Mr Obama's plans, not fixing them. ■

The Economist | GMAT Tutor

Win a $25,000 MBA scholarship

Enter the Economist GMAT Tutor Brightest Minds MBA Scholarship Contest



To participate, complete our simulation GMAT exam online.

The person who scores highest will earn a $25,000 scholarship to any of our sponsor business schools.

gmat.economist.com/contest

RSM Erasmus University

Rady | UC San Diego School of Management

University of Virginia Darden School of Business

University of Edinburgh Business School

Daniels College of Business University of Denver

Weatherhead School of Management Case Western Reserve University

Sheffield University Management School

UCD Michael Smurfit Graduate Business School

GW

Bentley University Graduate School of Business

Schulich School of Business | York U

HULT International Business School

IUM International University of Monaco

HEC Paris

Kogod School of Business American University • Washington, DC

Terms and conditions apply. Please visit gmat.economist.com/contest-terms for rules and regulations.

For daily analysis and debate on the Americas, visit
Economist.com/americas

Argentine politics

Silent, but seething

BUENOS AIRES

Marchers want the truth about the death of a prosecutor. It could become a casualty of a political war

PROTESTS in Argentina are normally clamorous affairs, raucous with the din of pot-banging, drum-beating and slogan-shouting. The huge march on February 18th, one month after the death of Alberto Nisman, a prosecutor who had accused the president of trying to hide Iran's complicity in Argentina's worst terrorist act, took place in near silence. Some 400,000 people walked in pouring rain from Congress, past Mr Nisman's former office to the presidential palace. They carried signs demanding "truth" and "justice" for Mr Nisman, who was found shot dead in his bathroom, and for the 85 victims of the 1994 bombing of a Jewish centre in Buenos Aires.

The federal prosecutors who had organised the march in honour of their fallen colleague called for silence in the hope that their protest would rise above politics. That was naive. Mr Nisman had accused the president, Cristina Fernández de Kirchner, of a crime. Among the most prominent marchers were her fiercest critics. They included Mauricio Macri and Sergio Massa, two of the main candidates to succeed her in this year's presidential election. The marchers were joined by the farmers' lobby, whose clash with Ms Fernández over agricultural taxes nearly led to her downfall in 2008. Several of the prosecutors in charge of the protest had led investigations of alleged corruption by Ms Fernández and her husband, Néstor Kirchner, who preceded her as president and died in 2010.

The maladroit Ms Fernández raised the political heat. "We'll keep our songs, our joy and our chants of 'Long live the Motherland'," she proclaimed on February 11th. "Let [the marchers] have their silence." Given the tragedies being commemorated, her comments seemed insensitive, to say the least. Her press secretary said the rally was part of a "judicial coup". Some of the prosecutors had links to drug-trafficking, a senior aide suggested. He added, even more bizarrely, that they were anti-Semites who had tried to obstruct the investigation of the Jewish-centre bombing.

As the vitriol shows, the mysteries surrounding the bombing and its investigation are part of a corrosive internal conflict. The president is pitted against other organs of state, especially the judiciary and the intelligence services, and factions within them are ranged against each other.

"People might be confused as to why the prosecutors are marching, when they are the ones in charge of ensuring justice," observes Alejandro Bonvecchi, of Torcuato Di Tella University in Buenos Aires. The answer is that some are at loggerheads with Ms Fernández. And they are as sceptical as most Argentines that the circumstances of Mr Nisman's death and the president's role, if any, in covering up the truth about the bombing will ever be explained.

Ms Fernández, who succeeded her husband in 2007, has tried to subjugate institutions that normally operate beyond presidential purview. She commandeered Central Bank reserves to finance government spending, leant on the national statistics agency to falsify inflation data and tried to break up media groups critical of her government.

She is hardly the only Argentine leader to have acted in a high-handed manner. Hipólito Yrigoyen, a modernising president of the early 20th century, the populist Juan Perón, and the military dictators who ruled from 1976 to 1983, all sought to bend independent institutions to the presidential will. When the dictatorship ended, democratically elected leaders restored some independence to the judicial branch and purged conspicuous defenders of the military regime. But under Ms Fernández, the most divisive leader since democracy was restored, this progress has gone into reverse. "Vamos por todo" (We're going for broke), she once famously mouthed at a rally. It has become her unofficial motto.

With the judiciary and the intelligence services, institutions at the heart of the Nisman controversy, she has been only partially successful. In 2013, after a series of judgments went against her, Ms Fernández introduced measures to subject the courts to presidential influence. The Supreme Court overruled the most contentious ones, but the attempt angered many judges. Prosecutors are divided. The attorney-general, the country's top prosecutor, is an ally of the president. The organisers of the march are prosecutors who reject presidential influence.

Ms Fernández rightly believes that the intelligence services need more accountability, but she is hardly in a position to demand this. For much of the Kirchner clan's time in office, the Intelligence Secretariat (SI) spied on their opponents. Ms Fernández's sudden embrace of Iran in 2013, when she announced a joint agreement to set up a "truth commission" to look into the bombing of the Jewish centre, outraged many in the SI, who had worked hard to ▸▸

expose an Iranian link to the bombing. Ms Fernández says spooks cooked up false allegations against her that formed the basis of Mr Nisman's accusing document; she thinks rogue agents may have killed him. In January this year she introduced a bill to dissolve the SI and set up a new federal intelligence agency.

The schisms within and between agencies responsible for investigating the bombing and Mr Nisman's death make it unlikely that either case will be solved. Independent-minded prosecutors have the will, but "they don't feel they have the necessary tools," says Mr Bonvecchi. Without the full backing of the attorney-general and the judiciary, "they cannot get the information or protection they need."

On February 13th a federal prosecutor decided to press ahead with an investigation of Mr Nisman's allegations. That could be followed by the formal filing of charges, provided a judge thinks that the evidence is strong enough. Only Congress can prosecute Ms Fernández while she is president. There is speculation that after the presidential election in October she will seek to gain immunity by running to be a member of the Mercosur parliament—a pseudo-legislature associated with a South American trade grouping.

Argentina needs a president who will strengthen the judiciary and control the intelligence services without politicising them. In the World Economic Forum's ranking of judicial independence, Argentina comes an unimpressive 127th out of 144 countries. None of the front-runners to succeed Ms Fernández looks like a dedicated reformer. "I don't see anyone on the horizon who is going to forgo personality-focused politics," laments Liliana De Riz, a sociologist at the University of Buenos Aires. If so, Argentines will continue to seethe, perhaps not always in silence. ■

Bello | The poverty alert

Latin America's social progress has stopped. What is to be done?

FOR many Latin Americans the 21st century has been a time of unprecedented progress. Between 2002 and 2013, 60m people in the region moved out of poverty. The poverty rate—the share of people living on less that $4 a day—fell steadily. Now the progress has stopped (see chart). For the past three years, the poverty rate has stayed stubbornly at around 28% of the population, according to household surveys collated by the UN Economic Commission for Latin America and the Caribbean (ECLAC). The proportion that is extremely poor (with a daily income of less than $2.50) has edged up, to 12%.

These figures are worrying. Income inequality has declined somewhat over the past decade, but it remains extreme. As a result, Latin America, an upper-middle-income region (with an income per person equivalent in purchasing power to $13,500 a year), still has a strikingly large number of poor people. The trend varies slightly from country to country. Poverty has continued to fall since 2012 in Paraguay, El Salvador, Colombia, Peru and Chile, but has risen sharply in Venezuela, according to ECLAC.

One reason progress has stalled is that economic growth has slowed with the end of the commodity boom. An increase in government transfers explains some of the previous fall in poverty, but a bigger factor was the labour market, which produced more jobs and higher wages. After growing by an annual average of 4.3% in 2004-11, the region's economies have expanded by just 2.1% a year since 2012.

A second factor is also at work. A large core of Latin Americans have not benefited much from growth. These people may lack the skills, motivation or contacts to get employment or make the most of social programmes. A forthcoming study* by researchers at the World Bank finds that 130m Latin Americans, or around 21% of the total, have remained constantly poor since 2004. In Colombia the figure is over 30%, and in Guatemala it is a "shocking" 50%, the study finds.

Chronically poor people tend to be concentrated in remote areas or on the peripheries of the big cities. As a group, they started off in worse shape than those who subsequently escaped poverty; they are less likely to have basic services, such as clean water and sewerage. Their children are more likely to drop out of school. In other words, these people are poor not just in income but also in housing and assets.

Offering opportunities to the chronically poor requires a more active and co-ordinated approach than that provided by conditional cash-transfer schemes, such as Brazil's *Bolsa Família*, which now benefit some 129m people in the region. *Chile Solidario*, a pioneering programme, gave social workers the job of seeking out such people and of encouraging them to enrol in training schemes, take up social benefits and raise their aspirations.

The second big challenge for the region is to prevent those who left poverty from falling back into it in the bleaker economic climate. The largest single population group, sandwiched between the poor and the middle class, is what researchers call the "vulnerable"—those who have an income of between $4 and $10 a day but lack education, savings and other assets to provide them with economic security or protect them if they lose their jobs.

Don't quit now

Poverty in Latin America, % of population

Poor, *of which*: Indigent

Source: Economic Commission for Latin America and the Caribbean

*Estimate

Returning to faster growth is thus a necessary, but probably not sufficient, condition for the fall in poverty to resume. This will also require both policy choices and better co-ordination. Public investment in roads, better policing and schools, and clean water may sometimes help the chronically poor more than social programmes would.

Schemes like *Chile Solidario* are promising, but require careful design and implementation. Training in skills is vital and neglected. So is extending social insurance—against health emergencies, unemployment and natural disasters, all of which can destroy meagre savings and push the vulnerable back into poverty.

Some Latin American countries have scope to raise income and property taxes on the better-off to pay for all this. But in others, taxes are already close to their upper limits. The steady expansion of social programmes over the past decade may not continue. Social spending as a percentage of GDP rose from 15% in 2000 to 19% in 2013, but that is now levelling off. Poverty remains unacceptably high in Latin America's democracies. Bringing it down has become harder. It will require more astute politics and policies.

*Left Behind: Chronic Poverty in Latin America and the Caribbean, by Renos Vakis, Jamele Rigolini and Leonardo Lucchetti, World Bank, to be published in March 2015.

Also in this section

For daily analysis and debate on Asia, visit
Economist.com/asia

India's economy

More than a lick of paint needed

LIMDA

A budget next week must be bold enough to turn a cyclical recovery into a sustained boom

APOLLO TYRES started life in 1972, but a milestone for the firm came two decades later, in 1991, when it completed a huge factory in Limda, near the industrial city of Vadodora in Gujarat state. It was a notable year for India because, in the face of mounting economic crisis, the finance minister of the day, Manmohan Singh, took the first steps in a momentous budget to throw off the shackles of bureaucracy, protectionism and state-dominated business that had held India back for so long.

The economy fizzed, and with it Apollo Tyres. Its factory has twice been extended since. The most recent addition in 2009 was inaugurated by Narendra Modi, then Gujarat's chief minister, now India's prime minister. A framed photograph of Mr Modi adorns the factory entrance.

Disappointment about India's prospects set in with a vengeance not long after the photo was taken. Mr Singh, who became prime minister in 2004, lost his reform mojo and growth slowed; then, a couple of years ago, the Indian economy flirted with another balance-of-payments crisis, when India's currency and stockmarket dived.

How different the mood is today. Apollo is just the kind of company that India's boosters are proud of: its four Indian plants not only produce for a booming domestic car industry, but export 1m passenger-car tyres a year to Europe. Jumbo tyres for monster mining vehicles are made to order in the newest part of the Limda plant. Yet enthusiasm for India's prospects runs broader. Textile operators are rushing to set up factories in Tiruppur in Tamil Nadu, India's "knitwear capital". Japan's heavy-industry giants are enthused again about a planned Delhi-Mumbai industrial "corridor", which has official Japanese backing. America's General Motors is exporting Indian-made cars to South America. And everywhere brokers and investment bankers are rating India a "buy" once more.

In part the optimism is due to a recovery that is not shared by other big emerging economies, notably Russia and Brazil. India is benefiting hugely from a worldwide slump in energy prices. Consumer-price inflation has halved, to 5.1%. The current-account deficit has shrunk. And the rupee has been stable (see charts on next page). Official statistics show that GDP grew by 7.5% year-on-year in the last quarter of 2014. Though that figure has been "improved" by statistical tinkering, the economy is more stable than it has been for years.

The optimism has also to do with Mr Modi himself. His Bharatiya Janata Party (BJP) won a thumping victory in India's general election last May in big part because of his business-friendly record as chief minister of Gujarat, and because he promised to transform the daily lives of 1.25 billion Indians.

And yet. For all the renewed cheer, most Indians face a formidable set of challenges before their lives can be transformed. For all of Apollo's success as a large manufacturer, its kind are notable exceptions in India. Most Indians still earn hardscrabble livings in the countryside. Many who escape farm work for the cities make a living not in regular employment but in informal services or small-scale manufacturing, where productivity and wages are low. Successful companies face huge obstacles and much red tape. Electricity is unpredictable. Air and water are massively polluted. And infrastructure—from roads to ports to power stations—is woefully inadequate.

On February 28th Mr Modi, through his finance minister, Arun Jaitley, can send a powerful message both to Indians and foreign investors that his government means change. It is when Mr Jaitley presents the government's first full budget. Used cleverly, it could serve as a clear signal of the Modi government's intentions in the months and years ahead. For Indians' sake, it should aim to be as transformational as Mr Singh's was in 1991. Whether it will astonish or not is less clear.

Making your own breeze

To give the government credit, it has created some of the fair wind behind it now. At the origin of India's slump earlier this decade was a sharp fall in investment. Big projects, such as power plants and roads, became snarled up in red tape. Huge corruption scandals broke in 2011 surrounding the transfer of mining rights and mobile-phone licences to private companies. That made civil servants cautious about granting permits and licences lest they also be accused of graft.

Another constraint was inflation fuelled by cheap money and fiscal stimulus. The economy overheated, and as inflation climbed, Indians rushed into gold, a popular store of value. Surging imports of gold pushed up the current-account deficit to alarming levels. The mix of a fiscal deficit, a gaping current account and inflation caused a sharp fall in the rupee in 2013 as foreign capital fled.

The old government and the central bank, the Reserve Bank of India (RBI), took steps to get India back on track. Mr Modi has taken a few more. In his early weeks in power he lit a rocket under the bureaucracy (though he is still said to be aghast at the resistance, listlessness and lack of capacity he has met among even senior civil servants). A backlog of applications for business licences began to shrink.

A decision by the Supreme Court in September to cancel 214 coal-mining licences granted between 1993 and 2010, because of corruption surrounding their issuance, introduced huge uncertainty. But a new regime of auctioning replacement licences began this month. Leading indicators of capital spending, such as lorry sales, are slowly picking up. The RBI, under the leadership of its able governor, Raghuram Rajan, has met its target of getting inflation below 8% by the start of this year—a commitment that helped to calm financial markets and stabilise the currency. It is now confident enough of meeting a second goal of bringing inflation below 6% by 2016 that in January it cut interest rates for the first time in two years. Further reductions are likely.

The central bank has several remaining challenges. The biggest is that India's public-sector banks are so weighed down by dud loans from the last investment boom that they will be unable to finance the next one. The RBI says that, from the beginning of April, loans that have had their terms rejigged will be treated as if they are bad loans: banks will have to set aside 15% of the loans' value as a precaution. The deadline ought to encourage banks and debtors to agree on how to share losses. A resolution to the bad-debt problem would eventually free up the worst-affected borrowers—mostly power and infrastructure firms—to start new projects.

In addition, India's state banks may need up to \$85 billion to meet international rules on capital and to cover losses on bad debts. That cannot all come from the government. Mr Jaitley has said he will allow private investors to hold up to 48% of state banks' shares. But new shares cannot be sold at a good price unless he can convince investors that banks will be run free of political interference. One proposal is that the state's ownership of banks should be rolled up into an arms-length holding company.

Taking the giant steps

Mr Jaitley must signal reform appetite in other areas, too. A vital one is companies' ease of doing business, on which the World Bank ranks India 142nd in the world. The government has made a start, with ordinances in December that make it easier to acquire land for development. Separately, there are plans for a single portal through which new businesses can apply for all the permits needed from various government departments. The government has blessed a move by Rajasthan to loosen its labour laws by declaring that its liberalisation trumps archaic national laws. And given India's appalling reputation for imposing arbitrary taxes on companies, it is encouraging that the government has not appealed against a recent court judgment to do with tax in favour of big multinationals.

Another crucial area is to push forward plans for a national goods-and-services tax (GST). Such a tax is critical, for two reasons. First, it is the best way for the central government to increase taxes as a share of GDP. Its abysmally low current share is a huge constraint on policymaking. Second, a GST would also replace a welter of state taxes and other levies that serve, in effect, as protectionist barriers, impeding a true internal market in India. The government recently tabled a bill to establish a GST, possibly the single biggest reform it could make. But such a tax has been discussed for years. Now the government has to make it happen.

Elsewhere, the groundwork for bolder reforms is in place. A switch from subsidies, such as those on fuel and food, to cash benefits for the needy would cut waste and save money. As little as half of public spending on welfare reaches its intended recipients, according to the McKinsey Global Institute. Half of the subsidised grain set aside for the poor either turns bad in transit or ends up being sold on the open market. On top of this are the costs of implicit subsidies. Politicians often bully regulators to cap electricity prices, causing losses among generators. The result is power shortages.

A system for cash transfers is being set up. The government says that more than 125m no-frills bank accounts, linked to biometric identity cards, have been opened for ordinary Indians. Two-thirds of the new accounts remain unused. But Mr Jaitley says that 330 billion rupees (\$5.3 billion) in transfer payments and wages from a rural employment scheme will soon flow into them. Another potential route is banking using mobile phones. India's big mobile operators have rushed to apply for a new sort of banking licence.

Still bolder moves will be needed if Indians are to enjoy sharply higher living standards. Skill levels remain an obstacle to many sorts of work. Almost 70% of India's working-age population have no education past primary school. Their best hope of escaping low-wage farm work is low- to mid-skilled jobs in factories, shops, hotels or restaurants. Yet India's regulations put a cap on firm size. Four-fifths of the jobs in Indian manufacturing are in firms employing fewer than 50 workers. Firms that want to grow bigger have problems dealing with fiddly regulations, buying land, securing power and working around India's baffling labour laws.

These are big issues for Mr Jaitley to take on. At the least he needs to signal an intention to carry out well-sequenced reforms ▸▸

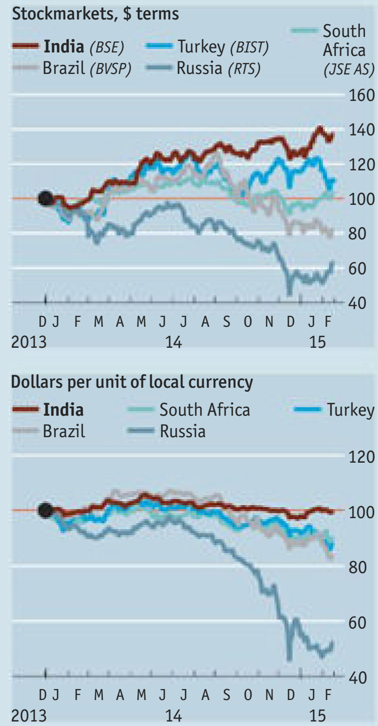
A more even keel?

India's:

Sources: Haver Analytics; *The Economist*

Ahead of the pack, this time

December 31st 2013=100



Source: Thomson Reuters

to raise growth and create jobs. The doubt is whether he is able to do so. Last July Mr Jaitley's stopgap budget was a timid affair. He is, in truth, an old parliamentary operator rather than a bold reformer.

The prime minister's office is said to be guiding chunks of the budget—no bad thing. But in the coming months the government must also get legislation passed, national tax reform above all. It will mean persuading states—BJP-led ones almost as much as those, such as West Bengal, run by fierce opponents—to strike a deal at last on tax. If this parliamentary session achieves as little as the ones to date under Mr Modi, then he will have found that, so far as his domestic agenda is concerned, the first of five years has already slipped away.

Even the most successful businesses retain an air of healthy scepticism. Why should Apollo, which is putting up a brand-new factory in Hungary, not build a new factory in India? "A new greenfield investment is a question-mark," says the firm's boss, Neeraj Kanwar. "Let's see what happens in the next two years." ■

Sri Lanka

Restoring balance

COLOMBO AND DELHI

A new government tries to distance itself from the recent past

FOR many Sri Lankans the most remarkable feature of Maithripala Sirisena's four-day trip to India this week, his first as president after a stunningly unexpected election victory in January, was that he took a commercial flight. His predecessor, Mahinda Rajapaksa—who, with his family, had given the impression of intending to rule for the long run—usually poached an aircraft from the national fleet. The trip was intended to change perceptions in other ways, too. The most important one was to restore a broken friendship with India without upsetting China, a big creditor in Sri Lanka and, under the Rajapaksas, an increasingly important ally.

Sri Lanka's treatment of ethnic Tamils in its north had troubled many in India, especially Tamils. Mr Rajapaksa made matters worse by breaking promises to devolve more power to the north after a brutal civil war. And last year he infuriated India by letting a Chinese submarine dock twice at Colombo, the capital.

After the trip, the mood is notably cheerier. Several deals were signed, including Sri Lanka's first on civil nuclear co-operation. Though it may not amount to much, India's press gamely described it as pre-empting Chinese ambitions. And Narendra Modi, who was eager to charm, will visit Sri Lanka in March, the first visit by an Indian prime minister for 28 years.

India would be delighted if Sri Lanka kicked the Chinese out as it has the Rajapaksas. That is not on the cards. Mr Sirisena needs investment. He will not scrap a $1.4 billion project that would see Chinese firms build a property development on an artificial island off Colombo's port. The terms of this and several other Chinese deals could, however, be reviewed. Debt owed to China has soared in recent years, ringing alarm bells.

China has responded to Sri Lanka's warmer relations with India by sending officials to pledge to do what it takes to strengthen the "strategic partnership". Mr Sirisena's next big trip is to Beijing, in March. (A senior Sri Lankan diplomat dismisses the suggestion that the president is playing one suitor against another.)

Mr Sirisena also wants to placate Western countries, who worry about human-rights abuses, particularly against the northern Tamils. His predecessor had refused to set up a credible investigation into atrocities by both Tamil rebels and government soldiers in the final months of the civil war that ended in 2009. The results of a UN investigation, due to be published next month, were this week delayed until September—possibly to allow Sri Lanka to conduct a proper inquiry itself.

But Mr Sirisena must also concentrate on domestic affairs before parliamentary elections due in June. During his presidential campaign he promised change in his first 100 days, including constitutional reform, a law on freedom of information, cheaper food and even free Wi-Fi in every town. But progress is slow. The coalition led by the new prime minister, Ranil Wickremesinghe, is made up of rival parties. Locals liken it to an *achcharu*, a mixed pickle.

Sirisena looks north again

Meanwhile, despite Mr Sirisena's promise to weaken the institution, the presidency remains overweening, and there is no sign of a promised freedom-of-information bill. A more hopeful signal comes from the appointment of a new chief justice, a Tamil. A hated military governor in the north has also been replaced by a civilian. Though a heavy military presence remains there, some small plots of army-occupied land are due to be returned to their owners soon.

Yet politicians will be distracted by those looming elections. On February 18th the opposition rallied Mr Rajapaksa's supporters to call for his return, this time as prime minister. That is unlikely, but not impossible: as the presidential poll showed, voters dislike being taken for granted. ■

Myanmar's ethnic conflicts

More process than peace

YANGON

Reconciliation continues to prove elusive

EVERY year Myanmar celebrates Union Day on February 12th to mark the signing of the Panglong agreement in 1947, which unified the country then known as Burma. President Thein Sein had hoped to use this year's Union Day to sign a national ceasefire accord with most of the many armed ethnic groups which, for decades, have battled a government until recently in the hands of brutal military rulers. Instead, Myanmar's army was embroiled in some of the heaviest fighting in years, after rebels from among the Kokang—an ethnic-Han people in northern Shan State on the Chinese border—tried to seize control of Laukkai, the Kokang region's capital (see next story). At least 75 government and rebel troops have been killed, and thousands of civilians have fled.

Elsewhere, low-level fighting continues between the army and the Ta'ang National Liberation Army (TNLA), which represents the Palaung, an ethnic Mon-Khmer people in northern Shan State. The Arakan Army, based in western Myanmar, fights alongside the Kachin Independence Army in Kachin state in the north. In November the government killed 22 Kachin soldiers in an attack on a training camp, and clashes continued in January. Gun Maw, a Kachin general, said last month at negotiations in Chiang Mai in Thailand that his group is "still far away" from agreeing to a ceasefire.

The Arakan Army, the TNLA and other armies in Shan state are all said to be providing support, including arms, to the Kokang rebels. Other groups, however, have come to the table. On February 12th representatives of four ethnic armies signed a pledge with the government to seek a national ceasefire agreement "without delay" and to work towards building a union "based on democratic and federal principles".

Myanmar's rebel groups often have wildly differing interests. Some come from dirt-poor regions and want peace because of hopes of money from the centre. But other groups have become, in effect, vast criminal enterprises, funding themselves through sales of gold, jade, timber and drugs. The intensity of their opposition to a ceasefire can reflect a desire to keep the income from such activities flowing.

The government sees a national ceasefire agreement as a precondition for a political settlement. But the ethnic armies want a political settlement before they will lay down arms for good. As a result, after 200 meetings between government negotiators and most ethnic armies, the two camps remain deeply divided.

Mr Thein Sein still wants a ceasefire agreed and political dialogue well under way by the general election due in November. Quite whether the looming election helps or harms the pursuit of peace is unclear. Some think it gives the government and the ethnic armies more incentive to strike a deal. Any agreement should involve a hefty redistribution from relatively wealthy areas to poor regions. That would prove politically unpopular in the country's majority-Burman heartland. It is unlikely that the next government will have the clout of this military-dominated one to overcome such resistance. That, says Richard Horsey, a Myanmar analyst, makes this the best time for the ethnic armies to seek a deal.

For now, however, the current set-up suits rather too many. While ethnic armies enrich themselves in their regions through illegal trade and taxation bordering on extortion, some army officers even collude in it. In any political settlement, Myanmar's government would have to give up some of its central powers, and the ethnic armies would have to cede much to the centre—presumably folding their militias into the national army or regional police forces. In the absence of a deal, both sides avoid difficult and unpopular decisions.

A longtime Myanmar expert, Bertil Lintner, says that government and rebel armies have "fundamentally different ideas" about what kind of country theirs should be. Both sides pay lip-service to the notion of some kind of federal union. But the ethnic armies want maximal devolved power, whereas the central government wants the opposite—after all, holding on tight to the country for fear that things might fall apart was the rationale for the Burmese army's long dictatorship. At present Myanmar's peace process offers a whole lot of process, and not enough lasting peace. ■

Fighting in northern Myanmar

Phone home

China's changing attitudes towards Myanmar's border groups

JUST before the celebrations of Myanmar's Union Day, not to mention the Chinese new year, a warlord and drug baron in his 80s, Phone Kyar Shin, created spectacular fireworks of his own. His militia launched blistering attacks on the Burmese army around Laukkai, capital of Kokang, a small region of Myanmar bordering China's Yunnan province.

Perhaps this was revenge: in 2009 the army went after Mr Phone and his Myanmar National Democratic Alliance Army. He seems then to have lost control of the army to his deputies. That "Kokang incident" was the bloodiest flare-up among Myanmar's conflicts in years. As in 2009, the violence sent many ethnic Kokang fleeing for safety to China. On February 17th Myanmar's president, Thein Sein, declared martial law in Kokang.

The Kokang are a Han-Chinese people who have been in the region for centuries. After the Kokang incident, China was highly critical of the Burmese army, not just for causing a refugee crisis along its border, but also, it seems, because of a sense of shared ethnicity with the Kokang. Mr Phone himself was given sanctuary in China, where he is called Peng Jiasheng.

Since the Kokang incident, Mr Phone has frequently appealed in the Chinese media to notions of shared blood. Many ordinary Chinese believed his claims that in Kokang the Burmese army was acting in pursuit of American interests. Perhaps powerful people in Yunnan backed him.

Mr Phone's hope, with his attacks, may be to get China to pressure the Burmese government to resolve an issue that is sending waves of refugees across the border—presumably by ordering the army to withdraw. Then Mr Phone would have control of his kingdom again. Who knows? He might even be minded to run in the general election as a good democrat.

If so, as Yun Sun of the Stimson Centre in Washington writes (in the *Irrawaddy*, an online news organisation based in Thailand), he may have misjudged China's priorities these days. The government is connecting south-west China with the Bay of Bengal via two oil-and-gas pipelines and other vast infrastructure projects in Myanmar. That country's strategic importance, she says, "significantly outweighs China's interest in the border ethnic groups". In expecting sympathy from China, Mr Phone may be pushing his luck.

Banyan | Bear with us

Russia's campaign to win friends and influence in Asia is not as successful as it looks

IN WHAT must have seemed a good idea at the time, Julie Bishop, Australia's foreign minister, this week gave an interview to *BuzzFeed*, a digital news-service, answering questions solely in emoji icons. Asked to pick one to embody Vladimir Putin, Russia's president, she plumped for an angry face, the shape and colour of a blood orange. It is an image of Mr Putin that will seem almost commonplace to Australia's traditional allies in America and Europe. In Asia, however, the Russian leader is more often to be seen in softer shades, wearing an ingratiating smile and trying hard to make friends. Pilloried and sometimes shunned by the West, Mr Putin has been conducting his own foreign-policy "pivot" to Asia. It seems, at first blush, to be going swimmingly.

Relations with China, Russia's biggest neighbour and Asia's greatest power, are thriving, buoyed by a 30-year deal agreed last May to supply Siberian gas to China by pipeline. In December Mr Putin was warmly received in Delhi by Narendra Modi, India's prime minister, even though the Russian defence minister had been in Pakistan, India's old enemy, signing a military co-operation agreement the previous month. And, this month, not long after Mr Modi had lavished hospitality and friendship on President Barack Obama, the Indian foreign minister was in Beijing for trilateral meetings at which China, India and Russia agreed to "strengthen co-ordination on global issues".

Mr Putin has been courting Asian friends old and new. In November, Vietnam granted the Russian navy special port-call rights at the old American (and Soviet) base at Cam Ranh Bay. And Mr Putin is holding a big party in Moscow in May to mark the 70th anniversary of Nazi Germany's defeat. He has invited Xi Jinping of China; North Korea's Kim Jong Un (for what might be his first overseas trip as dictator); and President Park Geun-hye of South Korea—though as a staunch American ally, Ms Park will find it hard to go.

So will Shinzo Abe, Japan's prime minister, who is also on the guest list. That said, Mr Putin has even been making progress in Japan, whose relations with Russia are burdened by a 70-year-old grudge over the Soviet Union's occupation in the dying days of the second world war of four islands Japan regards as its own—an issue that has blocked the signing of a peace treaty ending the war. Japan is a paid-up member of the rich-world's G7 club, and has joined in placing sanctions on Russia over Ukraine. But Mr Abe prides himself on a good rapport with Mr Putin, and the prime minister recently told the Diet that he hoped Russia's leader would come to Japan this year to discuss economic co-operation and a settlement to the territorial dispute. As he spoke, a deputy foreign minister was in Moscow to discuss the visit.

Mr Abe's enthusiasm for better relations with Russia is understandable. With its geographic proximity and huge demand for imported energy, Japan is an obvious market for gas from the Russian Far East. And many Japanese leaders have hoped to jolt bilateral relations out of what Mikhail Gorbachev nearly 30 years ago called a "broken record running over and over in the same groove". Improving relations has seemed more urgent in recent years, as China's rise has at times appeared to threaten Japan.

Even if Mr Putin's visit comes off, however, a breakthrough is unlikely. Unless Russia's aggression in Ukraine and elsewhere on its western periphery changes, Japan's treaty partner, America, is unlikely to take kindly to its granting Mr Putin an economic lifeline in the east. And neither Mr Putin nor Mr Abe, both of whom are nationalists, will find it easy to make a concession over the disputed islands.

Nor do Mr Putin's successes in South Asia, on closer scrutiny, look so impressive. Indian officials and soldiers grumble that the long-standing defence relationship with Russia has been soured by its sales of overpriced and unreliable kit. They are further incensed at the new Russian military ties with Pakistan, which this month was reported to have been allowed for the first time to buy jet engines for its fighters directly from Russia. India is not being asked to join an American-led alliance (no one is yet contemplating an Asian NATO to contain China and Russia). But the long-run trend is a dwindling of India's links with Russia and ever closer security ties with America. That of course worries Pakistan, which in any event fears what it sees as a history of fickleness from its American ally, turning away when it does not need Pakistan's help in a war in Afghanistan. Hence Pakistan's readiness to accept Russian overtures.

The China price

So Mr Putin's pivot seems less towards Asia as a whole than towards China, by far Russia's biggest trading partner in Asia (though far smaller than Europe). China has a huge demand for Russian energy; and as another permanent member of the UN Security Council, it is an important diplomatic shield. Yet Russia fears the rise of China, a populous neighbour hungry for not just its resources but perhaps one day its space. And in the near term, the Russian partnership with China is lopsided. Russia needs China far more than China needs it.

The gas deal may have been an attempt to change that equation. China is widely seen as having squeezed an extremely good deal out of a sorely pressed Russia. The upside for Russia would have been that China was becoming dependent on it for a vital raw material. But according to research conducted for the National Bureau for Asian Research, an American think-tank, Russia's share of the north-east Asian gas market is unlikely to exceed 3% in the next decade and by 2030 will be no more than 9%. Most of China's gas will come from Australia, the Middle East and elsewhere. So the dependence seems to be in the other direction: of Russia on a hard-bargaining Chinese customer. Rather than offering Mr Putin a way out of his troubles in Europe, Asia presents new ones all its own. ■

For daily analysis and debate on China, visit
Economist.com/china

Studying abroad

Georgia on their minds

BEIJING

A yearning for American higher education has driven a surge in overseas study

MILLIONS of Chinese have dreamed of attending Harvard University. "Harvard Girl", a how-to manual published in 2000 by the parents of one successful applicant, was a national bestseller. Georgia Institute of Technology, a prestigious university in Atlanta, has enjoyed less name-recognition. Yet this is fast changing: the number of Chinese applicants to Georgia Tech has surged, from 33 in 2007 to 2,309 last year. Some applicants are from the best schools in China, and all are ready to pay around $44,000 (for yearly fees and housing costs)—the equivalent of nearly ten times the average annual disposable income of urban households.

The ambitions of Chinese students are shifting: no longer are they attracted just by the glittering names. Pursuit of education abroad is becoming an end in itself. Universities far less renowned than Georgia Tech are reaping the benefits. More than 800,000 Chinese went abroad to study at all levels in 2012 and 2013. In those two years they made up more than a quarter of the 3m who had done so since China began opening to the outside world in 1978. At the end of 2013 nearly 1.1m Chinese were studying abroad, according to the Ministry of Education—more than three times as many as a decade earlier. China has long been the largest source of foreign students enrolled in higher education globally, with its share rising steeply. Since at least 2009 China has provided the most foreign students not just to the English-speaking countries of the developed world but also to numerous others including France, Germany, Italy, Sweden, Finland, Japan and South Korea.

