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The weakness of Islamic State


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Politics

Israel's prime minister, Binyamin Netanyahu, confounded the pollsters by winning a resounding election victory. His Likud party won 30 seats against 24 for the rival Zionist Union, led by Yitzhak Herzog, in the 120-seat Knesset. Mr Netanyahu's fourth coalition government will take weeks to build. The question is whether he will try to construct a cabinet only with right-wing and religious parties, or seek a more centrist one by inviting Mr Herzog to join a unity government.

Gunmen attacked a museum close to the parliament building in Tunis, the capital of **Tunisia**, killing 19 people, 17 of them foreign tourists. The attackers are believed to be jihadists. Around 3,000 Tunisians are thought to be fighting for Islamic State in Syria.

A UN investigation concluded that IS may have committed war crimes and crimes against humanity in **Iraq**, and "may have perpetrated genocide" against the Yazidi minority.

The Pentagon said that a leader of the **Shabab** Islamists in Somalia had been killed by a drone strike. Adan Garar was suspected of planning the attack on a shopping mall in Nairobi, the Kenyan capital, in 2013 that killed 67 people.

Rousseff rattled

Millions of people participated in rallies across **Brazil** against the government of Dilma Rousseff, the biggest protests the country has seen since the era of military rule. They were angered by a political scandal centred on Petrobras, the state-controlled oil giant, as well as high inflation and a weak economy. Many protesters demanded the president's impeachment, although she has not been charged with wrongdoing.

Venezuela's National Assembly passed a law allowing the president, Nicolás Maduro, to rule by decree until the end of 2015. He asked for the powers after America froze the assets of seven leading members of Venezuela's regime. Mr Maduro accused Barack Obama of "intervening in Venezuela in order to control it".

Dates were set for long-overdue elections in **Haiti**. Their delay had caused months of protests and a stand-off that resulted in the shutdown of parliament in January. The president, Michel Martelly, will not be allowed to stand for re-election on October 25th. Parliamentary elections are scheduled for August 9th.

Devastated

Aid agencies struggled to reach the more remote areas of **Vanuatu** after a cyclone tore through the island chain in the South Pacific. The president, Baldwin Lonsdale, said the disaster had destroyed all the progress from development in recent years. Tens of thousands have been left homeless.

The Pakistani Taliban claimed responsibility for suicide-bomb attacks on two churches in Lahore, killing 17 people. Christians make up less than 2% of **Pakistan's** population and have been increasingly targeted by Islamic militants, who have destroyed hundreds of their homes. Riots broke out in Lahore's Christian areas after this week's attacks.

Thailand's Supreme court ordered Yingluck Shinawatra, the prime minister deposed shortly before a military coup last year, to stand trial for malfeasance in office. Her hearing begins on May 19th.

In **Malaysia** the eldest daughter of Anwar Ibrahim, the leader of the opposition who has been jailed on charges of sodomy, was arrested for sedition after she read out in parliament remarks criticising his conviction. Critics of the government contend that it is using archaic sedition laws to silence the opposition.

China and **Japan** held their first significant talks on security since 2011, another development in their attempt to ease tensions over rival territorial claims to islands in the East China Sea.

China protested to **Myanmar** over the deaths of four people on its side of their border. They were allegedly killed by a bomb dropped by a Burmese fighter jet. Myanmar has denied involvement. The incident appears to relate to a flare-up of fighting between Burmese government forces and ethnic Kokang rebels.

Putin in an appearance

Vladimir Putin reappeared in public after a ten-day absence that had fuelled speculation about a power struggle in the Kremlin. On the anniversary of Russia's annexation of Crimea, he admitted that Western sanctions have damaged Russia's economy.

Serbia arrested seven men accused of taking part in a massacre near **Srebrenica**, where about 8,000 Muslim men and boys were killed in 1995. If the case comes to trial it will be the first time that people have been held to account in Serbia for Europe's biggest mass slaughter since 1945.

The Conservative-led government in **Britain** produced its last budget before an election in May and provided sweeteners to housebuyers, pensioners and motorists, groups that the Tories hope to woo at the polls. Meanwhile, the leader of the opposition Labour Party, Ed Miliband, ruled out a formal coalition with the Scottish National Party if Labour emerges as the biggest party in a hung Parliament.

Happy anniversary

The Obama administration reported that 16.4m people had obtained health insurance since **Obamacare** came into effect, reducing the proportion of Americans who are uninsured from 20.3% to 13.2%. The figures come ahead of the fifth anniversary of the act being signed into law.

Republicans in the House and Senate put forward two separate alternative budgets to the one proposed by the White House. Both call for cuts to social programmes and the repeal of Obamacare, but the Senate version calls for limits on military spending to be kept in place, whereas the House document envisages it rising.

Oregon became the first state in America to register people to vote automatically. In future ballot papers will be sent out to eligible voters on the state's car-registration database. Oregonians without a car can still register by post or online.

Aaron Schock decided to resign from Congress following reports about alleged irregular spending, including the lavish redecoration of his Washington office in a "Downton Abbey" style. Mr Schock, who was elected in 2008, was the first "millennial" to win a seat in the House, but was known more for his flashy travel, workout routines and washboard abs than his legislative record.

Business

In its latest policy statement the **Federal Reserve** removed a promise to be "patient" before raising interest rates, giving itself more flexibility to lift rates for the first time since 2006. But it also lowered its forecasts for growth and inflation, suggesting that an increase may not come until the latter part of the year.

Sweden's central bank surprised markets with an unscheduled interest-rate move, cutting its main rate to -0.25% from -0.1%. The Riksbank, which is trying to stave off deflation, also increased the size of its quantitative-easing programme. **Norway's** central bank unexpectedly left interest rates unchanged. Many economists thought it would reduce rates to guard the economy against plunging oil prices.

The **DAX stockmarket index** in Frankfurt closed above 12,000 for the first time. Investors have piled into German equities in search of better returns as yields on euro-zone bonds have fallen to record lows thanks to the start of the European Central Bank's QE programme. German exporters are also benefiting from a weaker **euro**.

A rival to the IMF

Jack Lew warned that America's "international credibility and influence are being threatened" by Congress's reluctance to approve reforms to the IMF that would give China a greater role. The Treasury secretary spoke after Britain, France, Germany and Italy signed up to the new **Asian Infrastructure Investment Bank** that has been proposed by China. Although it is not opposed to the AIIB, America has misgivings about its transparency and creditworthiness, and worries that China will use it to push its regional interests.

The average price of a new home in **China** fell by 5.7% in February, year on year, the steepest decline since a nationwide survey began in 2011. Prices fell by 3.6% in Beijing and 4.7% in Shanghai. Banks extended a $16 billion line of credit to Evergrande, a big and heavily indebted property developer. The government promised that it has "more tools in its toolbox" to help the economy if things get much worse, fuelling speculation of another stimulus package.

Stirring things up

The boards of **Holcim** and **Lafarge**, two big European cement-makers, met separately as their planned $44 billion merger began to look less concrete. The terms of the deal were supposedly set in stone last year. But Holcim is reportedly not happy about Bruno Lafont, the chief executive of Lafarge, becoming boss of the combined group.

Valeant clinched a $15.8 billion deal to buy **Salix** after raising its offer to fend off a rival bid. Securing the deal will be a relief to Valeant, which was thwarted in its pursuit of Allergan, the maker of Botox. Actavis was the winner of that bidding war and completed its takeover this week. It has been a bumper start to the year for deals in the drug industry, with around $70 billion in announced acquisitions so far.

In a potentially huge **breach of medical records**, Premera Blue Cross, a health insurer, said that clinical data about its 11m customers may have been hacked in May last year, which it discovered only in January. There have been bigger cyber-attacks on health-insurance firms, though the information obtained in those cases is not thought to include medical particulars, which are highly prized by online fraudsters.

Uber, an app-based taxi service that faces many legal challenges to its business model, had more setbacks this week. A court in Germany banned its informal ride-sharing operations in the country; police raided its offices in Paris; its executives were charged in Seoul with defying South Korea's transport laws; and taxi companies in California sued Uber in San Francisco, its home city.

Liked by needy friends

Facebook launched a payments service through which users can send money to one another via its instant-messaging app. Its foray into mobile payments is not a surprise. Last year Facebook hired David Marcus, who headed PayPal at the time, to run its Messenger app.

Nintendo said that it would develop games to play on mobile devices. For years the Japanese firm has resisted mobile gaming, instead distributing games such as "Super Mario Brothers" and "The Legend of Zelda" through its consoles. Nintendo's volte-face scored highly with investors; its share price rose by 21%.

Getting a coffee at **Starbucks** got a little more complicated when it launched a campaign to encourage its staff to discuss race issues with customers. To judge by the reaction on social media, however, not everyone wants to talk about the rights and wrongs of Ferguson when ordering an Americano. Howard Schultz, the firm's boss, said it was no mere PR exercise but an attempt to do good.

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


She's a fan.
MANDARIN ORIENTAL
THE HOTEL GROUP

The caliphate cracks

Though Islamic State is still spreading terror, its weaknesses are becoming apparent

WHEN the jihadists of Islamic State (IS) seized Mosul and the Iraqi army fled last June, they became the world's most dangerous terrorist organisation. Sweeping out of Syria and north-western Iraq, they stormed southward, and came close to taking Baghdad. They murdered male prisoners in gory videos and enslaved female ones. Groups from Nigeria to Libya and Afghanistan pledged allegiance to them. Devotees attacked innocent civilians in Western cities; this week at least 19 people were killed in an assault on tourists in Tunisia (though the culprits are unknown). The IS threat has pushed together unlikely allies: in Iraq America provides the air power while Iran musters the ground forces.

As our briefing explains (see page 17-20), IS differs from jihadist groups that have gone before, including its parent, al-Qaeda. It is uniquely brutal in its treatment of foes and uniquely competent as a propagandist. But what most sets it apart is its claim to have restored the Islamic caliphate. The revival of a single state to rule over all Muslims, dating to Islam's earliest days and abolished in 1924 by modern Turkey after the fall of the Ottoman empire, was meant to eradicate decades of supposed humiliation by outsiders and Arab rulers who presided over the decline of flourishing Arab societies.

To Western ears, the pretence that IS is a government in office is absurd, a bit of jihadist braggadocio; to many Muslim clerics (and even al-Qaeda) it is heresy. Yet it has stirred a form of messianism. "Rush, O Muslims, to your state," declared Abu Bakr al-Baghdadi, IS's leader. And thousands have indeed rushed to fight for and build the Islamic Utopia: even schoolgirls have abandoned families and friends in Europe.

The call of the caliphate has galvanised zealots. Yet, even as IS launches terrorist attacks, the good news is that cracks in the caliphate are becoming increasingly apparent. IS is losing ground, money and the consent of the people it rules.

The state of Islamic State

The caliphate has been pushed out of the Syrian town of Kobane by Kurdish fighters, backed by American air power. It is being squeezed in Tikrit (the tribal base of the former dictator, Saddam Hussein) by the Iraqi army and Shia militias co-ordinated by Iran. Compared with the peak, when it was at the gates of Baghdad, its territory has shrunk by about 25%.

IS's funds are dwindling, too. America and its allies have bombed lucrative oil facilities. Most of the hostages have been sold or murdered in video-recorded beheadings. Now that IS's forces are retreating, the loot of conquest has dried up. Some analysts reckon it may have lost up to 75% of its revenues. That makes it harder for IS to keep fighting and to provide services to the roughly 8m people living under its rule.

That may help explain signs of internal tension. The movement has started to kill its own followers, sometimes for fleeing before the enemy and on at least one occasion supposedly for zealously beheading too many people. Residents complain of extortion, violent repression and declining public services. There are reports of tensions between local and foreign members over disparities in pay.

Judged by its own standard, then, the caliphate is failing as an all-conquering state and model for society. That matters because a proto-state with a large territory and population to defend is also more vulnerable to setbacks than terrorist groups that are not rooted to a patch of land. Precisely because IS claims to be running a model Islamic state, its visible failure exposes the bankruptcy of its ideology and the hollowness of its claims to would-be recruits. If, as some say, the secret of IS's success is success itself; then failure will gain momentum, too.

Even so, the hardest part of defeating IS still lies ahead, starting with the military campaign in Iraq. In recent days the operation to oust it from Tikrit has been hampered by hidden bombs and snipers. And after Tikrit falls, there is Mosul—bigger and more important, with a population closely associated with IS. The recapture of Mosul is vital to puncturing IS's claim to be a caliphate. The nature of the campaign matters, too. The Iranian-sponsored Shia militias at the forefront of the fighting in Tikrit are known for having victimised Sunni civilians in earlier fighting nearer Baghdad. The fear is growing that, by depending so heavily on Iran, Iraq is being turned into an Iranian satrapy. If so, Iraq's disenchanted Sunni population will cleave even more tightly to the IS jihadists as their best and only protectors. It is important, therefore, that the attack on Mosul is led by a professional, non-sectarian Iraqi army. The trouble is that the Iraqi army is demoralised and far from ready.

Hardest of all is the insoluble problem of Syria. Even if Mosul can be retaken, IS or something like it will survive, certainly for as long as it enjoys an unchallenged haven in Syria. For the time being, nobody is even thinking of trying to eject IS from the Syrian city of Raqqa: not the regime in Damascus, which wants to prove that the only alternative to IS is Bashar Assad; not the Kurds, who will not fight far beyond their enclaves; not Jabhat al-Nusra, the most effective rebel force, which remains a franchise of al-Qaeda; and not the rebels being trained by America, who are too few to make a difference.

Syria will not be pacified soon—possibly not for many years. Until that moment, IS can lurk there, controlling swathes in the east, destabilising Sunni areas of Iraq and biding its time until it has another chance to rise up. Defeat in Mosul could reduce the caliphate to a rump entity, or could lead it to disintegrate into a patchwork of warring fiefs, like much of the rest of the country. It would still pose a grave threat to the outside world and would need constant watching. But degradation would make it easier to contain than it is today.

Always with us

Destruction is much further off. As much as Islamic State is a cause of chaos in the Middle East, it is also a symptom. Its ideology feeds off Sunnis' sense of victimhood. The group has taken root across the region, and especially where the state has collapsed. Defeating it is ultimately a matter of rebuilding governments in the Arab world—a task that will take decades. Cutting back the caliphate is just the vital first step. ■

China on the world stage

A bridge not far enough

America is wrong to obstruct China's Asian-infrastructure bank

AMERICA says it welcomes China's ascent to great-power status, so long as the Chinese respect international norms and play a proper part in the multilateral system. China suspects that, in practice, America tries to hem it in whenever it does anything on the world stage. In the case of the Asian Infrastructure Investment Bank (AIIB), America seems to be confirming China's darkest fears: it has adopted a policy of containment that is wrong in principle and has failed in practice.

Flush with the world's largest foreign-exchange reserves, China plans a new bank to help match Asia's vast savings with its even vaster need for new bridges, roads and other necessities of development. America dislikes the idea because it thinks the bank will not abide by high standards of credit-worthiness and transparency; it also fears the institution will be a vehicle for Chinese influence. Though the Americans say they have not lobbied against the bank, they have put pressure on allies not to join it. When Britain became the first country outside Asia to apply for membership, an American official harrumphed about its trend towards "constant accommodation" of China. That admonition did not stop Germany, France and Italy declaring this week that they too wanted to be founding members. Others may follow (see page 32).

America is not wrong to be suspicious of China's motives. The AIIB is designed to project Chinese power in the region. Institutions already exist to match capital with projects, most obviously the Asian Development Bank (ADB). Rather than setting up a new lender, China could have put more money into an old one. Nor is America wrong to warn against a supine approach to China: Britain's limp response to the protests that rocked Hong Kong last year did it no credit. America's doubts over the bank's lending policies cannot just be wished away, either. As Sri Lanka's largest infrastructure project shows, Chinese-financed development plans can be opaque, careless of environmental concerns and shot through with dodgy political dealings (see page 33).

A missed opportunity

But there are three reasons why America should be more receptive toward the AIIB and its allies' potential membership. The first is that Asia's need for infrastructure is vast and pressing. The continent's relentless urbanisation requires at least $8 trillion of infrastructure spending in this decade, according to the ADB. The AIIB will not finance this splurge on its own: it looks likely to end up with a capital base of between $50 billion and $100 billion. But it will help.

Second, the best way to deal with concerns about Chinese lending standards is to join the bank and improve it from inside, not to throw brickbats from outside. Chinese leaders know perfectly well that the new institution will come under a lot of scrutiny. They have an incentive to be open and transparent, at least at first. Having more nations outside its orbit on board should help keep things more honest.

Third, although it might have been better to expand and reform existing institutions (the ADB, World Bank and so on), America itself has made that impossible. Even a modest proposal to increase the resources of the IMF (giving slightly more votes to China and other big emerging markets) has been stymied for years in Congress. America has frustrated efforts to boost China's clout in the World Bank. Nor is China included in its planned Trans-Pacific Partnership free-trade deal.

Rather than try to thwart the AIIB, America ought to embrace it. China should invite it to join, and America should accept. That would be the best way to accommodate Asia's massive infrastructure plans—to say nothing of a rising China. ■

Greece v Germany

Dangerous liaisons

References to reparations and threats to seize German assets will not solve Greece's economic woes

THE Greek crisis is not just an economic mess. Increasingly, it is becoming a geopolitical mess too. Alexis Tsipras, the country's prime minister, whose radical-left Syriza party swept into government after January's general election, has taken to tugging at crude political levers—from cosying up to Vladimir Putin to demanding war reparations from Germany—in the belief that this will somehow prompt concessions from the rest of the euro zone.

The whiff of blackmail has incensed Europe's politicians. Mr Tsipras has a chance to calm things down in two meetings with Angela Merkel, Germany's chancellor—the first this week on the fringes of a European summit in Brussels, and the second in Berlin on March 23rd for what should be some hard talking between the European Union's most powerful leader and its biggest troublemaker. Instead of stirring up resentment, Mr Tsipras should focus on the urgent task at hand: forging a deal.

Just now the Greek government seems to prefer lobbing incendiary political gibes instead. The defence minister has threatened to flood Europe with migrants, including jihadists. The justice minister has demanded that Germany pay €160 billion ($170 billion) in war reparations and warned Greece might seize the buildings of the Goethe Institute and even Ger- ▸▸

man holiday homes if the money is not handed over (see page 43). And Mr Tsipras has brought forward to early April a trip to Moscow to see Russia's president, Vladimir Putin. His hoped-for message is as clear as it is crude: Mr Putin might be only too happy to help a fellow Orthodox country that dislikes sanctions on Russia.

Clearly, Greece believes that it can use threats like Russia to his advantage. History provides a precedent: it was to fend off Soviet encroachment that America, under President Truman, provided aid to Greece in the aftermath of the second world war. Today, too, for Greece to fall under Russia's spell is the last thing that NATO and the EU wants.

Mr Tsipras is playing a dangerous game. By feeding Greeks' well-developed sense of victimhood (and the historical claims against Germany have some legitimacy), he is fanning flames that could soon burn out of control. Although opinion polls consistently show that a majority of Greeks want to remain in the euro, there is no better way to change their minds than to tell them that their EU partners treat them with injustice and contempt.

Likewise, by taking on Germany, the Greeks are alienating their biggest creditor—and the very country whose backing they most need to win a reprieve from the euro zone. Already, according to a poll published last week, most Germans want Greece to leave the euro. Even if Mrs Merkel wants to save Greece, she will not be able to resist the overriding wishes of her voters.

Under Mr Tsipras, Greece has had a knack for alienating countries such as France and Italy, which would naturally lean against Teutonic austerity. That hardly inspires confidence that he knows what he is doing today. By far the best outcome, for both sides, would still be to keep Greece in the euro. And, for most of the past few weeks, that has seemed the most likely. Although Mr Tsipras came to power promising to end austerity, he backed down last month, as money poured out of Greek banks at a weekly rate of some €2 billion and the prospect of capital controls loomed. The fiery rhetoric was briefly replaced with pragmatism—a reform programme in exchange for a four-month extension of Greece's bail-out.

Don't make a drachma out of a crisis

With Greece in imminent danger of running out of cash, a similar shift must urgently occur once again. The meetings in Brussels and Berlin will be crucial. The Greek leader has charm, and could get along fine with Mrs Merkel—provided he is prepared to eschew the blackmail and shows that his European partners can trust him.

He could make a good start by replacing his loquacious finance minister, Yanis Varoufakis, with somebody more pragmatic. He would be well advised also to dump his nationalist coalition partner, the right-wing Independent Greeks, for the more moderate To Potami. At home, rather than allowing his ministers to rail about reparations, he needs to get behind reform, and explain to his voters why Syriza's extravagant election promises cannot be kept.

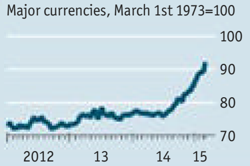
Under Mr Tsipras Greece has been squandering opportunities to make a deal with the rest of the euro zone. If he does not yield soon, he may discover that his chances have run out. ■

The strong dollar

Mismatch point

The rise of the dollar will punish borrowers in emerging markets

Dollar trade-weighted index
Major currencies, March 1st 1973=100



IN THE three months following the collapse of Lehman Brothers, as the world economy crumbled and investors scrambled for shelter, the dollar rose by 5% against a basket of other widely used currencies. In the past three months it has jumped by 11%; over the past year, by 22%—its fastest ascent in decades. The dollar is not yet in uncharted waters: one euro was worth one dollar in the early 2000s, for example. Its rise will help exporters in less vibrant parts of the world, notably Europe. But moves of this magnitude usually catch someone out, and the likeliest candidates this time are in emerging markets.

The principal reasons for the greenback's rapid strengthening are simple to grasp. With Europe and Japan stuck in the doldrums, and China and other emerging markets slowing, America's economy looks relatively strong. The IMF expects it to grow by 3.6% this year. The Federal Reserve has already begun to tighten monetary policy, by stopping its programme of asset purchases, and is now preparing the ground to go further. This week the Fed altered the wording it uses to describe its plans (see page 63), giving itself room to raise interest rates later this year—the first rise since 2006. With American monetary policy tightening, and other central banks still loosening, investors can make higher returns from dollar-denominated assets. In capital floods, and up the dollar goes.

The mechanics of dollar strength may be simple, the effects anything but. American firms that sell abroad are hit: around a quarter of the profits of firms in the S&P 500 are earned in foreign currencies. The greenback's ascent also mutes inflation, complicating the Fed's judgment about when to raise rates.

But the chance of a shock is highest outside America. Companies around the world, and especially in emerging markets, have been bingeing on dollar-denominated debt, seduced by the lower interest rates on offer compared with local-currency debt. The stock of dollar debts owed by non-financial borrowers outside America has grown by 50% since the financial crisis, according to the Bank for International Settlements. It now stands at $9 trillion. Emerging markets account for half of that amount, up from a third before the crisis. In China alone, dollar-denominated loans have vaulted from around $200 billion in 2008 to more than $1 trillion now (see page 65).

As the dollar rises, this debt becomes more expensive to service in local currency. And as the Fed starts to tighten, the interest rates charged on dollar debts—whether in bond markets or via banks—will rise in tandem. As a result, borrowers are at risk of a double whammy: a strengthening dollar and a rising cost of borrowing and refinancing. That does not necessarily portend a wave of bankruptcies. But it does mean another drag on growth at a time when swathes of the emerging world are already struggling. Brazil and Russia are heading for deep recessions; China's property market, for years the economy's biggest engine of growth, is slowing. Outside the BRICS, in the last quarter of 2014 emerging markets made their smallest contribution to global growth for more than five years.

Tantrum 2.0

Optimists make several soothing arguments. First, plenty of corporate borrowers have income as well as liabilities in dollars, meaning that currency mismatches are not a concern. But many of the firms that do have matched debts and revenues are oil or mining firms, which have seen their income in dollars plunge because of falling commodity prices. And that still leaves lots of other firms which are exposed to currency moves. A quarter of China's corporate debts are dollar-denominated; only 9% of companies' earnings are. That the yuan has barely depreciated against the dollar, and that China shows little inclination to let it do so, is a comfort. But the peg is not guaranteed to hold; if corporate borrowers have not bothered to hedge, they will be hard hit.

The second argument is that, as much as borrowers in emerging markets may come under pressure to service their debts, emerging-market exporters will benefit from a falling currency. Unfortunately, things are not so neat. Although most emerging-market firms that borrow in foreign currency do so in dollars, exporters may trade not with America, but with other countries whose currencies are also depreciating against the dollar. Thus the strengthening dollar can add to emerging economies' debt burden without helping their exports.

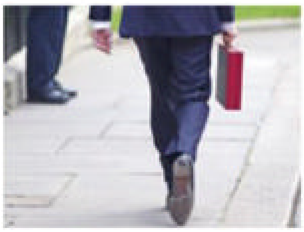
The third source of reassurance is that emerging markets have ample foreign-exchange reserves, which they can use to prop up firms, as Russia and Brazil have done. But countries like South Africa and Turkey have less firepower, and large short-term government debts that will gobble up dollars.

Emerging markets have been put under pressure by the Fed before—most recently in 2013, when the announcement that it would start tapering the pace of its quantitative-easing programme caused money to stampede for safety. If the system could weather that storm, optimists say, it can survive this. But firms have continued to load up on dollar-denominated debt since the "taper tantrum". And emerging markets are weaker now than they were. The surge of the greenback is one more worry in a world already drowning in them. ■

Britain's budget

But seriously

We hope that George Osborne's final budget does not mean what it says



IT WOULD be unwise to expect the last budget before a general election to be anything other than a political event. The occasion is for tax cuts (which tend to be followed by tax rises promptly after the election) and other crowd-pleasing giveaways. Roy Jenkins, a Labour chancellor of the exchequer, bravely tried to break the mould in 1970 with a sober, "non-election" budget. The voters rewarded him by booting his party out of office. By contrast, George Osborne, today's chancellor, has excelled in this ignoble tradition.

Mr Osborne's sixth budget, delivered on March 18th, is a political masterstroke. Its most important shift is a drastic tweak to spending plans, which appears designed purely to head off a Labour Party attack (see page 50). Mr Osborne is actually moving in the right direction, but so sneakily as to cast doubt on what he would really do if the Conservatives remain in power after the election on May 7th.

The budget contained some good measures. Mr Osborne pencilled in further rises to the minimum income-tax threshold, which will have the effect of cutting almost everyone's tax bills. He pulled a sensible U-turn by trimming the extortionate levies he had imposed on North Sea oil-and-gas production in 2011—taxes that have helped drive investors away. There was some bold liberal stuff on pensions. In a commendable bit of decentralisation, some English cities are to be allowed to retain a bigger share of local business taxes.

But the most telling detail was hidden deep in the budget. Mr Osborne plans to cut government spending savagely in the first few years of the next parliament, in order to keep an earlier promise to close the current budget deficit in the 2017-18 fiscal year. But then, bizarrely, departmental spending would zoom up again, by more than £24 billion in just one year.

The explanation for this fiscal rollercoaster is entirely political. In December the Office for Budget Responsibility, Britain's fiscal watchdog, pointed out that Mr Osborne's plans entailed cutting public spending as a share of GDP to levels not seen since the 1930s. The Labour Party seized on that, shrieking that the chancellor was on the road back to Wigan pier. By pencilling in a big increase in spending, Mr Osborne takes spending to 2000 levels—when Labour was in power.

The acrobat

Let's hope that the chancellor is not being entirely sincere. Spending cuts have not been too painful so far (see Bagehot) but they will become more so. Eventually you cut through the fat and reach the muscle. So Mr Osborne might opt to go easy over the next few years and still end up in roughly the same place in 2020—in effect, turning a down-and-up rollercoaster into a gentle slope. He has form on this: his apparently firm plans to cut the budget deficit, announced with a flourish in 2010, were rewritten as the euro zone caught fire. And more moderate spending cuts would be wise. Britain needs to close the deficit, but it also needs to invest more in roads, broadband and the like to make the economy more productive.

Yet, if the best case that can be made for Mr Osborne's plans is that he would not stick to them, the plans are bad. By reducing planning to politicking, they stop departments from thinking ahead. They also short-change voters. With a general election looming and money tight, Britain deserves a proper debate about how big the state should be and what it should do. It did not have one this week. ■

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Bring the party to an end

Why fiddle with Britain's electoral system ("The breaking point", February 21st) when we could do away with political parties? Reduce the size of a constituency to, say, 20,000 voters so that most can get to know prospective candidates. Instead of bringing the MPs to London, let them sit in their regional offices and participate in proceedings via laptop or smartphone. Pay them enough so that they work full-time at being an MP without having financial worries.

Parliament would remain in session for a whole year, sitting for several hours each day. Any MP may introduce legislation and let the majority decide its fate. As for the prime minister, elect him directly and allow him to take ministers from outside Parliament. Similarly, elect the Speaker directly. The great advantage would be the accountability of government to voters without any party considerations.

MUHAMMAD ABD AL-HAMEED
Lahore, Pakistan

Proportional representation is not the panacea you think it to be. The Australian Senate is elected under PR. Senator Ricky Muir, of the Motoring Enthusiast Party and famous for participating in a kangaroo-poo fight in a YouTube video, was elected with just 0.51% of primary first-preference votes.

Hardly proportional and certainly not representative.

ANTON PETROV
Melbourne

It is wrongheaded to think that Britain's electoral system is unfair because it disadvantages smaller parties. Electoral systems should serve people, not parties. Small parties can change government policy before they have won a single MP, as the influence of the UK Independence Party demonstrates. Moreover, in all democracies parties are merely convenient chimeras, evolved under the specific selection pressures of their respective electoral ecosystems. It makes no sense to say that if Britain had PR, the Greens would have more seats, because if the Green Party had more seats it would be a different party.

NEAL HOCKLEY
Lecturer in economics and policy
Bangor University
Bangor, Gwynedd

Britain's House of Commons does not meet in a "Victorian chamber". The current chamber dates from after the second world war, the previous chamber having been destroyed by German bombers in 1941. It leaks at the joints where other bomb damage was repaired around it. This austerity-era rebuilding job is part of the problem with the fabric of Westminster.

NICK SUTCLIFFE
Ash, Surrey

The Olympics are still gold

The latest in a number of negative articles you have written about the Olympics over the years lumped the event together with the new European Games in Azerbaijan and the World Cup in Brazil ("Games that must stop", February 28th). The comparison is wrong. The World Cup, for example, is awarded to a country and is a single-sport tournament; the Olympics are awarded to a city, where 10,500 athletes compete in many different sports that require many different venues.

Nor did you mention the reforms introduced by Thomas Bach, the president of the International Olympic Committee, to tackle excessive budgets and "white-elephant projects" through Agenda 2020, which was unanimously approved by the IOC last December. One immediate effect was that the organisers of the Tokyo games in 2020 cut $1 billion from their budget.

We cannot change the political problems in various countries, though the IOC did get Russia to guarantee no discrimination against any of the participants in the Olympic winter games in Sochi. We have made great progress in modifying the rules and needs of the athletes, media and spectators. It saddens me that you ignored all this.

You expect us to work in a perfect world. That is beyond our power. What is within our power is to do our best.

ALEX GILADY
Member of the International Olympic Committee
Tel Aviv

Valuing Berkshire Hathaway

You criticised Warren Buffett for moving the goalposts by now giving more weight to Berkshire Hathaway's share price than its book value ("Correspondents", March 7th). But the goalposts should have been moved long ago. The previous practice of using book value per share versus the total return of the S&P 500 was an apples-to-oranges comparison of an accounting measure with a market-valuation measure.

Naturally, Berkshire Hathaway's book value per share would underperform when the S&P's price-to-book ratio was soaring, as it did by 21% in 2013. Likewise it would outperform in years like 2008, when valuations were plunging. Comparing the change in Berkshire's market value to the S&P's total return is the best way of measuring how the market judges Berkshire's strategy.

A.B. CAMPBELL
Minneapolis

In pursuit of the politicians

In his dismissal of the absurdity of the ban on fox hunting Bagehot (March 7th) was a little lenient in his treatment of those who tried to stir up class hatred (ineptly as he points out) for political ends. He might have asked why there is never any attempt to ban the sinking of barbed hooks into the mouths of fish, often only for those fish to be returned to the water so that other "sportsmen" might have the same fun.

The answer lies in the electoral damage a ban on fishing would do to the political interests of the anti-hunting lobby and other proponents of a class war. Perhaps if the debate on field sports were to be resurrected a case might be argued, in the interest of subsidiarity and democratic fairness, for making such bans local issues, thereby maintaining a ban on hunting in north London and probably allowing it in the countryside. After all we country people did not expect to prohibit the 700 hours of pointless parliamentary debate on hunting that Bagehot mentioned, while being without adequate transport and other services that are considered the right of town dwellers, and which should be considered much more fully by our lawmakers and the executive.

RUPERT RIDGE
Brockley, Somerset

Although it is useful to specify the incongruities of the fox-hunting ban, the definitive word on the hunt is Oscar Wilde's: "the unspeakable in full pursuit of the uneatable".

PAGE NELSON
Charlottesville, Virginia

A natural clause

If, as mentioned in "Bobby Jindal's parsimonious pitch" (March 7th), Governor Jindal of Louisiana came to the United States *in utero*, and with many conservatives believing that life begins at conception and the constitution stating that a president has to be a natural-born citizen, would he be eligible for the Oval Office?

It would be an interesting issue for the Supreme Court to consider.

ALANN LIPOWITZ
Loveland, Colorado ■

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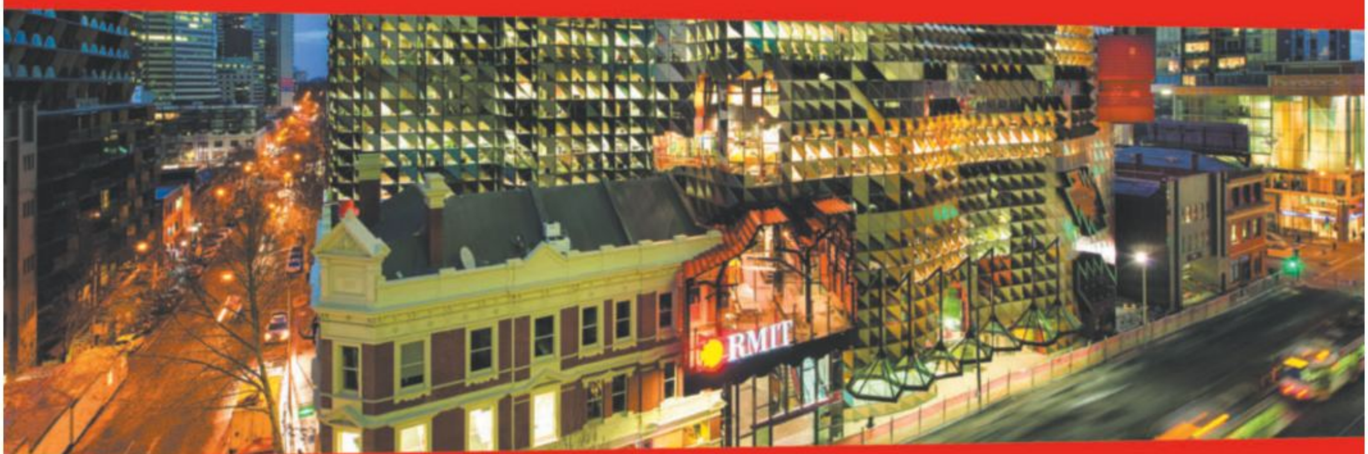

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The pushback

BAGHDAD, KARBALA AND NAJAF

Sustaining a caliphate turns out to be much harder than declaring one. But Islamic State is not dead yet

THE coffin contains the body of the latest young fighter killed on the front lines of the war with Islamic State (IS). But few worshippers at Najaf's Imam Ali mosque pay it heed. On one side women weep and wail at the shrine of Ali, the son-in-law of the Prophet Muhammad who became Islam's fourth caliph, and whose murder can be seen as the beginning of the divide between Sunni and Shia. On the other a group of pilgrims from Iran sits in quiet prayer. The sermon booming from the loudspeakers is discussing marriage, not war. The ground around the building is packed with families and scattered with the leftovers from picnics.

Last summer the residents of Najaf, in Iraq's Shia heartland, were in mortal fear of IS. Its fighters had swarmed out of their redoubts in Syria and north-west Iraq to take control of much of the Sunni part of the country. They were little more than a dozen kilometres from taking Baghdad and also threatened Erbil, the capital of the autonomous Kurdish region in the north. In June IS declared the re-establishment of the caliphate—the single state held to rule over all Muslims. But unlike the caliphate of Ali, this would be one which had highly exclusive definitions of what a Muslim is: Shias need not apply, and a lot of Sunnis would not make the grade, either.

The declaration of the caliphate on territory straddling Iraq and Syria is central to the specific threat posed by IS. While al-Qaeda, too, has a vision of a caliphate, it sees it as the end result of winning Muslims to its cause; IS sees it as something that, imposed by force, will draw good Muslims to it. The difference of opinion explains, in part, the split between the two movements two years ago.

Bringing the caliphate into the realm of action, not words, by making it a real state is one of the things that has made IS particularly successful at recruiting fighters from overseas. Its location helps; *Bilad al-Sham*, as the Levant is known, has a special place in the imaginations of the ideologically committed. Prophecies about the last days involve Dabiq, an area in northern Syria IS now controls, and after which its English-language magazine is named.

The claims of territory

Insurgencies often run services in territories they control, but few claim statehood, and certainly not on the scale IS does. The population currently under its control numbers about 8m.

The caliphate brings grandeur and a certain authority, even though the vast majority of Muslims repudiate it. Territory provides resources. But the needs of a statehood that has to be expansionist make continued success harder. IS needs to go on growing both to raise money and because the caliphate has to become universal. At the same time it must govern what it holds in order to prove it is not just another bunch of terrorists.

It looks as if it has set expectations too high. Since last August its expansion has stalled, and it has been beaten back across much of Iraq (see map on next page). That is why, in Najaf and to an extent Baghdad, the fight against IS no longer feels like a struggle for survival, more like yet another war. The revenues IS depends on have been reduced. And there is some evidence of increased unhappiness within the territory it holds, and among its own members.

The coalition against IS that was put together by America after Iraqi prime minister Nuri-al Maliki left office in August 2014 now numbers some 60 countries; it typically carries out a dozen air strikes a day. America has given weapons to the Iraqi army and the Kurdish Peshmerga; it is training Iraqi soldiers and says it is gearing up to do the same for a small force of anti-IS rebel fighters in Syria.

In most of Iraq, though, the bulk of the fighting is being carried out by Iranian-backed Shia militias. When the IS onslaught was at its height Grand Ayatollah Ali al-Sistani, one of Shia Islam's leading clerics, issued a *fatwa* calling on Shia men to join the Hashid al-Shabi, an umbrella organisation of mainly Shia volunteer militias. At least 100,000 have signed up.

Iran has given cash and weapons to the Hashid al-Shabi; though the militia group nominally answers to the Iraqi government it is to a great extent an Iranian con- ▸▸

cern. Iran also has a lot of influence on the American-trained army, grossly run down and rendered sectarian under Mr Maliki, and has sent it advisers including Qassem Suleimani, the head of its elite Revolutionary Guard. Thanks to General Suleimani's handiwork, Baghdad is now well fortified, and aircraft can fly in and out in safety. A 12-year curfew has been lifted, allowing Iraqis to linger on the banks of the Tigris smoking shisha pipes into the early hours. Malls and cafés are buzzing. The atmosphere is more relaxed than at any time since the American-led invasion of 2003.

The Iraqi army and various Shia militias are fighting on five fronts in Salaheddin province north-west of the capital and seem close to capturing Tikrit, its capital, although the advance into the city appeared to stall on March 13th. The army says it has since asked for American air strikes.

The Kurds have taken back everything they consider Kurdistan. Their front line is supported by air power and well fortified: "It's like world war one along that 1,000km-long border," says one diplomat. Sorties by IS sometimes penetrate the line—there was a ferocious attack on Kirkuk in January—but they rarely get more than five kilometres into Kurdish territory.

All told, IS has been stripped of some 13,000 square kilometres of land, reducing by a quarter what it held at its peak. American officials reckon some 1,000 fighters were killed in just the battle for Kobane, a Kurdish town on the Syrian-Turkish border that IS tried to take for months without quite managing it. Seventeen of its top 43 commanders have been felled, according to Hisham al-Hashimi, an Iraqi analyst of IS in Baghdad. But for all the losses fighters on the front line say there is no sign that IS is running short of men. Recruitment seems to be keeping up.

If the military pressure is not yet reducing the number of IS fighters much, it is having other effects. Hussam Naji Sheneen Thaher al-Lami, a former member of IS now in prison in Baghdad, says that IS fears the air strikes. They have stopped it from moving supplies in convoy. And the way IS fights is changing. "Before, they would win or die," says Saad Maan of Iraq's interior ministry. Now they sometimes withdraw. "They don't fight us on the ground," says Naim al-Obeid of Asaib Ahl al-Haq, one of Iraq's most notorious Shia militias. "Instead they plant IEDs [improvised explosive devices] and use suicide-bombers." Mr Maan says that Iraqi forces have "broken IS's will"; others see a tactical response to the new situation.

The devils you know

The leading role played by Shia militias is a problem when it comes to regaining ground from IS. The people living in its core territories are mainly Sunnis turned against their national governments by the repression of Bashar Assad in Syria and the pro-Shia bias of Mr Maliki in Iraq. They are not keen on armed Shias. The problem has not been insurmountable so far; but so far operations have largely been in places with mixed Shia and Sunni populations.

