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NOVEMBER 21ST–27TH 2015

HOW TO FIGHT BACK





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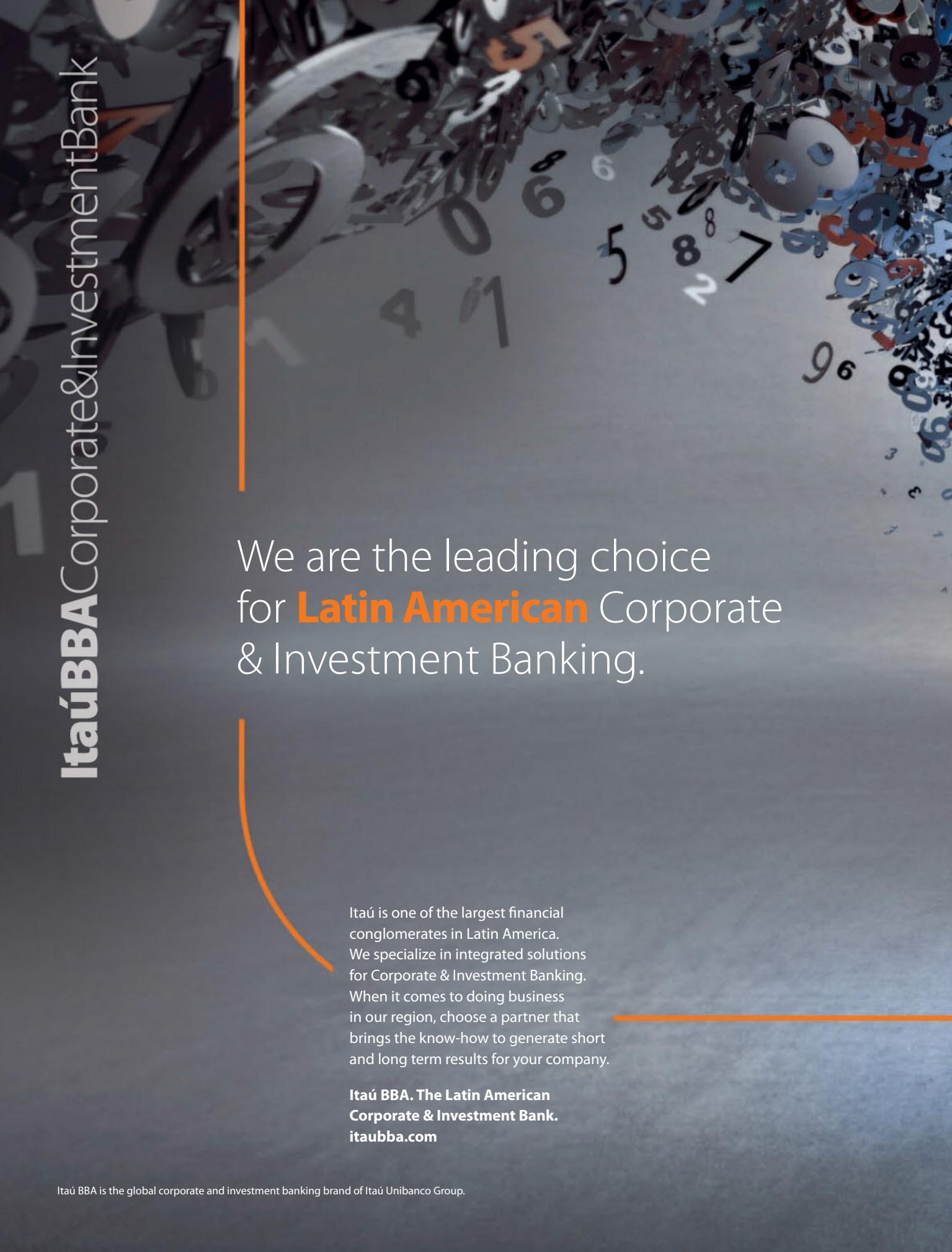
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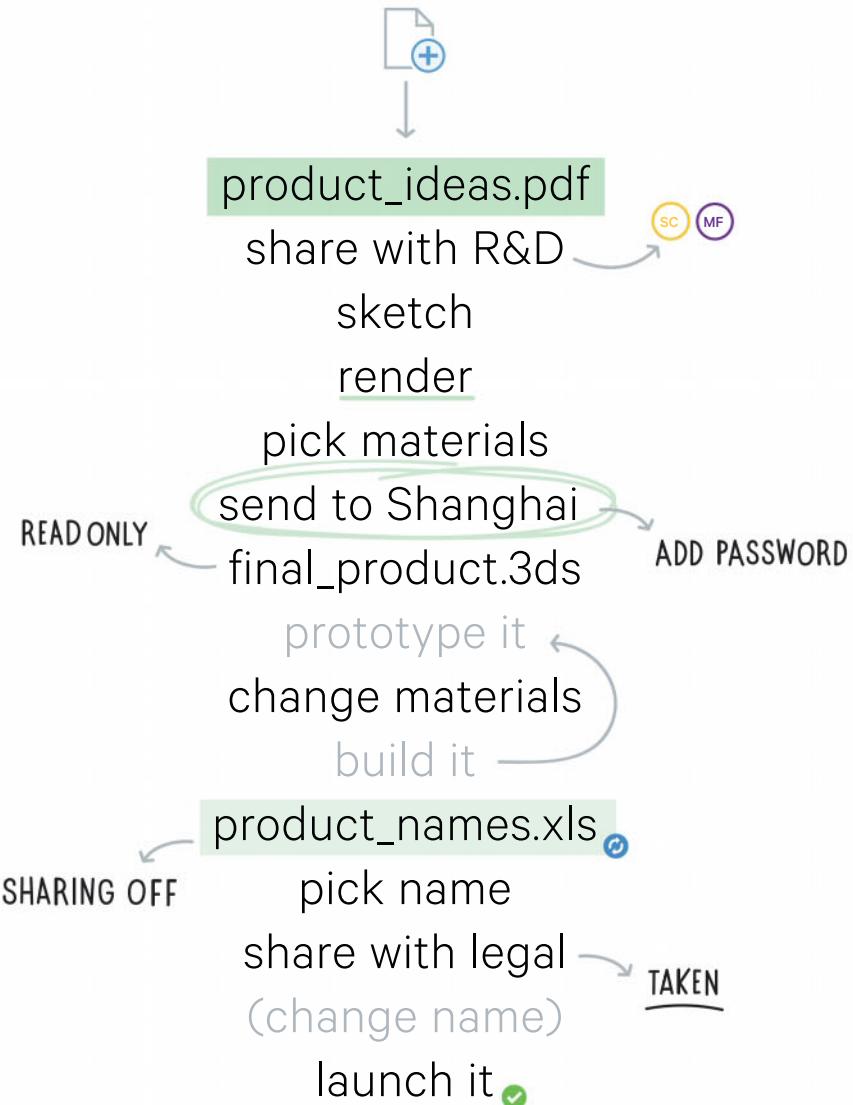
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**On the cover**

The battle against Islamic State (IS) must be waged on every front: leader, page 13. Terrorists mount a bloody assault on the French way of life, page 20. IS may be lashing out abroad because it has been weakened nearer home, but it will still be hard to take down, page 23. Russia and the West join forces, but Bashar al-Assad can't be ignored, page 24. Cédric Mauduit, management consultant and civil servant, was one of 129 people killed in the Paris attacks on November 13th: Obituary, page 86

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Politics



François Hollande, the president of France, said his country was at war with Islamic State after its claim to have been behind co-ordinated terror attacks in **Paris** that killed at least 129 people and injured more than 300 others. The biggest loss of life came at the Bataclan concert hall, where assailants murdered at least 80 people attending a rock gig. An attempt by suicide-bombers to enter the Stade de France, where a big football match was taking place, was foiled only at the turnstiles. The atrocity raised questions about gaps in **French intelligence**, as officials warned of more attacks.

French authorities said the alleged mastermind was killed during a police raid on a flat five days after the attacks. A woman blew herself up when police tried to enter the property. Police also hunted for suspects in the Molenbeek area of **Brussels**. Belgium has the highest number of fighters in IS per capita of any Western country.

The day before the assault on Paris, IS claimed responsibility for two suicide-bombings in **Beirut** that killed at least 40 people. It was the worst terror attack in Lebanon since the end of its civil war.

All together now

Vladimir Putin, **Russia's** president, directed his military forces to co-operate closely with those of France in a heightened air offensive against Islamic State in **Syria**. He now agrees that a Russian airliner flying from Sharm el-Sheikh in Egypt was brought

down by a bomb on October 31st, killing all 224 people on board. Raqqa, IS's "capital" in Syria, was pounded by both countries. But Russia's foreign minister, Sergei Lavrov, told the West that it would need to drop its demands for Bashar al-Assad, Syria's dictator, to step down if it wanted Russia to unite with it in destroying the self-styled caliphate.

Meanwhile, the Pentagon said the leader of IS in **Libya** had been killed in an air strike. Abu Nabil, an Iraqi national, is thought to have appeared in a video earlier this year in which dozens of Coptic Christians were paraded on a beach before they were murdered. His death came soon after officials in America and Britain said they had a high degree of certainty that a drone strike in Syria had killed "**Jihadi John**", a British member of IS made infamous by beheading American and British captives in propaganda videos.

Tunisia said it had arrested a cell of 17 Islamist extremists and prevented a big attack on hotels in the tourist town of Sousse, similar to the one in which 38 foreigners were killed in June.

America's State Department approved the sale of \$1.3 billion in smart bombs to **Saudi Arabia** to help replace stocks used in Yemen in its battle against Houthi rebels, and in air strikes against IS in Syria.

In **Nigeria** 30 people were killed in a bomb blast in Yola, a north-eastern city, which was thought to have been organised by Boko Haram, a jihadist outfit. A second explosion killed 11. A new report reckons that in 2014 the group killed 6,644 people, making it the world's deadliest perpetrator of terrorism.

China's nuclear option

China agreed to finance and build two nuclear power plants in **Argentina**, with a total value of \$15 billion. China has been one of the few countries willing to provide finance to Argentina, which has de-

faulted on some of its foreign debt. Chinese banks and companies are to provide 85% of the projects' cost. Argentina will have five nuclear plants when the new ones are built.



Around 2,000 **Cubans** hoping to emigrate to America were stuck at the border between Costa Rica and Nicaragua. Attempts by Cubans to reach the United States have risen since relations with Cuba began to improve last year. Migrants fear that it will soon be harder to gain the right to stay in America. Nicaragua, an ally of Cuba, closed its border to people who had come north via Ecuador.

La Liberté éclairant le monde

After the attack in Paris, America's House of Representatives considered legislation to "pause" the flow of **Syrian refugees** into America. This came after more than two dozen Republican governors pledged to stop Syrian refugees from being settled in their states. Paul Ryan, the Speaker of the House, rejected a call for a religious test for Syrian arrivals, but said there should be a security test.

Bobby Jindal, the governor of Louisiana, abandoned the race for the Republican presidential nomination. He had trailed in the polls and failed to build a base outside his home state.

America's Supreme Court agreed to hear a case that will be the biggest test of the country's **abortion** laws since 1992. The dispute centres on a law in Texas that claims to raise the standard of care for women who have abortions, for instance by compelling clinics to have surgical facilities, but which its opponents claim is a

ruse to restrict access to the procedure in the state. The court is likely to hear arguments in the spring.

Lost appeals

Bangladesh's Supreme Court upheld the death sentences of two men convicted of war crimes during the struggle for independence against Pakistan in 1971. The attorney-general said the decision cleared the way for the two men to be hanged, unless they get presidential clemency. Salauddin Quader Chowdhury and Ali Ahsan Mohammad Mojaheed were convicted by a special war-crimes tribunal in 2013 of charges including genocide. Their supporters have denounced the trials as orchestrated political attacks against members of the opposition.



Barack Obama said that China must stop land reclamation on islands in the **South China Sea**. Speaking on the sidelines of the APEC summit in Manila, Mr Obama reiterated America's treaty obligation to the Philippines, calling it "an ironclad commitment" to the defence of its ally. He said two more American ships would be transferred to the Philippines along with a \$250m package to enhance maritime security. China's president, Xi Jinping, is also attending the summit of Asia-Pacific leaders.

Myanmar's president, Thein Sein, promised a smooth transfer of power to Aung San Suu Kyi's opposition party following the election on November 8th. The National League for Democracy won 80% of the seats with just a few results still not announced. Miss Suu Kyi is expected to hold talks soon with the president and the army chief.

Business

In the hotel industry's biggest acquisition since 2007, **Marriott** agreed to buy **Starwood**, which includes the Sheraton and Westin chains in its portfolio, for \$12.2 billion. If the deal is completed it will create a company managing more than 1m rooms worldwide, 50% more than its closest rival, Hilton. There is still time for others to mount a counter-bid for Starwood.

Japan's economy fell back into recession in the third quarter, contracting at an annualised rate of 0.8% (in the second quarter GDP shrank by 0.7%, revised upwards from a contraction of 1.2% in an initial estimate). The third-quarter figure was worse than had been expected. It was caused mostly by a big decline in inventories, as businesses let stockpiles dwindle rather than invest in new stuff. Private consumption actually grew by a robust 2.1%, having fallen in the previous three months.

Markets primer

The futures market is betting that the Federal Reserve will raise **interest rates** at its December meeting, after the minutes from its most recent meeting suggested it was heading that way. One central banker, Dennis Lockhart, said this week that he was "reasonably satisfied" that the American economy has "settled down" and was comfortable about moving away from a policy of zero rates.

Following a spate of dismal earnings from American retailers, **Walmart** provided some cheer for the industry when it reported that sales at its domestic stores edged higher in the third quarter. Profit was down by 11%, however, partly because of weaker demand in its international operations. Sales at **Asda**, a British supermarket chain owned by Walmart, fell by 4.5% in the quarter. Like other supermarkets in Britain it faces intense competition from discount retailers such as Aldi

and Lidl, which have doubled their market share in three years, according to Kantar, a market-research firm.

Under pressure

Hurt by a strong American dollar and slowing demand from heavy industry, one of the world's biggest producers of industrial gases, **Air Liquide** of France, launched a takeover bid for **Airgas**, an American distributor of specialty cylinder gases, in a deal valued at \$13.4 billion.

The biggest assembler of Apple's iPhone, **Foxconn**, posted an 11% rise in quarterly profit. Although Foxconn's mainstay is electronics it is branching out into **financial services**, providing loans to other component suppliers. Some other big companies that operate in China, such as Alibaba and Tencent, have also expanded into financial products. Baidu launched an online bank this week in partnership with **CITIC Bank**, a state-owned firm.

Liberty Global, the international telecoms-and-internet arm of John Malone's media empire, agreed to buy **Cable & Wireless Communications**, a British company that provides telecom services to Panama

and to countries in the Caribbean, for \$8.2 billion. C&W traces its origins back to a number of telegraph companies that were founded in the 1860s, and at one time was one of Britain's biggest employers.

Square, a mobile-payments firm, priced its IPO on the New York Stock Exchange at \$9 a share, below the range of \$11-13 a share it had been hoping for, thereby fuelling questions about the true value of the tech industry's "unicorn" startups.

Match, which operates several dating apps, including Tinder, also went public and priced its IPO at \$12 a share, the bottom end of expectations, valuing it at \$4.2 billion. It raised \$400m.

EasyJet, a low-cost airline based in Britain, reported an 18% rise in pre-tax profit for the year ending September 30th, to £686m (\$1.1 billion). Carolyn McCall, the company's chief executive, said she didn't think the recent terror attacks in France and Egypt would hurt business much, but noted a small rise in no-shows on flights to and from Paris.

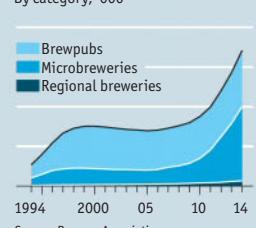
Australia's biggest airline, **Qantas**, regained an investment-grade rating from Standard & Poor's, two years after it

had been cut to "junk" status. Qantas had built up huge debt and there was speculation that it might need a government bail-out. It has since cut costs.

Hearty ales

US craft breweries

By category, '000

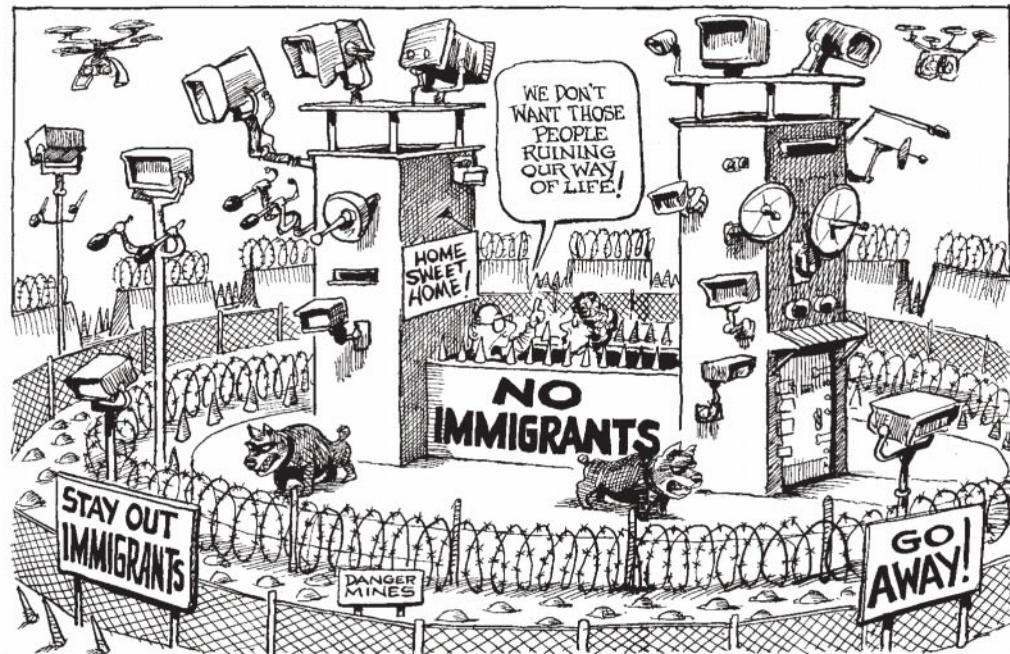


Source: Brewers Association

Constellation Brands, the owner of more than 100 wine, beer and spirits labels, paid \$1 billion for **Ballast Point**

Brewing, by far the biggest deal in America's craft-beer industry to date. Ballast Point is based in San Diego and produces a tantalising range of beers, such as Calm Before the Storm and Pumpkin Down Scottish ale. As Americans develop ever-more sophisticated tastes in beer, craft brewers now account for a fifth of America's \$100 billion beer market. One of Ballast's more exotic brews is Indra Kunindra, a curry-flavoured stout.

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





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How to fight back

The battle against Islamic State must be waged on every front



THE assault on Paris by Islamic State (is) on November 13th was an attack on life's innocent pleasures. The terrorists shot anyone who strayed into their gunsights—ordinary mcs out for a gig, sharing a drink, or watching a football friendly. It could have been any big city. It could have been you.

The deadly grasp of is now reaches far from its base in Syria and Iraq. A day before Paris, suicide-bombers killed 43 people in Lebanon. Last month, 224 died when a bomb destroyed a Russian aircraft over Egypt. is has spread death across the Middle East and north Africa. This week it pledged to kill Crusaders in Washington and beyond.

Paris was scarred by jihadist violence only ten months ago. It became a city whose world-class intelligence service was on high alert—and still is got through to maim and kill (see pages 20-24). Plainly and tragically, the world needs to build stronger defences. The question is how?

First, know thy enemy

is bases its terrorism on a vicious calculation. It believes that successful attacks will inspire the would-be Muslim radicals that it is trying to recruit. But it also wants to provoke a backlash in order to convince those same radicals that the world despises them and their religion. In February is propaganda described a “greyzone” in which some Muslims’ loyalty is divided between radical Islam and a country where they do not feel that they completely belong. is wants terrorism to drive Muslims out of this greyzone and into the black-robed embrace of the Caliphate.

The response must be just as calculating. Leading the mourning this week, François Hollande, France’s president, vowed to destroy is. That is a worthy aim, but a partial one, because other jihadist groups with equally murderous intent will thrive in the violent crevices of the Middle East. The struggle will be long. Countries therefore need policies that they can sustain even as the Middle East remains turbulent and, inevitably, the terrorists sometimes get through.

Remember that the West has two things to defend: the lives of its citizens, and the liberal values of tolerance and the rule of law that underpin its society. Where these are in conflict, it should choose policies that minimise the damage to values in order to make large gains in protection. Sadly, in the scramble for security, that principle often seems to be the first thing to go.

The starting-point for a safer world is at home, with the right legal powers. Jihadists are often radicalised online, in small groups. They communicate electronically. When they travel, they leave a trail. The intelligence services need controlled access to these data. Terrorists thrive on secrecy, yet the security services may abuse their powers. The solution is a legal framework subject to political and judicial scrutiny.

The law can be flexible—but only up to a point. After Mr Hollande declared a state of emergency, which he will seek to extend to three months using a vote in parliament, the police

were able to stage raids across France without the need for a warrant. Some raids led to arrests and one, on November 18th in the suburbs of Paris, to shootings and to another plot being thwarted. Short-lived emergency powers are justified, because of the heightened risk of such follow-up attacks. But the French parliament needs to be careful. If warrantless searches later become routine, abuses will surely follow.

Resources count, too. This week Britain announced a 15% increase in the size of its security services, and a doubling of spending on cyber-defence. Mr Hollande has promised to recruit more police officers and judges. Yet some other states seem out of their depth. Several of the jihadists who attacked Paris came from Molenbeek, a suburb of Brussels with a large Muslim population that it struggles to integrate. Proportionately, more people have gone to join is in Syria from Belgium than from any other country in Europe. The Belgian security services are a weak link.

That matters because the Schengen agreement abolished border controls between 26 European countries. Schengen has symbolic and economic value, but it also drags intelligence down towards the level of the weakest. Once a semi-automatic weapon crosses into a Schengen country from the Balkans, there is little to stop it reaching the hands of jihadists in France. A terrorist can put together a suicide-vest undetected in Brussels and travel unimpeded to Paris to detonate it.

The Schengen countries need to adapt to a more dangerous world. First, they need a stronger outer frontier. The French want to create an enhanced European border force, financed and staffed by all of Schengen’s members. This is a good idea, but an overdue one.

Second, within the borderless zone, Schengen’s members need to take down the barriers to policing. The EU’s database for migrants does not sync with the one at Europol, the law-enforcement agency. The European Parliament, worried about privacy, has been blocking a plan to give police access to passengers’ names on flights. Countries can do spot checks at the border, but not systematic ones. In Europe more broadly, requests for other countries’ records on, say, ballistics and criminals’ DNA, can be clumsy and time-consuming. To change such things would enhance security, but entails no infringement of fundamental rights. Do it.

The search for scapegoats

By contrast, the use of a strong external border to shut out refugees would gravely undermine liberal values without making Europeans any safer. Yet excluding refugees is what politicians in Europe and America have proposed, after one of the Paris attackers entered Europe through Greece, possibly on a false Syrian passport.

The coalition partners of the German chancellor, Angela Merkel, argue that, after Paris, the flow of refugees must be controlled. Poland’s Europe minister has written that it would be dangerous to take them in. Although America has a rigorous system for checking the backgrounds of refugees, over two dozen state governors now say a modest scheme to accept 10,000 Syrians should be halted. So does Marco Rubio, a Re-

►**P**ublican presidential candidate Jeb Bush, another candidate, is broader-minded—he would allow in Syrian Christians (and is propaganda chiefs would back him all the way).

In voters' minds, Islamic terrorism and large-scale immigration seem to blend together, perhaps because the parents of some terrorists were themselves once migrants, perhaps because both denote a state that cannot control its own territory. Mainstream politicians, fearful of the populist right, seem reluctant to challenge such perceptions. But they have a duty to defend the values of a free society—if they want to live in one.

The logic of turning away refugees is deeply flawed, practically and morally. Clearly, there is a risk of infiltration, and Europe should monitor new arrivals. But at least five of the Paris terrorists were European citizens, not refugees. Someone determined to blow himself up in a terrorist attack could always pay a people-smuggling network to get him in. Some of the refugees arriving on Greek islands were themselves the victims of jihadist violence, occasionally at the hands of Europeans who went to Syria to join is. For Europe to put up a wall to Muslims would suggest that, as is says, Europeans despise them all. That could be a pathway to terrorism, too.

The fight with IS

As well as securing its borders and making terrorists easier to detect within them, the world needs to fight is in its territory in Iraq and Syria. As a last resort, that should include the deployment of Western ground troops.

Some, particularly on the left, argue that military engagement will defend neither Western values nor Western security. Unless it is clear how military action would end, killing people is hard to justify. Moreover, jihadist violence will only rise from the ashes and expose the world to greater danger. That, they say, is what the wars in Afghanistan and Iraq tell you.

Those conflicts do indeed hold sobering lessons. Yet—for the narrow purposes of is—the wrong ones are being drawn. Modern armies are good at driving jihadists off territory, even if they are bad at rebuilding countries afterwards. Military action forced al-Qaeda out of Afghanistan. Later, the sustained strikes on its leaders hiding in Pakistan gravely weakened it.

Crucially, is holds territory, as al-Qaeda once did in Afghanistan. Dislodging it would be worthwhile, because is uses this territory to raise money and attract, train and co-ordinate many thousands of potential terrorists. For as long as it controls its would-be capital, Raqqa, and the Iraqi city of Mosul, is remains a symbolic “homeland” for radical Muslims. The fact of having withstood the world’s great powers—because Allah wills it—serves as potent inspiration.

An alternative strategy to warfare might be to wait for is to wither by itself. But that is a forlorn hope. is continues to exist because the Middle East is consumed by a titanic struggle between Sunni and Shia Islam. This is overlaid by the clash between regional powers and the rivalry of America and Russia. Whatever the opponents of military action say, the West is not what sustains this fight. Were Western countries to withdraw and focus on diplomacy alone, the violence would still go on, possibly for decades.

The case for military action, then, is that the alternative is worse. And yet, partly because it has been a low priority, progress in America’s campaign to “degrade and ultimately destroy” is has been agonisingly slow.

After Paris, however, the mission has taken on some urgency. Mr Hollande, vowing to be “merciless”, has ordered intense French bombing on Raqqa. America has been gradually in-

creasing its efforts, including recently by saying it will deploy 50 special-forces troops against is. Britain’s government is likely to seek parliamentary backing for bombing raids in Syria—about time it supported its allies.

All this is welcome, but it is unlikely to be enough. To destroy is means taking Raqqa and Mosul. That requires an army. So far, the plan has been to train Iraqi forces to use in Iraq, and to look to Kurds and sympathetic fighters in Syria. That plan is not going well. The Kurds have other worries. Despite the training (and money), neither the Iraqis nor the Syrians are ready for a big fight.

The first step now must be to try harder to make the existing plan work, using more trainers and many more special forces fighting alongside Iraqi units. But if that fails, troops will have to come from elsewhere. Nicolas Sarkozy, the former French president, spoke for many this week when he suggested making common cause with Russia, and putting up with Mr Assad in order to use their fighters against is. That approach has a superficial appeal, but would lead to a bloodbath—because both Mr Assad and his Iranian backers are sworn enemies of the Sunnis whose home is in is’s territory. Better to assemble a UN-mandated force using Turkish, Saudi and Gulf Arab troops. That will not be easy, but all these countries have an interest in stabilising a Sunni region that threatens them—directly in the case of Turkey, which has itself been the victim of is terrorism.

Barack Obama, America’s president, and other Western leaders have an incentive to shepherd such an alliance, because, if that scheme fails, a military campaign would depend on troops from NATO. Such a deployment still lacks political support. Speaking this week, Mr Obama seemed keener to dismiss suggestions of ground troops than he did to pursue is. Yet, with each attack that is unleashes on the West, the imperative to use Western troops against it will grow. In the terrible event of a large strike on American soil, the matter would be settled.

Talk, too

Military force is not enough on its own, though. It will make the rest of the world safer in the short run, but the critics are right that Islamic terror will end only when the Middle East lives in peace. The parallel aim, therefore, must be for regional powers to stop fighting through their proxies, and for the creation of federal states in Syria and Iraq that give Sunnis, Shias, Alawites and Kurds confidence that they can live together with decent representation in government. That requires strengthening the administration in Baghdad. And it means bringing an end to Syria’s civil war. Alas, judging by last week’s meeting in Vienna, such a settlement is still distant indeed.

The diplomacy will not be easy and military action should not be forestalled by its lack of progress. But the pursuit of political settlements must be earnest and involve all the parties, including Russia and Iran. The sticking-point is Mr Assad, whom both countries support. If there is to be peace in the remnants of his country, he has too much blood on his hands to remain in power indefinitely. Yet Vladimir Putin has his own jihadist threat—exacerbated by the departure of Islamists from the south Caucasus to Syria. Just perhaps, Mr Putin can be persuaded that Russia does not need Mr Assad to get rid of is and also end up with an ally in western Syria.

Raqqa seems a terribly long way from the streets of Paris on a carefree Friday night. But the killings showed how easily violent ideas cross borders. Innocent lives are still at risk. They will probably be at risk for many years. All the more reason to act now, against every link in the chain. ■

Abortion in America

Back in court

It may poison the 2016 election, but the Supreme Court should strike down Texas's restrictive abortion law



AS IF next year's presidential election were not shaping up to be contentious enough, the Supreme Court has picked 2016 to issue its most consequential ruling on abortion in 20 years. This will add fresh impetus to a cultural battle that has raged, unresolved, on America's national stage for almost half a century. That is regrettable. It is also necessary.

At issue is whether a law passed by the Texas legislature called HB2 is constitutional. The state has piled regulations on abortion clinics with the aim (so far rather successful) of closing them down. The number of such clinics in the state has dropped from 41 in 2012 to 18 at the last count. If the court rules next year that HB2 is constitutional, that number will shrink further. Other states keen to restrict legal access to abortion would follow suit. Already there are four that have only one clinic for the whole state, making the legal termination of a pregnancy a right that exists in theory but not in practice.

A clear majority of Americans have, for decades, told pollsters that abortion should be legal in most cases. More recently, a narrower majority has emerged for outlawing abortion after 20 weeks, with some exceptions. That position—access to abortion that is legal and unrestricted until late in the second trimester, with some restrictions thereafter—is not unlike the compromise reached in other countries. In more secular Britain abortion is banned after 24 weeks, with exceptions in cases where to continue the pregnancy would threaten the life of the mother, or where the child is likely to be severely disabled. The Supreme Court itself has already endorsed limits after 24 weeks, the point at which a fetus is considered to be viable outside the womb, putting it squarely alongside public opinion.

The best way forward would be to pass legislation to this ef-

fect. But there is no chance of that, because the two sides are farther apart than ever, with some pro-choice groups arguing that abortion is an absolute right that cannot be restricted under any circumstances, and their pro-life opponents retorting that all abortions are acts of murder. The shift to the extremes has been most noticeable among Republicans. Marco Rubio, who currently looks a good bet to win his party's presidential nomination, is in favour of any law that promises to reduce the number of abortions, even one without exclusions for rape or incest. In the past four years state legislatures have put in place 231 restrictions on abortions—more than in the whole of the previous decade.

Bill of rights

To make abortion safe, legal and rare remains a good aim for America's laws. But closing legal abortion clinics does nothing for safety, whatever the proponents of the Texan law claim. If such restrictions are adopted more widely, abortion will, in practice, become illegal in many places, leading to the return of dangerous, clandestine procedures. It will not necessarily become rarer. Whatever the law, abortions will be carried out. The appeals court which upheld HB2 earlier this year acknowledged as much when it wrote that Texans who wanted an abortion could in future drive to New Mexico. Factors other than its legality are more important in lowering the abortion rate. Between 2002 and 2011—just before some states began to pile on restrictions—America's abortion rate dropped by 14%, largely because the rate of teenage pregnancy fell.

That nine unelected justices can do a better job of reflecting what America, in aggregate, favours than thousands of elected politicians in Washington or state capitols—as they did when ruling for gay marriage—is a painful indictment of American politics. It is nevertheless true. Despite the reaction it will provoke, the court should strike down HB2. ■

Ireland's economy

Getting boomier

The problem of a one-size-fits-all monetary policy in the euro area is back



THE swings in Ireland's economic fortunes have been wilder than for most. Just look at the labels it has attracted. In 1988 it was dubbed the “poorest of the rich” by this newspaper. By the 1990s it had transformed itself into the Celtic Tiger, Europe's answer to the fast-growing economies of emerging Asia. In the 2000s it was turbo-charged by the low interest rates that came with membership of the euro (some called it a “euro-bubble” economy). But by the end of 2010 it was a ward of the IMF, as its twin housing and credit booms turned to bust. Now

its speedy recovery from the crash has earned Ireland a new title: the Celtic Phoenix (see page 71).

A hyper-globalised economy is one explanation for this whiplashing. Exports are 114% of GDP, and since the late 1980s Ireland has encouraged foreign direct investment, often from American firms. But another factor is the euro area's one-size-fits-all monetary policy. Ireland is too small to affect the fortunes of the overall euro-zone economy, and thus the decisions of the European Central Bank (ECB). Low interest rates caused it trouble before; and, on its current trajectory, Ireland will soon once again be an economy ill-suited to the ECB's monetary tailoring. Other small and open economies, such as the Baltic states, Cyprus and Malta may eventually face a simi- ►

►lar problem. To stabilise their economies, all these countries will have to lean more heavily on other tools to regulate excessive credit, as well as on fiscal policy. Unfortunately, the early signs are that Ireland has only learned half that lesson.

One size fits none

Start with policies to curb credit growth. A first line of defence is the proper regulation of banks. In the bubble years, Ireland was a poster-child for what not to do. Most of its problems stemmed from one bank, Anglo Irish. Feeble regulators allowed its lending book to grow at a wildly imprudent rate, with loans heavily concentrated in commercial property. Today, Ireland has independent-minded economists at the helm of its central bank—Patrick Honohan, the current head, and Philip Lane, who takes over from him this month.

They are already showing mettle. The central bank has used macroprudential tools in response to a burst of house-price inflation, placing caps on the value of loans that banks can extend in relation to the value of homes and to borrowers' income. The trouble is that these tools are largely untried and their efficacy unknown. In places such as Sweden, measures

of this sort have failed to restrain soaring house prices.

Other tools are also needed, chief among them fiscal policy that leans against the business cycle by raising taxes or cutting spending in a boom. Charlie McCreevy, Ireland's finance minister between 1997 and 2004, scorned that idea. "When I have the money, I spend it. When I don't, I don't," he once said. Sadly, there are already signs that the McCreevy doctrine still holds sway in Ireland. The recent budget, the last before elections in the spring, diverts stronger-than-expected corporate-tax receipts into extra spending worth 0.7% of GDP this year, and allows a similarly sized boost from tax cuts and additional expenditure in 2016. That is a mistake. Policymakers should at least let the budget's "automatic stabilisers"—the waxing and waning with the cycle of tax receipts and spending on unemployment benefits—operate freely.

Lax budgetary policy was not a prime cause of Ireland's bubble economy in 2000-07. But the crash that followed the boom would have been less painful if Ireland had had more fiscal insurance to draw upon. Given the inherent limitations of the euro area's single monetary policy, such insurance may well be needed again. ■

The industrial internet of things

Machine learning

Manufacturers must learn to behave more like tech firms



THE best manufacturers used to be the firms that made the best widgets. No longer. As the "internet of things" spreads to the factory floor, products are being packed with ever more sensors and connected to the internet. That is transforming manufacturing—and the mindset that firms need to succeed.

The first shift is from products to services. By one estimate the number of wirelessly connected products in existence (excluding smartphones or computers) will rise from 5 billion today to 21 billion by 2020. The data these products generate are the raw material for new services—from windscreen-wipers whose movement helps produce real-time weather reports, to tennis racquets whose sensors tell you why your backhand isn't working, or machines that can order a new spare part when it is needed (see page 65). Such services will often be more profitable than the products they are based on.

The second, related change is the race to develop "platforms", a software foundation upon which lots of services and applications can be built. In the world of information technology, platforms are already a well-known concept: think of the operating systems for smartphones, such as Apple's iOS and Google's Android, which host all manner of apps. In industry the idea of platforms is new, and menacing. If Apple or Google, for instance, were to control entertainment systems in cars, and the data they throw off, many carmakers would risk becoming the computer-makers of the road: churning out bits of metal while others grab the really valuable parts.

This is disorientating stuff. Manufacturers are used to a world in which they take materials from suppliers, turn them into products and push them out to customers. But for clues on

how to embrace the industrial internet of things, Germany offers early lessons. The country is an industrial powerhouse—manufacturers account for 22% of GDP, compared with 12% in America. In 2011 Germany launched "Industrie 4.0", a government initiative to promote the computerisation of manufacturing (see page 59). Several companies have launched software platforms: Trumpf, a maker of industrial equipment, has set up one that collects data from machines built by it and by rivals, in order to help customers ensure that their production processes run more smoothly. Bosch helps other firms create services based on internet-connected devices.

For many manufacturers—in Germany and beyond—the principal sticking-point in making this digital leap is often cultural. They have to forge a more open type of relationship with competitors; in August, for example, BMW, Audi and Daimler, three German carmakers, banded together to buy a digital-mapping company. Companies also need to become less hierarchical and more entrepreneurial; Klöckner, a metals trader, has set up an incubator for startups far from its headquarters, to give it more freedom. All this may be old hat for IT firms, but it is new ground for many manufacturers.

Platform views

Governments, too, need to adjust. Bureaucratic initiatives like Industrie 4.0 matter less than the basics: top-notch broadband infrastructure, the right balance between open data and privacy (see page 56), and decent computer-science teaching in schools, an area in which Germany falls short. More ambitious ideas might include "special digital zones"—reserving designated bits of cities to try out self-driving cars or commercial drones. There is no single recipe, but both bureaucrats and industrialists must grasp one fact: making things is not what it used to be. ■

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Salmon stake



I thought your article on conservation efforts to bring wild salmon back to Britain's rivers was interesting ("Floundering", November 7th). But the main factor that reduces the survival of salmon is excessive exploitation by mixed-stock fisheries in coastal waters. A degree in rocket science is not needed to launch an immediate remedy: all killing of wild Atlantic salmon by any method should cease for the next three years. This should ensure a robust biodiversity and help stocks return to their historical abundance. Although the salmon-runs verge on total failure in British and Norwegian rivers, 2015 saw a record year in Iceland, which has no mixed-stock fisheries.

The seas off Greenland, Iceland and the Faroe Islands are the great feeding grounds for Atlantic salmon. By establishing conservation agreements over the past 20 years we have saved more than 10m salmon native to European and North American rivers. It is so dispiriting knowing that tonnes of fish are being slaughtered by coastal nets around Scotland, north-east England and northern Norway, where mismanagement supports indiscriminate fisheries and hastens depletion.

ORRI VIGFUSSON
Chairman
North Atlantic Salmon Fund
Reykjavik

Marathon man

When campaigning for vice-president in 2012, Paul Ryan, who is now the new Speaker of the House of Representatives, was asked if he had run a marathon. He replied that he

had completed one 26.2-mile race in less than three hours: "Two hours and fifty something". Unfortunately for him, the race, in 1990, was timed by computer and easily accessible on the internet. His time was actually over four hours.

Can one who misremembers the facts about such an important event be trusted to tell the truth about anything?

OLE HOLSTI
Professor of international affairs, emeritus
Duke University
Durham, North Carolina

Low ratings

You noted how sham reviews and self-praise distort online rating-systems ("Five-star fakes", October 24th). Another aspect to this annoying distortion is the one-star fake. Years ago, while managing a very successful app business on iTunes, we noticed one-star reviews complaining about alleged crashes and mischarging, which was not even technically possible. We later discovered that one of our competitors, by its own admission, had hired housewives to write disparaging reviews about our products. Luckily many of those reviews were so outlandish that they did not have too harmful an effect, but they were irksome in the supreme.

ALEX WAIBEL
Professor of computer science
Carnegie Mellon University
Pittsburgh

Prioritising mental health

The Economist is entirely right to say that mental-health problems do not receive as much research funding as they should ("Mind stretching", October 24th). A scientific paper I published recently in *Circulation* showed that overall, infectious diseases such as HIV/AIDS and malaria are vastly overfunded by America's National Institutes of Health (NIH), whereas non-communicable diseases, such as heart disease and chronic obstructive pulmonary disease, are underfunded, relative to their burden-of-illness on

the American population.