The boom in study in America is especially striking. More than 110,000 students from China were enrolled as undergraduates at American universities in the academic year of 2013-14, eleven times as many as in 2006-07. They now account for 30% of all foreign undergraduates. By comparison, the number of Chinese undergraduates in Britain less than doubled over the same period, to 35,000 (see chart). The total number of Chinese in all types of higher education in America—274,000—was more than four times as many as in 2006-07, according to the New York-based Institute for International Education.

A fast-growing number of families are sending their children to America earlier to study (and moving with them) as well. In 2013 about 32,000 Chinese received visas for study at secondary schools in America, up from just 639 in 2005. The growth has occurred despite a steep decline since 2010 in the number of Chinese aged between 18 and 22, from 121m to 89m this year.

Several converging trends explain this. One is growing demand for education beyond the compulsory nine years. In 2011 nearly 25m Chinese were enrolled in senior secondary school (the level feeding into universities), more than twice as many as in 2000. Helped by a rapid increase in recent years in university places, the number of undergraduates has soared. But the quality of instruction is poor at all but a handful of universities, where a total of just a few thousand places are available each year. As well as its Ivy League colleges, America has dozens of high-quality private universities and large colleges funded by states, such as Georgia Tech, which are world class.

Another trend is growing middle-class wealth: many more Chinese families can now afford to send their children abroad. They prefer a well-rated university overseas to a second-tier option at home. Their choices are swayed by an educational system in China which many regard as too rigid and ideologically stifling. The world has also become more welcoming: visas to study have become easier for Chinese to obtain in many developed countries, especially America.

American universities, keen to take on fee-paying Chinese students, have helped this by lobbying the government to issue more visas. They send teams to China's best secondary schools to encourage applicants. Some American campuses have set up courses to help newcomers from China improve their English.

Families who know from early on that they want to send their children overseas can enroll them in private courses at publicly funded schools. The courses, costing as much as 100,000 yuan ($16,000) a year, prepare students for the entry exams used by American universities. Schools offering them include elite ones such as Beijing No. 4 High School and the army-linked Beijing Bayi High School. The education authorities have murmured disapproval, but have not yet tried to ban them. Such programmes are aimed at an upper crust whose members they might be reluctant to annoy (President Xi Jinping's daughter went to Harvard). Four out of five of China's wealthiest people—those with assets worth more than 10m yuan—want to send their children to study abroad, according to Hurun Report, a Shanghai-based firm.

The government, eager to nurture foreign-educated talent familiar with cutting-edge technology and Western ways of doing business, has reason to encourage the outflow. While the number heading overseas to study has been growing quickly, the number coming back has grown even faster; lured by good job prospects in a buoyant economy. More than 350,000 Chinese returned from overseas study in 2013, up from just 20,000 ten years earlier. They accounted for almost one-quarter of the 1.4m who had returned in total since 1978. So great are the numbers that there is a derogatory term for those who are unable to find work: *hai dai*, which means seaweed but also sounds like "[returning from] abroad and waiting".

The growth rate in the numbers going abroad to study may prove difficult to sustain at such high levels in the years ahead. The number of college-age Chinese has been shrinking since 2008, and will continue to do so until 2021, when there will be about 20m fewer people aged between 18 and 22 than now. President Xi's anti-corruption campaign has taken aim at Communist Party officials who send money and family members overseas.

But the aspiration to go abroad extends far beyond the party's members and their families. And despite a slowing economy, disposable incomes will continue to grow fast. McKinsey, a consultancy, reckons they will double in urban areas by 2020 compared with ten years earlier. A recent escalation in official efforts to stem the influence of Western political thinking on Chinese campuses should only fire ambitions to leave. ■

Transport

Tootling back to the village

BEIJING

The lunar new-year holiday shows the strength of rural ties

IT IS often described as the world's biggest recurring movement of people: a 40-day period spanning the lunar new year (which fell on February 19th this year), during which astonishing numbers of people travel to join distant family members to celebrate the "spring festival". Officials call this period *chunyun*, or spring transportation. The term evokes horror in the minds of many: trains so jammed that the only place to sit is on lavatory floors. This year the projected number of journeys on public transport during *chunyun*, which will end on March 15th, is nearly 2.9 billion, a 10% increase over the comparable period a year ago. Yet there are reasons to be a little less gloomy about what this entails.

The numbers suggest that despite rapid urbanisation, the pull of the countryside remains strong. Many of the journeys involve *mingong*, or peasant workers, as the nearly 300m migrants from the countryside who work in urban areas are often snootily called. Their families are often divided. Children and parents stay in the villages, because a fragmented social-security system makes it difficult for migrants to enjoy subsidised education and health care in the cities. Many migrants think it a good idea that some relatives remain: the stay-behinds can help retain land-use rights which might come in handy for the migrants if urban work dries up. The authorities themselves are keen for migrants to keep this backstop.

But migration patterns are changing. Wang Kan of the China Institute of Industrial Relations says that, during *chunyun*, trips between provinces have been declining. This is because migrants are often working closer to home, thanks to the relocation of some industries away from the coast to inland provinces where labour is cheaper. "We can see the emergence of more regional hubs," says Mr Wang. No longer is the *chunyun* rush so concentrated in the biggest and wealthiest cities.

Analysing *chunyun* data is difficult. Xiaohui Liang of Renmin University says that companies have recently begun providing private long-distance coach transport for their workers. These trips do not get counted in official statistics. Other workers, he says, get counted twice if they go by train to a regional hub and from there continue by bus to their hometowns. A single worker doing this in both directions would account for four *chunyun* journeys.

The growth of an urban middle class further complicates the picture. Journeys made by holiday tourists, with no rural reunion in mind, are on the rise. Researchers had long felt it safe to assume that trips taken on pricey high-speed trains were made by such travellers. But according to Mr Wang, migrant workers are increasingly opting for the speed and comfort of the more expensive trains. This, he says, suggests that the purchasing power of migrants is on the rise. Some are even heading back to their villages in newly bought cars (perhaps with paying passengers to offset some of the cost).

One source of data on this year's travel rush is Alibaba, an e-commerce firm which has analysed the sale of train tickets through Alitrip, its online travel business. In a new trend this year, the company says, some families are migrating in reverse for their holiday reunions. Alibaba says there has been a "tremendous increase" in the number of elderly parents travelling from their rural homes to industrial centres such as the southern city of Guangzhou to spend the festival with their children. That implies that some migrants are now proud enough of their new urban homes to begin showing off. ■

The folks will be so impressed

Also in this section

The spread of Islamic State

Libya's new agony

CAIRO

The descent into jihadist chaos is forcing neighbours to act

EGYPT'S reprisal was swift. The day after Islamic State (IS) beheaded 21 Egyptian Copts in Libya, Egypt's air force swooped across the border to bomb Derna, a hotbed of jihadists in Libya's east. Cairo said the raid on February 16th had targeted weapons stores and training camps. Libyan officials claimed some 40-50 militants were killed. So were seven civilians. Egyptian radio broadcast patriotic ditties amid praise for the "eagles of the army".

Yet the air strikes will do little to arrest the widening insecurity and extremism that threaten Libya and its neighbours. Libya has disintegrated since the ousting in 2011 of Colonel Muammar Qaddafi. Torn into fiefs, it is riven by conflict between two rival governments—an internationally recognised one in Tobruk and another in Tripoli—along with two main militia groupings allied with them. Libyan arms flow across desert borders to sustain insurgencies in the Sahel. The smuggled weapons include, some suspect, an anti-aircraft missile that shot down an Egyptian army helicopter in Sinai in January 2014.

Extremists have proliferated. At least three groups, one in each of Libya's provinces, have pledged allegiance to IS. The latest edition of *Dabiq*, IS's glossy magazine, boasts of the group's spreading reach. Among "operations" it trumpets are a deadly assault on a luxury hotel in Tripoli last month as well as the capture of the 21 Copts who were snatched from Sirte. Their murder was the deadliest atrocity committed by IS outside Syria and Iraq. Jihadists reportedly now proclaim that Libya "looks upon the southern Crusader states" a short boat-ride away.

Despite the war rhetoric there is little chance of Egyptian troops crossing the border. For one, Egypt fears a backlash. After its air strikes an alliance of non-IS Islamist militias in Derna warned of "severe retaliation", though not against the hundreds of thousands of Egyptians who work in oil-rich Libya to escape poverty at home. Egypt is in any case having trouble enough containing its own insurgency, including a growing presence of IS in Sinai.

The Tobruk government welcomed the air strikes, symbolic as they were; the one in Tripoli condemned the raid as an attack on Libya's sovereignty. Algeria, Libya's anxious western neighbour, advised against more involvement there.

Despite these warnings, Egypt and the government in Tobruk have asked for an international force authorised by the UN Security Council. Egypt is also backing Libya's request for the partial lifting of an arms embargo on Libya to help the Tobruk government and its ally, an armed alliance led by Khalifa Haftar, a retired general. It has also asked for a naval blockade on arms to Tripoli.

The UN is unlikely to oblige with pledges of soldiers. Italy, which initially said it would be willing to send troops to spearhead an international force in Libya, appeared to retract on February 16th. France, which this week signed a deal to sell 24 jets to Egypt for $5.9 billion, stressed the need for a diplomatic solution.

Alas, few of those involved in the wider conflict seem committed to UN efforts to broker peace within Libya. This is partly because Libya's war is stoked by outsiders. Egypt, the UAE and their allies are using the country as a battleground for a proxy war against Islamists allegedly backed by Turkey and Qatar, which recalled its ambassador to Egypt after the air strikes.

And Egypt's calls for international help have been undermined by its suppression of dissent at home under the guise of battling "terrorism". General Haftar, who does not hide his ambition to be Libya's president, sparks similar concerns over how wide he casts the net of his enemies.

Given its vulnerability, Egypt may prefer to act covertly with the UAE to keep backing General Haftar. It is also thought to have provided logistical help for at least two UAE air strikes last summer (something neither country has acknowledged).

A more assertive Arab coalition—of Egypt, the UAE and Jordan—is forming against the jihadists. Jordan has ratcheted up its air strikes in Syria since IS broadcast ▸▸

video footage in February showing the immolation of a Jordanian pilot captured there. The UAE, which had briefly halted its own bombing raids after the capture of the pilot, has since sent extra warplanes to Jordan. It may also do more in Libya. But simply increasing the number of attacks from the air carries its own risks. "Unsophisticated, heavy-handed and un-nuanced responses could exacerbate the problem," says Michael Wahid Hanna of The Century Foundation, a think-tank in New York.

For now the best hope for halting the chaos may be that the self-declared government in Tripoli, which counts Islamists among its allies, feels so threatened by IS that it begins to focus on the disintegrating country, and perhaps takes more seriously talk of forming a unity government with the Tobruk administration.

Having shut their eyes to the growing presence of IS in Libya, officials in Tripoli appeared to change tack when the jihadists, in an article in *Dabiq*, declared them apostates and took over a radio station in Sirte. The Tripoli authorities ordered their forces into Sirte, saying that they should "hit with an iron fist those who undermine stability inside it". Many Libyans reckon it may be too late. ■

Syria's civil war

Advancing on Aleppo

CAIRO

The regime is getting closer to surrounding Syria's northern hub

AFTER more than two years of pitched battles between President Bashar Assad and his foes, rubble-strewn Aleppo is a shadow of its former self. Yet it is undoubtedly the biggest of the spoils still being contested in Syria's war. At best, the rebels can hope to hang on to the few districts they still control. But if Mr Assad takes them, he will be one step closer to vanquishing the mainstream opposition that rose up against his rule in 2011.

His forces made a move towards that goal on February 17th when, backed by Shia militiamen including Hizbullah from Lebanon, they made surprise attacks on villages north of the city. There appeared to be two aims. First, to take the only road from rebel-held areas of Aleppo to Turkey, thus blocking supplies and encircling the opposition. Second, to break into Nubl and Zehraa, Shia settlements long encircled by rebels.

Gaining and keeping full control over Aleppo, the northern city with a pre-war population of at least 3m, will not be simple. By the evening of February 17th rebels claimed to have taken back two of the villages and to have killed many loyalist soldiers. But state TV said the government had taken six localities and some reports said it had cut off the road. The attack is likely to continue. *Al Watan*, a pro-government paper, reported on February 16th that the army aims to surround Aleppo completely this week.

If it succeeds, Mr Assad may try the starve-into-submission tactic he has used on neighbourhoods of Damascus such as Yarmouk. Another ruthless tactic is his continued use of barrel bombs. In one of the bloodiest recent episodes in the war, on February 9th and 10th, these crude devices killed at least 18 people in Douma, a rebel-held area of Damascus.

All this dooms a proposal—never a realistic one—made by Staffan de Mistura, the UN envoy to Syria, to halt the fighting in Aleppo. On February 17th he said Damascus had accepted a six-week ceasefire, but few are convinced it will keep its word. Shameless though Mr Assad's recent deeds and words have been (he called reports of barrel bombs "a childish story"), he has the upper hand. Mr Assad has gained from the West's focus on Islamic State, who are also among his adversaries, leaving him free to deal with Aleppo and the rest.

To the victors, a spoiled city

Israel and the Jewish diaspora

Come home right now

Appeals for a mass "return" draw a mixed response

BINYAMIN NETANYAHU, Israel's prime minister, may suffer many shortcomings, but a deficit of *chutzpah* is not one of them. Two weeks ago, for example, he told French-speaking supporters of his Likud party that he saw himself as the "representative of the entire Jewish people". After an anti-semitic attack killed a Jew in Copenhagen, he urged his coreligionists to leave "the soil of Europe" and to go to their real home: Israel.

Many Jews are irked by being told they must respond to terrorist attacks in Paris and Copenhagen by fleeing to Israel. Yet in some ways such appeals are not new. Nor are complex and sometimes contradictory emotions felt by Jews in Israel, a state that was founded to offer them a haven; and by the 8m or so Jews who live outside it.

From its earliest days the country was built on the notion that millions of Jews would make *aliyah* (the Hebrew word for Jewish immigration meaning "ascent"). The country has absorbed some 3m new Jewish citizens since its foundation in 1948.

Immigration was about more than just building a state; it was also about creating a new sort of Jew. In Israel, the early Zionists argued, Jews would till the fields, defend borders and cast off the sheepishness of the *galut* (the exile) and its ghetto Jews. When, after the second world war, Jewish survivors made their way from the smoking Nazi death camps to the holy land, they were looked down upon for the passivity they had supposedly shown as they were marched into the gas chambers.

Mr Netanyahu goes further than Israel's earlier leaders, such as David Ben-Gurion, the state's founding father, with his claim to speak for all Jews and to know their interests. Ben-Gurion drafted a policy that has guided relations between Israel and the Jewish diaspora since the 1950s, saying that "Israel speaks only on behalf of its own citizens" and not Jews elsewhere. Jewish community organisations abroad

Dated: January 30, 2015

NOTICE REGARDING COMMENCEMENT OF A JUDICIAL INSTRUCTION PROCEEDING IN CONNECTION WITH THE ACCEPTANCE OF THE SETTLEMENT AGREEMENT DATED AS OF APRIL 7, 2014, AS MODIFIED (THE "SETTLEMENT AGREEMENT"), FROM CITIGROUP INC. AND ITS DIRECT AND INDIRECT SUBSIDIARIES ("CITIGROUP").

NOTICE IS HEREBY GIVEN BY:

Deutsche Bank National Trust Company
HSBC Bank USA, National Association
Law Debenture Trust Company of New York
U.S. Bank National Association

EACH, IN ITS CAPACITY AS TRUSTEE, INDENTURE TRUSTEE, SEPARATE TRUSTEE, AND/OR SUCCESSOR TRUSTEE OF THE ACCEPTING TRUSTS AND LOAN GROUPS (DEFINED BELOW) (COLLECTIVELY, THE "RMBS TRUSTEES" AND EACH AN "RMBS TRUSTEE"), TO THE HOLDERS OF CERTIFICATES, NOTES OR OTHER SECURITIES (THE "CERTIFICATEHOLDERS") OF THE RESIDENTIAL MORTGAGE-BACKED SECURITIZATION TRUSTS AND LOAN GROUPS IDENTIFIED IN EXHIBIT A HERETO (THE "ACCEPTING TRUSTS AND LOAN GROUPS," WHICH ARE FURTHER IDENTIFIED BY CUSIP NUMBERS ON THE RMBS TRUSTEES' WEBSITE)[1] AND OTHER PERSONS POTENTIALLY INTERESTED IN THE ACCEPTING TRUSTS AND LOAN GROUPS.

THE ACCEPTANCE OF THE SETTLEMENT AGREEMENT COULD MATERIALLY AFFECT THE INTERESTS OF THE CERTIFICATEHOLDERS. CERTIFICATEHOLDERS AND OTHER NOTICE RECIPIENTS SHOULD READ THIS NOTICE AND THE MATERIALS REFERENCED HEREIN CAREFULLY IN CONSULTATION WITH THEIR LEGAL AND FINANCIAL ADVISORS.

THIS NOTICE CONTAINS IMPORTANT INFORMATION FOR THE CERTIFICATEHOLDERS AND OTHER PERSONS POTENTIALLY INTERESTED IN THE RMBS TRUSTS. ALL DEPOSITORIES, CUSTODIANS AND OTHER INTERMEDIARIES RECEIVING THIS NOTICE, AS APPLICABLE, ARE REQUESTED TO EXPEDITE THE RE-TRANSMITTAL OF THIS NOTICE TO CERTIFICATEHOLDERS IN A TIMELY MANNER.

This notice is given to you by the RMBS Trustees under certain applicable Pooling and Servicing Agreements or other similar agreements governing the Accepting Trusts and Loan Groups (the "Governing Agreements"). Capitalized terms used in this notice and not otherwise defined have the meanings assigned to them in the Settlement Agreement.

ACCEPTANCE OF THE SETTLEMENT AGREEMENT

In notices to Certificateholders dated December 19, 2014 and December 31, 2014 (the "Notices"), the RMBS Trustees informed Certificateholders that they had notified Citigroup that, following an evaluation process in which the RMBS Trustees, among other things, considered reports prepared by expert advisors, the RMBS Trustees each accepted the Settlement Agreement with respect to the Accepting Trusts and Loan Groups within such trusts, subject to Final Court Approval through a judicial instruction proceeding as set forth in Section 2.03(c) of the Settlement Agreement. The RMBS Trustees' acceptance of the Settlement Agreement extended the Tolling Period for the Accepting Trusts and Loan Groups as set forth in Section 2.04 of the Settlement Agreement.

The execution version of the Settlement Agreement is available on the RMBS Trustees' Website within the tab entitled "Certain Relevant Documents" (available at: http://www.citigrouprmbssettlement.com/pdflib/Citigroup_RMBSTrust_Settlement_Agreement_EXECUTION_VER.pdf). Copies of the Notices are posted on the RMBS Trustees' Website within the tab entitled "Notices" (available at http://www.citigrouprmbssettlement.com/notice.php).

ARTICLE 77 PROCEEDING AND IMPLICATIONS UPON THE EFFECTIVE DATE OF THE SETTLEMENT AGREEMENT

The RMBS Trustees have commenced a judicial instruction proceeding pursuant to CPLR § 7701, *In the Matter of the Application of U.S. Bank National Association, et al.*, (Index No. 653902/2014) (the "Article 77 Proceeding"), in the Supreme Court of the State of New York, County of New York (the "Court"). In the Article 77 Proceeding, the RMBS Trustees are seeking a judgment that (i) the RMBS Trustees' acceptance of the Settlement Agreement on behalf of the Accepting Trusts and Loan Groups was a reasonable and good faith exercise of the RMBS Trustees' authority under the applicable Governing Agreements, and (ii) barring Certificateholders from asserting claims against the RMBS Trustees with respect to the RMBS Trustees' evaluation and acceptance of the Settlement Agreement and implementation of the Settlement Agreement in accordance with its terms. Such a judgment, if granted, would constitute, after becoming final and non-appealable (including the expiration of any time to apply for discretionary review), "Final Court Approval" under and as defined in the Settlement Agreement.

On January 28, 2015, the Court entered an Order to Show Cause (available at http://www.citigrouprmbssettlement.com/pdflib/41_Order_to_Show_Cause.pdf) approving a notice program and directing that, among other things:

- a hearing (the "Article 77 Hearing") will be held on May 19, 2015 at 10 a.m. at the Supreme Court of the State of New York, County of New York, 60 Centre Street, New York, New York 10007;
- any Certificateholder or other person potentially interested in the Accepting Trusts and Loan Groups may object to or support any aspect of the Settlement Agreement and request to be heard at the Article 77 Hearing by submitting a written notice prior to the Article 77 Hearing in the manner required by the Court;
- any objections to, or submissions in favor of, the Settlement Agreement must be filed with the Court and served upon the RMBS Trustees' counsel by April 17, 2015;
- any responses to objections or submissions in favor of, or with respect to, the Settlement Agreement, must be filed and served by May 4, 2015;
- any Certificateholder who fails to object in the manner required by the Court shall be deemed to have waived the right to object (including any right of appeal) and shall be forever barred from raising such objection before the Court or in any other action or proceeding, unless the Court orders otherwise; and
- the Court retains jurisdiction over the RMBS Trustees, the Accepting Trusts and Loan Groups and all Certificateholders (and their successors-in-interests, assigns or transferees) for all matters related to the Settlement Agreement and the Article 77 Proceeding.

Following the Article 77 Hearing, the Court will determine, among other things, whether to grant the requested judgment and will consider other important matters described in the Settlement Agreement. If the Court grants the requested judgment, and such judgment becomes final and non-appealable (including the expiration of any time to apply for discretionary review), and if the other conditions to Final Court Approval and the effectiveness of the Settlement Agreement are satisfied, (i) the Settlement Agreement will become effective and (ii) all Certificateholders will be bound by the Settlement Agreement regardless of whether they appeared in the Article 77 Proceeding or submitted any objection to the Settlement Agreement. On its Effective Date, the Settlement Agreement will affect the rights and interests of all Certificateholders (and their successors-in-interests, assigns or transferees) in the Accepting Trusts and Loan Groups, including by, among other things, releasing claims against Citigroup on behalf of the Accepting Trusts and Loan Groups arising out of or relating to the Rep and Warranty Claims. Please refer to the Settlement Agreement for a complete description of the releases provided for therein.

All papers filed on the public docket for the Article 77 Proceeding have been made available on the RMBS Trustees' Website within the tab entitled "Court Documents – New York State Court Proceeding" (available at http://www.citigrouprmbssettlement.com/NYcourt.php), which will be updated periodically to include any new filings. You should also be able to obtain any documents filed with the Court by visiting the e-Courts tab within the Court's website (available at: http://www.nycourts.gov/).

Certificateholders should NOT direct inquiries to the Court or the Clerk of the Court. If you have any questions, you may call (855) 382-6442 (toll-free) or (614) 779-0359, or send an email to Questions@citigrouprmbstrusteesettlement.com.

OTHER MATTERS

This notice references certain terms of the Settlement Agreement and the Article 77 Proceeding and is not a complete summary or statement of the material terms thereof, of relevant law or of relevant legal procedures. Certificateholders and other potentially interested persons are urged to review carefully the Settlement Agreement and to consider its implications, including the releases of the Rep and Warranty Claims.

Certificateholders and other persons interested in the Accepting Trusts and Loan Groups should not rely on the RMBS Trustees, their counsel, experts or other advisors retained by the RMBS Trustees, as their sole source of information. Certificateholders and other potentially interested persons are urged to consult with their own legal and financial advisors.

Please note that this notice is not intended and should not be construed as investment, accounting, financial, legal, tax or other advice by or on behalf of the RMBS Trustees, or their directors, officers, affiliates, agents, attorneys or employees. Each person or entity receiving this notice should seek the advice of its own advisors in respect of all matters set forth herein.

Please be further advised that each of the RMBS Trustees reserves all of the rights, powers, claims and remedies available to it under the Governing Agreements and applicable law. No delay or forbearance by an RMBS Trustee to exercise any right or remedy accruing upon the occurrence of a default, or otherwise under the terms of the Governing Agreements, other documentation relating thereto or under applicable law, shall impair any such right or remedy or constitute a waiver thereof or an acquiescence therein.

Each of the RMBS Trustees expressly reserves all rights in respect of each applicable Governing Agreement, including without limitation its right to recover in full its fees and costs (including, without limitation, fees and costs incurred or to be incurred by such RMBS Trustee in performing its duties, indemnities owing or to become owing to such RMBS Trustee, compensation for such RMBS Trustee's time spent and reimbursement for fees and costs of counsel and other agents it employs in performing its duties or to pursue remedies) and its right, prior to exercising any rights or powers in connection with any applicable Governing Agreement at the request or direction of any Certificateholder, to receive security or indemnity satisfactory to it against all costs, expenses and liabilities that might be incurred in compliance therewith, and all rights that may be available to it under applicable law or otherwise.

Deutsche Bank National Trust Company
HSBC Bank USA, National Association
Law Debenture Trust Company of New York
U.S. Bank National Association
each acting in its capacity as trustee, separate trustee, successor trustee, or other similar capacities of the RMBS Trusts

[1] CUSIP numbers appearing on the website maintained by the RMBS Trustees located at http://www.citigrouprmbssettlement.com (the "RMBS Trustees' Website") at the tab entitled "List of RMBS Trusts" (available at http://www.citigrouprmbssettlement.com/pdflib/CGU%20Citigroup%20RMBS%20Trusts_6.13.14%20302pm.pdf) have been included solely for the convenience of the Certificateholders and pertain to trusts in addition to the Accepting Trusts and Loan Groups. The RMBS Trustees assume no responsibility for the selection or use of such CUSIP numbers and make no representations as to their correctness.

EXHIBIT A

List of Accepting Trusts and Loan Groups

Accepted subject to Final Court Approval through a judicial instruction proceeding as set forth in Section 2.03(c) of the Modified Proposed Settlement Agreement

U.S. Bank National Association, as Trustee
CMLTI 2005-1 Group I
CMLTI 2005-1 Group II-1
CMLTI 2005-1 Group II-2
CMLTI 2005-1 Group III
CMLTI 2005-10 Group I-1
CMLTI 2005-10 Group I-2
CMLTI 2005-10 Group I-3
CMLTI 2005-10 Group I-4
CMLTI 2005-10 Group I-5
CMLTI 2005-10 Group II
CMLTI 2005-11 Group I
CMLTI 2005-11 Group II
CMLTI 2005-11 Group III
CMLTI 2005-2 Group I-1
CMLTI 2005-2 Group I-2
CMLTI 2005-2 Group I-3
CMLTI 2005-2 Group I-4
CMLTI 2005-2 Group I-5
CMLTI 2005-2 Group II-1
CMLTI 2005-2 Group II-2
CMLTI 2005-3 Group I
CMLTI 2005-3 Group II-1
CMLTI 2005-3 Group II-2
CMLTI 2005-3 Group II-3
CMLTI 2005-3 Group II-4
CMLTI 2005-3 Group III
CMLTI 2005-4 Total Pool
CMLTI 2005-5 Group I-1
CMLTI 2005-5 Group I-2
CMLTI 2005-5 Group I-3
CMLTI 2005-5 Group I-4
CMLTI 2005-5 Group I-5
CMLTI 2005-5 Group II-1
CMLTI 2005-5 Group II-2
CMLTI 2005-5 Group II-3
CMLTI 2005-5 Group III-1
CMLTI 2005-5 Group III-2
CMLTI 2005-5 Group III-3
CMLTI 2005-5 Group III-4
CMLTI 2005-5 Group III-5
CMLTI 2005-6 Group I
CMLTI 2005-6 Group II
CMLTI 2005-6 Group III
CMLTI 2005-7 Group 1-1
CMLTI 2005-7 Group 1-2
CMLTI 2005-7 Group 1-3
CMLTI 2005-7 Group 1-4
CMLTI 2005-7 Group II-1
CMLTI 2005-7 Group II-2
CMLTI 2005-7 Group II-3
CMLTI 2005-7 Group II-4
CMLTI 2005-7 Group II-5
CMLTI 2005-8 Group I-1
CMLTI 2005-8 Group I-2
CMLTI 2005-8 Group I-3
CMLTI 2005-8 Group I-4
CMLTI 2005-8 Group II
CMLTI 2005-8 Group III
CMLTI 2005-9 Group I
CMLTI 2005-9 Group II-1
CMLTI 2005-9 Group II-2
CMLTI 2005-9 Group II-3
CMLTI 2005-HE1 Group I
CMLTI 2005-HE1 Group II
CMLTI 2005-HE1 Group III
CMLTI 2005-HE3 Group I
CMLTI 2005-HE3 Group II
CMLTI 2005-HE4 Group I
CMLTI 2005-HE4 Group II
CMLTI 2005-WF1 Total Pool
CMLTI 2005-WF2 Group I
CMLTI 2005-WF2 Group II
CMLTI 2006-4 Group II
CMLTI 2006-4 Group I
CMLTI 2006-AMC1 Group I
CMLTI 2006-AMC1 Group II
CMLTI 2006-AR1 Group I
CMLTI 2006-AR1 Group II
CMLTI 2006-AR1 Group III
CMLTI 2006-AR2 Group I-1
CMLTI 2006-AR2 Group I-2
CMLTI 2006-AR2 Group II
CMLTI 2006-AR3 Group 1-1
CMLTI 2006-AR3 Group 1-2
CMLTI 2006-AR3 Group 2-1
CMLTI 2006-AR3 Group 2-2
CMLTI 2006-AR3 Group 2-3
CMLTI 2006-AR3 Group 2-4
CMLTI 2006-AR5 Group 1-1
CMLTI 2006-AR5 Group 1-2
CMLTI 2006-AR5 Group 1-3
CMLTI 2006-AR5 Group 1-4
CMLTI 2006-AR5 Group 1-5
CMLTI 2006-AR5 Group 1-6
CMLTI 2006-AR5 Group 1-7
CMLTI 2006-AR5 Group 2-1
CMLTI 2006-AR5 Group 2-2
CMLTI 2006-AR5 Group 2-3
CMLTI 2006-AR5 Group 2-4
CMLTI 2006-AR5 Group 2-5
CMLTI 2006-AR5 Group 2-6
CMLTI 2006-AR5 Group 2-7
CMLTI 2006-AR6 Group 1
CMLTI 2006-AR6 Group 2
CMLTI 2006-AR7 Group 1-1
CMLTI 2006-AR7 Group 1-2
CMLTI 2006-AR7 Group 1-3
CMLTI 2006-AR7 Group 1-4
CMLTI 2006-AR7 Group 2-1
CMLTI 2006-AR7 Group 2-2
CMLTI 2006-AR7 Group 2-3
CMLTI 2006-AR7 Group 2-4
CMLTI 2006-AR9 Group 1
CMLTI 2006-AR9 Group 2
CMLTI 2006-FX1 Total Pool
CMLTI 2006-HE1 Total Pool
CMLTI 2006-HE2 Group I
CMLTI 2006-HE2 Group II
CMLTI 2006-HE3 Group I
CMLTI 2006-HE3 Group II
CMLTI 2006-NC1 Group I
CMLTI 2006-NC1 Group II
CMLTI 2006-NC2 Group I
CMLTI 2006-NC2 Group II
CMLTI 2006-NCB1 Group I
CMLTI 2006-NCB1 Group II
CMLTI 2006-WF1 Group I
CMLTI 2006-WF1 Group II
CMLTI 2006-WF2 Group I
CMLTI 2006-WF2 Group II
CMLTI 2006-WFH1 Total Pool
CMLTI 2006-WFH2 Total Pool
CMLTI 2006-WFH3 Total Pool
CMLTI 2006-WFH4 Total Pool
CMLTI 2006-WMC1 Group I
CMLTI 2006-WMC1 Group II
CMLTI 2007-10 Group 1
CMLTI 2007-10 Group 2-1
CMLTI 2007-10 Group 2-2
CMLTI 2007-10 Group 2-3
CMLTI 2007-10 Group 2-4
CMLTI 2007-10 Group 2-5
CMLTI 2007-10 Group 3-1
CMLTI 2007-10 Group 3-2
CMLTI 2007-10 Group 3-3
CMLTI 2007-2 Group 1
CMLTI 2007-2 Group 2
CMLTI 2007-6 Group 1-1
CMLTI 2007-6 Group 1-2
CMLTI 2007-6 Group 1-3
CMLTI 2007-6 Group 1-4
CMLTI 2007-6 Group 2
CMLTI 2007-AHL1 Group I
CMLTI 2007-AHL1 Group II
CMLTI 2007-AHL2 Group II
CMLTI 2007-AHL3 Group I
CMLTI 2007-AHL3 Group II
CMLTI 2007-AHL3 Group III
CMLTI 2007-AMC1 Group I
CMLTI 2007-AMC1 Group II
CMLTI 2007-AMC2 Group II
CMLTI 2007-AMC2 Group III
CMLTI 2007-AMC3 Group I
CMLTI 2007-AMC4 Group I
CMLTI 2007-AMC4 Group II
CMLTI 2007-AR1 Total Pool
CMLTI 2007-AR4 Group 1
CMLTI 2007-AR4 Group 2-1
CMLTI 2007-AR4 Group 2-2
CMLTI 2007-AR4 Group 2-3
CMLTI 2007-AR5 Group 1-1
CMLTI 2007-AR5 Group 1-2
CMLTI 2007-AR5 Group 1-3
CMLTI 2007-AR5 Group 2-1
CMLTI 2007-AR5 Group 2-2
CMLTI 2007-AR7 Group 1
CMLTI 2007-AR7 Group 5
CMLTI 2007-AR8 Group 1-1
CMLTI 2007-AR8 Group 1-2
CMLTI 2007-AR8 Group 1-3
CMLTI 2007-AR8 Group 2
CMLTI 2007-FS1 Group I
CMLTI 2007-FS1 Group II
CMLTI 2007-OPX1 Total Pool
CMLTI 2007-WFH1 Total Pool
CMLTI 2007-WFH2 Total Pool
CMLTI 2007-WFH3 Total Pool
CMLTI 2007-WFH4 Group I
CMLTI 2007-WFH4 Group II
CMLTI 2008-2 Group I
CMLTI 2008-2 Group II

Deutsche Bank National Trust Company, as Trustee
CMLTI 2005-OPT1 Total Pool
CMLTI 2005-OPT3 Total Pool

HSBC Bank USA, National Association as Trustee
CMLTI 2005-HE2 Total Pool
CMLTI 2005-SHL1 Total Pool
CMLTI 2007-SHL1 Total Pool

Law Debenture Trust Company of New York, as Separate Trustee
CMLTI 2005-OPT4 Group I
CMLTI 2005-OPT4 Group II
CMLTI 2006-SHL1 Total Pool

felt that a corollary of this was that they should avoid criticism of the Israeli government of the day. Both ends of this bargain are being upset, particularly with the emergence of vocal, if still small, Jewish advocacy groups such as J Street in America, which campaign for Israel to agree to the establishment of a Palestinian state.

