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Dynasties

The enduring power of families in business and politics


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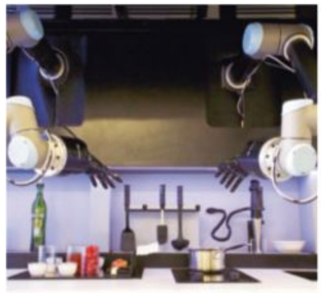

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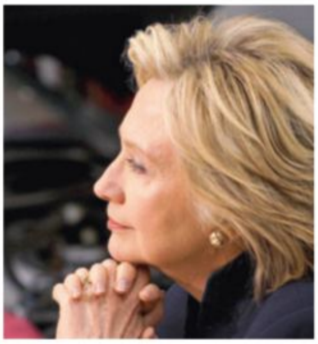
Politics



Hillary Clinton announced that she is running for the White House in 2016. She vowed to get "unaccountable money" out of politics "once and for all, even if that takes a constitutional amendment". Her campaign is expected to raise at least $1 billion. On the Republican side Marco Rubio, a Florida senator, joined a field that is fast becoming crowded.

A Florida doctor, Salomon Melgen, was indicted for **defrauding Medicare**, the government health scheme for the old, which he had billed for $105m over six years. Earlier this month Mr Melgen and Senator Bob Menendez, a New Jersey Democrat, were indicted for trading gifts for favours. Both men deny wrongdoing. The sidelining of Mr Menendez, a foreign-policy hawk, made discussions between Barack Obama and Congress over Iran a bit easier.

Five more glorious years

Sudan held a presidential election and, though the results will not be announced until April 27th, most believe President Omar Hassan al-Bashir is sure of another term in office. Opposition groups boycotted the poll. Sudan is war-ravaged and its economy is struggling. But Mr Bashir, indicted for genocide by the International Criminal Court, has never looked stronger.

Russia has lifted a self-imposed ban on the sale to **Iran** of an advanced air-defence system, a move criticised by the countries involved in talks to limit Tehran's nuclear programme. America and Israel opposed selling the S-300 system to Iran on the grounds that it would make any air strikes on its nuclear facilities harder and upset the region's balance of military power.

The Shabab, al-Qaeda's affiliate in **Somalia**, exploded a car bomb outside the Ministry of Higher Education in Mogadishu, the capital. At least 19 people were killed, including seven attackers. It comes on the heels of the Shabab's massacre at a university in Garissa, Kenya, in which gunmen killed 148 people.

Three weeks of air strikes by a Saudi-led coalition have done little to halt the advance of the Iranian-backed Houthi rebels in **Yemen**. Pakistan has affirmed that it will not send in ground troops. Muhammad Javad Zarif, Iran's foreign minister, has laid out a four-point plan to resolve the crisis.

Yemen's civil war has benefited **al-Qaeda in the Arabian Peninsula**, the group's most dangerous branch, which has taken over Mukalla, a Yemeni port. But an American drone strike killed Ibrahim al-Rubeish, a top figure in the outfit.

Lights out

A court in **Japan** blocked the reopening of a nuclear power plant in Fukui on the main island's west coast. The Takahama plant had already obtained approval from Japan's nuclear regulator. It is a blow to Shinzo Abe, the prime minister. Nuclear power generated 30% of Japan's electricity before the Fukushima Dai-ichi nuclear disaster, after which the country's nuclear power stations were shut down.

The government in **China** released five feminist activists detained for planning protests against sexual harassment on public transport on March 8th, International Women's Day. They may still be prosecuted for supposedly creating a disturbance.

In response to protests in **Hong Kong** against mainland Chinese who buy goods in bulk to resell, China limited residents of Shenzhen, across the border from Hong Kong, to visiting the territory just once a week. Goods in Hong Kong are cheaper and more trusted, but a surge of mainland Chinese visitors has bred resentments.

India relaxed the last of the restrictions on the production of goods, including pickles and chutneys, that are "reserved" exclusively for small businesses. At the peak of industrial policy in the 1970s some 800 goods were similarly reserved.

Hill start

The **British election** creaked into third gear with the launch of the parties' manifestos. With the polls still too tight to call, the Conservatives promised more free child care and subsidies for social-housing tenants. Labour vowed to avoid further borrowing and keep cutting the deficit.

Good weather encouraged more boatloads of would-be migrants across the **Mediterranean**. The Italian coastguard rescued hundreds, but as many as 400 were feared drowned after one boat capsized off Libya. The UN said not enough was being done to save lives.

The extreme-right Jobbik party shocked **Hungary's** ruling right-wing Fidesz party by winning a by-election. Jobbik claims that it, not the left, is now the only plausible opposition to the Fidesz prime minister, Viktor Orban.

Turkey attacked Pope Francis and the European Parliament after both described the Ottoman massacres of Armenians in 1915-16 as genocide. Turkish objections to the word have intensified in the run-up to the centenary of the start of the killings on April 24th.

Despite a purported ceasefire, renewed violence broke out in **eastern Ukraine**. Ukraine said six of its soldiers had been killed; pro-Russian rebels said one of their fighters had died.

Historic handshake

Barack Obama and Raúl Castro held the first substantive meeting between the leaders of the **United States** and **Cuba** in nearly 60 years at a summit in Panama. Mr Castro railed against the embargo that the United States imposed on Cuba, which was loosened last December, but called Mr Obama an "honest man". After the summit the United States removed Cuba from its list of state sponsors of terrorism. The decision eliminates an obstacle to restoring diplomatic relations.

FARC guerrillas killed at least ten **Colombian** soldiers and wounded 17 more. The army claimed that the FARC initiated the attacks. That would make it the most serious breach yet of a ceasefire declared by the rebel group in December. Colombia's president, Juan Manuel Santos, ordered a resumption of air raids on the FARC, which he had suspended in March. The two sides have been holding talks aimed at ending the 50-year conflict.

Eduardo Galeano, a radical **Uruguayan** writer, has died, aged 74. He is most famous for "Open Veins of Latin America", which blamed the region's problems on European colonisers and the United States. Late in life he said that the book belonged to "a past era".

Business

General Electric, America's best-known conglomerate, announced plans to sell most of its finance arm, GE Capital. The firm's executives said that this was to allow the group to focus on its industrial businesses. They hope that GE's non-financial operations will produce 90% of the group's earnings by 2018, up from 58% last year.

A feud at the top of **Volkswagen's** management opened up. Ferdinand Piëch, the German carmaker's chairman, told *Der Spiegel* he was "at a distance" from Martin Winterkorn, the chief executive. But Wolfgang Porsche, another powerful member of VW's supervisory board, said that Mr Piëch—his cousin—was speaking only for himself. The feud between the firm's senior management is not good news at a time when the firm's volume-car business is struggling.

Crazy prices

Stockmarkets in China and Hong Kong continued to rally in spite of poor Chinese economic data. China's exports fell 15% year-on-year in March and its imports shrank at their fastest rate since May 2009. The trade slowdown also contributed to China's worst first-quarter growth figures for six years, which suggested that the country's economy only expanded at an annualised rate of 7% over the period.

Nokia announced that it had struck a deal to buy **Alcatel-Lucent**. The Finnish firm's decision to bid for the assets of its Franco-American rival suggests that the firm wants to expand again, after the sale of its handset business to Microsoft last year. Alcatel-Lucent shareholders will own 33.5% of the combined firm, and Nokia's the remaining 66.5%.

Encouraged by the abolition of milk quotas by the European Union last month, **Euronext** has launched a new set of dairy futures for butter, skimmed-milk powder and whey powder. Euronext's head of business development for commodities, Nicholas Kennedy, has said that he hoped the change would cause a "revolution in European dairy".

Flatlining

Britain's Office for National Statistics announced that the country's **inflation rate** remained at 0% for the second consecutive month in March. Although economists expect Britain to go into deflation over the next few months, the Bank of England has said that it is unlikely to reduce interest rates any further.

Several American banks released their first-quarter results, painting a mixed picture for their industry. While **Wells Fargo's** earnings fell year-on-year for the first time since 2010, **JPMorgan Chase's** profits jumped 14% compared with the same period last year. Stronger revenues in equities and bond trading contributed to the bank's better-than-expected performance.

The **Turkish lira** fell to a record low against the dollar. The currency has lost 14% against the greenback this year. Worries about whether the central bank would cave in to political pressure to cut interest rates have contributed to the slide. And the uncertainty surrounding the outcome of the country's general election, due to be held in June, will continue to spook investors and currency traders alike.

BlaBlaCar, the world's largest online ride-sharing service, announced that it had bought two rivals, **carpooling.com** and **AutoHop**. The latest acquisitions will raise the number of BlaBlaCar users to 20m, up from 6m a year ago.

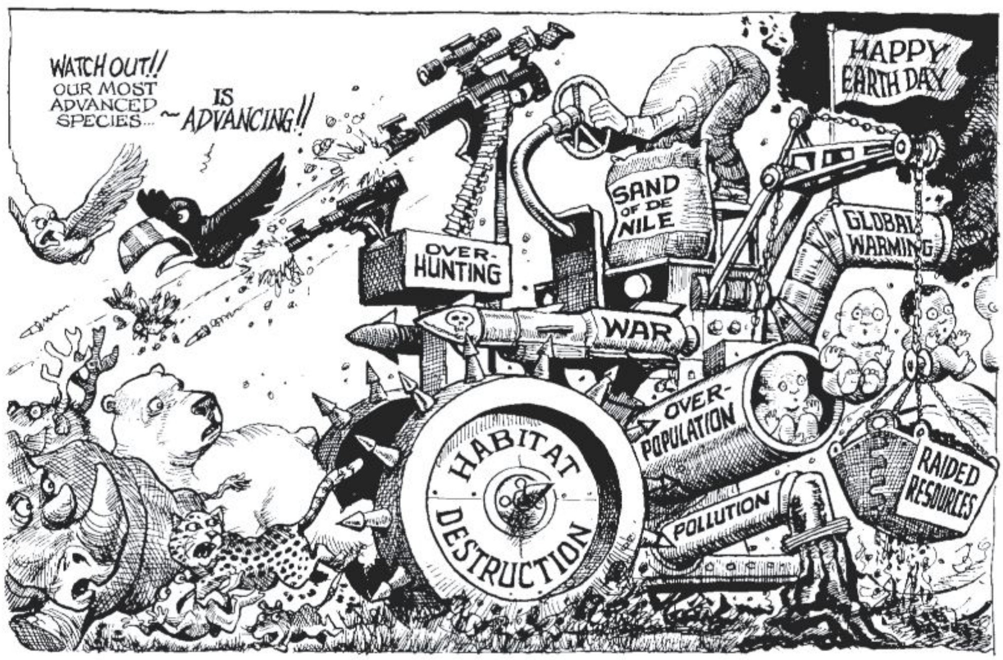
Lots more tears shampoo

Johnson & Johnson announced an 8.6% drop in profits in the first quarter, compared with the same period the year before. Although the dollar's appreciation has hurt the firm's financial results, the multinational consumer-goods firm still performed better than analysts had expected. In spite of this, the company's management has cut its full-year earnings guidance for the firm.

The **European Commission** formally accused **Google** of illegally using its dominance in the internet-search market to encourage European consumers to use its own in-house shopping services. Margrethe Vestager, the European commissioner for competition, also announced that she will be opening an investigation into Google's Android mobile platform amid allegations that it forces handset-makers into uncompetitive contracts to use its software. Google has responded by denying that its operations have reduced competition.

The **European Central Bank** announced that it is keeping its main interest rate at a record low of 0.05%. At the press conference after the news was released, **Mario Draghi**, the bank's president, attempted to explain why the bank's quantitative-easing programme is going well so far, but was interrupted by a female protester who showered him with confetti while screaming, "End ECB dictatorship".

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



Dynasties

The enduring power of families in business and politics should trouble believers in meritocracy

"AS A democracy the United States ought presumably to be able to dispense with dynastic families," wrote Arthur Schlesinger junior, one of America's best-known historians, in 1947. Yet almost 70 years on, next year's presidential election could well become a family affair. A Clinton or a Bush has been on the ticket in seven of the past nine races. Hillary v Jeb may offend against equal opportunity, but not the laws of statistics.

How, people wonder, can this happen in a country that went to war to rid itself of a king's hereditary authority? That is the wrong question. Around the world, in politics and business, power is still concentrated in the family. Power families and dynasties are here to stay. The question is how to ensure that they are a force for good.

Double helix, double standards

In politics the Clintons and the Bushes hardly count as exceptions. The leaders of Japan, South Korea, the Philippines and Bangladesh are all related to former political chiefs. The "Stans" of Central Asia are family fiefs. The Ghandis are struggling in India, as are the Bhuttos in Pakistan, but the Kenyattas are kings in Kenya, a Fujimori is once again leading the polls in Peru and a Trudeau has a fighting chance in Canada. Meanwhile the lengthy catalogue of China's "princelings", the children of Communist Party grandees, starts right at the top with the president, Xi Jinping.

In Europe family power is one reason why politics seems like a closed shop. Fifty-seven of the 650 members of the recently dissolved British Parliament are related to current or former MPS. François Hollande, France's president, has four children with Ségolène Royal, who ran for the presidency in 2007. Three generations of Le Pens are squabbling over their insurgent party, the Front National (see page 48). Belgium's prime minister is the son of a former foreign minister and European commissioner. The names Papandreou and Karamanlis still count for something in Greece.

In business, too, family companies continue to thrive, as our special report in this issue explains. More than 90% of the world's businesses are family-managed or -controlled, including some of the biggest, such as News Corp and Volkswagen, a carmaker in the throes of a boardroom battle between its two main family owners. The Boston Consulting Group calculates that families own or control 33% of American companies and 40% of French and German ones with revenues of more than $1 billion a year. In the emerging world the preponderance of family control is greater still.

The importance of power families would have surprised the founders of modern economic and political theory. Political dynasties were supposed to fade as ordinary people got the vote. Family businesses were supposed to lose ground as public companies raised money from millions of small investors.

This never happened—partly because many advantages of kinship proved surprisingly enduring. Political dynasties have a powerful mixture of brand names and personal connections. Family companies can be more flexible and far-seeing than public companies. Family owners typically want their firms to last for generations, and they can make long-term investments without worrying about shareholders hunting for immediate profits.

Power families have also prospered from big, and welcome, social and economic shifts. Their prominence reflects the increasing prosperity of Asia, where families traditionally play a large role. The emancipation of women is doubling the talent pool. In an earlier age political chauvinism would have excluded Park Geun-hye, Keiko Fujimori—and Mrs Clinton. Likewise women have successfully taken the reins at Spain's Santander bank, Australia's Hancock Prospecting, and even Saudi Arabia's Olayan Financing Company.

However, family power poses problems. Liberals, such as this newspaper, believe in the importance of protecting private property and allowing entrepreneurs to enjoy the fruits of their talents. But at the same time they believe that people should be judged on their individual merits rather than their family connections or their brand name. The *New York Times* reckons that the son of a governor is 6,000 times more likely than the average American male baby-boomer to become a governor himself, and the son of a senator is 8,500 times more likely to become a senator. The concentration of power and wealth in a small elite raises questions about legitimacy.

Family power also has its dark side—especially where business and politics are entwined in an exclusive nexus of money and influence (see page 33). The Clintons are a worrying example: all sorts of people, including foreign governments, have given millions to the Clinton family foundation, perhaps in part because they think it will give them influence over a future president. Lazy incumbents have an incentive to use political connections to protect themselves from competition. This can lead to corruption. A study found that in 2003 firms representing almost 8% of the world's market capitalisation were run by relatives of their countries' political leaders. Even without political connections, business families can exercise an unhealthy influence over the wider economy. Pyramid ownership structures enable a small chunk of capital to exert a large degree of control. Another study found that the richest ten families controlled 34% of market capitalisation in Portugal and 29% in both France and Switzerland.

Family values, public goods

The secret to healthy family power is competition. In an open system of free markets, governed by the rule of law and held to account by a free press, nepotism matters less. America's vastly expensive elections favour political machines: another reason to re-examine campaign finance. Pyramid structures lock up capital markets. America limited them in the 1930s. Britain followed suit in the late 1960s and Israel is doing the same. So should other countries. Inheritance taxes in places such as Britain favour the family company: it should survive on its merits. Family power, like any other sort, needs watching over. If it cannot be contested, it should not be welcome. ■

Turkey and Armenia

A time to heal

Instead of arguing over the genocide word, Turks should mend fences with the Armenians

NOTHING inflames the present like the past. When Pope Francis said on April 12th that the "first genocide" of the 20th century was of the Armenians in 1915, Turkey angrily recalled its ambassador to the Vatican. Far from being resolved, the argument over exactly what to call the death of as many as 1m-1.5m Armenian citizens of the Ottoman empire still spreads hatred. This fight does nothing for Turks and Armenians—nor for the century-old memory of the victims.

At issue is not the terrible fate that befell the Armenians of eastern Anatolia, in massacres, forced labour and death marches towards the Syrian desert. It is whether to use the word "genocide". Historians differ, not just Armenians and Turks, on whether extermination was a side-effect or the intention, as genocide requires. As America's president, Barack Obama has talked only of the *Meds Yeghern* ("great crime" in Armenian), despite promising the Armenian lobby as a candidate to call it genocide. Yet, on the face of it, the facts support Pope Francis, not least because Raphael Lemkin, the Polish lawyer who coined the word in 1943, cited the Armenian case.

By treating the dispute as a matter of vital national interest, the Turkish government is falling into a nationalistic trap. Instead it should admit past sins. Like other European powers, including Britain, Germany and Russia, it has plenty to acknowledge. Turkey has in the past mistreated, deported or killed not only Armenians but also Assyrians, Greeks and Kurds. But it also has reasons for pride, for the Ottoman empire was, for example, often more tolerant of its ethnic minorities, including Jews, than the rest of Europe was.

Today's Turkish government can also boast of improvements in its treatment of minorities. As Turkey's president and founder of the Islamist Justice and Development (AK) party that forms its government, Recep Tayyip Erdogan has distanced himself from the narrow secular nationalism of Kemal Ataturk, modern Turkey's founder. He is tantalisingly close to making peace with the Kurds, the country's biggest minority, a goal that has eluded all his predecessors. And last year he bravely offered condolences, if not an apology, to the grandchildren of the Armenian victims of 1915 (see page 53).

Yet of late, Mr Erdogan has taken on an angrier, more nationalistic, Islamist and autocratic tone. This is making it harder for him not just to get on with his neighbours but also to preserve Turkey's pro-Western credentials as a bulwark of NATO and prospective member of the European Union. That is why Turkish twitchiness over what happened in 1915 is so counter-productive. Better would be to try, once again, to repair relations with the Armenians.

Fence-mending in Anatolia

After a bout of "football diplomacy" in 2008-09 Turkey and Armenia signed protocols that would have allowed their border to be reopened. But the protocols were never ratified, not because of the genocide row, but because the Turks insisted as a condition on the resolution of the frozen conflict between Armenia and Azerbaijan, Turkey's ally, over the disputed enclave of Nagorno-Karabakh. Yet the best chance of solving Nagorno-Karabakh would be better relations—and an open border—between Turkey and Armenia, which otherwise feels hemmed in and dependent on the dubious prop of Russian support.

For ordinary Armenians, the most promising idea for marking the 100th anniversary of the terrible events of 1915 would be to regain direct access to their sacred mountain of Ararat and to their ancient capital of Ani, both of which are now blocked off in Turkey. For Turkey, too, the best memorial would be improved relations with Armenia. ■

General Electric

Back to business

The world's biggest industrial firm wants to stop being a closet bank. Good

IN ITS 123-year history General Electric has proved itself handy at making things. GE invented the light bulb, the electric fan and the toaster. It is one of a handful of firms that can build nuclear reactors and jet engines. In the past two decades, however, it has created a monster: its own bank. It was America's fifth-biggest lender at its peak in 2008, just before it stumbled and Wall Street crashed. Now Jeffrey Immelt, GE's boss, wants to close it down for good. The end of GE's struggle with big finance is a landmark for American capitalism that holds lessons for firms, banks and regulators.

GE's diversification from electrical to financial engineering began by accident in the 1980s. "We never had a great strategic vision," recalled Jack Welch, the firm's then boss, in his memoir, "Straight from the Gut". GE was enticed by easy profits and started to gorge on Thai car loans, Japanese consumer credit and American debt. The growth in GE's finance arm "almost seems surreal", observed Mr Welch when he retired in 2001. By then it made 41% of GE's profits.

Near-suicidal might be a better description. The business model was a disaster waiting to happen. Because GE had a triple-A credit rating, it could borrow freely. In the run-up to the crisis it became America's biggest private issuer of short-term ▸▸

debt, with a balance-sheet almost as big as Lehman Brothers'. Because it was not deemed a bank by regulators, it was allowed even thinner capital buffers than many lenders had. In 2008 debt markets dried up. GE had to rely on a huge slug of emergency government funding to help roll over its debts—a bail-out in all but name. The fiasco hurt the rest of GE. In 2008-09 it cut its workforce by 10% and its dividend by 51%.

Jeff blows down the house that Jack built

Mr Immelt has run GE since 2001 and bears a hefty responsibility for the mess. Still, since the crash he has tried to shrink the finance arm. Now he wants to kill it almost entirely by 2018. His new sense of urgency reflects the realisation that the tougher rules big financial firms now face mean GE cannot make much money. And restless shareholders are sick of their firm being dragged down by the bank.

The plan makes sense, but will be quite some feat. Winding down a $500 billion balance-sheet is easier said than done. The industrial business on which Mr Immelt wants to concentrate has not fired on all cylinders for years (see page 56). Still, the hope is that eventually GE will again be wholly focused on making gas turbines and software, not speculative loans.

GE's saga holds three broader lessons. First, too many industrial companies are seduced by banking. The five biggest carmakers have financial operations with $600 billion of assets, up by a fifth in two years and making up half of their combined balance-sheets. Worldwide, non-financial firms own $9 trillion currency derivatives. Asian firms are also keen to expand into banking. Alibaba, a Chinese internet firm, now offers money-market funds and has a banking licence. India's big business houses want to set up banks, too.

GE shows why industrial firms should avoid owning big finance operations. Occasional successes such as Warren Buffett's Berkshire Hathaway can combine insurance with hot dogs. But most manufacturers are even worse at managing financial risk than banks are—and they are harder to supervise. A blow-up at the finance arm can sink the entire company.

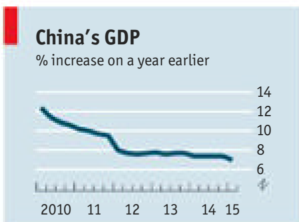
The second lesson is for bank bosses, who should emulate Mr Immelt's boldness. GE's finance arm made a mediocre return on equity of 8% last year; most global banks operate under similar capital rules and did worse. Yet the bankers are far more timid about cutting costs and shedding dud businesses, convinced that if they cling on there will be a happy ending. They, too, deserve to face a revolt from shareholders.

The last lesson is for regulators. They should be cheered by GE's move—the logic of the new capital rules, after all, is to discourage behemoth banks too large to fail. But they must keep a close eye on where GE's financial businesses end up. Some bits will be wound down. Others will be subsumed by firms in the "shadow", or non-bank, financial system, such as investment managers. These should prove better at absorbing losses without destabilising the entire financial system, since they are more dispersed and have long-term financing that is less vulnerable to runs. But if GE's riskiest assets are simply shifted to other giant banks, the system will be no safer. By putting a too-big-to-fail finance firm out of its misery, GE has shown it is still a company at the cutting edge. Whether its actions improve global finance depends on what happens next. ■

Reform in China

The quiet revolution

A slowing economy commands headlines, but the real story is reform



WITH China, the received wisdom belongs to the pessimists. Figures this week revealed that growth has slowed sharply and deflation set in, as the economy is weighed down by a property slump and factory production is at its weakest since the dark days of the global financial crisis. In the first three months of 2015, GDP grew at "only" 7% year-on-year. Growth for 2015 will probably be the weakest in 25 years.

Fears are rising that, after three soaring decades, China is about to crash. That would be a disaster. China is the world's second-largest economy and Asia's pre-eminent rising power. Fortunately, the pessimists are missing something. China is not only more economically robust than they allow, it is also putting itself through a quiet—and welcome—financial revolution.

The robustness rests on several pillars. Most of China's debts are domestic, and the government still has enough sway to stop debtors and creditors getting into a panic. The country is shifting the balance away from investment and towards consumption, which will put the economy on more stable ground (see pages 19-22). Thanks to a boom in services, China generated over 13m new urban jobs last year, a record that makes slower growth tolerable. Given China's far bigger economy, expected growth of 7% this year would boost the global economy by more than 14% growth did in 2007.

However, the real reason to doubt the pessimists is China's reforms. After a decade of dithering, the government is acting in three vital areas. First, in finance, it has started to loosen control over interest rates and the flow of capital across China's borders. The cost of credit has long been artificially low, squashing the returns available to savers while, at the same time, succouring inefficient state-owned firms and pushing up investment. Caps on deposit rates are becoming less relevant, thanks to an explosion of bank-account substitutes that now attract nearly a third of household savings. Zhou Xiaochuan, the governor of China's central bank, has said there is a "high probability" of full rate-liberalisation by the end of this year.

China is also becoming more tolerant of cross-border cash flows. The yuan is, little by little, becoming more flexible; multinational firms are able to move revenues abroad more easily than before. The government's determination to get the IMF to recognise the yuan as a convertible currency before the end of 2015 should pave the way for bolder moves.

The second area is fiscal. Reforms in the early 1990s gave local governments greater responsibility for spending, but few sources of revenue. China's problem of too much investment stems in big part from that blunder. Stuck with a flimsy tax base, cities have relied on sales of land to fund their operations and have engaged in reckless off-books borrowing.

The finance ministry now says it will sort out this mess by 2020. The central government will transfer funds to provinces, especially for social priorities, while local governments will receive more tax revenues. A pilot programme has been launched to clear up local-government debt. It lays the ground for a municipal-bond market—despite the risks, that is better than today's opaque funding for provinces and cities.

The third area of reform is administrative. In early 2013, at the start of his term as prime minister, Li Keqiang pledged that he would cut red tape and make life easier for private companies. It is easy to be cynical, yet there has been a boom in the registration of private firms: 3.6m were created last year, almost double 2012's total.

The high road of lower growth

In time, these reforms will lead to capital being allocated more efficiently. Lenders will price risks more accurately, with the most deserving firms finding funds and savers earning decent returns. If so, Chinese growth will slow—how could it not?—but gradually and without breaking the system.

Yet dangers remain. Liberalisation risks breeding instability. When countries from Thailand to South Korea dismantled capital controls in the 1990s, their asset prices and external debts surged, ultimately leading to banking crises. China has stronger defences but nonetheless its foreign borrowing is rising and its stockmarket is up by three-quarters in six months.

And then comes politics. Economic reforms have high-level backing. Yet the anti-corruption campaign of President Xi Jinping means that officials live in fear of a knock on the door by investigators. Many officials dare not engage in bold local experiments for fear of offending someone powerful.

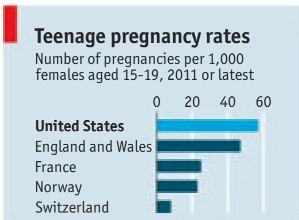
That matters because reform ultimately requires an end to the dire system of *hukou*, or household registration, which relegates some 300m people who have migrated to cities from the countryside to second-class status and hampers their ability to become empowered consumers. Likewise, farmers and ex-farmers need the right to sell their houses and land, or they will not be able to share in China's transformation.

Ever fond of vivid similes, Mr Li says economic reforms will involve the pain a soldier feels when cutting off his own poisoned arm in order to carry on fighting. "Real sacrifice", he says, is needed. China's quiet revolution goes some of the way. But Mr Li is right: much pain lies ahead. ■

Contraception in America

Don't recoil from the coil

America has a high rate of unplanned pregnancies. Greater use of long-acting contraceptives would reduce it



Teenage pregnancy rates
Number of pregnancies per 1,000 females aged 15-19, 2011 or latest

THE teenage pregnancy rate is strikingly higher in America than in many other rich countries (see chart). So are unplanned pregnancies in general: over half of American conceptions are accidental, compared with a third in France. One reason is that Americans have been slow to embrace the use of long-acting contraceptives such as the intrauterine device (IUD) and the hormonal implant. Only 6% of American women of childbearing age use an IUD; more than 20% of Norwegians do (see page 29). Implants and IUDs have the advantage that, once fitted, they last for years. Unlike the Pill, you don't need to remember to take one every day. Unlike condoms, you don't have to summon the willpower to stop and put one on.

All modern contraceptives are highly effective, if they are used properly. But in the real world, they often aren't. In America the IUD is 40 times as effective as the Pill and 90 times as effective as condoms in preventing unwanted pregnancies each year. This matters for several reasons. Four in ten unplanned pregnancies in America are the result of poorly used contraception. Poor women are four times more likely to have unplanned babies than rich women are, and less able to cope with the consequences. And regardless of other factors, babies born to mothers who did not intend to get pregnant are more likely to grow up poor: their parents are more likely to split up, and their mothers are more likely to drop out of school to care for them. If long-acting contraceptives were more widely used, they might accelerate social mobility. So why aren't they?

Two reasons stand out. First, many Americans have strong views, often religiously inspired, about sex and abortion. Some consider IUDs to be abortifacients because they could prevent a fertilised egg from implanting in the uterus. Some also object to schools teaching about contraception.

Second, America is a litigious place. The penalties for doing something wrong are immense. The maker of Dalkon Shield, a defective IUD sold in the 1970s, was bankrupted by hundreds of thousands of lawsuits. Modern long-acting contraceptives are extremely safe, but manufacturers have been slow to market them in America and doctors have been hesitant to recommend them. Many women who would benefit from them do not know they exist, or imagine that they are dangerous.

Implanting ideas

The use of implants and IUDs in America is starting to inch up, and as more women get them, their friends may follow. But more can be done. States should try to curb excessive damages in medical lawsuits, as California has done. (This is an essential step towards curbing health-care costs more generally.) The government should respect people's religious views, but that need not stop schools from teaching about contraception more thoroughly. And when a woman walks into a clinic and asks for the Pill, she should be told about IUDs, too—not to be coerced into anything, but to be informed.

Official guidelines already state that IUDs and implants should be the first contraceptives recommended to teenagers. Health workers should be reminded of this. For casual sex, condoms should be recommended as well, since they guard against sexually transmitted diseases. The most vulnerable women typically qualify for public health care, so they ought to be reachable. Long-acting contraceptives are cheap and make it easier for the poor to plan their escape from poverty. America should not recoil from the coil. ■


the imagination and the other

Turkey and Russia

As you say, enabling Iran to supply gas to the European Union would be a good way to lessen the EU's dependence on Russian gas ("Rusty taps", April 4th). But the benefits stretch well beyond our energy needs. With a nuclear agreement with Iran now within reach, an opportunity beckons for the EU to remould its security environment.

The key for such a strategy lies in Turkey. Following the scrapping of the South Stream project, Vladimir Putin now intends to build a new gas pipeline that would be routed through Turkey. This would give Ankara leverage with Moscow, but also with the EU. Bringing Iran into the equation helps put pressure on Ankara when necessary to make sure that gas continues to flow towards European shores. The result should be that gas supplies to Europe will become more stable, which even Russia should benefit from.

As it is, Turkey imports 18% of its gas from Iran; a figure that is set to increase. Furthermore, existing pipelines connecting the two countries can be upgraded and expanded, meaning that Iran could be linked to Europe's pipeline infrastructure. In the end, we believe that rapprochement with Iran will help strengthen Europe's hand vis-à-vis Russia and Turkey, help stabilise our gas supplies, and have a salutary effect in advancing geopolitical stability in our neighbourhood in the process.

WILLEM OOSTERVELD
SIJBREN DE JONG
Strategic analysts
The Hague Centre for Strategic Studies
The Hague, the Netherlands

It's not unusual

Why does Buttonwood (March 28th) dismiss so readily the possibility of a "grand coalition" between Conservatives and Labour after the British election on May 7th? His rationale was that, after Ramsay MacDonald became the only Labour leader to make such a deal in peacetime, he was "reviled in party lore as a class traitor". But a lot has changed since then. The middle class bulge is wider and deeper, and neither main party can gain power without attracting a fair slice of that vote on top of their core support. They are centre-right and centre-left parties.

Germany is now being run perfectly well by its second grand coalition. Anyway, your own recent interactive ("Commons sense", March 26th) showed that Britain has also been run by similar coalitions for 27% of the hundred years since 1915, so they are not as unusual as some commentators suggest.

GEOFFREY WHITEHEAD
Westminster lobby correspondent, 1963-74
Napier, New Zealand

Education, education, edu...

Readers may get the impression that *US News and World Report* encourages colleges and universities to lower their admissions rates ("Top of the class", March 28th). It is a myth that rejecting more students will improve a school's *US News* ranking.

The acceptance rate counts for 1.5% of a school's rank which means that it would take a nearly 40 percentage point drop in the acceptance rate to change a college's position in the rankings. This is virtually impossible. It is important for the higher education community—and especially prospective students—that we clarify this misconception. Schools inflate their applicant pools for various reasons: to meet enrolment goals; to attract more full-pay or international students; or to have a more diverse pool of applicants to choose from. The *US News* rankings is not one of them.

BRIAN KELLY
Editor and chief content officer
US News and World Report
Washington, DC

In 1971 Senator Daniel Patrick Moynihan declared to me that the 1965 law establishing federally guaranteed loans was "a national disaster" that would cause university tuitions "to go out the roof." His forecast was absolutely correct.

Taking full account of inflation, the real price of tuition in almost all American colleges and universities had quadrupled by 2010. As the senator foretold, higher education has become a much more lavish enterprise. Much of the money is spent on non-essential services and other extras that most students could do as well without.

I do, however, confess to my guilt in being responsible for some of what has become known as "the reverse Robin Hood" practice: charging higher tuition to students with limited talents in order to award discounts to those with the most remunerative prospects to attract them to my school. It was my impression, and still is, that the marketplace left me with little discretion in performing that injustice. One could only hope that the results would turn out to be reasonably fair.

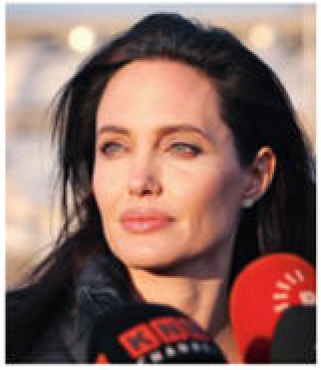
PAUL CARRINGTON
Professor of law emeritus
Duke University
Mitchellville, Maryland

My own university experience at a California State University would seem to bear out some of the observations made in your special report (March 28th). Many—not all—of the professors, as well as the system as a whole, did not appear at all focused on actually educating students, merely funnelling them through the system as expeditiously as possible.

At one point in my senior year I was soundly scolded by my undergraduate counsellor for enrolling in a lower-division course, to make up for a gap in my knowledge base. The counsellor's exact words were: "Your job is to collect your units and get your degree as soon as possible. Taking a lower-division course as a senior is a waste of the university's time and resources." My response was that I was under the impression that my "job" was to get an education. I enrolled in the lower-division course anyway but ended up leaving before getting a degree (the CSU system and I ran out of money at the same time).

LORÉ MCLAREN
Truckee, California

Doing the right thing



As well as being a film actor, Angelina Jolie is the UN special envoy for refugees and a campaigner on women's rights. As such, William Hague was right to identify with her and the campaign against rape in war when he was Britain's foreign secretary ("William, it was really nothing", April 4th). There was nothing "odd" about this. A foreign secretary was able to participate in a grassroots project backed by a high-profile individual. Such engagement gives a boost to humanitarian campaigns. It would be odd not to do so.

VENKAT RAO
Walsall, West Midlands

Crossed wires

Illustrating your article on the translation industry with a photo of what appears to be interpreters at work ("Say what?", February 7th) is a bit like accompanying a piece on self-driving cars with a picture of Jeremy Clarkson behind the wheel. They perform two very distinct functions, just like translators (who write) and interpreters (who speak).

SIRI SJÅVIK
Translator
Oslo, Norway

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

Global Green Growth Institute

Assistant DG
Knowledge Solutions Division (KSD)

The Global Green Growth Institute (GGGI) (**www.gggi.org**) is an international organization dedicated to supporting and promoting strong, inclusive and sustainable economic growth. We assist developing and emerging countries to integrate their ambitions for strong economic performance and environmental sustainability with the goal of achieving poverty reduction, job creation, social inclusion, and climate change action. GGGI is headquartered in Seoul, Republic of Korea.

The Assistant Director-General KSD, *reports to the Director-General and will:*

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United Nations Development Programme (UNDP
Head of Financial Management & Oversight
(P5-Fixed Term Appointment)
Duty Station: Kabul, Afghanistan

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Please visit: http://jobs.undp.org/cj_view_job.cfm?cur_job_id=55514

Interested candidates should submit the application online with UNDP Personal History Form (P.11) by 30th April 2015.

Qualified female candidates are strongly encouraged to apply.

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www.issa.int/jobs

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DIRECTOR

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Please visit: **www.its-arolsen.org/jobs**

The supreme governing body of the ITS (International Tracing Service) is the ITS-International Commission. Its members represent Belgium, France, Germany, Greece, Israel, Italy, Luxembourg, the Netherlands, Poland, the United Kingdom and the United States of America.

DIRECTOR
INDIAN INSTITUTE OF MANAGEMENT (IIM)
ROHTAK, INDIA

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The applicants should arrange to send the Vigilance Clearance/Background Clearance directly from their present organisation to the address mentioned above.

Last date to submit the application: May 15, 2015

Coming down to earth

ZHENGZHOU

Chinese growth is losing altitude. Will it be a soft or hard landing?

WHEN "60 Minutes", an American television news programme, visited a new district in the metropolis of Zhengzhou in 2013, it made it the poster-child for China's property bubble. "We found what they call a ghost city," said Lesley Stahl, the host. "Uninhabited for miles and miles and miles and miles." Two years on, she would not be able to say the same. The empty streets where she stood have a steady stream of cars. Workers saunter out of offices at lunchtime. Laundry hangs in the windows of the subdivisions.

The new district (pictured above), on the eastern side of Zhengzhou, a city of 9m in central China, took off when the provincial and city governments relocated many of their offices there. Then, high schools with university-sized campuses began admitting students, drawing families to the area. Last autumn one of the world's biggest children's hospitals opened, a gleaming facility with cheery colours and 1,100 beds. Chen Jinbo, one of the area's earlier residents, bemoans the lost quiet of a few years ago. "Rush hour is a hassle now."

The success of Zhengzhou's development belies some of the worst fears about China's overinvestment. What appear to be ghost cities can, with the right catalysts and a bit of time, acquire flesh and bones. Yet it also marks a turning-point for the Chinese economy. Zhengzhou still has ambitious plans, not least for a massive logistics hub around its airport. With such a big urban area already built up, though, vast construction projects have a progressively smaller impact on the economy. The city's GDP growth fell to 9.3% last year from an average of more than 13% over the preceding decade. The downward trend will continue. As the capital of Henan, one of the country's poorest provinces, Zhengzhou had anchored the country's last, large, fast-growth frontier. Its maturation signals that the slowing of China's economy is not a cyclical blip but a structural downshift.

When growth flagged in powerful coastal provinces a few years ago, the poorer interior picked up the slack. It was large enough to do so, for a time. Henan and the other inland provinces that have a similar level of income per head have 430m residents, nearly a third of China's total. If they were a sovereign country, they would form the world's seventh-biggest economy, ahead of both Brazil and India. The far west is China's final underdeveloped region but it carries much less weight: it makes up less than a tenth of the national population.

So the question for China is not whether growth will rebound to anything like the double-digit pace of the past. Instead, it is whether its slowdown will be a gradual descent—a little bumpy at times but free from crisis—or a sudden, dangerous lurch lower. Figures released on April 15th revealed a further loss of altitude: GDP in the first quarter grew by 7% from a year earlier, the lowest since the depths of the global financial crisis in early 2009. Signs of stress are emerging: capital is leaving the country, public finances are more stretched and bad debts are rising.

Yet that is not the full story. China also has impressive underlying strengths and a new determination to fix its most harmful distortions. "Growth will keep on declining," says Xiang Songzuo, chief economist with Agricultural Bank of China, a state-owned lender. "Our main wish is that the decline go smoothly."

Storm warning

The darkest cloud over China is its property market. Factoring in its impact from steel to furniture, it has powered nearly a fifth of the economy. Now, it is set to subtract from growth. House prices have fallen by 6% over the past year, the steepest drop since records began. It is not the first time that the property market has looked fragile, but previous dips were driven by deliberate policies to cool the market. In recent months, it has been the opposite: demand has failed to respond to a series of boosts such as cheaper mortgage rates. This has prompted predictions of a coming crash.

Problems are real but such disaster warnings rest on a misdiagnosis. The oft-heard idea that China is sitting on mountains of unsold homes is an exaggeration. Those making this claim point to the gap between property sales and construction. Sales of residential housing last year were 20% higher than they were in 2009, but projects under way have more than doubled since then, according to official data. If true, it would take five years to consume the pipeline of homes being built, up from ▶▶

three before the global financial crisis.

But many of those projects are in fact little more than holes in the ground. Some have been halted for a lack of funds, others because developers want to wait to sell into a stronger market. The evidence for this is actual construction activity, indicated by property completions as well as cement production (see chart 1). These are a much closer fit with sales. It will take 16 months to clear China's inventory of new homes at the current sales rate, up from ten months when the market was in better shape, according to E-House, a property consultancy. This points to a deterioration but hardly a nightmare.

That China's property market is not about to collapse under the weight of oversupply is good. The bad news is that its growth is stalling. The housing sector started to take off early this century after the government allowed ownership of private property. Mass migration to cities added to demand; China's urbanisation rate has more than doubled to 55% today from 26% in 1990. Both these factors are fading. Many Chinese have already upgraded to snazzier flats than their original state-issued boxes. And the pace of urbanisation is slowing.

Many analysts now expect housing sales, which have reached about 10m units annually, to start falling soon. There will still be homes aplenty to build but fewer with each passing year. Those who were over-optimistic about the longevity of the boom are paying a price. Chinese steelmakers had created capacity for 1.2 billion tonnes a year. The 820m tonnes produced last year may well be the top.

Property is thus turning from a driver into a drag for the Chinese economy. Wang Tao of UBS, a bank, estimates that every ten percentage-point drop in construction growth cuts as much as three percentage points off GDP. She forecasts a deceleration of about half that pace this year.

The more sedate reality is sinking in. In the south of Henan province, the county of Gushi had wanted to expand its central city to reach a population of 1.2m, from 500,000 now. Construction work is feverish. The clang of hammers and the growl of diggers reverberate throughout its streets. But with housing sales failing to meet expectations, Gushi has lowered its sights. It is aiming instead for a population of 800,000. Muddy fields on the outskirts that had been zoned for development seem destined to remain untouched.

Dragged down by debt

One way China could rekindle its property market is by using its banks to pump cash into the economy, as it did in 2008 when the global financial crisis struck. Yet that would be a dreadful mistake. Officials have their hands full already trying to deal with the legacy of the previous lending binge. Total debt has surged, rising from about 150% of GDP in 2008 to more than 250% today (see chart 2). Increases of smaller magnitudes were precursors to financial turmoil in Japan in the 1990s and much of the West over the past decade.

Home truths 1

China's:
February 2006=100

Source: Thomson Reuters

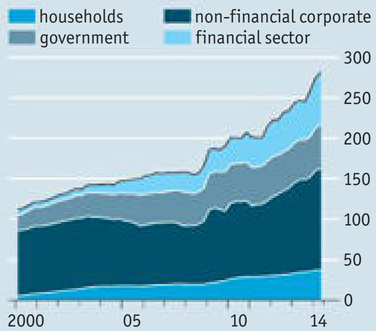
With debt clogging up the economy's gears, Chinese lending has grown less potent. In the six years before the financial crisis, each yuan of new credit resulted in about five yuan of economic output. In the six years since the crisis, each yuan of credit has yielded three of output. Banks report that a mere 1.25% of their assets have soured, but investors price their shares as if the true number is closer to 10%. Within banks themselves, there is distrust. "The headquarters don't believe the provinces," says a credit officer with a major lender.

Until recently China could grow its way out of debt trouble. That is no longer an option. With deflation arriving and the economy weakening, nominal growth is a third as fast as a few years earlier. In the year to the first quarter of 2015, nominal GDP grew by only 5.8%. The financial system is also far more complex than it was in the late 1990s, the last time China had a surge in bad debts. State-owned banks accounted for almost all lending back then. Since the financial crisis their share has fallen to less than two-thirds. Loosely regulated "shadow banks" make up much of the rest.

But there is no ironclad law that a big rise in debt must result in crisis. Much depends on how liabilities are managed. China has several advantages. The vast majority of its debts are held at home. In many cases both debtors and creditors answer to the same master, the government. A state-owned bank is not about to call in a loan from a state-owned shipbuilder. This buys it time to sort out the mess. Debts are also concentrated. Households have not borrowed much, nor has the central government. The main culprits are local governments and a relatively narrow group of companies: state-owned enterprises, property developers and construction firms.

Redder China 2

Chinese debt, % of GDP, from:



Source: McKinsey

China's defences are now being tested by the prospect of the first big default in its property sector. Kaisa, a developer embroiled in a corruption case, is in negotiations with bondholders to restructure its debt. So far there has been no contagion throughout the financial industry. Investors have come to the same conclusion as Moody's, a ratings agency: it is an isolated case, not symptomatic of systemic risks.

In that respect, China's debt problem is similar to its property malaise. An acute crisis is unlikely, but the prognosis is still bleak. Credit growth has fallen below 15% year-on-year, down by more than a quarter from the average of the past decade. But since nominal growth is even slower, China's debt-to-GDP level continues to rise. Lending will thus have to slow yet further, one more dark cloud over the horizon.

Back-up power

Reporting about China's economy sometimes gives the impression that it is one giant credit-fuelled property bubble. Were that true, the twin slowdowns in construction and lending would be enough to wrestle growth down to the low single digits, perhaps even into recession—a scenario touted for years by the most bearish analysts. China's downturn still has a way to run but such pessimism has consistently been wide of the mark. A simple, if underappreciated, reason is that it is a continent-sized economy, with a lot more going for it than one or two industries. And although the days of explosive catch-up growth are over now that China has gained middle-income status, it has scope for more moderate catch-up. Its per-capita GDP at purchasing-power parity is $12,000, not quite two-thirds that of Turkey and barely a third of South Korea's.

A much-needed shift towards consumption-led growth is just getting under way. Investment accounts for 50% of economic output, well beyond what even Japan and South Korea registered in their most intensive growth phases. Without rebalancing, overcapacity in industry would only get more severe, further undermining the return on capital. At last, there are glimmers of hope. Investment growth has halved in recent years but consumption growth has held steady; in future, as Chi-


MODERN
HEALTH CARE WORKS BETTER
THE MORE PIECES WE
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na's growth slows, consumption should contribute a bigger share of it (see chart 3).

This is in part testament to the government's progress in constructing a social safety net. Health insurance, old-age benefits and free schooling, though works in progress, appear to have helped check the remarkable propensity of Chinese to save. At 40% of income, the household savings rate has stopped rising in recent years.

Still more important is a change in economic structure. Services took over from industry a couple of years ago as the biggest part of China's economy, and the gap has widened. Last year services accounted for 48.2% of output; industry's share was down to 42.6%. Services are more labour-intensive, which brings two benefits. First, China is now able to generate many more jobs at lower levels of growth. Though growth dipped to its slowest in more than two decades last year, China created 13.2m new urban jobs, an all-time high. Second, the strong jobs market has allowed wages to keep on rising at a steady clip, a prerequisite for getting people to consume more.

Even in Gushi, a county officially classified as impoverished, people throng to clothing stores, beauty parlours and the town's one foreign restaurant (a KFC). Like many there, Zhang Youling, 43, spent much of his adult life away, going to where the jobs were. He worked as a builder in Beijing, a courier in Shanghai and an ice-cream wholesaler in Zhengzhou before returning to Gushi to be with his wife and two children. For the coming summer, he has set aside 6,000 yuan ($970) to take them to Beijing on holiday. "We used to save everything. These days we have the confidence to spend some of what we earn," he says.

Changing course

It would be complacent to expect that rebalancing alone will spare China from trouble. Surging debt and property overinvestment stem from flaws in the economy's foundations. Regulations constrain investment options, making property one of the few viable assets; this drives up house prices. Local governments have limited tax powers, and so rely on land sales; this leads to more property development. The belief that the central government will always prop up cities induces banks to lend with little regard for creditworthiness; this heaps bad debt onto the economy.

These interlinked problems were easily ignored while growth surged ahead. Now the government can avoid them no longer. It is trying three kinds of reform.

The first is financial liberalisation. Monetary policy is virtually unrecognisable from five years earlier, when the central bank controlled all key interest rates. Funding costs throughout the economy are now more market-based. Banks compete for deposits with an array of investment products; households place 30% of their savings in bank-account substitutes, up from 5% in 2009. Official deposit rates are still fixed, but regulators have given banks flexibility (currently, a 2.5-3.25% range) and hint at full liberalisation within a year.

The government has also relaxed capital controls. Companies previously needed approval for overseas investments above $100m; late last year the threshold was raised to $1 billion. In recent months, capital outflows have surged. Some say this is because Chinese are losing faith in their country. Regulators are far more sanguine, pointing to it as a sign of a better-balanced economy. The alternative—trapping money in China at artificially low interest rates and encouraging wasteful investment—was bound to be more destructive.

