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Libya: the next failed state

Africa survives the commodities slump

How microeconomics got hot, really

McDonald's: the chips are down

The internet's hidden benefits

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The world this week

Politics

Twelve people were killed in a **terrorist attack in Paris** on the offices of *Charlie Hebdo*, a French satirical magazine that has published cartoons mocking Islam, as well as other religions and politicians. The attack was carried out by gunmen armed with automatic weapons; they were heard yelling "we have avenged the Prophet Muhammad". The victims included four of the magazine's cartoonists and two policemen. President François Hollande condemned the attack as an act of "extreme barbarity" and called for national unity in France.

More **German marches** against Islam and immigration, under the banner Pegida, were held but ran into even bigger counter-demonstrations. Chancellor Angela Merkel urged Germans not to follow the rallies.

A female suicide-bomber killed herself and a policeman at a police station in **Istanbul**. A banned neo-Marxist group claimed responsibility.

Problems, problems

Dilma Rousseff began her second term as **Brazil's** president by promising to revive the economy and root out corruption in Petrobras, the giant state-controlled oil company. The economy barely grew in 2014 and is likely to be further depressed in the short term by spending cuts to narrow the budget deficit and increases in interest rates to tame inflation.

The retrial of José Efraín Ríos Montt, who was **Guatemala's** dictator in 1982-83, on charges of genocide was suspended. The ailing 88-year-old appeared briefly on a trolley, but proceedings stopped when the court accepted the defence's claim that one judge was not impartial. Mr Ríos Montt was convicted in 2013 of responsibility for the murders of 1,771 Maya Ixils, an indigenous group thought by his regime to be supporters of a leftist insurgency. But this was overturned on a technicality.

Enrique Peña Nieto paid his first visit to the White House as **Mexico's** president. Relations between Mexico and the United States have improved since Barack Obama announced that many illegal immigrants would no longer face deportation.

It's official in Seoul

South Korea's defence ministry formally declared its northern neighbour a nuclear-weapons state. It believes that **North Korea** now has the technical ability to mount a warhead on a long-range ballistic missile capable of threatening the American mainland. The 2014 defence white paper also claimed that the North has 6,000 cyber-warriors, many more than previously believed.

Millions of coalminers in **India** went on strike briefly in protest at plans to open up the industry. This came days after the government of Narendra Modi approved a law allowing coal mines to be auctioned off.

The mayor of **Shanghai** said that "lessons must be learned from blood" after a stampede by revellers on New Year's Eve killed 36 people. The tragedy on the city's historic waterfront, known as the Bund, has prompted widespread criticism online of the authorities' handling of the crowds. Officials, however, restricted reporting on the incident by state-controlled media.

Pro-democracy legislators in **Hong Kong** walked out at the start of a debate on political reform in the territory. They were angered by the government's refusal to amend plans for candidates for the post of chief executive to be limited to those approved by a committee stacked with supporters of the Communist Party.

Broken promises

A leaked copy of a report by the Organisation for the Prohibition of Chemical Weapons, a watchdog, offered more evidence that **Syria** has used chlorine gas against rebels and civilians. It said there is a "high degree of certainty" that chlorine, which is not banned as a weapon, had been used in three Syrian villages last year. It cited witnesses who said it had been dropped by helicopters; only the Assad regime has used helicopters in four years of fighting.

The civil war in **Libya**, where two governments in the east and west are vying for power, took a turn for the worse. Jets from the authorities based in the eastern city of Tobruk bombed a steelworks in Misrata and a Greek oil tanker (killing two crew members) in the port of Derna, where militants have pledged allegiance to the jihadists of Islamic State in Iraq and Syria.

The **Palestinian Authority** applied to join the International Criminal Court (ICC), after the UN Security Council voted down an Arab-sponsored resolution giving Israel two years to end its occupation of the West Bank and Gaza. The UN accepted the Palestinians' application, but America said it was counter-productive.

Prosecutors in **Kenya** ordered an investigation into the murder of a witness in the ICC trial of the vice-president, William Ruto, who is accused of fomenting post-election killings in 2007. The court dropped charges against President Uhuru Kenyatta last month because of the government's lack of co-operation.

Two men were charged in America with attempting to overthrow **Gambia's** president. Evidence presented in the indictment suggests the coup attempt on December 30th, ostensibly aimed at restoring democracy, was amateurish. The attackers hoped that, by firing in the air, Gambian soldiers would drop weapons. Instead they fired back, killing several assailants.

Back to work

A new **Congress** started work in America, with Republicans in charge of both chambers for the first time in eight years. John Boehner was re-elected Speaker of the House of Representatives, although 25 Republicans declined to support him. In the Senate Mitch McConnell, the newly installed majority leader, promised a swift bill to authorise the controversial Keystone XL pipeline. The White House quickly promised to veto it.

Robert McDonnell, a former governor of **Virginia**, was given a two-year prison sentence, after being found guilty last November of using his office to help a businessman in return for loans and gifts. The prosecution had asked for a much lengthier sentence.

Gay couples were allowed to wed in **Florida** after a state ban was overturned by a judge. Gay marriage has raced up the Supreme Court's agenda again, and it will decide soon whether to hear an appeal on which it can issue a ruling in the summer.

Business

Stockmarkets had a wobbly start to the year, falling sharply as investors fretted about the possibility of a global slowdown and the uncertain outcome of a forthcoming election in Greece that could herald another euro-zone crisis. **Oil prices** continued to slide, with Brent crude dipping briefly below $50 a barrel for the first time since 2009.

Oil on troubled waters

Falling energy costs were the main reason why consumer prices fell on an annual basis, by 0.2%, in the euro zone last month for the first time since the depths of the financial crisis in 2009. (Excluding energy prices, the euro zone's inflation rate was 0.6% in December.) With the zone tipping into **deflation**, the European Central Bank is under increased pressure to introduce a programme of buying government bonds at its meeting later this month.

Ukraine's annual inflation rate has soared to 24.9%, the state statistics agency reported. This is partly because of a steep rise in household gas prices after the government withdrew domestic subsidies.

Carmakers in America sold 16.5m **cars and light trucks** in 2014, the most since 2006, according to Autodata, a market-research firm. The industry has been buoyed by falling petrol prices and low interest rates. General Motors sold the most cars, ahead of Ford and Toyota. Fiat Chrysler saw its sales jump by 16%. Americans are also falling in love again with SUVs, monster cars that lost their appeal to motorists when petrol prices were high.

JPMorgan Chase should break itself into at least two and maybe four parts, according to a report from Goldman Sachs, because its constituent businesses are worth more individually than as a whole in light of new banking regulations. Goldman's note recommended that America's biggest bank could be split into a commercial bank and an investment bank, or could trade as four separate units.

Prickly Piketty

Thomas Piketty, a French economist whose "Capital in the 21st Century" has become the bestselling book on economics in recent years and has transformed the debate on inequality, refused to accept France's prestigious *Légion d'honneur*. He said the French government "would do better to concentrate on reviving growth" rather than handing out gongs.

More concerns were raised about the security of **bitcoin** after Bitstamp, one of the largest exchanges for the digital currency, said hackers had stolen 19,000 bitcoins from its systems. It warned customers not to make transfers through their old bitcoin accounts. Bitstamp keeps only a small fraction of its bitcoin reserves online (most are held in offline computer systems), but the theft rekindled memories of the much larger cyber-attack on Mt Gox last February.

J.C. Penney's share price rose 20% after it said that sales were better than forecast in November and December, bolstering expectations that America's 2014 Christmas shopping season will turn out to have been the best since 2011.

In Britain, **Tesco**, the world's third-biggest supermarket chain, announced that it would shut 43 stores, postpone opening new ones, move to smaller headquarters and scrap its shareholder dividend this year to cut costs. Like other established supermarket retailers in Britain, Tesco is being squeezed by super-cheap rivals such as Aldi and Lidl, and joined battle this week by heavily discounting hundreds of branded items.

Global sales of **consumer electronics** were flat last year, according to America's trade body, the CEA. It predicted that sales this year would be driven by demand for ultra-high-definition TVs, wearable devices and in-car systems, though revenue will continue to slow from smartphones and tablets as manufacturers produce ever cheaper models.

California's top chefs celebrated a judge's decision to strike down the state's ban on **foie gras**, finding that federal law trumps local regulations on poultry products. The ban was supported by animal-welfare groups angered by the force-feeding of ducks and geese to produce foie gras. They vowed to appeal against the ruling, but foie gras is back in the state's restaurants for now.

Back in the groove

Proving that styluses never go out of fashion, sales of **vinyl record albums** rocketed to 9.2m in America last year, the most since 1993. Although that represented only around 4% of total albums sold, the growth of vinyl is in sharp contrast to the decline in music downloaded through various online stores, as more people switch to music-streaming services. Vinyl has increased in popularity partly as a collector's item. Fans can keep their LPs in mint condition by listening to the music on free downloads that come with the album package.

Other economic data and news can be found on pages 84-85

Terror in Paris

Islamists are assailing freedom of speech; but vilifying all Islam is the wrong way to counter bloody medievalism

THE latest issue of *Charlie Hebdo*, a satirical French magazine, spotlights Michel Houellebecq, author of a new novel that imagines the Islamisation of France and then the European Union. Critics had denounced Mr Houellebecq's book (see page 75), which depicts a near future in which Islamists win France's presidency and compromise its freedoms, as Islamophobic scaremongering. Then, on the day of its publication, masked gunmen attacked *Charlie Hebdo*'s offices in Paris. They yelled "Allahu Akbar" as they murdered 12 people and wounded others, in France's worst terrorist attack for half a century (see page 45). The gunmen fled; police have named two brothers as suspects. As anti-immigrant sentiment—especially the anti-Muslim kind—seeps across Europe, from street protests in Dresden (see page 46) to English ballot boxes, the atrocity in Paris seemed ghoulishly to realise the continent's darkest nightmare; almost, in fact, to caricature it.

For all the grim, incessant warnings of terrorist threats, naturally the first reaction to this massacre, in France and elsewhere, was outrage. Yet the murders also demand a fuller response. The magazine was targeted because it cherished and promoted its right to offend: specifically to offend Muslims. That motive invokes two big themes. One is free speech, and whether it should have limits, self-imposed or otherwise. The answer to that is an emphatic no. The second is Muslim Europe—and whether episodes such as this are part of a civilisational struggle between Western democracies and extreme Islam, on a battlefield stretching continuously from Peshawar to Raqqa to the centre of Paris. Again, the answer is no.

Cartoons versus Kalashnikovs

Charlie Hebdo has been hit before. In 2006 its decision to reprint inflammatory cartoons of the Prophet Muhammad, first published in Denmark, was described by Jacques Chirac, then France's president, as a "manifest provocation". In 2011 the magazine's offices were firebombed after it published an issue purporting to be guest-edited by the Prophet. That did not deter it: despite pleas from some French politicians, it insisted on its right to free speech. This week, when the gunmen came, they reportedly called for the offending cartoonists by name.

The magazine had the right to publish everything it did, and French law is right to allow it to. There can be no "but" in that sentence. Even when a picture or opinion is imprudent or tasteless, unless it directly incites violence it should not be banned. *Charlie Hebdo* lampoons all religions, not just Islam—but it would have the right to single out that faith if it wanted to, just as Islamists in Europe are entitled to denounce Western decadence if they so choose. In any case, there is a world of difference, and several centuries of liberal political thought, between giving and taking offence and killing people over it. Nothing can be done with a pencil or a keyboard that warrants a reprisal with a Kalashnikov.

This attack was more insidious than a random fusillade on a street or train. Part of the aim, probably, was to cow the Western media in their treatment of Islam. It must not. If the proper first response to the slaughter was outrage, after considering the argument that *Charlie Hebdo* made about free speech, the second response should be outrage, too.

Many observers will connect this fresh footage of gun-wielding men not to cartoons but to another kind of image: chaos in northern Nigeria, the snuff videos of Islamic State (IS) and Taliban-inflicted carnage in Afghanistan and Pakistan. All can seem part of a long, ongoing conflict between the values of the Enlightenment and obscurantist barbarism. For those who see things that way, the only solution is to fight back, by cracking down at home and engaging the enemy abroad.

Criminals, not clashing civilisations

They have a point: there may well be a connection between Paris and foreign *jihad*. Part of it is ideological: in their minds, at least, terrorists in the West are often waging a worldwide battle for their faith, powered by ideas they pick up on the internet. There is a practical link, too. Some of those involved in recent European plots—and one of the suspects in the *Charlie Hebdo* attack—have been radicalised and trained in the Middle East, Afghanistan and Pakistan. Nearby and accessible, Syria is the main destination. This reflux is a worry for security services in France (home of the European Union's largest Muslim population) and across the continent, precisely because, newly expert and inflamed, the returnees can perpetrate commando-style attacks like that on *Charlie Hebdo*. Involving small numbers of assailants and "soft" targets, these are much harder to detect and prevent than elaborate plans to blow up airliners.

But preventing them is not impossible—indeed European security services frequently do. Slow though some were to spot the danger, the French and other governments have introduced measures to stop their citizens travelling abroad to fight, and to intercept them if they come back. Still, more pressure could be applied to Turkey, notionally an ally, to help stop the flow into Syria. "Deradicalisation" programmes for returnees, which might turn some of them into reverse missionaries for the awful truth about IS, are still in their infancy.

For all that, thinking of Islamist terrorism as a single, coherent adversary is misleading and dangerous. The various groups have different backgrounds and goals, just as Muslim diasporas in the West originate in different countries and cultures. Many French Muslims, for example, have roots in north Africa; some are angered by the ban on wearing burqas in public places. Neither factor applies in, say, Britain. Thinking of Muslims overall as a homogenous group is still more foolhardy—however much some of the West's demagogues encourage voters to. Most are not extremists; fewer still support violence, as mainstream French imams swiftly pointed out.

The terrorists themselves, of course, are often keen to prove that the West does indeed anathematise all Muslims. To see such killers as representatives of a religion, and to reduce a complex picture to their preferred caricature, would be to reward their crimes—just as circumscribing the principle of free speech would be to bow to their medieval fantasies. ■

Economics evolves

A long way from dismal

Microeconomics powered by data is shaping tech firms. This trend has lessons for macroeconomics

IN THE world of economics, macroeconomists have had all the kudos. As designers of economy-wide models, they provide the house-price and interest-rate forecasts that fuel dinner-party talk. Many hold power, twiddling the dials of tax and spending in finance ministries, or shifting the monetary levers at central banks. Others grab the riches that banks and hedge funds offer. The natural order is, however, changing. Not only have macroeconomists been embarrassed by a decade of failed predictions, but they are also losing their edge. For anyone starting out in economics, the future is micro (see page 67).

Microeconomists are a humble bunch. Rather than seeking a unified theory of everything, they hone in on a particular area, often a single type of market or firm, and try to find out how it works. But technology is lending them clout. Armed with vast data sets produced by tech firms, microeconomists can produce startlingly good forecasts of human behaviour. Silicon Valley firms have grown to love them: by bringing a cutting-edge economist in house, they are able to predict what customers or employees are likely to do next.

Take SmarterTravel, a subsidiary of TripAdvisor, a travel company. When a user lands on its website an economist-designed algorithm kicks into action. Data, including the time taken between clicks, help predict whether the user is a browsing time-waster or a potential buyer. The site is adjusted in milliseconds—browsers see more adverts, buyers a simpler site to focus on their purchase—to maximise profit. Other outfits sell their ability to predict. Any firm worried about staff retention can let hiQ Labs' team delve through its records to spot individual employees most at risk of leaving or being poached. The head of HR can target those staff accordingly.

Rather than taking supply and demand as a given, the new breed of microeconomist helps nudge the two into line. In the early days of Airbnb, an online market for home rentals, its economists pored over customer data to spot market weaknesses. Costly enhancements, including professional photographs of every listing, are rigorously tested to make sure they work before being rolled out. The company also guides users uncertain about the right rate to charge for a listing. At Uber, a taxi service, prices surge during peak hours, pulling more drivers onto the road. At Poynt, a Silicon Valley startup offering a new type of cashless payment, an economist was included in the product-design team. Microeconomists no longer just study how existing firms work, they help design new ones.

Blessed is the geek

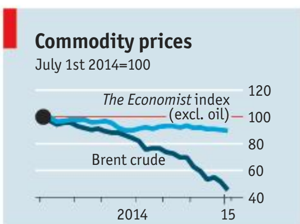
There are lessons here. The shift from bean-counter to revenue-earner makes the new microeconomics lucrative. Tech giants like Google, Facebook and LinkedIn all hire economists. It means those drawn to the subject by the urge to understand the crisis or the lure of Wall Street might be better off shifting track, twinning economics with coding rather than trading.

Established macroeconomists would do well to pay attention. They should start by being much more careful about data. Silicon Valley economists obsess over how the numbers they use are collected, and would not accept something as old-hat as GDP (see Free exchange, page 68). Second, they should tone down the theorising. Macroeconomists are puritans, creating theoretical models before testing them against data. The new breed ignore the whiteboard, chucking numbers together and letting computers spot the patterns. And macroeconomists should get out more. The success of micro is its magpie approach, stealing ideas from psychology to artificial intelligence. If macroeconomists mimic some of this they might get some cool back. They might even make better predictions. ■

Dependency on commodities

What Vlad can learn from Chad

Why some commodity exporters are coping better with lower prices than others



COMMODITIES are sirens: alluring, yet dangerous. When prices are high, politicians in commodity-exporting countries rejoice. Proceeds from the export of oil, gas and metals fill state coffers. Foreign cash floods in and well-paid jobs are created. Such countries' governments often neglect other parts of the economy, believing that the good times will never end. But they always do.

As commodity prices tumble, many countries are learning what happens when an economy is too reliant on natural resources. Venezuela, with the world's largest oil reserves, is on the verge of defaulting. Brazil and Norway, two other big oil exporters, have seen their growth forecasts cut. The Russian president, Vladimir Putin, will watch his economy shrink by 5% in 2015, according to central-bank estimates. His government's debt is likely to be downgraded to "junk" status.

When commodity prices started to fall in 2014, economists feared the worst for other commodity exporters, but so far many have surpassed expectations. Only a handful of Latin American countries—Argentina, Venezuela and possibly Brazil—will fall into recession in 2015. Others have seen growth forecasts trimmed but are still doing well. Chile, a copper exporter once hostage to market forces, will expand by 3% this ▸▸

year. Peru, which relies heavily on metal exports, will see 5% growth. Latin America as a whole will grow by 2%. In 2015 no Middle Eastern oil exporters are expected to suffer a recession (though measuring growth in war-torn countries is near-impossible). Saudi Arabia is using its big currency reserves to boost government spending and will grow by 4.5% in 2015.

Some African countries are taking a hit. Nigeria, which has barely any non-oil exports, saw its currency lose 13% of its value in 2014; Zambia, a copper exporter, turned to the IMF in June. But things have been nowhere near as bad as some had feared (see page 41). Compared with previous periods of commodity-price decline, currencies have been fairly strong. Only the Ebola-hit countries and the kleptocratic Equatorial Guinea should see their economies shrink in 2015. Sub-Saharan Africa is expected to grow by 5% this year.

Putin the boot in

Two factors explain why some commodity exporters are coping better than others with falling prices. First, many governments have made their countries more business-friendly. According to the World Bank, in recent years sub-Saharan Africa has been the star performer at improving business environments. Rwanda, which was in the throes of a civil war 20 years ago, is now a better place to do business than Italy.

Benign business environments encourage foreign direct investment (FDI). In recent years FDI into Africa has held up, despite global wobbles. Foreign money is helping African economies diversify. Nigeria's strong recent growth is thanks not to its oil sector—which has stagnated—but to finance and other services. Even Chad, an oil exporter mocked for its one-track economy, has of late seen oil rents play a progressively smaller part. Russia, though, has got no less dependent on the stuff. Diversifying the Russian economy is harder than ever for Mr Putin, thanks to an FDI slump that hit the country in 2014.

Second, some governments are spending their money more wisely. Before the 2000s almost all splurged when commodity prices were high and taxes were flooding in, only to slash spending when prices dived. Russia still does this. The state has no money with which to boost domestic demand; instead it is cutting public spending, inflicting further damage.

Some Latin American and African countries, such as Zambia and Chile, now operate "counter-cyclical" fiscal policy, saving during good times and spending during bad. Others, particularly in the Middle East, are broadening their tax bases to cope better when commodity sales fall (see page 65). A decade ago the Angolan budget was almost entirely dependent on oil, but now a third comes from elsewhere. Chile, where copper makes up 60% of exports, was once known for the wayward management of its copper revenues. Now an independent panel checks that the government uses them responsibly.

Some commodity exporters face a grim 2015, but others can be optimistic. Africa, for decades synonymous with resource dependency, will this year be one of the world's fastest-growing regions. It is no longer doomed to the commodity rollercoaster. If Mr Putin had tried to dismount a decade ago, his people would not now be facing such a tough year. ■

China

Off target

Targets are encouraging Chinese officials to abuse citizens; more accountability would work better

THE photographs of a mother lying next to a naked newborn baby in a county hospital in northern China could have been mistaken for a joyous occasion. Closer inspection showed that the baby was dead, killed in her mother's womb in a forced abortion supervised by officials who had held her down. The infant was just a couple of months from term. Our picture shows the mother only; that with the baby is too gruesome to print. When the woman's family published the pictures online they went viral, sparking a furious debate about the country's one-child-per-couple policy and the way its rigid mandates had incentivised local bureaucrats to take a life (see page 39).

Autocratic regimes can oppress their citizens without performance targets, and performance targets are not necessarily a bad idea. Many well-run companies and governments put them to good use. But the combination of autocracy and targets is a dangerous one because officials are likely to place hitting their numbers above other considerations, such as adherence to the law and human decency.

China's central government relies on a wide range of targets to fulfil its policies, and those targets determine local officials' prospects. Two—keeping protests down and ensuring that the one-child policy is implemented—are almost always "veto" targets: an official who fails to meet them will in theory not get promoted. Another, keeping GDP growth up, has long been seen as crucial to advancement.

Target-setting has contributed to China's astonishing economic achievements. Local governments have bent over backwards to boost growth. But targets have also contributed to vastly wasteful overinvestment and environmental disaster. The target of preventing public expressions of discontent has led to the incarceration of hundreds of dissidents in labour camps and psychiatric institutions, and the use of illegal "black jails" to lock up people who take their grievances to Beijing. And the weight placed on the one-child target has led directly to the illegal barbarism of forced abortions.

No more pretending

The central government admits that the system needs fixing. President Xi Jinping has insisted that GDP-attainment should no longer determine local leaders' job prospects. In many places, environmental targets have been elevated to the position that the one-child policy has enjoyed, or so officials say. Mr Xi has abolished the "re-education through labour" camps in which dissenters were often interred without trial, and said officials should no longer be judged according to the number of petitioners from their areas who travel to Beijing. "Happiness indices", based on surveys of public opinion, are sometimes used as a way of gauging performance. But that is hardly ▸▸

a remedy as the officials get to choose whom they survey.

Some places are still issuing new rules that reinforce incentives for local officials to misbehave. One township, for example, has threatened to fine the leaders of villages whose residents petition higher-level governments. Black jails remain common. Birth quotas have been relaxed, but not abolished—human-rights groups say forced abortions still occur. Efforts by officials in Shanghai to silence criticism of their handling of a deadly stampede on New Year's Eve show how readily local governments brush off complaints (see page 40).

Tweaking the rules will not solve the problem, which goes to the heart of the Chinese system. The government does not have a methodology for getting officials to run their patches in a way which is effective, legal and commands the consent of the people. Targets can increase government's effectiveness, but they do so at the cost of legality and popularity.

The only way of combining the three is to make officials accountable to the people, through elections. This would not be as radical a move as it sounds. The constitution, whose importance Mr Xi has extolled, entitles people to vote freely for local legislators, who have the theoretical power to dismiss officials. In practice only Communist Party stooges are allowed to stand. But if Mr Xi really wants officials to stop abusing citizens, he should introduce a system that makes them genuinely accountable. That would be a better way of discouraging protests than issuing targets to suppress them. ■

Libya

The next failed state

Another font of global mayhem is emerging—not helped by regional meddling and Western indifference

FOUR years after the beginning of what is now called the Arab spring only in a tone of bitter irony, almost all the countries involved are in a dire state. The sole exception is tiny Tunisia. For a while, things seemed to be improving in its sprawling oil-rich neighbour, Libya, too. But Libya is slipping fast—and its chaotic decline, like that in Syria, is already drawing in outsiders and posing a threat to the West.

Nowadays Libya is barely a country at all (see page 21). The factions that came together to fell Muammar Qaddafi have given up trying to settle their differences by negotiation. The east is under the control of a more or less secular alliance, based in Tobruk; in the west, a hotch-potch of groups in Tripoli and Misrata, once the symbol of heroic resistance to Qaddafi, hold sway, backed by hardline Islamist militias. Libya has two rival governments, two parliaments, two sets of competing claims to run the central bank and the national oil company, no functioning national police or army, and an array of militias that terrorise the country's 6m citizens, plunder what remains of the country's wealth, ruin what little is left of its infrastructure, and torture and kill wherever they are in the ascendancy.

Others are being dragged in. Turkey, Qatar and Sudan favour the Islamist-leaning factions, while Egypt and the United Arab Emirates (UAE), among others, back the more widely recognised eastern alliance. And the poison in Libya is seeping out across a great swathe of the Sahel, Africa's scrublands south of the Sahara desert, from Mali in the west, through Niger and northern Nigeria, eastwards on to Sudan and Somalia, and even as far as Egypt's Sinai desert abutting Israel. Arab tribes and other ethnic groups in the country's rugged south are running amok, smuggling arms, trafficking people and providing havens and succour to assorted ne'er-do-wells and jihadists pledging allegiance to al-Qaeda and even to the murderous Islamic State in Iraq and Syria.

The West has tried to keep out of Libya. America, France and Britain reluctantly intervened to oust Qaddafi in order to prevent him massacring his fellow Libyans, but in the wake of Western failures in Iraq and Afghanistan, the trio was determined not to get sucked into overseeing Libya's hoped-for transition to democracy, let alone put boots on the ground. Instead, it was left to the UN—and to the Libyans themselves, who insisted that they could mend the place on their own.

Qaddafi's failure to build any institutional framework for the country made the task dauntingly hard for well-intentioned Libyans. The UN, mindful of the West's toxicity in many Arabs' eyes, was loth to ask Europe's powers or America to step in. After the murder of America's ambassador there, Barack Obama basically washed his hands of the place. The Europeans have hardly been hurrying to fill the gap.

Nearly hopeless, but not quite

This negligence is a mistake. Certainly, the West should not think of military intervention. But more energetic diplomacy has at least a chance of containing the conflict, and there is too much at stake not to try. Libya is only 300 miles from southern Europe. A bloodbath there would launch thousands more refugee ships across the Mediterranean. Jihadist hotspots, from Tora Bora to the fastnesses of Yemen and Somalia, have a habit of nurturing zealots whose targets include New York and Paris.

So the UN, the Arab League and leading Western governments all need to rejoin the diplomatic fray far more wholeheartedly. A new "friends of Libya" conference is needed, where the regional powers that have been using Libya as a proxy battlefield should be made to keep their previously dishonoured pledges to enforce an arms embargo. The only sensible course is to try to build a government of national unity, ideally backed by a new constitution that devolves autonomy to the regions and major cities (though it has to be admitted that such schemes have rarely worked in the winner-takes-all Arab world). Some of the oil money could be funnelled into a UN-supervised escrow account to be redistributed to public services on both sides of the battle lines. And if an agreement is negotiated, UN peacekeepers should be sent in.

In the end, it is for the Libyans to save Libya. Their task should be far easier than it is for, say, the Syrians, Iraqis or Yemenis, because Libya is a rich country with a small population that is fairly homogeneous in terms of religion, class and ethnicity. But they still need help. A chaotic Libya is too dangerous to the world to be left alone. ■

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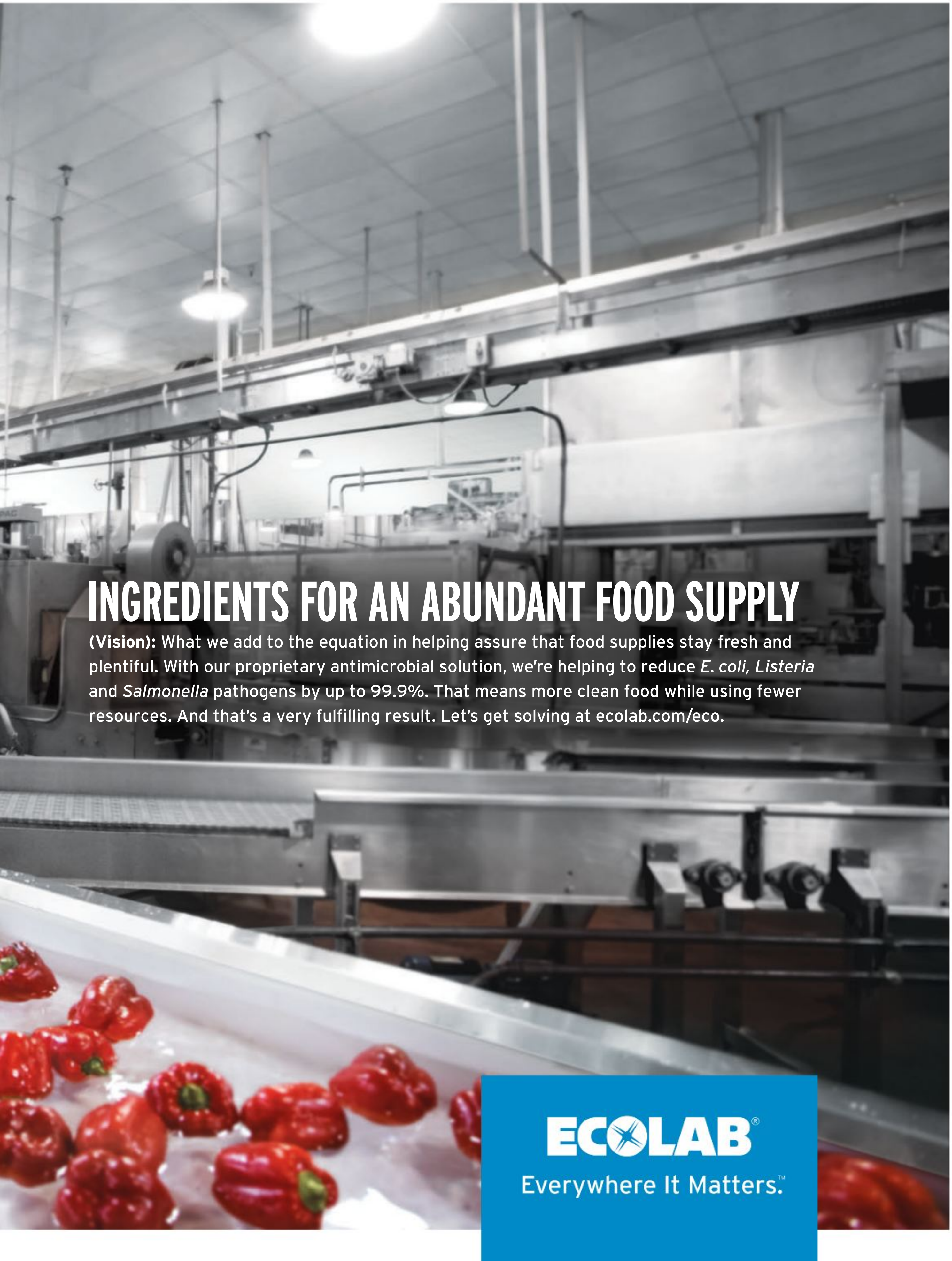
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The Magna Carta

SIR – America's Founding Fathers, with their phobia against strong central government, should have looked to the old Icelandic republic (930-1262) for inspiration, rather than the Magna Carta ("The uses of history", December 20th). The principal institution of the republic was the Althing, which was both a legislative assembly and a court of law. But the republic's main characteristic was that there was no executive power whatsoever: no king, no feudal lords, no professional bureaucracy, no police, no standing army. This society was uniquely individualistic and egalitarian at the same time, the neoliberals' notion of Utopia.

Until the republic's demise Iceland was a thriving trading nation, outgoing and creative. In terms of politics (the rule of law), literary excellence (the sagas) and exploration (reaching North America half a millennium before Columbus) it was highly successful.

Ultimately it all unravelled because of rapidly increasing inequality. Wealth and power became concentrated in the hands of an elite elevated above the law, and the absence of an effective government to challenge them led to a lack of social cohesion.

JON BALDVIN HANNIBALSSON
Former minister of finance and foreign affairs
Mosfellsbaer, Iceland

SIR – Much less known is the Charter of the Forest, which was signed in 1217, two years after the Magna Carta. It privatised large swathes of the king's land to commoners and gave English peasants the right to access the crown's remaining forests for food, pasture and wood for fuel.

Alas, unlike the Magna Carta, the Charter of the Forest has been slow to gain currency around the world. Central governments still claim possession of 70% of forests despite the proven benefits of local ownership. But this too is changing.

Community and private control of forests has increased by 50% in the past ten years. Because of the now evident benefits to forest conservation an international discussion on the merits of forest tenure reform is being held this month.

ANDY WHITE
Co-ordinator
Rights and Resources Initiative
Washington, DC

SIR – You might have mentioned that because the British government has opted back into the European Arrest Warrant, the protections that British citizens had against being locked up or deported without any evidence or any proper hearing is now gone.

STUART WHEELER
London

Terra Firma

SIR – You questioned whether the interests of a private-equity (PE) house and its investors in a fund it manages can be meaningfully aligned when the PE house will receive no carry at the end of a fund's life ("Last hurrah", December 6th). In this scenario, you argued the PE house will focus on management fees rather than on maximising returns for investors.

This is a pertinent topic given the low number of funds achieving returns necessary to generate carry. But it is not an issue at Terra Firma. Not only have four of our five funds done better than the industry average and paid carry, our focus on investing in our own funds also means we are fully aligned with our investors throughout the fund's life, regardless of its outcome.

Alignment of interests is achieved through having "skin in the game"—Terra Firma is the largest investor in Terra Firma III, with €400m ($490m) invested, or 7% of the total fund. This motivates us to do deals that will generate the best returns for the fund. In addition, post the EMI deal, we put in place remuneration arrangements costing several hundred million euros to retain and incentivise the people needed to maximise returns.

Two out of Terra Firma III's 170 investors did suggest in late 2010, after the first EMI trial, that a way to further align the interests of Terra Firma and its investors was to reduce the size of the fund and reset the carry hurdle. That had plenty of attractions for me personally but it was not in the interests of the vast majority of our investors, who wanted us to maximise Terra Firma III's returns without resetting the carry hurdle.

Finally, Terra Firma III's investment in Four Seasons Care Homes in 2012 (which we first looked at in 2006) was in our sweet spot: asset backed, in an essential industry and in need of fundamental change. The reduction, in real terms, in fee income from local authorities has presented challenges. However, having restructured part of its debt, Four Seasons looks forward to implementing its strategic and operational plan over the coming years without covenant concerns.

Terra Firma III management decisions have not been made by individuals focused on their own interests, but by individuals striving to achieve the best for their investors.

GUY HANDS
Terra Firma
Guernsey

There is nothing like a dame

SIR – Pantomime can thrive in cultures outside Britain (Bagehot, December 20th). I have written and directed pantomimes in Brazil, Ghana, Nigeria and India, where we packed the historic Museum Theatre in Chennai with old favourites such as "Cinderella" and "Aladdin". Audiences loved the traditional features: cross-dressing, audience participation, local jokes making fun of domestic difficulties. Features such as these play a part in the folk culture of many countries.

ISSY SANDERSON
York

SIR – Bagehot's column brought back fond memories of when our family lived in Malta in the 1950s and attended Royal Navy pantomimes. I enjoyed his observation that "To be snooty about Americans, while slavishly admiring them: this is another crucial characteristic of being British." That admiration is reciprocated back across the Atlantic.

NEIL OLSEN
Salt Lake City

SIR – Bagehot did not mention an unwelcome trend that we pantomime regulars find to be of considerable concern. I refer to the increasing prevalence of the principal boy being played by a man. Whatever next, you may wonder? The dame and the ugly sisters played by women?

TIMOTHY ST ATHER
London

A star in the firmament

SIR – You lamented that the only real monument to Charles Yerkes is the Golders Green Tube station in London, and it does not even bear his name ("Conquistador of Metroland", December 20th). In 1892, Yerkes provided the funds to set up an observatory located in Williams Bay, Wisconsin. It is called Yerkes Observatory.

CHERIAN THACHENKARY
Atlanta

Tick tock, tick tock

SIR – I was very much enjoying your article, "Why is everyone so busy?" (December 20th), up until the point I realised that I was brushing my teeth as I read it.

JAMES STAFFORD
London ■

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Ministero dei beni e delle attività culturali e del turismo

POSITION DESCRIPTION

DIRECTORS OF ITALIAN MUSEUMS

Background

On January 8, 2015, the Italian Ministry of Cultural Heritage and Activities and Tourism (MIBACT) issued an international call for applications for the post of ***Director*** for each of the 20 world-class museums listed below:

1) Galleria Borghese (Roma)
2) Gallerie degli Uffizi (Firenze)
3) Galleria dell'Accademia (Firenze)
4) Galleria Estense (Modena)
5) Galleria Nazionale delle Marche (Urbino)
6) Galleria Nazionale dell'Umbria (Perugia)
7) Galleria Nazionale d'Arte Moderna e Contemporanea (Roma)
8) Gallerie dell'Accademia (Venezia)
9) Gallerie Nazionali d'arte antica (Roma)
10) Museo Archeologico Nazionale (Napoli)
11) Museo Archeologico Nazionale (Reggio Calabria)
12) Museo Archeologico Nazionale (Taranto)
13) Museo Nazionale del Bargello (Firenze)
14) Museo di Capodimonte (Napoli)
15) Palazzo Ducale (Mantova)
16) Palazzo Reale (Genova)
17) Parco archeologico di Paestum (Paestum)
18) Pinacoteca di Brera (Milano)
19) Polo Reale (Torino)
20) Reggia di Caserta (Caserta)

The Position

The new Directors will provide strategic leadership and management expertise for the abovementioned museums. They will lead the Administrative Board and the Scientific Committee of their respective museums.

Each Director will supervise **(i)** the museum's managerial, organizational and financial planning activities; **(ii)** all cultural programs of the museum; **(iii)** all details of the museum's relations with visitors, local communities, national and international stakeholders, as well as national and international peer institutions.

Application guidelines and further details are available at the following link: **www.beniculturali.it/museitaliani**

Deadline: **15 February 2015.**

AFREXIMBANK

AFRICAN EXPORT-IMPORT BANK
BANQUE AFRICAINE D'IMPORT-EXPORT
(AFREXIMBANK)

The African Export-Import Bank (Afreximbank), a multilateral financial institution created by the partnership of African states, the African private sector, international financial institutions and non-African States seeks to appoint a President to replace the serving President, whose term of office expires in July 2015. The mandate of Afreximbank is to promote the trade of African states by providing financing and other services. The Headquarters of the institution is in Cairo, Egypt, where the President would be based.

General information on the Bank is available on its website: ***www.afreximbank.com.***

Vacancy for the Position of President and Chairperson of the Board of Directors

The Position

The President is the Chairman of the Board of Directors and CEO. He is responsible for developing the organization's business strategies, its relationship with outside parties and a variety of stakeholders, including African governments and their agencies, African and international financial institutions and the private sector, and non-African governments and entities of the private sector. He leads a highly skilled multi-disciplinary and multi-cultural team of professionals to develop the organization's policies and programmes for the achievement of its objectives.

The Person

The candidate must be a national of an African state. His career achievements must demonstrate a strong strategic vision, extensive experience in international banking, in the financing of trade and trade-related projects in the context of a developing economy, as well as in the management of a commercially-oriented financial institution at the highest level (at or near-CEO level).
To command the respect of senior government officials, African and international bankers, the candidate must have a good knowledge of African financial systems and African economies. A keen awareness of the challenges of the continent and how these affect the development of the export sector and the nature of the issues the Bank might be confronted with in addressing the challenges, is essential. The candidate must also demonstrate a clear vision for taking the mandate of the Bank to the next stage of its development and be able to articulate how this would be achieved.

The Appointment

The appointment will be made by shareholders on the recommendation of the Board of Directors. The appointment is for a term of five years, renewable once. The salary and other items of remuneration are commensurate with that of an executive with similar responsibilities of a comparator organization. An applicant is not nominated or sponsored by a member state of the Bank or by a shareholder. Applications must be received not later than 15 February 2015. Please reply in confidence, enclosing a full curriculum vitae, to our retained consultant at robertbaldwin@willis-partnership.co.uk. Only candidates short-listed would be contacted.