Regarding mental health, the four worst conditions—depression, anxiety, self-harm and schizophrenia—make up 5.7% of the total burden-of-illness worldwide and 8.8% in America, according to the Global Burden of Disease study funded by the Gates Foundation. By contrast, the National Institute of Mental Health receives only 5% of the total NIH budget, even though this also covers many other mental-health conditions in addition to these four. Thus roughly speaking, mental health receives only about half the research funding it should in America, based on its health burden.

The problem is that many interest groups lobby Congress vigorously for research funding for their disease. Patients with mental illness do not yet exert that kind of political pressure.

MICHAEL HANNA
Mercury Medical Research & Writing
New York

Urbanites have fewer kids

One of the most important factors that "naturally" suppresses a nation's fertility rate is how fast a country's urban population is growing. In 1981, two years after the one-child policy was introduced ("Two little, too late", November 7th), China's urban population was 20% of the total. This rose to 55% in 2015 and the fertility rate stood at 1.5. Taiwan's urban population in 2015 was in excess of 80% and it had a fertility rate of 1.1, without a forced family-planning programme.

Urbanisation operates as an automatic population-stabiliser, not unlike the automatic fiscal-stabiliser of unemployment benefits in macroeconomic policy, and limits household size because of space constraints. With its future rate of urbanisation expected to rise further, China should expect only a limited rise in its fertility rate towards 2.1, the "replacement" rate required to sustain population levels. For a more promising

strategy to mitigate their looming shortage of workers (and future taxpayers), Chinese officials might want to consider taking in a few hundred thousand refugees and asylum-seekers from the Middle East and north Africa over the next decade.

IRA SOHN
Professor of economics and finance
Montclair State University
Upper Montclair, New Jersey

You say that China's decision to reverse its one-child policy was made because it realised there are not enough young people to support the elderly generation. So both capitalism and communism have failed to solve this rather fundamental problem of economics. You have promoted increasing the birth rate in the ageing countries of Europe. Doesn't enrolling more people into a system so that the older members can take more meet the definition of a Ponzi scheme?

MARGARET PERKINS
New York

Our sage on shares

I am an avid reader of Buttonwood and look forward each week to your columnist's enlightened commentary on global economies and markets. During the past several years, I can probably count on the fingers of one hand the number of times Buttonwood has concluded that equity valuations are too low or even reasonably valued, this during a period when equity valuations have steadily risen to new all-time highs. Imagine my surprise when, in the October 31st edition, I read that "share prices are unlikely to collapse". By Buttonwood's standards, this is approaching irrational exuberance. Watch out below!

PETER GODFREY
Tucson, Arizona ■

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

Executive Focus

THE AFRICAN DEVELOPMENT BANK

Shape the strategies that will reshape Africa

Abidjan, Côte d'Ivoire

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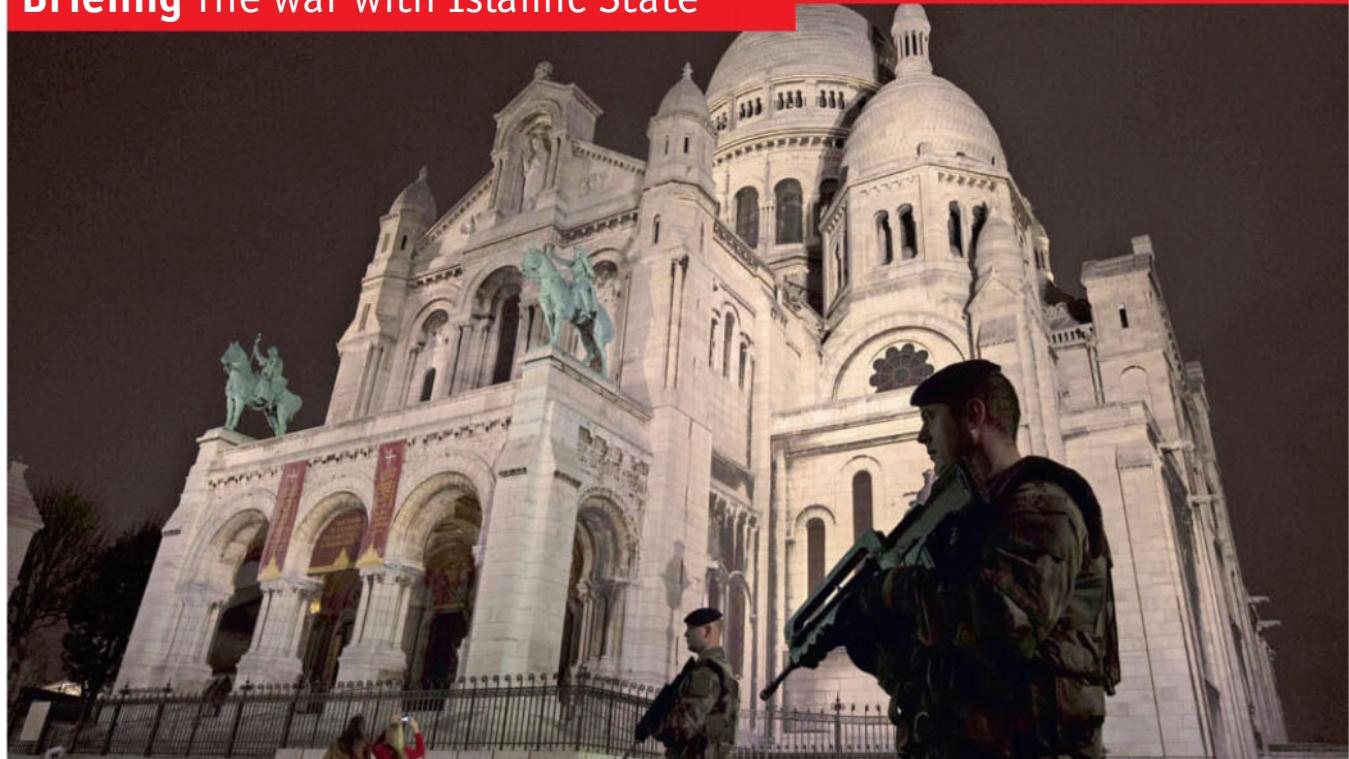
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Paris under attack

PARIS

In the first of four articles about the Islamic State murders in Paris and their aftermath, we look at France's response to an assault on its way of life

GIANT black-and-white graffiti, bearing a Latin inscription, appeared in the Place de la République in the days after the terrorist attacks that shook Paris on November 13th. *Fluctuat nec mergitur*, a maritime dictum meaning “tossed about but not sunk”, is the little-known motto of the city. It captured the mood of horror and defiance. Soon, the inscription was lined by candles in glass jars; the phrase spread on social media and was projected onto the Eiffel tower. Just ten months after the *Charlie Hebdo* terrorist attacks, a second bloodbath is sorely testing the capital’s reputation for joie de vivre—and its resolution not to become Tel Aviv-sur-Seine.

The dreadful events of that unseasonably warm Friday evening will remain a scar on the capital’s mind. At a moment when young Parisians were relaxing after work, three teams of terrorists went on a spree, killing 129 people. Three suicide-bombers blew up themselves and killed a bystander outside the Stade de France, where François Hollande, the French president, was among the spectators at a football match. A second group shot 39 people at three restaurants in the fashionable east of Paris. A third assault on the Bataclan, a nearby concert venue, led to 89 deaths.

In January the killings at *Charlie Hebdo*,

a satirical magazine that caricatured the Prophet, and of four shoppers in a kosher supermarket, touched the world. They symbolised a calculated assault on freedom of expression and religion. “Je suis Charlie” became a global badge of defiant sympathy. The latest attacks shocked because of their indiscriminate assault on convivialité and youth: drinkers at a pavement café; people watching a rock concert or cheering a football match. In the words of Islamic State (Is), which claimed responsibility, their target was the “capital of abomination and perversion”.

This attack was the deadliest on French soil and Europe’s worst since the Madrid bombing in 2004. Yet in April an Algerian man was arrested for preparing an assault on two churches in Villejuif. In June a businessman was decapitated near Lyon by an employee of north African origin. And in August a heavily armed Moroccan was overwhelmed on a high-speed train. Since the summer, says Manuel Valls, the prime minister, five attacks have been thwarted. The country, he said, recalling words he used after the *Charlie Hebdo* murders, would have to get used to living with terrorism. What this means, and how France goes about curbing the menace, has deep implications for the way it, and Europe,

Also in this section

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- 24 Syria’s peace process

hold themselves together.

Shocked and grieving, Parisians picked up their lives. “You can’t just stay in an apartment when you have small children,” says one mother who has started to take them to the park again. Others are more defiant: “We need to defend what Paris stands for,” says a young office worker, referring to its culture of outdoor life in public spaces. *Charlie Hebdo*’s front-cover cartoon captured this spirit: “They’ve got the weapons: Screw them, we’ve got the champagne!” But it was symptomatic of underlying edginess that a gathering to honour the dead turned to panic when firecrackers were mistaken for gunfire.

France is again debating where to draw the line between security and freedom, as are other countries. Demands for new limits on encryption are being heard. In France, the attacks have strengthened the hand of those on the right, as well as the security-minded left, who have been battling a governing Socialist Party reluctant to infringe civil liberties further. A state of emergency was imposed on November 13th, giving the police sweeping powers to carry out raids and make arrests; Mr Hollande has asked parliament to extend it for three months.

Most striking of all is Mr Hollande’s ►►

► new martial lexicon. “France is at war” were his opening words before a joint session of parliament, in a speech laced with belligerence. He vowed to “destroy” is, which he blamed for the attacks, and combat “the enemy” with “merciless” determination. He is tripling France’s capacity for air strikes on Syria and Iraq, having dispatched the *Charles de Gaulle*, an aircraft-carrier, to the eastern Mediterranean. On top of his decision to send troops into Mali in 2013, and to bomb is in Iraq in 2014, this is part of a startling transformation from an unassuming consensus-seeker into a hard-headed war leader.

Mr Hollande acknowledged the “cruel truth” that “it was Frenchmen who killed other Frenchmen” in his address. But he avoided talking explicitly about the extent of home-grown Islamism. Of the eight terrorists thought to have carried out the attacks, five have been formally identified and all are French: Omar Ismail Mostefai, Brahim Abdeslam, Samy Amimour and Bilal Hadfi all died. A manhunt continued for Salah Abdeslam, who fled to Belgium, where he and his brother lived, after slipping past police checkpoints (see next story). Two remain unidentified. A Syrian passport one of them may have used was probably a fake.

An attractive target

On November 18th police led a seven-hour siege of an apartment in Saint-Denis, to the north of Paris. Abdelhamid Abaaoud, a Belgian of Moroccan origin thought to be the mastermind behind the attacks, was said to be holed up there. The Paris prosecutor later confirmed that Mr Abaaoud had died in the raid.

France’s vulnerability to Islamist terrorism seems to stem from an unusual mix of factors. “France is not the only target,” says Camille Grand, director of the Foundation for Strategic Research, a think-tank, “but it is top of the list as a highly symbolic one.” This is partly due to its robust foreign policy to counter jihadism. France is America’s main ally in air strikes against Syria, as well as the main guarantor of security in the Sahel. Mr Grand also points to French secularism, a strict creed that seeks to prohibit public displays of religiosity, and which has led to the outlawing of face-covering veils in public places.

Yet to describe the attacks as retaliation is to misunderstand the nature of is. It is not engaged in a strategy of reprisals but wants “to unleash civil war” and provoke a backlash against Muslims in Europe, as a means of drawing further recruits to its cause, argues Gilles Kepel, author of a forthcoming book on terrorism in France. As home to Europe’s biggest Muslim minority, some 5m-6m strong, France is an inviting target. The vast majority are law-abiding. But there is a disaffected fringe, particularly in the heavily immigrant ban-

lieues, which ring most cities.

In the days after *Charlie Hebdo*, there was a remarkable moment of defiant national unity. But it was difficult to sustain. In some parts of the banlieues there was an angry rumbling by those who called themselves “not Charlie”, and refused to observe a minute’s silence in schools. This time, managing the aftermath will be more difficult, not least because Europe is trying to cope with both a terrorist threat and a great migrant influx.

Putting the two together plays into the hands of a resurgent European far right, from Poland to Switzerland. France’s Marine Le Pen, leader of the National Front, has taken care not to strike too inflammatory a note, but said: “Our fears and warnings about the possible presence of jihadists among migrants have unfortunately now been turned into tangible reality.” In the run-up to the presidential election in

2017, the political fallout from the attacks is likely to benefit her more than anyone else.

For Europe, France’s vulnerability to terrorism is a source of extreme concern, not least because the links behind the latest attack cross many borders. Mr Hollande has set the tone for Europe’s response by hinting at a new diplomatic approach to Syria and invoking the EU’s mutual-assistance defence clause.

European countries agreed in principle to help. But no other leader has used the word “war”. Germany has been noticeably silent. Britain’s parliament has yet to authorise strikes on Syria. The French understand these constraints. Their appeal to European solidarity can be seen as a call for urgent progress on a broader fight against terrorism, including better intelligence-sharing and police co-operation, as Europe confronts the aftermath of its bloodiest terror attack in over a decade. ■



Security co-operation

Jihad at the heart of Europe

MOLENBEEK AND PARIS

Brussels is not just Europe’s political and military capital—it is also the centre of its terrorist networks

WITH its stout brick houses and wrought-iron balconies, as well as occasional tower blocks, Molenbeek would not be out of place in a multicultural corner of any western European capital. Residents can shop at the Marrakech baker, Islamic butcher, Halal Turkish Pizzas or the King of Saree. A rundown Islamic centre offers classes in rapid memorisation of the Koran around the corner from a main commercial street strung with municipal Christmas lights.

In recent days, after the carnage in Paris, Molenbeek has changed in the public imagination from an edgy ethnic corner of Brussels into a nest of European jihadism.

One of the Paris suicide-bombers, Brahim Abdeslam, was a French citizen who lived in the area. His younger brother, Salah, is believed to have fled back to Belgium after the carnage. Raids by armed Belgian police in Molenbeek on November 16th and 19th were intended to track him down.

The presumed mastermind of the attacks, Abdelhamid Abaaoud, a Belgian of Moroccan descent, also grew up in Molenbeek. He had been assumed to be in Syria—Islamic State’s glossy magazine even “interviewed” him about his exploits in evading capture. But on November 18th French police fought their way into a flat in Paris where he was thought to be hiding. A ►

► woman blew herself up; Mr Abaaoud died, too. The public prosecutor said the raid had foiled another imminent plot to attack the Paris region.

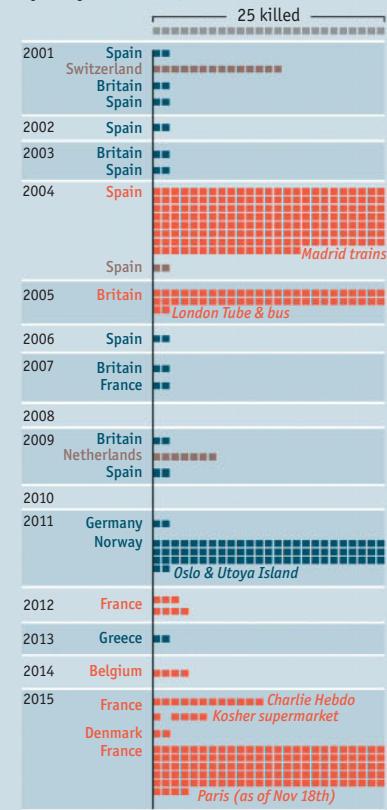
Molenbeek has a longer association with jihadism. Former residents of north African extraction include the killers of Ahmad Shah Massoud, the commander of Afghanistan's anti-Taliban Northern Alliance, who was assassinated in 2001 as a prelude to al-Qaeda's attacks on America on September 11th; a man involved in the Madrid train bombings in 2004; a man who killed four people at a Jewish museum in Brussels in 2014; and a man who tried to kill passengers on a high-speed train from Amsterdam to Paris in August. As Charles Michel, the Belgian prime minister, puts it, "Almost every time [there is an attack], there's a link with Molenbeek."

The question of why some of Europe's young Muslims become radicalised, fight in Syria and kill their own fellow-citizens is a conundrum that worries all governments—none more so than Belgium's. France has more Muslim citizens than any other country in the European Union, and the largest number of foreign fighters in Syria; but Belgium has the highest proportion of those fighters as a share of its population (see chart 2).

Fifteen years of terrorism

Main attacks* in western Europe

By: ■ jihadist ■ other ■ unknown



Sources: Global Terrorism Database, University of Maryland; press reports; *The Economist*

*Causing two or more deaths

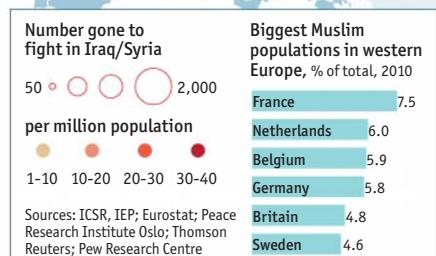
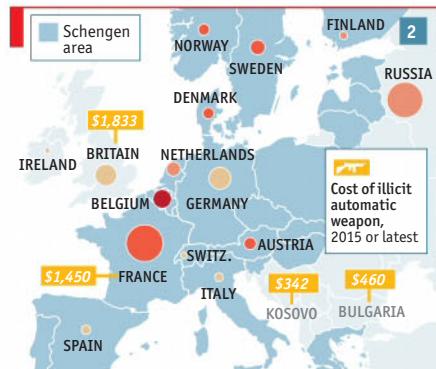
The causes are not only, and perhaps not mainly, Islamic puritanism and economic marginalisation—although Molenbeek, where locals complain of unemployment and discrimination, has its share of both. In June a French parliamentary report pointed to more personal factors: "an existential quest" for identity and belonging undertaken by those with "psychological and social malaise". Those heading for Syria are often petty criminals. But there are also middle-class youngsters, young girls and converts, says Dounia Bouzar, who runs a French deradicalisation centre.

Despite this variety, the fact that many of the attacks in Europe in recent years have been carried out by people tagged by security agencies as potential extremists suggests the spooks are at least looking in the right pool of suspects. But the numbers are so large that it is impossible even for the most generously funded agencies to monitor them all. It apparently takes from 20 to 60 people to follow a single suspect around the clock.

Whether or not Belgium has a worse problem with radicalism than elsewhere, it is clearly struggling to cope with it. Its police and intelligence forces are, like most of the country's institutions, fragmented and under-resourced. It has long had a reputation as the way-station for drug- and gun-smuggling between the Netherlands and France. Another problem is that Belgium lies at the heart of the Schengen zone area. Once a gun is smuggled across the external border of the free-travel area, typically from the Balkans, where they are plentiful, it can be taken freely across much of Europe. Black-market prices suggest that automatic weapons are cheapest in the Balkans and most expensive in Britain, which is outside Schengen. Some reports say that weapons used in the *Charlie Hebdo* attacks in Paris in January came from a specialist in Slovakia.

If the Schengen zone is border-free for holidaymakers and terrorists, it is full of unseen barriers for police and intelligence agencies. Authorities have no means of monitoring passenger-name records for cross-border travellers, even those coming from outside Schengen. Where passports are looked at, eg, at airports, the identities of Schengen-area citizens are not systematically checked against databases of suspected criminals or terrorists. Too many of the supposed joint European databases contain little data, or cannot be properly searched. Even when a suspect's name records a hit, all that comes back is the name and number of a police officer to be contacted for information. Despite fears that jihadists could be slipping into Europe with the flood of refugees, European police forces cannot gain access to the Eurodac database that records fingerprints and other details of asylum-seekers.

Some, especially on the far right, are



clamouring for the abolition of Schengen. But even if European voters were to put up with border controls, it would be impossible to check the roughly 200 road crossings between Belgium and France alone. Mr Abdeslam is said to have slipped past several police checkpoints as he fled Paris.

A more ready answer lies in improved security co-operation. After the *Charlie Hebdo* attacks in Paris, European leaders pledged to solve many of the problems. But progress has been slow because of resistance from the European Parliament, bureaucratic lethargy and the reluctance of many security forces to share information for fear that it will leak—or expose domestic failings. France was due to renew its demand for action at an emergency meeting of interior ministers on November 20th.

Intelligence relations are closest between Britain and the other so-called "Five Eyes" (America, Canada, Australia and New Zealand); and between Britain and France, the two military and security giants in Europe. But co-operation across the rest of the continent is patchier, not least because the big intelligence agencies do not trust the competence of the smaller outfits, or even their ability to keep secrets. Belgium has some 1,000 intelligence officers, and 800 Islamists on its watch-list, says Kristof Clerix, the author of a book on Belgian intelligence. They must also watch the many foreign spies operating around the headquarters of the EU and NATO, and operate under unusually restrictive laws.

"Terrorism is borderless," says Belgium's former prime minister, Guy Verhofstadt. "Intelligence has to be borderless also." For now, what better for jihadists wanting to strike at France than to hole up in Belgium, a French-speaking country with a large Muslim population and lax controls, just a short drive from Paris? ■

The war in the Middle East

Fighting near and far

CAIRO

Islamic State may be lashing out abroad because it has been weakened nearer home; but it will still be hard to take down

“ENDURING and expanding”: Islamic State’s alliterative motto leaves out its burning desire to eradicate everything else, but otherwise sums up its ambitions pretty well. If IS has, in recent times, seemed more concerned with the enduring bit, its history shows that it has never long lost sight of expanding in any way possible: by capturing territory, by spawning offshoots far and wide, by inspiring new recruits, and by spreading fear. As a state with puny resources and no real friends, it needs to be a moving target.

It is not clear to what extent recent strikes by IS beyond the boundaries of the territory it has carved out of Syria and Iraq mark a change of course. Its various affiliates—some 36 groups around the world have declared allegiance to IS’s secretive caliph, Abu Bakr al-Baghdadi—have been mounting terrorist attacks for some time (see chart). A recent survey by the New York Times estimated that these offshoots have killed perhaps 1,000 civilians since January via mosque bombings in Yemen, attacks on tourists in Tunisia and suicide-bombs in Ankara and Beirut (the figure excludes the murderous rampages of Boko Haram in Nigeria). The group has also encouraged “lone-wolf” acts by like-minded would-be terrorists. But the death toll over the past few weeks seems to take things to a new level.

It may be a coincidence that plots to

murder hundreds in Paris, blow up an aircraft over Sinai and kill indiscriminately on the streets in Beirut all came to fruition so close together. They may have been long planned; similar attempts earlier may have been thwarted. But it may also be a considered response to challenges that IS faces closer to home.

Pentagon sources say that coalition air strikes killed 20,000 IS fighters in the 14 months after their onset in August 2014. That sounds over-optimistic. But it is certain that a number of commanders have been among the dead. The intense fighting at Kobane, a Kurdish enclave in northern Syria to which IS laid siege last September, eventually being driven back by heavy air strikes in December, is thought to have cost it 2,000 men. An IS defector told Michael Weiss, an American journalist, that the losses were at least twice that, and that tightening of the Turkish border had made it harder for IS to replace fallen fighters. He said it was partly in response to this that IS turned to attacks on the “far enemy”. Single, dramatic attacks are an immense force-multiplier in propaganda terms.

Losses on the scale of Kobane are doubtless a blow but not, alas, a fatal one. Estimates of the group’s military manpower range from about 30,000 (America’s Central Intelligence Agency) to about 100,000 (Hisham al-Hashimi, an Iraqi security expert). Mr Hashimi reckons about

20% are foreign-born, a similar figure to that given in UN papers.

Factor into these figures the fact that IS fighters seem a lot more effective than those who oppose them. When the Iraqi city of Tikrit was recaptured last April, it took 30,000 soldiers from the Iraqi army and associated Shia militias to overcome 1,000 IS fighters. When IS took the Iraqi city of Ramadi, its forces were outnumbered ten to one by the defenders.

A willingness to use kamikaze tactics is definitely part of what gives IS forces an edge; but they are also innovative, well-drilled and better led than many of those they face. In April IS used a drone to record its troops taking an oil refinery and distributed the footage on the internet. A former American Green Beret, quoted by McClatchy, a news service, said the attackers showed “quiet tactical confidence: correct movement, intervals, fire discipline”.

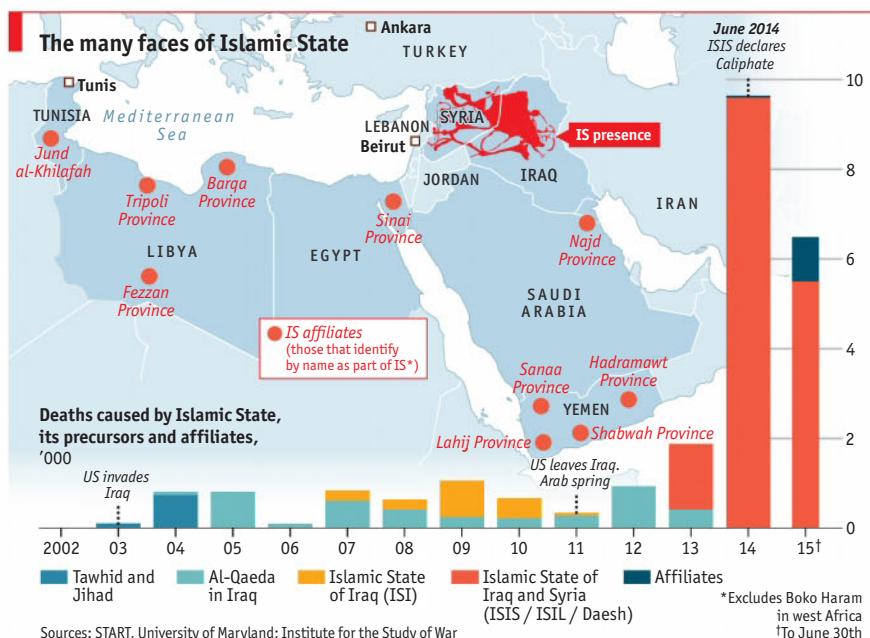
Fighting well is not enough

Despite these impressive fighters, IS has recently been losing ground, largely because its adversaries have air power. Kurdish forces captured Sinjar in Iraq, along with adjacent territory in Syria, and IS forces are being pushed back elsewhere in Iraq, too. With help from Russian aircraft and Iranian-backed militias, Syrian government forces recently relieved an airbase near Aleppo to which IS had long laid siege. Following the deaths of 224 Russians in the Metrojet airliner bombing of October 31st, Russia may now be targeting IS in preference to other enemies of President Bashar Assad’s regime.

Yet IS endures. Indeed its territory remains one of the safer parts of Syria: aid officials in Turkey say that in September and October as many as 70,000 civilians fled to IS-controlled areas from the province of Homs. Coalition bombing in the caliphate is much less indiscriminate than that of the Russian and Syrian air forces elsewhere. What is more, food is cheaper and there is justice of a sort. There is also a functioning economy, largely thanks to an estimated 20,000–30,000 barrels of oil pumped daily from captured fields in eastern Syria and northern Iraq.

Its dependence on oil revenues—they provide around \$50m a month, according to investigative reporting by the Financial Times—is just one way in which IS looks more like an old-fashioned Arab dictatorship than a new Islamic Utopia. It doles out alms to the poor in exchange for total obedience. It promotes a cult of personality around Mr Baghdadi. It churns out turgid propaganda about repaired bridges and newly opened schools. Like all the region’s successful autocracies, it has created multiple and mutually suspicious security services, the better to stave off coups.

In the wake of the Paris attacks, military action aimed at denying IS its territorial



Sources: START, University of Maryland; Institute for the Study of War

► base seem likely. The firepower available to IS's enemies dwarfs all that it can muster. In an interview with the BBC, the security chief of Iraq's Kurdish region reckoned that, given the necessary will, the job could be done in months or even weeks. France has already ramped up its aerial attacks and Russia, now fielding heavy bombers, says it will double the number of daily sorties. American aircraft are attacking new targets in the group's oil infrastructure. Recent strikes, preceded by warnings for civilians to escape, have destroyed hundreds of tanker trucks. America has also boosted supplies to Kurdish and other Syrian rebel forces on the IS frontlines.

The area IS controls seems likely to shrink under such pressure. But the capture of large cities like Raqqa and Mosul will require a far bigger effort on the ground. And as Sinjar and Kobane have shown, the cost will be high: both those towns now lie in ruins. The challenge is not just the diplomatic and military one of mustering, motivating, co-ordinating and deploying sufficient forces, huge though that is. It is also humanitarian: such action is likely to displace still more desperate refugees, and leave them little to return to.

The Western powers and Russia are not keen to send troops. They are even less keen to be left holding ravaged and probably hostile territory. Iraq's forces are overstretched and deeply distrusted by many of the Sunnis they would liberate; many prefer the rule of IS to that of Shia militias. Syria's forces are exhausted, overstretched and loyal to a regime responsible for war crimes. Local powers such as Iran, Turkey, the Kurds and Saudi Arabia have a range of conflicting agendas; eliminating IS is at the top of none of them.

There is progress to be made that does not need boots on the streets of Raqqa. Better police work can help; it is already producing results in Turkey, which has rounded up several cells in recent weeks. Improved planning and communication between anti-IS forces in the field would help, too. Trust, lamentably absent today, must be built.

Breaking up the would-be caliphate militarily would destroy the aura of invincibility which constitutes a large part of its attraction. But successor groups, and even more, IS's ideology, will endure for as long as the poisonous swamp it inhabits persists. A partial list of its ingredients includes a hyped-up sense of Sunni victimhood, indoctrination by xenophobic Wahhabists, the dismal anomie and yearning for heroism of some young urban Muslims in Europe and elsewhere, and the rage generated by brutal and repressive regimes such as Syria's. It has pooled and festered across the band of collapsed and failing states that stretches from Algeria to Pakistan. It will take more than a hot sun, or heavy firepower, to make it evaporate. ■

Syria's peace process

A new alliance emerges

BEIRUT AND MOSCOW

Recent attacks are uniting Russia and the West in hatred of the jihadists

IF THERE is any comfort in recent attacks by IS, it is that they are uniting its enemies, and bringing together countries that have stood at opposite ends of the wider war in Syria. Since October France, Russia, Lebanon and Turkey have together lost more than 500 of their citizens. On November 18th the group declared it had killed two more, a Chinese and a Norwegian hostage. But if there is now a shared priority of defeating "Daesh", as it is sometimes known, trust remains frayed.

The five-year civil war in Syria has entangled not just local belligerents but a host of meddling outside powers. It has placed Russia and Iran, tacitly backed by China, on the side of Bashar al-Assad, Syria's ruler; on the other stands the West along with Sunni powers such as Turkey and Saudi Arabia. Diplomats have struggled to bring the rivals together. A round of peace talks in Vienna on November 13th produced a vague road map for a ceasefire, a period of transition and elections, but left unresolved the vexed question of the fate of Mr Assad.

At the G20 summit in Turkey on November 15th and 16th, there were further signs of progress. Last year's meeting, clouded by tensions over Ukraine, was so frosty that Russia's president, Vladimir Putin,

flew home early. This year he huddled in chats with Barack Obama and Britain's prime minister, David Cameron. Russian commentators drew parallels with the anti-Hitler alliance that brought together Stalin, Churchill and Roosevelt.

By mid-week Russia and France, which have sparred with particular bitterness over Syria, were working together to intensify the bombing of Raqqa, the capital of IS's "caliphate". Russia ordered its eastern Mediterranean fleet to make room for a French aircraft-carrier. But Russia has also continued to pound Syrian rebel groups that are backed by the West, as well as insisting that Mr Assad must stay.

The 17 parties to the Vienna meeting have set a date of January 1st for the transition process to start. The idea is that the UN will broker and monitor a ceasefire while the Syrian regime and the fractured opposition form a transitional government. Elections are then to be held by 2017. The tricky process of distinguishing between "terrorists", who will be excluded from joining the transitional government, and legitimate opposition, which may take part, will be led by Jordan.

That the Vienna process now includes Iran, long excluded, gives some grounds for hope. But there are plenty of reasons for scepticism, too. Jordan's job is almost impossible. Some of the rebel groups Russia has been bombing in the name of fighting terrorism are backed by America. Britain, meanwhile, has said that a transition may have to involve some of the less unsavoury rebel groups, including devout Islamists but excluding IS and Jabhat al-Nusra, the Syrian affiliate of al-Qaeda. Expect there to be prolonged and cynical horse-trading over the list.

The future of Mr Assad is still a big sticking-point. But it is becoming ever clearer that the West now wants to prioritise the battle against IS, and leave Mr Assad for later. "Assad can't be the long-term solution, but our enemy in Syria is Daesh," François Hollande said this week. In the short term, therefore, Mr Assad looks increasingly like a presence to be tolerated, even by America and its allies. Russia says demands for Mr Assad's exit must stop. That will not happen; there is too much blood on the Syrian leader's hands for the West to agree to let him stay in place indefinitely. And Western officials quietly believe that Russia, by intervening in Syria, is coming to the realisation that Mr Assad is a liability.

On November 17th Russia acknowledged that a bomb brought down a Russian airliner over Egypt in October, thus aligning its position with the West's. Mr Putin promised retribution: "We will find them at any point on the planet and punish them." If Russia backs its tough words with action against IS and comes to regard some anti-Assad groups as allies, then the caliphate's end may be in sight. ■



The Congress of Vienna



Terrorism, refugees and 2016

Unfinest hour

WASHINGTON, DC

The responses of many Republican state governors and presidential candidates to the Paris attacks have been lamentable

AT SOME point next year, when Republicans and Democrats have each chosen a presidential candidate, it is possible that voters will witness a serious debate about national security—and notably how to fight the fanatics of Islamic State (is). For now alas, the Paris attacks have instead dragged an already ugly contest further down the path of partisan name-calling, empty bluster and fear-mongering.

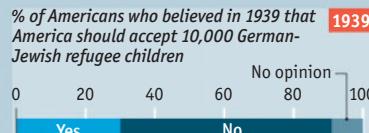
A televised debate between Democratic presidential hopefuls on November 14th showed the strains of being an incumbent party in the White House when a hard-to-solve crisis has left the public frightened, angry and divided about the best solutions to pursue. The front-runner, Hillary Clinton, waffled as she defended President Barack Obama's broad approach to foreign policy, which she implemented for four years as his secretary of state.

Yet the immediate aftermath of the Paris attacks proved more perilous for the Republicans, as party leaders and presidential candidates offered quick fixes with deeper roots in panic than in logic. Their first target was Mr Obama's proposal to admit at least 10,000 Syrian refugees to America next year—an idea that Republicans called "lunacy" and a recipe for terrorist infiltration—though to put it in context, 1.5m refugees may reach Germany this year. In the wake of the Paris atrocities and news reports that one of the attackers passed through Greece as a would-be refugee, more than half the country's governors, all

but one of them Republican, either asked or demanded that the federal government stop sending Syrian refugees to their states. Though refugees admitted to America undergo between 18 months and two years of screening by intelligence agencies, Republicans in Congress threatened to block Syrian resettlement programmes. They note that the director of the Federal Bureau of Investigations, James Comey, said that a lack of information from Syria makes it impossible to offer an "absolute assurance" that extremists would be spotted.

Presidential candidates took that alarm

Some context



What is the best approach for America to take with refugees fleeing the Syrian civil war? 2015



Sources: American Institute of Public Opinion; Bloomberg poll

*628 adults
Nov 16th-17th 2015

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to a higher level. The front-running Republicans, the businessman Donald Trump and the retired brain surgeon Ben Carson, want a halt to refugee admissions from Syria, with Mr Carson proposing close surveillance of those Syrian refugees already in America and Mr Trump vowing to expel them. Senator Ted Cruz of Texas, a hard-liner who dreams of inheriting Mr Trump's voters should the billionaire's campaign implode, has proposed a law banning Muslims from Syria from seeking asylum in America, and admitting only Christians.

Once, such positions would have sent establishment candidates fleeing. But Jeb Bush, a former governor of Florida whose own bid for the White House is not in good shape, suggested that America should offer a haven only to Syrians who "clearly aren't going to be terrorists", citing orphans and Christians as people to consider for admission. Other relative moderates in the presidential pack, such as Senator Marco Rubio of Florida and Governor Chris Christie of New Jersey, explained, more in sorrow than anger, that the Obama administration cannot, or cannot be trusted to, vet Syrian refugees. Under prodding from a radio interviewer, Mr Christie said he would not even make an exception for "orphans under five [years old]".

Dissenting voices, such as the governor of Washington state, Jay Inslee, have noted that refugees undergo more intensive screening than other arrivals to America, especially those who come as tourists. Mr Inslee, a Democrat, urged fellow-politicians to heed the lessons of history and remember when fear prompted such tragic policies as the internment of Japanese-Americans in the second world war. He has a point: most of the Paris attackers had European Union passports and thus could enter America on a visa-waiver programme which relies entirely on screening and no-fly lists to keep terror suspects out. ►

One Republican presidential candidate, Senator Rand Paul of Kentucky, has an answer to that point. He proposes a moratorium on issuing visas for citizens of countries with what he calls major jihadist activity, and a 30-day waiting period to screen would-be travellers from visa-waiver countries, a step that he admits would be "dramatic".

Speaking from Asia, Mr Obama sharply criticised Republican rhetoric suggesting that Christians are more deserving of American help than Muslims, saying that some language coming out of the presidential contest amounts to a "potent recruitment tool" for extremists. Rebukes of that sort from Mr Obama enrage hawkish Republicans, who accuse the president of appeasing foes by declining even to use the term "radical Islam", and of alienating allies needed for the fight against is.

What he said

Strikingly though, when the 2016 field of Republican presidential candidates offer strategies for the Middle East, they overlap with Mr Obama's quite a bit.

One big area of difference involves no-fly zones over Syria, which are backed by several Republican candidates as well as Mrs Clinton, though Mr Obama and his team have always said that their costs outweigh their benefits. Not for the first time, Mr Trump goes further, offering a solution that is both grandiose and detail-free. He proposes taking "a big swatch of land" in Syria and building "a big beautiful safe zone." Not to be outdone, Mr Carson wants "sanctuary zones" in Iraq and Syria to be run by "local moderate forces" without a "significant" on-the-ground presence from Western armies.

But like Mr Obama, most Republican candidates want local Muslim allies to do most of the fighting. Several would greatly increase arms flows to Kurdish fighters, with Mr Cruz calling the Kurds "fantastic fighters" who should provide "boots on the ground" against is. From the back of the presidential pack, Senator Lindsey Graham of South Carolina would send 10,000 ground troops to fight is. Mr Rubio calls it "premature" to say how many American combat troops might be needed.

Conscious that hauling up the drawbridge to Muslim refugees might not be the best way of rallying Muslim allies, some Republicans tout plans for winning hearts and minds. Governor John Kasich of Ohio says that America should refocus its public diplomacy and international broadcasting, creating a new federal agency with a clear mandate to promote such "core Judeo-Christian Western values" as human rights, democracy and freedom of religion. The instinct to persuade is a good one. But unless would-be presidents stop pandering to fear back home, they will struggle to win a global battle of ideas. ■

Automatic voter registration

Left turn

LOS ANGELES

Expect more Democratic states to adopt a system that favours Democrats

REFORMS that originate on the west coast have such a distinctive tilt that it is sometimes called the left coast. So with Republicans holding the reins in both houses of Congress, it is no surprise that a new crusade to alter voter registration has gained a foothold in two western states. Thanks to new laws passed in Oregon and California, residents will soon be automatically registered to vote when they get or renew a driving licence or state identification card. Under the National Voter Registration Act of 1993, states have to offer citizens the option to register when they apply for such documents. Now, instead of "opting in" to vote, residents in California and Oregon will have to "opt out" of registration.

The movement is gaining momentum nationwide, with legislators in 16 more states pushing similar bills. But it also reflects a partisan conflict. On the whole, Democrats want voting made easier because they believe many newly registered voters would be young, poor and/or minorities—all groups that favour their candidates. For just the same reasons, Republicans think automatic registration is pernicious. No Republican lawmakers voted for the bill in Oregon. Chris Christie, the Republican governor of New Jersey, vetoed an automatic-registration bill passed by the state legislature, dismissing it as "thinly veiled political gamesmanship." Over the past couple of years, Republicans across the country have launched a campaign to tighten voting laws, requiring extra ID at the polls and purging voter rolls.