The second area for reform is fiscal, a push that has just begun. The problem is that municipalities have too many spending obligations and not enough revenue. The central government will provide more funding and give local governments new taxation powers. Under a revised budget law, all provinces are, for the first time, allowed to issue bonds, albeit subject to central approval. The finance ministry has also started to mop up their debts; it plans to restructure 1 trillion yuan of liabilities.

Bureaucratic reforms are the third focus. Here, progress has been uneven. Changes to the household-registration system, or *hukou*, to allow rural citizens to settle in big cities have been halting. More is needed to make for a healthier labour market. China has also disappointed those hoping for bold reforms of sluggish state-owned enterprises, but smaller shifts may help. By injecting assets from unlisted state parents into listed subsidiaries, groups such as Citic will face closer market scrutiny. At the same time, the government is loosening its grip on other important levers. It has simplified the process for registering new companies. Entrepreneurs can now, for instance, use non-cash assets as capital. They created some 3.6m firms last year, up by nearly 50% from 2013.

Reforms are themselves generating new risks. A bull run in the stockmarket over the past six months is beginning to resemble the asset bubbles that often arise when countries plunge into financial liberalisation. But keeping the previous economic system in place would be more dangerous. It would make growth faster in the short term but at the cost of ever more debt, heightening the risk of an eventual crash. Taken together, the policy shifts should smooth China's transition to slower but more resilient growth.

The transition will take time. For now, investment still accounts for half the economy. In Zhengzhou, a layer of construction dust covers much of the city's southern half. Along with building a vast new airport terminal, workers are digging tunnels for five new subway lines. Traffic is snarled for hours in the evening as trucks haul pillars into place for elevated highways. The pressing concern for residents stuck in the congestion is not economic collapse but rather the continued headaches of growth, even if it is a little weaker than last year. ■

Jam today in Zhengzhou

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Marco Rubio

Young, gifted and not Barack

MIAMI

The Republican presidential field grows more crowded and more impressive

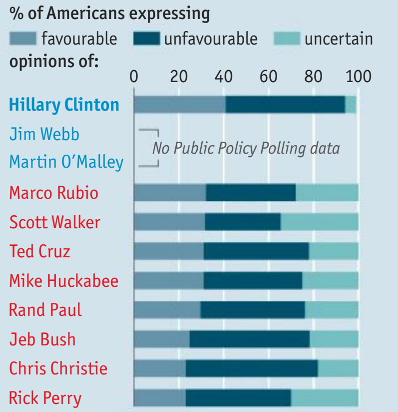
AFTER Marco Rubio stood down as Speaker of the Florida legislature, he taught classes on the 2008 presidential election, among other things, at Florida International University. "He was fascinated by Barack Obama's campaign," says Dario Moreno, a political scientist who also taught there. "He thinks that changes to the economy, generational changes, mean that people are less attached to political parties now and that political realignments can happen more quickly."

This is a thesis that the Republican primaries ought to test. Mr Rubio, now a senator, joined the fray with a stirring speech in Miami on April 13th. He casts himself as a candidate of change, not only of generation (he is only 43) but also of ideas. Republican presidential wannabes divide into two camps: those who think the party can win by sticking to its guns and those who think it needs to broaden its appeal. The first group includes Scott Walker, the governor of Wisconsin, Ted Cruz, a Texan senator, Mike Huckabee, a governor turned TV host, and a few others. The second group currently consists of Rand Paul, a senator from Kentucky, Jeb Bush, a former governor of Florida and Senator Rubio. Rick Perry and Chris Christie, one a former governor and the other a current one, have yet to commit to either side.

The idea that a Republican could win without becoming more appealing to minority voters was disproved in 2012. Mitt Romney ran up a record score with non-Hispanic white voters, yet still lost. Both Mr Romney and John McCain, the party's nominee in 2008, would have been president if they had faced the same (largely lily-white) electorate as Ronald Reagan did in 1980, says Whit Ayres, a Republican pollster. And Hillary Clinton, the probable Democratic nominee, is unlikely to do as badly with white voters as Mr Obama did.

To win, a Republican candidate will have to appeal to more non-whites. Mr Rubio, the son of humble Cuban émigrés, won 55% of the Hispanic vote in Florida in 2010. (Mr Romney in 2012 won just 27% nationally and 39% in Florida.) Turnout among non-whites will be higher in a presidential year than it was in 2010. But Mr Rubio has already begun his pitch. "*En este pais, ustedes van a poder lograr todas las cosas que nosotros no pudimos*," he said at the campaign launch, quoting his father. "In this country, you will be able to achieve all the things we never could."

Chasing Hillary
Possible presidential candidates



Source: Public Policy Polling, March 26th-31st 2015

Online timelines: Hillary Clinton **Economist.com/hillary15**
Candidate announcements **Economist.com/hatthrow15**

No candidate can be too bold faced with the party's primary voters, a group dominated by fired-up conservatives. But Mr Rubio is more willing than most to tell his party uncomfortable truths. His first act as a candidate was to sit for an interview on Fox News in which he defended, with caveats, immigration reform and government safety nets. By the standards of today's Republican Party, this is bold stuff. It might help him in a general election: early polls, for what they are worth, suggest that some voters like it (see chart).

Mr Rubio talks about the working poor, a subject many Republicans avoid in case it leads to a debate about inequality. As a senator he has put forward a list of proposals that blend conservative orthodoxies like repealing Obamacare with some more surprising policies. These include extending tax credits for unmarried workers to boost the wages of struggling men, and more modest cuts to income tax than those favoured by many other Republicans. In 2013 he backed the Senate's comprehensive immigration bill, though he later disowned this vote. His initial boldness made him a target for his own side: at one point fabricated stories circulated claiming that the bill would give free mobile phones (dubbed "Marcophones") to people on the Mexican side of the border.

Since joining the Senate Foreign Affairs Committee he has taken predictable positions on foreign policy, opposing the president at every turn. His instincts are hawkish: defence and military veterans are the two areas protected in the spending plans he has sketched out, and like Hillary Clinton he was an early advocate of arming rebel groups in Syria. He argues against normalising relations with Cuba (which the White House said it would remove from a list of state sponsors of terrorism on April 14th), on the ground that this will legitimise ▸▸

a dictatorship. Most Cuban Americans arrived after 1980 and disagree: they have no desire to see their relatives on the island suffer under sanctions.

On Iran he is similarly confrontational: he argues that the nuclear deal (see page 30) will give that country relief from sanctions without preventing it from getting a bomb. But his thinking may be more nuanced than these positions suggest. Mr Moreno says that in the class he taught in Florida Mr Rubio came across as a "James Baker, George H.W. Bush sort of Republican": ie, one who prefers multilateralism to going it alone.

Before moving to Washington Mr Rubio spent nine years in the statehouse in Tallahassee, ending up as Speaker. There he pursued a conventionally conservative agenda, pushing to abandon taxes on property and replace them with a higher sales tax. Dan Gelber, leader of the Democratic caucus in Tallahassee while Mr Rubio led the Republicans, disliked his ideas ("His poetics are rather different from his policies"), but found him accessible and pleasant to deal with.

The biggest doubts about Mr Rubio's candidacy are his youth—he is even younger than Barack Obama was in 2007—and the continued existence of Jeb Bush, who has first call on the loyalty of Florida's perma-tanned GOP establishment. Yet these weaknesses could look different at the end of a long campaign, by which time being called neither Clinton nor Bush could turn out to be an advantage. ■

The Clinton campaign

Mystery machine

MONTICELLO

A political megastar goes low-key

OLD businesses find it hard to redefine their brands. The task is not much easier for politicians. On April 14th Hillary Clinton held her first campaign event since announcing that she is running for president. It was at a community college in Monticello, a town of 3,800 people in Iowa. The idea was to appear modest and low-key—to make out that she is just like any other politician trying to earn an honest vote. Yet as scores of journalists (and a few protesters and supporters) sprinted across the grass outside the college in the hope of capturing a glimpse of her, the difficulties of this rebranding were apparent.

Unlike the three Republicans who have declared so far (Marco Rubio, Rand Paul and Ted Cruz), she declined to hold a rally to kick off her campaign. Instead, the former secretary of state tweeted and then uploaded a short video to a new website, in which she appeared with several Iowans who talked about their dreams for the future. Mrs Clinton's team then announced that rather than taking a private jet, she would drive to Iowa from New York in a van called "Scooby" after the children's cartoon "Scooby-Doo". (Her husband presumably plays the role of Shaggy.) In this van she arrived in Monticello, along with two cars of Secret Service agents.

I'm a celebrity, get me out of here

After years of jet-setting, courting wealthy donors and giving $300,000 speeches, Mrs Clinton worries that she may be perceived as elitist. Smaller events, like these in Iowa, from which the press are largely excluded and at which carefully vetted regular folks are allowed to speak, help her to soften that impression. In Monticello, Mrs Clinton spoke of becoming a grandmother, of her parents' work ethic and of her days at university. Her time as First Lady, senator and secretary of state barely came up.

This strategy is crucial in Iowa, where Mrs Clinton has an unhappy history. In the state's Democratic caucuses in 2008, she was humiliated, beaten not just by Barack Obama but also by John Edwards, a former senator later brought low by the revelation that he had cheated on his wife while she had cancer. Mrs Clinton's campaign then was widely seen as too grand for Iowan Democrats, who are used to meeting presidential candidates face-to-face. Some still complain about how she arrived in a helicopter and immediately staged big rallies. "This time she has even hired an Iowan for her work in Iowa," marvels Ryan Crane, an activist based in Des Moines who supported John Edwards in 2008.

This show is necessary partly because Mrs Clinton faces no serious competition for the Democratic nomination. Her two most likely challengers are Martin O'Malley, a former governor of Maryland, and Jim Webb, a former Virginia senator. Mr O'Malley will run as an economic populist, despite his centrist record as governor. Mr Webb is a gruff war hero who rails against inequality and foreign wars. Both men are hampered by the fact that Iowans would struggle to recognise them in the street (see chart on previous page).

Mrs Clinton is thus working hard for votes that she seems assured of getting in almost any circumstances. She has the luxury of starting slowly because, being so far ahead of her challengers, she does not need to say much. Instead, she can make a show of acting as if she is not a political superstar and still be guaranteed attention. Before she arrived in Iowa, TV stations expended a vast amount of energy reporting on her choice of lunch at a roadside burrito restaurant in Ohio (where she put so little effort into bonding with ordinary Americans that the manager did not realise she had passed through until he was tipped off and checked the security camera).

Have yourself a Scooby snack

In Monticello Mrs Clinton revealed that one of her aims as president would be to get "unaccountable money" out of politics "once and for all, even if that takes a constitutional amendment". Since constitutional amendments are nearly impossible, this is not much of a promise. She also spoke blandly but intelligently about inequality and education. Being the elder stateswoman of the Democratic Party means she can perhaps afford to be dull. As she drives around in Scooby, there is no sign yet of any meddling kids who can stop her. ■

Correction: In a leader last week ("What does Hillary stand for?" April 11th), we said that Paddy Power gave Mrs Clinton an improbable 91% chance of capturing the White House in 2016. In fact the Irish bookmaker offers much more plausible odds of about 48%. Sorry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Deepwater Horizon

Double, double, oil and trouble

NEW ORLEANS

What America has learned from its largest-ever spill

ON APRIL 20th it will be five years since BP's Deepwater Horizon oil rig exploded, killing 11 men and unleashing more than 100m gallons of oil into the Gulf of Mexico. BP has set aside $42 billion to pay fines, compensate victims and clean up the sea and the coastline. That is a staggering sum—enough to fund England's National Health Service for three months. And the final bill could be even higher.

In February a federal judge rejected BP's plea that its fines under the Clean Water Act should be limited to $9.57 billion, ruling that $13.7 billion would be more appropriate. In addition, trustees from federal agencies, the affected states (Alabama, Louisiana, Mississippi, Florida and Texas) and Indian tribes are overseeing a "Natural Resource Damage Assessment" (NRDA) to determine how much damage has been done and what BP must pay to clean it up. It would suit the government if those estimates turned out to be high. Politically, BP is an easy target. It is an oil firm. It is foreign. And it has genuinely messed up. Plus, the government gets to spend some of the moolah. Small wonder the early official estimates of damage differ from BP's.

A recent report from the oil giant finds that the available data do not indicate "a significant long-term impact to [*sic*] the population of any Gulf species." Shrimp harvests are up. Sea-birds are breeding much as before. As early as August 2010, less than 2% of water samples showed more oil-related chemicals than the Environmental Protection Agency deems safe for marine life. "The few areas where there were potentially harmful exposures were limited in space and time, mostly in the area very close to the wellhead during the spring and summer of 2010," says BP.

Trustees compiling the NRDA retort that BP "misinterprets and misapplies data". Ben Sherman of the National Oceanic and Atmospheric Administration (NOAA), which advises the Coast Guard on scientific issues, says it is too soon to assess the damage. The effects of oil remnants on the Gulf bottom, the shoreline and deepwater corals are disputed, as is the extent to which the accident drove away tourists.

The firm has so far spent about $12 billion to settle some 300,000 private claims. Some of these were fraudulent. BP says it has paid out more than $500m to people with bogus or exaggerated claims, such as a phone shop that burned down before the spill. It is unlikely to recover much of this.

Nonetheless, green groups say BP has got off lightly. The National Wildlife Federation (NWF) asserts that dead Bottlenose dolphins were found on the Louisiana coast last year at four times historic rates. They have been dying in unusually high numbers since 2010; some studies blame the oil. Brown pelicans seem to be suffering too; models and carcass counts suggests that 12% of the local population died in the spill's aftermath. (Although estimates of pelican deaths may have been high because more people than ever before were counting the bodies.) Other research concludes that sperm whales, acrobat ants and bluefin tuna have suffered.

A huge pot of money

Some practical lessons have been learned. The environmental effects of spraying 1.84m gallons of dispersants are becoming clearer and leading to new regulation. They prevented the formation of an oil slick after the explosion (by breaking down the oil into droplets on the water's surface). However, a new study suggests that one dispersant harms epithelial cells, found in human lungs and fish gills. Responders who helped in the explosion's aftermath may have suffered burning lungs and coughing bouts as a result. Other scientists discovered compounds from dispersants in the eggs of white pelicans at nesting sites in Minnesota and Illinois.

The disaster spurred technological progress. After it, NOAA and the University of New Hampshire developed a geospatial reference system. Accessible to all online, the Environmental Response Management Application mapped the site of the rig in the Gulf, ocean currents, ship positions and the movement of oil. This made dealing with the disaster easier. Doug Helton of NOAA calls it "a huge success"—the site had more than 3m hits on the day it went live in June 2010. Now it can also depict areas in the Arctic, the Caribbean and the Great Lakes—just in case.

On April 13th the Obama administration unveiled tough new safety requirements for blowout preventers. These are the valves that seal drill pipes to prevent explosions—a precaution that conspicuously failed on the Deepwater Horizon. The federal government raised standards for well-casings five years ago and on the cementing of wells two years after that. Bethany Kraft of the Ocean Conservancy, a green group, worries that drilling technology develops more quickly than people's ability to respond. But Mr Helton argues that America is "much better prepared" for another spill. More than 100,000 people helped out after Deepwater Horizon, and their memories are still fresh.

The huge penalties inflicted on BP could deter future negligence. But they could also deter investment in America. They feed the perception that its legal system poses as serious a political risk to multinationals as anything they might encounter in emerging markets—Deepwater Horizon cost BP far more than sanctions on Russia over the invasion of Ukraine, for example. And lawyers note that the efforts BP made to take full responsibility and compensate victims quickly counted for nothing in court. In the future, oil firms may fight harder. ■

A tragedy and its aftermath

Young Mormon women

Gospel v gown

SALT LAKE CITY

More Mormon women are going on missions. Fewer may go to university

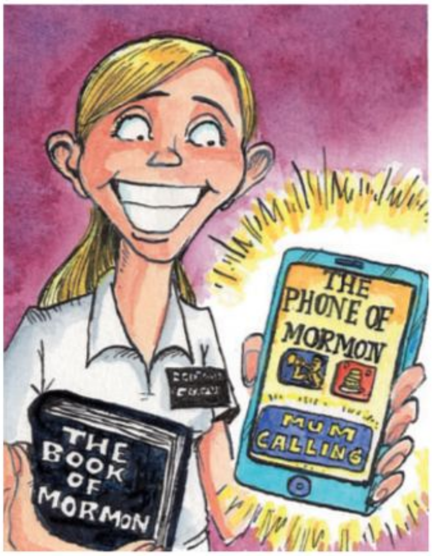
KAITLYN BOURNE, a 21-year-old student from Salt Lake City, Utah, recently returned from 18 months as a Mormon missionary in Atlanta, Georgia. Before going on her mission, she was studying a pre-medicine undergraduate degree at the University of Utah with a full scholarship. But when the Mormon church lowered the age at which young women can go on missions from 21 to 19 at the end of 2012, the idea of going consumed her. "It was a huge commitment, a really hard decision," she says. "But after months of prayer and thinking about it, I realised I had to do it."

Ms Bourne's decision was hard—she had to give up her scholarship. Since returning, she has made plans to go back to university, but instead of resuming her pre-medicine course, she plans to study music at the Hawaii branch of Brigham Young, a Mormon university. Such decisions concern many Utahns. In seeking to expand spiritual opportunities for women, they fear that the Church of Jesus Christ of Latter-day Saints may be inadvertently reducing academic ones.

The drive to include more female missionaries comes as many young Mormons are finding mission work hard to stomach. Missionaries are not allowed to contact home often—a huge challenge for those who grew up with iPhones glued to their palms.

In 2007 just 13% of serving Mormon missionaries were single women. By last year that had jumped to 28%—an increase of roughly 18,000 women. Since missionaries have to pay many of their expenses themselves, they eat into savings that might otherwise be used to pay for college. More important, they eat into time. Christine Durham, an associate justice on Utah's Supreme Court, worries that by the time young women return from missions, they will be ready to marry, and then within marriage, husbands' education rather than wives' will tend to take priority.

The Mormon church promotes marriage as the perfect state of being and forbids sex outside it. The average woman in Utah, where Mormons are 60% of the population, marries at 24, younger than the national average of 27. The state also has the highest birth rate in America. The church stresses that women should be educated, but in practice combining children with full-time study is tricky. Some 70% of Utahn women start college, more than nationally, but less than 50% finish.



The result is that whereas in most of America women are more likely than men to have a degree, in Utah the opposite is true. The gap is particularly striking when it comes to higher degrees: just 8% of Utahn women between the ages of 25 to 64 have a master's, doctoral or professional degree, a third less than the national figure. This gap shows itself in the workplace, too. The average woman in Utah earns 70% as much as the average man; across America, the figure is 78%.

It is too early to say whether the change in mission rules will affect female graduation rates. But since it was enacted, the number of young women studying at Brigham Young University has plummeted. In 2012, 14,500 female undergraduates were enrolled, almost as many as men. By 2014 that had fallen to 12,000. Whereas in the 1990s women made up 53% of undergraduates at the university, they are now just 45%. Academics are worried.

Perhaps the best hope is that one step back can help Mormon women take two forward. Ms Bourne says that while the decision was tough, "It was the best I ever made." Julie Roberts, a 24-year-old who went on a mission to Kentucky, says that she too treasures the experience. Both argue that missionary work has made them surer of their faith and their independence. Justice Durham says that despite her concerns, sending women on missions may make them more forceful when they return. Maybe they will insist on marriages that are less bruising to their career chances. ■

Busking in the digital age

Cops and rockers

NEW YORK

Buskers learn to cope with officious cops and cashless commuters

IN THE wee hours one weekend last autumn, a cop tried to evict Andrew Kalleen from his favourite busking spot in the subway. He refused to budge, citing a transit rule that allows "artistic performances, including the acceptance of donations". The cop read the rule off a mobile phone, but interpreted it differently. More police arrived. They took Mr Kalleen's guitar, pushed him against a wall and collared him. A video of the arrest went viral. The charges were eventually dropped. Mr Kalleen is suing.

Busking has not been a crime on New York city's streets since 1970. In 1985 a New York court ruled that banning subway music was unconstitutional, too. Yet some police still think buskers need a permit. Matthew Christian, a violinist, started a group called BuskNY after he was arrested, in the hope of stopping future wrongful arrests of buskers. Since early 2014 buskers have seen an uptick in harassment by police, Mr Christian says.

Another problem for them is that people are carrying less cash. "People actually apologise for not having money," says Bryan Wilson, a cellist with "You Bred Raptors?", a "prehistoric post-rock" busking band. This may be about to

Fiddling is not a crime

change. The Busking Project, an advocacy group, has created a digital toolkit to let performers accept cashless payments. It is early days, but people are donating between $3 and $20 and—crucially—staying in touch afterwards. The project is also developing an app that would allow customers to buy a performer's music from their phones. (This may not work in the subway until it has better Wi-Fi.) Above ground, one enthusiastic listener at Grand Central Station recently gave $100 to "You Bred Raptors?". He also bought some CDs, which he shared with fellow straphangers. The music rocked.

Implants and IUDs

Taking the bother out of birth control

Family planning is easier if you don't have to think about it

AMERICA'S teenage-pregnancy rate is seven times higher than Switzerland's (see chart 1). About 50 in 1,000 American women aged 15-19 get pregnant each year, of whom 60% give birth. Teenage pregnancy has been falling in all states, as more young people use contraception. But only 7% of those use the most effective methods, which include hormonal implants (tiny rods inserted under the skin) and intrauterine devices (IUDs), according to data from publicly funded clinics in 2013 published by the Centres for Disease Control on April 10th. In many other countries, these long-acting contraceptives are far more popular (see chart 2)—though this is partly because older Americans are more likely to have themselves sterilised.

Four in ten unplanned pregnancies in America result from the slapdash use of contraception. Many of these could be averted by IUDs. Their failure rate is 0.2%, compared with 9% for the pill and 18% for condoms, the two most popular methods among teenagers. They work better because once they are inserted, you don't have to think about them again. This means they are less fiddly than the pill, which a woman must remember to take every day, or the condom, which a man must put on when aroused and perhaps not thinking straight.

Implants and IUDs "change the default", argues Isabel Sawhill in "Generation Unbound". A woman who uses one is "virtually infertile until such time as she explicitly [chooses] to become a mother". By contrast many women today, especially in poor families, drift into motherhood. In one survey 44% of young American women agreed that "It doesn't matter whether you use birth control or not; when it is your time to get pregnant it will happen."

Long-acting contraceptives cost more to begin with: $800-1,000 apiece. But they work out cheaper over time, since they last for three to ten years. They are covered by Medicaid, the public health scheme for the cash-strapped, but in some states the rules make it tricky for providers to get reimbursed. Since 2013 Obamacare has required private insurers to cover all FDA-approved contraceptives, with exemptions for old policies that have been grandfathered into the new system.

The main obstacle is not cost but knowledge. A survey last year by the National Campaign to Prevent Teen and Unplanned Pregnancy found that 77% of

This wasn't part of the plan

Americans aged 18-45 knew "little or nothing" about implants; 68% said the same about IUDs (one in four do not know where the IUD goes). Misperceptions about safety and efficacy are common, too. Teenagers rarely ask for coils or implants.

Even medical providers are often unaware of guidelines that recommend IUDs and implants as the "first-line" methods for teenagers—meaning that providers should mention them first, before the less effective options. In 2011 a survey found that, in nearly half of publicly funded clinics that provide contraceptives, staff worried that IUDs might not be suitable for teenagers.

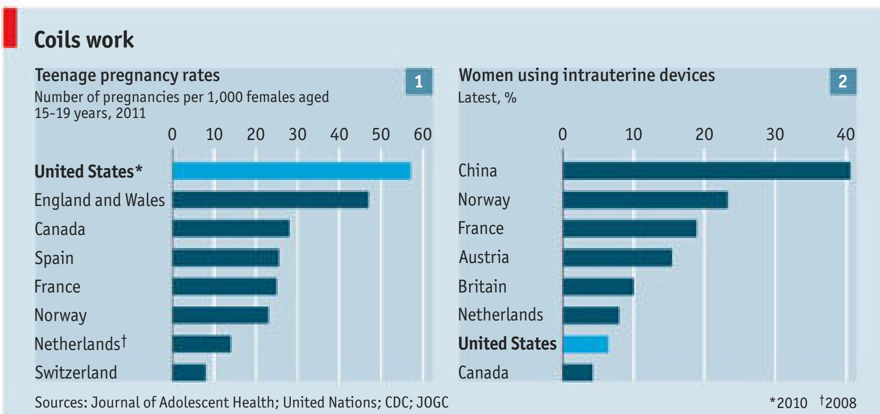
Some of the mistrust has stemmed from the debacle of the Dalkon Shield, a flawed IUD that caused some infections. It was pulled from the market in the 1970s and its maker was bankrupted by hundreds of thousands of lawsuits. The bad rap that created for the IUD lingered, even as devices became very safe.

Both manufacturers and doctors are terrified of lawsuits in America. Contraceptives are especially likely to provoke them, since they are given to healthy people who, if they later fall ill, may call a lawyer. (This is also why obstetricians pay such sky-high malpractice-insurance rates—as much as $200,000 per doctor, per year in some parts of America.) Wary manufacturers of IUDs have been slow to push into the American market. But that is changing: there is now more advertising, new IUD brands are coming onto the market, and IUDs are becoming more popular.

Many providers are not trained to insert IUDs and implants. This is especially the case among paediatricians, the doctors whom many teenagers approach first, and primary-care providers, who look after women in public clinics.

Some states are promoting IUDs more vigorously than others. In Colorado in 2009 a private foundation started paying both for IUDs and implants in public clinics and for training the staff who provide them. Within two years teenage births fell by 26% and abortions by 34% (both were down in other age groups, too). Teenage births were six times more common among the poor when the programme began, so this led to a reduction of the number of young mothers claiming benefits for unplanned babies. The state saved over $6 for each dollar spent on the programme—excluding the gains to women who finished high school instead of dropping out to care for a child. The state Senate is now mulling a bill to extend the programme. Similar ones in Iowa and Missouri have also shown good results.

Helping teenagers who give birth once to avoid doing it again soon can pay off, too. In another Colorado programme, less than 3% of youngsters who opted for a free implant shortly after giving birth got pregnant again within a year (all of these had had the implant removed), compared with 20% of those who did not. After two years, the figures were 8% and 47%. ■



Lexington | The man with a plan for Iran

If Barack Obama's nuclear deal sticks, thank Senator Bob Corker

THE Chattanooga Rotary Club, a hub for good works in Tennessee's fourth-largest city, had a busy start to April. At their lunch meeting on April 9th members paid tribute to a deceased colleague and discussed a school tennis contest that they sponsor. Then came a briefing from Senator Bob Corker, the Republican chairman of the Senate Foreign Relations Committee, about Iran's suspected nuclear-weapons programme, diplomatic efforts to constrain it and the very large bombs that America has built to drop on Iranian bunkers if all else fails.

Mr Corker, who was mayor of Chattanooga before being elected to the Senate in 2006, acknowledged a certain incongruity. A multi-millionaire businessman (he began his career adding drive-in windows to burger bars and ended up building shopping centres in 18 states), he normally talks taxes and spending to Rotarians. But the softly drawling 62-year-old has spent weeks at the centre of a geopolitical drama, leading a push to give Congress a say over American nuclear diplomacy with Iran. The task required overcoming years of painful history between the main actors, involving mutual distrust, fiery bombast and paranoia (but enough about Barack Obama's relations with Congress).

On April 14th Mr Corker pulled off a rare victory for bipartisan compromise: a unanimous vote in his committee backing a bill that gives Congress at least 30 days to review a final accord with Iran, and the right to approve the lifting of those sanctions on Iran that Congress originally imposed. The White House stepped back from threats of a presidential veto. Republican hawks held their fire on amendments designed to blow up the deal.

How did Mr Corker do it? People believe that he is sincerely trying to keep party politics out of foreign policy. A change in the committee's leadership helped, too: Bob Menendez, a Democratic hawk, was indicted for unrelated corruption and has temporarily stepped aside. A figure close to the talks calls Mr Corker "straightforward". The same source concedes that growling from Congress was useful during months of nuclear wrangling, with officials from America and Iran comparing notes about who faced greater pressure back home. Yet the White House hated Mr Corker's bill as first drafted, saying that it might become a vehicle for senators determined to undermine the nuclear talks.

Mr Corker is a fan of transparency. He offered Chattanooga Rotarians a briefing full of wonkish detail, down to centrifuge statistics, specific Iranian nuclear sites and their vulnerability to bunker-busting munitions (he skipped the classified bits). His candour extends to admitting that neither party has a monopoly on wisdom. Mr Corker described a world full of dangers, from the Middle East to Ukraine and the seas of South-East Asia. Unlike many Republicans, he did not seek to blame that entirely on Mr Obama. Indeed, responding to a question about turmoil in the Middle East, he noted that it predates this presidency. He told the crowd that by invading Iraq in 2003 "we took a big stick and beat a hornets' nest", unleashing regional and sectarian rivalries that may take decades to resolve. That is common sense, but not all politicians are as honest.

In Chattanooga the approach works. The Rotarians were a mostly conservative crowd, with little love for Mr Obama. Yet rather than wanting their senator to fight the president at every turn, there was much talk of trusting Mr Corker. Several Rotarians independently volunteered that Tennessee has a history of sending pragmatic "statesmen" to the Senate.

There is pride, too, at all the attention being paid to their former mayor, even if some coverage rings false. The meeting laughed at a *Washington Post* report read aloud by its moderator, calling the senator "mild-mannered". Chattanooga prefers such terms as single-minded and driven. A close local ally says of the senator—more or less in the same breath—"I love him" and "I have never known any human being like him in my entire life. He is a crazy man." This, it turns out, is a compliment. Throughout his career, the ally explains, Mr Corker has latched onto subjects and made himself indispensable by mastering them, devouring specialist texts and quizzing experts until they are "begging" to be left in peace. In his own telling Mr Corker knew little about foreign affairs before entering the Senate. He set about making mostly solo trips to more than 60 countries, eschewing large congressional delegations. In one-on-one meetings with foreign leaders "the conversations are different", he says.

Advice and consent

Mr Corker is not a centrist. He often despairs of Mr Obama's foreign policy. Notably he says the president made a "massive mistake" in 2013 by failing to enforce a red line that he had drawn against the use of chemical weapons by Bashar Assad's regime in Syria. Vladimir Putin in Russia "took great note", as did unhappy allies, Mr Corker thinks. He says he cannot look refugees from Syria in the eye again: America made so many promises that were never kept. He and Mr Obama have had "terse" conversations about all this. But he did not join the 47 Republican senators who sent an open letter warning Iran's leaders against doing a nuclear deal without the approval of Congress, saying that missive was not "productive".

Senator Tim Kaine of Virginia, a Democrat on the Foreign Relations Committee, says he urged the White House to accept that Congress was going to weigh in on Iran, and it would either be a debate or a "free-for-all". Senator Jeff Flake, a Republican committee member, thinks the White House should see that Mr Corker is as fair a chairman "as they can expect". Support for an Iran deal from the full Congress is still not a given—though if Mr Obama cannot convince the 34 Democratic senators he needs to uphold a presidential veto, he might like to ponder what is wrong with his diplomacy. Mr Corker has shown that a reasonable man can get stuff done, even in an unreasonable town. ■

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Central America

Stemming the migrant tide

PANAMA CITY

Governments take a new approach to ending the exodus of children

A YEAR ago American border agents faced a freak phenomenon. Tens of thousands of Central American children, many more than usual, surged across the border from Mexico. Rather than running from *la migra*, they handed themselves in, hoping eventually to be set free to join family members in the United States via a loophole in the immigration law. Television images of ragged-looking youngsters held in detention camps horrified the United States and the whole region.

Since then the numbers have fallen somewhat and the cameras have moved elsewhere, though the United States' Customs and Border Protection still says more than 15,000 unaccompanied minors have been apprehended in the past six months (see chart on next page). Many more might have come had they not been stopped by tighter security in southern Mexico. Mexico's border patrol deported about a third more Central American migrants in 2014 than in the year before.

At a summit in Panama City on April 10th and 11th Barack Obama reiterated his goal of spending $1 billion next year to tackle the causes of migration from Guatemala, El Salvador and Honduras, known as the Northern Triangle. Experts say his proposal, coupled with joint efforts by the three countries to stop young people from fleeing, mark enlightened new ways of trying to revive Latin America's most violent region. They face big hurdles, however.

The $1 billion earmarked for the three countries, which has been championed above all by the vice-president, Joe Biden, is three times what America allocated for spending on the region last year. Doris Meissner of the Migration Policy Institute, a Washington think-tank, says the Obama administration deserves "a great deal of credit" for sticking with the issue after the media lost interest. Four-fifths of the aid proposal is aimed at building up civilian institutions and fostering economic development. This is an "important shift" from the usual focus on law enforcement, says Adam Isacson of the Washington Office on Latin America, an advocacy group.

The proposal still needs to get through Congress, and the sums may be whittled down. American cash will not solve the problem by itself. But if Congress blocks the aid package, it will undermine efforts by the three Central American governments to implement their own plan to stem the exodus, says Eduardo Stein, a former vice-president of Guatemala.

Surveys show that migrants go north not primarily to be reunited with families, but to escape violence and economic hardship. The murder rate in the Northern Triangle is among the highest in the world. Around a quarter of young people there neither study nor work, more than anywhere else in Latin America.

Recognising a shared set of problems, the three governments have agreed on a joint plan to bolster job-creating industries such as tourism, manufacturing and agribusiness. They also plan to strengthen regional infrastructure and cut the cost of energy, which is the highest in Latin America. At the Panama summit Otto Pérez Molina, Guatemala's president, and Juan Orlando Hernández, his Honduran counterpart, proposed the forging of a customs union, which will allow the free flow of goods across their shared border, reducing transport costs. They hope it will soon include El Salvador. The three countries are also negotiating with Mexico for a pipeline to bring Mexican gas to the region, which would help power their shared electricity grid and lower energy costs. All this, if it happens, will create an economic bloc, which should attract more investment.

The "Alliance for Prosperity" also calls for improving education, public safety, access to justice and institutions such as tax agencies. These issues are harder to deal with regionally, rather than country by country. However, some advances have already been made. Before the migration crisis, Mr Hernández signed an agreement with Transparency International to audit public spending in areas such as education and health. Kurt Ver Beek, co-founder of Transparency's Honduran affiliate, says this should reassure the United States that the "Biden billion" will not be pilfered.

Other obstacles remain, though. Violence in El Salvador has soared since a truce between rival gangs broke down last year. March was the deadliest month in a decade. Guatemala has presidential elections in September, which may slow the integration process. Mr Pérez says he will do his best to ensure that the momentum continues after he leaves office, calling the Alliance for Prosperity a "national plan, not a government plan." But he faces a potential run-in with the United States if he fails to renew the mandate of the UN-backed International Commission Against Impunity in Guatemala, which is aimed at shoring ▸▸

Far from home, and alone

Unaccompanied children* caught crossing the US-Mexico border, '000

Sources: US Customs and Border Protection; Washington Office on Latin America

*Under 17-year-olds †Forecast

up the feeble justice system. Mr Biden said in March that without a new mandate for the commission in September, America's Congress would be reluctant to support the aid request. Mr Pérez, a right-winger who is protective of people who may have committed crimes during the country's civil war, responded that he would not accept "impositions".

The United States helped stoke the region's troubles, both by backing anti-Soviet regimes in civil wars during the 1980s and by expelling gang members from Los Angeles to El Salvador in the 1990s. More recently, it has focused narrowly on law enforcement and fighting drug-trafficking. A new approach, in which the United States, Mexico and international donors work alongside Central America's governments to get at the roots of the region's worst problems, is worth a try. ■

Protests in Brazil

Tropical tea party

SÃO PAULO

The crowds are smaller, but they are not going away

BY NEARLY any standard, the protests to denounce the president, Dilma Rousseff, and to rail against corruption in Brazil were huge. Some 660,000 people turned out on April 12th, in 152 cities. Yet that is compared with roughly 2m Brazilians who rallied a month ago. The drop in numbers is sobering for a movement that dreams of toppling the president with massive shows of street support. It means the organisers will have to change tactics and refine their muddled message.

The anger has not ebbed, and the movement is not going away. According to Datafolha, a pollster, three-quarters of Brazilians support the protests. Two-thirds want Ms Rousseff to be impeached over a multi-billion-dollar bribery scandal surrounding Petrobras, the state oil company. Members of her Workers' Party (PT) and others in the governing coalition are under investigation, although the president herself has not been implicated. Her popularity has sunk from 40% at the start of her second term in January to 13%. Even in the PT's heartland in the poor north-east, a majority thinks she is doing a poor job.

The movement against her resembles insurgencies in Europe and the United States, but with big differences. Unlike Syriza in Greece or Podemos in Spain, the organisers of Brazil's protests are not left-wing and do not constitute a political party. Some compare the protesters to America's Tea Party, which agitates for small government within the Republican Party. That is closer to the mark. The protesters lean towards Brazil's opposition parties and hope to influence them. Renan Hass of the Free Brazil Movement (MBL), a main organiser of the protests, wants the Party of Brazilian Social Democracy to be "more macho". But the movement is too young, and too fragmented, to have infiltrated Congress, unlike the American Tea Party. Dozens of grassroots organisations called protesters onto the streets.

In the eyes of Ms Rousseff's supporters, the protesters represent a privileged elite; some are even prepared to achieve their ends through a military coup. The first claim is partly right, the second is true only of a lunatic fringe. Surveys suggest that three-quarters of them earn at least five times the minimum wage of 788 reais ($260) a month, which makes them prosperous by Brazilian standards. But Carlos Melo of Insper, a university in São Paulo, says that in casting the clash in terms of "us versus them", the PT forgets that the ranks of "them" have swelled massively, thanks to healthy economic growth (until recently) and policies to reduce poverty. Even people with relatively low incomes see themselves as middle-class.

That makes them receptive to a message that can be read between the lines of the anti-corruption slogans: an over-large state needs watching. Many of the MBL's adherents are outright libertarians who scorn the PT as "communist". Even more mainstream groups such as Vem Pra Rua ("Take to the streets"), the biggest of the organisers, argue that Brazil's tax burden, at 36% of GDP, is too heavy and that the federal bureaucracy, with 39 ministries, is too big. One PT congressman suggested that the movement is financed by the CIA.

It does not need that kind of money. WhatsApp, a messaging service, serves as the office for Vem Pra Rua's 2,500 activists. The group spent less than 20,000 reais during the March demonstrations to print placards and rent a sound-stage. Some groups raise money by selling paraphernalia. A "PT out!" T-shirt costs 40 reais on MBL's website. Graphic designers, advertising folk and lawyers volunteer their time. They spread the word on Facebook, which more than two-fifths of Brazilians now use.

Without the prospect of ever-larger crowds, the movement needs other ways to keep up the pressure. On April 15th around 40 representatives went to Brasília, the capital, with a list of demands, including higher penalties for corruption, a first-past-the-post election system (to reduce campaign spending) and an end to re-election of presidents and governors. Tellingly, they presented it to Congress, not to the Planalto, the seat of presidential power. Ms Rousseff has largely handed over responsibility for the economy to the finance minister, Joaquim Levy, and political negotiations to the vice-president, Michel Temer. Although they still want her out, the protesters are starting to act as if she no longer counts. ■

Religion in Cuba

Chango unchained

HAVANA

A religion brought over by slaves from Africa is becoming more popular

A SHARP-EYED visitor to Havana and other Cuban cities will notice some odd things: the carcasses of birds strewn at intersections, insignias consisting of a single eye and dagger affixed to doorways and displayed in taxis, people dressed head to toe in white. All are emblems of Santería, a religion with roots in the culture of Yoruba slaves who came to Cuba from Nigeria from the early 18th century. After a period of suppression, it appears to be making a comeback.

Santería is a blending of the Yoruba religion, which acknowledges 401 *orishas*, or deities, with the Catholicism of the Spanish colonisers. Although at least 60% of Cubans today call themselves Catholics, far fewer are regular churchgoers. Many see no reason not to incorporate Santería rituals into their spiritual lives. A Catholic priest will marry a couple, but a *santero* might foretell their destiny and, later on, counsel them on how to revive their flagging sex life.

The religion suits Cubans' easy-going culture. Women can be priests and homosexuals are welcome. Religious services are like a night on the town, though sometimes with animal sacrifice thrown in. At a ceremony in a suburban basement near Havana, Paulo da Silva, a *santero* in embroidered vestments, flexes from knee to knee to the beat of congo drums in tribute to Chango, the king of dance. He taps the heads of congregants with a bare dagger, and spins them into a dizzy trance. Afterwards he treats himself to a cigar and a tumbler of rum.

Cuba's communist government became less hostile to religion after the collapse of the Soviet Union in 1991. But faith still carries a stigma. "You'd be stupid to put your religion on a job application," says a schoolteacher who guides British tourists around Havana. "It would go straight in the bin."

Data on Cubans' religious practices are thus hard to come by. But there are indications that Santería is gaining ground along with other cults like Abakuá, an Afro-Cuban version of Freemasonry. The number of non-Catholic sects and their followers has "multiplied day by day" in recent years, says Joel Suárez of the Centro Martin Luther King, an ecumenical group. Participation in the annual San Lázaro pilgrimage to Rincón, the biggest Santería gathering, has increased since the early 1990s.

Mr da Silva attributes Santería's popularity to national pride, a desire for community and people's yearning to communicate with their ancestors. When Cuba's vaunted health-care system fails patients, some find comfort in the traditional remedies that Santería offers. As the country opens up to the United States, Cubans may value more highly expressions of their own culture, says Enrique López Oliva, who writes on religion.

Then there is the role of music. Orishas, a hip-hop group, has produced a string of hits. "We do a bit of Santería," normally at a friend's house, says Ricardo Pérez, a reveller outside Don Cangrejo, one of Havana's top dance clubs. "We play the *cajón* [a sort of drum], sing a few songs." Any religion that mixes spirituality and salsa so easily is bound to have a bright future in Cuba. ■

Bello | Putting politics before family

Michelle Bachelet, Keiko Fujimori and the sins of relatives

IN "The Origins of Political Order" Francis Fukuyama, an American political scientist, traces a centuries-long battle between a "natural human propensity to favour family and friends", which when embedded in political systems is called patrimonialism, and the "countervailing incentives" of a meritocratic state, the rule of law and accountable government. In Latin America, Mr Fukuyama thinks, patrimonialism thrived, mainly because it did so too in colonial Spain. Elites have been accustomed to exploiting the state for private ends. This is one reason why the region has suffered from inequality and why the rule of law has been weak.

In Chile the law is upheld better than elsewhere. And its president, Michelle Bachelet, has made reducing inequality the centrepiece of her second term in office, which began a year ago. Yet it transpires that some in Ms Bachelet's Chile are more equal than others.

In February *Qué Pasa*, a magazine, revealed that the president's son, Sebastián Dávalos, had secured a $10m loan from Chile's second-biggest bank for a small and undercapitalised property company called Caval and half-owned by his wife. The loan was granted the day after Ms Bachelet won the presidential election. Caval used it to buy three plots of rural land, which soon afterwards were re-zoned to allow urban development, netting the company a profit of $5m when it sold them days later.

Mr Dávalos has resigned as "socio-cultural director" of the presidency, an unpaid role equivalent to that of First Lady which he performed for his mother, who is divorced. He has been formally accused of influence-peddling. The damage to Ms Bachelet has been huge. On holiday when the news broke, she was slow to react. She then spoke "as a mother and president" of "difficult and painful moments". But her first role trumped the second: she has yet to condemn her son's actions.

Her approval rating has fallen to 31% from 44% in January, according to Adimark, a pollster. Chileans once saw Ms Bachelet as being above politics. No longer: her government's agenda of egalitarian reform has been weighed down by this and other scandals involving party financing (which do not involve her directly).

At first glance Peru's Keiko Fujimori, a 39-year-old conservative, has little in common with Ms Bachelet, an experienced socialist. Yet she too has a family problem. Her father, Alberto Fujimori, who ruled Peru as an autocrat in 1990-2000, is serving jail sentences for human-rights abuses and corruption. When Ms Fujimori ran for president in 2011 (narrowly losing), many assumed her motive was to pardon him.

She has since shown herself to be a politician in her own right. She is clearly intelligent, and has built her party into Peru's strongest. She leads in the opinion polls for next year's presidential election, with support of 33%. Her problem is that, although a fifth of Peruvians still revere Mr Fujimori

for having destroyed the Shining Path terror group, slain hyperinflation and laid the foundations for recent economic growth, many more abhor him.

Ms Fujimori admits her father made "mistakes", such as allowing corruption and shutting down Congress. She has brought fresher faces into her party and plans to recruit outside technocrats. To those, like Mario Vargas Llosa, an influential Peruvian novelist, who claimed her victory in 2011 would "legitimate a dictatorship", she replies: "I think children are not responsible for the good or bad things their parents have done."

True, yet it is not quite good enough. Some of her father's discredited aides are big figures in her party. And she is guarded about whether or not she would pardon Mr Fujimori, saying only that his legal defence is a "family, not party, matter" and that his freedom will come through "legal and constitutional means".

In Latin America the family is a far stronger institution than in Europe. Nepotism remains the region's characteristic political vice. But today's more sophisticated voters will not automatically tolerate it. Although her politics are less reactionary, Ms Fujimori faces a similar dilemma to that confronting Marine Le Pen, the leader of France's far-right National Front, who has dropped her father as a candidate for fear that his Holocaust-denying would hurt her presidential bid.

As in France, Peru's election is almost certain to go to a run-off, in which Ms Fujimori's rivals are likely to unite against her. However hard it may be, if she wants to win, she will have to be more ruthless in putting politics ahead of family. And if Ms Bachelet wants to rescue her floundering presidency, she will have to show a similar resolve, acting as mother of the nation rather than of Mr Dávalos.

Also in this section

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The internet in Vietnam

If a tree falls…

HANOI

…online, will the Communist Party hear anything?

SAPLINGS have sprouted on several streets in Hanoi, Vietnam's leafy capital. They are puny replacements for at least 500 grand old trees that were uprooted last month without public consultation. The clearance was supposed to be the first phase of a city-government project to replace 6,700 mature specimens. But it spawned outrage on Facebook in a campaign which gathered 20,000 supporters in 24 hours, some of whom speculated that officials were motivated by the chance of selling the valuable timber. Three days later, on March 19th, the city's leader, Nguyen The Thao, put the cutting on hold. He later suspended scores of officials and commissioned an investigation, due to be completed in a few days.

Such U-turns are rare in one-party Vietnam. Yet the tree-felling controversy is among several recent cases in which online criticism has prompted back-pedalling by the government. Last year a plan to build a cable car near a UN-recognised world-heritage site was also stalled by Facebook critics. In January Nguyen Tan Dung, Vietnam's prime minister, told senior members of the Communist Party that it was "impossible" to block social media, and that the government should make more effort to put out "correct" information through them.

Vietnam's 40m internet-users live in one of the better-connected countries in South-East Asia. Around 45% of Vietnamese are online (roughly the same proportion as in China). In the region, only Malaysia and Singapore have higher penetration rates. The use of social media has leapt—by two-fifths in the past year alone, according to one estimate.

Vietnam patrols the internet with a relatively light touch. In China both Twitter and Facebook are banned by censors. In Vietnam Twitter is accessible though not commonly used. Facebook is the country's most-visited website, ahead of Google's search engine. Attempts to block it have been sporadic and half-hearted. Yet this does not mean there is free speech online. The party controls dissent by using vaguely-written laws—recently strengthened—to imprison bloggers and to impose fines on outspoken users of social media. Freedom House, an American NGO, says Vietnam is among the ten worst abusers of internet freedom—worse than Saudi Arabia, though better than China.

Vietnam has nowhere near enough money or expertise to build a web-blocking system as overbearing as China's so-called Great Firewall. Officials want to encourage internet use because they hope it will help boost innovation and economic growth. Party insiders are themselves making use of anonymous blogs and other social media to lobby for their own interests—particularly as factions jostle in advance of a change in leadership expected next year.

Vietnamese officials have "stopped seeing social media as evil", argues Dang Hoang Giang at the Centre for Community Support Development Studies, a consulting firm in Hanoi. But he doubts that recent responses to mass online criticism mark the dawn of a more open politics. The campaigns are loosely organised, he explains, and the tree fiasco highlights a disturbing trend of increasingly brazen profiteering by local party officials.

Moreover, Vietnam's information ministry is continuing to sharpen its censorship laws by rolling out "circulars" detailing how authorities should interpret the vague edicts on its statute books. A draft of one of them, released on April 13th, would require internet firms such as Facebook and Google to remove unwanted content and hand over information about rabble-rousers. According to Reporters without Borders, a Paris-based watchdog, at least 30 netizens are in jail.

The repercussions from the tree-felling debacle are starting to look depressingly familiar. Vietnamese journalists have been ordered off the beat. Academics in Hanoi, who at first talked to the press, have been told to shut up. And a memo issued by a Communist Party ward committee warns that "bad people" are exploiting outrage over tree-cutting to "undermine social order". Plainclothes agents have attended a handful of events organised by the campaigners, including a lakeside "tree hug" that attracted hundreds of people (pictured above).