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The CTA is currently recruiting for a highly motivated and qualified individual to fill the position of:

HEAD OF FINANCE AND BUDGET

To apply for this position please visit us at www.cta.int

ICBA

Director of Corporate Services (ICBACS-DCS-2015-001)

The International Center for Biosaline Agriculture (ICBA), based in Dubai, UAE (www.biosaline.org) seeks to recruit a "Director of Corporate Services" accountable for the provision of effective leadership, advice and support on corporate service matters especially in finance, organizational development, human resources, health and safety, information technology, corporate communications and corporate projects. The position holder will report to the Director General and will interact with donors, contractors, and all senior levels of staff.

Duties and Responsibilities

The selected candidate will be serving as a member of the ICBA Management Committee and ensure that the Center meets all legal and government requirements and support the ICBA's Board of Directors (Finance Committee).

Finance

- Advise the Director General on all matters affecting financial controls.
- Implement and update all financial policies and procedures.
- Prepare the Center's annual budget and develop and manage a project budgeting system.
- Prepare financial, analytical and interpretive reports for the senior management and Board of Directors.
- Ensure that financial reporting and accounting operations requirements of the donors and others are met.
- Maintain effective financial control over the assets and liabilities, income and disbursements of the Center.
- Serve as the Center's liaison with the independent auditors.

Administrative Services

- Implement and manage administrative activities of the Center, including information technology/computer support, facility management, procurement, logistical support for training and other events, etc.

Human Resources Management

- Formulate, recommend and implement staff policies and procedures.
- Manage the staff performance evaluation process.
- Prepare in coordination with Division Directors, the annual staff training needs and it's program.
- Ensure efficient administration of staff salary and benefits, recruitment process and staff records.

Qualifications and Experience

Essential:

- BA in Business Administration or Finance or equivalent.
- Accounting qualification such as CPA or CA.
- 10 years' experience in a similar position in an international organization.
- Fluency in written and spoken English.
- Highly developed interpersonal and cultural sensitivity skills.
- Computer literacy.

Applicants are kindly requested to send an updated cover letter and C.V combined in one PDF file along with two names as references by the date of February 10, 2015 to: *hr@biosaline.org.ae OR Fax: +971 4 3361149*

ICBA

Director of Research & Innovation (ICBADRI-DRI-2015-004)

The International Center for Biosaline Agriculture (ICBA), based in Dubai, UAE (www.biosaline.org) seeks to recruit a "Director of Research & Innovation" who will be responsible for the development of the research programs, its implementation and the monitoring and evaluation process. The Director will report to Director General and he/she will work in collaboration with other divisions of ICBA for capacity building, knowledge dissemination, financial and technical reporting to the donors.

Duties and Responsibilities

- Contribute to the overall leadership of ICBA as a member of the ICBA Management Group.
- Lead and manage the performance of a multidisciplinary and multicultural research group.
- Direct and lead the programs of ICBA Research & Innovation division.
- Be an active partner in the development of training programs for GCC countries and others.
- Work with ICBA management team to mobilize external funds for the research program of the division.
- Responsible for budgeting and expenditure management at the division level.
- Provide strategic direction and intellectual / management leadership.
- Develop a clear vision for ICBA's Research & Innovation Division programs.
- Co-Lead with the DG a management committee for Scientists' Appraisals and Promotion.
- Represent ICBA in relevant international forums.
- Support the ICBA's Board of Directors (Program Committee).

Qualifications and Experience

Essential:

- Ph. D. Degree from a recognized university with a specialty in a scientific area related to agriculture.
- Extensive experience in conducting scientific research and in leading and managing a highly skilled multidisciplinary team.
- At least 10 years of managerial experience in supervising Research Scientists.
- Experience in formulating and providing strategic advice to Senior Executives and Donors.
- Experience in managing financial and human resource on divisional level.
- Excellent communication skills in English.
- Good interpersonal skills and ability to interact effectively with people at all levels.

Applicants are kindly requested to send an updated cover letter and C.V combined in one PDF file along with two names as references by the date of February 10, 2015 to: *hr@biosaline.org.ae OR Fax: +971 4 3361149*

IRRI

CGIAR

DIRECTOR GENERAL

The International Rice Research Institute (www.irri.org) is the world's premier research organization dedicated to reducing poverty and hunger through rice science; improving the health and welfare of rice farmers and consumers; and protecting the rice-growing environment for future generations.

Headquartered in the Philippines and with offices in 16 countries, IRRI is a member of the CGIAR consortium. The Institute is a global, independent, nonprofit research and training institute supported by public and private donors.

IRRI is seeking a Director General with the strategic vision and management competence to build upon and integrate the US$100 million organization's high-performing research and management teams, and provide overall scientific, strategic, and management leadership, as well as develop and sustain relationships with multiple partner institutions and stakeholders.

The ideal candidate is a dynamic, motivated and inspirational leader with an international reputation for building outstanding research and management teams. Adept at working globally, she or he has experience gained within the commercial and/or public sector, together with outstanding fundraising skills, and good networks across the aid and philanthropic communities. A PhD or equivalent in an agriculturally related science is required, as is a minimum of 10 years of increasingly responsible leadership.

All qualified candidates are invited to submit their CV with cover letter to Greg Dooman, Senior Associate, Kincannon & Reed Global Executive Search: gdooman@KRsearch.net. Strictest confidence assured.

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Deadline for applications is **25 January 2015**

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This position requires the preparation of policy analysis for senior central bank officials and the publication of economic research.

You have a PhD or equivalent work experience, and several years' experience at a central bank, an international organisation, a university or a financial institution. A working knowledge of Spanish is required for the position in Mexico.

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SCIENCE MEDICINES HEALTH

Executive Director - London

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Responsibilities:
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- Drafting and implementing the Agency's annual work programme
- Leading and motivating a large team in a multicultural environment

EMA is an agency of the European Union.

Requirements:
- National of a Member State of the European Union (EU) or the European Economic Area
- University degree diploma ideally as a physician, a pharmacist or a veterinarian as well as extensive professional experience in one of these fields
- Proven professional experience and in-depth knowledge in the domain of EMA's activities as well as in a high level management function
- Sound knowledge of relevant regulatory policy and practice, as well as of EU financial and administrative rules and procedures
- Strong interpersonal, negotiation and budgetary management skills
- Excellent command of English

Please consult the Official Journal **OJ 2014/C 457A** for the detailed vacancy notice as well as the eligibility and selection criteria. The official vacancy notice can be consulted on the following web site: **http://eur-lex.europa.eu/oj/direct-access.html**

Deadline for application: 28 January 2015.

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International Call for Candidatures

Head of Administration and Finance

The Anna Lindh Euro-Mediterranean Foundation for the Dialogue between Cultures - an inter-governmental organization co-funded by the EU and by the 42 governments of the Union for the Mediterranean - is recruiting a Head of Administration and Finance Unit for its headquarters in Alexandria, Egypt.

For further details about the job description, the profile of the candidates and how to apply, please go to

www.annalindhfoundation.org/job-opportunities

Deadline to apply is 9 February 2015

Anna Lindh Foundation
EUROMED

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Qualified to master's degree level in Finance, Economics, Business Administration or another relevant quantitative discipline, you will bring extensive experience of international capital markets and fixed income products. Naturally you should be a seasoned manager and strategic thinker, and you will possess deep understanding of financial instruments (particularly bonds, derivatives and structured products) and the evolving regulatory environment, backed by expertise in all aspects of the Treasury function. Finally, you will be extremely computer literate, including SAP, Bloomberg/Reuters and ideally Summit/Numerix, and capable of communicating effectively in English and or French with a working knowledge of the other language.

This position is based at our Headquarters in Abidjan, Ivory Coast, and closes on **26 January 2015**. Interested applicants should, attaching their Curriculum Vitae, submit their applications through the career pages of the African Development Bank website: **http://www.afdb.org/en/careers/**

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"The US was settled by tough pioneers who rode out in wagon trains looking for new kinds of accident and new people to sue. It wasn't whisky and weapons that did for the native Americans: it was all the endless litigation. We should call it How The West Was Won (On Appeal)." —on "Home of the unbrave", January 7th 2015

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Succeeding in the digital age

REFITTING ORGANISATIONS TO CAPITALISE ON DATA

Every business today is becoming a digital business—from pure online entities to traditional companies embracing mobile, social and cloud platforms. But the businesses that will excel and compete most effectively will be those that put the voluminous data that these digital platforms produce to smartest use.

Getting there will require commitment. According to a May 2014 IDC study sponsored by Microsoft, companies that invest in data across four broad categories—new data sources, analytic methods, key performance indicators and users—achieve higher returns than those that invest in some but not all of the categories.

But many companies are not yet there. Despite concerted efforts, companies across all industries struggle to harness the data explosion produced by the pervasive use of digital platforms. And both employees and customers often complain that they cannot get the information they need.

Part of the problem lies in data access. Data must be made available to all areas of the business and can no longer be limited to an elite few. In our current data-dependent age, business success or failure increasingly rests on the right people having easy access to relevant data, whether internal or external, at the right time—even if the data are siloed in disparate systems that make them difficult to reconcile and combine.

▶ *Read the full article written by The Economist Intelligence Unit, sponsored by Avanade, to understand how you can get ahead in the digital age at **www.thedigitalage.eiu.com**.*

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Results Realized

That it should come to this

BEIDA, MISRATA AND TRIPOLI

The four-year descent from Arab spring to factional chaos

IN MARCH 2011, spurred by Colonel Muammar Qaddafi's threat that his forces would storm the city of Benghazi "inch by inch, house by house, home by home, alley by alley," reluctant Western nations intervened in the revolution in Libya. It proved decisive. By the end of the year Qaddafi was dead, and the national tricolour which had replaced the plain green flag of the colonel's regime over the rooftops of Benghazi was flying all across the country.

Today Libya is at war with itself again. It is split between a government in Beida, in the east of the country, which is aligned with the military, another in Tripoli, in the west, which is dominated by Islamists, and a range of smaller forces in shifting alliances in between. Benghazi is again a battlefield. Parts of its university, where many government ministers on both sides of the new civil war used to teach, have been put to the torch. Across the country people shiver in the cold of freak snowstorms, many without running water or electricity. The black plumes of burning oil terminals stretch out over the Mediterranean.

How did it all go so wrong? When protests began in Benghazi in February 2011, fast on the heels of the downfalls of Zine el-Abidine Ben Ali in Tunisia and Hosni Mubarak in Egypt, Libya looked like the latest fragile blossoming of the Arab spring. Army commanders, mostly of Arab Bedouin origin, refused orders to shoot the protesters. The tents of hitherto-banned political movements, associations and newspapers crowded on to Benghazi's seafront. With remarkable speed, the revolutionaries cobbled together a National Transitional Council (NTC) claiming to represent all of Libya.

Gossamer government

After French aircraft saw off Qaddafi's attempt to retake Benghazi in March, Western and Gulf governments sent military advisers to extend the revolution towards the west. Volunteers from students to bank managers took up arms, joining popular militias and only sometimes obeying the orders of defecting army commanders trying to take control. In August Western bombing of government bases surrounding Tripoli cleared an avenue for the revolutionaries to take the capital. In October, after a fierce last stand in his hometown of Sirte, the colonel met his end.

Recognised abroad, popular at home and enjoying the benefits of healthy oil revenues—97% of the government's income—the NTC was well placed to lay the foundations for a new Libya. But the judges, academics and lawyers who filled its ranks worried about their own legitimacy and feared confrontation with the militias which, in toppling Qaddafi, had taken his arsenals for their own. By the time the NTC's chairman, Mustafa Abdel Jalil, arrived in Tripoli, militia leaders were already ensconced in the capital's prime properties.

The NTC presided over Libya's first democratic elections in July 2012, and the smooth subsequent handover of power to the General National Congress (GNC) revived popular support for the revolution. But Islamist parties won only 19 of 80 seats assigned to parties in the new legislature, and the process left the militias on the outside. The Homeland party, founded by Abdel Hakim Belhadj, a veteran of the Afghan *jihad* and prominent rebel emir who ran Tripoli's military council, tried to advertise its moderation by putting an unveiled woman at the head of its party list in Benghazi: even so it won no seats.

Hopes that an elected government might use its political capital to rein in the militiamen were quickly dashed. The new prime minister, Abdurrahim al-Keib, a university professor who had spent decades in exile, fretted and dithered. He bowed to militia demands for their leaders to be appointed to senior ministries, and failed to revive public-works programmes, in full swing before the revolution, which might have given militiamen jobs. Many received handouts without being required to hand in weapons or disband, an incentive which served to swell their ranks; when the colonel was killed the number of revolutionaries registered with the Warriors Affairs Commission set up by the NTC was about 60,000; a year later there were over ▸▸

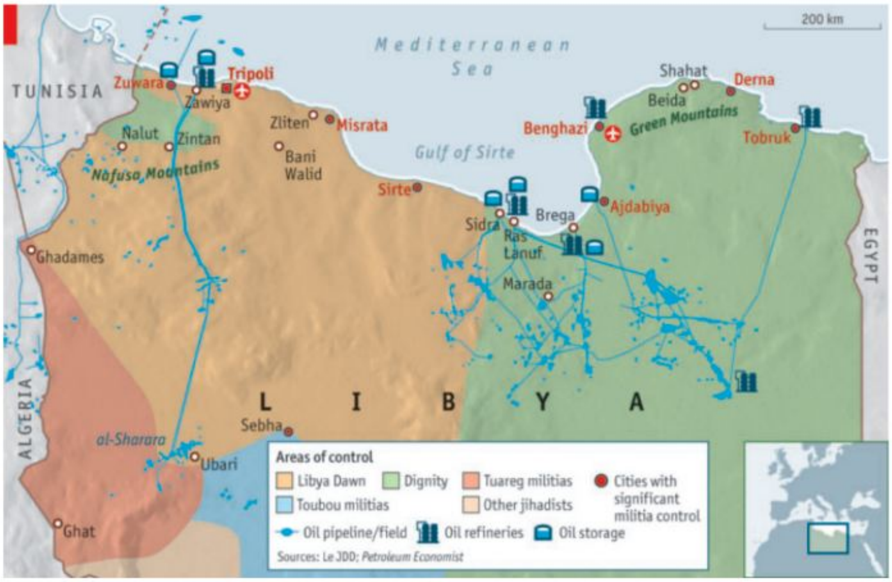
200,000. Of some 500 registered militias, almost half came from one city, Misrata.

When Mr Keib or the elected parliament balked, the militias simply raided their premises. "The war wounded closed a parliament session for six weeks until we passed a law rewarding them," recalls Mustafa Abushagur, then Mr Keib's deputy. In May 2013 the militias forced parliament to pass a law barring from office anyone who had held a senior position in Qaddafi's regime after laying siege to government ministries. That October militiamen briefly kidnapped Mr Keib's successor as prime minister, Ali Zeidan.

With central government so weak, warlords revived latent tribal, regional and ethnic differences. Libya was created in 1963 from Cyrenaica in the east, Fezzan in the south and Tripolitania in the west, and the divisions still matter. The 2011 revolution started in Benghazi in part because the marginalised Cyrenaicans harked back to the time when their king split his time between the courts of Tobruk and Beida and when Arabs from the Bedouin tribes of the Green Mountains ran his army. Tensions between those tribes and Islamist militias ran high from the start. In July 2011 jihadists keen to settle scores with officers who had crushed their revolt in the late 1990s killed the NTC's commander-in-chief, Abdel Fattah Younis, who came from a powerful Arab tribe in the Green Mountains. In June 2013 the Transitional Council of Barqa (the Arab name for Cyrenaica), a body primarily comprised of Arab tribes, declared the east a separate federal region, and soon after allied tribal militias around the Gulf of Sirte took control of the oilfields.

In the west, indigenous Berbers, who make up about a tenth of the population, formed a council of their own and called on larger Berber communities in the Maghreb and Europe for support. Port cities started to claim self-government and set up their own border controls.

As well as being split by sub-national loyalties, Libya is also pulled between supranational ones. From the very beginning of the revolution, Derna—a small port in the east famed for having sent more jihadists per person to fight in Iraq than anywhere else in the world—would have nothing to do with any attempts at imposing a central command on rebel forces. It opposed NATO intervention and insisted that the NTC was a pagan (*wadani*) not national (*watani*) council. Some in Derna have now declared their allegiance to Abu Bakr al-Baghdadi, the caliph of the so-called Islamic State (IS) in Syria and Iraq. In December the head of America's Africa command told reporters that IS was training some 200 fighters in the town.

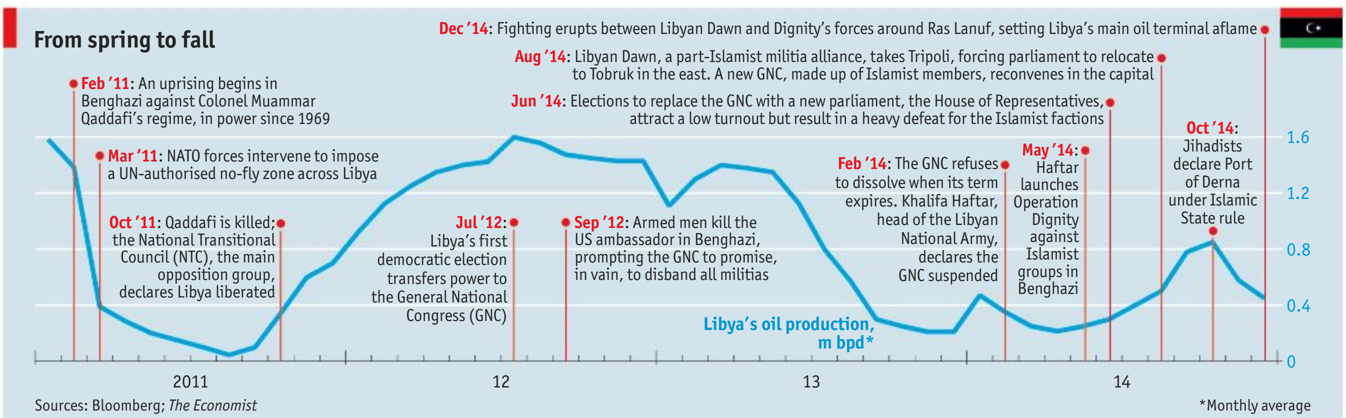


A tale of two everythings

In the spring of 2014, Khalifa Haftar, a retired general returned from two decades of exile in America, forcibly tried to dissolve the GNC and re-establish himself as the armed forces' commander-in-chief in an operation he called Dignity. The elections which followed were a far cry from the happy experience of 2012. In some parts of the country it was too dangerous to go out and vote; in the rest most chose not to anyway, seeing a process now dominated by bullets, not ballots. Such retrenchment has been particularly noticeable among women. In 2011 they created a flurry of new civil associations; now many are back indoors.

Turnout in the June 2014 elections was 18%, down from 60% in 2012, and the Islamists fared even worse than before. Dismissing the results, an alliance of Islamist, Misratan and Berber militias called Libya Dawn launched a six-week assault on Tripoli. The newly elected parliament decamped to Tobruk, some 1,300km east. Militias backing the parliament, including those from the Arab town of Zintan, fled to the Nafusa Mountains south-west of the city. Grasping for a figleaf of legitimacy, Libya Dawn reconstituted the pre-election GNC and appointed a new government.

So today Libya is split between two parliaments—both boycotted by their own oppositions and inquorate—two governments, and two central-bank governors. The army—which has two chiefs of staff—is largely split along ethnic lines, with Arab soldiers in Arab tribes rallying around Dignity and the far fewer Misratan and Berber ones around Libya Dawn. Libya Dawn controls the bulk of the territory and probably has more fighters at its disposal. But General Haftar's Dignity, which has based its government in Beida, has air power and, probably, better weaponry.



Each side uses broadcast media to rally support. Heavily backed by Egypt's general-turned-president, Abdel Fattah al-Sisi (an alliance that could seem like a poor prognosis for its more liberal supporters), the Dignity movement proclaims itself America's natural ally in the war on terror and the scourge of jihadist Islam. Libya Dawn's commanders present themselves as standard-bearers of the revolution against Qaddafi now continuing the struggle against his former officers. "We didn't have a revolution to give rise to another military dictator," says Brahim Masbah, a legislator elected in June 2014 who opposed parliament's flight to Tobruk.

Ministers in the east vow to liberate Tripoli from its "occupation" by Islamists, all of whom they denounce as terrorists. Libya Dawn's religious-affairs minister, Mubarak Salah, for his part, sees IS-supporting jihadists in Derna as "just good young Muslims" and a welcome thorn in Dignity's side. In the Tripoli hotel which has become Libya Dawn's de facto base—the country's governing institutions have mostly retreated into hotels, as if just visiting—an Islamist MP from Benghazi sips his macchiato and praises a recent car-bomb which targeted the government in the east. Libya Dawn's national security adviser, Yusuf Dawar, who wears a tie, breeches and a deerstalker supposedly to enhance his appeal to potential supporters in America and Europe, threatens to take the war to Egypt if Mr Sisi continues to arm the east. Sleeping cells could strike, he warns, drawn from the 2m tribesmen of Libyan origin in Egypt.

Both sides were at first occupied with fighting pockets of opposition within their own territories—Islamist-led militias in Benghazi for Dignity, Zintan, an Arab town which sits on a crucial oil pipeline, for Dawn—rather than confronting each other. In September the UN's special envoy, Bernardino Leon, who had shuttled across Libya dodging car-bombs, put together initial talks aimed at the creation of a national unity government in Ghadames, a dusty town near the Algerian border.

But as the pressure to reconcile built, hardliners turned their guns on each other. General Haftar bombed the airports in the west and the exit route to Tunisia. Libya Dawn pushed east towards Ras Lanuf; Libya's main oil terminal, under the control of Dignity's forces, was set aflame. General Haftar retaliated by sending his planes to bomb Misrata's seaport and steel works.

The struggle over the Gulf of Sirte area, which holds Libya's main oil terminals and most of its oil reserves, threatens to devastate the country's primary asset. And in the Sahara, where the largest oilfields are, both sides have enlisted ethnic minorities as proxies: Libya Dawn has drafted in the brown-skinned Tuareg, southern cousins of the Berbers; Dignity has recruited the black-skinned Toubou. As a result a fresh brawl is brewing in the Saharan oasis of Ubari, which sits at the gates of the al-Sharara oilfield, largest of them all.

Oil production has fallen and become much more volatile; it can be 800,000 barrels one day and 100,000 the next. And oil is worth half as much as it was a year ago. The Central Bank is now spending at three times the rate that it is taking in oil money. The bank is committed to neutrality, but is based in Tripoli; last September Tobruk's parliament appointed its own governor for the bank, who accuses his opposite number of starving the east of currency. He says he is thinking of accepting oil payments for the use of his side alone. There are angry queues outside the few eastern banks still open. Ministers in Beida run their departments on short-term commercial loans. Some barely have phones to make calls on.

Broken up

Tripoli may have a little more access to cash, but is in bad shape in other ways. Fuel supplies and electricity are petering out. Crime is rising; carjacking street gangs post their ransom demands on Twitter. In Fashloum, a rundown neighbourhood near the city centre, residents briefly erected barricades to keep out a brigade of Islamists, the Nuwassi, who claim to be an anti-vice squad. "No to Islamists and the al-Qaeda gang" reads the roadside graffiti.

Meanwhile Libya's ungoverned spaces are growing, and with some 6,000km of border the country's problems are hard to quarantine. Each month 10,000 migrants set sail for Europe. Libyan arms in the hands of groups allied to al-Qaeda in the Islamic Maghreb triggered the collapse of order in northern Mali two years ago; some of those who subsequently fought against the French there have now returned to Libya, where they are reportedly running jihadist training camps. On January 3rd, IS claimed to have extended its reach to Libya's Sahara too, killing a dozen soldiers at a checkpoint on a jihadist transit route to the Sahel. The conflict is as likely to spread as to burn itself out.

Grim prospect

Despite that risk, the Western powers which assisted in Mr Qaddafi's downfall have since been conspicuous by their absence. Chastened by failure in Afghanistan and Iraq, they have watched from the sidelines as things have gone from promising to perturbing to bad to worse. President Obama washed his hands of Libya after Islamists killed his ambassador, Chris Stevens, in Benghazi in September 2012.

Italy, the former colonial power, is the last country to have a functioning embassy in Tripoli. Turkish Airlines, the last foreign airline still flying to Libya, suspended flights on January 6th; Egypt and Tunisia have closed land borders. Even under Qaddafi the country did not feel so cut off. But neither that isolation nor a UN arms embargo have stopped parts of the outside world from playing an unhelpful role. Dignity is supported not just by Mr Sisi but also by the United Arab Emirates, which has sent its own fighter jets into the fray as well as providing arms. The UAE's Gulf rival, Qatar, and Turkey have backed the Islamists and Misratans in the west.

Mr Leon is still trying to get talks started. If oil revenues were to be put into an escrow account, overseas assets frozen and the arms embargo honoured he thinks it might be possible to deprive fighters of the finance that keeps them fighting and force them to the table. He would also like to see the 2011 no-fly zone reimposed, though this is unlikely given Russian and French opposition in the Security Council. If a ceasefire could be reached, Mr Leon has a fledgling plan developed with the Italians for thousands of UN peacekeepers to maintain it. But he admits with a grimace that such a positive outcome is "wishful thinking". Following a meeting with Mr Leon in Cairo, the Tobruk parliament's speaker, Aguila Salah Issa, wonders whether the time for reconciliation has passed.

Mr Leon says that, in retrospect, "treating Qaddafi's Libya as a country with a political culture like Tunisia, whose institutions could manage themselves, was a mistake". When tensions which initially erupted over power and money were reinforced by ideology, regionalism and ethnicity, the brave hopes of the revolution had nothing to fall back on. The assembly elected in February 2014 to draft a constitution, one of the few unitary institutions left in the country, struggles on in Beida despite boycotts and deep divisions between its members. There is something noble about that; there is much that is forlorn. ■

Also in this section

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The new Congress

Construction above, obstruction below

The 114th Congress may be more productive than its predecessor—just

VIEWED from a distance, the scaffolding on the Capitol's dome makes the building seem perpetually out of focus. The intentions of the congressmen sitting underneath it, who took their seats for the 114th Congress for the first time on January 6th, are similarly fuzzy. They may continue where the last Congress, a notably unproductive one, left off. Or they may work with the president to pass some limited legislation. While they make up their minds, a giant doughnut will be suspended above their heads to let workmen repair the 1,000 cracks that become apparent when the building is seen from up close.

This giant floating bun ought to serve as a warning. In the previous Congress the centre too often went missing; to be more productive, this one will have to find it.

Those who think this will happen argue that Congress works best when it is wholly controlled by one party, as the new one is. When one side holds just one chamber of Congress and the presidency, as was the case for the Democrats between 2010 and the end of 2013, the other lot has plenty of power—in the sense that it can stop things happening—but not much incentive to co-operate in governing. It is harder for a party to act as a protest movement when it is in charge of the legislature. When Bill Clinton found himself faced by a Congress wholly controlled by Republicans, he signed one bill reforming the welfare system and another that cut taxes. When George W. Bush faced a Democratic Congress, he signed a stimulus bill that gave the economy a needed boost in the early part of the financial crisis.

A further cause for optimism is that the Speaker of the House, John Boehner, is in a stronger position. Mr Boehner was re-elected to the post on January 6th, celebrating with a leathery kiss on the unwilling cheek of Nancy Pelosi, the minority leader (see picture on next page, which went viral). Before the vote, some of his colleagues had talked about a coup. In the event 25 Republicans voted against him. The sight of Louie Gohmert, one of Mr Boehner's more obstreperous foes, receiving three out of an available 241 votes must have been particularly enjoyable. Since becoming Speaker in 2011, Mr Boehner has often been forced to do things he himself opposed in order to keep his members onside and retain his job. Now that Republicans have their biggest majority in the House since 1946, he can afford to be more robust.

Yet for all this, Republicans and the president do not agree on much. Mitch McConnell, the majority leader in the Senate, has said there may be room to deal on trade, infrastructure and tax reform. Of these three, trade looks the most promising, because granting the president's administration fast-track authority to do deals that cannot be unpicked by Congress later would not cost any money.

The other two supposed areas of agreement will founder on a familiar argument about tax. The president would like to raise revenue to pay for infrastructure improvements, perhaps by using a windfall from the foreign profits of American firms repatriated after a reform to corporate taxes. Republicans would prefer to pay for this through spending cuts elsewhere. Both sides are open to a deal that would lower the combined federal and state taxes on companies—at 39%, the highest rate in the developed world—while closing some loopholes. But whereas the president would continue to tax companies on their worldwide profits, Republicans favour a sytem that taxes profits based on where they are made. On both these issues agreement that something should be done is not enough to ensure that it is.

If the list of things where co-operation is possible is short and comes with many disclaimers, the opportunities for confrontation are numerous. Both Mr McConnell and Mr Boehner are under pressure from their members to find ways to hamper the implementation of the Affordable Care Act and the president's executive action on immigration. They will try to do so by attaching riders to bills that the president would otherwise wish to sign, testing how much he is willing to lose in order to preserve two of the things that he sees as big achievements. This is likely to start in the coming week, when the Senate votes to approve the construction of Keystone XL, a pipeline that would take oil from Canada's tar sands to refineries on the Gulf coast. The White House has said that the president will veto the bill.

The pipeline is a good illustration of why hoping for too much from this Congress will bring disappointment. Keystone XL, if built, may contribute to a slight increase in CO_2 emissions, though its overall impact will be hard to discern. Nor will it provide much economic benefit: the pipeline is unlikely to create a large number of jobs, and with oil at $50 a barrel it is probably not viable economically. Yet Democrats often act as if Keystone XL were the most important environmental threat facing America, whereas Republicans offer it as a fix for any number of ailments, from slow growth to unemployment. This suggests that the argument is not really about whether to build a new pipeline, but about two conflicting views of American progress and about election adverts to be aired in future cycles.

One of the first things the House will do will be to pass the Hire More Heroes bill. Since the passage of the Affordable Care Act, Republicans have denounced the law's impact on small businesses, many of which must provide health insurance for their staff once they employ 50 people for 30 hours a week or more. The Hire More Heroes bill would change the law so that a company with 49 staff could hire as many military veterans as it wanted without breaching the threshold. This may be a good idea, but to claim it will transform the fortunes of either America's small businesses or the employment prospects of ex-servicemen is nonsense on stilts.

As well as passing laws, the Senate will be called on to confirm the president's nominations for two important offices: secretary of defence and attorney-general. Both will produce plenty of theatre. The attorney-general's hearing will be dominated by questions from Republican senators on how immigration law will be enforced, now that the president has unilaterally suspended parts of it. The hearings for secretary of defence will provide an opportunity for Republican presidential hopefuls in the Senate to denounce the administration's foreign policy as being both too adventurous and too passive.

By the autumn of 2016, when work on the Capitol's dome is due to be completed, the 114th Congress will have run its course, the country will be in the throes of a presidential election and freshmen congressmen will find themselves accused of having become Washington insiders. This Congress will be less destructive than its predecessor, which shut down the government and flirted with a sovereign default. But at the moment the workmen scurrying around the roof look slightly more likely to leave behind something of lasting value than the politicians considering their legacies 200 feet below. ■

The Kiss (not by Rodin)

New York's police

Zero common sense

NEW YORK

To get back at the mayor, officers have decided to stop enforcing some laws

THE causes of the impressive reduction in New York's crime rate are a perennial subject of debate, but the police department's decision to take minor crimes seriously certainly played its part. In 1990 the then head of the transit police, Bill Bratton, directed his officers to arrest as many turnstile-jumpers as possible. They found that one in seven arrested was wanted for other crimes, and that one in 20 carried a knife, gun or other weapon. Within a year, subway crime was down 30%. In 1994 Mr Bratton became head of the New York's Police Department (NYPD), and took what he had done on the subway to the city's then very mean streets. Since 1990, crime in the Big Apple has fallen dramatically and stayed low. New Yorkers are worried that this may be about to change.

No, I didn't see it either

Many of the city's officers have recently decided not to bother enforcing the law at all for minor things. They are doing this out of pique at the city's mayor, Bill de Blasio, who criticised the police after an officer inadvertently killed a civilian while making an arrest last year. (Many New Yorkers vented their outrage far more loudly.) During the first week of 2015, New York's finest arrested just three people for jumping turnstiles. Over the same week in 2014, they nabbed more than 400.

Arrests across the city are down by more than half. The number of summonses issued for minor offences and traffic and parking violations have fallen by more than 90% compared with the same period last year. Criminal court judges are twiddling their thumbs as their dockets empty. One police officer apparently had so much free time on his hands that he injured himself while fooling around on the bonnet of his moving squad car.

Relations between the mayor and the rank-and-file are fraught. They began to sour after a grand jury opted not to indict the officer who killed Eric Garner in July. The protests that erupted were mostly peaceful, but a few protesters chanted that they wanted dead cops. The NYPD has shown remarkable restraint, politeness and at times kindness towards protesters, even those who were trying to provoke them. Mr de Blasio said he worried that his son, who is black, might not be safe from the police. That did not go down well with cops, many of whom are black themselves. They were already feeling besieged when two officers were targeted and killed last month by a deranged gunman who had made threats against police on social media. Thousands of police attended the funerals. When the mayor appeared on screen to eulogise the dead officers, many furiously turned their backs on him.

Mr Bratton, once again the city's police commissioner, said the protest was inappropriate for a funeral. Pat Lynch, the head of the Patrolman's Benevolent Association ▸▸

(their union), said Mr de Blasio had blood on his hands. It is perhaps no coincidence that the tension comes just when the police are in a contract dispute with City Hall.

Mr Lynch says the showdown was not started, and is not supported, by the union (it is illegal for police officers to strike). He points out that two other police officers who were shot on January 5th were about to go off-duty and head home when they turned back to respond to a robbery. As unhelpful and divisive as Mr Lynch's rhetoric can be, the union he heads does not control officers' actions. "The rage at this point is ahead of them and it has been festering for a while," says one retired cop.

Mr Bratton, who is caught between his officers and the mayor, is still respected by his department. But Gene O'Donnell, a former police officer turned lecturer at John Jay College of Criminal Justice, thinks the police insubordination could transform Mr Bratton from "one of our own" into a warrior for Mr de Blasio. On January 7th the commissioner met union heads to discuss safety and morale. It did not go well. The mayor spent the afternoon swearing in the newest batch of police recruits. They were signing up for a tough job, he said. He also told them they were joining at a crucial time in history, a time when he intends to "draw this police department closer and closer to the communities it serves." Right now they could not be farther apart. ■

Americans and their cars (1)

Bangers v bullets

NEW YORK

A gun is now more likely to kill you than a car is

ACCORDING to data gathered by the Centres for Disease Control (CDC), deaths caused by cars in America are in long-term decline. Improved technology, tougher laws and less driving by young people have all led to safer streets and highways. Deaths by guns, though—the great majority suicides, accidents or domestic violence—have been trending slightly upwards. This year, if the trend continues, they will overtake deaths on the roads.

The Centre for American Progress first spotted last February that the lines would intersect. Now, on its reading, new data to the end of 2012 support the view that guns will surpass cars this year as the leading killer of under 25s. Bloomberg Government has gone further. Its compilation of the CDC data in December concluded that guns would be deadlier for all age groups.

Comparing the two national icons, cars and guns, yields "a statistic that really resonates with people", says Chelsea Parsons,

Americans and their cars (2)

The race for space

WASHINGTON, DC

Free parking is not all it's cracked up to be

PAYING for parking, says George Costanza, a character from "Seinfeld", a sitcom from the 1990s, is like going to a prostitute: "Why should I pay when, if I apply myself, maybe I can get it for free?"

Americans still tend to think like Mr Costanza, in part because free parking is the norm in most places. But in a few crowded cities, and with the help of new technology, people are beginning to think about parking more cleverly. Over time, the result may be to change how America's traffic-clogged cities work.

Free parking may sound like an unalloyed good, but the refusal of Americans to pay for—or indeed charge for—parking has created all sorts of bizarre incentives, says Donald Shoup of the University of California. People choose to drive when, if they paid the real cost of parking, they would walk or take a bus. And congestion is made worse. In some cities, Mr Shoup estimates, as much as a third of traffic consists of people searching for a space to park.

In Adams Morgan, a bustling part of Washington, DC, the problem is immediately apparent. The streets are clogged and drivers circle, looking for spaces to come up. Residents pay just $35 a year for a street-parking permit, but since demand outstrips spots, finding a space can be fiendishly difficult. Time-strapped commuters often don't use their cars for fear of being unable to park when they return home.

In many parts of the country, politicians have long balked at raising the cost of parking, even as inflation has made it cheaper in real terms. In Boston, for example, the charge for parking on the street did not increase from the mid-1980s until 2011 (when it was raised by 25 cents an hour).

Times, however, are changing. In Washington, parking on the National Mall is soon to be metered, with the revenue partly paying for a bus service. The city is also trying to install meters more widely. In Buffalo, a small, dense-packed city in upstate New York, a new zoning standard proposes to eliminate all minimum parking requirements. In San Francisco and Los Angeles, city governments have experimented with measuring demand for parking and adjusting the cost accordingly.

San Francisco's scheme uses sensors to estimate whether spaces are in use or not. Prices now vary according to the time of day, and are adjusted upwards or downwards each month to target particular occupancy levels. A study found that this helped to reduce the amount of time drivers spent looking for a spot by 43%. Mobile apps can help drivers find cheap spaces (though, ironically, most drivers will have to pull over before using their phones).

Convincing people to pay for parking may not be as difficult as it seems. Attempts to regulate parking through complex zone systems, time limits and other rules make life more difficult even for those who can find a precious space. In 2013 the government in Washington, DC issued 1.7m parking-violation tickets, taking some $80m in fines. If it charged for more of its spaces, perhaps it could get by with issuing fewer tickets.

Intersection ahead

Causes of death for people aged 15-24

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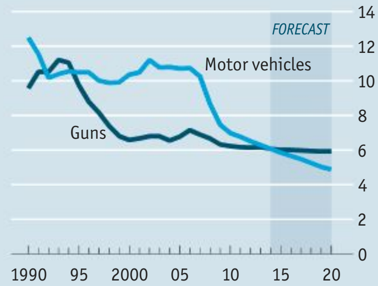


Source: Centre for American Progress

co-author of the report for the Centre for American Progress. Resonance is certainly needed. There are about 320m people in the United States, and nearly as many civilian firearms. And although the actual rate of gun ownership is declining, enthusiasts are keeping up the number in circulation. Black Friday on November 28th kicked off such a shopping spree that the FBI had to carry out 175,000 instant background checks (three checks a second), a record for that day, just for sales covered by the extended Brady Act of 1998, the only serious bit of gun-curbing legislation passed in recent history.

Many sales escape that oversight, however. Everytown for Gun Safety, a movement backed by Mike Bloomberg, a former mayor of New York, has investigated loopholes in online gun sales and found that one in 30 users of Armslist classifieds has a criminal record that forbids them to own firearms. Private reselling of guns draws no attention, unless it crosses state lines.

William Vizzard, a professor of criminal justice at California State University at Sacramento, points out that guns also don’t wear out as fast as cars. “I compare a gun to

Safer with an open-top Corvette

a hammer or a crowbar,” he says. “Even if you stopped making guns today, you might not see a real change in the number of guns for decades.”

Motor vehicles, because they are operated on government-built roads, have been subject to licensing and registration, in the interests of public safety, for more than a century. But guns are typically kept at home. That private space is shielded by the Fourth Amendment just as “the right to bear arms” is protected by the Second, making government control difficult.

Car technologies and road laws are ever-evolving: in 2014, for example, the National Highways Traffic Safety Administration announced its plan to phase in mandatory rear-view cameras on new light vehicles, while New York City lowered its speed limit for local roads. By contrast, safety features on firearms—such as smart-guns unlocked by an owner’s thumbprint or a radio-frequency encryption—are opposed by the National Rifle Association, whose allies in Congress also block funding for the sort of public-health research that might show, in even clearer detail, the cost of America’s love affair with guns. ■

Andrew Marshall

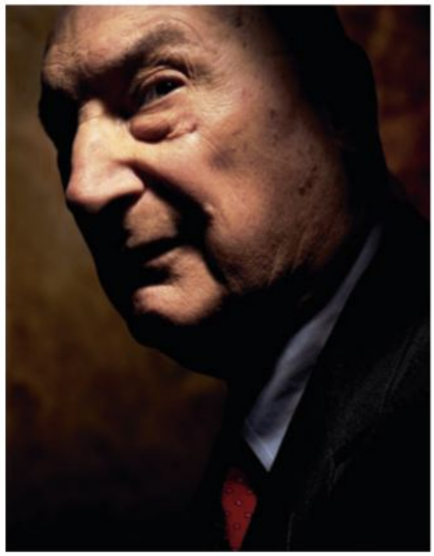
The quiet American

An enigmatic futurist at last calls it quits

HE RARELY speaks in public and almost never to the press. Most of his reports are secret. A historian once asked if even his brain was classified. But for over four decades Andrew Marshall’s judgments, emanating from a small office in the Pentagon, have guided American defence policy. Or so, at least, his supporters say.