Although the Hashid al-Shabi is careful to portray itself as nationalist—the coffins in Najaf are draped in Iraq's red, white and black standard rather than the black flag covering other caskets in the mosque—it is almost entirely Shia. To many militiamen the fight is clearly sectarian.

The Americans are loth to take part in operations with the Shia militias, some of which fought against them—gruesomely, in the case of Asaib Ahl al-Haq—during the post-2003 occupation. The militias and the Iranians are for their part less eager to be helped by American air power than is the Iraqi army. This explains the absence of air strikes in Tikrit.

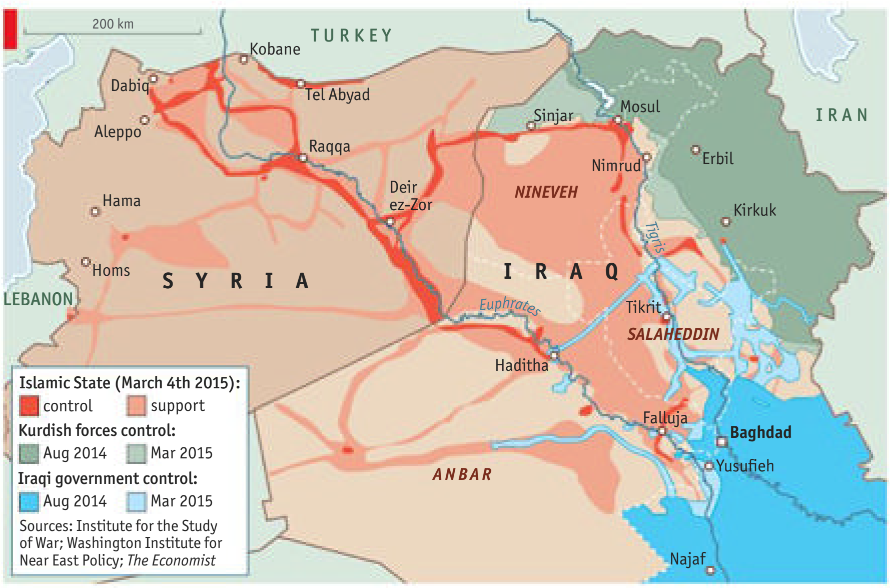
This is all made worse by the militias' reputation for brutality and summary executions. Such behaviour in Tikrit would have implications for an eventual move on to Mosul, the much bigger city that was the original stamping-ground of the once al-Qaeda-supporting jihadi clique which runs IS. Some see Mosul, not Raqqa, the city in eastern Syria to which IS decamped, as the caliphate's true capital. Many of its citizens, who were glad to see the back of Mr Maliki's army when IS arrived, look on the advancing Shia militias as a form of revenge, according to a woman living there.

Because the Hashid al-Shabi is not trusted by Sunnis, a new force of local fighters and police is being trained for Mosul, says Osama al-Nujaifi, one of Iraq's vice-presidents, who is a Sunni from the city. Some doubt this force will ever be ready, or that it will be able to co-ordinate with other forces. This adds to the uncertainty over how far and fast the attacks on IS can continue. Although some American officials have suggested that an assault on Mosul may begin this spring, such a claim is clearly premature when it is not yet certain which groups will do the fighting.

In Syria, where it has few enemies on the ground, IS retains most of the territory it has taken. Although it has been pushed southward by Syrian Kurdish forces in the north-east, it is slowly creeping westward into the desert abutting Hama and Homs, where there are oilfields currently held by Mr Assad's regime.

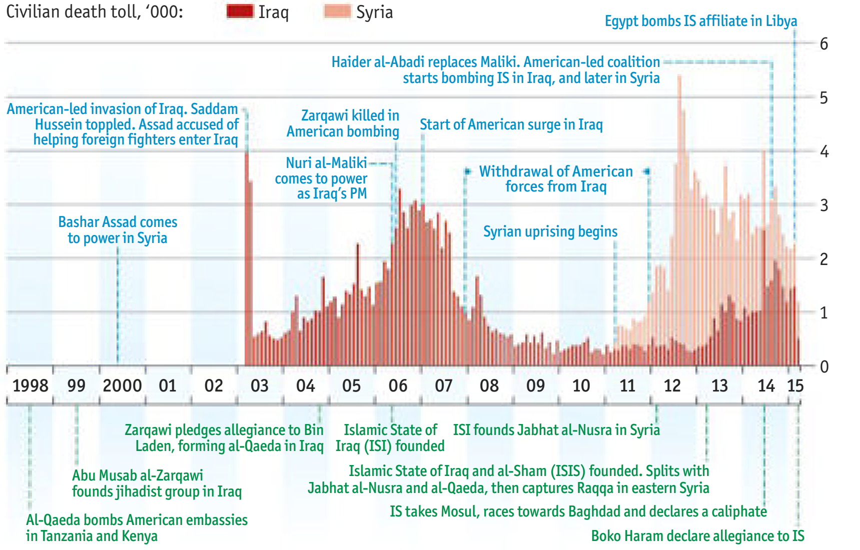
Whether getting hold of more oil will help IS, though, is hard to say. The coalition's aircraft are good at hitting oil installations; on March 8th they destroyed an IS refinery near Tel Abyad in northern Syria. Mr Hashimi reckons IS has lost almost three-quarters of its oil income since such strikes started, and that leaves it hard up. It has no prospect of further ransom money from Western hostages. The coffers of the banks in Mosul have already been looted. It can make money selling cultural artefacts that it has not destroyed as idolatrous (destruction which, as it happens, may add to the value of what remains intact); but, other than that, it is left with money brought in by new fighters, extortion and taxes levied in the name of *zakat*, Islamic alms.

A shortage of cash is one reason why IS is faltering as a state. Initially it offered full services, including schools (albeit with altered curriculums: no English, more Koranic study), hospitals and electricity. Recently things have got patchier; they might be patchier still were the Iraqi and Syrian governments to stop paying civil-service salaries to workers in IS-controlled areas. Syrians fleeing Raqqa complain of rubbish in the streets and a lack of electricity. Fighters still get pay, ranging from \$90 to \$500 a month, with extra for wives and children, but Mr Hashimi says they now get less money for rent and transport.



Sources: Institute for the Study of War; Washington Institute for Near East Policy; *The Economist*

Causation of a caliphate



Sources: Iraq Body Count; Violation Documentation Centre in Syria; *The Economist*

The woman living in Mosul says services are still running. That may change. Chlorine, used to provide safe drinking water, has run out. Such things undermine IS's claims to govern and alienate those Iraqi Sunnis who initially welcomed it. They are not the only source of dissatisfaction. "When IS came in, people in Mosul were happy," says the woman. "But now many see they aren't any better [than Mr Maliki's army]—arresting our men for no reason, asking people for money and forcing people to shut down their shops and pay to reopen."

Life is still tolerable for those who accept IS's version of Islamic rule or see it as a bulwark against persecution by Mr Assad's brutal regime or the Shia-led government in Iraq. But as things get harder IS is becoming more repressive. It is spying on civilians and its own fighters and brutally punishing transgressions: an IS fighter was recently reported to have been beheaded for having been too keen on beheading others. Everyone must follow its draconian social rules, including no smoking and mandatory *niqabs*.

Unsurprisingly there is increasing evidence of people chafing at IS rule, especially in its Syrian territory. The Iraqi origin of most of the top leadership means that IS is seen by many there as an occupier. Some IS men in Syria have been assassinated, and IS has been rotating its emirs—princes, as local rulers are known—because of worries about a coup arising from disputes between foreign and local fighters (the foreign fighters are paid more). New measures to make it harder to abscond are said to be in place, which suggests that more fighters have been trying to do so.

In the light of this, IS's ever more shocking propaganda tactics, such as burning a captured Jordanian pilot alive and bulldozing the ancient Iraqi city of Nimrud, can be read as the sort of lashing out that masks weakness. But it does not seem to be turning off the narrow base of potential recruits excited by IS's promise of a new state. Fighters continue to flow in from abroad, with most from the Arab world, led by Tunisians and Saudis, but many from the West.

As well as providing fighters, other parts of the world also provide ideological support. Abu Bakr al-Baghdadi, the head of IS, has recognised pledges of allegiance from groups in Libya and Egypt's Sinai peninsula as well as Boko Haram in Nigeria. This adds to the lustre of the caliphate, but the IS leadership seems to have little operational command over the groups that have taken the oath.

Dead sharks still stink

If unable to move forward, the caliphate may well collapse, which would put paid to IS's pretensions to historical, even eschatological, importance. In places that it has been kicked out of IS is already looking much like the run-of-the-mill terrorist organisation it was before its land-grab started (see timeline). Since Yusufieh, a town south of Baghdad, was freed from IS rule, it has been hit by several bombings. "The Safavids" and "the Crusaders", as IS terms Iran and the West, are secondary concerns; killing local enemies matters most.

That said, some of IS's international allure might outlast its caliphate, and its veterans would surely disperse around the world. Attacks in the name of IS have taken place from Sydney to Paris. "We have never seen a terrorist threat like this," says Brett McGurk, an American official. "And the fighters are extremely young, so the threat will be here for the rest of our lives."

Meanwhile the political factors that allowed IS to aspire to statehood look sure to outlive it. In Syria no end to the war is in sight. Irony, though, abounds. Iran, which fears IS, continues to shore up Mr Assad. Mr Assad, for his part, finds IS a useful prop; while it persists as a force he can portray himself as fighting an Islamist insurgency that America, too, sees as heinous but has no way of fighting on the ground.

In Baghdad, Iraq's Shias continue to dominate politics. This is not to say there is no change. Iraqis of most persuasions agree that politics are better under Haider al-Abadi, who became prime minister last year, than they were under Mr Maliki. Mr Abadi has formed a more inclusive cabinet, sharing ministries between Sunnis, Shias and Kurds, and has passed a budget, though it is one rife with problems (see page 67). Partly thanks to the threat from IS there is a new spirit of co-operation.

But there is more talk than action, says Ayad Allawi, a vice-president. Sunni demands for such things as the release of prisoners taken in Mr Maliki's time have mostly not been met. Much hinges on the fate of the National Guard, a new force proposed to balance out the Shia dominance of the army. Many Iraqis fret that it will simply be a Sunni-sprinkled rebadging of the Hashid al-Shabi, giving new status to essentially Iranian forces and thus extending Iran's influence over the security state still further. In a deeply distrustful country, many think IS is in fact a front designed to justify an Iranian takeover of the security apparatus; significantly more, though, think it is an American plot.

Anti-IS Sunnis think they should be armed again, as they were when the Americans fought al-Qaeda in Iraq, IS's predecessor. But nobody is willing to give them weapons. "We wanted a national army," says Ghazi Faisal al-Kuaud, a tribesman fighting alongside the government in Ramadi. "Instead they formed the Shia equivalent of IS."

And Shia distrust of the Sunnis grows at a pace that matches that of the losses from its militias. Overlooking Najaf's sprawling tombs, gravediggers talk of the brisk business they are doing burying militiamen. "I've never had it so busy," says one. "Not even after 2003 or 2006 [the height of Iraq's civil war]." The Sunnis "never accepted losing power from the time of Imam Ali, so why would they now?" asks Haider, a Shia shop owner. "Wherever you find Sunnis and you give them weapons, you will find IS," says Bashar, a militiaman. Many Shias feel that the fight against IS justifies them in excluding Sunnis from government and the security apparatus.

The state that IS wanted to build looks more unlikely than ever to become a lasting reality, and that is good. The ruined territory on which it hoped to build, though, may end up even more damaged than it was at the outset. ■

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Appalachia

The Fifty Years War

HAZARD AND PAINTSVILLE, KENTUCKY

What has changed since the federal government went to war in the hollows

IN THE hills around Paintsville, a small town in eastern Kentucky's Appalachian region, some of the nicer houses have paths that wind from the front porch up to a gate. Through these gates family cemeteries with headstones and brightly coloured imitation flowers can be glimpsed. These hallowed patches of ground help to explain one of the things that puzzles outsiders about Appalachia: why the people who live there remain so attached to a place that has been a byword for rural poverty for at least half a century.

Cynthia Duncan, a sociologist who recently returned to Appalachia to update "Worlds Apart", an influential book on persistent poverty first published in 1999, says that though poor schooling and a fondness for a familiar landscape do tether people to the mountains, Appalachia's poorest residents also have a remarkable capacity for resilience when faced with hardship, of which they have seen plenty. Mrs Duncan found that over the past 15 years some of the most troubled counties—in central Appalachia, which spreads across West Virginia and Kentucky, and in the southernmost part of the region, which stretches into northern Mississippi—have gone backwards, as new problems have piled on top of old ones.

Just as in poor urban America (see page 73), family structures in poor rural places have been upended. Appalachia once had lots of large two-parent families, where children dropped out of high school to help scratch a living, often in the informal economy. Now it has lots of small families with one parent or, in some cases, none at all. Where parents have become addicted to crystal meth, prescription painkillers or heroin, grandparents have stepped in and are taking a second pass at raising children. Mrs Duncan tells one story of a mother who sold her children to their grandparents, who subsequently sued their daughter in order to secure government benefits. This is not a typical tale, but it is the sort of anecdote that fuels hostility to welfare.

The 50th anniversaries of the War on Poverty, which fell last year, and of the Appalachian Regional Development Act, passed in 1965, have prompted a debate about why some places cannot shake poverty. Both sides have taken up familiar positions. Republicans claim that Lyndon Johnson's other war has been a failure: that the well-meaning programmes it spawned have trapped people in poverty rather than liberating them. Democrats, meanwhile, have leapt to the defence of federal transfer payments, and continue to put their hopes for the poorest bits of rural America in government-led economic development. It is possible that both sides are wrong.

Since the mid-1960s the income gap between Appalachia and the rest of the country has closed (see upper maps on next page), in large part thanks to transfers from the federal government in the form of food stamps, income-tax credits and Temporary Assistance for Needy Families. Spending on federal highways, which have a high cost per mile on account of the twisting, undulating terrain, have helped too. Without these initiatives there would probably be fewer people in central Appalachia, and those that remained would be even poorer.

Waiting for the next boom

This, then, looks like a victory for the Democrats. Yet the economic development that they hoped would follow government investment has not materialised. Perry County, which contains Hazard, has an employment rate of 42.5%; in Johnson County, which contains Paintsville, it is 41% (the national rate is 57.6%). In both Paintsville and Hazard the Mountain Association for Community Economic Development, an NGO, provides loans for new businesses. Yet the firms that appear liveliest are the storefront lawyers dealing in child support, car accidents and personal-injury cases. Roadside billboards advertise lawyers' services to injured coalminers ("Working days over? Meet Grover", reads one), who will take a cut of any payout.

Even as Appalachia has grown richer, it has become sicker. The combination of diabetes and the outflow of young people has led to a widening of the difference with the rest of the country in mortality rates, which measure the number of deaths as a ▸▸

share of the population (see lower maps). Male life expectancy at birth in Perry County is just 66.5 years, about the same as in Mongolia. Female life expectancy is better, but it has declined by two-and-a-half years since 1985.

Though the region has experienced many economic boomlets in the past—timber, salt, copper and gold all attracted opportunists before the coal boom of the beginning of the 20th century—Appalachia has been waiting for the next growth industry for a long time. The decline of coal jobs was well under way by the time the War on Poverty was launched. Mining enjoyed a mini-revival in the 1970s, during the oil shocks, but then resumed its downward trajectory. Natural gas and more abundant coal farther west have left Appalachia's mines uncompetitive, a situation which locals are quick to blame on the Obama administration for waging a war on coal, with the Environmental Protection Agency as its infantry force.

Kentucky used some of the money it received from a settlement with tobacco companies in 1998 to encourage other businesses, from ostrich and llama farming to vineyards, says Ann Kingsolver of the University of Kentucky, but they did not take off. Hopes for the region's economic future now revolve around tourism, call centres and selling environmental services such as carbon credits. Yet all these things require a more educated workforce, and at the moment people who study beyond high school tend to move away. For that reason, Mrs Duncan is not optimistic about Appalachia's economic future.

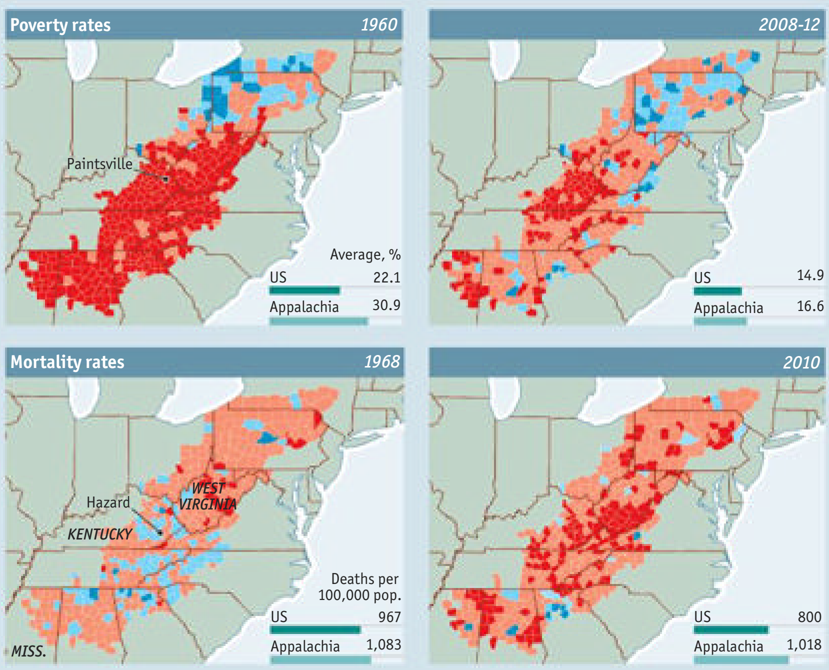
The wrenching changes to mining and to families, combined with the absence of something better on the horizon, helps to explain something else that outsiders find baffling about Appalachia. Though the average voters of West Virginia and eastern Kentucky benefit greatly from federal transfers, they are increasingly hostile to the federal government. Since the introduction of the Affordable Care Act, better known as Obamacare, Kentucky has cut the proportion of people in the state with no medical coverage from 20.4% to 9.8%. Yet Obamacare is roundly denounced.

The statewide elections due this year are likely to see Republicans take control of the governor's mansion on a government-shrinking platform. Democrats tend to interpret this realignment as a Republican plot to bamboozle poor voters out of acting in their best interests by pretending to be on their side. Mitch McConnell, the Senate majority leader and a senator from Kentucky for 30 years, seemed to perfect this art with a bumper sticker last year that simply read, "Coal. Guns. Freedom."

But there is another way of interpreting the political shift, which is also under way on the other side of the hills in West Virginia, long a stronghold of white Democrats. Central Appalachia has borne painful changes for decades and yet there is still no end to them in sight. In these circumstances, it is not surprising that a party that is offering to make it all go away seems more appealing than one that can offer only more of the same. ■

Richer these days, but sicker

% of US average: 45-75 | 75-100 | 100-150 | >150



Source: Centre for Regional Economic Competitiveness and West Virginia University

After the bankruptcy

Green shoots

DETROIT

Can entrepreneurs revive Motor City?

UNDER Diego Rivera's murals of "Industry", at a dinner for supporters of the Detroit Institute of Arts, Anne Parsons, who runs the Detroit Symphony Orchestra, remarks how much the mood in the city has changed. "A few years ago, everyone would have been pessimistic at a similar gathering," says Ms Parsons. Today the happily chatting visitors seem to feel the worst is behind them.

Signs suggest that Michigan's biggest city, having endured America's biggest municipal bankruptcy, is getting on the right track. In his first state-of-the-city address last month, Mike Duggan, the mayor, announced that the city will balance its budget this year for the first time since 2002. City services are improving: the number of ambulances has doubled and their response time has dropped from 18 minutes to an average of 11 (the national target time is eight). More than 220 parks have reopened with the help of churches and community groups. The rates of murders, robberies and carjackings are falling (though last year's 300 murders still make Detroit one of America's most dangerous cities). More than 35,000 broken streetlights have been replaced. The city is demolishing 200 derelict houses every week.

It is a good start for Mr Duggan, a former turnaround expert, but he knows that much more needs to be done. So far the recovery is mainly confined to "greater downtown", an area of 7.2 square miles in a city almost 20 times that size. Public schools are in even poorer shape than in other big cities. The patchy public-transport system is a joke. Most alarmingly, people continue to leave a city that has shrunk from 1.8m inhabitants in 1950 to 680,000 today.

To reverse this trend, Detroit and the state of Michigan are pinning their hopes on entrepreneurs. In his address the mayor announced the creation of "Motor City Match", a new programme funded by foundations and the federal government that will provide $500,000 every quarter for the next five years as seed money for people wanting to start a business. He recently appointed Jill Ford as special adviser for entrepreneurship, a new job. One of her tasks is to oversee the "innovation district" in midtown and downtown, an area modelled on similar projects in Boston and Atlanta, which encourage budding entrepreneurs by providing workspace and money.


From cars to bikes, but it's a start

Ms Ford says she decided to move to Detroit, after nine years in Silicon Valley, because the city offers such opportunities for go-getters. Property is cheap; talent is abundant, with the University of Michigan, Lawrence Technological University and Michigan State University on the doorstep; and it is conveniently close to Canada and big waterways.

Ted Serbinski is the sort of person Detroit would like more of. He moved there three years ago from San Francisco, thinking the city might become a midwestern Silicon Valley and wondering how it could use its special position so close to the three big carmakers. He is now the managing director of Techstars Mobility, which launched in December in partnership with Ford, Verizon, a telecoms company, and Magna International, a car-parts supplier. The new company is an incubator: it will invest in ten startup companies each year that link up technology and cars. The first ten companies will be announced in June. The hope is that one of them may prove as successful (though maybe not as controversial) as Uber, which links taxi passengers to drivers through a smartphone app.

The Madison building, one of many in downtown Detroit owned by Dan Gilbert, a billionaire businessman and fervent advocate of the city's renaissance, is one of the epicentres of the budding technology scene. There very new tech companies (some of them short-lived) rent space and work side by side in a bright, open-plan area with a red popcorn maker and a gleaming coffee machine. This is also the home of Detroit Venture Partners (DVP), Mr Gilbert's technology-investment fund. "At first it was the wild-eyed risk-takers who came here, but now we have more sedate and even some foreign investors," says Gabe Karp, one of the partners at DVP, who sits on the board of six startup tech firms that DVP invests in.

The big question is whether the energy and enthusiasm that is palpable in downtown and midtown can trickle through to the rest of the city. Property developers are still mainly focused on the centre of the city, where prices have tripled and even quadrupled in the past few years. In 2012 Jordan Wolfe and a partner bought Claridge House, an apartment building downtown, for $750,000 and renovated it. Today, he says, it would cost $2m-3m. All its 45 apartments are rented out, and there is demand for more. For the first time ever, Detroit has waiting lists for residential space downtown.

Property investors are slowly branching out into districts such as Eastern Market, an area bordering on midtown with a huge outdoor flower-and-food market, and Corktown, just west of the centre. Yet large parts of the city remain a wasteland. That is why Mr Duggan is so keen to remove the more than 80,000 derelict buildings which the Blight Removal Task Force, a public-private partnership, wants to demolish. "Though stable neighbourhoods still exist, they are overshadowed by the city's blighted areas. This negative perception…has been a factor in hindering the city's growth," said the Federal Reserve Bank of Chicago in a recent report.

What to do with the land once the abandoned houses have gone is challenging everyone's creativity. Hantz Woodlands, which bills itself as the world's largest planned urban farm, wants to plant at least 15,000 trees in eastern Detroit. Others say the city should create big fruit and vegetable farms and become a gastronomic hub such as Traverse City in Michigan, which successfully markets itself as farm-to-table foodie heaven. Detroit is frequently described as a "food desert" where people cannot shop for fresh, wholesome food. Urban farms could change that within a couple of years. ■

Executions

The drugs don't work

WASHINGTON, DC

When lethal injection gets tricky, try guns or gas

IN 1996 the state of Utah put John Albert Taylor, a man who had raped and murdered an 11-year-old girl, to death by firing squad. Chris Zimmerman, a retired police officer who investigated the murder, witnessed the execution. "Off to our left was Mr Taylor, off to the right, behind a wall, was the firing squad," he remembers. "There was a countdown, and the firing squad were ordered to aim and fire. I heard a simultaneous explosion—you couldn't tell the guns apart. He clenched his fists, his chest rose a little, like it was suddenly filled with gas. Then he unclenched his fists, the doctor walked out with a stethoscope and checked his pulse, and it was over."

Since 1976, when capital punishment was brought back in the United States, only three people have been executed by firing squad in America—all in Utah. The state banned the method in 2004 (though since the law did not apply to past cases, another man was shot in 2010). But on March 10th its legislature passed a law to bring back the guns. Utah is one of several states trying to ensure it can kill people if lethal injection, the preferred modern way, is not available. To the relief of abolitionists, not many are succeeding.

Lethal injection has been becoming more controversial, and trickier, since 2011, when the European Commission banned the sale of eight drugs if the purpose was to use them in executions. Many manufacturers, including American ones, fearing bad publicity as well as regulatory problems, stopped making or supplying drugs too. The result has been an acute shortage of the chemicals with which it is legally possible to execute people in most of the 32 states that still have the death penalty. Last year 35 people were executed in America (see chart), the fewest since 1994.

Several states have tried to acquire drugs in other ways—typically from crude "compounding pharmacies". But since this has not always worked, they must find alternatives. In Oklahoma, where a botched lethal injection took 43 awful minutes to kill a prisoner last year, the state House on March 3rd overwhelmingly approved a bill to allow the state to execute people by gassing them with nitrogen. On March 12th the Alabama House voted to reintroduce the electric chair. In Wyoming, the state House has passed a bill to bring back firing squads. Several states now also keep the names of their lethal-drug-suppliers secret, to protect them from protests.

So far, however, few alternatives have passed into law. Several states retain the option of the electric chair, and a few the use of hanging, but such executions are now extremely rare, and almost only because the prisoner requests it (the last man to die by the electric chair was in Virginia in 2013). Wyoming's bill on firing squads was held up by a debate about whether prisoners should be sedated, and ultimately failed; Utah's barely made it to a vote, and may yet be vetoed by the governor. Only in Tennessee has a law reintroducing the electric chair made it on to the books.

While executions are held up, some 3,000 condemned prisoners are left unsure of their fate. While waiting, they are in effect serving life sentences of solitary confinement, with few visitors allowed. Their number, however, is gently declining. In 2013, the latest year for which figures are available, more prisoners were removed from death row than were executed, mostly because their sentences had been commuted to life.

The problem with resurrecting older methods of execution, says Robert Dunham, the head of the Death Penalty Information Centre, an NGO, is that they will instantly be challenged as unconstitutional "cruel and unusual punishment"—creating as much delay as the drugs shortage. This is why many states moved away from the electric chair in the first place. In addition, polls suggest that even death-penalty supporters are squeamish about most alternatives to lethal injection. "Don't we care about how Utah is perceived in the country and in this world?", asked one Utah state representative in the firing-squad debate. Notoriously, the state was the first to seize its chance to execute a criminal after 1976. The case of Gary Gilmore caused a media sensation; and so did the state's latest use of the firing squad in 2010.

In reality, insists Mr Zimmerman, shooting is hardly more barbaric than poisoning with drugs. "There was no blood. He died so quickly he didn't bleed," he says of Taylor's execution. But whatever the alternatives, free-flowing drugs are not returning. On April 9th Texas is expected to use its last dose of pentobarbital, its preferred drug; earlier this month Georgia delayed an execution to check the quality of its supply. Death's proponents are not giving up, but life is getting harder. ■

Aaron Schock

At play in Peoria

WASHINGTON, DC

A young Republican star burns out

MANY and baroque have been the scandals that have toppled Illinois politicians. Rod Blagojevich, the most recent governor to be sent to prison, is behind bars for trying to sell the remaining years of Barack Obama's Senate term. But Aaron Schock, who announced his resignation on March 17th as Republican congressman for the state's 18th district, is the first to be felled by an over-talkative interior designer.

Mr Schock, who is 33, was for a while the youngest member of Congress and remains the only one to appear semi-shirtless on the cover of *Men's Health* magazine, revealing what the journal called "ripped" abs. His Instagram account showed him dancing the tango in Buenos Aires and surfing in Hawaii.

This whirl of politics, jet-set travel and donor-stroking (he was one of the top five House Republican fundraisers in 2013) began to unravel in February, after his interior designer gave the *Washington Post* a chatty tour of Mr Schock's offices on Capitol Hill, revealing deep-red walls, gilded sconces with black candles and an arrangement of pheasant feathers—all inspired by the TV drama "Downton Abbey". Reporters began to dig and the Associated Press, ingeniously, matched location data from his Instagram images with flight records and expense claims.

Mr Schock soon faced questions about $90,000 in campaign funds spent on private air charters, a taxpayer-funded private flight to a football match and unreported foreign travel. He repaid over $41,000 to the government in office and travel costs. Asked if he had broken the law, he replied: "I certainly hope not."

The end was rather prosaic. Reporters

Now available for "Downton Abbey"

from *Politico* asked Mr Schock why he had billed the government and his campaign for 90,000 miles of travel by private car that did not appear to have taken place. Less than 12 hours later he announced his resignation, calling all the attention too great a distraction from his public duties, and repaid all his expenses for official mileage as a congressman.

The 18th district includes Peoria, a city so all-American that it was long used to test new products, from burgers to vaudeville acts. After gerrymandering by state Democrats (who wanted to pack Republicans into one district), it twists across 19 counties, and in 2014 returned Mr Schock with 75% of the vote. A less flamboyant Republican should hold it easily.

Government spending

Frugality for dummies

WASHINGTON, DC

The federal government gets a lecture on saving money

NO ONE wants to pay taxes, and collecting them is not the easiest thing in the world. So it stands to reason that a gap will yawn between the amount of money Americans owe and the amount the government gets. What is remarkable, however, is the size of that gap, which reached a whopping $450 billion in 2006, the most recent year for which data are available from the Internal Revenue Service (IRS). That is quite a chunk of change to go missing from the national till. The IRS reckons it can recover about $65 billion of that. The remaining $385 billion will simply line the pockets of tax dodgers.

The IRS is hardly alone in its ineptitude. Plenty more egregious examples have been chronicled by the Government Accountability Office (GAO) in its annual "Government Efficiency and Effective-

ness" report, presented to the Senate earlier this month. Though lawmakers tussle over how to reduce spending and increase revenues, simply trimming some government fat "could lead to tens of billions of dollars of additional savings", says the GAO.

The report makes distressing reading, not least because it seems addressed to persons of Very Little Brain. For example, the GAO suggests that if the IRS spent less time examining "less productive groups of tax returns" and more on "more productive groups" it might recoup more than $1 billion in extra tax revenue every year.

Another striking idea is for Congress to prevent tax dodgers from getting new passports. The government issued about 16m passports to people in 2008, 1% of whom collectively owed more than $5.8 billion in back taxes. But really (the GAO helpfully notes) anything the IRS can do to improve its collection efforts would make a difference, as even a 1% improvement in the net tax gap would generate almost $4 billion in revenue collections each year.

Another problem area involves entitlements. Critics have long complained that these programmes are financially unsustainable, particularly as spending on Medicare, the government's health-care scheme for the elderly, tends to grow faster than the economy. But what few seem to notice is that the government's generosity also exceeds its mandate. The GAO found that "improper payment estimates" reached nearly $125 billion during the last fiscal year—a $19 billion rise from the year before—mostly because of misplaced generosity to recipients of Medicare, Medicaid and the Earned Income Tax Credit.

Here, too, the report's authors offer some handy penny-saving tips. Besides suggesting more audits and better systems for reviewing and approving some of this spending, the GAO points out that Medicare cards still come stamped with the Social Security numbers of their beneficiaries, which makes them easy targets for fraud. The agency mentioned this years ago, the report's authors add. One can almost hear the sigh.

The GAO has few kind things to say about the government's approach to information technology (IT), on which it plans to spend $79 billion in this fiscal year. Fragmented data storage and needless duplication have wasted billions of dollars. For example the Department of Defence—which accounts for around half of federal discretionary spending, and so may well not notice when billions of it vanish like loose change between sofa cushions—and the Department of Veterans Affairs are both now developing, from scratch, two separate electronic health-record systems, even though they will basically serve the same people. But the most common problem with the government's IT ventures is a mix of grand ambitions and incompetence, as the launch of Healthcare.gov in 2013 handily showed. One of the most elaborate IT schemes involved a tri-agency weather-satellite programme, which after 16 years and almost $5 billion was at last put out of its misery in 2010. Among the GAO's recommendations for better IT decision-making, included in a report in February, is the employment of workers who have "the necessary knowledge and skills".

Federal agencies take the GAO's advice seriously. Past suggestions have already saved the government roughly $20 billion between 2011 and 2014, according to GAO estimates. Yet of the 440 improvements recommended between 2011 and 2014, fewer than a third have been acted on. Meanwhile, Uncle Sam's profligacy goes cascading on. ■

Tax incentives

Sparks fly

ATLANTA

Georgia's breaks for electric vehicles may be too good to last

OLIVIA PEDERSEN thought the Nissan Leaf parked outside her favourite lunch spot near Emory University, must be hers. But she could not open the door. Nor could she open the door of the identical Leaf behind it. Cautiously, she tried the third Leaf in line and happily drove away. More than 14,000 electric vehicles are now registered in Georgia; California is the only state with more. But the juicy state incentives for buying them are coming under attack.

Residents can claim an income-tax credit for 20% of the cost of leasing or purchasing an electric vehicle, up to $5,000. Combined with a possible federal tax incentive worth $7,500, savvy Georgians are driving all the way to the bank in nearly-free electric cars. Nissan sells more of its Leaf models in Atlanta than in any other city, according to Don Francis from Clean Cities-Georgia, which promotes the use of cars like these.

Such trends motivated Chuck Martin, a representative in Georgia's House, to sponsor a bill to end state incentives for electric vehicles. He argues that the income-tax credit costs too much—about $13.6m in 2013—and that only urban types benefit from these sorts of cars. Mr Martin's bill was voted down in committee in February, but seems to be still breathing. Another House bill, mostly to finance transport projects, would reduce the credits; it is now before the Senate.

Fans of electric vehicles say Georgia now leads the country in clean transport. Local power companies have helped by offering off-peak prices of 1.3 cents per kilowatt hour for charging the cars at night. And the sales tax levied on this power stays in the state, whereas cash spent on petrol largely goes elsewhere, says Jeff Cohen, founder of the Atlanta Electric Vehicle Development Coalition.

Cutting the credits altogether might also harm Georgia in other ways. A study by Keybridge Public Policy Economics, a consultancy, says the state could lose $252m by 2030 if they disappear and people buy gas-guzzlers instead. That is because drivers will spend $714m on petrol to get around (in contrast with the $261m they would have paid in electricity bills), and will no longer fritter away their savings from the federal electric-vehicle tax credit in Georgia's shops. But the state's incentives may be safe in the legislature after all; the president of the Senate drives an electric car himself.

Lexington | Defending America

Republicans are dreaming of a national-security election. It may not play out as they expect

THE idea is taking hold that the next presidential contest will revolve around national security. Republicans are especially keen to make this case, and to argue that this is terrific news for their party. Half the 2016 field seem to have sought out Henry Kissinger for a chat or studied with the John Hay Initiative—a network of foreign-policy types set up by members of Mitt Romney's presidential transition team in 2012 (and named after Teddy Roosevelt's chief diplomat). Public opinion helps to explain that swotting. Republicans have regained their traditional advantage over Democrats as the party most trusted to handle foreign policy. Pollsters also report that terrorism and national security are among the issues that most concern voters, after years in which the economy dominated. That surge in anxiety is notably linked to last year's beheadings of Americans by Islamic State jihadists, which shocked opinion in a way that years of slaughter in Syria or the wider Middle East have not.

It would be wonderful if all this led to a genuine national-security election, involving a detailed, candid debate about America's global role. Alas, elections, candour and detail rarely mix. Instead, the temptation is to claim that the world feels scary and dangerous because Barack Obama has been a feckless, blame-America-first naïf. Already some candidates make just that case, suggesting that as soon as the country has a patriotic president who shows "strength", backs Israel's government uncritically and talks tough to foes, the world will magically fall into line.

Such Obama-bashing will feel like sweet revenge to some Republicans. The president used mirror-image tactics during the campaign of 2008, suggesting—in essence—that the world was a dangerous and frightening place because George W. Bush was a reckless, lawless naïf, who squandered America's blood, treasure and good name on a "dumb" Iraq war. The task facing Republicans is harder, though. In 2008 Mr Obama told unhappy Americans what many wanted to hear: that by doing less overseas their country would be safer. Republicans with ambitions for 2016 are pitching a more bracing message: that America must do more to be safe.

In 2008, moreover, Mr Obama could point to his hawkish Republican opponent, Senator John McCain, and paint him as Mr Bush's heir. Assuming that Democrats nominate Hillary Clinton, the former secretary of state, it will be a challenge to portray her as an Obama clone, for she is likely to run to Mr Obama's right on foreign policy. She has already said that the failure to arm Syrian rebels early on led to a "vacuum" filled by IS and other jihadists. She has taken a harder line on nuclear talks with Iran than the president, saying that a good deal would leave the Iranians with so little capacity to enrich uranium that they could not "break out" and sprint for a bomb. Though Republicans call her soft on Vladimir Putin, mocking her for giving her Russian counterpart a "reset button" as a symbol of re-engagement, she has toughened her language on Russia and urged the arming of Ukraine.

Elliott Abrams, a Middle East expert who served in the administrations of both Ronald Reagan and George W. Bush, has talked policy with such likely contenders as Governor Scott Walker of Wisconsin, Rick Perry, a former governor of Texas, and Senators Ted Cruz and Marco Rubio. Mr Abrams says that Mrs Clinton lacks tangible achievements as secretary of state, with one of her proudest boasts—her work to nudge Myanmar towards democracy— "going in the wrong direction". But he concedes that she "is not some sort of bizarre leftist". Republicans will also have to avoid being caricatured as warmongers, Mr Abrams adds: candidates will have to talk carefully about such tools as drone strikes and covert action.

Kurt Volker, a former ambassador to NATO who now heads a think-tank founded by Mr McCain, predicts that both Mrs Clinton and Republicans will run "against Obama". Ultimately policy details matter less than character, he suspects. For voters, "foreign policy is really a metaphor for leadership. Does this person make me proud for America, or make me upset?" he says.

If 2008 is an imperfect model, some Republicans dream of an earlier election: 1980, when the Iran hostage crisis left President Jimmy Carter a symbol of weakness next to tough-talking Ronald Reagan. Both Mr Rubio and Mr Cruz have called Mr Obama a new Jimmy Carter. Mr Walker, a governor best known for curbing trade unions in Wisconsin, says that the success of Reagan, a former governor of California, shows that those who run states make splendid foreign-policy leaders, especially those with experience of biffing unions. (Indeed, Mr Walker ventured in February that Reagan's busting of an air-traffic controllers' strike in 1981 was "the most significant foreign-policy decision of my lifetime", because it sent the world a message about his toughness.)

That costly weaponry

Republicans are more united than in the past. Of the 2016 pack only Senator Rand Paul of Kentucky, who has libertarian tendencies, breaks with a fairly traditional form of muscular interventionism. Nowadays there is little neoconservative talk of creating Western-style democracies in far-off places. But one big subject divides the party. Defence spending pits security hawks against conservatives averse to all forms of big government. This was visible this week, as House Republicans proposed a budget for the Pentagon of a similar size to the one suggested by Mr Obama—coming in way below spending levels urged by some Republican senators. Eric Edelman, a co-founder of the John Hay Initiative who was the Pentagon's policy chief from 2005 to 2009, says defence budgets are about more than buying stuff: they are a "surrogate for national will". Calling Mr Obama weak "has huge resonance with the public," says Mr Edelman. But that will be hard to sustain if Republicans cannot agree on a defence budget larger than his. ■

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Protests in Brazil

The wisdom of crowds

SÃO PAULO

After massive demonstrations against her, Dilma Rousseff will struggle to relaunch her presidency

DILMA ROUSSEFF, Brazil's president, expected the anti-government protests on March 15th to be big. She convened a meeting of a crisis group at her official residence to monitor them. But nobody, including the organisers, imagined they would be as massive as they turned out to be. Police in São Paulo put the size of the crowd on Avenida Paulista, the preferred venue for such gatherings, at more than 1m; Datafolha, a pollster, counted 210,000. Either way, it was the biggest political demonstration in the country's biggest city since the *diretas já* ("elections now") movement that helped end military rule in 1985. Overall, police estimated that 2.2m people turned out in dozens of cities across all 27 states. That dwarfs the number who took to the streets on any single day in June 2013, the most recent occasion when Brazilians vented their anger at politicians en masse.

Trade unions, which had organised (much smaller) pro-Dilma demonstrations two days earlier, dismissed the protesters as privileged white people. Many were not. "I am black, poor and want Dilma out," declared a demonstrator from one of the nine mobile stages along Avenida Paulista. Many wore the national football team's yellow-and-green jerseys. Opposition politicians wisely stayed away. They realised that their presence would obscure the bottom-up message and reinforce the government's claim that behind the protests were sore losers of last October's elections, won by Ms Rousseff and her left-wing Workers' Party (PT).