Duong Ngoc Tra, a nature lover who helped stop the tree-felling, says that she does not consider herself political. "We just want to showcase our love for Hanoi, and our concern," she says. Last month Ms Tra delivered a letter to the city government, with 22,000 signatures, saying just that. No one replied. ■

South Korea and Japan

Tentative two-step

SEOUL AND TOKYO

The two countries hold their first security talks for five years

IT IS a feature of the fraught relationship between Japan and South Korea that the two are at once able to bicker and to work together. Last week South Korea summoned Japanese diplomats to protest over revisions to school textbooks, which it said were a fresh attempt by Japan to gloss over the evils of its wartime past. South Korea's prime minister, Lee Wan-koo, said Japan would face "grim judgment" if it failed to admit the "realities of history".

Yet on April 14th the two countries met in Seoul, the South Korean capital, for their first high-level security talks since 2009—a further sign of a thaw in relations after a three-way summit last month between the foreign ministers of China, Japan and South Korea. At the bilateral talks, foreign-affairs and defence officials chiefly discussed Japan's military policy—in particular, the first revamp in two decades of joint-defence guidelines between America and Japan. It would allow Japanese forces to support American troops in the event of a crisis on the Korean peninsula.

An agreement on the final guidelines is expected in late April, when Shinzo Abe, Japan's prime minister, will visit Washington. In parallel, Japan's government is also revising constitutional interpretations to allow its forces to take part in collective self-defence. South Korea has been wary of Mr Abe's dream of reinterpreting Japan's pacifist constitution. It has called for reassurances first from the former occupying power on Japan's views on history.

Revisionist voices have grown louder in Japanese education. Last week the government approved a set of school textbooks that dilute references to wartime atrocities, including the forcing of "comfort women" into brothels by Japan's imperial army. Many of them were from South Korea. All the textbooks stress that a group of rocks controlled by South Korea (which calls them Dokdo) and claimed by Japan as Takeshima, are Japan's "inherent territory"—which is nonsense. Equally nonsensical, South Korea claims that Japan's review of its defence arrangements would allow it to push South Korea about.

That the talks went ahead despite tensions suggests that both sides are eager to improve co-operation in dealing with a shared security worry: North Korea. America's heightened keenness that its two allies should get along has helped, too. On a visit to the region this month, Ashton Carter, America's defence secretary, promised to deploy more state-of-the-art weaponry to counter North Korea.

China's growing willingness to talk to Japan may also have spurred South Korea to overcome its scruples about doing so. Last month China and Japan met for their first high-level security talks in four years. By meeting Japan, however, South Korea could also be signalling to China that it still sees itself as part of America's network of alliances. It does not want China to meddle in its defence decisions, such as whether to accept an advanced anti-missile defence system from America. China fears the system could be used against it.

Further improvement in relations between Japan and South Korea will depend on what Mr Abe says in a series of statements this year on Japan's wartime history, culminating in a speech in August on the 70th anniversary of the end of the second world war. The South Korean public is still in no mood to forget. ■

Japan's rural regions

Hometown dues

TOKYO

Struggling parts of the countryside have found a novel way to attract money

COUNTRY folk in Japan often say that people in the big cities have forgotten all about them. Yet many city-dwellers still harbour strong feelings towards their *furusato*, or home town—that rural area which their forebears may have left many decades ago during the country's rapid urbanisation. For some lucky rural towns, the unexpected popularity of a scheme called *furusato nozei*, or hometown tax, is proving a windfall.

Nostalgic twinges

Seven years ago the central government began allowing city residents to divert a proportion of their income-tax payments to a *furusato* of their choice. The response has been overwhelming. In the last fiscal year rural towns earned ¥14 billion ($1.2 billion) from such contributions.

Some people choose a *furusato* not on the basis of any family ties, but simply because they like the area. Many select towns on Japan's north-eastern coast that were devastated by the tsunami of March 2011. Sonoe Hasegawa, a 47-year-old accountant from Tokyo, says she wants to help revive the countryside. She has decided to give tax to Ishinomaki, a town in Miyagi prefecture where 3,700 residents drowned in the disaster, as well as five other places.

Shrewd self-promotion by local governments has helped attract *furusato* money. Some have set up websites offering generous gifts of marbled beef, exotic seafoods and other goodies in return for a share of urbanites' taxes. The biggest earner from the contributions, the town of Hirado in Nagasaki prefecture, has a glossy brochure of the local foods it promises to send as gifts. Several towns last year received more than double the amount they raised in levies from local residents.

After a website, "*Furusato* choice", started listing the various offerings, it became clear that many towns were giving back in freebies half or even more of the value of the tax contributions they were raising. The central government has tried to crack down on the most lavish handouts, such as the gold ninja throwing-knives worth ¥400,000 that one city was offering in honour of its ninja spies. But *furusato* longings are a force the government cannot ignore. It has just expanded the scheme. A household with an income of ¥8m, for example, may now donate up to ¥142,000 in return for about 7% off its tax bill, up from 3.5% before.

Poorer regions are especially delighted. Many have been suffering financially as a result of ageing and shrinking populations. One small town in Hokkaido claims that 200 people, apparently fired by *furusato* fervour, have settled within its precincts. When Anan, a town in Nagano prefecture, began offering 20kg bags of prized local rice in return for tax donations, it received such an enthusiastic response that elderly residents who had given up farming their rice paddies began cultivating them again, according to Shigeki Kanamori, who has written a book on *furusato nozei*.

For Japan's urban residents, such stories of rural revival are inspirational, feeding dreams of halcyon lives far removed from their harried city ones. There is probably little harm in it. At least, unlike earlier efforts to revive the countryside with large-scale public works, the scheme does not involve pouring yet more concrete. ■

The marriage squeeze in India and China

Bare branches, redundant males

Distorted sex ratios at birth a generation ago are changing marriage and damaging societies in Asia's twin giants

KHAPs are informal local councils in north-western India. They meet to lay down the law on questions of marriage and caste, and are among India's most unflinchingly conservative institutions. They have banned marriage between people of different castes, restricted it between people from the same village and stand accused of ordering honour killings to enforce their rulings, which have no legal force. India's Supreme Court once called for *khaps* to be "ruthlessly stamped out". In April 2014, however, the *Satrol khap*, the largest in Haryana, one of India's richest states, relaxed its ban on inter-caste marriage and made it easier for villagers to marry among their neighbours. "This will bring revolutionary change to Haryana," said Inder Singh, president of the *khap*.

The cause of the decision, he admitted, was "the declining male-female sex ratio in the state". After years of sex-selective abortions in favour of boys, Haryana has India's most distorted sex ratio: 114 males of all ages for every 100 females. In their search for brides, young men are increasingly looking out of caste, out of district and out of state. "This is the only way out to keep our old traditions alive," said Mr Singh. "Instead of getting a bride from outside the state who takes time to adjust, we preferred to prune the jurisdiction of prohibited areas."

The revision of 500 years of custom by its conservative guardians symbolises a profound change not just in India. Usually dubbed the "marriage squeeze", the change refers both to the fact of having too many men chasing too few brides and the consequence of it in countries where marriage has always been nearly universal. Sex selection at birth is common in China and India. The flight from marriage—with women marrying later, or not at all—is long established in Japan and South Korea. But until recently, Asia's twin giants have not felt the effects of sexual imbalance in marriage. Now they are.

The marriage squeeze is likely to last for decades, getting worse before it gets better. It will take the two countries with their combined population of 2.6 billion—a third of humanity—into uncharted territory. Marriage has always been a necessary part of belonging to society in India and China. No one really knows how these countries will react if marriage is no longer universal. But there may be damaging consequences. In every society, large numbers of young men, unmarried and away from their families, are associated with abnormal levels of crime and violence.

Missing girls, missing brides

The roots of the current squeeze go back a generation. Sex-selective abortions became common in China in the 1990s as a result of the country's strict (now somewhat laxer) one-child-per-couple policy and a traditional preference for sons. A few years later they became increasingly common in India, also because of a preference for sons and helped by the growing availability of prenatal tests to determine sex. In 2010-15, according to the UN Population Division, China's sex ratio at birth was 116 boys to 100 girls; in India the figure was 111. Though these ratios have fallen a little since their peaks, they are still far above the natural rate, which is 105 to 100.

As a result, enormous numbers of girls and women are "missing"—absent, that is, compared with what would have happened if there had not been sex selection. If China had had a normal sex ratio at birth, according to a report in 2012 by the UN Population Fund it would have had 721m girls and women in 2010. In fact it had only 655m—a difference of 66m, or 10% of the female population. India's ratio is not quite so bad. Had it been normal, the country would have had 43m more women, or 7% more, than it actually did. Other countries practise sex selection at birth, but Asia's giants overshadow all others. Together they account for 109m of the 117m "missing" girls and women globally in 2010. Calculations by Christophe Guilmoto of the Institute of Development Research, a think-tank in Paris, show that marriage patterns in India and China were still normal in 2010. But they will become badly distorted by 2020 (see chart on next page).

"Missing women" are only part of the explanation. Countries with normal sex ratios can experience a marriage squeeze if their fertility rates are falling fast. Fertility is important, because men tend to marry women a few years younger than themselves. In India the average age of marriage for men is 26; for women, it is 22. This means that when a country's fertility is falling, the cohort of women in their early 20s will be slightly smaller (or will be rising more slowly) than the cohort of men they are most likely to marry—those in their late 20s (this is because a few years will have gone by and the falling fertility rate will have reduced the numbers of those born later). This may not sound like a big deal. But in fact between 2000 and 2010 the number of Indian men aged 25-29 rose by 9.2m. The number of Indian women aged 20-24 (their most likely partners) rose by only 7.6m.

Even if India's sex ratio at birth were to return to normal and stay there, by 2050 the country would still have 30% more single men hoping to marry than single women. This is explained by a rapid decline in India's fertility rate. But in China, where fertility has been low for years, the more gradual decline in fertility still means there will be 30% more single men than women in 2055, though the distortion declines after that. A decline in fertility usually benefits developing countries by providing a "demographic dividend" (a bulge of working-age adults compared with the numbers of dependent children or grandparents). But it does have the drawback of amplifying the marriage squeeze.

The problem is further accentuated by a so-called "queuing effect". The length of a queue is determined by how many people ▸▸

join it, how many leave, and how long queuers are prepared to wait. In the same way, marriage numbers are a result of how many people reach marriageable age (the joiners); how many get married (the leavers) and how long people are willing to wait. In India and China, marriage remains the norm, so men keep trying to tie the knot for years.

Hence, a marriage queue in India and China builds up. At stage one, a cohort of women reaches marriageable age (say, 20-24); they marry among the cohort of men aged 25-29. But there are slightly more men than women, so some members of the male cohort remain on the shelf. Later, two new cohorts reach marriageable age. This time, the men left over from the previous round (who are now in their early thirties) are still looking for wives and compete with the cohort of younger men. The women choose husbands from among this larger group. So after the second round even more men are left on the shelf. And so on. A backlog of unmarried men starts to pile up. Just as you need only a small imbalance between the number of people joining a queue and the number leaving it to produce a long, slow-moving line, so in marriage, a small difference in the adult sex ratio can produce huge numbers of bachelors. They are called *guanggun* (bare branches) in China, *malang* (aloof and loopy) in Haryana and *chhara* (a derogatory term for unmarried men) in Punjab.

To make matters worse (for men, anyway), in rich Asian countries women are turning their backs on marriage altogether. Women with university degrees are more likely to marry late, or not at all, than those with primary education. Women who live in cities and have jobs are marrying later, or less, than rural women or those who work at home. Everywhere, female marriage rates are declining and the age of marriage is rising. In China, as women get richer and better educated, they are starting to repeat the behaviour of their Japanese and Korean sisters, pushing up the number of unmarried men.

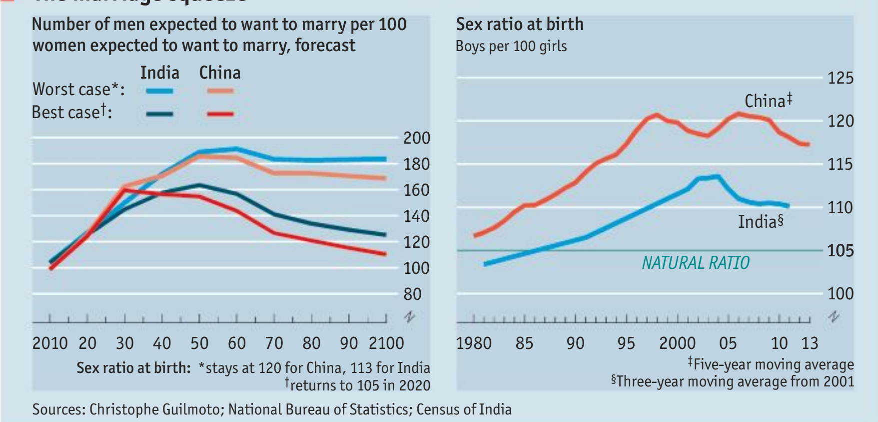
Lucky man

The combination of these factors in India and China will make their marriage squeeze especially acute and persistent—much more severe than it would have been in the case of distorted sex ratios alone. Mr Guilmoto calculates that, in China, for every 100 single women expected to marry in 2050-54 there could be as many as 186 single men (see chart); in India in 2060-64 the peak could be higher: 191 men for each 100 women. This assumes the sex ratio at birth does not change. But even if the ratio were to return to normal in 2020 (which is unlikely), the marriage squeeze would still be severe, peaking at 160 in China in 2030, and at 164 in India 20 years later.

A marriage squeeze of this intensity would be unknown in China and India and extraordinarily rare anywhere in history. America's Wild West (or the fracking fields of present-day North Dakota) are rare examples of a society with huge numbers of excess men.

There may be positive side effects: a shortage of brides in India is causing dowry prices to fall in some areas, for instance.

The marriage squeeze



Overall, though, the impact is likely to be negative. A study by Lena Edlund of Columbia University and others found that in 1988-2004, a one-point rise in the sex ratio in China raised rates of violent crime and theft by six to seven points. The abduction of women for sale as brides is becoming more common. The imbalance is fuelling demand for prostitution.

There are few obvious remedies. If girls married earlier, it would increase marriage rates but would impede the progress being made by women in employment and education. Brides can be found in nearby countries. There are villages in China's south-western provinces of Yunnan and Guizhou where many of the young women are Vietnamese or Burmese because local girls have gone to work in cities. A state-run newspaper, *Beijing News*, recently offered advice about the ten best places for Chinese men to find brides abroad (Ukraine, apparently, is promising). But this merely transfers the problem from one place to another. China and India are so vast that no marriage migration could ever be big enough to satisfy demand.

Bare branches on the family tree

If—a big if—marriage pairing were to become more symmetrical (ie, college graduates marry one another, and so on), then at least the burden of non-marriage would be spread more evenly. In India and China, women tend to "marry up"—illiterate women marry men with primary education; primary-school women marry men with secondary education; and so on. As a result, men at the bottom of the pyramid, and women at the apex, find it especially hard to find spouses. So the marriage squeeze does not affect everyone equally. It disproportionately hits illiterate men and does not do much to help graduate women (*shengnu*, or leftovers, as they are called in China).

But overall, changing the patterns of marriage would merely moderate a squeeze which is likely to continue for decades. China has eased its one-child policy, and the sex ratio at birth has fallen. But because the marriage squeeze is the product of other factors, too, it will continue even were the sex ratio at birth to return to normal. If that happened, Mr Guilmoto reckons, over 21% of Chinese men would still be unmarried at 50 in 2070, while in India the figure would be almost 15%. Three generations after sex-selective abortions began, their impact will still be felt.

India and China will change hugely as they become wealthier and better educated in coming decades. But few changes will be as momentous and persistent as the one now beginning: universal marriage will become a thing of the past. ■

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Banyan | Storm-tossed

Pakistan's "all-weather" friendships are under strain

A SCATHING synopsis of Pakistan's foreign policy might boil it down to four principles: provoke India, but not too much; say what America wants to hear; do what China wants done; and provide what rich Arab donors in the Gulf think they have bought. To the surprise of many, that last maxim has just been flouted. This month Nawaz Sharif, the prime minister, referred to Parliament a request from Saudi Arabia to send soldiers to assist in the war in Yemen. Parliament decreed that Pakistan should stay neutral. It is not just governments in the Gulf that are cross with Pakistan. So are India (even more than usual), America and even China. But Mr Sharif may not be too worried: as so often, Pakistan's international position is stronger than it looks.

Members of the Saudi-led coalition in Yemen are certainly incensed. Anwar Mohammed Gargash, a minister from the United Arab Emirates, raised hackles in Pakistan by warning that it would pay a "heavy price" for its "ambiguous stand". Saudi Arabia had even more reason to complain. Nawaz Sharif owes the kingdom a personal debt. It helped free him from prison and gave him a home in exile after a military coup in 1999 ended an earlier stint as prime minister. A gold-and-silver model of Mecca and Medina, a gift from the late King Abdullah, has pride of place in his plush living room in Lahore. And in March last year Saudi Arabia made Pakistan a "friendly gift" of $1.5 billion, a big boost to the government's finances. It was an "unconditional" grant, but might have been expected to buy some security co-operation.

Yet not one MP spoke in favour of deploying troops in Yemen. It seemed a bad idea for many reasons. Despite the Pakistani army's status as the Muslim world's biggest fighting force, and its long experience of counter-insurgency warfare in rugged terrain, getting sucked into Yemen would be a dangerous gamble. Besides, the army is battling militant groups in Pakistan's lawless tribal areas. Nor is it in Pakistan's interests to be caught up in a proxy conflict between Saudi Arabia and Iran. The kingdom is an important friend and donor, but Pakistan also shares a 900-kilometre (560-mile) border with Iran. It stands to benefit if sanctions are lifted following a deal on Iran's nuclear programme—especially if a long-mooted pipeline to supply much-needed Iranian gas becomes operational. Conversely, a hostile Iran could meddle dangerously in some of Pakistan's internal conflicts. It borders the province of Balochistan, where an insurgency simmers. And there and elsewhere, Pakistan suffers frequent sectarian violence between Sunni and Shia Muslim extremists. Like Saudi Arabia, it has a Sunni majority. But about one-fifth of Pakistanis are Shias, as are most Iranians. The last thing Pakistan wants is to take sides in a region-wide Sunni-Shia struggle.

Discussing Parliament's decision, Mr Sharif chose to stress what it did agree to: that any threat to Saudi Arabia's territory would "evoke a strong response" from Pakistan. Its ties with the kingdom are deep enough to withstand this upset. And Pakistan has one asset which Saudi Arabia will surely regard as more precious than ever in the light of an Iranian agreement: the bomb. Many believe Saudi Arabia has an understanding with Pakistan that, if disaster threatens, it will help it acquire nuclear weapons.

As "The China-Pakistan Axis", a recent book by Andrew Small, makes clear, Pakistan owes its nuclear capability in part to Chinese help. When they talk about this friendship, Pakistani leaders seem about to burst into a torch song: "deeper than the deepest ocean", "sweeter than honey", etc. But the romance has hit a rocky patch: witness the difficulty in scheduling a first visit to Pakistan by Xi Jinping, China's president. Unrelated street protests in Islamabad, the capital, last year delayed one attempt. After Barack Obama attended India's National Day parade in January, Pakistan hoped in vain that Mr Xi would attend its own last month. But China also hopes to get on better with India. Next month it will play host to its prime minister, Narendra Modi.

Moreover, Pakistan has irked officials in Beijing over China's most pressing domestic-security concern (especially since a horrific knife attack at the railway station in Kunming in south-western China a year ago in which 29 people were killed): terrorism stemming from the grievances of China's Uighurs, a mainly Muslim Turkic minority in its vast western region of Xinjiang. Some Uighurs have long fought in Afghanistan (22 Uighurs, all now free, were held in Guantánamo Bay) and a few dozen Uighur militants linger on in Pakistan's tribal areas. Nothing suggests they can stage attacks in China. But Pakistan's best friend forever wonders why the country's army has not simply eliminated them.

The Chinese are coming

Mr Xi's visit now seems about to happen, however. Besides the lovey-dovey speeches, it is likely to be marked by announcements putting flesh on the bones of a proposed "China-Pakistan economic corridor" involving tens of billions of dollars of Chinese investment. The perennial benefit of the relationship for China is that Pakistan preoccupies India, a potential rival to China, with its local difficulties. But there are many other advantages. One is a seaport on the coast near Iran, at Gwadar, which may be useful to China's navy. Another is intelligence links and access to some of the militant groups that will help shape Afghanistan's future as American troops withdraw.

So Pakistan can feel confident that China's recent apparent snubs are blips in relations. India, meanwhile, is furious that a Pakistani court has this month freed on bail Zaki-ur-Rehman Lakhvi, the alleged mastermind of the terrorist attack on Mumbai in 2008 in which 166 people were killed. America, too, has expressed "grave concern". But neither country seems likely to retaliate. So far it has not, for example, affected Pakistan's purchase of $1 billion-worth of high-tech American weaponry, approved this month. As even the irascible Mr Gargash may learn, Pakistan has a knack for getting away with angering friend and foe alike. ■

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The greying economy

Bang goes retirement

CHONGQING

Workers born in the countryside are hitting retirement age and still working

AT SIXTY, Zhang Chaoshou has only distant memories of his young life in the countryside. He has been working in and around the centre of Chongqing, a province-sized municipality in south-western China, for more than 30 years. As he shovels cement under a fierce sun, he says he will keep working as long as he is able. "Can't retire," he says. Like millions of others his age, he cannot afford it. His state pension is just 93 yuan ($15) a month.

Most of the low-skilled workers who for three decades have powered China's economy are people like Mr Zhang who were born in the countryside and moved to urban areas. They are often called *mingong*, or peasant workers, even though they have little if any experience of farming; or else, less disparagingly but just as misleadingly, "migrant" workers, though older ones like Mr Zhang may have moved to the cities many years ago and younger ones may have been city-born, to migrant parents.

Under China's household-registration system, known as *hukou*, rural connections, even if inherited, determine the kind of welfare benefits individuals may receive. Some of the first generation of migrant workers, who arrived in urban areas in the late 1980s, have reached retirement age. Most people can qualify for a state-supported or employer-backed pension scheme at 60; some women can do so at 55 or even 50. For city-born workers, that means nearly 2,070 yuan a month. But workers of rural origin receive far less—not nearly enough, in most cases, to sustain them in the cities in which they have been working. Many have little choice but to carry on with their jobs or, in some cases, to return to the countryside to live on their farms, if they have them. Chinese officials talk of reforming the *hukou* system. But changes have been painfully slow.

The need for reform will become more pressing as the elderly proportion of those classified as migrant workers bulges. From 2008 to 2013 the number of such people over the age of 50 jumped from 26m to 41m, or from 11% to 15% of the migrant workforce. The ageing of China's population will accentuate the problem. In 2014 there were 212m Chinese over 60, or 16% of the population. By 2025 there will be 316m people over 60, or nearly one in four.

At the same time the supply of younger workers is shrinking, along with their enthusiasm for grunt work. Many factories once spurned workers much older than 25. Now a shortage of younger workers is forcing them to take on older people. Urban Chongqing has long been known for its so-called *bangbang* men and women who carry heavy burdens on long bamboo poles (or *bang*, pictured above) up and down the sweltering city's steep hills. The average age of these country-born labourers is conspicuously higher than it was a few years ago. Some are so elderly that it seems shocking to see a younger person making use of their services.

Many *bangbang* people will keep on toiling until their ageing bodies fail them. The notion of pensions for such workers is still new. The *hukou* system is widely resented, but at least it allows people of rural origin, or their offspring, to retain a small plot in the countryside and to use a piece of land nearby for housing. The government had long viewed these entitlements as a form of pension for migrants. That began to change in 2009 when it introduced a pension scheme for rural *hukou* holders, supported by state funding and contributions by workers themselves. It allowed participants to draw a pension at 60 from their hometown, usually by bank transfer, so long as they had made contributions for 15 years. Those who turned 60 in 2012 or earlier were usually eligible without contributing. By the end of 2013 nearly 475m were enrolled in the scheme.

The benefits are minuscule. The minimum basic pension is 55 yuan (about $8.85) a month, far below the poverty line. The government says it increased rural pension benefits in 2014 by an average of 15 yuan per month. But increasing benefits substantially will be difficult as the ratio of pensioners to working-age migrants increases. The government has discussed raising retirement ages, perhaps by 2020. The country is gradually relaxing its one-child-per-couple policy, but too late for many older migrant workers who may often have only one child to look after them.

Employer contributions will boost the pension accounts of some migrants. But many work without contracts, which means they cannot enjoy employer-funded benefits. In the long run a radical make- ▸▸

over of the *hukou* system will be needed, to allow migrants to enjoy the same welfare benefits as anyone else. Reforms are happening in some small cities, where migrants stay close to home. But the government worries that big cities would be deluged by welfare-seekers if they carry out the same reforms.

In Chongqing Mr Zhang is just about managing to get by. His job, he says, is only temporary, but he earns almost three times as much in a day 250 yuan—as he gets in a month from his pension. He has earned enough over the years to help with a down-payment on his son's city flat, where he lives. He has no plans to return to his village, and has leased out his farmland for a bit of extra income. He will keep on collecting his pension as well. "It's not nothing," he says. ■

Enforcing environmental rules

Saving fish and baring teeth

BEIJING

A new environment minister displays his appetite for taking on polluters

ON TAKING over in February as China's minister for environmental protection, Chen Jining said the country needed an environmental law that was "not a paper tiger" but rather a "sharp weapon with teeth of steel". Early indications, among them the cancellation of a series of dam projects on the upper reaches of the Yangzi river, are that the former academic and university administrator intends to follow through on his fighting words.

State media have reported that the builders of the Yangzi's Xiaonanhai dam—expected to cost 32 billion yuan ($5.1 billion) and to generate two gigawatts of electricity—were denied permission to continue because of the harm it would cause to a nature reserve that is the last remaining habitat for many species of rare fish. Work on its foundations began in 2012, but was halted while the environment ministry assessed the project. Two smaller dams on the same stretch of river were also rejected.

Activists in China welcomed the decision, saying it showed a new determination to enforce environmental rules. According to Ma Jin of the Institute of Public and Environmental Affairs, a Chinese NGO in Beijing, the firms that applied to build the dams, led by the Three Gorges Project Corporation, had previously won permission for other dams that would endanger fish populations by arguing that the protected nature reserve near the Xiaonanhai project would guarantee their survival. That, he says, makes the project "particularly outrageous".

Authorities have also got tougher with other types of environmental offences since January 1st, when a revised law against pollution took effect. It replaces paltry one-off fines that were absorbed as a cost of doing business with stiffer accruing ones. The ministry says that it imposed daily fines on 26 firms in the first two months of this year, including more than 2m yuan on a chemicals company in the western province of Xinjiang. There have been big increases in the numbers of polluting enterprises shut down and managers detained.

The ministry is also cracking down on local officials who falsify data on air quality. Such fiddled figures harm the government's credibility and weaken environmental-protection efforts, said a vice-minister, Wu Xiaoqing, on April 1st. More local data will in future be cross-checked against the ministry's own monitoring systems, he added.

Fabricating data is not the only contribution local officials make to China's pollution problem. They are largely judged by their record on fostering economic growth, giving them an incentive to tolerate polluters so long as they create jobs and pay tax. The Three Gorges Project Corporation is unlikely to be too worried by the cancellation of the Xiaonanhai project, says Mr Ma, because it did not expect to make a profit from it. It was officials seeking to boost growth who sought to push it through.

These misaligned incentives mean that the monitoring and enforcement of standards by central-government officials will be essential if China's environmental mess is to improve. Mr Chen will need those teeth of steel, if he is not to find that he has bitten off more than he can chew. ■

Censorship

The Mao taboo

BEIJING

Criticising the founder of Communist China is still considered blasphemous

WHEN a video of Bi Fujian calling Mao Zedong "a son of a bitch" at a private dinner party was posted online earlier this month, it went viral. The popular-television host was suspended from his job and the clip taken down. The authorities reportedly asked local media to cool discussion of the episode, but online chatter continues unabated.

The gaffe has embarrassed the Communist Party because Mr Bi is one of the best-known faces of China Central Television, the state broadcaster. As well as glitzy talent shows, he presents Chinese television's most-watched event, the tightly scripted Spring Festival gala. The video, apparently filmed secretly, shows him singing his own mocking lyrics to a Mao-era opera while his guests laugh. The snitch has not been unmasked, while several prominent figures have been quick to say that they were not present. Mr Bi has apologised publicly and promised to "exercise strict self-discipline".

Chinese media present Mr Bi's comments as just one example of celebrity brashness. On April 8th Xinhua, a state news agency, attacked Wang Sicong, the son of China's wealthiest person, for "vulgar" remarks on his microblog (mostly about dogs and large-breasted women). *Global Times*, a Beijing newspaper, recently emphasised that public figures are never beyond scrutiny.

But Mr Bi's wisecracks went further, by challenging a great taboo. In 1981, five years after Mao died, Deng Xiaoping issued his verdict: the late leader, responsible for ten of millions of deaths through political violence and mass famine, had been "70% right and 30% wrong". Despite occasional calls for a reappraisal, this assessment prevails. Indeed the current president, Xi Jinping, emphasises the party's Maoist origins and has a penchant for Mao-style sloganeering.

Mao is still portrayed as the nation's father. His image is everywhere. Every banknote bears his face, and his portrait hangs at the entrance to the Forbidden City. Though Mr Xi has crafted a narrative about the hardships he and others suffered during the Cultural Revolution, criticising Mao himself remains blasphemous. Once people start to laugh at the emperor, all authority is in doubt.

No joke without fire

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CAIRO AND JERUSALEM

The meaning of Russia's weapons sale to Iran

HOW revealing of the unsteady allegiances in the Middle East these days that, when Russia announced on April 13th the lifting of its ban on the sale to Iran of S-300 anti-aircraft missiles, Israel's ire was directed more at the White House than at the Kremlin. Binyamin Netanyahu, Israel's prime minister, told President Vladimir Putin of his "grave concern". But the strongest words were aimed at Barack Obama: his nuclear talks with Iran were undoing the sanctions on the mullahs even before a final agreement was signed. "Can anyone still seriously claim that the deal with Iran will enhance security in the Middle East?" Mr Netanyahu asked. Yet, even as Israel talked up the missiles' threat, it said it would still be able to tackle them should it ever decide to bomb Iran.

Mr Netanyahu's tactics reflect the priority he gives to undoing Mr Obama's "bad deal", under which Iran would freeze its nuclear programme for a decade, and agree to tighter monitoring, in exchange for a lifting of sanctions. A "framework" was agreed on earlier this month, with a final deal to be signed by June 30th. But Israel's stance also underlines its close ties with Russia. Israel declined to join Western condemnation of Russia's war in Ukraine. Before that, it in effect abstained (along with Iran, among others) in a non-binding UN General Assembly vote last year denouncing Russia's annexation of Crimea. The excuse was that Israeli diplomats were on strike, but officials say the real motive was a desire to preserve ties with Russia, protect the welfare of that country's large Jewish community—and prevent the sale of S-300 missiles to Iran and Syria.

For more than a decade, Israel's leaders have paid discreet annual visits to Mr Putin in Moscow or at his holiday residence in Sochi. Differences between the two countries have usually been worked out in private. In 2006, during the war against Hizbullah in Lebanon, fragments of the latest Russian anti-tank missiles were found among the smoking shells of Israeli armoured vehicles. The evidence was presented in person by the then prime minister, Ehud Olmert, to Mr Putin, who promised to put tighter controls on exports to Syria, Hizbullah's ally.

In July 2013 Russia remained silent when an Israeli air strike destroyed anti-ship cruise missiles that it had recently supplied to Syria and were on their way to Hizbullah. And Israel kept shtum last October when Syrian rebels released footage of the involvement of Russian intelligence officers at a Syrian military listening post on the Golan Heights that had been overrun. Zvi Magen, a former Israeli ambassador to Moscow, says "Israel benefited considerably from the ties with Russia. They took our regional interests into consideration and for eight years didn't supply the S-300 to Iran." Some Israeli officials fear that may now be changing as the Kremlin rebuilds its standing in the Arab world.

Iran ordered the S-300 in 2007, but Russia halted the sale under international pressure. The missile is capable of simultaneously tracking and intercepting dozens of airborne targets at ranges of up to 150 kilometres (94 miles). It is unclear when it will be supplied (by the year's end, says Iran). It will take months for the system to become fully operational. The Israeli air force has had time to study the weaknesses of the S-300, and train against those used by friends such as Greece and Cyprus.

The revival of the contract feeds the regional arms race (see chart). But it also sends multiple messages: that Russia has a strategic role to play in the Middle East as America disengages; that the Kremlin can act as a spoiler to America's strategy even as Russia comes under economic pressure from the West over its policy in Ukraine; and that it intends to claim a share of the economic rewards in Iran once the sanctions are lifted. One juicy plum is the prospect of building and supplying the fuel for ▸▸

Tooling up

Arms imports by selected Gulf states, $bn

Source: SIPRI

more Iranian nuclear power plants.

Russian influence in the Middle East, much reduced after the end of the Soviet Union and repeated American military action in the region, has fallen further in recent years because of the Arab spring and the toppling of autocrats such as Muammar Qaddafi in Libya. But as the reaction to the uprisings sets in, Russia is a more comfortable ally for authoritarian regimes than America. Take Abdel-Fattah al-Sisi, Egypt's president. America shunned him after he overthrew the country's first democratically elected president in a coup in 2013. Mr Obama suspended a portion of America's generous military aid to Egypt. Mr Putin, by contrast, embraced his fellow strongman and promised to fill the void left by America, with no strings attached. During a visit to Cairo in February, Mr Putin presented Mr Sisi with a Kalashnikov rifle.

In practice, the Russia-Egypt affair may be little more than posturing. Russia is unlikely to sell Egypt many weapons, as Cairo is short of money and prefers American equipment. Yet the show of defiance towards the West has suited both sides. For Egypt, it shows America that it has other options. In March America resumed shipping a full assortment of arms.

In Syria, Russia (along with Iran) is a pillar of support for the regime of Bashar Assad in its brutal war against rebels of all stripes. The Russians believe that Mr Obama has acquiesced to this position, as seen by America's refusal in 2013 to strike Mr Assad over his use of chemical weapons. Russia is worried that if Mr Assad falls, its influence in the region will go too. Syria has long been Russia's most reliable Arab ally, and has been home to Russia's only naval facility in the Mediterranean since 1971. Syria alone accounts for about 10% of Russia's arms sales. "As Russia sees it, without Assad it is reduced to being an actor in the former Soviet states," says Mark Katz of George Mason University. Moscow has sought to sponsor Syrian peace talks, hosting a first round in January and a second last week. Distrustful of Russia's intentions, the Syrian National Coalition, the main opposition body, refused to attend.

That said, Russia's policy has strained relations even further with Saudi Arabia, which loathes Mr Assad and supports mainstream Syrian rebels. By refusing to cut oil production, the kingdom has helped push down oil prices. Intentionally or not, it has hurt Russia and Iran as much as, if not more than, Western sanctions. ■

The war in Yemen

Arabia Infelix

CAIRO

Is there a way out of the conflict?

THE war in Yemen is the archetypal quarrel in a faraway country between people of whom the world knows nothing. Sometimes, though, its internal power struggles become enmeshed in wider geopolitical contests—rarely to its benefit. In the 1960s the rivalry between monarchists and Arab nationalists split the Arab world. Egypt intervened on the side of the nationalist republicans against the loyalists of the Zaydi imamate, backed by Saudi Arabia. These days the great division is the rivalry between Saudi Arabia and Iran, which feeds sectarianism between Sunnis and Shias respectively. Now Saudi Arabia and Egypt are allies, intervening to support Sunnis against the Houthis, a northern Zaydi militia, that is backed by Iran.

Three weeks into the air campaign, and with civilian casualties growing, there is little sign that the Saudi-led coalition has much of a political or military strategy. The Latin name for the land, Arabia Felix (Happy Arabia) seems a mockery: the poorest country in the Arab world is being bombed by one of the richest.

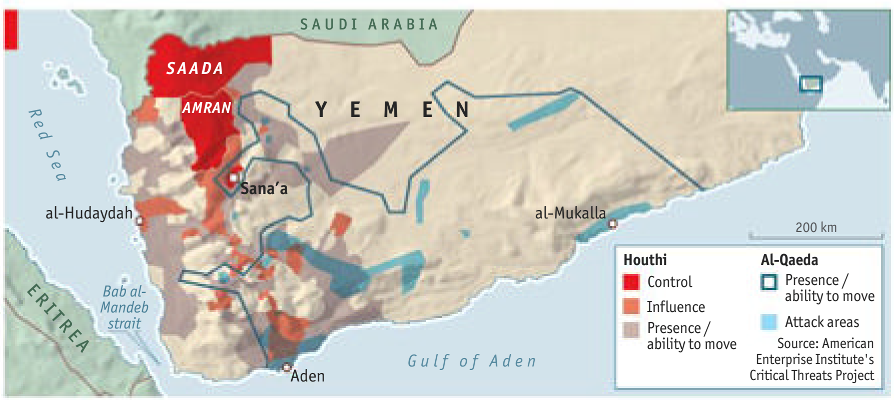
For America, which backs the Saudi operation with logistical help and intelligence, Yemen presents two dangers: it is a breeding ground for transnational jihadists (al-Qaeda in the Arabian Peninsula is the most dangerous of the group's branches) and it offers Iran an opportunity to extend its influence and nurture a Shia ally that, some fear, might become akin to Hizbullah in Lebanon. Both risks are being exacerbated by the chaos.

The Houthis fought repeated conflicts with the Yemeni government led by the former strongman, Ali Abdullah Saleh. Amid a popular uprising, the president stepped down in 2011 and power passed to a transitional government led by Abd Rabbo Mansour Hadi. But the Houthis, now allied with Mr Saleh, took the capital, Sana'a, last September and then marched on Aden, to which Mr Hadi had fled.

Sectarianism has not been strong in Yemen, and there is much uncertainty about how much support Iran provides the Houthis. Rhetorically, though, Iran's backing has become strident. Ayatollah Ali Khamenei, Iran's supreme leader, said Saudi attacks in Yemen amounted to genocide. In one tweet, he mocked the recently enthroned King Salman, and especially his son and defence minister, Prince Muhammad, who is in his thirties: "inexperienced #youngsters have come to power & replaced composure w barbarism". Amid the chaos, al-Qaeda has taken over Mukalla, a Yemeni port—although it suffered a setback when an American drone strike killed one of its leaders on April 15th.

Saudi action might have prevented the Houthis from taking all of Aden, but they are still making gains. Air strikes alone will not defeat them, but the ground option is receding after Pakistan rebuffed a Saudi request to send troops (see Banyan, page 38). Egypt seems in no rush to send soldiers to Yemen, which some call its "Vietnam".

Has the time come for a political deal? There are increasing calls for a ceasefire and negotiations. On April 14th the UN Security Council passed a resolution placing an arms embargo on the Houthis and Mr Saleh's family. It also recognised the Saudi call for UN-mediated talks in Riyadh, a condition that no Houthi could agree to. In pushing for the restoration of Mr Hadi, the Saudis are relying on an unpopular ally, not least because he fled the country. Mr Hadi has appointed Khaled al-Bahah as his deputy. A former prime minister, Mr Bahah is seen as just about the only unifying figure in Yemen. Still, Saudi Arabia has set out no clear political objectives. That leaves it with the impossible task of trying to annihilate the Houthis—and allowing Iran to pose as the peacemaker. ■



Source: American Enterprise Institute's Critical Threats Project

Drug abuse in Egypt

A pill for work and play

CAIRO

A painkiller becomes Egypt's favourite recreational drug

THE little pills of Tramadol are ubiquitous in Egypt. Taxi drivers take them to stay awake on the road. Men use them to improve their sexual prowess. Petty officials readily accept them as a bribe. And wedding guests even receive them as token gifts. Tramadol has become Egypt's favourite recreational drug, supplanting heroin and cannabis.

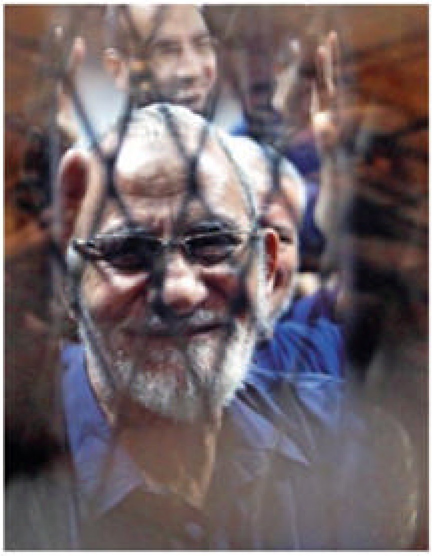
An opioid prescribed as a painkiller, Tramadol has a reputation for improving alertness and male sexual stamina—qualities much sought after in a country where people often have several jobs to make ends meet and where few women find it easy to experience orgasm because of widespread female genital mutilation. "It just makes you feel relaxed. Even if there are two men fighting to the death beside you, you wouldn't care," explains Taha, a bank teller, as he buys pills from a pharmacist willing to turn a blind eye. He says the drugs help him at work.

Until recently, Tramadol was selling for one or two Egyptian pounds a pill ($0.15-$0.3). It offers an affordable buzz in a country where average household income is less than $4,000 a year. "There is no social stigma attached to Tramadol," says Hisham Mamdouh, who heads a Cairo rehabilitation centre. At least 40% of those attending his clinic are addicted to the pills. Among them is Ibrahim, a socially awkward 17-year-old schoolboy. As a child, he took just half a tablet. "I found myself feeling unusually outgoing and positive," he says. Ten years on, he was ingesting a whole sheet of ten tablets a day and even then the effects quickly wore off. The symptoms of overuse include dizziness, shivers (many suffer these), headaches, difficulty sleeping, nausea and seizures.

The growth of Tramadol use accelerated after the uprising of 2011 that swept away the former dictator, Hosni Mubarak. In part the reason lies in the weakening of state controls. Drugs flooded in from India and China in little-inspected containers, says Ehab El-Kharrat, a doctor who heads the Freedom, Drugs and HIV Programme, a local NGO that runs the clinic. He says more funding is needed for rehabilitation and public-health education—largely absent in Egypt.

Egypt is a transit point for pharmaceuticals shipped to nearby countries. Customs inspections under President Abdel-Fattah al-Sisi have recently been tightened. In 2013 the government seized 35m pills which, it said, had been smuggled in. Pharmacists caught dealing on the side in theory face long prison sentences. The price of Tramadol has risen sharply, at one point reaching $1-$3 a pill. "Since then we have seen a flood of people seeking help," says Mr Kharrat.

Yet enforcement is poor. Court cases are thrown out because of shoddy police work. Officers are often in cahoots with the drug dealers, or are themselves drug-users. And even if the government succeeds in restricting the supply of Tramadol, there may be unintended consequences. If the pills become more expensive, users may switch to stronger heroin. Some worry that the worst of Egypt's drug problem is yet to come.



The Muslim Brotherhood

Hoping for a reprieve

CAIRO

Political Islamists may benefit from the Sunni world's focus on Iran

NAYEF BIN ABDEL AZIZ, the late crown prince of Saudi Arabia, was already in a fiery mood when a reporter asked him about the Muslim Brotherhood, the region's main Islamist movement, at a dinner in 2011. Affiliated and like-minded groups were set to win elections in Tunisia and Egypt, and were leading revolts in Libya, Syria and Yemen. According to Prince Nayef, whose tirades could last hours, the Brotherhood also threatened the House of Saud—and the journalist who posed the question was a terrorist sympathiser. The group's ascendancy in the region might cause upheaval at home.

Rattled by that prospect, Saudi Arabia and its allies in the Gulf helped to reverse the Brotherhood's gains by supporting the military coup that ousted it in Egypt in mid-2013 and backing anti-Islamist forces in Libya, Syria and Tunisia. The Brotherhood's fall from power in the region has been nearly as swift as its rise. But since the death of King Abdullah in January, Saudi Arabia has changed its tune, giving the group some hope of renewal.

The shift was evident as early as the king's funeral, at which Abdullah's successor, Salman, welcomed Rashid Ghannouchi, the Brotherhood's main ally in Tunisia. Then in February the Saudi foreign minister, Saud bin Faisal, said: "We do not have a problem with the Muslim Brotherhood. Our problem is with a small group affiliated to this organisation."

This more conciliatory tone reflects the attitude of King Salman. But it is also prompted by a foreign policy that now sees Shia Iran, not the weakened Brotherhood, as the kingdom's gravest threat, to be countered with Sunni unity. This is most evident in Yemen, where the Saudis have assembled a broad coalition of Sunni countries—from Qatar and Turkey, which support the Brotherhood, to Egypt and the United Arab Emirates, which vehemently oppose it—to fight the Zaydi Shia Houthi rebels. Iran has provided Sunni states with a common enemy and an excuse to put aside their differences, at least for now.

Winning the contest against Iran in Yemen and Syria may depend on Saudi Arabia and its allies working more closely with Islamists. The Brotherhood is prominent in Syria's exiled opposition, which gets help from the Gulf. The Houthis recently arrested dozens of leaders of Islah, Yemen's branch of the Brotherhood, after accusing the Saudis of calling them into battle.

Most of the Brotherhood's leaders in the region have warily endorsed the Saudi-led operation in Yemen. But the group has also blamed the crisis on "the quelling of the Arab Spring" and on "repression of popular will"—a message aimed more at the government in Egypt, where the bloody feud between the Brotherhood and the regime of Abdel-Fattah al-Sisi continues. On April 11th an Egyptian court confirmed a death sentence on Muhammad Badie (pictured above), the Brotherhood's spiritual leader in Egypt. (Appeals can last years, and he is unlikely to be executed).

When Egypt's Brothers were persecuted in the 1960s, many fled to Saudi Arabia. Now they tend to go to Turkey. Even if their ties with the Saudis improve, don't expect a reprieve in Egypt in the near future. ■

Sudan's politics

May the only man win

KHARTOUM

The West is under pressure to embrace Sudan, despite patently unfair elections

THE three days of balloting in parliamentary and presidential elections in Sudan on April 13th-15th left Ahmed Khalil with a simple question: why three days? "Everyone knows the outcome already," said the young teacher as he passed a campaign poster in Khartoum, the capital, with a train of pupils dressed in camouflage-print school uniforms. "Most countries manage to vote in one day and really we could be done in five minutes."

Nobody doubts that Omar al-Bashir, in power since he led a military coup in 1989, will remain president for another five-year term. He is ostensibly running against 14 other candidates, but none is a threat, or particularly independent. The real opposition united last year under the label "Sudan Call", hopeful of gaining a greater say. The government announced a "national dialogue" in response, but little good has come of it. Security forces cracked down; copies of 14 newspapers were confiscated on a single day last February. With the deck stacked against it, the opposition boycotted the poll. Mr Bashir, indicted for genocide by the International Criminal Court (ICC), looks as strong as ever.

That is awkward for the West. It has long ostracised Mr Bashir. But its friends in the region are asking if it is time to start dealing with him. The main reason is that Sudan, once a constant mischief-maker, has become surprisingly useful.

Since late March Mr Bashir has backed Saudi Arabia's armed campaign against Iranian-backed Houthi rebels in Yemen. He visited King Salman, who ascended the throne in January, after years of testy relations. He has also drawn closer to Egypt and several Gulf states, supporting a military push against Islamist militias in Libya that had once been provisioned by Sudan. The Islamists are allied to a would-be government in Tripoli. But Mr Bashir will now "co-ordinate" with the internationally recognised government in Beida, says Abdullah al-Thinni, its prime minister. Mr Bashir has also buried the hatchet with Chad, another former foe and a Western ally in the fight against jihadists in the Sahel. In South Sudan, he has meddled less amid the chaos than many had expected. And he has distanced himself from Iran, his old ally. Regionally, Sudan has come in from the cold.

Yet Western diplomats question whether Mr Bashir has really changed his spots. His regime has long been close to radical causes. It has cosied up to the Saudis over Yemen only after angering them by apparently helping Iran supply the Houthis. One reason for Sudan to switch sides is that Saudi money may rescue its floundering economy, as it did Egypt's. The loss of oil revenues after the secession of South Sudan has drained its coffers; the phasing out of subsidies has pushed up prices.

Western sanctions are another reason for Sudan's economic woes, though in February America relaxed long-standing restrictions on the sale of smartphones and laptops to the country. Yet when Mr Bashir spoke at an Egyptian investment conference in March, John Kerry, America's secretary of state, who was also there, felt obliged to leave the room. Sudan is not as strategically valuable as other countries with which America is seeking to engage, such as Cuba and Iran. Nor has Sudan made any attempt to be less grotesquely brutal at home. The UN panel of experts on Sudan says that more than 3,000 villages in Darfur, the country's troubled western region, were burned in 2014 by militias linked to Mr Bashir. Oxfam says more than 50,000 people have fled their homes this year. And diplomats say government aircraft have bombed hospitals in Blue Nile and South Kordofan, two other mutinous provinces. A warm Western handshake with Mr Bashir still seems far off. ■

No surprises here

South Africa's politics

Black to trump white?

The liberal opposition looks for new blood

AFTER eight combative years as leader of South Africa's main opposition party, the Democratic Alliance (DA), Helen Zille is to step down at next month's party congress. During her reign the party has steadily made gains, but it is still widely considered "too white" to threaten the supremacy of the African National Congress (ANC), which dominates the country's politics despite its falling support.