Critics say that in pressing Jews to ditch their passports, Mr Netanyahu is alienating allies and going beyond the founding ideals of Zionism. Many see more than a hint of politicking in Mr Netanyahu's call, which was made in the build-up to a general election on March 17th. In Israel, the idea of urging the diaspora to come home is generally a vote-winner.

In quieter ways, however, the government is pursuing a different tactic: boosting ties with Jewish communities abroad, without insisting they should flee. It spends about $50m a year bringing Jews to Israel for ten-day trips or year-long scholarships in the hope of building affinity, but not necessarily a pipeline of immigrants.

Behind the rhetoric, there is an understanding in Israel that most diaspora Jews are content where they are. In 2014 26,500 Jews came to Israel, the highest figure for a decade. Despite a doubling of emigration from France, that is still barely 0.3% of the total diaspora. For all the incentives that await incomers, at least half the world's Jews prefer to be elsewhere. ■

Ebola in Guinea

Back to the start

To end the outbreak in west Africa, Ebola must be snuffed out where it began

SOME are attacked with stones, others with fists; a clutch have been killed by machete. Health workers in Guinea face danger even before they encounter Ebola, the virus that has caused over 9,300 deaths in west Africa. Such resistance occurs in Liberia and Sierra Leone, too, but it is more common in Guinea, and makes it harder to end the epidemic.

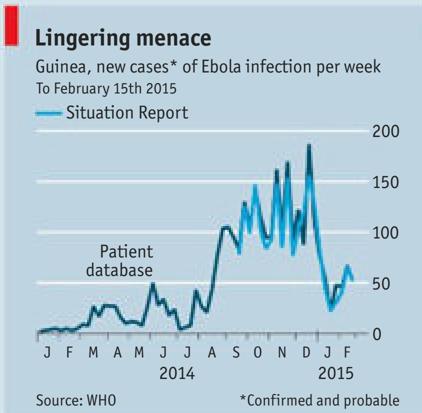
Ebola has waned in west Africa, with 128 new confirmed cases this week (from a peak of over 800 last autumn). Sierra Leone accounted for the largest number (74), but Guinea (52) is more worrying: the vast majority of its new cases of late have been among people who were not on health workers' radar. The virus can be contained by isolating those who have had contact with the sick, but first they must be found.

The World Health Organisation (WHO) talks of "underground transmission chains" caused by unsafe burials. Body-disposal teams are credited with checking Ebola in Liberia. But such teams are often attacked in Guinea. Resistance is reported in over a third of prefectures.

Ebola "doesn't seem to be something that [Guineans] are particularly concerned about", says Margaret Harris of the WHO. In Liberia and Sierra Leone, the outbreak overwhelmed health services, and the horror of bodies in the streets jolted people into changing their behaviour to stop the spread. But even at its peak, the outbreak was not as disruptive in Guinea, so people kiss and shake hands with no fear of catching the virus.

At times last year it looked as if Ebola was under control in Guinea, the largest of the affected countries. But health workers have trouble finding the sick. Poor publicity campaigns make it less likely that they come forward. Many believe that foreigners are infecting them. The WHO is now hiring anthropologists to help co-opt local leaders.

Getting to zero infections will be harder the longer it takes. Heavy rains will soon make it difficult to reach remote areas. Health officials also fear complacency. America is pulling its troops out of Liberia. Others may follow. WHO officials complain of a dwindling budget. The jungles of Guinea hid the first case; as long as they hide the last ones, the outbreak is not over.



Nigeria

Grim reading

LAGOS

Dark omens for the country's democracy

THE hawkers of Lagos love to offer stuff they shouldn't be selling. On a busy street a vendor touts the autobiography of the country's former leader, Olusegun Obasanjo. The book, which flails President Goodluck Jonathan and his entourage, was barred by a court in December on grounds of libel. Days later, it appeared in the hands of touts. "It is expensive," one admits as he demands three times the retail price. "It is hard to find."

The libel row highlighted a relationship that was going sour; now it has imploded. On February 16th Mr Obasanjo quit the ruling People's Democratic Party (PDP), which he co-founded, citing corruption and misrule by Mr Jonathan. "Nigeria belongs to all and must not be allowed to collapse," he said.

Mr Obasanjo, who led Nigeria as a military ruler and as the first elected head of a civilian government after the army handed over power in 1999, was once close to Mr Jonathan. Mr Obasanjo picked Mr Jonathan to serve as deputy to his successor, who was elected in 2007. Now he has disowned his protégé.

In early February Mr Obasanjo expressed support for Muhammadu Buhari, the opposition candidate in presidential elections which are now scheduled for March 28th, after a controversial six-week postponement. He alleged that the current incumbents might cling to power through a military coup. Later he compared Mr Jonathan to Laurent Gbagbo, the ex-president of Ivory Coast, whose refusal to accept electoral defeat sparked civil war in 2010.

Although Mr Obasanjo's influence had been waning, his departure is still a blow to the PDP. It is a fresh sign of the bitter feuds within the party, some stoked by the elder statesman. Well before his resignation, the PDP was haemorrhaging members to the opposition All Progressives Congress (APC), which talks tough on corruption and security. Polls suggest that voters are eager for change. Many suspect the election was delayed to give Mr Jonathan time to try to win back support within his own clique and beyond.

Regardless of the date, there are big worries about how the election will be conducted and what position the army, which also backed the postponement, will take. It has already played politics in making plain its feelings about Mr Obasanjo, calling him a "serious embarrassment". Pessimists fear the election may not go ahead at all, or that an "interim government" will be proclaimed under the guise of the country's struggle against Boko Haram, a jihadist group that is running amok in three states in the north-east.

Critics in the ruling party sneer that Mr Obasanjo is merely stirring things up to sell more books. Yet such pronouncements by a veteran power-broker point to a deep malaise in Nigeria's body politic. ■

Also in this section

For daily analysis and debate on Europe, visit
Economist.com/europe

Anti-Semitism in Europe

Fear of a new darkness

AMSTERDAM, COPENHAGEN AND PARIS

The Copenhagen shootings, like the Paris terror attacks, are raising new worries about Jew-hatred in Europe

THE crowds sang John Lennon's "Imagine" at memorial rallies for victims of the weekend shootings in Copenhagen. The anti-religion anthem was an odd choice to express solidarity with Denmark's Jews, but their leaders were not about to quibble with tens of thousands of Danes offering tearful support. Helle Thorning-Schmidt, the prime minister, proclaimed that "an attack on the Jews of Denmark is an attack on Denmark"—the sort of emphatic language European Jews wanted to hear. A day earlier Binyamin Netanyahu, the Israeli prime minister, had offered a different but equally emphatic take. "Jews have been murdered again on European soil," he said, adding that "Israel is your home."

European leaders, and most European Jews, were incensed. Speaking at a French Jewish cemetery desecrated a day after the shootings, President François Hollande rejected Mr Netanyahu's implication that Jews do not belong in Europe. The French prime minister, Manuel Valls, urged them to stay: "A Jew who leaves France is a part of France that is gone." In Denmark, the Netherlands, Britain and Germany, Jewish leaders said governments should guarantee Jews' safety wherever they live, and vowed not to be chased out. "We have to strengthen the Jewish communities in Europe, not panic them," said Raphael Werner, president of Belgium's Forum of Jewish Organisations.

Few Jewish leaders disagree with the notion that anti-Semitism in Europe is on the rise. Yet to establish the truth is hard, because anti-Semitism is difficult to measure or even describe. Reports of anti-Semitic incidents are based on differing data and rely heavily on subjective testimony. Assessments of European anti-Semitism tend often to be exaggerated in the Israeli and American press. Indeed, Mr Netanyahu may have been surprised by the uproar that greeted his statements: after all, Zionist leaders were urging Jews to leave Europe in the late 19th century.

There is some evidence that everyday anti-Semitism has risen. Once a phenomenon of the nationalist right, it is now found more among Europe's Muslims than elsewhere. The Kantor Centre at Tel Aviv University, which compiles international data, says that anti-Semitic attacks have become more frequent in Europe since the early 2000s. Yet both Kantor and the EU's Agency for Fundamental Rights find that annual numbers have bounced up and down since 2003. They rise in years like 2009 when Israel and the Palestinians are at war. With Israel's campaign in Gaza last summer, 2014 was a bumper year.

The conflation of Israel with Jews raises thorny questions of when political views cross into bigotry. Palestinian sympathisers accuse pro-Israeli groups of misusing the term "anti-Semitism" to stigmatise legitimate criticism. In July a Belgian doctor who favours sanctions against Israel used the word "Gazacaust" to refer to Israel's treatment of Palestinians there. To many Jews the term was pure anti-Semitism, but others accepted the comparison. In France Gaza protests have turned into chants of "Death to Jews"; German protesters have sung "Hamas, Hamas, Jews to the gas." At a rally for solidarity with Gaza, a Dutch rapper called Appa said he was "through with these Zionist dogs, who are out for our money and our blood". The term "Zionist" did nothing to conceal the latent anti-Semitism, particularly given the hint of old-style blood libels.

Conflicting evidence comes from attitude surveys. A study last November by Fondapol, a French think-tank, found that, whereas 25% of those surveyed agreed that Jews "have too much power in the economy and finance", the ratio among French Muslims was 67%. In stridently anti-racist Germany a 2010 study found 3% of Germans without any immigrant background agreeing that "Jews have too much power in the world"; the number rose to 25% among those of Turkish origin and 40% among those of Arab origin.

Yet at least among non-Muslim Europeans, anti-Jewish feeling may have declined (see chart on next page). Far-right European political parties once embraced anti-Semitism, but today's populist-right parties focus on opposing immigration or Islam. The UK Independence Party has stolen the thunder of the quasi-fascist British National Party. France's National Front has tried to shed its anti-Semitic roots, and the Dutch Party for Freedom is actively pro-Israel. Yet both far-right parties and secular centrist ones can alienate Jews. A Swedish politician from the Centre Party wondered ▸▸

Up but then down

Those holding unfavourable views of Jews
% of population

Sources: Daniel Staetsky, Institute for Jewish Policy Research; Pew Research Centre

aloud last year why Jews had so much power, yet claimed she was not anti-Semitic; she was forced out, but her party minimised her sentiments as a communication problem.

When secular majorities ignore them, Jewish groups often find themselves allied with another religious minority: Muslims themselves. Jewish and Muslim organisations have worked together to block efforts to ban kosher and halal slaughter, as well as circumcision. Jewish-Muslim social-media groups under the name Salaam-Shalom have sprung up in several countries. They may face strains over Israel and Palestine, but such contact groups could also become a good long-term way of combating anti-Semitism.

European Jews feel besieged, and are even starting to look it. Since last year's Gaza protests, police trailers have been parked in front of Amsterdam's 17th-century Portuguese synagogue, the Jewish high school, the Anne Frank museum and other sites. The government has since added military police, and Jewish leaders have asked the justice ministry to give the guards automatic weapons. Antwerp's mayor has deployed an elite army unit to patrol the Jewish quarter. Jewish sites in France have been guarded by soldiers since January.

Since medieval times, Jews have appealed to sovereigns for protection against violent bigotry. The police can provide physical security, but congregating inside heavily guarded synagogues, schools and community centres is not the same as openly exercising one's religious identity. "The question is, can we still live here as Jews in the long run?" asks Ruben Vis, of the Dutch Central Jewish Council. It may seem paradoxical that attacks in Paris and Copenhagen should drive European Jews to consider emigrating to Israel, where they would hardly be free of terrorism. Yet those who emigrate are not seeking freedom from violence so much as the ability to live an openly Jewish life in a way that is becoming harder in Europe. Many may resent Mr Netanyahu's invitation; some, at least, will still consider it. ■

Ukraine's war

The fire that did not cease

KIEV

The fall of Debaltseve underlines the cynicism of the Minsk ceasefire

THE latest peace plan never had much chance. Shortly after signing it in Minsk, rebel leaders declared that Debaltseve, where several thousand Ukrainian troops were located, fell outside its terms. After the "ceasefire" started on February 15th, they continued their assault. By February 18th the flag of Novorossiya, the rebels' pseudo-state, had been raised over the city centre. "It's always tough to lose," quipped Russia's president, Vladimir Putin. Ukraine's president, Petro Poroshenko, ordered a risky retreat and tried to paint the defeat as a victory, saying his troops' swift escape had put Russia "to shame".

Such spin fell on deaf ears inside Ukraine. Photos of muddied troops who had fled on foot belied claims of an "organised" operation. Soldiers told of a night-time journey across frozen fields, punctuated by ambushes and casualties. The Ukrainian government claims regular Russian troops backed the rebels. Douglas Lute, America's ambassador to NATO, says that teams of specialised Russians, mostly Spetsnaz elite troops, are operating command-and-control systems and the most sophisticated weapons. These troops form "a sort of parallel command structure answerable to Moscow," he says.

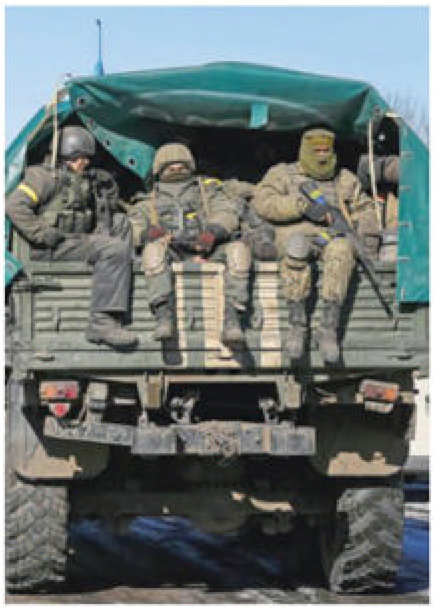
Mr Poroshenko claimed 80% of his forces in Debaltseve had already got out, and that only six men were killed in the retreat. Reports from the ground put the number higher. The morgue director in Artemovsk says he took in 13 bodies on the day of the retreat. The fall of Debaltseve was not evidence of Russian superiority, says Semyon Semyonchenko, a battalion commander, but of the Ukrainian army leaders' "gross incompetence".

Despite being surrounded on three sides since last autumn, Ukrainian troops were ordered to remain in Debaltseve. An offensive to straighten out the lines could have derailed the peace talks. For Kiev, a retreat risked a popular backlash. Ultimately, the decision to try to hold the territory was political, says one Ukrainian official. "From a military point of view, we should have retreated a month ago."

The loss of Debaltseve will be a blow to Mr Poroshenko, but not a fatal one. Even his detractors see that internal turmoil in Ukraine plays into Russia's hands. And Mr Poroshenko has earned respect for his handling of international diplomacy. Many see the president's men, not the president, as the main problem. "You are a Patriot with a capital letter," wrote Borys Filatov, an oft-critical parliamentarian. He urged Mr Poroshenko to let "decent people" into his circle instead of "sycophants and despots". As a concession to his critics, Mr Poroshenko may sacrifice the chief of the general staff, Viktor Muzhenko, who has faced withering opprobrium.

The president could also impose martial law, a step he has threatened publicly. That would trigger full-scale mobilisation and allow the government to grab private property for military use and to clamp down on press freedom. But it would not produce more tanks or fix the economy. The latest fighting has spooked markets, driving bond prices and the hryvnia to record lows. A new IMF loan may prove inadequate in the face of continued fighting.

The hardest dilemma may be for the West, which has to decide how to respond to Mr Putin's renewed aggression. Western leaders spoke again to the Russian president on February 18th, after Debaltseve's fall, without making headway. Germany called the Minsk peace plan "damaged" but not yet dead. Kiev proposed an international peacekeeping force, an idea Moscow swiftly rejected. The rebels said they were now ready to pull back their heavy weapons. But even if the ceasefire is salvaged, it is a far cry from lasting peace. And Novorossiya's backers still have designs on Mariupol and Kharkiv. ■



Victory into defeat

Italy and Libya

Fears over the sea

ROME

Italians fret about both Islamic extremists and immigrants

SANT'ANTIOCO is a village with fewer than 10,000 inhabitants off Sardinia. In 1815 it was the scene of the last big Moorish raid on Italy: more than a hundred Sardinians were seized as slaves. Arabs and Berbers, then Turks and finally north African pirates terrorised the coast of Italy at intervals for 1,000 years. Muslims ruled Sicily for centuries and created enclaves there. In 846 they sacked the Vatican.

Muslim incursions are now a distant folk memory—until now, when they appear frighteningly present. On February 15th Islamic State (IS) released a typically horrific video of the decapitation of 21 Egyptian Copts. What alarmed Italians was the title, "A Message Signed With Blood to the Nation of the Cross", and a warning that the jihadists are "south of Rome". Italians knew their capital, the papal seat, was a target. Earlier videos said that IS's black flag would fly over St Peter's. But these were made when IS was confined to the Middle East, not beheading Christians on a beach just across the sea from Lampedusa.

Commenting on IS's advance, the foreign minister, Paolo Gentiloni, said that, if a UN peace initiative failed, "the issue needs to be raised with the United Nations to do something more." That was enough for IS's radio station in Mosul to brand Mr Gentiloni the representative of a "crusader Italy". Undaunted, the defence minister, Roberta Pinotti, hinted the next day at what "something more" might be. Italy, she said, was ready to lead a coalition to crush IS in Libya: "We have been discussing it for months, but now an intervention has become urgent." The prime minister, Matteo Renzi, warned against "hysteria".

Wholly out of character with Italy's cautious attitude to military involvement, such statements reflect pent-up frustration over the failure of Italy's allies to address the deteriorating situation in Libya. Yet, as became clear in the UN Security Council on February 18th, Italy's friends are averse to intervention (see page 45). So are many Italians, who are mindful of the way they are seen as Libya's former colonial masters. When Mr Gentiloni repeated in parliament that time was running out for a diplomatic solution, the Five Star Movement, a populist left-wing party, said Libya could become Italy's Vietnam.

The threat from IS is linked to a surge in immigration from Libya of asylum seekers and others. More than 6,000 people have

fled from north Africa so far this year, twice as many as a year ago. Yet winter is the most perilous time to cross to Italy. Last week survivors reported that more than 200 had died when their boats were overwhelmed by high seas. There is pressure from humanitarian groups to restart Italy's "Mare Nostrum" search-and-rescue policy, replaced last year by the smaller "Triton" operation.

IS's advance may intensify the desperation of would-be migrants, especially Christians. That might raise sympathies in Italy, where the persecution of Christians in other parts of the world is a big topic of public debate. But compassion is offset by growing concerns that IS terrorists could be smuggling themselves into Europe among the migrants—or that IS might force a surge in departures to step up its war of nerves with "the Nation of the Cross". ■

French reforms

The nuclear option

PARIS

The government shows its teeth by passing the Macron law by decree

NOBODY could accuse Emmanuel Macron of not trying. To persuade rebellious Socialists and centre-right opponents to back his liberalising reforms, the French economy minister spent 111 hours in parliament and 82 in committee. On February 15th (a Sunday) Mr Macron was in the lower house until 6am—defending a law that, among other things, loosens Sunday work rules. But it was not enough. On February 17th, even as deputies were preparing to vote, the government felt forced to ram the law through by decree, for fear of not winning a majority.

Left-wing rebels bleated; the right said François Hollande's presidency was over. But the question is whether this episode reveals political weakness or executive force. The Macron law is meant to be the centre-piece of Mr Hollande's reformist U-turn. Its fate will influence the willingness of the European Commission to let France breach its budget-deficit rules: that is due to be decided on February 27th.

Politicians both to the left and to the right of the Socialists lined up in a curious chorus to proclaim failure. The decree proved that the government's "ultra-liberal" policies had no backing, growled André Chassaigne, the Left Front's parliamentary leader. The centre-right UMP deplored an "end to reform"—even though its leader (and ex-president), Nicolas Sarkozy, had told the party to reject the law.

The failure to stop Socialist rebels, including Benoît Hamon, a former minister, opposing the law leaves Mr Macron politically bruised and the party's divisions rudely exposed. The recourse to a decree showed the limits of consensual reform. As an unelected centre-left pragmatist and one-time investment banker, the 37-year-old Mr Macron embodies everything the party's left distrusts. Its disparaging of the government's reformist efforts will intensify ahead of a party congress in June.

Yet the drama also exposes a different gap: between public expectations and parliamentary behaviour. Plenty of French people are dismayed by an obstructive parliament, and by the right's refusal to back liberal reforms. Luc Ferry, one of Mr Sarkozy's former ministers, called the right's stance "idiotic". Mr Macron may be derided by the party's left, but he is the most popular Socialist politician after the prime minister, Manuel Valls, and comes fourth overall, up from 20th in September, says one poll. Some 61% of respondents told another poll they backed his law.

One reason may be that the law includes measures that appeal to consumers. These include allowing intercity coaches to compete with railways, relaxing Sunday trading restrictions and lifting barriers to becoming a notary. Another measure was added in the debate: new rules to shorten the wait for driving tests. Other provisions should simplify business, such as speeding up labour-tribunal hearings and lowering taxes on some employee shareholdings (to encourage start-ups).

This week's resort to the nuclear option may not end the government's reformist ambition. "I've got fuel to continue," said Mr Valls. Mr Macron wants to make it easier for firms to vary working hours and deal with "threshold effects" that put them off employing more than 49 people. After the decree, the cabinet approved fresh legislation. But if the government is to use public opinion against rebels in the name of reform, it may have to keep doing so by force. Few prime ministers under the Fifth Republic have passed laws by decree. But the one who holds the record, doing it 28 times, was the centre-left Michel Rocard—Mr Valls's political mentor. ■

Corruption in Romania

Cleaning up

BUCHAREST

Romania's anti-corruption agency makes welcome waves

ROMANIANS had assumed that Elena Udrea, a former tourism minister, was too powerful for prosecutors to touch. The ex-wife of a rich businessman, she is a protégée of Traian Basescu, a former president. Yet the National Anti-corruption Directorate (DNA) has arrested her for helping to launder millions of dollars her former husband made from charging the government inflated prices for software. Her prosecution is a boost for the DNA, which is slowly convincing observers of progress in tackling corruption.

The DNA's chief prosecutor, Laura Codruta Kovesi, a basketball star in her teens, rose through the magistracy before getting the top job in April 2013. Some feared she would be unable to protect the agency's reputation, but in fact the pace of high-level cases has increased. In 2014 the DNA secured convictions of 1,138 people, including 24 mayors, five members of parliament, two ex-ministers and a former prime minister, Adrian Nastase. More than 90% of its indictments led to convictions.

Such good deeds have not gone unpunished. Last year, Ms Kovesi says, "every evening on television, there were attacks on my personal life." A TV station owned by an oligarch accused her of taking bribes. (She sued for libel.) The DNA faced interference by Victor Ponta, Romania's prime minister, who before his election in 2012 called it a successor to the reviled security police of communist days. In October 2013 the DNA's senior anti-corruption prosecutor was replaced. And Mr Ponta's party pressed for an amnesty that would have made it impossible for the DNA to act against high-level politicians.

Today Mr Ponta is keen on the DNA. The 42-year-old prime minister, himself a former prosecutor, proudly quotes a positive assessment the agency recently won from European Union anti-corruption monitors. The amnesty law was struck down in January, he notes, and talk of reviving it is "not serious". Indicted MPs are forced to quit. As for Ms Kovesi, he says, "I was the one who appointed her!"

In fact, Ms Kovesi was Mr Basescu's candidate. She won Mr Ponta's support as part of a power-sharing deal. But Mr Ponta's enthusiasm speaks volumes. "It shows how popular the DNA has become," says Cristian Ghinea of CRPE, a think-tank. It is Romania's fourth-most-trusted institution, after the church, army and security services. Insiders say Mr Ponta's attacks were meant only to please his party. His loss of November's presidential election to Klaus Iohannis, who ran on an anti-corruption ticket, underlines that political success lies in fighting graft, not excusing it.

The EU's demands for regulatory compliance have opened up career opportunities for clever, honest lawyers. (Many now work for Ms Kovesi.) America is aggressively pushing anti-corruption efforts as part of its policy to contain Russian influence in eastern Europe. American officials hammered that message home during a visit by John Kerry, the secretary of state, to Bucharest last month.

Romania's corruption-fighting efforts may have been noticed in Washington and Brussels, but they have yet to make much impact on foreign investors. The country came 69th last year in the corruption index produced by Transparency International, a Berlin-based watchdog, a ranking unchanged from 2013. Mr Ponta has just been to America, wooing investors. No doubt he spent much time telling them about Ms Kovesi and the DNA. ■

German politics

Defeat on the Elbe

BERLIN

An election in Hamburg underlines the domestic weakness of Angela Merkel

THE German chancellor, Angela Merkel, may be the West's de facto leader in the Ukraine crisis, a quasi-hegemon in the European Union and unassailably popular in opinion polls. But her centre-right Christian Democratic Union (CDU) has growing weaknesses, as Hamburg, one of Germany's 16 federal states, showed on February 15th.

The CDU was the big loser in a regional election that had several winners. The Social Democrats (SPD), led by a colourless but reliable mayor, Olaf Scholz, triumphed with 45.7% of the vote and will stay in power, probably with the Greens. The Alternative for Germany (AfD), a Eurosceptic party founded in 2013, got into its first assembly in west Germany after breaking into three eastern parliaments. Even the liberal Free Democrats (FDP) returned, with 7.4%.

All must have prizes

The kingmaker of German governments for much of post-war history, the FDP has of late seemed moribund, ejected from the federal and several state parliaments. A cranky Green politician, Jörg Rupp, tweeted that the FDP succeeded "with tits and legs instead of content", intended as a swipe at the party's leading candidate, Katja Suding. He had to apologise. It remains to be seen if the FDP will now revive elsewhere.

The big shock, though, was how badly the CDU did. The party fell from 21.9% in 2011 to 15.9%, its worst-ever result in Hamburg. It lost roughly 9,000 pro-business and liberal voters to the FDP; 8,000 conservatives to the AfD; and another 8,000 to the SPD. It was a "hammering", said one senior Christian Democrat. Mrs Merkel called it "bitter". The CDU now runs none of Germany's ten largest cities. This is causing internal debates about whether it is too country-bumpkin and should adopt an "urban" strategy. The CDU also has only four state premiers out of 16, and is thus in a minority in the upper-house Bundesrat.

Mrs Merkel must carry much blame for the party's local and regional weakness. She has not allowed any talented backbenchers or regional politicians to shine. As part of her strategy to modernise the CDU, she has for years moved gradually leftward. Voters often say they cannot tell the CDU and SPD apart. So CDU supporters leaning left are drawn to the real thing, while those leaning right or liberal look to the AfD or FDP.

The centre of German politics has become crowded, and the alternatives on the right clearer. This will increasingly constrain Mrs Merkel as she approaches the next federal election in 2017. And what will happen to her party after she goes is now anybody's guess.

Charlemagne | Syriza's scattergun

Greece had a chance to make the euro zone work better. It blew it

CLIP-CLOPPING around Europe over the past few weeks, Yanis Varoufakis, Greece's dashing finance minister, has urged the euro zone to chart a new course. Endlessly forcing new loans upon indebted countries like Greece in the pretence that they will one day be repaid, he argued, was a strategy for depression and deflation. "The disease that we're facing in Greece," he told the BBC, "is that a problem of insolvency for five years has been treated as a problem of liquidity."

This view would not seem outlandish in the academic world that Mr Varoufakis recently quit. Few believe that Greece's debts, worth over 175% of GDP, will ever be repaid in full. But saying so betrayed a woeful misunderstanding of the euro zone's rules. If the European Central Bank shared Mr Varoufakis's view, it would have to cut off Greek banks, potentially driving Greece out of the euro. Indeed, earlier this month, when the minister visited the ECB in Frankfurt, Mario Draghi, its president, snippily told him to keep his opinion to himself. He has not repeated it since.

Mr Varoufakis's gaffe is a mere footnote in a list of mishaps that have characterised Greece's miserable experience in the euro. But it is depressingly typical for a government that, for all its high popularity at home, has squandered every opportunity to improve its lot, and ultimately that of the euro zone. Even as Mr Varoufakis and his colleagues in Greece's ruling Syriza party have loftily declared that the changes they seek would benefit all Europeans, not just Greeks, their negotiating strategy has been small-minded, self-defeating and naive.

Some of this may be put down to inexperience. A few Europeans were guilty of assuming that Alexis Tsipras, the prime minister, would perform what Greeks call a *kolotoumba* ("somersault") the instant he took office. But Syriza has no excuse for making idle references to the Nazi occupation of Greece. Nor has it helped by playing games with its partners in the Eurogroup of finance ministers. European officials have been incensed by a Hellenic habit of leaking supposedly private discussion papers.

The wrangling over whether to extend Greece's second bail-out, which expires on February 28th, has shown Mr Tsipras's government at its worst. Admittedly Syriza was dealt a bad hand by its predecessor, which before Christmas accepted an extension of only two months. But rather than accept an extension, Mr Tsipras and Mr Varoufakis have dug in their heels, robotically insisting on a "bridging" deal that would unlock euro-zone funding while allowing the government to slow or reverse reforms. Greece's creditors, unsurprisingly, were unimpressed. On February 19th Greece put forward a more conciliatory proposal to extend its loan. But this was almost immediately rebuffed by Germany. Trust has seemingly been so grievously eroded that Greek promises of discipline are not worth much in Berlin.

These spats matter far beyond the hurt feelings of a few politicians. Greece's survival in the euro depends on two factors largely outside its control: the willingness of the ECB to keep its banks on life support, and that of the Eurogroup to strike a long-term financing deal (Mr Varoufakis avoids the term "bail-out") to keep the country afloat. It has weakened its hand on both fronts.

The ECB's reasoning will rest in part on its assessment of the health of Greek banks. Depositors are withdrawing around €2 billion ($2.3 billion) a week. Syriza's stubbornness has hardened attitudes on the ECB's council. On February 18th, it offered only a small increase in liquidity support; and the support will end entirely if two-thirds of its members say so. Some are reported to favour capital controls as a better option. Greece will be on perilous terrain if it enters March without a deal in place.

As for a long-term deal, Germany and others have dangled sweeteners before Greece, including an easing of debt terms and a lower primary-surplus target. But these are prizes to be won at the end of talks, not the beginning. Syriza has already started to reverse some reforms, including privatisations and collective-bargaining rules, antagonising its creditors further. The Eurogroup will probably not withdraw its fiscal offers but, with trust in the Greeks at zero, the reform conditions that it will attach to a third bail-out will surely be tougher than ever.

Time is short, particularly if the Eurogroup fails to agree with Greece on the terms for a bail-out extension. Thanks to a collapse in tax revenues, the government could run out of cash before an IMF bond falls due in March. By squeezing suppliers and raiding funds, Greece may be able to finance itself for a few months, but without further help it will certainly be unable to meet debt repayments to the ECB in July and August.

Isolation is rarely splendid

Yet an essential formula remains unchanged: that neither Greece nor its partners want to see it forced out of the euro (although the odds of an accidental "Grexit" have shortened). So at some point Mr Tsipras will have to perform his *kolotoumba*, potentially at high cost. At home, having raised expectations of a big win (75% of Greeks support his tough line) he might face calls for a referendum or a new election.

The real Greek tragedy is that, with a bit more statesmanship, Mr Tsipras could have nudged Europe on to a happier path. The euro zone desperately needs a counter-narrative to its failed German-inspired policy of austerity. As leader of the hardest-hit economy, armed with a strong democratic mandate, Mr Tsipras was well placed to offer one. He could have sought allies against excessive austerity and for looser fiscal and monetary policy in places like Italy and France—and even inside the ECB. Yet by quibbling over his debt extension and backtracking so ostentatiously on sensible reform he has alienated more or less everyone. That is quite some achievement. ■

Economist.com/blogs/charlemagne

Also in this section

For daily analysis and debate on Britain, visit
Economist.com/britain

Ethnic minorities

Breaking out

In Britain, Bangladeshis have overtaken Pakistanis. Credit the poor job market when they arrived and the magical effect of London

MOST parts of Britain are doing better than Bradford, a smokestack town in West Yorkshire that has struggled since the collapse of the wool industry. But one comparison stings. Fatima Patel, the editor of *Asian Sunday*, a local newspaper, says Bradford's leaders look ruefully at Tower Hamlets, a poor borough of London 200 miles to the south. And that comparison has an ethnic tinge, because Bradford is heavily Pakistani, whereas Tower Hamlets is the heart of Bangladeshi Britain (see maps, below).

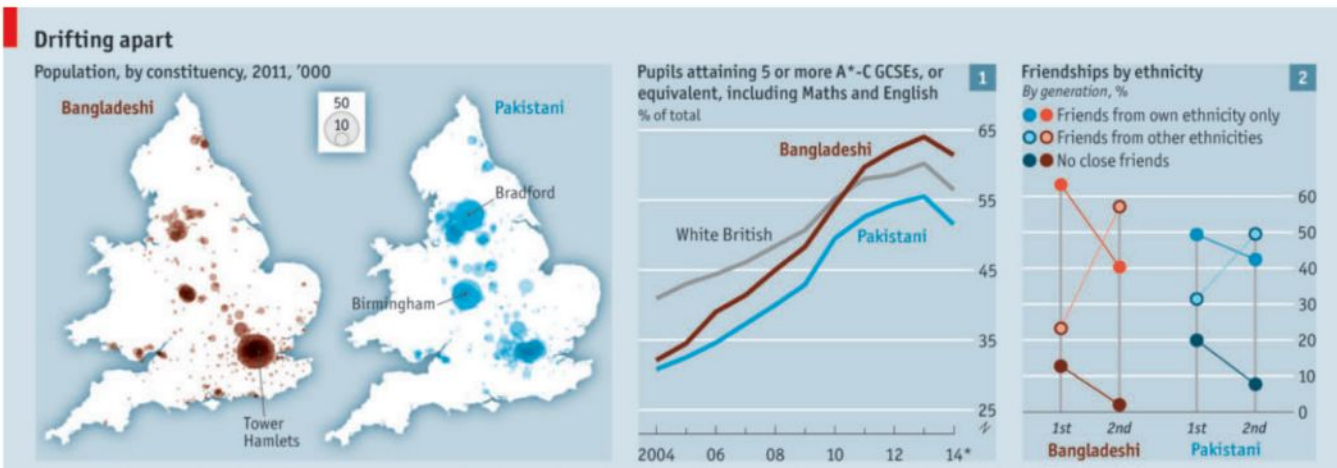
In many people's minds, and often in official statistics, the 447,201 people who called themselves Bangladeshi in the 2011 census and the 1,124,511 who identified themselves as Pakistani are lumped together. And the two groups have much in common. Mass immigration for both began in the 1950s. Both are largely working-class and Muslim. Both tend to vote Labour (see Bagehot). Both are concentrated in one business—restaurants in the case of Bangladeshis, taxi-driving among Pakistanis. But their fortunes are now diverging. And that says something about what it takes to succeed as an immigrant in Britain.