The grievances of 2013 were diffuse. Today's are directed squarely at Ms Rousseff and the PT. Some protesters—about a quarter on Avenida Paulista, according to one poll—want her to be impeached over a multi-billion-dollar bribery scandal at Petrobras, the state-controlled oil giant. Most others simply want to show that they are fed up with sleaze and economic mismanagement, which has pushed up inflation and is likely to trigger a recession this year. A vocal fringe called for military intervention—but was shouted down.

Impeachment is unlikely. A serving president can be removed only for misdeeds committed during his or her current term of office. The focus of the Petrobras investigations is alleged bribery that took place well before Ms Rousseff began her second term, on January 1st. Besides, she has not been personally implicated.

The president's real worry is that public anger plus parliamentary obstruction will thwart her plans for her second term, the most important of which is a correction of the economic course that she set in her first. Her working-class supporters hate the austerity needed to trim the budget deficit—a scary 6.75% of GDP—and avoid a downgrade of Brazil's credit rating. Pro-Rousseff demonstrators railed against cuts in entitlements and condemned her finance minister, Joaquim Levy, as a "liberal infiltrator". In February lorry drivers blocked roads in protest against rising fuel prices and other costs. The government caved in to many of their demands.

Pro-government parties command majorities in both houses of Congress. But many of Ms Rousseff's allies are opportunistic at the best of times. The Petrobras scandal and the president's plummeting popularity—just 13% of voters think she is doing a good job—make them even more prone to defect. The Supreme Court has approved criminal investigations of 34 sitting congressmen, all but one of whom belong to the ruling coalition. They include the speakers of the lower house and Senate, both members of the Party of the Brazilian Democratic Movement (PMDB). All deny wrongdoing.

The more they worry about clearing their names, the less likely they are to vote for unpopular economic measures. Renan Calheiros, the Senate president, formerly a loyal backer of Ms Rousseff, recently threw out of the chamber a presidential decree that would have ended some payroll-tax breaks. That forced her to resubmit it as a fast-track bill. Last week Congress came close to overturning presidential vetoes of two potentially budget-busting bills. One concerned adjustments to income-tax brackets, the other social-security charges for domestic workers. Majorities voted against the president, but they were not large enough to force the bills through.

After a long delay, Congress approved this year's budget on March 17th. This will help Mr Levy to keep his promise to achieve a primary surplus (before interest payments) of 1.2% of GDP. But the string of near-defeats means he will need to tread carefully. He will have to consult the legis- ▸▸

lature extensively on economic decisions. As a result, the fiscal adjustment will take longer than he hopes. With luck, that will not trigger a downgrade.

Ms Rousseff is trying hard to relaunch her presidency. In a press conference on March 16th she promised "humility" (nine times) and "dialogue" (12 times). She announced tougher anti-corruption laws and pledged political reforms. Less than three months after the latest ministerial reshuffle there is talk of another one. To win over the recalcitrant PMDB, Ms Rousseff is bringing her vice-president, Michel Temer, who is the PMDB's national boss, into the policy-setting clique that surrounds her, which is currently dominated by the PT.

None of this is likely to impress the people who thronged Avenida Paulista. Rogério Chequer, the spokesman of *Vem Pra Rua* ("take to the streets"), the biggest of the protests' grass-roots conveners, says his outfit is planning more. The liberal Free Brazil Movement has called one on April 12th. This "will be bigger", the group promises. Ms Rousseff must find good reasons for protesters to stay home. ■

Canada's anti-terrorism bill

Let feardom ring

OTTAWA

The government gets tougher on terrorists, and tramples liberties

"NO POLICE state", demanded one placard. "Freedom not feardom", read another. Thousands of Canadians brandished such signs on March 14th in protests against Bill C-51, new anti-terrorism legislation proposed by the Conservative government. Stephen Harper, the prime minister, is betting that the demonstrators represent a vocal minority, and that a tougher stance on security will help him win October's general election. He is probably right. But C-51, though not completely misguided, is flawed.

Since taking office in 2006 the Conservatives have given the security services more power, lengthened sentences for existing terrorism offences and introduced new ones, such as leaving Canada to commit acts of terrorism. C-51 continues this approach. It would make it a crime knowingly to advocate or promote terrorism "in general". The Canadian Security Intelligence Service (CSIS), which until now has merely collected intelligence, would gain the power to act on it to disrupt potential terrorist activity. Government agencies would be able to share information about individuals more easily.

All this is fine with most Canadians, still traumatised by two "lone wolf" assaults last October in which two soldiers were killed and parliament was attacked. Mr Harper is eager to talk about something other than the economy, which has been hurt by low oil prices. The Liberal Party, which hopes to unseat him in the election, backs the bill with reservations. Only the left-leaning New Democratic Party, the largest opposition party in parliament, is opposed to it outright.

But Edward Snowden's revelations of mass surveillance by the United States' National Security Agency (NSA) have alarmed some Canadians. The proposed law seems to bring the peril home. All Canadians, not just terrorists, could be monitored by intelligence agencies, and the government could keep the information they collect forever, complains the privacy commissioner, an agent of parliament.

Civil-liberties watchdogs warn that the vague phrase "in general" invites restrictions on speech—unnecessarily. Already it is an offence to incite, threaten or counsel the commission of terrorist acts. CSIS would gain the power to apply for special warrants that would allow it to contravene Canada's charter of rights and freedoms. That would put judges in the position of sanctioning unconstitutional behaviour, civil libertarians fret.

The loudest objections are to what is not in the bill: parliamentary oversight of the security services. Unlike security agencies in the United States, Britain and Australia, Canada's are not subject to scrutiny by the legislature. A committee composed of five part-timers, appointed by the prime minister, hears complaints about CSIS. It is not widely respected; a former chairman has been jailed on suspicion of fraud. Of the 17 agencies that will now share information on ordinary Canadians, 14 are not subject to independent oversight, says the privacy commissioner.

Some parts of C-51 make sense. It would bring Canada's standards on preventive detention into line with those of Britain, France and Germany, says Christian Leuprecht of the Royal Military College. But even backers concede that the bill is badly worded and that it is a mistake to expand security agencies' powers without better monitoring.

Read her lipstick

Stronger supervision by parliament would placate many of the bill's critics. Mr Leuprecht suggests a sunset clause forcing parliament to review the legislation after a set period. But the Conservatives, with majorities in both houses of parliament, rarely accept amendments. Fearful Canadians will be a little less free. ■

Journalism in Mexico

Radio silenced

MEXICO CITY

A crusading anchorwoman is pushed off the air

NEWS junkies in Mexico have woken up feeling bereft and baffled since March 16th. The feisty, staccato voice of Carmen Aristegui, a radio anchorwoman with almost cult status, especially among left-leaning listeners, has gone off the airwaves after a public row with her employer, MVS Radio. The radio group fired her despite acknowledging that she was one of Mexico's most popular morning-show hosts, drew in advertisers and delivered scoops that scandalised the country. Even MVS Radio sounds remorseful. "It's a situation in which everyone loses," a spokesman admits.

Behind this falling out are problems that systematically undermine journalism in Mexico, where the media have long been dominated by political power. Many outlets, including MVS Radio, rely on the government for advertising and other perks. The biggest television networks, Televisa and TV Azteca, are a pliant duopoly.

Ms Aristegui, though an MVS Radio employee, cast herself as the antithesis of that system, picking fights—often backed by impressive research—with the most powerful. In November her team of investigative reporters broke a story that President Enrique Peña Nieto's wife was buying a $7m mansion mortgaged to her by one of the government's preferred contractors, which has damaged the president's credibility. Last year one of her reporters revealed an alleged prostitution ring set up by the head of the ruling Institutional Revolutionary Party (PRI) in Mexico City. In 2011 she suggested on air that the then-president, Felipe Calderón, was an alcoholic (for which she was temporarily fired).

Such stories, plus opinions delivered so passionately that she often talked through commercial breaks, have won her fans. "People adore her," says Enrique Krauze, a

Mexican historian. Her indignation is selective. Guests on her show who rail against Mr Peña's energy reforms or praise Venezuela's left-wing president, Nicolás Maduro, are rarely challenged. "This is a country where individuals have too much weight and institutions too little. She is a journalist *caudillo*," Mr Krauze says.

Now MVS Radio has made her a martyr for press freedom. It insists that Ms Aristegui lost her job because she twice broke company rules. First, she pledged MVS Radio's support for a citizen-journalism project called Méxicoleaks without consulting the company. Then she publicly threatened to go off air if two of her colleagues fired over the Méxicoleaks kerfuffle were not rehired. Saying it does not accept ultimatums, MVS Radio sacked her instead.

Few believe that is the whole story. Despite its fury over the alleged insubordination, MVS's logo remained on the Méxicoleaks website for nearly a week. Two days before it fired Ms Aristegui, the company issued guidelines restricting anchors' editorial autonomy and their ability to undertake investigative projects. That appeared to have little to do with Méxicoleaks.

The timing raises the suspicion that the government—which is struggling to regain popularity less than three months before mid-term elections—has put pressure on MVS Radio. Her sacking came a few weeks after Mr Peña promoted Eduardo Sánchez, a former lawyer for the parent company, to be head of the government's communications. MVS Radio emphatically denies any link. The government says it hopes both sides will resolve their differences. But no Mexican government has resisted the temptation to use advertising and other forms of leverage over the press, whatever the toll on freedom of expression. If Ms Aristegui wants to avoid that, she may have to become a media baron herself. ■

Bello | Whose emergency in Venezuela?

The region should ignore ill-advised American sanctions and hold Nicolás Maduro to account

IT WAS the kind of diplomatic clumsiness for which the United States has a unique capacity. On March 9th Barack Obama issued an executive order declaring "a national emergency" because of the "extraordinary threat to the national security" of the United States posed by Venezuela. Really? Is Uncle Sam scared of a country with a government that is incapable of organising a reliable supply of toilet paper, an army whose best-known capabilities are coups, petrol smuggling and drug trafficking, and a president who spent most of January touring the world to beg for cash?

The explanation is that American law requires the administration to use such language if it wants to impose sanctions on individuals in another country. Congress has voted to do this in the case of Venezuela. Critics of this initiative argued that its only practical effect would be to give Nicolás Maduro, Venezuela's embattled president, a propaganda tool. That is what it has done.

For the opposition, the timing of Mr Obama's order could hardly have been worse. The arrest on February 19th of Antonio Ledezma, the opposition mayor of Caracas, on trumped-up charges, had provoked unusually wide criticism across Latin America of Mr Maduro's authoritarian government. It prompted the South American Union (Unasur) to reactivate a mission by the foreign ministers of Brazil, Colombia and Ecuador, who last year tried and failed to broker a dialogue between government and opposition to end protests that left 43 people dead.

According to one source, the ministers left Caracas reassured that the authorities will soon set a date for a parliamentary election, which polls suggest the government will lose. Mr Obama's order, which goes beyond the sanctions passed by

Congress, allowed Mr Maduro to change the subject. In a pantomime of "anti-imperialism", he staged military manoeuvres involving 80,000 troops and Russian observers and called for an emergency meeting of Unasur, which grumbled about "an interventionist threat" to Venezuela's sovereignty. He used the American "emergency" as a pretext to obtain wide-ranging powers to rule by decree for the rest of the year. The opposition fears these will be used to impede it in the election.

The sanctions order targets just seven senior officials involved in repressing last year's protests or harassing the opposition. It is not directed at the government, nor does it seek regime change, American officials insist. It is hard to disagree that the United States has the right to bar undesirables from visiting its territory or doing business with its citizens and even to freeze their assets. But far from provoking cracks in the regime, as the administration hopes, the sanctions are likely to solidify it.

Polls suggest that Mr Maduro, whose approval rating has sunk to 20%, has twice as much backing when he poses as a defender of national sovereignty. He will do so at next month's Summit of the Americas. Rather than a celebration of the thaw between Cuba and the United States, this now risks degenerating into a clash over Venezuela. Cuba's president, Raúl Castro, delivered an old-fashioned tirade against the sanctions on March 17th, a day after his diplomats held a third round of talks with the United States.

Unasur has murmured its support for the parliamentary election. But if Venezuela's slide to dictatorship is to be reversed, the region needs to shout for the release of political prisoners and fair conditions for the election, on pain of the country's suspension from regional bodies.

On paper all of Unasur's members are pledged to democracy and human rights. In practice, many of the region's left-wing governments put more store by the atavistic principles of anti-imperialism and non-intervention. Why? The appeal to nationalism is always powerful in Latin America. There is also a generational issue: the formative years of several presidents were spent fighting right-wing dictatorships backed by the United States.

Other factors may be at work. With the end of the commodity boom and easy economic growth, several left-wing incumbents are no longer popular. They fear the street—an irony, since four left-wing presidents came to power as an indirect result of mass protests against centrist governments. There is a tension between self-proclaimed "revolutions" and the alternation of power that is inherent in democracy. Inability to contemplate electoral defeat is magnified when the consequence may be jail for corruption.

Leftist leaders are being short-sighted. The left has much to gain by insisting that the rules of democracy should be the same for all. And this is the only way to ensure peace in Venezuela.

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The Asian Infrastructure Investment Bank

The infrastructure gap

SINGAPORE

Development finance helps China win friends and influence American allies

STRATEGIC rivalry between America and China takes many forms. Rarely does a clear winner emerge. An exception, however, is the tussle over China's efforts to found a new Asian Infrastructure Investment Bank (AIIB). China has won, gaining the support of American allies not just in Asia but in Europe, and leaving America looking churlish and ineffectual.

This month first Britain and then France, Germany and Italy said they hoped to join the bank as founding shareholders. China said other European countries such as Luxembourg and Switzerland are thinking of joining the queue. Yet America has been sceptical about the AIIB. Its officials claim they have not "lobbied against" it, but merely stressed how important it is that it abide by international standards of transparency, creditworthiness, environmental sustainability, and so on.

America's reservations were certainly taken by officials in the region, however, as admonitions to steer clear of the AIIB. They were enough, at first, to discourage some of its closest Asian allies from joining the initial 21 founding members. Australia, Japan and South Korea all stayed out—though other staunch American friends such as New Zealand, Singapore and Thailand signed up. The joiners argue that China was going to launch the AIIB anyway; better to be on the inside influencing its governance. The Europeans' accession is likely to encourage changes of heart among the refuseniks. Australia has already indicated it is reconsidering; South Korea seems almost certain to join.

The AIIB is but one of a number of new institutions launched by China, apparently in frustration at the failure of the existing international order to accommodate its astonishing rise. Efforts to reform the International Monetary Fund are stalled in the American Congress. America retains its traditional grip on the management of the World Bank. The Manila-based Asian Development Bank (ADB) is always directed by a Japanese official. Partly for that reason—that the AIIB would amount to a diminution of Japanese influence in favour of China at a time when their relations are fraught—Japan is sniffy about the new bank. Its cabinet secretary, Yoshihide Suga, this week repeated that Japan will "carefully study" the AIIB's governance standards.

China, flush with the world's biggest foreign-exchange reserves and anxious to convert them into "soft power", is building an alternative architecture. It has proposed not just the AIIB, but a New Development Bank with its "BRICS" partners—Brazil, Russia, India and South Africa—and a Silk Road development fund to boost "connectivity" with its Central Asian neighbours.

Nobody questions Asia's almost inexhaustible appetite for investment in infrastructure. An oft-cited study by the ADB in 2009 put a number on it: $8 trillion between 2010 and 2020, of which 68% would be for new capacity. As for how it is spent, 51% would be for electricity, 29% for roads and 13% for telecommunications. Among this are many projects that China sees as in its own national interest, and certainly those of its contractors: high-speed railways linking Yunnan province to South-East Asia; ports in Indonesia, Pakistan and Sri Lanka (see next article); a new Silk Road across Central Asia to Europe.

Despite the obvious need, America has, either by design or ineptitude, turned the AIIB into a test of diplomatic strength. That has proved a disaster. Its officials have, anonymously, rebuked Britain for its "constant accommodation" of China—and many observers would agree that they have a point. But that its closest allies have proved so keen to court China's favour and so willing to flout American views suggests America picked the wrong fight.

China's triumph is not unalloyed, however. The accession of so many financially strong shareholders to the AIIB will indeed make it more likely that the bank will adhere to the same sorts of standards that govern the World Bank and other international financial institutions. That is good for China's hopes of getting a decent return on its investment in the AIIB, but less so for any residual ambitions its leaders may have that the bank might become an arm of Chinese foreign policy.

The affair also raises the stakes in America's increasingly frantic efforts to conclude a trade agreement, the Trans-Pacific Partnership, with Japan and ten other countries. In his state of the union speech in January, Barack Obama advertised this explicitly as an attempt to counter China's attempt "to write the rules for the world's fastest-growing region". "We should write those rules," he declared. The AIIB fiasco suggests many in the world's fastest-growing region are not so sure. ■

Investment in Sri Lanka

Storm in a port

COLOMBO

The island's largest infrastructure project is the government's first big test

AT A cost of $1.4 billion, Colombo port city is Sri Lanka's biggest foreign-financed project. The idea is to reclaim land from the sea and build fancy houses on it. The state-owned China Communications Construction Company won the contract from the ports ministry, run by the then president, Mahinda Rajapaksa.

The megaproject fits neatly into China's plans for what it calls a new maritime Silk Road to increase trade across the Indian Ocean. But in Sri Lanka, the deal is hugely controversial. It has become a test of how far the new government can turn its back on the Rajapaksa era and how skilfully it can steer its foreign policy between Asia's two giants, China and India.

During the election campaign, Maithripala Sirisena, who is now president, promised to review the plan and investigate all foreign-funded projects for corruption and other problems. On March 5th work on the port city was suspended after an initial study found various planning and other permits had not been obtained.

The trouble is that the project has opened up divisions within the new government, a fragile alliance between parts of the old opposition United National Party, defectors from Mr Rajapaksa's ranks (including Mr Sirisena himself), and smaller groups. In February a senior minister said the project would continue. A day later the prime minister, Ranil Wickremesinghe, said that two parliamentary committees would have to investigate "serious suspicion regarding this transaction" before a decision was made. The onus for securing the missing contracts rests on Sri Lanka's ports authority, a state-owned body. Piling on the pressure, the Chinese—who are financing the port city—have said they cannot afford any more delays.

The project is a headache partly because geopolitics is at play. India dislikes China holding land near Colombo's port, a trans-shipment hub for Indian cargo. Last year, it objected strongly to a Chinese military submarine docking at the port's Chinese-run commercial harbour. It was no coincidence that work on the port was suspended just before India's prime minister, Narendra Modi, arrived in Sri Lanka, the first bilateral visit for 28 years. It would have been inconceivable for construction to be in progress when he arrived, said a senior diplomat.

Mr Sirisena is keen to repair relations with India. There have been four high-level bilateral visits between the countries since January, plus a slew of agreements, including Sri Lanka's first civil nuclear partnership with any foreign government.

The president is also rebuilding ties with the West, which have been damaged by Mr Rajapaksa's refusal to investigate alleged war crimes committed at the end of Sri Lanka's decades-long military conflict with Tamil Tiger rebels. Eschewing his predecessor's intransigence, Mr Sirisena has promised to set up a domestic inquiry within a month.

But he does not want to turn his back on China, which is not only offering easy terms for the project, but also contributed an abundance of weaponry to the war on the Tigers at a time when other countries hesitated or were critical. "India is a good neighbour," says Mr Sirisena. "China is a good ally." Keeping both countries happy is proving a tricky task. ■

Cyclone Pam

No enchanted evening

WELLINGTON

The South Pacific suffers its worst tropical cyclone since 2002

TROPICAL cyclones are frequent in the south-west Pacific between November and April, with an average of ten a year. They are born near the equator and scythe southward. Rivers burst their banks and crops are destroyed, but the loss of life is usually small. People stock up on tinned food and bottled water. Householders who own a fridge stuff newspaper around their food as insulation for when the electricity blacks out.

But Cyclone Pam, which ripped through the Pacific archipelago of Vanuatu on the night of March 13th, was quite out of the ordinary. With sustained winds of 145 knots (268km per hour), it was the worst storm to hit the South Pacific since at least Cyclone Zoe in 2002. It brushed the east coast of Efate, the island on which the capital, Port Vila, sits.

Source: NOAA ESRL

Eleven people were reported to have died, but the number is likely to rise.

Vanuatu has a population of around 267,000, spread across 65 islands. The more remote southern islands of Erromango, Tanna and Aneityum took direct hits from Cyclone Pam. Tanna, home to around 28,000 people, bore the brunt. Most of the islanders are subsistence farmers, many living in traditional thatched houses which were flattened. Reports from the stricken outer islands will take weeks to arrive.

These days Pacific islanders usually get early notice of approaching big storms. Meteorological agencies have improved their warning systems over the past decade and are better linked to local radio stations. On remoter islands, the threatening signs of an approaching hurricane tend to be obvious: a high swell and darkening skies. In 2002, when Cyclone Zoe hit the Solomon Islands' Tikopia, just west of Vanuatu, coastal villages were washed away and many islanders were feared dead. But the inhabitants had moved inland to shelter in caves, a traditional defence.

Vanuatu's president, Baldwin Lonsdale, was attending a UN conference on disaster risk in Japan when his country was devastated. Responding to his plea for "a helping hand in this disaster", Australia, New Zealand and France sent flights to survey the damage and provide relief. Britain promised £2m ($3m). The immediate threat is that contaminated water may spread infectious diseases and diarrhoea. Food prices may rise as a result of crop damage. Reconstruction will take years.

In 2006 Vanuatu briefly made the headlines for coming top of the world's "Happy Planet Index", an alternative to GDP that combines estimates of well-being with a country's ecological footprint. Account would now need to be taken of the huge damage left by the catastrophe of Cyclone Pam.

Benigno Aquino's troubles

Victims of the raid

MANILA

The political repercussions of a botched operation rumble on

OVER the past five years, Filipino police and armed forces have tried and failed nine times to capture Zulkifli Abdhir, a Malaysian bomb-maker better known as Marwan, who was reportedly involved in the Bali bombings in 2002 that left hundreds dead. These repeated failures made Getulio Napeñas, a former head of the Special Action Force (SAF), an elite police squad, suspicious that members of the armed forces were leaking information about operations in advance.

So he organised a raid without them. On January 25th 392 SAF troops assembled at Mamasapano, a town in the Muslim-majority province of Mindanao, in the southern Philippines, to capture Marwan and two other men, Usman and Baco, who are suspected of involvement in various bombings and kidnappings. The trio were protected by fighters from the Bangsamoro Islamic Freedom Fighters (BIFF), a small secessionist group that split away from the larger Moro Islamic Liberation Front (MILF), which signed a peace agreement with the government in 2014. What was supposed to be a simple snatch and grab turned into a disaster: after a daylong firefight, 44 SAF troops were dead, along with 18 MILF fighters, at least five civilians and an unknown number of BIFF rebels. Marwan was killed; Usman and Baco escaped.

Benigno Aquino, the Philippines' president, has not been quite so lucky. Since the raid he has endured the toughest stretch of his presidency. Ever since taking office in 2010, Mr Aquino had been unusually and durably popular. But since the botched raid he has gone from honeymoon to lame duck without the usual intervening period of normal government. Mr Aquino has consistently blamed Mr Napeñas for the carnage; Walden Bello, a former congressional ally of Mr Aquino's, called that strategy "the latest development in the shrinking of the man from a credible president to a small-minded bureaucrat trying desperately to erase his fingerprints from a failed project to save his own ass."

Two new reports pile on the agony. The first, released on March 13th by a board of inquiry commissioned by the police, found that the president had violated the chain of command. It said he had approved the raid, allowed Alan Purisima—who had been suspended as head of the Philippine National Police more than a month earlier—to participate in its planning and execution and "deliberately fail[ed] to inform" both Mr Purisima's replacement and Mar Roxas, the interior secretary, of his actions.

The second report, released on March 17th by a senate committee, reached a similar conclusion. It said Mr Aquino "is ultimately responsible for the outcome of the mission" and urged him to "admit the mistakes he made."

Mr Aquino will not do that. Nor is he likely to resign. Instead, he faces two lingering political threats. The immediate one is to peace in Mindanao. A campaign against BIFF has, according to the army, killed more than 120 rebels but displaced more than 90,000 civilians. A law aimed at ending the long insurgency by creating an autonomous political entity in Mindanao (see map)was meant to come up for congressional approval this spring. But in the wake of the Mamasapano raid, progress has halted: it has lost at least two sponsors, and members of Congress have been calling for more hearings.

The longer-term threat is to Mr Aquino's legacy. Not only has his signature achievement—lasting peace in Mindanao, which no previous president had achieved—been imperilled. But if he continues to lose allies, popularity and credibility, potential candidates in next year's presidential election will distance themselves from him. Not long ago Mr Aquino's supporters considered changing the constitution to let him serve a second six-year term. Now it looks as though finishing one would be achievement enough. ■

Same-sex unions in Japan

Summer of love

TOKYO

Japan takes its first step towards marriage equality

IN THE gay bars and clubs of Shinjuku, a lively part of Japan's capital, the talk is all about what the neighbouring district of Shibuya is up to. The local mayor, Toshitake Kuwahara, is on the verge of introducing certificates which would recognise same-sex relationships as equivalent to marriages. Lots of couples are preparing to get hitched, say clubbers. Some are moving to Shibuya. Assuming the ordinance is passed, the first certificates could be issued in the summer.

Tokyo's gay activists hope that this will eventually lead to the full national adoption of gay-marriage laws. Japan is one of only a handful of rich countries not to give legal rights to same-sex partnerships. But Shibuya's move is already sparking a backlash, says a bar-owner in Shinjuku who goes by the name of Masaya. He says he ▸▸

wishes that Mr Kuwahara had left gays alone to live their lives discreetly.

Japan's brand of homophobia is understated but powerful. The country's attitude is akin to the American military's former rule of "don't ask, don't tell", says Wataru Ishizaka, an assembly member in Nakano ward, who is one of only two openly gay elected politicians in the capital. The prospect of recognising gay partnerships is shocking to conservatives. There have been demonstrations against the idea in the capital, and much ranting online.

In fact, the proposed changes would fall far short of the full recognition of gay marriage. The certificates would apply only in Shibuya. They would not be legally binding, though they would ask (for example) hospitals to grant gay people access to their partners, and give protection for transgender people sometimes turned away from voting booths. Yet the proportion of Japan's gay people who have come out is small, so the number of people likely to apply for the certificates may not even reach a thousand.

Over time, Shibuya's move is likely to be copied elsewhere. In Tokyo, Setagaya and Toshima wards are considering similar measures; so is Yokohama, Japan's second-largest city. Local governments have often shown themselves to be more progressive on social matters than the national legislature, which later follows suit.

But it's odd people that we really loathe

Few Japanese frown on gays on religious or moral grounds. Rather, the objection is that they depart from the norm—which is something that new laws might change. Conservatives also oppose gay marriage out of a general sense of panic over traditional marriage. Japanese couples are getting married either later or not at all, resulting in a low birth rate (since few children are born out of wedlock).

Marriage as an institution in Japan is fragile, says Masakatsu Kondo, the head of a conservative group which opposes Shibuya's initiative. He says it would be weakened further if same-sex partnerships were to acquire quasi-legal standing. Yet it is hard to believe that a few certificates for gay couples could have a greater deterrent effect than the strictures and costs of traditional marriage—the result of deep-seated factors, ranging from long working hours to old-fashioned sexual stereotyping.

At the moment, politicians of the Liberal Democratic Party are criticising Shibuya's initiative. Shinzo Abe, the prime minister, has pointed out that Article 24 of Japan's (American-written) constitution refers to marriage as based on the mutual consent of "both sexes". But as many people in the bars of Shinjuku wryly note, in other areas of policy, Mr Abe's dearest wish is to rewrite the bits of the constitution that he finds archaic. ■

India's troubled opposition

The son also disappears

DELHI

Congress, the party that long defined Indian politics, is in free fall

IT IS hard to imagine what more could go wrong for Congress, which has dominated Indian politics for much of the country's independent life. Last year's parliamentary elections were disastrous: the party took just 44 seats (out of 543) in May, too few to count as the official opposition. In five state assembly polls since then it has been crushed. In February's election in Delhi, a territory it ran for 15 years up to 2013, Congress won no seats.

Awful electoral losses might be explained as part of a political cycle. Failed leadership and division are graver threats. The biggest problem is Rahul Gandhi, the 44-year-old scion of the Nehru-Gandhi dynasty, who expects to become Congress's "working president" this year. Mr Gandhi led the party to its worst-ever national defeat last year, but tells colleagues that all blame rests on the previous, unpopular, Congress-led government.

He has a habit of shirking responsibility. He spurned offers from Manmohan Singh, who was prime minister from 2004 to 2014, to enter the government. An MP who knows him well suggests he thought a mere ministership beneath him. He rarely speaks in parliament and has declined to lead Congress's MPs in the lower house. After guiding Congress to a thumping defeat in state elections in Uttar Pradesh in 2012, he disappeared from public view for months. He is missing again: since February 23rd he has taken an unspecified period of leave in a secret location. The timing is terrible: parliament's budget session is under way. Last week Narendra Modi's government passed its biggest reform yet, to let more foreign investment into the insurance industry.

Rahul is away, working on his beard

With Mr Gandhi away, his mother, Sonia, is trying to rally the demoralised troops. Thanks to the electoral timetable, Congress will retain a strong presence in the upper house of parliament for a couple more years, and has been busy opposing government bills there. This week Mrs Gandhi led a march in Delhi against proposals to weaken farmers' property rights to make it easier for investors to buy land. Last week she took around 100 Congress politicians to the home of Mr Singh, supporting him after a special court ruled that he must appear next month, as an accused, over a massive coal scandal.

The prosecution of the former prime minister (if it happens) could be a slim opportunity for Congress as well as a threat. Mr Singh took personal charge of a notoriously crooked coal ministry, so he needs to explain how favoured companies—donors to political parties—won control of valuable coal deposits. A trial could confirm Congress's reputation for shady deals, but abandoning Mr Singh to take the rap on his own could backfire on the party, since he was known to do the bidding of the powerful Gandhi family. Congress is reluctant to repeat the shabby treatment of its only other prime minister in the past quarter of a century, Narasimha Rao. He was seen as a rival to Mrs Gandhi, so the great reformer of the 1990s was hounded by his party, then abandoned to face trials for corruption, until just before his death in 2004.

Being seen to rally around Mr Singh makes better sense, especially if Congress can somehow accuse the government of trying to win unfair political advantage from a trial. For the moment, Mr Modi and the ruling Bharatiya Janata Party have mostly stayed sensibly silent about it. Congress is speaking up, though, especially its younger leaders. Jyotiraditya Scindia, an MP and friend of Mr Gandhi who is rising in the party, says Congress is "300% behind Mr Singh".

Congress is still stuck in the doldrums, however. Its fate now probably depends on how far other parties fill the space it has lost. In Delhi that means the Aam Aadmi Party (AAP) led by Arvind Kejriwal, a former anti-corruption campaigner, who is secular, populist and a vocal critic of Mr Modi. The chief minister of the national capital territory wants AAP to expand to other states, including Punjab. To do that, he needs first to address divisions in his own party, as rival leaders accuse him of being autocratic and "unilateral". But at least Mr Kejriwal, despite ill health, shows he has energy and ambition. Few would say the same of Mr Gandhi. ■

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Hong Kong-mainland relations

Aisles apart

HONG KONG

Protests about mainland shoppers reveal graver problems

LATE last year thousands of pro-democracy demonstrators poured onto the streets of Hong Kong calling for the right to elect the city's leader in 2017, free of interference by the central government in Beijing. In recent weeks protests have flared again; far smaller this time, but more violent and similarly fuelled by resentment of the mainland's encroachment. At issue has been the hordes of mainland Chinese who visit Hong Kong to buy goods for black-market resale at home, a racket described locally as "parallel trading". These new and nastier outbursts are about far more than shopping; they suggest that antagonism towards the mainland is deepening and spreading beyond the territory's urban core. This is causing anxiety among officials on both sides of the border.

In 2002, five years after the end of British colonial rule, the Hong Kong government abolished a quota on Chinese tourists. Since 2009 residents of Shenzhen, a city adjoining Hong Kong, have been able to cross the border as often as they like. The loosening of restrictions has been credited by Hong Kong officials with reviving the city's flagging economy. But many Hong Kongers feel they are being swamped. Chinese visitors have increased tenfold since 2000; last year there were 47m, an increase of 16.5% over 2013, in a city of 7m people. Some reckon there will be 100m a year by 2020. The visitors, however, are spending less on average per person than they were in 2009. China's anti-corruption campaign has quashed demand for luxury items. In December sales of such goods fell by 16.3% year-on-year.

To the annoyance of Hong Kongers, a new type of shopper has appeared: those who come to buy household staples, taking advantage of Hong Kong's 0% sales tax (mainland China's is 17%). Some join organised teams, each person taking back a suitcase-full of goods for collection by middlemen on the other side. They buy not just for price, but for quality. Many Chinese do not trust home-made goods. In 2008 Hong Kong suffered shortages of infant formula after mainland supplies were contaminated. The city responded by imposing strict limits on formula exports.

The demand is changing the territory's shopping environment. In San Hong Street in Sheung Shui, an area near the border, shop after shop is piled high with nappies, milk powder, toothpaste and washing-up liquid. Store-owners are happy with the frenzied custom, but many locals are not. Rents have risen and many older outlets have closed. Shops catering to mainland visitors "lock out Sheung Shui culture", says Leung Kim Shing of the North District Parallel Imports Concern Group.

Most Hong Kongers moved from the mainland in the past century, but the gap between the two sides is growing. A poll last year found that ever fewer Hong Kongers identify themselves as "Chinese". Many complain about what they see as the boorish behaviour of their mainland compatriots and brand them as "locusts" for stripping shelves. Some ensuing confrontations have been nasty. Scenes caught on camera in February showed a crowd yelling and heckling a mainland woman and her crying daughter. Mainlanders have been verbally abused and jostled by masked protesters. "People are angry and bitter," says Emily Lau of the Democratic Party and a member of Hong Kong's Legislative Council. She notes the spread of such sentiment into areas near the border where identity with the mainland used to be stronger than in the more densely populated city, the usual site of protests relating to mainland China.

Hong Kong's government is in a bind. The shoppers may be irritating, but few are doing anything illegal in Hong Kong. Mainland regulations allow visitors to bring back goods worth up to 5,000 yuan ($800). Many shoppers, even black-market traders, keep to this. Enforcement of the limit is, in any case, weak. Hong Kong's government does not want to pander to anti-mainland sentiment by siding with the protesters. But it also does not want to fuel the pro-democracy movement by ignoring public grievances. Income inequality in Hong Kong is gaping, the population is ageing rapidly and property prices are steep. Many blame mainlanders for exacerbating these woes. Around 40,000 Shenzhen residents work in Hong Kong and 20,000 Shenzhen children attend school there. All of this contributes to a growing feeling, particularly among young people, that Hong Kong's government has sold out to the one in Beijing.

The central government is sensitive to Hong Kong's predicament. This month a senior mainland official responsible for Hong Kong affairs, Zhou Bo, was quoted as saying that Hong Kong's tourist capacity had "by and large reached saturation". But altering the visa system would be unpopular with mainlanders, especially residents of Shenzhen. Chinese officials have given no hint that they are considering any ▸▸

changes on their side.

Even if a way is found to stem the onrush of shoppers, Hong Kong faces a difficult year. Discussions in the legislature about arrangements for the election in 2017 are due to be finalised by the summer, and could be a catalyst for more unrest (China has shown no sign of compromise on its restrictive plans for the polls). Other flashpoints include a review due in June of how Chinese history is taught in schools; some students fret that this will involve renewed efforts to introduce "patriotic" education. On June 4th Hong Kongers will hold their annual rally to mark the crushing of the Tiananmen Square protests in 1989. July 1st, the anniversary of Hong Kong's handover to China, is often an occasion for big demonstrations as well. The government will have little respite. ■

Smoking

Clearing the air

BEIJING

The capital leads the way in banning smoking in public places

AT LAST year's ten-day annual session of the National People's Congress (NPC), China's rubber-stamp parliament, the prime minister, Li Keqiang, declared "war" on pollution. On March 15th, at the end of this year's meeting, he admitted that government efforts were falling far short of public expectations. He failed to mention that on controlling one source of foul air—smoking—the government's record has been worse.

About 300m Chinese, or one in four, smoke every day. This proportion has remained steady in recent years; efforts to publicise the dangers have been half-hearted. This year, however, may see improvements. On June 1st stricter rules will be enforced on smoking in public places in Beijing, including bars, offices, stadiums and some outdoor areas such as those of hospitals and schools. Fines for failing to keep such places smoke-free could be as high as 10,000 yuan ($1,600); for smokers who break the rules, they could be up to 200 yuan. Cigarette advertising and tobacco-company sponsorships of events will also be banned. Similar measures are included in a draft, published in November, of new national regulations on smoking.

The new rules in Beijing are more wide-ranging than those already in place in many big cities (almost all of which lack a complete ban on smoking in offices). They are also tougher than the capital's existing widely ignored rules, which specify much lighter penalties (eg, ten yuan for smoking in the wrong place).

Chinese leaders are becoming more focused on the problem. In 2013 officials were banned from smoking in public places. President Xi Jinping's wife is a "tobacco-control ambassador" for a government-affiliated campaign group. In February Li Keming, the prime minister's brother, was removed from a senior position in the state tobacco monopoly and assigned to another job, a move cheered by those who worried about conflicting interests between the two Lis.

Late last year the monopoly's director, Ling Chengxing, criticised recent moves to regulate smoking as "absolutist" and "expansionist". At the NPC, however, he admitted: "Everyone understands that smoking is harmful to health." China's tobacco industry is showing some awareness of the lethal threat it is posing.

Feminists

A bad day for women

BEIJING

A round-up of women's-rights activists suggests a new fear among officials

A GROUP of women's-rights activists had planned to mark International Women's Day on March 8th by handing out leaflets and stickers in several Chinese cities to draw attention to the prevalence of sexual harassment on public transport. But the authorities decided to observe the day in a different way—by detaining at least ten of the women. Five remain in custody, charged with the crime of "picking quarrels and causing trouble", a frequently used catch-all for locking up dissidents. Fellow feminists fear this heralds greater government opposition to their campaigning.

Women's Day is officially observed in China: women are even, theoretically, allowed to take half a day off. But it also coincides with the brief annual meeting of China's National People's Congress (NPC), which this year ended on March 15th. The authorities are always hyper-vigilant around the time of the parliamentary session, fearful that citizens might use the occasion to draw attention to their grievances. Dissidents of all stripes are kept under close watch.

The continued detention of some of the activists even beyond the NPC meeting, and the charges laid against them, suggest that security officials are growing more worried about feminist pressure-tactics even at less sensitive times (two of those detained are among the three pictured, at a protest in 2012; Li Tingting, left, and Wei Tingting, right). The guardians of social stability will not be comforted by the comparison being drawn by some Chinese activists between these detentions and the case of Pussy Riot, a Russian group of feminist punk-rockers who gained international attention after their arrest and prosecution in 2012 for bringing their provocative brand of performance art to a cathedral in Moscow.

There are signs of changing attitudes. Organisers of a huge car-industry fair in Shanghai next month have announced that they will end their practice of using scantily clad women to show off new car models. But men in power still sometimes have tin ears. When it was time for Li Keqiang, the prime minister, to decide whether to let his annual press conference at the NPC overrun, he deferred to the female moderator, Fu Ying, a former ambassador and vice-minister. Everyone knows the host makes these decisions, Mr Li said patronisingly, "particularly if the host is a lady. I want to respect ladies." ■

Daring to demand respect

Banyan | The golden urn

Even China accepts that only the Dalai Lama can legitimise its rule in Tibet

WHEN the 13th Dalai Lama died in 1933, the body of Tibet's spiritual leader was placed in state on a throne at the Norbulingka, his summer palace in the capital, Lhasa. It faced south. Twice, however, overnight, its head had turned to the east. Also pointing east, a star-shaped fungus mysteriously sprouted on a pillar in the room. In the trances to which they were prone, state oracles tossed *khatak*, ceremonial scarves, to the east. Taking the hints, parties searching for the reincarnation of the dead lama headed in that direction, looking, in accordance with tradition, for an infant born at around the time of his death. They eventually identified the young Tenzin Gyatso as the 14th Dalai Lama.

That incarnation will turn 80 this year and, though in good health, he is given to musing about his own death and reincarnation. It would be "logical", he has suggested, for the reincarnation to be like him, in exile from Tibet, which he has not been able to visit since fleeing from the Chinese suppression of an uprising in 1959. Perhaps the 15th Dalai Lama might be female. Or perhaps the institution of the Dalai Lama, being man-made, might end, if the Tibetan people feel they do not need it.

The theology of Tibetan Buddhism seems an improbable area of expertise for the Chinese Communist Party. But the Dalai Lama's latest suggestion that he may be the last in the line has provoked fury from Chinese spokesmen and the official press. Padma Choling, the (ethnic-Tibetan) governor of the "Special Autonomous Region" of Tibet, accused the Dalai Lama of "profaning religion and Tibetan Buddhism". A party paper, the splenetic *Global Times*, far from finding it presumptuous to criticise the spiritual leader of Tibetan Buddhism, who is also its leading theologian, accused him of "spouting nonsense".