Under the leadership of Ms Zille, a doughty 64-year-old who campaigned as a journalist against apartheid, the DA has progressed. With its promotion of social and economic liberalism as the road to harmony and prosperity, it won 17% of votes cast in 2009 and 22% at the last election a year ago, compared with 62% for the ANC. It strengthened its grip as the ruling party of the Western Cape, the second-richest of South Africa's nine provinces (Ms Zille will remain its premier), and holds the mayoralty of Cape Town, South Africa's second city. At next year's local elections the DA hopes, perhaps in a coalition, to wrest from the ANC control of Johannesburg, the commercial capital; Pretoria, the seat of government; and the Nelson Mandela Bay Municipality, which embraces Port Elizabeth.

Most voters from among South Africa's 4.8m Coloureds (people of mixed race) and its 1.3m citizens of Indian descent, as well as an overwhelming majority of its 4.5m whites, now back the DA. The party reckons it takes 5-10% of the vote of those among South Africa's 43m blacks who go to the polls.

But there's the rub. Many middle-class blacks, fed up with the corruption and incompetence of the ANC, are considering instead Julius Malema's populist Economic Freedom Fighters. Though it got only 6% in last year's election, it is making turbulent waves in Parliament—and sometimes sounds more like the real opposition to the ANC, so far as black South Africans are concerned.

A leading contender to replace Ms Zille is Mmusi Maimane, the DA's parliamentary leader, who was raised in Soweto, the sprawling black township on the edge of Johannesburg. Handsome and eloquent, he was thought to have bested Jacob Zuma in his reply to the president's state-of-the-nation speech earlier this year. But he is only 34, short of experience and—some say—still lacks a coherent vision. Leaving race aside, it is not clear who is the right person to give the DA a fresh boost—or how to do it.

The Economist

SPECIAL REPORT

FAMILY COMPANIES

APRIL 18th 2015

To have and to hold


A STATE THAT WORKS for me.
"Our business is in Indiana because the workforce is much more dedicated. They'll start from the beginning and see the opportunity for growth in a business, and they'll stay and continue to grow with it."
Bethany
INDIANA
AStateThatWorks.com
BETHANY ALBANESE | DIRECTOR OF OPERATIONS/MARKETING MANAGER
ALBANESE CONFECTIONERY | MERRILLVILLE, INDIANA
ALBANESECONFECTIONERY.COM

To have and to hold

Far from declining, family firms will remain an important feature of global capitalism for the foreseeable future, argues Adrian Wooldridge

FAMILIES HAVE ALWAYS been at the heart of business. Family companies are among the world's oldest. The Hoshi Ryokan, an inn in Japan, has been in the same family since 718. Kongo Gumi, a Japanese family construction firm, was founded even earlier, in 578, but went bust in 2006. The Antinori family has been producing wine in Tuscany since 1385 and the Berettas have been making guns since 1526. Family companies played a starring role in the development of capitalism: think of the Barings or the Rothschilds in banking or the Fords and Benzes in carmaking.

Family companies are ideally suited to the early stages of capitalism. They provided two of the most important ingredients of growth, trust and loyalty, in a world where banking and legal institutions were often rudimentary and poor communications made far-flung activities hard to control. It was easier to raise money from kinsmen than from strangers. And it was safer to send a relative than a hired hand to expand the business abroad.

Business enterprises also provided patriarchs with a way of transmitting wealth and status to future generations. "The banker's calling is hereditary," said Walter Bagehot, a distinguished 19th-century editor of this newspaper. "The credit of the bank descends from father to son; this inherited wealth brings inherited refinement." Family dynamics sometimes dictated business strategies: the Rothschild bank helped to globalise finance when Mayer Amschel Rothschild, the dynasty's founder, sent his five sons to set up banks in different countries.

Serious thinkers have given surprisingly little thought to the family dynamics behind the early stages of capitalism. Novelists are a better guide to this subject than classical economists. In "Dombey and Son" Charles Dickens describes how Dombey wants to pass his business on to his son but is frustrated by a scheming manager. Thomas Mann's "Buddenbrooks" is about the children of a great business founder turning their backs on the bourgeois virtues that built the family's fortunes.

Business gurus have also given family firms short shrift. Alfred Chandler, the doyen of business historians, regarded family companies as relics of an earlier era that found it hard to muster the capital and talent needed to compete. The real engines of modern capitalism were public companies, owned by diverse shareholders and run by professional managers. Peter Drucker, the doyen of management theorists, reckoned that the drivers of these great engines were professional "knowledge workers", not business patriarchs and their families.

Chandler was right that public companies made enormous advances in the late 19th and early 20th centuries as capital-intensive businesses turned to public markets for funds. But he was wrong in his prediction

ACKNOWLEDGMENTS

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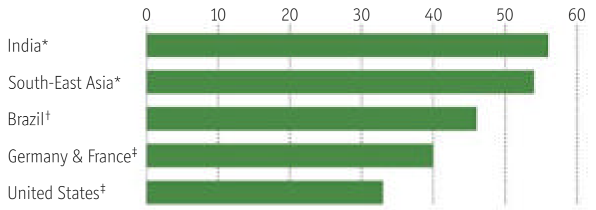
A list of sources is at
Economist.com/specialreports

An audio interview with the author is at
Economist.com/audiovideo/specialreports

Family matters 1

Family businesses as % of top companies, latest available



*Top 200 companies by revenue †Companies with revenues over $500m ‡Companies with revenues over $1bn

Source: Boston Consulting Group

that they would push family companies to the margins of the modern economy. Even in the Anglo-Saxon world, where public companies gained the most ground, families held on to some of the most prominent businesses, such as Walmart, the world's largest retailer, and Ford, one of the largest car companies. In continental Europe public companies remained the exception.

Thirty-eight years after Chandler published his paean of praise for the public company, "The Visible Hand", family companies still provide many of the necessities of life. You can get your news from the *New York Times* and the *Wall Street Journal*; your car from Ford or Fiat; your smartphone from Samsung or LG; and your groceries from Walmart or Aldi. In a scholarly book, "Dynasties", the late David Landes of Harvard University demonstrated that you could write a respectable history of capitalism through the lens of family histories. You could write an equally respectable survey of the state of modern capitalism by telling the story of a dozen family firms.

Family businesses make up more than 90% of the world's companies. Many of them are small corner shops. This special report will focus on the larger companies that shape the global economy and develop world-changing products and ideas. The point is to show that family businesses can flourish in the most sophisticated areas of the modern economy.

Defining these larger family companies is tricky. If you restrict the term to companies that are both owned and managed by family members, you will end up with remarkably few. If you expand it to include companies that are run by the founders, you will take in tech giants such as Google and Facebook, which few people would see as family firms. The Boston Consulting Group has produced a reasonable definition made up of two elements: a family must own a significant share of the company concerned and be able to influence important decisions, particularly the choice of chairman or CEO; and there must have either been a transition from one generation to the next, or, in the case of a founder-owned firm, plans for such a transition. On that definition, BCG calculates, family companies represent 33% of American companies and 40% of French and German companies with revenues of more than $1 billion a year. In Asia and Brazil they are even more prevalent (see chart 1).

Powerful families are also adept at using pyramid-style business holdings to keep a controlling number of shares in other companies. Randall Morck, of the University of Alberta, points out that the Wallenberg family controls companies that represent up to half the market capitalisation of the Swedish stockmarket, including global giants such as Ericsson. The Agnelli family controls 10.4% of the Italian stockmarket. In Hong Kong the top 15 families control assets worth 84% of GDP, in Malaysia 76%, in Singapore 48% and in the Philippines 47%.

The majority of the world's most successful medium-sized companies are also family firms. Hermann Simon, chairman of Simon-Kucher & Partners, a consultancy, calculates that they account for two-thirds of Germany's mighty *Mittelstand*, including world leaders in doors (Dorma), balancing machines (Schenck) and industrial mixers (Ekato). Italy has a large number of family-owned global champions in taste-conscious niches: Ferrari in cars, Versace in fashion, Ferrero Rocher in chocolates.

The most striking thing about family companies is arguably not their average quality but their variance: they have more than their share of pariahs as well as paragons. Portugal's Espírito Santo was one such pariah: massive debts turned the family-owned financial conglomerate into one of Europe's largest corporate failures, obliging the government to save the family from the consequences of its own greed and folly.

The best thing about family companies is their sense of ownership. That helps them get round two of the most troubling defects of modern capitalism: the focus on short-term results and the so-called agency problem (the potential conflict of interest between owners and managers). On their own admission the CEOs of public companies find it hard to think about the long term because they have to focus on "hitting the numbers" every quarter, and the length of their job tenure has fallen steeply over the past decade. Family owners regard their shares as long-term investments and keep a close eye on management even if they do not run the company.

Clogs to clogs

The worst thing about family companies is succession. This is difficult in all organisations, but especially so in family firms because it involves the biological as well as the institutional sort and throws in a mass of emotions. Family businesses that restrict their choice of heirs to their children can be left with dunces. Moreover, wealth corrupts, a principle so well-established that many languages have a phrase for it. In English it is "clogs to clogs in three generations"; in Italian "from stables to stars to stables"; in Japanese "the third generation ruins the house"; and in Chinese "wealth does not survive three generations". According to the Family Business Institute, an American consultancy, only 30% of family businesses survive into the second generation and 12% into the third. A mere 3% make it into the fourth and beyond.

Family companies' sense of ownership gets round two of the most troubling defects of modern capitalism: short-termism and the so-called agency problem

More broadly, family businesses often suffer from human quirks. Alfred Sloan, the founder of General Motors, argued that the aim of professional management was to produce "an objective organisation" as distinct from "the type that gets lost in the subjectivity of personalities". That was much in evidence at his great rival, the Ford Motor Company, where Henry Ford's idiosyncratic behaviour almost ruined the business. But that "subjectivity of personalities" can also enable family bosses to make brilliant decisions which elude professional managers.

This special report will argue that family companies are likely to remain a significant feature of global capitalism for the foreseeable future, thanks to a combination of two factors. Family companies in general are getting better at managing themselves: they are learning how to minimise their weaknesses while capitalising on their strengths. At the same time the centre of the modern economy is shifting to parts of the world—most notably Asia—where family companies remain dominant.

McKinsey, a consultancy, calculates that by 2025 an extra 4,000 founder- or family-owned companies could hit sales of $1 billion. If this proves correct, family firms in emerging markets might then make up nearly 40% of the world's large companies, compared with 15% in 2010. McKinsey's habit of conflating founder-owned firms and family firms is less problematic in Asia than it is globally because founder-owned firms there are more likely to become true family firms. The consultancy is right, too, about the direction of change: the world's most dynamic region also happens to be the friendliest to family businesses.

To understand family companies better, business analysts will need to pay more attention to their internal dynamics. These firms are not just immature public companies, nor are they just highly successful startups. Some of their distinctive behaviour is explained by their "familyness" in the same way that public companies' behaviour is explained by their "publicness". Investors will need to look more closely at things like succession planning and whether family members are getting on well together. Academic theorists reflecting on the reasons why firms exist will need to add one more: their role as a mechanism for the transmission of property to future generations.

Since family companies are not just surviving but flourishing, many assumptions about the nature of modernity will have to be rethought. Classical sociologists and classical economists both predicted that family businesses would retreat as societies became more rational and bureaucratic. Families themselves would become nothing more than "havens in a heartless world", as Christopher Lasch, a historian, put it. But that orthodoxy is crumbling in the face of growing evidence that family dynasties can do well in even the most sophisticated modern societies. ■

United by diversity

The four main types of family business

FAMILY COMPANIES COME in many guises. In a paper published last year Soumodip Sarkar, of the University of Evora, and two colleagues identified 200 different definitions. Some people use the term as a synonym for a small company, for others it means a closely held company. This special report will define family companies as those with families as either owners or managers or a combination of the two. They must involve more than one family member, and there has to be a succession, or a planned succession, from one generation to another. In a new book, "The Family Business Map", Morten Bennedsen, of INSEAD, and Joseph Fan, of the Chinese University of Hong Kong, explain that this basic model comes in four main flavours.

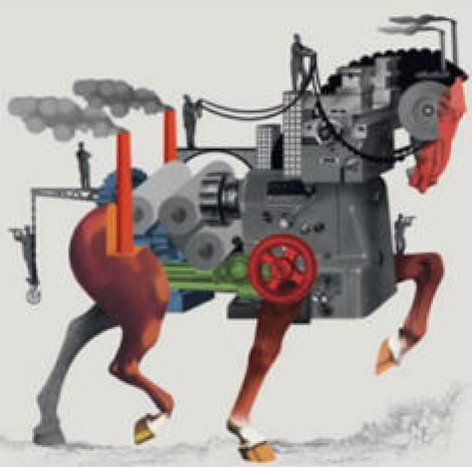
In a classical family company the family exercises both ownership and control, as exemplified by members of the Hénokiens Association, an international club of 44 family businesses that combine family ownership and management and are at least 200 years old. They include 14 Italian companies, 12 French, five Japanese, four German, three Swiss, one British and one Austrian. The British have gone one better with a Tercentenarian Club of companies, owned and controlled by the same family for over 300 years.

As firms get bigger, this combination of ownership and control becomes harder to maintain, but a few manage to hold on to both. Lakshmi Mittal, scion of an Indian steel dynasty, owns 41% of the shares of Arcelor Mittal, the world's largest steelmaker, and acts as both chairman and CEO. Charles and David Koch between them own 84% of the shares of Koch Industries, a company with revenues of $115 billion. Charles Koch is the CEO and David his loyal lieutenant.

In the second model, the family owns a controlling stake in the company but hands over the running of it to professional managers. The Walton family owns around half of Walmart but does not run it on a day-to-day basis. Passive ownership can be risky for families. The Cadburys retreated from direct management of their chocolate empire and progressively diluted their family control, so when Kraft, a giant American food company, made a hostile bid for the company in 2010, all they could do was protest.

Some families seize their patrimony back from professional managers. Li & Fung, a Hong Kong-based trading group, saw the family's control slip away after the company was listed on the Hong Kong stockmarket in 1974. But in the mid-1980s William and Victor Fung reasserted family control by borrowing to buy out other owners and then relisting the company on the stockmarket in 1992.

Third, and more surprising, in some family companies the family retains very little ownership but continues to play a managerial role. This model is fairly common in Japan. The Toyodas and Suzukis have only small shareholdings in the companies that bear their names, but Suzukis have managed the company for generations. Toyota appointed Akio Toyoda CEO and president in 2009 when the company had been forced to recall 4.2m cars after a safety scare. The eight families that in 1917 founded Kikkoman, a soy-sauce company, own just 20% of it now, but the post of CEO continues to rotate among them.



In a fourth type of family firm the family turns itself into a venture-capital fund to give its younger members a start in life. The Mulliez family owns one of France's leading retail groups, Auchan, and younger members have used family money to found many other companies, including Decathlon (sports), Pizza Pai and Flunch (catering), Leroy Merlin (do-it-yourself) and Boulanger (electrical appliances). These businesses are all owned by a holding company, Cimovam, that employs 366,000 people.

Many family companies are hybrids, alternating between giving managerial roles to family members and bringing in hired guns. Barings flip-flopped between family and non-family CEOs before the bank went under in 1995. Since Henry Ford died in 1947, three members of his family have been CEOs.

The prevalence of the hybrid form argues against the idea that families tend to move from being owner-managers to passive shareholders. That seems to have been the dominant model in the Anglo-Saxon world, but not elsewhere. Julian Franks of the London Business School and his colleagues studied more than 30,000 firms across Europe and found that older firms in France, Germany and Italy are in fact more likely to be family-controlled than younger ones.

The upsides

Old-fashioned virtues

Patience, distinctiveness, thrift and trust still count

EVERYTHING ABOUT BERRY BROS. & RUDD'S showroom in St James's Street, London, suggests tradition. The walls are panelled in dark oak. Leather-bound volumes record "the weights of customers of this establishment" from 1765 onwards, sitting alongside a set of weights from a time when the shop sold coffee rather than alcohol. Simon Berry represents the 7th generation of Berrys to run the company, and he looks the part. Sitting in a small office with a roaring fire (gas, alas) and an old-fashioned rotary-dial phone, he talks about the company's Cutty Sark brand of whisky being blended on the table in front of him.

But Mr Berry is not just resting on the company's laurels. He is working hard to expand his family patrimony, particularly in China, where wine-drinking is booming, but also in America. He has a state-of-the-art cellar for 2m bottles in Basingstoke, near London, and another 6.3m bottles at other sites. The neatly dressed shop assistants tap away on computers kept discreetly out of sight. They have all been sent on acting courses to polish their customer service. His father, Mr Berry recalls, liked to say, "it's only money." Today family firms come with a harder edge.

Ask the boss of any family business what makes his company different, and he will mention his long-term perspective. That helps him resist the temptation to make a quick buck and allows him to think in terms of decades rather than quarters. Mr Berry jokes that once you have survived the South Sea Bubble—a financial crisis in 1720 that caused the British economy to shrink by a quarter—you can see the 2008 recession in perspective.

Keep it steady

More systematic inquiry bears this out. The Boston Consulting Group compared a list of 149 medium-sized to large publicly traded but family-controlled businesses with a group of non-family companies from the same countries and industries and found that family companies performed more consistently than non-family ones. They did not make as much money as other sorts in good times but did better when the going got rough. John Coates and Reiner Kraakman, of Harvard Law School, who studied the tenure of CEOs in the Standard & Poor's 500 in 1992-2004, found that those who held more than 1% of the stock (which includes family firms) were at the helm for an average of 13.4 years, compared with 5.5 years for other companies. Hermann Simon, the consultant, calculated that the CEO of a German *Mittelstand* company sticks around for an average of 20 years, sometimes considerably longer. Horst Brandstätter, the boss of Playmobil, a German toy company, lasted 54 years. He once gave one of his designers a ten-year deadline to come up with a new product. Hans Riegel, the boss of Haribo, a confectioner that invented gummy bear sweets, was in post for 63 years.

This strategic patience has proved particularly useful in two quite different businesses: newspapers and luxury goods. Two of the world's best newspapers are owned by families: the *New York Times* by the Sulzbergers and the *Wall Street Journal* by the Murdochs, who bought it from another family, the Bancrofts. (The Pearson family owns the *Financial Times*, which has a 50% share in *The Economist.*) Family companies have been much more willing than widely held companies to make the sort of long-term investment required to ensure first-rate journalism.

The world's largest luxury brand, LVMH, is a successful family company, owned by Bernard Arnault, that has bought up other family companies such as Bulgari and Fendi. Hermès, another family company, demonstrates the virtues of patience. In the difficult 1970s it refused to compromise on quality, insisting that all its products be made from the finest materials. That left it well-positioned for the subsequent luxury boom.

One of the best examples of the power of long-termism comes from a surprising industry: outdoor advertising. Jean-Charles Decaux, the eponymous CEO of Decaux, explains that family ownership gave his company the scope for the "patient innovation" that turned it into the biggest in his industry. It introduced a series of innovative ideas such as the "freemium model", providing cities with street furniture such as bus stops in return for the right to rent out advertising space on them. The company also pioneered the free-bicycle model that has changed urban transport across the world. The founder, Jean-Claude Decaux, harnessed sibling rivalry to push global expansion, much as Mayer Rothschild did in his day: he put each of his three sons in charge of his own region so they could show their entrepreneurial clout. "The first generation invented the company," says Mr Decaux. "The second generation took it global."

Such long-term thinking is turning into more of an advantage as public companies become increasingly focused on the ▸▸

short term. Not only has the average tenure of a CEO in a public company declined from ten years in 2000 to about eight today, the average period for which owners hold the stock has also fallen with the rise of electronic trading. A growing number of CEOs praise the private-equity model, which provides a longer time horizon, but even that does not stretch beyond five to seven years. Family ownership provides companies with a perspective that is almost impossible to replicate in either public or private capital markets.

Family companies are also particularly careful with money, even though many of them operate in luxury niches that depend on extravagance. Some of the most successful ones are bywords for frugality. Mars has famously modest headquarters in McLean, Virginia, and Walmart asks middle managers to economise by sharing rooms when they travel.

Once again research confirms these impressions. BCG notes that the family firms it studied are better than other companies at keeping their costs under control because their owners keep a much closer eye on them. As a result, they had to make fewer lay-offs during the 2008 financial crisis.

Another strength of family companies is their powerful internal culture. Whereas public companies have become increasingly bland, many family companies are islands of distinctiveness. They have their own way of doing things, often derived from their founders' strong convictions. When Heinz-Peter Elstrodt and his colleagues at McKinsey examined 114 family firms and 1,200 other large companies for their "organisational health", they found that family firms scored significantly higher on things like worker motivation and leadership, though they lagged slightly on innovation.

The personal touch

These internal cultures give family companies three interconnected advantages that are increasingly valuable in a world where so much is commoditised. The first is a stable base of employees. Holger Mueller and Thomas Philippon, of New York University's Stern Business School, suggest that family companies tend to have better labour relations than other firms. They keep their workers for longer and can call on deeper reserves of loyalty. John Davis, of Harvard Business School, says that many family companies are like tribes: they want to recruit loyalists who will be around for a long time rather than high-flyers who want to burnish their CVs.

The second advantage of family companies' strong internal culture is a distinctive set of stories that they can tell their customers. These stories are sometimes about their age: Molson likes to boast that the family has been brewing beer "since before there was a country called Canada". Sometimes they are about the quirky personality of the founder: Ingvar Kamprad, the founder of IKEA, a giant Swedish furniture retailer, habitually flew economy class despite his wealth. And family companies are increasingly using their ownership as a selling point in its own right.

His father, Mr Berry recalls, liked to say, "it's only money." Today family firms come with a harder edge

The third plus is trust, which is particularly important at a time when capitalism is in danger of losing its legitimacy. Edelman, an American public-relations firm, publishes an annual "Trust Barometer" which shows that across the world people trust family businesses more than other kinds of companies. (Edelman, as it happens, is a family company, started by Dan Edelman in 1952, currently run by Richard Edelman and now bringing on the third generation.)

Fans of family companies like to point to another advantage: value-based leadership. To be fair, not every family company has it. But there is something to this idea. A striking number of the world's great family companies were created by members of religious minorities who embraced a strict ethos. These minorities put particular emphasis on both business and the family because they were excluded from public-sector jobs and because they had to look out for themselves. The Jews are just one example. In Britain the Quakers are another. The Cadburys and the Rowntrees created chocolate companies to try to wean the British off alcohol, and the Barclays started banks to fund their co-religionists. In India the main example are the Parsees. The Tatas and the Godrejs prided themselves on running companies that offered other Parsees honest work. In America the Mormons have created many highly successful family companies, such as Marriott (hotels) and Huntsman (energy).

Lastly, family businesses offer scope for unlikely successions. They have led the way in promoting women, who sometimes take over when a husband or father has died. On August 3rd 1963 Katharine Graham heard an ear-splitting noise from a downstairs bathroom. Her husband, with whom she had just had lunch, had shot himself. Mrs Graham had no business experience: she had been happy for her tycoon father, Eugene Meyer, to leave his media business to his son-in-law rather than to his daughter. Her husband's suicide left her with little choice but to step in. She became the first female CEO of a *Fortune* 500 company in 1972 and proved to be one of the 20th century's greatest newspaper proprietors. Under her iron reign the *Washington Post* brought down President Nixon with its investigation into the Watergate break-in and challenged the *New York Times* for the title of America's most illustrious newspaper.

Likewise, Maria-Elisabeth Schaeffler succeeded her husband in 1996 as CEO of INA-Schaeffler, the world's second-largest manufacturer of ball and roller bearings, and turned out to be much better at the job. Family companies have also sometimes made bets on relatively inexperienced people. Hartmut Jenner became CEO of Karcher, the world's market leader in high-pressure cleaning equipment, at the age of 34, and Robert Friedmann took control of Würth, a $10.7 billion conglomerate, at 38.

The best family companies can draw on a wide range of assets, from patient capital to social trust to brilliant widows, none of which can be easily replicated by widely held public companies. But each of these assets also has the potential to turn into a terrifying liability. ■

The downsides

All too human

How families can cause trouble for their firms

TWO OF THE most successful television soap operas were about family businesses. "Dallas" told the story of J.R. Ewing's struggles with his brothers, half-brothers and in-laws for control of Ewing Oil. "Dynasty" was a saga about another oil dynasty, the Carringtons, who "lived and sinned in a 48-room Denver mansion". The producers understood that money and family together make the perfect stuff of drama.

Koch Industries, an oil, gas and commodities conglomerate based in Wichita, Kansas, makes "Dallas" look sedate by comparison. It has been a cockpit for family quarrels that have eaten up millions of dollars in legal bills and sometimes threatened to tear the company apart. It has also become toxic in some quarters because Charles and David Koch helped raise an estimated $400m in a bid to stop Barack Obama's re-election in 2012 and fund organisations that promote libertarianism and climate-change scepticism. The firm was founded by Fred Koch, who had a genius for inventing ways of getting more petrol out of each gallon of oil. Fred's second son, Charles, eventually succeeded his father as the firm's CEO. David, a younger brother, acts as a loyal lieutenant. But this succession created huge tensions with two other brothers, Fred junior, the eldest, and in particular Bill, David's twin. Bill and Fred started bringing legal cases against "Prince Charles" and his sidekick. Lawyers sued and countersued. For nearly two decades the two Koch factions exchanged hardly a word that was not mediated by a lawyer. The brothers were finally reconciled in 2001, at least officially.

Such quarrels are nothing unusual among the world's biggest family businesses. Sumner Redstone, the majority shareholder of a clutch of media companies, CBS, Viacom and National Amusements, has a long history of feuding with his children, Brent and Shari, over succession. The Porsche and Piëch families, which control Porsche and Volkswagen respectively, have been fighting for decades even though they are related.

Some family companies thrive despite such quarrels. Koch Industries is a highly successful company with over 100,000 employees and an annual turnover of around $115 billion. Two of the world's leading shoe companies, Adidas and Puma, were founded by warring brothers, Adolf and Rudolf Dassler, who set up rival factories in their German home town of Herzogenaurach. But family quarrels also destroy or break up many family companies.

Follow the leader

Internal family rivalries often come to a head over the question of succession. Many family patriarchs are larger-than-life figures who are unwilling to make way for their successors. Haldor Topsoe remained an active chairman of his company until close to his death at almost 100. Arnold Maersk McKinney Moeller retired as boss of Maersk, the world's largest container shipping company, at 80, but continued to cast a long shadow over the company until he died in 2012, aged 98.

Family companies are more likely than other businesses to be thrown off balance by an unexpected death. Researchers who studied more than 5,000 family companies worldwide to see how vulnerable they were to health shocks among family members found that the unexpected death of a CEO could reduce performance by up to 30% and the death of a spouse or child by 10%. Even the hospitalisation of a family owner had an impact.

The biggest problem for family companies is the distinct possibility that the children or grandchildren of business founders may not match the founder for either brains or character. Warren Buffett, a veteran investor, once compared family succession to "choosing the 2020 Olympic team by picking the eldest sons of the gold-medal winners in the 2000 Olympics". A family grandee says that the biggest barrier to keeping the family show on the road is the "growing sloth of family members". And CEOs who bear the family name are far more difficult to sack than hired hands, even if they turn out to be useless. Francisco Perez-Gonzalez, of Stanford Business School, compared the returns of America's 500 largest firms in the three years before and after succession and found that returns of firms with non-family CEOs were about two percentage points higher than of those with relatives in the top job. Morten Bennedsen, of France's INSEAD business school, and Kasper Nielsen, of Copenhagen business school, conducted a study of succession in more than 5,300 private firms in Denmark and also found that relatives significantly underperformed outsiders.

Although family companies on the whole are trusted more than other firms, that advantage can quickly dissipate. Business founders will enjoy that trust no matter how rich they become, but their successors will lose some of it no matter how much they improve their companies. Billy Vanderbilt more than doubled his father's fortune in the seven years after "the Commodore's" death, but has since become a mere footnote in history.

The best family companies work hard to prevent this erosion of trust over time by holding themselves to higher standards than the rest. They force heirs to earn their entrepreneurial spurs, perhaps by conquering new regions or entering new industries. But these efforts fail as often as they succeed: the more mature a family company becomes, the more suspicion it faces.

Family companies also often suffer from a surfeit of bodies. If the family multiplies rapidly, ownership bcomes more and more diluted. The Mulliez family, for example, has grown to 780 members, 600 of whom have ownership stakes in the family investment company. The Wendel family has more than 1,000 family members involved in Wendel Participations, the holding company that owns almost 40% of Wendel. Such dilution creates numerous problems. How do you decide who runs the company and who is just a passive shareholder? How do you ensure family harmony when different members have different levels of ownership and different degrees of control? Family members who are mere shareholders are likely to press for higher dividends, whereas those who remain in management will want reinvestment and growth. The bigger the family, the bigger the potential for conflict.

The Pritzker business empire, which included the Hyatt hotel chain, was broken up by the logic of numbers. The family patriarch left the empire to 11 cousins who all wanted very different things from their inheritance. The Pritzkers remain a powerful family; they include America's current commerce secretary, Penny, as well as numerous billionaires. But their business clout has been scattered to the winds.

A handful of families have the opposite problem: too few children. This seems to be particularly common in one of the world's most business-minded ethnic communities, the Parsees. Their number has fallen by about a tenth in each decade since the 1950s, and only about 61,000 of them are now left in India, three-quarters of them in Mumbai. They closed their maternity hospital in that city a decade ago. Nobody knows why they have so few children: some people point to their preference for late marriage, others say the reason may be genetic. But there is no doubt that it has a marked impact on business. The Tata family's repeated failure to produce offspring helps explain the structure and ownership of India's biggest company. When it ran out of direct heirs in the 1930s, the family handed control of the company to a trust. And because Ratan Tata, the chairman of Tata Group until 2012, has no children, the company's CEO is now called Mistry rather than Tata. ■

Making it work

The family way

Distinctive problems call for tailor-made solutions

JAPANESE BUSINESSES HAVE come up with a logical solution to the problem of disappointing heirs: find better ones. The easiest way to do this is to persuade your daughter to marry a talented man. ("You can't choose your sons," goes a Japanese adage, "but you can choose your sons-in-law.") Another way is to adopt a star employee as a son. For best effect these two techniques can be combined: adopted sons can be persuaded to marry their stepsisters. A study of leading Japanese companies since the second world war found that about 10% of "family successions" in business families involved a son-in-law or an adopted son. Kajima Construction has been run by non-blood heirs for three generations. Suzuki Motors, too, has had a run of non-blood heirs. Osamu Suzuki, who was himself adopted into the family, chose his son-in-law as his successor, though the proposed heir then died. The use of adoption not only allows business families to draft in talent from outside. It also puts competitive pressures on biological heirs by raising the possibility that they will be moved aside.

The Japanese solution is unlikely to travel. But across the world family companies have been producing distinctive solutions to their distinctive problems, and they are getting better at it. That is partly because they have a growing body of family-company lore to draw upon. One grandee of a storied Western company active in the East says that China's new billionaires are constantly asking him about the secrets of his company's longevity. Partly, too, it is because the management-theory industry is at last beginning to take family companies seriously.

The secret of the pyramids

The biggest challenge for family companies is how to preserve family control while competing with public companies that can draw on public capital markets. One solution is to stick to a tiny global niche; many *Mittelstand* companies credit their success with refusing to compete "where the elephants play". A second strategy is to form a close relationship with a local bank. This was once popular with Quaker families in Britain and is still the norm in much of continental Europe. But the most successful technique is to structure your company so that you can separate the right to a return (income) from the right to a say in how the company is run (control).

The most popular way to do this is by pyramiding. Yoshisuke Aikawa, the founder of the Nissan group in pre-war Japan, saw pyramids as the ideal solution to what he called "the capitalist quandary". If a capitalist uses only his own or his family's money, his scale of operations will be too small. If he taps into public equity markets, he risks losing control. Pyramids provide him with the best of both worlds—secure control and unlimited access to public capital. The family controls the company that sits at the top of the pyramid, which has a controlling stake (say 51%) in the company at the next level, and so on down the pyramid. This system allows families to maintain the maximum amount of power for their investment (and, as they see it, gives passive investors the maximum amount of profit from the managerial abilities of talented families). Sweden's Wallenberg family and Italy's Agnelli family both control large swathes of their country's economies through pyramid structures.

A second technique is to issue dual-class shares, with the upper class carrying superior voting rights. This is widely practised in the media world. The most enthusiastic pyramiders also use dual-class shares: the Wallenbergs provide 40% of the capital for their investment vehicle, Investor, but control 80% of the votes. There are lots of variations on this two-class option: voting caps on non-family shareholders; cross-shareholdings giving families holdings in each other's companies; golden shares that carry specific rights, such as blocking the sale of the company; and staggered boards that cannot be changed when the majority shareholding changes hands.

A third way of separating income from control is to put the ownership of the company into a trust or a foundation. Many of the world's biggest companies, including the *New York Times*, Walmart and Ford, are owned by family trusts. Many of the most successful business families in Germany and northern Europe have handed their companies to foundations in order to manage their tax bills, including Bertelsmann, Heineken, Carlsberg, Robert Bosch, Novo Nordisk and Maersk. Trusts and foundations not only allow families to keep control of a company indefinitely, they let them exercise self-discipline: seats on the foundations can be reserved for the most talented and hardest-working members of the family.

Critics say these techniques offend against the principles of good corporate governance. Powerful families can use pyramids to transfer money between companies under their control and employ dual-class shares to disenfranchise other investors. Two decades ago the tide seemed to have turned against these devices. But founders of tech companies are keen on them, claiming that they provide protection against short-termism. The decision by Alibaba, a huge Chinese e-commerce company, to list on the New York Stock Exchange (which allows dual-class shares) rather than the Hong Kong one (which does not) has created strong pressure to reverse the bans.

Another big challenge for family companies is how to professionalise their management without losing their family roots. Ideally, this is done by training family members to become accomplished professionals. Brown-Forman, a maker of spirits such as Jack Daniel's and Southern Comfort, ascribes its success over the past 140 years to a policy of "planned nepotism". Many family companies throw a dauphin in at the deep end and see if he can swim. John Elkann, the chairman of Fiat (and a member of *The Economist*'s board), worked incognito at a number of different family-related businesses before stepping up to the top job. All members of the Mulliez family who want to have a career in one of its companies or get involved in its venture fund have to undergo a strict apprenticeship. The De Kuyper family, which makes spirits, has an independent supervisory board responsible for selecting family members who want to work in the company. They must have gained a university degree and held a job in an unrelated firm for five years.

Some families choose outside managers to run the day-to-day operations of their companies but keep a careful eye on them from the boardroom. The Freudenberg Group, a classic German *Mittelstand* company, has been run by Freudenbergs for eight generations and has deep roots in its home town of Weinheim. But the Freudenbergs have retreated into a supervisory role and chosen an American-Iranian, Mohsen Sohi, to mastermind the rapid globalisation of their company.

Estée Lauder, a large cosmetics firm, has chosen a middle way. The company is enveloped in family tradition: much of the 41st floor of the General Motors Building in New York where it has its headquarters is given over to the eponymous founder's perfectly preserved office and a reproduction of her sitting room in her Palm Beach house. But in 2009 William Lauder decided to step down as CEO and bring in Fabrizio Freda, a senior executive at Procter & Gamble. At the time the company was badly adrift, and William found the job exhausting. "Being CEO of a company is a sentence," he likes to say. "Being CEO of a family company is a life sentence because your largest shareholders have your home phone number and don't hesitate to phone any time of day or night." Mr Freda's professionalism has worked wonders: the share price has increased by about 145% since he took over and its market capitalisation has soared from $6.5 billion to $30.8 billion. But William Lauder remains closely engaged: he and Mr Freda have offices opposite each other, and in a joint interview with your correspondent they often finished each other's sentences.

Keeping the peace

The most important skill for any family business is managing the family itself. Professional managers have to succeed at only one thing: managing the company they work for. Family managers have to succeed at managing both their companies and their families. The second is a precondition for the first.

Sensible families approach both tasks with the same rigour. They draw up family constitutions to work out the division of power and responsibilities. They appoint family offices to run the family's affairs. They hold regular family councils and retreats, create private websites and publish family histories to foster a sense of collective pride.

Sweden's Bonnier family, which focuses on publishing and media, is ruled by a general assembly of 76 family members, some of whom are responsible for a holding company (which presides over the family's businesses) and others for a foundation (which runs the family mansion as well as several subsidiary foundations). The family holds regular get-togethers to induct younger Bonniers into its traditions and reinforce mutual bonds. Germany's Haniel family, too, works hard to encourage its 650 family members to behave as responsible owners and organises many events to enable them to meet.

Michele Ferrero, Ferrero Rocher's long-time boss, who died

The most important skill for any family business is managing the family itself earlier this year at the age of 89, was in some ways the archetypical family businessman of the post-war generation. He only ever gave a single interview to the press and refused to ask consultants or bankers for advice, convinced that he knew his business better than anyone else. It is impossible to argue with the success of his chocolate business, yet most leaders of today's family firms belong to a very different world. They need to use new techniques to survive in a world of technological disruption and globalisation.

Family companies have become increasingly willing to use public-relations companies and law firms. They are also more prepared to draw on professional advice from consultancies and business schools. McKinsey and BCG are currently competing to produce cutting-edge research on family businesses. Switzerland's IMD business school focuses heavily on family companies, and Harvard Business School puts on a popular executive-education course especially for them.

Wealthy families increasingly look at themselves as collective enterprises with different branches, including family philanthropy as well as core businesses. They are also becoming more businesslike in running their private affairs. The richest among them have traditionally employed family offices to look after their personal finances, staffed by wealth managers, accountants, lawyers and assistants. Today a new breed of multi-family offices is extending this service much lower down the wealth scale. These offices are increasingly extending their influence into new areas. Britain's Salamanca Group started out providing security for wealthy clients from the Middle East; now it offers families advice on everything from how to get their children into the best British public schools or managing their property portfolios to protecting their family businesses from cyber-crime. ■

Asia

Asian values

In the world's most dynamic region, family companies occupy the commanding heights of capitalism

THE BUSINESS CAPITAL of the Philippines is a part of Manila called Makati. But it might be called Ayala, after the country's most powerful company, which seems to dominate it. Ayala's 35-storey headquarters stands in the heart of Makati, in Ayala Triangle just off Ayala Avenue. Its tenants include the Philippines Stock Exchange as well as a roster of the world's big banks. The local museum is called the Ayala Museum (and houses a stunning collection of pre-colonial gold). Even the headquarters of the Bank of the Philippine Islands (BPI), which challenges the Ayala Tower for dominance of the skyline, is not really a rival: BPI is the financial arm of the vast Ayala empire.

Ayala has six divisions: property (Ayala Land), banking, mobile phones, utilities, call-centres and electronics. But this list understates the company's ambitions. Ayala Land is in the business of turning plots of Philippine land into parcels of the American dream (and lifting their market value sky-high).

The Ayala empire has been run by the Ayala-Zóbel dynasty for the past 181 years. The family started out in agriculture, then diversified into everything from construction to phones. The Zóbels have professionalised and focused the company in recent years. The six main businesses have been listed on the stock ex-

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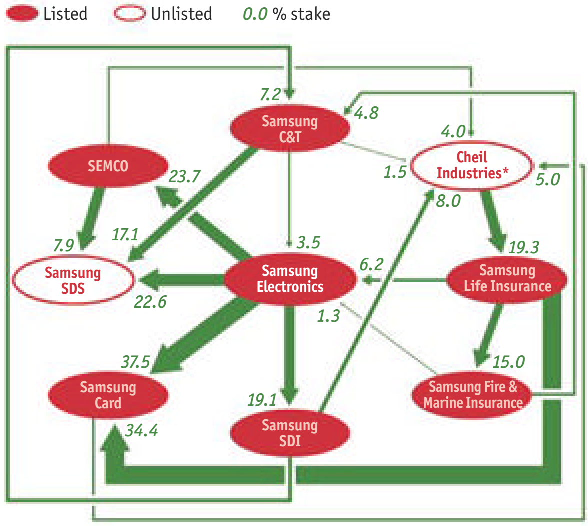
A spider's web

Corporate structure of Samsung Group, simplified version, September 2014



Source: CLSA

*Formerly Samsung Everland

change and put in the hands of professional CEOs, but the family remains at the heart of the firm. Two brothers from its sixth generation, Jamie Augusto and Fernando, run the holding company that sets the strategy. Three children from the eighth generation are working their way up the corporate hierarchy.

Jamie Augusto has a glowing vision of the company as the driver of his country's modernisation. It has always taken a leading role in this, from building infrastructure to supporting corporate philanthropy; the Ayala Foundation is one of the country's largest. But in recent years it has increasingly focused on the mass market in an effort at "nation-building". Jamie Augusto, an alumnus of Harvard Business School, says this change of direction has been influenced by eminent management gurus. C.K. Prahalad urged companies to look for the "fortune at the bottom of the pyramid" and Michael Porter advised them to embrace "shared value". But it would be just as accurate to credit the influence of Globe, the family's communications business: you cannot build a mobile-phone empire without considering the poor.

It is hard to know what to make of this vision of the family company as nation-builder. On the one hand Ayala is an unelected body with an interest in keeping new businesses out of the market. On the other, it is an efficient organisation that has had to compete with other conglomerates, some of them run by overseas Chinese, notably Henry Sy's SM Group. Whatever their faults, these conglomerates do a better job of providing services than does the Philippine state, with its noxious mixture of incompetence and rent-seeking.

Ayala Land provides Makati with much of its public infrastructure in the form of walkways and parks. In 1997, when Ayala took over Manila Water, the taps in the utility's headquarters did not work. Today it offers a reliable water supply to more than 8m customers. The company is good at long-term thinking and co-ordinating activities across a broad range of industries. In one of Ayala Land's projects, Nuvali, it is building not just houses but also schools and churches for the people who work in the company's factories and call-centres.

The commanding heights of the world's fastest-growing region, Asia, are dominated by great business families. At first glance companies such as Samsung and Hutchison Whampoa ▸▸

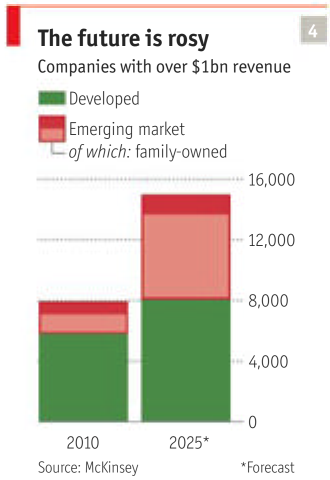
may look like regular public companies, but closer examination quickly reveals a family dynasty and a family saga. The partial exception to this rule is China, where state-owned enterprises (SOEs) still dominate. But even there the country's own brand of family capitalism flourishes wherever the state allows it to.

Family companies were at the heart of the development of capitalism in Asia. Family names acted as a guarantee of honesty for fellow businesspeople and quality for consumers. Family ties allowed businesspeople to operate across countries and regions. Some families such as the Tatas added further lustre to their name by standing up to the colonial oppressors. Indians love to tell the (probably apocryphal) story of how Jamsetji Tata built the Taj Palace, the grandest hotel in Mumbai, because he was refused entry to a European-owned hotel.

For some observers these family companies are turning into eye-catching relics as specialised firms move in and contracts are enforced by lawyers. The great patriarchs who once presided over these dynasties are being replaced by professional managers who could just as easily work in London or New York as in Hong Kong or Mumbai. Many hereditary businesspeople share these doubts. Anand Mahindra, the boss of Mahindra Group, a conglomerate that has been run by a member of the Mahindra family for three generations, is uncomfortable with talk of family capitalism. Family companies are mostly stuffed with family members "99% of whom should not be there", he says.

But the numbers tell a different story. Asian countries are far more family-oriented than Western ones, and well over half the largest business groups in South-East Asia and India are controlled by families. Family companies continue to draw on time-honoured advantages such as their good names and deep connections, and continue to reinforce their positions through judicious marriages.

Family companies can also draw on new advantages, such as modern management techniques and their connections with Western companies. The local princes and princesses are almost invariably educated at famous Western business schools (to which they make generous donations) and then polished in well-known Western companies such as McKinsey and J.P. Morgan.



Vikram Bhalla, of the Boston Consulting Group, points to an even more important competitive advantage of Asian family businesses: their entrepreneurial zeal. They are more likely than public companies to make big bets and take big risks, and better than lone entrepreneurs at making things happen because they can mobilise far more resources. Being able to take a long-term view and co-ordinate activities across a wide range of sectors allows them to shape entire industries.

Which is yours?

Mr Bhalla divides Asian family companies into five main categories. The first is family-driven conglomerates, formed as the company repeatedly expands into new areas to provide jobs for the children. Boys tend to get "hard" industries such as construction whereas girls are given "soft" sectors such as hotels. The second is splitters, the opposite of the first: the family undergoes a strategic split to avoid (or disentangle) family conflicts. This can work smoothly, but is more often messy. The Birla family has repeatedly divided its empire amid furious arguments. The third group is institution-builders: the family hands over the day-to-day management of its businesses to professional CEOs and consolidates family power in holding companies. Anand Mahindra rules his group from his holding company. He likens himself to a "private-equity player" who chooses where to invest in the "Mahindra federation".

The fourth category is joint families, in which several family members manage a company together. The main example of this is Asian Paints, which is flourishing under the joint control of three brothers. The fifth is serial entrepreneurs. Here the business platform is the family rather than the company: it moves from one industry to another but continues to use its name and connections to power its business dealings. The Piramals are a good example. Having started life in textiles, they shifted to pharmaceuticals, then used the profits from a judicious sale of their generic-drugs business to America's Abbott Laboratories to go into big data and financial services.

But even such typologies risk understating the role of families in Asian business. Most of them are far more deferential to their patriarchs than their equivalents in the West, even in the face of dubious business decisions. They are also far more all-enveloping, even if they seem completely Westernised. Ajay Piramal, chairman of the Piramal Group, is a habitué of Davos; his wife, Swati, a doctor, is a member of Harvard University's Board of Overseers; his two children were educated at "all the brand-name universities and business schools". But the entire Piramal clan, numbering 40 in all, lives together as a huge extended family, discussing business and family affairs over every meal. "We go to Harvard," says Mrs Piramal, "but we also wear saris."

Perhaps the best place to learn the secrets of Asian capitalism is not the business sections of the newspapers but the gossip pages of glossy magazines. The stories of family feuds and scheming mistresses that can be found there are far more likely to change the balance of corporate power than the latest hostile takeover. As in family businesses the world over, the most important dramas are to do with succession. Many of the great patriarchs who created modern Asian capitalism have been useless at succession planning. They hold on to power until they have one foot in the grave. Talking about succession, they reckon, "is almost like putting a curse on someone", in the words of Yupana Wiwattanakantang, of the National University of Singapore Business School. Sir Run Run Shaw, the chairman of Television Broadcasting Limited, waited until he was 103 to announce his retirement, handing his position to his 79-year-old wife. Joseph Fan of the Chinese University of Hong Kong studied succession in 250 family firms in Hong Kong, Taiwan and Singapore and found that on average the firms lost 60% of their value in the period spanning five years before succession and three years afterwards. Many lost a great deal more.

Again, feuds are commonplace. One of the highest-profile ones was the bitter dispute between Mukesh and Anil Ambani over their conglomerate, Reliance, after their father, Dhirubhai, died without leaving a will. Mukesh has proved the more talented of the two, celebrating his relative success by building a 27-storey house in Mumbai for his family.

The tale of the Kwok family is even more colourful. Kwok Tak-Seng built up his company, Sun Hung Kai, to become the second-largest business group in Hong Kong and then left it to his wife and three sons, Walter, Raymond and Thomas. This quartet got on well until Walter was kidnapped and held in a wooden cage for a few days until a ransom was paid. The aftershocks of the kidnapping tore the family apart. Walter accused his brothers of quibbling over the size of the ransom, the rest of the family tried to oust him from his role as chairman of the family trust, and the fight continued for years.

Asian family politics are further complicated by Chinese patriarchs' tendency to have several families. Stanley Ho's gambling empire has repeatedly been convulsed by fights over inheritance between different branches of his family (he has had four wives). Given that the company once accounted for 40% of the Macau economy, these quarrels have aroused keen local interest. And since Wang Yung-ching's death in 2008, his Formosa Plastics group has been rocked by rows among the nine offspring he had with his three wives.

Fixing family capitalism

As the patriarchs who built Asian capitalism after the second world war retire or die, Asia is seeing one of the biggest transfers of wealth in history. Some families are learning how to prepare their companies for a different age, preserving a measure of family power while also modernising their patrimonies.

The retiring generation has given its children two things that they need to succeed in this new world: personal wealth and a privileged education. But they are also wired into the old world of "Asian values". Victor Chu, the boss of First Eastern Investment Group, is one of the rising generation of middlemen-cum-dealmakers. He earned his reputation in Japan by founding Peach Aviation, a low-cost carrier. ("He may not have his own plane but he does have his own airline," quips a friend.) But his real talent lies in connections: he spends his life introducing Western companies to the East and vice versa.

The best example of a successful transition is Asia's richest man, Li Ka-shing. When he put together his property and trading empire, Cheung Kong, political and family connections were vital. He had a genius for establishing monopolies through licences and building businesses with astonishing speed. But he has been preparing his empire for a different world for decades. He chose the cleverer of his two sons, Victor, to succeed him and set up his other son, Richard, in a different business to head off any quarrels. He has consolidated his empire into a more formal structure, with Hutchison Whampoa at its heart, and is moving its centre of gravity from Hong Kong to the global stage.