Better print some more

Conservatives like to point out that, in many states, undocumented immigrants can obtain driving licences and so could, under an automated system, accidentally become eligible to vote. Others, like Kris Kobach, secretary of state in Kansas, also oppose automatic registration because they believe that people who choose not to register may not be well informed and, anyway, are not interested in voting. But a recent study by Political Analysis, a journal, surveyed Americans who searched Google for voter-registration information after their deadline had passed. It found that between 3m and 4m unregistered people wanted to register to vote, and would have done so had the deadline for registration been extended.

"There have been concerted efforts to restrict voting, so it's more important than ever that we modernise the system—it's easier to register to vote in Iraq than the US," says Hari Sevugan, a former press secretary for the Democratic National Committee and a senior adviser to iVote, a group that has pledged to spend up to \$10m on pushing automatic voter registration. Both Hillary Clinton and Bernie Sanders strongly support the cause.

Partisan politics aside, election watchers are greeting the new laws in California and Oregon as landmark reforms. For decades in America, the responsibility to register has rested with voters themselves rather than with the government; but such a system is fairly rare worldwide. (The only other democracies where this is the case are Mexico, Belize, the Bahamas and Burundi, according to a study published in 2009.) This is why "we have one of the lowest registration rates of any democracy", says Jocelyn Benson, an expert on election law at Wayne State University. (Approximately 65% of voting-age Americans are currently registered to vote, compared with 91% of Britons and 92% of Canadians.)

The new laws should save money, too. Centralising registration in one place and tapping into pre-existing databases at motor-vehicle offices should save a great deal of paperwork. Alex Padilla, California's secretary of state, says the new law is the most cost-conscious and effective way to reach the roughly 6.6m Californians who are eligible, but not registered, to vote, because 90% of them visit a motor-vehicle office at some stage.

Anecdotally, though, it appears that many citizens may still have trouble voting even if they are registered. Eric Odioso, a 25-year-old who lives in Hollywood, signed up to vote when he got his California driving licence. But when he showed up at his local polling station last year, the staff could not find his name on the voter rolls. Worse, they didn't seem surprised. "I had the sense that this kind of confusion was more commonplace than it ought to be," he recalls. ■



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The postal service

How to lose \$5 billion

NEW YORK

The United States Postal Service has more troubles than long queues

IN 1753 the British Crown appointed Benjamin Franklin postmaster of its American colonies. He brought in new accounting methods, established the penny post, arranged for mail to be carried day and night and introduced newspaper delivery for a small fee. By 1760, the post office in North America turned a profit for the first time. The Crown eventually dismissed the canny postmaster for his revolutionary activities. Today, the United States Postal Service (USPS) badly needs something similar. On November 13th it reported a net loss of \$5.1 billion in the 2015 fiscal year.

The loss is the latest in a steady delivery of poor results going back nearly a decade. The last year America's post earned a profit was in 2006, when mail volume peaked at 213.1 billion pieces. By 2015, total mail volume had fallen to 154.2 billion pieces, a 28% drop. The biggest decline has been in first-class mail, its main moneymaker. Shifts in the way people communicate and pay bills means fewer letters are in the post. Banking is done electronically and people use social media, texts or e-mail to send messages, pictures and Christmas cards. Even weekly newspapers sometimes arrive on mobile devices.

Yet this shift has also had its benefits for the postal service. Online shoppers have increased from 172.3m in 2010 to 201.7m. Package volume at post offices is up 14.1%, and package revenues are up 11.4%. The post is trying to accommodate retailers and customers. It is working with Amazon, an online retailer, to deliver packages on Sundays in the run-up to Christmas. In some areas it offers same-day delivery; in some cities, it will deliver groceries. In New York fresh fish is delivered by USPS from the Fish Market to restaurants around the city.

But the postal service's problems are bigger than any number of nicely wrapped packages can fix. Its unfunded liability grew 76% between 2007 and 2015, to \$125.2 billion. The Tax Foundation, a think-tank, doubts it can ever repay this money. The service has done much to improve its financial state—hours have been cut at rural branches and it has reduced work hours by 420m since 2002, saving some \$17 billion annually. It has shrunk its staff by nearly 300,000, but it still has staggering labour costs. About 80% of its budget goes to its workers. Under a law of 2006, the service has to pre-fund 75 years' worth of health benefits for retired workers, something no other company, much less a government

Mormons and gay marriage

Particularly grievous

America's home-grown faith tightens its rules

AS STEWARDS of a faith spawned on American soil, Mormon leaders urge their followers to be loyal, law-abiding and useful citizens. And as their founding documents make clear, what they ask in return is the right to live by different rules and impose them on the flock.

Balancing all that can be tricky, as the Church of Jesus Christ of Latter-day Saints found out this month when it sharpened both the style and content of its teaching on same-sex relationships. A revised handbook for church leaders laid down that a member in a gay marriage must face discipline, which could lead to

excommunication; such a procedure might be necessary for those cohabiting with a person of the same sex, another "serious transgression".

Moreover, a child being raised by a same-gender couple could not undergo the church's formative rites of passage, including baptism; that ban could only be lifted if, after reaching 18, the young person quits the disordered nest and explicitly "disavows" gay unions.

Todd Christofferson, one of the church's 12 ruling "Apostles" said the Church saw same-sex nuptials as a "particularly grievous or significant, serious kind of sin", while also recognising that the Supreme Court had made them legal.

Given their respect for authority, Mormons have not challenged the legitimacy of that decision; they have distanced themselves from Kim Davis, the clerk who refused to solemnise a same-sex union and went to jail.

But the new messages marked a big shift away from the compassionate tone of other Mormon statements on the subject. Many rank-and-file Mormons, including the small but growing minority who are openly gay or approving of same-sex relations, were shocked. At a protest meeting in Salt Lake City on November 14th, hundreds of active or lapsed Mormons renounced the faith.

David Campbell, a political scientist at Notre Dame University, points out that the church has often drawn a sharp line between its quietist public stance and its internal practice. In the civil-rights era, church leaders supported racial equality laws but they did not admit black men as priests until 1978; then they removed the bar, citing a new revelation from God.



Do ask, do tell

agency, is required to do. Congress would need to pass legislation for that to change.

Congress is perhaps the postal service's biggest impediment. Though created by, and operating under the authority of, the federal government, it does not receive federal funding. It must rely on stamp sales and shipping revenue to operate. But this hybrid model, not fully private or public, is paralysing and constrains business. Elaine Kamarck of the Brookings Institution, a think-tank, says it "impedes innovation". The USPS cannot, for instance, ship alcohol, a lingering ban from the temperance movement, but expanding what it may deliver would require congressional approval. There is little political will to act.

Most Americans think Congress should

let the post act more like a business. Ms Kamarck thinks part of it should be privatised, as is happening in Japan. The British government has recently sold its 13% stake in the Royal Mail. Michael Schuyler, of the Tax Foundation, says ending six-day delivery and increasing the shipping rate for package services would improve the post's finances. Ending six-day delivery would require Congress to act, as would the proposal made by both Bernie Sanders, a candidate for the Democratic nomination, and the post office's inspector general, an independent monitor, who think the USPS should venture into banking to serve those without accounts. But that might not do much to help its finances move into the black, either. ■

Justice in Louisiana

Darth Vader's lament

SHREVEPORT

The pains of America's most controversial prosecutor—and the strange race to succeed him

ERIC MICKELSON: white man. Beverly Arthur: white woman." In his musical drawl—which, in concert with his beseeching eyes and folksy acuity, makes him a formidable trial lawyer—Dale Cox lists some of the murderers for whom he and his colleagues have sought the death penalty. "Brandy Holmes: white woman." The district attorney's office of Caddo Parish doesn't select capital cases by race, he insists; and so at least one of the allegations that have made its prosecutors among the most infamous in America—and made the contest to lead them so heated—is, Mr Cox

maintains, unfounded.

The controversy, though, is real, and Mr Cox himself is its epicentre. The attention arose partly from an item on "60 Minutes", a current-affairs TV show, about Glenn Ford, who spent 30 years on death row before new testimony led to his release in 2014; he died of cancer in June this year. But Mr Cox's own comments about the case and about the death penalty, which he thinks should be used "more rather than less", contributed, helping to make Caddo Parish a focus of national angst about race and justice. In turn the fuss drew George

Soros, a financier and philanthropist, into this week's election for district attorney (DA). The run-off for the job is on November 21st; at the last count, Mr Soros had spent \$851,000 on the campaign, a startling sum for a small corner of Louisiana with a population of 250,000.

Stranger still, Mr Cox isn't even running. Feeling grievously misunderstood, he points out that he has been in charge of the operation, as acting DA, only since April, when his predecessor was found dead in a hotel room in Baton Rouge (no foul play suspected). After a long spell in private practice he rejoined the office full-time only in 2011; his sole involvement in the Ford case, over which he has received death threats, was to help free the exonerated man, a move he says other prosecutors strongly resisted. He does, however, think that Ford belonged behind bars, albeit not on death row, because of his alleged role in an armed robbery that culminated in murder, and possibly in the killing itself. "Spending 30 years in prison", Mr Cox says, "was not all that much for what he actually did."

Beyond the wrecking of Ford's life, for critics of the DA's office the case matters because some of the problems that led to his conviction seem to persist. One is inadequate funding of defence lawyers, which in lesser cases can mean defendants are represented by the untrained or unremunerated. Another is the racial make-up of juries: Ford, who was black, was convicted of killing a white man by an all-white panel. A study by Reprieve Australia, a human-rights group, recently found that from 2003 to 2012 Caddo prosecutors deployed "peremptory strikes", used to eliminate prospective jurors, three times as often against blacks as others; the Roderick & Solange MacArthur Justice Centre of New Orleans plans to sue over the findings. Some trace a line from that lopsided statistic to the double-sided drinking fountain at the rear of the parish courthouse (separate sides, once, for blacks and whites), the oak trees in the grounds from which, when the parish was known as "Bloody Caddo", black people were lynched, and the ornate Confederate monument outside the front door.

All that is ancient history, replies Mr Cox, noting the area's black mayors, judges and police chiefs. He resents what he decries as the anachronistic, unfair assumption that southern prosecutors are "inherently racist" and so uniquely vilified as "loathsome creatures". The study found that he personally struck off 38% of black jurors, against 14% of others; sighing, Mr Cox says his record has been misrepresented, arguing that, since most of the victims of crime in the parish are black, he naturally wants blacks on juries. (Ursula Noye, the report's author, says the chances that the overall imbalance it documents is unrelated to race are "vanishingly small".)

Baltimore's spiking murder rate

Unsolved

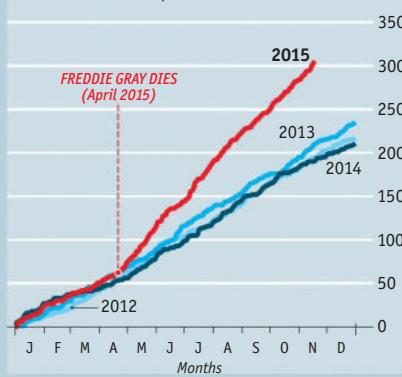
The only certain thing about the city's murder rate is that it is increasing

IT HAS been a bloody year in Baltimore, Maryland's largest city. On November 14th the police department reported the city's 300th homicide in 2015, a total not seen since 1999. The surge in killings in the majority-black city of roughly 623,000 began after the death on April 19th of Freddie Gray, a 25-year-old black man who was fatally injured while in police custody. Since Mr Gray's death the city has recorded 244 homicides, a 78% increase over the same period in 2014, representing more than 100 additional deaths (see chart). Criminologists and city officials disagree as to the causes. Some say police have deliberately pulled

back from poor, black neighbourhoods, a theory that the police disputes. Others blame an influx of drugs from pharmacies looted during the April riots. A third theory is that a decline in trust between the police and the policed has had deadly consequences: fewer residents talk to the police, which leads to fewer murders being solved, which—by lowering the odds of being caught—results in more murders. Whatever the reason, the killing continues. Just hours after the 300th murder, police reported a shooting in the city's Westport neighbourhood, the fourth homicide of the day. The total for the year now stands at 305.

Life on the street

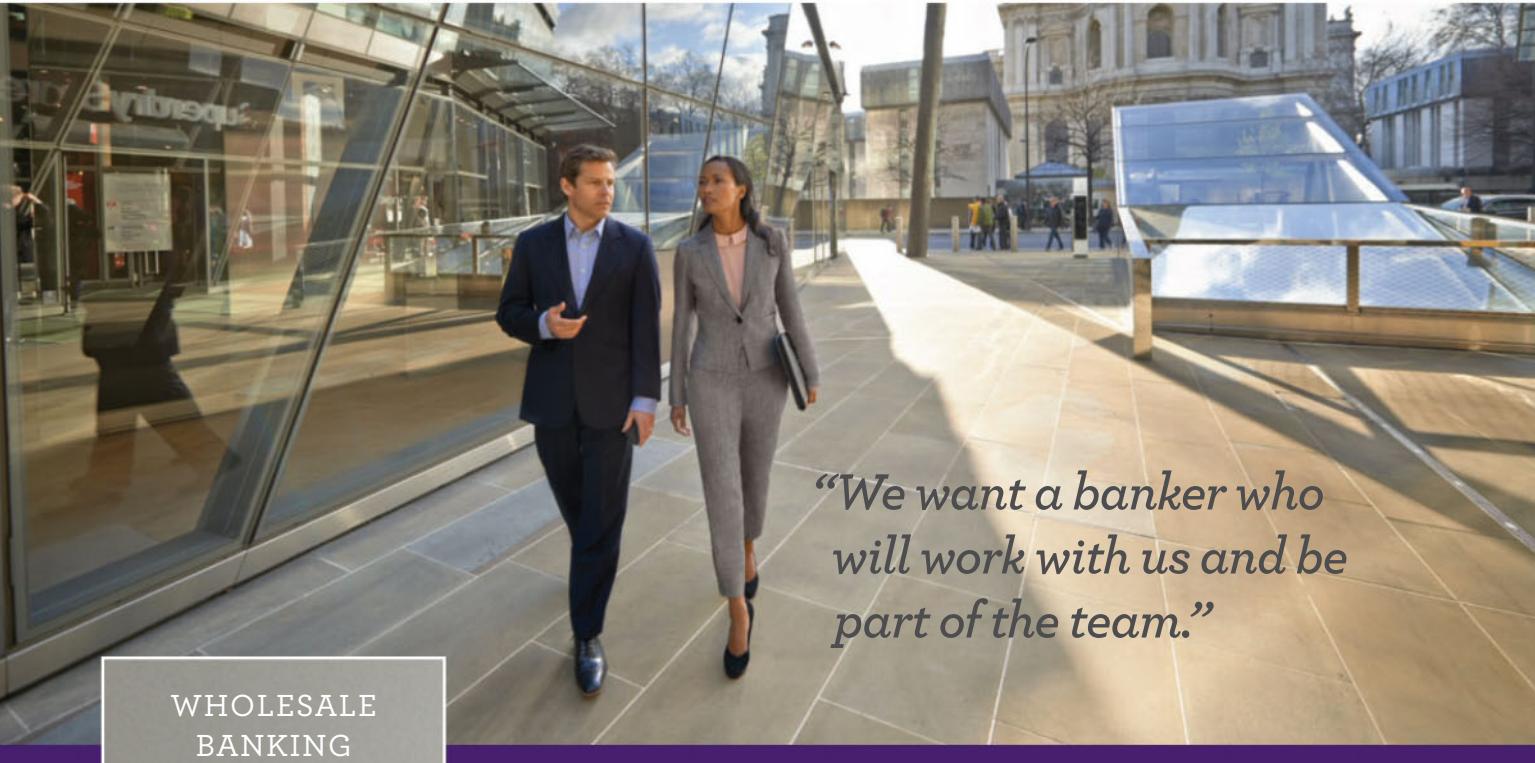
Baltimore homicides, cumulative



Sources: Baltimore Police Department; Baltimore Sun; FBI

Homicides per 100,000 population





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► Mr Cox does, however, admit to some other courtroom excesses. "Is this a family magazine?" he asks, laughing, when pressed on lurid allegations that he recently threatened a defence team with bodily violence. Yes he wanted to "cold cock" them (ie, knock them out), but because in a pleading they described him as "unusually bloodthirsty", which he regarded as defamatory. Likewise he confesses to having once, in court, threatened a defence lawyer with prosecution. And, in a post-trial filing, he did indeed write that lethal injection was too good for a defendant, who "deserves as much physical suffering as [is] humanly possible". "I regret that I have those emotions," Mr Cox says, and "that I can't be more forgiving."

Conversely he condemns as "bullshit" and "madness" the antics of some Caddo prosecutors who, in 2012, were found to have bought automatic weapons with public money, supposedly for use when they accompanied the police on raids; some formed a paramilitary club called the Zombie Response Team. Mr Cox thinks no prosecutor should ever go on raids; he has never owned a gun. The trouble was, some viewed that episode as symptomatic of a macho, cavalier attitude to prosecutions, which takes too little regard for the quality of evidence or defendants' circumstances. That, in turn, is thought by some to be epitomised in Mr Cox's outspoken advocacy of the death penalty.

"We don't start getting the noose ready," when there is a murder, Mr Cox says; his office doesn't always seek the death penalty when it could or secure it when it does. It is "tripe" that he is a "zealot", he complains, sighing again and pinching the bridge of his nose as he recalls the names of the felons for whom he has personally secured death sentences. (It is a short list, but then very few death sentences are passed at all these days: Caddo accounted for two of the three in Louisiana last year.) Yet, citing Rousseau, Mr Cox says that some criminals violate the social contact so egregiously that they "have forfeited the right to live among us". The death penalty is not a deterrent, he acknowledges, since those who deserve it "can't be deterred because they're too evil". And yes, justice is "precarious and fraught with error", a qualm borne out by the high rate of exoneration from Louisiana's death row. Nevertheless "societal revenge" sometimes requires monsters to be executed.

Increasingly so, in fact. Louisiana's murder rate, though still America's highest, has fallen by more than two-fifths in the past 20 years; homicides in Shreveport, the biggest city in Caddo Parish—home of the courthouse and assorted casinos—fell from 86 in 1993 to 28 last year. But the "savagery", Mr Cox believes, has become more "abysmal", worse than during his first stint in the DA's office, when, good Catholic that

he is, he opposed the death penalty. (Lawyers who knew him then say he has changed unrecognisably.) The pope doesn't see what he sees, he says. In particular he believes there is an epidemic of child abuse: "We are killing and raping our young" and "it breaks my heart". "I have to look at the pictures," he laments, "and I have to talk to the families." Mr Cox knows he has "been characterised as Darth Vader", but, he confides, his expression pained, after a trial "you go home and weep at night".

As well as the depravity, his other main justification is that it isn't only him. One local defence lawyer is hoping Mr Cox leaves the DA's office after the election, which he thinks will help save his client's life. Perhaps; but, as Mr Cox says, Caddo's miniature death-penalty boom involves other prosecutors, judges in higher courts who uphold the sentences and, above all, the juries who pass them. "I could jump up and down and scream for [a] death sentence and do cartwheels over the courtroom," Mr Cox says, but only a unanimous jury can impose one. In the end, he reiterates, "The death penalty is the law."

DA agonistes

That local climate—still more pro-death penalty than in some parts of America—may be why no one in the DA race is against it. That includes James Stewart, a judge and former prosecutor, reputed to be tough but fair, whom Mr Soros is backing. Mr Stewart supports the death penalty where the facts warrant it. Quite aside from those views, Mr Soros's involvement is eccentric, in its discretion as well as its scale. The billionaire himself has not explained it publicly; a person listed on the records of the relevant political action committee hung up when *The Economist* called. Meanwhile Mr Stewart's campaign

says it doesn't want or need Mr Soros's money or the television adverts it has bought (none of which mention the death penalty). Mr Stewart, incidentally, is black.

For his part Dhu Thompson, his opponent in the run-off, asks darkly what Mr Soros is hoping to get out of Caddo. He has challenged Mr Soros to a debate, so far unsuccessfully. Until the race Mr Thompson was an assistant DA, specialising in homicide prosecutions; according to the Reprise study, the imbalance in his strike rate of black and other jurors is worse than Mr Cox's. "The only colours I see", he vows at Cat Daddy's café in Shreveport, "are the colour of victims' blood and the colour of tears." No case of his has ever been reversed on grounds of discrimination. He emphasises his plans for community outreach and offender-diversion programmes, and stresses his endorsement by LaLesha Walker Alford, a former judge and one of his first-round opponents, whom Mr Thompson describes as a "vibrant spirit". That is one way of putting it: Ms Alford was removed from the bench for (among other reasons) telling a witness that he could wind up in juvenile detention, and "by the time your lawyer get to you, you would have been raped".

In a parish almost evenly split between blacks and whites—and a region where voting tends to divide on racial lines—the new DA will be whichever candidate captures a bigger sliver of the other group. Whoever wins, Mr Cox hopes to continue prosecuting. He ultimately decided not to run himself, he says, because his experience as acting DA persuaded him he wasn't cut out for management, and because he had become the focus of so much outside criticism. There was another reason, too, he discloses: nobody supported him, not even in the DA's office itself. "People don't like me," he says. ■



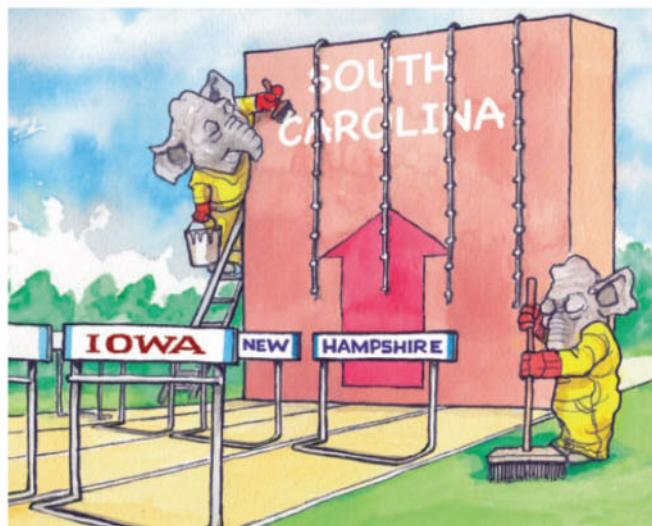
Mr Cox makes his case



THE
NEW YORKER
Where things get interesting.

Lexington | The Firewall State

If the Republican campaign is to return to normality, it will do so in South Carolina



IN THESE panicky times, it is easy to doubt whether American politics will ever feel normal again. Here is a case for calm. It is true that when pollsters survey Republicans, about half say that they want to send an angry champion to Washington, with a Samson-like mandate to bring down the rotten pillars of government, ideally on the heads of the political class. But presidential nominees are not chosen by national opinion polls. Candidates win nominations state-by-state, and each one has its quirks.

A good place to look for evidence of normality is in South Carolina, which on February 20th will hold the first presidential primary elections in the South, shortly after Iowa and New Hampshire's frostbitten contests.

Since 1980 South Carolina voters have an almost-perfect record of picking the candidate who goes on to win the Republican nomination. Local grandees call their state a microcosm of conservative America. It boasts God-and-guns rural voters in the hills of the Upcountry. It offers shrink-the-government fiscal conservatives in the Lowcountry, a coastal region transformed by tourism, foreign investment and legions of retired folk. The state is home to more than 400,000 ex-servicemen, who hold robust views on national defence. Nor is the seamier side of politics forgotten: South Carolina has often surpassed other states in reptilian campaign tactics.

That conservative diversity has long made South Carolina more representative than either Iowa, where a hefty evangelical vote favours fire-and-brimstone social conservatives; or New Hampshire, where primary results can be skewed by plaid-coated, leave-me-the-hell-alone libertarians. To win South Carolina, candidates must "appeal to every core constituency" on the right, says Matt Moore, chairman of the state Republican Party. What is more, the task of turning disparate groups out to vote makes the state a good test of organisational strength.

With that record in mind, Lexington headed to South Carolina last week, just before the Paris atrocities, to watch campaigning by two of the more pragmatic Republican hopefuls, Governor John Kasich of Ohio and Senator Marco Rubio of Florida. Their reception was more enthusiastic than some public surveys might suggest (the businessman Donald Trump and the retired neurosurgeon Ben Carson began November far ahead in South Caroli-

na polls, though one recent survey did put Mr Rubio third).

The site explained some of the warmth. Both Mr Kasich and Mr Rubio spoke in Beaufort (pronounced Bewfut) County, on the Atlantic coast. An affluent spot with some big military bases, it is home to many migrants from such states as Ohio and Pennsylvania, drawn by mild weather, golf courses and gated retirement communities where the wildest neighbours are the alligators which sometimes lumber into people's gardens.

Mr Kasich spoke at a town-hall meeting on November 11th on Hilton Head Island, a manicured neighbourhood of villas and resorts, oak trees and Spanish moss. It was organised by one of the state's most popular politicians, Senator Tim Scott. Mr Kasich was not exactly mobbed—his style is laconic, even rambling, at such hustings. But activists praised his anti-populist candour, as when he scoffed at Mr Trump's suggestion that immigrants living in America without legal papers can all be deported—calling that as likely as him flying to the moon tonight.

Jeffrey Bradley, a Republican who represents Hilton Head Island in the state legislature, suggests that realpolitik will come into play among Republicans as the election nears. That view is echoed by Mr Scott, the first black Republican to be elected to Congress from South Carolina since 1897, who combines a flintily conservative record with a gentle, genial manner. The 50-year-old senator has invited each presidential candidate to address a "Tim's Town Hall" around his state. Too canny to endorse any candidate at this point, Mr Scott was at pains in an interview to explain away the one blot on South Carolina's perfect record of picking a winner: 2012, when state Republicans chose Newt Gingrich, the former Speaker of the House of Representatives, over the eventual nominee, Mitt Romney.

Newtered?

Mr Gingrich was "our cousin and neighbour from Georgia", Mr Scott volunteered. Mr Gingrich "knocked it out of the park" in a South Carolina TV debate (when he attacked the media as "despicable"). Mr Scott predicts that South Carolina will pick someone with both a vision for the future and a background that suggests they can "bring it to pass". Its primary voters are very conservative, the senator says, but they want someone "able to win".

The day after Mr Kasich's visit, Mr Rubio addressed the South Carolina Chamber of Commerce, also on Hilton Head Island. He offered an upbeat message about building an economy fit for a 21st century of breakneck technological change. It went down well, though reporters mostly wanted to ask about attacks from hard-right rivals about Mr Rubio's views on immigration, which are relatively pragmatic. The American people are "reasonable", Mr Rubio retorted.

The Republican who wins South Carolina will earn timely momentum. Its primary will be followed by a flurry of more than a dozen contests, many in the South. In Beaufort County some murmur, excitedly, that their governor, Nikki Haley, might make a fine vice-presidential running-mate, after deftly handling the aftermath of a racist mass-murder this summer in a black church in Charleston: Ms Haley, the daughter of immigrants from India, broke with earlier caution and backed moves to haul down the Confederate flag outside the state capitol.

South Carolina has long been seen as a firewall state for establishment candidates, who sometimes struggle in the first two primary contests. That still looks true. Though if an insurgent wins there in February, it really will be time to panic. ■



Extradition in Latin America

How to handle a drug gang

BOGOTÁ AND MEXICO CITY

The pros and cons of outsourcing justice to the United States

NO SOONER had Mexican security forces captured Joaquín "El Chapo" (Shorty) Guzmán, the country's most wanted drug trafficker, in February 2014 than the United States began preparing the papers to request his extradition. He faced numerous charges north of the border and presented an obvious flight risk, having already escaped from prison in 2001.

However, Enrique Peña Nieto, Mexico's president, saw the incarceration of his trophy inmate as a matter of national dignity. He had already curbed collaboration between his justice officials and their American counterparts by halving the number of extraditions and requiring security dealings to pass through a "single window" at the interior ministry. When asked in January this year about extraditing Mr Guzmán (the model for the masks above), Jesús Murillo Karam, then the attorney-general, quipped that "Chapo must stay here to complete his sentence, and then I will extradite him. So in about 300 or 400 years."

Just six months on, Mr Murillo had reason to rue his sarcasm. In an escape worthy of his legend, Mr Guzmán snuck out of prison through a mile-long tunnel. In September Mr Peña implicitly admitted that the Americans had a point by approving the extradition of 13 prisoners to the United States, including Edgar "La Barbie" Valdez Villarreal, a bloodthirsty Texan drug lord.

Mexico's U-turn is the most striking recent example of a Latin American govern-

ment turning to outsiders to help enforce its laws. In 2012 Honduras ended its 30-year ban on extraditions. The next year El Salvador sent a citizen to the United States to face organised-crime charges for the first time. In April this year the UN's independent prosecutor in Guatemala revealed a bribery scandal that led to the resignation and arrest of the president.

Extradition is widely seen as a double-edged sword, compensating for institutional weaknesses in the short run but perpetuating them as the years go on. In many countries courts and prisons are no match for drug lords who can bribe or intimidate judges and witnesses, and run their empires from jail cells using mobile phones. In 1991 the Colombian kingpin Pablo Escobar was confined to a "jail" called the Cathedral, featuring a football field, jacuzzi, waterfall and prostitutes. Mr Guzmán was said to enjoy similar privileges during his first prison stint.

When *capos* are arrested but threaten to undermine their own trials or to endanger the public, extradition is the only way to eliminate the risk. Moreover, putting them in the hands of American interrogators dangling plea bargains can yield priceless intelligence. Colombia did not manage to stop gangs from systematically endangering the public until Álvaro Uribe, a right-wing president, outsourced a chunk of law enforcement: from 2002-14, he and Juan Manuel Santos, his successor, handed over

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nearly 2,000 inmates to the United States.

Even though new mafia leaders will inevitably replace departed ones, succession struggles mean they are likely to invest their blood and treasure for a time in internal squabbling rather than in co-ordinating narcotics shipments or kidnapping civilians. As William Rempel, an author on Colombian gangs, has put it, "extradition disorganises organised crime."

No one is more aware of the threat that extradition poses to mobs than the mobs themselves. Before Escobar entered the Cathedral, he launched a successful terrorist campaign to get Colombia to ban extradition. The slogan of his group, "The Extraditable Ones", was "We prefer a grave in Colombia to a prison in the United States." (The government did not resume extraditions until 1997.) In 2010 Jamaican gang members battled with state security forces for four days hoping to prevent the arrest and extradition of their boss, Christopher "Dudus" Coke. By the time he surrendered, more than 70 people had died.

Yet extradites pay a price. Extradition can create dependency by reducing pressure to clean up local justice systems. Although Colombia has broken up gangs, increased drug seizures and cut its murder rate, its courts and jails remain inefficient and corruptible by global standards. Because it now extradites even mob foot-soldiers, no one knows if it could jail a proper *capo* safely. Just 9% of murders there lead to a conviction.

In recent years American prosecutors have shifted their emphasis from punishment to intelligence, leading to lenient plea bargains and making extradition a less effective deterrent. Those who turn state's evidence get off with lighter sentences than they might receive at home, and may get to keep more of their money. In May the head of the Dominican Republic's anti-►

► drug agency spoke wistfully of the Extra-ditable Ones' motto, saying that for mobsters "it is better to be extradited to the United States than anything else." Kingpins still tend to spend decades in American jails, but for junior gangsters extradition is increasingly seen as a soft option.

Outsourcing justice abroad can also undermine it at home. Since American prosecutors focus exclusively on crimes against the United States, extradited prisoners are not tried there for wrongdoing against their own countrymen. This prevents victims from seeing justice done, and the public from learning about dark chapters of lo-

cal history. In 2008 Mr Uribe sent 14 members of right-wing paramilitary groups to the United States on drug charges just as Colombian investigators were examining their alleged human-rights violations and potential ties to the government. Many of their records were sealed, causing the president's opponents to accuse him of using extradition as part of a cover-up.

To serve as more than a stopgap solution, extradition must be part of a broader strategy. That should include attacking mob finances, professionalising law enforcement, rooting out corruption and providing jobs for potential gang recruits. Co-

lombia has made big strides in these areas, and Mexico is pursuing reform (see Bello). It is introducing adversarial trials, in which prosecutors build cases against defendants, which makes them less prone to rely on dubious confessions.

Such efforts can take years to bear fruit. According to Edgardo Buscaglia of Columbia University, Mexican judges make 61% more errors in organised-crime cases now than they did in 2003, owing either to honest mistakes or to corruption. Extradition is the second-best way to punish criminals, but for many Latin American countries it is still the only reliable one. ■

Bello | The silence of Los Pinos

The paradox that is Enrique Peña Nieto

IN THE first 18 months after he became Mexico's president in December 2012 Enrique Peña Nieto enjoyed extraordinary success. Through deft political manoeuvring he enacted a series of structural reforms of his country's sluggish economy that had eluded his three predecessors, including a historic constitutional amendment overturning a ban on private investment in energy dating from the 1930s. But then it all started to go wrong.

First a heavy-handed tax reform alienated private business. The murder of 43 student-teachers in September 2014 by drug traffickers in cahoots with local authorities in the southern state of Guerrero shocked the country. The revelation that the president's wife and his finance minister had both acquired luxury houses with the help of Grupo Higa, a construction company that had won government contracts, pointed to conflicts of interest at the top (though all denied wrongdoing). The transport minister then hastily cancelled a contract he had awarded to a consortium including Grupo Higa to build a \$3.6 billion high-speed railway.

In July the escape from prison of Joaquín "El Chapo" Guzmán, Mexico's most notorious drug trafficker, added humiliation to embarrassment. All this has undermined public support for Mr Peña. In a country that is traditionally deferential to its presidents, his approval rating slumped to 34% in the wake of Mr Guzmán's flight. The government is the butt of remorseless contempt among Mexico City's chattering classes. Many Mexicans point to two big problems with which they associate Mr Peña's administration—the continuing lack of security and the prevalence of corruption.

Officials seem both bemused and resentful at the lack of credit the government gets for its achievements. After all,

while Mexico's economy may not be stellar, it continues to grow steadily, which is more than can be said for some others in Latin America. The reforms are starting to show results that people can appreciate, such as a sharp fall in mobile-phone charges. Congress has approved a constitutional amendment to set up a grandly named National Anti-Corruption System. Many things, from education reform to the car industry, are going well in Mexico.

Even on security, the full picture is more mixed than the headlines. The murder rate fell from 2012 until March this year, though it is now edging up again. Several northern states where mafia violence raged are much calmer. In the central state of Michoacán, the federal government has defanged both a particularly vicious drug gang and local vigilantes. A new programme of community policing in some of the most dangerous neighbourhoods (with a total population of 2.5m) has "measurable results", says a security official.

But the government's failures are more visible. These include Guerrero, which has become one of the world's biggest sources of heroin. Parts of the state are "totally pen-

etrated by organised crime", the official admits. To his critics, Mr Peña has failed to give priority to security and the rule of law partly because many local politicians in his Institutional Revolutionary Party (PRI) benefit from the status quo. That applies even more to corruption. Congress is due to approve by May the laws required to implement the new anti-corruption system. If there is a "50% chance" that these laws will have teeth it is because Mexican society and academia are becoming increasingly conscious of the cost of corruption, says Mauricio Merino of CIDE, a university.

Mr Peña's most surprising failure is political. Paradoxically, the president who piloted ambitious reforms has proved incapable of reacting to events. "They don't know how to respond to public opinion," says Héctor Aguilar Camín, a historian, of Mr Peña's small coterie of aides. He calls the problem "the silence of Los Pinos" (the presidential offices). In the days when the PRI ran Mexico as a one-party state, presidents were often ruthless in sacking subordinates who failed. Not Mr Peña: the finance, transport and interior ministers all remain in their jobs, despite the conflicts of interest and Mr Guzmán's escape. The president seems to place personal loyalty above public accountability.

In the narrowest of political terms his judgment may be correct. Despite all the scandals, the PRI and its allies kept their congressional majority in a mid-term election in June. Mr Peña may yet be able to get his chosen successor elected in 2018 merely by conserving the PRI alliance's hard-core vote of around 36%. That is because the opposition is fragmented, and the constitution does not require a run-off ballot. The problem is that this formula will intensify Mexicans' disillusionment with their still young democracy.



Ecuador

Wily Correa

QUITO

Even if he does not stand for re-election, the president may still run the country

UNTIL last week Ecuadoreans thought they knew what their president, Rafael Correa, was planning. At his bidding, the National Assembly would approve a package of constitutional reforms in December, overriding doubts about their legality and popular demands for a referendum. Mr Correa would then exploit one of those changes—an end to term limits—to run for re-election in 2017.

Now he has shaken that assumption. On November 13th he said that anyone currently in office who has already served two terms, including himself, should not be allowed to run in the next election. The ending of term limits and other constitutional reforms, which boost the powers of the presidency, will go ahead, but Mr Correa may not be in office to exercise them. That has prompted a frenzy of speculation about what Ecuador's wily left-wing president really has in mind. The most popular theory is that he intends to hand over the presidency, Vladimir Putin-style, to an ally, who would carry out his wishes and make way for him to return to office in 2021. He has singled out Lenín Moreno, a former vice-president, as a possible successor.

Mr Correa may have changed his plans because he prefers not to be in charge at a time of economic weakness. Along with other South American countries, Ecuador is suffering from the end of the global commodities boom. The IMF expects GDP to shrink by 0.6% this year and to grow by a scant 0.1% in 2016. After nine spendthrift budgets under Mr Correa, the government cannot afford a fiscal stimulus. He may prefer to let a surrogate deal with the unpleasantness that lies ahead.

If that is the plan, it is risky. One danger for Mr Correa is that his stand-in will not be as pliant as he hopes. Mr Moreno, who shares his ideology but is more pragmatic, is popular in his own right. A new centre-left party, Democracia Sí, is trying to recruit him as its presidential candidate.

Then there is the risk that Mr Correa's handpicked candidate will lose. Although no opposition politician looks like a strong challenger, economic weakness could help one emerge, warns Luis Verdesoto, a political scientist. Another worry is that Mr Correa's party, Alianza País, will lose its majority in the legislature, rendering the next president a lame duck, a problem that has bedevilled governments since democracy was restored in 1979. Without Mr Correa to lead it, the party fears decimation. His lead-

ership "must continue", demanded Gabriela Rivadeneira, the legislature's president.

A weakened presidency is not what Mr Correa has in mind. Since 2011 he has in effect controlled the judiciary. The proposed constitutional changes would strip the office of the comptroller-general of some of its powers to audit government finances. Carlos Pólit, who now holds the office and does not often openly defy Mr Correa, calls the plan a "step backwards". Under the amended constitution, communications would be a "public service", giving the government the power further to restrict press freedoms, which have already been curtailed. The changes would also allow it to deploy the military to "complement" the police in fighting crime, without declaring a state of emergency.

In recent protests against the constitu-

tional reforms and planned tax rises, police and soldiers beat and arbitrarily arrested dozens of unarmed people, alleges Human Rights Watch, an NGO based in the United States. The authorities are not properly investigating these reports, the group says. The government's critics fear that the new constitutional provisions will encourage such abuses. The government insists it was the protesters who behaved violently.

Polls show that 80% of Ecuadoreans want the amendments put to a referendum, which suggests that they would be voted down. The pliant constitutional court has ruled that a referendum is unnecessary. Mr Correa has left Ecuadoreans guessing whether he will voluntarily move out of the Carondelet Palace in 2017. Few doubt he will remain the most powerful person in the country. ■

Venezuelan slang

A Bolivarian-English dictionary

Insults are not in short supply

VENEZUELANAS are famously inventive with words. After 17 years of chavismo, the left-wing ideology of the late president, Hugo Chávez, they have plenty of material. Insults aimed at his "Bolivarian revolution" abound; the regime, now led by Nicolás Maduro, hurls its own ammunition. With parliamentary elections due on December 6th, *The Economist* offers a sample.

Bachaquero. Derived from "bachaco", a voracious large-bottomed leaf-cutter ant. Bachaqueros are black-marketeers, who have flourished with the slump of the oil-dependent economy. Often to be found at the head of the perpetual supermarket queues, they buy up scarce price-controlled goods, such as eggs, detergent and nappies, and resell them for a handsome profit. Classy bachaqueros supply delicacies to the rich.

Boliburguesía. The class that profits from the Bolivarian revolution. Chávez promised to break the power of the bourgeoisie but his regime created another. As the out-of-favour elite vacated mansions in the exclusive Country Club neighbourhood of Caracas, the boliburguesía bought them up.