In part this is an argument over history and China's "inalienable sovereignty" over Tibet. Mr Padma Choling argued that the 14th Dalai Lama had only been able to assume his role because the "central government" (ie, China) approved. This is nonsense. The search that began with the signs pointing eastward was complicated. It involved visions appearing in a holy lake; the advice of the Panchen Lama, another revered monk, who had identified three interesting boys near Kumbum monastery, in what is now Qinghai province in China; the boys being asked to recognise some of the previous incarnation's belongings; the auspicious intervention of the first cuckoo of spring; and a long negotiation to extricate the boy from Chinese control and bring him to Lhasa. While he was on his way, the Tibetan government and national assembly declared him to be the 14th Dalai Lama. China's government at the time—of the Kuomintang, or Nationalist party—sent a representative to the enthronement. As China sees it, the recognition of the incarnation requires the drawing of lots from a golden urn, overseen, traditionally, by the envoy of the Chinese emperor. In this case, China claims implausibly, its man gave permission for that procedure to be waived.

So the party, unembarrassed about assuming the alleged role of the emperor, is intent on meddling in every reincarnation—and it is not just the most senior lamas who are reincarnated. Those who have achieved enlightenment can opt to be reborn, to help those less blessed. In 2007 the Chinese government tried to formalise its control over the process. In "Order Number Five" of the State Administration of Religious Affairs it listed "management measures for the reincarnation of living Buddhas in Tibetan Buddhism". To be a living Buddha in China these days, you need a "living Buddha permit" from the government.

After all, from China's point of view, reincarnation has gone badly wrong in the past. After the death of the tenth Panchen Lama in 1989, two rival candidates were named as the reincarnation. One boy, recognised by the Dalai Lama, was taken from his home in 1995, aged six, and has not been seen since; he is probably under close watch by Chinese officials. Another candidate, recognised by China, lacks credibility among Tibetans—although this month he tried to garner support by speaking out on the need for more monks. Just as bad is the fate of the 17th Karmapa Lama, another figure of great religious significance. In 1992 Ogyen Trinley Dorje was recognised by both China and the Dalai Lama as the Karmapa. Feted and nurtured by China to help bolster its rule in Tibet, the young monk rejected it in the most dramatic way, fleeing to India in 1999 when he was 14.

Given this history, you might expect China to heave a sigh of relief should the 14th Dalai Lama decide to be the last. It is a sign of the bankruptcy of its Tibet policies that, on the contrary, it seems to have decided that only the Dalai Lama can give it the legitimacy it seeks among ordinary Tibetans. Mercifully, the number of Tibetans burning themselves to death to protest against Chinese rule and to call for the Dalai Lama's return from exile has fallen sharply. But this month a 47-year-old woman became the 137th known case since 2009. Since riots and protests in 2008, repression has been heavy, and it is always heavier in March, around the anniversary of the crushed uprising in 1959.

Come in, number 14

The great mystery about China's policy is why it seems to have decided that its best hope lies with the next Dalai Lama, not this one. Unlike many Tibetans, he has accepted Chinese sovereignty. He has used his enormous prestige to urge Tibetans to refrain from violent resistance. China faces a far more serious threat from the mainly Muslim ethnic Uighurs in the neighbouring region of Xinjiang. To safeguard its internal security, placate its disgruntled Tibetan citizens and improve its international reputation, common sense suggests China should start talking seriously to the 14th Dalai Lama. As its spokesmen pose preposterously as arbiters of the arcana of reincarnation, they just could be providing cover for such an about-face. That may be an optimistic interpretation, but others are almost too depressing to contemplate. ■

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The Israeli election

The price of Bibi's comeback

TEL AVIV

The prime minister resoundingly wins a fourth term. But the divisive tactics that secured his victory at home may cause him trouble abroad

WHEN the polls opened for Israel's election on March 17th, there was an unmistakable air of defeat about the prime minister, Binyamin Netanyahu. He visited a rundown pedestrian street in the working-class town of Ashkelon to summon out the last votes. Even his Likud party seemed to forsake him: at least half a dozen senior party figures were making plans to run for the leadership the day after Mr Netanyahu's expected resignation. Within hours, though, he would confound his friends, foes and professional pollsters alike with a convincing victory that will secure him a fourth term as prime minister.

In the final days of the campaign, polls said that Mr Netanyahu's Likud party had fallen behind its rival, Zionist Union, led by Yitzhak Herzog. The prime minister's focus on the threat of Iran's nuclear programme, and his contentious speech to the American Congress denouncing President Barack Obama's nuclear negotiations with Iran as a bad deal, had not done him much good. Likudniks seemed to care more about the cost of living.

Suddenly the man known for his deep suspicion of journalists opened up to anybody who would proffer a microphone. Strangely, he warned of dark "international forces funnelling millions" to propel the left wing to power. He recanted on his commitment in 2009 to Palestinian statehood, causing consternation abroad but little comment in Israel, where nobody really thought he was still a supporter of a two-state deal. More controversial among Israelis was his election-day warning of the danger that Arab citizens were "descending in droves on the polls".

It was ugly electioneering, perhaps, but devastatingly effective. With nearly all votes counted, Likud had won 30 seats compared with Zionist Union's 24. Mr Herzog congratulated Mr Netanyahu. The question, as Mr Netanyahu begins the weeks-long process of negotiating with potential allies to form a government, is the cost that Israel will pay for Mr Netanyahu's desperate appeal to right-wingers.

The new government will not enjoy much of a grace period. The bad blood with the Obama administration was immediately apparent. The White House refrained from customary congratulations. There was no phone call from Mr Obama to Mr Netanyahu. Instead the prime minister got a brief call from the secretary of state, John Kerry. A White House spokesman said the administration was "deeply concerned by the use of divisive rhetoric in Israel that sought to undermine Arab-Israeli citizens". It would also "re-evaluate" its approach to the diplomatic process in the light of Mr Netanyahu's remarks on the two-state solution.

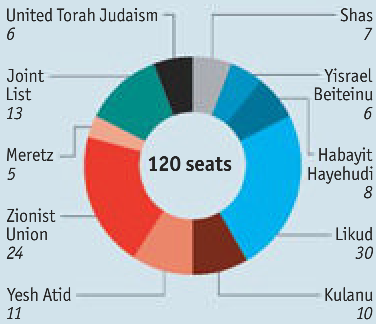
Further discord is doubtless ahead. Armed with Mr Netanyahu's repudiation of the two-state solution, the Palestinian Authority is likely to redouble its effort to isolate Israel diplomatically in international forums. Next month it will join the International Criminal Court, where it will seek Israel's indictment for alleged war crimes, both over the conduct of last summer's war in Gaza and over Jewish settlements in the occupied territories. Mr Netanyahu will need American help to fend off such pressure, but Israeli diplomats fear that Mr Obama may be less willing to fight on Israel's behalf, or will seek to extract a price.

So despite his public commitment to forming a right-wing government, and his activists' chants of "We don't want unity!" (with Zionist Union), Mr Netanyahu may well try to entice Mr Herzog into his government to create a diplomatic shield.

"Bibi wants Herzog in his government. He needs someone to take the flak that's on the way from Obama and the Europeans," says a senior Likud adviser. Likud prime ministers have often opted for partnership with Labour (the main component of Zionist Union) over their "natural partners" on the right: Yitzhak Shamir did it in 1988, Ariel Sharon in 2005 and Mr Netanyahu himself in 2009. Vilifying Labour as defeatist leftists during the campaign, and then enlisting them as a "moderating" influence in ▸▸

A choice of allies

Israel's Knesset election results, 2015
(61 required to form government)



Source: Haaretz.com

government, would be no surprise.

Boosted by his victory, Mr Netanyahu should be able to overcome the resistance of his devotees and the resentment of senior figures wanting ministerial jobs. For his part, Mr Herzog says he is ready for opposition. But as Labour colleagues start to agitate against his leadership, a cabinet sinecure might be attractive.

Mr Netanyahu will be looking for a new foreign minister to replace Avigdor Lieberman, whose far-right Yisrael Beitenu was reduced to only six seats (compared with 13 for the newly unified Arab parties that he sought to exclude from the Knesset). Who better than the respectable Mr Herzog, who could then help to clean up the mess left by the prime minister? It would not be the first time Mr Netanyahu says one thing and does something else. ■

Jihadism in Tunisia

Terror at the Bardo

TUNIS

Gunmen strike the only democracy to emerge from the Arab Spring

TUNISIA is the closest thing to a success story among the countries that went through the revolts of the Arab spring in 2011. As others fell into war or reverted to authoritarianism, Tunisia completed an impressive transition to democracy after an election last year. Yet it is not immune to the violence afflicting much of the Arab world. On March 18th gunmen attacked the Bardo museum in Tunis, popular with tourists for its Roman mosaics. They killed at least 17 foreign visitors and two Tunisians; and wounded scores more.

A tour guide described how, after leaving his busload of Spanish-speaking tourists at the museum, he saw a young man standing in the car park with a Kalashnikov. At first he thought it was a joke, but on realising the danger, the guide fled to the nearby parliament building (which, unlike the museum, has an impressive army presence). Special forces rushed to the scene and two suspected gunmen were killed; 2 others were arrested.

It was the first successful attack against tourists in Tunisia since the car-bombing of an ancient synagogue in Djerba in 2002, though some attempts since then have failed. The latest killings cast doubt on the authorities' claim to be waging an effective campaign against jihadist groups. And they deal a harsh blow to the hopes of recovery for an economy that is reliant on tourism. Since the 2011 revolution, amid worsening instability in neighbouring Libya, and especially since the *Charlie Hebdo* attacks in Paris in January, the tourist industry has been in the doldrums.

The authorities said the dead included Japanese, Italian, French Spanish, Colombian, Polish and Australian visitors, but gave few details as to how the stand-off was ended. After the dust settled, vehicles carrying black-masked special forces drove out of the museum entrance, as one of their number punched the air defiantly to applause from Bardo residents and cries of "Long Live Tunisia!".

The Tunisian public remains supportive of the security forces, not least in rural areas. The same impoverished villages and provincial towns that supply fighters to take part in the conflicts in Syria, Iraq and Libya also send many recruits to the army and national guard, in the absence of other job opportunities.

Jihadist groups have inflicted more than 60 casualties on Tunisia's security forces since 2012, often in small-scale ambushes. There has been one beheading. These groups are often reported to be Algerian-led, with links to al-Qaeda in the Islamic Maghreb (AQIM), which traces its origin to the bloody conflict in Algeria during the 1990s.

But there are also worries about Libya, a country that has split into two rival militia alliances. Jihadists linked to Islamic State have established a growing presence there. A leading Tunisian jihadist, Ahmed Rouissi—senior in the ranks of the once-tolerated but now banned Tunisian Ansar al-Sharia group—was reportedly killed in fighting this week. Many of his countrymen worry that others will follow his path, and eventually find their way back.

The tragedy at the Bardo museum should focus politicians' attention, which has recently been diverted by political distractions. Last week local media attention was monopolised by a comic opera concerning the largest party in the new parliament, Nidaa Tounes, which nearly split over a battle of personalities. President Beji Caid Essebsi said the radicals would be resisted "without mercy". The museum attack is a clear warning that the democratic revolution is not yet safe. ■

An attack on tourists, and Tunisia's hope

Egypt's economy

Thinking big

CAIRO

Another Egyptian leader falls for the false promise of grand projects

THE pharaohs of ancient Egypt occasionally moved their capitals, building grand new cities as monuments to their egos. So in pharaonic style, Egypt's strongman, Abdel Fattah al-Sisi, has decided to build a grand new capital in the desert.

The "capital Cairo" plan is one of several mega-projects that Mr Sisi hopes will attract foreign investment, stimulate an economic recovery and re-establish pride in his country after years of upheaval that destroyed the economy. It is Keynesianism on steroids—funded mostly by rich Gulf states. But though some investors have welcomed the big plans, top-down schemes have failed Egypt before and may distract the government from the dull and difficult work of restructuring a sluggish economy and hidebound bureaucracy.

The new city would ease congestion in Cairo, the population of which is expected to more than double to 40m by 2050. Due to be located 45km (28 miles) east of Cairo, and become home to 5m residents, it would also act as a bridge to a planned manufacturing zone along the Suez Canal, which is to get a second channel under a separate mega-project. "There is a clear case for building residential and office ▸▸

A new Dubai, without the gold

space in that corridor," says Simon Kitchen of EFG Hermes, an investment bank.

But the $45 billion project is also full of extravagant ideas, like a green space twice the size of Central Park in New York and an amusement park four times the size of Disneyland. The centre will feature soaring skyscrapers and a structure best described as the metallic offspring of the Eiffel Tower and Washington Monument. In many ways it will look like Dubai, which has more than ten times Egypt's GDP per head. The project is led by Muhammad al-Abbar, the developer responsible for Dubai's Burj Khalifa, the world's tallest building.

There are signs that Mr Sisi is not learning from the mistakes of past leaders, who also relied on big projects to solve the country's demographic and economic problems, with disastrous results. Egypt's desert is dotted with quixotic cities established by presidential decree. The most notorious of these is Toshka, in the Western Desert, which Hosni Mubarak, the former president, hoped to make the centrepiece of a lush new valley using water pumped from Lake Nasser. Today it remains mostly desert, because of poor planning and inept leadership, but Mr Sisi wants to revive the project and pour money into other badly planned cities.

The army is setting the agenda in some cases. A deal between it and Arabtec, an Emirati building firm, to build 1m low-cost homes in Egypt has stalled due to a lack of funding that may also create problems for other projects (though it may restart soon). Egypt needs cheap housing, but building it is often unprofitable. The capital-city project is meant to provide 1m new homes, but it is not clear how much they will cost or who will pay to build them.

Some think Egypt should seek more modest goals. But fixing leaky pipes and potholes in old Cairo is not going to open wallets abroad, says Mohamed El-Komi of the American University of Cairo. In the optimistic view, investment will spur growth, increase tax revenue and enable the government to pay for better social services. Amr Adly of the Carnegie Middle East Centre, a think-tank, is not so sure. "We know that high growth can exist without development," says Mr Adly, pointing to the late 2000s, when the economy boomed but public services stagnated. The government, he says, does not have a plan to spread the benefits of growth. Moreover, it is looking for inspiration in Dubai whereas India might be a more suitable model given Egypt's size and poverty.

The biggest worry is that the mega-projects will distract the government from broader structural reforms. Mr Sisi has made progress in this area, cutting fuel subsidies, reducing the budget deficit and making investment easier. Much work remains. The bloated and inefficient bureaucracy makes life miserable for firms. It eats up a large portion of the budget, more of which should go to education, health and research. Egypt comes 119th in the World Economic Forum's global-competitiveness index.

The structure of Egypt's private sector also means that Mr Sisi's mega-projects might not provide the best tonic. There might be many construction jobs for a time. But the main benefits will accrue to Egypt's dominant big firms, and to the Gulf companies that follow their government's investments. Most small and medium-sized enterprises will be left on the sidelines. Although they employ the biggest share of Egyptian workers, these businesses lack access to capital and receive little support from the government. Plans for a shiny new capital may win Mr Sisi headlines, but kick-starting these engines of growth would do more for his people. ■

Sport in the Gulf

A heavy burden

ABU DHABI

The government wants the people to slim down

EVERY Wednesday, as the sun goes down in Abu Dhabi, the richest of the seven statelets making up the United Arab Emirates (UAE), a crowd pours into the Yas Marina Circuit, where the annual Formula One race is held. Dressed in athletic gear and trainers, more than a thousand people come to walk, run and ride bicycles. All of these enthusiasts are women and most are indigenous Emirati citizens, who make up less than 15% of the UAE's population. Such physical activity has in the past been most unusual. But the country's rulers, egged on by its doctors, have embarked on a vigorous campaign—to make people less fat.

Around 38% of the UAE's women are obese, according to Booz Allen Hamilton, an American consultancy. So are 33% of its men and 20% of its young aged 6-19, says Daman, the national health-insurance company, which sponsors the Wednesday "GoYas" event. Obesity is a problem across the Gulf states. Treating diabetes is reckoned to cost the UAE nearly 2% of its annual GDP. "It's a billion-dirham topic," says Daman's Sven Rohte. According to another study by YouGov, a British polling firm, one-third of the population does no physical activity at all, while another quarter takes exercise for less than two hours a week.

Not that facilities are lacking. Football pitches and walking paths have proliferated over the past ten years. Even in the summer, when the temperature outside can exceed 45°C, you can stretch your legs in a plethora of cool indoor gyms and malls. And the UAE hosts an array of international sporting events, from golf and Formula One to horse-racing, cricket and a tennis tournament that attracts players from the world's top ten. Running and cycling clubs are going strong.

"We have very high-profile sporting events, and that's beautiful and exciting, but it doesn't necessarily create a sporting culture," says Omar Nour, a UAE-based Egyptian triathlete who is hoping to compete in the Olympics and who serves as one of Daman's "ambassadors for public health".

The firm has been pleasantly surprised by the success, so far, of GoYas. Having previously organised an event for both sexes on Tuesdays, it had lower expectations for a ladies-only one on Wednesdays. Yet it has become a must-attend event on the weekly social calendar. Mr Nour says building a community spirit is the key. "There has to be public fun," he says. "You have to create a feeling and a city that are friendly to activity."

When the UAE's government recently spelt out its list of priorities, three out of seven issues on the agenda touched on obesity. It called for healthy children, healthy food and a country that is free of diabetes. "We want to see everyone take part in sports," says Nahyan bin Mubarak al-Nahyan, the minister for culture, youth and community development.

Mercenaries in Africa

Leash the dogs of war

JOHANNESBURG

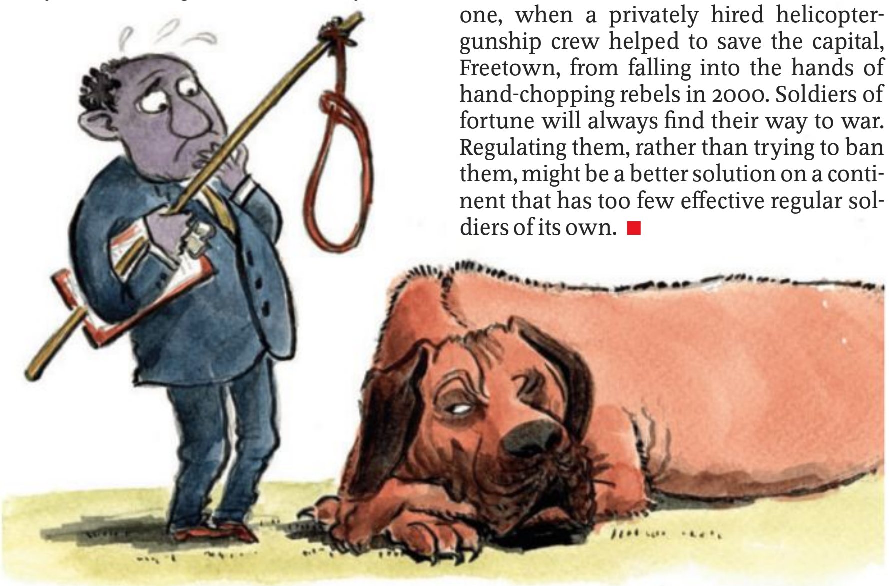
South Africa struggles in vain to ban soldiers of fortune

DURING the 1980s Leon Lotz fought for the "Koevoet" ("crowbar" in Afrikaans), a South African apartheid-era paramilitary unit charged with rooting out nationalist guerrillas in what is now Namibia—acting as "the crowbar which prises terrorists out of the bushveld like nails from rotten wood," in the words of South Africa's then minister of law and order, Louis le Grange.

Such skills should today serve handily on the front line of Nigeria's campaign against Boko Haram, whose fighters hide in the difficult bushland of the country's remote north-east. Mr Lotz died there this month, reportedly killed by "friendly fire" from a Nigerian tank, along with an unnamed Namibian man, said to be his Ovambo driver.

There are believed to be hundreds of foreigners—from South Africa, Ukraine and other ex-Soviet republics—engaged in Nigeria as private soldiers. It is unclear whether they are taking active roles in fighting, as several reports say, or simply providing training and technical support for foreign-bought weapons, as the Nigerian government claims. South African-made armoured vehicles have been sighted in and around the city of Maiduguri.

Bringing in experienced hired guns may be a clever move by Nigeria's army. It has performed abysmally against Boko Haram. But in a renewed campaign over recent weeks, which delayed the presidential election now set for March 28th, the army has made significant headway in the war. The Nigerian government credits its own forces, but much of the progress seems to have been helped by foreign contractors, as well as military intervention by neighbouring armies, especially Chad's, backed by aerial intelligence from France and the United States. "They wanted results," said Jakkie Cilliers of the Institute for Security Studies, a think-tank in Pretoria. "This is about working in an environment with very limited infrastructure. It's about tracking and bushcraft." The South Africans "have many skills in that regard".



In the dying days of apartheid a stream of white South African ex-soldiers sought to ply their trade in conflicts abroad. The best-known mercenary outfit was Executive Outcomes, which in the 1990s fought rebels on behalf of Angola and Sierra Leone, to controversial but often impressive effect. These soldiers of fortune, with experience drawn from subjugating the black majority, were an embarrassing export for the post-apartheid rulers of South Africa. An "anti-mercenary" law, the Regulation of Foreign Military Assistance Act, was enacted in 1998 and toughened in 2006.

The defence minister, Nosiviwe Mapisa-Nqakula, who herself underwent foreign military training in the 1980s (in Angola and the Soviet Union) as a member of the African National Congress's armed wing, has threatened any South African helping Nigeria's military with arrest upon return home. "They are mercenaries whether they are training, skilling the Nigerian defence force or scouting for them. The point is they have no business to be there," she said in January.

The anti-mercenary code is rarely questioned, although its flaws are apparent. Violations are hard to prosecute. South African citizens serving in the Israeli and British armed forces have been threatened with prosecution.

Sometimes foreign mercenaries have been saviours—for instance in Sierra Leone, when a privately hired helicopter-gunship crew helped to save the capital, Freetown, from falling into the hands of hand-chopping rebels in 2000. Soldiers of fortune will always find their way to war. Regulating them, rather than trying to ban them, might be a better solution on a continent that has too few effective regular soldiers of its own. ■

Corruption in Kenya

At long last, a prosecution

NAIROBI

After a long era of impunity, crooked politicians may now have to watch out

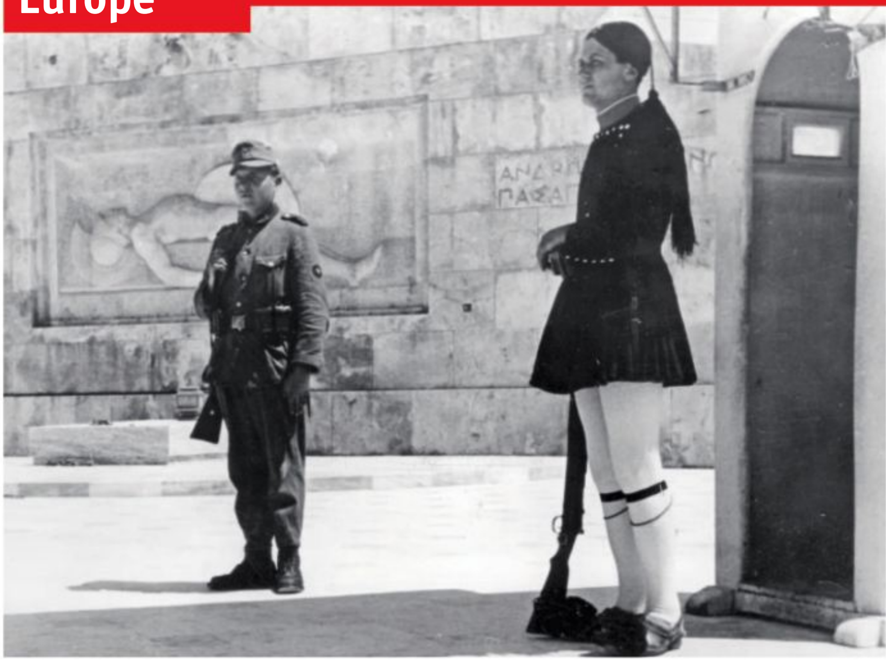
SEVEN highly placed former officials have been charged with fraud after a decade-long, on-again-off-again investigation. They include two former finance ministers, David Mwiraria and Chris Obure (who is now a senator). All deny the charges. This is the first serious prosecution of senior politicians accused of corruption in modern Kenyan history. One Western diplomat calls it "a revolution" in the fight against graft.

The alleged fraud was first exposed in 2005 by John Githongo, a whistle-blower who had been appointed as the country's anti-corruption tsar but soon had to flee, fearing for his life. Nobody was punished and many of those accused remained in prominent posts. But things may have begun to change thanks to public pressure in Kenya and a hardening of attitudes in Switzerland, where some supposedly ill-gotten gains were transferred.

At the heart of the case are allegations that, for almost two decades, a group of Kenyan officials, ministers and businessmen signed overpriced or fake contracts for equipment of all kinds, from printing presses to arms. At one point the funds amounted to perhaps as much as 16% of the annual budget. They could have paid for antiretroviral drugs for every HIV-infected patient in the country for a decade.

After an earlier attempt to prosecute failed, the case became active again in 2013 with demands for payment of certain contracts still outstanding. The president, Uhuru Kenyatta, at first refused to pay but got independent advice, from the IMF among others, that balking on payments would harm Kenya's chances of raising money in the bond market, which it was about to do. When some of the contracts were paid, a public backlash ensued.

Fortified by public support, the president initiated a new prosecution. It meant going after some within his own ethnic group, the Kikuyu, connected to Anglo Leasing, a shell company with an address in Britain at the centre of the alleged scams. Investigators combed through boxes of evidence that had not previously been seen. They were aided by the Swiss government, which supplied its own documents and experts, as well as by the Serious Fraud Office in London. The Swiss ambassador in Kenya, Jacques Pitteloud, went on national television and declared, "This is a warning that Switzerland is the wrong place for your stolen money." ■



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Germany, Greece and history

Pointing fingers

BERLIN

With the euro zone on the brink again, neither childish squabbles nor historical arguments are helpful to Germany or Greece

THE level of debate between Germany and Greece, protagonists in a drama that could make or break the euro zone, could hardly be called edifying. Take, for example, the YouTube video from 2013 which shows Yanis Varoufakis, then a left-leaning economics professor, arguing that Greece should simply default on its debts and "stick the finger to Germany", and making an appropriate hand gesture for emphasis. When Mr Varoufakis, now Greece's finance minister, was confronted with the clip on March 15th during a talk show on German television, he claimed the footage was doctored. The ensuing "Fingergate" lasted days, as the German media proved that the video was genuine, albeit taken out of context. Germany's pundits spluttered with rage: the Greeks were mendacious as well as impertinent.

This week marked a nadir in relations between Greece and its largest creditor. The tone has been deteriorating ever since January when Alexis Tsipras, leader of the far-left Syriza party, took over as Greek prime minister. It is clear that Wolfgang Schäuble, Germany's finance minister, and Mr Varoufakis no longer trust each other as partners in negotiations to extend Greece's bail-out. When Mr Schäuble called his counterpart "foolishly naive", Greece's ambassador in Berlin filed a diplomatic protest.

Greece's defence minister has threatened to let masses of Syrian refugees, possibly including terrorists, pass through to Germany. Europe has only itself to blame if that happens, he said. The Greek justice minister suggested that, as part of his country's ongoing claims against its old oppressor, he might even seize the Athens property of the Goethe Institute, Germany's cultural agency.

Arguments over a tactless hand gesture might be called a childish spat. But historically based threats to seize German assets carry a heavier payload because they recall some dark spectres that have never ceased to haunt both countries. Between 1941 and 1944 the Nazis occupied Greece with a brutality exceeded only in Slavic countries. Greece has never formally dropped claims on Germany which date from that time. Now, in the midst of a debate about recently incurred Greek debts, the government in Athens suddenly wants Germany to settle some much older obligations, both financial and moral, as well.

Germans don't like being reminded of the past by others, because they have their own very formal rituals of recollection. Remembering and drawing lessons from the past is baked into the German approach to politics, psychologically and even physically. When legislators walk to debates in Berlin's Reichstag building, they see walls covered in Cyrillic graffiti. These were scribbled by Red Army soldiers after they stormed to victory in 1945, and meticulously preserved as silent exhortations to responsible governance. Germany's politicians generally go out of their way to be sensitive to countries which the Nazis invaded or occupied.

Had it not been for Russia's aggression in Ukraine, Angela Merkel, the German chancellor, would now be preparing to attend the 70th-anniversary celebrations of the Soviet Union's victory over Germany on May 9th. As it is, she will instead go to Moscow the following day, May 10th, to visit the grave of an unknown soldier. Meanwhile, the need for unequivocal contrition over the Holocaust is the main reason why Mrs Merkel still calls her country Israel's strongest ally in Europe.

But for all Germany's impressive atonement and sensitivity, there are limits. This becomes clear when one looks in detail at the cluster of historical issues that have been raised by Greece, and how they have been handled. The Greek demands can be broken into three categories. First, there are general reparations which Germany was expected to pay to the governments of countries that were the victims of its aggression. Second, there are moral or legal debts Germany may owe to individual victims. And third, there is the specific matter of a loan that Greece was forced to extend to Germany during the occupation; it was used to finance the war in Africa.

At a big London conference in 1953, Germany's creditor countries, including Greece, forgave much of West Germany's foreign debt, thus helping to make possible its "economic miracle". But reparations were deferred to a future peace treaty. That treaty was, in effect, signed in 1990, when the two Germanies and the four victors (America, Britain, France and the Soviet Union) accepted reunification. Helmut ▸▸

Kohl, the chancellor, and Hans-Dietrich Genscher, the foreign minister, deliberately avoided calling this "2+4 agreement" a peace accord. This helped deflect suggestions that the matter of reparations should have been dealt with explicitly at the same time. But it was widely assumed that the issue had simply expired.

Greece did not speak up at the time. But it later argued that a treaty to which it was not a signatory could not have wiped out its claims. As Greeks sometimes put it, they were told before 1990 that it was too early to deal with the issue of reparations. Then they were told it was too late. This month Mr Tsipras declared in parliament that Germany had used "tricks" to get out of reparations. This view was firmly rejected in Berlin. Germany considers this case "closed, legally and politically", as Mrs Merkel's spokesman repeated this week.

Germany takes a similar view about its possible debts to individual victims and their families. West Germany made many payments of atonement in the post-war years, totalling €71 billion ($75 billion), according to government data. As part of a 1960 agreement with west European countries, it paid DM115m (or €57.5m) to Greek victims of Nazi crimes, which amounts to €2.50 "for each day at Auschwitz," says Eberhard Rondholz, a historian. To victims and their descendants that seems laughable. Starting in 1997 victims of one German massacre, in the village of Distomo in 1944, sued Germany privately.

In 2012, however, the International Court of Justice in The Hague sided with Germany, invoking the notion that governments have immunity from lawsuits by individuals in foreign courts. Germany was not the only country relieved by that decision; the world is full of governments that have done wrong to foreigners in the past.

The forced loan by Greece to Germany in 1942 is different. It amounted to 476m Reichsmarks or, according to Greek estimates, €11 billion today. (That is about 17% of the €65 billion that Greece today owes Germany as part of its bail-out.) In the 1960s Ludwig Erhard, the then chancellor, said that Germany would repay the loan once it reunified. He may have assumed this would never happen.

There are many in Germany who are open to repaying the forced loan. "When if not now?" asks Mr Rondholz. To avoid setting precedents Germany could put the money into a trust or foundation, he adds. Several politicians from the centre-left Social Democrats and Greens are also calling for repayment, in keeping with Germany's post-war tradition of assuming responsibility and showing goodwill.

Other Germans see the timing of renewed Greek impatience to talk about the war as suspicious. Since roughly 2000, German identity has shifted, says Hans Kundnani, author of a new book, "The Paradox of German Power". Germans no longer see themselves only as perpetrators but also as victims of the war, as heirs not only of Auschwitz but also of Dresden, a city incinerated by British bombs.

In today's narrative, reasonable or not, the Germans see themselves as victims in the euro crisis. They think they are being asked to pay for the errors of others, who are using the past as a "pretext for extortion, a way to get German money", Mr Kundnani thinks. Indeed *Bild*, the largest German tabloid, has described the talk of reparations as "blackmail".

This worsening climate inevitably affects the tone of debate about the future of the euro zone. According to a new poll, 82% of Germans doubt that Greece will carry through the reforms it has promised, and 52% want it to exit from the single currency. In a sign of her concern, Mrs Merkel has invited Mr Tsipras to Berlin on March 23rd. It will take all her vaunted skill to save Europe from an unintended disaster. ■

A French political fad

Jacques is back

PARIS

An old warhorse is suddenly cool

HE IS 82 years old, and his presidency is hardly a glorious memory. It was on his watch that France's competitive position sharply declined. His popularity sank to 16% during his penultimate year in office. But seven years on, Jacques Chirac has emerged as an improbable icon of retro taste and a figure of public affection.

Bizarre as it seems, images of Mr Chirac in his younger days have become a cult fashion item. T-shirts and tote bags display the former president as the embodiment of insouciant cool: drawing on a cigarette, lounging on a sofa, or leaping nonchalantly over a ticket barrier in the Metro. Captions, in English, include "Chill" or "French touch". There is a page on Tumblr, a social-media hub, devoted to vintage photos of the career politician's "suave gangsterism". *Grazia*, a fashion magazine, recently called him a French Cary Grant. "Chirac, the hipster" wrote *Les InrocKuptibles*, a left-leaning style magazine, has made a "sensational comeback in the form of a fashion icon".

A leap back to the future

Five years after leaving office, Mr Chirac had already become the most popular political personality on the centre-right. Among heads of state under the Fifth Republic, proclaimed in 1958, he is now a distinguished figure. Voters rate him, along with his mentor Charles de Gaulle, as the president who best embodied optimism, according to a new poll. Three new books out this year decrypt (not always favourably) the long-time political hack, who first entered parliament in 1967 and went on to become mayor of Paris and prime minister before winning the presidency in 1995.

This is puzzling. Mr Chirac's record in office was, after all, patchy. In his term, unemployment averaged 10%, debt mounted, the French said no to Europe, and the suburban *banlieues* rioted. Upon leaving office, he was convicted of the misuse of public funds when mayor of Paris in the 1990s. His best claims to a place in history were his stand against the American-led assault on Iraq, and his recognition of the collaborationist French government's role in deporting Jews.

Perhaps the answer is not politics, but style mixed with nostalgia. Rogue, charmer, father, statesman: Mr Chirac represents the fashions and contradictions of his era, his images forming a sort of Instagram before its time. He blends "a French chic that is both strict and funky", suggests *Les InrocKs*. Amid political disillusion and economic uncertainty, there may also be a wistful yearning for simpler times. Antoine Delomez, head of Atelier Amelot, a Paris textile design firm, reports a surge in sales of his Chirac T-shirts; he says this "reflects a nostalgia for a time when people think things were better—whether they were or not."

Irish politics

Eyes on the prize

DUBLIN

Despite some stumbles, Sinn Fein still hopes to share power in the south

ALL over Europe, anti-establishment groups have surged in the polls by proposing alternatives to austerity. Meanwhile, ruling parties are closing ranks to defend the need for bitter medicine. One party has done well by playing both roles at once, as a standard-bearer of protest in the Republic of Ireland, and a partner in government in the island's north.

That party is Sinn Fein, which was the political wing of the Irish Republican Army in the days when its battle to sever Northern Ireland's links with Great Britain was in full swing. The party remains confident of achieving its strategic goal of being in government in both parts of Ireland by 2016, the centenary of the Easter Rising against Britain. But this month, its north-south balancing act was teetering at times.

In Belfast, Sinn Fein (whose name is sometimes translated as "ourselves alone") shares power with the Democratic Unionist Party in a broad coalition whose existence is mandated by the peace process. Last December the Northern Ireland executive agreed to implement cuts to welfare payments and public services.

In the Republic, Sinn Fein makes hay from the hardship that stoical voters have endured for much longer. For six years, tax rises and spending cuts have been required annually to restore fiscal stability, after the collapse of 2008.

This harsh discipline has brought some rewards. In December 2013 Ireland successfully exited its euro-zone bail-out programme. But the austerity measures, virtually all of which Sinn Fein vigorously opposed, have eroded public support for the governing coalition, consisting of the centre-right Fine Gael and Labour. Unsurprisingly, Sinn Fein has been the biggest beneficiary of public discontent.

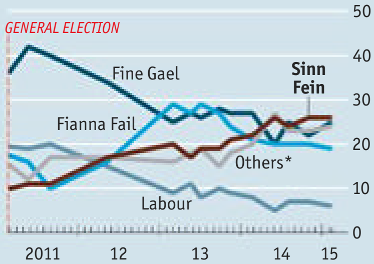
Having taken 9.9% of the votes in the 2011 general election, Sinn Fein has surged above 20% in some recent polls. But its tactic of imposing austerity in Northern Ireland while opposing it in the Republic, where it vows to scrap both a property tax and a charge for water usage, has exposed it to a well-founded charge of hypocrisy.

That probably explains Sinn Fein's unexpected decision on March 9th to withdraw its support of welfare reform in Northern Ireland, even though this has put the power-sharing executive in jeopardy. That, in turn, cast a shadow over this week's visit to Washington, DC, by Gerry Adams, the Sinn Fein leader, who joined

Alone at the top

Republic of Ireland, voting intentions

% of respondents



Source: Millward Brown, *Sunday Independent*

*Including independents

other Irish politicians in making a St Patrick's Day pilgrimage to the White House. The State Department, which fosters peace in Belfast, signalled disapproval by dragging its feet over meeting Mr Adams.

Sinn Fein has much experience of holding an equilibrium between constituencies in Belfast, Dublin and Washington. A bigger cloud on the horizon may be its handling of recurring sex-abuse scandals involving former members of the IRA. On March 10th a middle-aged man said in press and television interviews that he had been raped as a teenager by an IRA member, and then had to attend a "kangaroo court" in which he was asked whether he wanted the abuser killed, beaten or exiled.

Sinn Fein counters such allegations by urging an all-Ireland approach to supporting victims of sex abuse in all communities and helping them to "access justice", presumably of the conventional sort. But for many voters, talk of kangaroo proceedings is an unpleasant reminder of a murky past.

A general election must be held in the Republic no later than next spring. Enda Kenny, the Taoiseach (prime minister), will delay setting the date, hoping to benefit from a recovering economy. Even so, the coalition will have a hard time getting re-elected. Sinn Fein says it is keen to enter a governing coalition, but only as a major party. At a minimum it will be a critical player in the bargaining that follows Ireland's next political contest. ■

Migration from the Balkans

Quitting dreams, chasing dreams

PRISTINA

Many people in Europe's south-east see more hope in leaving than staying

ONLY a few years ago, politicians in the European Union, and in the poor and war-ravaged countries in the continent's south-east, felt that between them they were creating a virtuous circle. With EU help, poor Balkan lands would improve their governance and streamline their economies; in due course they would be rewarded with EU entry. Thanks to all that, people in poor places would have less reason to move to Europe's rich north; in various ways, the EU was coming to them.

Now that virtuous circle, if it ever really existed, is badly frayed. People from the Balkans are once again heading north, legally or otherwise, because they have given up waiting for the situation in their own countries to improve.

The problem feels especially acute in Kosovo, the territory for which NATO went to war in 1999. With unemployment high, and political life deeply corrupt, people of all classes dream of escape. But Kosovo is the only place between Portugal and Ukraine where a visa is still needed for travel into the Schengen zone, the hard core of the EU.

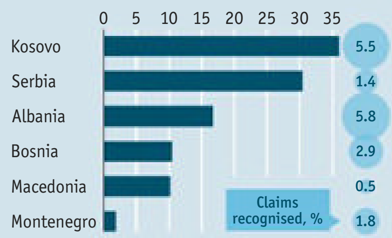
Recently, says Lulzim Peci, who runs KIPRED, a think-tank in Pristina, there has been a new spike of pessimism about life in Kosovo improving in any way. That must be one reason for the surge in illegal migration into Schengenland. Until the door was closed in February, lots of Kosovars took advantage of what was, for almost two months, an oddly unguarded border between Serbia and Hungary and then headed north and west.

Shpend Ahmeti, the mayor of Pristina, reckons 40,000 people took part in that dash for Europe's wealthier parts; others think it was more. Many of those who reached such destinations as Germany, Austria or Sweden immediately applied for asylum. Virtually none will get it, given that the Balkans is no longer a zone of war ▸▸

Opportunity knocks

Western Balkans asylum claims in the EU28*

2014, '000



Sources: Eurostat; European Stability Initiative

*Excluding Austria

COMPETING TEAMS

Oskari Färdig
Carolina Kansikas
Antti Niemi

Blake Martin
Peter Lund
Caroline Clothiaux

Maria Coutinho
Inês Rocha
José Maria Antunes

Antwon Kennedy
Nicole Moutos Carder
Daniela Carvajalino

Shervon Preston
Daniel Shuster
Evan Gallagher

Joseph Caucas
Jose Luis Rodriguez Orjuela
Adam Zimmerman

Curtis Loyd
Karen Vandergaag
David Langille

Alessandro Presa Perez
Toby Bardavid
Ivan Pedretti

Lawrence Feltzer
Yunqiang Zhang
Wanjing Wang

Myles Volosov
Xinyu Lu
Tushar Paul

Kenney Chiu
Aaron Foster
Tarriq Hansrajh

Asmerom Tewolde
Kevin Pei
Kyle Stolys

Joshua Neel
Reid Chanon
David Henley

Sun-wing Simon Wong
Fung Wan
Cho Yi Tong

Rick Brubaker
Iana Stoytcheva
Everett Randle

Samuel Jezard
Joshua Owczarski
Hannah Kim

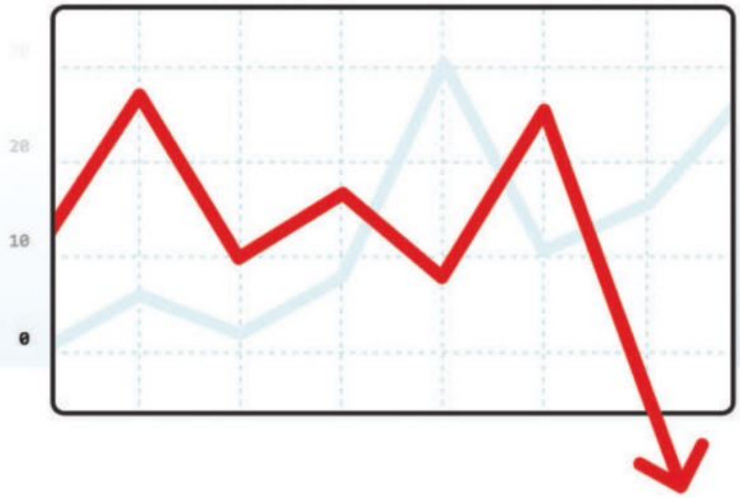
Jordan Goldstein
Rafe Teer
Charles Brazinski-Joyce

Bryan Maley
Edward Wolf
Frank Abt

The Economist Which MBA?