The Zóbels of Ayala fame also look likely to be around for generations to come. They have made use of all the tools of sensible family government and are training up the next generation of Zóbels in the family business. In a society given to flashiness, they come over as relatively modest. That helps at a time when the gap between the new business aristocracy and the poor is opening ever wider. ■

Perpetuating inequality

To those that have

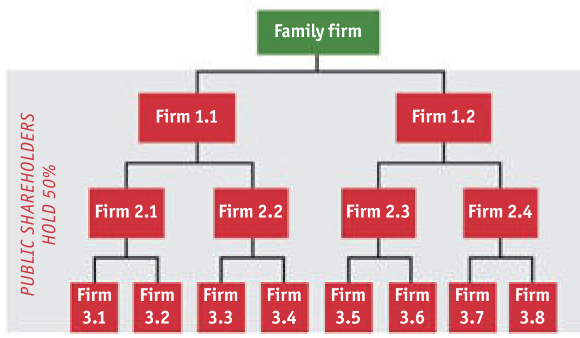
The dark side of family capitalism

FOR MOST PEOPLE the chance to fly business class, let alone first, is a rare pleasure. But Heather Cho was not enjoying herself. As the Korean Airlines flight taxied onto the runway at New York's John F. Kennedy International Airport last December, she was fuming over her macadamia nuts, which had been served in a paper bag rather than on a plate. She used her position as one of the airline's senior executives, not to mention the owner's daughter, to demand an apology, and ordered the plane to return to the terminal so the offending steward could be taken off the plane. The "nut rage" incident, and the message it conveyed about the gap between the rich and powerful and the rest, started an agonised debate in South Korea.

Even by Asian standards, South Korean capitalism is unusually family-focused. About 20 families run the huge conglomerates or *chaebol* that make up 60% of the country's stockmarket value and most of its exports. The leading one alone, Samsung, accounts for 25% of South Korea's exports, putting enormous power in the hands of its ruling family, the Lees. Most South Koreans revere the *chaebol*. They powered the "miracle on the Han river" which transformed a war-torn backwater into a comfort-

The power of dilution 5

Schematic pyramid structure, illustrating control mechanism



Source: La Porta, Lopez-de-Silanes and Shleifer

able middle-income country. That reverence extends to the great patriarchs who turned the *chaebol* into mighty industrial machines. But doubts are creeping in.

South Korea puts great emphasis on upward mobility and social solidarity, yet the country is increasingly ruled by a collection of old families whose members marry each other and inherit all the best jobs. The concentration of wealth produces a range of other problems. Political cronyism is rife. Corporate governance is shoddy, with *chaebol* families exercising power through convoluted ownership structures. The chairmen of Samsung, Hyundai Motor, SK and Hanwha have all been convicted of crimes, and three of them have spent time behind bars.

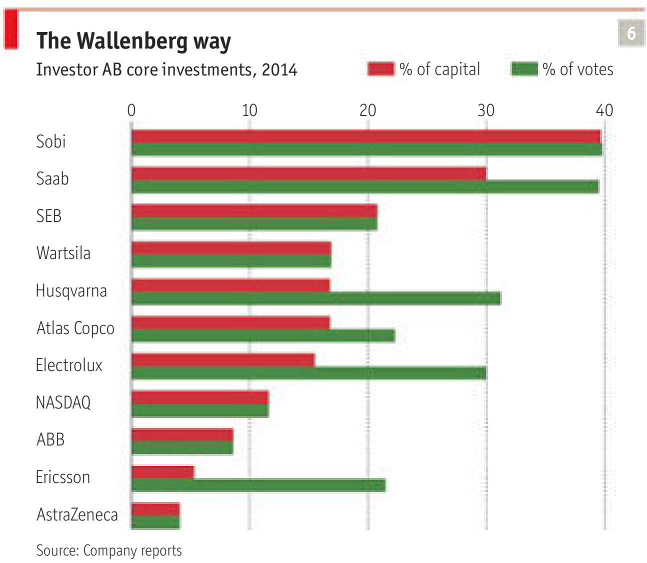
Worse than you think

South Korea's concern about inequality taps into a worldwide debate about the increasingly unequal distribution of wealth, to which Thomas Piketty's book, "Capital in the Twenty-First Century", published in 2013, made a notable contribution. Mr Piketty, a French economist, does not devote much space to family companies: his argument is that inequality is growing rapidly because the returns on capital are higher than the rate of economic growth. But the extent to which families are able to perpetuate and leverage their wealth suggests that the problem may be even worse than Mr Piketty thinks.

Bill Gates, the world's richest man, has countered Mr Piketty's thesis by arguing that wealth dissolves over time: families either lose their money through incompetence or give it away to charities. But families are getting better at breaking the clogs-to-clogs cycle. They are not only learning how to manage family companies and family fortunes better; scions of family fortunes are also increasingly marrying intelligent partners who can help them run their companies. A growing number of them are determined to work for their living. The industrious rich could prove far more of a threat to equality of opportunity than the idle rich.

The desire to preserve wealth lies behind one of the biggest problems with family companies, poor corporate governance and lack of transparency. Families set up convoluted structures to prevent outsiders from gaining control. The most extreme example of this is South Korea, but in Europe, too, many families use foundations or investment vehicles to keep control.

Business families have developed ways of exercising corporate power, such as control pyramids and dual-class shareholdings, that go far beyond their formal ownership. Randall Morck, the academic, finds that in large parts of the world pyramidical business groups allow "mere handfuls of wealthy families" to control entire economies (see chart 5, previous page, for a schematic view of how this works). This problem is particularly marked in developing countries, but is also common in much of the rich world, except in the Anglo-Saxon sphere. In Sweden, which is widely regarded as one of the world's most egalitarian countries, one family, the Wallenbergs, controls a big chunk of the Stockholm Stock Exchange, thanks to a family-run investment fund and a complicated system of privileged shares and pyramid holdings (see chart 6). Mr Morck also calculates that the top ten families control 34% of Portugal's market capitalisation and 29% of France's and Switzerland's.



Pyramids may have had an economic justification during the early stages of capitalism, but that has largely gone as institutional voids have been filled. America launched a vigorous war on pyramid structures during the New Deal, and by 1937 American companies were as widely held as they are today. Britain fought an anti-pyramid campaign in the late 1960s, with equally rapid results. Now Israel is stopping the oligarchs who control most of its domestic economy from using pyramid holdings, on the grounds that they reduce competition and raise domestic prices. Countries such as India and Brazil would do well to study Israel's example—and even Sweden might have a rethink.

Business families have also proved adept at consolidating their positions through political marriages. Paul Desmarais junior, one of Canada's richest people, whose family trust owns Power Corporation, among other companies, is related by marriage to Jean Chrétien, a former prime minister. Jessica Sebaoun-Darty, an heiress of a vending-machine empire, is married to Jean Sarkozy, a son of a former French president. The Lees, who own Samsung, are connected by marriage to four other *chaebol* (LG, Hyundai, Kolon and Poosan) and many leading politicians, including a former South Korean prime minister. The Toyoda family network includes two former prime ministers and seven big Japanese business empires.

Other successful techniques include going into politics yourself (like the Rockefellers or the Kennedys), funding political campaigns and cultivating friendships with politicians. Such political connections are pervasive in Latin America where, thanks

to weak property rights and a long history of political interference, even the most virtous companies have to keep in with politicians. In Colombia, two of the richest families, Sarmiento (banking) and Santo Domingo (beer) own the two main newspapers. Carlos Slim was said to be the main funder of Andrés Manuel López Obrador, the populist leader of the Mexican left. JBS, a giant Brazilian meat company that has expanded with the help of funds from the national development bank, BNDES, was the biggest donor in the Brazilian election last year.

The problem of poor corporate governance is particularly severe in the Gulf region, where some $1 trillion of family-business assets are due to be handed over to the next generation within five to ten years. Families can involve several wives and many children. The boundary between the firm and the family is often ill-defined and the courts, particularly in Saudi Arabia, are not well equipped to deal with complicated inheritance disputes.

The region is making an effort to improve the governance of family companies. Badr Jafar, the managing director of the Crescent Group, has set up the Pearl Initiative, which pushes for good practices such as the establishment of family councils. SABIS, a Lebanese education company, has established clear rules for succession planning and hiring new family members. The Zamil Group, a Saudi conglomerate, has set up an internal leadership programme open to both family and non-family. The Abdullatif Alissa Group, another Saudi conglomerate, has removed all family members from management positions, limiting their role to sitting on the board. But for every example of good planning there are dozens of botched successions. ■

Management theory

Survival of the fittest

The success of family companies turns much of modern business teaching on its head

THE MODERN THEORY of the firm is the theory of the public company: obsessed with questions such as transaction costs but blind to questions of transmitting wealth to future generations. In numerical terms, this emphasis on the public company is clearly a mistake. Its triumph is limited to the Anglo-Saxon world. The economies of most of the rest of the world—developed as well as emerging—continue to be dominated by family-focused businesses that control a wide range of companies, not just individual firms.

It is also out of date. Talk of the triumph of the Anglo-American public company might have made sense in the post-war era when the British empire still had a glow and the American Century was in full swing (though family companies continued to flourish in both countries). It makes far less sense in an increasingly integrated Europe and in rapidly emerging markets. The world's fastest-growing region, Asia, is dominated by powerful business houses run by families. Though some of these could no doubt benefit from more focus, a significant number are Schumpeterian entrepreneurs destined for success, thanks to a rare combination of risk-taking and long-termism.

This special report has argued that family companies are much more than just half-formed public companies. They are a category of companies in their own right. They have unique advantages in the form of long-term thinking and concentrated ownership. They have unique disadvantages in the form of succession problems and family feuds. And they have unique ways of dealing with these problems. Given the sheer number of family companies of all sizes, and their economic importance, they deserve a lot more attention, in particular from three groups of people: business analysts, professional managers and theorists of the firm.

Putting the family back into capitalism

Business analysts would do well to add some new tools to standbys such as company prospectuses and analysts' reports. They might read more novels—say Jane Austen's "Pride and Prejudice" for its observations on the marriage market and Thomas Mann's "Buddenbrooks" for its insights into the fading of the entrepreneurial spirit across the generations. They should also follow the gossip columns. A set of bad numbers can be turned around. A bad marriage can doom a business empire.

They should certainly keep an eye on problems of succession. A huge transfer of corporate wealth and power is currently taking place in two parts of the world—Asia and the Middle East—which have little experience of such things. The fate of two of the world's biggest companies, Samsung and Hutchison Whampoa, is being shaped by family succession. So is that of thousands of other companies which operate out of the glare of publicity. BCG's Vikram Bhalla has a shrewd piece of advice for investors: invest in a family-run company four or five years after a new CEO has taken over, because he will have settled in and may well have a clear run for the next decade or so.

Business analysts like to argue that conglomerates will become less prevalent as markets develop, but conglomerates are also driven by families' desire to provide opportunities for their offspring. Business analysts point to the logic of the market to explain mergers and acquisitions, but an equally powerful reason may be family affinity. LVMH has managed to buy a number of family-owned luxury companies because they are much happier selling to another family firm than to an anonymous public company. Estée Lauder is pursuing a similar strategy in buying up family-owned beauty companies.

In November 2012 the *Harvard Business Review*, the management profession's bible, published an article entitled "What You Can Learn from Family Business". For decades the profession had looked down on family businesses as amateur and slapdash. Now three leading BCG consultants, Nicolas Kachaner, George Stalk and Alain Bloch, were changing tack.

The BCG trio argued that public companies have a lot of important lessons to learn from family companies, from the value of long-term thinking to the virtues of frugality. They commended family companies on their ability to develop a cadre of loyal staff; they may not be able to compete with investment banks or consultancies in hiring top talent, but they make up for it by developing high-performance teams that stick together for years. They pointed to a list of public companies that act rather like family companies. Nestlé, a Swiss food company, slightly underperforms its big competitors in good times but outperforms them in bad. Essilor, a global leader in optical lenses, is obsessed with cost, keeps its debt low and has little staff turnover. ▸▸

But the three authors missed one important competitive advantage that family companies enjoy: their ability to differentiate themselves by telling compelling stories about themselves. New wine merchants may be able to best Berry Bros. & Rudd on creating global distribution channels, but they will never be able to match its stories about selling wine to Pitt the Younger and Lord Byron. The more companies compete to sell "meaning" as well as mere products, the better family companies will do.

The nature of the firm

The most intriguing challenge posed by the enduring success of the family company is to one of the building blocks of modern economics: the theory of the firm. The modern theory of the firm is based on the assumption that public companies represent the end of corporate history. In "The Modern Corporation and Private Property", published in 1932, Adolph Berle and Gardiner Means argued that public companies were rapidly replacing family companies as the mainstay of modern capitalism. But these public companies contain within them a potential conflict of interest, between the widely dispersed shareholders who own them and the professional managers who run them on a day-to-day basis. In "The Nature of the Firm", Ronald Coase argued that firms make sense only if the cost of doing things within them is less than the cost of contracting those things out.

Most subsequent writing on the firm has been a commentary on these two seminal texts. Michael Jensen elaborated Berle's and Means's insight about the conflict between owners and managers into modern agency theory: company owners (or principals) have to develop elaborate methods to prevent company managers (or agents) from losing them money, either through laziness or through empire-building. Mr Jensen argued that the best way to solve the agency problem was to get managers to think more like owners by giving them share options.

The prevalence of family companies in so much of the world suggests that theorists of the firm need to think more in terms of groups of firms rather than just individual firms. Berle and Means and Coase were guilty of Anglo-Saxon parochialism in focusing on free-standing firms. Above all, the theorists need to pay as much attention to ownership and inheritance as they do to conflicts between principals and agents or to agency costs.

Put companies and families together, and you have a uniquely potent combination

Family companies demonstrate the importance of inheritance as the families create and improve the firms in order to pass them on to their children. They also demonstrate the importance of ownership. Families often think more clearly than professional managers because they own their companies rather than merely renting them.

However, inheritance and ownership bring with them a whole collection of problems that are every bit as tricky as agency and transaction costs. Heirs frequently quarrel about their inheritance, and some owners behave less responsibly than others.

All the great prophets of modernity, not just economists, shared the belief that families would be marginalised as society progressed. Ferdinand Tönnies argued that modernity means shifting from tightly knit villages ruled by personal ties (*Gemeinschaft*) to loosely knit societies ruled by impersonal ties (*Gesellschaft*). Max Weber described modernity as the triumph of rule-based decision-making: jobs are allocated on the basis of merit rather than family connections.

In fact, family connections have proved remarkably durable. The American presidential election next year is likely to be fought between two political dynasties, the Clintons and the Bushes. Family dynasties can be found in every part of the modern economy, from crime to academia, from sport to entertainment. Even rapping is becoming a family business. Far from being marginalised by the march of progress, the ability to pass skills to your children is as important as ever. And far from disappearing with the passage of time, the desire to help your children endures.

The company is one of the most powerful instruments ever produced by human beings; it allows investors and workers to pool their resources to serve the needs of strangers to mutual benefit. Successful countries such as America have many millions of companies. Failed countries like North Korea have none. Yet the family is even more powerful and universal: it allows parents to pass not just their genes and their property but also their culture and their aspirations on to their children. Put companies and families together, and you have a uniquely potent combination. Families with names like Rothschild and Baring played a starring role in creating modern capitalism. Families with names like Godrej and Lee will play a starring role in re-creating it in a more global age. ■

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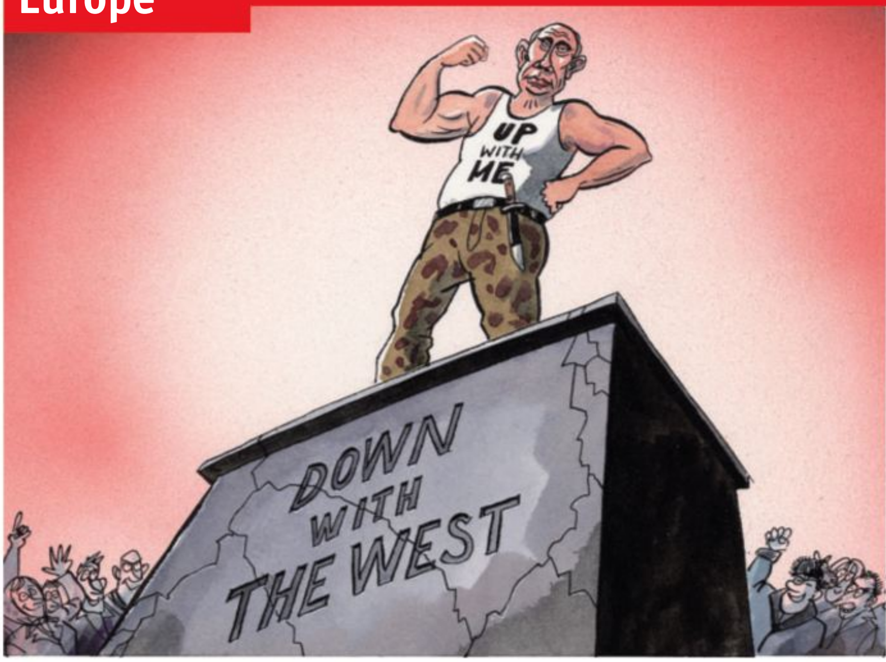

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Russia and the West

How Vladimir Putin tries to stay strong

MOSCOW

Russia's president is trapped by his own strident anti-Western rhetoric

A RELATIVE hiatus in the fighting in eastern Ukraine (at least until this week) and a relative stabilisation in the Russian economy are prompting two questions. Is the worst of the war over and might better economic news calm the Kremlin—or is this a lull before a new storm?

The economic situation is not as bad as many predicted four months ago. Having lost half its value, the rouble has stabilised and even started to strengthen, thanks in part to a recent rise in oil prices. Inflation is running at 17% but is rising more slowly than many feared. Instead of a 5% contraction, the economy may shrink by only 3% this year. "The situation is not as catastrophic as many people thought," is how a senior Russia banker sums up the mood.

Yet the fragile economic balance is not being used by Vladimir Putin as an argument for returning to peace and prosperity, but rather as evidence that he is standing strong against Russia's adversaries. The state media have trumpeted the strengthening of the rouble against the dollar and the euro as a victory in the face of American and European enemies determined to ruin Russia.

The Kremlin's narrative of war has long moved beyond Ukraine to the West in general. The claim that their country is at war may be news to Americans, but it has been drilled into the minds of many ordinary Russians. The prospect of a war with the West is now a big concern for public opinion. Some 81% of the population sees America as a threat, the highest proportion since the Soviet Union fell apart.

According to this narrative, Russia is under attack on all fronts—economic, ideological, Middle Eastern, European—and must respond accordingly. This week's decision to sell the S-300 missile system to Iran is part of this response (see page 41). As for the supposed threat from the European Union, Channel One news recently instructed its viewers: "Put crudely, the EU started and flourished as a mechanism for redistributing the gains from the collapse of the USSR and former communist bloc. At some stage, however, the flow of resources from conquered markets started to run out and expansion to the east was the only option." This expansion, it adds, has now been stopped by Russia; so the EU, deprived of new sources of prosperity, may soon crumble.

In this world of mirror images, America serves as Russia's reflection and *alter ego*. It ascribes to America its own actions: incitement of violence in Kiev, support of extreme nationalists in eastern Ukraine, military involvement in the conflict. In a recent article, Sergei Naryshkin, Speaker of the Russian parliament, blamed America for "unleashing a military-political adventure" in Ukraine and stalling its peaceful resolution. "America needs the continuing bloodshed in the Donbas as a means of achieving something important for itself," he wrote. The sanctions against Russia and the information hysteria in the Western media are a cover for America's economic "gangsterism", he added.

What are Russia's motives and goals in this confrontation, and is it now trapped in a spiral of aggression? Russian officials talk obsessively of geopolitics, but the answers depend not on what the West does but on how the Kremlin calculates its risks at home, since staying in power is its main goal. A study commissioned by Alexei Kudrin, a former finance minister, and conducted by a group of Russian sociologists led by Mikhail Dmitriev of the New Economic Growth, a think-tank, suggests that the roots of Mr Putin's actions in Ukraine lie in the Kremlin's need to solidify its legitimacy after the growing discontent that erupted into street protests during the winter of 2011-12.

Those protests were driven mainly by Russia's middle class, frustrated by its lack of prospects. After a decade of rapid income growth that boosted living standards, priorities shifted to such aspirations as better justice, education and health care that Mr Putin's regime of crony state capitalism could not provide. In the eyes of the middle class, Mr Putin was becoming a symbol of stagnation rather than stability—so his ratings began to fall. Trust in the state media also wobbled. Observers started to compare the situation to the mid-1980s, when a frustrated intelligentsia became a driving force behind Mikhail Gorbachev's *perestroika*. The protests in Russia's larger cities started to resonate with economic and social discontent in poorer provinces, and risked erupting into an open social conflict.

Russia's annexation of Crimea arrested ▸▸

this trend. Alexei Navalny, a leader of the protests of 2011-12 who memorably named Mr Putin's United Russia a party of crooks and thieves, says that the president has hijacked the political agenda by substituting imperial nationalism for building a modern state. The annexation of Crimea won over provincial Russia and legitimised his rule even in the eyes of many who had protested against him two years earlier. As Mr Dmitriev sees it, unmet hopes of personal fulfilment were assuaged by symbolic victories for the state.

The war in eastern Ukraine and the economic crisis have turned the euphoria associated with Crimea into a paranoid and defensive patriotism aimed against the West, pushing Mr Putin's approval ratings up to nearly 90%. The Kremlin can ill afford a real military clash with the West, but it will claim any signs of Western weakness as victories. To demonstrate its strength, it is brandishing its nuclear arms and flexing its muscles all around NATO's borders. Dmitri Trenin of the Carnegie Moscow Centre, a think-tank, says Mr Putin wants his nuclear threats taken seriously, and adds that the risk of nuclear war is greater than at any time since the 1962 Cuban missile crisis. But the immediate goal of such intimidation is to persuade the West to drop sanctions, which would be presented at home as a huge victory.

Against this background a resolution of the Ukrainian crisis and de-escalation of tensions with the West would push the focus back onto economic and social problems, lowering Mr Putin's ratings, just as happened after Russia's war in Georgia in 2008. A continuation of the war in Ukraine and the stand-off with the West will keep his ratings up for longer. But while this may benefit Mr Putin, it risks leaving Russia isolated and economically stagnant.

Russia's budget cuts are a good guide to Mr Putin's priorities. The upkeep of the Kremlin and spending on the army and security services take 40% of the entire budget. But spending on health care and infrastructure has been reduced twice as much as spending on defence. Among other winners in the budget are the state media which spew out hatred and aggression.

The object of this aggression can vary: two years ago it was migrants and corrupt officials. Now it is the West, "national traitors" and a "fifth column" that included Boris Nemtsov, a liberal politician assassinated in Moscow in February. In this way the Kremlin's aggression has become a narcotic that may lead to an overdose, causing it to lose control. Indeed, the mood could one day switch from an external enemy back to Mr Putin himself, not least because the image of America constructed by the Kremlin's propaganda bears such a close resemblance to the reality of Russia. ■

Migrants in the Mediterranean

The numbers nightmare

ROME

Ever more people are drowning while trying to get to Europe

IN THE sea separating north Africa from the European Union, the phrase "calm waters" now has an ominous ring. After the weather improved this week, almost 8,500 illegal migrants were rescued. Some brought tales of horror: of chaos in Libya, of mistreatment and torture at the hands of people-smugglers, and of deaths at sea. As many as 400 died on April 12th when their boat capsized, apparently because they rushed to one side when rescuers appeared.

Migrants sometimes lie to get sympathy. But the Italian authorities are taking seriously a claim that a trafficker threw to sharks the body of a dead (or perhaps unconscious) migrant, apparently overcome by fumes.

The latest wave of arrivals confirms that the EU faces a challenge of unprecedented proportions. According to the International Organisation for Migration, more than 15,000 people have reached Italy since the start of the year. The UN High Commissioner for Refugees says not enough is being done to save lives.

On humanitarian grounds alone, the EU's present response, Operation Triton, is inadequate. The remit of its vessels is to patrol within 30 miles (48 km) off the Italian coast. Triton replaced the bigger Operation Mare Nostrum, which Italy suspended at the end of 2014 partly because other EU countries would not share the burden of search and rescue. Italy's partners say they have migration and asylum problems of their own. Anyway, many migrants who come ashore in Italy disappear north before being identified—with the connivance of the Italian authorities. Both numbers and drownings seem likely to rise.

A hand across the sea

Germany and asylum

Is Tröglitz everywhere?

BERLIN

A surge in asylum-seekers is testing Germany's tolerance of foreigners

THE "patriotic Europeans against the Islamisation of the Occident", known as Pegida, still march. On April 13th 10,000 rallied in Dresden, their base, brandishing anti-foreigner slogans, as they have done on 22 previous Mondays since October. This time they featured an international addition: Geert Wilders, leader of a xenophobic party in the Netherlands. "In my eyes, you are heroes," he told Pegida. "Islam does not belong in Germany."

At least Pegida's followers are not violent. That cannot be said of the 47 cases in the first three months of the year in which Germans have physically attacked asylum-seekers or their abodes, according to Pro-Asyl, a group that helps refugees. In 2014 the police counted 162 such attacks by neo-Nazis. Much of this new xenophobia can be explained by a surge in asylum-seekers coming to Germany from Kosovo, the Middle East and other trouble spots. Germany takes in more asylum-seekers than any other country: 200,000 last year, a fifth of the global total. Some 300,000 may come this year. The asylum-seekers ▸▸

They keep coming

Asylum applications, '000

Sources: Eurostat; German Federal Office for Migration and Refugees

are spread across Germany. Some end up in less tolerant places.

One is Tröglitz in Saxony-Anhalt, eastern Germany. Unemployment has run high since its main employer, a chemical plant, closed soon after unification in 1990. This year the town was due to take in 40 refugees, but a neo-Nazi party, the NPD, organised marches against their arrival. When the mayor, Markus Nierth, spoke out in favour of the asylum-seekers, the NPD prepared to start marching past his house. Mr Nierth resigned last month. Over Easter, arsonists set fire to the building meant to welcome the refugees. The NPD denies involvement, but investigators assume neo-Nazi motivations. When another local leader said the refugees would nonetheless come as planned, he received threats that he would be guillotined.

That both Tröglitz and Dresden are in what was East Germany has revived a long-running controversy. Is xenophobia mainly found in the country's formerly communist part? East Germans, it is said, have fewer opportunities and less contact with foreigners than their western compatriots, and harbour more resentment.

"Tröglitz is everywhere," retorts Reiner Haseloff, premier of Saxony-Anhalt, suggesting that it is wrong to talk of east-west differences. There have been attacks on asylum-seekers in both east and west. Yet Tröglitz is not everywhere, a chorus of others replies, including Thomas de Maizière, Germany's interior minister. Even if attacks occur all over Germany, they have been disproportionately frequent in the east. And nowhere else has a politician stepped down for fear of neo-Nazis.

Researchers at the University of Leipzig have found that xenophobia appears most prevalent in Saxony-Anhalt, with 42% of its population susceptible to it. Next comes Bavaria in western Germany. But the three states that follow are all in the east, where about 30% agree with xenophobic sentiments. The western average is 20%.

Xenophobia scares not just refugees but other foreigners and minorities. It also worries those thinking of moving to Germany. The debate over asylum has thus become conflated with one over immigration in general. To compensate for an ageing population and shortages of workers, Germany needs to attract more foreigners. It often talks up its *Willkommenskultur*, its welcoming culture. This has led to talk of liberalising immigration laws. Canada and Australia are the models, with their point systems for foreigners with certain degrees, languages or competences. Mr de Maizière does not think new legislation is needed. But he has urged German firms to do more "immigration marketing" abroad.

Images of Pegida, Tröglitz and the like will not help. As Frank-Walter Steinmeier, Germany's foreign minister, says, the world is now watching to see how the German mainstream reacts. ■

Balkan warriors abroad

Fight the good fight

DONETSK AND PRISTINA

With the Western Balkans at peace, some go abroad to look for war

FROM the Sea of Azov to Aleppo, fighters from the western Balkans are at war. So worried are their governments that laws have been passed to make fighting abroad illegal, and their security services co-operate with foreign ones to monitor them. The numbers are small, but the Balkans looms relatively large on foreign battlefields.

Orthodox Christian Serbs are joining pro-Russian rebels in Ukraine while Catholic Croats fight on Ukraine's side. Muslim Albanians, Bosniaks and Muslims from Sandzak, the area straddling Serbia and Montenegro, have gone to fight in Iraq and Syria. All spread their messages online and send greetings to one another. Last month two gloating Croats speaking on YouTube said "Hope to see you soon!" to their Serb "friends". For Serbs and Croats, this war is a replay of their own conflict in the 1990s as much as an adventure or crusade.

Recently Serbs in eastern Ukraine have been more taken up with their internal conflicts. The highest-profile Serb in eastern Ukraine is Radomir Pocuca, once a spokesman for Serbia's interior ministry. Last month he was captured by other Serb fighters. He was humiliated by pictures on Facebook of him bound and blindfolded, wearing a shirt emblazoned with a Serbian flag and the motto "Serbian Honour".

Many Serbs are affiliated to small ultra-nationalist groups. They loathe their government, hate the European Union and are against joining NATO. They believe they are fighting a Christian fight. In this they are like the Croats who have joined Ukraine's Azov Battalion, a unit notorious for its neo-Nazi symbol that has attracted volunteers from the far right across Europe.

Although they get much attention, says Kacper Rekawek, a Polish researcher, there are relatively few foreigners in Ukraine, other than Russians. He reckons about 300 fighters have passed through on each side. But with up to 100 Serbs having fought for the rebels, they have been among the biggest group of foreigners. Croats, with 25-odd fighters, have been the third-largest foreign contingent on Ukraine's side.

In Syria and Iraq the numbers are a lot bigger. Shpend Kursani, author of a report on Kosovars fighting there, says he has identified 232. There have been 330 Bosnians, 90 Albanians, 70 Serbians and 12 Macedonians. The leader of the Albanian contingent in Islamic State is Lavdrim Muhaxheri who, one returned member told Mr Kursani, is obsessed with his ratings on social media. Mr Muhaxheri has made one video in which he beheads an Iraqi captive. Mr Kursani finds that, when jihadists are counted as a percentage of countries' populations, Kosovo is top of a list of 22 countries, Bosnia second and Albania fourth. As a percentage of Muslims in each country, though, Kosovo comes 14th, between Germany and Spain. Bosnia is 11th and Albania 20th. The top nine countries are west European.

According to Mr Kursani, most Kosovars in Syria are from rural areas and poorly educated. Nearly two-fifths have criminal records. Some 34 are known to have been killed. Contrary to popular belief, which blames Saudi influence, Mr Kursani finds that the fighters have been motivated by the Takfiri ideology, which has been spreading recently into Kosovo through Albanian imams living in Macedonia, who first embraced it in Egypt.

Most fighters face arrest when they return (though not in Croatia, where fighting in foreign wars is not outlawed). This may be why fewer are going now. Balkan governments want neither extreme nationalists nor violent Islamists causing trouble. What is striking is the degree to which, apart from their religions, most Balkan fighters are so broadly united: against liberalism and the West. ■

Hungarian politics

On the march

BUDAPEST

Jobbik's first direct election win bodes ill for Viktor Orban's Fidesz party

THIS year is not going well for Viktor Orban, Hungary's prime minister. After falling out with a key oligarch and ally, Mr Orban's right-wing Fidesz party has lost two by-elections. The loss of Veszprem in February to a left-winger cost Fidesz its two-thirds majority in parliament. But its defeat in Tapolca on April 12th has even bigger implications. Lajos Rig took the seat for Jobbik, an extreme-right party, with 35.3% of the vote to Fidesz's 34.4 %. The left-wing candidate trailed with 26.3%.

Modern, decentralised campaign tactics helped Jobbik to win. Whereas Fidesz ran an old-fashioned air war, parachuting in party leaders, including Mr Orban, only for brief visits, Jobbik ran a well co-ordinated ground war, flooding the constituency with MPs and activists, targeting villages and focusing on local concerns such as Tapolca's hospital.

Gabor Vona, Jobbik's leader, hailed the victory as a "historic event". Jobbik, not the left, he said, was now the main challenger to Fidesz. This is the first time Jobbik has won a seat directly, rather than through the national-list system. That is a potential game-changer, says Akos Balogh, of mandiner.hu, a conservative news portal. "Jobbik has the second-strongest campaign machine and it is still building it up."

Fidesz still leads in most polls, but it is losing ground. Last year it won Hungary's national, local and European elections. But a row with America over corruption, Mr Orban's cosying up to Russia's Vladimir Putin and the flashy lifestyles of some Fidesz leaders are eroding its support.

A poll by Median in March gave Fidesz 24% support, Jobbik 15% and the Socialists 11%. A fractured, ineffectual left, devoid of new ideas, has boosted Jobbik's appeal, especially among the young. Fidesz lacks a convincing response to Jobbik, says Peter Kreko, of Political Capital, a think-tank. The government has no clear new objectives, no narrative; it is just conducting a "raw struggle for power", Mr Balogh argues.

Curiously, Jobbik's victory may ease foreign pressure on Mr Orban. The prime minister has long presented Fidesz as the best bulwark against the extreme right. If Fidesz lost the next election, his successor might be even less palatable to Hungary's allies than he is.

Like Marine Le Pen, leader of France's National Front (see next story), Mr Vona wants to detoxify his brand. There is no longer public talk of "gypsy crime" or open anti-Semitism, though Jobbik remains virulently anti-Israel. The Magyar Garda, the party's black-uniformed wing, has been disbanded after being banned. Mr Vona says he wants to transform Jobbik into a "people's party" and knows "where to draw the line". The rebranding exercise has been largely successful, says Mr Kreko. The party's political content has not softened, but voters no longer see it as extremist.

The past is less easy to expunge, especially in social media. Mr Rig once shared a Facebook post that described the Roma as the "Jews' weapon against Hungarians". The post has been removed from his page: Mr Rig told Reuters he redistributed it without paying attention to its contents. On April 12th thousands took to the street in Budapest to commemorate the Holocaust, and heard Ronald Lauder, president of the World Jewish Congress, denounce Jobbik as "an extremist party that promotes hate". But the voters may not be listening. ■

France's National Front

A family feud

PARIS

The Le Pen wars end in a Marine victory

EVER since Marine Le Pen became leader of the National Front (FN) in 2011, her father, Jean-Marie, has lurked in the background like a piece of unexploded ordnance. He may have stepped back from leading the party that he founded in 1972, but the 86-year-old is honorary president and an FN member of the European Parliament. His next ambition was to stand for election in December to the southern region of Provence-Alpes-Côte d'Azur.

Yet Mr Le Pen's taste for explosive provocation got the better of him. Earlier this month he repeated a comment made in 1987 that the Nazi gas chambers were a mere "detail" of history. Ms Le Pen, who has tried to detoxify the party's brand and bury its anti-Semitism and racism, threw a fit. She accused her father of "political suicide" and of imperilling the party's future. The FN leadership, she said, would no longer back his candidacy. A dynastic psychodrama began, with Mr Le Pen accusing his daughter of "sabotage". At one point, it looked as if he might be thrown out of his own party and even run against it.

The youngest and the young Le Pen

In the end, Mr Le Pen withdrew his candidacy to avoid "dangerously weakening our movement". He proposed that the party should nominate his granddaughter, Marion Maréchal-Le Pen, one of two FN members of parliament, in his place. Mr Le Pen, his granddaughter said after speaking to him, did not want to make things worse and was even "a bit sorry about the situation". The immediate upshot was a victory for Ms Le Pen in her bid to transform a far-right, fringe protest movement into a mainstream party ready to govern. Mr Le Pen was all about grumbling and outrage: he never really wanted power. "Jean-Marie Le Pen worried very little about demonstrating that his party was fit to govern," says Sylvain Crépon, a specialist on the FN at the University of Tours.

His daughter, by contrast, wants to remake the French party-political landscape, establishing the FN as a credible alternative to the ruling Socialists under President François Hollande, and to the centre-right UMP party, ahead of the presidential election in 2017. The party's recent gains in local and European elections are seen as crucial to building the army she needs for a presidential bid. In the public mind, sidelining Mr Le Pen in such spectacular fashion will have reinforced her transformation.

The interesting dynamic now will be between Ms Le Pen and her niece, Ms Maréchal-Le Pen. The youngest member of the political clan was elected to parliament in 2012 when a 22-year-old law student, and has been close to her grandfather and the FN's traditional right. They are sceptical of Ms Le Pen's bid to woo working-class voters with a protectionist, anti-globalisation, big-government line. Mr Le Pen has called the party's proposal to reduce the retirement age to 60 an "absurdity".

Yet Ms Maréchal-Le Pen seems a canny operator, who knows she embodies a younger generation little taken by her grandfather's crowd. She is careful to stress her loyalty to her aunt. "I am clearly in the National Front of Marine Le Pen," she said this week. Each needs the other. The niece has her base in the south, a traditional FN bastion; the aunt has put down roots in the ex-industrial north. Both seem to have gained from the family feud. Each rose a place in the latest popularity rankings by Ifop, a pollster—with Ms Le Pen just above Mr Hollande, and Ms Maréchal-Le Pen only three places lower. ■

Charlemagne | Turning Finnish

Europe will watch Finland's election closely—perhaps for the wrong reasons

FOR a useful corrective to the notion that only sunny optimism can win elections, Charlemagne recommends a visit to Finland. Like sauna-goers vigorously lashing themselves with birch branches, Finnish politicians are lining up to talk their homeland down in the run-up to the general election on April 19th. Juha Sipila, leader of the Centre Party and the most likely next prime minister, talks freely of the need to slash public spending. Antti Rinne, the finance minister and head of the Social Democrats, laments Finland's dire export performance. The biggest dose of gloom, though, comes from Alex Stubb, the centre-right prime minister. Mr Stubb claims to be an "eternal optimist", but says that Finland has had a "lost decade" and admits that the coalition he has led since June 2014 has often been a failure.

In fairness, Finns have reasons to feel doleful. When people speak of Europe's troubled "periphery" they usually mean the Mediterranean rim. But Finland may stake an equal claim. It has spent three years in recession. Output and employment are far below pre-crisis levels. And this year only Italy and Cyprus in the euro zone will grow more slowly, according to the IMF's latest forecasts. Finland has breached the euro-zone deficit limit of 3% of GDP, and will breach the 60% debt limit this year, too. Its economy has been triply whammed: by the collapse of Nokia, a telecoms giant that failed to ride the smartphone wave (and now wants to take over France's Alcatel, see page 58); by the worldwide decline of the paper industry; and by troubles with Russia, with which Finland shares a border over 800 miles (1,300km) long. "Blame Steve Jobs and Vladimir Putin," an official sniffs. Yet Mr Stubb looks a likelier target for voters' ire.

Such traumas would have drawn little outside attention in previous years. Finnish politics is dull and consensual, and most of the action takes place after elections when coalition deals are done. On fiscal policy, for instance, the main parties disagree only over the pace and composition of austerity, not on its magnitude. But in today's unsettled times every European election is dissected for its relevance to wider debates. Finland has outsize importance in two of the biggest: how to keep the euro together, and how to tackle Russia's adventurism.

Greece will prove an early test for the next government. Unlike during the campaign in 2011, which was dominated by Portugal's woes and the extraordinary rise of Timo Soini's Eurosceptic True Finns, few parties see electoral advantage in discussing the euro now. But the Greek government's bail-out expires in June and, without access to capital markets, it will need more help. That will be a hard sell to Finland's next parliament, whatever its shape. Mr Soini, in particular, will be reluctant to back a third Greek bail-out; four years ago he withdrew from coalition talks on a similar issue. Still, says an official, this time he would "sell his grandmother" to enter government. The betting is that a fudge on Greece will be found to satisfy his party.

Russia has loomed larger over this election. Age-old Finnish alarm about their giant neighbour was rekindled some years ago, when it started to throw its weight around in the Arctic. Mr Putin's aggression in Ukraine has spooked the Finns further. A bid to join NATO is not imminent (Finland would not wish to move without Sweden, the other Nordic non-member). But unlike the previous government, the coalition that emerges this time, which may include Mr Soini as foreign minister, will not rule out membership. That alone, says Mr Stubb, sends a signal to Moscow. Defence spending will rise even as other budgets are cut, and co-operation with the other Nordics will intensify. Nor will the next government go soft on the EU's sanctions against Russia. Indeed, Finnish diplomats have played a shrewd game in Brussels, taking a fairly hard line on Russia but quietly shaping the measures to help ease the burden on their own firms.

A demographic lab rat

So outsiders may breathe easy: the next government is unlikely to capsize the good ship Europe, even with the hefty Mr Soini on board. Yet Europeans have other reasons to watch Finland—because some of its problems will soon be theirs. Above all, its demographic crunch has arrived. Finland's post-war baby boom was early, short (lasting just a few years) and intense (the birth rate rose more than in other countries). Those baby-boomers are now reaching retirement. Add growing life expectancy and historically low immigration, and Finland is the world's fastest-ageing country. By 2030 more than a quarter of Finns will be over 65. This will place huge burdens on pension and health-care systems. Age-related costs are already eating up the Finnish budget. It is all starting to look very Japanese.

This has broader relevance, because, as Karl Whelan, an Irish economist, points out, many other European countries will soon face difficulties of a similar kind. By 2030, for example, Germany will have 47 over-65s for every 100 people of working age, up from 31 in 2013, and the picture gets even gloomier after that. Such changes force governments to address thorny issues, from pension reform to boosting immigration. Finland's leaders understand the problem. Mr Sipila is likely to raise the retirement age and to introduce a modest increase in work-based immigration, for example.

Such measures will do little to lift Finland's malaise in the short term, and could cause political tremors. Mr Soini, for one, will frown on more liberal immigration when unemployment stands at around 10%. Yet advantages may be wrung from adversity. Finland's older workers are healthy and educated, and its innovative businesses are well placed to exploit the opportunities an ageing society presents, from new health services to mobile-phone apps. As other, bigger countries age they will be able to learn from Finland—and perhaps to buy some of the goods and services it makes. That might even cheer up the Finns a bit. ■

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Election manifestos

The cross-dressers

Both the Conservative and the Labour manifestos are triumphs of political realism. That is not necessarily a sign of strength

WHEN writing its election manifesto, a sensible political party strikes a compromise between its own grand ideals and the practical realities of voters' lives. This balancing act demands a self-awareness that British politicians have sometimes lacked. In 1983 the Labour Party offered a vision of red-hot socialism to a public warming to Thatcherism ("the longest suicide note in history", it came to be called). In 2005 the Conservative Party's programme was a curmudgeonly grumble about modern Britain under the slogan: "are you thinking what we're thinking?" No, voters replied. In 2010, as the country struggled out of an economic slump, the Tories under David Cameron presented an "invitation to join the government of Britain", full of highfalutin talk of empowering citizens. They fell short of the majority most had expected them to win (so have governed in coalition with the centrist Liberal Democrats for the past five years).

Why do parties struggle to align their programmes with political reality? Spending too much time in the Westminster bubble may be part of the problem. If so, the authors of the Labour and Conservative manifestos for this election appear to have escaped it, or at least spoken to people who have done so. The two documents, published on April 13th and 14th, are triumphs of realism: short on lofty ideals and long on *realpolitik*. As such, they are unusually revealing of how Britain's two main parties see their predicaments.

For example, both parties accept that voters have big doubts about them. At his manifesto launch in Manchester Ed Miliband, the Labour leader, sounded like a fiscally hawkish Conservative. The first page of the document, he stressed, assured voters that no pledge required extra borrowing and that his government would cut the deficit every year. He called his opponents a "party of sums that do not add up and commitments that will not be kept". This stark focus on probity (rather than things Labour prefers to talk about, like health care) was an admission that voters remain unconvinced about its ability to balance the books.

Campaign in prose

David Cameron, too, committed some political cross-dressing in the hope of winning over voters who think of his party as nasty and not on their side. At his manifesto launch in Swindon the prime minister did his best impression of a keen redistributionist, declaring the Tories to be the "party of working people" and announcing he would double free child care and give social-housing tenants a state subsidy with which to buy their homes (see next article).

The events themselves were unflashy. In 2010 the Tories unveiled their manifesto by projecting "Who is the new member of Cameron's team?" onto Battersea Power Station in London (the clever-clever answer being: "you, the citizen"). Labour issued its manifesto on USB sticks. This time there were no gimmicks, just two rather plain-looking documents. Their contents were cautiously practical. George Osborne, the chancellor of the exchequer, dreams of a less meddlesome and more decentralised state. Mr Miliband and Jon Cruddas, his manifesto co-ordinator, want to forge a less individualistic society. Both manifestos contained hints of these ambitions—Labour's hailing "the power of people's relationships to build the capacity for love, care and resilience"—but these were muffled by a blanket of retail politics. For example, the Tories' state-slimming ambitions were buried under the promise of goodies for every stage in a voter's life, from child care to the state pension.

Tucked deep between the lines were nods to another political reality. With the main parties still neck-and-neck and another hung parliament thus increasingly likely, the manifestos will probably serve merely as the opening bids in coalition negotiations. Both contained policies that appear designed to be dumped, diluted or traded away during such talks, as the Tories did with a number of their half-baked proposals (like a pricey inheritance-tax cut) in 2010. Do not expect Mr Cameron to repeal the fox-hunting ban, for example, or Mr Miliband to meddle with rail and energy prices as much as he suggests he will. If they are short of a majority, most in both parties would prefer to do a deal with the Liberal Democrats. Their manifesto, published on April 15th, was another triumph of electoral realism. Having seen its support collapse after raising university-tuition fees (it explicitly promised to abolish ▸▸

them in its last manifesto) this time the party has taken pains to highlight its red lines in any coalition talks: more money for the NHS and new environmental protections, among other measures. Commenting on the parties' hints at their negotiating stances, Gus O'Donnell, the civil servant who brokered the coalition deal in 2010 (and a trustee of *The Economist*), calls this "quite a lot of public foreplay".

The sheer plainness of the main parties' programmes was highlighted by wackier manifesto offerings from the left-wing Greens and right-wing UK Independence Party (UKIP). The Greens excitably promise a "peaceful political revolution" including huge tax rises on the rich and 1m new state-funded jobs. UKIP promises a "low-tax revolution".

It is these two aspects of British politics—the rise of the smaller parties and the likelihood of coalition rule—that best explain the outbreak of realism among the mainstream parties, especially the Tories and Labour. With the election so unpredictable and their own standing among voters so weak, neither dares go out on a limb. Hence the cross-dressing, the reluctance to over-promise, the readiness for coalition. Britain's next government will be led by a party, Labour or Tory, that went into the election deeply unsure of itself. ■

Young voters

Apathetic fallacy

Online voting could transform Britain's electorate

ONE-BY-ONE they approach the lectern, explaining why they will cast their votes. "Regardless of whether you do or don't, policies will be implemented," says Princess, an activist, to loud cheers. As politicians from the main parties all make their speeches, the atmosphere in the lecture theatre at Queen Mary University, in east London, is electric. This is what Citizens UK, a network of university bodies, youth groups and religious gatherings, does so well: using existing civil-society organisations to spur young people into political action, and holding invigorating assemblies to meld them together.

It is also the exception. At the 2010 election, according to Ipsos MORI, 44% of Britons aged between 18 and 24 voted, compared with 76% of those aged 65 and over (national turnout was 65%). The gap is relatively new: it was half the size in 1970, and has grown significantly only over the past two decades. It is also starker than elsewhere. In the German election in 2013, for example, 64% of first-time voters cast their ballots, compared with 75% for over-70s. Britain's low youth turnout helps to explain why the outgoing, Conservative-led government has protected public spending on older voters (guaranteeing increases in the state pension, for example) while doing little to solve a housing shortage, which affects the young most acutely.

Fancy a snap election?

There are several reasons for the low turnout. One is that more Britons are going to university and ever-more live in short-term, rented accommodation. Both trends make it harder for authorities to register them. Another is that Britain's first-past-the-post system holds down insurgent parties—like the Green Party—which are popular among young voters but stand no chance of winning more than a handful of seats. This makes voting seem less effective. Perhaps the most convincing explanation is that mainstream parties, with their soporific committee meetings, are ill-attuned to a generation more at home in dynamic organisations like Citizens UK and 38 Degrees, an online campaigning network which claims to have over ten times as many members as the Labour Party.

What to do? In the long term, political parties should become looser, more open and more welcoming. But one simple improvement would be online voting; a measure which John Bercow, the speaker of the House of Commons, has said he wants to see by 2020. That would both accommodate the footloose lives of young Britons, but also reflect how they like to do their politics: online and with reference to their social networks. Estonia introduced online voting in parliamentary elections in 2007. What is Britain waiting for? ■

Housing and the election

The right to buy...votes

The Conservative Party returns to a proven poll-winner

BRITONS are obsessed with home ownership, but an acute housing shortage has put it out of the reach of many. The last census, in 2011, recorded the first fall in the number of owner-occupiers for more than half a century. The Conservative manifesto, launched on April 14th, borrows a policy from the past with the aim of arresting this trend and breaking the electoral deadlock.