Mr Marshall, now 93, headed the Office of Net Assessment (ONA), known as the Pentagon’s internal think-tank, from its creation in 1973 to his retirement on January 2nd. Such was his longevity and wisdom that some defence cognoscenti took to calling him “Yoda”, after the character from “Star Wars”. The nickname is also a reference to his tutoring of influential scholars and officials. This coterie of experts, who refer to themselves as alumni of “St Andrew’s Prep”, speak of their inscrutable teacher with awe.

In a new book on Mr Marshall two of his acolytes, Andrew Krepinevich and Barry Watts, compare him to such foreign-policy luminaries as Henry Kissinger and James Schlesinger. Tasked with considering emerging trends and long-term strategy, the ONA has been credited with foreseeing the demise of the Soviet Union and



Inscrutably influential

the rise of China. But Mr Marshall is perhaps most noted for his belief that warfare is subject to dramatic change when new technologies combine with doctrinal and operational innovation to create a “revolution in military affairs” (RMA). In the 1980s he predicted a new RMA driven by technologies such as advanced sensors, precision-guided weapons and computer networks.

Most Americans have never heard of Mr Marshall, but his ideas have drawn attention far beyond America’s shores. Chinese and Russian military strategists pore over his work, which often portrays their countries as significant threats. In an interview with *The Economist* in 2012, General Chen Zhou, who has written several of China’s defence white papers, said: “We studied RMA exhaustively. Our great hero was Andy Marshall in the Pentagon. We translated every word he wrote.”

Much of this admiration seems genuine, but money may also play a role. “Chen knows that Marshall is good for his budgets,” says Jonathan Pollack of the Brookings Institution, a think-tank. The same could be said of Mr Marshall’s American devotees. The ONA relies on a small network of outside contractors and individuals, often alumni of St Andy’s, to provide analysis. One large recipient of its cash is the Centre for Strategic and Budgetary Assessments, a think-tank that is led by Mr Krepinevich and once employed Mr Watts.

The less starry-eyed claim that Mr Marshall hedged his predictions and exaggerated threats. He may have outdone the CIA in noting the burden of military spending on the Soviet economy, but he also saw the doomed state as an enduring menace. His dark view of China strikes some as alarm-

Correction: An alert reader has pointed out that the chart that accompanied an article on farming in the Midwest (“Of tech and troughs”, December 13th 2014), understated farmers’ income in 2011 and 2012. Sorry.

ist. And his thoughts are not always original—the RMA, for example, was a Soviet concept. As a result, his influence is probably overstated: only one of the 12 defence secretaries under whom he served makes more than a perfunctory reference to him in his memoirs, notes Michael Desch, a professor at the University of Notre Dame.

The problem with the hagiographic treatment of Mr Marshall, say those outside his circle, is that it is hard to check the often classified facts. "We have an incomplete picture of him because only genuine intimates speak on his behalf," says Mr Pollack. He and others would like to see more scrutiny of the ONA. "The time is long past for a serious assessment of what the office has contributed," says Mr Desch.

That view has grown within the Pentagon. In 2013, as defence officials faced sequester cuts, there was talk of closing the ONA, despite its tiny budget ($19m) and little more than a dozen staff. Instead, its direct line to the secretary of defence was cut and it now reports to a lower-ranking official. Nevertheless, the search is on for a new futurist-in-chief. Finding another Andrew Marshall will not be easy, laments Mr Watts. Perhaps easier, though, than predicting where the world will go next. ■

The Supreme Court

Draw back the curtain?

WASHINGTON, DC

No cameras may penetrate the sacred chamber for quite a while

A BILL circulating in the House of Representatives, the charmingly named Sunshine in the Courtroom Act, aims to overturn a 70-year prohibition on cameras in federal courtrooms. It would allow media coverage of proceedings in such courts at the discretion of the presiding judge. Spectacles like the Boston Marathon bombing case may, if the bill passes, be streamed into citizens' living rooms. But the proceedings of the country's highest court are another story. The sun will shine on the Supreme Court only if the chief justice wants it to. And despite the grudging openness to new technology he showed in his end-of-year report, neither he nor his colleagues seem terribly keen on cameras.

This will disappoint the nearly three-quarters of Americans who say they would like to watch the justices in action. Some contend that oral arguments have little effect on how the court rules, but Timothy Johnson, Paul Wahlbeck and James Spriggs, three political scientists, posit that Supreme Court oral arguments "provide justices with useful information that influences their final votes on the merits".

A small cadre of advocates bend the justices' ears much more often than everybody else. Before he was appointed chief justice in 2005, John Roberts argued 39 cases before the court and won 25. Paul Clement, solicitor-general under President George W. Bush and now in private practice, has appeared before the court 75 times and is considered a virtuoso. Despite a universally praised appearance in 2012, however, Mr Clement could not persuade the justices to strike down Obamacare. A somewhat bumbling defence of the Affordable Care Act by Barack Obama's solicitor-general nonetheless contained the key contention that the law's penalty for not buying health insurance was best regarded as a "tax" permitted by the constitution; and that was enough to persuade Chief Justice Roberts to join the court's four liberals in upholding the law.

The chief justice and Ruth Bader Ginsburg, the oldest of the three women on the court, tend to ask brief, piercing questions to clarify a point or probe a weakness. Justice Ginsburg is all business, but the chief justice—as he showed recently in *Elonis v United States*, a case concerning the legality of violent Facebook posts—is affable and can even be hip. Probing the limits of free speech, he invoked Eminem, an artist who writes violent rap lyrics, and drew laughter when he wondered whether "a reasonable teenager on the internet" would interpret a jilted man's violent comments as evidence he meant to physically harm his ex-wife. Nobody beats Justices Antonin Scalia and Stephen Breyer in the humour department. Justice Breyer tosses out plaintive ironies, while Justice Scalia kills with sarcasm: "What about devil worshippers?" he deadpanned in 2013 in the case of a town accused of alienating dissenters by starting its town-board meetings with Christian prayers.

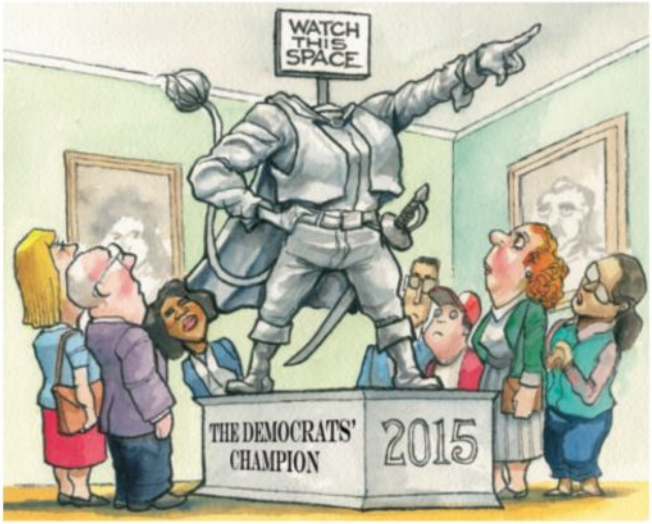
Sitting one at each end of the bench, two liberal justices, Sonia Sotomayor and Elena Kagan, are both feisty in arguments. Justice Sotomayor tends to bear down on lawyers with fine-grained questions about precedent, while Justice Kagan is the master of the big picture. Her hypotheticals are crystal-clear and concise, a contrast to Justice Breyer's sometimes impenetrable stream-of-consciousness. Justice Samuel Alito, with his cocked head and sternly arched eyebrow, often poses the toughest questions of the day. Two justices are sphinx-like: Clarence Thomas, who has not asked a question since February 22nd 2006, and Anthony Kennedy, often the presumed swing vote in the biggest cases, whose questions rarely betray how he will decide.

Transcripts and audio recordings of the hearings are available on the Supreme Court's website; but, for the time being, court-watchers are limited to members of the press and people who line up early to vie for one of a couple of hundred seats in the public gallery. Not a lot of sunshine penetrates the Supremes' sacred chamber; law or no law, the heavy drapery is not about to be pulled aside. ■

Chief Justice Roberts (left) and his shrinking violets

Lexington | An army without generals

If Barack Obama is not really the leader of the Democratic Party, who is?



THOUGH leading the Republican Party can be a trying task, many politicians want to have a go. Ambition swirls so thickly in the halls of the 114th Congress, which was sworn in on January 6th, that it can almost be touched. Republican leaders, whips and committee chairmen, even the bosses of rebellious factions: all yearn to use their party's newly won control of the Senate and House of Representatives to make Barack Obama's life miserable and promote voter-pleasing conservative policies. As for the 2016 presidential nomination, around a dozen Republican bigwigs are circling the starting-line of that contest, eyes agleam. The party is fractious, but it is filled with energy, and those who would lead.

The contrast with the Democratic Party is striking. The party remains a potent force in national politics, even after 2014's mid-term elections cost it control of the Senate and left it with fewer House members than at any time since 1946. But as Democrats head into the final two years of the Obama era, they resemble an army without a commander-in-chief, or even generals whom footsoldiers might follow into battle.

In Congress the Democratic leaders of the Senate and House are both in their 70s, as are many of their lieutenants. Both are crafty tacticians more than inspiring thinkers. Neither represents the future. Out in the country, Republicans can point to any number of governors who look like conservative champions, busy turning their states into laboratories for tax-cutting, government-shrinking experiments. Only a handful of Democratic governors similarly dominate their states' politics—the most prominent, Jerry Brown of California, is 76 years old.

Hillary Clinton will dominate her party's presidential primary if and when she says she is running. At the moment, she is a spectral presence—freezing the 2016 contest without offering leadership. If she does not run, it is not obvious who could replace her. Some like to daydream about Senator Elizabeth Warren, a Wall Street-bashing populist who is to the left of centre in her home state, Massachusetts, which is in turn to the left of centre of America as a whole. Ms Warren says she is not running for president (she favours the present tense), which makes her more sensible than her supporters: as a matter of cold electoral maths, she cannot win a nationwide contest.

President Obama's relations with the Democratic Party are increasingly complicated. After a wretched 2014, during which he seemed buffeted by events, Republicans successfully made the mid-term elections a referendum on his competence, prompting Democrats in some conservative states to try to disown him (in vain—most such Democrats lost anyway). Since then, Mr Obama has defied predictions of his imminent irrelevance. He has used his executive powers to shield millions of migrants from deportation, and started to dismantle the (remarkably ineffective) embargo against Cuba. He has sketched out future policies that may define his legacy, from new rules to protect the environment to global trade pacts. Republicans will try to thwart many of his plans. Global events continue to menace him. But as much as his office permits, Mr Obama is setting the agenda.

Yet if Mr Obama is not quite the lame-duck president that critics foresaw, he is still a lame-duck leader of the Democratic Party. Partly, this is a question of differing incentives. Mr Obama wants a legacy. Democrats have future elections to win. As Mr Obama conceded to National Public Radio recently, such policies as unpicking the Cuban embargo are "frankly…easier" for a president at the end of his term. Mr Obama has a strong interest in achievements that can pass a Republican-held Congress. Two planned trade pacts, one with Asia-Pacific countries, the other with Europe, are a case in point. Republicans and some centrist Democrats want a deal. Left-wing Democrats and unions are appalled.

In part, the end of the Obama era is a moment of political clarity, exposing the oddly transactional nature of his ties to his own party. Mr Obama did not become the Democrats' champion by explaining what sort of party they needed to be. He won office in 2008 by offering a new, post-racial, post-partisan form of politics, buttressed by the promise of his own life-story and brilliant electoral technology. He kept office in 2012 by turning out an "Obama coalition" that united the young, the poor, non-whites, gays, urban hipsters, unmarried women and affluent liberals. Other Democratic politicians went along for the ride, while grumbling that their president was disappointingly aloof and risk-averse.

Breaches of decorum

Relations between Mr Obama and congressional Democrats are sourer than ever. In an unusual breach of decorum, the strains of the 2014 election prompted on-the-record grouching about the White House from a right-hand man to Harry Reid, the Democratic leader in the Senate. A December budget crunch saw Nancy Pelosi, the Democrats' boss in the House, fulminate against her own president's willingness to cut deals with Republicans.

Greybeards counsel calm. Presidents inevitably see their clout ebb as successors' elections near, says Tom Daschle, who led Senate Democrats from 1995 to 2005. If Mrs Clinton runs for the nomination, she will become an alternative centre of power which will grow in importance. If she does not run, "there is a list of people waiting in the wings", Mr Daschle soothes, offering as examples two very different senators: Ms Warren and Kirsten Gillibrand (the junior senator from New York and a politician of Clinton-level pragmatism, without the Clintons' experience).

Other Democrats are less sure, seeing a problem that goes beyond personnel issues. "It is a little confusing who is leading the Democratic Party right now," says a member of Congress who hears nothing "galvanising" from Mr Obama, and "no energy, no excitement", from congressional bosses. Put another way, Democrats feel leaderless because the party lacks big, compelling ideas. Someone may yet fill that void. It needs to happen soon. ■

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Canada's immigration policy

No country for old men

OTTAWA

Canada used to prize immigrants who would make good citizens. Now people with job offers have jumped to the front of the queue

IN 1967 Canada invented a way to remove discrimination and prejudice from the process of choosing which immigrants to let in. The points system ignored an applicant's race and country of origin (until then it helped to be white). Instead, it rewarded education, fluency in English or French and work experience. With the change, Asians supplanted white Europeans as the dominant immigrant group. The idea of basing admission to Canada on merit rather than on a bureaucrat's whim was visionary at the time. Several countries, including Australia, New Zealand and Singapore, adopted Canadian-style points systems. In Europe even politicians hostile to "uncontrolled" immigration sing the praises of Canada's selective approach.

Canada remains relatively enlightened on immigration. The ruling Conservative Party may be the only right-leaning party in the Western world firmly in favour of it. While European countries look for ways to close their doors and the United States argues about how many illegal immigrants to deport, Canada recently lifted its target for new permanent residents from 265,000 a year to 285,000. Chris Alexander, minister for immigration, says he expected a fuss when the announcement was made in October. It never came. "People thought it was the right thing to do," he says.

But Canadian policy is changing. Since winning power in 2006 the Conservatives have moved away from the idea of letting in people based on their "talent for citizenship" to admitting workers with job offers. On January 1st the government moved further in that direction. A new "Express Entry system" greatly increases the weight given to offers of employment for people applying to become permanent residents.

In this, Canada is a follower rather than a leader. New Zealand started giving preference to job holders in 2003 and Australia made the shift in 2009. The change makes sense. But critics worry that in shifting from a policy based on civic values to one governed by commercial logic, Canada is making the system more vulnerable to fraud and discrimination. Though more open than other right-of-centre parties, Canada's Conservatives have been characteristically hard-nosed about letting in refugees and immigrants' family members.

The original points system had flaws. Immigrants escaped discrimination at the entry gates but often faced it when they tried to find a job. Employers did not always recognise skills and education acquired abroad, especially outside Europe. Doctors ended up driving taxis; architects toiled at convenience stores. The unemployment rate among immigrants is nearly 50% higher than that of Canadian-born workers.

Employer-led systems are intended to correct some of these problems. They reduce the mismatch between available jobs and immigrants' skills, and encourage them to settle outside big cities such as Toronto, Vancouver and Montreal, where they tend to congregate. "If you care only about how immigrants fare in an economic sense, evidence suggests an employer-led system is good," says Madeleine Sumption, head of the Migration Observatory at Oxford University.

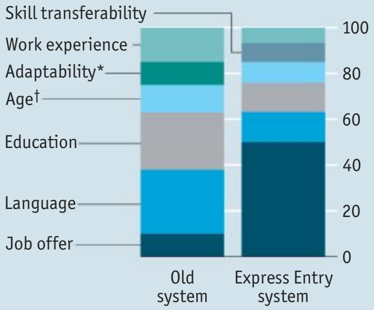
The Conservatives' first attempt to adopt one was not a success. The government tried to please employers by sharply increasing the number of foreign workers allowed in temporarily. That was the only way to fill low- and semi-skilled jobs that Canadians did not want, says Dan Kelly, head of the association that represents Canada's small businesses; applicants for permanent residence were too well educated. But there were complaints. Rather than discriminating against immigrants, employers went out of their way to hire them at lower cost. A bank laid off 60 information-technology workers and contracted the work to a supplier, who applied to bring in foreign workers to replace them. Visas for "exotic dancers" embarrassed the prime minister, Stephen Harper, an evangelical Christian. The government severely restricted entry under temporary work visas last June.

Express Entry is a second attempt. It ranks would-be economic migrants on a 1,200-point scale, with half the points awarded to those with a job offer or a nomination under one of Canada's provincial immigration plans, which are closely aligned with job vacancies (see chart, next page). Those with the highest scores will be quickly invited to apply for permanent residency under one of three economic entry programmes. The rest remain in a pool from which the govern- ▸▸

Building a better Canadian

Canada's skilled-workers immigration system

Weighting, %



Source: Government of Canada

*Up to 5% available for having a "close relative in Canada", not part of new system †Old system gives maximum points to 18-35-year-olds, new system to 20-29-year-olds

ment and eventually employers can pick. While skilled workers must still pass the old 100-point system, this is a legal formality. The new system will help attract the engineers, information-technology specialists and health-care workers that Canada needs, says Mr Alexander.

The changes deal with earlier problems by requiring that applicants prove in advance that their credentials are recognised in Canada and by obliging employers to show in advance that no eligible Canadian is available for the job. The new scheme lowers Canada's age targets: applicants in their 20s get maximum points for age. Canada's new dream immigrant is younger, more polyglot, has already worked longer in Canada than the older version and, unlike him or her, has a job offer. One former minister praises the Conservatives for transforming the immigration department into a giant manpower agency.

Not everyone is so happy. The changes amount to a privatisation of immigration policy and could reintroduce discrimination, says Jeffrey Reitz of the University of Toronto. "The points system, with all its flaws, had some value," he believes. Visa officers fear that an employer-led system will be "fraught with fraud", according to a survey commissioned by the immigration department. They worry that non-existent employers will offer fictitious jobs to residents' friends and families.

Immigrants who are tied to an employer for a fixed period are at risk of abuse. Unlike the old points system, which is neutral on race and nationality, the new one makes it possible for employers to discriminate in ways that are hard to detect. English-speaking employers in Toronto, Montreal and Vancouver give preference to job applicants with English-sounding names, according to a study published in 2011.

The Conservatives' turn towards employers goes along with a tougher line on refugees and elderly people who want to join their families in Canada. The old points system gave applicants credit for family members in Canada (under "adaptability"); the new one does not. Jason Kenney, who preceded Mr Alexander as immigration minister, tightened admissions of refugees on the grounds that too many "abuse our generosity or take advantage of our country". A court ruled that his cuts to spending on refugees' health care were cruel and unconstitutional, a decision the government is appealing against. Mr Alexander is under fire for agreeing to admit just 1,300 refugees from Syria in 2014. He insists that Canada taking more than its share given the size of its population. About 2,400 Syrian refugees now are in Canada and the government has promised to take in an additional 10,000 over the next three years.

The new Canadians are younger and better educated than ever before, boasts Mr Alexander. "Our immigrants have a much higher incidence of post-secondary degrees than the Canadian population at large," he says. That bodes well for Canada's future. But the idealism of the past is fading. ■

Human rights in Guatemala

Justice confused

The trial of an ailing ex-dictator is plagued by chaos

AS COURTROOM dramas go, the trial of ex-dictator José Efraín Ríos Montt for genocide and crimes against humanity has been both riveting and maddening. His conviction and 80-year prison sentence imposed in May 2013 caused jubilation among Maya Indians who for 30 years have accused soldiers under his command of carrying out massacres. Ten days later, the first conviction for genocide of a former head of state in his own country was quashed on flimsy technicalities. It looked like Guatemala's justice system remained torn between the same left- and right-wing forces that fought a 36-year-long civil war ending in 1996.

On January 5th the ailing 88-year-old, wearing dark glasses, was wheeled into a packed 15th-floor courtroom in Guatemala City on a trolley after a judge dismissed the arguments of his defence lawyers that he was too ill to attend a retrial. The excitement on his arrival was palpable. "He's going up to the 15th floor. But [he's] going down," someone enthusiastically tweeted. His former intelligence chief, Mauricio Rodríguez Sánchez, also arrived in a wheelchair. However, the retrial was suspended because of last-minute doubts about the impartiality of the main judge, who a decade ago wrote a master's thesis on genocide.

Such chaos has plagued the proceedings against Mr Ríos Montt from the beginning and raises doubts about whether the court system is robust enough to provide justice in such a momentous case. His defence team continues to question the validity of the entire legal process because of a 1986 amnesty law (introduced by another dictator). The general's enemies, backed by international legal organisations, argue that anything less than a genocide conviction would be a travesty. The previous judge, condemning Mr Ríos Montt in 2013, said the army had killed 1,771 members (about 5.5%) of the Ixil ethnic population with his connivance during his rule in 1982-83, the bloodiest period of the civil war.

Some believe that even if the general committed crimes against humanity, the genocide charge goes too far. "The human-rights violations were not directed specifically against an ethnic group but against all who were perceived to support the guerrillas," says Eduardo Stein, a former vice-president.

The case has shown the extent of political interference in the court system. Mr Ríos Montt's main prosecutor was pushed aside after the initial conviction with the blessing of Guatemala's conservative president, Otto Pérez Molina. The retrial seemed to show that the wheels of Guatemalan justice would continue to turn—however slowly and imperfectly. Its messy suspension casts that hopeful expectation in doubt.

Ríos Montt, fit to be tried

Also in this section

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Bangladesh

Drama queens

DHAKA

The battling begums are at it again. The country pays the price

A YEAR is said to be an eternity in politics. In Bangladesh, it seems the batting of an eye. On January 5th colourful, sand-laden lorries reappeared on the streets of the capital, Dhaka. It was the first anniversary of a deeply flawed general election won by the ruling Awami League, thanks in large measure to a boycott by the main opposition Bangladesh Nationalist Party (BNP). A year ago the lorries confined Khaleda Zia, a former prime minister and the BNP's leader, to her house in suburban Dhaka. This week it was her office (pictured, above) that the lorries blocked, backed up by the police, locking Mrs Zia inside for days on end—for her own protection, they said.

Elsewhere in Dhaka, police arrested Fakhrul Islam Alamgir, the BNP's secretary-general. Most of the rest of the BNP leadership are in hiding. The government ordered police to lock down party headquarters. The owner of a television channel was arrested (and charged with a pornography offence) after it broadcast a speech calling for the government's overthrow by Tarique Rahman, Mrs Zia's son, who is in self-imposed exile in London.

Mahfuz Anam, editor of the *Daily Star* newspaper and no fan of the BNP or Mrs Zia, condemned the "mindless suppression of the opposition, which is making a mockery of our claim to be a democratic country". The BNP, weak and long waiting for an opportunity to remind its own members and the rest of the country of its existence, had planned to mark the anniversary as "Democracy Killing Day".

The League and its leader, Sheikh Hasina, the prime minister, had other plans. It suspended long-distance bus services, banned gatherings and celebrated the day as a "Constitution and Democracy Protection Day", though the election it marked was a farce—and not just because of the BNP boycott. The leader of the third-largest party, Mohammad Ershad, a former dictator, spent polling day detained in an army hospital; the fourth-largest party was barred from running because of its explicitly Islamic charter.

As always, it is ordinary people, especially in rural Bangladesh, who pay the price for the renewed feuding of Dhaka's drama-prone politicians. After ruling-party activists shot dead two BNP workers in the northern district of Natore, the BNP called an indefinite transport strike. Seven people have now been killed and hundreds injured in clashes across the country.

Sheikh Hasina's legitimacy is being questioned. She came back to power in a landslide election win in December 2008, but has used that mandate to hound the opposition, amend the constitution to suit her, and undermine democracy—just as Mrs Zia had done in office, most recently from 2001 to 2006. The League's claims of economic competence are beginning to look irrelevant. The arbitrary suspension of rights and humiliation of Mrs Zia are alienating neutral voters. Mr Ershad's Jatiya Party, now a League ally (as well, bizarrely, as the formal parliamentary opposition), has said its ministers might quit the cabinet.

The prime minister seems determined to destroy the BNP as a political force before the next election, due in 2019. Her government controls the courts, the security apparatus and the press. It is not interested in compromise and confident it can hang on for four years. So the BNP's only chance of a change seems to lie with the army, if it felt it had to intervene after a breakdown in public order. But the armed forces have refused to be drawn in. They are kept happy by lucrative UN peacekeeping operations and business deals.

This week's events mark the start of another cycle of violence. The word in Dhaka is that the government is preparing to arrest Mrs Zia, possibly on charges of sedition. Meanwhile, she is already on trial for corruption. If convicted she could face time in jail. Possible executions of senior opposition figures sentenced by a war-crimes court for their role in Bangladesh's war of independence from Pakistan in 1971 may threaten stability further.

Nor does it seem likely that other countries can influence Bangladesh's internal politics. Unusually, China, which is increasingly batting for the BNP, has called for dialogue. But America has stopped putting public pressure on the Bangladeshi government. Germany, a big importer of Bangladeshi garments, does not, for now, even have an ambassador in Dhaka. Nor has India's new government shown any sign of lessening its support for Sheikh Hasina. She thus faces little pressure to compromise, and this week's confrontation may foreshadow many more. The sand lorries and locksmiths will be busy. ■

India

Ordinance survey

MUMBAI

The government tries to accelerate the pace of reform

AFTER its thumping election victory last May, Narendra Modi's Bharatiya Janata Party (BJP) has been making rather slow progress on pushing through promised economic changes. But suddenly, around the turn of the year, and as the economy has apparently slowed, Mr Modi's government became hyperactive.

On December 29th it issued an "ordinance" (a temporary executive order) amending an imperfect land-acquisition act that the previous administration passed in 2013. The ordinance does away with a requirement that, when a large industrial project is proposed, some 80% of affected landholders must consent to a land purchase for the proposal to go ahead (or 70% for projects in which the government has a stake). It also does away with the requirement that investors in biggish undertakings must first carry out a social-impact study.

The new rules apply only to some kinds of projects, and not necessarily to those, such a steelworks, that require vast tracts of land. Compensation terms were untouched. That allowed India's finance minister, Arun Jaitley, to claim that the ordinance struck a fair balance between the needs of the economy and the interests of small landowners. It did not stop some opposition politicians from claiming it was a licence for a corporate land-grab at the expense of farmers.

Mr Modi may be more prepared than previous prime ministers to govern by ordinance as a means of bypassing Parliament. In the parliamentary session that ended last month, the government piloted two landmark bills through the lower house, where the BJP and its allies enjoy a healthy majority. One bill proposed that the foreign-investment threshold allowed in the insurance industry should rise from 26% to 49% of any enterprise. A second laid the groundwork for the reallocation by open auction of coal-mining licences that the Supreme Court had annulled in September following rampant graft in the licensing. The antics of the opposition in Parliament's upper house, where the BJP has just 45 out of 245 seats, meant the bills were not even considered, let alone passed. Mr Modi resorted to ordinances in their stead. Similar executive orders have followed, including making it quicker for ethnic Indians overseas to get visas.

Indians impatient for change argue that a bossy executive is preferable to one that has been checked-and-balanced to a standstill. But ordinances are meant to be limited to urgent business when parliament is not sitting. Mr Modi could reasonably claim in some instances that the need was pressing. Many large power and steel plants lie idle for want of a licence to mine the coal needed to fuel them, even as the bank loans incurred to fund such projects sour. However, ordinances give only temporary powers. They lapse if not ratified by both houses of Parliament within the first six weeks of a new session. That limits their effectiveness: few businesses will commit themselves to a big investment in India on such shaky grounds. So the main point of the ordinances seems to be to signal that the government does not intend to be stymied by a stroppy parliament.

No licence to mine

Mr Modi can at least point to one parliamentary landmark. On December 19th the government tabled a bill to establish a long-awaited national goods-and-services tax (GST) in place of a welter of state levies. The bill came after weeks of negotiations with states, which will be required to give up tax-setting powers in order to make way for a harmonised national levy—of which they will get a share. But tax design is tricky, and small details determine whether a reform helps or harms the economy. Satya Poddar, a tax expert at EY, a consulting firm, thinks that the early signs are not encouraging. For instance, an undertaking to compensate states for five years for loss of revenue gives them little incentive to ensure that collecting the new tax runs smoothly. Mr Jaitley says he is open to suggestions that might improve the bill. A hurried reform can sometimes be worse than no reform at all. ■

Sri Lanka's election

Knife-edge

Intimidation and violence have marred the presidential race

SRI LANKANS were going to the polls as *The Economist* went to press at the end of a hotly contested presidential race, marred in its final days by violence and intimidation. The elections commissioner saw fit to take tough new measures to prevent rigging: for the first time, results will be released directly, not via the information department of the government of President Mahinda Rajapaksa. The commissioner is also allowing independent observers to go into the counting centres, and he gave warning that he would order a revote in areas with egregious irregularities.

Observer groups have documented hundreds of incidents during the campaign, including threats, intimidation, stonings and shoot-outs. One person has died. In the north, where most of the minority Tamils live, there was some concern that soldiers would make voters stay at home. The government has maintained a heavy military presence there since its rout of the Tamil Tigers in 2009.

The election pits 19 candidates against each other, but the only ones that count are Mr Rajapaksa, who is seeking a third term, and Maithripala Sirisena, Mr Rajapaksa's health minister until his defection in November. Since then 26 other ministers and lawmakers have deserted the ruling United People's Freedom Alliance to support Mr Sirisena's candidacy. (Mr Rajapaksa gained two from the opposition in return.)

Backed by nearly 50 political parties or other groups, Mr Sirisena has campaigned by railing against "the corrupt and nepotistic Rajapaksa regime". He accuses the president of "acting like an emperor" and of sidelining his cabinet. Mr Rajapaksa's camp says the opposition's campaign has run only on "rumours, social media and crossovers". There is, Mr Rajapaksa's people say, no proof supporting allegations of corruption; Sri Lankans must simply do their duty and re-elect the man who won them peace. With all manner of family members installed in plum positions, the Rajapaksas have a lot to lose.

Hydropower in Vietnam

Full to bursting

HO

Hydro-electric projects can spell trouble for the rural poor

ONE moment Dao A Phau was sitting in his riverside home in Ho, a mountain village not far from Vietnam's border with China; the next he was under three feet (a metre) of water. The deluge came from a burst giant metal pipe supposed to channel water from a reservoir higher up to an electricity-generation station in the village. After that incident in 2010, Mr Phau was moved to higher ground and given $3,000 by the Vietnamese firm responsible for the hydroelectric project. Yet the soil is poorer, and he can no longer grow enough rice to sell. He finds himself $300 worse off each year.

Hydropower has boomed in Vietnam over the past decade and now generates more than a third of the country's electricity. In 2013 the National Assembly reported that 268 hydropower projects were up and running, with a further 205 projects expected to be generating by 2017. They are helping to meet a national demand for energy that the authorities forecast will treble between 2010 and 2020. Other power sources are less promising, at least in the short run. A plan to build several nuclear reactors by 2030 is behind schedule, for example. And Vietnam's coal reserves, mostly in the north, are not easy to get at.

Yet the hydropower boom comes at a price. Rivers and old-growth forests have been ravaged, and tens of thousands of villagers, often from ethnic minorities, displaced. Many have been resettled on poor ground. Those who have stayed are at risk of flash floods caused by faulty dam technology and inadequate oversight. Green Innovation and Development Centre, an environmental group in the capital, Hanoi, says shoddy dam construction is the norm, and developers ignore the question of whether their projects could trigger earthquakes.

Some improvements are at hand. A national tax on power generation, established in 2010, requires hydropower companies to pay farmers to protect forests within water catchments. In recent months the government has scrapped or scaled back plans for future dams while drafting regulations that tighten oversight of existing ones. Vu Xuan Nguyet Hong at the planning ministry says that officials are much more sensitive to the environmental and social impacts of hydropower than they were even a year ago. And a campaign by the prime minister, Nguyen Tan Dung, to part-privatise more than 400 state-owned enterprises by late 2015 could help attract badly needed foreign capital and expertise in the energy sector.

Yet reformists like Ms Hong face an uphill battle. Mr Dung's privatisation plan is going too slowly. Meanwhile, the energy sector is hobbled by the government's fuel and electricity subsidies to consumers. Many hydro-electric companies are owned by or affiliated with Electricity Vietnam (EVN), the loss-making state power monopoly. Because hydropower is Vietnam's cheapest source of electricity, EVN resists investing in measures such as dam-safety assessments that would further erode its financial position. As it is, even though environmental-impact assessments for hydropower projects are required, they are never published, according to the United Nations Development Programme.

One problem when officials have vested interests in hydro-electric projects is that they place generation capacity over the need to manage water for the benefit and safety of locals. Hydropower companies want to keep their mountain reservoirs as full as possible in order to generate as much electricity as Vietnam's rivers allow. But that narrow focus can deprive farmers of irrigation in the dry season. And when heavy rains come in the summer and autumn, floodwaters cascade over the dam walls with little or no warning. When a dam broke in August in the south-central province of Gia Lai, a villager told *Thanh Nien*, a newspaper, that the noise and the panic made it feel like a bombing raid from the war. ■

Farmer's friend or foe?

Taiwan

A-bian back home

TAIPEI

A disgraced former president is granted medical parole

OVER the past few years, calls have mounted for Chen Shui-bian to be released on medical grounds from prison, where he is serving a 20-year sentence. Mr Chen was the first opposition politician to be voted president of Taiwan, in a historic election in 2000 that ended half a century of often thuggish rule by the Kuomintang (the KMT or Nationalist Party, which has since been voted back to power). A brave former civil-rights lawyer and passionate supporter of Taiwanese independence, Mr Chen proved to be a deeply flawed leader and was jailed six years ago on corruption charges.

Supporters claim that Taiwan's harsh prisons have destroyed his health. His ailments apparently include severe depression and brain atrophy. Mr Chen was first held in a tiny, ant-infested cell that, human-rights groups say, fell far short of international prison norms. After becoming ill in 2013 he was transferred to a more comfortable prison hospital. There he tried to hang himself with a towel. The current president, the KMT's Ma Ying-jeou, long ignored pleas for Mr Chen's release. He appears to have undergone a change of heart.

On January 5th the country's justice ministry, acting on doctors' reports, granted Mr Chen medical parole. Officials say his health will improve only if he lives with his family. After posting bail of over ▸▸

Diminished

$60,000, Mr Chen joined his family in the southern city of Kaohsiung, which is the heartland of the opposition Democratic Progressive Party (DPP) and pro-independence Taiwanese. Thousands of supporters greeted him.

During his eight-year rule, Mr Chen's fiery support for declaring formal independence provoked military threats from China. Taiwan's presumed protector, America, grew uneasy about where it all might lead. Some of Mr Chen's supporters viewed his conviction in 2009—for embezzlement, bribery and money-laundering—as an act of political revenge by Mr Ma's KMT; others in the DPP are still aggrieved that his dishonesty so sullied their cause.

Mr Chen's release comes after the KMT's drubbing in municipal elections in late November at the hands of the DPP. The results bode well for that party's prospects in the presidential election in early 2016, when a weakened Mr Ma must step down. Some senior DPP members will not now rush to embrace Mr Chen. The party's leader, Tsai Ing-wen, wants it to drop its old confrontational stance with China in favour of moderation. But Mr Chen may be tempted to stir up the party's hardline independence factions.

That could destroy Ms Tsai's hard-won party unity. Then again, Mr Chen needs to be careful. He has been granted only a month of medical parole. After that, government-appointed doctors will determine whether he is well enough to return to prison or whether his parole should be extended. Though in theory permitted to take part in politics, in practice Mr Chen must not appear too healthy or he risks being whisked back to jail. ■

Indonesia's economy

A good scrap

SINGAPORE

As Jokowi abandons wasteful fuel subsidies, fiscal prospects brighten

INDONESIA'S president, Joko Widodo, began the new year knowing that he will now have trillions of fresh rupiah to spend that his predecessors have lacked. Having trimmed petrol subsidies in November, Mr Joko, who is universally known as Jokowi, scrapped them entirely from January 1st. Small subsidies (1,000 rupiah, or eight cents, per litre) will remain in place for diesel, used for public transport and by the country's millions of fishermen. But for the first time in decades, the price of petrol will reflect global market prices.

The move was not without political risk. Furious protests broke out when Jokowi's predecessor as president, Susilo Bambang Yudhoyono, wanted to raise fuel prices. Smaller protests greeted Jokowi's November move. But this time, there was not even a whimper. For that, thank falling global oil prices: even without subsidy, a litre of petrol now costs 7,600 rupiah, down from a subsidised 8,500 rupiah in December. Fortune has favoured Jokowi.

The government now has markedly more fiscal room. Depending on oil prices and the exchange rate, energy subsidies have often accounted for a fifth of total government spending, more than spending on infrastructure and social-welfare programmes combined. And the benefits typically flowed not to the poor, which was their supposed justification, but to Indonesia's car-owning middle classes.

The country's finance minister, Bambang Brodjonegoro, reckons the savings will be in the order of 200 trillion rupiah, or nearly $16 billion. Some of the cash is already spoken for. Anton Gunawan, an economist at the University of Indonesia, estimates that delayed payments of last year's subsidies, cash transfers to the poor and near-poor to make up for the subsidy cuts, and money owed to Indonesia's villages under a law enacted by Mr Yudhoyono will eat up as much as 90 trillion rupiah.

But that still leaves a handsome sum. Precisely how Jokowi and his administration plan to spend it will become apparent when the government submits a revised budget to parliament later this month. But as Taimur Baig, Deutsche Bank's chief Asia economist, notes, the president's broad aims are already clear: he wants to boost spending on health, education and infrastructure, and he wants to bring down the budget deficit from under 3% to under 2% of GDP.

Jokowi has already launched three promised programmes, his Indonesia Health Card, Indonesia Smart Card and Family Welfare Fund. They provide free health insurance to Indonesia's poor, guarantee 12 years of free schooling as well as tertiary education to students accepted to university, and provide cash transfers to poor Indonesians to help with the phasing-out of subsidies (see page 54). And although he has been courting foreign investors for much-needed infrastructure upgrades, some of Indonesia's infrastructure needs, such as port and rail construction in remote areas, will have scant commercial appeal and will need government funding.

The president has also been clear about his desire to see Indonesia return to growth of 7% a year, a rate that it has not reached since the mid-1990s. That was when commodity prices were high and China was booming. Now commodities have collapsed and Chinese growth has slowed. The World Bank forecasts Indonesian growth of 5.2% this year. Mr Baig forecasts growth of no more than 5%.

In the longer term, Indonesia's prospects are brighter. Better infrastructure should lower transport costs and attract more business investment—including from foreigners. With a healthier and better-educated workforce, Indonesia would rely less on extractive industries. Instead, more people could find work in services and higher-value manufacturing—semiconductors and smartphones rather than T-shirts and trainers. And having got fuel subsidies out of the way, Jokowi can move on to thornier problems of streamlining a tangled tax regime, regulatory apparatus and government bureaucracy. His year has got off to a good start. ■

That lot gets less government help now

Banyan | Birthday blues

North Korea's strange juggling act is becoming ever more precarious

ON HIS birthday on January 8th, when he may have turned 32, North Korea's dictator, Kim Jong Un, could bask in the cowed admiration of his benighted people. Abroad, few were wishing him many happy returns. North Korea's old nemesis, America, has tightened sanctions against it. Even China, the Kim dynasty's longtime protector, is witnessing a public debate about whether to abandon its awkward ally. And perhaps most galling of all, millions of people around the world have downloaded "The Interview", a satirical film in which Mr Kim is mocked, sobs pathetically on live television and suffers the indignity of his head dissolving into flames. Even the deadly earnest New Year's Day speech on television by the real Mr Kim provoked titters in cyberspace, where there was more interest in his latest grooming feature (a drastic curtailment of his eyebrows) than in his words.

Just because Mr Kim runs a paranoid, delusional despotism, does not mean that the outside world is not out to get him. And of late he has had particular reasons to worry. As Mr Kim's government portrays them, the new American sanctions, directed at North Korea's illicit arms-export business, are merely intended to add weight to a spurious charge: that the regime ordered the hacking of Sony Pictures' computer systems and the threats of violence should it distribute "The Interview". Propagandists have even been able to cite Western cyber-security experts, who (like *The Economist*) cast doubt on North Korea's guilt. But even if North Korea was, as the Americans insist, the source of the cyber-attacks, it would have felt it was acting in self-defence.