Cast your vote in The Economist's Spring 2015 Case Study Competition

Can you find a zero?



The Economist has launched its Spring 2015 case study competition. Eighteen teams from universities around the world were invited to find a zero—that is, predict which company with a market capitalisation of more than $1 billion will be bankrupt by 2020.

Each team submitted a written proposal and video presentation that debunks a conventional market view that it believes is demonstrably misguided.

The sponsor of the contest, Kerrisdale Captial, will select the top three proposals, and visitors to the site will choose the People's Choice winner.

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Prizes

First place receives $15,000

Second place receives $5,000

Third place receives $3,000

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or oppression, and people are already being sent back. But they clearly thought it was worth a try.

It would be too simple to say that these migrants were fleeing dire poverty. In general, they were neither the poorest in the country, nor were they all unemployed. They went, says Mr Peci, because "they surrendered" to gloom. The people who left included taxi drivers, car mechanics, cleaners and shop workers. Many of them were trying to support families on €250 ($265) a month. That might have been tolerable so long as better days seemed around the corner, but such illusions have largely evaporated.

Recent political events have reinforced such pessimism, says Mr Peci. After last summer's general election, many hoped an opposition coalition would take power. Then a deal was done in December between the leading party of the old government and the biggest opposition group. Many concluded that there would be no change for another four years.

Migration from Kosovo attracts publicity because it is often illegal. But Kosovars are not alone in longing to escape an apparently intractable mixture of nepotism, crippling taxes and barriers to enterprise. In the words of a Serbian banker who now lives in London, more and more people in the Balkans are saying, "this region does not offer a future for my children."

Nor do people any longer cherish the hope that EU membership, if it eventually comes, will transform life in their countries. Croatia joined the EU in 2013 but that has failed to lift the economic doldrums that have afflicted the country for five years and prompted well-qualified people, such as doctors and nurses, to leave.

In 2009-10, people from five countries—Albania, Serbia, Bosnia, Macedonia and Montenegro—won the right to enter the EU without a visa. But that doesn't mean they are entitled to settle, work or claim benefits. For the desperate, other strategies come in handy, such as opportunistic requests for asylum.

According to the European Stability Initiative, a think-tank, the number of asylum bids received in the EU from these five countries soared last year to 70,000, compared with an average of 10,000 before visas ended. And in contrast with the Kosovar surge, many of these applications seem to have come from the poorest levels of society, including the Roma minority.

Slow processing by a clogged-up system creates opportunities as well as problems. Even though they are almost sure to be turned down, applicants can at least claim some social security and even housing benefits during the months they have to wait, and that makes the application worthwhile. Whenever the procedure is accelerated, applications dry up.

In the long run, the only thing that will reduce the outflow from the Balkans is a better life back home. It is a mildly encouraging sign that more people are demanding change, where necessary in ways that bypass formal politics. In Serbia lawyers went on strike for four months last year and teachers have been striking recently. Judges are on strike in Kosovo. Last year protests flared across Bosnia. None of this will bring quick change. But people who still hope for a better Balkans take heart from the fact that some people want to stay and fight, rather than flee. ■

Rome's papal windfall

A time to give thanks

ROME

Benefits from a "holy year" will be material as well as spiritual

FOR the head of the hoteliers' association in Rome, the announcement was "manna from heaven". On March 13th Pope Francis declared an extraordinary jubilee, or holy year, to last from December 8th 2015 until November 20th 2016. (Ordinary jubilees are proclaimed every 25 years; the pontiff has the right to proclaim extra ones if he feels the spiritual need.)

God and Mammon have often been uncomfortably close during holy years, a time when Catholics are encouraged to make pilgrimages to Rome, intensify their devotions, and meditate on such themes as mercy and pardon. In the late Middle Ages, the church used jubilees to market indulgences, purporting to shorten the recipient's stay in purgatory. Nowadays, holy years mostly generate profits for others. Shares in Atlantia, Italy's biggest motorway concessionary, leapt by more than 3% after last week's news.

"The flow of visitors is not concentrated into a brief period, as happens with big sporting events like the Olympic Games or the [football] World Cup," notes Matteo Caroli, a professor at the business-oriented Luiss University in Rome. The most recent jubilee in 2000 brought an estimated 25m visitors to Rome, a rise of about a quarter on the previous year. The capital's left-wing mayor, Ignazio Marino, expects "a big leap forward" in the city's GDP. Tourism businesses say they would be satisfied with receipts 15% above normal. But nobody knows how many people the hugely popular Francis will attract.

That poses some challenges to Matteo Renzi's centre-left government, which was taken by surprise by the announcement ("popes don't ask permission", a prime ministerial aide observed drily). A vast security operation will be needed, and perhaps emergency funding. Last time round, the central government transferred the equivalent of €1.75 billion ($1.87 billion) to the city four years ahead of the jubilee. This time, with less than nine months to go and the government's 2015 budget already decided, there is no scope for a grand plan to boost infrastructure.

But that has not stopped the mayor from airing plans for further pedestrianising the road through the forums, reopening a long-disused railway line, expanding a metro station and increasing the frequency of trains to and from Fiumicino airport. Should the Vatican be asked to chip in? A junior minister indicated that the government had not ruled it out. But the pope's officials will doubtless feel he has already done his bit for Italy's still-elusive economic recovery. ■

He's the one I like

Charlemagne | Aux armes, journalistes!

Europe is belatedly waking up to Russia's information warfare

WHEN Russia was preparing to annex Crimea a year ago its television broadcasts, portraying the protesters who had recently overthrown Ukraine's regime as a neo-Nazi rabble, softened the peninsula's defences as effectively as any artillery assault. One month later, when Russian-backed rebels overran Donetsk, in eastern Ukraine, one of their first acts was to seize control of the television centre and replace Ukrainian broadcasts with previously banned Russian ones.

The Kremlin's propaganda machine has been a key component of the "hybrid warfare" that Russia has waged in Ukraine, and has helped shore up Vladimir Putin's support at home. But it spreads much further. It spills into east European countries via television services that offer viewers tasty blends of entertainment garnished with sprigs of fake news. It extends westward in the form of outfits like RT (formerly Russia Today), a Kremlin-backed news outfit which broadcasts in English, Spanish, French and German, or neatly designed supplements placed in the *New York Times* or *Daily Telegraph*. Sometimes it is smuggled directly into respectable domestic publications, as gullible or time-starved editors unknowingly reproduce Russian misinformation. Meanwhile Kremlin-backed trolls poison online discussion forums and social networks.

Countries in the front line of Moscow's "weaponisation of information", in the words of Peter Pomerantsev and Michael Weiss, two analysts, have long sought to draw attention to the problem. The European Union is at last listening. Heads of government, meeting in Brussels as we went to press, were expected to ask Federica Mogherini, the EU's foreign-policy chief, to produce a plan to counter Russia's "disinformation campaigns" by June. Before that the EU will launch a task force (working name: Mythbusters) charged with monitoring Russian media, identifying patent falsehoods and issuing corrections.

This is awkward terrain for Europe. It was hard enough to galvanise a collective response to Russia's military adventurism; information warfare is a still murkier world. The challenges faced by Britain in countering RT's misinformation are different from those in Baltic states with Russian-speaking minorities, or in war-torn Ukraine, subject of Russia's most egregious lies. That the EU has belatedly been persuaded to act is progress. But officials stress that individual countries must do much of the work.

Some are pushing ahead: in September Estonia will launch a general television channel aimed at the quarter of its population who speak Russian first. Others have bigger ideas: Latvia, home to the EU's largest Russian-speaking minority, has proposed publicly funded pan-Baltic channels. Some talk of trying to penetrate Russia's tightly controlled media market. The Dutch government has financed the European Endowment for Democracy, a Brussels-based think-tank, to consider various proposals. Ms Mogherini will carefully read its report, due in May. But her team downplays ambitious calls for action: grand schemes that require grand funds are, mercifully, out of style in Brussels.

The ideas floated instead are sensible, if small: getting national media regulators to talk to each other, building networks of trusted journalists and, in countries at risk, supporting local producers of good journalism. One example often cited is Hromadske, an online Ukrainian TV channel that sprang out of Kiev's Maidan protests. The EU will also try, somehow, to spread its own message better: Eurocrats admit they have been outgunned by Russia when it comes to explaining matters like free-trade deals.

Amid all this, one fear is of ham-fisted responses. The danger is greatest in Ukraine, where officials have harassed and deported Russian journalists and frustrated international reporters with their own obfuscations. The government is finalising plans for Ukraine Tomorrow, a channel designed to square up to RT that local journalists fear will descend to its standards. Elsewhere, too, there have been difficulties. Last year Latvia and Lithuania temporarily banned Russian broadcasters. In Britain RT has tangled with Ofcom, the media watchdog. Some want the EU to expand its visa-ban list to cover more moguls and journalists.

Russian outlets must abide by local laws, of course. But Europeans should be wary of handing Mr Putin easy propaganda wins. Up against lavishly financed Russian media, cash-strapped, fractious Europe will always struggle: one American official likens the battle to using a teaspoon to shovel out of a snowstorm. But European values like free speech and a commitment to truth remain potent, as Ukrainians know well. Europe's best hope lies in loudly promoting them. If attempts to counter disinformation are to get anywhere, they must demonstrate the falsehood of the most brazen Russian proposition of all: that there is no truth in reporting, just a postmodern potpourri of perspectives.

Countering propaganda, not counter-propaganda

European officials insist they are not engaging Russia in a propaganda war. Good: pro-Europeans in Ukraine and elsewhere want an alternative to Mr Putin's grubby tactics, not a European version of them. Yet just as it underestimated Russia's military resolve in Ukraine, Europe risks underplaying the potency of the disinformation threat. Fact-checking and networking initiatives can carry you only so far; Europe must act as well as react.

Unwieldy bureaucracies like the EU have no business getting into public broadcasting. But individual countries do, and some are responding. Germany is boosting funding for Deutsche Welle, its public broadcaster. The Americans are spending more, and encouraging Europeans to do the same. The British picture is bleaker—facing a squeeze, the BBC World Service ended broadcasts in Ukrainian in 2011—but officials have at least woken up to the danger. Countering the storm of Russian propaganda will require innovative thinking as well as money, two resources in scarce supply in Europe. But it is worth giving truth a chance. ■

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The budget

Bust to boom

The final budget of this parliament was a strange mix of prudence, politics and fiscal shenanigans

ON MANY occasions in the past few years George Osborne has carried a rain cloud into the House of Commons. Britain's growth forecasts had been revised down yet again, he would explain; borrowing would be higher than expected. But as he stood to deliver his sixth (and perhaps last) budget as chancellor of the exchequer on March 18th, Mr Osborne was cheery—partly because the weather has truly improved, partly because he was about to deploy a clever ruse.

Britain grew faster than any other economy in the G7 last year, Mr Osborne boasted. The national employment rate, at 73%, has never been higher. The falling oil price has cut inflation, which will this year end a dismal seven-year stretch of falling real wages. The government is saving money on inflation-linked debt interest payments and on benefits, which are often linked to prices. And because oil is largely imported, lower inflation has not dampened domestic tax receipts the way it otherwise might.

As a result, Mr Osborne is drawing a little closer to the goal that has defined his tenure (see chart 1). In 2010 the Conservatives argued that Britain's structural budget deficit, then 9% of GDP, was a huge threat to the economy, and pledged to close it. In combination with the Liberal Democrats, they set out on a course of austerity that has involved cuts of roughly one-fifth to departmental budgets outside a "ring-fence" protecting the National Health Service, schools and international aid.

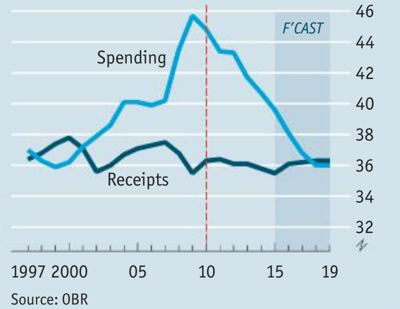
The crisis in the euro zone and a British economic slump led the chancellor to toss out his original plan of closing the structural deficit by 2015. He now intends to get there three years later. And there was some good news on that score. The Office for Budget Responsibility (OBR), Britain's fiscal watchdog, revised down its forecast for borrowing by £1 billion-2 billion ($1.5 billion-3 billion) a year for most of the next parliament. The national debt as a share of GDP will fall in 2015-16, partly as a result of flogging some assets, including £9 billion worth of shares in Lloyds Bank, which the state rescued during the financial crisis. Mr Osborne boasted that he was resisting the temptation—to use these windfalls to pay for pre-election giveaways. This budget, he said, was fully funded.

That is true of his policy announcements, but not of his plans for total spending. Chancellors need only sketch out the latter, and Mr Osborne has drawn a deeply peculiar line (see chart 2). He has pencilled in deep cuts to public spending over the next two years—deeper than any annual cuts in this parliament. That allows him to keep a pledge to balance the budget excluding investment by 2017-18 and realise an overall surplus in 2018-19.

But then something odd happens. On Mr Osborne's new plan, day-to-day departmental spending rises by £24 billion in the final year of the next parliament—the biggest real-terms increase in a decade. In cash terms, this completely reverses the cuts, though economic growth ensures the books still balance. Whereas previously Mr Osborne had sought a surplus of £23 billion in that year, he now plans to be only £7 billion in the black. Factor in better growth and that means departmental spending £31 billion or 9% higher. For departments outside the ring-fence this could mean cuts ultimately only about half as ▸▸

The Osborne effect 1

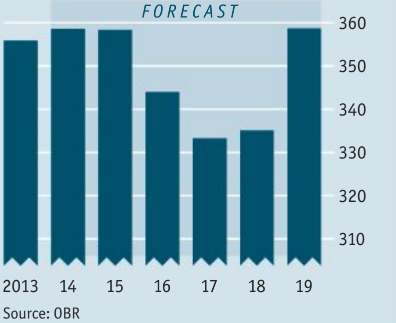
Public-sector balances, % of GDP



Source: OBR

Stop, I want to get off 2

Total departmental spending, £bn



Source: OBR

bad as they were facing before Mr Osborne rose to the dispatch box this week.

This is a trick, but it is good politics. The autumn statement last December had implied that Mr Osborne planned to cut public spending to 35% of GDP, the lowest ratio since the 1930s, by the end of the next parliament. Labour seized on that, accusing the chancellor of planning to unpick the post-war welfare state. Applied to a man from a gilded background, who strikes voters both as hard-headed and hard-hearted, that was a potent line of attack. Mr Osborne's new spending plan appears to head it off. Indeed, he claimed that the parallel was now with the year 2000.

The budget contained more than just trickery. Most Britons will benefit from a further boost to the amount they can earn before paying tax. The chancellor had already raised this from £6,475 in 2010 to £10,600 in 2015-16. Now, it will hit £10,800 in 2016-17 and £11,000 the year after, contributing £80 to most pay packets.

The chancellor giveth

A Liberal Democrat idea, raising the allowance is popular: one poll puts support for it at 83%. Both the Tories and the Lib Dems pledge to raise it to £12,500 if re-elected, which would take those earning the minimum wage out of income tax altogether. But the threshold is already so high that the poorest fifth of workers did not pay income tax at all last year, according to the Institute for Fiscal Studies, a think-tank. The latest rise helps middle- and high-income households more than poor ones.

Mr Osborne also announced several other sweeteners. Those saving for their first home will benefit from subsidies of up to £3,000 each. The young, who find it ever harder to afford Britain's pricey houses, will probably welcome this. But by boosting demand for homes without expanding supply, it will push prices up, benefiting homeowners most. More welcome were the chancellor's other giveaways: a plan to devolve more tax revenue to Manchester and a tax cut for the North Sea oil industry, which has struggled since the oil price began to fall.

These giveaways will be largely paid for by three measures. Two—a fresh clampdown on tax avoidance and higher taxes on banks—are bound to be popular. The third, a reduction in tax subsidies for large pension pots, was a policy Labour announced just weeks ago (see next article).

The budget, then, was a curious mix. On the one hand, the chancellor sought to demonstrate responsibility, by fully funding his pre-election schemes. On the other, he penned a plan that sacrificed credibility for political advantage. In 2010 Mr Osborne created the OBR to stop chancellors manipulating growth forecasts. He has now shown that the spending figures can still be fiddled. ■

Budget politics

Ed Miliband's one-legged stool

George Osborne aims a kick at Labour's strongest economic argument

LIKE Olympian gods, two of the Conservative Party's most successful modern chancellors of the exchequer, Kenneth Clarke and Lord Lawson, looked down from the gallery as George Osborne delivered his budget speech on March 18th. The rotund Mr Clarke permitted himself a smile or two at his successor's gags; mostly he and the more slimline Lord Lawson watched impassively. It was possible to imagine them feeling mixed emotions. For Mr Osborne's performance was monstrously political in a way they both disapprove of, yet also quite likely to improve the Tories' prospects.

That was evident in the far livelier response it elicited from the opposition. Boiling with vote lust, Labour Party MPs shrieked and wailed at Mr Osborne, especially when, in his opening remarks, he claimed British living standards had risen over the course of this parliament. Ed Miliband, Labour's generally restrained leader, waved his arms like a drowning man—and not only because Mr Osborne's claim was dubious. It was plainly intended to take down the last pillar of Labour's jerry-rigged economic platform.

For most of the past five years the economic message crafted by Mr Miliband and his shadow chancellor, Ed Balls, was a criticism of Mr Osborne's spending cuts. This was either on the basis that they hurt the recovery or that they were cruel; either way, it was unwise. The Keynesian argument was academic, because Labour was in no position to prove its case, and because it made such an obvious hostage to fortune. As soon as strong growth returned, as it did in 2013, Mr Osborne would look vindicated, as indeed he has. The social-justice argument was worse, for suggesting the bleeding-heart profligacy that is Labour's greatest reputational flaw.

Ed Balls can't believe it

Hence Mr Miliband's third tack: an argument that Britain's low productivity and many imbalances render the growth Mr Osborne trumpeted irrelevant to millions of workers. More than growth, he argued, the economy required interventions to make it fairer. As inflation has fallen, and the labour market tightened, this case has been growing weaker: the last quarter of 2014 saw the first significant wage increase, in real terms, for five years. Yet Mr Miliband has a point—as proved by the vigorous effort Mr Osborne made in his budget speech to rob him of it.

While claiming that Britons were thriving, he sent some resources in the direction of those who are obviously not. Thus his heavily trailed plan to raise the tax-free allowance to £11,000 ($16,000)—which was greeted with exaggerated celebrations from the Liberal Democrats, the coalition's junior partner, from whom Mr Osborne purloined the idea. Thus, too, in another naked pitch for ex-Labour votes, sundry offers of gravy for the north of England, including more devolved powers for metropolitan Manchester.

Having stolen several Labour garments, Mr Osborne then ripped off most of what remained. He raised a tax on banks and cut the lifetime tax-free pension pot allowance. Mr Miliband had promised the second, to cover the cost of Labour's plan to reduce university tuition fees, only a fortnight ago: now he has a £600m hole where a policy used to be.

Even the chancellor's gags were awkward for Mr Miliband. A revelation that his house has two kitchens has made him seem more than usually out of touch with his blue-collar troops; cue Mr Osborne to announce backing for some whizzkid IT: "So should—to use a ridiculous example—someone have two kitchens, they will be able to control both fridges with the same mobile phone." Mr Clarke smiled at that.

Beneath the slap and tumble lies a serious argument. To repudiate Mr Miliband, the Tory chancellor has often implied that there is no living-standards problem that growth will not solve. His giveaways suggest he has reconsidered. Not that Mr Miliband will be pleased by Mr Osborne's imitation. The Labour leader has got one of his three arguments on the economy right, only to be outmanoeuvred. ■

Bagehot | Leaner but meaner

Oddly, few Britons have noticed that the state has shrunk

FROM the howling on the opposition benches as George Osborne delivered his sixth budget speech on March 18th, you would think the British state had been ground to a husk over his five-year chancellorship. It was a familiar chorus. The notion that the coalition government's spending cuts are an ideologically driven wrecking job, spreading anguish to which the Conservative chancellor is icily indifferent, has sustained the Labour Party since its 2010 fall. Hospitals, schools, local government—in their constituencies Labour MPs swear to rescue them all from "Tory cuts". In Birmingham, the Labour MP Liam Byrne has accused the government of trying to "destroy" Britain's second city—which is a bit rich considering it was he, as an outgoing Treasury minister, who left the note by which 13 years of New Labour government became instantly defined: "There is no money."

Yet something odd is going on. After one of the biggest fiscal squeezes in post-war Britain, which has seen a million public-sector jobs cut, Britons tell pollsters they have never been happier with public services. Looking for an explanation, Bagehot spent a pre-budget day in Croydon, an unfashionable outer London suburb known for a big riot in 2011, which is also the sort of place upon which May's electoral verdict will depend. Croydon Central, which the Tories hold with a small majority, but whose local government went from blue to red last year, is a swing constituency. Ominously for the Tories, you would think, it has a struggling hospital and its local government budget has been cut by 35%, on a per head basis, making it one of the worst hit in the country. Recent polling puts Labour narrowly ahead.

Yet Gavin Barwell, the local Tory MP, reckons he is well-placed—and an afternoon's canvassing with him in Woodhall, one of Croydon's most Labour wards, suggests he could be. Not because Mr Barwell, a 43-year-old Croydonian, did not encounter Labour voters among its tatty Victorian terraces. There were many, with many grumbles, including about the National Health Service, benefit cuts and costly housing. Yet these troubles have little to do with austerity. The government has not cut the NHS, its benefits changes—which are popular—continue Labour reforms, and scarce housing, which is driving up property prices in Croydon, is a different sort of problem. The fact is that, although the government has been defined by austerity, it has cut hardly any front-line services except local government, the fire department and police—and most people remain content with them.

The main explanation is that the local government cuts, which matter most, given the many services councils run—including caring for children and the elderly, emptying bins, lighting streets and running libraries—are less drastic than they sound. Labour doubled councils' budgets in real terms, storing up plenty of fat. To dull the blow of austerity, moreover, the coalition government has given them new responsibilities, for example over public health, for which they get extra money. It has also allowed them to retain more locally raised revenue, including from business taxes. In cash terms, local government expenditure has increased: it will be £79 billion ($117 billion) this year, up from £76 billion in 2010-11. In Croydon, fairly typically, there have been job losses—including, laments Tony Newman, leader of the council, to cherished road-safety staff, known as lollipop ladies. But no library has closed and, in Woodhall and elsewhere, there are shiny new streetlights. In 2010 the council spent £490m; this year it will spend £546m. That is not city-destroying. Indeed, some councils, especially in the richer south, have adapted cleverly to the squeeze, by pooling resources and services.

Others, especially in the north of England, where business tax receipts are scarce and Labour councillors dulled by incumbency, are finding it tougher. Holding down spending on social care, for which there is rising demand from an ageing population, has caused general pain, including in the NHS, because too many lonely oldies are landing up in hospital.

Take the government's welfare reforms into account, and demographic as well as regional losers emerge from Mr Osborne's squeeze. Those of working age have been hardest hit, losing child and other benefits. That this has not met more resistance may be because younger Britons, unlike their more self-righteous elders, appear too resigned to protest; it was striking in Woodhall how almost all the non-voters were aged under 40. But it was also clear that their main concerns were stagnant wages and high rents, enduring problems of Britain's low-productivity economy and NIMBY attitude to house-building. They hurt immeasurably more than spending cuts.

Cuts both ways

The big political lesson is that Labour MPs have exaggerated the pain of austerity, which is liable to hurt them in May. It makes them look hysterical. It has also made the Tories appear more competent than they are—by seeming to have pulled off huge cuts, which most Britons saw the need for, rather painlessly. And if Labour wins the election it will regret this, because, to spend more on the NHS, as it has promised to do, it will have to keep squeezing councils. "There will be no additional funding for local government unless we can find money from somewhere," says Ed Balls, the shadow chancellor. "We have not been able to."

This means more pain for councils—but, if they are smart, perhaps rebirth. As they struggle to provide basic services, the government is offering them more incentives to encourage growth as well as efficiency. In addition to business-tax retention, it has promised incentives for house-building and allowed them to collect more tax. And the most able can have much more autonomy: Greater Manchester, Mr Osborne said in his budget speech, will retain all its business rates; Cambridge wants a similar deal. This could amount to an historic change, which would be a good return on a squeeze that most Britons have not terribly noticed. ■

Also in this section

54 Spin-doctoring across borders

Televised political debates

Lights, camera, election

Live showdowns between candidates are spreading around the world. Outsiders are most frequently the beneficiaries

"THESE are pathetic, feeble excuses!" roared Ed Miliband, leader of Britain's opposition Labour Party, across the floor of the House of Commons. Less than two months before a general election, Britain's parties and broadcasters continue to squabble over the format of a proposed series of televised debates. Mr Miliband wants a head-to-head against the prime minister, David Cameron. Mr Cameron, wary of a risky duel, says he will take part only in a seven-way debate with the leaders of all the main British parties represented in Parliament.

Before the television age, bringing debates to a large audience was a slog. In 1858 Abraham Lincoln and his rival in Illinois for a seat in America's Senate staged seven three-hour debates over two months across the state. Widely attended and reported, they raised Lincoln's profile nationally, paving the way for his presidential victory two years later. Nowadays televised debates between candidates for the top job are a democratic rite of passage. South Africa's first free election in 1994 was preceded by a debate between Nelson Mandela and F. W. de Klerk. Last year Afghanistan and Indonesia held their first debates. Sometimes, voters even get debates without full democracy: Mexico's ruling party consented to a televised showdown in 1994, well before it stopped rigging elections. Mahmoud Ahmadinejad's flubbed performance in Iran's first debate in 2009 cost him votes—not that he paid attention.

Incumbents may tremble and viewers yawn, but televised debates are becoming a near-universal feature of democracy. How should they be organised, and what impact do they have? The first fight is over who calls the shots. Some are run by the state: in France, which has held them since 1974, they are arranged by a *Conseil supérieur de l'audiovisuel*. More often, broadcasters hammer out a format with the parties. After America's first debates in 1960, between John Kennedy and Richard Nixon, Democrats and Republicans did not agree to hold another until 1976. For the next dozen years they were organised by the League of Women Voters, which eventually tired of the parties' attempts to turn them into "campaign-trail charades devoid of substance" and handed them to a commission run by Democrats and Republicans—to the irritation of small parties, which call it a stitch-up.

Next, who should be invited? Some electoral systems narrow the field: in France, a single debate is held between the two presidential candidates who get into the second round. Swedish viewers, by contrast, are taxed by a proportional voting system and rules requiring the inclusion of all parties represented in parliament. Last year that meant an eight-way debate. Scottish, Welsh and Northern Irish parties send members to the parliament in Westminster and clamour for a place on air, despite not fielding candidates in most of the country. Sometimes judges decide: in 2013 Kenya's high court ruled at the last minute that two more candidates should be allowed to take part, taking the total to eight and dragging out the programme to three hours.

America's panel requires presidential candidates to reach 15% in the polls to take part. The rule has been challenged in court by the Green and Libertarian parties, whose candidates were arrested after protesting outside a TV studio in 2004. In 2010 a group of academics recommended cutting the threshold to 5%, the share needed to receive campaign funding, in order to wake up the four out of ten voters who currently don't bother to cast a ballot for anyone.

But more inclusive rules can send viewers to sleep. Germany used to run round-table discussions, featuring all parties. But they proved deathly dull. Ratings fell from 84% of eligible voters in 1972 to barely half by the late 1980s. Since 2002, it has used a jazzier format. *Das TV-Duell* sees the top two candidates battle it out, prodded by a panel of presenters that most recently included a comedian better known for his performance in the Eurovision Song Contest. Other countries, such as the Netherlands, hold one debate for the main contenders and another for the minnows.

Little note, nor long remember?

The scramble to take part can sometimes seem pointless. In 2010 Australia's prime ministerial debate was brought forward by an hour to avoid clashing with another nail-biter: the final of "MasterChef", a cookery competition. The following year a debate between party leaders in Canada was moved because of an ice-hockey match. Political scientists are sceptical about the extent to which debates swing elections. A study of nearly 2,000 opinion polls in American presidential races between 1952 and 2008 by Robert Erikson of Columbia University and Christopher Wlezien, now at Texas University, found that preferences usually shift only slightly in the final six months. Even the worst on-air performances seemed to have little impact on the polls: Gerald Ford's batty claim in 1976 that "there is no Soviet domination of Eastern Europe" failed to halt a slide by Jimmy Carter (though Mr Carter still won).

But as two-horse races between well-known candidates, America's presidential elections offer a poor guide to the potential influence of debates. When outsiders have a chance, TV exposure can make a difference. Jesse Ventura, a former wrestler, went from also-ran to eventual winner of the Minnesota governor's race in 1998, following a widely watched debate. Britain's first televised contest between party leaders, in 2010, gave the third-placed Liberal Democrats a big boost in the polls (though most of that had dissipated by election day). Sweden's debates often catapult an outsider to prominence. Last year's beneficiary was Annie Loof, a young MP who was shooed away live on air by the eventual winner when she tried to hand him a paper on energy. Little-known candidates usually stand to gain most from the "unmediated exposure" of a live debate, says John Curtice, a polling expert at the University of Strathclyde.

Even when they skip the broadcasts themselves, voters pay attention to the commentary these generate. "They tend to dominate the discourse, even if they don't have high ratings," says Peter Esaiasson of Gothenburg University. In one experiment, a group of Americans was shown the 2004 debate between John Kerry and George Bush. Some were then shown commentary from CNN saying that Mr Kerry had won the argument. Others watched NBC News, which gave the edge to Mr Bush. By wide margins, the voters agreed with the broadcaster they had listened to. Australia's and New Zealand's debates are accompanied by an on-screen, real-time tracker of viewers' opinions. The "worm", as the rising and falling line is known, is credited with affecting the result of New Zealand's 2002 election, after it appeared especially perky whenever the candidate of one small party spoke.

Mr Cameron is not alone among incumbents in his reluctance to risk his advantage by taking to the podium. In 1980 Mr Carter rejected a debate with Ronald Reagan and John Anderson, an independent candidate, but was later forced to agree to one (this time minus Mr Anderson) after criticism of his cop-out. But sometimes staying away seems to do no harm. On March 17th Binyamin Netanyahu won a fourth term as Israel's prime minister, beating Yitzhak Herzog of the Zionist Union. At a televised debate last month, neither man had bothered to show up. ■

Political consultants

Spinning a win

The growing cross-border trade in campaign advice

POLLSTERS, strategists and media consultants have been a fixture of America's long, pricey election campaigns for decades. Now their know-how is in demand elsewhere—and experts from other countries are muscling in on the increasingly globalised industry of campaign advice. Israel's main parties turned to American advisers in the run-up to the country's general election on March 17th, as did both front-runners in Nigeria, where presidential elections are due on March 28th. Britain's two biggest parties have brought in Washington campaign strategists to prepare for May's poll.

South American spin doctors have set up in Miami to advise American candidates on how to woo Hispanic voters in the run-up to 2016. In 2012 João Santana, a famed Brazilian strategist, helped Hugo Chávez to stay on as Venezuela's president, despite his cancer diagnosis and record of soaring crime and economic collapse. Brazilians have also run campaigns in Angola and Mozambique.

Small countries struggle to sustain a home-grown political-consulting industry. That means opportunities for those from bigger markets keen to keep working through mid-term lulls. Spin-doctoring is like boxing, says Igor Mintusov of the Russian Association of Political Consultants: real contests, not just sparring bouts, are needed to keep skills sharp. His members' core business is in Russia's regional elections, but they also pick up work in ex-Soviet countries. In a few recent contests the advisers have mirrored geopolitical splits, with pro-Russian candidates seeking strategists in Moscow and those more friendly to the West flying in Americans.

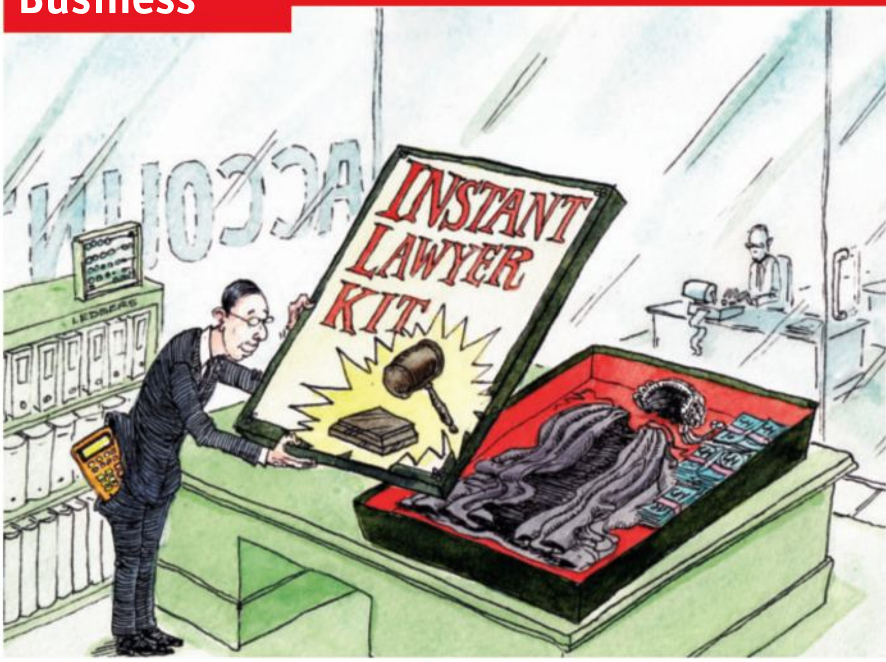
For globetrotting spin doctors, breaking into a new market can be tough. Japan's political culture is so closed that locals have a big head start in mastering the nuances, says Dennis Johnson of George Washington University's School of Political Management. Tom Edmonds, an American political media consultant who has worked abroad, cites risks from finding one's car tyres slashed to not being paid. In 2011 he and other foreign advisers who had arrived for Tunisia's first elections after the Arab spring found themselves hamstrung when the interim authorities banned polling, political advertising and candidates speaking to the press.

As campaigns become fancier, advisers must specialise. *Campaigns & Elections*, a bi-monthly magazine, lists more than 50 categories of political professional. The skills spin doctors offer depend partly on their home countries' political systems, says Felipe Noguera of the International Association of Political Consultants. And there are more of them in countries where money floods into campaigns.

America is the main testing ground for ways to measure and win voters' backing. Its weak data-protection laws mean that it turns out big-data miners and social-media experts. Brazil's candidates get free airtime, public money and huge donations from businesses (not always legally). Add a voting system that means personalities matter more than ideology, and the result is consultants who excel at ads as slick and celebrity-forming as telenovelas.

A foreign star consultant may be boasted about like a new sports coach—and the trash talk can be similar, too. Last year Jim Messina, an American advising Britain's Conservative Party, told senior Tories that he had not yet lost an election and "I'm not going to start with Ed Miliband [the main challenger]". But if it risks being seen as unpatriotic, foreign help may be concealed. In the 1990s Boris Yeltsin's American advisers holed up in a hotel in Moscow and dispensed instructions via his daughter. Mr Netanyahu cast his opponents' advisers, who had worked for Barack Obama, as part of a plot by the American president to oust him in revenge for his refusal to toe the line in nuclear talks with Iran—even though American strategists were hired by Israeli parties of all stripes, including his own Likud. ■

Correction: The briefing on nuclear weapons in the issue of March 7th incorrectly stated that co-operation between America and Russia over the New START treaty has been suspended. We should have said that, although New START continues to be implemented, co-operation on nuclear-security measures has been suspended and promised follow-on measures to New START have been quietly abandoned.



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Professional services

Attack of the bean-counters

Lawyers beware: the accountants are coming after your business

CONSULTING has its Big Three; accounting the Big Four; and executive search a Big Five. But there is no corresponding clutch of dominant law firms. None has amassed as much as 0.5% of an industry with global revenues of around $650 billion a year. Even the biggest law firms may be anachronistically inefficient. They are run by lawyers, not professional managers, insist on charging by the "billable hour" rather than by results and use little technology more advanced than e-mail. Nonetheless, most big law firms have continued to be highly profitable.

In recent years, clients have begun to rebel against the billable hour, and at being charged senior lawyers' rates for work done by juniors. Some have started sending basic legal paperwork to cheap, offshore processing centres. But only now is a serious threat to the law firms' cosy existence emerging.

It comes from none other than the Big Four accounting networks (Deloitte, EY, KPMG and PWC), whose combined annual revenues of $120 billion exceed the $89 billion generated by the 100 largest law firms combined (see charts, next page). Having already dipped a toe into the legal business a couple of decades ago, only to retreat, the accountants have been stealthily building up legal-services divisions. These have now reached a size where they outgun most law firms: by headcount, PWC's legal arm is the world's tenth-biggest, and all four networks' law divisions are in the top 40 by this measure.

The accountants insist that they do not want to compete with law firms, and that legal services will remain a small chunk of their revenues in the medium term. So far, they have focused on mid-tier, process-oriented work rather than the big deals and lawsuits that elite law firms chase. Moreover, regulation has restricted their growth: they cannot practise law in America, which accounts for over a third of global legal spending, and most European countries restrict their freedom to do so. Only a few countries allow full integration of accounting and law firms (see table).

Qualified privilege

Can accountants own and control law firms?*

Yes in:	
Australia	Mexico
Britain	
No, but can collaborate and share costs in:	
China	Italy
France	Japan
Germany	Spain
Ontario, Canada	
No in:	
Brazil	India
United States	other Canadian provinces

Source: *The Economist* *Global accounting networks

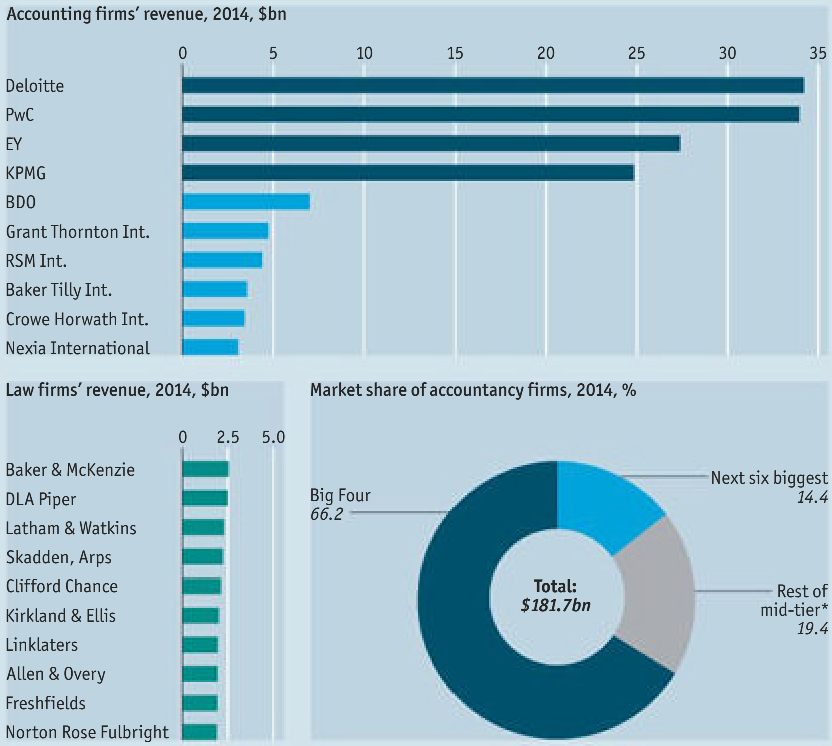
Nonetheless, as the accountants run out of room to grow in other businesses, they will have trouble resisting this inefficient and lucrative market. And the law firms will find it hard to fend them off. To Michael Roch of Kerma Partners, an outfit that advises professional-services firms, the Big Four are "the biggest underestimated threat to the legal profession today".

The idea of accounting firms doing legal work is hardly new. The Big Four have long employed lawyers to work on European clients' tax returns. In the 1990s the then Big Five, led by the late, unlamented Arthur Andersen, sought to diversify from auditing and tax by expanding into both consulting and law. With America off-limits, all but Deloitte founded or acquired law firms in Britain.