In 1980 Margaret Thatcher's Conservative government gave local council tenants the right to buy their homes at generous discounts. Since then, some 1.9m households have done so. Many claim the policy created a horde of new home-owning Tory voters, securing 18 years of continuous government for the party.

Now David Cameron, the prime minister, promises to extend right-to-buy to the 1.3m families who rent from housing associations (private but non-profit bodies which provide social housing). Mr Cameron would force associations to sell, but the government would pay for the discount.

The main effect of these right-to-buy schemes is to transfer wealth from the taxpayer to the buyer. That might be desirable; those who benefit are not society's poorest, but are not well-off, either. Yet critics of right-to-buy bemoan the erosion of the stock of social housing.

Selling off houses can force councils to pay the private sector to house those in need. That pushes up the housing-benefit bill. And right-to-buy might reduce incentives to build anew, given that the new property will be sold off cheaply. In the 1980s new council builds "pretty much disappeared" after right-to-buy was introduced, according to the Institute for Fiscal Studies, a think-tank.

This time, the Tories promise to build a new home to replace every one sold. They will fund both the giveaway and the replacement by forcing councils to sell off their highest-value properties when they become vacant.

But the record here is not good. The National Housing Federation, representing housing associations, says that only 345,000 council homes have been built to replace the 1.9m sold off since 1980. Yet in a tight election, the votes of 1.3m households are juicy bait.

Bagehot | The limits to ridicule

The Conservatives have spent too much time mocking Ed Miliband. It may hurt them

"ALL right, fine, but you're missing the crucial point," said one of David Cameron's captains, when Bagehot bothered him with some snipe or other at the Conservatives' loveless election campaign. "The one thing all our focus groups tell us is that no one wants Ed Miliband to be prime minister".

The unpopularity and unnerving left-wing idealism of the Labour Party's gauche leader is the Tories' comfort blanket. The economic recovery they have overseen may appear to be voteless, their spending cuts to be semi-permanent and the UK Independence Party (UKIP) to have pinched a fifth of their followers. Yet they take solace in the haplessness, which they consider terminal, of a politician who used the unions to best his abler brother, David, was in turn beaten by a bacon sandwich, and who has had the worst ratings of any Labour leader in recent times. Mr Miliband's main achievement, according to his allies, is to have held his party together; he has performed that service for the Tories, too. If deficit reduction was the raison d'être of their coalition government, Miliband reduction has kept the Tories united. They simply cannot quite believe that, despite Labour's big advantages in this election, including a windfall of disaffected Liberal Democrat votes and an electoral map stacked in its favour, Britons could send such a despised politician to 10 Downing Street.

But with the election only weeks away and the polls deadlocked, that faith has been seriously tested—such that last week the Tory high command panicked and hit out. Michael Fallon, the biddable defence secretary, predicted that, to gain governing support from the anti-nuclear Scottish National Party, Mr Miliband would "stab Britain in the back", just as he had his brother, by junking the nuclear deterrent. This was as self-defeating as it was imbecilic—the Tories' main problem being a whiff of toxicity that the moderate Mr Cameron has failed to aerate away. And if Mr Fallon's low blow got voters wondering what other invectives against "the Millipede", as Boris Johnson, the ribald mayor of London, calls Mr Miliband, were unjust, the *Daily Mail*, a right-wing tabloid, then threw a lower one—by "exposing" the fact that the Labour leader, in the years before he met his wife, had three or four previous girlfriends. This was risible and also prone to backfire. "The moment I found out we were in trouble", laments a Tory backbencher, "was when I walked into a pub full of UKIP supporters and heard a bloke at the bar say: 'So how did that muppet shag all those birds?'"

Whichever party wins next month, this embarrassing episode will feel formative. If the Tories win, it will be because it helped jolt them to their senses. Eventually appreciating that nastiness and his party's habit of relentless reduction—of the state and of his rival—had gone too far, Mr Cameron ordered a last-ditch infusion of optimism and positivity, which was evident in the rejigged manifesto he presented on April 14th. Though it contained a lot of dreary giveaways—from a party that claims to be nothing if not fiscally responsible—it stood for his belated appreciation that the electorate wants inspiration, not vituperation, security, not rows. The Tories cannot win this election by being crushingly negative.

In truth, there are troubling questions to be asked of Mr Miliband's statist instincts, limited interest in enterprise and painful indecisiveness. But the Tories' attacks on him have always said as much about their own inadequacies. These go beyond a certain unpleasantness and the lopsidedness of the recovery. They include, even by Westminster standards, a staggering lack of self-awareness, which often makes a mess of their tactics. In knocking Mr Miliband, for example, top Tories hope to find a precedent in the 1992 election, when John Major, a respected, but not loved, Tory leader, with a similarly robust record for economic competence as Mr Cameron has, scored a last-ditch win over a similarly reviled Labour leader, Neil Kinnock. Perhaps something similar is about to happen. Yet among the many great differences between now and then is the fact that Mr Cameron and his well-heeled captains are far more establishment figures than Mr Major was, at a time when a surly anti-establishment feeling is raging. The effect is to make Mr Miliband—a product of Oxford and Harvard—appear more of an outsider than he is, which, given the boldness of his ambition to reform British capitalism, is just what he wants.

Another effect of the barracking is to highlight his strongest attribute, an ironclad resilience, forged of a deep—in fact, slightly worrying—self-belief. This is now receiving almost as much comment on the trail as *that* bacon sandwich. Because the Labour leader is suddenly on a roll.

Revenge of the Millipede

Having been exaggeratedly slurred, he was bound to surprise on the upside. "He only had to show he didn't have two heads, and he was away," notes another concerned Tory. Yet his early showing has been impressive. In two television debates (or quasi debates), Mr Miliband's hunger to bring change was manifest; Mr Cameron, though competent, appeared cowed by comparison. The Labour press team has pushed that advantage, for example, by promising a well-judged end to the privileged tax status some super-rich Britons and foreign residents enjoy. The result has been a big improvement in Mr Miliband's personal ratings, inching them, in some polls, into positive territory for the first time.

This may pass. Labour's policy cupboard may be bare. Mr Cameron will push back, and Mr Miliband's unattractiveness as a politician is not all a Tory creation. So if the Labour leader now looks more like Lord Kinnock in his 1987 election pomp than the Tories would like, they can still find solace in the fact that Labour lost that one, too. All the same, Mr Miliband's late flourishing should make them regret the vast amount of time they have spent deriding him. As the electorate is already telling them, it could have been time far better spent. ■

Also in this section

The Armenian massacres

Was it genocide?

ISTANBUL

As the centenary of the Ottoman empire's slaughter of the Armenians approaches, the truth is still contested

"ON ALL the roads we traversed between Yozgat and Kayseri, about 80 per cent of the Muslims we encountered (there were no Christians left in these parts) were wearing European clothes, bearing on their persons proof of the crimes that they had committed. Barefoot peasant boys wore formal clothes; men sported gold chains and watches." Thus wrote Grigoris Balakian, an Armenian Orthodox priest who witnessed the aftermath of the mass slaughter of his ethnic brethren by Ottoman forces in 1915-16. On April 24th 1915, scores of Armenian intellectuals were rounded up in Istanbul and most were later murdered. But as the centenary approaches, what followed is still bitterly contested.

Turkey claims that around 500,000 Armenians died of hunger and disease en route to the Syrian desert. They were being deported, it says, because Armenian revolutionaries were siding with Russia against the Ottomans during the first world war. Survivors and their scattered descendants put the toll as high as 1.5m, insist the deaths were largely intentional rather than a regrettable side-effect, and want the events recognised as genocide. A growing number of academics and governments agree and use the term. But Turkey is mounting a vigorous counter-campaign. "I refuse to let my forefathers be equated with Hitler," fumes a Turkish diplomat.

Disagreeing with the official version can be interpreted as a crime in Turkey, and brings other risks, too. Hrant Dink, an intrepid Turkish newspaper editor of Armenian extraction, was shot dead by a nationalist teenager in 2007 after revealing that Sabiha Gokcen, the adopted daughter of Kemal Ataturk, modern Turkey's founder, was an Armenian who had been orphaned during the genocide. There is mounting evidence that rogue security officials orchestrated his killing.

The crime proved a surprising turning point. Over 100,000 people, many of whom had probably never heard of Mr Dink before, attended his funeral. The wall of denial began to collapse. Books cataloguing the horrors endured by the Armenians, such as "Black Dog of Fate" by Peter Balakian, Grigoris Balakian's great-nephew, are now available in Turkish. The government has begun, albeit slowly, to hand back confiscated Armenian church properties. A year ago Recep Tayyip Erdogan, the president, became the first Turkish leader to acknowledge Armenian suffering under the Ottoman empire when he offered condolences. Three big political parties, including Mr Erdogan's own Justice and Development party (AK), are fielding Armenian candidates for winnable seats in the election on June 7th, a first.

Turkey's Kurdish leaders have formally apologised for their people's role in the massacres. In the Kurdish-dominated province of Diyarbakir, where Armenians once made up almost half the population, the district of Sur is offering free Armenian lessons. In the neighbouring province of Sirnak, some "hidden Armenians", whose ancestors converted to Islam to avoid being killed, celebrated Easter this year with other locals, both Christians and Muslims.

Both in Armenia, where nearly half the population is descended from Ottoman Armenians, and in the diaspora, long-nursed grievances are beginning to give way to curiosity about the "old country". Hundreds are coming to Istanbul and Diyarbakir for commemorative events around the centenary. Khatchig Mouradian, an ethnic Armenian born in Lebanon who now lives in America, organises "pilgrimages" for far-flung Armenians to "Western Armenia" (their name for eastern Turkey). Armed with long-guarded hand-drawn maps, they seek out their ancestors' homes and pray at ruined monasteries for their souls.

Not even past

But the thaw goes only so far. In previous years Turkey has commemorated the allied landings at Gallipoli in 1915 on April 25th. This year it is shifting events to April 24th, some say to distract from the centenary of the Armenian massacres. An art installation planned in Geneva to mark the Armenian centenary has been blocked by the Swiss government—because of Turkish pressure, insiders say.

In Syria, Turkey is accused of standing by or even helping Islamist rebels to take cities including Kobane and the mainly Armenian border town of Kassab, which fell last March. Kassab has since come back under the control of Bashar Assad's regime, allowing residents to return. But the episode revived bitter memories of the final spasm of violence in 1916, when tens of thousands of Armenians camped in the desert province of Deir ez-Zor were slaughtered. It will take more than condolences to heal such deep wounds. ■

Classifying acts of evil

Naming the unspeakable

Genocide overshadows other crimes against humanity

AMONG lawyers and scholars who study conflict, the word "genocide" is sometimes grimly described as the ultimate prize. A judgment that a continuing conflict involves genocide makes intervention more likely. Survivors of a group that has suffered mass slaughter may find a measure of solace when some authority formally acknowledges that what happened was the most heinous of crimes.

But when that recognition is denied because of a legal technicality—or political expediency—survivors can feel that the victims' memory has been insulted. "The campaign to outlaw genocide has succeeded in important ways, by making the crime so toxic that it is likely to prompt international action," says Richard Dicker of Human Rights Watch, a monitoring group. "But there are other crimes which deserve a lot more attention than they get."

The term came into use with the 1948 UN Convention on the Prevention and Punishment of the Crime of Genocide, which 146 countries have signed. It proscribes acts including killing, inflicting physical or mental harm, forced adoption and eugenics, when done "with intent to destroy in whole or in part a national, ethnical, racial or religious group". Politically or ideologically motivated killings were excluded: Stalin would hardly have signed had genocide included his massacres of entire classes, such as "middle peasants". And it sets a high bar by requiring proof of intent. Apologists for the Ottoman empire argue that the deaths of Armenians in 1915 were a side-effect rather than the desired result. Evidence of orders to kill, apparently conveyed orally, is elusive (though it convinces many scholars).

The post-war Nuremberg and Tokyo tribunals were set up to try "crimes against humanity". That term has gained greater currency in the past 25 years, and accounts for most of the work of the ad hoc courts set up to try war crimes in former Yugoslavia, Sierra Leone and Cambodia and the permanent International Criminal Court (ICC), created in 2002. (At the court on the mass killings in Rwanda in 1994, their genocidal nature was not in doubt.) The definition has been broadened since Nuremberg, when the Allies regarded crimes against humanity as an aspect of aggressive war. The ICC's working definition includes killing, persecuting, putting to flight and sexual violence when "committed as part of a widespread or systematic attack directed against a civilian population".

Some war crimes, including torture and enforced disappearance, have dedicated UN treaties, points out William Schabas of Middlesex University. But there is none which covers crimes against humanity in general. The International Law Commission, a UN-mandated body, has sketched out a draft with support from scholars, including Mr Schabas.

The idealism that prompted international debate during the past quarter-century about how to define and punish war crimes seems to be ebbing. It is unlikely that any more ad hoc war-crimes tribunals will be set up, and the ICC is struggling to maintain its moral authority. As a matter of practical politics, there is little chance of the genocide convention being renegotiated. Its flaws will stay. But an effort to pin down the meaning of "crimes against humanity" would remind the world that there are other unspeakable acts. ■

Lambs to the slaughter

The Vatican and Turkey

Never forget

VATICAN CITY

Forthrightness about a past atrocity provokes a strong reaction

IN 1915 Pope Benedict XV wrote to Mehmed V, the Sultan of the Ottoman empire, saying that he could hear "the echo of the groans of an entire people… subjected to unspeakable sufferings". When the two leaders' modern-day counterparts met last November at the Turkish presidential palace outside Ankara, those echoes were still audible. According to a new book by Franca Giansoldati, the Vatican-watcher of *Il Messaggero*, an Italian daily, Recep Tayyip Erdogan, Turkey's president, "begged" Pope Francis to refrain from openly characterising the Ottoman empire's slaughter of Armenians in 1915 as genocide.

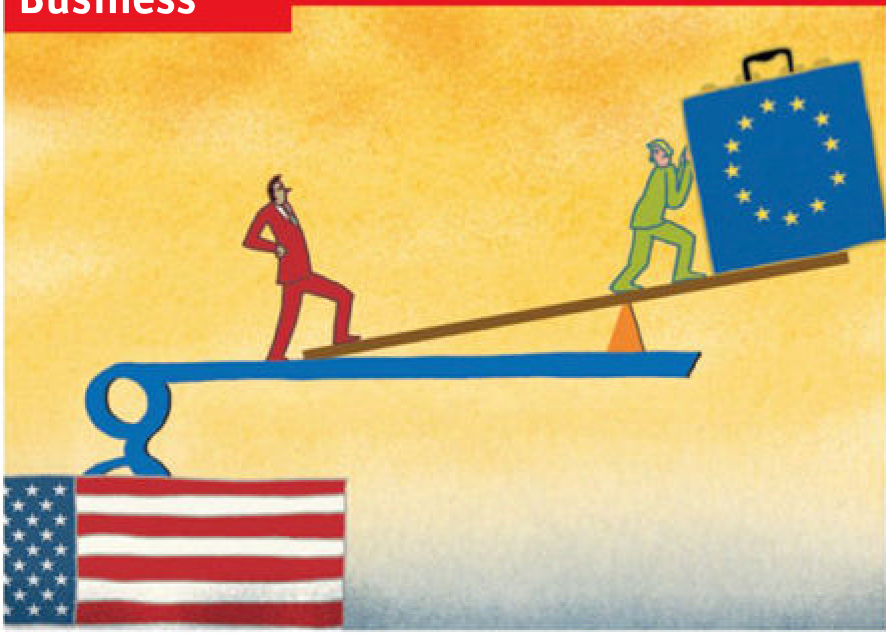
The pope respected his host's wishes then. But on April 12th he abandoned tact and referred to the killings as "the first genocide of the 20th century". The Turkish government responded with outrage and recalled its ambassador to the Holy See for consultations. A vote in the European Parliament on April 15th, commending the pope's statement and urging Turkey to recognise the massacres as genocide, further infuriated Mr Erdogan. "It is not possible for Turkey to accept such a crime, such a sin," he said.

Francis has used the same phrase before, most recently in 2013 when he met an Armenian delegation. But that was scarcely reported, and the Turkish authorities merely expressed "disappointment" and called in the Vatican's envoy for a ticking-off. This time, he was making a much-awaited speech in front of Armenia's president, Serzh Sargsyan, days before the official centenary commemorations on April 24th.

Turkish diplomats are understood to have set themselves two aims as the centenary approached: to stop the mass at which Francis spoke being held on the day itself, and to prevent him from using the G-word. They gained their first objective. In deciding to deny them their second, the pope and his diplomatic advisers had to weigh opposing factors.

The Holy See has warmer relations with Turkey than any other Muslim country. Vatican officials recognise that Mr Erdogan has gone further than his predecessors in acknowledging the mass killing of Armenians. Against that is their desperation over Islamist persecution of Christians and what the Vatican views as Muslim clerics' and politicians' failure to oppose it. Recent months have seen mass killings of Christians by Muslims in Nigeria, Libya and Kenya. The pope and his advisers believe that a decisive phase has been reached in the eradication of Christianity from Iraq and Syria.

The Vatican has long been the venue of a tug-of-war between proponents of careful dialogue with the Islamic world and advocates of bluntness, who feel that tact has got Christians nowhere and that plain speaking is needed, even if it causes offence. The plain-speakers had the upper hand under the previous pope, Benedict XVI. Francis's latest comment suggests they are back in the ascendancy.



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Europe v Google

Nothing to stand on

Europe is right to worry that it lacks big digital platforms. But reining in Google is no solution

"GIVE me a place to stand on, and I will move the Earth." So Archimedes explained the power of levers in the physical world. The digital realm has levers of its own: "platforms", the technological fulcrums upon which many businesses can be built. Control of an important platform is a source of economic power. Microsoft used the power of its Windows operating-system platform to shape the destiny of an entire industry—and to capture an outsized share of its profits. Some worry that Google's dominance of the web-search business lets it perform a similar trick today.

Europe is taking no chances. On April 15th the European Commission sent a "statement of objections", an indictment of sorts, to Google, accusing it of abusing its dominant position in the internet-search market and reviving an antitrust case that has dragged on for five years. A day earlier Günther Oettinger, the European Union's digital commissioner, gave a speech arguing that it was necessary to "replace today's web search engines, operating systems and social networks."

In Europe Google handles more than 90% of web searches, making it the place to be for many advertisers. Whether it has harmed consumers by using its dominant platform to steer them away from rival services and towards its own, such as Google Shopping, is at the heart of the case. In contrast to the previous competition commissioner, Joaquín Almunia, the new one, Margrethe Vestager, clearly thinks it has.

Instead of getting bogged down in negotiations with Google over how exactly it should redesign its search-results pages to give rival services more prominence, Ms Vestager wants the case to set broad principles of fairness that Google would have to adhere to. For now she has narrowed the scope of the case to the firm's shopping service: if the outcome is that Google has to abide by certain principles over this matter, these could then be applied in others, such as whether Google makes it hard for advertisers to take their data to other platforms. She has also launched a separate formal investigation of Android, Google's mobile operating system, amid allegations that it forces device-makers to give its smartphone apps preferential treatment.

Google (whose executive chairman, Eric Schmidt, sits on the board of *The Economist*'s parent company) told staff in an internal memo that it has a "very strong case" to make against all the allegations.

In the search case the statement of objections may not become public for many months, and even then it will only appear in a redacted form. But an inadvertently leaked report from America's Federal Trade Commission, which ultimately decided not to sue Google, suggests the firm has a case to answer: it says that Google purposely demoted rival sites. But the statement is not a final decision. And if the European Commission limits what Google can do, and especially if it imposes a fine (it can levy up to 10% of annual revenues, or $6.6 billion), the case may go to court and drag on for years.

The commission's move against Google is not overtly political and protectionist. However, it is part of a broader trend. As Mr Oettinger's speech shows, Europe is belatedly discovering its failure to develop many of the platforms underpinning the online economy. Much of the world's digital territory has in effect been ceded to America without a fight. "Our online businesses are today dependent on a few non-EU players," said Mr Oettinger. "This must not be the case again in the future."

The big danger, Mr Oettinger warned, is that as the world relies ever more on platforms operated by Google and other American firms, they may be able to repeat this trick in areas that have hitherto been Europe's forte: fashion, energy and luxury vehicles, for instance. "We might invest in producing wonderful cars, but those selling the new services for the car would be making the money."

That worry is understandable. But rather than trying to rein in American firms, European politicians should focus on fixing what is holding back the old world's most promising platforms: the lack of a common digital market. Today only 15% of consumers shop online across borders within the EU. To set up Europe-wide operations, an e-commerce firm has to jump through numerous bureaucratic hoops, from tax rules to labour laws, in each country. Alas, the digital strategies recently outlined by Andrus Ansip, another commissioner, are so far short on substance. If Europe wants to be America's equal in the creation of new technological platforms, it needs to recognise the importance of scale. America, with its large and open domestic market, has it. Europe does not. ■

General Electric

Banking on de-banking

NEW YORK

By announcing the closure of GE's financial arm, Jeffrey Immelt has only won half of the battle to save the company

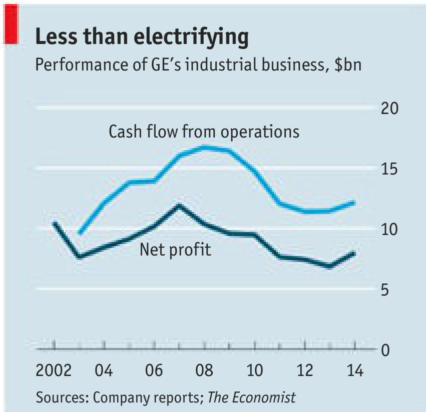
SPEAKING just a month ago, one of the men who lost the struggle to become boss of General Electric (GE) in 2001 grumbled that the firm had become as soft as a marshmallow. That was before Jeffrey Immelt, who got the job, said he would terminate with extreme prejudice the group's vast banking division, GE Capital. Mr Immelt's decision, announced on April 10th, is as momentous and ruthless as any made by an American boss in decades.

The logic is impeccable: GE Capital has sapped the world's biggest industrial firm for a decade and exhausted the patience of regulators and shareholders. And Mr Immelt may find it easier than expected to liquidate in 36 months America's seventh-largest bank, with $500 billion of assets. What may prove harder is convincing the world that the rest of GE—which runs from lamps to locomotives via medical scanners, oil-drilling equipment, nuclear reactors, jet engines, water-treatment plants and all manner of other electrical and mechanical gear—still deserves to exist.

GE's finance arm was conceived in innocence in the 1980s and came of age in the roaring 1990s when it lent with abandon to consumers and companies in 48 countries and with little regulatory oversight. It had a near-death moment in 2008 when it needed almost $60 billion of government guarantees for its debt to stay afloat—on a par with the aid given to many big banks.

Today almost no one wants it to exist. Regulators dislike how it relies on wholesale borrowing markets to finance itself—it had a third of a trillion dollars of debt at the latest count. Shareholders despair of its 8% return on equity, now that a plethora of new capital and liquidity surcharges apply to it and other too-big-to-fail banks. Mr Immelt is frustrated at how it overshadows GE's industrial business, which he believes he has remade into something special through years of unappreciated toil.

Even with its previous thirst for risk it took GE two decades to create its giant financial business. Can it really be dismantled in just three years, as Mr Immelt now intends? Pessimists can point to the experience of big banks such as Citigroup, that are still trying to offload huge portfolios of dud assets almost a decade after the crisis. The closest example that there is of a controlled liquidation of a giant financial firm, Royal Bank of Scotland, has been slow and painful in the extreme.



In fact GE stands a fair chance of putting its finance arm to sleep on time. First, there appears to be less nastiness on its balance-sheet than one might think, because it has already shrunk and cleaned up its books. Only about 5% of loans are delinquent and only 3% of assets are classified as "level-3" (regulator-speak for opaque and hard to value). Between 2009 and 2014 GE sold about $100 billion of loans at a slight profit. It has announced the sale of $27 billion of property loans—which should be among the hardest to shift—mainly to funds run by Blackstone, a private-equity firm.

Second, there seem to be lots of buyers sniffing around, thanks to bubbly financial markets. The average yield on GE's loans is 7% and in a world in which yields on most assets are at rock bottom, they are enticing. The owners best suited to GE's assets would be entities that are exempt from the capital surcharges now imposed on big banks—either because they are not banks or are foreign. And they would have a cheap and safe source of funding, either because they have access to deposits or long-term equity. GE says it has had expressions of interest from hedge funds, sovereign-wealth funds, foreign banks and fund managers, all of whom fit the bill.

But no more adventures in finance

Having helped save GE's finance arm during the financial crisis, the Federal Reserve is now the main obstacle for Mr Immelt's plan. It could object to certain buyers—either because they are too-big-to-fail banks or because, like GE today, they rely on risky wholesale borrowing. The Fed could also tighten monetary policy more quickly than expected, causing a bond-market rout and confidence to evaporate.

Still, for now the momentum is with Mr Immelt. His dream is that by 2018 GE Capital will have shrunk to $90 billion of underlying assets, just a fifth of their peak value, and from nearly half of GE's profits today to just a tenth. What is left will have the reduced role of providing credit for buyers of GE products. Such "vendor finance" is common among industrial companies of all sorts (see box, next page). A pile of capital will be released that can be returned to shareholders through buybacks—perhaps up to $50 billion-worth, or a fifth of GE's market value. And the glory that is GE's industrial side will be revealed.

What happens if all goes to plan? The most important, and least asked, question, is whether GE's industrial business is any good. That may seem churlish. GE has its own legends of "six-sigma" manufacturing excellence and frugal innovation. It has immense prestige abroad, where it makes half of its sales. GE is in the process of buying most of Alstom, a French firm, for $13 billion. Assuming the deal is completed GE says it will have the largest market share of any global firm in its biggest businesses—aviation, transport, power and health care. On the numbers GE prefers to highlight, the industrial business has been growing nicely. Organic revenue growth, that is excluding currency moves and asset sales and purchases, has been an average of 5% over the last five years. And its return on capital is a decent 14%.

The trouble is that none of this has translated into growth in profits or cash-flow from the non-financial side. Both have declined alarmingly in absolute terms (see chart). In part this reflects the asset sales GE has made—for example, Mr Immelt has sold NBCUniversal, a media company, and GE's plastics business.

Some 60% of the sales GE made in 2001 came from businesses it no longer owns. The industrial divisions have bought or ▸▸

sold companies worth about $100 billion in the last decade, excluding Alstom. That is more than the $64 billion of capital invested in the businesses that remain.

This figure can be brandished as evidence of how radical Mr Immelt has been. But it also means GE's industrial businesses have not been a rock, but a constantly shifting portfolio of assets—rather like a financial firm, in fact. The restructuring costs incurred have been heavy—$12 billion over a decade. The complexity involved is high: to get the French government to accept the Alstom deal, Mr Immelt agreed that, instead of buying three of its divisions outright, it would let the French firm keep stakes in them via joint ventures, a particularly exquisite form of corporate torture.

It is hard to know if the latest portfolio will cohere. GE has never managed to quantify the synergies it gains from its diverse businesses. There is some evidence it is building economies of scale. It has over $1 billion of orders in 22 countries, double the figure a decade ago. Mr Immelt talks about making GE a "store" for those buying infrastructure products and services. But customers for jet engines do not usually go shopping for nuclear reactors or neonatal incubators. As more of GE's wide variety of machines are connected wirelessly, there may be synergies to be found in the data they produce. But this is as yet unclear.

As he enters the final years of his stint as GE's boss, most eyes will be on whether Mr Immelt will become the first man in modern history safely to euthanise a too-big-to-fail financial firm. If he succeeds it will be a triumph of guts and discipline, two of the qualities that GE is renowned for. Yet if GE's industrial businesses do not begin to yield consistently rising profits and cashflow, the same investors who agitated to break up its finance arm will eventually turn their attentions to what is left of it. ■

Mixing commerce and banking

Risky business

NEW YORK

Message to chief executives: do not try to turn your firm into Goldman Sachs

THE question of whether businesses should dabble in finance was supposedly settled in America after the 1929 crash, when the mixing of commerce and banking was banned. But those rules were watered down and circumvented by GE and many others. In the rest of the world the debate has raged for decades. The case for a split is clear. Managers are even worse at dealing with financial risk than bankers are. A blow-up in a firm's financial arm can hurt its main business. And giving tycoons access to savers' cash can lead them into all sorts of temptation.

Despite this, non-financial businesses are engaged in finance on a mighty scale. The share of American profits from finance is 33%, as measured by its national accounts, which include the finance arms of industrial companies. This is far higher than the 20% share of the profits generated by S&P 500 companies that is attributed to "pure" banks and insurers. Globally, non-financial firms own $9 trillion of currency derivatives.

There are four ways to dance with the devil. First, firms can get involved with "vendor financing"—lending to customers to help them buy their products. But customers can default: Motorola and Nokia lost, in total, $3 billion in Turkey in 2001. And the scale of vendor financing is scary. The five biggest car firms which report figures have finance arms with $600 billion of assets, up by a fifth in the past two years.

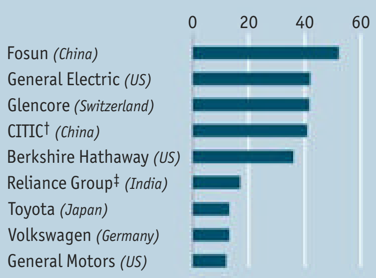
Second, consumer firms can sell retail financial services to their customers. Walmart, a grocer, offers banking products to shoppers. Few of these experiments have created much profit. The third approach is to engage in trading. Glencore, a natural-resources firm, makes 42% of its profits from trading. BP, an oil firm, has $8 billion of derivatives held for the purpose of trading.

The most gung-ho strategy is to set up a fully-fledged finance subsidiary, as GE did. Sometimes it works. Warren Buffett's conglomerate, Berkshire Hathaway, contains a huge insurance unit whose cash float finances its investments. But it is opaque, with $37 billion of notional derivatives exposure. At some companies, the tacit aim may be for the finance subsidiary to exploit the main business's balance-sheet and dodge regulation. GE Capital's 2008 blow-up was not the first of its kind: in the 1997-98 Asian crisis South Korean, Thai and Indonesian conglomerates were crippled by losses in their banking arms.

Since the subprime crisis Western regulators have clamped down on closet banks. But elsewhere the idea of mixing commerce and finance is back in fashion. Last year China granted banking licences to two internet firms and an airline, among others. And India's tycoons have been lobbying to be allowed to open banks. These firms say they will boost competition but history suggests their plans are like mixing matches and gas.

Kings of the shadows

Share of profits from finance*, %



Sources: Bloomberg; company reports

*Including trading, latest available year †% of revenue ‡% of assets

Telecoms equipment

Engaged tone

PARIS

The Nokia-Alcatel merger represents the triumph of hope over experience

MERGERS among telecoms-equipment makers have a terrible record. In 2006 Alcatel, a troubled French telecoms conglomerate, was pressed to merge with Lucent Technologies, a descendant of America's telecoms colossus, AT&T. The messy result burned cash for eight years and caused its share price to tumble by almost 75%. Nokia's experience of togetherness was hardly happier. In 2007 the Finnish firm formed a joint venture with Siemens which staggered on until Nokia bought out its German partner in 2013. So news on April 15th that Nokia and Alcatel-Lucent had agreed to tie the knot, though not unexpected, caused eyeballs to roll.

It makes sense nonetheless. Nokia is back in profit and Alcatel-Lucent is on its way there, but each firm is too small on its own to compete in the global telecoms-equipment market. This is now dominated by two firms—Ericsson of Sweden and Huawei of China.

Nokia's and Alcatel-Lucent's combined turnover last year was €26 billion ($34.5 billion), more than Ericsson's SKr228 billion ($33 billion). But the merger is "primarily about scope, not scale," says Risto Siilasmaa, the chairman of Nokia. The two firms are complementary. Alcatel-Lucent is strong in internet routers, for example, but its wireless business is small. Nokia's wireless-networks business, by contrast, is almost too dominant: it now accounts for 88% of revenues because the Finnish firm sold its handset business to Microsoft in 2014. Alcatel-Lucent is stronger in America, thanks to its historic roots, while Nokia is somewhat more Euro-centric. They could help each other make a better fist of things in China.

Even so, there is much that could, and ▸▸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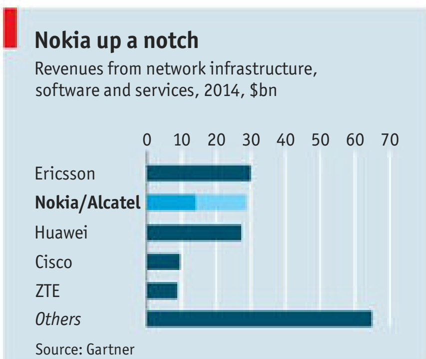
SCAN FOR A FREE MARKET APPRAISAL

on past experience may well, go wrong. For a start, cross-border mergers frequently lead to culture clashes—and both Alcatel and Nokia are already coping with some queasy cultural mixes from their earlier mergers. Michel Combes, the former's chief executive, argues that both companies are thoroughly international, and Nokia now has more French heads of business lines than Alcatel-Lucent. However, €900m-worth of operational synergies must be found by the end of 2019. And Bengt Nordstrom of Northstream, a consulting firm, worries that it will take cost-cutting to achieve these, and that this will make cohabitation trickier.

This is no merger of equals. Nokia is buying Alcatel in a straight exchange of 0.55 "new Nokia" shares for one in Alcatel-Lucent. Nokia's shareholders will end up with 66% of the new company, and its chairman and chief executive will assume the same positions in the combined group. Its brand will be Nokia and its headquarters in Finland. Yet the French government, which on past protectionist form would have been expected to kick up rough, has given the deal a warm welcome.

That is partly because Nokia has promised not to cut any more jobs than Alcatel-Lucent was already planning to, under the recovery plan it had been carrying out before the merger was agreed. Indeed it has pledged to create a further 500 research jobs in France, and to finance digital and telecoms innovation. It is also, no doubt, because Alcatel-Lucent has had its back to the wall for so long that it is hard to conceive of any better fate for it. Most of all it reflects the French government's ardent belief that Europe needs more digital champions on a scale to take on the world, and win.

Still, it is strange that two weeks ago Emmanuel Macron, France's economy minister, intervened to prevent Orange, its biggest telecoms firm, from selling Dailymotion, a video-hosting site, to a Hong Kong buyer, prompting a rival offer from Vivendi, a French firm, instead. If Dailymotion is a strategic national asset it is hard to see why Alcatel, a stalwart of France's blue-chip CAC-40 index until its recent decline, is not. ■



Information technology

The cheap, convenient cloud

As cloud-computing prices keep falling, the whole IT business will change

IF THERE were a prize for corporate secrecy, Amazon would have an excellent chance of winning. Interviewing its executives can be like pulling teeth. Even trivial details are not revealed, such as the approximate location of the office of Jeff Bezos, the founder and chief executive, in the company's headquarters in Seattle. Unsurprisingly, then, its quarterly earnings calls are mostly a dull affair. But financial analysts and many in the information-technology (IT) industry will pay close attention when the e-commerce giant releases results for this year's first three months, on April 23rd. Nearly a decade after it launched Amazon Web Services (AWS), the company will enlighten its shareholders about the size, growth and profitability of its cloud-computing business.

The disclosure is meant to reassure investors: they are getting worried about Amazon's chronic lack of profits and the amount of money it is spending—last year the company as a whole invested nearly $9 billion. But the announcement will also signal that cloud-computing (in which data are stored and crunched on remote servers) has come of age: AWS's revenues are thought to have reached $5 billion in 2014 and to be growing at more than 50% annually. Analysts have already assigned AWS a valuation of $44 billion—putting it in the same league as incumbent computer-makers such as Hewlett-Packard, which has a market capitalisation of $60 billion.

Although AWS is much larger than the cloud business of rivals such as Microsoft and Google, they are also growing quickly (see chart, next page). Gartner, a market-research firm, expects the global market for cloud-computing services to reach $176 billion this year. That is still only 4% of all IT spending, but it is growing fast, as most other parts of the industry are stagnant or even declining. By 2017 cloud spending will total $240 billion, Gartner predicts.

As cloud providers rush to build new data centres, and battle for market share, businesses are finding that the cost of putting their computing and data storage into the online cloud is getting ever cheaper. In the past three years prices are down by around a quarter, according to Citigroup, a bank; and further significant falls look all but inevitable. Some providers, such as Microsoft, have started providing their services free to startups, in the hope of turning them into paying customers as they grow.

The IT industry is going through a wrenching change, in a sense reversing the trend of the 1990s in which corporate computing shifted from giant, centralised mainframes to smaller, dispersed desktops and servers. Like most advances in IT, the advent of cheap online processing and storage has been brought about by Moore's Law—the rule of thumb that the density of transistors on a microchip doubles about every two years, which celebrates its 50th anniversary on April 19th. And fortunately, Moore's Law seems to have some life left in it yet (see box, next page).

But for providers of cloud services, and their shareholders, the question is: will we ever make any money from this? So far, all that many of them have done is run up losses. The providers may find it hard to differentiate their services, forcing them to compete on price and thus to expand rapidly to achieve economies of scale. The risk is that they end up somewhat like airlines and mass-market carmakers: chronically afflicted by overcapacity, constantly struggling to achieve a decent margin and perennially hoping that their competitors will keel over first.

Just as airlines' and carmakers' losses are tourists' and motorists' gains, businesses and other organisations that make heavy use of IT services will enjoy big savings. Rather than buying lots of servers and hiring armies of engineers to maintain them, they will increasingly rent processing power and storage space cheaply; and whereas a system administrator might now manage a few dozen in-house servers, he will be able to oversee hundreds of "virtual machines" in the cloud.

This is not to say that all corporate computing will be pushed into the cloud immediately. Thanks to early cloud providers like Salesforce, many firms already manage and store in the cloud such things as their customer accounts, mailing lists and employee-monitoring systems. Companies have also put into the cloud many of ▸▸

what are called their "systems of engagement", that is, the services that handle their interfaces with the public, such as smartphone apps. Any software that companies design for themselves—for instance, in "sharing economy" firms like Uber—is increasingly being developed and tested in the cloud, as well as run there.

However, many businesses are stuck running important parts of their operations on ancient bits of software, and are aware that replacing such legacy systems can be fraught with difficulty. Many such applications would need to be rewritten to run in the cloud, says John Rymer of Forrester, another market-research firm. And they are often too embedded in a firm's day-to-day operations to be replaced easily with newer, cloud-ready software.

Heavily regulated businesses, such as banks, face a different problem. Although they may be convinced by the cost advantages and convenience of moving their systems into the ever-cheaper cloud, they will have to persuade both their regulators and the insurers which cover them against any data leakages or system breakdowns.

Cloud geeks, legacy geeks

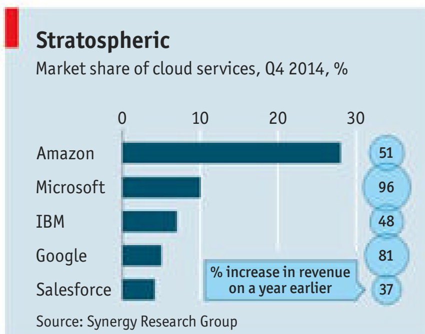
So businesses are beginning to split their IT departments into two groups, explains David Mitchell Smith of Gartner. One lot grapples with keeping a diminishing number of creaking, legacy systems going, while the other develops and manages the snazzy new systems that run in the cloud.

Similarly, there are now two kinds of IT firm: those native to the cloud, led by Amazon, on the one hand; and the incumbent sellers of hardware and software, on the other, which are struggling to adapt to the new age. Software firms are not just having to rewrite their applications so they can run in the cloud, but also to switch from a business model in which they get much of their revenue from large, upfront licence fees to one in which they receive smaller, recurring subscription payments. A few have already made headway in this, such as Adobe, a maker of publishing software. Others are only at the beginning of the journey, including Oracle and SAP, two big providers of business applications.

Adapting is going to be harder for makers of corporate computer hardware like HP and Dell. Businesses that used to buy servers from them, perhaps a dozen or two at a time, will increasingly rent computing services in the cloud instead. And although the cloud providers will need huge quantities of servers themselves, they are increasingly designing their own, and having them built by low-margin contract manufacturers. As for the software that the cloud-computer providers use to manage their giant data centres, they are tending to go for free, "open source" software instead of the paid-for variety.

Computer-makers face a hard choice: try to establish a strong position in the cloud, or focus on their legacy business. IBM has opted for the former: in 2013 it bought SoftLayer, a cloud-service provider, and has invested in it heavily since. HP seems confused: earlier this month it seemed to announce that it would stop competing with AWS and other cloud-service providers—only to recant a few days later. Catching up will be hard for both firms: unlike Google they do not have a lucrative business in internet-search advertising to rely on as they make the change. Neither do they have cash-cows like Microsoft's Windows and Office software, nor shareholders as patient as Amazon's.

Meteorologically speaking, then, big IT users can look forward to blue skies containing cheap, fluffy cumulus clouds. Providers of online computing may be under a grey, drizzly stratus of low profitability. And legacy makers of hardware and software should expect stormy cumulonimbus formations overhead. ■



Moore's law turns 50

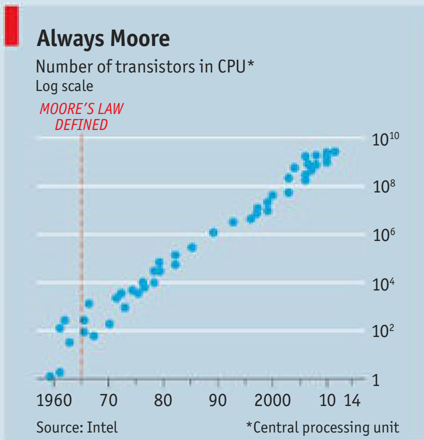
Ever more from Moore

A microchip pioneer's prediction has a bit more life left in it

NEWS of the death of Moore's law has always been greatly exaggerated. People started to pronounce it deceased not long after Gordon Moore, co-founder of Intel, a chipmaker, published on April 19th 1965 a paper arguing that the number of transistors that can be etched on a given surface area of silicon would double every year. In a later paper he corrected his forecast to every two years, which has come to be stated as his "law". Regularly proving sceptics wrong, however, the exponential growth kept going (see chart), driving the digital revolution.

Yet signs are multiplying that half a century later, the law is running out of steam. It is not so much that physical limits are getting in the way—even though producing transistors only 14 nanometres (billionths of a metre) wide, the current state of the art can be quite tricky. Intel says that it can keep the law going for at least another ten years, eventually slimming its transistors down to 5nm, about the thickness of a cell membrane. Other than shrinking circuitry further, it has also started to stack components, in effect building 3D chips.

If Moore's law has started to flag, it is mainly because of economics. As originally stated by Mr Moore, it was not just about reducing the size of transistors, but also lowering their price. And a few years ago, when transistors 28nm wide were the state of the art, chipmakers found their design and manufacturing costs beginning to rise sharply. New "fabs" (semiconductor fabrication plants) now cost more than $6 billion. In other words: transistors can be shrunk further, but they are now getting more expensive.



Makers of smartphones and other mobile devices will no doubt be keen for chipmakers to keep on packing ever more computing and storage power onto tiny slivers of silicon, and may even be prepared to accept their cost going up.

But compactness is less important for another fast-growing branch of the information-technology business, cloud computing. In cloud-service providers' cavernous data centres, space is not at a premium, the way it is inside the latest iPhone. What increasingly matters most to cloud providers is energy efficiency: how much power their racks of servers consume, and how they can keep them sufficiently cool to ensure that their chips do not fry. Fortunately, one of the corollaries of Moore's law is that the energy efficiency of transistors follows the same exponential law, doubling around every two years. And like the law itself, it's not quite dead yet.

Schumpeter | A very British business

Some lessons from the success of Britain's elite private schools

THEY are known, quaintly, as "public schools", though they are certainly not open to just anyone. Their names—Eton, Winchester, Harrow, Fettes—conjure up images of striped blazers and straw boaters, speech days and rugger matches. Be not deceived: for all their whimsiness, these are some of the world's most ruthless businesses. Britain's elite private schools are service-industry superpowers. They have increased their fees threefold in real terms since 1980 but still have parents beating at their doors. They have become thoroughly global: more than a third of their boarding pupils are foreign and the schools have established campuses in far-flung places such as Almaty, Kazakhstan (Haileybury) and Bangkok (Harrow) as well as more obvious ones like Singapore and Beijing.

The secret of their success is simple: they provide a first-class academic education, and a ticket to the best universities, in an age when the rewards for academic success are rising. Their exam results far outstrip those of state schools (though there is a debate over how much this is because of the selectivity of their intake). They bag two-fifths of the undergraduate places at Oxford and Cambridge, despite educating just 7% of children in Britain.

As David Turner writes in a new book, "The Old Boys", the private schools have engineered a turnaround comparable with anything seen in other businesses, albeit played out over decades. In 1945, a year after Britain introduced universal, free secondary schooling, the headmaster of Winchester, Canon Spencer Leeson, worried that parents would no longer pay fees when they "can get state-aided education of a rapidly improving quality…for nothing or next to nothing". In the egalitarian post-war mood, the private schools seemed like vestiges of an age of snobbery and privilege, surely on their way to extinction.

From then on they had to compete with booming "grammar schools"—academically selective, state-funded institutions. After a slow start, the private schools responded to this new competition by raising their standards. And then, in the 1970s, just as they had pulled up their socks, the government kindly took the competition away, by forcing most of the grammar schools to become mixed-ability "comprehensives". (A few rebelled, and joined the ranks of the private schools instead.)

The publication of league tables of schools' exam results, from the early 1990s, provided another impetus for private schools to improve their performance, relative both to state schools and to each other. Many responded by systematically weeding out their weaker teachers. The turnaround has been especially dramatic in two areas. The private schools once disparaged science as "stinks and bangs"; and failed to lift girls' aspirations the way they did boys'. Today they are science powerhouses, and the proportion of private-school girls going on to university has risen from 9% in 1961 to 92% today.

Three management lessons can be drawn from the private schools' revival. The first is that "tradition" and "innovation" need not be mutually exclusive. The private schools have become slick at exploiting such things as their famous old boys (Shrewsbury school has a statue of Charles Darwin) to market themselves, even as they have modernised their curriculums. Like other durable institutions, they survive by constantly reinventing themselves. Eton's oldest classroom, which has been in continuous use since the 15th century, is now used, among other things, for Japanese lessons. Britain does not have a monopoly in such institutional reinvention: America's Ivy League universities have transformed themselves from bastions of WASP privilege (Princeton rejected a student simply for being black in 1939) into champions of multiculturalism. But it is certainly very good at it: Ascot and Wimbledon have retooled themselves smoothly for the age of corporate hospitality and global money.

A second lesson is that competition, when combined with independent standard-setting and performance-measurement, can work wonders. For most of their history the private schools coasted along on snob appeal. The introduction of league tables forced them to prove that they delivered results. American Ivy League universities have likewise been prevented from resting on their laurels by the *US News and World Report* rankings. Business schools have been compelled to be a little more businesslike by the proliferation of MBA rankings.

The third insight is that insiders can make the best revolutionaries. The heads of the private schools were often men who had spent most of their lives inside them, except for a brief spell at university. But they nevertheless spotted a big business opportunity, from the 1980s, as the market for secondary education globalised along with everything else. British private schools have two advantages in this market: they teach in the world's de facto business language; and many are within striking distance of London, one of the world's great global cities. To some extent they are peddling old-fashioned snob appeal, but the schools' heads have grasped that the super-rich will only pay for snobbery if it is packaged with academic results: they want their children to mingle with the "right sort", but also want them to go on to Oxbridge.

Pay up, and play the game

Remarkable as their reinvention and revival have been, there is a risk that British private schools will become victims of their own success. Having raised their fees to such eye-watering levels (Eton charges more than £30,000 a year) and opened their doors to the children of the super-wealthy global elite, how can they continue to justify their charitable status and its accompanying tax breaks? And can they still claim to offer a traditional British education when their classes are increasingly stuffed with the offspring of Russian oligarchs and Asian crony capitalists? The turnaround in Britain's private schools has required great business skill. Maintaining their success will require even greater acumen. ■

Also in this section

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Liquidity in markets

Frozen

Regulators have made banking safer. But has that made markets riskier?

TO ENSURE that it meets the 750 new rules on capital imposed in the aftermath of the financial crisis, JPMorgan Chase employs over 950 people. A further 400 or so try to follow around 500 regulations on the liquidity of its assets, designed to stop the bank toppling over if markets seize up. A team of 300 is needed to monitor compliance with the Volcker rule, which in almost 1,000 pages restricts banks from trading on their own account.

The intention of all these rules is to prevent a repeat of the bankruptcies and bailouts of 2008. But some observers, including JPMorgan's boss, Jamie Dimon, and Larry Summers, a former Treasury secretary, argue that in their rush to make banks safer, regulators may have created a riskier financial system. By throttling the bits of banks that "make markets" in bonds, shares, currencies and commodities, the theory goes, watchdogs have made such assets less liquid. Investors may not be able to buy and sell them quickly, cheaply and without moving the price. The consequences in a downturn, when markets are less liquid anyway, could be severe.

Banks have undoubtedly cut back as the plethora of new rules has made it difficult for their trading arms to eke out a satisfactory profit. They used to "warehouse" lots of bonds and other securities they had bought from one client and hoped to sell to another. But they must now hold more capital and liquid assets to offset the potential losses from trading, so keep much smaller inventories and place fewer bets. Broadly speaking, trading desks are still happy to match buyers and sellers but are reluctant to commit to a purchase before lining up a buyer.