Even during the half-term holiday, the library in Morpeth School in Tower Hamlets is busy with mostly Bangladeshi children. Around three-quarters of the school's pupils are so poor that they qualify for free school meals. A similar share do not speak English as their first language. And yet, last year, 70% got five good GCSEs, the exams taken at 16—much higher than the national average.

Pakistani pupils do not fare too badly in school either, considering how poorly educated and badly off their parents tend to be. But Bangladeshis overtook them more than a decade ago and have pulled farther ahead since then (see chart 1). Some 61% of Bangladeshis got five good GCSEs in 2014 compared with 51% of Pakistanis and 56% of British whites.

That will help their job prospects. Both Bangladeshis and Pakistanis have low employment rates because so many women do not work. But among the young, Bangladeshis are more likely to be studying or in work. And Yaojun Li, a sociologist at the University of Manchester, calculates that Bangladeshis' average monthly household income, though still low, is now slightly higher than that of Pakistanis.

Bangladeshis born in Britain are also more likely than their Pakistani counterparts to socialise with people of a different ethnicity, according to another study (see ▸▸



Sources: ONS; Department for Education; "Generation, ethnic and religious diversity in friendship choice: exploring interethnic close ties in Britain", by Raya Muttarak, 2013 *Counting methodology change chart 2). Both still overwhelmingly wed within their own ethnic group. But among young men, for whom marrying out is easier, 26% of Bangladeshis now do so compared with 17% of Pakistani youths.

The explanations lie partly in the past. Pakistanis—many of them from the rural Mirpur Valley in Kashmir—began to settle thickly in Britain in the 1960s. They often took jobs in the textile mills of the north and the foundries of the West Midlands.

Most Bangladeshis came later. Many men arrived in the 1970s as refugees, but the peak of migration was in the early 1980s, when the women and children turned up. They thus arrived when British industry was on the ropes—which was oddly lucky, suggests Shamit Saggar of Essex University. Though many were working in the rag trade, they had not committed themselves to one doomed industry. Pakistanis had: they suffered greatly from the collapse of British textile-making.

Those early jobs also drew the two groups to different bits of England. Today half of all Britain's Bangladeshis live in London, compared to one-fifth of Pakistanis. Bangladeshis do not just tend to live in Britain's most successful city, they also live in a particularly vibrant bit of it: Tower Hamlets surrounds the booming office district of Canary Wharf. Schools in London have improved much more than schools elsewhere, partly because they get more government money but also because the best teachers want to work there.

Pakistanis in London also benefit from the city's improved schools; they do better there than in the rest of England. But research by Simon Burgess of the University of Bristol shows that geography does not explain the whole difference. Bangladeshis did better than Pakistanis both in London and outside the city in 2013.

East End advantage

The growing success of Bangladeshis appears odd because their living conditions are often so dismal. More than one-third live in social housing, compared with a national average of 18%. Near Morpeth School, a fence outside grotty flats is topped with upturned nails to deter intruders. Pakistanis are more likely to own houses. But, since those houses are often in the wrong place, that has not helped them much. Those living in decayed northern towns are tied to properties whose value is hardly rising, stopping them moving to more dynamic spots. "It is a stake that only allows you to move around the corner to equally bleak economies," says Mr Saggar.

Cultural conservatism, which has deepened among many British Pakistanis, makes things worse. Cousin marriage is more common among Pakistanis than among Bangladeshis, as is the bringing over of partners from the subcontinent, argues Parveen Akhtar, a sociologist at the University of Bradford. Nuzhat Ali, a campaigner in the city, reckons such marriages are actually more common among recent Pakistani migrants than among their grandparents. The practice means that more Pakistanis in a city like Bradford are first-generation migrants than might be expected by now. It might also mean that young men are less driven to succeed—the desire to find a marriage partner being an unstated reason for going to university among people of all races.

The experience of Bangladeshis suggests that it is foolish to judge the success of immigrants after just a few years in Britain. It also bodes well for Somalis. Today they are among Britain's most desperate migrants. But they, too, have the fortune to be concentrated in London. In parts of the city their school results are already improving sharply. They are struggling now—but their future could be much brighter. And their ambition is surging. Amina Ali, a Somali councillor from Tower Hamlets, is even hoping to be elected as a Labour Party MP in Bradford. ■

The Royal Mint

Coining it

LLANTRISANT

An ancient institution at home in the modern world

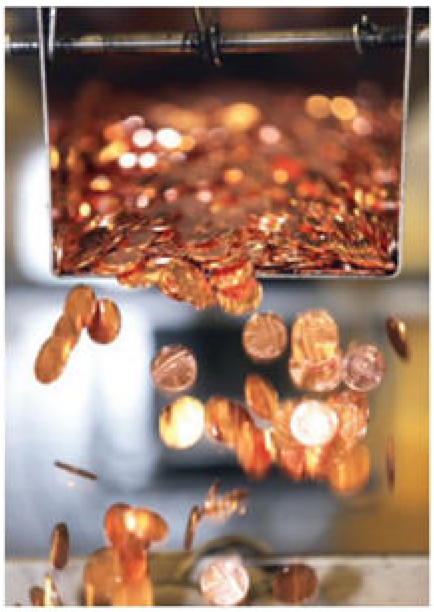
TO THE world's bankers and finance ministers, the fraught negotiations over whether Greece will keep using the euro constitute an existential crisis. To Britain's Royal Mint it is a commercial opportunity. "Greece is a very strong market", says Lisa Elward, the head of bullion sales. In the three months leading up to the Greek election in January, won by the Syriza anti-austerity party, sales of the mint's sovereign gold coins went up. Worth about £200 ($310) each, these coins have become a popular investment for Greeks who worry that their currency might plunge in value or disappear altogether.

The mint has been turning out coins for about 1,000 years. It is owned by the Treasury, but in 2010 it was vested as a private company. Most of its managers now come from private industry. The mint is expected to pay a dividend (to the Treasury) and so it is expected to behave more like a private-sector company, winning business in global markets. That it has been doing fairly successfully.

Take the mint's booming bullion business. Sales have been rising by about 60% a year; last year this side of the mint's operations turned over £160m out of total revenues of £315m. The euro crisis and worries about the world economy are one explanation; another is that the mint has become more of a huckster. It sells bullion directly via the internet and allows buyers to store their bullion in its own vault. The mint now holds three times as much bullion as it normally needs at peak demand to cope with any sudden crisis that could cause demand to surge (a Grexit, say, or even a Brexit). Last year it introduced gold and silver Lunar coins, which have been popular with the Chinese. This year's coin celebrates the year of the sheep.

The mint is already the world's leading exporter of circulating currency, with about 15% of the available market (countries like China and America make their own). Last week new coins were being struck for Poland, Maldives, Uruguay, Jordan, Jamaica, Mozambique and the Falkland Islands. The mint made over £100m worth of coins last year. Due to perennial fears about whether credit and debit cards will one day replace cash in developed markets, it is now trying to push into poor countries that subsist on wads of grubby old banknotes. To places like Cambodia, Vietnam and Myanmar, the mint argues that its fine new nickel-plated coins will last far longer, and thus be more economical, than even the newer bills.

For now, at least, coins seems to be a safer business than banknotes. De La Rue, Britain's (and probably the world's) biggest note printer has been struggling, quantitative easing notwithstanding. Last year the company issued a profits warning, and on January 29th it confirmed that it would make £20m less this year than last. De La Rue, though, should pull through on the back of its growing business making biometric passports for the British and other governments. Like the Royal Mint, nowadays it makes money by more than just making money. ■



Copper-bottomed investment

Bagehot | David Cameron's many mansions

The Conservatives have tried to woo ethnic-minority voters, and failed

THE VVIP picture gallery at the Neasden mandir, one of the biggest outside India, provides a record of British general elections. Shortly before the 1997 one, John Major and Tony Blair both visited the north London temple, seeking *darshan* and the votes of Britain's 500,000 Hindus. Gordon Brown, Mr Blair's successor as Labour prime minister, sent his wife, Sarah Brown, a few weeks before the 2010 poll; the right-wing press made rude comments about her naked feet. David Cameron appears twice in the gallery, once alongside his sari-clad wife, Samantha, and both times, to his credit, mid-term. Like the red Hindu *tilak* the Tory prime minister wears smeared on his forehead in one photograph, this marks his enthusiasm for a conservative, industrious and furiously upwardly mobile community which should vote Tory, his party strategists often note, but mostly does not.

In the 2010 general election the Tories won 36% of the vote, but only 16% among ethnic-minority voters. "Not being white", writes Lord Ashcroft, a pollster, "was the single best predictor that somebody would not vote Conservative." By one estimate, this cost the party 24 seats, a tally that could soar. At the coming general election in May, 168 seats will have a population of ethnic-minority voters that is bigger than the incumbent MP's majority. By 2050 almost one in three Britons could be non-white. A senior Tory calls this a "demographic time-bomb" for his party—an ethnological threat to its future viability of the sort America's Republicans are already facing. If the loss of disaffected whites to the UK Independence Party (UKIP) does not kill the Tories, the disdain of Britain's ethnic minorities might.

Mr Cameron vowed to sort things out. On his watch, the number of non-white Tory MPs has climbed from two to 11, and it will probably rise again in May. He has also tried to improve Britain's ties with India, hosted Diwali parties, commissioned a statue of that half-naked fakir Mohandas Gandhi for Parliament Square and appointed non-white politicians, such as Baroness Warsi and Alok Sharma, to senior party posts. British Indians, a relatively fulsome 24% of whom voted Tory in 2010, are the main objects of this charm offensive; but by promising to curtail police powers to stop and search, a particular blight of black Britons, the Tories have blown a kiss at them, too. Meanwhile a new crop of hard-working Tory MPs—such as Bob Blackman in Harrow East and Gavin Barwell in Croydon—are cozying up to non-white voters with gusto. But still no cigar: polling published by YouGov this week suggests non-white voters remain deeply uncharmed.

Whereas the two big parties are level-pegging in the polls, Labour has a 64-point lead among British Bangladeshis, a 57-point lead among blacks and a 20-point lead among Indians. This disparity may cost Mr Cameron a second term in power, and if so it will be his fault. Because his efforts, though well-aimed, are intermittent, often insubstantial and, as such, dolefully indicative of Britain's gadfly prime minister.

It is not as if the Tories underestimate the scale of their task: right-wing think-tanks write about the problem endlessly. They also have, in the example of the Canadian Conservatives, a blueprint for how to unburden themselves of it. When Stephen Harper became party leader in 2003, non-white Canadians were three times more likely to vote for the left-leaning Liberals. Now they are more likely to vote Conservative, a change Mr Harper wrought with a three-pronged strategy. By apologising for a piece of historic discrimination, the Chinese head tax, he signalled a break with Canada's lily-skinned past. He meanwhile ordered his party to engage with ethnic minorities relentlessly. And he demanded it court ethnic-minority media outlets especially. Mr Cameron's efforts are feeble by comparison.

Part of the trouble is too little effort. Mr Harper opened cabinet meetings by asking his ministers what ethnic-minority events they had recently attended; Mr Cameron has shown nothing like that tenacity on this, or indeed almost any, issue. And what he has done is too often illustrative of the colour-by-numbers methods of the professional politician, skilled in grid and message management but with little eye for the big picture.

He appears, for example, to consider Britain's diplomatic overture to India a success in itself—never mind that India, which has changed quite a bit since the Tories last considered it, has barely noticed. His efforts to curb immigration, in a forlorn effort to head off UKIP, are more self-defeating. For though it is true, as the Tories say, that British Asians are as hostile to immigration as most Britons, they do not necessarily think about it the same way.

To temple and mosque, mixed messages

Worshippers at the Neasden temple decried the fact that tighter visa strictures could make it hard for their Indian cousins to visit, even as they deplored the EU immigration that Mr Cameron can do little to reduce. This risks making the party of Enoch Powell—whose 1960s diatribes against immigration are recalled by black Britons especially—appear less colour-blind than it truly is. Had Mr Cameron provided more inspiration for all Britons, by offering them a hopeful and inclusive Tory vision, such errors might have mattered less. Boris Johnson, the entertaining mayor of London, was twice chosen by a substantially non-white electorate. But vision is no more Mr Cameron's strong suit than is strategy.

There is a pattern to this Tory self-harm. The party of Disraeli, Britain's only Jewish prime minister, was until pretty recently shunned by Jews. The party of Heath—who in 1972 welcomed the Indians Idi Amin expelled—has never had their love. The party of Thatcher is decried by feminists. But the failure of Mr Cameron's predecessors to take Britons of all hues with them, as they could have done, is no solace for him. The Tory-forever, white middle class they could count on for their majorities is no more. If the Tories are to win another, it must be multicoloured. To that end, Mr Cameron has started an overdue reorientation, but only just. ■

Kurdistan

Ever closer to independence

ERBIL AND MAKHMOUR

Iraq's Kurds are independent in all but name. They must play their cards cleverly if they are to break away completely

THEY are questions that no politician can avoid in what the international lexicon calls the Kurdish Region of Iraq. Is Kurdistan going to be independent? And, if so, when? Virtually all Iraq's 6m Kurds would give an emphatic yes to the first question. But most would wobble and waffle on the second. Nor do they know exactly where the borders of the new state would run.

Many nations have declared independence in the past century: after Africa was decolonised; as the Soviet Union splintered; and often after civil wars (witness the countries that once made up Yugoslavia). And the Kurds have several advantages: a well-defined identity and language (close to Persian); a lack of religious strife (most adhere non-fanatically to Sunni Islam).

For the birth of an independent Kurdistan, the omens have never been so propitious. "We have waited long enough," says Sirwan Barzani, a grandson of Mustafa Barzani (1903-79), the Kurds' legendary leader whose descendants are in the vanguard of today's fledgling state. "It has been a hundred years since we were divided between the four devils," he says, referring to the regional carve-up of Kurdish lands after the first world war between the rump of Ottoman Turkey, Iran, Syria (then run by France) and Mesopotamia (run by Britain, and soon to become Iraq). "We will be independent within two years."

Last June the jihadists of Islamic State (IS) raced across the Syrian desert and captured Mosul, Iraq's second city, barely an hour's drive from the Kurds' capital, Erbil. IS declared that it had effaced the colonial-era Sykes-Picot border between Iraq and Syria to create a new caliphate. But in seeking to break the states of the Arab world, IS may be helping the birth of a Kurdish one. The president of the Kurdish region, Masoud Barzani, a son of Mustafa, declared that independence was around the corner. For Iraq, he argued, had ceased to exist. "The time has come to decide our fate, and we should not wait for other people to decide it for us," he declared. Masrour Barzani, the president's most powerful son, who runs the security council and the pervasive intelligence service, is also thought keen to hasten towards independence.

"The situation after Mosul is completely different," agrees Nechirvan Barzani, the prime minister (and the president's nephew). "You can't go back to the same structure, the same system, because Iraq is now a failed state. There is no Iraqi nation. But independence won't be offered to us, we'll have to take it." If the Kurds are diplomatically skilful, it could be achieved, he reckons, "in five or six years, maybe."

Yet he is acutely conscious that a stable, independent Kurdistan can emerge only with the co-operation of its neighbours, especially Turkey, and with the agreement of the government of Iraq, such as it is. "The first country to talk to is Baghdad itself," he says. "We have to convince them."

His canny predecessor as the Kurds' prime minister, Barham Salih, is looking forward to a time when IS has been pushed back. Baghdad must be "the anchor" of a new structure that would give the Kurds independence, he says. "The minute Mosul is liberated we'll need to sit down and sort everything out." The disputed borders between Kurdistan and the rest of Iraq have been redrawn in the Kurds' favour since the Iraqi army fled before the jihadists, letting the Kurds fill the vacuum (see map on next page). Other leading Kurds vary over tactics and timing. But all think Kurdistan should, and can, become independent in the end.

The Kurds' immediate priority is to fend off IS. When nearby Mosul fell overnight on June 9th-10th, a frisson of horror rippled across Kurdistan. The jihadists, rolling southward towards Baghdad, were soon up against a border with Kurdistan that stretches for more than 1,000km (621 miles), coming almost within artillery range of Erbil. In August and September they took the Sinjar mountain area, home to 200,000-plus terrified members of the esoteric non-Muslim Yazidi sect, and made assaults along the border with the Kurds.

The Kurdish forces, known as the Peshmerga ("those ready to die"), fought indifferently. They had not been seriously tested in battle for two decades, their equipment is out of date, and they are anyway better suited to guerrilla warfare. "It was a shock," admits a former Kurdish minister. "Our morale was badly hurt." Only speedy action by the American-led coalition, which bombed IS forces relentlessly, kept the jihadists at bay.

Even so, IS is still a menace, recently surprising the Peshmerga with a series of attacks along the front line near Gwer (half an hour's drive from Erbil) and Makhmour. The Kurds, who secured the area ▸▸

thanks in large part to American and allied bombing, admit to at least 24 dead; the true figure may be far higher. More than 800 Peshmerga have been killed and 3,600 wounded since IS took Mosul—a heavy toll for a fledgling state.

The plain between Gwer and Makhmour is spookily desolate, save for the odd herd of goats and sheep. Arabs have been driven out of the villages they once inhabited. The town of Makhmour, retaken from IS by the Kurds, is devoid of life. Shops are shut, cars are few, walls are pockmarked with bullet holes. At the ubiquitous checkpoints surrounding the town, no one has bothered to paint over graffiti that still say, “Welcome to the Islamic State” and “Long Live al-Baghdadi”, IS’s “caliph”.

Holding the line

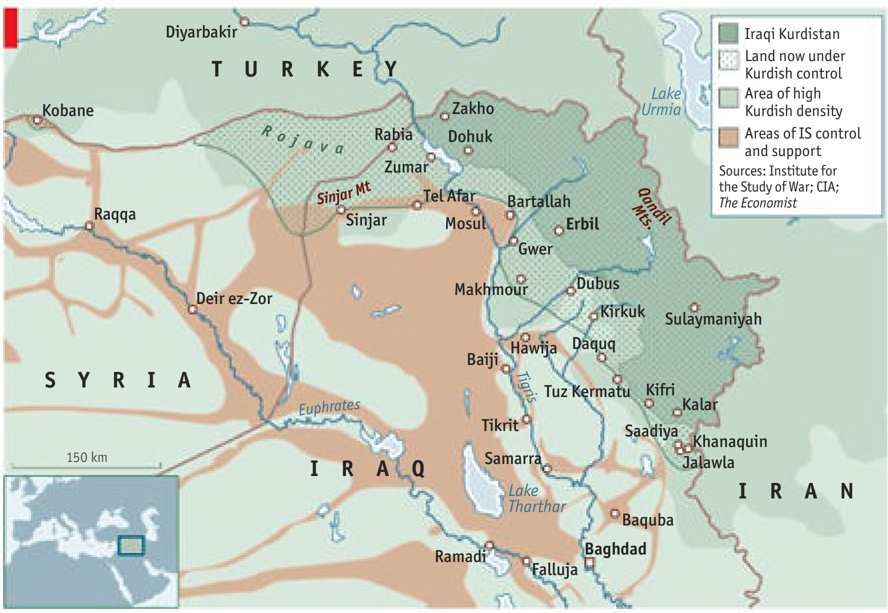
The Kurds have had notable successes. In the mountainous Sinjar area in the north-west, they have retaken the town of Zumar and the border town of Rabia, and have recaptured most of Sinjar city. IS may lose control of the road westward from Mosul to its Syrian headquarters at Raqqa, which is a lifeline for the jihadists. In the south-east, close to the border with Iran, the Peshmerga have consolidated around Jalawla and Saadiya, which they recaptured from IS in the autumn. And they have tightened their grip on Kirkuk city and the northern half of Kirkuk province (Tamim to the Arabs), which they seized in the summer after the Iraqi security forces fled.

But few independent observers think Mosul will be recaptured soon. Unless the Iraqi government of Haider al-Abadi, a Shia, can persuade Iraq’s alienated Sunni Arabs that they will be given a fairer deal, it will fail to motivate a retrained national army to retake the city. Despite reports that IS is losing popularity in the city as supplies and services begin to dry up and its brutality palls, the Sunni majority in the city is unlikely to welcome as liberators the Shia militias, still the basis of Mr Abadi’s armed forces, which they consider to be just as murderous as IS.

As for the Kurds, they say they will back up Iraqi forces seeking to retake Mosul but will not be the spearhead. Their aim is defensive: to secure their borders with the rest of Iraq, especially those they have expanded since the summer, but not to help Baghdad restore the status quo ante.

The Iraqi Kurds also want to bolster their cousins in what they call Rojava, a Kurdish-populated north-eastern salient of Syria. Rojava is under the sway of a party with links to the Turkey-based Kurdistan Workers’ Party (PKK), which has recently been patching up long-standing differences with Iraq-based Kurdish parties. And they are keen to help Kurds farther west in Kobane, on Syria’s northern border with Turkey, from which IS has recently been ejected. A rapprochement between Iraq’s Kurds and the PKK, together with the current ceasefire between the PKK and Turkey, has improved Kurdish fortunes elsewhere (see box on next page), though tension between the Kurdish rivals persists in parts of Rojava and in the Sinjar area.

The Kurds’ most pressing military needs, apart from Western air support against IS, are training and equipment, especially anti-tank weapons and artillery. France and Britain have sent advisers. Germany has provided some MILAN anti-tank guided missiles and has promised hundreds more. The Americans have promised 25 Humvee armoured vehicles. But, as a Western official puts it, “Our job is to prop up the Kurds but also to stop them from becoming independent,” while urging the Baghdad government to put Iraq together again. Arming the Kurds too well might egg them on, once IS is defeated, to attack Iraqi forces in a bid to secede for good.



Hence all new arms to the Kurds must go via Baghdad, since Western governments accept that Iraq’s government still has sovereignty over the Kurdish region. “It’s ridiculous,” says Nechirvan Barzani. But even a modest roundabout supply is a lot better than nothing.

In another respect, however, the Kurds should get their own way—over oil, which could enable economic independence. For ten years the regional government in Erbil has argued bitterly with the authorities in Baghdad over how to share the revenue from oil and what laws should apply to old wells and new ones. A year ago the Baghdad authorities stopped sending Erbil its 17% share of the national budget, a portion roughly commensurate with the Kurds’ share of the total population, which had been agreed to long ago.

But in December, thanks in part to Baghdad’s dire need for Erbil’s military help against IS, a deal was struck that lets the Kurds export oil from their own territory through a new pipeline connecting to an old one to Turkey, as long as they send the revenue from 250,000 barrels a day back to Baghdad. The Kurds hope to be producing 800,000 barrels a day by the end of this year, and 1m by 2017. They should profit handsomely—though they complain that the government in Baghdad has been slow to honour the deal, as falling oil prices play havoc with its budget.

Put that in your pipeline

The Baghdad government seems also to have accepted that the Kurds can sell their oil on the open market via the Turkish terminal at Ceyhan, on the Mediterranean. For years its oil ministry had refused to let them do so. At first Baghdad tried to sue oil traders who sold Kurdish oil this way, but at least 40 tankers have now taken on the stuff at Ceyhan and have sold it on, a lot of it via the Israeli port of Ashqelon. (The Israelis have long regarded an independent Kurdistan as a useful potential ally.) Moreover, since the Peshmerga expanded the Kurds’ zone of control deeper into Kirkuk province to the south after the Iraqi army fled from IS, they are now upgrading a pipeline to pump Kirkuk’s abundant oil northward to join the flow to Turkey.

But Iraqi Kurdistan’s economy is still a rentier one, based almost solely on oil. It sorely needs to diversify. Banking, commercial law and basic services such as the post are all rudimentary. Corruption is rife. The two families that dominate the two main political parties, the Barzanis and the Talabanis, dominate business, too. Sirwan Barzani owns Korek, the main cell phone company. The prime minister owns Rudaw, the main television channel.

Nonetheless, the Kurdish economy is incomparably livelier than that of the area controlled by Baghdad, let alone Mosul.

The Kurds welcome foreigners. Above all, it is far safer than the rest of Iraq—though a suicide-bomber blew himself up, killing five other people, opposite the Erbil governor's office in November, and there are worries that several hundred Kurds have gone to Mosul and may return as jihadists.

Moreover, despite corruption, nepotism and feudal habits, Iraqi Kurdistan enjoys a level of democracy that should be envied in most of the Arab world. The two main parties—the Barzanis' Democratic Party and the Talabanis' Patriotic Union—currently rule in coalition, but remain rivals for power and influence. A third party, Gorran, meaning "Change", which recently emerged from the Talabanis' party, promises to increase choice, though it has now joined the ruling coalition, somewhat blunting its purpose. Two Islamist parties have been brought into government too, further emasculating the opposition.

In 2005 Kurds were asked in a referendum to opine on two statements: "I want Kurdistan to stay as part of Iraq," and "I want Kurdistan to be independent." Nearly 99% voted for the second. It is hard to believe the verdict would differ today.

Will the neighbours be nice?

If the landlocked Iraqi Kurds are to win statehood by peaceful means, plainly they must reach an accommodation with their neighbours. Their biggest new hope on this score is the transformation of their once-scratchy relations with Turkey. Nechirvan Barzani, the prime minister, emphasises friendship with Turkey and Masoud Barzani, the president, gets on well with Recep Tayyip Erdogan, Turkey's president. Annual bilateral trade now exceeds $8 billion and 100,000 Turks are reckoned to be working in Iraqi Kurdistan. They built the snazzy new airport in Erbil, where Americans and Europeans, among others, can enter without a visa. Turkey is easily the region's leading investor. "It's amazing," says Mr Salih. "Who would have thought it five years ago?"

But of course things could still go wrong. Mr Salih also notes that Turkey has "golden handcuffs" over Kurdish oil exports. "We must not exchange one dependency for another," he says. "We need *three* pipelines." The Kurds must square the governments in Iran and Baghdad as well as in Turkey if they are to fulfil their dream. He and other Kurdish leaders still doubt whether Turkey would let them break entirely free. Hence some of them talk of confederation with Baghdad, perhaps as a way-station to independence.

Syria and Iran, the Iraqi Kurds' other neighbours, are less predictable. But their co-operation, though it would be useful, is less vital. Whatever kind of country emerges from the wreckage of Syria is unlikely to let the Kurds of Rojava, in the north-east, break off or join up with Iraqi Kurdistan. But they are not bidding for that. They, too, want autonomy. When peace eventually returns to Syria, Rojava could perhaps be part of a Syrian federation.

As for Iran under its ayatollahs, it has perfectly good relations with Iraq's Kurds, warmed by discreet diplomacy and brisk cross-border trade. At the same time the ayatollahs still suppress the PKK's currently quiescent sister-movement, known by its Kurdish initials, PJAK, which has a haven in the mountain borderland of north-eastern Iraq. Like its Syrian counterpart, PJAK tends to echo whatever the PKK says, so it too now demands only autonomy.

Iraqi Kurdistan exists, in whatever form, in dangerous and shifting surroundings. But that has been the case since 1991, when it first got extreme autonomy, thanks to the no-fly zone imposed by America and its allies. Since then, it has steadily entrenched itself as the rest of Iraq has fallen apart, especially after IS grabbed a chunk of it. Never before has Turkey been so friendly to Iraq's Kurds. Never before has the government in Baghdad needed the co-operation of the Kurds in Erbil so badly. Now, surely, is the Kurdish moment. ■

Turkey's Kurdish rebels

A dramatic change

QANDIL MOUNTAINS

The role of Turkey's main Kurdish guerrilla party is shifting remarkably

"THE new PKK is quite different from the old PKK," says Cemal Bayik, a co-founder of the Kurdistan Workers' Party who heads the movement at its guerrilla headquarters in the rugged, snow-covered Qandil mountains where the borders of Iraq, Iran and Turkey converge. He dismisses its doctrinaire Marxist-Leninist past, and now says, "We reject class dictatorship and we reject dictatorship of the party." Much more meaningfully, according to Mr Bayik the PKK now strenuously denies it wants a separate state in south-eastern Turkey, where Kurds predominate.

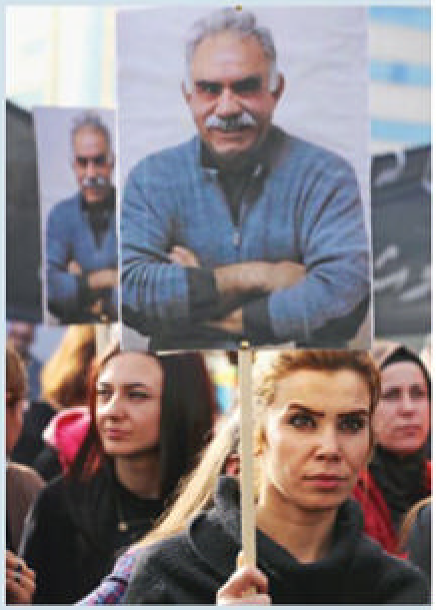
"All we want is to live freely with our own identity, culture and values in democratic conditions," he says. "Self-determination should not be interpreted as meaning an independent state." Nor does he seek a Greater Kurdistan, uniting Kurds in the four countries where most of them live. If Kurds in Iraq want a state of their own, that, he says, is their business.

Mr Bayik argues instead for a devolved system of "cantons" and "democratic confederalism" within Turkey. This, he asserts, is also the view of Abdullah ("Apo") Ocalan, the PKK's supreme leader, who has been imprisoned by Turkey since 1999 but who still has the final say on everything. He cites confederal Switzerland and even the EU as possible models. In truth, the PKK's latest ideas are works in progress that can sound bizarre. Mr Ocalan's favourite thinker is an American, Murray Bookchin (1921-2006), variously described as an anarchist, a libertarian socialist and a dialectical naturalist.

Sitting shoeless and in baggy Kurdish trousers in a hut under a portrait of Mr Ocalan, Mr Bayik notes that a ceasefire with Turkey has prevailed for nearly two years. He fears, though, that fighting could resume if the government of Recep Tayyip Erdogan fails to meet the PKK's conditions for further talks. These include a third-party "supervisory body" to mediate between the two sides. The Americans or various Europeans could arbitrate, he says. "It doesn't matter who."

The jihadist onslaught on Iraq has further shifted the PKK. Previously it had lousy relations with the Iraqi Kurds, especially with the conservative Barzanis. But Islamic State, he says, has unified the Kurds. For the first time the PKK has been welcomed by the Iraqi Kurdish authorities to fight alongside the Peshmerga in Iraq—and vice versa in north-eastern Syria and Kobane. The PKK has been widely acclaimed for fighting better.

These are dramatic developments. If the PKK can come to terms with both Turkey and Iraqi Kurds, its long and bloody struggle may at last end.



Ocalan turns Swiss

Also in this section

For daily coverage of business, visit
Economist.com/business-finance

Cars and technology

Upsetting the Apple car

The established carmakers, not tech firms, will win the race to build the vehicles of the future

APPLE'S ability to make desirable iGadgets designed for easy portability is beyond question. Reports emerged this week that it is planning to make a mobile device that will instead carry its users—an electric car. Apple's plans are unclear and unconfirmed. By some accounts it has put a few hundred people to work developing cars to match Tesla, another Silicon Valley firm that makes fast and luxurious battery-powered saloons. Others reckon that it is working on a self-driving car.

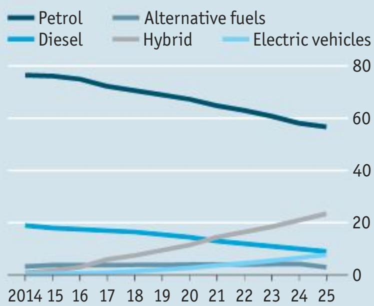
Plenty of other tech firms are turning their attention to cars. In February Uber, a firm that provides taxis through a smartphone app, said it would set up a laboratory in Pittsburgh to develop self-driving taxis. Sony recently put money into ZMP, a self-driving car startup; Google has been working for years on driverless cars. Silicon Valley is eyeing up the auto industry for two reasons. One is that technology—in the form of electric cars, driver-assistance systems and fully autonomous cars—is already altering the industry. Another is that carmakers themselves look vulnerable, thanks to chronic overcapacity, hefty legacy costs and a spate of damaging recalls.

But whatever the future of the car looks like, it will be tough to overturn the incumbents in a business where clever technology is only part of the equation. Despite a reputation, once richly deserved, for sloth in adopting new technologies, most big carmakers are pouring resources both into battery power and other alternative forms of propulsion, and into automated driving. Ford and Nissan have both opened research labs in Silicon Valley. Tech firms may get all the attention, says Haroon Hassan of Mitsubishi UFJ, a bank, but carmakers are formidable innovators and understand their business well.

Take electric cars first. The likes of Apple may not know much about pistons and gearboxes, but the big challenge for electric cars is batteries. Battery-powered cars have many advantages: refuelling at home, cheap running costs and no tailpipe emissions. But the market for pure electric vehicles is tiny (see chart 1). Expensive batteries make for costly cars, and limited range and a lack of recharging infrastructure have put off most drivers. Nissan's Leaf, the world's best-selling electric car, attracted only 40,000 buyers last year compared with the 250,000 the company once hoped to shift. Tesla aspires to enter the mass market but so far it has dealt with the battery problem by putting lots of them in a big, expensive car, thereby limiting it to a luxury niche. The plunging oil price dents the prospects for electrification still further.

Only fuels and horsepower 1

Global car sales by fuel type, % of total, forecast



Source: Exane BNP Paribas

Still, at the moment purchasing such a vehicle is so pricey that saving money is less the point than drawing attention to its owner's green credentials. And in the future what will matter most to make the vehicles competitive is not the oil price but falling battery costs, since recharging is so cheap compared with filling up with petrol. This is the holy grail: improving the efficiency and lowering the cost of batteries to such an extent that the economics of the electric car are transformed.

The hope of would-be entrants to the industry may well be that the big carmakers have invested so heavily in internal-combustion engines that they will be loth to switch to electric power. That is over-optimistic. Even if a breakthrough in battery chemistry makes electricity competitive with petrol, big carmakers may yet be able to change course fast. Most of them are already making headway with pure electrics. The Chevrolet Bolt, for example, unveiled as a concept car in January, is expected to arrive in 2017 with a price tag of $30,000 and a range of 200 miles.

If Apple's ultimate goal were to build a self-driving vehicle, building an electric car first would not give it any particular advantage. Autonomous vehicles could just as well be powered by petrol as batteries. But at least developing and testing the highly ▸▸

complex software needed to control a driverless car is closer to what it and other tech firms already do for a living.

Again, however, it would need first to catch up with the established carmakers, which are also busy hiring software talent (see Schumpeter) and which have been introducing ever more sophisticated "assisted driving" features in their models, such as the ability to park themselves, and to navigate stop-go traffic unaided. The carmakers are also investing heavily in another essential step towards the fully autonomous car: connectivity features that will allow cars' on-board computers to "speak" to each other and to roadside infrastructure, so as to monitor traffic conditions.