That trend ended abruptly when the Enron scandal took down Andersen in 2002. Garretts, an English legal practice it had affiliated with, suffered a harrowing dissolution, in which its staff had to find new jobs and its partners faced personal bankruptcy. Observers attributed Andersen's demise to conflicts of interest between its consulting and audit arms. The accountants' legal divisions were seen as presenting similar risks. Moreover, the Sarbanes-Oxley corporate-governance reform America passed in the wake of the scandal transformed the business environment for the surviving Big Four. Besides restricting the auxiliary services they could offer to audit clients, it granted them a windfall in new regulatory work. In response, the accountants mostly closed or sold their non-tax legal practices.

Over the following decade, however, incentives increased for the firms to revisit their abandoned experiment. Revenues in their audit and tax divisions flatlined, forc-

Above the law



Sources: IAB; American Lawyer

*Next 42 firms and alliances

ing them to seek new business lines to keep growing. As their corporate clients globalised, the Big Four's international scale—together, they employ about 700,000 people in more than 150 countries—became an increasingly valuable selling-point.

The recession following the 2008 financial crisis prompted businesses' general counsels to rebel against the padded bills they get from the law firms they use. In the same decade, several countries passed laws opening up their legal industries. Britain and Australia authorised "multidisciplinary practices" (MDPs), which let attorneys share profits, without restriction, with members of other professions. So, the Big Four moved back in, buying small law firms, poaching partners from others and recruiting on campuses. With the flexibility to offer discounted, fixed fees, they started to win lots of corporate legal work. In recent years the quartet's combined legal revenues have grown at double-digit rates.

Since 2013 EY Legal has expanded from 23 countries to 64. It merged with a Chinese law firm, Chen & Co, and hired a partner from Freshfields, one of the "Magic Circle" of posh London solicitors. In 2012 Deloitte scooped up Raupach & Wollert-Elmendorff in Germany, while PwC recently took over an immigration-law boutique, Bomza, in Canada. KPMG was the first of the four to register an MDP in Britain, which lets it give its lawyers there full-fledged partnerships in the firm. Now, as a proportion of the combined revenues of the ten largest firms in each country, Kerma Partners calculates that the Big Four's aggregate market penetration ranges from 4% in China and 6% in Britain to 20% in Germany and 30% in Spain.

The Big Four are taking a more focused approach this time. Rather than building full-service firms, they are concentrating on areas of law that complement their existing services: immigration, which sits nicely with expatriate tax work; labour, which goes with human-resources consulting; compliance; commercial contracts; and due diligence. So far they have resisted taking on the priciest law firms for high-value work on capital-markets transactions or mergers and acquisitions. They are also steering clear of non-tax litigation, which could result in them suing potential audit or consulting clients. But they are seeking to build broader practices in under-lawyered emerging markets where the international law firms do not have a presence but the accountants do.

Kill billable hours

For now the Big Four seem content with stealthy growth. By tiptoeing around the strongest firms, they have planted a flag on the margins of the profession without setting off alarms. "I don't think we disrupt the existing law business that much," says Leon Flavell, the head of PwC Legal. But his goal is to more than double its revenues by 2020, to $1 billion a year. The legal business is not growing fast enough for PwC and the other three accounting giants to reach this sort of turnover unnoticed. Eventually, they will go head-to-head with law firms.

So far, law firms have been sanguine about this looming risk. Those in America can afford to be complacent: the accountants' lobbyists are too busy advancing the interests of their existing businesses to push for an opening of the legal profession. Even if they tried, America's legislative bodies are infested with lawyers, who would surely fight back. This should ensure that the market remains protected for the foreseeable future. Similarly, the Magic Circle firms in London can rest easy for now: Europe's finest lawyers can still name their price for the most challenging, "bet-the-company" work.

Those most at risk from the attack of the bean-counters are the profusion of mid-tier legal firms in liberalised markets. Since their profit margins are already low, they cannot afford even a modest loss of market share. Unfortunately for them, much of their business is high-volume, repetitive tasks—just the sort of work that the Big Four excel at standardising and automating.

Most of these vulnerable law firms have been slow to react. That may be because their clients are telling them not to worry: in a recent survey by *American Lawyer* magazine, 90% of companies' general counsels did not think their business would buy legal advice from an accounting network. However, those general counsels may themselves be cut out of the loop, as the Big Four sell their companies' finance departments a "one-stop shop" service, with legal work bundled together with consulting and tax filing.

A handful of innovative law firms have tried to "self-disrupt", to pre-empt new entrants. In 2011 Allen & Overy, a Magic Circle member, set up a service centre in Belfast to handle routine aspects of big deals. It now employs almost 400 people there, including 70 lawyers, at a fraction of London salaries and rent. At the other end of the market, in recent years groups of mid-tier firms across the globe have linked up to form loosely integrated networks. In January Dacheng of China joined a Western confederation, Dentons, to create an alliance that employs 6,600 attorneys.

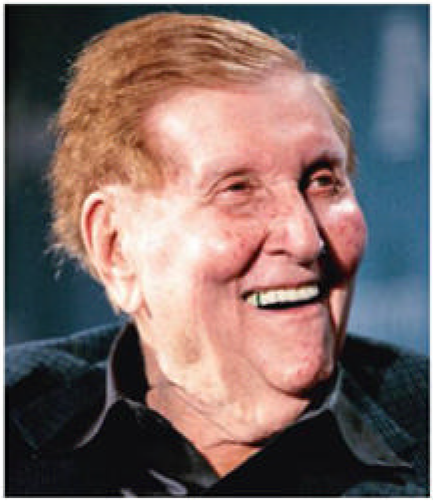
Although the giants of the legal world have sought to mimic the accountants' cost and scale advantages, they remain minnows compared with the Big Four. Only the likes of PwC and Deloitte can muster the capital and technology (and relatively cheap labour) to industrialise the artisanal model of legal practice that has endured so long. Businesses that spend heavily on legal advice stand to save a fortune. But law firms that are sub-scale and inefficient risk ruin. The Walmarts and Amazons of professional services are at their gates, and the legal industry's halting pace of creative destruction is set to accelerate as a result. ■

Viacom

The autumn of Sumner

NEW YORK

The future of a nonagenarian's media empire looks ever more uncertain



The man who is Viacom

"VIACOM is me. I'm Viacom. That marriage is eternal, for ever," Sumner Redstone, a media mogul, once said about his firm. "For ever" is a relative concept. In May Mr Redstone will turn 92. This week Viacom held its annual shareholder meeting in Miami, with only a handful of investors present. And Mr Redstone was not among them. He is probably too frail for a cross-country trip, but still spends part of each day monitoring the shares of Viacom and CBS, the two television businesses of which he controls 80%, from his home in Beverly Hills.

He cannot like what he sees. The shares of Viacom, which owns cable-TV networks such as MTV, VH1 and Nickelodeon, as well as the Paramount film studio, have fallen by 21% in the past year (see charts). Those of CBS, which owns a broadcast network and other assets, are down by 4%. Viacom's revenues and profits have been flat for several years, but its TV stations' ratings have slipped. In February average daily audiences were 18% lower than a year earlier; they are down by 30% since February 2010. Cable-TV viewing as a whole has fallen, but not as badly.

Like many successful businesspeople, Mr Redstone built his empire through a combination of vision and paranoia. After assuming leadership of his father's cinema chain, National Amusements, he worried that technological change in the form of pay-TV and video recorders could hurt film attendance. He decided to embrace the disrupters. In 1987 he bought Viacom for $3.4 billion after making a hostile bid.

Technology is now threatening the health of Mr Redstone's empire once again. Viacom's networks cater predominantly to younger viewers, but they are nowadays less interested in watching television and more turned on by viewing online video clips on smartphones and the like. They are also less willing than oldies to sit through endless repeats and stale programme formats. There is more competition for eyeballs than ever. Take children's programmes, one of Viacom's specialities: Netflix, an online-video service, now offers subscribers 75 children's series.

Part of the ratings fall is explained by inadequate measurement tools, complains Philippe Dauman, the chief executive of Viacom. It and other network owners grumble that Nielsen, an influential ratings provider, does not count shows that are watched on mobile devices or laptops in its main audience ratings. But Viacom's problems are also a result of "underinvestment in its brands" says Jessica Reif Cohen, a media analyst at Bank of America Merrill Lynch. Television needs hits, and lately there have not been many of them. Viacom's Comedy Central channel has lost Stephen Colbert, a popular comedian, and will soon lose Jon Stewart, another.

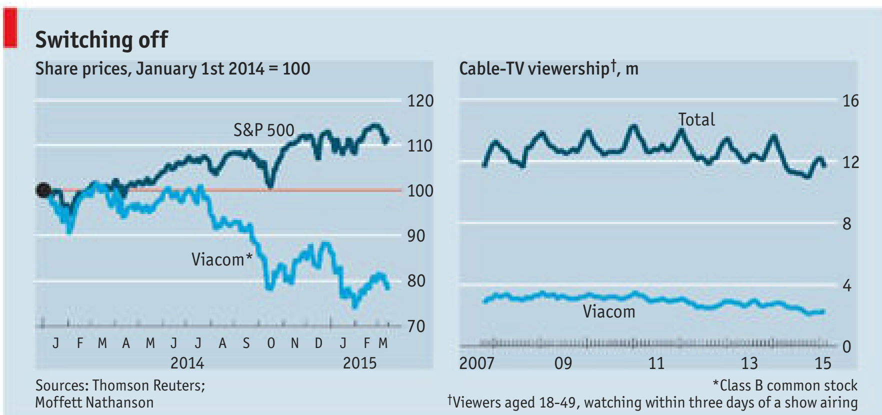
Ratings are not just a popularity contest. When networks get fewer viewers than they promised their advertisers, they have to rerun commercials at no extra cost. In the last year Viacom has increased its ads in primetime by 5%, according to Sanford C. Bernstein, a research firm, a bigger increase than any other network owner. This risks making its remaining viewers reach for the remote control.

Cable and satellite operators, who pay networks' owners for the right to carry them, are less likely to agree to high prices for channels with declining audiences and fewer hit shows. Two small cable companies, including Suddenlink, have dropped Viacom. "If Suddenlink can survive without Viacom, why can't a larger cable company?" asks Benjamin Swinburne, an analyst at Morgan Stanley. New entrants to the pay-TV market, which may soon include Apple, are beginning to offer "light" bundles: instead of charging subscribers a fortune for dozens of channels they rarely watch, these offer a cheaper, more limited selection. If these take off, network owners like Viacom may have a struggle to ensure their channels are included in them.

Viacom is trying to cut its costs by around $250m a year, prompting the departure of many executives. Mr Dauman is also borrowing to buy back stock and increase the dividend, in an attempt to revive the share price. The company is looking to distribute its existing channels more widely outside America, and buy new ones abroad. Last year it acquired Channel 5, a British station which is best known for airing "Celebrity Big Brother".

Within five years, however, Viacom could be the one sized up for takeover. Mr Redstone would never tolerate the sale of any of his media assets while he is alive, says Mario Gabelli of Gamco, an asset manager that is one of Viacom's largest shareholders. However, after Mr Redstone is gone, his interests in Viacom and CBS will be placed in a generation-skipping trust, with Mr Dauman as one of five trustees. They are supposed to act in the beneficiaries' best interest, which means they would surely consider a good offer, were it to come along, for all or part of Viacom.

If cable and satellite operators continue to consolidate in the face of new competition from online video, the owners of television networks may also have to do so, to ensure they have enough muscle in contract negotiations. Mr Redstone is thought to have coined the phrase "Content is King", but these days there is such a quantity and variety of content around that even a giant like Viacom cannot be sure of retaining its crown. ■



Sources: Thomson Reuters; Moffett Nathanson

*Class B common stock
†Viewers aged 18-49, watching within three days of a show airing

The Algosaibi affair

A Saudi saga

Six years on, the claims arising from a huge corporate scandal in the Gulf are still being fought over

THOUGH little noticed by the international media, it was one of the largest corporate collapses of the credit crunch and the messiest of the numerous debt crises to afflict family conglomerates in the Middle East. More than 100 banks worldwide have altogether been contemplating losses of several billion dollars since Ahmad Hamad Algosaibi & Brothers Company (AHAB) defaulted in 2009. A tangle of resulting claims and counter-claims is being litigated in Saudi Arabia, Bahrain, America, Britain, Switzerland and the Cayman Islands. One seasoned investor, asked if he has ever been involved in a corporate failure more challenging than this, replies drily: "Yes, I had one on Mars."

With AHAB and its creditors long unable to agree terms, the stand-off has been described as a "frozen war". Six years on, some participants still see no end to it. But others say they have detected signs of a thaw. If they are right, it would come at a useful time for the Saudis, who are keen to attract foreign capital to help finance infrastructure projects. The allegations and counter-allegations—which are still to be adjudicated—point up problems with corporate and financial governance that would give any sensible investor pause.

Founded in 1940 by the Gosaibi family (pictured above) of Saudi Arabia, AHAB branched out from its roots in pearling and farming into finance, soft-drinks bottling, tyres and more. As the business grew, so did the number of family members with a stake. One of them, the daughter of one of the founders, married Maan al-Sanea, a Saudi billionaire of Kuwaiti origin. Mr Sanea is head of the Saad Group, a prominent investment company. At one time he was a big shareholder in HSBC, a global bank.

After marrying into the family, Mr Sanea was put in charge of AHAB's financial-services businesses. These borrowed with abandon in the go-go years. One of them, the Money Exchange, took on loans of more than $120 billion between 2000 and 2009—a huge amount for a regional remittance and foreign-exchange business. Much of this bank credit was extended unsecured, on a "name lending" basis—with the borrower's reputation counting for more than the state of its accounts.

The problems begin

The group's finances began to unravel in 2009, as crisis-weary banks stopped providing fresh loans. TIBC, a Bahrain bank owned by AHAB, defaulted in May 2009. The Money Exchange followed. In the ensuing legal disputes, the Gosaibis made a startling but hotly disputed allegation: that they were victims of a $9 billion fraud, orchestrated by Mr Sanea—who, they claimed, had had complete control of the toppling financial businesses.

The Gosaibis have alleged that Mr Sanea "usurped the name and credit" of the family. They accuse him of using an iron grip on the financial divisions to engage in massive unauthorised borrowing in the name of, or guaranteed by, AHAB, with the help of forged documents; and of siphoning the proceeds to his own companies, including several in the Cayman Islands. Of the many billions that flowed through AHAB's financial subsidiaries between 2000 and 2009, the family claims it received only $146m, in dividend payments.

A Cayman court concluded in 2011 that there was "compelling evidence of a pattern of massive payments" to Mr Sanea's Saad Group that were "inexplicable having regard to the nature of AHAB's business". The court found that "there is a patent and now deemed proven dishonesty involved", citing the example of Mr Sanea writing $2 billion in cheques to himself and his firms.

Among the fiercely contested allegations yet to be determined in any court are claims that TIBC was a Potemkin bank, with fictitious customers and loans; and that it was concocted as a device to transfer money raised in interbank markets from the bank to Mr Sanea's own businesses. (The family claims it did not even know of TIBC's existence.) AHAB claims that loans were also raised and diverted using letters of credit backed by non-existent exports, that the Money Exchange had very little substance and that its role, like that of TIBC, was to borrow money to fund Mr Sanea's own companies.

Other issues to be determined include claims by independent experts that Gosaibi family signatures on 89 documents were forged. Mr Sanea asserts that the signatures were all genuine.

Mr Sanea is believed to be in Saudi Arabia, subject to a travel ban. He has consistently and categorically denied any wrongdoing. He insists that, far from owing billions, he is owed money by the family, via promissory notes. His lawyers point out that courts in Dubai, Abu Dhabi and Bahrain that have considered AHAB's debts have found no evidence of forgeries.

Claims by the family that it did not know about any of the borrowings were undermined when files came to light showing one of AHAB's partners became aware of some transactions in 2000-02. This led an English court to reject its claim that it had no knowledge of the loans.

The family points out that these transactions were conducted before the bulk of the borrowing took place. It continues to insist it was unaware of most of the loans. A representative says: "It is clear from the methods adopted by Mr Sanea to obtain finance in the name of AHAB, such as forged documents...that his actions were not authorised and were designed to avoid detec- ▸▸

tion by AHAB's partners, lenders and regulators...Why would the family sign up to a programme of borrowing that would almost certainly destroy a trading empire that had taken generations to build?"

A final legal determination still looks far away. Mr Sanea's response to several allegations and complaints has been to challenge courts' jurisdiction—including even in Saudi Arabia—and to seek dismissal of the claims. AHAB obtained a $2.5 billion judgment against him in the Cayman Islands after he challenged the jurisdiction of the court and failed to file a defence. The ruling itself withstood a challenge from Grant Thornton, the liquidator of some Saad-related firms, but it has not been recognised by foreign courts.

Mr Sanea's response to the Cayman ruling is that it was merely an interim judgment, "a purely administrative order", obtained after he disputed the court's right to hear the case, and without a detailed review of the merits of the case. His lawyers point out that AHAB has not been successful in any other actions. A criminal complaint filed by AHAB in Bahrain stalled after prosecutors there decided not to pursue the case. In response to questions from *The Economist*, Mr Sanea's lawyers also said that he "is not prepared to rehearse his formal defence in the media before it has been properly heard and adjudicated upon by a competent court."

Many unanswered questions

For all the sleuthing by private and government investigators, forensic accountants and lawyers since 2009, much remains unclear. The extent and nature of Mr Sanea's role is the subject of fierce dispute. Nor is it clear why hired hands, including experienced foreign moneymen, consented to be the titular heads of AHAB businesses that they seemingly did not run—or why the family apparently conducted so little oversight of those companies.

Then there are the unanswered questions for AHAB's lenders. Why did dozens of supposedly sophisticated foreign banks lend to a group they clearly did not know much about? Even if they thought Mr Sanea was acting with full authorisation, was AHAB such a good credit that it deserved such large unsecured loans? The family has claimed that none of the banks contacted the partners about the extraordinary level of borrowing or asked for evidence of how the money was being spent. Whatever the truth of the allegations and counter-allegations, the creditors will surely now be asking themselves if it was wise to rely so heavily on the strong reputations of the Gosaibis and Mr Sanea when making such large loans to the business.

As for where the borrowed money went, tens of billions are believed to have flowed through New York, with numerous international banks acting as dollar-clearers for the transactions. This raises potentially awkward questions about the level of monitoring by correspondent banks and oversight by their regulators.

The banks suing AHAB (as the parent of the bad debtors) have outstanding claims of $5.9 billion. One-third of the debt is held by Saudi-based or -owned banks, the rest by banks from elsewhere in the Gulf or farther afield—including BNP Paribas and Standard Chartered. An unknown amount of the debt is in the hands of non-bank investors, bought in the secondary market.

In a bid to resolve these claims, AHAB met the foreign creditors last summer and subsequently made an offer to pay 20 cents on the dollar (ten immediately and ten after five years), plus at least half of any recoveries from litigation against Mr Sanea. Its negotiators are led by Simon Charlton, AHAB's acting chief executive, formerly a forensic accountant with Deloitte.

Four-fifths of the banks, almost all of them non-Saudi, have indicated they will support efforts to reach a consensus, though not the current offer. They recently made a counter-proposal (details of which have not been disclosed). Mr Charlton says he has grown more optimistic that a deal can be agreed this year. But creditors still feel they are groping in the dark. The Saudi legal framework for establishing and enforcing the rights of those owed money remains rudimentary and in many respects unclear, despite some modest recent reforms. "Even if a deal can be struck, no one is sure how to implement it under Saudi law," says an adviser to the banks.

Nor is it clear what assets are available for creditors to go after. AHAB has interests in, among other things, property, industrial products and fast food. But it is not required to report on them in detail, says a creditor, who likens the process to "Storage Wars", a television programme in which participants bid blind on the contents of storage lockers.

Maan al-Sanea

Worse, Saudi Arabia has no equivalent of a Western-style "scheme of arrangement", whereby unco-operative creditors can be "crammed down" if those holding 75% of the debt (by value) are on board. In AHAB's case, the co-operative creditors so far make up only 60% of the debt by value. Lawyers reckon AHAB will need at least two-thirds, possibly three-quarters, on board to be confident of pushing any deal through. But no one is sure.

That means more of the Saudi banks will have to be brought into the fold. They have so far stood aloof, seeking preferential treatment while also pursuing AHAB unilaterally. To its credit, the government has refused to bend to them. Under Saudi law, all of the banks should be treated equally, as unsecured creditors. Two Saudi banks have won judgments against AHAB, but courts have, in effect, stayed these while talks go on with other creditors.

One participant says a Saudi judge has indicated that he will write to the Saudi banks, urging them to join any deal that is struck with the foreign creditors. But they might continue to resist unless the government arm-twists them into joining—and it has shown no sign of doing so. "Officials have taken the view that this is a private corporate dispute, even though it probably can't be resolved without pressure from the top. That's the disconnect in the entire process," says a European creditor.

Nudge theory

Saudi officials are unlikely to approve a deal that does not include domestic banks. Optimists think the government has grown a bit more willing to nudge them into joining because it wants to attract more foreign investment to cut the country's dependence on oil and to help develop local infrastructure. Among signs of greater investor-friendliness is a planned opening of the country's stockmarket, the region's biggest, to direct investment by foreigners, expected later this year.

The best the foreign creditors can hope for, even if the Saudi banks were to start co-operating today, is an agreement with AHAB at well below par, some time in 2016. Forging unity could be further complicated by the involvement of the non-banks that bought debt after the defaults.

If the required level of support—from either creditors or the government—proves unattainable, the saga's future could prove to be a lot longer than its past. Saudi Arabia does have a system of sorts for liquidators to be appointed, to sell and to distribute assets in cases where private agreements cannot be reached. But this, too, is untested on such a scale. "We could be looking at another ten years or more," says a lawyer, "with recoveries anyone's guess."

Resolving the impasse is an important

test of how keen the Saudi authorities are to adopt standards for dealing with corporate failures that would satisfy Western investors and businesses. Unfortunately, external pressure for change has not been as strong as it might have been: foreign banks have not stopped lending in the kingdom; the practice of "name lending" still goes on, albeit on a smaller scale. The Saudis "haven't been taught the lessons they should have," sighs a lender.

Furthermore, despite court-ordered restrictions on the use of some assets—the Gosaibis lost their lucrative Pepsi-bottling contract in Saudi Arabia last year as a result—neither the family nor Mr Sanea has suffered an empire-crushing squeeze, reducing the incentive for either party to seek an accommodation. All the more reason why the Algosaibi affair should serve as a warning to anyone seeking to lend or invest in the kingdom. ■

Mobile telecoms in India

Under the hammer

MUMBAI

A big auction of wireless spectrum is likely to thin the ranks of operators

FEW countries are as congested as India. The roads in its big cities are jammed. Its courts are backlogged. Its trains are overflowing. Even its mobile-telecoms business is crowded by global standards. India has 840m active subscribers—the country is so vast that, to make it manageable, regulators divide it into 22 "circles", or regional markets. In most circles there are at least eight mobile operators plying for custom. In contrast, other countries have found that between four and six companies is enough to keep prices in check while ensuring a decent level of service. India's cut-throat market is a boon to its consumers, who enjoy among the lowest charges anywhere for calls and for data downloads (see chart). But it is not so great for mobile-phone operators. Few are profitable.

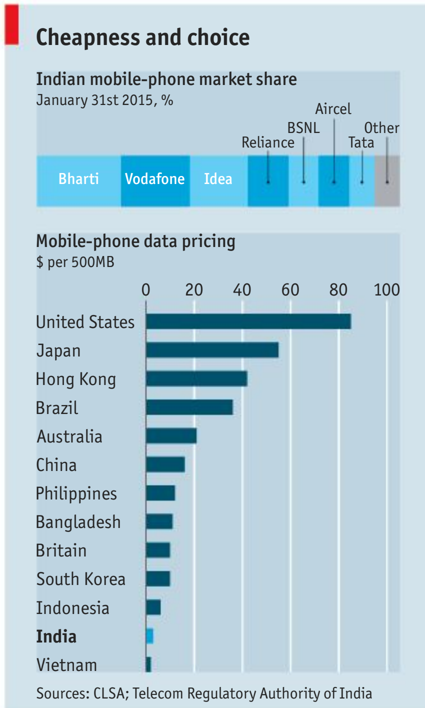
A thinning of their ranks has long seemed inevitable. A big auction of cellphone spectrum, which began early this month, should give the process a shove. Some of the spectrum is new, but much comes from the expiry of 20-year licences sold in 1995, when the industry was in its infancy. That makes the auction a fraught affair for the three largest operators, Bharti Airtel, Vodafone and Idea, who together serve 58% of subscribers. Each faces must-win auctions in circles where they have no other spectrum to provide a backup.

Idea is the most exposed: 72% of its revenue depends on spectrum that is up for renewal, compared with 47% for Vodafone and 35% for Bharti, reckons Deepti Chaturvedi of CLSA, a stockbroker. By March 16th, after 12 days of bidding, Ms Chaturvedi reckoned that the average price for spectrum in the prized 900 Megahertz band had risen to 94% above the reserve price—a figure which itself had been deemed too high by some mobile operators.

The roots of both the industry's crowding and the brutal nature of the auction can be traced to 2008, when a bunch of licences was handed out liberally on a first-come, first-served basis. The giveaway spawned a huge corruption scandal. India's Supreme Court cancelled all 122 licences issued in 2008. The relinquished spectrum was then auctioned. Public outrage over the affair ensured that the terms of all future sales would be exacting. Those whose licences date back to 1995 are grouchy at having to hand back their spectrum and then battle at auction to be able to stay in business. It would have been fairer just to renew their licences and charge them fees linked to the prices paid for fresh spectrum, says Rajan Mathews of the Cellular Operators' Association of India.

Once it became clear that their franchises were in peril, operators were less keen to invest in relieving the network congestion that causes phones to cut out during calls. But the industry may begin to rationalise, and investment in upgrading the network resume, once the auctions are over. If wireless spectrum is priced according to its scarcity, then in principle only the most efficient operators should survive. Weaker ones may be pushed to quit the industry or to merge by their bankers. That will become easier if the telecom regulator's proposals to permit the trading of spectrum are adopted. After the auction process it should be clearer what spectrum is worth, encouraging such trading, says Prashant Singhal of EY, a consulting firm.

The surviving operators will surely try



to pass on the increased cost of their wireless spectrum to their customers. They will be hoping that India's chatterboxes will, in time, be ready to pay extra for data downloads, to watch sport, buy things or keep track of their finances on their phones. But they should not bank on this, says Alpesh Shah of the Boston Consulting Group: in more mature markets consumers have tended to decide how much they want to spend on mobile services, then stick to that figure. It will be tough to raise prices even for voice calls as long as there are businesses competing only on price. And some operators' bosses may find it too painful to face commercial reality, delaying the rationalisation, Mr Shah worries. "As long as everyone hangs in, everyone gets hurt." ■

It's great, but don't expect us to pay more for it

Schumpeter | The business of business

An old debate about what companies are for has been revived

IN 2000 two American law professors, Henry Hansmann of Yale University and Reinier Kraakman of Harvard, pronounced that the most hotly-contested debate in corporate law had been resolved. For decades conservatives and progressives had argued over whether the purpose of a company is to maximise shareholder value or pursue broader social ends. Now, the conservatives had won. Anglo-Saxon capitalism was sweeping all before it. And the world's legal systems were converging on the shareholder-value model. The duo could hardly have been more unlucky in their timing. Not long after their article was published, several companies that proudly practised shareholder-value maximisation went up in flames: Enron, Arthur Andersen and WorldCom, among others. Six years later the collapse of Lehman Brothers triggered a global crisis. Jack Welch, GE's former boss and a poster boy of the conservative school, said pursuing shareholder value as a strategy was "the dumbest idea ever".

Defenders of the model might retort that a few bad apples don't spoil the bunch. These have now been dealt with and the laws strengthened. But the shareholder-value model has conceptual as well as practical problems. Its proponents argue that companies are owned by shareholders, when in fact they are "legal persons" that own themselves. Shareholders just own shares—that is, bundles of entitlements such as the right to receive dividends and to vote on certain issues. Corporate personhood gives shareholders the benefit of limited liability: creditors can only enforce their claims against the firm's assets rather than against the shareholder's assets. It also gives companies the benefit of capital "lock-in", so they can pursue long-term projects: if shareholders want their money back they have to sell their shares.

Shareholder-value arguments are often used to press a company to do something that would create a short-term profit for shareholders, such as accepting a takeover bid. However, in America most legal jurisdictions have some version of the "business judgment rule" which gives directors discretion to act in the long-term interests of the company even if this means sacrificing short-term gains. In practice, of course, shareholders are often not a homogeneous block with a collective interest: traders who buy on the whiff of a bid may have a different perspective from investors who have held the shares for decades.

With conservatives on the defensive, progressives are now pressing their advantage. In a new book, "How Good We Can Be", Will Hutton, a British newspaper columnist, calls for a "Companies Act for the 21st century": firms should be required to declare on incorporation their intention "to deliver particular goods and services that serve a societal or economic need". In a recent lecture to the British Academy, Colin Mayer, a management professor at Oxford University, called for companies to be required to "articulate their purposes". Directors should be held to account for the delivery of these stated purposes. Controlling ownership should be in the hands of people who can ensure that directors discharge their responsibilities. Mr Mayer says a striking number of what he sees as the world's best firms, such as Bosch, Carlsberg, Bertelsmann and Tata, are owned by foundations that are pledged to pursue the public good. Darrell West of the Brookings Institution in Washington, DC, notes the decline of the idea that companies are creatures of the state, given the privilege of incorporation in return for pursuing a broad public purpose.

This all sounds very enlightened. But who will decide whether new companies are likely to serve the public good? Will a committee of the great and the good interrogate young app designers about the social benefits of their inventions? Will foreign competitors who are not required to pass a public-interest test be barred from the market? Or domestic entrepreneurs who choose to incorporate abroad?

Nor are foundations the paragons that Sir Colin imagines: they are frequently created to reduce corporate tax burdens and invariably hand power to a select group of insiders. Carlsberg is struggling, after going heavily into the Russian market, and recently replaced its CEO. Bertelsmann remains highly dependent on its German television stations despite repeated attempts to join the digital revolution. Tata has lots of underperforming businesses as well as some excellent ones. As for Mr West and the supposed virtues of companies as creatures of the state, the one-word response to that is: Petrobras.

...is business

The secret of the modern company's success is precisely that it is such an open-ended organisation. Until the 19th century companies had to pursue a public purpose (imperial domination, usually) in return for limited liability. But various governments, starting in Britain and America, swept away these restrictions and let companies form for no other purpose than to engage in business. This simple act of liberalisation did as much as anything to create the modern economy. Open-endedness lets companies evolve: startups have very different purposes to mature businesses.

Open-endedness reflects the realities of corporate life: far from being slaves to the share price, as progressives imagine, most companies are engaged in a constant process of negotiation between managers and investors over their strategy and time horizons. Mature companies such as Shell, Intel and Nestlé often invest for the long term without a squeak from fund managers. New-economy companies such as Google, Facebook and, particularly, Amazon have had no difficulty in persuading investors to sacrifice short-term returns (and indeed any control whatsoever) in return for long-term rewards.

That businesses do not have to declare a lofty purpose so as to enjoy the privilege of incorporation is not a bug but a feature. Indeed, it is the defining feature of the modern corporation. Change it and you wreck the entire machine. ■

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Monetary policy and the markets

A leap in the dark

How will investors react to America's first rate increase in nine years?

FOR want of a nail a battle was lost, the saying goes. For want of a single word, the long era of easy money in America seems to be drawing to a close. That could have profound effects, in the long term, on the economy and the markets.

In its statement on March 18th, the Federal Reserve no longer said it would be "patient" about tightening monetary policy. At the same time, however, it reduced its forecast for economic growth and lowered its expected trajectory for interest rates. Investors took all this as a sign rates would rise later this year, albeit not as early as some had expected. If the Fed does push up rates, it will be the first such change since 2006. The last rate-tightening cycle began in 2004, when Barack Obama was only an Illinois state senator and Twitter had yet to be invented (see chart).

The Fed is hardly responding to an imminent inflationary threat: prices fell by 0.1% in the year to January thanks largely to the plunging cost of energy. But unemployment has fallen to a seven-year low of 5.5%. That may be close to the point when competition for labour drives up wages—although there is little sign of that yet.

Janet Yellen was at pains to reassure markets that the Fed would not act intemperately. Traders on the Chicago futures market expect its benchmark rate to be 0.5-0.75% by the end of the year, up from 0-0.25% now. The Fed's guarded approach and careful signalling should cushion the impact on the markets. In most of the past seven rate-hiking cycles, American equities wobbled a bit around the time of the announcement. But six months after the first increase, the stockmarket was higher than it had been before the Fed took action.

The fear is that this time might be different. Central banks' support for markets since 2008 has been unprecedented—not just near-zero rates, but also the buying of assets through quantitative easing (QE). Analysts at Société Générale, a French bank, point out that there have only been two periods in which American stocks rose as quickly in six years as they have done since 2009; in both cases (1923-29 and 1993-99), a bear market quickly followed.

Ray Dalio, a hedge-fund manager at Bridgewater Associates, expressed his concerns in a note to clients, comparing current conditions to 1937, when Fed tightening not only caused a stockmarket plunge but also sent the American economy back into recession. "We don't know—nor does the Fed know—exactly how much tightening will knock over the apple cart," he ▸▸

Source: US Federal Reserve

wrote. "What we do hope the Fed knows, which we don't know, is how exactly it will fix things if it knocks it over."

The stronger dollar (see next story) may be the most significant adverse consequence of tightening for the stockmarket. American exports will be less competitive in international markets and the foreign earnings of multinationals will be worth less in dollar terms. According to Deutsche Bank, 40% of the profits of companies in the S&P 500 index come from abroad, along with a third of their sales.

Only a quarter of all profits are denominated in a foreign currency, however, meaning that a 10% rise in the greenback cuts profits by 2.5%. Given the dollar's rise, and the impact of low oil prices on energy firms' profits, Deutsche thinks that the aggregate profits of S&P 500 companies will be no higher this year than last. Worries about the impact of the higher dollar on profits were weighing on the American equity market before the Fed statement. But its cautious tone sent shares rising again, back towards the record highs the S&P 500 hit in early March.

Bonds also rallied slightly at the apparent delay to higher rates, which are usually bad news for the bond market (see Buttonwood). It has so far been fairly resilient in the face of likely Fed tightening. The ten-year Treasury-bond yield was 2.03% on March 18th, below its level at the start of the year. Even though that yield is low by historic standards, it looks attractive compared with European equivalents. German ten-year bonds yield 0.2% and even Italian bonds of the same maturity yield just 1.35%.

As long as the European Central Bank is buying government bonds in its own QE programme, those yields are likely to stay low. That will probably keep the lid on Treasury yields, too, since income-seeking

Buttonwood | Skewiff

The role of government bonds as an asset class is changing

NEGATIVE bond yields are a very modern phenomenon. The idea that rational investors would sign up to lose money in nominal terms would have seemed laughable 30 years ago. Now it looks as if European investors are embracing Islamic finance, which eschews interest altogether.

It is possible to explain negative yields in terms of deflationary fears or risk aversion. But Jérôme Teiletche of Unigestion, a Swiss fund-management group, says that such yields are fundamentally changing the risk-reward profile of government bonds and thus the role that bonds should play in investors' portfolios.

Many natural phenomena, such as people's heights, conform to what is known as the normal distribution or the "bell curve". If the average male height is 178cm, say, the number of men who are shorter or taller will decline the further you get from that mark. The normal distribution is easy to model: 95% of the data will be within two standard deviations of the mean. It is thus common to use the normal distribution when analysing the financial markets—when calculating, for example, the "value at risk" of a portfolio.

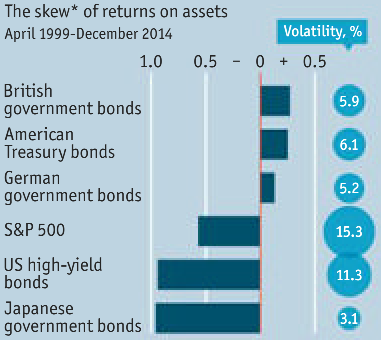
But financial markets tend to have "fat tails"—more extreme outcomes, in the form of bubbles and crashes, than the normal distribution would suggest. The 23% fall in the Dow Jones Industrial Average on October 19th 1987 is an obvious example. Markets tend to rise more slowly than they fall. They may take months to advance by 15-20% but can drop that far in a week or even a day. In statistical jargon, this is known as "negative skew".

Strategies with negative skew have been described as "picking up nickels in front of steamrollers". An investor may make a series of small gains, only to be wiped out by a sudden, large loss. An example would be offering insurance (selling put options) against a sharp plunge in the stockmarket. Most of the time, the market will not fall, and the seller will pocket the premium. But at times like October 1987, the bill will come due.

A losing bias

The skew* of returns on assets

April 1999-December 2014



Source: Unigestion

*Measure of the disproportionate chance of gains and losses (+/–)

Another asset class with negative skew is high-yield, or junk, bonds. At best, investors will be repaid at par on maturity; at worst, the company defaults and investors get back pennies on the dollar.

In contrast, government bonds have typically been used as "shock absorbers" within portfolios. When equities or commodities are plunging, government bonds tend to do very well. Even when bonds do badly, the pain is not that great. Since 1925 the biggest annual loss in real terms (including the income from interest payments) in the Barclays US bond index was 15.5% in 2009. In contrast, the biggest real loss in equities was 38.9% in 1930; and there were seven other instances of a real annual loss of more than 20%.

When yields are zero or negative, government bonds clearly do not give investors an income. The problem is that they may not function as shock absorbers either. It is hard to say precisely how far yields can fall: until recently, many people may have felt that zero was a firm limit. Even if slightly negative yields are palatable, however, it seems inconceivable that investors would accept an annual loss of 5%, say.

Since prices move in the opposite direction to yields, it is thus difficult to imagine investors buying bonds at current yields making much of a capital gain. It is easy, though, to imagine them making a big loss. If inflation returns, nominal yields would rise sharply and prices would plummet. Government bond returns seem likely to have a negative skew.

As evidence, Mr Teiletche points to Japanese government bonds, which have had very low yields since the turn of the century. Japanese bonds have not been very volatile but they have had a negative skew. In this respect, they resemble equities and high-yield bonds (see chart).

If government bonds in the rest of the developed world start to behave like Japan's, then some investors may doubt whether they are worth holding at all. They will simply offer reward-free risk.

Low yields may still last for a while, even so. Many investors—pension funds, insurance companies—are forced holders of government bonds for accounting or regulatory reasons. Central banks also tend to hold other countries' government bonds as a key component of their reserves. And of course, the European Central Bank and the Bank of Japan are committed to buying tens of billions of government bonds each month. But in doing so, Mr Teiletche implies, they are fundamentally altering the nature of the bond market—perhaps for ever.

Economist.com/blogs/buttonwood

investors will be tempted to switch their money from Europe to America. The coming period may resemble 2004-05, when the Fed chairman at the time, Alan Greenspan, talked of the "conundrum" that long-term bond yields stayed low even as short-term rates rose.

The Fed's last cycle of rate rises eventually brought down the housing market, triggering the financial crisis. Homebuyers with variable-rate mortgages may feel the squeeze this time, but many Americans have borrowed at fixed rates. It may thus take a while before higher rates take a big bite out of household finances. Mortgage payments currently comprise 18% of household income, compared with 28% in 2006. Morgan Stanley calculates that rates would have to go up by more than two percentage points to raise the ratio of mortgage payments to income above the long-term average.

Such calculations are all very well, but the unobservable variable is confidence. How will the prospect of higher rates affect the animal spirits of investors and homebuyers? It is nine years since the last rate rise. Any change is a leap in the dark. ■

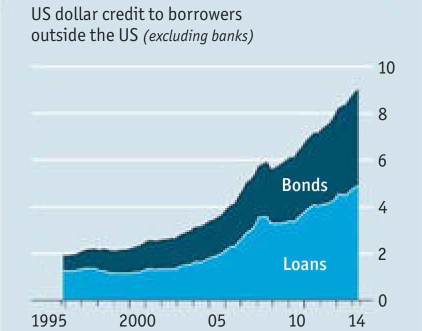
The mighty dollar

Feeling green

Debt-ridden emerging markets are heading for a nasty dollar hangover

IN THE world of economics, one policymaker towers above all others. The head of America's central bank, Janet Yellen, presides over a $17 trillion economy. The empire of her nearest competitor, Mario Draghi, amounts to a relatively puny $10 trillion. On top of this, the dollar's global role means Ms Yellen has a huge impact abroad, influencing more than $9 trillion in borrowing in dollars by non-financial companies outside America—more than enough to buy all the firms listed on the stock exchanges of Shanghai and Tokyo (see chart 1). As the dollar strengthens both in response to healthier growth in America and in the expectation that the Federal Reserve is getting ready to raise rates, this burden is becoming harder to bear.

Dollar borrowing is everywhere, but the biggest growth has been in emerging markets. Between 2009 and 2014 the dollar-denominated debts of the developing world, in the form of both bank loans and bonds, more than doubled, from around $2 trillion to some $4.5 trillion, according to the Bank for International Settlements (BIS). Places like Brazil, South Africa and Turkey, whose exports fall far short of imports, finance their current-account gaps by building up debts to foreigners.