Meanwhile, the value of outstanding bonds has swollen to record levels, most of them in the hands of asset managers (see chart). That is in part a corollary of banks trimming lending, and so pushing borrowers to the bond market instead, and in part a natural response to low interest rates. Even firms with patchy credit records are issuing "high-yield" debt to investors clamouring for returns. Governments have remained eager borrowers, too.

The result is an imbalance. In America, investment funds used to hold only three times as many bonds as banks. Now they hold 20 times as many, according to the Federal Reserve (see chart). Mr Dimon paints an even starker picture for Treasuries. In 2007 JPMorgan and its peers used to have $2.7 trillion available to make markets. Now they have just $1.7 trillion—while the American national debt has doubled. In Europe, where banks have trimmed investment banking even more, the situation is if anything worse.

The vanishing middlemen

US holdings of US corporate and foreign bonds, $trn

Sources: US Federal Reserve; BIS

The result of this lopsidedness, pessimists say, are events like the "flash crash" last year, during which yields on Treasuries suddenly tumbled by 0.34 percentage points for no apparent reason—an extraordinary shift for the bedrock security of the global financial system. They are worried about bonds of all sorts, which are much less heavily traded than shares, currencies and commodities. Funds that track corporate bonds often promise their investors their money back whenever they want it, despite the relative illiquidity of their assets. The IMF recently calculated that it might take 50-60 days for a fund holding American high-yield corporate bonds to find buyers for its securities. Meanwhile, investors are typically entitled to their money back within seven days of asking for it. "No investment vehicle should promise greater liquidity than is afforded by its underlying assets," says Howard Marks, boss of Oaktree, a debt fund.

Regulators are mindful of all this. The Securities and Exchange Commission in America has called for stress tests of asset managers to ensure they can muddle through a crisis. The Bank of England wants them to look closely at redemption policies. They also suspect, however, that the high level of liquidity before the crisis was an anomaly that bankers are harping on about in an effort to roll back regulation.

Asset managers are also aware of the risks of diminished liquidity. BlackRock, the world's biggest, has said it is limiting its ▸▸

exposure to certain bonds as a result. Others are breaking up big trades into smaller orders, to prevent them moving prices in an adverse direction, or trading less than they might otherwise. Funds tracking bond indices hold cash to meet redemptions. They can also invest in derivatives linked to the index, which are typically more liquid than individual bonds. If faced with a rash of redemptions, these can be sold off without much loss.

Another solution is for the asset managers to bypass the banks. Many are trying to "cross-trade", exchanging assets with one another directly, instead of using banks as go-betweens. But matching buy and sell orders electronically is tricky for bonds: whereas most firms have only one or two classes of shares, many have issued dozens of bonds, in different currencies and with different maturities. There have been several attempts to set up trading platforms, but few have attracted much volume.

Even if such schemes get off the ground, asset managers cannot fully substitute for banks. They do not have as much purchasing power, since their balance-sheets are not swollen with borrowed money. Relatively few of them have a mandate to be contrarian: most (especially those passively tracking an index) want to enter or exit the same positions at the same time.

All this may mean that asset managers are indeed forced to offload securities at fire-sale prices in times of turmoil. But unlike banks, which can fail due to trading losses, asset managers are mere custodians of money. Any losses in their funds are passed on directly to investors. Having banks—highly leveraged and interconnected institutions—sit on top of that risk proved a disastrous recipe during the crisis. Maybe their retrenchment has indeed made markets riskier. Yet that may be an acceptable price for making banks safer. ■

Buttonwood | A zeal for deals

Corporate takeovers are booming once again

MIX processed cheese and ketchup and you get revolting gloop. Put two manufacturers that make them (Kraft and Heinz) together and you get a much more efficient company. Or at least that is the theory behind one of the year's biggest mergers.

Chief executives are dusting off their chequebooks once more. Figures from Dealogic show that global takeover activity in the first quarter reached $889 billion, up 21% from the same period in 2014. It was the strongest first quarter since the financial crisis.

Academic evidence on the benefits of takeovers to the firms doing the acquiring is distinctly mixed, although much of it dates from the 1980s. That never stops chief executives from believing that their proposed deal will be different: like second marriages, mergers are a triumph of hope over experience.

Fashion plays its part. As the chart shows, takeover booms tend to be associated with periods when stockmarkets are doing well, such as the late 1990s or 2006-07. Executives can use their highly valued shares as currency. In the tech sector, the likes of Google and Facebook can scatter their shares like confetti. Equity-based deals are less risky for the predator, which does not have to saddle its balance-sheet with debts that might prove a dangerous burden in the next recession. But today's very low level of interest rates also makes life easy for private-equity bidders, which rely mainly on debt.

During a merger boom, executives will be besieged by fee-hungry investment bankers eager to suggest plausible deals; the newspapers will be full of speculation about the next bid. A boom can thus create a "get rich or die trying" mentality. Managers reason that, if they are not a predator, they will turn into prey.

Even more cynical explanations are available. Running a bigger company can justify bigger salaries for executives. A study* in the *Journal of Banking and Finance* last year found that, in cases where the chief executive of the target company was retained after a merger, the acquirer paid a smaller premium to the initial share price than in other takeovers. That suggests executives are trading away shareholder value in return for personal benefits.

There is no sign, in the current boom, of the rise of the kind of acquisition-hungry conglomerates that marked the late 20th century: the likes of ITT, Hanson or Tyco. Indeed, GE, the longest-lasting conglomerate, is shrinking by lopping off its financial arm. Nor are we seeing the kind of cross-industry deal that usually denotes the top of the market, most famously in the case of the AOL-Time Warner merger of 2000. When investors start hearing the word "synergies", they should head for the exit.

This merger boom seems to be focused more on consolidation within various industries, as with the Heinz/Kraft deal or Nokia's offer for a rival telecom-equipment maker, Alcatel-Lucent. Such deals have a better chance of succeeding than most: the enlarged company can benefit from economies of scale. But they can also be a sign of an industry that is struggling to create growth: mergers are a way of boosting earnings per share by cutting costs. There were lots of oil mergers in the late 1990s, when the price of crude was low. Now the price has slumped again and Royal Dutch Shell has agreed to buy BG, another oil and gas producer, for £47 billion ($69 billion).

Indeed, companies seem rather pessimistic about their chances of achieving organic growth, as illustrated by their willingness to return cash to shareholders rather than to invest in new factories and equipment. According to S&P Dow Jones Indices, American companies spent $553 billion buying back their shares last year, and $903 billion if dividends are included. The combined figure may top $1 trillion this year. Meanwhile American domestic investment is well below pre-crisis levels as a share of GDP and profits fell last year according to the national accounts.

This cycle can become self-perpetuating, at least for a while. Companies buy back their shares to prop up prices and fend off takeovers. At the same time, the lack of business investment or organic growth makes it more necessary for firms to merge in order to cut costs and boost earnings per share. The game only stops when the stockmarket declines. But it is hard to envisage a crash when yields on cash and government bonds remain so low, even negative in some cases. Expect the takeover fever to continue.

* "Do target CEOs trade premiums for personal benefits?" by Buhui Qiu, Svetoslav Trapkov and Fadi Yakoub, January 2014

Economist.com/blogs/buttonwood

Oil prices

Unconventional but normal

The fall in the oil price has not curbed fracking nearly as much as expected

WHEN the oil price crashed last year, many assumed that the earliest casualties would be the small, nimble American companies that specialise in getting "unconventional" oil out of shale, tar-coated sand and the like. After all, with their high production costs and heavy debts, these firms were inherently more vulnerable to price shocks than big oil companies, the thinking went. Indeed, Saudi Arabian officials even suggested that they were refusing to cut their output precisely in order to put such firms out of business.

Six months later, though, there is little sign of a bust in America's shale basins, where horizontal drilling and hydraulic fracturing (fracking) have led to a boom in oil and gas production in the past five years. Scott Nyquist of McKinsey, a consultancy, says the price drop has not caused the "immediate distress" that was originally assumed. An analysis of 300 independent American oil and gas companies in the first quarter of this year showed that more than two-thirds had healthy balance-sheets, with at least as much equity as debt. By the same token, the debt of two-thirds of the midsized firms in the survey was trading at 80% or more of its face value, suggesting that investors are not too worried about their health. The firms that have been in trouble are those with dud leases, or which had embarked on big takeovers last year, just before the price began falling.

Figures compiled by investment bankers at Barclays tell a similar story. Although yields on the "junk bonds" issued by American energy firms spiked from a low of 5% in the summer to more than 10.5% in December, they have since fallen back to 8% (roughly the same as in mid-2012). It has become a little more expensive for frackers to borrow, in other words, but there is no sign of a crippling squeeze.

The number of rigs drilling for oil in America has fallen by half since October, from some 1,600 to 800; that will eventually sap output. For now, though, American oil production is still growing: in March it rose by 120,000 barrels a day (b/d).

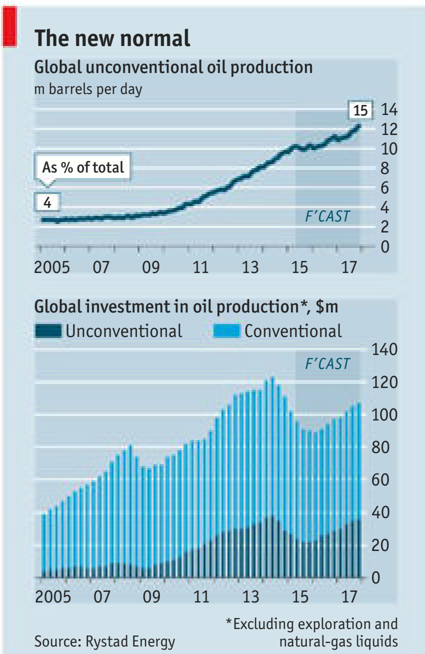
One reason is that frackers have been able to cut costs, along with the rest of the oil industry, as the price of labour, steel and other inputs has fallen. That gives a one-off boost to their finances. They are also benefiting from continuing improvements in productivity. These include better seismic data, which means more fracks are successful, the ability to drill ever more wells from a single spot and, on the horizon, polymers and other fluids that cut water use or replace it altogether.

It is not all plain sailing. Oil reserves are valued in October, notes Michael Cohen of Barclays. Those priced last year, with oil around $100 a barrel, will be worth a lot less this time round. But even troubled firms do not necessarily cut production. New owners can purchase their assets cheaply and keep pumping.

The main lesson is that although the price drop has been bad for producers in such places as the North Sea, it has not derailed America's oil boom. Indeed, America is replacing Saudi Arabia as the world's swing producer. Frackers have drilled lots of wells and then plugged them, waiting for the price to rise again. If it does, Mr Cohen expects between 300,000 and 800,000 b/d of production to start up.

Nor is there any sign of a shift away from unconventional oil in terms of capital investment. Unconventional oil has been gaining an increasing share of the pie in recent years (see chart). Investment of all kinds will dip this year but Rystad Energy, a research firm, sees it rising strongly again thereafter. A new forecast from America's Energy Information Administration reckons rising production and greater efficiency mean that the country will stop importing energy between 2020 and 2030, depending on the price.

This contributes to a picture in which oil prices—barring big geopolitical upsets—look unlikely to rise sharply. True, global demand for oil is set to rise, and old oilfields are depleting, meaning that much of the industry needs to run in order to stand still. But the message from America is that finance and technology combined are more than a match for geology. ■



Regulating investment advice

Seller beware

NEW YORK

The government tightens rules for firms helping Americans save for retirement

LAWYERS and doctors are legally obliged to act in their clients' best interests and now stockbrokers will have to as well. With this seemingly unobjectionable goal, Thomas Perez, America's secretary of labour, this week unveiled a proposal to strengthen the responsibilities of those helping Americans save for retirement. In the process, it would give the Department of Labour a role overseeing the $8 trillion Americans have stashed in "individual retirement accounts" (IRAs), in addition to its current supervision of the $5 trillion held in retirement schemes sponsored by companies, known as 401(k)s.

The new rule would replace stockbrokers' current obligation to ensure that the investments their clients make are "suitable" with, as Barack Obama put it in February, "a very simple principle: you want to give financial advice, you've got to put your client's interest first." The problem is that many are paid commissions by the asset managers they recommend and thus have conflicts of interest; what is best for them is not always best for clients.

One study sent "mystery shoppers" to advisers who were paid such commissions; even when the shoppers had portfolios of low-cost index trackers (which most academics would recommend), they were advised to switch into funds that levy higher fees. Because 401(k)s tend to have lower fees than IRAs, a saver who shifts their money from one to the other may lose as much as 12% of it (and so will receive 12% less a year in retirement).

According to the government, poor advice of this sort costs Americans $17 billion a year. The proposed regulations, officials say, will give savers "peace of mind". They will increase earnings on retirement savings by a percentage point, while costing brokers and other investment advisers only $2.4 billion-5.7 billion, the Department of Labour reckons. (The cost for asset managers has yet to be calculated.)

But codifying a "fiduciary rule" is not as easy as Messrs Obama and Perez make it sound. The debate about how to define an adviser's responsibilities dates back centuries and the Department of Labour and the Securities and Exchange Commission, America's most prominent financial regulator, among others, use different definitions. The rule as proposed is 120 pages long and includes enough "carve-outs" and caveats to give lawyers and lobbyists plenty to work with. There are exclusions ▸▸

for "order-taking" and "educational material", which may sound benign but could in clever hands be used for unscrupulous marketing. A further 114 pages are needed to explain how customers can be charged. Commissions from asset-managers are not ruled out, but must be disclosed.

In general, however, the report marks a shift away from a reliance on disclosure as a cure for conflicts of interest to a more elaborate standard. "Disclosure alone has proven ineffective to mitigate conflict in advice," states the report on the rule's impact. "Even if they understand the scope of the advisers' conflicts, many consumers are not financial experts and therefore cannot distinguish good advice or investment from bad." Research shows that few investors read the small print of disclosures, viewing it as meaningless jargon.

It is not clear, however, that the proposed rule would leave consumers in safer hands. The Department of Labour already requires 401(k) plans to be run on a fiduciary basis, with companies appointing managers to a committee that selects investment providers and, within limits, the investment schemes offered. But that has not eliminated conflicts of interest: the committee may, for example, choose an investment provider which just happens to charge minimal fees to the company for administration and record keeping and recoups the costs from employees who pay higher fees for investments than they could arrange for themselves.

Nonetheless, the administration seems determined. It attempted to tighten standards for investment advice once before, in 2010, before retreating in the face of hostility from the financial industry. Retiring, however, did not seem to suit it. ■

Offshore finance

Trouble in paradise

An international fraud investigation raises vexing questions

IT IS not certain if or to what extent investors have been bilked, or who has done the bilking. Indeed, it is hard to establish very much at all, given the complexity of the case: authorities in the Cayman Islands, Guernsey and Mauritius are all looking into it and a South African financial regulator is following it closely. Investigations are focused on various entities connected to Belvedere Management, a Mauritius-based group that claims to administer around 100 hedge funds and run several finance-related companies. David Marchant, editor of *OffshoreAlert*, a newsletter on financial crime, has identified numerous red flags in some of these funds, including several years of consistent, positive monthly returns, which can be a sign of a Ponzi scheme.

Belvedere's bosses, Cobus Kellerman and David Cosgrove, deny all of the allegations of wrongdoing and criminal activity. Instead, Belvedere has told worried investors that Grant Thornton, an accounting firm, has been called in to wade through the complexities of the funds and "review your assets and to advise us and assist the relevant authorities".

In the past, Belvedere has claimed to manage or advise on $16 billion in investments, for both institutional and retail customers. One of its clients, an international financial-consulting group in South Africa called deVere, claims to be a victim of wrongdoing and says it has provided evidence of it to local authorities. (Many of Belvedere's retail investors are also believed to be South African.)

Better for a holiday than an investment

Regulators are turning up the heat. The Mauritian financial-services commission, which says it warned two of the group's funds last year to take remedial action for several breaches and barred them from accepting new investors, last month revoked the licences of two of Belvedere's funds and placed them under the care of PricewaterhouseCoopers, another accounting firm. Guernsey's financial regulator is looking into a related fund. South Africa's regulator says it questioned Mr Kellerman late last year on investments coming out of offshore funds into South Africa.

Last month the offices of Capital World Markets (CWM), a financial-services provider, were raided by the City of London police, with 13 arrests made on suspicion of fraud by false representation, conspiracy to defraud and money-laundering. Maria Woodall, the lead detective, said the arrests were meant to "stop what we believe was ongoing criminality" and asked investors, apparently lured by the promise of monthly returns of 5%, to come forward.

CWM strongly denies the police's allegation that it is connected to fraud. Yet some claim the raid is tied to events at Belvedere because the two groups are linked. On a now-deleted part of its website, CWM stated it is part of the same group as Belvedere. Belvedere, however, says it merely provided services to CWM and that whatever allegations there may be against CWM have no bearing on Belvedere.

Whatever the outcome of the investigations into Belvedere and CWM, the affair raises awkward questions over the role of professional-services firms that advise and check the books of offshore financial groups. The long list of lawyers, auditors and fund administrators that have worked with or been engaged by Belvedere's funds includes blue-chip names such as BDO and EY. In a statement deVere says it is deeply concerned that alarm bells were not rung until now and that worrying signs appear to have been "ignored by professional service providers trusted by deVere and other brokerages". Auditors will certainly be in an awkward position (and could be open to lawsuits) if it turns out they signed off on a Ponzi scheme, says Jason Sharman of Griffith University in Australia.

In the coming months, as the shape of the affair becomes clearer, questions will also arise about how good a grip regulators have on money channelled through tax havens. Earlier this year Mauritius suffered another possible scandal involving Bramer Banking Corporation Ltd (BBCL), whose licence was revoked earlier this month "following strong evidence that BBCL is engaged in a Ponzi scheme which exceeds 25 billion rupees [$690m]", according to the country's prime minister. Partly under commercial pressure due to increased regulation and competition, offshore financial centres have begun to offer more complex funds and collective-investment schemes. These require more skill to regulate than the simpler trusts that have been their bread and butter. Mr Sharman, who studies offshore centres, says it is inevitable that, as they venture into more complex finance, they will become more vulnerable to scams. ■

Global housing markets

Property puzzles

Housing markets across the globe both underperform and overwhelm

EXHIBIT A is a powerhouse of the world economy whose GDP has grown by 158% over the past ten years. Exhibit B is a basket-case whose economy has contracted by 18% over the same period and where a quarter of the workforce is unemployed. China may think Greece an unlikely bedfellow, but the weakness of their housing markets ties the two together in our latest roundup of global house prices.

The Economist tracks the health of housing in 26 markets around the world, encompassing a population of over 3 billion. Prices are now rising in 19 of these markets at a median pace of 5.2% a year. But in China, whose decade-long construction boom appears to be coming to an end, and in much of the periphery of the euro area, which is just starting to recover from an especially severe bust, prices are falling.

Although the nuances of each market are many and varied, a single unifying theme is the cheapness of borrowing. In their efforts to support weak global demand, central bankers have kept monetary policy ultra-loose. That has left mortgage rates at historic lows: the interest rate on a 30-year fixed-rate mortgage in America is just 4%. Instead central bankers are relying on "macroprudential" policies, such as stringent lending criteria for banks, to stem irrational exuberance in housing markets.

To test whether they have succeeded, *The Economist*'s housing index compares the path of house prices against two measures: rents and income. If house prices rapidly outpace either one, a bubble may be forming. According to our measure, property is more than 25% overvalued in seven of the markets we track, notably in Australia, Britain and Canada.

After a steep correction, prices are roughly at fair value in America, having risen 24% from their trough in 2011. But sales are running at around 4% of the housing stock a year, compared to an average of 6% between 2004 and 2008. In the 12 months to February, builders started work on fewer than 1m homes, a level that would once have signalled a recession. Completions have been below that level for 74 months.

Prices are rising fastest in Ireland, but they still have not reached their pre-crisis peak. Moreover, as in many countries with seemingly buoyant markets, the capital is doing much better than the rest of the country. Prices increased by 21% in Dublin in the year to the end of February, but by just 8% elsewhere in Ireland.

A similar story is true of Britain, where property is something of national obsession. Prices in London have risen by 40% in four years, but by just 15% everywhere else. Prices have outpaced incomes in recent years, causing the proportion of households owning their own home to fall from 76% in 1999 to 64% in 2013. The current coalition government has done much to spur demand, reducing transaction taxes on cheaper houses and subsidising the mortgages of first-time buyers. Most parties promise more of the same after elections next month. But supply remains crimped.

It is in Australia and Canada, however, where prices seem most out of kilter. They are 61% overvalued relative to rents in the former, and 89% in the latter. Presumably the IMF had such places in mind when it warned this week that macroprudential measures might not be enough to prevent bubbles.

Meanwhile, although Spain's economy is growing again, prices there are still falling, as they are in France and Italy. Spain's population shrank by 200,000 last year, as the unemployed emigrated to find work. In the three years before the crisis it grew by 800,000 a year. ■

The Economist house-price indicators

	Latest, % change: on a year earlier	since Q1 2008	Under(-)/over(+) valued, %, against*: rents	income†
Ireland	16.2	-37.2	27	3
Turkey	16.0	na	16	na
Hong Kong	11.9	119.4	84	na
South Africa	9.7	36.2	13	7
Sweden	8.6	23.8	41	27
Britain	7.9	12.8	47	27
Brazil	7.4	200.1	na	na
India	7.1	na	na	na
Australia	7.0	30.8	61	39
Canada	5.2	29.5	89	35
Mexico	5.1	35.1	11	na
Israel	5.0	87.1	10	na
Germany	4.6	32.8	-9	-11
United States	4.0	-1.6	6	-10
Netherlands	2.2	-17.7	3	18
South Korea	2.1	15.4	3	-39
Russia	1.6	11.8	na	-21
Belgium	0.8	15.8	55	50
Japan	0.6	-1.0	-28	-33
Switzerland	0.5	29.2	1	-8
Spain	-0.2	-31.3	18	8
France	-2.1	-3.5	29	25
Italy	-3.8	-16.9	-4	2
Singapore‡	-3.9	14.8	16	na
China	-5.6	19.0	26	-49
Greece	-6.1	-38.5	-16	-17

*Relative to long-run average †Disposable income per person ‡New series

Sources: Haver Analytics; OECD; Thomson Reuters; national statistics offices; *The Economist*

Interactive: Compare countries' housing data over time at: **Economist.com/houseprices**

Investing in wine

Intoxicating

The quest for full-bodied returns

IT HAS an "extraordinary nose of caramelised herbs, smoke, cedar, pen ink, blackcurrants and earth. The gorgeous aromatics are followed by a full-bodied, plump, rich, fleshy wine with low acidity." Thus Robert Parker, a wine critic, toasted the 1982 Lafite Rothschild.

A virtue he did not mention, however, was its quality as an investment. Wine lovers who scraped together £300 (£1028 in today's money) for a case in 1982, and have resisted the urge to drink it, are now sitting on a £28,000 nest-egg. Few equities have done so well. In the hope of replicating such heady returns, investors have been pouring money into fine wine, now thought to be a $5 billion-$10 billion market.

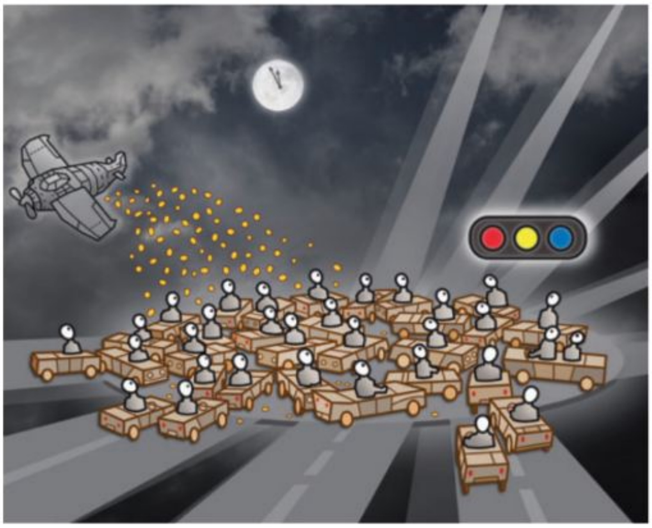
Limited supply is part of the appeal: the very best wines are grown in tiny batches. Petrus, a much lauded winery, produces only 2,500 cases a year. The most feted producers are often prevented from expanding by law and geography, and it is impossible to replicate the weather that produced the 1982 Lafite. At the same time, demand has soared thanks to the growing ranks of the mega-rich, for whom a collection of fine wine can be the ultimate status symbol.

Brokers flogging wine as an investment offer impressive indices showing average annual growth rates as high as ten percent. Yet that is misleading. Prices surged in 2008-11, thanks largely to the seemingly unquenchable thirst of rich Chinese buyers. But it has since been slaked, both by China's slowing economy and by a fierce anti-corruption campaign, which has discouraged conspicuous consumption. The price of the 2008 Lafite, which was marketed to Chinese buyers in particular, has dropped by half since its peak in 2011. Across the market as a whole, prices have stagnated since then.

Worse, the market remains small and, ironically, illiquid. Trades can take time, brokers and auctioneers charge fees as high as 20% and the lack of regulation allows scams to flourish. Although online trading platforms, such as Wine-Owners, and price-comparison sites such as Wine-Searcher are making investing more transparent, the market favours the well informed. And whereas stock-picking can be reduced to algorithms, wine-picking is much more subjective and influenced by a small number of critics such as Mr Parker. Nasty hangovers, alas, are common.

Free exchange | String-pushers

Politicians often try to manipulate the economy to win votes, but seldom succeed



INCUMBENT politicians know that if the economy is doing well, they are much more likely to be re-elected. When wages are rising and jobs are plentiful, workers feel happy. Small wonder, then, that many governments attempt to manipulate the economy to boost their political fortunes. New research, though, shows that however hard politicians try, shaping the economy to suit their electoral needs is a tall order.

In a paper* published in 1975 William Nordhaus of Yale University posited the existence of a "political business cycle" (PBC). He suggested that in the run-up to an election, politicians go on a spending binge. They may increase the generosity of unemployment benefits, for instance, or cut taxes. This, they hope, will give the economy a short-term boost, maximising their chance of re-election. After the election, though, they often have to cut back to stop the economy overheating and debt piling up.

Over the past 40 years economists have poked and prodded this idea. Much of the research confirms Mr Nordhaus's suspicions. One paper by Kenneth Schultz, of Stanford University, analyses transfer payments in Britain from 1961 to 1992. It finds that as elections approach, governments may try to sweeten voters by increasing spending on, for example, child benefits.

A recent paper from Alberto Alesina and Matteo Paradisi, both of Harvard University, finds something similar. It looks at a municipal property tax in Italy imposed in 2011. Local authorities have some control over the rate. The paper finds evidence of "political budget cycles", with municipalities choosing lower tax rates as elections near.

The PBC tends to be strongest when elections are closely fought. Fearful of losing, incumbents are more likely to splurge to boost their popularity. It is also more pronounced in developing countries, where accountability tends to be lower and executive power higher. All this makes it easier for unscrupulous politicians to play the system to their own advantage, not just by increasing transfer payments but also by purchasing votes outright, often with embezzled funds. According to a paper by Min Shi, then of the University of Wisconsin-Madison, and Jakob Svensson of Stockholm University, the fiscal balance as a share of GDP deteriorates by 0.6 percentage points in election years in the average developed country, but by 1.4 percentage points in the average developing country.

But this largesse does not appear to achieve much. Election spending, it seems, rarely stokes economic growth as intended. A new paper from Brandice Canes-Wrone and Christian Ponce de Leon, both of Princeton University, looks at 16 rich countries and 56 developing democracies from 1975 to 2012. The authors find that in neither group is the period before an election associated with higher growth, despite more lavish government spending.

There are several possible explanations. It may be that canny voters are saving their fiscal windfall in anticipation of austerity in the future, leaving overall output unchanged. Or it may be that another component of GDP besides government and consumer spending—investment—holds the answer. A survey released on April 14th by Deloitte, a consultancy, gives a sense of the mechanism. It finds that the chief financial officers (CFOs) of big British firms have recently become less willing to take risks, thanks to uncertainties linked to Britain's forthcoming election (such as a possible referendum on EU membership). In the first quarter of this year, 51% of them said it was a good time to stretch their balance-sheets, down from 72% two quarters ago.

Such behaviour is typical. One paper from 2012 looks at 100,000 businesses in 48 countries from 1980 to 2005. It finds that, in election years, firms reduce investment spending by 4.8% relative to non-election years. Expensive long-term projects, the backbone of future economic growth, are the most likely to suffer, since they are especially difficult to undo once they have been started. In another paper from 2012 Ms Canes-Wrone and Jee-Kwang Park, then of the University of Virginia, call this a "reverse electoral business cycle". Some evidence even suggests that firms do not simply postpone investment, but cancel it altogether. That damages an economy's long-term growth potential.

According to the paper by Ms Canes-Wrone and Mr Ponce de Leon, private fixed-investment growth in rich countries drops by about one percentage point in the quarter before an election. In the year before an election in a developing country, it falls by 17 percentage points. Tumbling investment can offset the impact of increased government spending, meaning that overall growth does not change.

Confidence trick

How can incumbents, keen to engineer a boost to GDP, stop investment from shrinking in the run-up to the election? The paper offers no easy answers for politicians in rich countries hoping to improve their electoral prospects. In such places, investment remains steady only when the result of the election is a foregone conclusion—ie, when there is little political uncertainty to frighten investors. But in such situations, the economy is presumably doing quite well anyway.

However, for politicians in emerging markets, the authors offer hope. They measure a developing country's "polity score", based on factors like transparency and constraints on executive power. In countries with higher polity scores, investment tumbles far less during election season. For incumbents campaigning for re-election, dishing out government cash is all well and good, but improving transparency and accountability may be even more effective. ■

* Studies cited in this article can be found at www.economist.com/elections15

Economist.com/blogs/freeexchange

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Domestic automation

Robochef gets cooking

The ultimate kitchen gadget for the home that has everything: a robotic chef

SOME people relish putting on an apron and turning out dinner. Others, though, find cookery a black art best delegated to a domestic helpmeet, a microwave oven or, failing either of those, the local home-delivery service. But Mark Oleynik, a Russian-born scientist and engineer now based in London, hopes to change this state of affairs by introducing a further option: a robot cook that is as good as a Cordon Bleu chef but which can be installed in an average house. A prototype of his idea, unveiled this week at an industrial fair in Hanover, Germany, has been demonstrating its culinary prowess in public, by whipping up an excellent crab bisque.

Specialised cooking devices, such as Thermomix, made by Vorwerk, a German firm, do already exist. These, though, are essentially food-processors with bells and whistles. Dr Oleynik has taken a different approach. Instead of building a complex food-processor, he has set out to make his machine resemble a mini-kitchen, complete with conventional appliances and utensils. This can, in principle, be used to cook more or less anything. A pair of dexterous robotic hands, suspended from the ceiling, assemble the ingredients, mix them, and cook them in pots and pans as required, on a hob or in an oven. When the dish is ready, they then serve it with the flourish of a professional.

The robochef's hands are human-sized, and have jointed fingers and thumbs. They are made by Shadow Robot, another British firm, which has supplied similar hands to several research organisations, including America's space agency, NASA. Teams from Stanford University, in California, and the Sant'Anna School of Advanced Studies, in Pisa, Italy, also worked on the project. Dr Oleynik's company, Moley Robotics, hopes to have the first commercial model on sale in 2017, with a price tag of around £10,000 ($15,000).

Sacré bleu!

The machine's finesse comes because its hands are copying the actions of a particular human chef, who has cooked the recipe especially, in order to provide a template for the robot to copy. The chef in question wears special gloves, fitted with sensors, for this demonstration. Dr Oleynik's team also shoot multiple videos of the demonstration, from different angles. These various streams of data are then synthesised into a three-dimensional representation of what the chef did while preparing the dish. That is turned into an algorithm which can drive the automated kitchen.

To make the crab bisque it is turning out in Hanover, the robot has copied Tim Anderson. Mr Anderson was the winner, in 2011, of "MasterChef", a cookery programme popular on British television. The robot faithfully follows Mr Anderson's every movement, carefully melting butter in a saucepan and using an electric whisk with precisely the same motions that he employs. Mr Anderson thought the robot would mess things up, but he has been impressed by its ability to capture the subtleties involved in preparing the dish. "Small things matter in cooking," he says, "and the robot is very consistent."

Dr Oleynik's plan is to support his automated kitchen with an online library of more than 2,000 recipes. And, because it is copying the idiosyncrasies of particular people, the service he plans will let a user select not only a dish but also its creator—in effect, bringing a virtual version of a celebrity chef into the user's house to cook it for him. Dr Oleynik is also working on ways for home chefs to upload their own favourite recipes, to save them the trouble of cooking those recipes themselves.

In the current prototype, the ingredients need to be prepared in advance (the robot has not yet been trusted with knives) and placed at preset positions for it to pick up. That, though, should change with future versions. These will include fridges, in which a stock of ingredients can be stored and selected by the robot as required. With further development the automated kitchen will be made more compact and gain more equipment. And it can also, if desired, be switched to manual, because all of the implements and utensils involved are pieces of normal kitchenware. Indeed, Dr Oleynik thinks that with proper programming the kitchen could actually become a cookery teacher—helping neophyte chefs by giving them practical demonstrations of particular operations.

The robot kitchen is not perfect. One design flaw is that although the prototype is programmed to put used utensils into a washing-up bowl, it does not actually go on to do the washing up—a drawback often associated with human chefs, as well, it must be said. To turn the robochef into the mass-market product he hopes it will become, Dr Oleynik is therefore planning to add a dishwasher. ■

Biofuels

Thin harvest

Investment in biofuels is dwindling and scepticism is growing

MAKING fuel from the solar energy stored in living organisms by photosynthesis is a tempting idea. It sounds inherently green, and so biofuel schemes—ranging from fermenting starch, to recycling cooking oil, to turning algae into jet fuel—have drawn more than $126 billion in investment since 2003, according to Bloomberg New Energy Finance (BNEF), a research outfit. The results, though, are like a Venn diagram whose sets barely overlap. Those biofuels that can best compete commercially are not, in fact, green. Those that are green cannot compete commercially.

The biggest cause of ungreenness is that biofuels made from food crops—or from plants grown on land that might otherwise produce such crops—hurt food supplies. A committee of the European Parliament agreed this week to cap the use of "first-generation" biofuels of this sort. The current European target is for renewables to make up 10% of the energy used in transport by 2020. The new proposal says only seven-tenths of this can come from first-generation fuels. The difference must be made up by more advanced ones based on waste products and other feedstocks that do not impinge on food production. That could mean European demand for advanced biofuels of 14 billion litres by 2020, reckons Claire Curry of BNEF.

Only two such advanced fuels, she thinks, are capable of large-scale production. One is turning waste cooking oil and other fats into diesel—a process for which Europe already has 2 billion litres of capacity. The other involves making ethanol from cellulose by enzymatic hydrolysis.

Everything else, according to Ms Curry, is at least four years from commercial production. That includes the much-touted idea of renewable jet fuel.

This is promising on a small scale. South African Airways (SAA), in conjunction with Boeing and other partners, is developing fuel based on the seeds of the tobacco plant—once a big crop in the country, but now fallen on hard times. The specially bred strain of tobacco involved is nicotine-free. It is grown by hard-up farmers, who gain two cash crops a year from the tobacco, and then have money for seeds and fertiliser for a third food crop. The seeds' residue becomes animal feed. Ian Cruickshank of SAA says that the cost of the tobacco-based product matches that of jet fuel refined from fossil sources. The airline expects to use 20m litres of it, blended 50-50 with conventional stuff, by the end of 2017, and 500m litres by the end of 2022.

Fans of the jatropha bush see similar opportunities. This toxic, capricious vegetable has disappointed investors. But, grown properly, its beans can provide both animal fodder and an oil which may readily be made into diesel fuel.

Finding more types of biofuel that hit the sweet spot in the Venn diagram may be tricky, though. Campaigners generally find it easier to fulminate against those which damage the environment or food security than to explain exactly how they ought to be grown. Another controversial issue is genetic modification. This could improve yields, increase resistance to insects and permit biofuel crops to be grown on unirrigated, marginal land. But any kind of GM crop is a tough sell to the green-minded.

Science still has plenty to offer, though. For example, researchers at the University of Manchester, the University of Turku, in Finland, and Imperial College, London have adapted an enzyme currently used to produce bio-butanol to make propane—a more useful product.

Whether such bright ideas can be commercialised at scale is a different question. Some companies, indeed, are starting to give up. Several algae-to-fuel ventures in America are switching to the manufacture of high-value chemicals instead. Sunlight is a great source of energy. Biology may not be the best way of storing it. ■

Gender bias in science

The unfairer sex?

Recruitment of academic scientists may be skewed in a surprising way

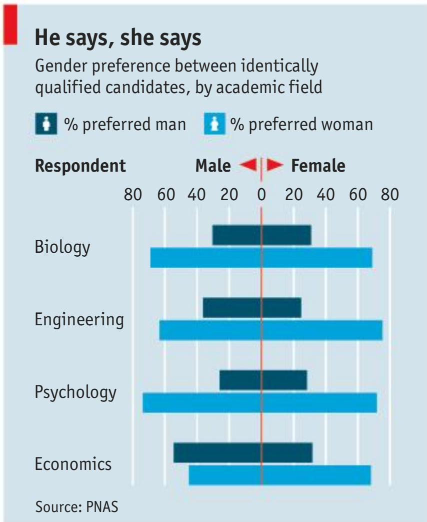
SCIENCE, popular prejudice often has it, is a man's world. These days that is not actually true of many disciplines, particularly biological ones. But some, though not all, recent research has suggested women are indeed still discriminated against by the processes of recruitment and advancement on which scientific careers are built—especially in fields such as engineering, mathematics and physics that remain male bastions.

The results of an experiment conducted by Wendy Williams and Stephen Ceci of Cornell University are therefore intriguing. As they report in the *Proceedings of the National Academy of Sciences*, Dr Williams and Dr Ceci have searched for sex bias in one of the most important steps on the scientific career path, recruitment to a so-called tenure-track position. If the successful candidate does well in such a post it can lead to a job for life. And the two researchers did indeed find bias—against men.

Dr Williams and Dr Ceci conjured up trios of hypothetical candidates for tenure-track jobs in various fields. In each case two of the three were fantastically qualified and one, there to act as a foil, slightly less so. They sent the three candidates' CVs, together with mocked-up interview comments about them, to 873 high-level academics in the departments of biology, economics, engineering and psychology at 371 American universities. They tweaked the particulars of each trio to match the relevant discipline, and randomised which of the two outstanding candidates was referred to as "he" and which as "she". Respondents were asked simply to pick the best of the three.

As the chart shows, professors of biology, engineering and psychology all chose female candidates over equally qualified male ones, and did so by an overwhelming margin (as high as three to one in the case of psychology). Moreover, they made this choice regardless of whether they, themselves, were men or women. The sole exception to this pattern was economics. In this discipline male professors showed a slight preference for men, though females had a strong one for women.

When Dr Williams and Dr Ceci carried out further experiments, looking in more detail, they found that the pattern they had discovered held up regardless of whether or not hypothetical candidates were married, had children or had taken a period of parental leave. These factors, often cited as ▸▸



damaging to women's academic careers, seemed to weigh little with the professors in question.

A criticism of the researchers' method is that the professors knew they were involved in an experiment (though they did not know its purpose). They may therefore have chosen the female applicant simply because they knew they were being scrutinised and wanted to show their feminist credentials, knowing that they would not have to live with the consequences. To control for this possibility, Dr Williams and Dr Ceci also sent out 127 identical CVs—half purporting to be of women and half of men—to 127 other academics, asking them simply to rate the candidate. Their idea was that an absence of applicants for comparison would reduce any pressure to be politically correct.

In this case, too, the women triumphed. Notional female candidates scored a full point higher than male ones on a ten-point scale. Presented with identical track-records, respondents seemed simply to think more highly of women.

Whether the preference revealed by this experiment translates into the rough and tumble of the actual tenure-track recruitment process is hard to say—as is whether similar preferences exist at other milestones on the academic career path. But this result is so surprising that it should at least give pause to those who believe the academic deck is stacked against women. It might also give pause to those who think male economists are rational. ■

Looking for aliens

Infra digging

The search for extraterrestrials goes intergalactic

THOSE who look for intelligent life on other planets usually confine their efforts to listening for radio signals from stars that are, on the cosmic scale of things, fairly close by. The resounding silence so far does not deter enthusiasts, who point out that there are 100 billion stars in Earth's home galaxy, the Milky Way, almost all of which have not yet been examined.

He who lives by the billion, however, may also die by it. For another number measured in billions is the Milky Way's age in years. Habitable planets have probably been present in it for at least 10 billion years, which is more than twice the span of Earth's existence. And a spacefaring civilisation, even one relying on craft travelling at far below the speed of light, would be able to colonise the entire galaxy in a few hundred million years. It therefore follows that if intelligent, technologically capable life forms had emerged elsewhere in the Milky Way, they would probably have done so long enough ago that they would, by now, be everywhere—which evidently they are not. This line of reasoning suggests humans really are the only intelligent life in this particular galaxy.

Perhaps, therefore, the search for aliens is looking in the wrong place. The calculation that intelligent life will rapidly colonise its entire home galaxy—first made by Michael Hart, an American astrophysicist, in 1975—suggests it is not other solar systems which should be scoured for little green men, but other galaxies. And this is just what Roger Griffith, an astronomer at Pennsylvania State University, has done.

Appropriately for an enterprise which sits on the cusp of science and science fiction, Dr Griffith's search is based on an idea that came from a story. It was written in 1937 by Olaf Stapledon and proposed that an advanced civilisation with a huge demand for energy might sate that demand by building a sphere enclosing its home star. It could thus capture and use every photon emitted.

Outside the sphere, the star in question would be invisible. But, as Freeman Dyson, a polymathic physicist, pointed out in 1960, the sphere itself would radiate in the infrared, since whatever the advanced civilisation was actually doing with the starlight, the result would be heat which had to be dumped into outer space. Rather unfairly on Stapledon, such putative pieces of spaceborne civil engineering are thus known as Dyson spheres.

Putting Mr Dyson's and Dr Hart's ideas together, Dr Griffith reasoned that a galaxy inhabited by Dyson-sphere-constructing aliens would have an unusual, infrared-rich and visible-light-poor spectrum. With the aid of an American space telescope called the Wide-field Infrared Survey Explorer, he searched 100,000 galaxies for such spectra. What he found, as he reports in the *Astrophysical Journal*, is tantalising.

No galaxies appeared to host civilisations that were using more than 85% of the available starlight as a power source. Fifty, however, were red enough to be hosting aliens gobbling up half or more of their starlight. Since even the most enthusiastic colonists would not, presumably, set up shop around every single star, and also because realistic versions of Dyson spheres would not totally enclose a star, these galaxies might indeed be the empires of individual alien species.

Power-hungry aliens are not, sadly, the only explanation for the spectra Dr Griffith has found. More prosaic things, such as vast clouds of interstellar dust, might produce a similar signal. Nevertheless, these 50 unusual galaxies (and also 95 more which had spectra that were weird in other ways) might repay further study. The odds are that Dr Griffith's discovery will have a humdrum explanation. But it is just possible he has answered the age-old question of whether humanity is alone. ■

Is anybody out there?

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Reforming Islam

Thoughts on its future

A controversial new book says Islam must change in five important areas

NOT many people have lived deep inside a ruthlessly patriarchal, theocratic world and also won acclaim in the great bastions of Western, liberal thought. Even fewer can describe the contrast with insight, and that is why the writings of Ayaan Hirsi Ali on religion, culture and violence always command attention.

In several senses, she has come a long way, and she is still travelling. Having moved to the Netherlands, and then America, after a childhood in Africa and Saudi Arabia, the Somali-born writer is now a fellow of Harvard University's Kennedy School of Government. In three earlier books she expounded her conviction that Islam, her family's religion, was incorrigibly flawed. She faulted the faith for encouraging violence, for abusing women and ultimately for its belief in a punitive God whose existence she had rejected.

In her latest work, "Heretic", Ms Hirsi Ali shifts her position and argues that Islam is capable of modernising reform. At the start of the book she sounds her old militant self, denouncing cultural relativists who want to muzzle her because they deny that the crimes of, say, Islamic State really are motivated by belief, as opposed to socioeconomic grievances.

As she goes on to argue, insisting that Islam is not the real motive is a convenient way of avoiding any examination of Muslim beliefs. But the opposite point also applies, and it is one that many would make of her. To take "religious" terrorists at face value, and say they are overwhelmingly motivated by spiritual convictions, can equally be a kind of cop-out, if it refuses to consider why some people with those beliefs resort to violence and others refrain; or why in some situations terrorists win support from those around them, while in others they are isolated.

Heretic: Why Islam Needs a Reformation Now. By Ayaan Hirsi Ali. *HarperCollins; 272 pages; $27.99 and £18.99*

The main body of Ms Hirsi Ali's book is more nuanced—and optimistic—than her previous writings. She argues that some factors behind Christianity's Reformation now exist in the Muslim world. The reforms of Martin Luther, for example, advanced with help from the newly invented printed press; a Muslim reformer today might well benefit from the rise of electronic communications.

But parallels between Christianity's Reformation and a possible Muslim one have their limits. As Ms Hirsi Ali acknowledges, the link between the evolution of the Protestant Reformation and modernity is not simple. Protestantism began not as a move to dislodge the primacy of divine revelation, but to assert it. Only very indirectly did the Reformation lead Europe into a secular, scientific age. So anybody who advocates a Muslim Reformation must ask this question: if radical change starts in the Muslim world, is it certain that it will really lead to liberal freedoms, or could it trigger, either directly or indirectly, even greater religious fervour?

Ms Hirsi Ali, as you might expect, favours more freedom, and she reckons that some tentative movement in that direction is already in progress. At the moment, she says, the prevailing trend in Islam stresses the violent sayings of Muhammad, dating from his stay in Medina, over the peaceful ones issued earlier in Mecca. But the author notes that there is quite a large minority who eschew the aggressive tone of the "Medina" sayings, preferring the quiescent piety which, she says, marks the Prophet's earlier declarations—certainly large enough for that minority to be worth encouraging.

Unfortunately, very few Muslims will accept Ms Hirsi Ali's full-blown argument, which insists that Islam must change in at least five important ways. A moderate Muslim might be open to discussion of four of her suggestions if the question were framed sensitively. Muslims, she says, must stop prioritising the afterlife over this life; they must "shackle *sharia*" and respect secular law; they must abandon the idea of telling others, including non-Muslims, how to behave, dress or drink; and they must abandon holy war. However, her biggest proposal is a show-stopper: she wants her old co-religionists to "ensure that Muhammad and the Koran are open to interpretation and criticism".

Hearing this last argument, a well-educated Muslim would probably give an answer like this: "If 'criticism' means denying that Muhammad was God's final messenger, who delivered the Koran under divine inspiration, then it would be more honest to propose leaving Islam entirely—because without those beliefs, we would have nothing left."

To put the point another way, if there is to be any chance that Muslims can be persuaded to set aside premodern ideas about law, war and punishment, the persuader will not be a sophisticated secularist; it is more likely to be somebody who fervently believes in the divine origins of the Koran, but is able to look at it again and extract from its words a completely fresh set of conclusions. ■

American poetry

From love to grief to gaiety

James Merrill: Life and Art. By Langdon Hammer. *Knopf; 912 pages; $40*

WHEN James Merrill was a student at Amherst College, falling in love with an older poet, Kimon Friar, he wrote in his diary about the ambition that this new love produced: "I shall write, be brilliant, be great." Merrill, who would grow into one of the great American poets of the 20th century, spent his life practising a strange kind of alchemy, as Langdon Hammer shows in his new biography: he turned love and memory, both short-lived and lifelong, into poetry that would endure.

Alchemist that he was, Merrill certainly did not need more gold. He was the son of Charles Merrill, the louche and bullish co-founder of Merrill Lynch, and his second wife, Hellen Ingram, a glamorous, overbearing mother who provided Merrill with a lifetime of "passionate, tragic scenes". In his palatial childhood home, called the Orchard, the boy chafed at his life of distant, distracted parents and the daily round of ceremonious play-dates and paid caretakers.

In poetry, Merrill found a way to change the splendour of his exterior life—the gilded columns of the Orchard, season tickets to the opera and silk kimonos from Japan—into the revelations about his teeming inner world that filled books like the Pulitzer prize-winning "Divine Comedies" (1976). He became, as Mr Hammer writes, "a hero of the interior life". But Merrill wrote, too, out of a need to be healed, even saved. As he claimed hopefully in a late poem: "Art. It cures affliction."

This is the first full biography of Merrill, and it is unlikely to be surpassed any time soon. After nearly two decades of research, Mr Hammer, the chair of Yale's English department, has produced a gorgeously written and elegantly comprehensive study of the tumult and passion of Merrill's "life and art". He opens up what has sometimes been derided as a "mandarin, private sensibility", showing instead the vital, loving and lonely heart that beats inside each poem.

In a life that circled the globe—from Southampton, New York, to Stonington, Connecticut, via Athens and Japan—Merrill dispensed his fortune to support his friends, slept with more men than his decorous biographer dares tally and wrote poems in tones "from love to grief to gaiety". He led "double lives": an industrious dandy, a promiscuous formalist and much more besides.