Apple would also need to catch up with Google. The autonomous cars it has been testing have safely covered many miles on a variety of public roads, though the company still seems some way off unveiling a model that is as capable of negotiating the snow and ice of a Michigan winter as it is navigating California's sunny streets. Having once talked about having its vehicles on the road by 2017, it no longer mentions a launch date.

The head of Google's autonomous-car project, Chris Urmson, nevertheless argues that the conventional carmakers' incremental approach will slow them down, and that a leap straight into fully self-driving vehicles will pay off quicker. However, even if he is proved right in terms of developing the technology, there are two other big barriers to overcome: regulatory approval, and drivers' nervousness at ceding control entirely to a computer.

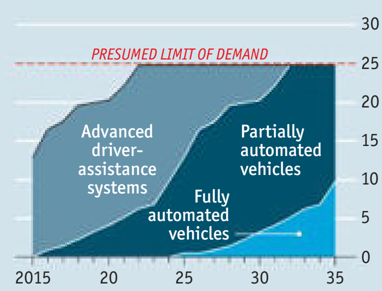
Carmakers have had to become adept at handling mountains of regulations and fending off liability lawsuits. These will be huge issues when any self-driving car is involved in an accident—which they will be, even if less frequently than ones driven by humans. Slowly feeding in autonomy may be a better way of convincing road users and legislators of the technology's benefits. In a pessimistic forecast, the Boston Consulting Group reckons demand for cars with even limited self-driving features will never exceed 25% of sales, and fully autonomous ones will account for just 10% of sales by 2035 (see chart 2).

Perhaps technology firms can accelerate the future of the car. But whatever happens, this is a difficult business to break into. Google would like the carmakers it hopes eventually to supplant to help seal their doom by building its vehicles under contract. Unsurprisingly, none seems too keen on this. Apple's cash pile of $178 billion is more than enough to set up a carmaking division and tool up its factories. But the technology firms have no manufacturing culture, and the skills needed to market, distribute and provide after-sales service for cars is unlike anything they are used to.

In all, the tech firms may be better off working with carmakers, to develop the software that will provide the brains of the self-driving car, and to improve the range and battery costs of the electric car. In the motor industry, supplying the key parts is generally more profitable than putting the cars together, even if you do not get your company's badge on the bonnet. In the future cars will be different but the brands will probably be much the same. ■

Here come the robots, slowly 2

Global car sales as % of total, forecast



Source: Boston Consulting Group *to come

Commercial drones

The tethers loosen

America's new rules for drones will keep some businesses grounded

LIKE driverless cars, pilotless aircraft also promise to be a huge business if regulatory obstacles can be overcome. This week, after years of delay, America's Federal Aviation Administration (FAA) came out with its draft rules for commercial drones. Although not as draconian as some had feared, unmanned aircraft will continue to have their wings clipped.

There had been worries that the FAA would require drones to undergo an expensive and lengthy process to be certified as airworthy, as happens with manned aircraft; and that the person on the ground operating the drone would need a pilot's licence. Instead, the agency is proposing that drones weighing less than 25kg (55lbs), that are well-maintained and checked before flight, can be flown without certification by operators who have passed a basic aeronautical test. The drones, however, would have to stay below 150 metres (500 feet), fly only in daylight and remain in view of their operators at all time. And they could not be flown over people.

This is a "good first step", said the Association for Unmanned Vehicle Systems, a lobby group. It would allow, say, an estate agent to take aerial photographs of a house being put up for sale, or a farmer to survey a crop for signs of disease—and do so for a lot less than hiring a helicopter. But not being allowed to fly over crowds might prevent television companies from filming sporting events with drones.

The need to keep a drone in sight also makes it hard to do long-distance flights, such as to inspect pipelines in remote areas. Amazon said this requirement would also prevent it starting the drone-delivery service it is working on. The e-commerce firm has already moved some of its work on drones to parts of Europe where regulations are looser.

Game of drones

The FAA's boss, Michael Huerta, says the rules will "evolve" as drones, and the businesses around them, develop. As collision-avoidance technology improves and operators gain more experience, it is possible to imagine the agency eventually permitting longer-range, out-of-sight flights. But first its current proposals must undergo a lengthy period of public comment before being finalised, which could take until 2017.

In the mean time, drone operations in other countries are getting airborne. DHL, a logistics firm, has begun delivering medicine and other urgent supplies to Juist, a small island 12km off the German coast. It is the first drone-delivery service operating beyond line-of-sight in Europe.

Such developments will continue to frustrate American drone operators who are keen to take off. Some operate without permission, reckoning the FAA lacks the resources to catch them. With some small drones now costing less than a few hundred dollars the technology is moving faster than regulators. Partly for that reason the FAA is already considering a looser set of rules for drones that weigh less than a couple of kilograms.

Cyber-security

The Kaspersky equation

A Russian antivirus firm impresses the sceptics, again

THERE is more than one reason to harbour doubts about Eugene Kaspersky and the computer-security company that bears his name. He graduated from an institute close to the KGB and later worked for the Red Army. He has called Edward Snowden, the whistle-blower, a "traitor" for having broken his contract with his former employer, America's National Security Agency (NSA). And, like many an executive in his industry, his regular warnings about big, emerging cyber-threats just happen to be good for drumming up business.

However, Kaspersky Lab has repeatedly impressed sceptics by exposing genuine and serious cyber-security problems. In 2010, for instance, it helped uncover Stuxnet, a computer worm designed to sabotage the Iranian nuclear programme.

On February 16th Kaspersky appeared to repeat this feat, not once, but twice. First it released a report detailing how a gang it calls Carbanak had hacked the computer systems of banks around the world. It said the gang had stolen several hundred million dollars by moving money to fake accounts and making cash machines dispense their contents. The same day the firm said it had discovered the "Equation Group", apparently part of the NSA, which it said was able to embed spyware in computers that gives it total control over them, even after the hard disk has been erased and the operating system reinstalled.

Such revelations, as well as Mr Kaspersky's relentless salesmanship and his company's popular antivirus software, have turned it into one of the rare Russian firms that is successful abroad—and perhaps the country's best-known brand after vodka and AK-47s. Founded in 1997 in Moscow, the company now has offices in 30 countries, 3,000 employees and 400m users, and had $667m in sales in 2013. Consumers generate about 60% of revenues, the rest comes from corporate customers. Kaspersky Lab says it stumbled across the Carbanak gang when it was asked by a bank to investigate why its cash machines had taken on a life of their own.

For all the firm's expertise and commercial success, questions linger over whether the Kremlin would be able to resist exerting some control over a Russian firm in such a sensitive line of business. The company insists its home government is just another customer and that it co-operates with it no differently from the way it does with other governments. The financial information it releases is limited. It had plans to go public shortly before the global financial crisis, but now it intends to stay private (Mr Kaspersky is majority shareholder). Being private allows it to be more flexible and pursue "visionary projects", he says.

Casting Kaspersions

Some computer-security firms cry wolf to attract attention; Kaspersky's wolves have often proved to be real. Indeed, there is a thread between its two latest revelations, says Bruce Schneier, a cyber-security analyst. "Today's top-secret programmes," he writes, "become tomorrow's PhD theses and next day's hacker tools." In other words, what the NSA does now, criminals will eventually copy. ■

Saudi Aramco

An overburdened champion

DAMMAM

The biggest national oil firm is weighed down with nation-building tasks

THE contrast between the compound of Saudi Aramco, Saudi Arabia's national oil company, and the kingdom beyond its walls is stark. The box-style houses with neatly manicured lawns make it look more like American suburbia than the surrounding city of Dammam, with its apartment blocks. Cars queue patiently at red lights, rather than running through them as they do elsewhere. Women jog in leggings, rather than going around in black cloaks. English, not Arabic, is the language of choice.

The differences go deeper still. Aramco is a rare example of competence in the country's often mediocre and royal-infused bureaucracy. Its relative efficiency, and the fact that most of the country's oil is cheap to extract, mean that until the recent fall in oil prices engineered by Saudi Arabia, Aramco was believed to be making profits of more than $180 billion a year, far outstripping the $33 billion of Exxon Mobil, the largest listed oil firm.

With official blessing, the company has been spending heavily on getting into all sorts of businesses far removed from drilling for crude. Besides huge investments in petrochemicals—an obvious diversification for an oil producer—it has gone big on solar energy; and it is planning to build a shipyard, with a South Korean company.

In many of these sidelines it is acting as a vehicle of government policy, helping to diversify the economy and improve the skills of the national workforce. It is developing a new industrial city in Jizan in the country's south-west, to boost non-oil exports. It runs KAUST, the kingdom's first mixed-gender university. It was called on to take over from Jeddah's local council in protecting the Red Sea city from floods. It is charged with building a cultural centre in Dammam, along with 11 sports stadiums. It runs an energy think-tank in Riyadh and a technology cluster in Dhahran.

Aramco is not the only national oil company to get dragged into doing the state's economic-development work, but no other has quite such a smorgasbord of tasks. Partly that is thanks to Khalid al-Falih, Aramco's chief since 2009, who is ambitious and, while the world price of oil was high, had plenty of spare cash. But long before Mr Falih arrived the company operated under the assumption that its job was to do far more than be the country's principal source of tax revenues. "There is a genuine nationalism in Aramco," says Steffen Hertog, a researcher at the London School of Economics. Even when the firm was American-owned, before the Saudis completed a buy-out in 1980, it felt obliged to do its utmost to please the ruling sheikhs, through such things as building roads and houses in the poor eastern province in which it is based.

Although the government provides the cash for some of Aramco's nation-building projects, and the company outsources some of these to contractors, the workload of overseeing them all must surely be distracting its senior management from their core business. Yet the company continues to have new duties heaped on it, as the government's ambitions exceed its own administrators' capacity to achieve them.

With crude recently trading at around half of the $100-plus a barrel it was fetching a year ago, and with oil contributing over 90% of government revenues and providing 85% of Saudi export earnings, economic diversification has become more of a priority. Yet although Aramco must still be making sizeable profits (it releases no figures and refused to comment for this ar- ▸▸

ticle), the weak oil price means it needs to devote more attention to its core operations. Mr Falih has said that some of its projects will have to be postponed. Reuters, a news agency, reported on February 1st that the firm's deepwater oil and gas exploration in the Red Sea had been called off. There were even reports this week that it is seeking a $10 billion loan.

Tighter budgets could be an excuse for Aramco to get out of some of its less fruitful sidelines, although some observers worry that it could instead cut back on projects that have the best prospects of profitability, such as solar energy. Or it could just end up being given more duties while trying to cope with lower oil prices. "People worry that no one knows what's going on in Aramco," says Mr Hertog. (The same could be said for much of the government.) The more prominent its role becomes, the more likely members of the royal family will want to get involved—rarely for the region, and for institutions in Saudi Arabia, no prince or princess sits on Aramco's board. Aramco and the ruling Al Saud family must make sure that the oil giant does not become a victim of its own success. ■

Dairy farming

Letting the cream rise

PARIS

The end of quotas frees efficient European dairy farms to expand

CHINESE mothers are feeding their infants more milk-based formula. Aspiring Russians have grown addicted to decadent foreign cheeses. In most emerging markets the consumption of dairy products is growing. So it looks like the perfect time for one of the world's biggest dairy-farming regions to throw off its shackles. Next month the European Union is due to abolish its national quotas on milk production, allowing those big dairy producers being held back by their limits—including Germany, the Netherlands, Poland, Denmark and Ireland—to expand output and seek new export markets.

The quotas were a bad idea introduced in 1984 to try to fix the ill-effects of another curdled policy. The EU's price-intervention scheme, by which it bought farmers' output whenever milk prices fell below a certain level, was leading to overproduction, and politically embarrassing "milk lakes" and "butter mountains". Over the past decade or so, intervention prices were reduced, and inflation was allowed to undermine them further; since 2009 national quotas have been raised by 1% a year. At the same time, the world price for milk has risen, bringing it closer to European levels (see chart). All this means that the scrapping of quotas should not cause too much short-term disruption.

Condensed

Farm-gate milk price, € per 100kg

*1984-86 estimates
†January

Sources: European Commission; IFCN

The most efficient farmers who can make money at current prices, especially in the northern "milk-belt", have been preparing to make the most of their freedom. Ireland has an official, if implausible, goal of increasing dairy output by 50%. Some say the Netherlands, Europe's biggest exporter, could raise production by up to 20%. Torsten Hemme of IFCN, a dairy-farming research outfit, thinks exports to non-EU countries will double by 2024, and Europe will overtake New Zealand as the biggest net dairy exporter.

Both New Zealand and America, the world's third-biggest exporter, have expansion plans of their own, of course. Demand can be unpredictable. Russia's ban on dairy imports last year, in retaliation for Western sanctions over the Ukraine conflict, hit its European suppliers hard. Prices can be volatile, too: they have plunged since early 2014. Many farmers say this unpredictability makes them cautious about expanding.

As efficient northern dairies grow, and competition from America and New Zealand increases too, will cows disappear from southern Europe's hillside pastures? That need not happen, says Vincent Chatellier of France's National Institute of Agricultural Research, if their dairies focus on premium-priced products. Klaas Johan Osinga of the Dutch farmers' association notes that although the EU's support mechanism is being dismantled, national governments are being given new powers to aid vulnerable farmers. Europe used to be a land of milk and money for dairy farms. As they face up to the rigours of the world market, restructuring is likely to gather pace.

Swiss takeover law

Avalanche in the Alps

PARIS

A controversial takeover attempt has exposed a gap in shareholders' rights

SIKA, one of Switzerland's most successful family-controlled firms, was founded 105 years ago by Kaspar Winkler, a cobbler's son who invented the compound used to waterproof the Gotthard railway tunnel under the Alps. Until recently his heirs owned just 16.1% of the capital in the building-materials company, through their investment vehicle, Schenker-Winkler Holding (SWH), but controlled 52.4% of the voting rights. Other shareholders' rights are less watertight than the firm's products. A French rival, St Gobain, struck a deal in December to pay the family handsomely for their stake, but offer nothing to the rest.

Switzerland has a rule, similar to those in other European countries, by which any investor who gains more than one-third of the voting rights in a company must offer to buy out the remaining shareholders, at the same price or better. (America has no explicit mandatory-bid rule but outside investors have much scope to sue if they feel short-changed.) However, unlike in other places, there is a loophole as wide as the Gotthard tunnel: a firm can opt out of this rule if shareholders vote to amend its articles of association. Such an opt-out had already been approved at Sika, just as it has been at 58 other quoted Swiss firms.

The other shareholders would of course like to be offered what the family got—an 80% premium over market value. But some institutional investors say they are less concerned about this than about the risk that Sika will end up being run for the benefit of St Gobain, rather than for shareholders as a whole. The French firm is set to gain control of an enterprise with annual sales of more than SFr5 billion ($5.4 billion) and net profits of SFr345m, in return for SFr2.8 billion given to the five family members. St Gobain insists that it will manage Sika at arm's length and fairly, but the 30% fall in the price of Sika's free-floating shares when the deal was revealed suggests that some investors have their doubts.

Sika's management and most of its board are opposed to the deal. So the firm's annual meeting, in April, promises to be lively. The Ethos Foundation, which advises and represents Swiss pension funds, will seek to abolish Sika's opt-out from the rule on equal treatment of shareholders.

Whether it gets its way, or whether SWH can use its special shares to frustrate it, may depend on another peculiarity of Swiss corporate law: companies are allowed to impose voting caps on shareholders, to discourage unwanted takeovers. Sika has a limit of 5%, which had hitherto been waived for the founding family. The board argues that the deal with St Gobain has created a new shareholder group, so the waiver no longer applies. If so, the French firm would have paid dearly to become just a minority shareholder.

The family maintains that it is SWH that has changed hands, not the shares themselves, so no change in status is justified. A judge in Sika's home canton of Zug is mulling over this question. The family has asked the federal Takeover Board for a ruling on whether the deal could trigger a mandatory bid for all shares.

Swiss lawmakers are currently working on a reform of corporate law. Until now there had been no plan to strengthen shareholders' rights in takeovers. But the Sika case "came as a thunderbolt", says Jean Christophe Schwaab, a Socialist legislator. Shareholder democracy is in vogue in Switzerland these days: in a referendum in 2013 voters chose to make investors' votes on executive pay binding, starting this year. So it is possible that opt-outs from equal shareholder rights will be abolished.

That would please Ethos's boss, Dominique Biedermann, who has been campaigning for this for ages. Other businessmen are more cautious, however, and they include Sika's chairman, Paul Hälg. "This is an extreme case where there is family abuse after 100 years of trust," he says. "I think we shouldn't jump to change the law. It could hurt families who act in the best interest of their companies." ■

Spanish businesses

Supersize me

MADRID

A lack of larger firms means fewer jobs, and a less resilient economy

In Spain, good things come in small packages

THE successful stockmarket flotation this month of Aena, a state-controlled airport operator, reinforced optimism that Spain's economy is finally on the road to recovery. But to enjoy sustained growth, and to become more resistant to shocks, the country needs to fix a problem it shares with Italy and Portugal: a lack of medium-to-large firms.

Spain has a select group of big businesses with international repute—Aena joins the likes of Inditex, a clothes retailer, and Santander, a bank. But the rest are mostly tiddlers. The average Spanish firm has just 4.7 employees, down from 5.1 in 2008. Only 0.8% of companies have more than 50 workers, compared with 3.1% of German firms (see chart).

A lobby group, the Círculo de Empresarios (Businessmen's Circle), is pressing Spanish politicians to do something about this. It argues that bigger firms tend to be more resilient in hard times than smaller ones. In Britain, for example, large companies—those with more than 250 workers—provide almost half of all private-sector jobs, compared with just a quarter in Spain. The group calculates that if Spain had the same mix of firms as Britain, it would have lost half a million fewer jobs since the global financial crisis.

Bigger companies have other pluses. They tend to be more productive, invest more in research and development, and export more. They also tend to pay their workers better, says Chiara Criscuolo, an economist at the OECD, an intergovernmental think-tank.

Politicians are starting to wake up, says Elena Pisonero of the Círculo de Empresarios, who also chairs the board of Hispasat, a satellite company. As well as passing various business-friendly reforms, the government is supporting Cre100do, a project in which business schools, consulting firms and big corporations have joined forces to offer information, advice and coaching to 100 medium-sized exporters.

That does not address the dearth of Spanish firms that make it into the medium-sized category (50-250 workers) in the first place. One reason is that those which do make this leap are punished. Spain has begun to reform its labour laws but businesses still have a lot of extra responsibilities heaped on them once they reach 50 employees. Midsized companies suffer the highest effective tax rates—small ones get concessions, big ones find loopholes. Tax audits become more rigorous once firms exceed €6m (about $7m) in annual revenues; research by Miguel Almunia of Warwick University in Britain found that Spanish companies bunch at just under that level.

Worldsensing, a Barcelona-based technology company that manages traffic and parking in places as diverse as Rio de Janeiro and Moscow, has 42 staff, and is preparing to tread boldly across the 50-employee threshold. But its boss, Ignasi Vilajosana, points out another deterrent to growth. Whereas access to capital for starting a business is relatively easy, "It's getting finance to scale up the business that's the hard part in Spain," he says.

However, Adrian Ortiz, the boss of Xtraice, a maker of synthetic ice rinks, thinks some of the blame also lies with companies' bosses, and their lack of ambition. "A lot of people think, why bother growing if I am doing just fine?" Mr Ortiz says he is an exception to that rule: his firm employs 30, and plans to hire a lot more. Others note that family-run firms are often reluctant to share ownership or bring in professional managers. There is much that Spain's government can do to make it more attractive for businesses to expand. But perhaps it needs more of its small entrepreneurs to think big. ■

Schumpeter | How to bag a geek

In the battle for software talent, other industries can learn from Silicon Valley

AT A recent dinner party in Silicon Valley, Schumpeter was chatting with an impressive entrepreneur who was grumbling about how hard it was to find a decent date. The tech types she meets turn out to be too geeky, even for a self-confessed nerd who runs her own computing startup. "The odds are very good," she explained, "but many of the goods are very odd."

For recruiters trying to hire software whizzes, the odds are poor. A recovering economy in America and an explosion of entrepreneurial activity are driving up demand for tech talent. According to the Bureau of Labour Statistics, the unemployment rate among software developers and engineers was just 2.5% in the fourth quarter of 2014, compared with a national joblessness rate of 5.7%. A global search engine for jobs, Indeed, tracks the ten hardest positions to fill; in the final three months of last year, seven of these were roles related to computer science.

It is all reminiscent of the late-1990s dotcom boom. Chunky signing-on bonuses and "precations"—paid vacations before taking up a new position—are being dangled in front of tech folk to tempt them to jump ship. Bidding battles are breaking out, with salaries and bonuses rising fast for experts in popular computer languages such as Python and Ruby on Rails. Some programmers are even being wooed for their celebrity potential by talent-management agencies that also represent musicians or sports stars. Look out for the rise of the geek entourage.

Although the competition for talent is particularly stiff in Silicon Valley, the phenomenon is a global one. In India, e-commerce giants such as Flipkart and Snapdeal are scrapping for software engineers to help them compete with Amazon there. One of China's largest internet firms, Baidu, is sponsoring matchmaking events for workers because surveys have shown that married employees are less likely to hop to a rival.

In a broad spread of industries, from carmaking to aerospace to domestic appliances, products have ever more lines of code embedded in them. These firms, too, are struggling to hire enough developers. Ford advertises as many jobs in software as many a midsized tech firm. As they seek to serve their customers via smartphone apps, all sorts of service businesses, from banking to retailing, need more people with software skills.

If the battle for programming talent is not just being fought among the titans of tech, that is where the front line lies. To a greater extent than makers of hardware, software-based firms are dependent on the hard-to-replicate talent that walks through their doors each morning. Hence the effort they put into recruitment and retention. Tangible rewards in the form of large salaries and attractive share options are part of it. But there is more to their human-resources strategies than generous compensation and perks such as on-site yoga classes and free gourmet meals.

Corny as it may sound, tech types really do want to feel they are somehow making "a dent in the universe", to borrow a phrase from the late Steve Jobs. Grandiose mission statements abound. Google wants to "organise the world's information and make it universally accessible and useful". Facebook's goal is to "give people the power to share and make the world more open and connected". To help foster a sense of boundless possibilities, the firms are also spending heavily on adventurous projects outside their core businesses. Google is working on everything from driverless vehicles to web-connected gadgets for the home. Facebook has bought a company whose drones can provide internet connections to remote swathes of the Earth. And Apple is said to be working on electric cars and virtual-reality headsets.

Like other creative types, the best software workers strongly believe that caring means sharing. All-hands meetings are not just for tiny startups; staff at even the largest tech firms expect their bosses to appear frequently in person or by video link, to be grilled about everything from corporate strategy to the quality of the office coffee. The prospect of such radical openness makes buttoned-up executives in other industries quake in their boots.

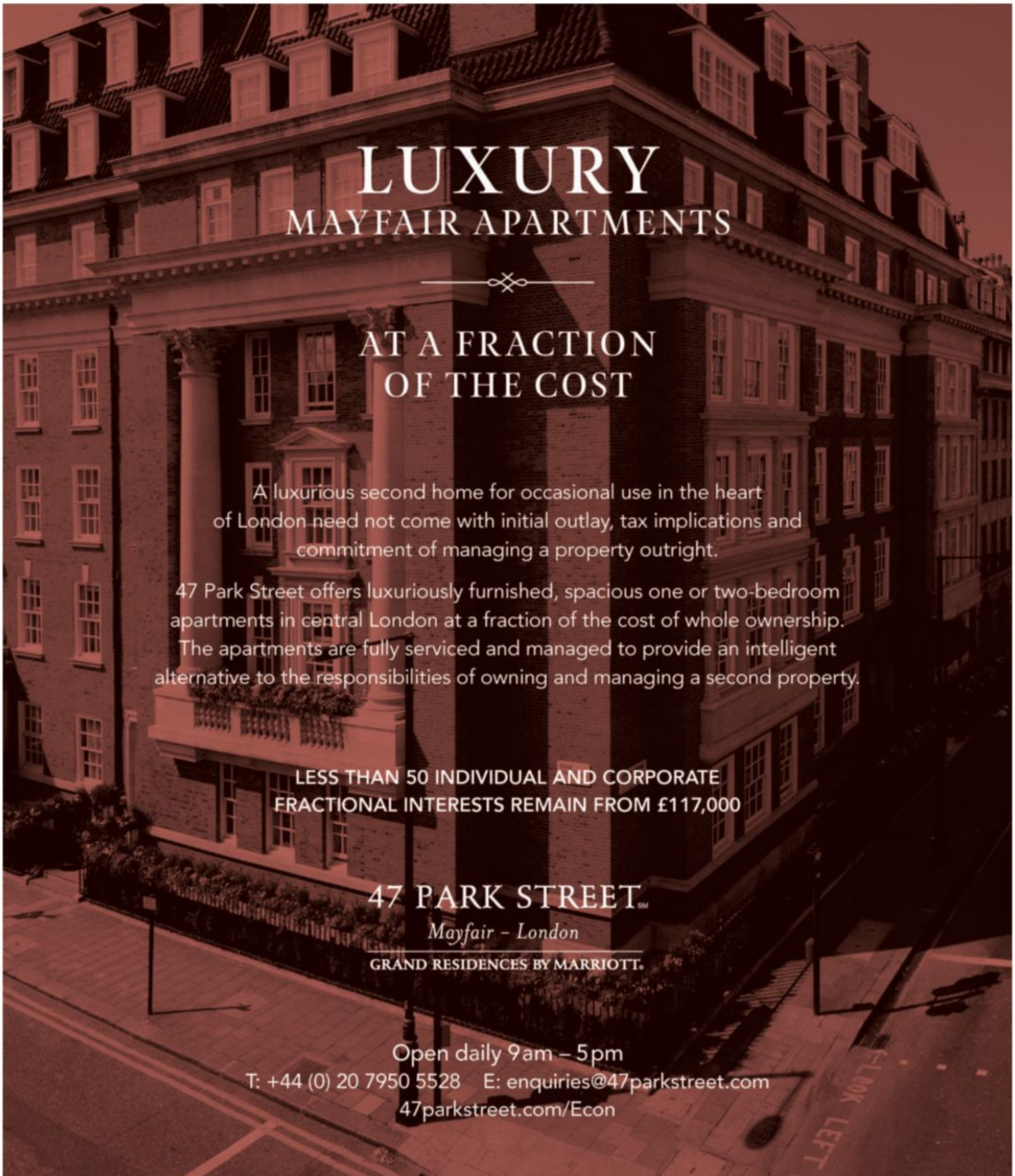
Some hotshot developers still prefer to work in a small firm rather than be just another cog in a giant tech machine. To get their hands on such talent, the big technology firms "acqui-hire" it: they spend lavishly on buying companies with little revenue, just for their staff, and then seek to retain them by offering plenty of autonomy. Last year, for example, Google paid $400m for DeepMind, an artificial-intelligence startup that has some of the best engineers in the field working for it.

The web giants are increasingly aware of the need to broaden the talent pool in which they are fishing. Some are making greater efforts to attract and retain female recruits, who are still woefully underrepresented in their ranks. Apple and Facebook have said they will cover the cost of freezing the eggs of female employees who want to delay having a baby while they pursue their careers. Facebook's chief operating officer, Sheryl Sandberg, has championed the causes of getting more women into executive suites and more female students on to computer-science courses.

Copy and paste

Other types of companies—even the banks—will struggle to match the Silicon Valley firms in the lavishness of their compensation and their willingness to pamper their software talent. But they can compete for it more effectively by copying some of their techniques. Insurers, for instance, could woo developers by touting their mission of making the world safer from cybercrime and other big risks. Banks and retailers could infuse their ranks with more tech talent via acqui-hires. Indeed, WalmartLabs, the Silicon Valley research arm of Walmart, which faces stiff competition from Amazon, has been busy buying small startups, some of which it has swiftly shut down while keeping the employees. The odds may be stacked against it and other non-tech firms, but the goods are worth fighting for. ■


261 CITY ROAD
ISLINGTON
LONDON
LEXICON
THE LANGUAGE OF LIVING
INVEST IN LONDON'S SKYLINE
SLEEK 1, 2 AND 3 BEDROOM CANALSIDE APARTMENTS FROM £695,000*
Delivered by SOM, the architects behind Dubai's Burj Khalifa, Lexicon's 36-storey residential tower blends bold, intelligent design with comfort and luxury both inside and out.
TRAVEL TIMES FROM LEXICON**
KING'S CROSS ST PANCRAS 2 MINS
BANK STATION 6 MINS
KNIGHTSBRIDGE 17 MINS
LONDON CITY AIRPORT 31 MINS
HEATHROW AIRPORT 37 MINS
BRUSSELS 2 HRS
PARIS 2 HRS 17 MINS
Call +44 (0) 20 7205 2658
Email SALES@LEXICONLONDON.CO.UK
Visit LEXICONLONDON.CO.UK
A JOINT VENTURE BETWEEN MOUNT ANVIL AND AFFINITY SUTTON FOR CITY ROAD LIMITED
Affinity Sutton
MOUNTANVIL
London homes, the Mount Anvil way
SELLING AGENT
savills
* Prices correct at time of print
** Tube times are calculated from Angel Station using www.tfl.co.uk. Airport and Eurostar times are calculated from Kings Cross St. Pancras
CGI of Lexicon tower and Canal Basin is indicative only.


LUXURY
MAYFAIR APARTMENTS
AT A FRACTION
OF THE COST
A luxurious second home for occasional use in the heart of London need not come with initial outlay, tax implications and commitment of managing a property outright.
47 Park Street offers luxuriously furnished, spacious one or two-bedroom apartments in central London at a fraction of the cost of whole ownership. The apartments are fully serviced and managed to provide an intelligent alternative to the responsibilities of owning and managing a second property.
LESS THAN 50 INDIVIDUAL AND CORPORATE FRACTIONAL INTERESTS REMAIN FROM £117,000
47 PARK STREET℠
Mayfair – London
GRAND RESIDENCES BY MARRIOTT.
Open daily 9am – 5pm
T: +44 (0) 20 7950 5528 E: enquiries@47parkstreet.com
47parkstreet.com/Econ

Also in this section

For daily analysis and debate on economics, visit
Economist.com/economics

Deflation

The high cost of falling prices

Low or negative inflation is spreading around the world. That is more of a worry than it sounds

FOR central banks in the rich world, two is a magic number. If prices rise at 2% a year, most shoppers can more or less ignore their slow ascent. And a touch of inflation is hugely helpful: it gives bosses a way to nudge unproductive workers—a pay freeze actually means a 2% cut—and an incentive to invest their earnings. Most importantly it keeps economies away from deflation and the depressing choices—hoarding cash, delaying purchases—that falling prices can bring. Yet despite the professed adherence to the 2% mantra, a period of falling prices is on the cards.

The whiff of deflation is everywhere (see chart 1). Even in America, Britain and Canada—all growing at more than 2%—inflation is well below target. Prices are cooling in the east, with Chinese inflation a meagre 0.8%. Japan's 2.4% rate is set to evaporate, as it slips back into deflation; Thailand is already there. But it is the euro zone that is most striking. Its inflationary past—price rises averaged 11% a year in Italy and 20% in Greece in the 1980s—is a distant memory. Today 15 of the area's 19 members are in deflation; the highest inflation rate, in Austria, is just 1%.

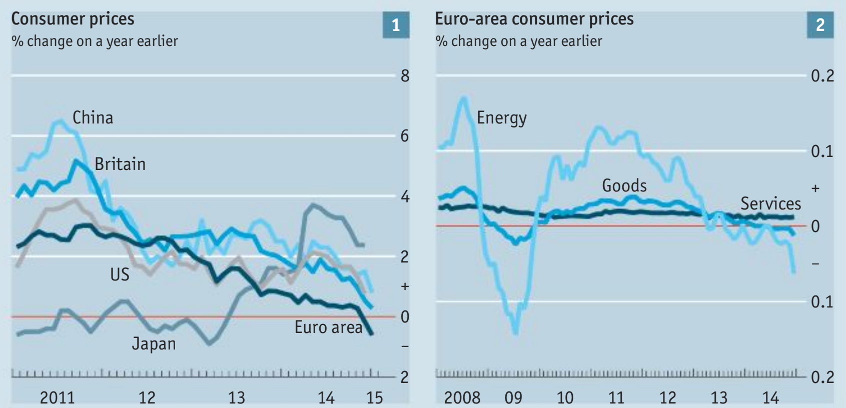
Oil explains a lot. A year ago a barrel of Brent crude cost $110; today it is $60 (see later story). This 45% price cut is trickling through economies. In Britain data released on February 17th showed that tumbling energy and transport prices had helped deliver an inflation rate of 0.3% in the year to January, one of the lowest on record. In America the price of gasoline has fallen by 35% over the past six months; the cost of diesel and heating oil is down, too.

This is not—in itself—a bad thing. Since winter energy use is a necessity, consumers are better off with cut-price fuel. Firms are cheering, too. As well as lower energy bills, the cost of inputs, from plastic bottles to detergent, are edging down. Some of the savings are being passed on: food, which is costly to transport and requires a lot of packaging, is cheapening. These are the hallmarks of a positive supply shock: cheap oil means economies can provide more goods at lower prices. In the services sector, which relies much less on energy, transport and oil-based inputs, prices are still rising (see chart 2).

For those selling durable goods, deflation may seem more worrying. The price of new cars is flat in Britain, slowly sliding in Portugal and tumbling in Greece, where a new motor is nearly 20% cheaper than in 2005. For many industries, however, falling prices are not new, but a way of life. In the euro zone the prices of phones, computers and cameras have been falling for a decade (in Spain telephone equipment is 90% cheaper than ten years ago), so deflation is unlikely to shock shoppers. Even in Japan, which has seen years of falling prices, there is little evidence purchases are being put off.

The boost to purchasing power from a short period of falling prices is welcome. In the rich world, pay rises have been rare despite huge improvements in employment. Since early 2010 more than 10m American workers have found jobs, as unemploy- ▶▶

The low road



Sources: Haver Analytics; Eurostat

ment, which peaked at over 15m, has fallen by 40%. Japan has seen a similarly big drop, from 3.6m to 2.3m. Britain has done even better, slashing the ranks of its jobless by 50% to just 800,000. Even the sickly euro zone has added some jobs. The puzzle is why rising employment has not led to inflation in the form of higher pay.

Unemployment rates in America, Britain and Japan—all of them at or below pre-crisis lows—would previously have triggered rising wages. But all three have seen growth in insecure forms of employment: part-time work has risen, as have the ranks of the "underemployed", who would like more hours if they could get them. As looser contracts have helped create flexible workforces, casual work—from drivers for Uber to day labourers in construction—has boomed. Jobs may be up, but workers' bargaining power is not.

The drawbacks of these newly flexible labour markets are beginning to prompt a political backlash. Barack Obama has urged Congress to raise America's minimum wage from $7.25 to $10.10. In Britain, both main parties plan to clarify when insecure "zero hours" contracts are abusive. Shinzo Abe, Japan's prime minister, recently announced that temporary workers should expect the same deals as their permanent colleagues. As these steps lift pay and firms' costs, inflation should follow.