Green tide

US dollar credit to borrowers outside the US *(excluding banks)*

Source: BIS

Even countries without trade gaps have been borrowing heavily. With interest rates on American assets so meagre—a five-year Treasury bond pays just 1.5%—those with dollars to invest have sought out more rewarding opportunities. Firms based in emerging markets seemed to fit the bill. Some are big names: state-owned energy giants like Russia's Gazprom and Brazil's Petrobras have been issuing dollar bonds via subsidiaries based in Luxembourg and the Cayman Islands. Others are smaller. Recent months have seen Lodha group, an Indian property developer, Eskom, a South African power generator, and Yasar, a Turkish firm that makes TV dinners, sell dollar-denominated bonds. By borrowing dollars at several percentage points below the prevailing interest rate in their domestic currency, CEOs have pepped up profits in the short term.

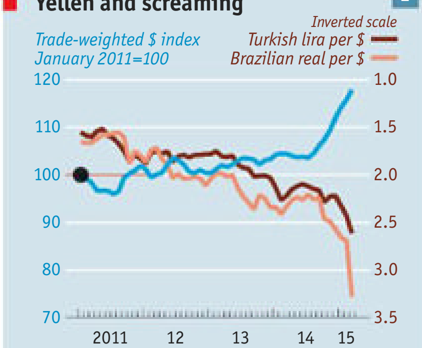
But finance rarely offers a free lunch. The worry is that tumbling energy prices mean firms like Gazprom and Petrobras now have much lower dollar income than expected when they took on debts. Others, such as Lodha, Eskom and Yasar, have few dollar earnings. Taking on debt just before a shift in exchange rates can be painful. In 2010 a Turkish firm borrowing $10m via a ten-year bond with a 5% coupon could expect to pay 22.5m lira ($15m) over the life of the bond. But the lira is down 43% against the dollar since then (see chart 2); the payments are now over 39m lira.

Where foreign debts and earnings line up there is little reason to worry. Asian firms' foreign-currency debts tripled from $700 billion to $2.1 trillion between 2008 and 2014, going from 7.9% of regional GDP to 12.3%, according to economists at Morgan Stanley, a bank. To see whether the surge was bearable, the economists looked at the accounts of 762 firms across Asia. The findings were reassuring: on average 22% of their debt is dollar-denominated, but so are 21% of earnings. Although Asian firms are a big part of the emerging-markets' borrowing binge, on the whole they seem well placed to cope with a rising dollar.

Yet there are still two reasons to worry. First, the outlook for China is a puzzle. The country holds $1.2 trillion in Treasury bills, many of which are sitting in its sovereign-wealth fund. When the dollar rises, the fund gets richer. But even in a dollar-rich country, there can be pockets of pain. China's firms have built up a nasty currency mismatch. Almost 25% of corporate debt is dollar-denominated, but only 8.5% of corporate earnings are. Worse, this debt is concentrated, according to Morgan Stanley, with 5% of firms holding 50% of it.

Chinese property developers are the most obviously vulnerable. Companies like Evergrande, China Vanke and Wanda build and sell offices and houses, so most of their earnings are in yuan. Banned from borrowing directly from banks, they have been active issuers of dollar bonds. They have also borrowed from trust companies, according to Fitch, a rating agency. The trusts are themselves highly leveraged and have borrowed dollars via subsidiaries in Hong Kong. This arrangement will amplify the economic pain if property prices in China continue to decline, as they have been doing for several months.

The second problem is that whole economies, rather than just the corporate sector, look short of dollars. In Brazil and Russia, for instance, bail-outs of firms lacking greenbacks are blurring the lines between the state, banks and big companies. The general scramble for dollars has contributed to the plunge of the real and the rouble. Others could follow this path. Turkey's dollar borrowing has grown rapidly since 2009: in addition to the debts Turkish firms have taken on, the state's external debt has grown to almost 50% of GDP, far above the ▸▸



Yellen and screaming

Sources: Thomson Reuters; FRED

average for middle-income countries (23%). South Africa looks worrying too: its current-account deficit is the widest of any big emerging market, and the government's external debt is 40% of GDP.

A wave of defaults would be unlikely to cause problems as widespread as the subprime crisis of 2008. Most bonds are owned by deep-pocketed institutional investors such as pension funds and insurers. The banks that have made loans face far tougher regulation than they did eight years ago and are generally far better capitalised. An emerging-market rout would not cause another Lehman moment. But it would mean big job losses at stricken firms. As investors reprice risk it would probably also lead to a sudden tightening of credit. In countries like South Africa or Turkey, where growth is evaporating fast, that could still be very painful. ■

Mobile payments

Unfriending cash

Facebook enters the booming market for mobile payments

NEWS of the death of cash has always been exaggerated. But the wounds being inflicted on notes and coins multiply. On March 17th Facebook, the world's biggest social network, announced that in America its instant-messaging app will soon allow users to send each other money just as easily as texts and photos. All they need to do is link their debit cards to their Facebook account, tap on a dollar sign in the app, type in the amount and press send.

Facebook is not the first to enter the market for free person-to-person (P2P, as geeks have it) payments. In November, for instance, Snapchat, a messaging app that lets users send each other photos that disappear after a few seconds, introduced a service called Snapcash. It competes with Venmo, a popular money-transfer app owned by PayPal, an online-payments firm. In Asia, messaging apps, such as WeChat and Line, have offered P2P transfers for some time.

The incumbents don't have to worry too much, at least for now. In contrast to Snapcash and Venmo, Facebook's service does not make instant payments: the money only arrives after a few hours or even days, depending on how quickly users' banks act. This is because money is not transferred between accounts managed by the social network, but goes through conventional payment channels from one bank account to the other.

Still, Facebook's new offering is further proof that technology firms are moving onto banks' turf. Next month Apple will begin selling its smartwatch, which lets consumers pay by waving their arm at the till; this will help the firm's new contactless payment service, which already accounts for two of every three dollars spent in America by gesturing with a smartphone or a card. Google recently bought Softcard, a mobile-payment service, to boost its own payment app and catch up with Apple. Meanwhile Naver, South Korea's biggest online portal, will launch a new mobile-payment service in June.

Were Facebook to expand its offering internationally and make it truly instant, the impact could be huge. Facebook has 1.4 billion members, its messaging service 500m users. Many doubtless send remittances across borders; some are probably unbanked. The regulatory and logistical challenges of serving such customers would be huge. Banks struggle to profit from them. Then again, that is just the sort of challenge tech firms relish.

Notaries

The princes of paperwork

MILAN

A highly regulated profession fights to preserve its privileges

AMONG the many aggrieved parties who have taken to the barricades in recent months to protest reforms intended to make France's economy more competitive, perhaps the most unlikely were notaries. This special class of lawyers, who oversee most commercial transactions and maintain official registers of property, were objecting to some modest pruning of the thicket of regulation surrounding their job. In Italy, too, the government has provoked outrage by attempting to trim the rules of the profession. The row about even minor changes to a highly protected business shows why structural reform is so slow in some of Europe's biggest economies.

In America, notaries' main job is to certify documents, mundane work that requires few qualifications. In France and Italy, however, as in much of continental Europe, valuable assets (houses, companies, shares and so on) cannot change hands without a notary's approval. Entry to the profession is by a rigorous exam. The number of notaries is restricted, as is the region in which they can work; some of their fees are fixed, too.

In France there are also rules about who can own notary firms (notaries, of course) and who else can work in them (not lawyers, accountants or other professionals). Aptly, a firm of notaries can only change hands with the approval of the professional association. In Germany, notaries must read all documents aloud in front of the parties concerned before signing them, tying them up with string and sealing them with red wax. (Once home, they apply leeches and read by candlelight.)

All these regulations add to costs and shelter notaries from competition, making the profession very lucrative. In 2010 the average self-employed French notary earned €190,812 ($265,309). In Italy, in 2013, the figure was €210,400. The average profit margin of French notaries in 2010 was 35%.

A contemporary scene in much of Europe

These costs are borne, naturally, by those buying and selling assets, particularly housing. The OECD, a club mostly of rich countries, found in 2009 that legal fees added 1% to the bill for buying a home in France and 2% in Italy, compared to just 0.25% in Britain. Between 1981 and 2011, as French property prices surged, fees paid on housing transactions, which account for half of notaries' revenues, rose by 68%. That was despite the increased use of technology, which has helped to drive down notaries' costs.

The French reform paves the way for an increase in the number of notaries in certain parts of France. It also makes their fees more transparent. Better yet, notaries will be allowed to open practices with accountants and lawyers in a bid to provide a one-stop-shop for clients, which should help to lower transaction costs. But the law that included these measures was so controversial that the government did not risk putting it to a vote in the National Assembly; instead, it pushed it through by decree.

In Italy, successive governments have chipped away at notaries' privileges. Since 2006, for example, it has been possible to buy a used car without recourse to one. In 2012 the government of the day abolished fixed minimum fees. This, plus a slump in transactions, has cut their earnings: in 2008 their average income was €440,800.

The current government wants to go further, allowing notaries to practise anywhere in Italy rather than in a designated region. It also hopes to abolish the arrangement whereby notaries pool their income to ensure a minimum for everyone—a system that dampens the incentive to compete. More dramatically, it would permit mere lawyers to sign off on certain transactions that are currently the exclusive preserve of notaries, such as the sale of non-residential properties worth less than €100,000 and the registration of particular types of companies.

Notaries argue that allowing transactions to take place without their oversight will increase the risk of fraud. The World Bank, after all, considers Italy's system of property registration superior to Britain's or Germany's. It is a terrible place to enforce contracts in court, however, as would be necessary if lawyers took over from notaries. "In a country in which there are so many things to change," says Eliana Morandi, an Italian notary who has also worked in America, "it is irrational to start with the one thing that works."

But there are good reasons to fret about high transaction costs. An OECD study published in 2011 found that high legal fees on home purchases acted as a significant disincentive to moving. The report suggested that even small reductions in such costs would encourage greater mobility, which might help the jobless to find work. With unemployment at 10.2% in France and 12.6% in Italy, that sounds like a reform everyone should sign off on. ■

Iraq's economy

An empty chest

BAGHDAD

Fiscal problems add to the country's woes

ALMOST 90% of government revenue in Iraq comes from oil. Yet the price of the stuff has fallen by more than half over the past year, and the volume of Iraq's exports has fallen by a fifth, even as the government embarks on an expensive military campaign against Islamic State (IS), the militant group that has taken over much of the north and west of the country. The country's fiscal problems, in short, are almost as big as its political ones.

In January Iraq's parliament passed a budget of 119 trillion Iraqi dinars ($105 billion). That constitutes a 16% cut in spending: funds to every ministry were slashed. The budget also attempts to raise revenue, by introducing a sales tax on mobile and internet top-up cards, airline tickets, vehicles, alcohol and cigarettes. It nonetheless projects a deficit of 25 trillion Iraqi dinars, or about 9% of GDP.

Even that seems optimistic. The budget is based on an oil price of $56 a barrel, and assumes exports of 3.3m barrels a day. In January Iraq exported 2.4m b/d, at an average price of $41 a barrel, according to the Economist Intelligence Unit, a sister company of *The Economist*.

To fill the void the government plans to sell bonds, postpone some payments and dip into its savings. Having paid down its public debt from over 300% of GDP in 2004 to 31% of GDP today, it has some room for manoeuvre. It is discussing a $6 billion bond sale with Citigroup and Deutsche Bank. Officials say they will also borrow from the IMF and World Bank. The government of the autonomous Kurdish region in northern Iraq is borrowing from Turkey. Haider al-Abadi, Iraq's prime minister, has talked to Egypt about converting debts into oil (although that would also cut into export revenues).

Kuwait, meanwhile, has agreed to defer some of the compensation Iraq owes for its invasion in 1990. Western oil companies with contracts to boost Iraq's oil output have agreed to cut back on investment, the cost of which is partly borne by the government. Shell alone has reportedly agreed to savings of $0.9 billion—although this, too, will eventually curtail exports.

The government also plans to borrow from the central bank's reserves, which the World Bank puts at $78 billion. It still has some assets abroad, although it appears to have exhausted a special fund in which it stashed excess oil revenue.

War and austerity are taking their toll on the economy, which shrank by 2.7% last year, according to the IMF. Unemployment is thought to be over 25%; another 40% of Iraqis of working age are employed by the government. Even in 2013, before IS burst on the scene, new foreign direct investment was only $2.9 billion—a fraction of what Iraq needs to rebuild its war-torn infrastructure and revive its oil industry.

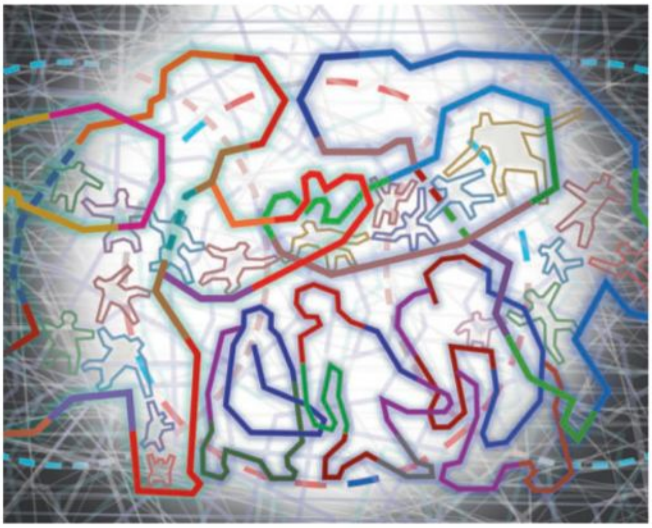
In something of a vicious cycle, the shortage of cash is poisoning Iraqi politics. The budget only passed after the authorities in Baghdad and the Kurdish regional government agreed to share the income from oil, which the central government claims the sole right to export. The deal stipulates that the Kurds must provide the government with 550,000 b/d in exchange for 17% of the government's oil revenues.

Neither side is keeping to the bargain. So far the central government has paid a measly $250m to the Kurds, who, in turn, have handed over less oil than promised: only 248,000 b/d in the first seven days of March, for instance. Ashti Hawrami, the Kurds' oil minister, says poor infrastructure prevents them from providing enough. Adil Abdul Mahdi, the national oil minister, insinuates that the Kurds are selling barrels on the side. This bickering, needless to say, is not helping the supposed allies push back IS. ■

They do not come cheap

Free exchange | Game of zones

Regional trade deals aren't as good as global ones but they are still beneficial



AFTER years of missed deadlines, the coming months will be decisive for international trade talks. Much hinges on whether Congress gives the president "trade promotion authority" by waiving its right to reopen trade deals that have already been approved by America's negotiators. This would help clear the path to an agreement among Pacific countries and to an American-European pact. Completion of these deals, in turn, would be evidence that regional trade negotiations are capable of success where global talks have foundered. With that, an old debate will begin anew: do regional deals lead to freer trade globally, or do they obstruct it by Balkanising the world?

In classical economic theory, free trade boosts prosperity by encouraging nations to focus on their relative strengths. The reality of regional deals is messier. Jacob Viner, a Canadian economist, showed more than 60 years ago that customs unions sometimes divert rather than create trade by inducing consumers to buy from inefficient producers. A hypothetical example: Thailand makes widgets more cheaply than Mexico, but Americans buy them from Mexico due to lower tariffs on Mexican goods. Such a diversion hurts the global economy, keeping resources from the places where they would be used most productively. Jagdish Bhagwati of Columbia University expanded on this with his observation that regional deals might be stumbling, not building, blocks towards freer trade worldwide. Many had hoped that regional agreements in the early 1990s would lead to global pacts. But Mr Bhagwati argued that less efficient producers would lobby for regional accords, seeking protection inside them.

At first glance, the past 20 years bear out his warnings. Since 1994 there have been more than ten regional deals a year on average but only one global deal: the World Trade Organisation's underwhelming "Bali package" of 2013. Moreover, forecasts about the regional deals now under negotiation highlight the dangers of trade diversion. According to a controversial study by Germany's Ifo Institute, the Transatlantic Trade and Investment Partnership (TTIP), a mooted deal between America and the European Union, would boost America's GDP by 13.4%. But it would leave the economy of Canada, which is not part of the pact, 9.5% smaller than it would otherwise have been. Other studies reach similar, if less dramatic, conclusions about the Transpacific Partnership (TPP), which links 12 countries in Asia and the Americas.

On closer scrutiny, though, regional deals do not look so bad. One indication that the stumbling-block claim was true would have been a proliferation of preferential tariffs following the explosion of regional agreements in recent years, as trading partners lowered barriers for each other exclusively. There has not been one. As of 2008 less than 17% of global trade flows were subject to any preferential treatment. Instead, there has been a spectacular decline in tariffs in general. The average rate applied by Latin American countries fell from 13.1% in 1996 to 4.8% in 2012, according to the World Bank. Developing countries in Africa, Asia and Europe have also slashed tariffs.

The trade-diversion argument is also wanting. Despite the gloomy forecasts for countries excluded from TPP and TTIP, regional deals have a good record in practice. Almost all have boosted trade for non-members, albeit not by as much as for members. The reason is that trade deals nowadays have relatively little to do with tariffs; they focus instead on deeper regulatory issues such as rules governing capital flows and competition policy.

Richard Baldwin, a trade economist, explains their benign external impact by way of two examples. First, America and Peru, in their free-trade deal, promised that one another's firms would get just as good access to telecoms services as local companies. That may sound like a non-tariff preference for American firms in Peru, since, say, Japanese companies do not get the same guarantee. But the nationality of firms is malleable: Toyota USA qualifies since it is incorporated in America. Second, aligning regulations is more like a public good than a preference, since countries outside the deal also benefit. The European Union's shared standards on mobile telecoms, for instance, make life easier for all firms doing business in Europe, wherever they are headquartered.

In predicting trouble for those outside TTIP, the Ifo study did not consider the positive spillovers from harmonised regulation. The Centre for Economic Policy Research, which did, forecast small income gains for non-members. To be clear, truly global deals would deliver even greater gains. But this research suggests that regional agreements, especially big ones, should be welcomed as productive alternatives.

Block and tackle

The European example reveals another dimension to regional deals. Although third parties may benefit from a common mobile standard, it is Europe that sets the standard, with the interests of its companies in mind. Those inside trade zones get to draft rules that outsiders must adhere to.

This helps to explain America's decision to exclude China from TPP at the outset, Shintaro Hamanaka of the Asian Development Bank argues in a new paper. America is pushing, among other things, for severe restrictions on state-owned firms, which are central to China's economy. If TPP is completed, America could then invite China to join, presenting the limiting provisions as a fait accompli. China, meanwhile, is trying to craft an Asian free-trade pact, with America on the outside. Describing regional deals as stumbling or building blocks often misses their real importance. They are also power bases. Countries use them to project their vision of free markets on to the global economy. ■

*Studies cited in this article can be found at www.economist.com/tradedeals15

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Pandemic disease

Never again

As the Ebola epidemic draws gradually to its close, how should the world arm itself against the risks of insurgent infections?

THE outbreak of Ebola fever brought to the world's attention on March 22nd 2014 by Médecins Sans Frontières, an international charity, has infected some 25,000 people and killed more than 10,000 of them—almost all in Guinea, Liberia and Sierra Leone. It is abating. Liberia is close to declaring itself free of the virus and infection rates are falling in Sierra Leone. But it is not over yet, for in Guinea Ebola still kills dozens of people a week. Moreover, the aftermath will harm the three countries' economies, costing at least $1.6 billion in forgone economic growth this year, according to the World Bank.

Though it could have been a lot worse (at the height of the crisis some epidemiologists were talking of hundreds of thousands of deaths) it might also have been a lot better. Previous Ebola outbreaks killed dozens or hundreds. The whole episode therefore suggests that the world's defences against epidemics, though they have been strengthened since the rapid spread of SARS in 2002 and 2003 demonstrated their weaknesses, could do with reinforcing still further.

The prime directive of epidemic prevention is early detection. That means good surveillance. Unfortunately, only 64 of the 194 members of the World Health Organisation (WHO) have surveillance procedures, laboratories and data-management capabilities good enough to fulfil their obligations under an agreement known as the International Health Regulations. This, though, is changing. In Africa, Ethiopia, Rwanda and Uganda have sharpened up. So has Vietnam. America is now helping 30 other countries, including the three affected by Ebola, to follow suit while, at the same time, improving their networks of clinics. Groups of neighbours are also coming together to form regional surveillance networks that can follow outbreaks across borders. Researchers in Cambodia, China, Indonesia, Laos, Thailand and Vietnam, for example, have formed what they call the Asian Partnership on Emerging Infectious Diseases Research.

Along with early detection, the world needs to get better at responding—both institutionally and technologically. The WHO, notoriously slow off the mark when it came to Ebola, is widely regarded as too ponderous and bureaucratic to react with the speed needed to nip an emerging epidemic in the bud. There is talk of setting up a specialist international epidemic-prevention organisation. Bill Gates, a philanthropist whose foundation does a lot of work on disease control in poor countries, encourages this idea in this week's *New England Journal of Medicine*. He notes that epidemics and war are similarly costly of blood and treasure, but that only war is taken seriously by politicians—at least in terms of preparations such as standing armies. As if to prove the point, the threat of bioterrorism has been one motive for what preparations have been put in place.

An army, of course, needs weapons. And, in the case of epidemics, it is important to think about what those might be. The temptation is to put money into high-profile areas like vaccines and drugs. It may, though, be more useful to concentrate on diagnosis, because this can stop people spreading a disease. The science of diagnostic testing is advancing rapidly, making it easier to come up quickly with a test for a new pathogen. That, Mr Gates believes, presents an opportunity. But it is one, he says, which requires the establishment of a rapid approval and procurement process, so that diagnostic tests can be made available quickly during outbreaks. They also need to be portable, like pregnancy tests, to keep people out of clinics where they might otherwise spread infection.

Drugs and vaccines are still important, of course. Research is going on into ways to make new vaccines quickly, so trials can start within days of an outbreak. Modern biological techniques mean a pathogen's genome can be copied and stuck into other cells to turn out proteins which might be used as a vaccine's active ingredients. Once a vaccine has been identified, the same techniques could be used to make it quickly, and possibly locally if a portable factory were shipped to an affected area.

The sinews of war

But none of this rapid response can happen without cash. One lesson of an earlier incident, the H1N1 influenza ("swine flu") pandemic of 2009, was the lack of a contingency fund to deal with such things. This is a problem Jim Yong Kim, president of the World Bank, is determined to solve. He has been meeting with politicians and the private sector to advance the case for a "global pandemic emergency financing facility".

One more modest possibility is that ▸▸

pools of research funding could be set up in advance, along with agreed research protocols, allowing health studies to start more quickly. An existing example of this is a fund created by the Wellcome Trust, a British medical charity.

Even on the coldest of calculations, a contingency fund would be a wise precaution. The damage caused by Ebola to west Africa's economy is trivial compared with the cost of, say, a global influenza pandemic. The World Bank reckons that might reduce global economic activity by almost 5%. How many would die would depend on the virus's virulence. But even a 1% death rate, for something that was truly worldwide, would add up to millions. That is too much blood, and too much treasure, for politicians to ignore. ■

Nutrition, IQ and income

Breast really is best

More evidence that breast-feeding babies changes their lives for the better

FOUR extra points of IQ, an extra year's education and a significantly enhanced income at the age of 30. Those are the benefits of having been breast-fed, according to a study just published in *Lancet Global Health* by Bernardo Horta of the Federal University of Pelotas, in Brazil, and his colleagues.

Other research has suggested that breast-feeding has beneficial long-term effects. But Dr Horta's is particularly persuasive because it looks at adults rather than children and teenagers, and because it contradicts the suggestion that social class is a confounding variable, with rich mothers tending to breast-feed more than poor mothers do.

The participants were among a group of Brazilians born in Pelotas in 1982 whose lives are being tracked by scientists. Following a cohort like this through their lives is an established method of medical research. It lets doctors test hypotheses that retrospective examination, relying on memory, cannot address reliably. In 2012 and 2013 Dr Horta managed to track down 3,493 members of the cohort whose diet as babies, including their consumption of breast milk, had been recorded at the time, ask them some questions, and give them an IQ test.

Comparing those who had been breast-fed for less than a month with those who had been so fed for more than a year, Dr Horta found the latter's IQ was 3.76 points higher than the former's and that they had attended school for 0.91 years longer. The income data were slightly more complicated. Those breast-fed for over a year had incomes 15% higher than those suckled for less than a month, but those breast-fed for 6 to 12 months did even better, at 55%. These effects, moreover, were unaffected by a family's income at the time a study participant was born.

The reasons for this are not known, though it is easy to speculate. Human milk has, presumably, been optimised for human nutrition by evolution. The social contact involved in suckling may also have an effect. But the underlying cause is less important than the result. As Winston Churchill once said, "There is no finer investment for any community than putting milk into babies." Add the word "mother's" in front of "milk", and the returns on that investment get finer still.

3D printing

Rising from the ooze

A quicker way to print objects

ADDITIVE manufacturing, or 3D printing as it is popularly called, can make complex objects out of many materials. The technology, though, has a problem: speed. Fusing together tiny filaments of plastic or melting successive layers of metallic powder into a solid shape takes time. This means even a small object may require hours to emerge from a 3D printer. Things can be printed simultaneously, in batches, which speeds things up a bit. But to carry the technology beyond specialist and low-volume manufacturing into mass production will require a step-change in speed. This week a group of researchers led by Joseph DeSimone of the University of North Carolina, Chapel Hill, showed, in a paper in *Science*, how that might be done.

Their idea harks back to a process called stereolithography that was invented in 1986. Stereolithography uses ultraviolet (UV) light to cure plastic into the desired shape. A pattern of light played onto the surface of a vat of liquid polymer creates a solid layer out of part of that surface. The process is then repeated to cure another layer of polymer on top of the first, and then another, and another, with the resulting shape being lowered steadily into the liquid until it is complete.

Dr DeSimone and his colleagues have turned stereolithography on its head. Their 3D printer works from the bottom of the vat rather than the top, and cures continuously as the growing object is gradually extracted from the fluid.

Doing things continuously is much faster. The top-down approach makes layers a twentieth to a tenth of a millimetre thick. Each needs several seconds to complete, and it can take an hour or so to make just a few millimetres-worth of product. The continuous liquid interface production (CLIP) process, as Dr DeSimone calls the new method, is able to build items such as a 10cm-tall model of the Eiffel Tower (illustrated) in that amount of time. Other shapes have been printed even faster, at up to 50cm an hour.

The process is not, however, just a matter of turning stereolithography upside down. For a start, the UV that cures the required shape has to be projected through a window in the bottom of the vat containing the liquid polymer. This window must also be permeable to oxygen, letting the gas pass into the zone between the window and the area being cured. Oxygen inhibits polymerisation and is used in plastics production to slow down the process of curing. By employing it to create a "dead zone" in this way, Dr DeSimone stops the cured polymer sticking to the base of the vat. As the shape is steadily formed above the dead zone, the printer raises the object until, eventually, it emerges complete.

A towering success

Dr DeSimone and his colleagues have established a startup called Carbon3D to commercialise CLIP. At the moment it would be no rival to printing metals with a laser or electron beam, a technique that a number of aerospace companies are now using. But CLIP could give existing ways of printing plastics a run for their money. The researchers think it would be particularly good at making soft, elastic objects, and that it could be adapted for ceramics. It might also be used to make medical devices and even biological tissues—which one day may be printed on demand when patients need a transplant. ■

Exploring the ocean

An ambassador to Neptune's kingdom

SEATTLE

A new miniature submarine will mean aquanauts can visit the abyss in comfort

THERE has, in recent years, been much talk of holidays in space. Though things have not gone well for one aspiring space-tourism business, Virgin Galactic, whose prototype suborbital rocket plane blew up on a test flight in October, those with truly deep pockets can still book a trip to the International Space Station courtesy of an American firm called Space Adventures that arranges seats on Russian launches. But for people who cannot quite stretch to the $20m or so such a trip will cost, there may soon be an alternative to rocketing upwards in search of adventure: heading in the other direction.

This, at least, is the hope of Stockton Rush, the boss of a company called OceanGate. Mr Rush is the mastermind behind *Cyclops*, a five-seat submarine that will be able to brave depths currently accessible by but a handful of research vessels.

Cyclops aside, there are eight such deep-diving submersibles in the world. Most date back to the Cold War. One of the best known is *Alvin*, which surveyed the wreck of the *Titanic* in 1986. But *Alvin* exemplifies the problem of manned submersibles. Around 90% of its weight is dedicated to keeping the three people within it alive. Only the remaining 10% is applied to the job of scientific investigation. It is also ruinously expensive to maintain and operate. It has, for example, just undergone a $42m refit, and it costs over $50,000 a day to keep at sea, because of its need for a large, specially adapted support vessel. The trend in deep-ocean research, as in the exploration of outer space, has thus been to prefer robots: ROVs (remotely operated vehicles), which are tethered to a ship, and AUVs (autonomous underwater vehicles), which swim freely. These have progressed in leaps and bounds over the past 20 years. They can now dive to the ocean's deepest trenches, glide beneath ice caps for months at a time or fix underwater drilling rigs.

Mr Rush, however, believes he can buck this robotic trend. And *Cyclops*, unveiled in Seattle on March 11th, is his attempt to do so. It has a steel pressure hull that will let it dive 500 metres beneath the waves and a battery which will allow it to manoeuvre for up to eight hours when it gets there. It also has a specially strengthened acrylic window (which inspired the craft's name) at the front for the crew to observe what is going on, and a life-support system that will last three days. It is packed with the latest marine technology, including a swanky sonar, a PlayStation games controller instead of conventional thruster controls and wraparound LED mood lighting to lessen the crew's feeling of claustrophobia. Its successor, *Cyclops 2*, which should be ready next year, will have a carbon-fibre hull and a borosilicate-glass window that are good for a depth of 3,000 metres, an autopilot and 24 hours' battery life.

Carbon fibre, though more resistant to pressure than steel, is less forgiving of microscopic fractures. This means holes drilled through the hull to control *Cyclops 2*'s thrusters and external lights will need to be kept as small as possible, to reduce the risk of structural failure. Mr Rush therefore plans to use narrow fibre-optic cables to carry instructions to electronic instruments held in spherical pods mounted outside the hull. Some pods will control *Cyclops 2*'s thrusters, lights and mechanical "arms". Others will crunch data from sensors, cameras and microphones. The pods themselves will be filled with oil to avoid life-threatening implosions if the pressure proves too much for them.

Mounting the vessel's electronics this way, instead of inside the craft, means they can be swapped swiftly in case of malfunction, making maintenance far cheaper. This, in combination with the use of a novel launch rig that can be towed behind a variety of support ships, rather than having to rely on specially built vessels of the sort that support *Alvin*, means, Mr Rush believes, that *Cyclops 2* will be as cheap to run as an ROV while offering the advantages of having its human operators actually within it. It could even act as the control-centre for a fleet of AUVs, letting people keep an eye on them directly, rather than relying on images on television screens.

Most of *Cyclops*'s early customers, Mr Rush thinks, will be scientific institutions. But it has other potential uses. Sub-aquatic tourism is one—he reckons bespoke cruises to sunken ships and coral reefs should be possible for as little as $1,000 a person. And he foresees lucrative opportunities selling to the offshore oil and gas industry. The market for ROVs in this business is worth about $1.5 billion a year. Manned submersibles will not replace robots for most of that, but Mr Rush reckons there are enough awkward jobs which are better done by a craft unencumbered by tethers that *Cyclops* and its successors might garner as much as 5% of the pie. ■

CO_2 and the climate

Flatlining

A ray of hope in the debate about climate change

FOR years, it seemed like carbon-dioxide emissions rose relentlessly, whatever the world's level of economic activity and however much countries spent on no- or low-carbon energy. Now, though, that depressing fact may be changing.

The International Energy Agency (IEA), made up mostly of energy-consuming rich countries, reckons worldwide emissions of carbon dioxide in 2014 were the same as in 2013. The only occasions CO_2 emissions have actually fallen were in the early 1980s and 2008, both periods of economic contraction, but this is the first time for many years that the world economy has grown (up by 3.3% according to the IMF) and emissions have not risen too. In the European Union, GDP went up by 1.4% last year but CO_2 emissions from energy use fell by 6%. Over the past five years GDP among all rich ▸▸

countries has risen by 7% but CO_2 emissions from energy have fallen by 4%, offsetting a rise in developing countries.

The IEA's finding suggests the regulations put in place to rein in pollution are starting to have an impact. In the EU, for instance, the number of household appliances has risen by a quarter in the past ten years, but household electricity use has been flat—testimony (probably) to the many efficiency requirements brought in under European law. The IEA reckons three-quarters of the cars sold around the world in 2014 met some kind of vehicle-emission or other efficiency standard, and that the fuel-efficiency of new cars in the EU last year was 28% higher than it had been in 2000 (the global improvement was less—16%—but still significant). The IEA reckons that, in America, where emissions ticked up slightly in 2014, vehicle-emission standards have prevented more CO_2 entering the atmosphere than switching from coal-fired to gas-fired power stations.

The East is green

The other big contributor to the emissions slowdown is a shift in the pattern of economic activity, especially in China, the world's largest polluter. As manufacturing and heavy industry decline as a share of GDP (and services increase) demand for coal is dwindling. According to China's national bureau of statistics, coal consumption fell by almost 3% in 2014—pushing CO_2 emissions down slightly.

The flattening of global emissions will not of itself make much difference to the climate. Though the quantity did not increase, people still threw a lot of carbon dioxide into the atmosphere last year. The standard measurement of atmospheric CO_2 concentration, taken at the Mauna Loa observatory in Hawaii, has therefore barely flickered in its upward rise. Though it ebbs and flows on an annual cycle which matches the growth and dormancy of the great forests of the northern hemisphere, it passed 400 parts per million this January, the earliest in the year it has exceeded this benchmark. Even if emissions stay flat, the world remains on course towards a temperature rise of around 3°C by 2100, compared with pre-industrial levels. To keep the rise to 2°C (which most climate scientists think is needed) would require emissions to fall.

All the same, the IEA's finding is remarkable. It happened without either a climate-change treaty or a global carbon price. And, by providing evidence emissions can actually be reined in, it might make the successful negotiation of a new climate treaty in Paris at the end of this year a bit more likely. As Fatih Birol, the IEA's chief economist says, "these numbers make me hopeful for Paris, full stop. But if nothing comes of those talks, the targets scientists set for us [a 2°C rise] may well be out of reach." ■

Evolution

Beetlemania

Why are there so many species of Coleoptera?

"AN INORDINATE fondness for beetles." That was the reply of J.B.S. Haldane, a British scientific polymath of the early 20th century, when he was asked if there were anything that could be concluded about God from the study of natural history. There are 380,000 catalogued species of beetle, making the Coleoptera, as they are known to entomologists, the most species-rich group of insects—and insects are the most species-rich group of animals. But why there are so many has been a mystery.

As they report in the *Proceedings of the Royal Society*, Dena Smith of the University of Colorado and Jonathan Marcot of the University of Illinois think biologists have been barking up the wrong tree on the matter of beetle diversity. Previous attempts to explain it considered reasons why new beetle species evolve: their catholic tastes in food, for example, would open lots of ecological niches. Dr Smith and Dr Marcot have looked from the other end of the microscope and asked if the explanation might rather be that, once a beetle species has appeared, it is less likely to become extinct than other animal species are.

To assess this idea they examined beetles' fossil record. In general, insects do not preserve well down the ages, so their fossil record is patchy. But beetles, which have strong exoskeletons, preserve better than most, and the two researchers were able, by searching the world's palaeontological archives, to assemble a list of 5,503 fossil species collected from 221 sites.

They divided the past 300m years, the period during which beetles have existed, into a dozen 25m year blocks and looked at the number of consecutive blocks in which each known beetle family was represented. (A family is the taxonomic classification level above a genus, and it is used by palaeontologists interested in extinction rates because the randomness of preservation makes it hard to know when, exactly, a species or a genus really has vanished from the face of the Earth.)

About 90% of modern beetle species belong to a group (technically, a suborder, which is one level up the classification ladder from a family) called the Polyphaga. That dominance, and thus, in essence, the dominance of the beetles, the researchers found, is indeed because polyphagans seem hard to exterminate.

Since the Polyphaga appeared about 220m years ago, no family belonging to the suborder has become extinct—not even at the end of the Cretaceous, 66m years ago, when an asteroid strike did for the dinosaurs and many other animals. As new families have appeared, therefore, the diversity of the Polyphaga has increased. Indeed, as they have prospered, other groups of beetles have withered. When they first appeared, they were one of ten coleopteran suborders. Now, only three other suborders remain.

Why this group of beetles has such resilience to extinction remains unknown. But were Haldane alive today, he might want to refine his answer to "an inordinate fondness for Polyphaga".

Beetle drive

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Class and family in America

Minding the nurture gap

Social mobility depends on what happens in the first years of life

Our Kids: The American Dream in Crisis. By Robert Putnam. *Simon & Schuster; 386 pages; $28 and £18.99*

THE most important divide in America today is class, not race, and the place where it matters most is in the home. Conservatives have been banging on about family breakdown for decades. Now one of the nation's most prominent liberal scholars has joined the chorus.

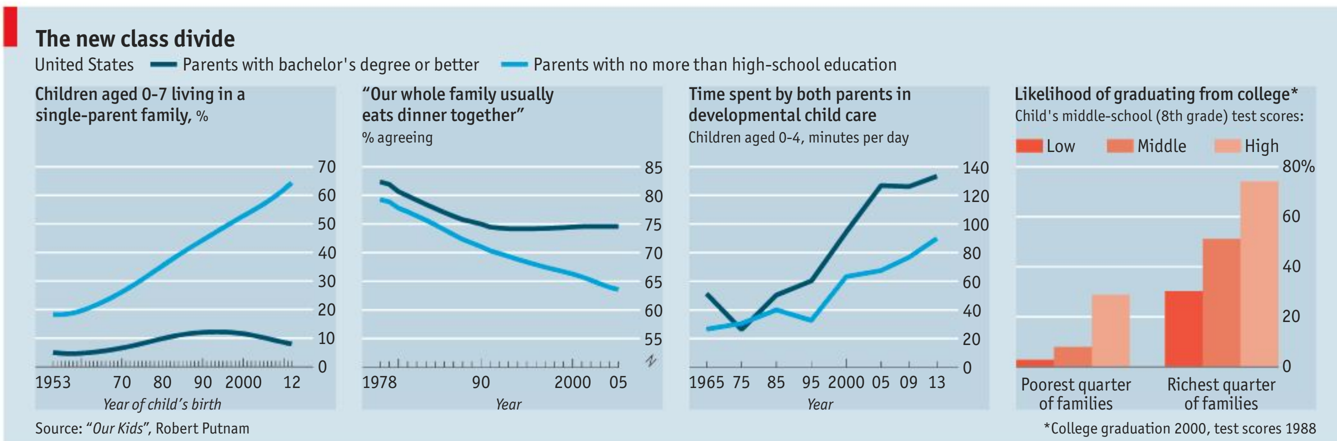
Robert Putnam is a former dean of Harvard's Kennedy School of Government and the author of "Bowling Alone" (2000), an influential work that lamented the decline of social capital in America. In his new book, "Our Kids", he describes the growing gulf between how the rich and the poor raise their children. Anyone who has read "Coming Apart" by Charles Murray will be familiar with the trend, but Mr Putnam adds striking detail and some excellent graphs (see below). This is a thoughtful and persuasive book.

Among the educated elite the traditional family is thriving: fewer than 10% of births to female college graduates are outside marriage—a figure that is barely higher than it was in 1970. In 2007 among women with just a high-school education, by contrast, 65% of births were non-marital. Race makes a difference: only 2% of births to white college graduates are out-of-wedlock, compared with 80% among African-Americans with no more than a high-school education, but neither of these figures has changed much since the 1970s. However, the non-marital birth proportion among high-school-educated whites has quadrupled, to 50%, and the same figure for college-educated blacks has fallen by a third, to 25%. Thus the class divide is growing even as the racial gap is shrinking.

Upbringing affects opportunity. Upper-middle-class homes are not only richer (with two professional incomes) and more stable; they are also more nurturing. In the 1970s there were practically no class differences in the amount of time that parents spent talking, reading and playing with toddlers. Now the children of college-educated parents receive 50% more of what Mr Putnam calls "Goodnight Moon" time (after a popular book for infants).

Educated parents engage in a non-stop Socratic dialogue with their children, helping them to make up their own minds about right and wrong, true and false, wise and foolish. This is exhausting, so it helps to have a reliable spouse with whom to share the burden, not to mention cleaners, nannies and cash for trips to the theatre.

Working-class parents, who have less ▸▸



spare capacity, are more likely to demand that their kids simply obey them. In the short run this saves time; in the long run it prevents the kids from learning to organise their own lives or think for themselves. Poor parenting is thus a barrier to social mobility, and is becoming more so as the world grows more complex and the rewards for superior cognitive skills increase.

Mr Putnam's research team interviewed dozens of families to illustrate his thesis. Some of their stories are heartrending. Stephanie, a mother whose husband left her, is asked if her own parents were warm. She is "astonished at our naïveté". "No, we don't do all that kissing and hugging," she says. "You can't be mushy in Detroit...You gotta be hard, really hard, because if you soft, people will bully you." Just as her parents "beat the hell" out of her, so she "whups" her own children. She does her best, but her ambitions for them go little further than not skipping school, not becoming alcoholic and not ending up on the streets.

At every stage, educated families help their kids in ways that less educated ones do not or cannot. Whereas working-class families have friends who tend to know each other (because they live in the same neighbourhood), professional families have much wider circles. If a problem needs solving or a door needs opening, there is often a friend of a friend (a lawyer, a psychiatrist, an executive) who knows how to do it or whom to ask.