Enchufado. Literally "plugged in". An *enchufado* uses government connections to enrich himself, usually through the Byzantine system of exchange controls. A dollar costs ordinary Venezuelans around 800 bolívares on the black market, but an *enchufado* can buy one at the official rate of 6.3 bolívares. Many tool



around Caracas in Chinese-made Chery cars, bought with permits from the transport ministry. With super-strong bolívares, they cost a few hundred dollars.

Patriota cooperante. A government informant. Diosdado Cabello, the head of the National Assembly (and possibly Venezuela's most powerful man), uses his television show to broadcast incriminating titbits about the regime's enemies, supposedly gleaned from public-spirited patriotas cooperantes.

Pelucones. Literally "bigwigs". Mr Maduro applies the epithet to his nemesis, Lorenzo Mendoza, a luxuriantly haired billionaire who runs Polar, a food and drinks company. If the revolution falters, warns Mr Maduro, *pelucones* will return to exploit ordinary Venezuelans.

Vendepatria. The opposite of a *patriota cooperante*, who will sell Venezuela to the highest bidder. Opposition leaders, citing the regime's dependence on bailouts from China, hurl the insult back.

KAZAKHSTAN IS MAKING A GOOD BUSINESS CLIMATE EVEN BETTER

Kazakhstan, the most dynamic economy in Central Asia, not only continues to be “Open for Business” with the rest of the world, but has laid down an even larger welcome mat for international investors.

The glittering new mat consists of a package of financial and tax incentives for investors who open manufacturing facilities in the country. The aim is to attract industries that help diversify Kazakhstan’s economy away from its mainstays, oil, gas and minerals.

A huge step in Kazakhstan’s quest to create one of the world’s most business-friendly environments was joining the World Trade Organization in June of this year. That membership will mean lower tariffs and less red tape for those investing in Kazakhstan.

An investor who sets up shop in the country will also gain duty-free access to the growing Eurasian Economic Union market. The EAEU free-trade zone started with Kazakhstan, Russia and Belarus two years ago. Armenia and Kyrgyzstan have since joined, and Vietnam and other countries are seeking membership.

One of the international investors who has gained unfettered access to the EAEU’s combined market of 180 million people is Don Wallis of Vancouver, Canada. He opened a farm-equipment manufacturing plant in Kostanai, Kazakhstan, in the late 1990s. The 117-person operation produces swathers, headers and cutters for Kazakhstan and surrounding countries.

Kazakhstan has been so open to investment, Wallis said, that he sold his Canadian farm-equipment operation. “I’ve tied up everything here,” he said.

During the last ten years Kazakhstan has attracted over \$200 billion in gross foreign investment – a staggering amount for a country of 17 million. Its international partners – such as those in the Tengrizevrol petroleum operation – have made billions of dollars from their Kazakhstan operations. And the partnerships helped Kazakhstan average 10 percent annual economic growth during most of the 2000s – one of the best records in the world.

Although it’s had great success attracting foreign investment, Kazakhstan made its investment climate even more alluring in 2014. Its new incentives for those who build manufacturing facilities in the country include a 10-year exemption from corporate taxes, an eight-year exemption from property taxes and a 10-year exemption from land tax. In addition, the country will reimburse a company 30 percent of what it spends to create a manufacturing facility once it’s operating.

Kazakhstan’s president, Nursultan Nazarbayev, has made attracting investment a personal priority. He has signed multi-billion-dollar investment deals with leaders of many countries. And he chairs the Foreign Investors Council, whose members includes top international business leaders. They find the council a good place to offer suggestions on improving Kazakhstan’s business climate.

Kazakhstan’s success in improving its investment climate has led to steady climbs in its rankings in business-and investment-friendly indexes. It is 28th on the UNCTAD’s World Investment scale, 42nd on the World Economic Forum’s Global Competitiveness Index and 41st on the World Bank’s Doing Business Index.

But it knows it can do better – and it’s committed to taking steps to make its business climate even friendlier for international companies in the years to come.

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KAZNEX
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Myanmar's election

Minority report

HPA-AN

Aung San Suu Kyi's party wins big in the restive ethnic borderlands

HSTAR LONE, chairman of the Union Solidarity and Development Party (USDP) in Kayin state, sits despondently behind an empty desk in his eerily silent villa in Hpa-An, the state capital. Just a few days earlier his party, which has, in different guises, brutally run Myanmar for more than 50 years, suffered a resounding defeat. Of the 36 local and national parliamentary seats the USDP contested in Kayin state (formerly called Karen state), it won just six, down from the 17 it currently holds.

The USDP was not the only loser in Kayin state. Ethnic parties, which won 18 seats in local and national parliaments in Myanmar's 2010 general election, this year got only one local seat. Aung San Suu Kyi's National League for Democracy party (NLD) won 26 of the state's 33 local and national seats.

That upended pre-election conventional wisdom. Many believed that the NLD would do well, but would struggle to win a majority nationally. Dozens of small ethnic parties were expected to siphon off anti-government votes: many minority voters see the NLD as just another party of elite Burmans, the majority ethnic group that comprise 68% of the country's population. But those parties fared badly: the NLD won most of the national parliamentary seats in Myanmar's seven ethnic states, while ethnic parties (not including a Shan party allied with the NLD) took just 36, down from 73.

With three seats still uncalled, the NLD has won 390 of the national parliament's

664 seats, enough to give it a majority in both houses. The NLD also secured a majority of state and regional assembly seats. Those victories give Miss Suu Kyi a multi-ethnic national mandate—something no previous leader of Myanmar has enjoyed. The questions now are what she will do with it—and what the army will let her do.

Three factors helped the NLD in ethnic-



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minority states. First, it is better organised and better funded. Second, the profusion of ethnic parties split the anti-Burman vote—and in Myanmar's first-past-the-post electoral system, that is fatal. In Kachin state, for instance, six ethnic-Kachin parties contested the election, winning just one parliamentary seat among them. Perhaps most importantly, many minority voters made a tactical decision to support the NLD in spite of its Burman roots.

Kum Shawng, who directs the Kachin Education Foundation in the city of Myitkyina, said that, although people like and might eventually support ethnic-Kachin parties, in this election they believed that "only the NLD party can change Myanmar". Minority voters across the country supported the NLD not necessarily because they liked Miss Suu Kyi's policies (which are either vague or unstated), but because enough of them understood that votes for ethnic parties could help the USDP, and because they believed she could defeat the generals and improve their lives.

Even so, ethnic-minority voters remain wary. Mr Kum Shawng admits that he "does not fully trust the NLD": he fears it will favour the Burman majority. At the office of the Karen National Union (KNU) in Hpa-An, Shee Sho, a major in the KNU, also expresses concerns about the results. He worries about Miss Suu Kyi's inexperience in government, and whether she will really be able to change the army-dominated political system. He says wryly that he will watch the NLD carefully, giving it "five months to prove that they are taking the interests of the ethnic groups to heart".

That is a tall order. Tom Kramer, a Myanmar researcher with the Transnational Institute, a think-tank, says the NLD's victory "raises questions without any answers yet". Shortly before the election, the government announced with great fanfare the signing of a national ceasefire agreement ►

► with eight armed groups, among them the KNU. (It hoped, in vain, that its announcement to boost development in areas controlled by signatories would buy it some goodwill in the election.) Nobody yet knows whether Miss Suu Kyi will continue the current peace process, which has strong institutional support in Myanmar, or start a new one.

The NLD's manifesto supports a federal union, which ethnic armed groups also want. But no one knows what that means in practice: America, India and Germany are all federal states, yet have very different political structures. If Miss Suu Kyi has a preferred federal model, she has kept it quiet. The international community will expect her to do something about the persecution of the Muslim Rohingya, about which she has so far been shamefully silent. But anti-Muslim sentiment is widespread and virulent among the Buddhist base that elected her.

Most importantly, nobody yet knows how much latitude the army will give Miss Suu Kyi. Not only does it hold 25% of parliamentary seats, it also appoints the powerful defence, border-security and home-affairs ministers, which gives it control over the police and civil-service administration. Without constitutional reform, it will remain shielded from civilian oversight and law. That bodes ill, because the armed forces show little interest in reining themselves in. Two days after the NLD's electoral victory, the army reportedly shelled a school in Shan state housing internally displaced people. All the boldness in the world will not matter if the army can ignore a civilian president's order. ■

Cambodian politics

The trap is laid

PHNOM PENH

A period of political rapprochement appears to be at an end

EVEN before it has become clear quite how Aung San Suu Kyi can govern in Myanmar, the Nobel laureate's electoral landslide has sent ripples across the neighbourhood—nowhere more so than in Cambodia. On a trip to Japan the country's opposition leader, Sam Rainsy, could not resist comparing himself to Miss Suu Kyi. Her victory, he added, "has created panic among the last surviving dictators in our part of the world, but the wind of freedom ... will also reach Cambodia in the very near future."

Even if Mr Sam Rainsy's claim to Miss Suu Kyi's moral status is a stretch, the Myanmar parallel is not. The prime minister, Hun Sen, a former commander under

Seoul's shanty-towns

Moonrise kingdoms

SEOUL

After decades trying to get rid of slums, moves are now afoot to preserve them

FEW buildings in Seoul were left standing in 1953 after the Korean war had ravaged the city. Since then it has seen relentless construction. Office blocks were built on land cleared of slums, and traditional homes replaced by blocks of flats. The mayor, Park Won-soon, deplores this "reckless" development and wants to save what he can of Seoul's heritage: historic buildings and also some shanty-towns.

One such is Baeksa village, which has clung to the flanks of Mount Buram since the 1960s. It was built by the first wave of Seoul's displaced urban poor. Each family got a small plot of land and 200 bricks.

Over 2,000 people still live in the sloping streets of the village. Little has changed since 1967, when Lee Sang-ko arrived. Now in her 50s, she lives alone. One of her children has moved, as many do, to the city. Ms Lee's house is made of cinder blocks and a corrugated-iron roof. She farms a small garden and shares an outdoor privy with neighbours.

There have long been plans to raze these hillside hamlets, known as *daldongnae*, or moon villages, for their privileged view of the night sky. But they have survived thanks to rocky terrain and green belt restrictions.

Mr Park, the mayor, last year appointed the city's first official architect, Seung H-Sang. A committee under Mr Park now oversees bids for all public projects, and can oppose those deemed inconsistent with the city's history and natural landscape—something Mr Park says the city could not control in the past. In February he designated 350 historic spots for conservation as "future heritage", including the capital's oldest barbershop and a bookshop set up during the Korean war.

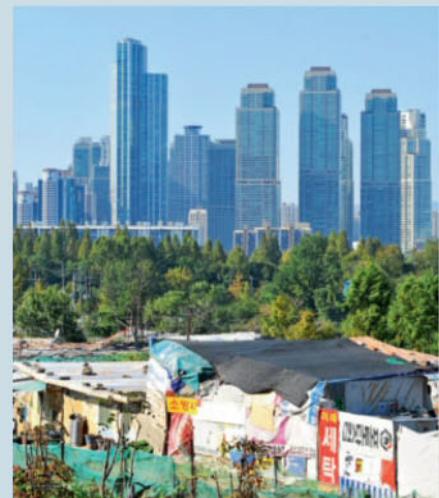
In Baeksa, Mr Seung leads a team of 12 architects in a revitalisation project. Two-thirds of the village is to be razed by a state-run property developer and turned into high-rise dwellings. A third will be left intact, but each home in that part will be rebuilt. Mr Seung insists on

keeping the village's broad layout: its topography and plots, its existing walls and winding streets. Villagers' lives have been surveyed to ensure the new buildings are appropriate. Mr Seung wants the revamped area to attract not just the poor, but students, foreigners and artists.

Some urban planners mock such nostalgia. But Francisco Sanin, a Colombian architect on Mr Seung's team, says Baeksa can inspire regeneration in other parts of South Korea, and beyond, with its communal kitchens, vegetable gardens and public patios.

Mr Park's preservation push does not mean skimping on malls and other construction. He has approved a convention and museum complex to rival Marina Bay, a vast edifice in Singapore. Thousands of low-cost homes will be built in Guryong, another shanty-town which has just been razed.

In Baeksa, meanwhile, there are concerns that preservation efforts have come too late. Eight-year-old Ha Jae-eun says she loves to play hide-and-seek in the village. But there are few other children to play with and she, too, wants to leave one day for the bright lights of the city.



Seoul seen from the fringe

the Khmer Rouge regime, has ruled Cambodia with an iron grip for 30 years, in part by rigging elections. After a recent period of rapprochement with the opposition Cambodia National Rescue Party (CNRP), the government has turned mean again.

Late last month Kun Kim, the army's deputy commander, who is very close to the prime minister, urged the removal of Mr Sam Rainsy's deputy, Kem Sokha, as

the National Assembly's vice-president. The assembly, dominated by the ruling Cambodian People's Party (CPP), obliged. Hundreds of CPP hoodlums had previously spent hours hurling rocks at Mr Kem Sokha's house, his terrified family inside. Two opposition lawmakers were beaten up outside the National Assembly.

Now Mr Sam Rainsy's comments have blown Mr Hun Sen's fuse. The opposition ►



Sam Rainsy and Hun Sen: the honeymoon is over

► leader, he spat, was “the son of a traitor” (in 1959 Mr Sam Rainsy’s pro-Western father plotted against the late king, a fan of Mao Zedong). On November 13th a court in Phnom Penh, the capital, issued a warrant for Mr Sam Rainsy’s arrest on a long-dormant conviction for the defamation of a CPP heavyweight.

Three days later the National Assembly revoked Mr Sam Rainsy’s parliamentary immunity. Rather than fly into Phnom Penh late that night and risk a showdown, the opposition leader stayed away. He says he will remain abroad, though only for a matter of days. Arriving in the dark of night, he says, would have given CPP thugs an excuse for violence against his supporters coming to meet him at the airport. Besides, Asian diplomats and others have asked him to stay away for a time so that they can help to calm the prime minister’s temper.

Even if these interlocutors succeed, a half-year rapprochement between the two men appears over, and the future of Mr Sam Rainsy’s much-vaunted “culture of dialogue” in doubt. It was always an unlikely truce, but Mr Hun Sen had seemed to want an end to his stand-off with the CNRP. The party claimed it would have won the general election in 2013 had Mr Hun Sen not rigged the outcome. Street protests, often violent, followed, along with a crackdown on dissidents. But from April this year suddenly all was sweetness and light, and the two men began appearing in public together, along with their wives. Not everybody in the CNRP approved.

Now, Mr Sam Rainsy describes the 63-year-old prime minister (who has said he intends to rule for another decade) as panicked. He calls it “a kind of a constitutional coup when you want to arrest the leader of the opposition”. The CPP has immense powers of patronage, and is able to mobilise its supporters across the country. But, says Mr Sam Rainsy, with many younger, better-informed Cambodians coming to the opposition via social media, “the trend is now in our favour”. He says he believes the prime minister has a premonition that his days are numbered.

Despite all this, Mr Sam Rainsy says he

wants to keep alive the spirit of dialogue, at least with more amenable parts of the CPP which, alongside a ruthless and corrupt old guard, also has its modernisers. Above all, he says, the opposition must keep its sights on the next general election, due by 2018. It must not allow the ruling party to use violence as a pretext for declaring a state of emergency and even cancelling the elections. “We are not going to fall into their trap,” he says. But if he does return—and he is aware that running off to Paris, as he has done in the past, will dent his reputation—the trap may prove hard to avoid. It is a delicate and possibly dangerous moment for Cambodia. ■

Vietnam’s economy

Crying over cheap milk

HANOI

Questions remain about Vietnam’s commitment to economic reform

CANS of baby-milk powder are piled high at a Bibo Mart maternity shop in downtown Hanoi. The shelves hold more than 20 distinct products, domestic and imported, and prices range from about \$13 to \$22 per kilogram. The highest prices used to be higher. But since the finance ministry introduced a price “stabilisation” law, retailers of milk powder, mostly foreign, have had to shave prices by up to a third. As America’s Congress mulls whether to approve the Trans-Pacific Partnership (TPP), an American-led trade agreement whose draft text was released in early November, it all sends a bad signal about Vietnam’s commitment to economic reform.

Vietnam is an eager member of TPP and expects to reap an economic windfall if Congress approves the pact. But it is still asking America and the European Union to drop their designation of the country as a “non-market” economy before 2018, when it is due to expire. A switch to a “market-economy” designation would help Vietnamese firms fight anti-dumping law-

suits. Vietnam has already secured market-economy status with other countries. Yet a statue of Lenin stands tall in Hanoi, and economic planners in the ruling Communist Party still have plenty of Soviet impulses. They draft five-year plans, the next of which will be hammered out at a Communist Party Congress in early 2016. And it is not just baby-formula prices they have sought to control. Since 2002 they have rolled out laws to cap the price of basic goods like petrol, rice and sugar. Such controls initially just applied to state-owned enterprises, but they increasingly regulate private and foreign competitors, too.

The milk law appeared last year after a handful of multinational formula companies were accused by the state-controlled press of price fixing (on flimsy evidence). It may have been designed to hurt foreign firms and benefit their domestic competitors, such as Vinamilk, a dairy giant in which the state owns a 45% stake. Yet the law also affected Vinamilk, and some think it may just reflect old-fashioned thinking about the government’s role in the marketplace. Whatever the reason, foreign firms and embassies are furious. Last year Nguyen Tan Dung, the prime minister, is said to have assured America’s commerce secretary, Penny Pritzker, that the law was temporary. But this spring it was extended until the end of 2016.

The law’s champion is Nguyen Thien Nhan, chairman of the Fatherland Front, a Communist Party organisation that purports to speak for Vietnam’s 90m people. Mr Nhan, a member of the Communist Party’s elite Politburo, is one of its more outspoken populists. He has championed a patriotic campaign to promote Vietnamese goods over foreign ones, and another to raise the average height of Vietnamese children (partly by feeding them more milk). He is also in the running to replace Mr Dung as prime minister after next year’s congress. His consumer advocacy may have raised his political profile.

Yet the milk law’s populism rings hollow. Thanh Thuy, a Bibo Mart manager, says it affects high-end products and mainly benefits middle-class yummy mummies who never felt squeezed by high prices. Market volumes of milk powder have dropped by 11% since last year. Foreign brands are winnowing inventories and curbing research and development in a \$640m milk-powder industry. In a recent survey by the Vietnam Chamber of Commerce and Industry, 42% of Vietnamese officials, down from 68% in 2011, saw price-stabilisation mechanisms for milk, rice and other products as effective market tools.

Adam Sitkoff of the American Chamber of Commerce in Hanoi says the milk law is a “non-market” intervention that contradicts TPP’s core principles. Persuading America that Vietnam is a market economy will still be a hard sell. ■

Banyan | She once was lost

Grace Poe's amazing ascent, despite many obstacles, in the Philippine presidential race



IN CALAMBA, a town just south of Manila, the Philippine capital, Grace Poe is talking about her father, Ferdinand Poe Junior, or FPJ. Wielding a microphone in the morning sunlight in front of a fruit-stall in the market, she tells an enthusiastic crowd several hundred strong that many of his films were shot near here; and when the famous actor ran for president in 2004, the province voted for him. She also talks of her origins before she was adopted by Philippine movie royalty: as a baby abandoned in a church, whose parents have never been identified. Yet in 2013, aged 44, she was elected to the Senate, with a record number of votes. Lump in the throat and tears in the eyes, she remembers being told at the time that she could not win. In a day of radio interviews, school visits (where her team are greeted like rock stars) and a press conference, her personal story keeps coming up. Clearly, it appeals to many Filipinos; it has helped make her the favourite in the presidential election to be held next May.

The race to succeed Benigno Aquino, who must stand down after the one six-year term the constitution allows, will be hard-fought. Most of the 130 registered candidates are unknown, frivolous no-hoppers. One wants the Philippines to become part of America. Two, however, are serious rivals, and Miss Poe has had a good week against them. An opinion poll showed her with a solid lead, on 39%, compared with 21% for Mar Roxas, of Mr Aquino's Liberal Party, and 24% for the vice-president, Jejomar Binay (who is actually the main opposition candidate—vice-presidents are elected separately).

Then on November 17th, the day of Miss Poe's cameo in front of the pineapples, the Senate Electoral Tribunal (SET), comprising three judges and six senators, voted five to four against a bid to disqualify her candidacy on the ground that, as a foundling, she cannot prove she is a "natural-born Filipino", a constitutional requirement. This will not be the end of the matter. An appeal is likely, which will end up in the Supreme Court. And she faces other challenges. One is legal, over whether she meets a separate constitutional condition: being resident in the Philippines for the ten years before taking office. Another is political—how much voters care that when she lived in America for years with her husband (a Philippine-born American) and children, she renounced her Philippine citizenship, only to reclaim it long after she re-

turned to the Philippines following her father's death in 2004. Most of the 10m Filipinos, one-tenth of the population, who live abroad keep their Philippine passports.

The SET decision, however, will at least avoid an awkward battle to save her Senate seat, from which an adverse ruling would also have disqualified her. And it keeps her in the news. Some admirers may feel their heroine is being persecuted. And since almost everybody has family members who have worked abroad, many probably sympathise; in her words, "a lot of my countrymen can identify with my situation." Certainly the fuss seems less important to her fans than does her parentage—many believe her father was cheated of the presidency in a rigged election against Gloria Macapagal-Arroyo—and her history as a foundling. This has even given rise to a bizarre and improbable legend that she is in fact the illegitimate child of Ferdinand Marcos, the late dictator toppled in 1986, and FPJ's sister-in-law.

The romance of her story and her personal charm help explain why her campaign seems to be more about Miss Poe herself than about policies. Another reason is that Philippine politics always seems preoccupied with personal drama and stardom. In 1998, after weathering the Asian financial crisis thanks to a period of solid government under Fidel Ramos, the Philippines made a disastrous electoral choice: Joseph Estrada, an actor specialising in tough-guy roles (and the only person Banyan has ever seen fall asleep during one of his own press conferences). Mr Aquino, an apparently unambitious senator in 2009, was swept into a successful tilt at the presidency the following year on a wave of popular sympathy following the death of his mother, Corazon, the first post-Marcos president.

Miss Poe's policies are in fact not much different from Mr Aquino's. Though an independent, she has been part of his Senate "team". Mr Aquino might have endorsed her himself had he not owed Mr Roxas a debt for making way for him as their party's candidate in 2010. He tried hard to persuade her to become its vice-presidential candidate next year. Miss Poe could have accepted and waited until the next election in 2022 to have a shot at the presidency. But after her Senate triumph in 2013 she found herself in the limelight when leading the legislative body's investigations into a disastrously botched counter-terrorism operation this January. The momentum was with her; and her father's memory is still fresh. As it is, she can identify herself with the achievements of what is generally considered to be one of the better Philippine governments of recent years, thanks to an anti-corruption drive and economic growth of 6% a year. But she can also distance herself from its blunders and unpopular decisions.

How sweet the sound

So Miss Poe has a lot going for her. She has assembled an impressive slate of candidates for the 12 Senate seats up for election (one half of the total) and has a hardened and savvy running-mate in a serving senator, Francis Escudero (known as "Chiz"—slogan: "say Chiz"). He scores even higher in the opinion polls for his election than she does for hers. But Mr Binay and Mr Roxas are formidable opponents, with deeper pockets and established party organisations. They will harp on her lack of administrative experience. Some people may be unhappy that she has thwarted Mr Aquino's bid to cement his legacy by naming a successor to run on a party platform; they will see her as an epitome of bad old Philippine politics, based on discontinuity and personality. But as personalities go, hers is at least an attractive one. ■



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Sex education

Dream of the bed chamber

BEIJING

China is in the midst of a sexual revolution. Time to start educating the young

SEX, sex, sexual intercourse, penis, penis, vagina." More than 150 undergraduates are sitting in a lecture hall at China Agricultural University in Beijing, shouting loudly. Many are sexually active, or soon will be. Yet for most it is the first sex education class they have attended.

Their instructor hopes that shouting such words will help youngsters talk more openly about sex. Lu Zhongbao, a 24-year-old forestry student, says he was told as a child that he "emerged from a rock". When he started having sex with his university girlfriend he had little idea about contraception. This evening he arrived an hour early armed with another question: will masturbating damage his health?

It is not just China's economy that has loosened up since 1979. The country is in the midst of a sexual revolution. A 2012 study found that more than 70% of Chinese people have sex before marriage. Other polls put that figure lower but consistently indicate that over the past 30 years, more young Chinese are doing it, with more partners, at a younger age. But a lack of sex education means that many are not protecting themselves, resulting in soaring abortion rates and a rise in sexually transmitted diseases.

The Communist Party has stuck its nose into people's bedrooms for 30 years through its harsh family-planning policies. Yet taboos on sex before marriage pre-

vailed, the result of paternalistic—not religious—values about female chastity, with a dose of Communist asceticism thrown in. Pre-marital sex fell foul of a range of laws, including the catch-all charge of "hooliganism", only scrapped in 1997.

The social climate remains chilly. Most news items about sex involve scandals or crimes. Schools ban pupils from dating and many deploy "morality patrols" to root out flirting or frolicking couples. Sex outside wedlock is not illegal but children born to unmarried mothers face obstacles obtaining a *hukou*, or household residency, that entitles them to subsidised education and welfare. Yet with greater freedom from their parents, more money and increasing exposure to permissive influences from abroad, China's youth are clearly separating sex from procreation.

Education on the subject is compulsory in Japan, South Korea and Taiwan—societies that have some cultural similarities with China. But most Chinese schools teach only basic anatomy.

This is not entirely for lack of trying. Pilot campaigns in Shanghai and Beijing schools in the 1980s were incorporated into a nationwide programme in 1988 but it was never implemented. In 2008 the Ministry of Education included sex education in the national health and hygiene curriculum. The barriers are not just prudery. Like football, fashion and other teenage pas-

times, sex (and learning about it) is seen as a distraction from studies. "Sex is not an exam subject," says Sheng Yingyi, a 21-year-old student.

Where classes happen, most students are merely given a textbook. "Happy Middle School Students", written for 12- to 15-year-olds in 2006 and still widely used, refers to sperm meeting egg without describing the mechanics of intercourse. A more explicit volume for primary-school pupils published in 2011, which did explain how sperm were delivered, was criticised for being pornographic.

The dominant message is to abstain. A 2013 review by UNESCO and Beijing Forestry University noted the prevalence of "terror-based" sex education, with content largely focused on the horrors of pregnancy, abortion and HIV. Earlier this month a university in Xi'an in central China ran a course entitled "No Regrets Youth" where students received a "commitment card", essentially a pledge to remain a virgin until marriage.

We need to talk

There is almost no discussion in Chinese schools about love, communication or trust, how to say no or to deal with harassment or abuse. Homosexuality is not discussed, and Chinese parents rarely talk with their children about sex. Peng Xiaohui of Central China Normal University, who runs sex-education classes (including the one at China Agricultural University), had excrement thrown at him last year because of the work he does. Several Chinese and foreign NGOs have tried to fill the gap, but many are now wary after the month-long detention this year of five feminists who had launched a campaign against sexual harassment. Most Chinese youths find out about sex from the internet and online ➤

► pornography.

That does not work well. Because of the mismatch between lust and learning, around a quarter of all sexually active women under 24 get pregnant by mistake. Half of them do not use prophylactics, some because they know little about them, others because of insufficient access.

The pill is not widely used in China, even by married women. The government encourages the use of intra-uterine devices which provide less chance of human error. Until last year advertising condoms on television was banned (abortion, by contrast, is widely promoted). Convenience stores sell condoms, but they are not always available near college campuses.

Those who do use prophylactics often use them wrongly: a 2014 study found that a quarter of under-17s who got pregnant had used some form of birth control. There is also a flourishing trade in "counterfeit condoms", shoddily made sheaths being passed off as popular name brands. As a result sexually transmitted diseases are on the rise; 91% of new HIV cases are from sexual contact.

Dirty secrets

It is hardly surprising that the abortion rate is so high. The one-child policy has made termination a normal phenomenon. Most clinics, private or state, put a premium on speed and offer no advice on how to avoid getting pregnant again. So repeat abortions are common: a study of nearly 80,000 Chinese women who terminated pregnancies in 2013, published in October by the *Lancet*, a British journal, found that 37% were doing so for the second time, and 29% for a third time or more. Unmarried women account for a rising share of these—and are a significant reason why, after an extended period of decline, terminations have been increasing in number since 2003.

Although China has no national system for counting abortions (official statistics include only state facilities), a researcher from the National Health and Family Planning Commission reckons there could be 13m terminations or more a year, a figure widely quoted in state media. But Marie Stopes, an international reproductive-health agency, reckons that figure could be as high as 40m, given domestic sales for pharmaceutical companies selling drugs used in terminations. If that number is correct, around half of all abortions worldwide are in China. The high number of terminations is in marked contrast to the low birth rate. If Marie Stopes is correct, 2.5 babies are aborted in China for every one born, compared with about two live births per termination in Russia and five births to one abortion in America. Even using the widely cited 13m figure, there are nearly as many abortions as births in China each year. That, and not frank talk about sex, is China's shame. ■

Animal conservation

The elephants fight back

GUANGZHOU

Remarkable progress on ivory and shark fin; none on rhino horn

FOR anybody who fears that China's interest in elephants' tusks could spell doom for the great beasts, there have been two pieces of good news. On September 25th Xi Jinping, the Chinese president, joined Barack Obama in pledging "significant and timely steps" to halt commercial trade in ivory. Then on October 15th China announced a one-year ban on the import of ivory hunting trophies from Africa, closing a big loophole. Wildlife activists are delighted. These moves should have "a profound effect" on elephant numbers, says Peter Knights of WildAid, a charity.

The world's elephant population has dived from 1.2m in 1980 to under 500,000 today. In 1989 the sale of ivory was banned worldwide. But in 1999 and again in 2008, the Convention on International Trade in Endangered Species (CITES), a conservation pact, allowed the sale of stockpiles of ivory from southern Africa to China. The countries vowed to use the proceeds for conservation; China claimed it had a robust registration system that would keep illegal ivory out. But conservationists rightly predicted the concession would fuel more smuggling and so more killing.

Permitted sales became a cover for illegal ones. In 2010-12 about 100,000 elephants were slain for their tusks. In the past five years, Mozambique and Tanzania have lost half their elephants to poaching.

This dire trend reflects China's deeper engagement with Africa, combined with corruption and the presence of criminal gangs. But it seems that Chinese leaders have seen the trade's effects on their reputation, says Dominic Dyer of the Born Free Foundation, a charity. They should now close the legal carving workshops and ban

the domestic trade, too, he adds.

Despite strong demand for ivory among China's rising middle class, attitudes may gradually be changing. As of 2012, nearly half of Chinese people saw elephant poaching as a problem, according to a survey by WildAid. The figure has been boosted by the support of celebrities. Yao Ming, a basketball player, and Jackie Chan, an actor, appear on posters everywhere with the message: "When the buying stops, the killing can too." The government has donated \$200m worth of media space every year since 2008.

Opinion on ivory has shifted fast, says Mr Knights, partly because of the success of another campaign, to protect sharks. In the markets of Guangzhou, the global centre for the trade, dried shark fins have fallen from 3,000 yuan (\$470) per kilo five years ago to 1,000 yuan today, as Chinese people abjure shark-fin soup, a delicacy.

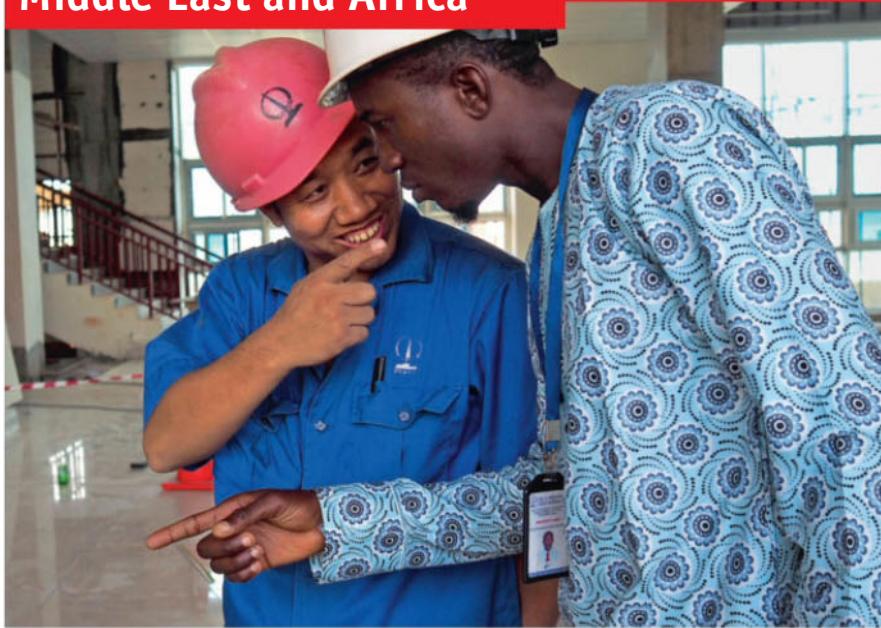
WildAid raised its voice over that issue, too, but more important was the Communist Party's ban in 2013 of shark-fin soup at official banquets, part of a drive against corruption and excess. The Hong Kong government followed, as did airlines and hotels. A survey in 2013 found 85% of people said they had stopped eating shark-fin soup in the past three years.

One scourge is untouched by all this: the illegal trade in rhinoceros horn. More than 1,200 rhinos were killed for their horns in 2014 in South Africa alone, up from just 13 killed in 2007. This partly reflects a huge rise in demand in Vietnam, but China is also a consumer. Ground rhino horn is believed to cure fever and improve sexual performance. One kilo can cost up to \$70,000.

Ominously, some African nations now want a one-off sale of rhino-horn stocks, as happened twice with ivory. To secure this, South Africa must win two-thirds of the member states at the next CITES conference, which it hosts next year. Mr Dyer hopes other countries, including China, will dissuade the Africans. "We are in exactly the same place we were with ivory nearly ten years ago," he frets. ■



It looks better on an elephant



Chinese investment in Africa

Not as easy as it looks

SSEESAMIREMBE CITY

Western worries about China's burgeoning influence in Africa may be overblown

ON THE western edge of Lake Victoria in Uganda, a hundred miles south of Kampala and an hour or so's drive up a progressively narrower dirt track, is the site of what was meant to be one of the biggest Chinese commercial investments in Africa. A rust-flecked sign marks the entrance to "Sseesamirembe City", part of the "Lake Victoria Free Trade Zone". It does not mark much. Teenage boys wheel bicycles laden with water containers past mud huts and scrubby matoke (banana) fields. A few smarter houses and half-built breezeblock structures are the only evidence that there has been any development at all.

In 2008 the Lake Victoria Free Trade Zone was announced to the world as a transformative investment. Footage from CCTV, the Chinese state broadcaster, shows a meeting between Ugandan officials and Chinese ones in Beijing to confirm the deal. The investment, a partnership between a large Chinese firm and Ugandan investors, was to cover 500 square kilometres (200 square miles) of land. They proposed building a "solar-powered" airport, manufacturing facilities and a distribution hub, as well as homes and agribusiness, all adding up to a new "eco-city". Some \$1.5 billion would be invested in one of the least developed parts of Uganda. It was suggested that thousands of Chinese farmers might settle the land and grow crops for export to China.

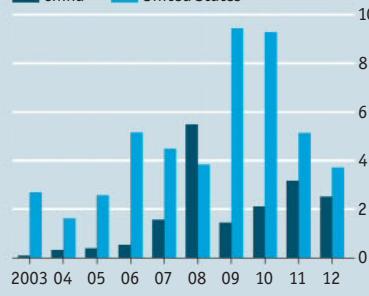
Of all these bold promises, none came

to fruition. As China's involvement in Africa deepens, and Western policymakers worry about whether they can compete with a flood of Chinese cash, the failed project is evidence of the mixed success of China's scramble for Africa. It is true that new railways and roads funded by China's Export-Import Bank, and its investment in copper mines and oil rigs in places such as Zambia and Angola, are changing the face of the continent. Airports in Kinshasa, Luanda and Addis Ababa buzz with Mandarin. But there is growing evidence that some Chinese firms that leap into Africa are struggling with the same problems Africa has long given Western investors.

Reliable figures on the levels of Chinese investment in Africa are hard to come by.

The new giant

FDI flows into Africa, \$bn
China United States



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But those published by the Chinese Ministry of Commerce suggest the net annual flow of Chinese direct investment into Africa increased eight-fold between 2005 and 2014, to \$3.2 billion. The total stock of Chinese investments grew twenty-fold, to \$32 billion. Direct comparisons to Western figures are harder still, but that makes China one of Africa's biggest investors. In addition, Chinese aid has increased, as have development loans made through the Export-Import Bank, which finances infrastructure projects built by Chinese firms.

However, according to Deborah Brautigam, a professor at the School of Advanced International Studies in Washington, DC, much of the hype about Chinese firms buying up vast amounts of industry in Africa is overblown. Chinese FDI to Africa constitutes less than 3% of all Chinese foreign investment: vastly more goes to other regions, especially Asia. Growth has slowed in recent years. And, as Ms Brautigam shows in a new book investigating agricultural projects, "Will Africa Feed China?", many heavily-reported Chinese projects do not amount to much.

There was, for example, a widely touted Chinese investment of over \$1 billion in a 3m hectare palm-oil plantation (an area roughly the size of Hawaii) in the Democratic Republic of Congo. But when work started the Chinese found that there were no roads, the river was barely navigable and villagers were hostile. When a small amount of land was planted the crop was immediately stolen. The project soon disappeared.

The same applies to many mineral extraction projects. In Congo, a deal struck in 2007 to swap \$6 billion of Chinese infrastructure funding for profits from copper mining has produced less than \$1 billion of investment so far. Production of the copper has been perpetually delayed by bureau-

racy and a lack of electricity; observers in Kinshasa say that they are not expecting more Chinese money soon. Private Chinese miners have not had much more luck.

A common problem is that Chinese firms "sort of assume that it works the way it does in China", says Ms Brautigam. "In China, a company comes in, makes an arrangement with local government, and the government delivers." In Africa, they then discover that government promises to build infrastructure, provide power or supply land are not as credible as they thought. Public land turns out to be occupied by squatters, who may have farmed it for generations; private land may not be owned by the people selling it. Local politicians do not accept deals struck by national ones.

Increasingly, Chinese firms are adapting to these conditions. Huang Hongxiang, who runs China House, an organisation in Nairobi that helps Chinese firms understand how to do business in Kenya, says that there was a gold-rush mentality for a while: "If you told banks you're going to Africa, it was easy to get a loan." But now in-

vestors are aware that projects in Africa can take a long time and cost a lot more money than they expected. Mr Hongxiang says they are now doing the sorts of things Western firms have long done: investing in corporate social responsibility programmes, hiring African managers and doing scrupulous due diligence.

Western politicians have long worried that China is conducting a new form of imperialism in Africa: getting a jump by dealing with unscrupulous governments and breaking the rules. This is based on a grain of truth: the Chinese are far more willing to work with the Angolan government, for example, one of the world's most oppressive. But the evidence is increasingly that the Chinese are following a well-trodden path. They do not have a unique ability to make their projects in Africa work where Western firms cannot. For Western policy-makers that may come as a relief. For African leaders, desperate for development but unwilling or unable to fix problems that deter all but the hardiest of investors, it may come as a disappointment. ■

Tunde Fashola, the respected former governor of Lagos state, has been handed a monumental portfolio combining power, public works and housing. Another ex-governor, Kayode Fayemi (pictured, left, with the president), is charged with developing mining operations as Nigeria rushes to broaden its economy away from oil. Fans of a third seasoned politician, Rotimi Amaechi, who won the transport post, say he has delivered roads despite accusations of corruption, which he denies.

Yet the president has failed to please all as he juggles the demands of his party and people. His decision to keep the oil post for himself, while appointing the Nigerian National Petroleum Corporation's new head as his deputy, was designed to keep the valuable resource in hands he can trust. But it raises concerns over the centralisation of power. Ethnic groups of the southeast who mostly voted for Mr Jonathan in this year's election are feeling neglected. Critics also fret over an absence of desperately needed financial expertise.