The plot of "The Interview", involving an attempt to assassinate Mr Kim, must seem less than fanciful to his advisers. Among a rarefied elite with access to the internet, they will have watched the YouTube video of a retired American general, John Macdonald, with ten years' service on the peninsula, ruminating at a symposium about geopolitical strategy last year on the failure of American North Korean policy. He listed the assassination of Kim Jong Un as a policy to have in your "kitbag". "I'm only presenting options," he protested. But he expressed an exasperation that is shared by many: "A nation…with one of the most failed economies in the world, run by a crime family, is a major irritant between two of the most powerful nations in the world. We've got to do something about that."

It is not just soldiers who think like this. Mr Kim's circle will also have read last month's piece in the *Wall Street Journal* by Richard Haass, a former senior diplomat and president of the Council on Foreign Relations, an American think-tank. Mr Haass cited the danger North Korea poses as a cyber-vandal, an unauthorised nuclear power, a possessor of a large conventional military force and a onetime sponsor of terrorism. He concluded: "Only one approach is commensurate with the challenge—ending North Korea's existence as an independent entity and reunifying the Korean peninsula." Others disagree with Mr Haass's prescription, and neither he nor Mr Macdonald represents official American policy—which is still one of "strategic patience", hoping to avoid crisis and confrontation and that economic and political isolation will eventually force North Korea into talks on its nuclear programme. But to paranoid totalitarians, that such ideas are freely aired must seem menacing enough.

Worse still is the obvious Chinese huffiness towards Mr Kim. The Chinese government never really got on with his father, Kim Jong Il. But at least he did not execute China's main interlocutor, as Kim Jong Un did, when in December 2013 he disposed of his mentor and uncle by marriage, Jang Song Taek. In office, the younger Kim has never been invited to China. But Park Geun-hye, South Korea's president, is welcome there and gets on famously with China's leader, Xi Jinping. And the value of the North Korean alliance is being publicly questioned in China. Last month a retired general, Wang Hongguang, wrote in *Global Times*, a Communist Party daily, that, in the future, China need not clean up North Korea's "mess". And, he added, "if an administration is not supported by the people, collapse is just a matter of time."

Again, that is just one Chinese view. Other theorists in China argue that, though cussedly unmalleable, an independent North Korea remains an essential buffer between China and the American-garrisoned South. China is stuck with it. Perversely, an incident last month in which a North Korean soldier attempting to defect crossed the Chinese border and killed four people in the course of a burglary, may have strengthened this conservative Chinese view of North Korea: just think what might happen if the regime were allowed to collapse and millions were fleeing!

Mr Kim has few foreign friends. Russia's Vladimir Putin presumably knows how he feels and seems sympathetic. Russia keeps supplying oil, and Mr Kim has an invitation to make his first foreign trip as leader to Moscow in May. But Russia is probably more interested in using North Korea to demonstrate its ability to complicate life for America and its allies than in providing serious financial or other assistance.

Plucked to the bone

So in his small-eyebrowed speech, Mr Kim was, by past standards, positively emollient, responding obliquely but positively to a South Korean offer of talks. He even suggested the possibility of a summit with Ms Park, though his government had once declared her to be "a despicable prostitute selling off the nation". Yet a summit still seems unlikely. North Korea's survival has relied on playing America, China, Japan, the South and sometimes Russia off against one another. But for now the South, despite this week resuming modest humanitarian aid, is not ready to break ranks. More broadly, the comforting calculation for North Korea's regime—that, painful though its existence is to its people and the outside world, its collapse would be worse—may not hold for ever in Beijing, Seoul, Tokyo and Washington. ■

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Family planning

Enforcing with a smile

SHILIPU

Enforcers of China's one-child policy are trying a new, gentler approach

DURING a visit to a young mother's home in rural Shaanxi province in north-western China, Qin Shuhui, a family-planning worker, sets out a row of plastic cups on a bare concrete floor. They are playthings for the woman's only child, a 27-month-old girl. Addressing the toddler by her nickname, Yingying, Ms Qin patiently tries to coax her to toss rings around the cups. When Yingying instead walks over and places a ring next to one, Ms Qin smiles and chirps "well done". Turning to the mother, she says: "You should applaud no matter what. It doesn't matter if she fails to toss it around the cup."

It is an unusually warm and fuzzy scene given the harsh reputation of Ms Qin's employers. She is a member of a 1m-strong army of family-planning officials whose mission is to enforce China's one-child policy. They make sure that mothers are sterilised or are fitted with intrauterine devices (IUDs), or that fathers are given vasectomies, after they have had their last legally allowed child (many parents can have a second one if they meet certain conditions). Ms Qin used to perform such duty when she first met Yingying's mother and prodded her about reproductive plans. Now she is assuming a gentler persona, as a parenting instructor.

Ms Qin is part of a small pilot programme that began in November, involving just 69 workers in the prefecture of Shangluo. It is aimed at changing the way that employees of the National Health and Family Planning Commission do their work. The idea is to convert enforcers into childhood-development counsellors. The government will examine whether Shangluo's experiment might serve as a model for the rest of the country.

A senior official at the commission's headquarters in Beijing, Cai Jianhua, is overseeing the project with help from researchers from Stanford University's Rural Education Action Programme. Mr Cai agrees with the Americans' view that parents need to be educated in child-raising techniques. Family-planning workers, who are available in every township, might help with this, Mr Cai believes.

Changing officials' habits could prove hard. For 35 years the enforcers have been evaluated ruthlessly by their superiors for their fulfilment of quantifiable targets, such as achieving a certain number of sterilisations and, most importantly, ensuring that no parents exceed their quota of offspring. The enormous fines they impose on violators, and their occasional use of force to make women abort their fetuses, have stained China's reputation globally. "This is much better. I'm welcome at the children's homes," Ms Qin says. "In the past they would hide from me."

Adjustments to the one-child policy are making reform a bit easier. Declining birth rates are reducing pressure to meet population targets. In 2013 the government relaxed conditions for having a second child. Demographers generally agree that China should be, if anything, encouraging more births to avoid a precipitous decline in the working-age population. Public pressure is also playing a big role in prompting the government to rethink its approach. In June 2012 photos of a forced late-term abortion, and the subsequent delivery of a dead girl, went viral online, causing a national uproar; some family-planning officials were sacked or reassigned, and the woman received an apology.

That case happened to occur in Shaanxi, not very far from where Ms Qin works. She and her colleagues say they have since had to tread much more carefully in their dealings with the public. "In the past, if you saw a pregnant woman in the village, you'd ask her to come by for an abortion," Ms Qin says. "Now there's nothing you can do."

The internet has also helped to expose abuses in the city of Linyi, in coastal Shandong province. Officials there were suspended, pending an investigation, after video circulated online of a family being illegally detained in November to force payment of a family-planning fine. A ten-month-old baby was among those confined. Linyi is notorious for the brutal behaviour of family-planning workers. It was brought to light by Chen Guangcheng, a blind activist. In 2012 he dramatically escaped his own illegal confinement and made it to America—an episode that drew worldwide attention to China's family-planning thuggery.

Changing public perceptions could be hard. Ms Qin avoided mentioning her official title when she first entered homes to counsel parents. But she thinks the roles of workers like her could be transformed within four or five years. "Maybe it'll be only about parenting," she muses. ■

Space

Ready for launch

WENCHANG

China's secretive space programme takes a step into the open

AFTER decades hiding deep in China's interior, the country's space-launch programme is preparing to go a bit more public. By the tourist town of Wenchang on the coast of the tropical island of Hainan, work is nearly complete on China's fourth and most advanced launch facility. Tall new towers are visible from the road. Secrecy remains ingrained—soldiers at a gate politely but firmly decline to say what they are guarding. Visitors, they say, are prohibited. But nearby there are plans to build a space-themed amusement park. China is beginning to see new money-making opportunities in space.

The decision to build the base on Hainan was made for technical reasons: its proximity to the equator, at a latitude of 19 degrees north, will allow rockets to take better advantage of the kick from the Earth's rotation than is currently possible with launches from China's other bases (see map), which were built far inland at a time of cold-war insecurity. That will allow a bigger payload for each unit of fuel—a boon for China's space ambitions, which include taking a bigger share of the commercial satellite-launch market, putting an unmanned rover on Mars around 2020, completing a manned space station around 2022 and possibly putting a person on the moon in the coming decade, too. By 2030 China hopes to test what could be one of the world's highest-capacity rockets, the Long March 9.

Wenchang's location has other advantages. With only ocean to the east, there is less risk of a tragedy like the one that occurred in 1996 at the launch base in Xichang, in the south-western province of Sichuan, when a failed rocket carrying an American satellite slammed into a nearby village. China acknowledged six deaths but Western witnesses said houses within several hundred metres were levelled and the death toll may well have been higher.

The seaside location will also help with the delivery of large rockets to the base. Jiao Weixin of Peking University says that rockets or their parts that are transported by road or rail can be no wider than the widest tunnel. "Now we can ship by sea and it doesn't matter how big they are," says Mr Jiao.

Building in such a tourist hot-spot has involved a huge change of mindset for China's space programme, which is run by the army. The base at Xichang has allowed tourists to visit, but trips are not heavily promoted—least of all to foreigners. In Wenchang the many hotel projects under construction near the launch centre suggest a different approach. Mr Jiao says the new base's high profile will help China do a better job of cultivating public support for its space efforts.

There have been technical hitches. Machine-tooling problems have delayed the introduction of a heavy-lifting rocket, the Long March 5. But officials said in December that the new carrier would be ready for launch from Wenchang "soon".

That is more than can be said of the theme park. Signs pointing to it are already in place, beginning several kilometres away. One even declares that the visitor has arrived. But there is nothing to be seen. Work on the park appears hardly to have begun. Officials laid a foundation stone in 2010 and spoke of investing vast sums on amusements including tram tours of launch pads and a space-themed roller-coaster. But the site still consists of paddy fields. Lorries overloaded with coconut husks rumble by. Local officials have no explanation for the apparent delay. Secrecy is a difficult habit to shake off. ■

A deadly stampede

Blood lessons

SHANGHAI

The government muzzles public critics after a new year tragedy

SEVEN days after a stampede on New Year's Eve in Shanghai, the souls of the 36 people killed in the crush came back, according to traditional Chinese beliefs, for a brief visit to this world. For the return of the dead, city officials spared no effort in their preparations.

When parents of the victims, most of whom were students, collapsed in tears at the site of the fatal accident, white-coated medics were on hand to pick them up. Dense corridors of metal barriers restricted access to the site on the Bund, a historic riverfront promenade. Only family members and a handful of people who had come to lay flowers could get near it. Police lined the roads and security guards patrolled the perimeter. Onlookers who lingered too long were ushered away.

Had there been such extensive preparations for New Year's Eve, the stampede might never have happened. Instead, a light police presence was overwhelmed by the vast numbers who flocked to the Bund for the countdown to 2015. The local government cannot claim to have been taken totally by surprise. Concerns about overcrowding had led the city to cancel a firework-and-light show on the Bund, and the government had warned people to stay away for fear of packed streets.

Following tragedies of this kind, it is normal and indeed important to ask if the authorities could have done more to ensure safety. But in Shanghai, such questions from the public have been seen as almost subversive. Dozens of people who dared to criticise the city in online blog posts were interrogated by the police, according to the *South China Morning Post*, a newspaper in Hong Kong.

After wall-to-wall, often emotional, coverage of the stampede in its immediate aftermath, domestic media have also been reined in. They are now limited to republishing a handful of state-sanctioned reports. Yang Xiong, Shanghai's mayor, said that "lessons must be learned from blood". Covering up criticism is a poor way to start.

A bitter farewell

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African economic growth

The twilight of the resource curse?

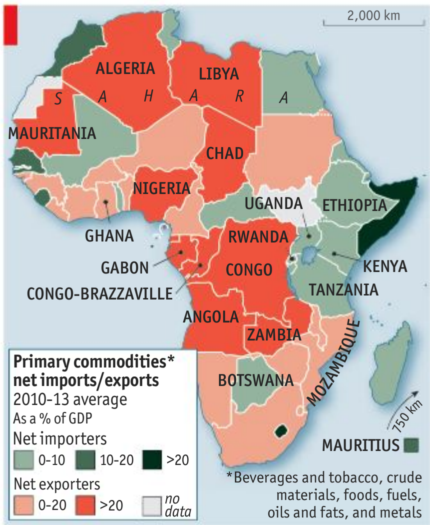
Africa's growth is being powered by things other than commodities

FOR decades commodity prices have shaped Africa's economic growth. The continent is home to a third of the planet's mineral reserves, a tenth of the oil and it produces two-thirds of the diamonds. Little wonder then that, as a rule, when prices for natural resources and export crops have been high, growth has been good; when they have dipped, so has the continent's economy (see chart 1, next page).

Over the past decade Africa was among the world's fastest-growing continents—its average annual rate was more than 5%—buoyed in part by improved governance and economic reforms. Commodity prices were also high. In previous cycles African economies have crashed when the prices of minerals, oil and other commodities have fallen. In 1998-99, during an oil-price fall, Nigeria's naira lost 80% of its value. African currencies again took a beating during a period of turmoil in commodity markets in 2009.

Since last year the price of oil has fallen by half and many metals such as copper and iron ore have also dropped sharply. With commodity prices plunging, will the usual pattern repeat itself?

In some economies large drops in commodity prices have led to currency falls. At least ten African currencies dropped by more than 10% in 2014. But there have been few catastrophic depreciations. This suggests that investors do not see lower commodity prices as a kiss of death. Ghana's currency, the cedi, was the continent's worst-performing currency in 2014, having lost 26% against the dollar. But it tumbled not because investors fret about the impact of lower commodity prices. In fact, Ghana is by African standards not especially commodity-dependent (see map). Rather, it has in recent years run a lax fiscal policy. In 2013 its budget deficit hit 10% of GDP.



The mall, not the mine

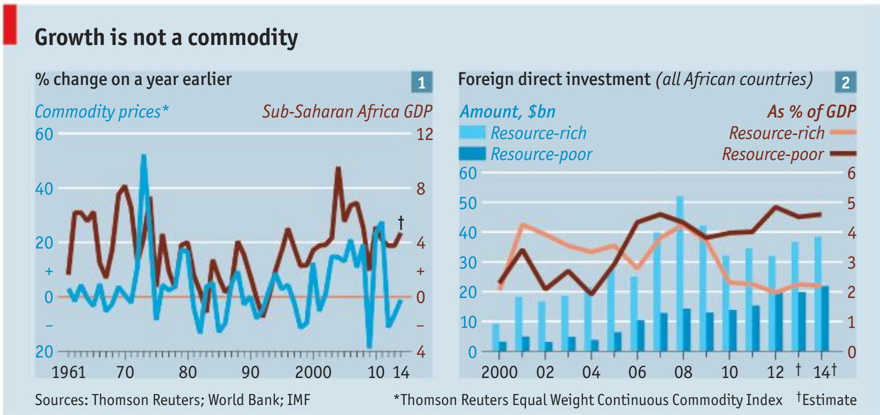
One reason currencies have been robust may be because economic growth is starting to come from other places. Manufacturing output in the continent is expanding as quickly as the rest of the economy. Growth is even faster in services, which expanded at an average rate of 2.6% per person across Africa between 1996 and 2011. Tourism, in particular, has boomed: the number of foreign visitors doubled and receipts tripled between 2000 and 2012. Many countries, including Ethiopia, Ghana, Kenya, Mozambique and Nigeria, have recently revised their estimates of GDP to account for their growing non-resource sectors.

Despite falling commodity prices, the outlook also seems favourable. Wonks at the World Bank reckon that Sub-Saharan Africa's economy will expand by about 5% this year. Telecommunications, transportation and finance are all expected to spur economic growth.

What explains Africa's increasing economic diversification? A big pickup in investment helps. That has arisen partly because governments have worked hard to make life better for investors. The World Bank's annual "Doing Business" report revealed that in 2013/14 sub-Saharan Africa did more to improve regulation than any other region. Mauritius is 28th on the bank's list of the easiest places to do business. Rwanda, which 20 years ago suffered a terrible genocide, is now deemed friendlier to investors than Italy.

After two decades of poor performance, Africa's total investment as a percentage of GDP increased after 2000. Foreign direct investment (FDI) into Africa rose by 5% in 2012 and 10% in 2013, despite global stagnation.

Ten years ago almost all FDI went to resource-rich African economies; resource-poor economies received very little (see chart 2). Resource-rich countries still receive more FDI in absolute terms; but resource-poor economies outpace them when investment is measured as a share of GDP. Foreign investors from other African countries are especially keen on non-commodity industries: nearly a third of their in- ▸▸



vestments are in financial services.

The most resource-intensive economies are working hard to diversify. For the past three years growth in Nigeria, Africa's biggest economy, has exceeded 5%. You might think its growth is being powered by oil exports. Nigeria has Africa's second-largest reserves, it is the fifth-largest exporter and, according to the IMF, oil accounts for 95% of all exports. But in recent years the Nigerian oil industry has stagnated. Growth has instead come from things like mobile phones, construction and banks. Services now represent 60% of GDP.

Angola is similar. It is Africa's second-largest oil producer and the stuff makes up the vast majority of exports. But its 5.1% expansion in 2013 came mainly from things such as manufacturing and construction. In 2013 fishing expanded by 10%, and agriculture by 9%. About a third of government revenue now comes from non-oil sources, compared with almost nothing a decade ago, economists at Standard Bank reckon.

In Botswana the percentage of GDP made up by the mining and quarrying of goodies like diamonds, gold and copper has fallen from 46% in 2006 to 35% in 2011, according to the "African Economic Outlook". Other countries that are successfully diversifying are Rwanda—which has thriving banks and business-services firms—and Zambia, which although still copper-dependent has posted growth of 12% a year in financial services. Congo-Brazzaville, where oil makes up 80% of exports, is seeing rapid growth in construction and transport. That may be further fuelled by the All-Africa Games, which are to be held this year in the capital, Brazzaville.

Better fiscal policy also plays an important role. Commodity markets are volatile; government spending smooths out the booms and busts. Until a few years ago, nearly all African economies spent freely when their economies were hot, only to rein in spending when things cooled down. That is the opposite of what most economists would advise a finance minister to do. But in recent years, according to a report from the World Bank published on January 7th, fiscal policies in many African countries have become more sensible. These days a fair number of African economies save money during the good times, in order to spend it in the bad ones.

There is still a long way to go. Africa is still the continent most dependent on commodity exports. Countries such as Tanzania and Nigeria want to develop giant gas-fields which, while boosting the economy in the short term, could tie them more closely to commodity cycles. Some worry that investment in infrastructure will fall as mining companies retrench.

Even so, there is reason to think the "resource curse" is losing its power. Despite turmoil in commodity markets, Africa is still one of the world's fastest-growing regions. With better education systems, investment in infrastructure and sensible regulatory reforms, the continent could completely break the spell that has held it back so often in the past. ■

Correction: In our story about Nigeria on December 20th ("Church, State and Mosque") we described Lagos, rather than Abuja, as the capital of Nigeria. We meant to say "commercial capital". Sorry.

Gambia

The shoestring coup

A lesson in how not to overthrow a government

THE GAMBIA, a sliver of a state no wider than 48km (30 miles)—and about seven times as long—seldom attracts much attention from the outside world. Apart from a short coast with white, sandy beaches, which along with a bustling sex trade catering to middle-aged women provide the basis of a small tourism industry, it is entirely surrounded by Senegal.

Its president, Yahya Jammeh, who has run the desperately poor country since he took power in a coup in 1994, has little to commend him. Although he has repeatedly won elections since seizing power, few other than the notoriously blinkered observers of the African Union think they were free or fair. So dismal is the political climate that most other regional groups have given up bothering to send monitors.

Mr Jammeh's police are accused by human-rights groups of torturing opposition activists and of the disappearance of journalists. More recently, his presidential guards and intelligence agents have been busily arresting and torturing people believed to be gay or lesbian, in line with a new law which threatens life imprisonment for those guilty of "aggravated homosexuality", whatever that may be.

Few, it seems then, would lament his downfall. Yet on December 30th, instead of a popular uprising such as the one in October that felled Blaise Compaoré, the longtime ruler of Burkina Faso, Mr Jammeh was faced with a shoestring coup.

This effort to unseat him proved so amateurish that it was quickly quashed. According to a criminal complaint filed by America's FBI against two of the coup plotters—both American citizens of Gambian ancestory—as few as ten or 12 expatriate Gambians from America, Britain and Germany took part. Beyond their hopeless belief that a handful of armed men could seize power without violence, their bumbling preparations might have been comical had lives not been lost.

The coup participants took some steps to conceal their activities, such as using *noms de guerre*—one took the code name "Fox", another "Dave"—and keeping maps in a manila folder on which was handwritten "top secret", with the words underlined in black ink. Yet their plan was also online and could be accessed through a link sent around by e-mail, an obvious vulnerability. In a briefing to cabinet members Mr Jammeh said, "We were able to get all that they had in their computer; we had all the information about their plans."

A spreadsheet purporting to list their needs suggests they had budgeted little more than $220,000 for weapons, airline tickets and the like. A line item listing two sniper rifles at a cost of $4,000 had an appended note saying "NOT really necessary but could be very useful." Indeed.

It is not yet clear how many of the conspirators were killed, nor whether they had any justification for believing that units of the Gambian army would turn their coats. Taking no chances Mr Jammeh has been quick to clamp down. Local media reports suggest a string of army officers and their family members have been arrested. Sensibly most have been quick to pledge their loyalty. On January 5th soldiers marched bearing banners announcing "Gambians soldiers are behind you President Jammeh". In case of doubt the army chief said in a speech: "We love you, Your Excellency, and this bond of love and leadership is eternal." ■

Saudi Arabia's gerontocracy

Ail the king

CAIRO

Generational change looms

THESE are not easy times for Saudi Arabia. It is engaged in a fight for supremacy in the global oil market against America's shale-oil upstarts. It frets that America will strike a nuclear deal with Iran and move closer to the Shia power with which it vies for influence in the region. It has tried and failed to oust Syria's leader, Bashar Assad, strengthening both his Iranian ally and creating a virulent new strain of Sunni jihadism. It is taking part in America's air campaign against the jihadists, but at home there are rising fears of a terrorist blowback, of the sort that Riyadh suffered at the hands of al-Qaeda between 2003 and 2005. Indeed, on January 4th a suicide-bomber killed a Saudi general and two other soldiers on the border with Iraq, despite Saudi efforts to fortify and extend a buffer zone. The border with Yemen is scarcely safer.

Little wonder, then, that Saudis have been rattled by the news that King Abdullah, their 90-year-old monarch, was taken to hospital on December 31st with breathing difficulties, which Saudi officials said was pneumonia. The hospitalisation sparked particular concern because the king tends to be treated in medical facilities in his palaces. By January 7th local rumour had it that he was able to meet visitors. It is no secret, however, that the monarch will not be around for much longer. The man designated to take over is his half-brother, Prince Salman. But the prince is no spring chicken either; he is 78 years old and said to be suffering from dementia.

Under Saudi Arabia's' complicated system, power is not passed by primogeniture. Rather, it has been handed from brother to brother among the 45-odd sons (borne by many women) of Abdel Aziz bin Saud, who founded the state and dynasty in 1932. These days all the siblings are either dead or old (see chart).

Perhaps with Salman's frailty in mind, in March last year King Abdullah took the additional step of appointing a deputy heir—his youngest brother Muqrin, a British-trained air force pilot, former intelligence chief and ex-governor of Medina, aged 69. "The succession has always been orderly and the next batsman is clearly Salman," says Khaled al-Maeena, a veteran Saudi journalist. "But anything could happen after that."

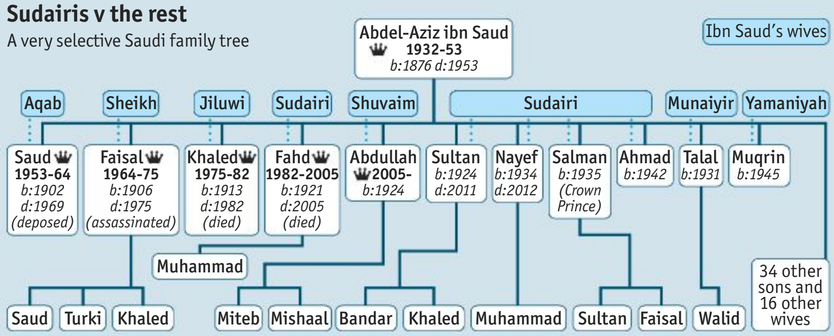
The difficult task will be to pass rule onto the next generation, where hundreds of princes are jostling for power. These include Muhammad bin Nayef, the interior minister and a member of the powerful Sudairi line. But King Abdullah seems to be trying to position his own sons, Miteb, who heads the national guard, and Mishaal, who is governor of Mecca.

A future Saudi monarch may find foreign policy the easy part of the job. At home problems are pressing and less attended to. Liberals rail against the slow pace of reform in a country where the Koran is the constitution and women are still banned from driving, while the devout Wahhabist religious establishment balks at innovations such as the appointment in 2013 of 30 women to the Shura Council, a consultative body. The Shia population in the country's east, who make up some 15% of Saudis, are restless.

Above all, the youthful and growing population of 30m needs jobs. This means reducing subsidies and handouts, and weaning the economy off its dependence on oil. Abdullah has been seen by most Saudis as a benevolent father-figure. His successors may not be so fortunate. ■

Sudairis v the rest

A very selective Saudi family tree



Source: *The Economist*

Palestine and the ICC

See you in court

JERUSALEM

Will joining the International Criminal Court further Palestine's cause?

THE "nuclear option" was how American and Palestinian officials described the application by Mahmoud Abbas, Palestine's president, to join the International Criminal Court (ICC) in The Hague. His move follows a vote against a Palestinian attempt to have the UN Security Council set a deadline for Israel to end its occupation of territories it captured in 1967. It might open Israel—or Palestine—to charges of committing war crimes. Ban Ki-moon, the secretary general of the UN, said Palestine would join the court on April 1st.

Before Mahmoud Abbas applied on January 1st to join the ICC, Israeli officials promised it would result in an appropriate "Zionist response": the expansion of settlements that would in effect bisect the West Bank near Jerusalem. Moreover, said officials, an application would also effectively spell the end of talks to establish an independent Palestinian state: never again, they said, would Israel negotiate with Palestinians over the future of Jerusalem, an issue that would have to be the cornerstone of any agreement since both sides claim it as their capital.

Given such hyperbole, the response of Israel's prime minister, Binyamin Netanyahu, looks fairly mild. For now he has acted as in past rows, by withholding customs revenues that Israel collects on behalf of the PA on Palestinian imports, a sum of $127 million that comprises two-thirds of Mr Abbas's monthly budget. Even that act earned Mr Netanyahu copious reprimands. A spokesman for the Obama administration ticked him off. So did Israel's president, Reuven Rivlin, the veteran if maverick hardliner from Mr Netanyahu's own party, Likud, who has turned into Israel's leading advocate of Israeli-Palestinian coexistence. Threatening Mr Abbas with bankruptcy and the Palestinian Authority ▸▸

(PA) with collapse, Mr Rivlin said, was bad not just for Palestinians, but for Israel too.

He has a point. Israel's retention of tax revenues has left Mr Abbas unable to cover this month's salaries for 160,000 state employees. The president's men insist that Mr Abbas' critics, who always thought the old man was bluffing about joining the ICC, will now cheer rather than stir up the street. But unions representing PA employees are smarting from previous pay cuts. Banks might have the reserves to cover their salaries for only a couple of months.

A Palestinian businessman asks: once the money dries up, for how long will PA security forces remain quiet before they start selling their guns to make ends meet? On a previous occasion when that happened in 2006, Hamas's military wing was a willing buyer of weapons. Shortly thereafter it took over Gaza. Israel's freeze on tax receipts, therefore, seems likely to be thawed just as previous ones were.

Israel is appealing to a sympathetic Congress to withhold the $400m it gives the PA each year when Palestine brings its first petition to the ICC. But Palestinians hope that will not happen. "Will the Americans really topple one of the last secular rulers," asks a Palestinian official, "while IS is itching to take over next door?" In any case, Saudi Arabia, which has chipped in cash before, sounds more sympathetic than normal.

Now that Mr Abbas has followed through, the question is whether the ICC will do much. Israeli officials fret that soldiers travelling abroad may be subject to arrest. Qatar and Saudi Arabia are already said to be paying lawyers in western capitals to prepare the writs. Palestinians and their supporters abroad, meanwhile, hope to seek the prosecution for war crimes of any Israeli accused of occupying Palestinian territories. Among those that could be targeted is Uri Ariel, the settler housing minister who is driving the expansion of settlements on the West Bank.

Yet both sides seem to invest the ICC with powers that it has never hitherto shown itself to have. And it could take many years for an investigation to reach conclusion. "Look at Africa," says a sober Israeli official, in reference to investigations that have stalled in Kenya and Sudan.

Just a few days after the Palestinian application, Israel's Supreme Court (which prides itself on keeping on the right side of international law) prevented the government from building its separation barrier through Battir, a delightful West Bank village set on a gorge through which the old Ottoman railway line to Jerusalem passes.

The monks of Cremisan, whose monastery is also threatened by the barrier, wonder whether Israel's judges will similarly spare their property. If not, they could turn out to be among the first applicants to head for the international court. ■

Rise of the Gulf

Soaring ambition

CAIRO AND DUBAI

Economic power and political influence are shifting to the Gulf. Can it last?

DUBAI likes to set records. It has the world's tallest building (the Burj Khalifa), the largest shopping centre (the Dubai Mall) and the longest handmade gold chain (5.52km), to name but three. But beyond mere ostentation, the city-state has more substantial achievements to its credit. In the year to September Dubai airport overtook Heathrow in London to become the world's busiest international hub, with some 68.9m passengers using it yearly.

Oil wealth, geography, ambition and, it seems, canny investment, have turned Dubai into a major transit hub, especially for people and goods moving into or through the Middle East. Emirates, Dubai's flagship carrier, is one of the world's leading airlines. The Jebel Ali port ranks as the world's ninth busiest. Dubai World Central, a logistics hub around a new airport, will be twice the size of Hong Kong island when completed. It is served by some of the world's most modern roads. The United Arab Emirates (UAE), of which Dubai is one of seven federated components, is building a railway, part of a proposed $25 billion network connecting the six states of the Gulf Cooperation Council (GCC).

Just as important, says Fadi Ghandour, the founder of Aramex, a Dubai-based logistics company, is that the city has excellent "soft infrastructure". "Dubai has the right laws, and officials treat businesses like clients and implement what they say they will," he says. One example is the customs-free corridor between the port and airport, which allows businesses to import and export raw materials without charge. There are no exchange controls and no taxes. Little wonder that DHL, a logistics company, ranked the UAE at number 12 in its annual global connectedness index, a measure of globalisation, one spot behind Hong Kong and ahead of France and Italy.

Due in part to Dubai's growth, the UAE has become the region's economic centre of gravity, which in turn has encouraged it to become more assertive politically (an ambition driven in part by Dubai's neighbour, Abu Dhabi). "It is a defining moment for the GCC to take leadership," says Nasser Saidi, a Lebanese economist based in Dubai. "Only the UAE has the energy, youth and vision to do so—and it seems keen to." The UAE's air force took part in the NATO-led combat mission over Libya in 2011 and is currently part of the coalition against Islamic State in Syria (though America continues to conduct the vast majority of strikes). Along with Saudi Arabia, the Gulf's traditional power, it is pumping funds to prop up Egypt's Abdel-Fattah al-Sisi, the general who ousted the Muslim Brotherhood in 2013. The UAE has put pressure on other countries, including Britain, to curb political Islam.

Part of Dubai's success is down to its location—between Europe, Asia and Africa—and its stability in a region plagued by war and stagnant politics. "It is the only safe haven for everybody in a sea of troubles all around," says Mr Saidi.

Dubai's rulers undoubtedly had vision. When Mr Ghandour founded Aramex in 1982 he located it in Bahrain, then the region's leading financial centre. By the mid-1980s he had moved to Dubai. Other Gulf states are now seeking to emulate Dubai's success. Little more than an hour down the road from Dubai, Abu Dhabi is expanding its airport, the base of Etihad, another world-class airline. Abu Dhabi has arranged a loan of 300m dirhams ($82m) to expand its Al Khalifa port.

Qatar has just opened a new airport and Qatar Airways, bigger than Etihad but smaller than Emirates, competes fiercely for passenger and cargo traffic. In the World Bank's Logistics Performance Index, it comes just two places behind the UAE. Oman reckons its port at Duqm, on the Indian Ocean, is more favourable than Jebel Ali, since ships would not have to pass through the busy Strait of Hormuz to reach it. Saudi Arabia is investing $500 billion in infrastructure by 2020, including building new cities to spur economic development, a financial centre, a metro, and new universities and schools. Bahrain and Kuwait are spending on infrastructure too.

The question is whether such grand projects make economic sense when oil prices are collapsing and stock markets are declining across the region. Even Dubai has proved fallible. It is only six years since a real estate crash forced Dubai World, the state holding company, to seek a bail-out from Abu Dhabi. The 828-metre-high Burj Dubai tower was quickly renamed Burj Khalifa, after the saviour, Sheikh Khalifa. ■

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Terror in Paris

A blow against freedom

PARIS

France and other European countries have long been braced for a commando-style terror attack, but it was no less shocking when it came

IT WAS the sort of attack the French government has dreaded for months. Only in December Manuel Valls, the prime minister, declared that France had "never faced a greater terrorist threat". On January 7th armed gunmen burst into the Paris offices of *Charlie Hebdo*, a newspaper known for its defiant publication of satirical cartoons, and shot dead ten staff inside. Two police officers were also killed. President François Hollande, who arrived swiftly at the scene, was in no doubt: it was "a terrorist attack" of "extreme barbarity". It was the worst act of terrorism to be perpetrated on French soil for over 50 years.

The choice of target was not random. *Charlie Hebdo* has long prided itself for putting free speech above political correctness, mocking politics as well as religion, and Catholicism as well as Islam. In 2006 it reprinted cartoons of the Prophet Muhammad that had provoked consternation and terrorist threats when they were first published by a Danish newspaper, *Jyllands-Posten*. (*The Economist* chose not to follow suit.) Five years later, *Charlie Hebdo* published an edition entitled *Charia Hebdo*, which it advertised as "edited" by the Prophet. During the night before publication, its Paris offices were firebombed.

The paper's offices and some of its cartoonists have since been under police protection. But this was not enough to stop two men, armed with automatic weapons, forcing their way in and shooting dead eight journalists, including Stéphane Charbonnier (known as Charb), its editor and best-known cartoonist. One of the policemen killed was his bodyguard. Bernard Maris, an economist close to the paper, was also killed. Footage showed the men shouting "We have avenged the Prophet Muhammad" as they left the building.

French politicians on all sides were quick to condemn the attack. Mr Hollande cleared his diary to visit the scene and hold an emergency cabinet meeting on security. Nicolas Sarkozy, the centre-right former president, called the shootings an "abject act" and an "attack on our democracy". French Muslims too expressed outrage over the terrorists. Hassen Chalghoumi, the imam of Drancy, declared that "their barbarism has nothing to do with Islam".

With the gunmen on the run, the police named two suspects: Chérif and Saïd Kouachi, both French citizens. A third man turned himself in and seven other people were arrested. Of Algerian origin, the two brothers were born in a rough part of north-east Paris, and were known to the security services for links to jihadist radical groups. Chérif, a former pizza-delivery driver, was convicted in 2008 of association with terrorism, in a case connected to jihadist networks that recruited fighters against Americans in Iraq, and served 18 months of a three-year prison sentence.

While the manhunt continued, broader questions were raised over how the attack happened in a country with a robust intelligence and surveillance system and tough anti-terror laws. Mr Valls said the suspects were "doubtless followed" by the intelligence services, but there was "no zero risk". He stressed that several terror plots had been thwarted and hundreds of individuals were under surveillance. On January 8th a policewoman was shot dead in a second, probably unrelated, attack.

France is no stranger to terrorism, much of it linked to the bloody fight for Algerian independence. In 1995 eight people were killed in an attack on the RER suburban underground, and two more died in another attack a year later. More recently, security was tightened after France was singled out as a target by al-Qaeda on various grounds, including its introduction five years ago of a ban on face-covering headscarves, as well as its military intervention in the African Sahel. But most analysts reckon that the latest attack is of a different nature. Recent fears have concentrated on French citizens returning from jihadist training in Syria and Iraq. One such, Mehdi Nemmouche, a French citizen, killed four people at a Jewish museum in Brussels last year.

The government estimates that as many as 1,000 Frenchmen have either left to fight for Islamic State, already returned, or are on their way back. The January 7th attack appears to have been well planned and executed. "These are guys who have been trained to fight, not to blow themselves up," says François Heisbourg, of the Foundation for Strategic Research. Indeed, they may be less interested in influencing French policy than in simply demonstrating their murderous capacity.

In an attempt to curb the flow of fighters, the government last autumn tightened its anti-terror legislation, making it easier to detain suspects at airports and to confiscate their passports. But Mr Valls and Ber- ▸▸

nard Cazeneuve, the interior minister, have remained keenly aware that a possible attack by home-grown jihadists could take place at any moment.

The difficulty for France now is not only how to deal with the shock, the aftermath and heightened security worries. Home to Europe's biggest Muslim minority, some 5m-6m strong, the country has long struggled to strike the right balance between its secular traditions and the (peaceful) demands of Muslim French citizens. In several ways, France has unapologetically reaffirmed its secular republican principles, for example, by outlawing the wearing of religious symbols in schools, such as the Muslim headscarf for women.

Yet fears that the country has ceded too much ground to Muslims have also boosted Marine Le Pen's populist National Front. Many polls suggest she could get into the second round of voting in the 2017 presidential election. Indeed, just such a scenario is at the heart of a provocative novel, published on the same day as the terrorist attack, by Michel Houellebecq, the *enfant terrible* of French literature. He imagines a France in 2022 run by a Muslim president who has beaten Ms Le Pen in a second-round run-off, and imposes conservative Islamic principles on the country. Critics have denounced the novel as scaremongering.

In a televised address on January 7th Mr Hollande called for national unity and designated January 8th a day of national mourning. He declared that "the entire republic was threatened" by the attack, but vowed that "liberty will always be stronger than barbarity".

Even before he spoke, ordinary French people adopted this message as their own. Tens of thousands turned out across the country at evening vigils in sympathy for *Charlie Hebdo* and in defiance of terrorism, many displaying three words of solidarity that had spread earlier as a hashtag on social networks: "Je Suis Charlie". The French were particularly touched by similar large demonstrations abroad, including in London. Yet, as terror attacks on other cities besides Paris have shown, it takes time to recover from such national tragedies. And they may leave a lasting mark on the country's political culture in ways that are not always clear at the time. ■

Germany's anti-Islam marches

The uprising of the decent

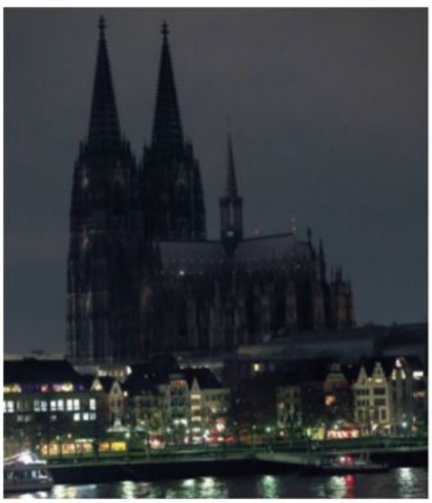
BERLIN

As xenophobic marches continue in parts of Germany, others stand up

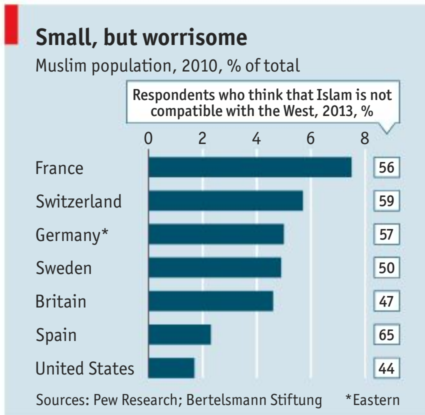
STILL they march, every Monday in Dresden, as they have done since October. Numbering about 18,000, they call themselves Pegida, or "patriotic Europeans against the Islamisation of the Occident", and they are against too many asylum-seekers and migrants. They worry most about Islam, surprisingly for Saxony, where less than 1% of people are Muslim. Pegida's specific demands are unclear, because supporters believe the media is a politically correct conspiracy not worth talking to. The marchers commit no violence and say nothing overtly racist, although the protests draw neo-Nazi tourists from all over the country.

More telling is how others are reacting. Chancellor Angela Merkel used her New Year's Day address to reaffirm Germany's welcome to asylum-seekers: more than 200,000 applied last year, the most in the rich world. In unusually strong language, she urged Germans to stay away from Pegida: "Do not follow people who organise these rallies, for their hearts are cold and often full of prejudice, and even hate."