Mr Hammer's lively telling reveals Merrill's passions and foibles, like the "parallel intoxication" of taking "The Sex Cure" in Greece and occult conversations on the Ouija board, both with his longtime partner David Jackson. Did Merrill really believe in the séances that helped him produce the epic "The Changing Light at Sandover"? It seems that he often did—and with the board, Mr Hammer writes, he "renewed poetry's ancient task of soliciting speech from the gods".

Merrill's sexuality was never an easy subject for him, as with many other gay men of his generation who lived in and out of the closet. The book bracingly describes his death from Aids-related complications in 1995, after years of keeping his HIV-positive diagnosis a secret from all but his most trusted friends.

Mr Hammer treats this difficult topic with grace and fairness. At other times he is too ready to defend his subject, whom he calls, "on balance…virtuous [and] endlessly interesting". He does little to make more than an implicit case for expanding Merrill's readers beyond those who already find him "interesting". A biography of more than 900 pages may intimidate rather than welcome audiences who are unfamiliar with the poetry.

At the end of the day, it is Merrill himself who provides the best invitation into his life and art. In the poem "A Tenancy", he writes: "If I am host at last/It is of little more than my own past./May others be at home in it." ■

Hero of the interior life

Armenian history

Gunning for the G-word

Great Catastrophe: Armenians and Turks in the Shadow of Genocide. By Thomas de Waal. *Oxford University Press; 298 pages; £18.99*

ON APRIL 24th millions of Armenians around the world will commemorate the centenary of the mass killing of their forebears by Ottoman forces. A growing number of historians say it was genocide.

"The central facts of the story are straightforward," says Thomas de Waal, a Russophile scholar at the Carnegie Endowment for International Peace, an American think-tank, in the introduction to his objective and meticulously researched account of the Armenian tragedy and how it has played out in modern times. "The Armenians were an ancient people, whose homeland was centred in what is now eastern Turkey." In 1913, there were up to 2m of them in the Ottoman empire. At the start of the first world war, the Ottoman government ordered their mass deportation. A few years later, Mr de Waal writes, there was barely one-tenth of that number in Turkey. The rest had been exiled or killed.

A plethora of academic tomes, memoirs and novels about the genocide exist, including Turkish government-sponsored propaganda purporting to prove that most of the Armenians died of hunger and disease during their forced march to the Syrian desert in 1915. Mr de Waal navigates through some of these. Yet, unlike many, he does not set about legislating history. Rather he offers the wider context in which what Armenians call *Meds Yeghern*, or the "great crime", unfolded. (He uses the term "great catastrophe", which has riled many.)

Abdul Hamid II, who became the Ottoman sultan in 1876, was consumed with paranoia as he watched his empire shrink. He accused his Armenian subjects of plotting with the great powers to truncate it further and unleashed a first wave of pogroms, which claimed nearly 100,000 lives. Armenian revolutionaries retaliated by killing Ottoman officials and siding with "Uncle Christian" (Russia) as it gobbled up chunks of eastern Anatolia. (The Armenian relationship with Russia is a constant thread.) Decades later a different group of Armenian "revolutionaries" embarked on a revenge killing spree of Turkish diplomats from Vienna to Sydney.

Mr de Waal's biggest contribution is his overview of the interlocking phases of Turkish and Armenian history after 1915. Trenchant and colourful anecdotes abound, along with some surprising facts. The Ottomans were the earliest to recognise the first and short-lived Republic of Armenia in June 1918 (it collapsed two years later under Soviet pressure). Three months afterwards the Ottoman military commander, Halil Pasha, who personally directed massacres of Armenians and Assyrian Christians in the eastern provinces, met the Armenian interior minister in the capital, Yerevan. "The two men had fought a battle to the death in Van in 1915", yet they "kissed each other warmly like friends."

Turkey was again among the first to recognise the fledgling Republic of Armenia when it broke away from the Soviet Union in 1991. But before diplomatic ties were formally established Armenia went to war against Turkey's ally, Azerbaijan, over Nagorno-Karabakh, a mainly Armenian enclave in Azerbaijan. (Mr de Waal's book about that conflict, "Black Garden", is an important complement to this one.) Turkey sealed its border with Armenia and so it has remained, leaving the tiny landlocked nation ever more dependent on Russia. Swiss-brokered interventions collapsed when Turkey, buckling under Azerbaijani pressure, shelved an agreement from 2009 that would have established diplomatic ties and reopened the border. The author's vivid description of the backroom dealings that went on helps explain why.

Mr de Waal reluctantly concludes that the killings do come under the United Nations Convention on Genocide. He believes the "G-word" (this last term was coined by a Turkish diplomat) has become "both legalistic and over-emotional". It obstructs "the understanding of the historical rights and wrongs…as much as it illuminates them". But according to Hrant Dink, a Turkish-Armenian newspaper editor killed in 2007 by a young ultranationalist, Turkey's main problem is not whether it should deny or acknowledge that what happened amounted to genocide, but what its people comprehend. That is true, but only up to a point. Turkey has recently begun making conciliatory gestures to the Armenians. That would never have happened had the world, and especially America's Congress, not held the possible charge of "genocide" over it. ■

Eric Ravilious

Another world, another time

Drawing on the past

IT IS August 1939, and the table is set for tea. There are loaves of bread, a pat of butter, white mugs, jugs and a teapot. It is hot. The wheat in the fields beyond the garden walls is ready to be harvested, and a large, battered, black umbrella has become an improvised parasol. The two empty chairs are mismatched, brought hastily from the kitchen so the view can be enjoyed in the last of the sunlight.

It is a timeless scene, but this is England on the cusp of change. Within three years, Eric Ravilious, the painter of this inviting afternoon sight, will be killed in a plane crash somewhere near Iceland at the age of 39. As "Ravilious", at the Dulwich Picture Gallery until August 31st, demonstrates, these vivid, unassuming paintings are windows on the world he left behind. (For a slide show of related images, see economist.com/ravilious.)

Favouring watercolour above all other mediums, and choosing landscapes, interiors and vignettes of town life as his subjects, Ravilious positioned himself closer to illustration and design than to the cutting edge. His approach was undoubtedly literal. He rarely wanted to talk about his work; all his pictures are based on careful observation, their titles utilitarian: "Wet Afternoon", "The Greenhouse: Cyclamen and Tomatoes", "A Farmhouse Bedroom".

Tightly composed and rendered in clear colours and precise brushstrokes, they make popular cards and appealing designs for tea towels. He knew this, and during his lifetime, he designed pottery for Wedgwood and illustrated several books.

A shore thing

Ravilious's work has gained in attention in the past few years. Alexandra Harris's book of 2010, "Romantic Moderns", has been important in highlighting how recent and imminent war bred premature nostalgia, invested art and literature with urgency, and encouraged an invigorated appreciation of tradition.

The 90-or-so watercolours in this show, dating from the 1930s and his time as an official war artist, reveal how firmly Ravilious was a part of this "modern English renaissance". His eye embraced quaint objects and everyday sights, such as abandoned caravans, naval dockyards, interiors of bedrooms, greenhouses and trains, boats and bathing machines on the Suffolk coast. He showed scant interest in figures, and he was at his best when portraying the sweeping landscapes of southern England; atmospheric, original interpretations of famous views and favourite places.

Many of Ravilious's pictures read like scenes from a novel, though one that is frequently devoid of people. The viewer is left to fill in the story. Ingenious compositions place him or her in the picture, and then lead the eye on specific pathways towards the distance. As time progressed, Ravilious's instinctive sense of design became increasingly sophisticated. He became more confident in portraying familiar sights in his own unusual way. His framing is particularly bold—the "Wilmington Giant" is ringed with barbed wire and jutting fence poles, for example, and a white chalk horse seen out of a train window in "Train Landscape" manages to be prominent, despite being half the size of the serial numbers painted on the inside of the train door.

These paintings offer a sense of their time, and not merely because of the subject matter they depict. Their exaggerated use of pattern and distorted angles of perspective reflect not only the influence of post-impressionism, but also of popular contemporary design. Ravilious's reduced shapes and elegant forms echo the obsession that Art-Deco artists had with streamlined simplicity. And he delights in patterned upholstery and wallpaper with the enthusiasm and understanding of a textile designer.

Ravilious also gave each scene and every inch of the paper his undivided attention, as if the artist were seeing something for the last time. Visitors to this exhibition will share in all he conveys about the sheer, simple pleasure of just looking. ■

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Improving employee productivity

On your toes

How to get the best out of the people who work for you

BOOKS on how to get the most out of your employees almost always follow the same formula. They start by noting that the secret of business success is employee-engagement: an engaged worker is more productive as well as happier. They go on to point out that most employees are the opposite of engaged (a 2013 Gallup Survey that claims that 70% of American workers are "not engaged" or "actively disengaged" gets a lot of play). They blame this dismal state of affairs on the legacy of Frederick Winslow Taylor, a Philadelphia-born Quaker who became one of America's first management consultants and in 1911 wrote a book called "The Principles of Scientific Management". And finally they reveal the secret of making your employees more engaged: treat them like human beings rather than parts in an industrial machine.

Under the Hood: Fire Up and Fine-Tune Your Employee Culture. By Stan Slap. *Portfolio Penguin; 266 pages; $27.95*

The Power of Thanks: How Social Recognition Empowers Employees and Creates a Best Place to Work. By Eric Mosley and Derek Irvine. *McGraw Hill; 205 pages; $25*

Work Rules! Insights from Inside Google that Will Transform How You Live and Lead. By Laszlo Bock. *Twelve; 404 pages; $30*

The first two books under review are cases in point. They both rely on over-familiar examples of high-performance companies, such as "funky, funny" Zappos and CNN. They come from the same school of poor writing—sloppy sentences, ugly management jargon and pseudo-folksy style. Stan Slap is particularly slap-dash. "The Power of Thanks", by Eric Mosley and Derek Irvine, claims that a "Positivity-Dominated Workplace creates and maintains competitive advantage". The best way to do this is to thank people regularly. Mr Slap's "Under the Hood" claims that the best way to maximise business performance is to look under the bonnet of your company, discover the employee culture that lies inside, and then fine-tune it. Fine-tuning involves things like praising good workers and sacking bad ones ("one of the biggest opportunities to create a legend is when the hammer falls right on the culture and someone has to go").

Laszlo Bock's "Work Rules!" is much better. Mr Bock has been head of "people operations" at Google since 2006 and has seen the company grow from 6,000 to almost 60,000 people. He cannot resist repeating a succession of familiar Google tales about nap pods and free food (though he is amusing on some workers' habit of stealing food for the weekend). The author gives in to the temptation to laud his bosses (Larry and Sergey, it seems, are far-sighted and generous seed-planters) and to introduce readers to Google's private language ("Googlegeist" is "the spirit of Google" and "yoglers" are Googlers who practise yoga). But once he gets into the nitty-gritty he is often fascinating.

Perhaps the most impressive thing about Mr Bock's book is that he cheerfully undermines his own argument. He starts off with a hymn to the high-freedom approach to management, which gives workers the liberty to solve problems however they want. "Not every company will be able to duplicate perks like free meals, but everyone can duplicate what makes Google great." But his account of how Google works suggests a much more interesting picture. Google can afford to practise a high-freedom approach because it selects its people so carefully: only about 0.25% of those who apply actually end up with a job. And even these prodigies need to be ridden with a spur and a bridle.

Mr Bock is an unabashed defender of elitism. He argues that knowledge-intensive companies are unusually dependent on a tiny number of highly talented workers: a top-notch engineer "is worth 300 times or more than an average engineer". This means that such companies have no choice but to "pay unfairly" in order to provide extraordinary performers with extraordinary rewards: if they don't the people who really matter will simply go elsewhere. He is particularly contemptuous of "skimmers", those who float along at the bottom of the company for years; they should not really be there.

Mr Bock also makes a good case for empowering managers. Many of the engi- ▸▸

neers who dominate Google think that managers are a waste of space: they "get in the way, create bureaucracy and screw things up." The company has repeatedly experimented with cutting management to the bone. But Mr Bock thinks that bureaucracy-busting can only go so far: you can no more run a big company like Google without management than you can run it without lawyers, accountants or cleaners. By all means involve computer programmers in decision-making, he says; but in the end priorities must be set and managerial decisions made.

Mr Bock's most striking management tips have much more to do with hiring and classifying people than with empowering them. The best recruiters are fellow employees and they should be motivated to spread the word. Interviews are lousy selection mechanisms because interviewers are so biased and make decisions on the basis of first impressions: far better to give candidates a task similar to the one they will have to perform and see how well they do. Mr Bock is keen on choosing top performers from state universities. Not only are they more likely to be brighter than their middle-of-the-road Ivy League counterparts, he believes, but they will probably also have had to develop a greater degree of grit and determination in the face of difficult personal circumstances.

In the course of "Work Rules!" Mr Bock also unwittingly reveals what is wrong with most empowerment literature, which is based on the assumption that all companies should embrace some form of high-freedom management. Any failure to do so is a sign that managers are imprisoned in Taylor's scientific-management cage. But what works for Google does not necessarily work for fast-food restaurants where workers are poorly educated and turnover rates are high. Teresa Amabile, of Harvard Business School, has argued, on the basis of extensive survey data, that one of "the most important indicators on employee engagement…was simply 'making progress in meaningful work'". But some jobs, such as serving fast food or stacking shelves, do not have a lot of meaningful work to make progress in.

Most empowerment literature is also based on the idea that a sharp contrast can be drawn between inherent rewards and external stick-and-carrot rewards. Mr Bock shows that even at a firm as unusual as Google you need a mixture of the two. This is even truer of less-educated workers. Companies that have taken the doctrine of empowerment to more mainstream workers have not done so by abandoning sticks and carrots, but by using them in more sophisticated ways. Toyota encourages its employees to think of ways to improve production. They can also stop the whole assembly line if they see something that needs fixing. Whole Foods organises its workers into teams that have a lot of freedom to choose members and distribute tasks, relying on peer pressure rather than top-down control.

It is undoubtedly a mistake for a company to base its management philosophy on Taylor's aphorism that "people are no more than mechanical parts" in a great assembly line. It is equally mistaken to cling to the idea that all workers can be left to their own devices—and that all you need to do is to be nice to your employees and miracles will happen. ■

Entrepreneurship in India

Ready, steady, go

Restart: The Last Chance for the Indian Economy. By Mihir Sharma. *Random House India; 362 pages; 599 rupees*

Recasting India: How Entrepreneurship is Revolutionising the World's Largest Democracy. By Hindol Sengupta. *Palgrave Macmillan; 249 pages; $28*

IN 2013, when foreign capital suddenly rushed out of emerging markets, India was one of the worst-affected countries. There were plenty of reasons for investors to panic. GDP growth had slumped. The public finances were a mess. And inflation was hovering around 10%. A year earlier a power cut had plunged hundreds of millions of Indians into darkness.

It is a testament to the country's enduring promise that within a year investors were once again scrambling for a stake in its future—this time tempted by the pro-growth promises of Narendra Modi, who won a resounding victory in elections last May. India's population rivals China's in size, but has a far younger complexion. That India is so much poorer in most other regards seems only to add to its allure. Those who missed out on China's boom might still catch the wave in India.

"Restart" by Mihir Sharma, a columnist for the Delhi-based *Business Standard*, is a reliable and readable guide to India's stop-start economy. It is admirably clear on what has to change if India is to taste the high living standards enjoyed in other parts of Asia. Each year 13m Indians join the workforce. Jobs must be found for them. But the giant factories that hummed with baby-boomers in other places are scarce in India, because it is so difficult to do business there.

Mr Sharma applies regular doses of rueful humour as he explains why some of the toughest job-protection laws in the world have ensured that there are few decent jobs in India. The jokes are a necessary feature in a book that contains as many unpalatable truths as this one. They are also a mask for the author's anger at India's poverty, at the nation's failure to match the development of its Asian neighbours and at the self-delusion of its policymakers. "It's almost as if we genuinely believe all the lies about ourselves we tell foreign investors," he writes.

Mr Sharma is at his funniest (or angriest) when listing the ludicrous regulations that business must adhere to. Complying with them all is impossible, so officials routinely extort bribes for breaches. Businesses are required, among many other things, to keep an abstract of the 1948 Factories Act to hand. Pass it to a visiting labour inspector, allow him a moment to reflect and "he *will* find a violation", notes Mr Sharma. The wisecrack has a painful sting. To avoid a shakedown, businesses stay tiny and inefficient. And India remains poor and woefully short of decent jobs.

Where did India go wrong? Mr Sharma picks the leftward lurch in 1969—when Indira Gandhi nationalised banks to outflank opponents in her own party—as a

WE DO NOT
TAKE A TRIP;
A TRIP TAKES US.
—JOHN STEINBECK
kindle voyage
BRILLIANTLY CRISP DISPLAY • REMARKABLY THIN DESIGN
EFFORTLESS PAGE TURNING • LIGHT THAT ADJUSTS WITH YOU
amazon

moment when things shifted. Manmohan Singh's famed budget of July 1991 was badly flawed because the reforms it contained were incomplete. Mr Singh opened up goods markets to competition but did nothing to free markets for land, labour and capital. A ban on selling farmland to industry remains; labour inspectors can still prey on factory owners; and without a bankruptcy law, capital stays trapped in dying firms. New factories could not readily spring up to compete with imports, and manufacturing has been in relative decline since the mid-1990s.

Mr Sharma thinks factories can still be India's salvation. But manufacturing-led growth has become harder to pull off. Modern factories use more machinery and less labour than in the past. While India was making half-hearted reforms, China was securing its position in global supply chains. It is now tougher for aspiring nations such as India to break in. It is perhaps for this reason that others look for hope in India's vibrant services sector. Hindol Sengupta is one such author. His "Recasting India" is a paean to the commercial flair of millions of hawkers and small shopkeepers plying for trade in India. Yet the small-scale service enterprises celebrated by Mr Sengupta are a developmental dead end. They are a sign of economic weakness and not vitality, as Mr Sharma rightly argues. Small traders seem less impressive in other countries only because the best entrepreneurs have been able to grow bigger. ■

Information technology

Caged lions

Strategy Rules: Five Timeless Lessons from Bill Gates, Andy Grove, and Steve Jobs. By David Yoffie and Michael Cusumano. *Harper Business; 272 pages; $29.99 and £18.99*

ADULATION of its leaders is a feature of the information-technology industry. Dozens of books sing the praises of Bill Gates, Andy Grove and the late Steve Jobs, the famed bosses, respectively, of Microsoft, Intel and Apple. Attempts to compare and contrast these chief executives, however, are rare. Reducing this deficit is the mission of "Strategy Rules" by David Yoffie, of Harvard Business School, and Michael Cusumano, of MIT's Sloan School of Management. And the book provides plenty of insight to help navigate a world that is ever more driven by IT.

The authors find many similarities between their subjects. All three men were in the right place at the right time—when in the 1990s the IT industry shifted from being dominated by vertically integrated giants to a structure made of horizontal technology "layers", such as microprocessors and operating systems. All three were relentless, ruthless and even reckless enough to dominate one or more of these layers (although Jobs, in his first incarnation at Apple before he got fired in 1985, lost against Mr Gates because he wanted to keep control of most layers).

As Jobs's idiosyncrasies show, the three men had different approaches. Each one excelled at particular things that were crucial in his field. Mr Gates's strength was in software and strategy, both needed in abundance to establish an operating system. Mr Grove focused on discipline and execution, which explains Intel's unmatched capacity to churn out chips. And Jobs was obsessed with detail and design. That turned out to be secondary in personal computers (PCs), but proved vital in smartphones.

The lessons the authors draw from all this may sound classically business-school, but they are particularly important in this fast-moving industry. One is to "look forward" to spot industry shifts early, and then "reason back" to work out what to do about them. Mr Grove moved heaven and earth to keep his firm on the trajectory predicted by Moore's law, which holds that the number of transistors on a processor doubles roughly every two years.

Yet the most important lesson is that in order to make it big in IT, one has to offer not just products, but platforms. These are the foundations for entire chunks of the IT industry, as Windows is for PC software. Mr Gates was the first to understand this. Mr Grove realised it only ten years later, when he had to decide whether to move to a new chip technology. And it took Jobs, the archetypal "product guy", another decade to exploit fully the power of platforms by making iTunes available on Windows, thus turning it into the dominant platform for digital music.

The authors could have dug deeper into why both Microsoft and Intel are a lot less relevant today, as number-crunching is moving to mobile devices and computing clouds. Microsoft came late to both. As for Intel, most smartphones and tablets do not have its processors inside, but instead use chips based on designs by ARM, a British company. Apple once again is the exception: Jobs relaunched the firm around mobile devices when he returned to take the helm in 1997.

One reason for the relative decline of both Microsoft and Intel, the authors argue, is that both Mr Gates and Mr Grove allowed the people they hired as deputies to succeed them. As chief executives, these "complements" in the end proved to be disappointments. Another risk is that an organisation that is set up to expand and protect one platform eventually becomes a cage that keeps its IT lions from conquering new territory. The industry's latest leaders of the pride, Google's Larry Page and Facebook's Mark Zuckerberg, for example, would certainly devour another book by Messrs Yoffie and Cusumano on how to avoid such a fate. ■

Appointments

MINISTRY OF FINANCE
Brunei Darussalam

Public Financial Management (PFM) Expert

The Ministry of Finance of Brunei Darussalam (MoF) is seeking a Public Financial Management (PFM) Expert to support the MoF in the implementation of the Government of Brunei's PFM Action Plan, in particular the introduction of modern Programme and Performance Budgeting (PPB) methods. The successful candidate will be based in Brunei Darussalam. This is a contractual position with an initial two year appointment, with the possibility of an extension.

As PFM Expert, the successful candidate will, among others, perform the *following tasks and responsibilities:*

- Assist all line ministries in the development of their PPB structures.
- Assist and advise ministries on the initial selection, monitoring and reporting of suitable Key Performance Indicators (KPIs) within their programme frameworks.
- Provide formal and informal training of MoF and line ministry staff in PPB concepts and methods.
- Support the MoF in achieving a gradual orientation by line ministries towards a performance management culture.
- Assist the Treasury Department to adapt its financial accounting and reporting systems
- Advise on changes in the financial regulations required.

The post of PFM Expert is a senior and specialist position in the MoF and the successful candidate should possess the following *qualifications and work experience:*

- A university degree, preferably at the post graduate level or a professional designation that is equivalent to be able to meet the intellectual and technical demands of the job.
- At least 10 years of proven work experience in PPB work and budget/financial management policy consulting.
- Excellent command of the English Language with exceptional writing, presentation and communication skills.
- Ability to operate effectively in an international environment.

For further details on the scope of work, please go to http://www.mof.gov.bn/index.php/job-vacancy and for information about the MoF, please visit www.mof.gov.bn

Interested applicants should email their resume to administration.info@mof.gov.bn

Deadline for submitting applications is on 17th May 2015.

Announcements

INTERNATIONAL MONETARY FUND

SEMINARS

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Please join global thought leaders, policy makers, world media, and IMF and World Bank top management for a conversation on important global topics during the IMF and World Bank 2015 Spring Meetings. Our seminars will address such key issues as:

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We would like to hear your views. So join us in Washington, or on Twitter at **#188together**.

—Christine Lagarde, Managing Director, IMF

For more information visit http://www.imf.org/external/spring/2015/seminars.htm

Tenders

AYENSU STARCH COMPANY LIMITED'S SHARES

AYENSU STARCH COMPANY LIMITED ("ASCO")

The Ayensu Starch Company ("ASCo") Limited, located at Bawjiase in the Central Region of Ghana was established in September 2001 as an agro-processing business involved in the processing of cassava roots into food grade starch for local consumption and export. The mission of ASCo is to become a leading producer of high quality food grade cassava starch for the local and export markets.

Government of Ghana ('GoG") acting through the Ministry of Trade and Industry ("MoTI") has appointed PwC to assist with the revitalisation of ASCo as part of efforts to enhance the status of ASCo as a leading cassava processing company in West Africa and to improve the economic prospects of Bawjiase and its surrounding communities.

GoG through MoTI is inviting prospective bidders to acquire 70% of the shares of ASCo. Interested parties are invited to submit sealed bids to acquire 70% shares of ASCo. The deadline for the submission of the sealed bids is Friday, 8 May 2015 at 12 noon.

Sealed bids should be marked CONFIDENTIAL – PROJECT YUCA and addressed to;

THE COUNTRY SENIOR PARTNER
PRICEWATERHOUSECOOPERS (GHANA) LIMITED
NO. 12 AIRPORT CITY, UNA HOME, 3RD FLOOR
AIRPORT CITY, ACCRA, GHANA

ATTENTION: ERIC NIPAH

For enquiries and sale documents please contact Kingsford Arthur or Kwesi Arhin at the PricewaterhouseCoopers (Ghana) Limited offi ce at No. 12 Airport City, Una Home, 3rd Floor, Airport City, Accra. T: +233 (0) 302 761 500 F: +233 (0) 302 761 544

pwc

The Andhra Pradesh Mineral Development Corporation Ltd.
(A State Government Undertaking)
HMWSSB Premises, Khairatabad, Hyderabad - 500 004 (India). Ph. +91- 40 - 23323153, Fax : 040-23393152

TENDER NOTICE

Tender No: APMDC/M&S-88/BAR-GT/15 **Dated 14.04.2015**

APMDC intends to sell 300,000 MT Barytes with 4.20 SG and 100,000 MT Barytes with 4.10 SG over a period of six months through e-tender cum e-auction. Last date for submission of technical bid is 04.05.2015 and e-auction on 08.05.2015. For complete details visit APMDC website: **www.apmdc.ap.gov.in** or MSTC website : **www.mstcecommerce.com** from 15.04.2015 onwards.

Date : 14.04.2015 Vice Chairman & Managing Director

ADVERTISEMENT

REQUEST FOR EXPRESSIONS OF INTEREST (EOI)

TENDER TITLE: CONSULTANCY SERVICES FOR A DEVELOPMENT FOR SINGLE REGIONAL CUSTOMS BOND GUARANTEE AT THE EAST AFRICAN COMMUNITY SECRETARIAT (ARUSHA – TANZANIA)

TENDER NUMBER: PRQ20141521

The East African Community (EAC) is a regional organisation mandated by the governments of Kenya, Tanzania, Uganda, Burundi and Rwanda to spearhead the East African economic, social and political integration agenda. In line with this, the EAC Secretariat based in Arusha - Tanzania wishes to contract a Consultancy firm to develop a single Regional Customs Bong Guarantee (RCBG) who will be responsible for developing a framework for implementation of the regional single bond by partner states.

The detailed Terms of Reference for this consultancy and the application form can be obtained at TradeMark East Africa's website http://www.trademarkea.com/get-involved/procurement/. Interested and qualified **Consultancy firms** must register and apply online ONLY on the TradeMark East Africa procurement portal at the website: http://procurement.trademarkea.com. Any queries must be directed to procurement@trademarkea.com .

The closing date for applications is **11th May 2015** Only successful applicants will be contacted.

TRADE MARK EAST AFRICA
Growing Prosperity Through Trade

TMEA cannot answer any query relating to this tender three days or less prior to the submission deadline.

Readers are recommended

to make appropriate enquiries and take appropriate advice before sending money, incurring any expense or entering into a binding commitment in relation to an advertisement.

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Economic data

% change on year ago

	Gross domestic product			Industrial production	Consumer prices		Unemployment	Current-account balance		Budget balance	Interest rates, %	Currency units, per $	
	latest	qtr*	2015†	latest	latest	2015†	rate, %	latest 12 months, $bn	% of GDP 2015†	% of GDP 2015†	10-year gov't bonds, latest	Apr 15th	year ago
United States	+2.4 Q4	+2.2	+3.0	+2.0 Mar	nil Feb	+0.3	5.5 Mar	-410.6 Q4	-2.2	-2.5	1.86	-	-
China	+7.0 Q1	+5.3	+6.9	+5.6 Mar	+1.4 Mar	+1.4	4.1 Q4§	+219.7 Q4	+2.7	-2.8	3.48§§	6.20	6.22
Japan	-0.8 Q4	+1.5	+1.0	-2.0 Feb	+2.2 Feb	+0.7	3.5 Feb	+46.6 Feb	+2.3	-6.9	0.32	119	102
Britain	+3.0 Q4	+2.5	+2.6	+0.1 Feb	nil Mar	+0.3	5.7 Dec††	-161.3 Q4	-4.5	-4.4	1.73	0.67	0.60
Canada	+2.6 Q4	+2.4	+2.0	+4.1 Jan	+1.0 Feb	+1.0	6.8 Mar	-39.3 Q4	-2.9	-1.8	1.35	1.23	1.10
Euro area	+0.9 Q4	+1.3	+1.4	+1.6 Feb	-0.1 Mar	+0.1	11.3 Feb	+290.6 Jan	+2.7	-2.2	0.11	0.94	0.72
Austria	-0.2 Q4	+0.4	+1.0	-0.1 Jan	+0.8 Feb	+0.9	5.3 Feb	+3.2 Q4	+1.5	-2.2	0.28	0.94	0.72
Belgium	+1.0 Q4	+0.7	+1.3	+0.9 Jan	-0.4 Mar	+0.2	8.5 Feb	+9.4 Dec	+0.5	-2.6	0.35	0.94	0.72
France	+0.2 Q4	+0.5	+1.1	+0.6 Feb	-0.1 Mar	+0.1	10.6 Feb	-18.3 Feb‡	-0.9	-4.2	0.41	0.94	0.72
Germany	+1.5 Q4	+2.8	+1.8	-0.3 Feb	+0.3 Mar	+0.3	6.4 Mar	+290.1 Feb	+7.6	+0.7	0.11	0.94	0.72
Greece	+1.2 Q4	-1.5	+1.4	+1.9 Feb	-2.1 Mar	-0.9	25.7 Jan	+1.7 Jan	+2.7	-3.5	12.13	0.94	0.72
Italy	-0.5 Q4	-0.1	+0.5	-0.2 Feb	-0.1 Mar	+0.1	12.7 Feb	+42.6 Jan	+1.9	-2.9	1.25	0.94	0.72
Netherlands	+1.4 Q4	+3.2	+1.5	-0.2 Feb	+0.4 Mar	+0.2	8.9 Feb	+90.2 Q4	+9.2	-2.0	0.28	0.94	0.72
Spain	+2.0 Q4	+2.7	+2.4	+1.1 Feb	-0.7 Mar	-0.6	23.2 Feb	+11.3 Jan	+0.4	-4.5	1.30	0.94	0.72
Czech Republic	+1.2 Q4	+1.5	+2.9	+4.6 Feb	+0.2 Mar	+0.2	7.2 Mar§	+1.4 Q4	-0.4	-1.7	0.42	25.7	19.9
Denmark	+1.5 Q4	+2.1	+1.6	-2.3 Feb	+0.6 Mar	+0.7	4.9 Feb	+22.0 Feb	+5.6	-3.0	0.25	6.99	5.40
Hungary	+3.4 Q4	+3.2	+2.8	+5.8 Feb	-0.6 Mar	+1.0	7.7 Feb§‡‡	+5.7 Q4	+4.6	-2.6	3.24	281	224
Norway	+3.2 Q4	+3.7	+0.9	+2.2 Feb	+2.0 Mar	+1.4	3.9 Jan‡‡	+42.5 Q4	+11.5	+7.0	1.43	7.82	5.95
Poland	+2.8 Q4	+2.8	+3.3	+4.9 Feb	-1.5 Mar	+0.2	11.7 Mar§	-5.3 Feb	-1.7	-1.5	2.26	3.77	3.03
Russia	+0.4 Q4	na	-4.1	-0.5 Mar	+16.9 Mar	+15.2	5.8 Feb§	+57.1 Q1	+3.7	-2.3	10.40	49.1	36.3
Sweden	+2.6 Q4	+4.6	+2.6	-3.9 Feb	+0.2 Mar	+0.2	8.4 Feb§	+35.7 Q4	+5.9	-1.3	0.30	8.73	6.57
Switzerland	+1.9 Q4	+2.4	+0.9	+2.7 Q4	-0.9 Mar	-0.9	3.2 Mar	+49.1 Q4	+7.8	+0.3	-0.14	0.96	0.88
Turkey	+2.6 Q4	na	+3.4	+1.0 Feb	+7.6 Mar	+6.6	11.3 Jan§	-42.8 Feb	-4.5	-1.7	8.81	2.70	2.14
Australia	+2.5 Q4	+2.2	+2.5	+3.3 Q4	+1.7 Q4	+1.7	6.1 Mar	-40.1 Q4	-3.0	-2.3	2.28	1.30	1.07
Hong Kong	+2.2 Q4	+1.5	+2.4	-3.7 Q4	+4.6 Feb	+3.3	3.3 Feb‡‡	+5.6 Q4	+2.3	-0.2	1.41	7.75	7.75
India	+7.5 Q4	+4.0	+7.5	+5.0 Feb	+5.2 Mar	+5.2	8.8 2013	-27.4 Q4	-0.9	-4.1	7.78	62.4	60.4
Indonesia	+5.0 Q4	na	+5.2	+2.3 Feb	+6.4 Mar	+5.9	5.9 Q3§	-26.2 Q4	-3.1	-1.9	7.33	12,913	11,460
Malaysia	+5.8 Q4	na	+5.5	+5.1 Feb	+0.1 Feb	+2.9	3.1 Jan§	+15.2 Q4	+3.4	-4.4	3.89	3.67	3.25
Pakistan	+5.4 2014**	na	+5.7	+1.1 Jan	+2.5 Mar	+4.6	6.2 2013	-3.5 Q4	-0.6	-5.1	9.55†††	102	96.2
Singapore	+2.1 Q1	+1.1	+3.1	-3.6 Feb	-0.3 Feb	+0.4	1.9 Q4	+58.8 Q4	+22.2	-0.7	2.06	1.36	1.25
South Korea	+2.7 Q4	+1.1	+3.2	-4.7 Feb	+0.4 Mar	+1.1	4.0 Mar§	+94.4 Feb	+7.7	+0.5	2.12	1,092	1,041
Taiwan	+3.3 Q4	+4.8	+3.8	+3.3 Feb	-0.6 Mar	+1.0	3.7 Feb	+65.3 Q4	+12.3	-1.2	1.52	31.2	30.2
Thailand	+2.2 Q4	+7.1	+3.9	+3.6 Feb	-0.6 Mar	+1.3	0.8 Feb§	+14.2 Q4	+2.2	-1.9	2.60	32.4	32.3
Argentina	+0.4 Q4	+0.1	-0.8	-2.1 Feb	— ***	—	6.9 Q4§	-5.1 Q4	-1.4	-3.1	na	8.87	8.00
Brazil	-0.2 Q4	+1.3	-0.9	-9.1 Feb	+8.1 Mar	+7.6	5.9 Feb§	-89.8 Feb	-3.9	-5.3	12.51	3.03	2.23
Chile	+1.8 Q4	+3.8	+3.0	-0.5 Feb	+4.2 Mar	+3.6	6.1 Feb§‡‡	-3.0 Q4	-1.5	-2.0	4.54	613	555
Colombia	+3.5 Q4	+2.9	+3.9	-1.3 Feb	+4.6 Mar	+3.9	9.9 Feb§	-19.8 Q4	-6.1	-2.1	6.68	2,508	1,935
Mexico	+2.6 Q4	+2.7	+2.9	+1.6 Feb	+3.1 Mar	+3.1	4.5 Feb	-26.5 Q4	-2.3	-3.4	5.66	15.3	13.1
Venezuela	-2.3 Q3	+10.0	-3.4	+0.8 Sep	+68.5 Dec	+65.9	7.9 Jan§	+10.3 Q3	-1.8	-15.9	11.03	6.29	6.35
Egypt	+4.3 Q4	na	+4.0	+4.9 Feb	+11.5 Mar	+9.7	12.9 Q4§	-5.8 Q4	-1.3	-10.7	na	7.63	6.98
Israel	+3.6 Q4	+7.2	+3.5	+0.6 Jan	-1.0 Mar	-0.2	5.3 Feb	+9.0 Q4	+4.8	-3.0	1.44	3.97	3.47
Saudi Arabia	+3.6 2014	na	+2.5	na	+2.1 Feb	+2.7	6.0 2014	+120.1 Q3	-1.7	-10.4	na	3.75	3.75
South Africa	+1.3 Q4	+4.1	+2.1	-0.4 Feb	+3.9 Feb	+4.5	24.3 Q4§	-19.1 Q4	-5.0	-3.7	7.79	12.1	10.6

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, Feb 30.0%; year ago 32.22% †††Dollar-denominated bonds.

Markets

	Index Apr 15th	% change on one week	Dec 31st 2014 in local currency	Dec 31st 2014 in $ terms
United States (DJIA)	18,112.6	+1.2	+1.6	+1.6
China (SSEA)	4,278.6	+2.2	+26.2	+26.2
Japan (Nikkei 225)	19,869.8	+0.4	+13.9	+14.4
Britain (FTSE 100)	7,096.8	+2.3	+8.1	+2.3
Canada (S&P TSX)	15,450.9	+1.6	+5.6	-1.5
Euro area (FTSE Euro 100)	1,259.7	+1.7	+21.5	+6.5
Euro area (EURO STOXX 50)	3,803.5	+1.6	+20.9	+6.0
Austria (ATX)	2,651.0	+2.3	+22.7	+7.6
Belgium (Bel 20)	3,895.0	+1.7	+18.6	+3.9
France (CAC 40)	5,254.4	+2.3	+23.0	+7.8
Germany (DAX)*	12,231.3	+1.6	+24.7	+9.4
Greece (Athex Comp)	744.0	-3.1	-10.0	-21.1
Italy (FTSE/MIB)	24,030.5	+1.9	+26.4	+10.8
Netherlands (AEX)	507.4	+2.1	+19.5	+4.8
Spain (Madrid SE)	1,194.6	+1.0	+14.6	+0.5
Czech Republic (PX)	1,050.8	+0.3	+11.0	-1.8
Denmark (OMXCB)	888.4	+1.6	+31.6	+15.0
Hungary (BUX)	22,077.6	+6.1	+32.7	+23.0
Norway (OSEAX)	711.2	+2.8	+14.8	+8.8
Poland (WIG)	55,648.2	+1.8	+8.2	+1.4
Russia (RTS, $ terms)	1,052.3	+6.5	+12.1	+33.1
Sweden (OMXS30)	1,710.6	+1.4	+16.8	+4.1
Switzerland (SMI)	9,428.6	+2.0	+5.0	+7.2
Turkey (BIST)	81,357.5	-1.7	-5.1	-18.5
Australia (All Ord.)	5,877.3	-0.9	+9.1	+2.5
Hong Kong (Hang Seng)	27,618.8	+5.3	+17.0	+17.1
India (BSE)	28,799.7	+0.3	+4.7	+5.9
Indonesia (JSX)	5,414.5	-1.3	+3.6	-0.6
Malaysia (KLSE)	1,840.1	-0.6	+4.5	-1.4
Pakistan (KSE)	32,248.9	+1.1	+0.4	-0.7
Singapore (STI)	3,540.0	+2.3	+5.2	+2.4
South Korea (KOSPI)	2,120.0	+2.9	+10.7	+10.9
Taiwan (TWI)	9,540.1	-0.3	+2.5	+3.6
Thailand (SET)	1,547.8	+0.2	+3.3	+4.4
Argentina (MERV)	12,129.1	+7.6	+41.4	+35.1
Brazil (BVSP)	54,918.7	+2.3	+9.8	-4.9
Chile (IGPA)	19,574.4	+0.9	+3.7	+1.9
Colombia (IGBC)	10,445.9	+2.0	-10.2	-16.1
Mexico (IPC)	45,262.9	+0.6	+4.9	+0.4
Venezuela (IBC)	5,472.2	+1.5	+41.8	na
Egypt (Case 30)	8,896.7	+1.2	-0.3	-6.6
Israel (TA-100)	1,480.5	+2.6	+14.9	+12.6
Saudi Arabia (Tadawul)	9,164.5	+2.4	+10.0	+10.0
South Africa (JSE AS)	53,720.6	+1.7	+7.9	+2.6

Financial exclusion

Some 2 billion people remain without a bank account, despite a 20% fall in the figure since 2011, according to a report from the World Bank. The paper highlights the role played by mobile technology in improving financial access across the developing world, where much of the fall occurred. Nearly a third of all bank-account holders in sub-Saharan Africa reported having a mobile-money account. Yet in spite of this progress, problems persist. More than half of adults in the poorest 40% of households in developing countries lack a bank account. And the gender gap has yet to be narrowed. In 2011, 7% more men than women had access to a bank account. In 2014 the figure remained the same.

Source: World Bank

Other markets

	Index Apr 15th	% change on one week	Dec 31st 2014 in local currency	Dec 31st 2014 in $ terms
United States (S&P 500)	2,106.6	+1.2	+2.3	+2.3
United States (NAScomp)	5,011.0	+1.2	+5.8	+5.8
China (SSEB, $ terms)	390.5	+23.7	+34.3	+34.3
Japan (Topix)	1,588.8	nil	+12.9	+13.4
Europe (FTSEurofirst 300)	1,650.2	+2.4	+20.6	+5.7
World, dev'd (MSCI)	1,783.8	+1.0	+4.3	+4.3
Emerging markets (MSCI)	1,036.9	+1.5	+8.4	+8.4
World, all (MSCI)	437.0	+1.0	+4.8	+4.8
World bonds (Citigroup)	879.6	-0.4	-2.5	-2.5
EMBI+ (JPMorgan)	717.6	+0.1	+3.7	+3.7
Hedge funds (HFRX)	1,256.3§	+0.6	+3.1	+3.1
Volatility, US (VIX)	12.8	+14.0	+19.2	(levels)
CDSs, Eur (iTRAXX)†	54.5	-2.4	-11.3	-22.3
CDSs, N Am (CDX)†	60.6	+0.2	-8.4	-8.4
Carbon trading (EU ETS) €	6.9	-3.6	-5.5	-17.1

Sources: Markit; Thomson Reuters. *Total return index. †Credit-default-swap spreads, basis points. §Apr 14th.

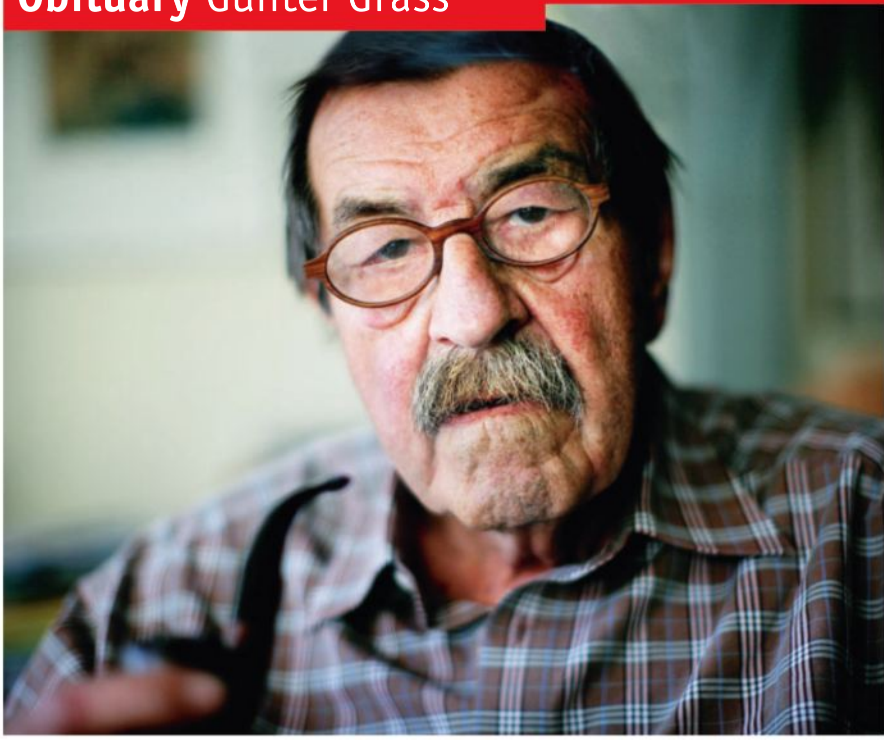
Indicators for more countries and additional series, go to: **Economist.com/indicators**

The Economist commodity-price index

2005=100

	Apr 7th	Apr 14th*	% change on one month	% change on one year
Dollar Index				
All Items	143.2	140.9	+0.4	-19.6
Food	160.2	157.1	-0.2	-23.6
Industrials				
All	125.6	124.1	+1.1	-13.8
Nfa†	120.1	118.5	+1.1	-21.7
Metals	128.0	126.4	+1.2	-10.1
Sterling Index				
All items	175.1	173.3	+0.1	-9.1
Euro Index				
All items	164.0	163.8	-0.5	+3.9
Gold				
$ per oz	1,213.1	1,197.4	+4.2	-9.9
West Texas Intermediate				
$ per barrel	53.8	53.2	+23.2	-48.7

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



The beat of the drum

Günter Grass, novelist, artist and all-round agitator, died on April 13th, aged 87

WHEN he was young, Günter Grass was taken by his mother to see "Tom Thumb" at the Stadttheater in Danzig. It delighted him. The Grimm Brothers' tiny boy, unseen, tricked and adventured his way through life, a gadfly getting into places nobody else could. He crept into a horse's ear, rode in triumph on the brim of a hat, was eaten by a cow, and in the end reappeared grinning from the belly of a wolf.

Tom also lodged in Mr Grass's brain; and in 1959 he reappeared as Oskar Matzerath, the diminutive hero of his first and most celebrated novel, "The Tin Drum". Oskar, at three, refused to grow any more, and became a small, irritating, persistent witness to 20th-century events that most Germans wished to forget. Crouched under a rostrum in 1933, he watched brownshirts and blackshirts at a rally. Hidden in a toyshop corner in 1938, he saw the Jewish owner abused and taken away, the shop smashed and fouled and the dolls disembowelled. In September 1939, curled asleep in a basket of letters in Danzig's Polish post office, he heard and felt the shelling as the Nazis invaded.

Nor was Oskar silent. First, he had a red-and-white drum, which he hardly ever ceased beating and which, beaten right, could summon up the past. Second, he could scream high enough to shatter glass: sometimes just to make a mess, but at other times with diamond precision.

He could be an ignorant pest but was also, in some ways, Mr Grass's ideal of how a writer should be. Not at the centre of events but on the fringes, unbiddable and subversive. Not with the establishment, the capitalists and the complacent petty bourgeois, like his own shopkeeper parents, but down with the victims and the poor, preferably on the political left. And, above all, loud. The job of a writer, especially in a postwar West Germany wrapped in wilful amnesia and silence, was to keep drumming, drumming, drumming: "pissing on the pillars of power, sawing away at the throne", and hauling painful memories to the surface again.

Subjunctives and sausage

There was much to be recaptured, not all of it heinous. For him, the war had taken away two particular loves. One was his birthplace, Danzig, the city of towers and continuous bells, of multicoloured ancient stone and marble-topped café tables, of shipyards and the smell of the Baltic: all now lost to Poland, but reconjured in his first three picaresque novels. The other loss was his pleasure in his own language. Only regular postwar readings with other radical writers could "take the goosestep out of German" and revive his love of its "utterly supple hardness", its artfulness and the beauty of its subjunctives; rekindling, too, his childhood feeling for the word *Labsal*, refreshment, as when safely home from some perilous adventure.

Again, it was important to say the words aloud. The writing of his long, dense books was slow, punctuated by coffee and by the drawing and sculpting in which he was also trained and gifted. The drawings, many of fish, plants or reptiles, appeared in the books and on their jackets, often coming to the fore if words failed; and he spoke as he wrote, chewing over the sentences with the same reflective relish he might devote to potato pancakes, roast goose or liver sausage. He liked, he said, to mix spit with his ink.

He did so in all senses, for he never held back from voicing rage. The unification of Germany he thought a disaster, an invitation to more warmongering and the end of the distinctive culture of the East; his novel on the subject, "Too Far Afield" was written from the nostalgic viewpoint of two elderly men. Fired with pacificism, he attacked Germany's military help for Israel and the presence in Germany of American missiles. Two giant novels, "The Flounder" (1977) and "The Rat" (1986) fumed about the world's indifference to hunger, environmental destruction and the patient, adaptable wisdom of animals. He was a speechwriter for Willy Brandt of the Social Democrats in three campaigns, but it was a rare politician who would link himself for so long to such a fulminator.

His allies did so because this vigorous figure, in cord trousers and tweed jackets and, under an ever-drooping moustache, an ever-present pipe, was both Germany's Nobel prizewinner and its moral voice. Hence the dismay when, in "Peeling the Onion" in 2006, Mr Grass revealed that part of his own life had been wrapped in silence: his service as a teenager in the Waffen-SS in 1944. By that time, he explained, this was a mere fighting arm of that vicious organisation; he had been conscripted into it; had not fired a shot, and was soon invalided out. In his meticulous account of it all, no detail seemingly forgotten now, he was another character from a Grimm fairy tale: this time a tearful, foolish young man on the run in the woods as the Russians advanced, wetting himself with terror.

His enemies, thoroughly tired of his political eruptions, called him a hypocrite. Friends thought it showed the immensity of the task he had taken on in the beginning. National amnesia afflicted even the fearless creator of the red-and-white drum. But what would they have done without him? And what other literary figure—apart from Tom Thumb, perhaps—had so persistently, and irritatingly, and triumphantly, got under his country's skin? ■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