Stunningly, Mr Putnam finds that family background is a better predictor of whether or not a child will graduate from university than 8th-grade test scores. Kids in the richest quarter with low test scores are as likely to make it through college as kids in the poorest quarter with high scores (see chart on previous page).

There are no obvious villains in this story. Mr Murray suggested that the educated classes preach the values they practise by urging the poor to get married before they have children. But the record of those who tell other people how to arrange their love lives is hardly encouraging. Both George W. Bush and Barack Obama preached the virtues of responsible fatherhood, to no obvious effect.

Mr Putnam sees "no clear path to reviving marriage" among the poor. Instead, he suggests a grab-bag of policies to help poor kids reach their potential, such as raising subsidies for poor families, teaching them better parenting skills, improving nursery care and making after-school baseball clubs free. He urges all 50 states to experiment to find out what works. A problem this complex has no simple solution. ■

English country life

Pride and promiscuity

The Mad Boy, Lord Berners, My Grandmother and Me: An Aristocratic Family, A High-Society Scandal and an Extraordinary Legacy. By Sofka Zinovieff. *Harper; 436 pages; $35. Jonathan Cape; £25*

SOFKA ZINOVIEFF has form as a cultural explorer. She studied anthropology and did research in Greece, a country where she later settled and described insightfully and at times lyrically, both in fiction and memoir. In another work, tracing the life of one of her grandmothers, a communist Russian princess, she dives into the world of the Bolshevik revolution and its aftermath.

Her latest book, which came out in Britain last year and is about to be published in America, brings her much closer to home. But in Ms Zinovieff's case home is a peculiar place. Having grown up as a free-spirited Londoner whose father hobnobbed with rock stars, she interrupted her Greek investigations when she heard that she had inherited a famous mansion in Oxfordshire, Faringdon House. Suddenly she was "Miss Sofka", responsible for an estate and entitled to a special pew in the ancient local church.

The story gets stranger still. She was left the house by her grandfather, a flamboyant character called Robert Heber-Percy, whose sexual preferences were overwhelmingly gay; he in turn had inherited Faringdon from his lover, Lord Berners, a composer, writer and aesthete nearly 30 years his senior.

This book reconstructs the glamorous world that was created by the two men in the fine old house—one of the prettiest in England—which became a magnet for the famous, gifted and beautiful. Their friends ranged from Salvador Dalí to Igor Stravinsky and H.G. Wells. The decor and atmosphere at Faringdon were correspondingly outré; fluttering over the rolling lawns were doves, the feathers of which were (and still are) dyed in many colours. Ms Zinovieff also traces her own, initially tenuous, link to this world, including Heber-Percy's marriage to Jennifer Fry, a well-connected socialite with a taste for sexually ambivalent men. The marriage was predictably brief, but apparently long enough to produce the author's mother, Victoria, though she was never really sure that Heber-Percy was her father.

So bizarre is the subject matter that no literary tropes are needed to bring it alive. The challenge is simply to tell the story with clarity and restraint. Ms Zinovieff's narrative tone is cool and clear enough to let its astonishing characters, and her relationship with them, come alive; that makes for a compelling read.

The birth of Israel

Long, long road

Anonymous Soldiers: The Struggle for Israel, 1917-1947. By Bruce Hoffman. *Knopf; 618 pages; $35*

ISRAEL'S creation has many causes, but among the most powerful, argues Bruce Hoffman, is terrorism. For a decade, the anonymous soldiers of the Jewish underground waged a terror campaign to establish a state, targeting first Arabs, then British forces, then Arabs again.

Mr Hoffman has worked for the CIA and American forces in Baghdad, and he established the Handa Centre for the Study of Terrorism and Political Violence at St Andrews University. Although he dismisses some Arab militants of the age as atavistic marauders out to "kill as many Jews as possible", he maintains a thinly veiled admiration for the Jewish irregulars whose plan to upset Britain's 25-year rule of Palestine he describes as "unequivocally triumphant" and "brilliant in its simplicity". "Terrorism," Mr Hoffman writes, "can, in the right conditions and with the appropriate strategy and tactics, succeed in attaining at least some of its practitioners' fundamental aims."

In its infancy, the Jewish Yishuv, or settlement, cheered as Britain assiduously set ▸▸

about fulfilling Lord Balfour's promise to create a Jewish homeland in Palestine. As the Yishuv's power grew, however, Britain's presence became more of a hindrance than a help to its aspirations for statehood. By 1945, its prime military arm, the Haganah (or "Defence"), was a 40,000-strong force—the most powerful in the Middle East after the British army. The Haganah was against using force to end British rule, but two of its offshoots, the Irgun and Lehi, had no such qualms.

Some of the Irgun's 3,500 men were battle-hardened, having fought together with the British army during the second world war. Others, like its leader, Menachem Begin, were officers with the exiled Polish army. In 1944 they set about fighting Britain's occupation of Palestine much as they had the Nazi occupation of Europe.

By 1947 they had killed almost 300 people, many of them civilians, invented the letter bomb and used milk churns to blow up Britain's seat of government in Palestine, the King David Hotel. Over 90 people, many of them civilians, were killed in the attack, which ranked as the world's bloodiest terrorist atrocity for four decades. The Irgun targeted British symbols to puncture its prestige, while the smaller Lehi targeted its personnel.

The British government, fresh from liberating Jews from Nazi death camps, was stunned to find so many now turning on it, wanting to hasten the collapse of Britain's Middle East rule. Using declassified documents, Mr Hoffman explains how the Haganah's crack force, the Palmach, bankrolled the Irgun and seconded 460 men to its ranks. For a time, they formally joined forces in a wider front, bombing railways and approving the attack on the King David Hotel. While Chaim Weizmann, president of the World Zionist Organisation, was entertaining British high commissioners for tea, his nephew and subsequent defence minister, Ezer Weizman, was plotting to blow up Evelyn Barker, commander of Britain's forces in Palestine.

Exhausted by world war, Britain lacked the stomach, money and will to fight. Its 100,000 troops in Palestine turned downtown Jerusalem into a fortified camp ringed with barbed wire, imposed curfews, checked pass papers and engaged in crass anti-Semitism. But they were hamstrung by America's support for Zionism. President Roosevelt's wife, Eleanor, helped fundraise for the Irgun, sponsoring a charity run of a Broadway play. It starred Marlon Brando, who celebrated the "new Jewish language" of bullets not prayers.

Derided by Congress, Britain flinched from the methods it had used on an earlier Arab revolt. The Royal Air Force dropped bombs on Arabs not Jews, and the army set about trying to demolish much of old Arab Jaffa with gelignite, but they spared Jewish houses until a few months shy of ceding Britain's mandate. (Mr Hoffman says the British did not hit Arabs hard enough, and was too tough on Jews.)

Somewhat oddly, Mr Hoffman stops his account in August 1947, shortly before Begin's militants went back to bombing Arabs in their cinemas and cafés, and Lehi killed Count Folke Bernadotte, a Swedish diplomat who had saved Jews from Nazi death camps and who, at the time, was the UN's envoy to Palestine.

Disappointingly, also, the book lacks a concluding chapter analysing the terrorists' legacy. Mr Hoffman notes that Begin and Lehi's leader, Yitzhak Yezernitzky (later Shamir), became Israeli prime ministers. And he makes passing reference to the Irgun's operations chief, whose daughter, Tzipi Livni, became foreign minister. But he is circumspect on what practices as well as personnel survived the passage to statehood. (In 1946, Lehi assassins dressed up as tennis players to kill a British detective, Thomas Martin, a disguise later adopted to kill a Hamas operative in Dubai.)

On the Haganah's broader influence, Mr Hoffman notes that al-Qaeda's Afghan library had a copy of Begin's "The Revolt", but does not ask why so many Palestinian prisoners take Israeli university courses on how Jews established their state. Much of what they do, including building terror tunnels, bombing transport nodes, lobbing mortars at residential neighbourhoods and burying arms dumps in places of worship, has antecedents in Jewish militancy. Israel knows Palestinian methods and it has an array of anti-terror legislation which, had Britain responded similarly, might have aborted the future state. ■

North Korean cinema

Loan-star state

A Kim Jong Il Production: The Extraordinary True Story of a Kidnapped Film-Maker, his Star Actress, and a Young Dictator's Rise to Power. By Paul Fischer. *Flatiron Books; 353 pages; $27.99. Viking; £14.99*

Reel love

NORTH KOREA, under its former leader Kim Jong Il, was a monstrous "display performance of its own". This compelling line lies at the heart of "A Kim Jong Il Production", a detailed and evocative retelling of one of North Korea's most extraordinary heists: the kidnap of a South Korean starlet, Choi Eun-hee (known as Madame Choi), and her ex-husband and film-maker, Shin Sang-ok. Paul Fischer, a film producer, recounts the well-known story in three engrossing acts.

His set is Pyongyang, the North's capital: less a city than "a stage on a monumental scale", its central streets dotted with white marks so that citizens—the extras in this theatre state—move in unison at mass events. The ubiquitous portraits and chest pins of Kim Il Sung, its first dictator, only began under his son, who deified his father to legitimise the succession. The younger Kim developed a keen sense of showmanship and mythmaking, says Mr Fischer, learned chiefly through his love of cinema.

For his delectation, foreign films were pirated and dubbed at North Korean embassies around the world. His collection grew in the 1980s to about 15,000 films. Aged 25, Kim was put in charge of cinema, plays and publishing for the state's powerful Propaganda and Agitation Department and wrote a treatise on film-making. In a country where cinema-going was obligatory, he wanted to turn the art into captivating doctrine (no more tiresome stories of exemplary workers)—and to help the North shine once again on the world stage.

Keen on covert operations and dramatic denouements, Kim orchestrated the kidnap of the South Korean celebrity duo, snatched in turn from a bay in Hong Kong in 1978, in the hope that they would add sparkle to the North's dire film output. He held Madame Choi in captivity in one of his villas, sending her flowers daily, pricey cosmetics and Japanese lingerie. At Kim's set-piece bacchanalian parties, Madame Choi sat next to him as his trophy. It was during one of these, in 1983, that a delighted Kim choreographed the surprise reunion of the South Korean couple; people clapped, flashbulbs popped.

Of the seven films Kim's kidnapped protégés produced for him, many were hits at home. Abroad, "Emissary of No Return" won Best Director in 1984 at a film festival in former Czechoslovakia. For her performance in "Salt", Madame Choi won Best Actress in Moscow the following year. Once a household name in the capitalist South, she became one in the socialist

North. The improbable stunt appeared to have worked—until the couple escaped while on a trip to Vienna.

Mr Fischer relies heavily on the pair's own lengthy account of their time in the North and 50 interviews with defectors and experts. Detractors, who have long argued that Shin (who fell out of favour with the South's government) defected to the North, are unlikely to be swayed; the couple's most irresistible evidence—a secret tape-recording in which Kim explained their kidnap to them—felt too staged for some (although the CIA authenticated it).

As with any good film, Mr Fischer's account is enticing. At times, he is carried away by his own neat narrative: suggesting Kim's love of films as a boy was "already the lure of complete control" over a people; and that Shin's sometimes gritty, audacious movies (including North Korea's first on-screen kiss) were "wearing away the Kims' supremacy". Mr Fischer is no Pyongyangologist; some have sniffed that he provides scant sourcing and no footnotes. But such a remarkable saga is maybe best told by those who weave tales. ■

Detroit Institute of Arts

Rivals and accomplices

DETROIT

When Diego Rivera and Frida Kahlo paid a seminal visit

WHEN Graham Beal, the director of the Detroit Institute of Arts (DIA), realised about a decade ago what a turning point an 11-month visit by Diego Rivera and Frida Kahlo had represented for the city's art scene in the early 1930s, he decided to make an exhibition out of it. The culmination would be the DIA's immovable crown jewel: Rivera's "Detroit Industry" murals, a series of frescoes depicting machinery and workers at Ford's River Rouge plant, which the Mexican artist described as the finest work of his career.

During the period, which Mr Beal refers to delicately as a time of "interesting financial circumstances", the planned exhibition was put on hold for several years. At that time the city's funding of the DIA dwindled to nothing and Detroit sank ever deeper into a financial morass. After the city declared bankruptcy in 2013, the emergency manager considered closing the DIA and selling off its art. It was saved by a "grand bargain". Together, private donors, charitable foundations and the state of Michigan raised $816m to help pay public workers' pensions in return for transferring ownership of the museum out of the hands of the municipality.

"Diego Rivera and Frida Kahlo in Detroit", which opened on March 15th, is the DIA's first exhibition as an independent institution (it now belongs to a charitable trust) and the last major show under Mr Beal, who is retiring after 16 years in the job. As Detroit so nearly lost its 130-year-old museum, Mr Beal feels it apposite to be leaving with a show so focused on the city. The bilingual exhibition (all wall labels and short films are in English and Spanish) has an introductory section about the artists' years before Detroit, a main part focused on their time in the city, and a coda. It brings together nearly 70 works of art, including Rivera's huge preparatory drawings for the "Detroit Industry" murals.

When he reached Detroit in 1932, Rivera, then 45, was at the peak of his fame; he had just been honoured with a solo show at the Museum of Modern Art in New York. Few even knew that his much younger wife, referred to as "Mrs Rivera", was an artist. Yet Kahlo didn't lack pluck. Asked upon arrival at the train station whether she too was a painter, she exclaimed, "Yes, the greatest in the world." The visit would transform their respective careers as artists.

Rivera's murals were commissioned by William Valentiner, a German art historian and director of the DIA, who had convinced Edsel Ford, the son of Henry Ford, to pay up $10,000 ($170,590 today) for the project. Rivera was a communist, but he never hesitated to pocket his fee—just as he had once accepted a commission by the San Francisco stock exchange, another engine of capitalism. "Asking Diego to be consistent is a non-starter," says Mark Rosenthal, the curator of the exhibition, who points out that Kahlo was more ideological than her husband and accused him of "dressing like a capitalist" in his elegant three-piece suit.

On arriving in Detroit, Rivera immediately started to tour factories around the city, in particular Ford's River Rouge plant, then the world's biggest, making hundreds of sketches. Kahlo, who was pregnant, sometimes came along, but most of the time she was bored and unhappy. In July 1932 she suffered a miscarriage (which she subsequently described as an abortion), a traumatic event she depicted in "Henry Ford Hospital" with her lying on a hospital bed surrounded by surrealist images of a pelvis, a snail, the torso of a woman, a machine, an orchid and her lost child.

Kahlo had fractured her pelvis (and suffered many other injuries) in a horrific bus accident when she was 18, and "it is as if all her art derived from her accident", says Mr Rosenthal. The experiences in Detroit sharpened her identity as an artist who mostly depicts herself and her many traumas. Rivera had encouraged her to "paint her life" and Detroit was the moment of Kahlo's breakthrough. For Rivera, the visit marked one of the great successes of his career, even though the first showing of the murals turned out to be highly controversial. Depicting despondent workers marching in line or a machine as an animal was decried as subversive; some even called for the walls of the DIA to be whitewashed.

It was in Detroit that Rivera and Kahlo established themselves as a power couple. They encouraged each other in their art and conspired in their acceptance of the honours and riches bestowed on them by the capitalists that Rivera pretended to infiltrate with his prolonged sojourns in America. In a reversal of artistic fortunes, today it is Kahlo—with her unmistakable eyebrows and feminist aesthetic—who is regarded as the rock-star artist, whereas Rivera is respected but far less popular internationally. This show may help him re-emerge from the shadows. ■

Art on an industrial scale

Appointments

URAAN: Reforms and Innovation in Government for High Performance

Uplifting Public Sector and Civil Servants' Performance to New Heights

SEEKING THE SERVICES OF AN INTERNATIONAL FIRM

Pakistan Vision 2025 recognizes institutional reform and modernization of public sector as one of the seven pillars of development and growth framework. To actualize the reform agenda under vision 2025, the Prime Minister of Pakistan has directed Ministry of Planning, Development and Reform (MoPDR) to develop a plan for modernizing and transforming public sector through institutional change. The Government's objective is to follow an integrated and holistic approach to make public sector fast, agile, responsive, citizen friendly, open, merit-based, technology-enabled and performance driven.

To support elements of the Project, the MoPDR and UNDP are hiring the services of a reputable and experienced international firm to provide additional analysis and policy options in light of global experiences for public sector reforms in the specific areas listed in terms of reference.

Sealed technical and financial proposals, in separate envelopes, should reach at the address specified in the RFP document no later than

Monday, 13 April 2015 (12:30 pm PST)

Ph. +92 51 8355600 Fax: +92 51 2600254-5

Detailed RFP (PU/RFP/2015/032) can be downloaded from www.pk.undp.org/content/pakistan/en/home/operations/procurement0/

Planning Commission
Ministry of Planning, Development & Reform
Government of Pakistan

United Nations Development Programme
UNDP Pakistan

Ministry of Energy and Mineral Development
Rural Electrification Agency
Republic Of Uganda

GENERAL PROCUREMENT NOTICE
Grid Rural Electrification Project

The Government of the Republic of Uganda has applied for financing from the Islamic Development Bank (IDB) to implement the construction of Grid Rural Electrification Project in Western, Northern, Central and Eastern parts of the Country; and it intends to apply part of the proceeds towards payments for procurement of goods & works and consulting services under this project.

The proposed project intends to promote sustainable economic growth and improve standard of living of the rural population in Western, Northern, Central and Eastern Regions of Uganda by providing access to electricity through extending the national grid.

The project will include the following components:

A. **Procurement of Goods and Works**
This component comprises detailed engineering design, supply, delivery, construction and commissioning of 1,106 km of Medium Voltage (i.e. 33 kV & 11 kV) lines, 678km of Low Voltage (415 V & 240 V) networks, 715 distribution transformers (i.e. 25, 50, 100, 200 kVA) with a total installed capacity of 34.10 MVA and 9,772 energy meters with connection cables in the rural areas of Western, Northern, Central and Eastern Regions of Uganda.

B. **Consultancy Services**
(i) Support to the Project Management Unit
(ii) Environment and Social Management
(iii) Management and Supervision of Works
(iv) Financial Audit

Procurement of Good & Works contracts financed by IDB will be conducted through *International Competitive Bidding – Member Country* (ICB/MC) procedures with *Prequalification* as specified in the *Guidelines for Procurement of Goods and Works* under Islamic Development Bank Financing (May 2009 edition) and is open to all eligible bidders as defined in the guidelines.

Consultancy Services for Management and Supervision of Works will be selected through a *shortlist limited to IDB Member Country* firms in accordance with the *Guidelines for the Use of Consultants* under Islamic Development Bank Financing (May 2009 edition), and is open to all eligible bidders as defined in the guidelines.

Specific Procurement Notices for contracts to be procured will be announced as they become available, on IDB Website and international newspaper or magazine of wide international circulation and in local newspapers as required.

Interested eligible bidders who wish to be included on the mailing list to receive invitations to bid under ICB-MC (for procurement of goods &works) procedures and interested consultants (under ICB restricted MC) who wish to receive a copy of the advertisement requesting expressions of interest for consultancy contracts or those requiring additional information, should contact the address below and **not** the Islamic Development Bank:

Head, Procurement & Disposal Unit, Rural Electrification Agency,
Plot 10 Windsor Loop, Kololo, 2nd Floor, House of Hope, P.O. Box 7317 Kampala
Tel: **+256 312318100**, Email: **procurement@rea.or.ug**, Website: **www.rea.or.ug**

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)

REQUEST FOR PROPOSAL (RFP) FOR THE DEVELOPMENT OF FINANCIAL MODELLING TOOLS FOR DECISION SUPPORT FOR THE PTA BANK

PTA BANK is a regional development financial institution with its headquarters in Bujumbura (Burundi) and regional offices in Nairobi (Kenya), Ebene (Mauritius) and Harare (Zimbabwe). The Bank's main product lines comprise Trade and Project & Infrastructural Finance and to a lesser extent, equity finance and guarantees. In its continued efforts to become the preferred development finance institution of choice in the Eastern and Southern African region and beyond, the PTA Bank has made a budgetary allocation towards fuller automation of its financial management practices and intends to apply part of the proceeds of the allocation towards procurement of a financial modeling tool to aid decision making across various levels.

The Bank is in this connection inviting qualified and experienced consulting firms to submit expressions of interest to develop and deliver a comprehensive flexible financial model for the Bank that will support continuous decision making. The Bank requires an optimized flexible model capable of projecting both up-to-date and forward looking snapshots of its performance, and of providing analytical information, testing scenarios, financial projection and budgeting. The model should enable informed decision making in a variety of situations and at various platforms of the Bank's decision-making hierarchy.

For the detailed Request for Proposal (RFP) please visit the PTA Bank website at www.ptabank.org/index.php/experienced-hires/vacancies. Proposals will be accepted on or before 7th April, 2015 until 5 p.m., East African Time (GMT+3). Any proposals received after this date and time will not be considered. Further information is also obtainable upon email request directed to: finmodelling@ptabank.org.

This advertisement does not constitute an offer to tender.

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*	2015†	latest	latest	2015†		latest 12 months, $bn	% of GDP 2015†	% of GDP 2015†	10-year gov't bonds, latest	Mar 18th	year ago
United States	+2.4 Q4	+2.2	+3.2	+3.5 Feb	-0.1 Jan	+0.3	5.5 Feb	-388.1 Q3	-2.2	-2.5	2.06	-	-
China	+7.3 Q4	+6.1	+7.2	+6.8 Feb	+1.4 Feb	+1.5	4.1 Q4§	+213.8 Q4	+2.1	-2.9	3.36§§	6.23	6.19
Japan	-0.8 Q4	+1.5	+1.1	-2.9 Jan	+2.4 Jan	+1.0	3.6 Jan	+40.1 Jan	+1.7	-7.0	0.42	120	101
Britain	+2.7 Q4	+2.2	+2.6	+1.2 Jan	+0.3 Jan	+0.5	5.7 Dec††	-163.0 Q3	-4.3	-4.4	1.79	0.67	0.60
Canada	+2.6 Q4	+2.4	+2.1	+4.3 Dec	+1.0 Jan	+1.1	6.8 Feb	-39.3 Q4	-2.5	-1.5	1.32	1.26	1.11
Euro area	+0.9 Q4	+1.3	+1.3	+1.2 Jan	-0.3 Feb	nil	11.2 Jan	+309.1 Dec	+2.4	-2.2	0.20	0.92	0.72
Austria	-0.2 Q4	nil	+1.3	-2.6 Dec	+0.8 Feb	+1.3	4.8 Jan	+2.4 Q3	+2.4	-2.2	0.39	0.92	0.72
Belgium	+1.0 Q4	+0.7	+1.2	-2.4 Dec	-0.4 Feb	+0.4	8.5 Jan	+8.0 Sep	-0.1	-2.4	0.42	0.92	0.72
France	+0.2 Q4	+0.3	+0.9	+0.6 Jan	-0.3 Feb	+0.1	10.2 Jan	-21.1 Jan‡	-1.1	-4.3	0.53	0.92	0.72
Germany	+1.5 Q4	+2.8	+1.6	+0.8 Jan	+0.1 Feb	+0.2	6.5 Feb	+290.4 Jan	+7.1	+0.7	0.20	0.92	0.72
Greece	+1.2 Q4	-1.5	+2.0	+0.1 Jan	-2.2 Feb	-0.8	26.0 Dec	+2.3 Dec	+2.6	-3.2	11.30	0.92	0.72
Italy	-0.5 Q4	-0.1	+0.5	-2.2 Jan	-0.1 Feb	nil	12.6 Jan	+38.6 Dec	+1.6	-3.0	1.32	0.92	0.72
Netherlands	+1.0 Q4	+1.8	+1.3	-1.5 Jan	+0.1 Feb	+0.5	8.9 Jan	+91.5 Q3	+9.1	-2.0	0.33	0.92	0.72
Spain	+2.0 Q4	+2.7	+2.0	-2.0 Jan	-1.1 Feb	-0.7	23.4 Jan	+0.7 Dec	+0.5	-4.5	1.23	0.92	0.72
Czech Republic	+1.2 Q4	+1.5	+2.9	+2.9 Jan	+0.1 Feb	+0.2	7.5 Feb§	+1.4 Q4	-0.4	-1.7	0.49	25.1	19.7
Denmark	+1.3 Q4	+1.7	+1.6	-1.2 Jan	+0.2 Feb	+0.7	5.0 Dec	+21.1 Jan	+5.8	-3.0	0.29	6.86	5.36
Hungary	+3.4 Q4	+3.2	+2.4	+7.5 Jan	-1.0 Feb	+1.0	7.4 Jan§††	+5.7 Q3	+4.6	-2.6	3.57	279	223
Norway	+3.2 Q4	+3.7	+1.0	-1.1 Jan	+1.9 Feb	+1.4	3.7 Dec‡‡	+42.5 Q4	+11.3	+7.5	1.57	8.16	5.96
Poland	+2.8 Q4	+2.8	+3.2	+4.9 Feb	-1.6 Feb	+0.8	12.0 Feb§	-5.5 Jan	-2.4	-1.4	2.45	3.80	3.02
Russia	-0.3 Q4	na	-3.5	-1.4 Feb	+16.7 Feb	+12.5	5.5 Jan§	+56.6 Q4	+4.6	-1.5	13.10	59.4	36.3
Sweden	+2.6 Q4	+4.6	+2.3	+0.8 Jan	+0.1 Feb	+0.2	8.4 Feb§	+35.7 Q4	+5.6	-1.3	0.62	8.58	6.33
Switzerland	+1.9 Q4	+2.4	+1.0	+2.7 Q4	-0.8 Feb	-0.7	3.2 Feb	+45.7 Q3	+7.6	+0.3	-0.05	0.98	0.87
Turkey	+1.7 Q3	na	+4.2	-2.3 Jan	+7.5 Feb	+6.7	10.9 Dec§	-42.9 Jan	-4.1	-1.7	8.33	2.57	2.22
Australia	+2.5 Q4	+2.2	+2.6	+3.3 Q4	+1.7 Q4	+1.7	6.3 Feb	-40.1 Q4	-2.8	-2.2	2.45	1.29	1.10
Hong Kong	+2.2 Q4	+1.5	+2.5	-3.7 Q4	+4.1 Jan	+3.3	3.3 Feb‡‡	+7.7 Q3	+2.3	+0.1	1.62	7.76	7.77
India	+7.5 Q4	+4.0	+6.6	+2.6 Jan	+5.4 Feb	+6.0	8.8 2013	-27.4 Q4	-1.6	-4.1	7.79	62.2	61.0
Indonesia	+5.0 Q4	na	+5.5	+5.0 Jan	+6.3 Feb	+5.2	5.9 Q3§	-26.2 Q4	-2.6	-1.8	7.27	13,094	11,334
Malaysia	+5.8 Q4	na	+5.5	+7.0 Jan	+1.0 Jan	+3.2	3.0 Dec§	+15.2 Q4	+3.8	-4.7	3.93	3.68	3.28
Pakistan	+5.4 2014**	na	+5.6	+2.4 Dec	+3.2 Feb	+4.6	6.2 2013	-3.3 Q4	-0.8	-5.2	9.00†††	102	99.0
Singapore	+2.1 Q4	+4.9	+3.1	+0.9 Jan	-0.4 Jan	+0.4	1.9 Q4	+58.8 Q4	+22.6	-0.3	2.43	1.38	1.26
South Korea	+2.8 Q4	+1.5	+3.7	+1.8 Jan	+0.5 Feb	+1.5	4.6 Feb§	+92.8 Jan	+5.7	+0.5	2.29	1,112	1,070
Taiwan	+3.3 Q4	+4.8	+3.8	+8.1 Jan	-0.2 Feb	+1.0	3.8 Jan	+65.3 Q4	+12.3	-1.2	1.61	31.3	30.4
Thailand	+2.2 Q4	+7.1	+4.2	-1.3 Jan	-0.5 Feb	+1.8	1.1 Jan§	+14.2 Q4	+2.6	-1.6	2.70	32.7	32.1
Argentina	-0.8 Q3	-2.1	+0.5	-2.1 Jan	— ***	—	6.9 Q4§	-5.0 Q3	-0.9	-2.8	na	8.79	7.95
Brazil	-0.2 Q3	+0.3	nil	-5.2 Jan	+7.7 Feb	+7.2	5.3 Jan§	-90.4 Jan	-4.1	-4.9	13.01	3.21	2.34
Chile	+1.8 Q4	+3.8	+3.0	+5.8 Jan	+4.4 Feb	+3.6	6.2 Jan§‡‡	-3.0 Q4	-1.6	-1.9	4.36	636	570
Colombia	+3.5 Q4	+2.9	+3.9	-2.5 Jan	+4.4 Feb	+3.9	10.8 Jan§	-16.2 Q3	-6.1	-2.1	6.84	2,641	2,031
Mexico	+2.6 Q4	+2.7	+2.9	+0.3 Jan	+3.0 Feb	+3.9	4.4 Jan	-26.5 Q4	-1.8	-3.4	5.87	15.1	13.2
Venezuela	-2.3 Q3	+10.0	-3.2	+0.8 Sep	+68.5 Dec	+65.9	7.9 Jan§	+10.3 Q3	-1.8	-15.1	11.18	6.29	6.35
Egypt	+6.8 Q3	na	+3.9	-5.3 Jan	+10.6 Feb	+9.7	12.9 Q4§	-4.4 Q3	-1.4	-10.7	na	7.63	6.96
Israel	+3.3 Q4	+6.8	+3.5	+1.2 Dec	-1.0 Feb	nil	5.6 Jan	+9.0 Q4	+4.6	-3.1	1.59	3.98	3.46
Saudi Arabia	+3.6 2014	na	+2.5	na	+2.1 Feb	+2.8	6.0 2014	+120.1 Q3	-1.1	-9.7	na	3.75	3.75
South Africa	+1.3 Q4	+4.1	+2.4	-1.5 Jan	+3.9 Feb	+5.2	24.3 Q4§	-19.1 Q4	-4.9	-3.7	7.90	12.1	10.7

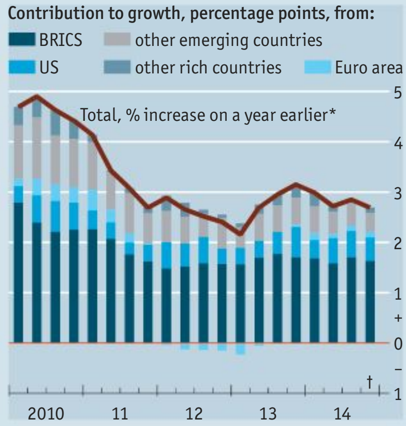
Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, Jan 35.9%; year ago 26.04% †††Dollar-denominated bonds.

Markets

			% change on Dec 31st 2014	
	Index Mar 18th	one week	in local currency	in $ terms
United States (DJIA)	18,076.2	+2.5	+1.4	+1.4
China (SSEA)	3,749.1	+8.7	+10.6	+10.2
Japan (Nikkei 225)	19,544.5	+4.4	+12.0	+11.1
Britain (FTSE 100)	6,945.2	+3.3	+5.8	-0.4
Canada (S&P TSX)	14,962.2	+1.5	+2.3	-7.3
Euro area (FTSE Euro 100)	1,215.9	+0.6	+17.3	+3.1
Euro area (EURO STOXX 50)	3,668.5	+0.5	+16.6	+2.6
Austria (ATX)	2,481.8	-1.0	+14.9	+1.1
Belgium (Bel 20)	3,727.9	+0.2	+13.5	-0.2
France (CAC 40)	5,033.4	+0.7	+17.8	+3.6
Germany (DAX)*	11,922.8	+1.0	+21.6	+7.0
Greece (Athex Comp)	738.0	-7.4	-10.7	-21.4
Italy (FTSE/MIB)	22,565.2	-1.2	+18.7	+4.4
Netherlands (AEX)	496.6	+1.0	+17.0	+2.9
Spain (Madrid SE)	1,120.9	+0.2	+7.5	-5.4
Czech Republic (PX)	1,030.9	+1.4	+8.9	-2.9
Denmark (OMXCB)	821.4	+1.7	+21.6	+6.9
Hungary (BUX)	18,522.4	-0.9	+11.4	+1.6
Norway (OSEAX)	660.2	+1.3	+6.5	-4.4
Poland (WIG)	53,364.6	+0.6	+3.8	-5.3
Russia (RTS, $ terms)	841.1	-0.8	+8.0	+6.4
Sweden (OMXS30)	1,704.0	+2.4	+16.3	+4.1
Switzerland (SMI)	9,256.2	+1.6	+3.0	+2.9
Turkey (BIST)	79,942.3	+2.1	-6.7	-16.7
Australia (All Ord.)	5,808.0	+0.8	+7.8	+2.5
Hong Kong (Hang Seng)	24,120.1	+1.7	+2.2	+2.1
India (BSE)	28,622.1	-0.1	+4.1	+4.8
Indonesia (JSX)	5,413.1	-0.1	+3.6	-2.6
Malaysia (KLSE)	1,797.6	+1.1	+2.1	-3.7
Pakistan (KSE)	31,525.0	-3.1	-1.9	-3.1
Singapore (STI)	3,361.8	-0.5	-0.1	-4.7
South Korea (KOSPI)	2,028.5	+2.4	+5.9	+3.0
Taiwan (TWI)	9,653.4	+1.4	+3.7	+3.9
Thailand (SET)	1,531.5	-0.8	+2.3	+2.2
Argentina (MERV)	11,275.3	+11.3	+31.4	+26.5
Brazil (BVSP)	51,526.2	+5.4	+3.0	-16.4
Chile (IGPA)	18,862.5	-0.1	nil	-5.5
Colombia (IGBC)	9,976.9	+4.8	-14.2	-23.3
Mexico (IPC)	44,360.9	+2.6	+2.8	-1.8
Venezuela (IBC)	4,704.7	+8.5	+21.9	na
Egypt (Case 30)	9,484.1	-1.0	+6.2	-0.4
Israel (TA-100)	1,390.0	+1.1	+7.8	+4.3
Saudi Arabia (Tadawul)	9,133.9	-5.7	+9.6	+9.7
South Africa (JSE AS)	52,187.5	+0.8	+4.9	-1.6

World GDP

Growth in the global economy slowed to 2.7% year on year in the final quarter of 2014, down from 2.9% the previous quarter. Despite experiencing its weakest GDP increase in 24 years in 2014, China remained the largest contributor to global growth. India was the fastest-growing country for a second quarter, staying ahead of China by a small margin. Other emerging economies did not fare so well. Non-BRICS emerging markets contributed their smallest proportion to global growth in more than five years. Of the countries tracked by *The Economist*, 48 have so far reported their numbers for the final quarter of 2014. Over half saw growth rates fall, offsetting modest gains in places like the euro area.



Sources: Haver Analytics; IMF; *The Economist*

*Estimates based on 48 economies representing 83% of world GDP. Weighted GDP at purchasing-power parity
†Q4 2014 figures do not include Brazil

Other markets

			% change on Dec 31st 2014	
	Index Mar 18th	one week	in local currency	in $ terms
United States (S&P 500)	2,099.5	+2.9	+2.0	+2.0
United States (NAScomp)	4,982.8	+2.7	+5.2	+5.2
China (SSEB, $ terms)	304.1	+2.1	+5.0	+4.6
Japan (Topix)	1,582.5	+3.7	+12.4	+11.5
Europe (FTSEurofirst 300)	1,590.3	+1.0	+16.2	+2.2
World, dev'd (MSCI)	1,754.1	+2.5	+2.6	+2.6
Emerging markets (MSCI)	956.7	+1.5	nil	nil
World, all (MSCI)	426.9	+2.4	+2.3	+2.3
World bonds (Citigroup)	872.8	+0.7	-3.3	-3.3
EMBI+ (JPMorgan)	689.2	-0.2	-0.4	-0.4
Hedge funds (HFRX)	1,240.6§	+0.6	+1.8	+1.8
Volatility, US (VIX)	14.0	+16.9	+19.2	(levels)
CDSs, Eur (iTRAXX)†	51.6	+4.7	-21.7	-31.1
CDSs, N Am (CDX)†	62.4	-4.2	-1.5	-1.5
Carbon trading (EU ETS) €	6.8	-0.4	-7.1	-18.3

Sources: Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. §Mar 17th.

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

The Economist commodity-price index

2005=100

			% change on	
	Mar 10th	Mar 17th*	one month	one year
Dollar Index				
All Items	142.3	140.4	-4.2	-18.6
Food	160.4	157.4	-5.6	-22.3
Industrials				
All	123.6	122.7	-2.1	-13.1
Nfa†	118.8	117.4	-3.9	-24.8
Metals	125.6	125.0	-1.4	-7.3
Sterling Index				
All items	171.6	173.2	-0.3	-8.5
Euro Index				
All items	165.3	164.6	+3.0	+6.8
Gold				
$ per oz	1,161.5	1,148.6	-4.8	-15.4
West Texas Intermediate				
$ per barrel	48.7	43.2	-19.2	-56.7

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.

For love of Fidel

Natalia Revuelta Clews, Havana socialite and mistress of Fidel Castro, died on February 27th, aged 89

WHEN she had been married four years to Orlando Fernández, a cardiologist twice her age, Naty Revuelta grew restless in the big, beautiful house in Vedado. Each morning, when the shutters were opened on the smell of jasmine, her baby Nina would be taken away by the nurse to be fussed and dressed in lace. In the late afternoons, after an unsleeping siesta, her sparkling company might be sought for tennis and canasta parties. Naty was so lovely, with her emerald eyes and dark blonde hair and tiny dancer's waist, that men would kneel at her feet. Her natural home appeared to be the Biltmore or the Havana Yacht Club, dining on oysters and sweet omelettes from plates of gold. Yet much of her day was spent watching television in the darkened house until the moment when Orlando would return from work and fall asleep in his chair. It was around then, in the spring of 1952, that she sent her house key to Fidel Castro.

Although she wrapped the key in a linen envelope, lightly scented with Lanvin's "Arpeggio", she did not know him. They had met, by moonlight, at a demonstration on the grand stone staircase at the University of Havana. With her elegant dress and gold cigarette case, she was plainly no student. He asked if he could indoctrinate her—the words having, for him, no other meaning. She told him, with a shiver of flirtation, that she was free any afternoon after five. That March Fulgencio Batista had launched his coup d'état and delivered Cuba to gangsterism; Fidel, and two other members of the Orthodox Party to whom she also sent keys, were his most energetic opposition. Now the three of them, polite and in starched *guayaberas*, sat among her imitation French furniture and fine English tea sets to plot their revolution.

Social convention and the "sentence" of her marriage stopped her going with them into the mountains. That frustrated her, for like her English grandfather, Herbert Clews, she liked the romance of adventure in rough country. The attack on the Montcada barracks on July 26th 1953 had to happen without her. She would help in other ways. Her fingers grew rough from typing manifestoes and sewing military fatigues. Stealthily she withdrew all her savings, $6,000, from the bank. Her diamonds, emeralds and sapphires, in their plush boxes, disappeared from the bedroom drawer, pawned to buy rifles. Then when the attack failed, and Fidel was jailed on the Isle of Pines, she wrote to him.

Their correspondence revolved at first around books. She sent him the French writers she most admired, Rolland, Victor Hugo, Balzac. He responded enthusiastically, his tiny writing also filling the margins of the one page he was allowed. She sent him the works of Dostoevsky; he was impressed, but preferred Marx. The letters became playful: they discussed oil lamps, cake-dough, hats, goldfish. She sent an envelope filled with sand to remind him of the beach. And though he too was married, they became amorous. Her phrases were like kisses, he told her, or honey that never cloyed. In return she loved him more wildly than anyone since her playboy father, kicked out of the family when she was three for his addiction to *mojitos*.

A silken ribbon

Fidel said he longed to hold her "tight in my arms, so tight that I will press you like a flower". That was not true for long. When their correspondence was found out, he asked her not to write again. In 1955, on his release, they met and made love at last; she conceived her daughter Alina, but after two months he left. Four years later he came to power in Havana, but did not send for her. He barely communicated with his daughter, and with Naty not at all, beyond returning her letters to him. She who had dreamed of being First Lady of Cuba, svelte, gracious, fluent in English from her education at elite girls' academies in Washington and Pennsylvania, was now another nobody in a country that was impoverished, grey and falling into ruins.

And yet as before she would help in other ways, for her love of Fidel was unaltered by his behaviour. She joined volunteer labour brigades and worked for the government. The beautiful house, from which Orlando had now fled, with Nina, to the United States, was handed over to become an embassy, and she moved into somewhere uglier and smaller. There, uncomplaining, she lived from a ration book like the rest of Cuba, queuing for hours for half a kilo of black beans which Chucha, the one remaining maid, would serve with rice on a silver tray. Her stubbornly tyrannical mother, Doña Natica, never forgave her "treachery" of aiding communism. Her daughter Alina bickered and defied her before leaving, in her turn, for America.

In the house in Nuevo Vedado, behind heavy metal grilles against robbers, often in candlelight when the power was cut, Naty Revuelta lived without bitterness. Her small alligator-covered address book seldom had a new entry of interest, but portraits of her past self, the toast of high society, covered the walls and sideboards. As always, cigarettes from the slim gold case and black coffee from tiny cups kept her going. If anyone asked—and even if nobody did—she would fetch from her stocking-drawer in their blue satin case, tied with a blue silk ribbon, Fidel's letters, and read them aloud. Then she would sit, no longer restless, almost content. ■


GENESIS