Africa's biggest economy, which relies on oil for 70% of its revenue, is sputtering as prices fall. Economic policy has been adrift since Mr Buhari came to power, and investors complain about the central bank's use of trade controls and import restrictions. However, the new finance minister, an accountant who cleaned up the books of one of Nigeria's smaller states, is poorly qualified for the job. Her counterpart in the investment ministry is a respected businessman, but he may lack the clout to stand up to a president with statist leanings. "It's a government with local professionals and without superstars," says Shehu Sani, a senator of the ruling party.

Still, Nigerians find much to be happy about. Boko Haram, an insurgent Islamist group, has been weakened during Mr Buhari's half-year at the helm (though bombs this week killed 43 people), and power supplies are somewhat more reliable. A bigger budget has been outlined for 2016, though it is unclear how it will be financed, and recurrent spending will be pared back. More heartening is the president's crusade against corruption.

Staff have been fired from the state oil company and customs department. Officials are tackling smuggling along leaky borders. To reduce fraud, an opaque network of government bank accounts has been replaced by a centralised system. Several politicians, including the president of the Senate, a former oil minister and an ex-national security adviser, are under investigation. Meanwhile, biometric registration at banks should expose more money laundered by civil servants and their stooges. High-rollers are on their best behaviour. Lamudi, a property company, reports a slowdown in expensive sales, partly explained by the fact that the rich would rather not be seen splurging. ■



Nigeria's government

At work at last

LAGOS

After six months, Nigeria's president no longer leads alone

THE law was laid down for Nigeria's ministers when they were sworn into office last week. No corruption, their austere president, Muhammadu Buhari, told them. Obey the law and work together, because expectations are high. Behave in keeping with the times. Refrain from gaudy displays of wealth ("Not that some of us have much to display," one appointee laments). It has taken almost six months for the former dictator, now elected, to install

his cabinet, but for those who made the cut his message is simple: winning high office is no longer a licence to rob the public purse. Unlike many of their predecessors, the new ministers must prioritise reform.

Many observers are optimistic that they can do so. Mr Buhari's cabinet is smaller than that of the previous president, Goodluck Jonathan, with 25 principal ministers and 12 junior ones. Several of his senior appointees have good track records. Baba-

Tunisian politics

The great Arab hope struggles

KASSERINE

A rift in the ruling party may be the least of Tunisia's problems

THERE is only one happy story to emerge from the tumult of the Arab spring of 2011. While its neighbours succumbed to chaos, violence and renewed authoritarianism, Tunisia, the first Arab country to oust its dictator, remained on the path to peaceful democracy. There were setbacks along the way, but in 2014 the country held free and fair general and presidential elections, and adopted a relatively liberal constitution. Its reward was the Nobel peace prize, presented in October to four civil-society organisations that helped keep Tunisia on track.

The prize, said the Nobel committee, was also an encouragement for Tunisia to stay the course. But a month later, the country looks rather wobbly. A rift in the dominant political party threatens to destabilise the government, which was already struggling to jump-start an economy plagued by corruption, red tape and two big attacks on foreign tourists claimed by Islamic State this year. Neighbouring Libya, mired in civil war, may have provided the training ground for those terrorist strikes. The Tunisian army, meanwhile, is fighting Islamist militants on its border with Algeria.

Another big attack was foiled this month, according to Tunisian authorities. A cell of 17 Islamist militants, trained in Libya and Syria, planned to hit hotels, security forces and politicians in Sousse, where 38 foreigners were killed in one of the earlier terrorist strikes. Kalashnikov rifles and ex-

plosives were found when the suspects were arrested, says the interior ministry.

The security threat adds to pressure on Nidaa Tounes, the party with the most seats in parliament, to resolve a long-smoldering power struggle between rival factions. One wing, led by Mohsen Marzouk, the party's secretary-general, believes Hafedh Caid Essebsi, who leads the other wing, is trying to create a family dynasty. His father, Beji, is Tunisia's president and the founder of the party. The dispute came to a head on November 8th when more than 30 MPs, seen as supportive of Mr Marzouk, resigned from Nidaa Tounes. The group represents over a third of the party's parliamentarians.

It now looks as if the dissident MPs may return to the party fold. The elder Mr Essebsi, who had tried to appear above the fray, is reported to have told his son and Mr Marzouk to let someone else lead the party.

But tensions within Nidaa Tounes will remain. The party is a patchwork of leftists, liberals and conservatives, as well as trade unionists and businessmen, many of whom have ties to the regime of Zine el-Abidine Ben Ali, the former dictator. They united under the banner of Nidaa Tounes, and the leadership of Mr Essebsi, to oppose Nahda, a moderate Islamist party that led the government from late 2011 to early 2014. There is, however, "no unifying ideology, no political programme, no socioeconomic vision", says Maha Yahya of the Carnegie Middle East Centre, a think-tank. Another fault-line within the party has been the decision to enter into coalition with Nahda following the 2014 election; those in Mr Marzouk's camp want their party to be more assertively secular. Ironically though, a split would make Nahda the largest party.

If the government survives, as expect- ►

Sexual harassment in Egypt

Slapping back

CAIRO

Women still face constant harassment, but more is being done about it

LAST month, while shopping in a mall in Cairo, a young woman was approached by an older man, who insisted on taking her out, she says. The two argued as they walked towards an exit, where she stopped and gestured for him to leave. At that point he turned and hit her twice in the face.

The scene was captured by a security camera, but the police seemed uninterested. After the video was posted online, it went viral. In telling her story to the press, the victim faced more resistance. Reham Saeed, a (female) television host, asked: "Do you think you were dressed appropriately?" She then aired old photos of the victim in a bikini, which may have been stolen from her phone.

At the time of the attack the victim was wearing jeans and a sleeveless top, but that hardly matters. Egyptian women, even those in niqabs, face harassment regardless of their attire. A survey by the UN in 2013 found that a startling 99% of Egyptian women are victims; 83% said they feel insecure in the street.

But the story also reflects progress in the fight against sexual harassment. Conservative attitudes towards women, fuelled by religion and patriarchal norms, lead many Egyptians, including some politicians, to belittle the problem. Ms Saeed, though, faced a backlash. After a Twitter campaign to take her off the air, several companies stopped sponsoring her show, which was then suspended.

Over the past five years HarassMap, an organisation that allows women

anonymously to document incidents of harassment online, has seen a steady decline in reports. But this may well not reflect a fall in the number of incidents. Rather, the taboo against speaking out is lifting. "People definitely feel more open about talking about it," says Noora Flinkman, a spokeswoman for the group. As the stigma attached to victimhood diminishes, more women are taking their complaints to the police, say activists.

Until recently sexual harassment was not defined in the criminal code. But in 2014, soon after the head of Cairo university set off a media storm by questioning the dress of a victim on campus, Adly Mansour, then the interim president, made harassment a crime punishable by up to five years in jail. Still, perpetrators often go free. Police deter victims from pressing charges. Some are perpetrators themselves. But after all the publicity, the harasser at the mall was sentenced to a month in jail.

The real progress is being made outside official circles, where several new organisations and initiatives have increased awareness of the problem. An ad campaign in the Cairo metro, sponsored by Imprint Movement, a non-profit, features illustrations of a woman struggling with harassment. Videos posted online expose the discomfort and fear felt by women on Egypt's streets, as well as the viciousness of attacks. Yet activists say the biggest challenge is still convincing men that their actions are wrong.



Nahda rejoices

ed, that may be its biggest accomplishment. It has done little to reform the inefficient economy, which still favours old elites. The public sector, already too large, has recently grown. Corruption, say some, is worse than ever. America has promised generous new aid, but in the long-neglected interior of the country there is little development. "I have no idea what has changed [since the revolution]," says Ghaith Lamami, a lawyer in Sidi Bouzid, where the Arab spring protests began. "Do you think this looks like a developed city?"

The lack of economic progress in the countryside makes securing Tunisia more difficult. Thousands of Tunisians are thought to have joined Islamic State in Iraq, Libya and Syria. But disgruntled young men with dim job prospects need not travel that far. Some are joining Islamic militants in the mountains around Kasserine, in the west, where several fighters and a Tunisian soldier were killed on November 15th.

Some fear the jihadist threat will lead to a power grab by the security sector, parts of which are seen as conniving with entrenched businessmen and mafia-like figures. Tunisia is still struggling to come to grips with a legacy of abuses by the authorities. Yet the current situation has left other Tunisians feeling nostalgic. In the minibus from Kasserine to Tunis, the capital, several passengers are in agreement: things were better under Mr Ben Ali. ■



council's oil committee. "Iraq's stability depends on Basra's stability."

Basra should be Iraq's most successful province. It lies furthest from IS's front lines and has a tradition as the country's most cosmopolitan city. It remains the country's dynamo. It has Iraq's only ports, and oil production that generates around 95% of the government's oil revenues. But four decades of war, sanctions, occupation, neglect and Shia infighting have rendered it decrepit and dysfunctional. Its utilities are worse than those of Mosul, Iraq's second city, which is controlled by IS. Power cuts last most of the day. The water is stickily saline. The air is acrid from oil plumes and from sewage that dribbles into collapsed canals which once saw Basra called "the Venice of the East". Cholera is back. "Our health was better under sanctions and Saddam Hussein," says a local councillor.

With nothing to do, the city's youth turn to militias for jobs. They are probably the province's largest employer. 70% of the Hashad come from Basra, its commanders say. International oil companies might have kick-started the economy, but chose to locate all but essential operations abroad. Though local hire is cheaper, under their oil contracts, whoever they hire the Iraqi government pays. Such are the inflated costs that producing a barrel of Iraqi oil costs twice as much as in Saudi Arabia.

The oil companies argue that foreign labour is more reliable. But had the security environment been better and had Iraq paid its dues, they might have established training centres and universities in Iraq just as they did in Saudi Arabia. By sealing themselves off from Iraq, they are creating a vicious circle. As the gap between them and the locals widen, grievances mount. Worried about the prospects, Occidental Petroleum Corp, America's fourth-largest producer, asked the government to buy back its stake in Zubair, a large southern oilfield, last month.

Iraqi politics compounds the lack of opportunity. The ruling parties in Baghdad

divvy up the oil revenues before they trickle south. Their local representatives immobilise the rest. Basra's governor, council head and mayor all belong to rival religious Shia parties. Each vetoes the others' decisions and projects. Their militiamen jostle for control on the streets. In October 2014 Badr, the most powerful militia group, took over Saddam's palace, from where the British ran their occupation in 2003, and pinned portraits of Iran's supreme leader, Ayatollah Khamenei, and Shia Iraq's own religious leader, Ayatollah Al-Sistani, on its walls. Posters of their martyrs line Basra's highways. The limited political freedoms gained since Saddam's fall are receding.

"We're fooling them that they'll have prospects," says Rashwan Sharif, a speaker at a recent gathering of 50 computer programmers spending the weekend under the banner "No talk, all action, launch a startup in 54 hours". "Basra is like the Titanic. It's very rich, but on course for an iceberg." The oil companies invited all to leave, citing prohibitive security costs. "The middle class are selling what assets they still have and are fleeing the country," says a local journalist, who is toying with following them. Flights bound for Istanbul leave full and return half empty. But the numbers in Basra are quickly replenished. Land clearance for oilfields has triggered a rural flight, ringing the city in shantytowns. More arrive from poorer neighbouring provinces with no oil. As an urban middle class is replaced by more conservative, poorer people from the countryside, Basra's character is changing.

"We never had tribal feuds," says a rare local female film-maker, Kholoud Jabbar. "We were a port city. We were open to outside cultures." Sheikh Zayed bin Nahyan, the first emir of the Emirates, is said to have so enjoyed Basra's bars and restaurants that he used it as his model for Dubai. Its art scene was the region's liveliest. But its open-air cinemas have long since closed under a religious ban. Basra's old lattice balconies droop into the canals. Carved Ottoman doors fall from their hinges and clog the alleys. Restoration of the city's grand old Jewish and Greek palaces stopped when Saddam was overthrown.

An hour's drive north of Basra, the city of Amara shows what could be possible. There, the Shia religious parties co-operate, holding each other to account rather than blocking each others' projects. The province has revamped its roads and sewage system and sports flashy government buildings. Chinese contractors shop in the markets without their security escorts. Two new gas-powered plants are set to fire up next year. But much worse can happen, too. In 2013 Iraqis in the disenchanted north-west staged months of protests, which the authorities ignored and then fiercely repressed. Islamic State took their place, offering another way. ■

Iraq

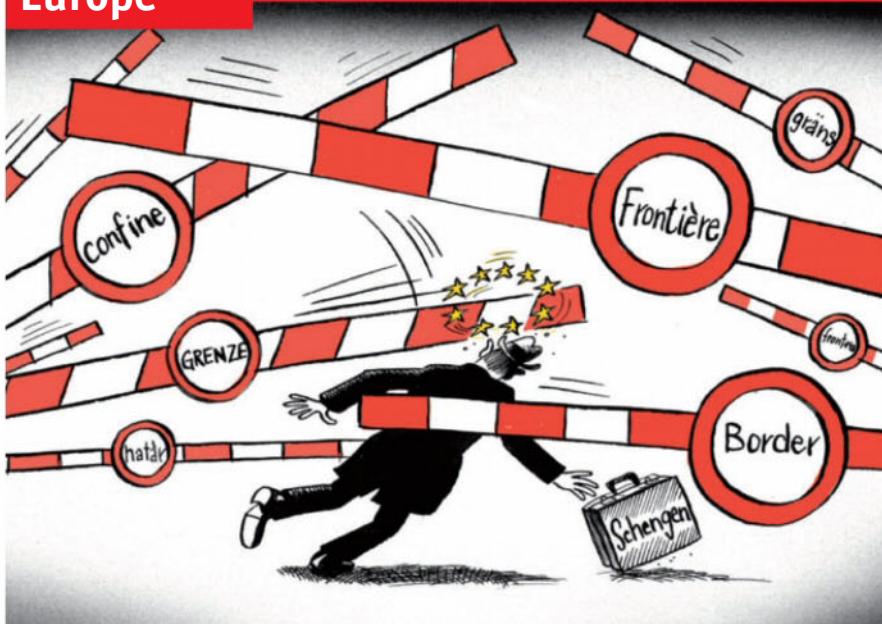
The blighted city

BASRA

The shocking decline of Iraq's oil capital

WHEN not organising protests at the gates of Basra's giant oilfields, jobless graduates spend their days playing dominoes on the banks of the Shatt al-Arab river. By night, giant gas flares light the sky and their game, partly compensating for the blackouts. "We provide the oil that powers the world, but live in darkness," says a sometime protester.

The authorities dispersed the demonstrators, violently, after Lukoil, a Russian oil firm, threatened to halt production. But few predict quiet. Bereft of hope, the players debate abandoning peaceful protest and summoning the Hashid al-Shabi, the Iranian-backed militias the ayatollahs raised to beat back Islamic State (IS), to intervene on their behalf. While the world has looked north to the war on IS, local politicians argue that the south poses no less a threat. "Basra is financing Iraq," says Ali Shaddad al-Fares, who heads the local



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Europe's response

After Paris, drawbridges up?

The Schengen system of open borders was already under pressure. The latest terrorist attacks may end it

FOR a Dutchman driving his caravan to the Costa del Sol, the only thing to remind him that he had crossed borders used to be the successive text messages welcoming him to Belgium, France and Spain. That was before this summer's migrant crisis—and last weekend's terrorist attacks in Paris. Now the liberty to roam the 26 countries in the border-free Schengen zone, which Jean-Claude Juncker, the president of the European Commission, calls a “unique symbol of European integration”, is under greater threat than at any point since its inception.

Calls to curb borderless travel were already growing louder in August after Ayoub El Khazzani, a Moroccan national, carried an assault rifle across two borders on a Thalys train before attacking fellow passengers. In September Angela Merkel, Germany's chancellor, warned that without agreement on how to handle refugees they would grow louder still. The overwhelming scale of migrant arrivals led several countries, including Hungary, Slovenia, and ultimately Germany and Austria, temporarily to reintroduce border controls. Sweden, then getting 10,000 new arrivals each week, joined them on November 12th. The Netherlands has doubled its spot checks in the border area since September. And Denmark's announcement that it will introduce electronic number-plate scanners at border crossings strains the limits of the Schengen framework.

The attacks in Paris have changed the debate. Ever since it became clear that the terrorists had strong links to Belgium, Peugeots coming over the border from Brussels have seemed just as great a threat to France as planes flying in from Damascus. As investigators retrace the movements of the terrorists and their weapons, more intra-European links will surely be uncovered, and more of Schengen's weaknesses.

After last week's attacks, France swiftly reinstated border checks at major crossings. The Schengen framework allows such temporary measures for national security; the French had been planning the move anyway for a UN climate conference in Paris later this month. Now they are pushing for more. At a meeting of justice and home-affairs ministers in Brussels on November 20th, France will ask that Europe start to collect passenger name records from those travelling within the region—which it has pressed for since the Charlie Hebdo attacks—and for further exchange of data through the Schengen Information System, a security database. France will also demand a true Europe-wide agency to police Schengen's external borders. François Hollande, its president, said he wanted a Europe of open borders, not a continent of “walls and barbed wire”.

But others disagree, especially in the east. Hungary has already built a 100-mile fence along its Serbian border. Austria is planning one on its border with Slovenia.

Slovakia's prime minister, Robert Fico, says he too is ready to build fences (the security of Slovak citizens “is a higher priority than the rights of migrants”). After the Paris attacks Poland's minister of European affairs declared that the EU's deal to redistribute asylum-seekers was off. Slovakia's election campaign has become an anti-migrant shouting match. Hungary's prime minister, Viktor Orban, blamed migration for the killings in Paris. (He also said it increased rape and threatened Europe's culture.)

In western Europe, right-wing populists are playing on the public's fears. Nothing helped their cause more than the (unconfirmed) report that one of the Paris gunmen entered Europe through Greece, posing as a Syrian refugee. Marine Le Pen, who has warned for months that jihadists are posing as refugees, claimed vindication. Matteo Salvini of Italy's right-wing Northern League repeated his call for the suspension of Schengen. In polls taken since the bombings, 70% of Dutch people say the borders should close.

Fear and loathing are not the sole response. On November 15th Germany's interior minister, Thomas de Maizière, urged the press and society not to link the attacks to the refugee debate. The dominant line in talk shows in Germany and much of western Europe is that the refugees are victims of Islamic State's terror, not perpetrators. Recep Tayyip Erdogan, Turkey's president, an unlikely but necessary ally of Mrs Merkel's, said at last week's G20 summit that treating refugees as terrorists would be “evading humanitarian responsibility”. One important meeting was Mr Erdogan's with Alexis Tsipras, Greece's prime minister, on November 18th; their shared border is among the most porous on Schengen's periphery. Until the zone's external borders are secured, freedom of movement inside it will be in danger. ■

Football as symbol

Footie in the time of terror

BERLIN

At times like these, football is so much more than a game to Europeans

THE eventual score was the last thing on the minds of the 70,000 French and English fans in London's Wembley stadium on November 17th, as they sang the *Marseillaise* before a friendly match. On the continent that invented it, football was once again more than sport. In this case, merely playing at all showed courage and solidarity—or perhaps just a determination to keep having the sort of fun that terrorists want to deny the Western world.

Symbolism has been embedded in European football at least since the “Christmas truce” of 1914, when German and British soldiers temporarily stopped shooting and played a game between the trenches. Americans, who split their passions between baseball, American football and basketball, have nothing quite like it. In an increasingly secular Europe, the game, with its iconography and chants, has overtones of religiosity and collective identity, says Gunter Gebauer, a sports philosopher at Berlin's Free University.

This also makes football vulnerable. “If that's our religion, that's what terrorists will attack,” says Philipp Köster, editor of *11Freunde*, a football magazine. A match between France and Germany was one of the targets of the Islamist terrorists on November 13th: three suicide bombers blew themselves up just outside the Stade de France during the game.

After the final whistle, the German and French players retreated to their dressing rooms, where they learned of the unfold-

ing tragedy. The German team decided not to risk driving through Paris. Their French hosts decided to stay with them. Horrible news arrived. The sister of striker Antoine Griezmann had escaped from the Bataclan concert house. But the cousin of midfielder Lassana Diarra had been killed.

“It was a grand gesture by the French side to stay in the stadium with us,” said Joachim Löw, the German coach. The Germans then decided that their match against the Netherlands in Hanover should take place as scheduled on November 17th. “This game has a clear message. It is a symbol for freedom and democracy and solidarity with our French friends,” Mr Löw said. For added symbolism, Angela Merkel, the German chancellor, and three of her ministers planned to attend. But on Tuesday evening, with fans already arriving, officials cancelled that match due to a bomb threat. A game between Belgium and Spain in Brussels was also called off. The terrorists, it seemed, had won again.

Football is especially vital to Germans' self-image, partly because they are very good at it but also because Germans can be wary of other expressions of patriotism. Many West Germans feel that, psychologically, they became a country not in 1949 but in 1954, when the Federal Republic won the first of four World Cups in the so-called “miracle of Bern”. Another rebirth occurred in 2006, when Germany hosted the World Cup and put on a “summer fairy tale” for its guests. Germany showed itself to be tolerant and fun—a country that Europe and the world could live with.

Before the terrorist attacks on Paris, German football had lost some of its sheen. Germans have been shocked by allegations that the country's football association, the DFB, had bought votes to secure hosting rights to the World Cup in 2006. Wolfgang Niersbach, the outfit's president, has resigned but denies any wrongdoing.

Questions have also been asked about the role of Franz Beckenbauer, Germany's greatest football star as player, coach and evangelist. Tellingly, Germans used to call him a “figure of light” (*Lichtgestalt*). Today the halo is gone.

Getting back on the pitch will be a sign that Germans and other Europeans are able to defend their way of life. Efforts will redouble to hold, and secure, the European championship in France next year. Yet the mood in the stadiums will not be the same from now on. ■

Moldova on the edge

Small enough to fail

A year after a colossal bank fraud, the country is imploding

THE shenanigans of a tiny group of politicians and businesspeople in Europe's poorest country are never going to make headlines elsewhere. But if they turn their sorely ill-governed state into a failed one, that could change fast. The country is “a ticking time bomb”, says Alina Iayeh, the head of the Black Sea Trust, an organisation that promotes regional co-operation. If it blows up, says a minister who asked for anonymity, “people will come on the streets and Russia will capture Moldova.”

On October 29th a coalition of so-called “pro-European” parties collapsed after the arrest of Vlad Filat, a former prime minister and party leader. Ilan Shor, a businessman and politician, claimed Mr Filat had extorted \$260m in bribes from him. Mr Filat denied the claim.

Mr Filat is one of the country's two main warring tycoon-businessmen, but many see his arrest as selective justice. His arch-rival, Vlad Plahotniuc, controls the other main “pro-European” party. “The justice system is practically in the hands of one party and person,” laments the minister. Mr Plahotniuc emphatically denies having anything to do with the arrest.

During the country's previous general-election campaign last November, Moldova was hit by a bombshell. A leaked report revealed that up to \$1 billion, equivalent to more than one-eighth of the country's GDP, had been stolen from three banks. It named the 28-year-old Mr Shor, an Israeli-born financier who is one of Moldova's richest men, as being at the centre of a web of companies connected to the heist. Mr Shor denies any involvement. The government, trying and failing to stave off the banks' collapse, pumped in money, leaving Moldovans, whose average salary is \$200 a month, to foot the bill. According to the Organised Crime and Corruption Re-►



Locking down the locker room



porting Project, a watchdog, the banks were part of a scheme which, in the seven years up to 2014, laundered \$20 billion of Russian money using a British shell company and a Latvian bank account.

Although nobody has been convicted of any crime, Moldovans are seething with rage that their political leaders did not see fit to police the banking system better. A recent poll found that 79% thought their country was heading in the wrong direction, up from 47% in September 2014. Nearly 70% said that their households were worse off than a year ago. If elections were held now, parties claiming to be "pro-Russian" would win. Analysts are divided on whether they have any ideological convictions, as opposed to campaigning for wherever they see the best returns on their investment in politics. But the same goes for their "pro-European" counterparts.

Maia Sandu, a former education minister with a strong record of cleaning up corruption in schools and a possible future prime minister, says bitterly that hard-pressed professionals made sacrifices to work for tiny public-sector salaries "and then find the rest of the team is stealing a billion dollars".

Under the leadership of the purportedly pro-European parties, Moldova has inchéd forward on some fronts. It secured visa-free entry to Europe's passportless Schengen zone and signed a key integration deal with the European Union in 2013. Now the banking scandal has discredited both the politicians and their cause. Igor Botan, an analyst, says they are "blackmailing" Moldovans. "They say, 'We are pro-European thieves, but if you don't like us the pro-Russians will come'."

The same message has been delivered to Western leaders, but behind closed doors the Moldovans have been told bluntly that unless they act now to jettison the most prominent of the leaders who have held power while so much was being stolen, there will be no more help from the West. Some Western governments would like Mr Plahotniuc to leave the country.

If he did, he would only be following a well-worn path which is sapping Moldova of its very lifeblood. In 1991 there were 4.3m people in the country. Now, say analysts, there could be fewer than 3m left (includ-

ing less than 300,000 in Transdniestria, a region controlled by Russian-backed separatists), though official figures are larger. Among the emigrants' main destinations are Russia, Romania and Italy. The proportion of old people and children is growing and the workforce is shrinking.

Wedged between Romania, a member of the EU and NATO, and Ukraine, Moldova cannot be ignored. If a new government came to power and changed the country's Western foreign-policy orientation, a huge strategic prize would have dropped into the lap of Vladimir Putin, delivered to him by "pro-Europeans". That "could undermine the fragile stability of the whole region", says Arseniy Yatsenyuk, the prime minister of Ukraine—another country where pro-Europeans are in danger of being brought down by corruption. ■

parties so popular on social networks? One reason is that they are prolific. In October Marine Le Pen, the leader of the National Front, tweeted 626 times. Italy's Northern League posted on social media once every six minutes this month, on average. Populists also interact with supporters better than mainstream parties do, says Jamie Bartlett of Demos, a think-tank in London. Until recently a 16-year-old girl ran the Twitter account of the English Defence League, a virulently anti-Islamist outfit. She worked long days posting messages and responding to fans.

Social media reward starkness, not subtlety. Ms Le Pen's tweeting "Bye Bye Schengen" in September was shared 600 times. By contrast, a message from Donald Tusk, the president of the European Council, calling for more co-ordination between Europe's home and foreign policies went largely unnoticed. Politicians on the fringes can react to news faster than their moderate counterparts, whose statements are carefully scrutinised before publication. Matteo Salvini of the Northern League is often quick to comment on Italy's latest immigration problem. Populists are spurred on by a sense of victimhood and tend to get more "fired up" than the mainstream, explains Peter Neumann of the International Centre for the Study of Radicalisation at King's College London.

Parties of left and right do not just make noise online, they also use social media to organise their supporters. One report from Demos shows that over a quarter of online supporters of far-right parties had taken part in a protest in the past six months. Social media are also handy for raising money. Last year Golden Dawn, a Greek neo-Nazi party, had a "Christmas fund-raising drive" on Facebook.

Research on whether tweets can change voters' minds is inconclusive, but a large study of America's congressional elections in 2012 showed that politically charged Facebook messages substantially increased voter turnout. And social networks' role in spreading information is bound to grow. A third of Europeans use such platforms every day, up from a fifth in 2010. Half of them think it is a good way to have their say on political issues. Centrist politicians should stop twiddling their thumbs and get tweeting. ■

Politics and social networks

Extreme tweeting

Few of the social-media stars among Europe's politicians are centrists

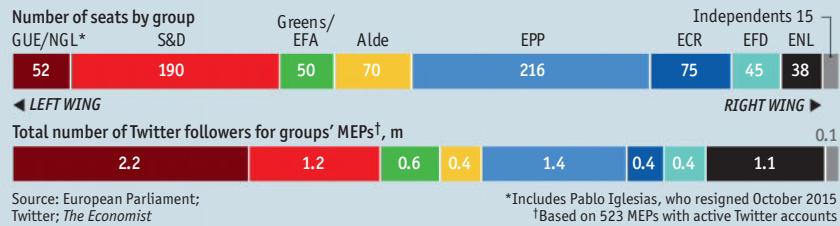
MOST politicians these days know how to compose a tweet and post a Facebook update; some are competent selfie-takers. Yet Europe's mainstream lawmakers are badly losing the battle for online attention to politicians from the populist right and the far left.

On average, a Facebook message from UKIP, a Eurosceptic British political party, received around 4,000 "likes" this year—double that of the ruling Conservatives. France's right-wing National Front beat the Socialist party by five to one on the same measure. MEPs in Europe of Nations and Freedom, an anti-EU group, have many more Twitter followers than their politically centrist peers (see chart). Each of their tweets is shared an average of 28 times, compared with six for mainstream politicians. The far left is as competent as the right. The swift rise of Spain's Podemos and Italy's Five Star Movement owes much to smart social-media campaigns.

Why are strongly left- and right-wing

Squeezed middle

European Parliament, November 2015



Charlemagne | The fly Dutchman

The rapper Ali B has charmed the Netherlands. Can he stay above the fray?



CONTRARY to popular belief, the most interesting figure in Dutch ethnic relations is not the Islam-bashing politician Geert Wilders. Rather, it is a 34-year-old rapper, comedian and reality-television host named Ali Bouali, better known by his stage name Ali B. In the mid-2000s, after Mr B had a string of hip-hop hits, talk shows began inviting him to represent Moroccan-Dutch youth. He turned out to be not only funny but an absolute sweetheart. He took part in education programmes on climate change; he recorded with the country's most successful white pop artist; he performed confessional one-man shows. During Queen's Day celebrations in 2005, he gave the Netherlands' Queen Beatrix an impromptu hug.

Eight years later, at the inauguration of Beatrix's son Willem-Alexander, Mr B delivered the central musical performance directly to the new king and queen. By that time his deep eyes and comically intense stare had come to stand for the hopeful side of the Dutch integration story. He is sometimes dismissively referred to as a *knuffelmarokkaan*, or "huggy-Moroccan": the Dutch idiom implies that he is both a token and the squeeze-toy version of a dangerous animal. But Mr B also uses the term lightheartedly about himself, drawing the sting.

Mr B's best work does not involve his own music at all. In 2011 he produced a reality-TV series in which he paired hip-hop artists with white performers from the classic era of Dutch kitsch pop in the 1960s and 1970s. The result was a fusion of two musical cultures, one white and mostly working-class, the other ethnically mixed. In the most often-cited episode, the rapper Kleine Viezerik ("Dirty Little Man") collaborated with a former Eurovision contestant, Willeke Alberti. At the end of her performance he removed his sunglasses to show tears streaming down his face.

This cross-cultural appeal has made Mr B an icon in every Dutch demographic—including supporters of Mr Wilders's Party for Freedom (PVV). He is the one prominent Moroccan-Dutch figure whom the PVV's leaders never attack. But last year, when Mr Wilders called for "fewer Moroccans" in the Netherlands, Mr B felt compelled to ask his audiences whether they would like "less Wilders". As Europe's refugee crisis and the terrorist attacks in Paris increase hostility towards Muslims and immigrants, Mr B is finding it harder to stay above the fray.

In late October Mr B returned to Almere, the town where he spent his teenage years, to stage a preview of his latest one-man show, "Je suis Ali B". Almere is a planned town 30km (20 miles) east of Amsterdam with rows of housing blocks and streets ludicrously named after cultural celebrities—Isadora Duncanweg, Lucille Ballstraat and so forth. The central pedestrian zone is a modernist playground of glass and concrete. A few hipsters fleeing Amsterdam's high property prices have begun moving in. On a Thursday night the promenades are full of window-shoppers speaking everything from Turkish to Twi and Papiamento.

The ethnic mix largely stops at the doors of the municipal theatre. The crowd for "Je suis Ali B" is overwhelmingly white, with a large contingent of older women. Leonieke Bos, who recently retired after a career in Almere's ethnically mixed school system, says Ali B is a role model for many of the kids she taught. "You never knew which of them were going to go the wrong way," she remembers; the studious girl would suddenly turn up pregnant, the boy who dealt drugs would land a solid job.

Mr B must have surprised his share of teachers. He was raised by a single mother and, by his own account, spent his teen years dealing and smoking marijuana. He claims to have stolen worshippers' shoes from the local mosque. His mother, despairing, packed him off to her family in Morocco for ten months. Mr B credits his grandmother with straightening him out. It sounds a little too comfortably like the familiar hip-hop tale of rising from the gutter. But the criminality Mr B describes among Moroccan youth is real. In 2013 nearly 10% of ethnic Moroccans between 18 and 25 were suspects in a crime. That is the highest rate of any Dutch ethnic group—twice as high as those of Turkish descent and nearly five times as high as white Dutch.

Mr B plays on this background to dodge difficult political questions. To avoid taking a stand on the controversy over the racism of Zwarde Piet (a fictional black-faced Dutch character who helps St Nicholas deliver seasonal gifts), he jokes that as a Moroccan, the only thing he understands is the feeling of someone entering your house without your knowledge. But his room to finesse such issues is shrinking. In "Je suis Ali B" he describes encountering an angry fan: "If Wilders says something you never come out with a reaction; if there's a debate about Zwarde Piet you're nowhere to be found. You're always hiding!"

Tears in the social fabric

Mr B is too smart to get sucked into such political arguments. His greatest strength lies elsewhere: in the power of kitsch. Over and over, the rapper has succeeded in getting white and non-white Dutch audiences to cry with each other. In May, a song he performed on a TV talk show about his relationship with his sons had the entire country weeping.

Across Europe, liberals have tried to respond to populist fear-mongering over immigration and Islam by deploying statistics and appealing to reason and abstract values. Mr B's approach is more sophisticated: it recognises that reason is not enough. To break down prejudice and fear, you also need emotion. His empathetic moments have probably done more to promote Dutch acceptance of Muslims than any policy could have achieved.

This is not to say that the battle is being won. In "Je suis Ali B", Mr B jokes that he and Mr Wilders have a symbiotic relationship: the more the PVV succeeds, the greater the demand for bridge-builders like himself. He must hope this is true. The PVV is polling at over 25%, its highest level ever. ■



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The National Health Service

Carry on working?

The government is under fire, not just from junior doctors but from health economists, for failing to spend enough on the NHS

FOR the first time in 40 years, junior doctors (ie, those below consultant level) in the National Health Service have voted to go on strike for several days next month. The government is proposing a new contract to hit its declared target of a fully staffed seven-day service, including in the evenings and at weekends. It insists that three-quarters of doctors will be better off as a result. But the British Medical Association, the doctors' trade union, has broken off talks, claiming that some juniors will lose pay under the new contract.

The NHS, created by a Labour government in 1948, is always problematic for the Conservatives. That may explain why the health secretary, Jeremy Hunt, tries so hard to keep out of the news. It was also one motive for a big reorganisation in 2012-13. The setting up of an NHS executive for England, of clinical commissioning groups led by general practitioners and of trusts to run larger hospitals, was aimed not just at improving efficiency by shifting resources from acute services to primary care and prevention. It was also meant to break with the notion that failings in the NHS are always the government's fault.

Yet the impending junior doctors' strike shows how hard it is to depoliticise health, because underlying it is one big issue: money. Since it is almost entirely taxpayer-financed, the NHS budget must be set by the government. The Tory manifesto prom-

ised to maintain health spending in real terms, ring-fencing it from public-spending cuts. It also offered an extra £8 billion (\$12 billion) to the NHS budget by 2020-21. But Chris Hopson, chief executive of the NHS Providers trade association, says that, despite this, the service is in the middle of the longest and tightest squeeze in its history.

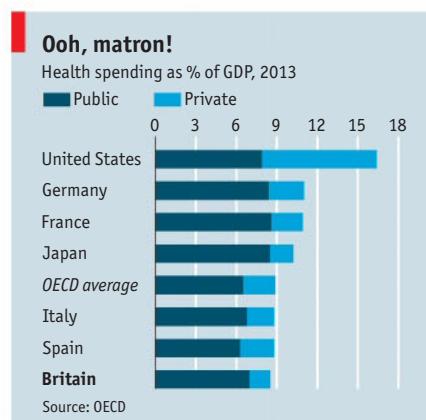
That is in part because demand for health care increases inexorably every year. An ageing population, new technology and drugs, and a rise in obesity and alcohol consumption all play a part. But a bigger factor is that, after a decade of hefty budget increases, health-care providers have had to tighten their belts in the past five years. Under Labour between 2000

and 2010, spending almost doubled in real terms, says John Appleby of the King's Fund, a think-tank. Since then growth has fallen to barely 0.8% a year, the slowest rate since the second world war.

The government reckons that greater efficiency is possible, notably in procurement, and that tight budgeting is the best way to secure it. The five-year forward view that the NHS executive drew up last year found a funding gap of £30 billion by 2020-21. To make the numbers add up after the promised injection of £8 billion, the service is supposed to deliver £22 billion-worth of efficiency gains. Yet the easiest savings have already been made, and the new target is bigger than ever before. Some argue that more investment is needed for more efficiency gains. The chairman of the NHS executive, Simon Stevens, is accordingly asking George Osborne, the chancellor, to front-load his £8 billion increase in the forthcoming public-spending review.

Moreover, many hospital trusts are already in deficit. By halfway through this financial year, some three-quarters were said to be running deficits, at a combined level that may go as high as £2 billion. Excessive spending on agency staff is one culprit. But the accumulation of deficits, which big hospitals can run even if local authorities cannot, is widely seen as a sign of a system that is close to breaking point.

What makes matters worse still are sharp cuts in local-authority social care. These mean that more elderly (often demented) patients are being kept in hospital beds for longer. The NHS is already channelling some cash to local authorities to avert this. As Norman Warner, a former Labour health minister, points out, hospital care is far more expensive than social care, so this transfer of NHS money makes sense. Stephen Dorrell, a former Tory



► health minister who is now chairman of the NHS confederation of health providers, is calling for spending on social care to be ring-fenced along with the NHS.

International comparisons support the argument that British health spending is low. After the large increases under Labour, Britain moved closer to the average for the OECD club of mostly rich countries, but it has since fallen back. Indeed, now that the economy is growing again, health spending in Britain is actually falling as a share of GDP, which is highly unusual for any rich country given rising demand.

Thanks largely to this parsimonious funding, the NHS is rated by most economists as highly efficient. Yet the OECD's latest "Health at a Glance 2015" report finds that its record on patient care is not that impressive. On a range of indicators, from fatalities after heart attacks to asthma admission rates to cervical, breast and colorectal cancer survival rates, Britain does badly compared with other rich countries. The NHS is also missing many of its own targets for such things as accident and emergency admissions, cancer referrals and ambulance response times. Nigel Edwards of the Nuffield Trust think-tank concludes that lower investment in health care in Britain is matched by "mediocre performance across the board".

All this adds up to a powerful argument for more spending. A new report, "Filling the Gap", by the Health Foundation, an independent charity, concludes that a new joint shortfall for the NHS and social care together, on top of the one identified in the five-year view, will be £8 billion by 2020-21 and £22 billion by 2030-31. Yet such big numbers invite two hard questions. The first is: how much spending is enough? The scope for more health spending, especially on higher pay, is almost infinite. The NHS already employs one in 18 workers in Britain. Projections 50 years out suggest that ratio could easily rise to one in eight. And it is hard to raise productivity in such a people-intensive service.

The second question is where to get the money from. The Health Foundation report suggests deferring the government's budget-surplus target or raising taxes, especially "sin taxes" such as those on tobacco or alcohol. Others tout a hypothecated tax, perhaps giving national-insurance contributions to the NHS. It is also striking how little Britain raises privately for health care, suggesting that there is scope for more patient charges, including for doctor consultations or hospital stays. Such co-payments are common in social-insurance systems.

It has often been said that the only subject health ministers ever discuss with the medical profession is money. As he prepares for the junior doctors' walkout and for another tough public-spending round, Mr Hunt seems destined to find that to be truer than ever. ■

Northern Ireland

The beginnings of a breakthrough

BELFAST

A limited, imperfect deal represents progress nonetheless

AFTER more than a year of ill-tempered impasse in its Assembly, on November 17th Northern Ireland's unionists and republicans at last conceded that politics was the art of the possible and struck a deal that would allow the region's government to get back to work. The agreement they reached, after ten weeks of talks moderated by the British and Irish governments, was greeted with huge relief by politicians. But there was little sense of celebration on the streets, where the main feeling was exasperation that the compromise had come only after such a tortuous and tedious process.