But even if it is short-lived, this sort of deflation can dull an economy. With inflation at 2% a boss sitting on a cash pile has a clear choice: invest it in something that returns more or give it back to the shareholders as dividends. Either step—boosting investment or investors' incomes—is a good one. But when prices flatline, risk-averse bosses can justifiably sit on funds. With higher inflation, corporate cash piles—which reached $2 trillion in America and ¥229 trillion ($2.1 trillion) in Japan in ▸▸

Buttonwood | False hope

Most trading strategies are not tested rigorously enough

LET me tell you about the perfect investment offer. Each week you will receive a share recommendation from a fund manager, telling you whether the stock's price will rise or fall over the next week. After ten weeks, if all the recommendations are proved right, then you should be more than willing to hand over your money for investment. After all, there will be just a one-in-a-thousand chance that the result is down to luck.

Alas, this is a well-known scam. The promoter sends out 100,000 e-mails, picking a stock at random. Half the recipients are told that the stock will rise; half that it will fall. After the first week, the 50,000 who received the successful recommendation will get a second e-mail; those that received the wrong information will be dropped from the list. And so on for ten weeks. At the end of the period, just by the law of averages, there should be 98 punters convinced of the manager's genius and ready to entrust their savings.

As a paper* published last year in the *Journal of Portfolio Management* argued, this is a classic example of the misuse of statistics. Conduct enough tests on a bunch of data—run through half a million genetic sequences to find a link with a disease, for example—and there will be many sequences that appear meaningful. But most will be the result of chance.

This is a problem that has dogged scientists across many disciplines. There is a natural bias in favour of reporting statistically significant results—that a drug cures a disease, for example, or that a chemical causes cancer. Such results are more likely to be published in academic journals and to make the newspaper headlines. But when other scientists try to replicate the results, the link disappears because the initial result was a random outlier. The debunking studies, naturally, tend to be less well reported.

Faced with this problem, scientists have turned to tougher statistical tests. When searching for a subatomic particle called the Higgs Boson, they decided that to prove its existence, the results had to be five standard deviations from normal—a one-in-3.5-million chance.

Financial research is highly prone to statistical distortion. Academics have the choice of many thousands of stocks, bonds and currencies being traded across dozens of countries, complete with decades' worth of daily price data. They can back-test thousands of correlations to find a few that appear to offer profitable strategies.

The paper points out that most financial research applies a two-standard-deviation (or "two sigma" in the jargon) test to see if the results are statistically significant. This is not rigorous enough.

One way round this problem is to use "out-of-sample" testing. If you have 20 years of data, then split them in half. If a strategy works in the first half of the data, see if it also does so in the second out-of-sample period. If not, it is probably a fluke.

The problem with out-of-sample testing is that researchers know what happened in the past, and may have designed their strategies accordingly: consciously avoiding bank stocks in 2007 and 2008, for example. In addition, slicing up the data means fewer observations, making it more difficult to discover relationships that are truly statistically significant.

Campbell Harvey, one of the report's authors, says that the only true out-of-sample approach is to ignore the past and see whether the strategy works in future. But few investors or fund managers have the required patience. They want a winning strategy now, not in five years' time.

The authors' conclusions are stark. "Most of the empirical research in finance, whether published in academic journals or put into production as an active trading strategy by an investment manager, is likely false. This implies that half the financial products (promising outperformance) that companies are selling to clients are false."

For the academics, the lesson is simple. Much more rigorous analysis will be needed in future to reduce the number of "false positives" in the data. As for clients of the investment industry, they need to be much more sceptical about the brilliant trading strategies that fund managers try to sell them.

All this will leave many readers wondering how to invest their savings. That's fine. Buttonwood has an investment strategy that is sure to boost your wealth. Just send your e-mail address and a stock tip will arrive every month...

* "Evaluating Trading Strategies" by Campbell Harvey of Duke University and Yan Liu of Texas A&M University, *Journal of Portfolio Management*, 40th anniversary issue http://www.iijournals.com/doi/abs/10.3905/jpm.2014.40.5.108

Economist.com/blogs/buttonwood

2014—would be more quickly put to use.

The euro zone is a different story. Apart from Germany, its members have done little to make labour markets efficient; most have masses of spare capacity. In late 2009 the unemployment rate was just under 10%, the same as America's. But since then joblessness has risen in the euro area and is now 11%. In Greece, it is close to 25%. It will take years to overcome this: even if Spain, lauded for its 2% growth rate, carries on at its current pace it will take eight years for unemployment to reach its pre-crisis rate. Those seeking higher pay have scant hope. That makes the risk of long-lasting deflation more of a worry than elsewhere.

If falling prices endure, then debts, fixed in nominal terms, are harder to pay. A recent study by McKinsey, a consultancy, tracked total debt—government, household and corporate—between 2007 and 2014. Euro-zone economies lead the charge, with debt up by 55 percentage points of GDP or more in five troubled "peripheral" states and three "core" ones. If incomes consistently fall those debts may become impossible to pay.

Central banks are at last leaping into action. The European Central Bank (ECB) has been late to the game on quantitative easing (QE) but will begin creating money to buy government debt in March. The Bank of Japan is committed to as much QE as it takes to get inflation back to 2%. A new and radical policy—negative interest rates—is becoming fashionable, with Nordic central banks following the ECB in adopting it (see Free exchange). If these attempts fail, then the glee at cheap food and fuel will be short-lived, as debt-ridden economies find themselves using up all the savings from falling prices to keep creditors at bay. ■

The oil price

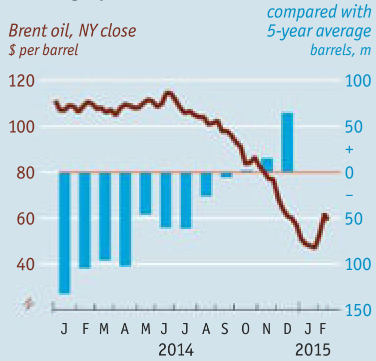
The Saudi project, part two

The oil price has been rising again—but will it last?

STAGE one of Saudi Arabia's plan—or perhaps hope—to restructure the oil market is taking longer than expected. By refusing to rein in production while prices fell, the Saudis permitted a big surplus to grow and served notice on higher-cost rivals (Russia, Venezuela, American shale-oil producers) that they would not prop up other people's profit margins at the expense of their own market share.

That signal has been weakened by the growing amount of oil in storage, which is absorbing most of the glut. World oil stocks rose by about 265m barrels last year and Société Générale, a French bank, reckons

Storing up trouble



Sources: IEA; Thomson Reuters

they will increase by a further 1.6m-1.8m barrels a day (b/d) in the first six months of this year, adding roughly 300m barrels to the total. Oil is being stored in the hope that demand and prices will pick up later. Such restocking, plus renewed political worries (flows from Libya's largest oilfield were disrupted again this week by apparent sabotage), have pushed the price of oil back up. After having fallen by more than 60% since June, the price of a barrel of Brent crude closed at $59.96 on February 18th.

The restocking cannot continue for long. Storage facilities in Europe and Asia are already 80-85% full. Much more and they will overflow. As it is, companies are renting tankers to keep oil in. If storage space runs out, prices could tumble again.

Whether that happens depends on how quickly phase two of the Saudi plan gets under way. This is to force high-cost producers out to increase the influence of Gulf countries. At the moment, this is happening only slowly. Oil types have recently become obsessed with the so-called "rig count"—the number of drilling rigs operating in America and elsewhere. Analysts think that as the rig count declines, shale-oil output will fall, hurting profits and investment. That seems dubious.

Figures from Baker Hughes, an oil-services company, showed that the rig count in America in mid-February fell to its lowest since 2011, and was 35% below its peak in October 2014. That is a big fall. But most of the idled rigs are in marginal areas; the fall has been only 9% in the main shale-oil basins, in North Dakota and Texas, which accounted for four-fifths of the increase in American oil output in the past two years. Moreover, productivity is rising in the remaining wells. Citibank reckons that even a 50% fall in the rig count would allow output to rise this year and turn the average shale firm's cashflow positive, encouraging investment.

More broadly, says Antoine Halff of the International Energy Agency, an inter-governmental body, "The market sentiment may have changed but the fundamentals have not." The Organisation of the Petroleum Exporting Countries (OPEC) says its members' output will rise by 400,000 b/d this year; others think the increase will be greater. Non-OPEC supplies are likely to rise by twice that. Thanks partly to cheaper oil, world demand is rising, but not by much. The IEA reckons demand will be flat in the first half of 2015, before rising by 2m b/d in the second. By most estimates, the market will be oversupplied for a while.

In the long run, there are signs that oilmen believe the decline in prices will be lasting, which should prompt a broader restructuring of the industry. Large oil firms have announced cuts in capital spending of over 20% for this year. BP, for example, will spend $20 billion in capital projects in 2015, compared with $23 billion in 2014. As it is, new discoveries are also falling precipitously. According to IHS, a research firm, new finds of oil and gas amounted to the equivalent of 16 billion barrels last year, the lowest for 60 years. That will cheer the Saudi strategists. ■

China's exchange-rate policy

Currency peace

SHANGHAI

Devaluing the yuan would do China more harm than good

CHINESE officials tired of defending their exchange-rate policy can at least appreciate the irony in the latest charges levelled against them. For years foreigners accused them of keeping the yuan artificially weak to boost exports. Now, domestic critics say, they are doing just the opposite: keeping the currency artificially strong and, in the process, wounding the economy. Some predict China will soon change course and engineer a devaluation. But just as the Chinese authorities did not resort to a big one-off appreciation when the yuan seemed too weak, they are unlikely to embark on a dramatic devaluation now that it is looking strong.

The yuan has been one of the world's top-performing currencies this year. The reason is simple. Although China claims to be trying to manage the yuan's value against a basket of currencies, in practice it is still loosely pegged to the dollar. As the dollar has risen against most currencies over the past seven months, the yuan has hitched a ride. The dollar is up by 18% since July against the world's seven most traded currencies, but by only 0.6% against the yuan (see chart on next page). As a result, the Chinese currency is at an all-time high in trade-weighted terms.

Those forecasting devaluation believe the state of the economy does not justify such strength. More than $90 billion (nearly 3% of quarterly GDP) flowed out of China via its capital account in the fourth quarter, a record deficit. The central bank sold a small slice of its nearly $4 trillion foreign-exchange reserves at the same time, implying that it intervened to prop up the yuan.

Devaluation would, all else being equal, let Chinese exporters regain some lost competitiveness. By raising the cost of imports, it would also help China stave off deflation. With monetary easing from Japan to Europe setting up several currencies for bigger declines, it is fair to ask whether China can afford to sit on the sidelines.

Yet the costs of devaluation outweigh the benefits for China, for two reasons. First, it is doubtful that it would deliver the desired economic outcome. Despite talk of currency wars, Asian countries have so far avoided full-scale hostilities over their exchange rates. If the region's biggest economy launches an offensive, others would surely follow, wiping out any advantage it hoped to gain. In fact, a devaluation might hurt the economy. A falling yuan might spur the outflow of capital. It would certainly endanger China's companies, which have amassed $1 trillion in foreign debt, which would become more expensive to service if the yuan lost ground.

Second, the politics of devaluation would harm China. In the short term, there would be renewed complaints in America about Chinese currency manipulation, raising the possibility of countermeasures. In the longer term, it would hamper China's efforts to make the yuan a rival to the dollar. The strongest reserve currencies serve as safe havens when others are in turmoil. During the Asian financial crisis of 1997-98 and the global meltdown of 2008, China maintained a steady exchange rate against the dollar, despite having ample cause to allow depreciation. Such actions have bolstered the yuan's credibility. A rush to devalue now would undermine it.

That said, some weakening of the yuan is likely in the coming months. The central bank has long vowed to give the market greater sway over the exchange rate. With the current-account surplus narrowing and capital flowing out, the market is pointing to at least mild depreciation.

The central bank has also vowed to make the exchange rate more volatile, to wrong-foot speculators and force companies to do a better job of hedging their exposure to different currencies. Guan Tao, an official with the foreign-exchange regulator, sounded such a warning this month, citing an ancient proverb: "A wise man should not stand next to a dangerous wall." The dollar's relentless rise may dislodge a brick or two, but China is not about to let the yuan collapse. ■

Jumping to stand still

Chinese yuan, January 2013=100

Sources: Bank for International Settlements; Thomson Reuters

Egypt's economy

Pyramid scheme

CAIRO

The Arab world's biggest country is struggling to revive its fortunes

WHEN Abdel Fattah al-Sisi, Egypt's former army chief, became president in June, he pledged to sort out Egypt's troubled economy. Eight months later, on February 11th, the International Monetary Fund said it was starting to see signs of "a turnaround", and upped its growth forecast for the year to 3.8%. Prodded by a gaggle of new PR men, ministers have become more eager to talk. "Egypt has lots of competitive edges," boasts Ashraf Salman, the minister for investment.

The economy has been in the doldrums since 2011, when turmoil spread across the region and tourists and investors fled (see chart). Growth has since hovered around 2%; unemployment and poverty are in double digits. Foreign oil and gas companies have gone unpaid because the state is broke, says a Cairo-based economist. So far the government has survived on more than $20 billion in largesse from Gulf states that were happy to see the back of the previous government, which Mr Sisi ousted in 2013. Mr Sisi needs to make Egyptians feel richer or risk the same fate.

There is some reason for optimism. Egypt, the Arab world's most populous country with 90m people, has recently attracted business delegations from Japan, led by Shinzo Abe, the prime minister, and Britain, whose oil and gas companies make it Egypt's largest source of investment. Private-equity fund managers in Dubai see it as by far the Middle East's most interesting market. BP, a British energy giant, has said it will funnel $12 billion into its Egyptian operations over the next five years. Nestlé, a Swiss food group, recently announced it would invest $138m over the same time period.

Like the IMF, investors have been cheered by a handful of reforms adopted by Mr Sisi. In 2014 he removed some fuel subsidies that had helped drive the deficit to 12% of GDP. This year's shortfall will be closer to 10%. The government has also liberalised its exchange-rate regime slightly, allowing the Egyptian pound to depreciate. That should bolster both exports and tourism.

But most of the companies investing are ones already in the country, such as Nestlé and BP, or Gulf companies following their governments' cash. The tourism industry, which contributes over 10% of GDP, is in a dire state: the number of visitors last year was a third below the level of 2010. Moreover, Egypt needs to do much more than simply get back on its feet. It is short of power, roads, schools, hospitals and housing, not to mention jobs, for a population predicted to grow to 116m by 2030.

The World Economic Forum ranks the country 100 of 144 for the state of its transport, electricity and telephone connections. Yet investment is just 14% of GDP. "In a developing, industrialising economy, investment needs to be much higher—around 25% of GDP for many years in a row," says Simon Kitchen of EFG Hermes, an investment bank.

The government cannot close this investment gap. Public debt is 86% of GDP. Moreover, subsidies, public-sector wages and debt service continue to gobble up most of the budget. Instead, the new regime is hoping to woo foreign investors at an economic get-together it is hosting in the resort town of Sharm el-Sheikh next month. It aims to secure the funding to increase the country's generation capacity by 30,000 megawatts over the next ten years, to avoid worsening power cuts. Ministers also want to entice companies to a planned manufacturing and assembly zone around the Suez Canal.

Economists reckon Egypt needs foreign direct investment of $60 billion (some $10 billion-15 billion per year) to reach its target of 5% GDP growth by 2018. In the last fiscal year net foreign direct investment was a measly $4 billion—a third of the level of 2008. Parlous politics and the weakness of ▸▸

Built on sand

Egypt's:

*Years beginning July
†Estimate

Sources: IMF; Central Bank of Egypt

the Egyptian pound mean returns have to be good. Mr Salman says generous incentives are being put in place: the government will guarantee power providers a lucrative price for renewable energy for 25 years, for example, and pay 85% of it in foreign currency. A new investment law is promised. "You don't have conditions that favourable anywhere," he says.

Not all are convinced that Egypt is quite such an attractive prospect. Regulations are still a jumble. Too much public money ends up in the pockets of army businesses. Egyptian labour is unskilled and has become more expensive as public-sector wages have risen. Public spending is still geared towards maintaining stability, says Amr Adly of the Carnegie Endowment for International Peace, a think-tank based in Washington DC. Mr Sisi has made it clear that he sees the private sector as simply playing a supporting role to the government as the steward of the economy.

And then there is the sort of turmoil that brought Mr Sisi to power. The World Economic Forum ranks Egypt 140 of 144 countries for security, below the likes of Chad. That is not a statistic Egyptian officials have been eagerly repeating. ■

Investing in alternative property

Shipshape

Investors are scanning distant horizons for high-yielding assets

A few bob

JUST an hour south-west of London, in the upper reaches of the Hamble River, hundreds of little masts gently bob up and down in Swanwick marina. "You've got to think of it as a car park on water," explains Rupert Boissier of Premier Marinas, which looks after this and seven other marinas dotted along the south coast, Britain's sailing mecca. With 5,170 berths, each rented out for several thousand pounds a year, the group of marinas generates lots of cash. Its owner, a property fund run by BlackRock, the world's biggest asset manager, has also been able to increase its value, by upgrading space used for building boats (yielding £4 per square foot in rent) into shops and offices (£16 per square foot). The marinas even have planning permission for residential units on some of their 385 acres of land and water. But the most attractive aspect of the investment, according to Marcus Sperber of BlackRock, is the finite supply of coastline and building permits: only two marinas have been built on Britain's south coast over the past 15 years.

BlackRock, which manages $23 billion of property around the world, is better known for buying offices in New York than marinas in Hampshire. But as capital has flooded into property in search of decent yields, the obvious investments are starting to look relatively expensive again. Hence the hunt for "alternative properties" such as Swanwick marina. These are outside the conventional property classes (office, retail and industrial) and include things like student housing, data centres and casinos. BlackRock owns 150 British doctors' surgeries, for instance. AXA Real Estate, the property arm of a French insurer, manages over €2 billion worth of alternative properties in Europe, including 82 hotels, police stations in Sweden, care homes in Germany, petrol stations in Spain and data centres in several countries.

Returns have been good: in America, alternative property has outperformed the conventional sort by nearly 5% a year over the past decade. And whereas returns from offices and shops twist and turn in the economic winds (London office values sank by 40% and rents by 30% in 2008-09), many of these alternative properties are more recession-proof (people continue to need doctors and petrol, after all).

Alternative property's share in the portfolios of American real estate investment trusts (REITS) has nearly doubled since 2000 to 32%, according to JPMorgan Chase. In Europe such markets are still relatively unexploited, says Paul Jayasingha of Towers Watson, an advisory firm, making it an attractive destination for American, Middle Eastern and Asian money.

But it is not all plain sailing. These assets often require specialised knowledge of the sector. The average pension-fund manager, deprived of benchmarks and consultancy reports, may decide to give them a wide berth. They can also be hard to invest in at scale: the Qatari-led group that is currently buying the Canary Wharf complex, a cluster of skyscrapers in London, for $4 billion would have to spend a lot of time and effort piecing together a portfolio of petrol stations worth that much. ■

European capital markets

It takes 28 to tango

PARIS

A new plan to help firms find funding

IT IS a truth frequently and piously acknowledged that Europe's over-reliance on crisis-scarred banks is holding back its recovery. If the continent's capital markets were more vigorous, the sickly banks could be sidestepped, allowing money to move directly from Europe's prodigious savers to its capital-starved borrowers. But how to bring that about? This week, Jonathan Hill, the European Union's financial-services commissioner, laid out a plan.

Europe's capital markets have expanded over the decades: total stock-market capitalisation in the EU, for example, amounted to around 65% of GDP by the end of 2013, compared with just 22% in 1992. Equity markets in America are almost twice the size of the EU's as a percentage of GDP, however, and the imbalance extends through corporate bonds, private equity, venture capital and so forth. What is more, European markets seem less connected than they were before the crisis, as investors retreat behind national walls. No fewer than 94% of Europeans have never bought a foreign financial product and 80% say they never would.

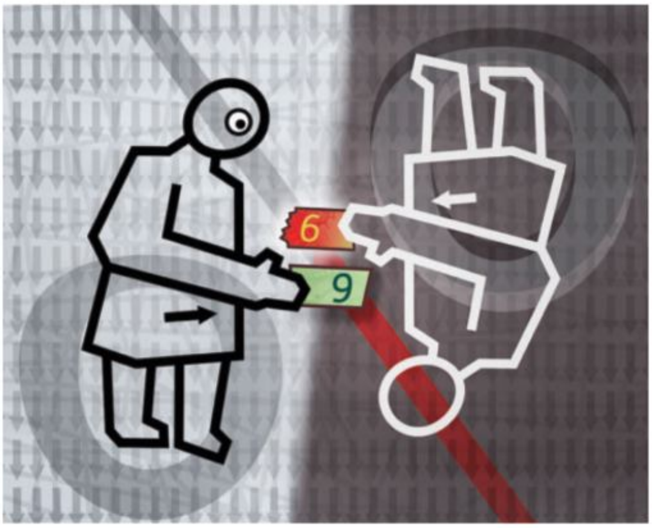
Lord Hill's ideas for remedying matters are a bit of a grab-bag. They start with such nuts and bolts as harmonising standards for high-quality asset-backed securities and reviewing the capital charges on institutions that hold them; making the disclosures required to issue stocks or bonds less onerous (mainly for small firms); and devising consistent cross-border credit-scoring for SMEs.

Bigger issues also feature. Lord Hill wants national differences that put off foreign investors—over bankruptcy, say, or corporate governance—to be ironed out. Equities markets need a transparent, comprehensive and speedy reporting of all trades to keep them honest. There are hints that supervisory bodies such as the European Securities Markets Authority, essentially a college of national regulators, might need its hand strengthened.

The response so far has been positive—including in London, Europe's main centre of capital-markets activity. As plans become more concrete later this year, objections will multiply. The 28 members of the EU will never agree on all the proposals, and America is not everyone's idea of a financial template. The programme is rightly ambitious. But if Lord Hill gets only a few specific measures passed, he will have done well.

Free exchange | Worse than nothing

Negative interest rates do not seem to spur inflation or growth—but they do hurt banks



IT SOUNDS like a contradiction in terms. But negative interest rates have arrived in several countries, in response to the growing threat of deflation. In June the European Central Bank (ECB) announced that it would pay -0.1% on the money banks deposited with it; in September the rate went even lower, to -0.2%. Denmark, Sweden and Switzerland also have negative rates. Banks, in effect, must pay for the privilege of depositing their cash with the central bank. Some, in turn, are making customers pay to deposit cash with them. Central banks' intention is to spur banks to use "idle" cash balances, boosting lending, as well as to weaken the local currency by making it unattractive to hold. Both effects, they hope, will raise growth and inflation.

When an economy is struggling, the central bank usually cuts interest rates. The idea is to reduce the "real" (ie, inflation-adjusted) rate. As real rates fall, it becomes less attractive to save and more alluring to borrow. When real rates go negative, there is an extra potency: savers lose more money each year to inflation than they gain from interest. If saving is a losing proposition, investment and consumption should rise, buoying the economy.

As inflation falls, real interest rates rise. When the euro zone had 3% inflation and ultra-low interest rates, there was a negative real rate; now, with the main interest rate at 0.05% but inflation at -0.6%, the real rate is 0.65%. To get negative real rates, the nominal interest rate must be lower than the rate of inflation; if inflation is negative, the nominal interest rate must also fall below zero.

Economists have long assumed that, in practice, it would be impossible to send nominal rates below the "zero lower bound". Cash is the sticking point. It earns interest of 0%. As soon as the rates banks offer fall below that, savers have an incentive to withdraw their money and stash it under a mattress (or in a safe-deposit box). But such is the seriousness of the situation that some central bankers are now willing to give negative rates a shot.

Advocates of negative returns point out that banks have huge sums stashed with central banks. These "excess" reserves—those above the minimum regulatory requirement—are the result of schemes such as quantitative easing (in which central banks print money to buy bonds, largely from banks). The Federal Reserve's enthusiastic bond buying helped swell excess reserves in America from $1.9 billion in August 2008 to $2.6 trillion in January 2015. In the euro zone they climbed from €1.8 billion ($2.7 billion) in 2008 to €158 billion in 2013. Paying a negative rate on that pile would impose a nasty cost on banks. To avoid it, the theory runs, banks will lend more, thereby reducing their reserves.

In aggregate, the quest to diminish reserves is hopeless. As soon as one bank gets rid of some, by extending a loan to buy a car, say, the car dealer deposits the proceeds in another bank, boosting its reserves. But as banks try to palm these reserves off on one another, they increase lending, stimulating the economy. This whole picture, however, is dependent on finding lots of willing borrowers—something that is hard to come by when optimism about the prospects of new ventures is in short supply.

In fact, the downward march of nominal rates may actually impede lending. Some financial institutions must pay a fixed rate of interest on their liabilities even as the return on their assets shrivels. The Bank of England has expressed concerns about the effect of low interest rates on building societies, a type of mutually owned bank that is especially dependent on deposits. That makes it hard to reduce deposit rates below zero. But they have assets, like mortgages, with interest payments contractually linked to the central bank's policy rate. Money-market funds, which invest in short-term debt, face similar problems, since they operate under rules that make it difficult to pay negative returns to investors. Weakened financial institutions, in turn, are not good at stoking economic growth. .

Other worries are more practical. Some Danish financial firms have discovered that their computer systems literally cannot cope with negative rates, and have had to be reprogrammed. The tax code also assumes that rates are always positive.

In theory, most banks could weather negative rates by passing the costs on to their customers in some way. But in a competitive market, increasing fees is tricky. Danske Bank, Denmark's biggest, is only charging negative rates to a small fraction of its biggest business clients. For the most part Danish banks seem to have decided to absorb the cost.

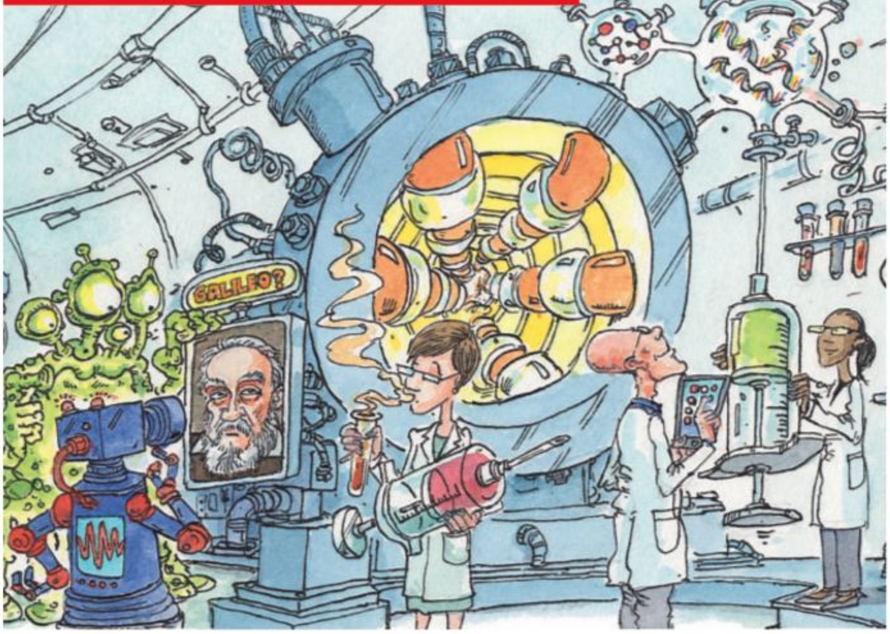
Small wonder, then, that negative rates do not seem to have achieved much. The outstanding stock of loans to non-financial companies in the euro zone fell by 0.5% in the six months after the ECB imposed negative rates. In Denmark, too, both the stock of loans and the average interest rate is little changed, according to data from Nordea, a bank. The only consolation is that the charges central banks levy on reserves are still relatively modest: by one estimate, Denmark's negative rates, which were first imposed in 2012, have cost banks just 0.005% of their assets.

Lump it or leave it

Indeed, the biggest effect of negative interest rates may be on currencies. Low interest rates help to pull down yields on all manner of local investments, encouraging both natives and foreigners to put their money elsewhere. As capital takes flight, the currency should fall. Since the ECB introduced negative deposit rates the euro has fallen against the dollar by nearly 20%. After Sweden adopted negative rates, the krona fell to a six-year low against the dollar. It is no coincidence that the central bank with the greatest enthusiasm for negative rates is Denmark's: its sole objective is maintaining a fixed exchange rate with the euro. ■

* Studies cited in this article can be found at www.economist.com/negativerates15

Economist.com/blogs/freeexchange



Also in this section

For daily analysis and debate on science and technology, visit

Economist.com/science

The American Association for the Advancement of Science

Onwards and upwards

SAN JOSE

The AAAS's annual meeting looked at contacting aliens, perceptions of smell, curing blindness, mysterious portraits and greedy galaxies. But first, vaccination

VACCINES are medical science's nuclear weapons. Clean water and sewage disposal aside, they have saved more lives than any other public-health measure. Vaccines have wiped smallpox, a disease once dreaded by rich and poor alike, from the face of the Earth. They may soon do the same to polio. They have driven words like diphtheria and whooping cough from public discourse in rich countries, and might do the same for measles, mumps and rubella were it not for the vanity, selfishness or foolishness of a minority who will not immunise their children against these threats. They also offer the elderly protection, albeit imperfectly, against the lethal ravages of influenza.

But they could do more. Most vaccines are made in ways which would be familiar to Louis Pasteur, the 19th-century French polymath who put vaccination on a scientific footing. Pasteur's method is either to weaken a pathogen in a laboratory or to kill it outright. The result, when injected or swallowed, acts as an antigen and stimulates an immune response—but it does not cause illness. Thus safely primed, the immune system reacts faster if and when it encounters the real thing.

This process works. But it is haphazard. Moreover, the details of how it works are often obscure. So this year's meeting of the American Association for the Advancement of Science (AAAS), held in San Jose, California, devoted several sessions to the questions of how vaccines can be made faster, better and cheaper, and how the range of diseases that can be vaccinated against might be extended.

X marks the spot

One way is to understand pathogens and their interactions with the immune system better. It might then be possible to make better antigens. Using a tool about as far removed, scientifically, from a biology laboratory as it is possible to imagine, that is what David Stuart of the University of Oxford hopes to do.

Dr Stuart is a director of the Diamond Light Source, a huge machine called a proton synchrotron that is located near Oxford. Synchrotrons generate beams of X-rays for use in crystallography. Dr Stuart hopes to employ his to design vaccines against foot-and-mouth, a cattle disease, and polio, a human one. The viruses that cause them, as well as hepatitis A and many strains of the common cold, are among the smallest known. Their size, and the fact that their genetic material is made of RNA rather than DNA, means they are called picorna viruses by virologists.

When a picorna virus infects a cell, its protein coat expands, creating holes that let the RNA inside pass into the cell's workings. Vaccine designers would like to use the protein coat alone, without the RNA, since this would not be infectious but would still rouse the immune system. Experience has shown, however, that although there is a strong immune response to the intact virus with its unexpanded shell, the expanded shell passes almost unnoticed. Dr Stuart therefore sought to redesign the shell to stop it expanding when there was no RNA inside. He did so, first for foot-and-mouth, and then for polio, by analysing viruses, with and without RNA in them, in the synchrotron.

Modern X-ray crystallography can map structures such as viruses with atomic precision. Having done so, Dr Stuart was able to run the results through a computer and work out how to alter the chemistry of the coat in order to hold it together in the absence of its internal RNA. Then he made those changes by synthesising appropriate genetic material and letting it loose in cultured insect cells, which obligingly turned out copies of the modified coats. Tests have shown that these modified coats are indeed stable, and do provoke the desired immune response.

The foot-and-mouth work is the more advanced—in part because there is a more immediate requirement for it. Polio already has a vaccine, and Dr Stuart sees his work as a backup. But the existing vaccine against foot-and-mouth, a costly plague in many of the world's poorest countries, leaves much to be desired. Vaccination is almost as important for protecting people's livestock, and thus livelihoods, as it is for protecting people themselves. Indeed, a triumph of vaccination equivalent to the eradication of smallpox was the extermination of a cattle disease called rinderpest.

Dr Stuart's foot-and-mouth and polio antigens are clever. But they are modifications of known, natural antigens. Jeffrey Ulmer of Novartis's vaccine division ▸▸

wants to go further. He described to the meeting a technique for identifying new antigens that might be exploited by vaccine-makers. Reverse vaccinology, as this process is called, is a child of genomics. It involves sequencing a bug's genetic material, using that knowledge to make lots of proteins that look like part of the target, and then screening these to see which provoke an immune response.

Its most successful outcome so far is the creation of a vaccine, recently approved, against meningococcus B, a bacterium that causes meningitis. This was not possible in the past because meningococcus vaccines are made from sugars on the bacterium's surface, and the B strain's sugars are the same as those found on the surfaces of nerve cells. A vaccine could thus provoke a dangerous autoimmune reaction.

Dr Ulmer also described a technique called self-amplifying messenger RNA. This uses the body cells of a vaccinated individual to generate specially tailored antigens. RNA is the form of genetic material that a cell's protein-making machinery works with directly, as opposed to the genetic master-plans that are stored in the cellular nucleus. This is why many viruses, which work by hijacking that machinery, have genes made of RNA rather than DNA. Novartis's researchers have exploited this by taking the RNA-replication machinery of a virus, removing the genes that let it make new viruses, and replacing them with RNA that encodes the antigen of interest. In effect, they have created a tiny antigen factory that will operate once it gets absorbed into a cell, vaccinating the individual in question as it does so.

If in doubt, form a committee

There are, then, many ideas for advancing the science of vaccination. Some people think all this effort needs co-ordinating if it is to have maximum effect. Wayne Koff, chief scientific officer of the International AIDS Vaccine Initiative (IAVI), is one of the leaders of a group of scientists who hope to establish a Human Vaccines Project reminiscent of the Human Genome Project. IAVI, though it has not yet been successful in reaching its eponymous goal, has raised large sums of money towards trying to do so. Dr Koff thinks the same could be done for a new vaccine project. He reckons a billion or two would be enough. (The genome project, for comparison, cost about $5.4 billion in today's money.)

What would the money go on? Part of the vaccine project's goal would be to illuminate something that the genome project did not—the genetic labyrinth called the human immunome. This is the set of DNA sequences that encode myriad versions of the "hypervariable" regions of certain proteins in the immune system. These regions are the parts of molecules that recognise hostile invaders. They do so by using what is known as a lock-and-key system, whereby a group of atoms forming part of the protein fit, as a key would in a lock, with complementary groups in the antigen. Because of the need to recognise many different invaders, the genetic possibilities for these proteins are enormous. Knowing them all would be, for students of the immune system, rather like mapping a genome is for more general biologists.

A Human Vaccines Project would also try to work out how best to drive an effective response to pathogens that the immune system struggles with, such as HIV, tuberculosis and malaria. In the past this approach has been investigated in only a piecemeal way. Dr Koff hopes to bring some rigour to the process, using his putative pot of money to finance and co-ordinate a group of laboratories around the world, as the genome project did, and thus prevent gaps and overlaps in the research.