Counter-protests against Pegida, in Berlin and western cities, now outnumber Pegida's copycats beyond Dresden. Cologne's archbishop turned off the cathedral's lights to deprive a Pegida-like rally from its backdrop; antis stopped the marchers on a bridge over the Rhine. Berlin darkened the Brandenburg Gate, although its marchers were kept far away by a larger pro-diversity crowd. *Bild*, a tabloid, published a list of 50 celebrities against Pegida.



Darkening the dome to promote the light



It included business leaders, several ministers and two former chancellors.

Pegida appears to be a "collective insanity" that exists only in places like Saxony where people have hardly any experience with foreigners, says Werner Schiffauer, chairman of the Migration Council, a network of researchers. The movement is strongest among "easterners who never really arrived in the Federal Republic and who now feel they have no voice," he says. Pegida supporters mistrust democracy, criticise Germany's anti-Russian policy and yearn for a more authoritarian government. Behind all this lurks a desire for an ethnically homogenous nation, Mr Schiffauer says. But this has never existed in German history, except just after the war.

Germans must "rethink their identity", Mr Schiffauer argues. Instead of the traditional ethnic definition of nationality, they should move to a "republican" one, as in America or France, which is open to newcomers. German law on dual citizenship has slowly moved in this direction, as has public acceptance in bigger cities and the west. But pockets such as Saxony lag behind. The Migration Council recommends setting up a commission to push awareness in the right direction.

Such a body might not sway the people it aims to reach, since they would dismiss it as proof of a conspiracy. Populists will feed such scepticism. A new party, Alternative for Germany, which is anti-euro and now also anti-foreigner, is openly flirting with Pegida. The CSU, a conservative party that governs Bavaria and is allied to Mrs Merkel's Christian Democrats, also sounds empathetic with the Dresden marchers, hoping not to be outflanked on the right.

The rest of the political spectrum, however, appears united in opposing the implicit xenophobia of Pegida's message. Stanislaw Tillich, the premier of Saxony, rejected the marchers' invitation to address them. Gerhard Schröder, Mrs Merkel's predecessor as chancellor, has called for an "uprising of the decent". Judging by the turnout at this week's counter-demonstrations, that uprising is in full swing and will in the end carry the day. ■

Greece's election

A crowded field

ATHENS

Syriza edges closer to victory, but with uncertainty over its coalition partner

THE far-left Syriza party continues to hold a small but steady lead in the polls ahead of Greece's election on January 25th. After such a long period ahead of the ruling party, this lead seems unlikely to be overturned in just two-and-a-half weeks, say pollsters.

Yet Alexis Tsipras, the firebrand Syriza leader, has been toning down his anti-European rhetoric. He now says no "unilateral" decisions will be taken on Greece's obligations to its creditors, a signal that a Syriza government would not surprise markets with an immediate default. Mr Tsipras's message to voters is simple: a promise to end four bleak years of austerity with a splurge of social spending.

The café debate has shifted, too. It is no longer about whether the centre-right New Democracy party led by Antonis Samaras, the prime minister, can pull off a last-minute victory (Mr Samaras still has a higher personal approval rating than Mr Tsipras), but over which small party would be Syriza's most likely coalition partner. For Syriza officials concede they may well fall short of an outright majority, even with the 50-seat bonus that goes automatically to the party that finishes first.

The choice could be harder than it looks. At least four small parties are expected to beat the threshold of 3% to get into parliament. The neo-Nazi Golden Dawn party may finish third, even though its leaders are in jail awaiting trial on charges of running a criminal organisation. The perennially Stalinist Greek Communist Party has long rejected Mr Tsipras's overtures favouring co-operation, despite Syriza's own communist roots.

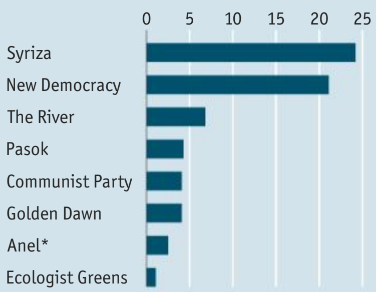
That leaves To Potami (the River), a new moderate centre-left party founded only in 2014 by Stavros Theodorakis, a popular television journalist, and the PanHellenic Socialist Movement (Pasok), which is tainted by its two-and-a-half-years spent as New Democracy's junior coalition partner. Pasok is already shaping up as the most likely contender to back Syriza: its leader, Evangelos Venizelos, stresses populist measures that he backed while in government, despite opposition from the "troika" of Greece's creditors from the European Union and the IMF, such as letting tax debtors stretch repayments out in as many as 100 instalments. Support from disillusioned Pasok voters underpinned Syriza's sudden rise from left-wing outlier into a serious contender for power during Greece's two back-to-back elections in 2012.

But that was before the intervention of George Papandreou, the prime minister who signed up to the international bail-out in 2010 and a former Pasok leader (and son of its founder). He has unexpectedly launched a new party, the Movement of Democratic Socialists. It could win about 4% of the vote, according to one poll, trading both on the Papandreou political brand ▸▸

Far left on top

Voting intentions, December 2014

% of respondents



Source: Metron Analysis *Independent Greeks Party

Online: For a guide to Greece's upcoming elections visit **Economist.com/greekgraphs**

Germany and Greece

Go if you must

BERLIN

Angela Merkel appears to have become more sanguine about a Grexit

IF THE Syriza party wins Greece's election on January 25th, most think the power to negotiate rests with Angela Merkel, the German chancellor. "A small minority, centred on the conservative leadership of the German government," says Alexis Tsipras, Syriza's leader, "insists on rehashing old wives' tales and Grexit stories."

So it seemed after German officials leaked to *Der Spiegel*, a weekly, their assessment that Grexit would not only be bearable but might even make the euro stronger. Other problem countries have weathered the crisis (Portugal, Ireland) or are making progress (Spain). The euro zone now has a bail-out fund and a banking union. German banks and insurers have reduced their exposure.

Merkel points the way for Samaras

On January 5th Steffen Seibert, Mrs Merkel's spokesman, insisted that German policy had not changed: it still aimed to hold the euro zone together. Yet all sides are now debating Grexit. Some in Mrs Merkel's Christian Democratic Union (CDU) said giving in to Greece would encourage other countries, including France, to rebel against spending cuts and supply-side reforms. Sigmar Gabriel, leader of the Social Democrats, Mrs Merkel's coalition partners, said Germany must not be "blackmailed".

Other Social Democrats recoiled from this tone. So did the CDU's conservative Bavarian sister party. "We should not behave as a schoolmaster" to the Greeks, said Horst Seehofer, the Bavarian premier. The whole discussion was "irresponsible", warned Simone Peter, a leader of the Greens. Sahra Wagenknecht, a leader of the ex-communist Left party, which sides with Syriza, accused Mrs Merkel's government of "scare tactics" to influence the Greek election.

Carsten Nickel at Teneo Intelligence, a risk consultancy, thinks Mrs Merkel is trying to "send a strong signal to Athens" that aid would still be tied to reforms, but that she will be flexible. A deal with Mr Tsipras could include lower interest or longer maturities for Greek debt. But politics limit her room for manoeuvre. One change is the rise of the new anti-euro Alternative for Germany. It did well in state elections last year but is now riven by squabbles. Any softness on Greece will feed its support in Hamburg's election in February. Public opinion remains sceptical. The tabloid *Bild* says that, if Greece can't play by the rules, Germany should show it the "red card".

This is the tightrope Mrs Merkel must walk after January 25th. Until then, she is likely to keep quiet. Even Austria, usually as strident as Germany on the euro, has struck a note of caution. Its finance minister, Hans Jörg Schelling, told a German newspaper that it was not appropriate to "meddle in the election campaigns of other countries". That is the last thing Mrs Merkel can be seen doing.

and on his appealing vision of a centre-left consensus to rebuild a society exhausted by austerity and polarised politics. If Mr Papandreou splits the Pasok vote, Mr Venizelos's chances of joining a Syriza-led government look slim.

Meanwhile the messages from Berlin are becoming louder: Greece should in principle stay in the euro, but Mr Tsipras's demands for a debt write-off and spending binge are unacceptable. The spectre of a Grexit, laid to rest while the Samaras government got on with its reforms, has resurfaced. Yet polls show that voters still believe that Greece's place in the euro is secure. "The current view is that Germany is bluffing and the euro zone would collapse if we were forced out," says one pollster. "But that could change as polling day comes closer." ■

Turkey and the media

Trying times

ISTANBUL

The president insists there is no freer press than Turkey's. Really?

FREDERIKE GEERDINK, a Dutch journalist with a close interest in the Kurds, reckons she is the only foreign journalist in the mainly Kurdish city of Diyarbakir. On January 6th anti-terrorist police raided her apartment. "Terrorism police just searched my house. Team of 8 guys. They take me to the station now. Charge: 'propaganda for terrorist organisation'," Ms Geerdink tweeted as she was hauled off.

The timing could hardly have been worse. Bert Koenders, the Dutch foreign minister, was visiting Ankara. And even as Ms Geerdink was being grilled about her Kurdish contacts, Recep Tayyip Erdogan, Turkey's president, was telling diplomats "there is no freer press, either in Europe or anywhere in the world, than in Turkey."

After Mr Erdogan and his Justice and Development (AK) party came to power 12 years ago, his reforms were enough to get the European Union to open membership talks in 2005. But he has become increasingly intolerant. Fearing his ire, media bosses have sacked hundreds of critical hacks. The pressure rose when a corruption probe of Mr Erdogan's inner circle became public 12 months ago. Last week police interrogated Sedef Kabas, a TV anchorwoman, for alluding in tweets to government efforts to quash the scandal. Scores of journalists are being prosecuted. Cartoonists are under attack too.

Dunja Mijatovic, the media-freedom representative for the Organisation for Security and Co-operation in Europe, notes that women are being singled out. "Female journalists and bloggers are being fiercely attacked on Twitter, Facebook, and in online articles and blogs. This is an additional way of silencing critical voices, an issue that my office will focus on and analyse in the near future," she says. (*The Economist*'s Turkey correspondent is a woman.)

AK is pondering draft legislation to let the prime minister block websites and remove content for a limited time without a

court order. A separate bill sharply reduces the number of judges needed to approve such measures. "The government is using the judges as a rubber stamp," claims Kerem Altiparmak, a lawyer. AK officials insist the moves are aimed at protecting "national security" and "moral values".

Many believe the new laws are really aimed at stopping future recordings of conversations between those incriminated in the corruption probe or other embarrassing material appearing online. On January 5th a parliamentary commission dominated by AK members voted against sending four former ministers, including Turkey's one-time Europe minister, Egemen Bagis, to trial. They had been accused of receiving bribes from Reza Zarrab, an Iranian who figures in the investigation.

Censorship is getting subtler. Last month the government issued a decree calling for internet service providers to install costly new systems that allow the removal of offensive content without blocking a website. "Many smaller providers will be driven out of the market, giving the government further control," reckons Ali Riza Keles, a cyberactivist.

The government's aversion to any mention of graft has assumed bizarre proportions. Last month, when the president spoke at a ceremony in Konya, his bodyguards detained a spectator when they overheard him recounting a theft incident at his grandchild's school. After the local prosecutor declined to press charges he was said to have been exiled to an Anatolian backwater. Meanwhile, back in Diyarbakir, Ms Geerdink says she was lucky that Mr Koenders was in the country. He said he was "shocked" by her detention, and she was released soon afterwards. "Free again. Terrorism squad takes me home now. I insisted on that," she tweeted. ■

A new church in Turkey

Build it

ISTANBUL

Turkey's first new church in 90 years

TURKEY has a habit of converting Christian churches into mosques. So it was a surprise when the prime minister, Ahmet Davutoglu, announced plans for a new church in Istanbul. It will be the first to be built since the founding of Ataturk's republic in 1923. The church will serve some 25,000 Syriac Orthodox Christians. Decimated by massacres and then by migration to Europe, this group, which once flourished along the border with Syria, has long been campaigning for a church in Istanbul.

The ruling Islamist Justice and Development (AK) party is facing growing criticism for retreating from its reform path. But it continues to win praise for its treatment of Christians. This is unlike previous governments which confiscated properties and did little to prevent pogroms. Last year the Syriacs were allowed to open a primary school where pupils will be taught in Aramaic, the tongue of Jesus Christ, for the first time. Thousands of church properties pinched by the state are being returned. Formerly churches had to cut through endless red tape even to repair a leaky dome. In an unprecedented move, Mr Davutoglu has even appointed a Catholic Armenian, Etyen Mahcupyan, as an adviser.

"These are welcome developments," says Erol Dora, the first and only Syriac member of parliament, who was elected for the pro-Kurdish Peoples' Democracy Party in 2011. "Yet the scale of the discrimination becomes obvious when news of a church being built is hailed as such a monumental event." The Greek Orthodox Patriarch's repeated appeals to reopen the Halki seminary, where generations of priests were trained, continue to fall on deaf ears. Suspicion of Christian missionaries is ingrained. And a campaign to convert the Aya Sofia museum back into a mosque is said to enjoy the backing of Recep Tayyip Erdogan, Turkey's powerful president.

Charlemagne | Riga realities

Latvia's turbulent history makes it well placed to lead the EU

MARKED by biting winds, icy roads and a cruelly unenthusiastic sun, January, Charlemagne dares to venture, is not the best time to visit Latvia. But this year it is not a bad time to be Latvian, for the small Baltic state of 2m citizens has just taken over the presidency of the European Union's Council of Ministers, and the government is giddy with excitement.

The presidency rotates among member countries every six months, offering a chance to steer some of the EU's political and legislative work. For minnows like Latvia it is a chance to bask in attention they rarely receive. For its time at the helm Latvia wants to focus European minds on three priorities: competitiveness, the digital single market and foreign policy. That may sound less than scintillating, and it is true that the presidency wields less power than it did before the European Council of heads of government appointed a permanent president. Yet it is worth paying attention to Latvia, for on two challenges that confront Europe in 2015—how to kick-start growth, and what to do about Russia—it has an interesting story to tell.

Latvia's economic adventures of the past decade make Spain, Ireland and Greece look like models of sobriety. After joining the EU in 2004 the Latvians enjoyed a riotous few years of partying, as hot money fuelled annual growth of over 10%, only to face the mother of hangovers when the financial crisis hit in 2008. Ignoring recommendations from the IMF and others to break their peg to the euro and devalue the currency, the Latvians instead embarked on a brutal programme of "internal devaluation": improving competitiveness by slashing wages and prices. After losing access to capital markets (and accepting a $10.5 billion bail-out from the IMF and EU) the government administered a whopping dose of austerity worth 17% of GDP over four years.

Misery ensued. Output fell by a quarter between 2007 and 2009, and unemployment peaked at 21%. Latvians took advantage of the EU's free-movement rules to seek work abroad; the population has fallen by 200,000 since 2005. But growth returned in 2010, under a re-elected government, and Latvia has lately boasted one of Europe's perkiest economies, thanks in part to strong exports. Last year Valdis Dombrovskis, the bookish prime minister who oversaw the recovery, was rewarded with a plum job in the European Commission overseeing the euro.

Outside the euro, which it joined only last year, Latvia was a sideshow to the austerity wars raging within the single-currency area from 2010 to 12. But the participants were happy to recruit it to their respective causes: for the austerians, as proof that pain now means gain later; for their foes, as a demonstration of the agonies that budget-slashing brings. Sometimes lost in the crossfire was the point that the experience of a small, open economy may not readily transfer to larger, more closed ones. "We have no obvious lesson to offer," says Alf Vanags, director of the Baltic International Centre for Economic Policy Studies. "We dug ourselves a hole, and we climbed out of it."

In the past some in Latvia, still the EU's fourth-poorest member, have grumbled about the forbearance shown to richer bailed-out countries. Today they proclaim no intention to use their presidency to lecture their euro-zone partners. Instead the priority is to push through a pan-European investment plan proposed by the European Commission. But, winks Zanda Kalnina-Lukasevica, parliamentary state secretary for EU affairs, Latvia will be delighted to share its experience "if anyone's interested".

Latvia may prove more assertive on foreign policy. In late May Riga, the capital, will host a summit with the six countries of the EU's "eastern partnership": Ukraine, Belarus, Moldova, Georgia, Armenia and Azerbaijan. Hatched in 2009, the partnership was meant to draw the six closer to the EU through free-trade deals and so on, but its technocratic methods turned out to have geopolitical consequences. At the previous summit, in Vilnius in late 2013, Ukraine's then-president, Viktor Yanukovych, triggered domestic protests that led to his downfall by rejecting, under heavy Russian pressure, a free-trade agreement with the EU. Russia's annexation of Crimea and invasion of eastern Ukraine followed.

Some Europeans tire of the apparently endless troubles of their eastern neighbours, and EU officials are anyway rethinking their strategic approach. Amid such scepticism the Latvians, whose historical experience of occupation, struggle and redemption within the EU has left them with strong sympathy for those left outside, see it as their job to stop interest from flickering out. One result may be liberalised visa regimes for some. Edgars Rinkevics, the foreign minister, also suggests there may be specific offers for Belarus, where he detects faint signs of softening in Alexander Lukashenko's thugocracy.

Living with Russians

One-third of Latvia's population speaks Russian as a first language, and at the height of Russia's adventurism in Ukraine some fretted that the Kremlin's next trick would be to agitate among such a large minority. So far there has been little sign of trouble, although last year Latvian authorities temporarily banned a Russian television channel for broadcasting "war propaganda". Fears of renewed tensions between Latvia's linguistic groups, even if overdone, might spur officials into tackling problems of integration they have too often ignored.

If so, that would be a happy consequence of a war that has deeply unnerved the region. The Crimea annexation, in particular, stirred folk memories of the Soviet occupation of the Baltic states in 1940. Today Latvia and its neighbours enjoy the security guarantees of NATO, the solidity of EU membership and a seat at the euro table. Events a few hundred miles to their south help explain why they fought so hard to obtain them. ■

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Politics

Refighting old battles

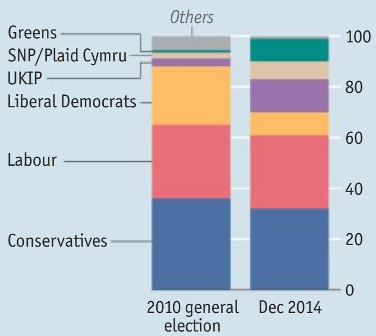
Everything about this year's general election is strange, new and unpredictable—except for the campaigns being run by the two main parties

BRITISH politics has rarely been so unpredictable. The familiar two-and-a-half-party system—the Conservative and Labour parties dominant, with the Liberal Democrats in third place—appears to be breaking down. Since the 2010 general election three smaller parties have surged in opinion polls (see chart). Debates rage about the effect they will have at this year's election, which is expected to take place on May 7th. Will the populist, right-wing UK Independence Party (UKIP) hurt the governing Tories most, and by how much? Will the left-wing Green Party take seats from the Lib Dems? Will the separatist Scottish National Party (SNP) near-demolish Labour in Scotland, as some polls suggest? The number of different single- and multi-party governments that could conceivably emerge from this Rubik's cube of an election approaches double figures. Uncertainty and novelty reign.

Yet when the two largest parties launched their campaigns on January 5th, both were remarkably unremarkable. In a speech near Manchester, Ed Miliband, the Labour leader, pledged to make Britain fairer and more compassionate. He decried "a country of food banks and bank bonuses" and warned that another five years of Conservative-led government would destroy the National Health Service (NHS) as Britons know it. Shortly afterwards, at a press conference in London, George Osborne, the chancellor of the exchequer, and four other top Conservatives issued a classically Tory message of economic toughness. They hailed Britain's return to healthy growth and unveiled a dossier charting what they claimed was £20.7 billion ($31.3 billion) of unfunded spending promised by Labour. In the coming months the party will further advocate cuts to welfare and to immigration.

Both parties are thus responding to the discombobulating landscape by playing to their strengths—and, often, their core electorates—rather than confronting their weaknesses. "Fairly unedifying but conversation kept on the economy" was one senior Tory's assessment of the party's campaign launch. This is true of their campaigning styles, too. The Conservatives have more money—they are expected to outspend Labour three-to-one—but also fewer, older activists. As in the past, they are therefore concentrating on the air war (on January 2nd the party launched the first of a series of billboard posters). Mr Miliband announced that his party would seek to win by door-knocking; specifically, by holding four million conversations with voters over the next four months.

The six-party system
Support for political parties, %



Source: Ipsos MORI

The two parties' campaigns almost precisely mirror those from an election two decades ago. Mr Osborne's spending dossier was based on an attack on Labour in January 1992 (which was itself a copy of Republican attacks on Michael Dukakis, the Democratic candidate in the 1988 American presidential election). The Tories insist that Labour's plans will cost £1,200 per family, almost identical to the £1,250 per-household price tag attributed to the party's proposals in 1992. Labour retreated to its safest redoubt: health care. The party's slogan then—"If you want to vote Conservative, don't fall ill"—would fit perfectly into its campaign in 2015.

The warm embrace of tradition

What explains this reversion to type? Partly, both Labour and the Tories want to repudiate their recent pasts. Mr Miliband has moved his party away from its relentless courtship of centrist voters under Tony Blair. Mr Cameron is desperate to avoid the mistakes of his party's 2010 election campaign, in which a botched attempt to emulate Mr Blair's appeal produced a hung parliament, rather than the expected Tory majority. Another factor is that both parties face competition for the votes of their core supporters from the likes of UKIP (in the case of the Conservatives) and the SNP (in that of Labour), so must concentrate more on keeping them on side.

But perhaps the best explanation is the sheer unpredictability of British politics in 2015. Boxed in from left and right, with Labour only narrowly ahead in polls of voting intention, both main parties are falling back on tried-and-tested campaign messages rather than riskier, more expansive ones, in spite of warnings from shrewd folk in their ranks (see Bagehot).

This retro campaigning makes the general-election result a little more predictable. As Mr Blair noted in an interview published in this newspaper on December 30th, faced with a choice between a traditional left-wing party and a traditional right-wing one, Britons tend to side with the latter. Polls taken by YouGov corroborate his observation. According to one conducted last June, of the two main parties respondents were about twice as likely to call Labour "nice" but also twice as likely to call the Tories "smart". When invited to choose, voters prefer their politicians "mean but smart" to "nice but dim", notes Peter Kellner, YouGov's president.

That was true in 1992. As Philip Gould, who would later become Mr Blair's chief pollster, predicted beforehand, "in the polling booth people may be more likely to vote for the devil they know and dislike than the devil they do not fully trust." Though unloved, the Conservatives won over 14m votes: more than any party in a general election before or since. With British politics fragmenting, Mr Cameron cannot hope to rival this feat. And the rise of the smaller parties might tip the balance in Labour's favour. But unless they do, a defensive, conventional election will once more produce that most conventional of outcomes: a Tory-led government. ■

The current account

Britain's biggest export: wealth

The current-account deficit might explain Britain's joyless recovery

IF A large factory opens in the next six months, it is a safe bet that Britain's most powerful politicians will be on hand to celebrate the fact. With a general election looming in May, and with the economy top of the agenda, they would be mad not to. Government ministers will also, naturally, take full credit for the economy's strength while insisting that the other lot would ruin it. As polling day approaches, all economics is becoming local. But the reality is quite the opposite. Despite enviable growth, Britain's economy is utterly interwoven with the world's.

Britain is famously open to overseas investment, with national brands like Cadbury and Rolls-Royce Motors in foreign hands; rather less famously, it is also a keen investor in other countries. In 2000 Britons held international assets worth 301% of GDP. As globalisation accelerated and finance surged, the nation's balance-sheet

swelled. Banks such as RBS expanded around the globe. Firms piled into foreign markets: think of the ill-fated foray into America by Tesco, a grocer. By the time Lehman Brothers collapsed in 2008, Britons had amassed overseas assets worth about 750% of GDP. Today, following a post-crisis retrenchment, overseas investments amount to just over 560% of GDP. But the country still leads the G20 in overseas investments, by one estimate.

Britain's current account—a measure of national saving—is thus determined not just by the familiar trade deficit but also by the balance of overseas income and returns to foreign investors. From 2001 to 2007 this flattered the nation: Britons reaped more in interest and dividends from elsewhere than they paid out. This helped offset the country's surfeit of imports over exports and held down the current-account deficit (see chart).

Overseas investments did not just produce bountiful returns: they increased in value, too. That helped Britain finance the remaining deficit. Much as a business can accumulate more and more debt as it grows, a country can sustain higher borrowing if its investments are gaining value. In the boom years, Britain acted rather like a successful hedge fund: it borrowed abroad to fund shrewd investments, which paid off by delivering capital gains.

But the returns are vanishing. Britain's net investment income has fallen from a peak of 3% of GDP in the second quarter of 2005 to minus 2.8% today. That has caused the current-account deficit to swell to 6% of GDP—a level last seen in the 1980s—even as the trade balance has improved.

To sustain this deficit without eroding its wealth, Britain needs more capital gains. But with the world economy slowing, banking on an asset-price boom is risky. In any case, some overseas gains are difficult to measure. The Bank of England's estimate uses a simple extrapolation of a valuation from 21 years ago. And many companies do not invest enough in monitoring their foreign investments.

Weak overseas income might, however, help explain why Britain's economic recovery is yet to produce much cheer for its citizens, says Philip Lane, an expert in financial globalisation at Trinity College Dublin. Britain's prosperity is misrepresented by counting only what is produced domestically. Since 2011 gross national income—a measure which accounts for capital flows too—has grown less than a third as fast as GDP. Low income from overseas affects firms' investment, employment and wage decisions at home, argues Mr Lane.

In theory, a debt-financed current-account deficit, without offsetting capital gains, will make a country poorer in the end. Unless it grows rapidly, its people will demand fewer imports, closing the deficit. The correction can happen in a rush if overseas funding suddenly disappears, causing a collapse in the currency and an immediate reduction in spending. Britain is not on the edge of such a crisis. But if the hedge-fund model is broken, something else has to give.

That has worrying implications for the sustainability of Britain's recovery. Ultimately, a current-account deficit represents a country flogging its assets or incurring debts to finance spending. That makes sense if the spending is on investments that will pay off in future. But Britain is on a consumption binge. The household savings rate is negative, according to one estimate, and household debt is forecast to balloon in the next five years. If that happens, Britain will grow as forecast, but at the cost of running down its wealth. It will be heading for a crisis.

There are three ways to avoid this fate. Britain could consume and thus import less, hope its investments improve or export more. With interest rates near zero and some spare capacity, a move from spending to saving would harm the economy. The other two options require a global recovery. Britain cannot go it alone. ■

Cash out

Britain's current account, % of GDP

Source: ONS

Bagehot | Above the fray

The Conservatives' former deputy chairman, Lord Ashcroft, is thriving as a pollster

LORD ASHCROFT apologises for having chosen a "strange place" for breakfast. The London business hotel to which the Conservative paymaster-turned-pollster has invited Bagehot is not quite up to billionaire standards. But his excuse—that he is there to run a focus group on the NHS—is unnecessary. Inscrutable and hard to place, Lord Ashcroft could have suggested a greasy spoon and your columnist would not have been surprised. It is remarkable, given his prominence in British politics for over two decades, what a mysterious figure he is.

Partly that reflects the complexity of his affairs. A self-made man—and son of a hard-up colonial officer—he has large investments in many countries, including Belize, where he spent part of his childhood, has owned a bank and other firms, and was domiciled for tax purposes. After he became the Tories' treasurer in 1998, this made him a target of newspaper attacks; he was accused of dodging tax and, without evidence, of exerting undue influence on Belize's government and of being under investigation for drug-smuggling. In 2010 *The Economist* urged the Tories to ditch him on account of his tax status.

His lawyers put an end to the attacks—but not to a sense that the Tory paymaster wasn't quite as public-spirited as one might hope for in such a prominent personage. Not least because, while trumpeting his philanthropy, he also delights in baiting his accusers. Addressing a crowd of left-wingers at the 2013 Labour Party conference, he introduced himself as, though now domiciled in Britain, still "a proud tax avoider". This was because he gives away most of his income to charity, he then explained. The Fabians bit their lips crossly.

Yet the mystery of Lord Ashcroft also extends to his political affairs. He is a Thatcherite who loves enterprise and dislikes taxing it. But his advice to his party, based on his polling, is harder to define. He says it must do a better job of understanding and salving voters' anxieties rather than banging on about Europe, which sounds compassionate, but also that campaigning for gay marriage was electoral madness. Are these his personal views, or those of a self-interested tycoon who would do anything for a low-tax government? "No one really knows all my political views", he says, which suggests he considers them less important than his analysis. He was certainly annoyed when David Cameron, the Tory prime minister, did not take it—perhaps especially when he hired, against Lord Ashcroft's advice, an Australian strategist, Lynton Crosby, with a record of right-wing dog-whistling.

This fallout seems to have propelled Lord Ashcroft into his latest, most intriguing, move: a decision to double down on his political polling, especially in marginal seats, at a cost of millions of pounds and for the benefit of any interested party. Hence his willingness to go and brief the lefties: "I don't look at myself as a Conservative pollster," he says. "I look at myself as a pollster who takes the Conservative whip." Yet why is he doing this? "Political research is my hobby," he says, with a half-smile. "I find the business of what moves a vote interesting." Even for such a wealthy man, that is plainly inadequate.

There are two things to be said about this. First, Lord Ashcroft has sought influence all his adult life, and there is no reason to think that has changed. "I wanted, at the very least, a proper say and, invariably, I was looking for outright control," he once wrote of his business method. Second, his hobby is in a way making him more influential than when he was bankrolling his party.

In the run-up to what promises to be an unprecedentedly complicated and unpredictable election, the profile of British pollsters and pundits has soared. Peter Kellner, boss of YouGov, says he is usually recognised in public once a month, but this has risen of late to a couple of times a week. For political insiders, Lord Ashcroft's constituency-level polls, which are unusual, expensive and accessible on two political news websites he owns, are especially intriguing. Labour strategists are addicted to them. That may be because they tend to affirm a view that, despite the Tories' strong leads on the big issues of the economy and leadership, voters in marginal seats are not bending their way. That a Tory peer is delivering this news makes it additionally delightful; is that effect intended? "My role is not to criticise my party over its strategy," he says, when your columnist invites him to do just that. "I'm merely pointing out where voters stand."

Polls best eaten cold

The result is that Lord Ashcroft is getting a lot more good publicity than he previously enjoyed, and no damaging headlines. Whether this motivates him, which he denies, is impossible to know: his career move is unprecedented. It is widely assumed, especially among Tories, that he wants vindication for the advice his leader had the temerity to ignore, and comeuppance for Mr Cameron. Thereafter, his opponents mutter, he would presumably seek a more direct role in his party. That sounds plausible; it is also impossible to prove—and tempts Bagehot to think the most important thing about Lord Ashcroft is what he is actually saying.

In enormous detail, he has captured the crumbling of the political establishment that he seems at once to revere and despise. The tribal loyalties that once propelled the Tories or Labour to power are evaporating, taking the edifice of the two-party system with them: both parties are far short of the votes needed to win a convincing majority. And there is no suggestion—in all Lord Ashcroft's polling—of the national swing that either would require to deliver one.

That will make disloyal, disgruntled, unpredictable voters in marginal seats the kingmakers in this election. "The battleground is a series of individual by-elections in which local conditions, local candidates and local issues are all central, which makes prediction very hard," says Lord Ashcroft, with something almost like satisfaction. "It will be all over the place." ■

Also in this section

Targeting social spending

Casting a wide net

MUMBAI

Developing countries are cutting fraud and waste from anti-poverty schemes. Deciding who should be eligible is harder

MOHAMMAD ALAM lives with his wife and five children in a mud-brick house in Rafi Nagar, a slum in Mumbai that sits on a vast landfill. He makes 200 rupees ($3.15) a day as a ragpicker and wishes he could bribe his way to a card showing he is below the poverty line. It would entitle him to a panoply of benefits, including a grain ration priced at a tenth of what he now pays. But a decade trying to get one through official channels has left him fatalistic about his chance of ever joining the queues at one of the country's 500,000 ration shops. "If I'm destined to get a card, I will get one," he says.

In Thane, a prosperous Mumbai suburb 20km away, the manager of one such shop says the system is "all bogus". Perhaps 5% of his cardholding customers are truly poor, he reckons; some have nice houses and government jobs. That is exaggerated, but numerous research shows that cynicism is warranted. One study found that 70% of all those who failed the criteria in one rural area had managed to get a card; ineligible cardholders outnumbered eligible ones. Overall, around half the money India spends on subsidising food is thought to be stolen or claimed by the better-off. Bollywood movies often feature a ration-shop owner as the villain's sidekick.

Public handouts in developing countries are nothing new: India has had them for decades. But in the past few years their number and coverage has soared. A fifth of all those living in developing countries now receive benefits from at least one programme that aims at alleviating poverty, and Martin Ravallion of Georgetown University estimates that coverage is growing by 3.5% of their combined populations each year. A recent tally by the World Bank found only nine countries without some anti-poverty scheme, whether income-contingent cash payments, subsidies for food or public-work schemes which offer a low wage for manual labour. No-strings cash handouts are catching on quickly in Africa: 37 countries had them in 2013, up from 21 just three years earlier.

Many long-standing programmes are, like India's, plagued with waste and corruption. But as the developing world weaves its social safety net, better record-keeping and technology hold out the promise of changing that.

Even some very poor countries are starting to build robust records of who gets what. Brazil was a trailblazer: its *Bolsa Família* (family grant), a stipend for poor families paid on condition that the children are vaccinated and go to school, replaced several smaller schemes in 2003. The register of recipients is published online to help reduce fraud. At least 22 other developing countries now have similar records, and several more are building them, including Bangladesh, Bolivia, Indonesia and Kenya. Such lists cut administrative costs and make it less likely that the same person benefits from overlapping schemes.

Using biometrics as well helps cut fraud. A recent tally by the Centre for Global Development (CGD), a think-tank in Washington, found 230 programmes in over 80 countries that verify identities with biometric information, including voter registries and health records. Some are keeping track of the recipients of social spending. Databases that store fingerprints or iris scans will exclude ghost or dead recipients. Checking such data at disbursement means the right person is paid.

Nearly two-fifths of South Africans, for example, are enrolled in the national benefits system, which stores fingerprint and voice records for authentication when cash is disbursed. This year India's biometric ID register should be complete—holding out the hope that its social schemes could be made less leaky. Alan Gelb and Caroline Decker of CGD estimate that switching to biometrics for a typical cash-transfer scheme that gives a million people $20 a month would pay for itself in a year. After five years the savings would reach $64m.

Mobile-payment systems are another ingredient of an efficient, fraud-resistant scheme, since they record what has been paid, make it easier to reach remote areas and can incorporate security checks and reduce the need to transport and store cash. Indonesia is planning to make payments via pre-loaded SIM cards (see box). Other countries, including Nepal, are working on "branchless banking": roving teams or local vendors equipped with fingerprint-reading devices disburse the cash. Some even announce the amount dispensed to make sure operators do not cheat illiterate users.

But even the best technology can do little to solve a basic problem: deciding who is poor. In the poorest countries few other than government employees appear on any official records of income or wealth. Those scraping a living as street vendors, subsistence farmers, day labourers and so ▸▸

Officially poor

on are unlikely to feature.

So decisions about who should receive benefits often rely on observable proxies for poverty, such as whether someone is old or orphaned, lives in poor-quality housing or lacks consumer goods such as a fridge. Since collecting data on consumer goods is expensive and onerous, many countries only do it in the poorest neighbourhoods. Even those, like India, that aim at national coverage, leave long gaps between surveys, meaning records are out of date and full of holes.

Another common approach is to outsource the task of deciding who is destitute to local leaders or community meetings. The rationale is that it is harder to hide assets from neighbours than from visiting officials (anecdotes abound of fridges being brought out of the back door as they come in the front, or even of families "borrowing" extra children). Research in Indonesia suggests that local scrutiny can work well. But it can also fall victim to corruption or local feuds—especially in communities divided along ethnic or religious lines. An audit shortly after the launch in 2008 of Pakistan's income-support scheme for its poorest households, which initially relied on politicians to nominate recipients, found that nearly half those chosen failed the criteria. Some turned out to be public employees or living abroad.

All these difficulties mean that developing countries' social spending often goes on the wrong people. Between fraud, poor eligibility criteria and patchy data, just a third of beneficiaries are among the poorest fifth in the countries where they live. Some are very well-off.

Some governments are throwing up their hands and leaving it to the poor themselves to step up. They increasingly rely on "ordeal mechanisms", such as requiring participants to go through a lengthy application process, to discourage the better-off from bothering to apply. Public-works schemes are particularly onerous, since they require recipients to do manual labour. More than 80 countries had these in 2013, a third more than in 2011.

But such schemes also have flaws. The tougher the ordeal, the greater the number of needy candidates who will fail to qualify. Some poor people cannot be spared from household duties for public works; others are illiterate and will struggle with confusing application processes. And though public-works schemes seem to offer good value for money, since they make the poor do something, once administrative costs and the other income forgone by participants are taken into account they look less appealing. A recent study estimates that the money spent on India's huge public-works scheme would cut poverty more if it was simply divided equally between all rural residents.

Casting the social safety net that widely could be unpopular, since it would benefit people like village loan sharks. But that might be a price worth paying if it also helps the likes of Mr Alam. ■

Indonesia's anti-poverty plans

Full of promise

Cutting fuel subsidies makes space for an ambitious income top-up scheme

BARACK OBAMA signed his health-care programme into law 427 days after taking office. Joko Widodo, Indonesia's president, took just two weeks to begin honouring his health-care and education promises. On November 3rd his government began issuing cards that will give poor Indonesians access to three programmes—two expanding publicly funded health care and education, and one giving cash handouts of 200,000 rupiah ($15.75) per month. The income top-up scheme is planned eventually to cover 86.4m people in 15.5m households—a third of Indonesia's population. That would make it the largest such programme in the world.

Poor Indonesians were already eligible for various social programmes, including some scholarships and health care. But Jokowi, as he is known, has something his predecessors lacked: money. Like many countries, Indonesia has long wasted vast sums on subsidising fuel (see chart). But on January 1st Jokowi ended petrol subsidies, which will, according to the finance minister, save the government 200 trillion rupiah per year.

The income top-up is being described as cushioning the impact on consumers. But petrol subsidies benefited rich Indonesians most, since few poor ones own cars. The reality is that Jokowi seized the moment: the recent fall in the price of oil means Indonesia's newly unsubsidised petrol costs less than subsidised petrol did last month.

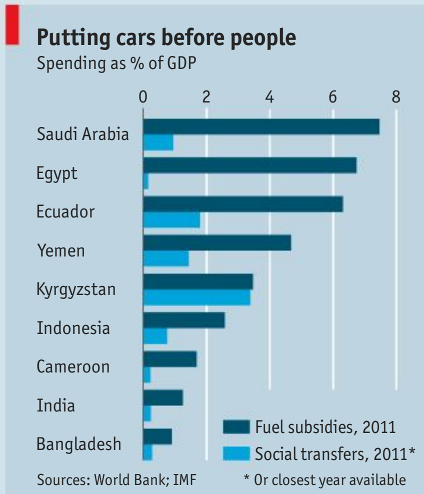
The finance minister's estimate of how much cutting fuel subsidies will save may be optimistic. And not all of the money freed up will go on social spending: more infrastructure investment is also expected. Nor will all those eligible be enrolled straight away. The plan is for 4.5m cards to be issued this year.

And details of how the programmes will work are as yet unclear. The plan is for the income top-ups to be collected using a mobile-phone SIM card at a bank branch or post office. Currently, recipients turn up at government offices and walk out with cash, which makes them vulnerable to crime and the system open to fraud and corruption.

But banks and post offices are thin on the ground in remote regions. And supplying social services in an archipelagic country as vast and sprawling as Indonesia is also difficult. Promises of free health care mean little when clinics lack staff, equipment and medicine.

But as mayor of Solo, a city of 500,000 in Central Java, and then governor of the capital, Jakarta, Jokowi gained a reputation for competence and keeping his promises. Improving social services was one of his main campaign pledges.

In the long run, making Indonesians healthier and better educated will help them become more productive and richer. But the country's poverty line is 300,000 rupiah per person per month. Cash transfers of two-thirds that amount will lift millions above it.



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McDonald's

When the chips are down

CHICAGO

After a long run of success, the world's largest fast-food chain is floundering—and activist investors are circling

IN A brand-new McDonald's outlet near its headquarters in Oak Brook, Illinois, customers do not have to queue at the counter. They can go to a touch screen and build their own burger by choosing a bun, toppings and sauces from a list of more than 20 "premium" ingredients, including grilled mushrooms, guacamole and caramelised onions. Then they sit down, waiting an average of seven minutes until a server brings their burgers to their table.