Most believe that the deal between the Assembly's two biggest parties, the republican Sinn Fein and the Democratic Unionist Party (DUP), should be enough to stop the government collapsing, at least until the elections due next May. Optimists hope it may even mean political business will be conducted in a constructive fashion, rather than through daily confrontations. Peter Robinson, the DUP's 66-year-old leader and first minister of the Assembly, announced that with the deal done he would step down from both roles.

The immediate cause of the most recent crisis was a murder in August on the streets of Belfast in which, police and spies said, individual members of the IRA were involved. The police also reported that, decades after the "army council" of the IRA

was supposed to have faded away, it was still in existence—though they added that its focus was political and it was no longer involved in violence.

Under the deal, a commission will be set up to monitor the state of paramilitarism, producing annual reports on whether its lingering vestiges really are being eradicated. The Police Service of Northern Ireland will get an extra £160m (\$245m) over five years and a new cross-border task force will clamp down on smuggling and other criminality, co-ordinating the work of police, customs and security agencies on both sides of the Irish border.

The agreement also settled some long-standing financial disputes. An intricate formula will dole out a one-off payment of £500m to the Assembly from London, to tackle issues unique to Northern Ireland including a plan eventually to knock down Belfast's notorious "peace walls", barriers separating nationalist and unionist neighbourhoods. Some toxic decisions, on matters such as welfare reform, are to be handed back to Westminster, relieving Northern Ireland's politicians of the responsibility—and therefore the blame—for some of the spending cuts that are in the works.

But the agreement is incomplete, for deadlock persists in the tricky area of dealing with the past, and how to care for those affected by the violence of the Troubles, during which 3,700 people were killed. Sinn Fein, the one-time political wing of the IRA, alleges untold abuses by British security forces, and pressed in the talks for maximum disclosure of past security activities. This was resisted by the British authorities, who insisted it was still impossible to release many official documents, on grounds of national security.

The fact that this point remains unresolved has produced complaints from some of the victims' groups campaigning for transparency. There have already been several rounds of talks, going back many years, on this sensitive and emotive issue, without success. It will not go away.

Together with the British and Irish governments, the agreement was negotiated by the DUP and Sinn Fein alone, to the exclusion of three other sizeable parties represented in the Assembly. All three unsurprisingly have objections to parts of the 67-page document that was presented to them as a fait accompli. However, the DUP and Sinn Fein were able to use their solid Assembly majority to push it through.

Although there has been much brinkmanship in the past, the two dominant parties demonstrated during the negotiations that they were prepared to stretch their positions and retreat from some of their earlier rhetoric. This new outbreak of realism did not tackle every item on Northern Ireland's long agenda. But it suggests the emergence of a promising, long-overdue willingness to compromise. ■



The long road to agreement

Bagehot | The new front line

Britain must start thinking of its diplomats as part of its defences—and fund them accordingly



BEFORE the mission comes the briefing. Winds will produce a dusty haze over central Iraq. Gusts could reach 35 knots, so pilots should fly high to mitigate turbulence. The task: to proceed north of Baghdad to survey and potentially cut supply routes to a building where militants are upping production of car bombs with which to target Iraqi security forces and civilians. Can pilots confirm they are physically and mentally fit to fly?

Having done so, each enters his cockpit and is soon looking down on dusty hills and scrubland. But at the end of his working day he gets out and drives home across the boggy fens of eastern England (listening to BBC Radio 4 is the best way to decompress, confides one). For his aircraft, an MQ-9-Reaper—popularly known as a drone—is over 2,000 miles away from where he flies it: a console in a buff-coloured metal container behind camouflage netting and two barbed-wire fences in a hangar at RAF Waddington, outside Lincoln.

Drones have many advantages. One pilot cites the calm: the absence of sand in your crevices, the whirr of the engine in your ear or the whiff of hydraulic oil in your nostrils. This improves exchanges of intelligence and promotes cool-headed decisions about any use of the drone's Hellfire missiles and laser-guided bombs. Most important, drones can loiter for many hours. That, says Air Commodore Jeff Portlock, chief of the RAF's intelligence, surveillance and reconnaissance (ISR) force, offers Britain "a persistent, staring, unblinking eye in the sky". He adds that pilots build up such an intricate picture of life on the ground that they know "what cars move on a Tuesday morning" on individual streets—and thus can tell when significant routines are being broken in territory held by, say, Islamic State.

To visit Waddington is to witness Britain's future in the world. The absolute and relative contraction of the country's armed forces (by 2020 the army will be one-fifth smaller than in 2010), unconventional threats like that which brought terror to the streets of Paris and Britons' post-Iraq scepticism towards open-ended commitments are all nudging it away from large, boots-on-the-ground interventions and towards specialisms in intelligence, defence engagement (training foreign forces, for example) and limited, high-stakes raids. Or as they put it in the forces: "Go first, go fast and go home."

The expansion of Britain's drone fleet—on October 4th David Cameron revealed that he would double it by replacing the Reapers with 20 beefier Protectors—is at the heart of this shift. So were his announcements on November 16th that the Special Air Service (SAS) would get an extra £2 billion (\$3 billion) and that spy agencies would take on some 1,900 new staff. Further indications are expected from the government's imminent Strategic Defence and Security Review (SDSR), its quinquennial scan of the horizon, which will shed some light on what its unexpected commitment in July to keep spending at least 2% of GDP on defence will mean for the armed forces.

This increase—amounting to a real-terms rise of 0.5% each year to 2021—probably implies that personnel cuts can be halted and equipment-spending increased. The SDSR will also reaffirm the renewal of the Trident nuclear deterrent and give details of how aircraft carriers under construction will be equipped and deployed. Nonetheless, despite the 2% pledge—part of which may be met by accounting jiggery-pokery—a future engagement on the scale of Iraq is almost unthinkable. It looks increasingly possible that Parliament will vote to extend Britain's action against Islamic State to Syria (once enough Labour MPs have confirmed they are willing to defy their pacifist party leader), but a large British ground presence there is not likely.

This state of affairs is regrettable, not least as it makes it harder for the country to take the initiative and exercise international leadership. Yet short of a major expansion of its standing armed forces and a lurch in public attitudes, Britain's evolution from a "force for change" to a "force for order" (in the words of Malcolm Chalmers of the Royal United Services Institute, a think-tank) makes sense. The country can best influence events by contributing niche, high-value forces like its drones, spies and the SAS to larger coalitions and by shaping local and regional conflicts through air support, training and peacekeeping. Doing so plays to Britain's strengths; already, for example, it carries out about one-third of all ISR operations by the coalition against Islamic State.

Put your 0.2% where your mouth is

If Britain is to play this role—as a networked, surgical power—it should do so properly. Funding for defence and intelligence may be improving, while Britain's vast aid budget continues to grow (to meet the UN's target of 0.7% of GDP), but the fourth leg of the table, the diplomatic service, is wobbly. During the last government the Foreign Office was cut more than almost any other department, leaving its budget comparable to that of a city council and Britain's spending per person on diplomacy lower than that of any similar Western country. The department's reach, long-term planning and stock of expertise have suffered—the Ukraine crisis, for example, exposed a severe lack of regional specialists and Russian speakers.

At a time when Britain is putting ever more emphasis on its distinctive knack for gathering and disseminating knowledge, reacting quickly and forging alliances, it is odd that it should let one of its most relevant and admired global assets go to seed. A recent report (to which Bagehot contributed) published by Chatham House, another think-tank, proposed a long-term doubling of the proportional diplomatic budget to 0.2% of GDP; a totemic target to sit alongside the defence and aid ones. A savvy SDSR would pay such suggestions heed: in an age of uneasy coalitions, asymmetric threats and scrambles for information, the word in the ear can be as decisive as the gun in the hand. ■



Open government data

Out of the box

The open-data revolution has not lived up to expectations. But it is only getting started

ONE night last year Jim Rich came home from a basketball game in Texas with an excruciatingly painful leg. His wife Rosemary, a nurse, feared he was suffering something worse than a bad bruise. She entered his symptoms into iTriage, an app, and found references to compartment syndrome, which can cause paralysis and gangrene. That convinced her husband to go to hospital immediately, says Mrs Rich. He had emergency surgery a few hours later.

The app that helped save Mr Rich's leg is one of many that incorporate government data—in this case, supplied by four health agencies. Six years ago America became the first country to make all data collected by its government “open by default”, except for personal information and that related to national security. Almost 200,000 datasets from 170 outfits have been posted on the data.gov website. Nearly 70 other countries have also made their data available: mostly rich, well-governed ones, but also a few that are not, such as India (see chart on next page). The Open Knowledge Foundation, a London-based group, reckons that over 1m datasets have been published on open-data portals using its CKAN software, developed in 2010.

The deluge of transport timetables, crime logs, pollution readings, property-tax records and the like has been a boon. It

has allowed governments to serve citizens better, powered innovative startups and improved people's lives. But it is not yet clear whether it will effect a transformation. For that to happen, the enthusiasm that drove so much information online has to mature into cool-headed pragmatism.

There's money in free stuff

A few firms have already grown fat on open data. Zillow, a property website, and Garmin, an \$7 billion firm that makes navigation software and hardware, were built on free government data. But small firms are likely to be the biggest beneficiaries, says Laure Lucchesi of Etalab, an advisory body set up by the French government. Somebody considering opening a coffee shop in New York can now check the city's Business Atlas for suitable sites, for example. The interactive map shows which spots are busiest with pedestrians, or have growing numbers of young residents or new restaurants.

In hundreds of cities, commuters use free smartphone apps to check bus arrival times or work out how to get from A to B. Some apps, like Citymapper, also give costs—and calorie-burn counts—for each alternative. Hospital quality audits and individual doctors' results are powering apps that help patients decide where to

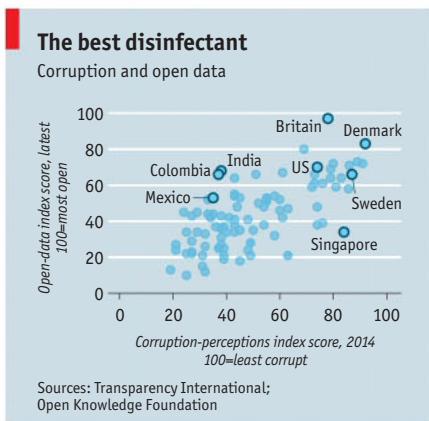
seek care. Check That Bike! can be used to determine whether a bicycle has been stolen. GPS, America's military navigation system, can be found in everything from dating apps to microchips embedded in dog collars.

Many cities increasingly rely on residents to use their phones to report potholes, broken street lights and so on. Earlier this year volunteers for OpenStreetMap, a sort of Wikipedia of maps, helped French authorities build a national address database. The heroic task involved matching 25m addresses, spread across the records of six government agencies, with their geographical co-ordinates.

Government has been made leaner. After the British government published the records of all its contracts in 2010, one official spotted the same analytic reports among several departments' purchases; the duplicates cost at least £4m (\$6m). Slovakia and Ukraine saw an increase in the average number of firms bidding on government tenders. San Francisco's authorities estimate that a fall in phone queries after it made transport data public in 2012 has already saved more than \$1m.

Making data public can also fight corruption. Last year IMCO, a Mexican think-tank, found over 1,400 teachers apparently born on the same day in 1912, prompting a purge of the “ghosts” from payrolls. British and Nigerian officials have used property and company registers published by several governments to investigate money-laundering. OpenCorporates, a website, lists the owners of more than 90m companies by pooling registers from over 100 jurisdictions; its users include watchdogs, law firms and tax authorities.

This is all to be celebrated. Given the as- ►



tonishing scale of the data deluge, though, it is reasonable to ask why more has not been achieved. There are four answers to that. First, the data that have been made available are often useless. Second, the data engineers and entrepreneurs who might be able to turn it all into useful, profitable products find it hard to navigate. Third, too few people are capable of mining data for insights or putting the results to good use. Finally, it has been hard to overcome anxieties about privacy.

Perhaps four-fifths of the data that have been released are not particularly useful, reckons Joel Gurin of the Centre for Open Data Enterprise, a think-tank in Washington. America's cache includes a list of the last words of those executed by the state of Texas, for example. The rest is often missing some of the "metadata"—descriptive tags without which the raw information can be meaningless. In some developing countries, official data are so shoddy that businesses prefer to collect information themselves.

Searching open-data portals is often an arduous task. Working out which source is most useful is tricky when dozens have the same information. Registers that were built for administrative purposes only have not yet been redesigned into databases that can be sorted, analysed and matched with other data. Some sets are not kept up-to-date in the portals—a common problem for government-spending records, for example.

Gavin Starks of the Open Data Institute, another think-tank, points to a shortage of data-handling skills among officials, activists and journalists. It is not just that only a few people possess specialist skills, he says; many lack the ability to interpret figures. Mr Starks cites the example of British MPs, most of whom could not solve a simple maths test involving two probabilities.

The thorniest problem for open data now is privacy. Governments rushing to release individual-level data such as tax, medical or education records are "walking into a massive minefield", warns Martin Tisne of the Omidyar Network, a philanthropic outfit. Such data are among the

most valuable: they can boost, for example, precision medicine, which tailors each patient's treatment. But a privacy scandal can cause a backlash against all open data. A public outcry recently forced Britain's National Health Service to rethink plans for making anonymised patient-level data available for reuse.

Open-data activists have joined forces with bureaucrats and entrepreneurs to sort out all these problems. Their solutions are starting to work, and growing amounts of data are being put to good use.

At first, officials rushed to put data online without worrying too much about its quality. That is changing. Advocates such as the Open Knowledge Foundation list the most valuable datasets and the features that make data truly open—such as an open licence or a machine-readable format. Many governments use these lists when they decide which data to release.

Matchmaking events that connect data custodians with analysts, coders and other geeks are becoming more common. Data-users learn which are the best sources; officials learn how to make them useful. Open-data "hackathons" now attract hundreds of volunteers and budding entrepreneurs apiece. They were held in over 200 cities on February 21st, which enthusiasts have declared International Open Data Day. Investors are flocking to such events in growing numbers, increasing the chances that bright ideas turn into successful businesses. America's health "datapalooza", launched by the country's health department in 2010, drew 45 people then; two years later, 230 companies competed for 100 slots to present their inventions to a crowd of over 1,500 people.

Some events simply ask civic-minded geeks for their best ideas. (Britain's government pleadingly called one competition "Show Us a Better Way".) Others focus on specific problems. This year American gov-

ernment agencies ran competitions for ideas to help health-care providers tackle obesity, generate visuals of nutrient pollution of water sources and make it easy to explore millions of 19th-century newspaper pages, among others.

A crowd of non-profits are trying to improve people's data-handling skills. They are publishing handbooks, organising training and coming up with tools that generate easy-to-understand visual data summaries. Budgit, a startup that distils unwieldy budget documents into simple infographics, is training Nigerian politicians to use its online tools to track the completion of projects included in state budgets. Such efforts are sometimes funded by non-profits and the development agencies of rich countries.

Keeping secrets

The privacy problem is trickier. Some researchers and activists argue that almost all data can be cleverly scrambled to make them anonymous. Others doubt that this can ever be foolproof: as more data are published, it will become easier to mix and match from different sources to figure out who is who. In the end, reckons Mr Gurin, it will come down to a judgment about how much privacy is worth risking for the sake of better medical treatments, for example. Different countries are likely to come to different conclusions: in Sweden, for example, everyone's income-tax records are online, including names.

It is impossible to predict where the open-data revolution will lead. In 1983 Ronald Reagan made America's GPS data open to the world after a Soviet missile brought down a South Korean airliner that had strayed into Soviet airspace. Back then, no one could have guessed that this would, one day, help drivers find their way, singles find love and distraught pet-owners find their runaway companions. ■



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Germany's industry

Does Deutschland do digital?

BERLIN AND STUTTGART

Europe's biggest economy is rightly worried that digitisation is a threat to its industrial leadership

SINCE it was founded in 1923 Trumpf, a family-owned company based near Stuttgart, has had one main mission: making things that make things. It started out with motorised hand shears and other tools to work sheet metal. It then invented fabrication machines with a numerical-control system and later was among the first to use lasers to cut metal. A prime example of a firm from Germany's industrial Mittelstand that has outgrown the label (which literally means "mid-sized trades"), the firm today has annual sales of €2.7 billion (\$3.2 billion) and more than 10,000 employees worldwide.

Trumpf's roots in metalworking and other hardware stand in stark contrast to what it is trying to achieve next: building a new business purely based on software and data. Unveiled last month, its online offering, called Axoom, connects machines built by Trumpf and others, and uses the data it collects from them to help customers organise their production—for instance, to warn them when they are running out of material or to order it directly from the supplier. Much like smartphones, Axoom will be able to run "apps" from other providers, such as software to schedule workloads, or to predict when machines will need a spare part.

The company's attempt to redefine itself is emblematic of the leap that manufacturers, in Germany and everywhere else, now have to make. The much-discuss-

ed "internet of things" (iot) is becoming a reality on factory floors: industrial machines and the products they make are increasingly packed with sensors and connected to the internet (see Schumpeter).

As a result, the rules in many industries, from construction equipment to cars, are changing: making things matters less and knowing things more. In many cases the successful companies will no longer be the ones that make the best products, but the ones that gather the best data and combine them to offer the best digital services. And the biggest winners of all may be those that control a "platform", a layer of software that combines different kinds of devices, data and services, on top of which other firms can build their own offerings—just as Trumpf is trying to do with Axoom.

Mastering this sort of transformation ought to be on the agenda of any country with a big manufacturing base (see chart 1, next page). But nowhere is the sense of urgency more developed than in Germany, where the fear that digitisation threatens its position as a leading industrial nation has been given added piquancy by Volkswagen's recent emissions scandals. The first half of the battle to master the digital world was lost, according to Timotheus Höttges, the boss of Deutsche Telekom. "The question now is: how do we win the second half?"

The problem is not that German companies have stopped innovating. In fact,

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many are ahead of the pack in digitising their products as well as their shop floors. Making products and factories "smart", however, is only the first stage in the digitisation journey, argues Germany's National Academy of Science and Engineering (Acatech) in a recent report. The next is to use the data generated by connected devices and other information to offer clever services, and make money with new business models. Firms that cannot create such offerings "may quickly lose their ability to compete," argues the Acatech report.

Smart services do not have to be closely related to the principal use of the product. A high-end car, for instance, has the digital horsepower of 20 personal computers and generates 25 gigabytes of data per hour of driving, estimates Gabriel Seiberth of Accenture, a provider of IT and consulting services. Rather than just building vehicles, he argues, carmakers should be thinking about how to provide, and profit from, the entertainment and e-commerce services that could be offered on the screens inside a vehicle. "The car will become a central part of a person's digital life," says Mr Seiberth.

That strikes a particular chord in Germany. Some fear that its carmakers, which directly or indirectly employ one in seven workers nationwide, could be demoted to low-margin metal-bashers, while American tech giants make most of the money by providing the software and the in-car entertainment—and perhaps, in time, designing the cars themselves.

Apple and Google are pressing carmakers to install the operating systems they have designed for cars' entertainment systems, which in practice will suck up all sorts of other data about the car and its occupants. Carmakers are realising that to give up this territory would risk their "sovereignty over the data" generated by ►

► their vehicles, in the words of Wilko Stark, Daimler's strategy chief. They could end up like Samsung, whose profits from smartphones are limited by the fact that it depends on Android, Google's mobile operating system.

It is not just German carmakers which worry about this sort of future, however. The American tech giants are also trying to establish platforms for the "smart home", which collect data from appliances, heating systems and the like. "Whoever controls the platforms will rule the future," declares Henning Kagermann, the head of Acatech, who coined the term "Industrie 4.0" for German industry's collective efforts to make the transition to a digital, internet-connected future.

Despite such concerns, in some ways Germany's industry seems well prepared for the rise of services and platforms. Its bosses are alive to the threat. Axel Springer, a publishing giant, started a trend among German firms by having some of its top people live in Silicon Valley for several months. The experience led the firm to invest in a consulting firm, gratingly called Hy!, which introduces old-economy executives to startups and helps them plan their digital transformation.

Some firms have already acted on the insight that digital platforms are crucial for their futures. One is Trumpf. Another is Klöckner, a metals trader, which has created a platform to connect steelmakers with construction firms and other customers. Germany's engineering and manufacturing giants, too, have started to take platforms seriously: Bosch now offers an "IoT Suite" to help other companies create new services around connected devices. Deutsche Telekom has teamed up with other firms to establish Qivicon, a smart-home platform to rival Apple's and Google's.

The government is trying to help. It has taken the lead in Industrie 4.0, creating around it an unwieldy structure that ropes in everyone from trade associations and ministries to unions and academics. Only in a country with Germany's corporatist tradition would an effort to make businesses more agile and responsive to change be so stuffed with steering committees, working groups and advisory boards.

The first aim of this bureaucracy is to produce templates and test beds for trying out innovative digital services, and to publicise interesting examples. Its second aim is to convince two groups of the need for change: the smaller among Germany's Mittelstand firms, and the industrial trade unions, which, under the country's "co-determination" model of labour relations, have a say in many management decisions. "Creating acceptance is key," says Matthias Machnig, a senior official who leads the Industrie 4.0 effort at the ministry of economic affairs.

Fortunately for many German industri-



al firms—and, for that matter, their counterparts in other countries—they have more time to adapt than consumer firms. In consumer markets, digital newcomers can quickly become dominant by exploiting the "network effects" in some technology platforms: the more people use them, the more apps and other offerings they generate, and the stronger they get versus any rivals. This is why German makers of cars and heating equipment look with trepidation at Google's work on self-driving cars and intelligent thermostats.

Yet the economics of the markets for industrial equipment, and the other business-to-business products many German firms make, are different, explains a report this month by Stiftung Neue Verantwortung, a think-tank, and other organisations. These markets move more slowly and are more complex. The expertise of incumbents is hard to replicate and, more important, in many cases they control access to the data their products generate. As a result, network effects are not as strong in these sorts of business.

If that offers some comfort to German manufacturers, it only goes so far. First, platforms thrive when other firms, developers and customers make use of them. Most big IT companies have grown up

managing such "ecosystems", but this will not come easy to manufacturers. As Sanjeev Paul Choudary, a technology analyst, puts it, they are steeped in "pipe thinking": firms order supplies, fashion them into products and then send them towards customers. Now they must think more like a gardener, and maintain a park which attracts and retains other firms and customers, in order to flourish.

Second, successful platforms tend to be "open", meaning chiefly that their owners encourage other firms, including competitors, to build applications that run on them. Bosch, Trumpf, Siemens and others claim to be open, but it is not clear how welcoming they will be in practice. German bosses tend to think that they can offer all the necessary services themselves and do not like the idea of inviting others onto their platform. German carmakers could probably build the dominant operating system for vehicles if they overcame their rivalries. But it is unclear whether BMW, Daimler and VW's Audi subsidiary will turn Here, the digital-maps business they are buying from Nokia, into a bona fide platform. Such proprietary thinking also makes German industrial firms reluctant to produce open-source software, or to give away other forms of intellectual property, in the way that Tesla, an American maker of electric cars, has done with its patents in an effort to spread its technology.

Shy about sharing

Third, platforms are about sharing the data they gather. The best new services are often the result of combining information from different sources. But in Germany this can be difficult. One barrier is privacy: in addition to the country's strict data-protection laws, there is a widespread suspicion of anything that smacks of monetising data. Even among younger Germans, nearly two-thirds worry that data generated by their cars will be sold on, according to a recent study by Deloitte, a consulting firm. Many Germans are wary of what has come to be called *Plattform-Kapitalismus*, meaning the dominance of new markets by mighty foreign providers such as Google and Facebook (see chart 2). This is seen as somehow unfair and an example of American "cowboy capitalism", which adds to the reluctance of German firms to create and promote their own platforms. Mittelstand firms too are reluctant to share data: they fear they could lose control of their intellectual property and thus their competitive edge.

A fourth and final hurdle relates to German corporate culture. Although German firms are no longer as hierarchical as they once were, they are still managed from the top down; risk-taking is discouraged. A key to developing successful platforms and services is to put them in the hands of autonomous teams—rather like internal start-ups.



► ups—and to be prepared to shut projects down if they fail to take off. Many German giants now have “accelerators” to incubate new business ideas, but lots are just public-relations exercises. Only a few have gone as far as Klöckner, which has set up an incubator for internal startups in Berlin, far away from its headquarters in Duisburg, with the aim of digitising the firm’s entire supply chain.

Many employees, too, are not ready for the digital world. At German universities computer scientists are trained much like engineers, meaning they are focused on precision, explains Clemens Westerkamp of the University of Applied Sciences in Osnabrück. This mindset, he says, is a big advantage when building highly reliable systems, which are required in many industries. But it is a drawback in the world of software and data, where quick thinking and risk-taking are more important. “The battle for industrial platforms will be a fight between German precision and American speed,” says Mr Westerkamp.

User-unfriendly

The engineering background of many managers also explains why they focus more on incremental improvements than on making drastic gains in their products’ functionality and ease of use. “Germans are really good at reducing the *Spaltmass*, the clearance between the parts of a car’s body,” says Christoph Keese, who was one of the Springer executives who spent a few months in Silicon Valley and has written an influential book about the experience. But the user interfaces for German products are a different matter. They are often so complex, says Mr Keese, that the word that appears most often on their displays is *Anwenderfehler* (“user error”).

Compare Silicon Valley and Germany’s equivalent for industrial firms, the region around Stuttgart, and the cultural differences are clear. Google’s campus in Mountain View offers about 30 different canteens with free food and generous opening hours. Visitors can see some self-driving cars, but the scenery is dominated by bicycles in primary colours which employees use to pedal between the many buildings. At Bosch in Gerlingen, employees all stream into a huge, centralised corporate cafeteria at lunchtime. And the most striking vehicles are green self-driving lawn-mowers that keep the grass around the firm’s office block in perfect trim.

Yet it would be unfair not to mention the “Bosch Start-up Platform” which the firm has recently set up in Ludwigsburg, a short drive away. It has already incubated a handful of firms. One has developed a wireless sensor to improve asparagus yields, another builds agricultural robots that kill weeds. Germany’s manufacturers are clearly changing. The question is whether they can do so fast enough. ■

Bankruptcy in India

The business of going bust

MUMBAI

A long-awaited bankruptcy code should help owners and lenders

IN THE 19th century, when a Hindu merchant could not pay his debts, he would announce his insolvency by burning a lamp of ghee (clarified butter) at his doorstep. Unable to face the ignominy of default, he would flee by night, never to return. The morning after, villagers would mourn the loss of a friend and watch creditors swoop in to confiscate his house. India’s modern-day bankruptcy procedures are not as brutal and certainly not as swift.

The World Bank estimates that it takes about 4.3 years, on average, to resolve a bankruptcy case in India, more than twice as long as in China. The recovery of debts is just 25.7 cents on the dollar, one of the worst rates among developing countries. Take Kingfisher, once India’s second-biggest airline, which was grounded in 2012 with debts of more than \$1.5 billion. Only this year did its creditor banks manage to seize its former headquarters in Mumbai. Unlike most other countries, India has no unified bankruptcy code, and its courts have to interpret a variety of sometimes conflicting laws that touch on insolvency.

Earlier this month the finance ministry floated proposals for a bankruptcy law that would set a hard deadline of 180 days to decide the fate of a sick firm, plus a 90-day extension if creditors agree. Bahram Vakil of AZB & Partners, a law firm, who sits on a committee advising the ministry on the reforms, says there is a “crying need” for them. At the moment, creditors cannot take any legal action against a defaulter until a restructuring plan is in place, which usually takes between three and ten years.

In the mean time, the owners of sick firms retain day-to-day management control; and while they drag out court proceedings, creditors see their assets dwindle. In many cases, says a lawyer who works on such cases, the owners start up a fresh company in the name of a relative, and siphon off business from the old one.

The reform bill proposes to replace the current legal mess with a clear and rapid resolution process, designed to reduce conflicts among creditors. Now, it can take up to two years just to get a dozen or more banks to agree a common approach, says Abizer Diwanji of EY, an accounting firm. Unusually, the new law would put even unsecured creditors in front of official ones in the queue for repayment, with the intention of encouraging the development of a market in unsecured loans.

Though some current laws work in their favour, the owners of failing firms do not have it all easy. To be declared sick, and qualify for court protection, firms have to apply to the Board for Industrial and Financial Reconstruction, a government agency, which will not act until the firm has frittered away half of its net worth in losses. By then it may be too late to save it. Some creditor-friendly laws result in firms being liquidated when they could have been restructured. And some labour and land laws stop firms selling property or trimming their workforce to stay in business.

If the law is passed, more sickly firms would be revived instead of being left to die slowly; and India’s banks—whose portfolio of troubled loans has quintupled to \$133 billion since 2011—should get more of their money back, sooner. However, the governing Bharatiya Janata Party may struggle to get much done in the next few months, following the wallop it has just received in state-assembly elections in populous Bihar. The law should bring benefits to both business owners and their lenders. But as ever, politics may get in the way of sensible reform. ■



Finally grounded

Newspapers

Up against the paywall

NEW YORK

Many publishers still see little alternative to continual cutbacks

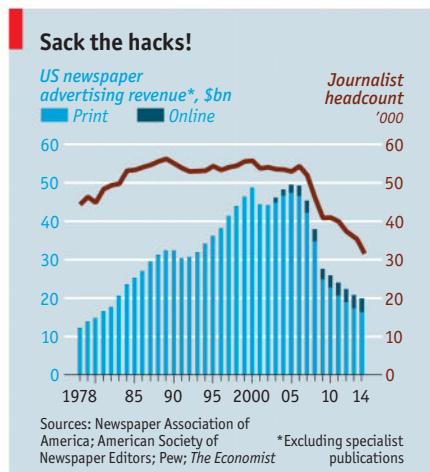
IS IT boom or doom in the news business? Headline-grabbing sums are being invested in online newspapers: Axel Springer, a German publisher, bought *Business Insider* in September, in a deal valuing it at \$442m. And in August NBCUniversal, a film and television studio, invested \$200m in BuzzFeed, another online publisher. Yet for those publications founded in the era of hot-metal type, advertising revenues continue to fall, as illustrated by figures this month from News Corp and Tribune Publishing (whose titles include the *Chicago Tribune* and the *Los Angeles Times*).

American dailies lost around \$30 billion in ad spending between 2005 and 2014, or 60% of the total. Each drop in revenues is being met, in most cases, with a fresh cull of newsroom staff (see chart). Tribune is offering redundancy terms to 500 employees, 7% of its workforce. The cuts have helped to limit short-term damage to publishers' bottom lines, but the outlook is bleak. Jim Chisholm, a media consultant, predicts that print-ad revenue is heading more or less to zero at many American and European papers. As for online ads, the ever-widening choice of places to put them means that prices keep falling.

What can newspapers do to save themselves, besides finding billionaire owners able to withstand years of losses? For most of them, one possible saviour, getting readers to pay for online news, has not worked well. Two years after introducing a paywall for the *Sun*, its biggest British title, News Corp said last month that it would be scrapped. "Metered" paywalls, which let readers see a few free articles before asking for payment, have worked at some large and prominent papers like the *New York Times*, and specialist ones like the *Financial Times* (which pioneered the idea). But for most general-interest papers people tend to read the freebies, then leave. Mr Chisholm says a typical American personal-computer user spends just 228 seconds on each visit to a news website.

Some European newspapers are making a bit of money by selling individual articles, typically for a few tens of cents, in partnership with Blendle, a Dutch online firm. But Douglas McCabe of Enders Analysis, a research firm, says that as with paywalls, this idea has limited potential for English-language papers, which must compete with thousands of free sources of news for readers' attention.

For many papers, then, the main hope



is to find ways of boosting online advertising and sponsorship. However, the digital-advertising revenue of America's daily papers was \$3.5 billion in 2014, just 11% more than in 2007, according to the Pew Research Centre and the Newspaper Association of America. Analysts reckon that just two digital-media firms, BuzzFeed and Huffington Post, will grab around 10% of those revenues this year. Along with Vice Media, they have been far more creative in making money from their online traffic.

The problem for middle-market newspapers is that the most common digital advertising available is "programmatic"—that is, placed in bulk by software that seeks to maximise the target audience without much regard for what sort of outlet it is published in. This is extremely cheap, in part because the supply of space for such ads is near-infinite. The rise of ad-blocking software is also a threat, though Axel Springer's boss, Matthias Döpfner, said recently that on the website of *Bild*, the group's biggest title, the proportion of readers using ad-blockers fell from around a quarter to less than one in ten when it started forcing them to choose between viewing ads or paying for the articles.

Advertisers are keen to spend more on video and sponsored content, two areas in which readers' attention is easier to hold (and which are not threatened by ad-blockers). But readers are not trained to expect video from their newspapers, and newspapers often lack the experience and resources to make them to a high enough standard. Some are making strong efforts, though. This month the *New York Times* released a "virtual reality" app, with a series of slick 360-degree videos that the newspaper says kept readers engaged for close to 15 minutes on average.

Two of those videos were advertisements, for GE and Mini. This approach, where ads are served in exactly the same format as editorial content, and intermingled with it, is known as "native advertising". BuzzFeed and several other "digital-native" publishers make much of their

money this way. Starchier papers are giving it a try, too, including the *Washington Post* (whose online traffic has surged under its new owner Jeff Bezos, the founder of Amazon), the *New York Times* and the *Wall Street Journal*. But smaller news outlets may struggle to get advertisers interested in creating ads that match their house style.

Mark Thompson, the *New York Times*'s chief executive, says the potential for native advertising is "limitless". Some of his readers may beg to differ. The paper has already had to make a change after some of them objected to it labelling sponsored content as "Stories from our advertisers": it dropped the word "stories".

One way that newspapers may be able to attract more advertising, or even get more readers to pay for news, is to identify new areas of specialist coverage that people find invaluable. The *Boston Globe* this month launched a website devoted to health and medicine called *Stat*, and has another devoted to covering Catholicism, called *Crux*. Some Sunday papers have long raised a bit of money through such things as gardening and wine "clubs", in which they sell products alongside related articles—a sideline being looked on with renewed interest by some newspaper bosses. It is still too early to write the obituary of the general-interest daily newspaper, even if many are fighting for life. ■

Business travel

On the road again

Companies are spending more on sending their staff out to win deals

FOR well over a century, people have predicted that technology will make business travel obsolete. In 1889 Jules Verne imagined that the "phonotelephone", or "the transmission of images by means of sensitive mirrors connected by wires," would replace overseas meetings. In the 21st century far-flung communication is no longer science fiction. Yet far from stowing their suitcases, putting away their passports and signing in to Skype, the corporate world's "road warriors" are clocking up more miles than ever.

According to a report by the Global Business Travel Association (GBTA), firms around the world will spend a record \$1.25 trillion this year on sending employees on work trips. This largely reflects growing business confidence. In the downturn following the global financial crisis, suspending foreign jaunts was a quick way to cut costs. Now, firms are looking to grow, by sending staff out to hunt for deals.

A recent survey by Morgan Stanley, a ►

Up in the air

Business travel spending, 2014
% change on a year earlier



bank, found that 63% of American firms increased their travel budgets for 2015. A similar proportion said that they would increase spending again next year. Another survey, by *BusinessTravelNews*, suggests that management consultants and makers of expensive hardware remain the biggest spenders on travel among American companies. And businesses and other organisations in China will, collectively, soon be spending more than their American counterparts, the *GBTA* reckons (see chart).

Organisations still place great store by face-to-face meetings. Kathryn Bell of the Boston Consulting Group says that although clients do not always demand personal contact with its consultants, when they are working on operational improvements to a customer's plant, for example, there is no alternative to being on the ground. Isabelle Bajeux-Besnainou, the dean of Desautels, a Canadian business school, says a big part of her job is scouring the world for potential benefactors. "When you are asking someone for money it is better to do it in person," she observes. Some firms also use foreign jaunts as a reward for high-performing staff.

There might be less demand for expensive jet-setting if promises of seamless teleconferencing had not proved so hollow. Anyone who has endured a jerky, muffled video-call might wonder if, like Verne's phonotelephone, it was being transmitted through distant mirrors. Sony is a leader in virtual-presence technology, says Chris Bowden, a former executive at that company (now at Carlson Wagonlit, a travel-management firm), yet, if its potential customers and competitors were gathering at a conference on the other side of the world, it would not send a hologram to attend.

Hotels

No reservations

NEW YORK

Marriott buys a rival at a heady time for hoteliers

THE \$12.2 billion deal in which Marriott, an American hotelier, agreed this week to buy a rival, Starwood, follows months of rumours about the bid target, whose brands include Westin and Sheraton. In April Starwood's slow growth, at a time when other chains are doing well, prompted it to start exploring "strategic and financial alternatives". Marriott's acquisition, announced on November 16th, will make it the world's biggest hotelier: it will manage more than one million rooms, about 50% more than its closest rival, Hilton.

The deal comes at a heady time for hotels. Eight years ago Blackstone, a private-equity firm, bought Hilton for \$26 billion. Hilton's value plunged during the recession, but the industry's recovery has since made the deal one of private equity's most profitable on record. In America revenue per available room (RevPAR, revenue divided by rooms available in a given period), has risen for the past five years, according to STR, a data firm. PwC, a consultant, expects occupancy rates this year to reach their highest level since 1981. The question is not whether the good times will end—they will, sooner or later—but for how long hotel firms can stretch their halcyon days.

Hoteliers' current boom is in part cyclical and in part thanks to good management. Crucially, hotel companies own fewer hotel buildings than they once did. In this "asset-light" model, firms earn fees for managing and franchising hotels. Marriott owns or leases just 2% of the hotel rooms it operates. Hoteliers do not profit from soaring property prices, but they aren't gutted by a slump either. The financial crisis proved the merit of this model: hotel firms did suffer during the downturn, but property investors bore most of the pain. Since then, hoteliers have benefited from a simple mismatch of supply and demand, particularly in America. Business travel is growing again, but the supply of new hotel rooms has yet to catch up.

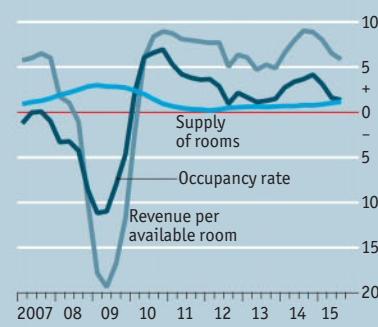
Even as they increase their budgets, corporate-travel managers continue to seek ways to pinch pennies on each individual trip. A survey by the Association of Corporate Travel Executives (ACTE) found that over the past two years firms have become stingier about letting staff upgrade their flights or hotel rooms, and stricter about demanding that all trips go through their centralised booking systems.

How long can this last? Hotels face relentless change online. Airbnb, a room-sharing site, offers more rooms than even the combined Marriott and Starwood. Online travel agencies take a hefty cut of hotel bookings; price-comparison sites make it difficult for firms to raise room rates. Growing supply may make it harder still. Steven Kent of Goldman Sachs expects that the supply of new rooms in the next two years will outpace that of the previous five. Already, the growth of American occupancy rates and RevPAR has begun to slow (see chart).

Marriott's boss, Arne Sorenson, remains sanguine on the broader market and bullish on his deal. "Whether it's a robust bull market or whether it's a slower market, there's value that we can create from putting these two platforms together," he argues. The cost of closing the deal and integrating the companies will be sizeable, but Marriott is buying Starwood relatively cheaply, and will continue with Starwood's plan to bring in up to \$2 billion, net of taxes, from selling property over the next two years. The deal may also help Marriott fend off challengers online: the firm will be able to spread the cost of new technology, from customer apps to software that predicts demand for accommodation, over 1.1m rooms.

Room to grow

American hotels, % change on a year earlier



Yet one obvious way of cutting costs is going largely unexplored: making use of the "sharing economy". According to the ACTE, over half of firms have ruled out alternative suppliers of accommodation such as Airbnb, mainly citing their "duty of care" to employees. Carol Neil, a travel manager at Nomura, says the bank vets all the suppliers of travel services before letting staff use them, and so far it has not approached

► proved any sharing-economy firms, because of doubts about safety. Indeed, hotel rooms are built to a standard design, with safety in mind, whereas Airbnb hosts' homes may contain unexpected hazards.

What of the road warriors themselves? As their employers expect them to do more schlepping around the world with fewer perks, life on the road has become tougher. Stricter airport security—business travellers' biggest gripe—eats up time and patience; and as more airlines offer in-flight Wi-Fi, the chance of enjoying a few hours of downtime is evaporating.