Until a few days ago the project consisted of little more than a 12-person steering committee. But on February 13th GlaxoSmithKline, a pharmaceutical firm, said it would throw $350,000 into the pot. That is a long way short of a billion dollars, but it is a start. And if the project works, medicine's nuclear bomb might go thermonuclear. ■

Extraterrestrial life

Yoo-hoo, we're over here!

SAN JOSE

Should humanity keep schtum about its existence?

ONE of the sessions of the AAAS meeting was dedicated to planets in other solar systems, a field of enquiry which has blossomed as thousands of them have been detected. Finding such exoplanets is interesting in its own right, of course. But you do not have to scratch far beneath the surface to realise that the planets themselves are not the real motive. William Borucki, an astronomer who pushed for the construction of *Kepler*, the orbiting telescope responsible for locating most of the exoplanets that have so far been found, puts it plainly. He says that the whole enterprise is about discovering whether human beings are alone in the universe.

At the same time, just next door to the exoplanet seminar, a less well-attended session considered the matter from a markedly different angle—namely whether mankind should be sending signals into space in the hope that they might be detected by aliens. There has been a hotchpotch of efforts to do this already, ranging from one in 1974 by Frank Drake, a pioneer of the search for extraterrestrial intelligence (SETI), to an advertisement for Doritos, a snack food, that was beamed in the direction of a star in the constellation of Ursa Major in 2008. What is now being suggested, by Seth Shostak of the SETI Institute, in California, which leads the search for aliens, is a more concerted effort. He wants to use the world's largest radio-tele-

You rang?

scope dish, at Arecibo in Puerto Rico, as a transmitter to beam some kind of radio greeting towards nearby stars.

There is vehement opposition to this plan, not least because it might pose a danger from the sort of malevolent aliens often depicted in science-fiction films. This has preoccupied no less a mind than that of Stephen Hawking, a theoretical physicist, who warned against the idea of seeking out contact in 2010. He remarked, by way of historical analogy, that past "first-contact" incidents between groups of humans, such as European explorers and native Americans, were not usually noted for their peaceability.

What has changed, as far as Dr Shostak is concerned, is a growing sense that first contact is inevitable. Humans have been spraying radio waves into the cosmos for quite a bit longer than anyone on Earth has been listening for signals coming the other way. The first television advertisements will already have passed about 200 sun-like stars. Better, he argues, to try to control the message by speaking deliberately to anyone who is out there than let them to form their own conclusions from ads for tortilla chips.

David Brin, an astrophysicist and science-fiction author, took to the stage to posit, ominously, that if aliens really are out there and Earthlings have not yet heard from them, perhaps those aliens know something that humans do not. Shortly before the meeting, Dr Brin and 27 others—including Geoff Marcy, an astronomer at the University of California, Berkeley, who is the single most prolific discoverer of exoplanets—penned a statement in opposition to the SETI Institute's plan. "As a newly emerging technological species," it reads, "it is prudent to listen before we shout."

Both listening and shouting involve, of course, an extraordinary long-odds bet. All of the radio spectrum and much of the optical one might carry a message, or be used to broadcast one: the chances of alien interlocutors being on the right frequencies are low. And there is no guarantee that Earth's present technological age of radios and lasers will align with the methods of a far-flung astronomer.

Should the bet come off, though, much is at stake. Dr Brin and other dissenters are not against broadcasting altogether, but argue that the decision of when and what to send ought to be the subject of a grand, global survey.

It might all sound rather esoteric, for it is unlikely an alien civilisation does exist—at least within the range of any sort of broadcast that is currently possible. But if someone does take it into his head to send messages out on the off-chance, then he will, by default, be speaking for the planet as a whole. And if there is a reply, the planet might just wish it had paid more attention to the matter. ■

Olfaction

Scent off

SAN JOSE

Culture, not biology, rules the relation between smell and language

THE Maniq have a word for it—and so do the Jahai. Each sort of smell in their environment, that is. Putting names to smells is reckoned—unlike, say, naming colours—to be notoriously difficult. But perhaps that is because all the relevant experiments have been done on city-dwelling Westerners.

Asifa Majid of Radboud University in the Netherlands, by contrast, works with hunter-gatherers—specifically, the Maniq and the Jahai, who live in the Malay peninsula. For them, as she told a session of the AAAS meeting devoted to olfaction and culture, things are rather different. The Jahai have particular words for smell types. These are not based on an odour's source, like "lemony", or on some evaluation of its properties, like "stinky", but describe the sensory experience itself, as a colour's name might to a Westerner.

Dr Majid and her colleagues discovered this by administering what were, in essence, scratch-and-sniff tests to Jahai speakers. The answers often required just one word, and the average response time was just two seconds. A Dutch cohort given the same task performed miserably—taking 13 seconds, on average, to reach more equivocal answers. The Maniq, too, have a rich set of smell words, and smell is strongly involved in their culture. Bamboo for making water vessels, for example, is chosen because it has an appropriate smell. Brother and sister should not sit next to one another, lest their odours mix: a form of incest.

This finding challenges the long-standing idea that something about the

Smells red to me

way human brains are wired limits their ability to put words to smells swiftly. Dr Majid says that in the West, "nothing should have a smell unless you put it there," and that there are many taboos surrounding talking about odours. The smell-rich environment, scent-centric cultural practices and evident lack of taboos enjoyed by the Jahai and Maniq are, she believes, correlated with their recall and use of smell-related words. It may simply be that having more smells around, and talking about them, ensures that the varieties of smell all have names.

Treating blindness

Bionic eyes

SAN JOSE

A new device may restore vision to those whose sight is dwindling

MACULAR degeneration is a form of sight loss caused by the death of photoreceptor cells in the macula—the central part of the retina. It afflicts 30m-50m people, most of them elderly. The result is a shadowlike void in the centre of a sufferer's visual field. Many solutions have been proposed, from injecting a patient's eyes with stem cells that will grow into new photoreceptors to building small telescopes into spectacles or contact lenses.

Another is to implant a light-sensitive chip in the affected part of the retina—a promising idea in principle, but one that has not worked well in practice. Daniel Palanker of Stanford University thinks he can do better. He has developed a chip-based system which, although it will not fully restore vision, may bring someone back to a point where he is no longer legally blind.

Dr Palanker's apparatus, currently being tested on rats, but intended for clinical trials on people within a year, has two parts. One is a special pair of glasses. The other is not a single photosensitive chip, but a set of them.

The spectacles let light into the eye as normal, so that unaffected bits of the retina can continue to do their job. But they also use a small camera to capture the scene the wearer is looking at. That image is then beamed through the pupil of the affected ▸▸

eye to the part of the retina where the chips are. The retransmitted image is 1,000 times brighter than the one created by natural light, but because it is sent in the infra-red part of the spectrum, the eye's photoreceptor cells cannot see it.

The chips, however, can. Each of them is 1mm across, and is covered with elements 75 microns (millionths of a metre) wide that are made of three photosensitive diodes and two electrodes. When hit by infra-red light, the diodes generate an electric current and, via the electrodes, stimulate nerve cells in the retinal tissue in the way that a natural photoreceptor would. That signal gets sent to the brain. The result is a picture which fills in the blank part of the user's visual field.

The chips themselves are easy to implant, using a special syringe-like applicator that is pushed through the eyeball (a routine procedure, gruesome though it sounds). With this tool members of Dr Palanker's team can "tile" the affected area with as many chips as is necessary.

Unlike some existing chip systems, this one does not need an external power supply (though the glasses themselves need batteries). It also has better resolution than its competitors. Although 75 microns is still a bit coarse, Dr Palanker hopes to improve it soon, to 40 microns. The definition of legal blindness in America corresponds to the resolving power that elements 50 microns across or smaller would give, so in that sense the device really would restore sight to the blind. Experiments on rats, in which they are shown alternating black and white lines of different widths, suggest that the theoretical resolution is actually being achieved. If clinical trials show the same is true in people, Dr Palanker's invention may go on to bring visual relief to many whose eyesight is failing. ■

Cosmology

A galactic vampire

SAN JOSE

The Milky Way is not as young as it looks

AS EVERY horror fan knows, the secret of eternal youth is to suck the lifeblood of others. If you are a galaxy, that lifeblood is hydrogen gas, from which stars form. And it seems that some galaxies are indeed able to maintain a youthful appearance by sucking great clouds of the stuff from intergalactic space.

According to Felix Lockman of America's National Radio Astronomy Observatory, the Milky Way, humanity's home galaxy, is one such vampire. Dr Lockman is part of a team that has been using the Green Bank radio telescope in West Virginia, which boasts the world's largest steerable dish, to study the process.

The mystery to be solved is why, of the visible matter in the Milky Way, around 15% is still in the form of gas and dust. The galaxy is over 13 billion years of age, almost as old as the universe itself. In theory, that is plenty of time for all of its gas to have condensed into stars, as has happened in a class of galaxies known as ellipticals. But the Milky Way is a spiral galaxy, in which active star-formation continues at the rate of about one newborn a year. This must mean that the galactic supply of hydrogen is somehow being replenished. And Dr Lockman and his colleagues think they know how.

In the 1960s a strange intergalactic gas cloud was discovered near the Milky Way by an astronomer called Gail Smith. Smith's cloud, as it is known, is an elongated structure almost 10,000 light-years from end to end. At roughly a tenth of the diameter of the Milky Way's disc, that is big even by galactic standards. Smith's cloud was a puzzle. No other such object had ever been seen. It was therefore put aside by astronomers, for it is hard to do useful science when you have only one example of something. Dr Lockman and his colleagues have now rectified that neglect. Their measurements show the cloud is on a collision course with the Milky Way. It will hit one of the arms of the spiral in about 30m years, and then be absorbed into the galaxy, probably triggering a burst of star formation in the process.

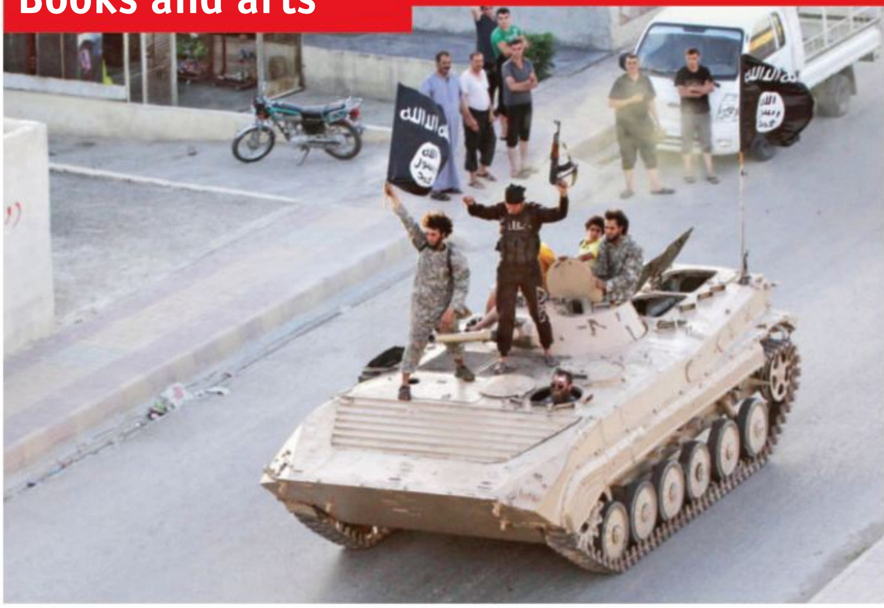
This suggested to the team that they had found the mechanism of eternal galactic youth: galaxies eat gas clouds. If that were true it would imply that such clouds must be quite common.

And that is what theory predicts. Recent calculations about how matter is distributed in the universe suggest that a good number of such clouds should, indeed, be out there. These calculations concern not the hydrogen itself, but the real fabric of the universe: a still-mysterious substance known as dark matter that interacts with the familiar, atomic, sort only through the force of gravity. The calculations suggest that there should be dark-matter globs of the right mass to attract interstellar gas clouds as big as Smith's. And when Dr Lockman used Green Bank to search for such clouds, he found ten in just one small volume of nearby space.

The mystery of the ever-youthful Milky Way thus seems to be solved. Spiral galaxies are constantly rejuvenated by collisions with things like Smith's cloud. Eventually, the supply of these clouds will run out, and with it the elixir of galactic life. But that will not be for many billions of years. Meanwhile, the universe's spiral galaxies will keep on keeping young. ■

Picture perfect

The left-hand portrait below is of Galileo Galilei, one of history's most famous physicists. But the right-hand one? Its identity divides scholars. Some think it is also Galileo; others disagree. Disputes like this are common in art history. Amit Roy-Chowdhury of the University of California, Riverside, in collaboration with Conrad Rudolph, an art historian, has applied face-recognition technology to see if it can solve such questions. He fed 271 known portraits, by 36 artists, into an algorithm developed for the purpose, together with 20 others whose subject's identity is in question. A careful scientist, Dr Roy-Chowdhury emphasises that the results are probabilistic, not deterministic. Nevertheless, 12 of the 20 seemed to match portraits of known identity (the pictures below among them). Even more intriguingly, two of the unknowns matched each other. They had the same subject, according to the algorithm, but who she was remains a mystery.



Also in this section

For daily analysis and debate on books, arts and culture, visit
Economist.com/culture

Global jihad

Rolling into town

How the rise of Islamic State is changing history in the Middle East

> **ISIS: Inside the Army of Terror.** By Michael Weiss and Hassan Hassan. *Regan Arts; 288 pages; $14*
>
> **The Rise of Islamic State: ISIS and the New Sunni Revolution.** By Patrick Cockburn. *Verso; 192 pages; $16.95 and £12.99*

"RUSH, O Muslims, to your state. Yes, it is your state. Rush, because Syria is not for the Syrians, and Iraq is not for the Iraqis." Thus did Abu Bakr al-Baghdadi proclaim the creation of his new caliphate last summer. He urged all Muslims (Sunnis, that is) to defend it after his fighters had spectacularly pushed Iraq's American-trained army out of Mosul.

Islamic State (IS, sometimes also called ISIS, ISIL or Daesh) is wrecking the post-colonial states of the Middle East. The caliphate now straddles swathes of Syria and Iraq; Egypt's Sinai peninsula is becoming a war zone; and the chaos of Libya is giving jihadists a foothold that could become a "province" on Europe's doorstep. Little matter that ever more countries, led by America, are fighting IS's brutality: it is the fulfilment of an apocalyptic battle that will take place in Dabiq (in Syria), according to a *hadith*, or saying of the prophet.

How did Mr Baghdadi's caliphate burst forth so suddenly and brutally? Two books trace the origins of IS to America's misbegotten invasion to topple Saddam Hussein in Iraq in 2003, the subsequent Sunni backlash against the newly enfranchised Shias and the appalling civil war in Syria.

In "ISIS: Inside the Army of Terror" Michael Weiss and Hassan Hassan see the movement as the product of a long-running dispute among jihadists about whether to take on the "far enemy", America (as al-Qaeda did); or the "near enemy", Arab states (as IS does in Iraq). A related question is how much brutality should be applied, particularly against the Shias: IS has chosen maximum gore. In "The Rise of Islamic State: ISIS and the New Sunni Revolution" Patrick Cockburn largely ignores ideology. He treats IS and al-Qaeda as clones rather than rivals. In his view IS ultimately arises from the machinations of outside powers, mainly America and Saudi Arabia. Neither book says much about the reasons for declaring a caliphate.

Messrs Weiss and Hassan argue that Syria's president, Bashar Assad, deliberately facilitated the emergence of IS through acts of commission (releasing jihadists from prison, for example) and omission (bombing the mainstream rebels rather than IS). Mr Cockburn, by contrast, dismisses the idea that Mr Assad acts in league with IS as "conspiracy theory".

Messrs Weiss and Hassan offer the fuller and more convincing account. They trace the life of Abu Musab al-Zarqawi, a Jordanian petty criminal who missed the *jihad* against the Soviet Union in Afghanistan, but went on to start his own much bloodier one against America in Iraq. Like many jihadists, he found jail a radicalising experience. It was Zarqawi who deliberately transformed the conflict into a sectarian war against Shias to provoke a violent response that would, in turn, rally the Sunni world. Thus he became the "Sheikh of the Slaughterers".

Zarqawi was killed in 2006 and his group was largely pushed out of Sunni strongholds by the combination of America's "surge" of troops and its ability to turn Sunni tribes against the jihadists. But his successors, above all Mr Baghdadi, were cleverer and, perhaps, luckier. The anti-Assad uprising and civil war in neighbouring Syria afforded an opportunity to carve out a new base and rebuild relations with the tribes. Once the Americans left Iraq, and its Sunnis became embittered by the misrule of the Shia-dominated government, the jihadists swooped back in to take Mosul.

The authors trace the ambiguous relationship between IS (or its precursors) and al-Qaeda, and examine key ideological texts (one is called "The Management of Savagery"). They argue that, if IS has managed to create something resembling a state structure, it is in no small part due to the influx of former Saddam-era Baathists. As a result, IS knew how to play the game of tribal alliances; brought order of sorts through effective, if brutal, methods; and developed a war economy based on oil-smuggling networks.

The pity is that Messrs Weiss and Hassan have produced such a messy, disjointed account. Their book feels at times like a jumble of notes hurriedly thrown together. Mr Cockburn writes more fluently and concisely, but more polemically.

Both books conclude that IS will not disappear quickly, if ever. That is bad news for the world, but an opportunity for future authors: the definitive account of the movement has yet to be written. ■

Cyber-security

Good tech, bad tech

Future Crimes: Everything Is Connected, Everyone Is Vulnerable and What We Can Do About It. By Marc Goodman. *Doubleday; 464 pages; $27.95. Bantam; £20*

AT A recent cyber-security summit in Silicon Valley, Barack Obama was asked by an interviewer from *Re/code*, a technology blog, to give his view of the thorny issue of cyber-snooping by governments. Mr Obama drew on a sporting analogy: "This is more like basketball than [American] football," he said, "…there's no clear line between offence and defence."

In the corporate world digital defences are being overwhelmed alarmingly often. A string of recent high-profile intrusions by hackers, ranging from the devastating cyber-attack on Sony Pictures Entertainment to the news this week that crafty hackers had pilfered large sums of money from banks in Russia and elsewhere, have propelled cyber-security to the top of boardroom agendas. Marc Goodman's book was printed before these attacks took place. But it contains plenty of other episodes that highlight how hacking has evolved into a multinational endeavour run by criminal masterminds and spooks.

Mr Goodman, who worked with both Interpol and the FBI before striking out on his own as an expert on digital criminality, worries that the worst is yet to come. As technology rapidly advances, many more things, from pacemakers to cars and power stations, are being connected to the internet and governed by software that is vulnerable to crooks and terrorists.

No sooner is security beefed up than someone attempts to get around it. For instance, firms are experimenting with biometrics, or replacing passwords with things such as fingerprint or facial scans. But crooks are already looking for ways to pinch copies of fingerprints—which, unlike passwords, cannot be changed easily—and to fool facial-recognition systems.

Innovations that generate exponential benefits are also making society more vulnerable. One example is the spread of sophisticated software based on complex algorithms. Such software has enabled companies to automate everything from stock-trading to credit-checking, slashing costs and prices. But digital Al Capones love algorithms too. They use them to target large numbers of people with automated "ransomware" attacks that lock them out of their computers and force them to pay a fee to get hold of their data again.

So how can companies better protect themselves in future? Mr Goodman points out that much software code is being shipped with flaws or "bugs" in it that are "patched" over time. But hackers can exploit these bugs before they are remedied. One solution, he thinks, is to stiffen liability laws so software companies that ship bug-ridden code can be sued more easily. This is worth debating, but a regime that was too draconian would force firms out of business and stifle innovation.

In spite of the many scary scenarios in this excellent and timely book, Mr Goodman is no neo-Luddite. He thinks innovations could ultimately lead to self-healing computer networks that detect hackers and automatically make repairs to shut them out. He rightly urges the private and public sectors to work more closely together, "crowdsourcing" ideas and know-how.

Striking the right balance between ensuring security and satisfying society's desire for shiny new gadgets and permanent connectivity will not be easy. As people become more dependent on technology, the risks will rise. The best time to start tackling future crimes is now. ■

Swiss fiction

Reconstruction

All Days Are Night. By Peter Stamm. Translated by Michael Hofmann. *Other Press; 192 pages; $22. Granta; £12.99*

PETER STAMM'S new novel opens in a heavily medicated blur. His protagonist, Gillian, is passing in and out of consciousness in a hospital bed. A car accident has killed her husband and inflicted some peculiarly cruel injuries. Her face is unrecognisable—a mess of torn flesh, an ear severed, her nose lopped off—and so is her life. As a glamorous television presenter, her existence was "one long performance"; no longer can she play her part. "What's left of me?" she asks herself. "And is what's left more than a wound?"

Mr Stamm—a Swiss novelist who writes in German and who was short-listed for the Man Booker International prize in 2013—gives this well-worn set-up real energy with an unsparing account of Gillian's recovery. His prose, in a crystalline translation by Michael Hofmann, is as sharply illuminating as a surgical light. He is acutely alert to injury's alienating effects. Gillian's body feels like "an empty building full of noises". When she tries to laugh she makes "a whiffling sound" that disgusts her. In her orderly Zurich apartment with its minimalist furniture, Gillian is reduced to urinating on the bathroom floor and keeps away from the windows for fear of being seen. Her life, once constituted by visibility, is now an attempt to be invisible.

As the story unfolds—taking the reader back to Gillian's life before the accident and forward to her life after—hiding becomes Mr Stamm's central theme. In a series of flashbacks, Gillian is portrayed modelling for an artist called Hubert, the book's second main character. He forces her to pose in awkward positions, hoping and failing to expose the woman behind the telegenic façade, hiding in plain sight.

In the second half of the book, set six years later, Hubert is struggling with an exhibition in the Swiss Alps. He discovers Gillian working as the entertainment manager at a hotel. She acts in plays, flirts with guests and "had felt so comfortable in her hiding place that it felt like the whole of life". But what else could life be if not a series of hiding places? A profound and mysterious book that leaves that question tantalisingly open.

The partition of India

Divide and rue

The Longest August: The Unflinching Rivalry Between India and Pakistan. By Dilip Hiro. *Nation Books; 528 pages; $35*

NEARLY 70 years ago the Indian subcontinent was divided. A fifth of the territory and 17.5% of the people formed Pakistan. The rest became independent India. Departing British colonial authorities rushed the split. The result was a bloody mess. Pakistan proved ungainly from the start, composed of two distant Muslim-majority areas, separated by 1,100 miles (1,770km) as the crow flies. Muhammad Ali Jinnah, its first ruler, moaned that his country was "maimed and moth eaten".

Jinnah had been an unlikely figure to bring Pakistan into existence. A wealthy, anglophile lawyer with a Parsi wife, he had long resisted fervently mixing religion and politics, even as his more successful rival, Mohandas Gandhi, was happy to marry them together. Jinnah's political triumph came only when he changed methods, stoking Muslim fears of a "Hindu Raj" in India. On August 11th 1947 he told an assembly crafting a new constitution that Pakistan was being born of necessity, as Muslims had "no other solution".

In Dilip Hiro's brisk and clear history of partition and its effects, "The Longest August", evidence piles up of the great, long-lived cost of all this. He says that the "communal holocaust" resulted in the massacre of over half a million people, Hindus and Muslims in roughly equal number. Killings began apparently spontaneously, as members of rival religious groups settled old scores, and then escalated in a cycle of vengeance. Millions more were displaced; trudging refugees formed caravans that were more than 50 miles long. Relations between India and Pakistan were probably destined to be awful, but Pakistan made sure of it by starting an ill-judged war (the first of several), sending Pushtun fighters to invade Muslim-majority Kashmir. They botched the job, ensuring Kashmir's accession to India. India's repressive rule there has ensured that the dispute remains unresolved.

Neither country's fate has been ideal, but India is easily more democratic, stable and better off. Mr Hiro's focus is not on the larger country—a shame, because he might have emphasised how Muslims who stayed behind, and their descendants, face a brighter future than Pakistanis whose society is more intolerant and more violent. Instead his interest is in telling the successive missteps of Pakistan and its relations with its larger twin.

India under Jawaharlal Nehru enshrined constitutional rule. In Pakistan Jinnah's early death, just 13 months after partition, left uncertainty. The army soon grabbed ever more power and public resources, justifying itself by talking up threats from India. Successive leaders, both civilian and military, used and encouraged Islamist extremists. Repression and further slaughter in East Pakistan led to the secession of that half of the country, with military help from India, in 1971.

Other wars, such as Pakistan's reckless effort in 1999 to grab Kargil, a sliver of Indian Kashmir, have further poisoned cross-border relations. Islamist militants and terrorists in Pakistan, some backed by parts of the army, regularly attack Kashmir, other parts of India and Indian targets in Afghanistan. India, often clumsy and arrogant, has also been at fault, building alliances in Afghanistan that worry Pakistan, and allegedly helping separatists in Pakistan's Balochistan province or talking of plans for invasion. The bitterness is not diminishing: Narendra Modi, the first Indian prime minister to be born after partition, appears more confrontational than his predecessors despite a friendly start last May, when Nawaz Sharif, Pakistan's civilian leader, was invited to his inauguration.

Mr Hiro, born in Sindh before partition, has written a highly readable account of a complicated history. It first considers how partition came about, mostly through the personalities of Jinnah and Gandhi. He holds Gandhi, whose faith was "orthodox Hinduism", and India's Congress party more responsible than Muslim leaders for India's split. But he is also damning of Jinnah, whom Gandhi called an "evil genius" and "a Hitler" for unleashing religious violence for political gain. The book goes on to explore the fates of both countries through their acquisition of nuclear weapons, border clashes and Bollywood. Others may delve deeper into who bears most blame for three-quarters of a century of strife. But Mr Hiro's book has other virtues. A dispassionate chronological narrative, it is an excellent introduction to a bitterly contested topic. ■

Off the rails

Jean-Paul Sartre

Freedom fighter

Sartre: A Philosophical Biography. By Thomas R. Flynn. *Cambridge University Press; 436 pages; $39.95 and £30*

WHEN the French thinker and writer Jean-Paul Sartre died in April 1980, 50,000 people followed his hearse through Paris. It was a fitting tribute in a country where intellectual life is prized. Philosophers, though, are judged by their arguments, not their funerals. On that sterner test, how has Sartre's philosophy held up? Thomas Flynn's thorough new study offers expert guidance.

Most technical philosophers tend to look at the world as armchair scientists. They puzzle about time or knowledge, matter, numbers and chance. They ask how such things really are. Sartre, who also wrote bestselling fiction and plays, thought about the world as an off-duty novelist. He asked what the world was like for people. They were not detached physicists or passive observers. They lived, aided or obstructed by a material world, which included their bodies. For good or ill, they were thrown into contact with others. Sartre's concern, in a phrase, was what it was like to be human. The topic sounded unmanageable. But its core elements were familiar enough: the mind, human values and human freedom. Sartre linked them together in big loose equations.

▸▸

I am condemned to be free

The human mind was free, notably in its imaginative capacity to entertain possibilities and think of the world as different from how it was. People were free of religious or ethical authorities, so obliged to find their own values. They were free finally to define themselves or choose a form of life as they pleased, for there was no human nature—nothing essential, that is—to being human. Those three freedoms added up to "existentialism", an otherwise obscure label by which Sartre's thought became known. How far it impresses you will depend on whether you prefer philosophy in careful, dry bits or in bold flashes that briefly light up a territory.

Sartre's most famous philosophical treatise, "Being and Nothingness" (1943), suffered from trying to embed pointed insights into human thought and experience in a dense metaphysical theory that split not just mind from world but the mind of any one person from everyone else's. In compensation, the book displayed Sartre's rare psychological acuity and brought out the pervasive role of the imagination.

Sartre stressed an ever-present emotional element in human thinking that philosophers preoccupied with truth and validity tended to overlook. He was fertile and original in putting previously neglected mental phenomena such as shame, pride and fear at the centre of how to understand self-awareness. To cultural and gender studies he bequeathed the enticing idea that the judgmental look or predatory gaze of others shaped and commonly distorted a person's sense of who they were.

In a typical twist, Sartre added that people were entirely free to reject the verdicts of others and their stereotyping. To deny that freedom involved self-deception or bad faith. So, generally, did blaming your situation on your past, your parents, the unconscious, social pressures or human nature. Those were craven excuses. At any moment you could avow or disavow your situation. Strictly, it was yours only once you claimed ownership. Such freedom was daunting, Sartre recognised. In his brutal phrase, everyone was "condemned" to be free.

In the philosopher's superabundance of ideas, imagination did most of the work. Neither passive nor whimsical, this power of supposition underlay the simplest intentions and grandest plans. Its uses ran from the banal and domestic to the heroic and political. As the power to suppose that society might be different, imagination dominated Sartre's radical politics. On Paris walls in the student upheavals of May 1968 appeared the Sartrean slogan, "Power to the imagination".

Besides a weakness for overgeneralisation, Sartre tended to over-empower the mind. At one extreme, he was never far from gifting people with mysterious mental powers to shape events. His runaway prose tended to blur the simple point that picturing a better society did not create a better society. Imagination was needed for action but was never itself enough. People still had to act.

At another extreme, Sartre risked lapsing into stoical banalities. People had no protection, he admitted, against time, pain or death. They were still free, the philosopher insisted, to say what those ills meant to them. People were free to grant or deny value to life's vicissitudes. How far, though, did refusing "ownership" of pain remove pain?

Sartre's published output is reckoned at 20 pages a day throughout his working life. No English-speaking philosopher has read that vast corpus with greater industry than Mr Flynn. His new biography scrutinises the works chronologically from start to finish. It includes Sartre's fiction and plays, as well as the political or critical essays. Mr Flynn has done Sartrean initiates a large service, but this is not an introduction.

Though he writes within Sartre's thought, using his vocabulary, Mr Flynn stresses unresolved puzzles. Technical philosophers can sound as if they are trying to describe a world without humans, Sartre as if describing human life without a world. Sartre saw the difficulty, but never completed his later attempts to relocate the isolated mind of "Being and Nothingness" in a social world of rights and duties. Nor did he let up on the clash between limitless freedoms to change attitudes to a situation and their apparent powerlessness to change the situation itself. A cheery, can-do sort would say that life is not always so bleak. People are rarely or completely so trapped. No, indeed. But sometimes they are, which is one reason why Sartre's work, though little read these days, remains interesting and even topical. ■

The Whitworth Art Gallery

More than a month's worth of visitors piled into the Whitworth Art Gallery in Manchester when it reopened after a £15m ($23m) revamp on February 14th. To celebrate, its spirited director, Maria Balshaw, put on a welcome-back show that did both city and gallery proud: Cornelia Parker's "Cold Dark Matter: An Exploded View" (pictured above), an installation of a blown-up shed containing graphene—the wonder substance that was invented in Manchester; the Hallé youth choir belting out Hubert Parry's "Jerusalem"; and an opening-night curry dinner in homage to the restaurants and kebab houses on south Manchester's Curry Mile nearby. Enough to make grown Mancunians weep.

ICAEW

Two Independent Non-Executive Board Members

£15,000 + expenses, 12-15 days per annum

The Institute of Chartered Accountants in England and Wales (ICAEW) is a world leading professional membership organisation that promotes and supports over 144,000 chartered accountants worldwide. It provides qualifications and professional development, and looks to protect the quality and integrity of the accountancy and finance profession.

ICAEW is looking to appoint two Independent (i.e. non-Chartered accountant) Non-Executive Directors to its Board, with a view to increasing the diversity of experience and skill sets at board-level and providing external perspective.

The Search for Independent Board Members is being conducted by Fidelio Partners on a transparent basis which reflects ICAEW's commitment to diversity of background, skills and experience at board-level.

This represents an excellent opportunity to contribute at board-level to the work of a leading professional body which plays a crucial role across the world in helping people do business with confidence.

Role requirements:

- Senior experience in a leadership role in a business or a public service organisation
- A track record in shaping and guiding strategy within an organisation
- A clear understanding of how the Chartered Accountancy profession underpins business confidence
- A demonstrable commitment to public service
- A proven ability to communicate effectively with a broad range of colleagues and stakeholders
- Career experience which provides the basis for effective horizon scanning – a sensitivity and awareness of key stakeholder groups and an ability to identify long-term trends and risks

Additional desirable experience includes an international track record, especially in Asia, Africa and the Middle East; governmental and/or regulatory experience; and digital/technology expertise.

The closing date is **Friday 20th March, 2015**.

To find out more or to submit an application contact Fidelio: email **ICAEW@fideliopartners.com** or telephone **+44 (0) 207 759 2200.**

FIDELIO
BOARD DEVELOPMENT
& EXECUTIVE SEARCH

INTERNATIONAL PROJECT MANAGER

URBAN PARTNERSHIPS FOR POVERTY REDUCTION (UPPR)

UN DP
Empowered lives. Resilient nations.

Bangladesh is a global leader in sustainable development creating some of the most exciting and innovative work in the field. UNDP Bangladesh works closely with Government, donors, NGOs and civil society to help develop new and more powerful solutions in poverty reduction, democratic governance and human rights, disaster risk reduction and climate change adaptation.

"Improving the lives of three million urban poor and extremely poor people in Bangladesh, UPPR is one of the largest urban poverty reduction initiatives in the world."

This exciting role is at a senior level in the United Nations system (P6). The International Project Manager runs a cutting edge programme with a strong focus on empowerment of communities, especially of women, providing urban infrastructure, and tackling fundamental issues such as city level governance, land tenure, employment and skills. The International Project Manager is expected to play a lead role in the country's highly dynamic urban sector, influencing urban poverty reduction policy at the national level and forging partnerships with key urban and poverty reduction stakeholders nationally and internationally.

For further details and to apply online, please visit http://jobs.undp.org/ Women candidates are strongly encouraged to apply.

The Economist | Intelligence Unit

Economist

London-based covering Europe

As the research and analysis division of the Economist Group, The Economist Intelligence Unit (EIU) helps leaders prepare for opportunity, empowering them to act with confidence when making strategic decisions. The EIU is the global standard in providing quality, actionable intelligence to the public and private sector, assessing issues that impact the marketplace for over two hundred countries.

Responsible for production and quality, you will contribute to all areas of the region's editorial output, undertaking economic and political forecasting and analysis; demonstrating outstanding editorial standards, intellectual leadership and analytical capability; and representing the EIU externally. This will involve focusing on specified countries to produce several reports per month; leading EIU thinking on those countries; preparing daily research notes which interpret political and economic events; and commissioning contributors.

To succeed you must have experience of analysing and forecasting political and economic trends; strong writing and editing skills in English; the ability to organise, prioritise and remain calm under pressure; and a collaborative, quality-conscious approach.

For more information and to apply please search job reference 1744 at **https://careers-economist.icims.com/jobs/**

Non-EEA applicants will need to obtain a UK work permit.