The company is planning to roll out its "Create Your Taste" burgers in up to 2,000 restaurants—it is not saying where—by late 2015, and possibly in more places if they do well. McDonald's is also trying to engage with customers on social media and is working on a smartphone app, as well as testing mobile-payment systems such as Apple Pay, Softcard and Google Wallet.

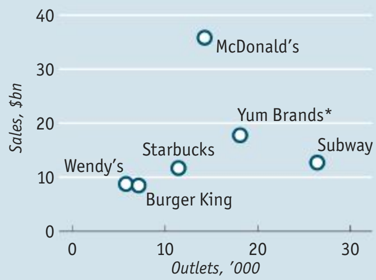
All this is part of the "Experience of the Future", a plan to revive the flagging popularity of McDonald's, especially among younger consumers. "We are taking decisive action to change fundamentally the way we approach our business," says Heidi Barker, a spokeswoman.

After a successful run which lifted the firm's share price from $12 in 2003 to more than $100 at the end of 2011, McDonald's had a tricky 2013 and a much harder time last year. When it announces its annual results on January 23rd, some analysts fear it will reveal a drop in global "like-for-like" sales (ie, after stripping out the effect of opening new outlets) for the whole of 2014—the first such fall since 2002.

In the past year Don Thompson, the firm's relatively new boss, has had to fight fires around the world, some of them beyond his control. Sales in China fell sharply after a local meat supplier was found guilty of using expired and contaminated chicken and beef. Some Russian outlets were temporarily closed by food inspectors, apparently in retaliation for Western sanctions against Russia over its military intervention in Ukraine. And a strike at some American ports left Japanese McDonald's outlets short of American-grown potatoes, forcing them to ration their portions of fries. (More recently several Japanese customers have reported finding bits of plastic, and even a tooth, in their food.)

Underneath the arches

US fast-food dining, 2013



Source: *QSR Magazine* *KFC, Pizza Hut and Taco Bell

Online: For a comparison of fast-food outlets around the world visit **Economist.com/fastfood**

However, the biggest problem has been in America—by far McDonald's largest market, where it has 14,200 of its 35,000 mostly franchised restaurants. In November its American like-for-like sales were down 4.6% on a year earlier. It had weathered the 2008-09 recession and its aftermath by attracting cash-strapped consumers looking for a cheap bite. But more recently it has been squeezed by competition from Burger King, revitalised under the management of a private-equity firm, from other fast-food joints such as Subway and Starbucks, and from the growing popularity of slightly more upmarket "fast casual" outlets (see box, next page).

In response, McDonald's has expanded its menu with all manner of wraps, salads and so on. Its American menu now has almost 200 items. This strains kitchen staff and annoys franchisees, who often have to buy new equipment. It may also deter customers. "McDonald's stands for value, consistency and convenience," says Darren Tristano at Technomic, a restaurant-industry consultant, and it needs to stay true to this. Most diners want a Big Mac or a Quarter Pounder at a good price, served quickly. And, as company executives now acknowledge, its strategy of reeling in diners with a "Dollar Menu" then trying to tempt them with pricier dishes is not working.

McDonald's says it has got the message and is experimenting in some parts of America with a simpler menu: one type of Quarter Pounder with cheese rather than four; one Snack Wrap rather than three; and so on. However, this seems to run contrary to the build-your-burger strategy it is trying elsewhere, which expands the number of choices. That in turn is McDonald's response to the popularity of "better burger" chains, such as Shake Shack, which has just filed for a stockmarket flotation.

Some analysts think that McDonald's should stop trying to replicate all its rivals' ▸▸

offerings and go back to basics, offering a limited range of dishes at low prices, served freshly and quickly. Sara Senatore of Sanford C. Bernstein, a research outfit, notes that Burger King, having struggled against its big rival for years, has begun to do better with a simpler and cheaper version of the McDonald's menu. For the third quarter of 2014 Burger King reported a like-for-like sales increase of 3.6% in America and Canada compared with a decrease by 3.3% of comparable sales at McDonald's. That said, sales at an average McDonald's in America are still roughly double those of an average Burger King. So the case for going back to basics remains unproven.

So far, McDonald's looks as if it is undergoing a milder version of its last crisis, in 2002-03. Then, an over-rapid expansion had damaged its reputation for good service, its menu had become bloated and customers were drifting to rivals claiming to offer healthier food. Now, once again, "McDonald's has a huge image problem in America," says John Gordon, a restaurant expert at the Pacific Management Consulting Group. This is in part because of its use of frozen "factory food" packed with preservatives. In 2013 a story about a 14-year-old McDonald's burger that had not rotted received huge coverage. Even Mike Andres, the new boss of the company's American operations, recently asked bemused investors: "Why do we need to have preservatives in our food?" and then answered himself: "We probably don't."

McDonald's doesn't seem to be cool any more, especially among youngsters. Parents say their teenage children have been put off after seeing "Super Size Me", a documentary about surviving only on McDonald's food; and "Food, Inc", another about the corporatisation of the food industry; and by reading "Fast Food Nation: The Dark Side of the All-American Meal". It is hard to imagine the new McDonald's initiatives getting the reaction Shake Shack got when it opened its first outlet in downtown Chicago in November: for the first two weeks it had long queues of people waiting outside in the freezing cold.

A lot of the negative PR that McDonald's gets is the flipside of being the world's biggest and most famous fast-food chain. This has made it the whipping-boy of food activists, labour activists, animal-rights campaigners and those who simply dislike all things American. In America it has been the focus of a campaign for fast-food workers and others to get a minimum salary of $15 an hour and the right to unionise. Last month the National Labour Relations Board, a federal agency, released details of 13 complaints against McDonald's and many of its franchisees for violating employees' rights to campaign for better pay and working conditions. The alleged violations relate to threats, surveillance, discrimination, reduced hours and even sackings of workers who supported the protests. McDonald's contests these charges, while arguing that it is not responsible for its franchisees' labour practices.

Not all the criticism McDonald's gets may be merited—or at least it should be shared more fairly with its peers. However, the company's troubles have begun to attract the attention of activist shareholders, who may prove somewhat harder to brush aside than labour or food activists. In November Jana Partners, an activist fund, took a stake in the firm. Then in December its shares jumped, on rumours that one of the most prominent and determined activists, Bill Ackman, intended to buy a stake and press for a shake-up.

McDonald's says it welcomes all investors and is focused on maximising value for its shareholders. Even so, Mr Thompson's new strategy needs to deliver results quickly. Mr Ackman's Pershing Square Capital has done well out of its 11% stake in Burger King, because the chain's main shareholder, 3G Capital, has pushed through a drastic cost-cutting programme and a merger with Tim Hortons, a Canadian restaurant group. "If McDonald's were run like Burger King, the stock would go up a lot," Mr Ackman mused recently. It looks like Mr Thompson may soon have to fight on another front. ■

Correction: In our article on family firms ("Business in the blood", November 1st 2014), we said that the late Emilio Botín had struck a deal which allowed his daughter, Ana, to succeed him as chairman of Santander. In fact, no such explicit agreement was struck, although Ms Botín does indeed now chair the Spanish bank.

Fast-casual restaurants

Better burgers, choicer chicken

Why slightly more upmarket outlets are eating fast food's lunch

BRIDGING a gap in the market between fast-food joints and full-service restaurants, fast-casual chains such as Shake Shack, Nando's chicken restaurants and Chipotle Mexican Grill are enjoying success across the world. The combined sales of American fast-casual outlets rose by 10.5% last year, compared with 6.1% for fast-food chains, according to Mintel, a market-research firm.

There are four main reasons why these outlets have been winning customers. First, they promise "fresh" food, meaning at the very least not frozen. Chipotle also says it uses, where possible, meat from animals raised without hormones or antibiotics, and organic and locally grown vegetables. Having once been controlled by McDonald's, Chipotle is now a threat to its former parent. Although still relatively small, it is enjoying 20% annual growth, quite a feat in the crowded restaurant market.

Second, they offer diners a high level of customisation, such as choosing each ingredient in a sandwich, burrito or burger. This appeals to fussy eaters and those with allergies. The service is not always as quick as at a burger joint but, it seems, quick enough. Some fast-casual chains let diners order at their tables.

Third, clever pricing helps these chains optimise their profits. They offer some dishes at around the same price as those at burger joints, but they seem to be better than McDonald's at nudging diners towards pricier dishes and extras. Fast-casual chains typically manage to squeeze 40% more out of each diner's wallet than fast-food joints do.

Fourth, fast-casual chains often try to give each outlet a touch of distinctiveness. This distances them in the eyes of consumers from the "corporate" feel of burger chains—and their legacy of bad publicity—says Sophie Carroll of Planet Retail, another research outfit. Nando's, for instance, decorates its restaurants with South African art.

...and beefier burritos

For all their success so far, some of the fast-casual chains are finding that as they get bigger, they come under more scrutiny. Campaigners have recently criticised Chipotle and Panera Bread for using ingredients from genetically-modified crops and artificial additives—they say they are working to eliminate these. Campaigners against the use by companies of (legal) tax-avoidance techniques have added Nando's to their targets. Fast-casual restaurants are joining the ranks of big business and having to endure the attention that comes with it.

High-speed rail in Europe

Problems down the line

PARIS

High-speed networks are spreading fast, but face rising competition

FAST trains in Europe ended 2014 with a flourish. In December Eurostar, which connects London, Paris and Brussels, started selling tickets for a new, year-round service to the Mediterranean, starting this May. Poland introduced its first high-speed service, between Warsaw and Krakow; Serbia signed an agreement with China to build a fast line from Belgrade to Budapest; and Turkey inaugurated a line from Istanbul to Konya, having opened one between Istanbul and Ankara in July.

High-speed rail is controversial, as those now trying to introduce it to America know to their cost. This week, as work began on California's "bullet train" project, taxpayer groups condemned it as a monstrous waste of money. Indeed, high-speed trains usually depend on public subsidy, yet their tickets are often unaffordable for many potential users, so they may not fill enough seats to avoid losses. The counter-argument is that over distances of 300-800km, fast trains between big population centres are quicker and less polluting than most forms of transport. No one is keener on them than the European Commission.

Supported by EU and national subsidies, Europe has added more than 6,000km of high-speed track—on which trains travel at least some of the time at 250kph (155mph) or more—to the 1,000km or so it had in 1990. Much more is under construction or planned (see chart). In 2015 a new line from Leipzig to Erfurt is due to open. A Milan-Brescia service may begin in 2016. By 2017 no fewer than four new French lines will come into service. The EU, which is itching to spend more on infrastructure, plans to finance a €4.5 billion ($5.3 billion) fast-rail link between Estonia, Latvia, Lithuania and Poland.

On a few routes high-speed rail has clawed market share from airlines: Eurostar now claims more than 75% of the combined rail/air market on its main routes; and Paris-Lyon and Madrid-Barcelona are also successful. Often, however, fast trains just take business from slow ones. Between 2000 and 2011, as high-speed lines opened across the EU, rail's overall share of passenger-kilometres travelled was little changed, at 6.4% in 2011. Cars' share had barely budged, at 72.5%. Buses and coaches lost a percentage point, to 8.2%, with air travel (excluding flights to outside the EU) gaining more than a point, to 8.9%.

Some countries may have overextended their networks. In France, whose *Trains à Grande Vitesse* (TGVs) launched high-speed rail in Europe in 1981, traffic, revenues and profit margins have fallen from their peaks. To keep local politicians happy, TGVs stop at too many places, the national auditor concluded recently. Cheap flights and *co-voiturage*, or car-sharing, are siphoning off customers; SNCF has started a cut-price service in response. Spain's high-speed track is even longer than France's, despite it having about a fifth as much passenger demand. Fares were cut in 2013 to boost demand, but on many routes there are still plenty of empty seats.

Lack of competition among rail operators is another reason why high-speed rail is failing to win passengers from other means of transport. The EU is finding it hard to transform a bunch of national rail monopolies into a pan-European market in which operators compete across borders. Three rail-reform packages since 2001 have made a start: competition was introduced into freight services; some common technical standards have been laid down to make it easier to run trains across frontiers, and the beginnings of a single market in cross-border passenger services has been introduced. But a fourth reform package, to liberalise further the market for passenger rail, has been held up and watered down by the European Parliament and national politicians.

So far national rail firms are preferring to collaborate than to compete. In September France's SNCF and Germany's Deutsche Bahn renewed a joint venture, Alleo, which manages some high-speed services between the two countries. In December Lyria, owned by SNCF and its Swiss counterpart, opened a new service between Lille and Geneva.

However, on a few of the busiest routes, competition may eventually take off. Deutsche Bahn has postponed but not abandoned a plan to send trains from Frankfurt through the Channel Tunnel to London. That means taking on Eurostar, in which SNCF owns a majority stake. Deutsche Bahn is also gradually pulling out of Thalys, a venture with SNCF and its Belgian and Dutch counterparts, in preparation for competing with them on those routes.

In domestic markets, too, things are moving. Europe's first private-sector high-speed operator is battling for market share in Italy. Nuovo Trasporto Viaggiatori (NTV, in which SNCF has a stake) started services in 2012 and reckons it now has over 20% of the business. It has struggled to compete with the state-owned incumbent, FSI, which controls the tracks. NTV has complained to the authorities about what it sees as FSI's dirty tricks; and it is hoping that a newly created independent regulator will insist on fair play.

The national rail operators would surely find it harder to rally political support to keep foreign rivals off their tracks if they were privatised. The Italian government is said to be considering at least a part-privatisation of FSI. But Germany is thought to have quietly shelved a similar notion. And in France, especially, privatisation seems out of the question.

However, competition from other forms of transport will only keep rising. Low-cost airlines are continuing to expand and in parts of Europe long-distance coaches are being liberalised. Germany opened up its coach market in 2013 and Deutsche Bahn reckons that as a result its high-speed routes lost €50m of revenues in the first half of 2014. A similar liberalisation is being proposed in France (where SNCF owns a big coach operator). While high-speed rail remains in the grip of sluggish state monopolies, its chances of becoming a successful, competitive business look poor. ■

Welcome aboard the subsidy express

Bitcoin

The magic of mining

BODEN, SWEDEN

Minting the digital currency has become a big, ruthlessly competitive business

A HUGE aircraft hangar in Boden, in northern Sweden, big enough to hold a dozen helicopters, is now packed with computers—45,000 of them, each with a whirring fan to stop it overheating. The machines (pictured) work ceaselessly, trying to solve fiendishly difficult mathematical puzzles. The solutions are, in themselves, unimportant. Yet by solving the puzzles, the computers earn their owners a reward in bitcoin, a digital "crypto-currency".

The machines in Boden are in competition with hundreds of thousands more worldwide. The first to solve a puzzle earns 25 bitcoins, currently worth $6,900. Since bitcoin's invention in 2008 by a mysterious figure calling himself Satoshi Nakamoto, people have increasingly traded it for real money, albeit at a wildly varying price (see chart, next page). Although there are only $3.8 billion-worth of them in circulation—about twice the value of Paraguayan guaraníes in use—bitcoins have three useful qualities in a currency: they are hard to earn, limited in supply and easy to verify.

But stability is important too: just over a year ago a bitcoin was worth four times as many dollars as now. But then Mt Gox, the crypto-currency's biggest exchange, collapsed and the bitcoin bubble burst. Critics make comparisons with 17th-century "tulip mania", and predict that bitcoin mania will fizzle out in similar fashion. On January 5th Bitstamp, another bitcoin exchange, halted operations and reported that 19,000 of the currency units had vanished in an apparent hacking attack.

The price collapse and the exchanges' woes do not tell the whole story, though: increasing numbers of businesses are accepting payment in bitcoin, including Time Inc and Microsoft; and whatever the fate of bitcoin, the technology may spawn a range of alternative crypto-currencies and provide the basis for other businesses involving such things as the transfer of assets.

When Mr Nakamoto announced his invention (but not his true identity, see book reviews, page 77), several digital-cash schemes, including DigiCash and e-gold, had failed, or were in their death throes. But whereas some had tried to create the electronic equivalents of bills and coins, bitcoins only exist as entries in a giant electronic ledger called the "blockchain". This contains the history of every transaction in the coin, and copies of it are held on many computers around the world. What this means is that unlike conventional currencies and earlier digital ones, bitcoins do not need trusted third parties to handle flows of money or a "central bank" to issue it.

The computers that solve the puzzles also process transactions in the currency and update the blockchain. Every ten minutes each machine or group of machines takes a block of pending transactions, and uses it as the input for a mathematical puzzle. The first to find a solution announces it to the rest, which check that it is right, and that the transactions are valid. If a majority approve, the block is cryptographically attached to the ledger and the computers move on to a new set of transactions.

If a fraudster wanted to spend a bitcoin twice, he would need to disguise it by rewriting the ledger. To do this he would single-handedly have to control more than half of the network's computing capacity. But such a "51% attack" would be prohibitively expensive: Coinometrics, a data provider, reckons it would cost $425m in equipment and electricity.

The enigmatic Mr Nakamoto designed the system to keep everybody honest. For instance, successful miners have to wait for a further 99 blocks of transactions to be processed before they get their rewards—so there is a constantly refreshed pool of participants with an interest in ensuring that everyone else keeps to the rules.

The system of rewarding successful miners with bitcoin has proved an effective way to get the currency into circulation. Operators of conventional payment systems live on transaction fees, but that business model would not have worked for bitcoin in its early days, because of a lack of users. However, as bitcoin becomes more popular, the idea is that miners will be able to start charging significant transaction fees, and that these will become their main source of income. It will need to: the system cuts the reward for solving puzzles every four years or so.

Despite the slump in bitcoin's value—last year it performed even worse than the Russian rouble and Ukrainian hryvnia—the combined mining power on the network is still increasing, and some miners are still investing in upgrading their machines, making this one of the fastest-moving parts of the IT industry.

Brew your own money

In the crypto-currency's early days, most miners were small-scale, trying to mint money on their home computers. This was Mr Nakamoto's libertarian dream: home-brewed money, without the need for central authorities. But as bitcoin's value rose, it all became more businesslike. Individual miners started to combine their computing power and share the rewards. Most mining today is provided through such "pools".

Startups from all over the world began building specialised hardware powered by custom-built chips, known as application-specific integrated circuits (ASICs). Leaving the amateurs behind, these firms soon became locked in a digital arms race. Microprocessors usually double their power every 18 months, a rhythm called Moore's law. In the case of mining ASICs, this doubling has occurred every six months.

Mining has also moved into the cloud. Firms have started selling online mining capacity in "gigahashes per second", or Gh/s—that is, for a fee they will provide enough computing power to make one billion attempts a second to solve a "hash function", as the puzzles are called. For in- ▸▸

Deep down in the bitcoin mine

stance, Genesis Mining charges $702 for 1,000 Gh/s plus a small fee for electricity.

Given the nature of the business, one would expect the bosses of bitcoin-mining firms to be super-geeks. But instead of coming from Silicon Valley, they typically hail from places like Sweden and Georgia—and talk (and often look) more like real miners. "I'm no libertarian but a businessman," says Sam Cole, the "C" in KnCMiner, the operator of the giant mining facility in Boden and a maker of mining computers.

Like other energy-intensive industries such as smelting aluminium, minting bitcoins is more efficiently done at scale, and in places where electricity is cheap and reliable. It also helps to be somewhere cold, to reduce the cost of cooling the machines. KnCMiner's hangar is near the Arctic Circle and right next to a hydroelectric dam.

The makers of mining computers benefit from the way the bitcoin system adjusts the difficulty of the puzzles, every two weeks, according to how much computing power is hooked up to the system. In theory the difficulty can be adjusted in both directions: upwards, to ensure that the system does not get swamped by an excess of prize-seeking machines; and downwards, to encourage miners to keep their machines online when things get too quiet. But until now the difficulty has mostly gone upwards: since the first ASIC chips were introduced in early 2013, it has increased by a factor of 10,000. As a result, new mining computers, which each cost several thousand dollars, have been becoming obsolete in a matter of months.

When the bitcoin price was rising, many of its fans thought investing in mining equipment was a better bet than simply buying and holding the currency. They were willing to plunk down top dollar months ahead of delivery of the computers. These advance payments allowed KnCMiner and other makers to manage without having to raise any financing.

What happens in the wake of the bitcoin price collapse is unclear. The long queues for mining rigs have dispersed. Demand for renting cloud-based hashing-power is stagnant. Many equipment-makers have ended up running the machines for their own benefit—and selling some of their stock of bitcoins to cover costs. Some people say this is why the currency has kept falling.

People in the industry are already discussing at what price mining becomes unprofitable. But Mr Cole is unfazed. Where others see a weak price, he just sees all the bitcoin yet to be mined, and lots of struggling rivals set to exit the business. He recently raised $14m in venture capital, looking forward to a bigger slice of a less competitive market. If other miners do give up, the difficulty of the puzzles may fall—so winning bitcoins would get easier.

Perhaps it is a good thing that the breakneck growth of a year ago has ended: had it continued, the system would soon have hit the limits of its capacity. The bitcoin protocol in its current form can only process seven transactions per second—nothing compared with the capacity of conventional payment systems such as Visa, which can handle 10,000.

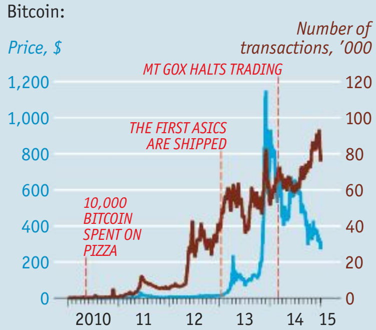
Not very green

A more fundamental worry is that digital-currency mining, like other sorts of mining, has environmental costs: all that number-crunching uses a lot of electricity, and not all of it comes from renewable sources, as it does in Boden. The rapid development of the ASICs chips has made the machines more efficient, but even if all mining worldwide were carried out in modern facilities like Boden's, the combined electricity consumption would be 1.46 terawatt-hours per year—the consumption of about 135,000 average American homes.

A bigger concern is that, as the mining

A bit volatile

Bitcoin:



Source: Blockchain

pools have got bigger, it no longer seems inconceivable that a bunch of miners might amass enough capacity to dominate the system and become capable of mounting a 51% attack. Last June one pool, GHash.IO, had the bitcoin community running scared by briefly touching that level, before some users switched to other pools.

Such is the complexity of the system that some analysts wonder if it might be possible for a rogue pool to launch an attack with a much smaller share. And the truth is that no one is sure how concentrated the industry already is. About a fifth of mining power is classified as "unknown", meaning it is not clear who owns it.

Chances are that many of these mystery machines live in China. At any rate, mining is likely to grow rapidly there. Miners in Inner Mongolia—where electricity is cheap thanks to abundant coal, over-investment in power plants and lax environmental rules—are reportedly building data centres much bigger than any in the West. "I've always feared that mining will concentrate in a few countries," says Yifu Guo, a founder of Avalon, a designer of mining chips. He even worries that a hostile government might seize control of the bitcoin system. Others worry that it might, at least, end up as a monopoly.

Whether the bitcoin system can avoid such outcomes will depend on whether its participants can agree on reforms to stop it becoming too concentrated. However, it may have become too successful for its own good: when billions are at stake, vested interests tend to defend the status quo.

As with the internet, the governance of bitcoin follows the principle of "rough consensus and running code". Everybody can pitch in on online forums. If there is general agreement and the solution has proved workable, the system's software code is updated by one of its five main developers—who "emerged" as pre-eminent figures during bitcoin's early days.

Then follows the real test: whether miners accept the changes. They "vote" in favour of a software update by installing it on their machines. And it only becomes part of the system if a large majority do so. That has not been a problem so far. But miners may still balk at any future changes they fear could cost them money. Gavin Andresen, one of the five main developers, is optimistic this can be avoided. If miners did block better solutions, there would be a "fork", meaning that a part of the bitcoin community would start a new currency.

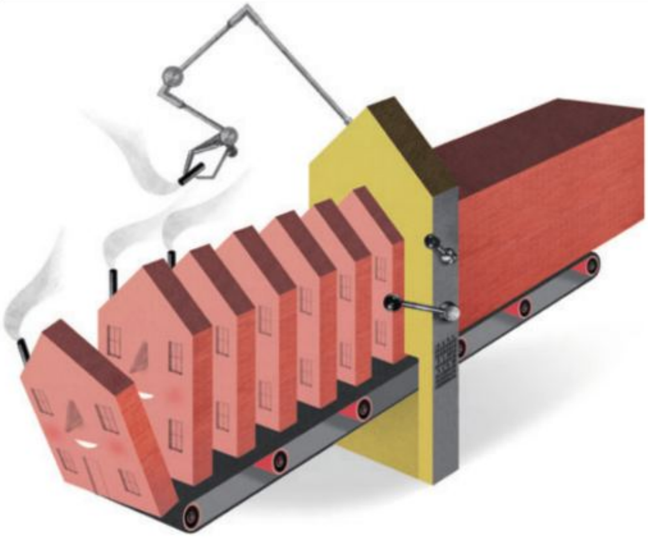
Some groups have already launched their own crypto-currencies. Many of these "altcoins" are the bitcoin equivalent of stockmarkets' highly speculative "penny stocks". But some offer real innovation: Ripple and Stellar do away with mining altogether and use other mechanisms, such as voting, to create the currency and update the blockchain. Now there is much talk about "side-chains", new blockchains pegged to that of bitcoin in such a way that the currency and other assets can be transferred between them, which could unleash even more experimentation.

Other groups are using the blockchain in ways Mr Nakamoto never intended. Some, such as CoinSpark, are offering services to transact in any asset over the network, including stocks and bonds, or use it for notarised messaging (by embedding the location and a summary of the message in a bitcoin transaction).

Where all this may lead to is a constellation of linked crypto-currencies and blockchains, with all sorts of uses: stores of value, means of exchange, mechanisms for transferring assets and verifying transactions, whatever. The original bitcoin may remain at the centre of this constellation—or not. Whether its price recovers from last year's slump may not matter. Whoever and wherever he is, Mr Nakamoto can be proud of having unleashed a wave of financial innovation, and founded what looks set to become a sizeable new branch of the global IT industry. ■

Schumpeter | Capitalism begins at home

Providing better and more affordable housing could be the next "capitalist achievement"



JOSEPH SCHUMPETER argued that the miracle of capitalism lies in democratising wealth. Elizabeth I owned silk stockings, he observed, but the "capitalist achievement" does not lie in "providing more silk stockings for queens but in bringing them within reach of factory girls." In most areas of life this miracle has been working magnificently: in America the number of hours of work that it takes to buy a car, or a wardrobe full of clothes, has halved in the past generation. But in three big areas it has singularly failed to operate: health care, education and housing.

The last few years have seen a ferment of ideas for improving productivity in medicine and teaching. Smart devices will let us monitor our health constantly and help doctors speed their diagnoses. Open-enrolment online courses will give everyone a free college education and iPads will provide universal schooling in Africa. The same cannot be said of housing, where the scope for a digital revolution is limited and productivity has been heading the wrong way: in America, labour productivity in the construction industry fell by 22% in the 20 years to 2009, even as it rose by 45% in the rest of the economy. In the rich world 60m people spend more than 30% of their income on housing; and in the emerging world 200m households live in slums. The combination of population growth and rapid urbanisation means that the numbers in each of these undesirable situations look set to swell.

But is the future so grim? A growing number of big companies are bringing capital and management expertise into the area. Tata, India's biggest company, established a division devoted to affordable housing, Tata Value Homes, in 2009. Mahindra & Mahindra has a similar venture, called Lifespaces. Other organisations—from NGOs to management consultants—are bringing new ideas or rethinking old ones.

A report by the McKinsey Global Institute (MGI) provides a good summary of one approach to the problem: applying economies of scale and scope to a fragmented industry. Value & Budget Housing Corporation, a privately owned Indian firm, mass-produces aluminium modules that can be slotted together into apartments of various sizes. China's Broad Group can build a 30-storey block on a completed foundation in just 15 days, again using many factory-made parts. The MGI report notes that there is still vast scope for cutting the cost of building materials. Indian builders are making significant savings by using bricks made from fly ash, a waste product from coal-fired power plants. Britain has reduced the cost of raw materials for social housing by up to 30% since 2010 by establishing purchasing consortia.

There are some obvious objections to this sort of top-down approach. The rich world's great post-war experiment with the mass-production of housing was a disaster. Much of it soon degenerated into little more than vertical slums. This was partly because of shoddy construction: some blocks of flats from the 1960s and 1970s were so badly built that they were demolished in the 1980s. But it is also because people like their houses to have a human touch: nobody wants to live in something that feels as if it were built by a machine. Many of the solutions to the housing problem will need to come from the bottom of the pyramid. Slum-dwellers are constantly fixing up their dwellings and many NGOs now prefer to work with them to make incremental improvements rather than designing new homes from scratch.

However, system-built housing does not have to be shoddy or impersonal. Huf Haus of Germany has been building high-end prefabricated houses since 1912. Adaptahaus, a British firm, specialises in homes that can be reconfigured as a family's needs change. IKEA of Sweden sells flat-pack houses that can be customised. Furthermore, big companies can help people to self-build a personalised home while enjoying economies of scale: Cemex of Mexico provides self-builders with access to cheap fixtures and fittings, and cheap finance, as well as cement.

Not in my backyard

The report acknowledges that to fix the housing problem one has to solve a lot of others: obtaining land and getting permits; persuading banks to provide mortgages to poorer people; and getting sluggish utility firms to provide electricity and water connections. Land is particularly tricky. People want to live where the jobs are, usually in the middle of cities, and once they are entrenched they want to make sure that they are not overlooked or overcrowded. But the report includes several good ideas for improving the supply of land. For instance, governments frequently own large chunks of undeveloped land in city centres, if they only bother to look. Turkey's national housing agency, TOKI, has assembled 4,120 square kilometres (1,600 square miles), equivalent to 4% of the country's entire urban area, by buying it from other state bodies. Property speculators often sit on chunks of prime city land; to discourage this, China's government slaps a 20% tax on the value of tracts left undeveloped for a year. Giving slum-dwellers formal title to their properties can also encourage them to join in efforts to redevelop run-down districts.

However, putting all this together is hard and, particularly in democracies, provides plenty of scope for NIMBYs and vested interests to block progress. (Authoritarian China bulldozes through such opposition—but many of the buildings it has thrown up over the past couple of decades are ageing badly.) Even so, this is an argument for advancing on several fronts at once, not a counsel of despair. Big firms such as Tata can use their muscle to solve problems such as the supply of land and the availability of cheap finance. NGOs such as Habitat for Humanity have become good at persuading governments to provide the small sums that will help slum-dwellers improve their homes with such things as indoor toilets. There is no reason why the "capitalist achievement" cannot be applied to providing people with decent housing, just as it has provided them with a limitless supply of stockings. ■

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India's economy

The Gujarat model

AHMEDABAD

How Modi-nomics was forged in one of India's most business-friendly states

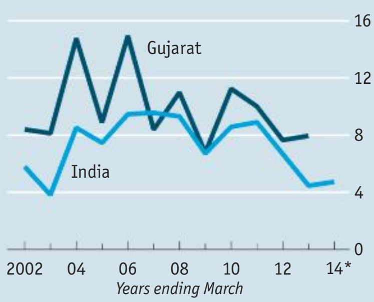
BILLBOARD images of Narendra Modi loom over visitors to Ahmedabad, the main city of Gujarat, at almost every turn. The big-brother omnipresence of India's prime minister is part of the build-up to a big trade fair held in neighbouring Gandhinagar, a showcase for the business-friendly state initiated in 2003 by Mr Modi when he was its chief minister. The 2015 Vibrant Gujarat summit, the seventh such event, will run for three days from January 11th, when Mr Modi will make a speaking appearance. It will be a vast affair with visitors from 125 countries. A fleet of golf buggies, with plastic wrap still on the seats, stands ready to ferry visiting dignitaries, including John Kerry, America's secretary of state, between the hangar-sized exhibition halls.

Gujarat is richer, enjoys faster GDP growth and a greater intensity of jobs and industry than India as a whole. Mr Modi's reputation for clean government and economic competence rests on his record here. When Indians voted for him in great numbers last May, it was in large part because they wanted the country run as Gujarat is. His impact on the state is nevertheless contested. It is helpful, say Mr Modi's critics, that he built a platform for a career in national politics in a state that already had deep roots in commerce (the Mafatlal textile plant, an hour's drive south of Ahmedabad, for instance, recently celebrated its centenary). What is clearer is that Mr Modi's time in Gujarat offers a guide to his approach to the bigger job of fixing India's economy.

Start with the record, which shows that Gujarat punches above its weight. With just 5% of India's population and 6% of its land mass, it accounts for 7.6% of its GDP, almost a tenth of its workforce, and 22% of its exports. Climate and geography pushed it towards commerce. Poor rainfall made it hard to scratch out a living in farming; a long coastline favoured international trade. Today a quarter of India's sea cargo passes through its ports. Even if Mr Modi cannot claim much credit for Gujarat's natural endowments, the state's annual GDP growth under his watch from 2001 until 2012 averaged almost 10%, a faster rate than India as a whole (see chart). Other exporting states, such as Maharashtra and Tamil Nadu, also did well. But sustaining rapid growth in any of India's richer states is not a feat to be sniffed at.

Growth à la Modi

GDP, % increase on a year earlier



Source: Planning Commission *Estimate

Where Gujarat noticeably came up short is in poverty reduction, reckons Reuben Abraham, of the IDFC Institute, a think-tank. Other states of similar rank made greater inroads into cutting poverty rates between 1993 and 2012, he finds, though only three can boast a lower level of poverty. Mr Modi's biggest feats were tangible, says Mr Abraham, the kind of improvements that migrant workers tend to notice, and report back to their relatives. The roads through and around Ahmedabad are excellent. The state has moved from a deficit in electricity generation, in 2002, to a surplus, despite the energy demands of a booming economy. Its 18,000 rural villages are connected to the grid. Water supply is abundant.

This emphasis on basic infrastructure, a hallmark of the Gujarat model, extends to making land easily available for commercial development. In 2008 Tata Motors switched the site for the plant to make the Nano, a small car, from West Bengal to Sanand in Gujarat after Ratan Tata, boss of the conglomerate parent, received an SMS message from Mr Modi offering him a factory-ready plot for the firm and its suppliers. Bogged down in messy land disputes at its initial choice of site, Tata Motors readily made the switch. Others have since followed. Ford is opening a plant in Sanand later this year.

India sits a lowly 142nd out of 189 countries in the World Bank's "ease of doing ▸▸

business" rankings. But in Gujarat factories spring up more readily because permits, licences and environmental clearances are granted quickly. This predates Mr Modi's time in office. Apollo, a big tyre manufacturer, opted in 1990 to build a plant in Gujarat in part because clearances were less painful than elsewhere. Mr Modi added his own twist. He saw that e-governance, the application of IT to the provision of government services, could make civil servants more accountable and cut corruption. "He thought of it as synonymous with good governance," says S.J. Haider, secretary of IT for the government of Gujarat. Tata Consultancy Services, an IT-services firm, designed systems for tracking state finances, documents within government offices and value-added tax payments. Other states are now looking at adopting similar platforms.

A focus on basic infrastructure and public goods; a drive to make civil servants honest and accountable; a penchant for IT; a flair for marketing to business investors. The elements of Mr Modi's brand of economics are not obviously those of Margaret Thatcher or Ronald Reagan, to whom he has been compared by some commentators. Thatcher wanted a small state. Reagan is held to have said that "the nine most terrifying words in the English language are: 'I'm from the government and I'm here to help.'" Mr Modi, by contrast, believes government can be made to work better.

"The Gujarat model is more about ideologically-neutral good governance than the sort of big-bang reforms seen in 1980s Britain and America," says Vivek Dehejia, an economist. What sets Mr Modi apart from many of his predecessors is his ability to make a decision and be held accountable for it. But his record suggests those hoping for big privatisations or bold labour reforms are likely to be disappointed. ■

Buttonwood | Falling off the supercycle

Trapped in a world of high debt, low rates and slow growth

WHEN does the level of debt in an economy become "too much"? It is a very hard question to answer, not least because debt is a highly useful tool, allowing business to invest for the future and consumers to smooth their spending over the course of their lives. To a degree, a higher level of debt is a sign of the greater sophistication of an economy.

In a report, BCA Research defined the period since the Second World War as a "debt supercycle" in which debt levels have inched persistently higher. This trend has been driven by the use of monetary policy to stabilise the economy in the wake of shocks, such as the 23% fall in the Dow Jones Industrial Average on October 19th 1987. "Policymakers were always able to limit the economic and financial damage of recessions and other shocks by easing policy enough to trigger a new private-sector leverage cycle", BCA writes.

Now BCA thinks the debt supercycle has come to an end. This is not because the overall level of debt has fallen; indeed, if one excludes the financial sector, the global level is still rising (see chart). But in the developed world, monetary policy has failed to create a credit boom in the private sector, even with the help of zero short-term interest rates.

Before the 2007-2008 crisis, mainstream economists did not seem to pay a lot of attention to debt. The view seemed to be that any loss to creditors would be cancelled out by gains to debtors; net world debt is zero, as a wag recently tweeted. But this view has been shown to be fundamentally wrongheaded in the last seven years.

The first problem is that a lot of debt is secured against property. The late Hyman Minsky, an economist, argued that this relationship would naturally lead to bubbles, as easier credit standards pushed up property prices and higher prices encouraged banks to offer easier credit terms.

Owed by so many

Total debt excluding financials, worldwide

As % of GDP

Sources: International Centre for Monetary and Banking Studies; Centre for Economic Policy Research

But when property prices fall, both the debtor and the creditor can suffer; the debtor loses his equity while the creditor has to write down the value of the loan. This is exactly what happened in 2007 and 2008 as house prices fell. Individual homeowners lost their wealth and their homes; banks saw their capital eroded.

In their book "House of Debt", economists Atif Mian and Amir Sufi show that those parts of America which were worst hit by the crisis were those where the equity stakes of homeowners were lowest. This was not a zero sum game.

In addition, the higher the debt level, the more debt has to be refinanced each year, and the greater the potential for a crisis of confidence if creditors are unwilling to extend the loans. So while there is no magic threshold for the ratio of debt to GDP, beyond which economic growth is slower and default is certain, the risks increase as the ratio grows.

Another problem is that the debt ratio is very hard to bring down in the absence of rapid economic growth, which the western world has found hard to generate. Default simply causes the debt to be reshuffled; when consumers fail to repay, banks must be rescued so the debt ends up on the government's books. Inflation might bring down the debt-to-GDP ratio but only if creditors can be hoodwinked (or bullied) into not demanding higher yields to compensate. In any case, inflation is hardly the issue; the euro-zone is now in deflation, with the headline rate falling 0.2% in the year to December thanks to falling energy prices (the core rate, which excludes energy, food, alcohol and tobacco is still positive, at 0.8%).

For now, the developed world has reached a fragile stasis in which a high level of debt is only sustainable with very low interest rates. Any attempt to push up rates to what were once normal levels is fraught with danger; Sweden, which started down the path in 2010, has had to cut rates back to zero.

But the tricky question is whether significant economic growth is achievable in the absence of rapid debt expansion. Consumers will not want to borrow unless their wages are rising, but real wage growth has been sluggish; companies will not want to borrow until they see signs of buoyant consumer demand. And governments are unwilling or unable to provide another burst of stimulus.

In sailing terms, it is rather like the doldrums, a patch of ocean where boats become becalmed. Japan has been in the doldrums for more than a decade and has managed not to sink. But Japan is a relatively homogeneous society. Other developed nations might not be so lucky. Greece, which may vote for a debt-repudiating government on January 25th, will be the first test.

Economist.com/blogs/buttonwood

German Landesbanken

Lost a fortune, seeking a role

HAMBURG

The seven German Landesbanken that survived the financial crisis are still a mess

A BANK backed by authorities in Europe's most solvent economy should hardly be considered risky. Yet it came as a surprise to many that HSH Nordbank, a lender majority-owned by two northern German states, even passed stress tests conducted by the European Central Bank in October 2014. The lender's bosses say they were confident all along—but they prudently limited themselves to a single glass of champagne. The bank has become a locus for worries about the business model of these strange institutions at the heart of the German financial system, the seven Landesbanken.

Set up to support the post-war economy, Landesbanken are a decidedly statist element of Germany's mixed economy. Owned by the federal states, sometimes in conjunction with local public savings banks, they pride themselves on lending to Germany's famous *Mittelstand* industrial companies. Their core business is to provide wholesale loans and capital-market services but some run retail arms, too.

State politicians sit on the supervisory boards, enjoying playing the role of banker, supporting favoured projects and soft loans to companies that employ lots of voters. For decades, the Landesbanken paid their owners tidy dividends. This was hardly a remarkable achievement: the banks could fund themselves cheaply as few imagined that a lender backed by local governments could ever default. Germany's private banks complained endlessly that the Landesbanken had an unfair competitive advantage.