Yet despite this, most executives say

they enjoy life on the road. According to the GBTA around half are happy with the amount of travelling they do, while over a third say they would like to do more. This may be because the daily grind back at base has got a lot tougher too. An executive from a big professional-services firm, who flies around 20 times a year, says that modern office life has got so unpleasant—"trying to run a business from an open-plan desk, higher levels of expectation and having to inspire the hell out of people merely to stop them from being tempted away"—that he looks forward to foreign trips simply to take a break from it all. ■

around it, to be released next year. Since the image in virtual reality is 360°, and the viewer, not the director, controls where the focus is, it is a very different art form. Virtual reality "blows up a hundred years of artistic rules about framing a shot," says Michael Schroepfer, Facebook's chief technology officer. Studios will need to decide how much they want to invest in what is still an emerging technology. They will not have forgotten how 3D films failed to live up to their early promise, because audiences did not like the hassle of putting on glasses, or the higher ticket prices.

However, firms in other industries believe that virtual reality has potential to change their businesses and the way they interact with consumers. "People are valuing experiences more than things," says Raja Rajamannar, chief marketing officer of MasterCard. The credit-card company is discussing how it might use virtual-reality technology to give customers insights into places they would like to visit and hotels where they could stay. Advertisers and even newspapers (see page 62) are thinking of how to use it to reach people in clever, attention-grabbing ways. Ford is using Oculus headsets to help its designers see what new cars will look like before they are built. Industries that train through simulation, from aviation to medicine, will derive clear benefits from virtual reality.

However, improving experiences with the aid of new technology is not the same as making a business out of it. Many believers in virtual reality's potential compare it to smartphone technology, which took decades to become mainstream. The firm most likely to benefit from virtual reality's rise is Facebook. If it gains traction, and Oculus continues to be the leading innovator, then the social network will look farsighted. If it never does, it was merely a \$2 billion bet gone awry. Tech firms have lost far more trying to predict and package the future. ■

Virtual-reality devices

Ready, headset, go

SAN FRANCISCO

New VR headsets are being launched, but the technology's appeal is uncertain

THOSE trying a virtual-reality set for the first time can be transported to the top of a skyscraper at night. Stepping up to the edge, they look down on the bustle of the city, far below. If he is standing nearby, Brendan Iribe, the boss of Oculus, which makes virtual-reality headsets, likes to dare people to jump. But many, including your correspondent, are too fearful: it feels like they really are teetering on the brink.

Whether consumers can be convinced to leap unflinchingly into buying their own virtual-reality device is another question. On November 20th Samsung, which makes smartphones and other gadgets, will start shipping a new version of its headset, called Gear vr, which it is producing in collaboration with Oculus. Its price tag of around \$100 could give it broad appeal. But consumers will soon have many other options. Google already offers a \$5 virtual-reality viewer, Cardboard, in which a user's smartphone provides the screen. In early 2016 Sony and HTC will release more expensive offerings aimed at video gamers, as will Oculus, which was bought by Facebook for \$2 billion last year.

In the near term virtual reality will appeal most to serious gamers, who are keen to immerse themselves in elaborate fantasy worlds, even if it means wearing daft-looking goggles. Next year around 3m virtual-reality units will be sold worldwide, predicts Jupiter Research, which tracks the industry. By 2020 consumers might buy 30m, generating more than \$4 billion in retail sales of devices. However, the manufacturers are likely to make bigger profits from taking a cut of the programmes and games sold on their platforms than from the low-margin business of selling headsets, says Jen-Hsun Huang, the boss of Nvi-

dia, a firm that makes electronics for them.

Even to enthusiastic gamers eager for the next big thing, virtual reality still has kinks to work out. It often makes users dizzy. The sound and pictures are pretty good, but the technology is not yet fully able to replicate the sense of touch, even though most equipment-makers offer some sort of touchpad that lets users grab and release objects. Users do not have a sense of their own presence, or their friends', when they wear headsets. As a result virtual reality today can feel like "a very lonely experience," says Mr Huang.

Hollywood studios, expert at creating appealing fare, are just starting to experiment with virtual reality. 20th Century Fox, which made the film "The Martian" about a stranded astronaut, has made a short virtual-reality experience based



Cheaper than getting divorced?

Schumpeter | Smart products, smart makers

The internet of things will strengthen manufacturers' hands in the battle for customer loyalty



IN "CAPITAL", Karl Marx presented some striking thoughts about the nature of everyday products, which he called commodities. A commodity ought to be "a very trivial thing", he argued, and "easily understood". But in fact it is the opposite: "a very queer thing, abounding in metaphysical subtleties and theological niceties." In primitive societies people fetishise religious objects, imagining that they are living beings that can enter into relations with each other and with human beings. In capitalist societies they do the same thing with commodities.

Today the queerness of many products is material rather than metaphysical. Stuffed with sensors and microchips, ever more of them really can communicate, via the "internet of things", with each other and with human beings. Even such mundane things as fizzy drinks and washing powder are set to become "smart", as their makers attach sensors to their packaging that can detect when the product is being used, and that can communicate with smartphones when scanned. Gartner, a research firm, predicts that the number of wirelessly connected products in existence (not including smartphones or computers) will increase from perhaps 5 billion today to 21 billion by 2020.

The power of connecting up previously dumb objects is most obvious in stock-keeping and supply-chain management. Andy Hobsbawm, the founder of Evrything, a provider of technology for connected objects, notes that businesses will be able to follow the progress of their products from factory to shop to end-consumer—and the products will be able to "speak" to whoever handles them. Designer handbags will be able to vouch for their own authenticity via embedded codes. Machines will be able to tell their owners how best to dispose of them at the end of their lives.

However, Mr Hobsbawm argues, the biggest revolution will come in customer relations. Manufacturers are realising that the best way to sell their products is to forge personal relations with customers rather than to spend large sums on broad-brush marketing. So far, manufacturers have lost out to others in this new world. Retailers have made inroads through loyalty cards, which allow them to gather data on their customers in return for discounts or rewards. Amazon's business model has been built around understanding shoppers' interests and suggesting things they might want to buy. Google is exploiting its expertise in inte-

grating user data into its products to move into new areas such as home maintenance (witness its Nest smart thermostats).

As it becomes cheaper to add sensors and microchips to products, and to connect them to the internet, their manufacturers will know lots more about how end-consumers are using them. This will help them develop their products more rapidly, fix any faults more quickly and tailor products more snugly to an individual buyer's needs. General Electric uses sensors to monitor how its jet engines are performing in the air, and to diagnose emerging problems. Diebold likewise monitors its cash machines for signs of trouble, either fixing problems remotely by means of a software patch or, if that does not work, dispatching a technician.

The same approach is now being seen in consumer products. When Tesla found that some of its cars had a problem with uphill starts, for example, it fixed it by transmitting a software update. Sonos, a maker of music systems, has just sent out an update that gives its loudspeakers the ability to tune themselves to the acoustic qualities of the room they are placed in. The old form of capitalism based on built-in obsolescence is giving way to a new one in which products get better after they are bought. This robs firms of the ability to make a quick profit by selling new models, but may bind them much closer to their customers.

Michael Porter of Harvard Business School predicts that the rise of wirelessly connected products, and the resulting entry of manufacturers into the battle for customer loyalty, will bring a "new era of competition". Makers of products will gain an equal footing with retailers and the owners of technology "platforms", such as Google, as all three vie for the consumer's affections. Manufacturers will also be able to expand into providing services. Babolat, which makes tennis racquets, is getting into the business of coaching: its racquets contain sensors that feed data to your smartphone, to advise you on how to improve your serve. Gooee, a lighting firm, is moving into the security business by giving its lamps the power to activate alarms in the event of a fire or a break-in. John Deere, a maker of agricultural equipment, is helping farmers get the most out of their land by building machines that can receive data on weather and soil conditions, enabling better decisions on when and where to sow and plough.

Culture clash

Taking full advantage of smart products will require a revolution on the part of incumbent manufacturers. They will need to hire more information-technology specialists, who may not fit easily into a culture dominated by mechanical and electrical engineers. They will have to rethink their core competences: for example, instead of outsourcing their data management to IT firms, they may find that the ability to crunch data about their products in-house is as valuable as making the products themselves.

They will also have to grapple with such unfamiliar issues as privacy and cyber-security. A recent survey of 561 executives worldwide by our sister company, The Economist Intelligence Unit, suggested just how far the average business is from understanding any of this. Only 19% were planning radical changes to harness the potential of smart things; and only 39% had introduced training in digital skills. The rapid rise of Uber and Airbnb suggests that it is foolish to underestimate the speed of the digital revolution. If they dawdle, manufacturers will be left behind as other types of business draw ever closer to customers. But if they embrace the smart revolution, they may create products—and indeed services—that really are worthy of being fetishised. ■



Investing in a world of low yields

Many unhappy returns

Pension funds and endowments are too optimistic

“KEEP your eyes on the stars,” said Teddy Roosevelt, “and your feet on the ground.” America’s can-do spirit keeps its economy moving forward, but over-optimism can be harmful, especially if it leads people to make promises they cannot meet. If investment returns are lower in coming decades than they have been in recent ones, that is the position pension funds and college endowments will be in.

When final-salary pension schemes, which are still prevalent among America’s public-sector employees, decide how much to put aside to pay pensions, they have to make an assumption about what returns they will earn. The higher their estimate, the less employers have to contribute today. Similarly, endowments have to estimate their future returns to determine how much to spend each year: pay out too much and their funds will dwindle away.

The average American state or local-government pension fund assumes it will earn a nominal (ie, not accounting for inflation) annual return of 7.69% in future, according to the National Association of State Retirement Administrators (NASRA). Based on past performance, that seems reasonable. Over the past five years the median pension fund has earned an annualised return of 9.5%; over the past 25 years,

the return has been 8.5%. College endowments use very similar assumptions: they target a return of 7.4%, on average, according to a survey from the National Association of College and University Business Officers (NACUBO) and Commonfund, an asset manager. Again, this jibes with the average annual return in 2005-14, of 7.1%.

But as the saying goes, past performance is no guide to future returns. Investment returns come from two sources: income and capital gains. The income portion is much lower than it used to be. The yield on long-dated Treasury bonds 25 years ago was more than 8%; an investor who held such bonds to maturity could lock in that nominal return. Now the yield on the ten-year Treasury bond is just 2.3%.

Slim pickings

Projected real returns on a typical American portfolio, given prevailing valuations, %



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Yields on corporate bonds, which pay a spread over government debt, have fallen in tandem. For equities, the dividend yield on the S&P 500 index in 1990 was 3.7%; now it is just 2.1%. (In theory share buy-backs make up for some of the fall in dividends, but they are offset by the issuance of new equity for executive bonuses.)

Yields move in the opposite direction to prices. They are low because the price of equities and bonds has risen dramatically in recent years. This has delivered capital gains to investors, boosting total returns.

Future gains depend either on even higher valuations, or on increases in profits and dividends. Profits usually grow in line with the economy. They can rise faster when the economy is recovering from recession, but the American economy has been growing for years, and profits are close to a post-war high as a share of GDP.

So a pension fund or endowment that assumes investment returns will continue at their recent pace is engaging in double-think. For that to happen, either profits will have to take an unprecedentedly high share of GDP or yields will have to fall to an unprecedentedly low level. In other ➤

words, for future returns to match the past, future economic conditions would have to look completely different.

Elroy Dimson, a professor at both the Cambridge and London Business Schools, is the co-author of a study of investment returns, covering 23 countries and more than a century of data. He thinks the likely future long-term real return on a balanced portfolio of equities and bonds will be 2.2-2.5%. AQR, a fund-management group, has come up with a remarkably similar figure, 2.4%, by assuming annual growth in dividends and profits of 1.5% for a portfolio priced at current valuations and split 60-40

between equities and bonds. It applied the same formula to valuations over the past century, and found that the current projected return is lower than at any time in the past (see chart on previous page). Assuming an inflation rate of 2%, such a real return equates to a nominal one of 4.4-5%, far short of the estimates used by pension funds and endowments.

Decent investment returns are vital if pensions are to be paid in full. According to NASRA, the total revenues—the money needed to pay benefits—of American public-sector pension funds have been \$5.9 trillion since 1984. Of this, employers have

contributed \$1.5 trillion and employees \$730 billion. The vast bulk—\$3.7 trillion—came from investment returns.

Yet states and local governments are not putting away enough to pay pensions, even assuming their optimistic assumptions about returns are met. The last year funds made the full contribution required by their plans was 2001. They have fallen short by 10% or more in every year since 2008. As a result, the Centre for Retirement Research (CRR) estimates that the average state and local pension plan was 74% funded at the end of last year—down from fully funded in 2001. That equates to a deficit of ►

Buttonwood | What a carry on

Monetary policy could drive currency volatility

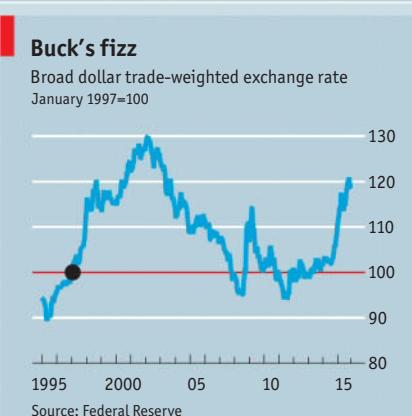
NEXT month will probably see the first great divergence in monetary policy since the financial crisis of 2008. The Federal Reserve is widely expected to push through a rate increase—its first since 2006. But the European Central Bank is expected to cut its deposit rate, already in negative territory, or to expand its programme of asset purchases. The Bank of Japan is also expected to maintain or amplify its expansionary monetary policy.

For the currency markets, the shift will herald a new era. Before 2008 one of the most popular strategies was the “carry trade”—borrowing in a low-yielding currency and investing in a higher-yielding one. But with interest rates in most of the rich world at or close to zero since 2008, there has been little carry to trade.

After December traders can probably look forward to a prolonged divergence between interest rates in America and the euro zone. Back in 2010 the markets thought the first interest-rate increase by the Fed and the ECB would occur at roughly the same time. (In fact, the ECB fleetingly began raising rates in 2011, before cutting them again.) But now there is an expected hiatus of nearly three years between the Fed's first increase and the ECB's first move, according to David Riley of BlueBay Asset Management.

The gap between American and German bond yields also reflects this divergence in expectations. On November 18th five-year Treasury bonds yielded 1.68%; German bonds with the same maturity had a negative yield of 0.14%. That is the biggest gap since the creation of the euro. It may well encourage income-seeking investors to pile into the dollar.

A further surge in the dollar could have big consequences. Emerging-market countries that tie their currencies to the dollar, formally or informally, will see



their exchange rates rise, and their exports become less competitive. This could cause some to consider a devaluation. But there could also be difficulties for developing countries without dollar pegs. If their currencies fall sharply, that will put a strain on companies that have borrowed in dollars. Capital flight could also complicate refinancing for local-currency borrowers. Corporate debt in emerging markets has risen from 50% of GDP in 2008 to almost 75%.

In short, currency risk could become a big source of turbulence in financial markets, as it was in the late 1990s (the Asian crisis) or the early 1990s (when the European Union's Exchange Rate Mechanism broke apart). The volatility of the dollar versus the euro and yen, as measured by contracts traded on the Chicago Board Options Exchange, stayed below 10% for much of 2013 and 2014; this year it has risen to 10-15%.

Such volatility is a big concern for international investors. They might successfully pick an outperforming stock in another country, only to see all their gains evaporate as a consequence of exchange-rate movements. “Foreign-currency exposure

is no longer a simple numéraire that can be hedged away or ignored,” wrote Geraldine Sundstrom of PIMCO, a fund manager. “Foreign-exchange considerations will weigh disproportionately on the investment climate and opportunities.”

Further dollar strength is not inevitable: rate expectations could already be reflected in prices. On a trade-weighted basis, the dollar has already had an energetic bull run (see chart). The pace of its rise over the past 12 months has been the fastest since the early 1980s. Fund managers polled by Bank of America-Merrill Lynch think that bullishness about the dollar is the most crowded trade in the markets at the moment.

If it were to happen, a further rapid rise in the dollar would affect the American economy, reducing import prices (and thus inflationary pressures) and cutting export growth (affecting GDP). A stronger currency equates to monetary tightening; this might reduce the extent to which the Fed needs to push up rates.

Indeed, central banks such as the ECB that have tightened since the credit crisis have been forced to reverse course. Torsten Slok of Deutsche Bank says that the median interval between the first such rate increase and the first cut was only 16 months. That suggests that a December rate increase could be followed by a cut in early 2017.

Since 2008 it has seemed as if all central banks have been happy to let their currencies decline, as a way of easing pressure on their domestic economies. Implicitly or explicitly, the Fed will be breaking with that approach if it pushes up rates in December. Billions of dollars will be at stake as investors try to cope with the fallout.

► \$1 trillion or so. As the hole gets bigger, higher future contributions are needed. They have risen from 6.7% of payroll in 2001 to 18.6% now.

The realistic solutions to this mess are bigger contributions from employers (higher taxes, in other words), higher contributions from employees (pay cuts) or reduced benefits. But many pension funds seem to hope they can make up the shortfall in returns by investing in alternative assets (property, private equity and hedge funds). A survey by Towers Watson, an actuary, showed that alternative assets as a proportion of American pension portfolios (public and private) rose from 16% in 2004 to 29% in 2014.

Such diversification has not been wholly successful. So far this year a global hedge-fund index produced by HFR, a data provider, is down by 2.6%. The index also fell by 0.6% in 2014. Long-term returns on American property are very similar to those from equities. Future returns from this asset class are also likely to have fallen: the yield on property funds (REITs, in the jargon) was more than 8% in 2000, but is now below 4%. Long-term returns from private equity have been better (14% annualised over the past decade, according to Bain, a consultancy), but the industry is not large enough to absorb huge amounts of pension money. Buy-outs totalled \$252 billion in 2014; American public-sector pension funds have assets of \$3.2 trillion. Investing in alternative assets may be a sensible way of reducing risk, but it is unlikely to boost overall returns by much.

College endowments have to make similar calculations to pension funds. If they want to maintain their assets over the long term, they have to be prudent in their investment assumptions. The rule of thumb, according to William Jarvis at Commonfund, is to take the assumed investment return of 7.7% and deduct a percentage point for expenses and two points for inflation. That translates into a spending rate of 4.5% a year. The average college spent 4.4% of its endowment on operating expenses in 2014.

If investment returns fall to 4-4.5%, and the same rule of thumb applies, spending could drop to 1.5% of assets, a two-thirds decrease. Fortunately, universities are much less dependent on investment returns than public pension funds: they also get money from tuition fees and gifts from donors. Big colleges (those with assets of over \$1 billion) are the most exposed: they rely on their endowments for 16.9% of their budget, compared with 4.2% for colleges that have less than \$25m in assets. But in both cases, the squeeze will not be as great

as the one that pension funds face.

Other long-term investors could also be at risk. German insurers offer savings products with an average guaranteed return of 3.2%, well above the current level of government-bond yields. Japanese insurers were devastated by a similar problem in the 1990s; some had to close.

The good news is that this is a long-term problem. Low returns are like a car with a fuel leak; it can still be driven for a while before it grinds to a halt. The bad news is that, precisely because this is a long-term problem, investors (particularly the politicians responsible for public pension funds) will be tempted to leave it to their successors. That will only make the eventual funding crisis even bigger. ■

ing all financial firms: banks, insurers, brokerages, asset managers and so on. Consolidation has been mooted before, only for the system to remain unchanged. But according to people familiar with government discussions, big changes are virtually certain this time because of the stockmarket debacle.

China assembled its regulatory framework in piecemeal fashion in the 1990s and early 2000s as the financial system took shape. Different agencies look after banks, brokerages and insurers, whereas the central bank oversees the financial system as a whole. This elaborate division of labour has made for disjointed supervision.

Although the central bank is often described as preeminent, all four agencies have the status of ministries and report to the State Council, or cabinet. But the State Council has lots on its plate. "Things almost need to reach a crisis level for it to notice," says a banker in Beijing.

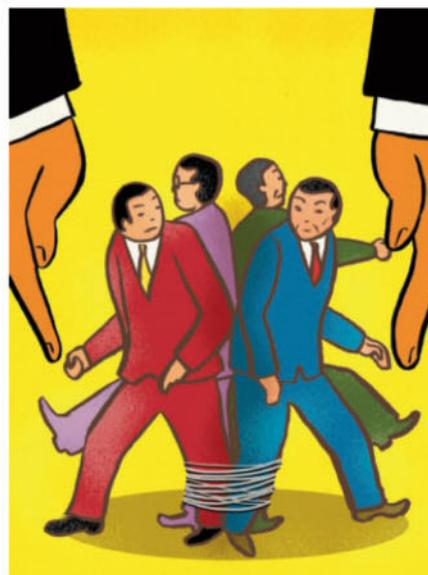
The stockmarket crash that began in mid-June was a stark illustration. In the months leading up to it, analysts grew alarmed at the rise in margin financing as investors borrowed cash to buy shares. Looking at brokerage data alone, the securities regulator was confident that risks were under control. But at the same time, peer-to-peer lenders, which are supervised by the banking regulator, created products that allowed investors to pile on more debt.

It was not the first time that regulatory divisions had obscured growing risks in China. Shadow banking exploded over the past five years as banks dealt variously with insurance companies, asset-managers and securities firms to exploit loopholes. Debt limits on local governments have also been skirted easily by provinces and cities using corporate-like entities to borrow from banks.

Officials have yet to spell out how they will reform financial regulation and it could be at least another year before they do so, but the general direction is clear. The Communist Party's new five-year plan, for 2016-20, calls for greater regulatory co-ordination. Earlier this month Xi Jinping, China's president, said the financial system had become too complex for such divided oversight. He noted that many countries had created more unified regulatory frameworks after the global financial crisis, and that China could learn from them.

In discussions in Beijing the British model has been held up as one to study. Britain abolished the Financial Services Authority, its banking regulator, judging that it had failed to keep proper tabs on banks before the 2008 blow-up. Its role of ensuring financial stability was handed to the Bank of England.

The fact that big banks and other financial institutions are state-owned presents unique challenges for Chinese regulators. ►



Chinese financial regulation

Takeover bid

SHANGHAI

Stockmarket mayhem prompts a drive for more coherent oversight

FOR ordinary Chinese investors, painful memories of the summer's stockmarket meltdown are fading away, soothed by a fresh rally in share prices. But for the government, the fallout is just getting started. In recent weeks it has launched investigations into officials, bankers and hedge-fund managers suspected of illegal trading. It has tightened rules about using debt to buy shares. Now it is planning the biggest overhaul of Chinese financial regulation in more than a decade.

The idea is to create a "super-regulator", combining three separate agencies and, possibly, the central bank into a single, powerful entity responsible for monitor-

If the agency supervising banking were to report to the central bank, it might have to be demoted to vice-ministerial rank to connote its junior status within the super-regulator. Awkwardly, that would put it on par with the biggest banks, whose bosses are also vice-ministers. One option is to lower the standing of bank chiefs, a proposal that is sure to meet opposition.

Moreover, the main problem in the Chinese financial system remains an excess of government meddling, not private misconduct. Straightening out the lines of communication to ensure better monitoring of risks makes sense. But when government-guaranteed debts that government-owned companies owe to government-controlled banks are the biggest financial risk, the government's handling of it all will always be viewed with suspicion. ■

Fannie Mae and Freddie Mac

A funny form of conservation

WASHINGTON, DC

The government may soon need to rescue America's mortgage giants again

TEMPORARY solutions have a way of becoming permanent. The fate of Fannie Mae and Freddie Mac, the two "government-sponsored enterprises" (GSEs) that stand behind much of America's housing market, is a case in point. The GSEs, which buy American mortgages from banks and other originators, bundle them into securities and resell them to investors with a guarantee, are stuck in a technocratic no-man's land. Their status has not yet been normalised after their first bail-out, but they may soon require a second. If they do, the administration of Barack Obama, which has been running them since 2009, will be largely responsible.

Fannie and Freddie were tethered to America's housing market when it fell off a cliff in 2008. The GSEs faced a double impact: they had to cough up to honour their

guarantees, while also suffering losses on their own big portfolios of mortgage-backed securities. The firms had an odd ownership structure, with a public charter, and thus an implicit government guarantee, but private shareholders. To stop them collapsing, which would have further hurt both the housing market and the financial system, the government injected \$188 billion and placed them into conservatorship—a form of government control. A further backstop, currently \$258 billion, has yet to be invoked. All in all, the rescues were the largest in financial history.

Since 2012, however, in an effort to claw back the bail-out, the Treasury has hoovered up all of the GSEs' profits—much to the dismay of their shareholders, whose rights have been suspended, prompting some of them to sue the government. Altogether, the taxpayer has recouped \$239 billion from the firms—more than the cost of the rescue, but not yet enough to compensate for the risk taxpayers have assumed, says Edward Pinto of the American Enterprise Institute, a think-tank.

These profits, though, are not guaranteed. On November 3rd, Freddie Mac announced that it had lost \$475m in the third quarter of 2015—its first loss since 2011. Write-downs on the value of interest-rate derivatives, which both GSEs use to hedge their risks, were to blame.

Such paper losses would be no cause for worry, were it not for the firms' thinning capital cushions. Under the terms the Treasury imposed in 2012, GSEs must reduce their capital by \$600m a year, remitting those funds to the taxpayer in addition to any profits. As a result, by 2018, the GSEs will have no capital whatsoever. Even a single paper loss will leave them insolvent.

At the same time, the GSEs are becoming less profitable. Their portfolios of mortgage-backed securities, although lucrative in good times, look a lot like taxpayer-financed speculation. Under the terms of the bail-out, they must run them down and focus only on issuing guarantees.

A second bail-out would not be proof of mismanagement at the GSEs; it would be necessary only because the Treasury has been feasting on their capital. But it might provide fresh political impetus for reform. In the aftermath of the crisis there was widespread agreement that the GSEs needed to be replaced or overhauled, says Jim Parrott, a former White House adviser now at the Urban Institute, a think-tank. But Congress has yet to settle on a new arrangement (a recent effort stalled in the Senate last year). Rumours that the administration had given up waiting and was about to release the firms from conservatorship caused their share prices to spike in October, before Jack Lew, the treasury secretary, insisted that nothing had changed.

Getting the government out of the housing market will be difficult. Every time

Fannie or Freddie guarantees a new long-term mortgage, the Treasury's backstop is in effect renewed for 30 years. Last year Fannie and Freddie stood behind half of new mortgage lending, according to *Inside Mortgage Finance*, a newsletter (other government agencies guaranteed a further 20% of lending). Politicians who withdraw this support, or raise its price, risk being blamed for any subsequent housing slowdown. In any case, most want to retain a government guarantee of some sort; many Democrats, especially, want the agencies to boost lending to minority groups.

Congress has been able to agree on one thing: on November 16th the House passed a Senate bill to cap the salaries of the GSEs' chief executives at \$600,000. That does not address the problem at hand—but taxpayers will doubtless cheer anyway. ■

Square's IPO

Swiped

NEW YORK

A profitless payment firm goes public

FIVE years ago the odds of being able to pay with a credit card at a street stall or coffee stand in America were next to zero. Nowadays, though, cash seems slightly déclassé at hipster cafes and fancy farmers' markets. That is thanks largely to Square, a six-year-old firm which handles credit-card payments for 2m-odd small merchants and listed in New York this week.

A private fundraising last year valued Square at roughly \$6 billion. The initial public offering (IPO) priced it at \$2.9 billion, down by half. The valuation sent a frisson through Silicon Valley, where there are increasing concerns that the optimistic assumptions about the growth and profitability of many "unicorns"—privately held technology firms valued at over \$1 billion—are unfounded. Square, the theory runs, may be the first of a series of "down rounds", capital raisings that sharply reduce valuations.

Nonetheless, the IPO still leaves Square more valuable than all but the biggest of America's banks. That is controversial, since the firm has lost \$420m since 2012 and has said it intends to lose more. Sceptics dismiss it as a money pit; believers, such as Rick Ogleby of Double Diamond Group, a consultancy, see the losses as investments in growth. He notes that although losses have increased by 80% since 2012, they have shrunk from 44% of revenues to just 16% in the most recent half-year. Project those sorts of trends forward and the future looks bright.

To gratify the optimists, Square will ►

From money pit to money spinner

Net profit/loss*, \$bn

Fannie Mae Freddie Mac



Source: Company reports *Before federal income taxes



Jam tomorrow

► have to prove that it can eventually make money by helping tiny businesses accept credit-card payments. Its chief executive, Jack Dorsey, who also runs Twitter, says he resolved to create Square when he realised that "my second boss (after my mother!) couldn't accept a credit card for his art." The banks and companies that link firms to card networks (merchant acquirers, in the payments jargon) had long ignored any vendor likely to generate less than \$50,000 a year in transactions, since the expense of recruiting them tended to outweigh the income they generated. The small firms, for their part, tended to find the paperwork, costs and equipment needed to accept card payments offputting.

Square, in contrast, offers appealingly simple technology—a small "dongle" that allows anyone with a tablet computer or smartphone to swipe a card (the way most card payments are still taken in America). It is easy to sign up for and charges the merchant a flat price, typically 2.75% of each transaction, which is unusually straightforward, although not especially cheap.

There are millions more "micro-merchants" to recruit—one of the reasons for optimism about Square's prospects. But it takes a long time to recoup the marketing costs involved, given such firms' low turnover and high chance of going out of business, points out Karim Ahmad of Bain and Company, another consultancy.

Square seems to have concluded much the same, in that it has been expanding its offerings. It provides a service to slightly bigger firms called "Square register", which helps them keep accounts and manage inventory as well as take payments. It also recently began offering loans to its customers, which it is well placed to do given its knowledge of their finances. By the same token it has set up a division to offer help with marketing, something for which its vast database of transactions might

prove useful.

Most of the profits in the card business flow to the banks that issue them, the merchant acquirers and the payment networks such as Mastercard and Visa. Square and other tech firms that are active in this area rely on the existing card network. The extra transactions they bring into the system provide additional profits for the industry's giants. But the innovators' knack for design and data-crunching still rattles the incumbents, which worry about losing their connection with customers and seeing their end of the business commoditised. Square's lacklustre IPO suggests that many investors doubt it is the firm to reshape the payments industry. But there are lots of other would-be disruptors waiting in the wings. ■

Spain's multinational banks

Impediment in diversity

MADRID

Foreign subsidiaries are proving a headache for big Spanish banks

DURING the financial crisis, it looked like a stroke of genius. Huge foreign operations helped succour Spain's two biggest banks, Santander and BBVA. Last year Santander boasted that it was one of the few big international banks not to have suffered a single quarterly loss throughout the crisis. But diversification cuts both ways: turmoil in emerging markets is now sapping profits at Santander and BBVA just as their home market recovers.

Less than 30 years ago, Santander was a smallish Spanish retail bank. Now it is a titan, operating in ten "core" countries, including emerging markets such as Brazil

and mature ones such as Britain. BBVA, too, boasts a big retail-banking operation in multiple countries.

The problem is that at least one of each bank's biggest markets always seems to be in trouble. This time, the weak link for Santander is Brazil, which accounts for about a fifth of its profits. The country has sunk into recession—one reason why Santander's shares have fallen by about 20% since mid-July. BBVA makes about 70% of its profits in emerging markets, including 40% from Mexico, where BBVA owns Bancomer, the country's biggest bank. The Mexican economy is not as wobbly as Brazil's, but estimates of growth have dropped over the past year along with the oil price and the Mexican peso.

Moreover, although scale does bring benefits, managing such far-flung empires is costly. Analysts at Exane BNP Paribas, a broker, estimate that currency hedging, among other costs attributed to Santander's "corporate centre", eat up around a quarter of the profits made by its various units. BBVA, for its part, hedges about 30-50% of earnings a year in advance.

Even so, BBVA posted its biggest-ever quarterly loss last month thanks mainly to gyrating currencies. In July it raised its stake in Garanti, Turkey's second-biggest private bank, from 25% to almost 40%. The additional slice came relatively cheaply, owing to the depreciation of the lira. But accounting rules obliged BBVA to write down its initial investment by €1.8 billion (\$2 billion) because of the lira's fall.

Sliding emerging-market currencies are one reason why BBVA's capital buffer dropped to 9.8% in September. Santander and BBVA are now among the most weakly capitalised banks in Europe, according to analysts at Barclays, a British rival.

Spanish banks have weathered worse emerging-market crashes, including Argentina's collapse in 2001. Brazil's troubles have been building slowly, giving Santander plenty of time to prepare for a deep recession. It has spent much of the past two years restructuring its Brazilian business and reducing exposure to riskier consumer loans. Moreover, despite recent upheaval, the long-term promise of emerging markets remains intact. As incomes rise and the middle class grows, demand for credit and other banking products should swell in places like Brazil, Mexico and Turkey.

That is just as well. Though the Spanish economy is growing strongly by European standards, lending is not. Firms and households are still trying to fix their finances after bingeing on debt, so the overall stock of loans is falling. Ultra-low interest rates hinder the job of making money. CaixaBank, Spain's third-biggest bank by market value, has warned that competition to make loans is leading to an unsustainable squeeze on margins. Diversification may soon be lauded again. ■

The Irish economy

Celtic phoenix

DUBLIN

Ireland shows there is economic life after death

WHILE the euro zone limps along, growing in the third quarter by a disappointing 0.3% (an annualised rate of 1.2%), one small member of the 19-strong currency club is racing ahead. Less than two years since Ireland exited its humiliating bail-out, its economy is resurgent. Following growth of 5.2% in 2014, GDP rose by 7.0% in the first half of 2015 compared with the same period a year earlier.

Welcome as it may be, the vigour of the upswing highlights the troublesome volatility of the small and ultra-open Irish economy. It is bouncing back, after all, from a deep slump that followed an earlier spell of vaulting growth. The notion that the Irish economy might rebound so strongly would have been dismissed as fantasy only a couple of years ago. Irish banks went spectacularly bust during the financial crisis and required a bail-out of €64 billion (\$89 billion), close to two-fifths of GDP. Their woes meant that the Irish state had itself to be bailed out by the EU and the IMF in late 2010. Between its pre-crisis peak in late 2007 and its nadir at the end of 2009, the economy contracted by 11.2% (see chart). A recovery in the following two years petered out and the economy lost ground in 2012 and the first half of 2013.

The severity of the crisis, which was linked to a collapse of the housing market, was such that despite the recent rapid growth, GDP per person remains below its peak in 2007 (although GDP surpassed the pre-crisis high a year ago). The scars of the recession and the banking bail-out on the public finances remain livid. Although public debt should fall below 100% of GDP this year (after peaking at 120% in 2012 and 2013), that is still far higher than in 2007, when it was a mere 24%.

Even in the depths of the slump the Irish economy nonetheless retained some formidable strengths. It continues to appeal to American multinationals as a European production base, thanks to a well-educated labour force and a low corporate-tax rate of just 12.5%. Ireland is favoured by pharmaceutical giants such as Pfizer and has also become a magnet for tech and social-media firms. Apple continues to build up its activities in Cork; Dublin hosts the likes of Facebook and Google.

The multinationals' presence in Ireland helped when the rest of the economy was in the doldrums, as net trade—exports less imports—partially, and at times completely, offset the domestic downturn. The scale



of their activities is such that Ireland's overall exports were worth 114% of GDP last year; imports were also very high, at 95%. Ireland has benefited from the fact that it exports heavily to America and Britain, both of which have outperformed the torpid euro area.

More recently Irish exports have been boosted by a weak euro, which for much of 2015 has traded between 15% and 20% lower against the dollar than a year earlier. That is because the European Central Bank has been loosening monetary policy even as the Federal Reserve prepares to tighten it—a divergence that looks likely to continue in the coming months. Ireland is even relatively insulated from the slowdown in emerging markets, since they account for just a tenth of its exports—the lowest level, along with Luxembourg, in the euro area. (In the four biggest euro-zone economies, they make up around 30% of exports.)

From 2010 until mid-2013 the Irish economy made only modest progress despite the boost from net exports, as consumers and firms were reluctant to spend. What has changed in the past two years is that domestic demand is now helping, too. Although building investment remains subdued, overall capital spending is growing strongly as businesses in particular spend more on new equipment. Consumer spending has finally started to revive too, growing by 2% in 2014 and by 3.3% in the first half of 2015 compared with the same period in 2014. As in the rest of the euro area, households have been able to spend more because lower energy prices have had much the same effect as a tax cut.

Despite the rebound in growth, this is not an action replay of the disastrous overheating of a decade ago. House prices have

been rising sharply, especially in Dublin, but having fallen by half during the crisis they remain a third lower than their peak in 2007. There is not even a glimmer of a construction boom despite the acute shortage of property in hotspots such as Dublin: 11,000 houses were completed in Ireland last year, compared with around 90,000 in 2006. Credit is still falling rather than ballooning, as occurred in the previous boom. This is hardly surprising since the banks that have survived are still nursing wounds incurred last time.

Moreover, although the economy has been picking up speed it has still not reached full capacity. Unemployment has dropped a long way, from a peak of 15.2% at the start of 2012 to 8.9% in October, but there is still scope for further decline. Economists reckon it could fall to 6% without stoking inflation. The decline in debt suggests that households, too, have the capacity to spend a bit more.

Perhaps the biggest cause for concern is whether Irish politicians have really kicked the bad habits of the past. The coalition government headed by Enda Kenny, which was formed just three months after the bail-out, complied unflinchingly with its harsh terms. But Ireland exited the bail-out nearly two years ago. With an election due in early 2016, the government recently announced an early Christmas present of €1.5 billion of extra spending this year, or 0.7% of GDP. Corporate-tax receipts have been much higher than expected, making the splurge affordable. But the gain in revenue may be temporary, whereas the higher spending will persist. That is an unfortunate echo of Ireland's chequered fiscal past. ■



In the pink

Free exchange | Class divides

Despite progress, the road to economic success in America is steeper for blacks than whites

THE University of Missouri, which opened in 1840 and admitted its first female students in 1867, began accepting blacks in 1950. Racial tensions are still all too evident, however. Student protests at the poor handling of a series of racist incidents led to the resignation earlier this month of the university's president, Timothy Wolfe.

The row unfolded against a backdrop of black frustration: with police violence, such as the shooting last year of Michael Brown, an unarmed black 18-year-old, in Ferguson, Missouri, but also with the persistence of black economic underperformance. The unemployment rate for blacks is twice that for whites. A larger share of whites than blacks work in skilled jobs; even within well-paid professions whites earn more per hour than black workers. The typical white household has more than ten times the wealth of the typical black household.

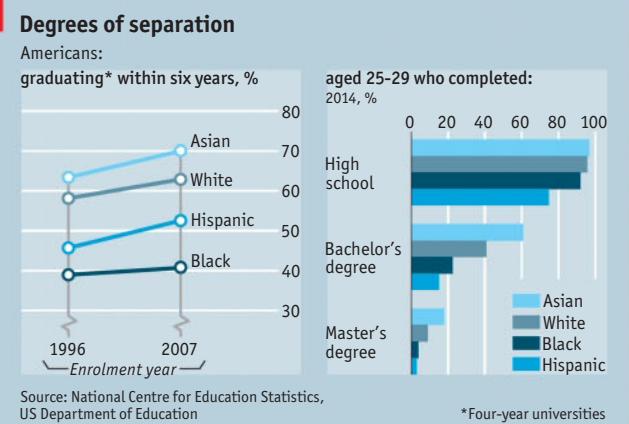
Blacks do worse than whites on every rung of America's educational ladder (see chart). A smaller share of black students completes high school, a smaller share attends university and a smaller share graduates. Black students are heavily under-represented at the most selective universities, even after accounting for differences in income. Though progress has been made in recent decades on some of these measures—such as the share of high-school graduates going on to enrol in higher education—ground has been lost elsewhere. The education system is meant to be the main mechanism through which racial inequalities are eliminated. It appears to be failing miserably.

The role of discrimination in this failure is not easy to divine. Low graduation rates could reflect racism on campus, or in the years before university, or the fact that black students tend to come from poorer families. But there are a few broad channels through which bias against blacks could operate.

Black students may opt to invest less in education than peers of other races, for instance, because the returns on education are smaller for black graduates. Labour-market studies turn up all sorts of ways in which good jobs are harder to come by for blacks than whites. Job applications from graduates with names perceived to be "black" generate fewer responses from employers than those from graduates with white-sounding names. When such applications do receive responses, the jobs on offer tend to be lowlier. An intriguing paper published in 2013 argued that in the knowledge economy, interactions with skilled peers help to raise workers' salaries, but these "spillovers" tend to boost productivity only when the workers are of the same race.