The Economist Group values diversity. We are committed to equal opportunities and creating an inclusive environment for all our employees. We welcome applicants regardless of ethnic origin, gender, religious beliefs, disability, sexual orientation or age.

LinkedIn

The Economist Group

Prepare for opportunity.

Courses

Apply to a LUISS Phd

LUISS University is looking for talented applicants who are enthusiastic about research, and intellectually curious. Our PhD programs are designed to challenge and stimulate, attracting exceptional students who will receive top quality supervision and an in-depth research training from internationally recognized scholars.

PhD in Economics (3-year program)
An advanced course of study designed to give students the ability to understand and elaborate a broad spectrum of economic problems and to provide up to date analytical, empirical and quantitative techniques. Primary research areas include macroeconomics, microeconomics, econometrics, monetary and fiscal policies analysis, financial markets and regulation, as well as economic cycle and growth models.

PhD in Management (4-year program)
A disciplined learning path for high potential doctoral students. Primary research areas include business strategy, organizational planning and learning, marketing management, accounting and corporate governance, corporate finance, management of innovation, project management, innovation and social entrepreneurship, as well as internationalization of business.

PhD in Law and Business (3-year program)
An advanced and interdisciplinary course of study that combines the theoretical and practical aspects of legal and regulatory issues affecting the market and business, from a national, EU, international and comparative perspective, focused on both the analysis and theoretical models and on the resolution of practical cases.

PhD in Political Theory, Political Science, and Political History (3-year program)
A doctoral program offering three different curricula and aiming at providing an interdisciplinary perspective on contemporary global political studies. Primary research areas include political theory, political science, international relations, applied ethics, political history, as well as history of international relations and European integration.

→ If this sounds like you, we encourage you to take a closer look at our PhD programs.

→ Start your application for September 2015 entry.

→ The application deadline is **31 March 2015** (Management, Law and Business, and Political Theory, Political Science, and Political History) and **30 April 2015** (Economics).

LUISS

TO FIND OUT MORE INFORMATION, PLEASE VISIT OUR WEBSITE AT

www.luiss.edu/research/phd-programs

Asian Institute of Finance (AIF) is a think-tank jointly set up by Bank Negara Malaysia and Securities Commission Malaysia to enhance the human capital development and talent management of the finance services industry in Asia.

DIRECTOR, PROFESSIONAL STANDARDS DEVELOPMENT

Provide strategic direction and oversee the development and implementation of professional standards across the financial services industry. This position provides both strategic and operational support to the Financial Services Professional Board (FSPB) www.fspb.com. The post holder will be expected to present ideas to the FSPB, as well as other stakeholders. He/She is expected to lead, coach and mentor a team. This position reports to the Chief Executive Officer and is a member of the Management Committee.

Requirements:

- Graduate Degree or Masters in HR/Management/Business. Minimum 10 years' working experience in financial services or consulting. A post graduate qualification is desirable.
- Experience in the development and advocacy of standards.

SENIOR RESEARCHERS
(3 Posts – Strategic Policy, HR, Organisation Development)

Reporting to the Director of Strategy, Policy Development and Research. Responsibilities are to plan, prioritise and manage a range of applied research and policy studies relating to the financial services industry.

Requirements:

- Graduate Degree in HR/Management/Business with minimum of 8 years' experience. A post graduate qualification preferred.
- Strong research experience and analytical skills.
- Ability to clearly and concisely present, discuss and write about the conclusions, inferences and results gained from analysing complex data collected from a range of sources.
- Excellent project management skills.

Candidates must be fluent in spoken and written English. The ability to speak the language of an ASEAN country will be a distinct advantage.

We offer an attractive remuneration package (3-year contract), with a bonus scheme. Interested applicants should view the full role specifications at our website (www.aif.org.my). Email hr@aif.org.my or fax (our Fax No. : 603-2787 1900) a complete resume, and letter of application stating how your skills meet the role needs and CLEARLY IDENTIFYING WHICH ROLE YOU ARE APPLYING FOR.

Please include current and expected salary, contact telephone number and a recent passport-size photograph (non-returnable), to arrive no later than **7 March 2015**.

Only shortlisted applicants will be contacted.

Announcements

UNION DES COMORES
Unité. Solidarité. Développement

VICE PRESIDENCE EN CHARGE DU MINISTERE DES FINANCES, DE L'ECONOMIE, DU BUDGET, DE L'INVESTISSEMENT ET DU COMMERCE EXTERIEUR CHAGE DES PRIVATISATIONS

MINISTRE DES POSTES ET TÉLÉCOMMUNICATIONS, DE LA PROMOTION DES NOUVELLES TECHNOLOGIES DE L'INFORMATION ET DE LA COMMUNICATIONS CHARGÉ DES TRANSPORTS ET DU TOURISME

Bureau de gestion de Projet ABGE
(Appui à la Bonne Gouvernance Economique)
Programme Régional d'Infrastructures de Communications phase 4 (RCIP-4)

[Version française de l'annonce en bas]

In accordance with the process of telecommunication sector reform, the Government of the Union of Comoros is pleased to announce a competitive selection process for a second unified telecommunication license, including mobile, fixed and internet. The process will take place this year 2015.

The process will be conducted by the National ICT Regulatory Authority, ANRTIC, with the support of the World Bank and a consortium of advisers under the fourth phase of the Regional Communications Infrastructure Program (RCIP-4). For more information, please contact Djinti Ahamada, focal point for the selection process, email: djinti.ahamada@anrtic.km, and/or Hervé de Villechabrolle, at Ernst and Young Corporate Finance ltd., email: herve.devillechabrolle@ae.ey.com.

Conformément au processus de réforme du secteur des télécommunications, le Gouvernement de l'Union des Comores a le plaisir d'annoncer un appel d'offres pour une deuxième licence globale, incluant des services mobiles, fixes et internet. Le processus se déroulera cette année 2015.

La procédure sera menée par l'Autorité Nationale de Régulation des TICs (ANRTIC), avec l'appui de la Banque Mondiale à travers le projet d' quatrième phase du programme régionale des infrastructures de communications (RCIP-4). Pour plus d'information, veuillez contacter Djinti Ahamada, point focal du processus de sélection, email: djinti.ahamada@anrtic.km et/ou Hervé de Villechabrolle, Ernst and Young Corporate Finance ltd., email: herve.devillechabrolle@ae.ey.com.

Tenders

BR Office Burundais des Recettes

REQUEST FOR EXPRESSIONS OF INTEREST (EOI)
TITLE: OFFICE BURUNDAIS DES RECETTES (OBR) COMMUNICATION ADVISOR,BURUNDI
NUMBER: PRQ20141141

The Office Burundais des Recettes (OBR) is a semi-autonomous government institution which manages revenue collections from Customs, Domestic taxes as well as non-fiscal revenues on behalf of Government of Burundi. OBR with the support of TradeMark East Africa (TMEA) seeks to engage individuals/firms to enhance and develop its communications strategy.

The detailed Terms of Reference for this consultancy and the application form can be obtained at TradeMark East Africa's website http://www.trademarkea.com/get-involved/procurement/. Interested and qualified **individuals/firms** must register and apply online ONLY on the TradeMark East Africa procurement portal at the website: http://procurement.trademarkea.com. Any queries must be directed to procurement@trademarkea.com .

The closing date for applications is 05 March 2015. Only successful applicants will be contacted.

TRADE MARK EAST AFRICA
Growing Prosperity Through Trade

TMEA cannot answer any query relating to this tender three days or less prior to the submission deadline.

Business & Personal

GLOBAL *INVESTING*

Invest globally without leaving Wall St. or your discount broker.
http://www.global-investing.com/ec
A 25-year-old top-performing newsletter edited by a reporter in Europe for 18 years, brings the world to retail investors portfolios with ADRs, yankee bonds, and tradeable funds.

Specific Procurement Notice

Invitation for Pre-qualification

Western Tehran Sanitation Project

Design, Supply and Installation of 4 Modules of Western Tehran Wastewater Treatment Plant

Istisna'a IRN 00102

This invitation for prequalification follows the general procurement notice for this project that appeared in following newspapers:

Tehran Times (No. 11471 & 11472) of 8 & 9 Jul 2012

Iran Daily (No. 4274 & 4275) of 8 & 9 Jul 2012 **Iran** (No. 5120 & 5121) of 8 & 9 Jul 2012

The Government of the Islamic Republic of Iran has received an Istisna'a financing from the Islamic Development Bank (IsDB) toward the cost of the Western Tehran Sanitation Project, and it intends to apply part of the proceeds of this financing to payments under the contract for Design, Supply and Installation of 4 modules of Western Tehran Wastewater Treatment Plant. The Tehran Sewerage Company (TSC) intends to prequalify contractors and/or firms for the Design, Supply and Installation of 4 Modules of Western Tehran Wastewater Treatment Plant which covers a Population Equivalent (PE) of 2,100,000 for the 2031 design horizon year. The Wastewater Treatment Plant will involve an **activated sludge process with simultaneous removal of nitrogen and phosphorus including anaerobic, anoxic and aerobic areas with the internal circulation flow from aerobic to anoxic methods (A2O)**. The average flow of sewage into the WWTP (having taken into account inflow) is estimated to be about 514000 m3/day in the 2031 design horizon year.

Prequalification will be conducted through prequalification procedures specified in the Islamic Development Bank's Guidelines for Procurement of Goods and Works, May 2009 and is open to all bidders from eligible source countries (Open ICB), as defined in the guidelines.

Interested eligible Applicants may obtain further information from and inspect the prequalification document at the Tehran Sewerage Company (address below) from 9:00 am to 2:00 pm. A complete set of the prequalification document in English may be purchased by interested Applicants (a) on the submission of a written application to the address below and upon payment of a non-refundable fee of 500,000 Iranian Rials or 30 Euros. The method of payment will be direct deposit to specified accounts (foreign currency account number for **foreign applicants**: [05180821 Tejarat Bank of IRAN- Imam Khomeini Branch (Code: 56)]/ [domestic account number for **local applicants**: 131524706 (current account) Tejarat Bank of IRAN- Imam Khomeini Branch (Code: 56)]. The prequalification document will be submitted to applicant (by having official letter of recommendation) at the address below, from 9:00 am to 2:00 pm.

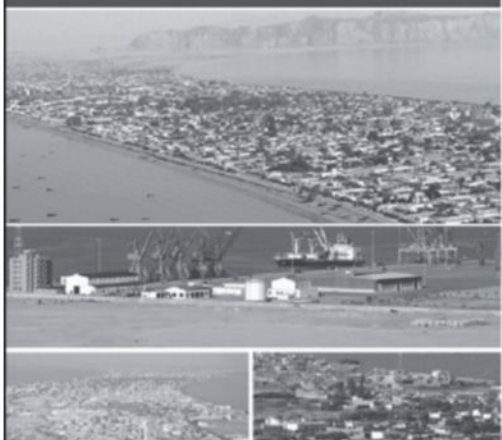
Applications for prequalification should be submitted in sealed envelopes, delivered to the Tehran Sewerage Company latest by 14 March, 2015, Saturday, 13:00 pm, and be clearly marked ***"Application to Prequalify for Western Tehran Sanitation Project - Design, Supply and Installation of 4 Modules of Western Tehran Wastewater Treatment Plant."***

Tehran Sewerage Company
No. 14 - Andisheh St. – Dr Beheshti Ave. – Tehran – Iran
Mailbox number: 15875-5696
Facsimile number: +98 (21) 88402067
Telephone: +98 (21) 88546190 & +98 (21) 88435961
Electronic mail address: idb.ts@tpww. ir

Smart Port City

Master Plan for Gwadar

REQUEST FOR TECHNICAL AND FINANCIAL PROPOSAL



The Government of Pakistan intends to prepare a 'Smart Port City' Master Plan for Gwadar. The current analysis will build on previous plans in order to identify actionable items that can be implemented immediately. For planning purposes, all avenues must be considered, with special emphasis on the latest thinking in sustainability, economic clustering, physical, social and intellectual capital, information technology and the development of a regulatory environment that facilitates economic growth. The broad objectives of the study are as follows:

- Creating the vision and guiding strategic objectives for Gwadar City.
- Updating the existing Master Plan of Gwadar City and its integration with the Master Plan of the Gwadar Port.
- Creating an inclusive and sustainable strategic development plan that ensures the socio-economic uplift of the Makran Coast in general and the Gwadar Region in particular.
- Recommending regulatory interventions and ways and means to develop Gwadar as a 'Special Economic Zone' and ensure near-term economic growth (including trickle down effects)
- Clearly identifying Gwadar's competitive advantages vis-a-vis regional ports and developing a business case for the port, its contribution to export led growth, market creation, industrialization, tourism and revenue generation.
- Suggesting strategies to facilitate trade, tourism, community participation, public-private partnerships and industrial and economic development on a national and regional level .
- Catering for climate change adaptability, sustainability, infrastructure, energy production, security of life & property, disaster risk reduction and mitigation.
- Transforming Gwadar into a port of international standards and a smart, sustainable city that can drive local, national and regional growth in the coming decades

Reputable international firms (single firm / consortium / joint ventures), with the requisite technical expertise and experience, are invited to submit proposals for undertaking the project.

The detailed scope of work and the eligibility criteria are available on the Planning Commission's website at **www.pc.gov.pk** or may be requested by sending an email to **mem_infra@pc.gov.pk.** The procurement will follow a single stage, two envelope process (technical and financial proposals). Proposals containing all information per the scope of work document should be received by post and in soft copy before **16th March 2015,** on the following address.

Member (Infrastructure & Regional Connectivity),
Planning Commission
Ministry of Planning, Development & Reforms
Room 402, 'P' Block, Pakistan Secretariat,
Government of Pakistan, Islamabad
Phone: + 92 51 9201981, Email: mem_infra@pc.gov.pk

www.pc.gov.pk

Economic and financial indicators

Economic data

% change on year ago

	Gross domestic product			Industrial production	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance	Interest rates, %	Currency units, per $	
	latest	qtr*	2014†	latest	latest	2014†		latest 12 months, $bn	% of GDP 2014†	% of GDP 2014†	10-year gov't bonds, latest	Feb 18th	year ago
United States	+2.5 Q4	+2.6	+2.4	+4.8 Jan	+0.8 Dec	+1.5	5.7 Jan	-388.1 Q3	-2.3	-2.8	2.10	-	-
China	+7.3 Q4	+6.1	+7.4	+7.9 Dec	+0.8 Jan	+2.1	4.1 Q4§	+213.8 Q4	+2.2	-2.4	3.24§§	6.26	6.06
Japan	-0.5 Q4	+2.2	+0.3	+0.1 Dec	+2.4 Dec	+2.7	3.4 Dec	+24.3 Dec	+0.4	-8.0	0.39	119	102
Britain	+2.7 Q4	+2.0	+2.7	+0.5 Dec	+0.3 Jan	+1.4	5.7 Nov††	-163.0 Q3	-4.6	-5.4	1.75	0.65	0.60
Canada	+2.6 Q3	+2.8	+2.4	+2.1 Nov	+1.5 Dec	+1.9	6.6 Jan	-41.2 Q3	-2.3	-2.0	1.47	1.24	1.10
Euro area	+0.9 Q4	+1.4	+0.8	-0.2 Dec	-0.6 Jan	+0.4	11.4 Dec	+318.0 Nov	+2.4	-2.5	0.38	0.88	0.73
Austria	-0.1 Q4	+2.6	+0.7	-2.5 Nov	+1.0 Dec	+1.5	4.9 Dec	+2.4 Q3	+2.0	-2.5	0.50	0.88	0.73
Belgium	+0.9 Q4	+0.4	+1.0	-3.4 Nov	-0.6 Jan	+0.5	8.4 Dec	+8.0 Sep	-0.4	-3.0	0.63	0.88	0.73
France	+0.2 Q4	+0.3	+0.4	-0.1 Dec	+0.1 Dec	+0.6	10.3 Dec	-30.5 Dec‡	-1.4	-4.4	0.69	0.88	0.73
Germany	+1.5 Q4	+2.8	+1.4	-0.4 Dec	-0.4 Jan	+0.8	6.5 Jan	+284.5 Dec	+7.1	+0.8	0.38	0.88	0.73
Greece	+1.5 Q4	-0.7	+0.8	-3.9 Dec	-2.8 Jan	-1.3	25.8 Nov	+3.0 Nov	+1.4	-4.2	10.18	0.88	0.73
Italy	-0.3 Q4	-0.1	-0.4	+0.1 Dec	-0.6 Jan	+0.2	12.9 Dec	+36.7 Nov	+1.5	-3.0	1.67	0.88	0.73
Netherlands	+1.0 Q4	+1.8	+0.7	-2.8 Dec	nil Jan	+0.6	8.1 Dec	+91.5 Q3	+9.6	-2.6	0.42	0.88	0.73
Spain	+2.0 Q4	+2.8	+1.3	+2.2 Dec	-1.3 Jan	-0.2	23.7 Dec	-1.5 Nov	+0.2	-5.6	1.65	0.88	0.73
Czech Republic	+2.7 Q3	+0.8	+2.2	+7.3 Dec	+0.1 Jan	+0.4	7.7 Jan§	+0.2 Q3	-1.1	-1.6	0.73	24.2	20.0
Denmark	+1.0 Q3	+1.6	+0.9	+4.7 Dec	-0.1 Jan	+0.5	5.0 Dec	+21.2 Dec	+6.6	+0.2	0.19	6.53	5.45
Hungary	+3.4 Q4	+3.6	+3.0	+4.8 Dec	-1.4 Jan	nil	7.1 Dec§†††	+5.7 Q3	+4.3	-2.9	3.37	270	225
Norway	+3.2 Q4	+3.7	+2.3	+3.1 Dec	+2.0 Jan	+2.0	3.7 Nov‡‡	+49.2 Q3	+10.8	+12.0	1.36	7.54	6.08
Poland	+3.4 Q3	+2.4	+3.3	+1.7 Jan	-1.3 Jan	+0.1	11.5 Dec§	-7.1 Dec	-1.3	-3.5	2.31	3.67	3.02
Russia	+0.7 Q3	na	+0.6	+1.0 Jan	+15.0 Jan	+7.8	5.5 Jan§	+56.6 Q4	+2.7	-0.2	11.73	63.2	35.2
Sweden	+2.1 Q3	+1.3	+1.9	-1.6 Dec	-0.2 Jan	-0.2	8.4 Jan§	+36.5 Q3	+5.8	-2.2	0.50	8.34	6.46
Switzerland	+1.9 Q3	+2.6	+1.8	-0.4 Q3	-0.5 Jan	nil	3.1 Jan	+45.7 Q3	+10.6	+0.3	0.05	0.93	0.89
Turkey	+1.7 Q3	na	+3.0	+4.6 Dec	+7.2 Jan	+8.9	10.7 Nov§	-45.8 Dec	-5.6	-1.4	7.83	2.45	2.17
Australia	+2.7 Q3	+1.4	+2.8	+3.8 Q3	+1.7 Q4	+2.5	6.4 Jan	-42.9 Q3	-3.0	-2.6	2.60	1.28	1.11
Hong Kong	+2.7 Q3	+6.8	+2.4	-1.7 Q3	+4.8 Dec	+4.4	3.3 Jan‡‡	+7.7 Q3	+1.9	+0.8	1.71	7.76	7.76
India	+7.5 Q4	+4.0	+6.0	+1.7 Dec	+5.1 Jan	+7.2	8.8 2013	-23.4 Q3	-1.8	-4.2	7.71	62.2	61.9
Indonesia	+5.0 Q4	na	+5.0	+5.2 Dec	+7.0 Jan	+6.4	5.9 Q3§	-26.2 Q4	-2.8	-2.3	na	12,770	11,785
Malaysia	+5.8 Q4	na	+5.9	+7.4 Dec	+1.0 Jan	+3.1	2.7 Nov§	+15.2 Q4	+4.2	-3.6	3.88	3.59	3.29
Pakistan	+5.4 2014**	na	+5.4	+4.9 Nov	+3.9 Jan	+7.2	6.2 2013	-3.5 Q4	-2.6	-5.5	9.80†††	102	105
Singapore	+2.1 Q4	+4.9	+2.8	-1.9 Dec	-0.2 Dec	+1.1	1.9 Q4	+58.8 Q4	+21.6	+0.5	2.34	1.36	1.26
South Korea	+2.8 Q4	+1.5	+3.5	+0.4 Dec	+0.8 Jan	+1.3	3.8 Jan§	+89.4 Dec	+5.9	+0.5	2.38	1,102	1,060
Taiwan	+3.3 Q4	+4.8	+3.6	+7.8 Dec	-0.9 Jan	+1.2	3.8 Dec	+65.0 Q3	+11.7	-1.4	1.63	31.5	30.2
Thailand	+2.2 Q4	+7.1	+0.7	-0.4 Dec	-0.4 Jan	+1.9	0.6 Dec§	+14.2 Q4	+2.6	-2.5	2.78	32.6	32.3
Argentina	-0.8 Q3	-2.1	-0.4	-2.4 Dec	— ***	—	6.9 Q4§	-5.0 Q3	-1.1	-2.7	na	8.68	7.76
Brazil	-0.2 Q3	+0.3	+0.1	-2.8 Dec	+7.1 Jan	+6.3	4.3 Dec§	-90.9 Dec	-4.1	-6.1	12.77	2.83	2.38
Chile	+0.8 Q3	+1.5	+1.8	+0.8 Dec	+4.5 Jan	+4.4	6.0 Dec§‡‡	-5.0 Q3	-1.7	-2.2	4.22	621	547
Colombia	+4.2 Q3	+2.6	+4.8	+2.2 Dec	+3.8 Jan	+2.9	8.7 Dec§	-16.2 Q3	-4.4	-1.7	6.60	2,422	2,017
Mexico	+2.2 Q3	+2.0	+2.3	+3.0 Dec	+3.1 Jan	+4.0	4.4 Dec	-25.4 Q3	-1.9	-3.4	5.66	14.9	13.2
Venezuela	-2.3 Q3	+10.0	-3.0	+0.8 Sep	+68.5 Dec	+62.1	5.5 Dec§	+10.3 Q3	+1.2	-13.0	16.75	12.0	6.29
Egypt	+6.8 Q3	na	+2.2	+1.2 Dec	+9.7 Jan	+10.1	12.9 Q4§	-4.4 Q3	-2.0	-12.0	na	7.63	6.96
Israel	+3.6 Q4	+7.2	+2.5	-1.7 Nov	-0.5 Jan	+0.5	5.7 Dec	+11.2 Q3	+3.6	-2.9	1.87	3.87	3.51
Saudi Arabia	+3.6 2014	na	+3.9	na	+2.2 Jan	+2.8	6.0 2014	+120.1 Q3	+12.9	+1.3	na	3.75	3.75
South Africa	+1.4 Q3	+1.4	+1.6	+0.5 Dec	+4.4 Jan	+6.2	24.3 Q4§	-19.7 Q3	-5.4	-4.3	7.45	11.7	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, Jan 35.9%; year ago 26.04% †††Dollar-denominated bonds.

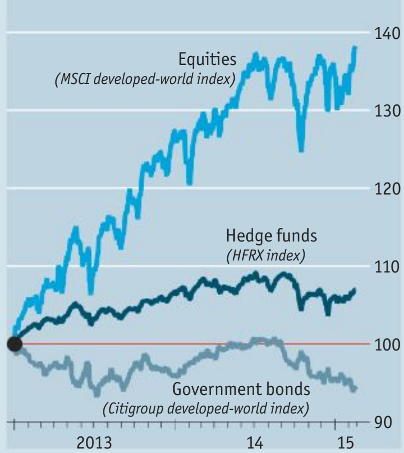
Markets

	Index Feb 18th	% change on one week	% change on Dec 31st 2013 in local currency	% change on Dec 31st 2013 in $ terms
United States (DJIA)	18,029.9	+0.9	+8.8	+8.8
China (SSEA)	3,402.1	+2.8	+53.6	+48.7
Japan (Nikkei 225)	18,199.2	+3.1	+11.7	-1.5
Britain (FTSE 100)	6,898.1	+1.2	+2.2	-4.7
Canada (S&P TSX)	15,212.8	+0.4	+11.7	-4.5
Euro area (FTSE Euro 100)	1,146.5	+2.7	+12.4	-7.3
Euro area (EURO STOXX 50)	3,465.8	+2.7	+11.5	-8.1
Austria (ATX)	2,427.8	+4.6	-4.7	-21.4
Belgium (Bel 20)	3,595.8	+1.6	+23.0	+1.4
France (CAC 40)	4,799.0	+2.6	+11.7	-7.9
Germany (DAX)*	10,961.0	+1.9	+14.7	-5.4
Greece (Athex Comp)	847.5	+6.9	-27.1	-39.9
Italy (FTSE/MIB)	21,659.3	+5.3	+14.2	-5.8
Netherlands (AEX)	467.3	+2.0	+16.3	-4.1
Spain (Madrid SE)	1,095.4	+4.3	+8.2	-10.8
Czech Republic (PX)	1,006.9	+2.0	+1.8	-16.2
Denmark (OMXCB)	752.7	+5.0	+33.0	+9.9
Hungary (BUX)	18,082.3	+1.9	-2.6	-22.2
Norway (OSEAX)	667.8	+3.2	+10.8	-10.6
Poland (WIG)	52,476.6	+1.1	+2.3	-16.2
Russia (RTS, $ terms)	929.4	+11.7	+20.2	-35.6
Sweden (OMXS30)	1,652.2	+3.7	+23.9	-5.4
Switzerland (SMI)	8,800.7	+2.6	+7.3	+1.1
Turkey (BIST)	85,441.6	+2.4	+26.0	+10.3
Australia (All Ord.)	5,877.9	+2.6	+9.8	-3.8
Hong Kong (Hang Seng)	24,832.1	+2.1	+6.5	+6.5
India (BSE)	29,320.3	+2.8	+38.5	+37.4
Indonesia (JSX)	5,390.4	+1.0	+26.1	+19.5
Malaysia (KLSE)	1,807.9	+0.5	-3.2	-12.4
Pakistan (KSE)	33,718.9	-1.4	+33.5	+38.3
Singapore (STI)	3,435.7	-0.3	+8.5	+0.7
South Korea (KOSPI)	1,961.5	+0.8	-2.5	-6.6
Taiwan (TWI)	9,529.5	+0.7	+10.7	+4.6
Thailand (SET)	1,603.1	-0.1	+23.4	+24.5
Argentina (MERV)	9,513.2	+4.3	+76.5	+32.4
Brazil (BVSP)	51,280.4	+6.3	-0.4	-17.3
Chile (IGPA)	19,412.4	+1.7	+6.5	-10.0
Colombia (IGBC)	10,694.1	+1.3	-18.2	-34.9
Mexico (IPC)	43,053.7	+2.7	+0.8	-11.6
Venezuela (IBC)	3,503.9	-1.4	+28.0	na
Egypt (Case 30)	9,537.2	-2.4	+40.6	+28.0
Israel (TA-100)	1,307.6	+1.7	+8.3	-2.8
Saudi Arabia (Tadawul)	9,442.5	+3.4	+10.6	+10.6
South Africa (JSE AS)	52,536.2	+0.9	+13.6	+1.9

Market performance

America's S&P 500 index reached a record high this week. The tech-heavy NASDAQ index and Britain's FTSE 100 were close to all-time peaks, and Japan's Nikkei 225 was at its highest since May 2007. Even Europe was perky, thanks to hopes of a deal over Greece's finances: European equities were at their highest for seven years. Equities in the rich world have risen by almost 40% since the start of 2013, thanks partly to low returns on other assets; government bonds have lost 6% over the same period. Global bond returns have been hit by currencies like the yen and euro weakening against the dollar. Hedge funds have lagged behind equities, in part because of their fees, yet money continues to flow in.

Total returns, $ terms, January 1st 2013=100



Source: Thomson Reuters

Other markets

	Index Feb 18th	% change on one week	% change on Dec 31st 2013 in local currency	% change on Dec 31st 2013 in $ terms
United States (S&P 500)	2,099.7	+1.5	+13.6	+13.6
United States (NAScomp)	4,906.4	+2.2	+17.5	+17.5
China (SSEB, $ terms)	295.4	+1.0	+20.3	+16.5
Japan (Topix)	1,482.7	+3.8	+13.9	+0.4
Europe (FTSEurofirst 300)	1,515.9	+2.2	+15.2	-5.1
World, dev'd (MSCI)	1,759.0	+2.2	+5.9	+5.9
Emerging markets (MSCI)	985.0	+2.5	-1.8	-1.8
World, all (MSCI)	429.2	+2.2	+5.1	+5.1
World bonds (Citigroup)	888.1	+0.3	-2.0	-2.0
EMBI+ (JPMorgan)	697.5	+0.9	+7.0	+7.0
Hedge funds (HFRX)	1,228.0§	+0.6	+0.2	+0.2
Volatility, US (VIX)	15.5	+17.0	+13.7	(levels)
CDSs, Eur (iTRAXX)†	54.6	-7.7	-15.7	-30.5
CDSs, N Am (CDX)†	64.1	-4.0	+7.0	+7.0
Carbon trading (EU ETS) €	7.6	+5.2	+44.9	+19.5

Sources: Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. §Feb 17th

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

The Economist commodity-price index

2005=100

	Feb 10th	Feb 17th*	% change on one month	% change on one year
Dollar Index				
All Items	145.4	141.0	-4.2	-16.4
Food	164.2	156.0	-6.9	-18.1
Industrials				
All	125.7	125.4	-0.4	-14.1
Nfa†	122.2	122.3	+2.8	-21.8
Metals	127.3	126.7	-1.7	-10.4
Sterling Index				
All items	173.3	167.2	-5.1	-9.0
Euro Index				
All items	159.6	153.8	-2.7	+0.8
Gold				
$ per oz	1,237.5	1,207.1	-6.5	-8.7
West Texas Intermediate				
$ per barrel	50.3	53.4	+15.4	-47.9

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.

Sweet secrets

Michele Ferrero, Italy's chocolate king, died on Valentine's day, aged 89

IN THE only interview he ever gave, to *La Stampa*, Michele Ferrero did not once remove his sunglasses. This was not just to shield his weak eyes, but to conceal himself. Modesty was a habit. People sometimes called him a genius; he would turn the question gently back on them by saying that, yes, his second name was indeed "Eugenio", and his mother liked to call him that; but he was glad to be simple Michele, the boy with the thick Piedmontese accent whose life had come to revolve round the farmers of the Alta Langa and their abundant, delectable hazelnut crop.

His love of privacy also had a commercial purpose. He needed to keep secret the recipe for his hazelnut-chocolate spread, Nutella, of which 365m kilos are now consumed each year round the world, and which along with more than 20 other confectionery lines made him Italy's richest man, worth $23.4 billion. He laughed when he heard that the recipe for Coca-Cola was known to only a few directors of the company. Even fewer knew exactly what went into each jar of Nutella.

Several other trade secrets, though, were revealed to the man from *La Stampa*. The first was, "Always do something different from the others." Nutella was a case in point. The basic *gianduja* paste, ground hazelnuts with a little cocoa, had been known in northern Italy since Napoleonic times. His father Pietro, who ran a corner café and pastry-shop in the small town of Alba, had revived this idea in the second world war when cocoa was hard to get. Finding the perfect blend became a passion, and the teenage Michele caught it too as his father laboured in a back room, running out at all hours to test sweet spoonfuls on his wife and sons with the cry, "What do you think?" The paste was sold in solid loaves at first, then, as semi-solid "Supercrema", in jars; but Michele, taking over the recipe after his father's death in 1949, did what no one else had, and added enough drops of vegetable oil to make it beautifully spreadable. The result was revolutionary: chocolate-eating transformed from a special event to something everyday, children lining up after school in bakers' shops to get it smeared on bread, and by the late 1950s a fleet of 1,000 cream-and-chocolate vans criss-crossing Italy to keep shops supplied. In 1964 he invented the name Nutella and the glass jar, and the rest was history.

He did something very different, too, with Mon Chéri, his cherry-liqueur chocolates. When he went to post-war Germany to market them he found the country so ruined that he decided to sell them not in the usual boxes, which were unaffordable, but singly, "to raise the morale of the Germans and bring something sweet into their lives." He still wept a little, with both happiness and sadness, to think of that.

Keep doggedly at it, was his second secret. He liked to move at his own pace, and thus resisted all acquisitions (save for one Turkish hazelnut company), and refused to be listed on the stock exchange. That way he kept the company as a family, one whose 4,000 workers were treated so kindly that they never went on strike and, when the Alba factory was flooded in 1994, just before Christmas, turned out with buckets and brooms to reopen it in 15 days.

Tics-Tacs in the vanguard

By not going public, he could also resist outside pressure. He waited until 1983 to take Nutella to America, sending his tiny white Tic-Tac mints first, because he did not want to compete with the national staple, peanut butter. He insisted in 1974 on introducing Kinder Surprise, little chocolate eggs with plastic toys inside, though everyone around him objected that eggs should only be large and only for Easter. (He, typically playful, wanted it to be "Easter every day.") Those, too, were a success.

Each product was exhaustively researched in his two labs, one in Alba and one in Monaco where he lived later, and tested out on board members. ("We eat all day," one complained.) New technology was eagerly tried. He took five years, it was said, to find a way of bending the wafers inside his Ferrero Rocher pralines. Wherever he went he would visit shops *incognito* to check that his products were fresh.

His third secret was more mysterious and surprising. At the centre of his business strategy were two women. The first was "la Valeria", his name for the typical housewife, mother, *nonna* or aunt who had to decide what to buy every day, who might want a little treat for herself or something, besides kisses, to spoil a favourite child. Unless he could keep her custom, he was finished. His introduction of milkier white chocolate was done with la Valeria in mind, for what could please a mother more than giving milk to her *bambino*?

The second woman was Maria, the Virgin Mary. He could achieve nothing without her. Each morning he prayed to her and placed his business in her hands. Every year he went on pilgrimage to Lourdes, and arranged for his workers to go. (One company legend was that the shape of Ferrero Rochers was inspired by the grotto there.) A statue of the Virgin, with white robe and golden rosary, stood at the entrance of every Ferrero office and factory round the world. Under her influence, he and his foundation channelled much of his wealth back to Piedmont. It was done, though, with no fanfare, and after a brief appearance in his dark glasses *il Signor Michele* would, as usual, slip away. ■


OMEGA
TACHYMÈTRE
OMEGA
Speedmaster
CO-AXIAL
CHRONOMETER
"THE MOON IS ESSENTIALLY GREY"
Jim Lovell, Apollo 8 Command Module Pilot
Apollo 8 Command Module Pilot James Lovell, one of the first human beings to have a close-up view of the moon, reported from his lunar orbit on Christmas Eve in 1968, "The moon is essentially grey." The OMEGA Speedmaster "Grey Side of the Moon" honours the pioneering spirit (and colour sense) of Lovell and his fellow astronauts.
Ω
OMEGA
Speedmaster
Exclusively at OMEGA Flagship Boutiques and selected retailers worldwide