But this hybrid public-private model, which relied on public largesse in days past, has fared disastrously since the financial crisis. In 2001, the European Commission deemed that unlimited guarantees from states to Landesbanken amounted to illegal state aid. The banks gorged themselves on a last helping of subsidised debt in 2005—just in time to become major holders of toxic American securities that crashed in 2008. The shiny foreign offices opened during the boom were shuttered as losses mounted.

The Landesbanken are still shaking off their hangovers. One bank, WestLB (serving the industrial state of North Rhine-Westphalia) had to be wound up. Another, Landesbank Berlin, was bought by its member savings banks and essentially shuttered. Despite the cull, the rest remain in bad health. BayernLB owns a well-regarded internet bank, but is among those tangled up in lawsuits from its expansionary phase. None is consistently near the 10-12% return on equity that would be attractive to private investors (see chart). Excluding the two minnows in the Saarland and the city of Bremen, only Helaba, serving the states of Hesse and Thuringia, has been stably in decent profit.

The worst off is HSH, 85% owned by the states of Hamburg and Schleswig-Holstein. It lost €800m ($950m) in 2013, the biggest in a string of red annual numbers. After the 2005 expiry of state guarantees, the bank was "everywhere, without being qualified to do so," says Constantin von Oesterreich, its chief executive. The subprime junk it invested in prior to 2008 has been hived off into a restructuring unit—but the core business hit the rocks as well. Souring shipping loans—a staple for any bank based in Hamburg—cost the bank €185m, or 57% of its pre-tax profit, in the first nine months of the 2014 financial year.

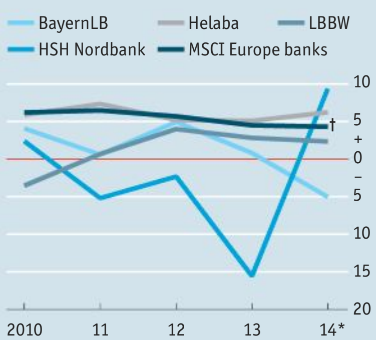
Have the Landesbanken now found a stable business model? The reforms that led them into trouble are still biting. German's public banks (including Landesbanken but also the savings banks) will see €175 billion in cheap, government-backed debt mature this year, according to Moody's, a rating agency. As they refinance that at market rates, their cost advantage will disappear.

Perhaps even more so than at private banks, the fortunes of the Landesbanken seem at the mercy of public policy rather than their own actions. The amounts they have to pay for the remaining guarantees from their sponsor states can make all the difference between profits and yet more losses. HSH shells out €400m a year to its parent states for its guarantees, an arrangement it is lobbying to reform. Even its apparent profit for the first nine months of 2014 is a phantom, the result of arcane rebate arrangements on the guarantees.

A consolidation of the remaining Landesbanken could help but politics gets in the way. HSH, for example, must keep a second headquarters in Schleswig-Holstein's capital. "Kiel is a lovely place to go sailing but has no business being a financial centre," says Martin Hellmich of the Frankfurt School of Finance and Management. Many observers think the rest should be merged into three big banks, or one. Given the miserable performance of the Landesbanken, even a unified one would struggle to prove its existence was worthwhile. ■

Landes tanking

Banks, return on equity, %



Sources: SNL Financial; Thomson Reuters

*Jan-Sep, at an annual rate †Full year

Tax in the Gulf

Filling a hole

DUBAI

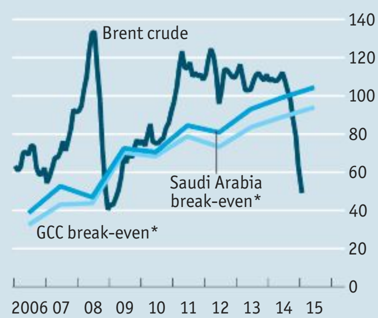
Oil-rich states need to find new ways to balance their budgets

FOR years the six states of the Gulf Co-operation Council (GCC) have showered cash on their citizens in the hope they will not campaign for democracy. But now that oil—the main source of revenue for the GCC—has dropped to below $50 a barrel, budgets crafted in the days of $100-plus barrels no longer add up. Austerity of sorts beckons.

A decade of oil prices seesawing upwards encouraged government largesse on a scale that now looks unsustainable. Lavish spending on social goodies, such as health care, education and fuel subsidies, rose further after the unrest that swept the region from 2010. Add in the cost of prestige projects prized by local potentates and it is easy to see why budgets have required ▸▸

Breaking bad

Brent crude oil price, $ per barrel



Sources: Deutsche Bank; Thomson Reuters

*Crude price needed for national budget to be balanced, 2014 estimate, 2015 forecast ever-higher oil prices to balance (see chart on previous page).

Saudi Arabia, the GCC's largest economy, needs oil at over $104 to break even in 2015, according to analysts at Deutsche Bank. A foreign-reserves buffer of $900 billion will provide a cushion for three years at current spending. But other countries have a lower pain threshold: Oman is one country already in debt and talking of borrowing more by issuing bonds.

Up to 80% of the regional governments' income comes from hydrocarbons, with customs duties and taxes on foreign corporations only contributing small amounts. Taxes, where they exist, are hardly burdensome. That may need to change.

None of the GCC states taxes locals' pay, although Saudis must give 2.5% of their income as *zakat*, alms in Islam. Foreigners are lured by salaries untouched by the taxman. Local businesses pay no tax in Saudi Arabia, Bahrain and the United Arab Emirates (UAE); and only low rates in Kuwait, Qatar and Oman. Even non-oil foreign firms get off lightly. Saudi imposes a 20% tax on foreign companies and Dubai (part of the UAE) 20% on foreign banks only.

But governments are mulling fresh ways of raising revenue. Oman's Majlis al-Shura, an elected consultative body, recommended a new 2% levy on remittances from its 1.9m expatriates. It also wants to double the royalty on mineral trade, to 10%, and introduce duties on gas exports.

Even before the oil price started tumbling in the second half of 2014, reports in UAE media said the government was studying what effect taxing companies would have (though it was keen to stress it wouldn't burden individuals). There is also talk of introducing a long-mulled value-added tax across the GCC.

Given oil revenues, taxes have been more of an afterthought than a budgetary imperative. An amount equivalent to just 2% of Oman's GDP is collected in tax, for example, compared to 25-40% in rich countries. Much of the non-oil revenue, such as Saudi Arabia's income from the *haj* pilgrimage, is dependent on state spending, itself paid for by oil and gas receipts.

Since keeping citizens happy rests on government handouts and the GCC states don't want to deter business, cuts to other expenditure are more likely. Many flashy projects were shelved during the last drop in oil prices in 2009. Spending nowadays focuses on maintaining social stability. Public sector jobs and wages have increased in recent years, and will be as hard to cut as subsidies for fuel and food.

"We see taxes as an option of last resort for the GCC but eventually I think some might have to go down this road," says Steffen Dyck at Moody's, a ratings agency. Value-added tax and excise duties may be the first port of call. If oil continues on its current trajectory, they will not be the last. ■

JPMorgan Chase

A crack in the vault

NEW YORK

Chatter about breaking up large banks goes public

RESEARCH reports spew out of securities firms like confetti—often with as much impact. But once in a while, an idea resonates. Such was the case with a report by analysts at Goldman Sachs on January 5th extolling the benefits of dismembering an old Wall Street rival, JPMorgan Chase (JPM).

Sure, net income at a dismembered JPM might dip $6 billion-7 billion as synergies between the various units are lost, argued Richard Ramsden, the note's scribe. That is hardly trivial even to a firm likely to earn in excess of $20 billion this year. But in return, a break-up would remove what Mr Ramsden politely calls a "regulatory negative" stemming from the bank's girth.

That is in large part because watchdogs worried about banks being "too big to fail" have honed their attention on the industry's giants. JPM is deemed the world's most "systemically important" bank by global regulators, alongside HSBC, a British rival. Over time, a unified JPM will face stricter capital requirements, and so higher costs, than smaller outfits—or than its broken-up self.

Goldman assumes a JPM stripped of the benefit of scale would gain from investors attaching higher value to its component parts—consumer banking (including credit cards), corporate and investment banking, and commercial lending. If these were priced similarly to other firms in their field, the aggregate worth of the enterprise would soar by more than 20%, or $44 billion at its current share price.

Commentators sneered about the source of the analysis, speculating that any carve-up of JPM would kick up vast investment banking fees for those picked to do the job—likely including Mr Ramsden's employer. JPM's own investment bank would lose advantages in the process, such as a retail distribution power that has distinguished it from rivals (notably, say, Goldman Sachs).

But the public carping merely masks how common break-up discussions about the major banks have become. If regulators continue to disfavour large banks, JPM will not be the only one to consider some sort of break-up, Mr Ramsden posits. The firestorm that ensued the publication of his note suggests its central tenets are not outlandish.

Ordinarily, the companies in line for carve-ups are the weakest in their industries. Not so here. JPM's success at running its various units feeds conjecture, particularly because each is a plausible stand-alone firm. Usefully, the retail operations and institutional business already use separate brands, trading as Chase and J.P. Morgan respectively.

Beyond the risk of breaking up a complex firm, much might be lost in a dismembered JPM. To enter a Chase branch with a large cheque is to be swept up in a process that begins with deposits, extends to an invitation to diversify into asset management, and a solicitation for a credit card, mortgage and other loans. Aware of the forces allied against large banks, Jamie Dimon, JPM's boss, has used his annual letter to shareholders to point out synergies—the trading that comes from global banking, the credit that comes from retail branches, and so on. He reckons the result is $15 billion in added revenue, plus savings from sharing costs.

These virtues would be difficult to replicate, Mr Dimon writes. He is being modest; "impossible" may be a more accurate word. But in an environment where regulators rule the banking roost, other things may matter more.

Silicon Valley economists

Meet the market shapers

A new breed of high-tech economist is helping firms crack new markets

MOCKING economists is easy sport. They try to predict the future yet missed the 2008 crash, and make bizarre assumptions that cannot hold true. Other offences on the checklist include their narrow academic outlook and lack of exposure to the "real world" of business. The onslaught is common, and hard to refute. But at a turning point the herd tends to be wrong. Economics is evolving, with a mission to solve firms' real-life problems at its heart. Not unusually, the innovation is most obvious—for now—in Silicon Valley.

For Bryan Balin of SmarterTravel, a subsidiary of TripAdvisor, a travel website, economics has to be lightning quick. Only 1% of a typical travel site's visitors buy a flight, hotel or holiday before browsing away. Popular vendors can have a lot of viewer flow, but take revenues from only a tiny fraction of them. It is paramount to sift the buying wheat—to be guided as quickly as possible to the product they want—from the window-shopping chaff, who can be bombarded with advertising for other products, lifting the website's profit.

Mr Balin helps crack that problem. In the first few seconds a visitor spends on SmarterTravel's site an algorithm builds a picture of them. Click speed helps: window-shoppers tend to skip quickly between pages, serious buyers ponder for longer. Other data including the time of day, number of previous visits and location are important. The algorithm spits out the probability that the user is a potential buyer. With that, it calculates the revenue gains and risks (of distracting shoppers) associated with showing adverts. The site is adjusted in a few milliseconds.

Spotting helpful patterns when you are swimming in data is tough, explains Genevieve Graves, an astrophysicist turned data scientist. Her training put her in good place: while doing research at Princeton Ms Graves toiled with the Sloan Digital Sky Survey, a vast data set containing information on the location of stars and galaxies. Today she analyses something much more down to earth: human resources. The empirical technique she employs at hiQ Labs, a startup based in San Francisco, known as "machine learning", is at the core of the new world of business economics.

Machine learning is not as scary as generations of science-fiction writers have made it sound. The basic aim, set out by Arthur Samuel in 1959, is to get computers to teach themselves. To do this a programmer tells a machine to perform a task repeatedly, measuring its success against some yardstick. Next the computer changes tack slightly, measuring whether it did better or worse, repeating this loop until it "learns" how to complete the task well. Run through enough attempts and a computer can set spam filters, turn voice recordings and fly a helicopter.

The data team at hiQ Labs reckons machine learning can revolutionise business. For most firms the cost of losing a senior employee is far greater than keeping existing workers happy. Leavers take knowledge and contacts with them and often induce loyal underlings to follow them out the door. In response big firms try to identify angst building in the workforce, using staff-wide surveys and blanket interviews to spot dissatisfaction. The result of this approach—a pay rise here, tax-free bikes or child care vouchers there—are then rolled out across all staff.

This blanket approach could be improved if firms knew who was most at risk of leaving, says Ms Graves. Algorithms devised by hiQ Labs solve this. Using a firm's in-house data—from pay scales to organograms and job titles—and comparing it with information on pay and vacancies in competitor firms, it can predict who might defect, and for what reason. Managers then hone in on the potential deserters, offering a tailored solution which often turns out to be something other than a pay rise.

Divining hidden "types"—the buyer and the browsers, the content and the disgruntled—is a common challenge in the new realm of economics, says Scott Nicholson, a Stanford economics PhD advising hiQ. The reason is that new firms are often platforms on which buyers and sellers meet. His previous employers, LinkedIn (workers and employers) and Accretive Heath (doctors and patients) did a similar thing. In all these outfits, knowing more about a customer's type can help the platform suggest a better link.

Poynt, a cashless payment terminal (and Mr Nicholson's latest employer) also follows this model. Beyond accepting credit-card payments, Poynt hopes to provide a better connection between shopkeepers and their customers, and between the shops themselves. Linking together tills, for example, will in theory enable stores to compare themselves to anonymised local rivals (and so answer the retailer's perennial question: are all local shops doing badly, or is it just me?) A more mundane use would be to track sales and customer retention, potentially against peers. This sort of benchmarking was once firmly the preserve of blue-chip companies.

A better broker

Helping to get a new platform off the ground is a challenge, explains Riley Newman, head of economics at Airbnb. The specific challenge faced by his firm, which links "hosts" (property owners wanting to let their home) and "guests" (those looking for a place to stay) was getting supply and demand lined up. New York and San Francisco were so popular with visitors that the supply of hosts fell short. Facebook ads, which can be locally targeted, boosted supply. Boston and Portland had plenty of willing hosts but little demand. Google ads, targeted at people thought likely to visit these cities, lifted demand.

With the platform up and running Mr Riley and his team tried to make it work better. Its hosts—homeowners rather than professional hoteliers—are playing an unfamiliar role. Early on it became clear that some hosts were doing better than others. Crunching through data, it found the quality of photos of a host's abode was a key factor in their hit-rate. So Airbnb tested providing a free photography service to those offering accommodation, reasoning that better demand might offset the cost. The results were positive and Airbnb now offers free professional photos to most hosts.

In adapting products to match supply and demand, this new breed is injecting economics into the structure of Silicon Valley firms. While they are too busy to realise it such firms are also providing the best defence of economics against its critics. Far from being unrealistic and out of touch, the role of chief economist will design the way that the firm works. ■

Free exchange | Hidden in the long tail

Consumers reap the benefits of e-commerce in surprising ways

WHEN commerce began to move online, economists predicted two big benefits for consumers. Prices would become lower and more uniform. And the selection available to consumers would increase.

Identifying those benefits has been challenging. Online prices have proved to be surprisingly diverse. And while the selection of products online is indeed vast, many are niche products such as self-published books for which demand is scant to non-existent. E-commerce is still a net plus. But papers presented at this year's meeting of the American Economic Association demonstrate that its value arises in ways that economists did not foresee, and that are not easily captured by measures such as GDP.

Consider used books. Glenn Ellison and Sara Ellison of the Massachusetts Institute of Technology (MIT) collected prices on 335 titles and found that on average, the typical title sold for $17.80 online, 50% more than in stores. Paying more for an identical product would normally leave you worse off, not better. But in this case, the Ellisons argue the opposite is true: higher prices are a sign that buyers are being better matched to books they want.

For example, only a few bookshops might carry an out-of-print title such as "The Reign of George III, 1760-1815", published in 1960 by Oxford University Press. They may never be visited by the readers most keenly interested in that book, who are scattered around the country (or beyond). By posting its inventory online, all those readers are now added to the potential demand for the store's copy. Higher demand translates into higher prices which clearly makes the bookseller better off. But so is the reader since without the internet he would not have found the book. One of the authors some years ago bought a 30-year-old academic tome on pharmaceuticals online that the MIT library didn't have. She paid $20 and upon arrival, saw that it had $.75 written in pencil inside the front cover, then erased. It had "evidently been languishing on the shelf of some used book store for years, and not a single customer…was willing to pay even $.75."

These benefits are less likely to hold for easy-to-find, commoditised products; online prices of popular, usually in-print, books were less dispersed and closer to offline prices.

Rare used books are an example of a "long tail": a vast expansion in variety. But since the newly available products are often of niche interest only, the aggregate benefit to consumers is small. For example, since a minority of artists account for the vast majority of music sales, the fact that songs available for digital download tripled between 2000 and 2010 might not be a big deal: most of those new songs may be by marginal artists of no great interest.

Joel Waldfogel of the University of Minnesota believes this understates the internet's contribution. The demand for cultural products is much harder to predict than for conventional products such as shoes or soda. Seasoned publishers have only a vague idea what book, film or song will be a hit. A major record label can sign only a fraction of the artists available, knowing full well it will unwittingly reject a future superstar.

Thanks to cheap digital recording technology, file sharing, YouTube, streaming music and social media, however, barriers to entry have been dismantled. Artists can now record and distribute a song without signing to a major label. Independent labels have proliferated, and they are taking on the artists passed over by major labels. Hit songs are still a lottery, but the public gets three times as many lottery tickets.

This seems at odds with the collapse in recorded music revenue since 2000 which suggests declining, not rising, music industry output. Mr Waldfogel says that is misleading: because of piracy, revenue understates how much music the public has really consumed. He calculates the quality of songs recorded since then has been either stable (based on the number that made it onto critics' "best-of" lists) or significantly improved (based on the pattern of sales and airplay). This is corroborated by the success of indie-affiliated bands such as Arcade Fire and Mumford & Sons. Indie labels' share of the Billboard top 200 selling albums grew from 13% in 2001 to 35% in 2010. Mr Waldfogel and a co-author reckon that tripling the selection of songs available has produced 15 times as much benefit for consumers than tripling the selection of a more predictable product.

That prices do not properly capture the benefits of online commerce is reinforced by a paper examining the search behaviour of users on eBay. Such people are often assumed to know what they want and ruthlessly pursue the lowest possible price for it. But a paper by Tom Blake of eBay, Chris Nosko of the University of Chicago and Steve Tadelis of the University of California at Berkeley, paints a more nuanced picture. They followed 500,000 eBay users chosen randomly on one particular day, and found just 16% of their searches resulted in a purchase. Users seemed to find browsing almost costless, since they were willing to conduct an additional search to achieve an average saving of just 25 cents. Moreover, many searchers were not trying to get a better price for one product but to explore different products. A user who typed in "opera DVDs" examined offers of Puccini, Verdi, Wagner and Bizet before returning and purchasing the Puccini.

This, the authors reckon, suggests price savings are but a small part of the value users derive from search; some of the value comes from what they learn while searching. Mr Tadelis speculates many users actually enjoy online searching, much as many people enjoy window-shopping at bricks-and-mortar outlets. This is clearly a problem for mainstream economics, which generally assumes search costs make people worse off, not better. It also underlines how far away measures like GDP are from capturing the benefits of the internet. ■

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Exoplanets

Searching for pale blue dots

SEATTLE

The study of exoplanets is becoming ever more sophisticated

IN 1990 *Voyager* took a photograph of Earth that was striking precisely because it showed so little. The spacecraft was 6 billion kilometres away at the time and the image it sent back was memorably described by Carl Sagan as a "pale blue dot". Imagine, then, how pale such a dot would be if the planet in the picture were 113,000 billion kilometres away. Yet this is the distance to the nearest confirmed exoplanet—a planet orbiting a star other than the sun. That gives some idea of the task faced by those who study these bodies. Only in the most special of circumstances can they actually see their quarry. Mostly, they have to work with indirect measurements, like watching for slight dips in the intensity of a star's light when a planet passes in front of it, a phenomenon known as a transit.

But if indirect observation is all that is on offer, then astronomers must make the best of it. And, as numerous presentations to a meeting of the American Astronomical Society held in Seattle this week show, they have both done so—and have plans to do better in future.

The most successful planet-hunting mission so far has been *Kepler*, a satellite launched in 2009 by NASA, America's space agency, which collected data using the transit method until 2013, when a mechanical failure disabled it. It has since been revived, but has only recently begun transmitting data. However, people are still combing through those it collected in its first incarnation. Douglas Caldwell, of the SETI Institute, in Mountain View, California, who is one of the mission's chief scientists, was thus able to announce the discovery of eight new planets.

Three of these eight lie in their solar systems' habitable zones—meaning they are at a distance from their parent stars that makes them warm enough for water on their surfaces to be liquid, but cool enough for it not to be steam. One of them, known as Kepler 438b, is thought particularly Earthlike. It is a bit bigger and a bit warmer than Earth, but is probably rocky. It is therefore likely to be the subject of intense future scrutiny.

The pressure's on

New ways of scrutinising exoplanets are a particular interest of Victoria Meadows, who works at the University of Washington. She explained to the meeting how an exoplanet's atmospheric pressure might be measured. Only if that pressure is high enough could liquid water exist on a planet's surface. Since, based on the one example available (ie, Earth), it looks likely that liquid water is a prerequisite for life, knowing planets' atmospheric pressures would help focus the search for a second.

Dr Meadows proposes to make the measurement by looking at a planet's atmospheric oxygen. This gas consists mainly of diatomic molecules (O_2), with a sprinkling of triatomic ones, known as ozone. But it also contains O_2 dimers. These are associations between pairs of molecules, which are not bound together strongly enough to count as molecules in their own right. The number of dimers depends on the atmospheric pressure. The higher this is, the more dimers are created by oxygen molecules being squeezed together. Since molecules and dimers absorb different frequencies of light, studying the spectrum of starlight that has passed through a planetary atmosphere could reveal its atmospheric pressure. Sadly, no existing instrument is sensitive enough to try Dr Meadows's technique out. But this should change in 2018 when, if things go according to plan, the *James Webb* space telescope will be launched by NASA.

Dr Meadows is also interested in planetary water itself and particularly in a technique which could allow oceans on other worlds to be detected directly. An ocean acts as a mirror. The bright reflection from such a mirror would, if it could be seen, give that ocean's existence away.

The optimum moment for seeing it is when, as observed from Earth, a planet's parent star is more or less behind the planet in question. Then, starlight glancing off an ocean on the planet's limb will produce a glint that the same light glancing off a dull, rocky surface would not.

This trick has actually been tried, using a probe bound for the Moon to observe glints from Earth's oceans. The results of this experiment have let Dr Meadows calibrate her expectations about what might be visible from exoplanets. Her conclusion is that it would be possible, using an instrument called *Exo-C* that is now on NASA's drawing board, to see glints from planets going around nearby stars.

Whether there will actually be any oceans for such a mission to detect was the subject of a talk by Laura Schaefer of the ▸▸

Harvard-Smithsonian Centre for Astrophysics. Ms Schaefer has built a computer model that tries to show how fast oceans will develop on different sorts of planet.

This is not just a question of how much H_2O a planet harbours. On Earth, for example, 50-90% of the stuff is tied up in minerals and is thus unavailable to float on the surface. These minerals are, however, heated, kneaded and moved around by plate tectonics—a process that sometimes liberates their aqueous content. Ms Schaefer assumed something similar goes on in rocky exoplanets (a brave assumption, since there is little sign of plate tectonics on Mercury, Venus or Mars). She therefore put into her model what information is known about this grand hydrologic cycle.

The great ocean of truth

She let the planets in the model evolve for 10 billion years (the typical lifetime of the kind of star most planets orbit), and saw that they do indeed develop oceans, although on different schedules. An Earth-sized planet gets deep oceans quite quickly—within 500m years—but these then become steadily shallower. A planet with five times Earth's mass takes about a billion years to form a shallow ocean, which then increases steadily in depth.

If oceans really are crucial for life, Ms Schaefer's model suggests biology could get a head start on an Earth-sized planet—if, as the model assumes, that planet has the same chemical composition as Earth. Finding what a planet's rocks are made of is harder than analysing its air. But a couple of unusual cases are, as it were, illuminating the question.

Two known exoplanets orbit their stars so closely that their rocky surfaces are evaporating. Both thus sport dusty tails. These are something that can be examined telescopically, and compared with models of what they might contain. In a paper published last month, Rik van Lieshout of the University of Amsterdam did just that. He modelled the kinds of tails that would be created if the dust from these two planets consisted of particular known minerals. His conclusion is that their tails could be composed either of iron-rich silicates or of corundum—a substance that, when of gem quality, is better known as sapphire. Not pale blue dots, then, to be sure. But possibly pale blue streaks. ■

The causes of cancer

Chancing your arm

CHICAGO

A recent paper does not show that two-thirds of cancer cases are due to bad luck

WHAT could be more welcome in a season that demands fresh starts, abstinence and "detoxing" than to discover that you do not have to lift a finger to avoid cancer? A paper published last week in *Science* seemed to offer seasonal bingers every reason for ripping up their New Year's resolutions. According to many reports of the research, it suggested two-thirds of human cancers are caused by nothing more than bad luck.

Clean-living folk will be pleased to hear that the scientists concerned are saying nothing of the sort. One of the paper's authors, Cristian Tomasetti of Johns Hopkins University, was happy to clarify: "We have not showed that two-thirds of cancer cases are about bad luck. Cancer is in general a combination of bad luck, bad environment and bad inherited genes."

Dr Tomasetti and his colleague Bert Vogelstein were looking at why cancers are more frequent in some parts of the body than in others. They wanted to know if the rate was related to the frequency with which cells in these tissues divide. Every time a cell replicates there is a chance of a mutation. More divisions means more mutations and perhaps more cancers.

Organs renew themselves from special cells called stem cells that, when they divide, produce one daughter cell which is another stem cell, and a second which goes on to generate descendants that are cells needed by the tissue in question. Dr Tomasetti and Dr Vogelstein plotted the average number of times a stem cell divides during the course of a lifetime in 31 types of tissue against the lifetime risks of cancer developing in those tissues. They found a strong correlation.

The results indicate that two-thirds of the variation in cancer risk between different tissues is caused by chance mutations associated with cell division. This is not the same as saying that two-thirds of cancer cases are caused by chance, because the results do not offer any information about the relative rates of occurrence of the cancers in question. Moreover, Dr Tomasetti and Dr Vogelstein were unable to include two of the most common cancers (breast and prostate) in their analysis, because the relevant stem-cell data are not available for these. What their study does explain is the long-known but curious phenomenon that apparently similar parts of the body suffer different rates of cancer. Stem-cell turnover means, for example, that tumours of the large intestine are commoner than those of the small one, while basal-cell carcinomas in the skin are commoner than melanomas.

None of this, though, is reason for fatalism. Copying errors during cell division are by no means the only source of cancer-causing mutations. Chemicals that damage DNA, ultraviolet light, ionising radiation and viral infections are all culprits too—and culprits that can often be avoided by thoughtful behaviour.

Overall, according to research done in Britain by Cancer Research UK, a charity, 42% of cancer cases are tied to factors within an individual's control. These include smoking (which, through the carcinogenic chemicals it creates, causes 86% of lung cancer, 65% of oesophageal cancer, 37% of bladder cancer and 29% of pancreatic cancer), poor diet (51% of stomach cancer and 56% of head and neck cancer), overexposure to sunlight (86% of malignant melanomas) and infection with papilloma virus (almost 100% of cervical cancer). Obesity, alcohol and lack of exercise are also in the frame. The best advice, then, remains: keep slathering on the sun cream, avoid tobacco smoke, eat and drink well, exercise regularly and, if you are a young woman, have an anti-papilloma vaccination. ■

Computer poker

The perfect card sharp

A machine has discovered the best possible strategy for one version of poker

NOUGHTS and crosses (known as tic-tac-toe in America) is one of the first games children learn. The more inquisitive among them soon realise there are strategies that always win if your opponent makes a mistake, and guarantee a draw even if he does not. (The best is to start out in one of the grid's corners.) When a provably ideal strategy such as this is discovered for any given game, mathematicians describe that game as being "solved".

Using computers, quite a few games have now been solved in this formal mathematical sense. These include Connect Four, nine-men's morris and draughts. One thing those examples have in common is that they are "perfect information" games, meaning each player knows, at all times, everything that is going on. Not all perfect information games have been so solved. Chess has not. Neither has Go. But no non-trivial "imperfect information" game, such as one involving playing cards, has ever been solved formally.

Strictly speaking, this remains true. But, as he reports in a paper in this week's *Science*, Michael Bowling of the University of Alberta has come close enough to solving a version of poker called Heads-Up Limit Hold'Em (HULHE) that a player armed with his strategy can virtually guarantee coming out ahead of any opponent who is not using it. Such a player would not expect to lose, even over a lifetime of games against an error-free opponent.

Dr Bowling picked HULHE because, in poker terms, it is about as simple as it gets. Only two can play, and betting is heavily restricted. This means only 1.38×10^{13} (13.8 trillion) different circumstances can arise within it. Still, that is quite a large number, so previous attempts at solving even this form of poker have involved some simplification. But such simplification means losing important details, and the resulting strategies are an imperfect fit to the real game. By speeding up the algorithms, Dr Bowling's team managed to bring the full game within reach of computational brute force, in the form of 200 computers, each sporting 24 processors, working in parallel for more than two months.

Admittedly, the result will not be of immediate use to card sharps. Although the researchers have built a webpage that contains a strategy tool based on their results (readers can try playing against the machine at poker.srv.ualberta.ca), they have deliberately hobbled its response times to avoid giving succour to cheats.

Mechanising poker is not, though, Dr Bowling's primary purpose in developing this software. Many problems that do not look like games, from airport security to medical diagnosis, can nevertheless be modelled as such, and he hopes his algorithm can be adapted to analyse those, too. The program has, nevertheless, answered several bar-room debates about HULHE. It has quantified the well-known advantage that the dealer enjoys. It also suggests that "limping"—a betting strategy favoured by some strong players with certain hands, which involves resisting the temptation to raise the bet as their first action—is usually a bad idea.

Whether computers will ever be able to solve other forms of poker remains doubtful. Merely removing the betting restrictions on HULHE, for instance, boosts the range of possibilities to 6.38×10^{161}, a figure so mind-bogglingly big that it far exceeds the number of subatomic particles in the observable universe. No amount of improvement in computer hardware will ever make such a problem tractable. The only hope is an enormous, and unlikely, conceptual breakthrough in how to attack the question.

There are, of course, poker-playing programs out there already that play more complicated versions of the game than HULHE. The best are better than most humans. But they, like chess-playing programs, do not actually solve the game in a mathematically rigorous sense. They just process more data that a human brain can cope with, and thus arrive at a better answer than most such brains can manage.

The most interesting computational solution to poker, though, would be one that did work more like a human brain, for instance by looking for the famous "tells" that experienced players claim give away their opponent's state of mind, or even bluffing those opponents about its own intentions. When computers can do that, mere humans—and not just poker players—should really start worrying. ■

Computer says "fold"

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Japan

In the air

Despite the shifts of the past century and a half, Japan is still trapped by its past

Japan and the Shackles of the Past. By Taggart Murphy. *Oxford University Press; 443 pages; $29.95*

MOST historical analysis of Japan tends to emphasise the country's ruptures with the past. In the mid-19th century the inward-looking Tokugawa shogunate fell and was replaced with rule by oligarchs under the guise of a "restored" imperial system. At the end of the second world war Japan was defeated and occupied by the United States. During the post-war economic "miracle" incomes doubled every decade. The latest move includes the trumpeted measures by the current prime minister, Shinzo Abe, to cure the long hangover after boom turned to almighty bust in the late 1980s. By contrast, in his insightful analysis of what ails Japan, Taggart Murphy, a former investment banker who is now a business professor at the University of Tsukuba, focuses on the continuities.

Some are immensely appealing. Few foreign visitors fail to be beguiled by the almost seductive concern and care shown by every Japanese they have dealings with, from barman to business partner. It is striking, too, how Japanese carry out even the lousiest job as if it were the best.

Predictability in social and public life makes Japanese cities the safest on Earth. And a desire for consensus surely helped with the foundations for Japan's phenomenal post-war success—even if living conditions were cramped and salarymen's hours long. Even today "culture" counts for much as an organising force and social glue. What other country could have endured with such fortitude two decades of stagnation, not to mention the disastrous earthquake, tsunami and nuclear meltdown of March 11th 2011?

As for the roots of a social predictability bordering on ritual, Mr Murphy finds them in the Tokugawa shogunate, when sword-carrying samurai were entitled to cut anyone down on the slightest pretext. Today you don't need to be told how to conform in any situation, because you intuitively know: you just read it in the *kuki*, the air.

A consequence is that no society can internalise contradictions like Japan can. Karel van Wolferen, an observer of the country, called it the "management of reality". Someone who was incompetent in an organisation would not be fired, but everyone knew to check his work. Business mavericks were not publicly pilloried. They just struggled to get their new technologies financed or adopted—until they sought the arms of an established business group. The mainstream media still sees its job as maintaining the existing order not questioning it. Safety valves exist to cope with the contradictions—not least the subversive and often sexually exuberant torrent of *manga* comics and *anime* films that have become a global hit.

Conformity becomes a problem when a country needs to alter an obviously wrong course. Everyone knows that the post-war economic model is bust. There are no longer the corporate profits to guarantee lifetime employment. Young women go on sexual strike rather than face the drudgery of being a traditional wife. Japan's birth rate has fallen to a new low.

Mr Murphy also blames the continuity of Japan's governing institutions. The "Reform Bureaucrats" who marshalled the resources for total war from the early 1930s provided the model for bureaucrat-led growth after 1945 the miracle was in effect run on a war footing. Nobody exemplified the continuity better than the deeply dodgy Nobusuke Kishi. He had administered the Japanese puppet-state in Manchuria and had then been minister for munitions. He emerged from a brief stint in an Allied prison to become a prime minister and leader of the conservative Liberal Democratic Party (LDP), whose grip on power has only twice been dislodged.

The LDP came to power with America's connivance. The old establishment—shorn of its military and coercive wing—was allowed to continue in return for making Japan an American protectorate and freezing out the left. Not much has changed. The administration of Barack Obama did its utmost to help bring about the swift downfall of the Democratic Party of Japan (DPJ), which had called for a renegotiation of the bilateral alliance after sweeping the LDP briefly from office in 2009.

Another continuity is the lack of a real centre of political accountability—political oversight of bureaucratic machinations is often largely ceremonial. The lack allowed the militarists in the 1930s to bring on the country's destruction. More recently the LDP, coming back into power in 2012, could blame the DPJ for the mess at the ▸▸

Fukushima Dai-ichi nuclear plant—even though the disaster happened because for decades the LDP had been at the centre of an often sleazy network of interests building a nuclear industry in a country sitting atop so many seismological fault lines.

Mr Abe now promises some powerful economic pick-me-ups. But is this a radical break with the past? Many of the prime minister's deeper-seated reforms have been trotted out before and are being pursued only half-heartedly. In reality, Mr Murphy argues, reforms are for show. Rather, Mr Abe believes that Japan's is a spiritual crisis exemplified, as he sees it, by an inability to stand up to the taunts of a rising China. To make Japanese stand tall again, he craves a nostalgic restoration of the pre-war *kokutai*, that emperor-infused notion of essential and unsullied Japaneseness. Of course, Mr Abe does not want war with neighbours, an earlier consequence of promoting the *kokutai*. But this is no time for Mr Abe, who happens to be Kishi's grandson, to bring out the ghosts of Japan's past. Japan remains susceptible not only to geological catastrophes, but geopolitical ones too. ■

French fiction: Michel Houellebecq

Irrepressible

Soumission. By Michel Houellebecq. *Flammarion; 320 pages; €21*

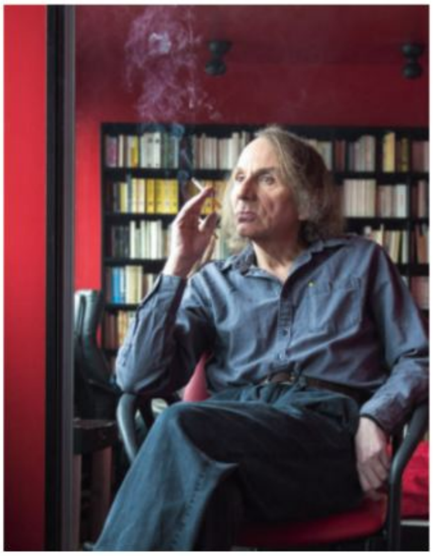
NO OTHER French novelist knows how to stir trouble quite like Michel Houellebecq. In 2001 the author of "The Elementary Particles" claimed that Islam was "the stupidest religion". He was sued for inciting racial violence, though later cleared in court. Now Mr Houellebecq is at it again, with "Soumission" ("Submission"), his latest novel, which prompted indignation and dismay in France even before it was published on January 7th.

The novel, which has not yet been translated into English, is narrated by François, a literature professor at the Sorbonne, who drifts between casual sex and micro-waved ready-made meals in a state of wry detachment and *ennui*. Then, in an imaginary France of 2022, a political earthquake shakes him out of his torpor. The two mainstream parties, on the left and the right, are eliminated in the first round of a presidential election. This leaves French voters with the choice between Marine Le Pen's populist National Front—and the Muslim Fraternity, a new party led by Mohammed Ben Abbes. Thanks to an anti-Le Pen front, Mr Ben Abbes is elected and thus begins Muslim rule.

After a period of disorder, France returns to a strange calm under its apparently moderate new Muslim president; and François, who fled briefly, returns to Paris. But the city, and his university, are unrecognisable. More women are veiled, and give up work to look after their menfolk (helping to bring down France's unemployment rate). Polygamy is made legal. France embarks on a geopolitical project to merge Europe with Muslim Mediterranean states. Saudi Arabia has poured petrodollars into better pay for professors and posh apartments on the city's left bank. And his own university has been rebranded the Islamic University of Paris-Sorbonne. Will François, an atheist, resist, or flee the new regime or compromise with it?

Before the novel was even out, Mr Houellebecq was accused of far-right scaremongering. Laurent Joffrin, editor of *Libération*, a left-leaning newspaper, wrote that its publication marked "a date in the history of ideas when the thinking of the far right burst into, or returned to, serious literature". Ali Baddou, a philosophy teacher and television presenter, said that the novel's "Islamophobia" made him "want to vomit".

To his defenders, Mr Houellebecq is staring unwaveringly at France's secret fears. Writing in *Le Monde*, a leading French novelist, Emmanuel Carrère, compared "Soumission" to George Orwell's "1984". Mr Houellebecq says his book is a "vision", based on the collapse of Enlightenment ideas in the face of the quest for religious meaning in a decadent society. The submission of the title is to God, as much as France to Islam, or secular politicians to religious accommodation, or women (who, as ever in a Houellebecq novel, are reduced to flat extras) to a new patriarchy. Subtle discussion of such ideas is inaudible above the political rumpus that Mr Houellebecq has wrought, wittingly or otherwise. ■



Smoke, but no evidence of mirrors

Security

Return of the hired gun

The Modern Mercenary: Private Armies and What They Mean for World Order. By Sean McFate. *Oxford University Press; 248 pages; $29.95 and £19.99*

IN THE pirate-infested waters off the coast of Somalia around 180 private military contractors from 35 countries work to protect international shipping. They cost as little as a tenth of the official protection provided by the governments of France, Holland and Spain. Yet they can deploy lethal force and have proved very effective; they have even formed an industry group, the Security Association for the Maritime Industry, to represent their interests.

As Sean McFate shows in a fascinating and disturbing book, "The Modern Mercenary", the provision of private armies to the world's conflict zones has boomed in the past 25 years. The market for these firms could evolve from a monopsony, in which the dominant buyer has been the American government, into something more open and competitive. As it does so, he argues, these armies may turn from a force that is mostly for peace into a threat.

The end of the cold war provided the opening for private armies. In 1994 Executive Outcomes, founded by a group drawn from various South African special forces units, offered to help stop the genocide in Rwanda. The United Nations turned the company down. Although it later found work in Angola, Kenya and elsewhere, it closed after the South African government outlawed mercenaries in 1998. The market really took off when America, under George W. Bush, wanted support for its occupations of Afghanistan and Iraq. One firm, Blackwater, stood out, but the work gained a unfavourable reputation and the company has since changed its name twice, first to Xe and now Academi.

The growing faith in free markets and privatisation, ushered in by Ronald Reagan and Margaret Thatcher, and the increasing political need to hide the human cost of war by reducing deaths in the standing army, have encouraged the use of private soldiers. So did the belief that they were often more effective and efficient. (Erik Prince, Blackwater's founder, liked to describe his firm as the FedEx of the American national security apparatus.)

Mr McFate writes with an insider's knowledge, having worked for DynCorp, another private military company, on assignments that he says included foiling a plot to assassinate the president of Burundi. On another occasion, he says, he was approached by a famous actress turned ▸▸

humanitarian who, with various human-rights groups, wanted to hire Blackwater to set up safe havens in Sudan to protect civilians fleeing the *janjaweed* militia. In the end, though, they decided that the risks of an illegal action of this kind outweighed the benefits.

With American demand for private military operators falling as it scales back its overseas operations, Mr McFate expects demand to grow from other customers, including humanitarian organisations and less idealistic groups. He is alarmed by the prospect, not least because he feels that in a truly free market mercenary armies might be encouraged to seek profits by starting new wars.

The author fears that the world is entering an era of "neomedievalism" in which the state loses its monopoly of legal force and instead other wealthy groups or individuals fund private military adventures. Africa, in particular, looks ripe for this, he says. He believes America has missed the opportunity to regulate this market properly, but thinks there is still a chance for the United Nations to do so by making private military companies an important part of its peacekeeping operations, something it so far declines to do.

In the end, though, Mr McFate tends to overstate his case. Private armies may indeed play a role in failed and failing states, but it is unlikely that modern mercenaries will become more important than the standing armies of NATO or China soon. The author's conclusion that "international relations in the 21st century will have more in common with the 12th century than with the 20th" sounds like an exaggeration. Yet the worrying trends he describes make this book a powerful call to arms to those who do not want a world awash with mercenaries. ■

Classical music

Distant notes

PARIS

A grand new concert hall opens in an unfashionable district. Can it become a draw?

UNTIL a few weeks ago, Parisians wanting to hear a great classical pianist or a world-class orchestra would head for the Salle Pleyel near the Champs Elysées. That option is no longer available as the venue will now be used for other kinds of music. Instead, from January 14th, top-tier orchestras and musicians, including Pleyel's resident ensemble, the Orchestre de Paris, will move to the Philharmonie de Paris.

The new venue, by Jean Nouvel, cost €386m ($460m) and is in the unfashionable 19th arrondissement in the north-east of the city. Paris has two opera houses, so it may, like London or New York, be able to sustain several music venues. But will its serious classical-music patrons, who can afford the pricey tickets and were Pleyel subscribers, be persuaded to trek to an unglamorous area far from the city centre?

The auditorium can hold 2,400 people in tiers of seats that wrap fluidly around the central orchestra pit. This is where concertgoers will hear piano recitals by Daniel Barenboim and Maurizio Pollini, and watch Sir Simon Rattle conduct the Berlin Philharmonic Orchestra. To bring in new and younger audiences, lower-priced weekend programmes for families are also planned, with themes such as musical comedy, India and New York. The Victoria and Albert Museum's hugely successful recent exhibition about David Bowie's life and work will also be shown there.

Paris officials have been talking since the 1970s of building a major new concert hall. Those plans were overtaken by the construction, in the 1980s, of the Bastille Opera. What the city did end up with in 1995 was the 900-seat Cité de la Musique concert hall and musical-instrument museum in the Parc de la Villette (next to the Philharmonie, and now twinned with it). But the capital still lacked an auditorium to rival the 2,440-seat Berlin Philharmonie; the 1,900-seat Salle Pleyel and Théâtre des Champs-Elysées were not big enough.

Construction of the Philharmonie, which began in 2011, has been anything but simple. Mr Nouvel's design was chosen on account of its inclusiveness: for giving concertgoers as well as the general public daytime access to a spacious lobby, an exhibition gallery, educational spaces, a café and restaurant, a shop and a vast rooftop. Yet the original €204m cost has nearly doubled, and relations between architect and client have been tense. Mr Nouvel revealed in an interview last year that the project was proceeding without his oversight. His requests were not being met, and quality was being sacrificed in a race to meet deadlines. Mr Nouvel's critics said he had repeatedly asked to make late revisions to the design.

The Philharmonie's director Laurent Bayle blames the cost overruns on an unrealistic initial estimate, a 17-month interruption of the project (for a government-ordered financial audit) and enhanced maintenance and security arrangements, as well as inflation. As for criticisms of the Philharmonie's location, Mr Bayle recalls that the Barbican Centre in London was considered too remote when it opened in 1982. Because of Paris's ageing population of concertgoers, he explains, the hall's target audience consists not only of the capital's 2.2m residents, but also of the 4m-5m people in suburbs nearby.

The government, the city of Paris, and the Ile-de-France region—French taxpayers, in other words—have paid for the building. Taxpayers will now also fund over half the €65m annual budget for the twin Philharmonie venues. The rest will come from sponsorship and from ticket sales—provided enough classical concertgoers can be lured out to the city's edge. ■

Far out and no cheap seats

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Bitcoin

Much more than digital cash

The rise and fall of the crypto-currency is good news for authors at least

BITCOIN may well be the world's worst-performing currency. In 2014 it lost more than half of its value against the dollar, beating even Ukraine's hryvnia and the Russian rouble. But measured by the number of new books it has inspired, bitcoin is top of the pile. Nearly 200 titles about the crypto-currency came out last year, according to Amazon. Another dozen will hit the shelves in the coming months.

Be warned, though, some are pretty bad. Brian Kelly, an investment manager and talking head on CNBC, takes several stabs in "The Bitcoin Big Bang" at explaining how the crypto-currency works, only to confuse the reader with his odd metaphors: "Let's call the first bitcoin a socialite named Genesis." Dominic Frisby is a comedian and a financial writer who in an earlier book outed himself as an anarcho-capitalist. In "Bitcoin: The Future of Money?" he suggests that bitcoin will change the world as we know it because governments will be unable to raise money for long wars if the currency is widely adopted. "It is a force for peace," Mr Frisby insists.

For any book on bitcoin to be worth reading, though, it has to delve further: into the crypto-currency's ideological and technical roots, for instance, or what it adds to the narrative of money, or even what its economic and political impact may be. The currency's dollar price may be three-quarters down on its peak, but the underlying technology also provides plenty of intellectual fodder—and is unlikely to go away. So there is plenty to write about if you are serious.

The Age of Cryptocurrency: How Bitcoin and Digital Money Are Challenging the Global Economic Order. By Paul Vigna and Michael Casey. *St Martin's Press; 343 pages; $27.99*

Paul Vigna and Michael Casey, two journalists at the *Wall Street Journal*, are certainly serious. In their new book, "The Age of Cryptocurrency", they don't waste time projecting millenarian political beliefs or searching for bitcoin's elusive creator, Satoshi Nakamoto, though they argue that the crypto-currency's quasi-religious "creation myth" has been an important factor in creating a community around the project. Before he went offline in 2011 without leaving much of a trail, Mr Nakamoto had cleverly combined ideas developed by others with his main invention: the "blockchain", a public ledger of all bitcoin transactions. The blockchain lives on the system's global network and is maintained and protected by "miners", operators of specialised computers who are rewarded with bitcoin for their efforts.

Rather than begin their book with a breathless account of how bitcoin could change everything, Messrs Vigna and Casey start with a brief account of the centuries-old debate about the nature of money. The "metallist" school sees money as a commodity, a thing with its own inherent value—which governments should leave alone as much as possible. By contrast, "chartalists" view money as a complex system of credit relationships, which allows value to flow within a society. For these people currency is just the token around which the monetary system is arranged. And governments have a role to play in managing this system and thus the economy.

This philosophical division is also present in the debate about bitcoin. Libertarians treat it as a scarce commodity that needs to be "mined" (to create bitcoin and maintain the blockchain, miners solve mathematical puzzles, meaning that bitcoin is willed into existence by burning energy—see page 58). But for a growing number of geeks and venture capitalists bitcoin is less a currency than a technology that can be used to transfer money and other assets cheaply and securely.

Messrs Vigna and Casey predict that bitcoin's main calling will indeed be as a disruptive payment system. Before the crypto-currency, societies had to rely on banks and other centralised institutions to keep track of payments and guarantee the financial system. This position as gatekeeper has allowed these institutions to capture much economic rent. The blockchain technology cuts away the middlemen by taking over the role of ledger-keeping. "At its core, crypto-currency is not about the ups and downs of the digital currency market," the authors write, but "about freeing people from the tyranny of centralised trust."

The book is at its liveliest when it discusses the potential impact of bitcoin. The currency may not be a must-use in rich countries with well-developed payment services, but it could help the poor world's ▸▸

2.5 billion unbanked to connect to the formal financial system (the book opens with the story of an Afghan woman who gets paid in bitcoin for the articles she writes for an American website). What is more, because no one controls the blockchain it has already become the foundation ("platform" in the parlance) for a growing number of start-ups. And the technology may also undermine other centralised institutions in the "trust business", such as stockmarkets, or give the sharing economy a boost (some have speculated that in future taxis may be not only self-driving, but self-owned—meaning they are effectively owned by the blockchain).

Wisely Messrs Vigna and Casey do not predict that this will happen overnight, or that the technology is a panacea. Bitcoin and other crypto-currencies will continue to grow, they write, not alongside the offline world, but attached to it, with institutions and businesses adopting it to suit their needs. Bitcoin may well trigger a revolution, but it will be a slow one. ■

Iceland's first billionaire

King of the Norse gods

Billions to Bust—and Back: How I Made, Lost And Rebuilt a Fortune, And What I Learned on the Way. By Thor Bjorgolfsson with Andrew Cave. *Profile Books; 244 pages; $29.95 and £20*

IN MARCH 2007 Thor Bjorgolfsson celebrated his 40th birthday. He flew 120 friends to Jamaica on a Boeing 767 with business-class seating only. James Bond (really Sean Connery) delivered a video greeting. Jamiroquai, 50 Cent and Bob Marley's son, Ziggy, provided the music.

Mr Bjorgolfsson partied as if he had money to burn. And why not? He was the 249th richest man in the world with a fortune of more than $4 billion. He was also a folk hero in his native Iceland: its first billionaire and the embodiment of the Icelandic economic miracle. Prime ministers called him Thor. Masters of the universe competed for his attention. He gave Mikhail Gorbachev a lift in his private jet.

Within 18 months the Scandi-hero had been reduced to an Icelandic zero. Ninety-nine per cent of his fortune had gone up in smoke. Seven major banks were on his heels. His personal debts were heading towards $1 billion. Many of his former friends shunned him. Icelanders treated him as a villain—a man who had tempted them with fool's gold and then plunged the country into bankruptcy.

"Billions to Bust" is the story of Mr Bjorgolfsson's business career. The book is far from perfect; it reads as if it were dictated by a busy man rather than carefully crafted. There are only so many times you can be told that Mr Bjorgolfsson put money into the Icelandic economy before the crash. And it spends too much time rehashing the details of long-dead business deals. For all that, Mr Bjorgolfsson provides one of the first insider's accounts of the financial crisis. Journalists such as Andrew Ross Sorkin have provided first-rate blow-by-blow accounts of what went wrong. But as a participant Mr Bjorgolfsson does a better job of explaining why people who have more money than they can spend are tempted to spin the roulette wheel one more time.

Mr Bjorgolfsson has a remarkable story to tell. He made his first fortune in the wild east of post-Soviet Russia with Bravo Brewery. Selling alcohol to thirsty Russians does not sound like a challenge, but it is impossible to read about Mr Bjorgolfsson's dealings with leathery thugs and corrupt politicians without thinking that he deserved the $100m he got for selling his company to Heineken. Over the next six years he multiplied it 40-fold by investing in telecoms (mostly in eastern Europe), building up Actavis, a generic drugs company, and then, disastrously, by becoming the biggest investor in one of Iceland's three largest banks, Landsbanki.

This story is made all the more intriguing by the local flavour: "Billions to Bust" is an Icelandic saga recrafted for the new gilded age. Mr Bjorgolfsson is full of anger for his homeland, a country of 320,000 people run by an inbred elite of politicians who profess socialist virtues but who are forever scratching each other's backs. His mother was briefly married to George Rockwell, the founder of the American Nazi Party; his father, a businessman and reformed alcoholic, repeatedly incurred the wrath of the authorities. Mr Bjorgolfsson fled this claustrophobic environment while still a young man and spent over a decade in Russia and eastern Europe. But he could not resist the temptation to stick it to the Icelandic establishment by turning himself into a mogul in his native land. Alas, the logic of the Icelandic sagas proved irresistible: the bank he bought imploded and the country turned against him.

Mr Bjorgolfsson has put his life back together. He took out a front-page advertisement in Iceland's biggest newspaper apologising for his role in the crisis. His investment group, Novator, is flourishing again. He says he has learned from the debacle. Whether the global financial system has is moot. Mr Bjorgolfsson notes that two of the world's biggest bankers—Jamie Dimon, the boss of J.P. Morgan, and Brian Moynihan, the boss of Bank of America—have recently phoned him offering help in any future deals. In a book about irrational exuberance that is a terrifying discovery. ■

Berkshire Hathaway

The post-Buffett world

Berkshire Beyond Buffett: The Enduring Value of Values. By Lawrence A. Cunningham. *Columbia University Press; 336 pages; $29.95 and £19.95*

WHEN Warren Buffett no longer "tap dances to work", as he describes it, what will become of Berkshire Hathaway, the company he created? The "Sage of Omaha" is 84 and his firm is one of America's most valuable companies, with a market capitalisation of over $350 billion. Its success has defied the conventional wisdom that conglomerates do not work. Berkshire Hathaway is a hotch-potch of 600 different businesses that deal in everything from private jets to low-cost carpets and insurance. Investors love the way the firm's share price keeps going up, but they are beginning to fret that the founder's departure will bring the good times to an end.

Mr Buffett has long argued that he has built a company designed to thrive after he has gone, as he explains. Many of the people who run his businesses have also been encouraged to tell their stories to the author of "Berkshire Beyond Buffett". The result is an unusually detailed description of Mr Buffett's management ideas and his long efforts to embed them permanently into the firm's internal systems.

Though best-known as a "value investor", with an eye for underpriced shares, as a manager Mr Buffett cares mostly about values. He believes that corporate culture matters; if a business does not have a strong, proven ethical culture, he will not buy it, whatever its other attractions. He has a strong preference for taking over firms that have been family-run for generations, and for managers with a commitment to lifelong self-improvement. Berkshire Hathaway's managerial ranks boast several winners of the Horatio Alger award given to business leaders who epitomise the dream of moving from poverty to prosperity in a single generation. Famously hands-off, Mr Buffett believes in giving his managers plenty of autonomy and trusting them to do the right thing, which despite the occasional well-publicised ethical lapse, they mostly tend to do.

Lawrence Cunningham identifies nine key ingredients in the Buffett way of management: counting every penny; keeping promises; maintaining a good reputation at all costs (losing that is far worse than losing money); kinship or behaving like a well-functioning family; self-starting; delegation; investment savvy; keeping things simple and sticking to your knitting; and long-termism. Indeed, Berkshire Hathaway is arguably the leading example of a company run to maximise its long-term value, rather than yielding to the short-termist pressures of the stockmarket.

There is much to learn from Mr Cunningham's stories about the companies that Berkshire Hathaway owns. These include GEICO, an insurer, and Dairy Queen, an ice-cream retailer, as well as less familiar businesses, such as McLane, a grocery wholesaler with revenues of $49 billion in 2013, and MiTek, which has transformed the technology of house-building.

However, the author seems too easily convinced by Mr Buffett's claims that the firm's culture will keep it on track after he has gone. Berkshire Hathaway's decentralised structure may stop it suffering the sort of problems experienced by more centralised conglomerates, such as GE and Teledyne, after their great leaders left. But without Mr Buffett there may be no force to hold those businesses together.

Mr Cunningham concedes that activist shareholders may try to tear the firm apart, and he suggests that it might be better off becoming a private company. Yet in the end, he thinks that the succession plan Mr Buffett and the board are said to have up their sleeves will produce people well able to fill his massive shoes.

The author names at least ten potential internal candidates he considers good enough to be the next chief executive. He also thinks "it is hard to see a better choice" than Mr Buffett's selection of his son, Howard, as the next chairman. But a growing number of investors worry that Mr Buffett junior, a farmer and philanthropist, has not inherited his father's genius or credibility. He may struggle to lead the board, especially if the firm starts finding life much harder. ■

Marissa Mayer

Tech's ice queen

Marissa Mayer and the Fight to Save Yahoo! By Nicholas Carlson. *Twelve Books; 356 pages; $39. John Murray; £20*

TOWARDS the end of this tale about one of the world's best known and worst run internet companies is a vivid description of a Christmas party thrown at Marissa Mayer's Silicon Valley home in 2013. Along with the real snow shipped in for the occasion, she had ordered a large ice rink to be set up in her back garden.

Since she took over the helm at Yahoo in 2012, Ms Mayer has been skating on some rather thin ice. The latest in a long line of bosses to try and revive the web firm's fortunes, she has seen Yahoo's share price soar thanks largely to its stake in Alibaba, a giant Chinese e-commerce outfit whose flotation last year produced a massive payday for the American firm. But its core businesses in areas such as online advertising are still stuck in the doldrums.

Much of the first half of Nicholas Carlson's book, "Marissa Mayer and the Fight to Save Yahoo!", is devoted to explaining how the firm, which began life as a simple web directory created by David Filo and Jerry Yang and then grew into a web giant, got itself into the pickle that Ms Mayer inherited. Some strategic blunders and an excess of Byzantine boardroom intrigue are to blame. The speed with which Yahoo's directors decapitated successive chief executives brings to mind the French Revolution rather than the internet one.

Ms Mayer has so far managed to dodge the guillotine. A computer scientist by training, she honed her skills at Google and has impressed "Yahoos" with her technical know-how. As a result, programmers who once shunned the firm are now more willing to join it. She has successfully revamped services such as Flickr, a photo-sharing platform, and has instituted regular public meetings during which she fields questions from employees.

But, as Mr Carlson's gossipy account makes clear, Yahoo's leader has also alienated some supporters by refusing to make big cuts in the company's bloated workforce, by failing to reverse the slide in its share of online-advertising markets and by making some spectacularly poor hiring decisions. Ms Mayer made Henrique De Castro a sizeable offer to lure him away from Google and join Yahoo in order to be its chief operating officer. Mr De Castro was subsequently fired and left the firm after just 15 months, having pocketed more than $100m in pay and severance money.

Other missteps include a performance-management system that forces executives to grade a certain percentage of their staff as underperforming. This has had some bad side effects, including discouraging high-flyers from working together and leading to political infighting and horse-trading among managers keen to protect their team members. Furthermore, a sudden crackdown on working from home, imposed by Ms Mayer, turned into a public-relations disaster.

One of Ms Mayer's undoubted skills is burnishing her own profile. She likes to mix with global leaders at the World Economic Forum at Davos and has cultivated an image as a fashionista, hanging out with Anna Wintour, the editor of American *Vogue*. She has also hired celebrities such as Katie Couric, a well-known television host, to spice up Yahoo's content.

Will Ms Mayer succeed? Frustratingly, Mr Carlson fails to deliver the coup de grâce that his excellent reporting suggests is merited. Although the author paints a damning picture of Ms Mayer's management style, he ends up hedging his bets, noting that Steve Jobs only launched the first iPod in the fifth year after he returned to Apple. With shareholder activists lurking, though, Ms Mayer may not get that much time. ■

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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	Jan 7th	year ago
United States	+2.7 Q3	+5.0	+2.3	+5.2 Nov	+1.3 Nov	+1.6	5.8 Nov	-388.1 Q3	-2.3	-2.8	1.92	-	-
China	+7.3 Q3	+7.8	+7.3	+7.2 Nov	+1.4 Nov	+2.1	4.1 Q2§	+196.6 Q3	+2.4	-3.0	3.54§§	6.21	6.05
Japan	-1.3 Q3	-1.9	+0.3	-3.8 Nov	+2.4 Nov	+2.8	3.5 Nov	+6.8 Oct	+0.3	-8.1	0.29	119	105
Britain	+2.6 Q3	+3.0	+2.9	+1.1 Oct	+1.0 Nov	+1.4	6.0 Sep††	-163.0 Q3	-4.8	-5.1	1.72	0.66	0.61
Canada	+2.6 Q3	+2.8	+2.4	+3.4 Oct	+2.0 Nov	+1.9	6.6 Nov	-41.2 Q3	-2.4	-2.0	1.66	1.18	1.07
Euro area	+0.8 Q3	+0.6	+0.8	+0.7 Oct	-0.2 Dec	+0.4	11.5 Nov	+334.0 Oct	+2.4	-2.5	0.47	0.84	0.73
Austria	-0.1 Q3	-1.6	+0.7	-2.3 Oct	+1.7 Nov	+1.3	4.9 Nov	+1.5 Q2	+1.5	-2.5	0.60	0.84	0.73
Belgium	+0.9 Q3	+1.2	+1.1	-0.6 Oct	-0.4 Dec	+0.6	8.5 Nov	+8.0 Sep	-0.5	-3.0	0.80	0.84	0.73
France	+0.4 Q3	+1.0	+0.4	-1.0 Oct	+0.3 Nov	+0.6	10.3 Nov	-32.7 Oct‡	-1.3	-4.4	0.74	0.84	0.73
Germany	+1.2 Q3	+0.3	+1.4	+0.9 Oct	+0.2 Dec	+0.8	6.5 Dec	+289.6 Oct	+7.3	+0.8	0.47	0.84	0.73
Greece	+1.9 Q3	+3.0	+0.8	-0.7 Oct	-1.2 Nov	-1.3	25.7 Sep	+3.2 Oct	+1.5	-4.0	10.88	0.84	0.73
Italy	-0.5 Q3	-0.6	-0.3	-3.0 Oct	nil Dec	+0.2	13.4 Nov	+36.4 Oct	+1.5	-3.0	1.88	0.84	0.73
Netherlands	+1.0 Q3	+0.5	+0.7	+0.4 Oct	+1.0 Nov	+0.6	8.0 Nov	+91.5 Q3	+9.7	-2.7	0.57	0.84	0.73
Spain	+1.6 Q3	+2.0	+1.3	+0.6 Oct	-1.1 Dec	-0.2	23.9 Nov	-2.2 Oct	+0.2	-5.7	1.61	0.84	0.73
Czech Republic	+2.7 Q3	+1.6	+2.4	+3.2 Oct	+0.6 Nov	+0.5	7.1 Nov§	+0.2 Q3	-0.4	-1.6	0.59	23.2	20.1
Denmark	+1.0 Q3	+1.6	+0.8	-2.4 Oct	+0.5 Nov	+0.5	5.0 Nov	+22.6 Oct	+6.6	-1.3	0.78	6.24	5.47
Hungary	+3.2 Q3	+1.9	+3.0	+1.9 Oct	-0.7 Nov	nil	7.2 Nov§††	+5.7 Q3	+4.2	-2.9	3.49	268	219
Norway	+2.1 Q3	+2.0	+2.3	+9.9 Oct	+1.9 Nov	+2.0	3.8 Oct‡‡	+49.2 Q3	+11.1	+12.0	1.50	7.68	6.16
Poland	+3.4 Q3	+3.6	+3.3	+0.3 Nov	-0.6 Nov	+0.1	11.4 Nov§	-7.0 Oct	-1.2	-3.5	2.33	3.62	3.06
Russia	+0.7 Q3	na	+0.6	-0.3 Nov	+11.3 Dec	+7.7	5.2 Nov§	+54.2 Q3	+2.6	+0.4	13.01	61.7	33.2
Sweden	+2.1 Q3	+1.3	+1.9	+0.1 Oct	-0.2 Nov	-0.2	7.4 Nov§	+36.5 Q3	+5.8	-2.2	0.92	7.91	6.52
Switzerland	+1.9 Q3	+2.6	+1.7	-0.4 Q3	-0.1 Nov	nil	3.1 Nov	+45.7 Q3	+10.5	+0.3	0.20	1.01	0.90
Turkey	+1.7 Q3	na	+3.0	+4.5 Oct	+8.2 Dec	+8.9	10.5 Sep§	-45.7 Oct	-5.0	-1.7	7.59	2.32	2.18
Australia	+2.7 Q3	+1.4	+2.8	+3.8 Q3	+2.3 Q3	+2.5	6.3 Nov	-42.9 Q3	-3.1	-2.6	2.68	1.24	1.12
Hong Kong	+2.7 Q3	+6.8	+2.4	-1.8 Q3	+5.1 Nov	+4.4	3.3 Nov‡‡	+7.7 Q3	+1.8	+0.8	1.71	7.75	7.75
India	+5.3 Q3	+8.1	+6.0	-4.2 Oct	+4.4 Nov	+7.3	8.8 2013	-23.4 Q3	-2.0	-4.3	7.86	63.6	62.4
Indonesia	+5.0 Q3	na	+5.0	+8.3 Oct	+8.4 Dec	+6.3	5.9 Q3§	-24.0 Q3	-2.9	-2.3	na	12,658	12,180
Malaysia	+5.6 Q3	na	+6.0	+5.0 Oct	+3.0 Nov	+3.1	2.7 Oct§	+18.0 Q3	+5.7	-3.6	4.29	3.56	3.29
Pakistan	+5.4 2014**	na	+5.4	+1.8 Oct	+4.3 Dec	+7.3	6.2 2013	-3.4 Q3	-2.6	-5.5	10.45†††	101	105
Singapore	+1.5 Q4	+1.6	+3.1	-2.8 Nov	-0.3 Nov	+1.1	2.0 Q3	+58.9 Q3	+20.7	+0.5	2.16	1.33	1.27
South Korea	+3.3 Q3	+3.7	+3.5	-3.4 Nov	+0.8 Dec	+1.3	3.1 Nov§	+88.5 Nov	+5.7	+0.6	2.56	1,099	1,066
Taiwan	+3.6 Q3	+2.6	+3.6	+6.9 Nov	+0.6 Dec	+1.3	3.9 Nov	+65.0 Q3	+11.9	-1.4	1.55	32.0	30.0
Thailand	+0.6 Q3	+4.4	+0.7	-3.5 Nov	+0.6 Dec	+1.9	0.6 Nov§	+10.2 Q3	+2.6	-2.2	2.64	32.9	33.1
Argentina	-0.8 Q3	-2.1	-0.6	-2.1 Nov	— ***	—	7.5 Q3§	-5.0 Q3	-1.0	-2.6	na	8.55	6.56
Brazil	-0.2 Q3	+0.3	+0.2	-3.6 Oct	+6.6 Nov	+6.3	4.8 Nov§	-88.7 Nov	-3.8	-5.0	12.38	2.70	2.38
Chile	+0.8 Q3	+1.5	+2.0	-2.9 Nov	+5.4 Nov	+4.4	6.1 Nov§‡‡	-5.0 Q3	-1.4	-2.3	4.33	615	532
Colombia	+4.2 Q3	+2.6	+4.8	+0.4 Oct	+3.7 Dec	+2.9	7.7 Nov§	-16.2 Q3	-4.3	-1.5	6.99	2,455	1,938
Mexico	+2.2 Q3	+2.0	+2.1	+2.1 Oct	+4.2 Nov	+3.9	4.7 Nov	-25.4 Q3	-1.9	-3.6	5.71	14.8	13.1
Venezuela	-2.3 Q3	+10.0	-3.1	+0.8 Sep	+63.6 Nov	+62.2	5.9 Nov§	+10.3 Q3	+0.7	-12.7	14.96	12.0	6.29
Egypt	+3.7 Q2	na	+2.2	+25.7 Oct	+9.0 Nov	+10.7	13.1 Q3§	-4.4 Q3	-2.4	-12.0	na	7.15	6.96
Israel	+2.4 Q3	-0.1	+2.4	-0.8 Oct	-0.1 Nov	+0.5	5.6 Nov	+11.2 Q3	+3.8	-3.0	2.12	3.95	3.50
Saudi Arabia	+3.6 2014	na	+4.1	na	+2.5 Nov	+2.8	5.6 2013	+120.1 Q3	+12.7	+1.2	na	3.75	3.75
South Africa	+1.4 Q3	+1.4	+1.6	+2.1 Oct	+5.8 Nov	+6.2	25.4 Q3§	-19.7 Q3	-5.1	-4.3	7.51	11.7	10.7

Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, Nov 41.61%; year ago 19.95% †††Dollar-denominated bonds.

Markets

	Index Jan 7th	% change on one week	% change on Dec 31st 2013 in local currency	% change on Dec 31st 2013 in $ terms
United States (DJIA)	17,584.5	-1.3	+6.1	+6.1
China (SSEA)	3,535.7	+4.3	+59.7	+55.6
Japan (Nikkei 225)	16,885.3	-3.2	+3.6	-8.8
Britain (FTSE 100)	6,419.8	-2.2	-4.9	-13.5
Canada (S&P TSX)	14,285.0	-2.4	+4.9	-6.1
Euro area (FTSE Euro 100)	1,000.7	-3.5	-1.9	-16.0
Euro area (EURO STOXX 50)	3,026.8	-3.8	-2.6	-16.6
Austria (ATX)	2,138.4	-1.0	-16.0	-28.1
Belgium (Bel 20)	3,193.8	-2.8	+9.2	-6.4
France (CAC 40)	4,112.7	-3.7	-4.3	-18.0
Germany (DAX)*	9,518.2	-2.9	-0.4	-14.6
Greece (Athex Comp)	777.7	-5.9	-33.1	-42.7
Italy (FTSE/MIB)	18,123.5	-4.7	-4.5	-18.2
Netherlands (AEX)	411.2	-3.1	+2.3	-12.3
Spain (Madrid SE)	1,003.5	-3.7	-0.8	-15.1
Czech Republic (PX)	933.3	-1.4	-5.6	-20.5
Denmark (OMXCB)	672.1	-0.5	+18.7	+2.0
Hungary (BUX)	16,191.4	-2.7	-12.8	-30.4
Norway (OSEAX)	616.4	-0.5	+2.2	-19.8
Poland (WIG)	51,350.4	-0.1	+0.1	-17.2
Russia (RTS, $ terms)	746.5	-5.6	-1.6	-48.3
Sweden (OMXS30)	1,421.3	-3.0	+6.6	-14.3
Switzerland (SMI)	8,900.8	-0.9	+8.5	-5.2
Turkey (BIST)	86,776.6	+1.2	+28.0	+18.1
Australia (All Ord.)	5,334.5	-1.0	-0.3	-9.7
Hong Kong (Hang Seng)	23,681.3	+0.3	+1.6	+1.6
India (BSE)	26,908.8	-2.1	+27.1	+24.3
Indonesia (JSX)	5,207.1	-0.4	+21.8	+16.4
Malaysia (KLSE)	1,709.2	-3.0	-8.5	-16.3
Pakistan (KSE)	32,836.0	+2.2	+30.0	+35.7
Singapore (STI)	3,298.4	-2.0	+4.1	-1.9
South Korea (KOSPI)	1,883.8	-1.7	-6.3	-10.1
Taiwan (TWI)	9,080.1	-2.4	+5.4	-1.8
Thailand (SET)	1,500.8	+0.2	+15.6	+15.4
Argentina (MERV)	8,246.2	-3.9	+53.0	+16.2
Brazil (BVSP)	49,462.9	-1.1	-4.0	-15.9
Chile (IGPA)	18,573.9	-1.6	+1.9	-12.9
Colombia (IGBC)	10,903.4	-6.3	-16.6	-33.9
Mexico (IPC)	41,813.9	-3.1	-2.1	-13.4
Venezuela (IBC)	3,944.4	+2.2	+44.1	na
Egypt (Case 30)	8,798.9	-1.4	+29.7	+26.1
Israel (TA-100)	1,280.8	-0.6	+6.1	-7.5
Saudi Arabia (Tadawul)	8,133.4	-3.3	-4.7	-4.8
South Africa (JSE AS)	48,961.1	-1.6	+5.8	-5.5

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

	Real GDP, % change Low/high range 2014	Low/high range 2015	Average 2014	Average 2015	Consumer prices % change 2014	2015	Current account % of GDP 2014	2015
Australia	2.2/3.3	2.0/3.1	2.8 (3.1)	2.8	2.5	2.3 (2.4)	-3.1 (-2.8)	-3.3 (-2.9)
Belgium	0.9/1.4	0.9/2.0	1.1	1.2	0.6	0.9 (1.0)	-0.5 (-0.3)	nil (-0.1)
Britain	2.6/3.2	2.3/3.0	2.9 (3.0)	2.7 (2.6)	1.4 (1.5)	1.1 (1.4)	-4.8 (-4.5)	-4.1 (-3.9)
Canada	2.3/2.5	1.8/2.9	2.4 (2.3)	2.4	1.9 (2.0)	1.5 (1.8)	-2.4 (-2.5)	-2.4
France	0.3/0.4	0.5/1.4	0.4	0.9 (0.8)	0.6	0.6 (0.8)	-1.3 (-1.5)	-1.2 (-1.4)
Germany	1.3/1.5	0.9/1.7	1.4	1.2 (1.3)	0.8 (0.9)	0.9 (1.2)	7.3 (7.0)	7.0 (6.5)
Italy	-0.4/-0.2	0.1/0.8	-0.3	0.4	0.2	0.3 (0.4)	1.5 (1.4)	1.6 (1.4)
Japan	0.1/0.5	0.4/1.8	0.3 (0.5)	1.0 (1.1)	2.8 (2.7)	1.4 (1.7)	0.3	0.9 (0.7)
Netherlands	0.6/0.8	0.9/1.7	0.7	1.2	0.6 (0.7)	0.8 (1.1)	9.7 (9.6)	9.4 (9.1)
Spain	1.2/1.4	1.4/2.3	1.3	1.8 (1.7)	-0.2 (-0.1)	nil (0.4)	0.2	0.4 (0.5)
Sweden	1.5/2.2	1.6/2.7	1.9 (2.0)	2.3 (2.4)	-0.2 (-0.1)	0.6 (0.9)	5.8	5.5
Switzerland	1.3/1.9	1.1/2.6	1.7 (1.6)	1.8	nil	nil (0.2)	10.5 (11.3)	10.7 (11.0)
United States	2.2/2.6	2.7/3.6	2.3	3.1 (3.0)	1.6 (1.7)	1.1 (1.6)	-2.3	-2.2 (-2.3)
Euro area	0.8/1.2	0.8/1.6	0.8	1.1	0.4 (0.5)	0.5 (0.8)	2.4 (2.3)	2.4 (2.3)

Sources: Bank of America, BNP Paribas, Citigroup, Commerzbank, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, ING, JPMorgan Chase, KBC Bank, Morgan Stanley, RBC, RBS, Schroders, Scotia Capital, Société Générale, Standard Chartered, UBS

Other markets

	Index Jan 7th	% change on one week	% change on Dec 31st 2013 in local currency	% change on Dec 31st 2013 in $ terms
United States (S&P 500)	2,025.9	-1.6	+9.6	+9.6
United States (NAScomp)	4,650.5	-1.8	+11.3	+11.3
China (SSEB, $ terms)	294.9	+1.4	+19.3	+16.3
Japan (Topix)	1,359.8	-3.4	+4.4	-8.1
Europe (FTSEurofirst 300)	1,330.2	-2.8	+1.0	-13.4
World, dev'd (MSCI)	1,662.2	-2.8	+0.1	+0.1
Emerging markets (MSCI)	941.2	-1.6	-6.1	-6.1
World, all (MSCI)	406.1	-2.7	-0.6	-0.6
World bonds (Citigroup)	898.9	-0.4	-0.8	-0.8
EMBI+ (JPMorgan)	687.3	-0.7	+5.5	+5.5
Hedge funds (HFRX)	1,208.8§	-0.8	-1.4	-1.4
Volatility, US (VIX)	19.3	+19.2	+13.7	(levels)
CDSs, Eur (iTRAXX)†	64.5	+2.4	-10.3	-23.1
CDSs, N Am (CDX)†	70.0	+5.9	+5.8	+5.8
Carbon trading (EU ETS) €	6.9	-5.9	+31.9	+13.0

Sources: Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. §Jan 6th.

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

The Economist commodity-price index

2005=100

	Dec 23rd	Dec 30th	Jan 6th*	% change on one month	% change on one year
Dollar index					
All items	154.3	153.3	152.3	-2.6	-6.6
Food	175.2	173.7	173.8	-1.8	-3.3
Industrials					
All	132.5	132.1	130.0	-3.7	-10.9
Nfa†	125.7	126.8	124.4	+0.8	-19.2
Metals	135.5	134.3	132.4	-5.4	-7.0
Sterling index					
All items	180.8	179.2	182.6	+0.7	+0.9
Euro index					
All items	157.5	156.7	158.9	+1.5	+6.6
Gold					
$ per oz	1,178.1	1,205.3	1,207.7	-2.0	-1.6
West Texas Intermediate					
$ per barrel	57.0	53.8	48.2	-24.5	-48.7

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.

The sin of pride

Mario Cuomo, governor of New York and presidential might-have-been, died on January 1st, aged 82

THE speech Mario Cuomo delivered at the Democratic convention in San Francisco in 1984 was the best of his career. It also turned out, more surprisingly, to be the peak of it. In measured, musical, majestic cadences, he delivered his challenge to Ronald Reagan's vision of America as "a shining city on a hill": the "hard truth" that there was another city of struggle, fear, low pay and helplessness, where "there are people who sleep in the city streets, in the gutter, where the glitter doesn't show."

Even then, however, an interesting subtext seemed to be playing through Mr Cuomo's mind. Far from basking in the applause, he appeared to check himself each time he provoked it, as if, like the good Catholic he was, he had to urge himself to humility. *Let this not be an occasion of sin.* When the speech was over he flew straight home to Albany, and slept in his own bed.

He was governor of New York state, holding the office for three terms, and in 1987-88 and 1991-92 was the man many Democrats wanted as president. On both occasions, he disappointed them. In 1988 he let his name float about, was plainly tempted, but would not (as a keen ex-baseball player) step up to the plate when Gary Hart's campaign imploded. In 1991, after months of speculation, he waited until 90 minutes before the filing deadline for the New Hampshire primary, keeping two aircraft ready on the tarmac, before announcing that he really had to stay in Albany to push the state budget through.

Few believed him. When supporters tried to draft him into the race, too, he let them try for quite a while. Perhaps he didn't know what he wanted. In 1993 it happened again, when Bill Clinton offered him the job he thought "perfect", a seat on the Supreme Court, and after a lengthy courtship he suddenly withdrew. He said he would miss making controversial speeches. Again, people shook their heads.

This was a man with no shortage of ego. He knew he could command people. He could cajole them, too, with one serious look and a touch of his big hand on their arm; or win them over with a quickfire joke. (When an engine failed in midair on the state aircraft, and one of the press corps turned white, he quipped: "What's the matter? Aren't you in a state of grace?") With his love of debate he could argue people half to death, and bully them too.

But then he had to wrestle with that domineering self, because both ambition and pride might be mere self-gratification. A journalist asked him once if he was proud of his son Andrew, who became New York's present governor. With typical sharp intensity, honed on Aristotle and Aquinas, he parsed the question. "Proud" meant "you're saying something good about yourself", and he wasn't, "so it's not pride". He rejected the "pretentious" idea that his portrait should hang in the Capitol in Albany, and refused to sit for one.

He had to wrestle, too, with his passion for politics. This was work he excelled at, weaving networks, building alliances, finding compromises, working 14-hour days in Albany. But it also stained the soul. A grubby, ill-tempered campaign in 1977 for mayor of New York City, which he had not wanted to join and which he lost, gave him another reason to evade the most glittering political temptations later. He did not want to do this "ugly business" on a national scale. Nor did he want to start on something he was not committed to.

Liberalism, tested

The pride and pollution of practical politics could be assuaged, he believed, only by turning them towards the good of society and America as a whole. The peak of his career coincided with a resurgence of Republican frontier individualism, when the poor, elderly and struggling were abandoned, as he saw it, at the side of the trail. His alternative prescription was heartfelt Democratic liberalism, calling on Americans to become one community, exercise compassion, embrace government as good and recognise that "at the heart of the matter we are bound one to another".

This was inspiring and idealistic, but already old-fashioned. As governor in testing economic times he had to cut spending, shrinking government. Some political concessions, too, caused more grief to his conscience. If he opposed the death penalty, as he did on principle, he had to build more prisons, which he hated; and though he rejected abortion, as a Catholic must, he could not make that view the law of the land. There were no perfect solutions, only pragmatism. His governorship was a success, but it was not pure.

There was no great incentive, then, to move higher. And perhaps the office of governor of New York was high enough for one lifetime. It already marked an extraordinary rise for a boy born in Queens, behind a shop, to immigrants from Italy who spoke no English; for the son of a grocer in a stained overall who saved crusts for those even needier than he was. The boy Mario had soared through baseball, law and politics, but to them he was still the lucky scamp, and he would test out his policy ideas on Momma later to get her earthy, tart reaction. His ideal America was just this, a bickering, diverse family in which each member nonetheless worked for the enterprise and all were in it together; and where almost no one, certainly not he, so indulged the sin of pride as to think themselves worthy of the very highest place. ■