Yet while workplace discrimination is a problem, it is not so big a problem that education is not worth the effort. In a paper of 2010 Roland Fryer, an economist at Harvard University, studied three cohorts of young Americans—those aged between 14 and 22 in the years 1976, 1979 and 1997—and analysed their earnings as adults. In each cohort, blacks earned considerably less than whites: 39% less for men in the 1979 bunch, for instance, and 18% less for men in the 1997 group. Yet in each group the wage gap shrank dramatically after accounting for differences in education. Discrimination may reduce the return on work for blacks relative to whites, but it does not eliminate the return on education.

To some extent educational woes are the fault of universities themselves. College campuses can be uncomfortable places for black students. The racist incidents that sparked the contretemps in Missouri, including swastikas smeared on walls and racial epithets hurled at black students, are sadly far from unusual. Earlier this year it emerged that a college fraternity with chapters at uni-



versities around the country still used a song extolling lynching. Research suggests that as much as half of the performance gap between white and under-represented minority groups—in terms of dropout rates, pass rates and grades—disappears when students are taught by a non-white instructor. Yet in American colleges only 10% of the faculty are black, Hispanic or Native American—groups which account for more than a third of college-age Americans.

Black students are likely to seek out more welcoming environments as a result. A recent paper examining the many branches of the University of North Carolina, a public institution, found that, after controlling for parental education and test scores, black high-school students are actually more likely to go on to graduate from the university than their white peers. This is because black students are more likely to enrol in it in the first place, thanks largely to the presence within the UNC system of five historically black institutions: formerly segregated universities where the student body is still overwhelmingly black. In North Carolina, more than half of black students attending a four-year public university enrol at one of these, compared with 19% nationwide. In the same vein, studies of universities in Texas show that minorities favour institutions with lots of students from their own race.

Early and often

Nonetheless, the work of economists like Mr Fryer suggests that disadvantage before university accounts for most of the gap in achievement between whites and blacks in America. Centuries of economic oppression mean that, however much discrimination may have abated, black children tend to come into it in disadvantaged circumstances. Mr Fryer's analysis shows that cognitive performance in infancy is basically the same for black and white children. But within just a few years, large gaps in ability develop. These gaps are not immutable. Although still substantial, they have shrunk over time. Intensive early-childhood education programmes, in particular, appear to generate lasting benefits for disadvantaged students. Working out which interventions make a difference, and building support for them, is a task at least as difficult and important as ending racism on campus. ■

*Studies cited in this article can be found at www.economist.com/race15



The future of sniping

Enemy at the gates

New technology is improving military sharpshooters' range and accuracy

FOR so long as there are wars to fight, the contest to have the best weaponry will continue. The attacks in Paris on November 13th, and their aftermath, will only reinforce this quest. Sniper technology is an area of particular interest to Western commanders. Where those faced by the armed might of the world's great powers prefer the tactics of insurgency, military types particularly value the ability to hit a picked target at distance. And, unlike other forms of "precision" attack, such as drone strikes, sniping rarely kills nearby civilians.

Nor are sniper bullets merely anti-personnel weapons. At the moment, according to GlobalSecurity.org, a think-tank in Virginia, one of the best of them is the Rau-foss MK211, made by Nammo, a Norwegian firm. This can penetrate 15mm of steel at a range of more than 500 metres, even when fired at an oblique angle of as little as 30° to the target. Moreover, once it has penetrated, a fuse sets off both an explosive charge (to spray shrapnel) and an incendiary one (to ignite any leaking fuel). According to Vegard Sande, one of Nammo's engineers, a single MK211 shot can destroy a helicopter.

For all its sophistication, though, the MK211 is still a dumb round. Once it has left the gun's muzzle, its destiny is determined. In many ways, it is yesterday's weapon. In ballistics, as in so many other fields of technology, the fashion is now for introducing "smartness."

Snipers like to create an aura of lone-wolf mystique around themselves—an im-

age reinforced by their portrayals in books and films. In fact, a sniper almost always relies on a spotter to feed him information about a target's location. He may also need assistance in dealing with the long list of things that could cause him to miss—from crosswinds to the rotation of the Earth. Coping with them can require complex mathematical calculations. One way to simplify matters would be to make bullets that know where they are going and can change course in mid-flight to get there. And one such has been designed at Sandia National Laboratories, an American government establishment in New Mexico.

No hiding place

In one sense, this new bullet takes a step backwards. Rifled barrels—which have helical grooves that impart flight-stabilising spin to a bullet—turned muskets from things useful only when fired en masse into instruments of assassination, and thus ushered in the profession of sniper. In a reversion to 18th-century practice the new bullet, which has not yet been given a name, is fired from a smoothbore barrel. But its resemblance to a musket ball ends there. Rather, it is a pointed projectile with fins, actuators that can change the trim of those fins, an on-board computer to control the actuators, an optical sensor in its tip that tells the computer where the target is, and a lithium battery to power the lot. To protect the fins it is cradled for firing in structures called sabots. These fall off once

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the bullet has left the barrel.

The sensor knows where to steer the bullet because the sniper's spotter is shining an infrared laser at the target. Infrared is invisible, so the target cannot see this, but the laser's reflection lets the computer adjust the bullet's trim 30 times a second, so even a moving target cannot escape.

Designing such a device is not, in fact, that hard—except for one thing. All the kit within it has to survive an acceleration 120,000 times that of the Earth's gravitational pull when the gun is fired. But Sandia's engineers have managed to make that happen, and licences to manufacture the device are now available.

A second dodging-and-weaving bullet, EXACTO, is also under development in America. Its design is being overseen by DARPA, the Defence Advanced Research Projects Agency, an arm of the defence department. Unlike the Sandia bullet, EXACTO is spin-stabilised and can thus be fired from a standard 12.7mm rifle.

How such a finless projectile is steered is one of DARPA's secrets. Another is how it is told where to go. Unlike the Sandia bullet, EXACTO relies on a signal coming from its controllers rather than a reflection from the target. Spin-generated air turbulence would be expected to interfere with this. In the case of EXACTO, though, it doesn't. DARPA's engineers have also, according to Steve Sampson of Cubic Global Defense, a contractor working on EXACTO, managed to harden the electronics involved to withstand the centrifugal force imparted by the spin, as well as the force of the initial acceleration. No announcement has been made about when this bullet will be deployed. Indeed, no announcement may ever be made. It may just happen, to the discomfort of America's enemies.

A third type of smart round, which is guided in another way again from the Sandia bullet and EXACTO, is the XM25, devel- ►

opened by Alliant Techsystems, a weapons company that is now part of Orbital ATK. This is designed for times when a sniper does not have a clear line of sight to his target—if the man is dug in, for example. It is spin-stabilised, and its internal computer counts the number of revolutions it has made. That tells it how far it has travelled. When it is directly over the target it explodes, scattering shrapnel. It has already been combat-tested in Afghanistan and, though there have been problems with it (an American soldier was slightly injured by one misfiring in his gun during training), the idea is that it will be deployed in earnest in 2017.

Guided bullets of this sort promise to transform sniping. Increased accuracy means a marksman can be farther from his target when he fires. He need not even

have a clear line of sight, so long as his spotter does. And guided bullets will also make snipers' own lives safer. One of the biggest threats they face is the use by potential targets of arrays of microphones that feed the sound of incoming bullets to a computer which triangulates the sniper's position. Such detectors can aim a machine gun at the apparent source of incoming rounds. But this works only if the apparent source is the real source. Guided bullets can arrive from an angle that deceives the equipment into wasting its fire on empty landscape.

Nor is making bullets smart the only way to increase accuracy. Making guns smart works too. This is the approach taken by TrackingPoint, a Texan firm. Its system collects and crunches almost all the variables (distance to target; air temperature and pressure; compass bearing, to al-

low for the Earth's spin; and even the size of the area on the target that will produce a kill) which might cause a dumb round to miss. The sniper has only to add wind speed and direction, and then pull the trigger. The gun waits until its calculations suggest all is well before firing the bullet. According to John McHale, TrackingPoint's boss, a marksman can "close his eyes at this point and just wiggle his gun" until it fires. If that is even approximately true, it raises an interesting question: is the job of sniper, which was created by technological advance, about to be abolished by it?

That question may be answered soon. Unlike the Sandia bullet and EXACTO, TrackingPoint's system is now available—and more than 45 of the world's defence ministries would, indeed, like to avail themselves of it. At the moment, unless their address is in Arlington, Virginia, they cannot; the American government has forbidden the system's export. This, though, has not stopped people trying. TrackingPoint has suffered so many cyber attacks that details are now kept strictly offline. Yet sooner or later, the secret will out. When it does, the mystique of the sniper may simply evaporate, as every infantry grunt in an army that can afford it becomes a sharpshooter in his own right. ■

Animal behaviour and missile design

Hawker hunters

The American air force is sponsoring zoologists at Oxford

FALCONRY is less fashionable now than it was in days of yore. But, over the past few years, sharp-eyed ramblers in south Wales may have witnessed an updated version of this ancient pastime. Since 2012, in a project sponsored by the United States Air Force, Caroline Brighton and Graham Taylor of Oxford University have been flying peregrine falcons (see picture) and Harris's hawks over the Black Mountains of Monmouthshire to study how these birds chase their prey. Ms Brighton hopes to gain a doctorate from the research. The USAF hopes the birds may be able to teach it a trick or two about intercepting targets, both in the air (the speciality of peregrines) and on the ground (the speciality of Harris's hawks).

To carry out their research, Ms Brighton and Dr Taylor turned to the technology of wildlife documentaries. They attached miniature cameras and satellite trackers to harnesses worn by their birds. Then they put the birds through a series of tests. These included attacking a dead pheasant on the ground, chasing a dead chick that was dragged along the ground and through a series of tunnels by a winch and cable, and catching a dead chick dropped at altitude from a radio-controlled model aircraft. They fed the images they had recorded into a computer, which worked out the trajectory taken by the bird to intercept its prey.

Their first discovery was that, rather than hunting in the way previous research had suggested—namely, holding the prey at a constant angle while they moved in to intercept it—the birds followed a rule, known as proportional

navigation, currently used by many missile-guidance systems. Unlike constant-angle tracking, this requires constant recalculation of speed and bearing, and is considered a hard trick.

What really intrigued the researchers' air-force paymasters, though, was a peregrine's responses if a live pheasant or duck turned up during a test. Then, the bird instantly lost interest in the lure and chased its new quarry using a tracking technique, dubbed optimal guidance, that is fitted only to the most advanced sorts of missiles. Optimal guidance employs optimal-control theory, a branch of maths also used in things like inventory control for manufacturing processes. That has led the air force's experts to hope birds of prey may have other techniques to show off, perhaps including ones that human missile engineers have not yet thought of.



Target acquired

Cool clothing

Chilled out

How to put air-conditioning into people's garments

THE idea came to Ralph Liedert while he was sweltering in the Californian sunshine, having been standing with his daughter for over an hour in a queue for a ride at Disneyland. What, he thought, if his t-shirt had a cooling system he could switch on, at the tap of a smartphone app, when he needed it. No doubt similar thoughts have crossed the minds of many a parent in such circumstances. They, though, did not have the means to make their dream reality. Mr Liedert does, for he works at the VTT Technical Research Centre of Finland, as one of a team there studying the burgeoning field of microfluidics.

Cooling vests already exist (they are sometimes used by racing drivers, motorcyclists and people such as furnace operators, who work in hot conditions). But the tubes through which the cooling water is being pumped, and the vests' need to be connected to external units that chill this water, make them bulky and unwieldy. Mr Liedert thought VTT's microfluidics department could do things better. As its name suggests, microfluidics is

► the art of building devices that handle tiny amounts of liquid. Inkjet-printer cartridges are a familiar example. Less familiar, but also important, are "labs-on-a-chip". These are tiny analytical devices that transport fluids such as blood through channels half a millimetre or less in diameter, in order to carry them into chambers that hold analytical reagents. Sensors, either in the chip itself or in a machine into which the chip is inserted, then detect the resulting reactions and provide an instant analysis of a sample. Designing labs-on-a-chip is the VTT microfluidics department's day job. One of its chips, for example, can tell whether water is contaminated with the bacteria that cause Legionnaires' disease.

The department's biggest contribution to the field, though, is to have developed a way of printing microfluidic channels onto large rolls of thin, flexible plastic, which can be cut up into individual devices. This process, called hot embossing, is faster and cheaper than conventional ways of making labs-on-chips, such as photolithography of the sort employed to manufacture computer chips. It works by passing the plastic between two heated rollers, one of which contains raised outlines of the required channels. As the rollers squeeze the plastic they create a pattern of channels recessed into one surface. A second plastic film is then fused over the top as a cover. This process might, thought Mr Liedert, be suitable for printing a microfluidic fabric that was thin enough and pleasant enough to wear as a cooling vest.

The group's first prototype demonstrated that such a material could indeed be made and used to circulate chilled water. The initial idea was to put the material into a jacket, but the team found that it worked much better when in direct contact with the skin. They are therefore making a second prototype which covers the wearer's neck and shoulders, and can be clipped inside a sports shirt.

They are also looking at ways the water being circulated through the microchannels might be cooled. They have identified two. One uses a small heat-exchanger, the details of which they are keeping secret at this stage. The other employs evaporation. It thus works in the same way that heat from circulating blood is removed by the evaporation of sweat. (The vest also permits such natural sweating, via small holes in the fabric.)

Whichever cooling system prevails, the electronics needed to power and control it would be shrunk into a small package contained on the back of the vest. This could be operated manually or, as Mr Liedert originally envisaged in his Californian queue, by a wireless link to a smartphone. Moreover, what can cool down can also, if run in reverse, warm up. In Finland, where winter temperatures fall as far as -50°C, that might be the technology's killer app. ■

Stanching post-operative bleeding

Snake charm

Viper venom may help save lives in the operating theatre

THE fer-de-lance (spearhead) pit viper is not an animal you would want to meet unexpectedly. It is aggressive, unpredictable and fond of getting the drop on its prey: literally, from the branches of trees. Its bite, which turns blood into something with the consistency of jam, is fatal if not treated immediately. Terrible as its venom is, though, it may have a use. Jeffrey Hartgerink, a chemist at Rice University, in Houston, Texas, thinks it could be just the thing to stop post-operative bleeding.

Loss of blood is an inevitable consequence of surgery. At the moment it is dealt with by a combination of the body's natural clotting mechanisms and a variety of physical barriers designed to stanch blood flow and give those clotting mechanisms time to act. These barriers include the simple application of pressure to a wound, various foams and adhesives that create a more permanent seal, and experimental treatments using substances called hydrogels which consist of fragments of protein laced together to trap water molecules, and which are reckoned particularly effective at blocking wounds up.

For many people, these are enough. But some—especially those on anti-clotting drugs like warfarin, which are prescribed to prevent heart attacks, strokes and pulmonary thromboses—are at particular risk. If such a patient needs surgery in a hurry, and cannot be taken off his medication sufficiently in advance of going under the knife, then he may be in danger of bleeding to death.

On the face of things, and particularly

for these people, a substance that triggers clotting should be better than mere physical barriers. The problem has always been to keep the clotting agent only where it is needed, and prevent it spreading through the rest of the body, where it could do serious and possibly lethal harm. Dr Hartgerink thinks, as he describes in a study just published in *Biomaterials Science and Engineering*, that he may have worked out how to do this.

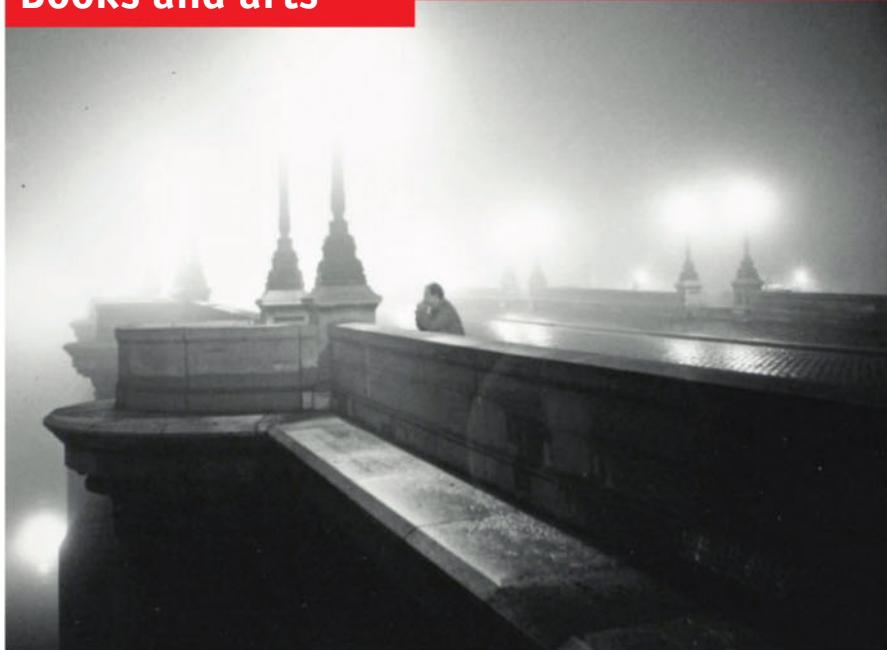
He started with a hydrogel. If such a substance traps water, he reasoned, it should also trap batroxobin, fer-de-lance venom's active ingredient. So it proved. He then had to determine whether, if the gel were applied to a wound, the batroxobin would leak out of it at the appropriate rate—ie, fast enough to seal the wound, but not so fast as to escape into the bloodstream and cause systemic problems.

Experiments on rats suggest it does. Dr Hartgerink and his colleagues tested their batroxobin-laced hydrogel on a group of the rodents. Half of these had been given heparin, a powerful anticoagulant; the other half had not. The researchers then operated on the rats' livers, making incisions in those organs and thus inducing bleeding, after which they applied various haemorrhage-stanching methods.

Batroxobin-laden hydrogel stopped the flow in 5-6 seconds, regardless of whether a rat had been given heparin. The hydrogel by itself was also quite effective in heparin-free rats (it stanching in 11 seconds), but took two minutes if a rat had been heparinised. GelFoam, a commercially available wound-barrier made from purified pig skin, also struggled when used on heparinised animals. It failed to stop blood flow within two minutes. Puramatrix, a proprietary hydrogel being tested for clinical use, did better—but still took 19 seconds. Batroxobin-impregnated hydrogel thus looks as if it might make a useful addition to the surgeon's armoury. The spearhead of a new approach, as it were. ■



Enough to curdle your blood



Paris

Bridge of sighs

The French capital has withstood war, revolution, terrorism and Georges-Eugène Haussmann. Its strongest characteristic is resilience

“EVERYTHING is always going away,” Luc Sante writes in “The Other Paris”, a moving and discursive portrait of the city’s poor and bohemian past. “Every way of life is continually subject to disappearance.” And so it would seem to be with Paris—for all that it looks, much more than many other great cities, as if it has been carefully protected from the developments of the modern world. With its stringent building regulations and beautiful boulevards, Paris can seem like a living museum. Mr Sante, conjuring a city that has survived many different kinds of violence before the terrorist attacks of November 13th, reminds the reader that this could not be further from the truth.

A Belgian writer and critic who was educated in America, Mr Sante has made it his life’s work to walk alongside those who never make it to the top of the heap. “Low Life” (1991) painted a vivid portrait of life in New York’s Lower East Side in the 19th and early 20th centuries; not for nothing was he a historical consultant on Martin Scorsese’s film, “Gangs of New York”. But New York is a city that wears its transformations on its sleeve. Paris does not, although it has been altered again and again by the twin forces of revolution and civic planning, as Mr Sante ably shows.

“The Other Paris” is no ordinary history book, though the reader will learn about Philippe-Auguste’s 12th-century city walls

The Other Paris. By Luc Sante. *Farrar, Straus, and Giroux*; 306 pages; \$28. *Faber and Faber*; £25

and how Louis XIV replaced fortifications with boulevards in the 17th century. Mr Sante is a *flâneur*, that uniquely French description that mixes sauntering with observing the world, revealing his subject through themes rather than chronology. “La Canaille” (a haughty word meaning “the masses”) is his chapter on the force of the crowd; “Saint Monday” takes the reader into the old drinking dens of Paris; “Le Business” reveals (is anyone surprised?) where the city’s prostitutes were to be found, and what their lives were like. In Mr Sante’s Paris there is room for everyone.

This is a book to be read with a map of the city to hand. Though beware—many of the streets to which Mr Sante refers have long since vanished. In the 19th century it was Georges-Eugène Haussmann and his team of engineers who gave Parisians the city in which they live today: after 1853 Napoléon III allowed him free rein to remake its topography almost completely. Mr Sante admits that Haussmann’s achievements were remarkable—from the construction of great parks to the installation of public urinals. But he refers too to Haussmann’s work as “depredations”, and it is clear that he mourns the huddled

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courtyards, alleyways and impasses that were swept away as a result.

Many of these *cours des miracles*—the name, Mr Sante writes, that was given in the Middle Ages to an encampment of beggars, whores and thieves—are restored to life in his text. The book takes what may be familiar, such as the origin of the idea of “bohemia” and “bohemians” in “Scènes de la Vie de Bohème” by Henri Murger, a 19th-century writer and poet, and sets it against its less glamorous origins, the “pote-houses of the deep past” with names such as *Les Chats en Cage* (“the imprisoned cats”), *Le Tombeau du Lapin* (“the rabbit’s tomb”), and *L’Abattoir*. Some may go to Paris for its fine cuisine, but in the old market of *Les Halles* Mr Sante finds sellers of hot water coloured brown with carrots, burned onions and caramel; people who washed dishes in restaurants sold the leavings on diners’ plates. And Paris has always had to contend with brutality: his graphic depictions of executions in the Place de Grève, and the city’s prisons—*Grand Châtelet*, the *Maison de la Force* and the *Bastille*—show how tough the authorities felt they had to be.

Life in Paris, Mr Sante writes, is a game—a hard one; now the city is in “the end game played by money and power”. And yet the quality of the author’s attention to the place alone seems to indicate that he cannot quite bring himself to give up hope, and neither should the reader. This book has many illustrations, though it is a shame that often the images are too small to make much of an impact. It achieves its aim of providing “a reminder of what life was like in cities when they were as vivid and savage and uncontrollable as they were for many centuries, as expressed by Paris, the most sublime of the world’s great cities”. ■

Winston Churchill's other lives

Mr high-roller

No More Champagne: Churchill and His Money. By David Lough. Picador; 544 pages; \$32. Head of Zeus; 532 pages; £25

Winston Churchill Reporting: Adventures of a Young War Correspondent. By Simon Read. Da Capo Press; 309 pages; \$26.99

HISTORIANS and many members of the public already know that Winston Churchill often took high-stakes gambles in his political life. Some, like the disastrous Dardanelles campaign—an audacious attempt he masterminded at the Admiralty to seize the straits of Gallipoli and knock Turkey out of the first world war—he got wrong. Others, notably his decision as prime minister in 1940 to hold out against Nazi Germany until America came to rescue Britain, he got spectacularly right. But the extent to which Churchill was a gambler in other spheres of his life has tended not to catch his biographers' attention.

Two new books attempt to fill this gap. The first is "No More Champagne" by David Lough, a private-banker-turned-historian who looks at Churchill's personal finances during the ups and downs of his career. It is the first biography to focus on this aspect of his life. Mr Lough has trawled through Churchill's personal accounts and found that he was as much a risk-taker when it came to his money as he was when he was making decisions at the Admiralty or in Downing Street.

Although Churchill was descended from the Dukes of Marlborough, his parents had "very little money on either side"—though that never stopped them living the high life. Neither did it hamper the young Churchill; he spent wildly on everything from polo ponies to Havana cigars, a habit he picked up as a war correspondent in Cuba. Indeed, between 1908 and 1914 the Churchill household spent an average of £1,160 on wine alone each year—£104,400 (£145,000) in today's money.

It is no wonder, then, that Churchill spent most of his life leaping from one cashflow crisis to another, being perennially behind with his suppliers' bills. Another new book, "Winston Churchill Reporting", by Simon Read, an American journalist, looks at one of the ways Churchill eventually paid some of them: writing. Mr Read investigates how Churchill went from a young army officer cadet to being Britain's highest-earning war correspondent by the age of 25, getting the journalism bug for the rest of his life.

The Churchill name certainly helped open newspaper editors' doors across

London. But it was the extent to which the young reporter was willing to take risks on battlefields across the world that marked out his columns from those of his contemporaries.

Visiting Cuba in 1895, during its war of independence from Spain, he travelled unperturbed through some of the island's most dangerous territory while writing for the *Daily Graphic*. The next year his regiment was transferred to India, where he fought Pushtun tribesmen on the border with Afghanistan, penning articles for the *Daily Telegraph* from a blood-splattered foxhole on the battlefield. He was then sent to Sudan, where he took part in the British army's last great cavalry charge, at the Battle of Omdurman in 1898.

After narrowly losing a by-election in Oldham, he returned to the journalistic fray as a war correspondent in South Africa for the *Morning Post* during the second Boer war of 1899-1902. There he hit the front pages in his own right; he was captured by the Boers while accompanying a scouting expedition on an armoured train. Even that could not stop Churchill, who soon escaped from the prisoner-of-war camp, travelling almost 300 miles to safety in Portuguese East Africa.

As Mr Read notes, by the time of his return from Africa, Churchill had saved more than £4,000 from his writing, equivalent to £400,000 today. "With judicious economy," he told his brother, "I shall hope to make that carry me through the lean years." But he returned to old habits in the years to come. Notable extravagances involved losing badly gambling in Monte Carlo and betting that share prices would continue to rise when the Wall Street crash hit. Churchill did not continue to write simply for adventure or fun; he did so to



Natty dresser

make ends meet. But even that was not enough. He required bail-outs from wealthy friends in 1938, 1940 and 1946 to save him from bankruptcy.

Both books manage to tell their tales of Churchill the adventurer and gambler elegantly. And for a financial biography, Mr Lough's is a surprising page-turner. But the two authors only briefly link their assessments of Churchill's personality to the important decisions he made in office—and even then only in vague terms. For instance, both fail to mention how his frequent bouts of depression may have contributed to his impulsiveness and risk-taking. Although their stories are worth telling, they have left bigger questions about Churchill to other historians. ■

A feminist memoir

The road less travelled

My Life on the Road. By Gloria Steinem. Random House; 273 pages; \$28. Oneworld; £14.99

MANY young feminists do not know who Gloria Steinem is, which is strange given that she has been at the forefront of women's rights for nearly half a century. Writer, activist and organiser, Ms Steinem has been a founding member of a number of well-known institutions—the National Women's Political Caucus, the Ms Foundation and Women Against Pornography, to name just a few. She has written extensively on inequality, from musings on "If Men Could Menstruate" to abortions and the wage gap. Barack Obama acknowledged the importance of her work by awarding her the Presidential Medal of Freedom in 2013.

Ms Steinem's memoir, "My Life on the Road", is her first book in over 20 years. Itinerancy was a characteristic of her early years, and her book focuses on the virtues of travel. Every autumn her father would pack the family into the car and drive across America, funding the trip by bartering and selling antiques on the way. The adventures were disruptive; at first the young Ms Steinem did not go to school, learning to read from road signs and advertising billboards instead. She ate in diners so often that it became her ambition to own one. She concedes that she began to long for a "mythical neat house with conventional parents, a school I could walk to, and friends who lived nearby".

But there is a purpose to choosing the road as her theme, and she teases out many links between her formative experiences and her later activism. She wonders aloud whether she would "have dared to" ↗



Her feet were made for walking

► challenge rules later in life if [her] father had obeyed them". She writes powerfully about the "gendering" of travel, and how women are warned against doing it alone. The failed adventures of women both real (Amelia Earhart) and fictional ("Thelma and Louise") are often held up as proof of its dangers, yet statistically the home is where women are most likely to be beaten or killed; a familiar fact, if still alarming.

What is clear is that Ms Steinem's love of the road equipped her for decades of organising and rallying. Her book is a homage to the people she has encountered and the stories that they have told her. Taxi drivers and students share pages with well-known figures such as Bobby Kennedy, Hillary Clinton and Betty Friedan.

What unites these tales is discrimination: in the workplace, in the media, in education, at home. Just as striking is what is left out. There is no mention of her important work with Linda Boreman (known as Linda Lovelace) to draw attention to the dangers of working in pornography, nor is Ms magazine (which Ms Steinem co-founded) given much attention. The book offers ideas on ways that progress may be achieved—by changing classrooms into "co-operative rather than competitive" places, for example—without suggesting how these might be implemented.

Flaws aside, Ms Steinem's memoir is a history of the fight for gender equality as perceived through the lens of her own experience, and will be enjoyed by any reader interested in women's rights. It is clear that much progress has been made, but given that abortion—a topic explored by Ms Steinem from the book's dedication page onwards—is still at the centre of heated Supreme Court debates, "My Life on the Road" also serves as a reminder of the battles feminists have not yet won. ■

Crazy games

When fun was cruel

Fox Tossing and Other Forgotten and Dangerous Sports, Pastimes, and Games. By Edward Brooke-Hitching. Touchstone; 272 pages; \$24. Simon & Schuster; £12.99

THE burgeoning sport of footgolf is played just as you might imagine. Players hoof a football around a golf course and attempt to hole the ball in the fewest number of kicks possible. The British Footgolf Association claims it is the fastest-growing sport in Britain, and the second footgolf world cup is due to take place in Argentina in January. But before struggling golf courses begin to widen their holes in anticipation, Edward Brooke-Hitching offers a cautionary tale. In 1929 an American, William Edward Code, invented a new sport, which he modestly named codeball. The rules were all but identical to footgolf. Players had to try to be as economical as possible as they kicked a six-inch ball into holes various distances apart on a fairway. Despite a flurry of early interest, the game failed to catch on.

"Fox Tossing", a lively trawl through long-forgotten sports and games from around the globe, highlights many honourable but unsuccessful inventions like codeball. Mr Brooke-Hitching employs a useful taxonomy, noting that games tended to fall from favour because of their cruelty, danger or ridiculousness. The most memorable were guilty of all three charges. Palingtrekken, or eel-pulling, involved hanging a live, greased eel from a wire, strung high across a river or

canal. Competitors had to leap from their boats and yank the eel free. The winner earned a nutritious dinner; the many losers ended up in the water. Remarkably, the game was popular all across 19th-century Europe.

But the strongest impression left by "Fox Tossing" is the shift in attitudes towards animal welfare, which began in the Victorian period. Prior to this, cats were variously burned, stuffed into barrels, nailed to trees and head-butted, bears were tethered and attacked by dogs, and otters and porcupines hunted and stabbed. The modern era's failed pursuits, such as phone-booth stuffing and flagpole-sitting, feel prosaic by comparison, if all the healthier for it. Perhaps footgolf has a future, after all.



Great escapes

Because it was there

No Picnic on Mount Kenya. By Felice Benuzzi. Maclehose Press; 320 pages; £18.99

BARBED wire is not the best material for making crampons. Over 5,000 metres into the sky, facing blizzards and walls of ice, you want the most secure footwear available. Metal spikes snipped from the rusted fences of a prisoner-of-war camp—and hammered into footplates made from spare car parts—are not ideal for the task.

But Felice Benuzzi did not have the luxury of choosing his equipment. An Italian soldier in the second world war, he spent half a decade in internment camps after

British forces took Abyssinia (modern Ethiopia) in 1941. In the years that he passed at p.o.w. Camp 354, just a few days' trek from Mount Kenya, Africa's second highest mountain, its snowy peaks taunted him. Occasionally, inmates would slip past the sentries and head for neutral Portuguese East Africa (now Mozambique). But Benuzzi, a climber, dreamed only of standing on the top of Batian, the summit of Mount Kenya, just a few miles away. Hoisting an Italian flag there, where only a handful of mountaineers had ever trodden, would be an act of defiance that no dash to the border could match.

"No Picnic on Mount Kenya" is Benuzzi's account of how he and two accomplices eventually escaped in January 1943, reached the lower peak on Mount Kenya, Point Lenana, and then broke back into the camp for good measure. The book crackles with the same dry humour as its title. It ►



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► contains the prison-yard bartering and candlelight stitching that mark a classic jail-break yarn; the encounters with wild beasts in Mount Kenya's forest belt are as gripping, and the descriptions of sparkling glaciers as awe-inspiring, as any passage in the great exploration diaries of the early 20th century.

The book has become a classic among climbers since it first appeared in Italian in 1947, and then in English in 1952. But readers

will be grateful for this new edition from Maclehose Press, which contains an extra chapter not published before in English, a detailed map and Benuzzi's watercolour paintings of the mountain. Even those familiar with the terrain will find themselves lost at points during the author's description of his ascent. That is only natural: the most reliable map he and his mates had was a picture of the mountain on a corned-beef tin. ■

Tap dancing

It's got that swing

An engaging history of one of America's great creative inventions

IT IS not the world's most sophisticated art form, but tap dancing is a big part of American history. Closely associated with jazz music, tappers use the sounds of their shoes hitting the floor as a form of percussion. According to one dancer, tap was "one of [America's] two really indigenous forms", with jazz the other. As late as the 1950s that statement certainly held true. Tappers like Fred Astaire, Gene Kelly and Ginger Rogers are icons of America's economic and military strength of the 1940s and 1950s. But tap also has a dark side: for many people, it has clear racist overtones.

This complex history needs unpicking. However, studies of tap dancing are few and far between. It is a tall order to write about any sort of dance from before the 20th century; the historian must rely on drawings and eyewitnesses, rather than videos. Tap and its ancestors are particularly difficult to research. They have typically been the preserve of the poor and downtrodden, about whom there are fewer historical sources than for rich folk. A history of tap dancing is thus what E.P. Thompson, a Marxist historian, called a "history from below" at its most extreme.

Enter Brian Seibert, a dance critic for the *New York Times*, who offers a sweeping tour of tap in "What the Eye Hears". He looks at how tap grew out of dances brought over by Irish immigrants and African slaves. An early form originated in Lancashire, England, where plenty of Irish people lived. During the industrial revolution, factory workers wore clogs to protect themselves from the cold. Inspired by the beat of pistons and pipes, "they rattled their feet to keep warm," Mr Seibert writes—and liked the sound.

Tap also drew inspiration from slavery. Africans, transported across the Atlantic alongside Irish people who had been press-ganged into naval service, swapped moves and rhythms on deck. Plantation-

What the Eye Hears: A History of Tap Dancing. By Brian Seibert. *Farrar, Straus and Giroux*; 612 pages; \$35

owners in America's south organised "jigging contests" to improve morale, recalled James Smith, a slave in the 1860s. One of Smith's companions could "make his feet go like trip hammers and sound like [a] snaredrum". His jigging "sure sounds like an ancestor" of tap, suggests Mr Seibert.

As tap dancing became more popular, it held an ambiguous relationship with American racial politics. On the one hand, tap dancing (and an associated act, minstrelsy) could reinforce the subjugation of black people, especially when whites used burned cork to darken their faces and then impersonated them. Discrimination ensured that white performers (like Astaire,

Kelly and Rogers) took the lion's share of the fame, even though, in the words of Miles Davis, a jazz musician, "they weren't nothing compared to how [black] guys could dance."

On the other hand, black performers, excluded from most well-paying jobs, could make decent money by tap dancing. And when they stood up straight onstage, points out Mr Seibert, they were not only assuming the correct posture for a dance but challenging the notion that they should look servile in the presence of white people.

Such interpretations are helped along by Mr Seibert's excellent writing. He liberally employs the lingo of whatever period is under discussion. He describes one actor in the post-Depression era as specialising in playing "hayseeds" (a derogatory word for a yokel); later he uses the word "co-ed" (an outmoded term for a female university student); and he could raise modern eyebrows by talking of "coloured folk" and "Negroes" in eras when those terms were standard. This may be risky, but Mr Seibert's writing is so engaging, transporting the reader back in time, that the linguistic tricks seem justified.

However, the book is not without its flaws. It has no theoretical backbone, though at times Marxism bubbles through. Indeed, for large chunks of the book Mr Seibert seems to have no argument whatsoever. With more than 600 pages at his disposal, he has plenty of space for rich historical descriptions. But after the umpteenth biography of a now-forgotten tap dancer, the reader may feel a little tired.

The latter part of the book discusses an interesting conundrum. You might have thought that tap dancing, a generally cheery art form with more style than substance, would have been perfectly suited to the television age. In 1948 less than 1% of American households had a TV; by 1957, two-thirds did. But at almost exactly the same time, tap went into terminal decline. Bill "Bojangles" Robinson (pictured), perhaps the greatest "hoofer" ever, died in 1949, and by 1955 journalists were asking: "What happened to the great tap dancers?"

Mr Seibert's book helps solve this puzzle. Unlike the music of Elvis Presley and the Beatles, tap cannot be blasted into people's homes and across stadiums. Instead, like jazz, to be any good it requires an intimacy and an edginess that is hard to sustain in an era of mass consumerism. You need characters like Robinson, who danced with a bullet from a cop's gun lodged in his arm; the filthy nightclubs where they tapped to fund their next heroin fix; and where the regulars loudly mocked dancers whose technique was a little off ("you're hurting the floor"). Mr Seibert's study has its limitations, but you would need a heart of stone for his enthusiasm not to rub off on you. ■



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Appointments

Director, Duke Center for International Development

Duke University
North Carolina, USA

The Sanford School of Public Policy at Duke invites applications for the position of Director of the Duke Center for International Development (DCID). The position may be either Tenured Professor (Full) or Professor of the Practice.

DCID is a largely self-financed international development policy center in the Sanford School that has a mid-career Master of International Development Policy program for development practitioners, executive education programs in public finance specializations, policy advising, and applied research.

QUALIFICATIONS: We seek a senior scholar (Ph.D. in economics, political science, public health, public policy, or another relevant discipline for international development) who also has relevant experience working in or advising the public, private, or non-government sector related to development issues, as well as leadership and management experience within a complex, multi-faceted organization; or a policy professional with a distinguished career, an interest in scholarly and policy research, and comparable leadership qualities and commensurate stature who would work well within a university environment.

DESCRIPTION: The successful candidate should have a compelling vision for how DCID can build on its strengths and expand in innovative ways to further its reputation, influence, and impact as a leading university-based international development center. This includes a measured expansion of the Center's master's and executive education programs; leadership for fundraising and grant writing; expanding the scholarly research of the Center; promoting collaboration within the Sanford School; building DCID's leadership role at Duke as a hub of international development; and interfacing with academic/research institutions, international agencies, the US government, private firms, philanthropic foundations, and the media.

Please apply with a letter of application and CV to the link below by 15 January 2016.

<https://academicjobsonline.org/ajo/jobs/6627>

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In the last 10 years, there has been a proliferation of executive education training courses in Africa. However, there has been limited research and analysis on the importance and impact of executive education, especially in the financial sector.

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- Carry out a study of current executive education offerings in general and those aimed at the financial sector
- Develop a conceptual framework and methodology for best practice in executive education
- Propose impact indicators by which executive education can be measured objectively

Your EOI should contain:

- Names and CVs (maximum 3 sides of A4 paper each) of lead consultant(s) including qualifications and relevant experience
- A short statement of why you believe your firm has the right experience and blend of expertise for this assignment
- A short description of anticipated risks and how you would expect to deal with these
- Confirmation of your firm's availability to carry out this work
- Any information that you believe should be taken into account in the shortlisting process

Please note - a fully costed proposal and/or detailed work plan is not required at this stage.

Your Expression of Interest which should not exceed 3 sides of A4 (font size 11), excluding CVs, company brochures etc. should be sent to info@fsdafrica.org under a subject line reading "Impact of Executive Education Research". The detailed EOI can be accessed through FSD Africa's website www.fsdafrica.org (call tab)

Proposals must be received by FSD Africa no later than 1200 (EAT) 14th December 2015



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INVITATION FOR BIDS
Procurement Number: 51/SPPM/15

Designing, Editing, Production and Delivery of Different Documents for Agenda 2063

The African Union Commission has reserved some funds towards the procurement of the above mentioned goods.

The African Union Commission now invites bids from interested bidders for **Designing, Editing, Production and Delivery of different Documents for Agenda 2063**.

More details on the above requirements are provided in the bid document.

Interested firms can collect the bid documents from **the African Union website:**
<http://www.au.int/en/bids>.

The closing date for the submission of bids shall be **4th December 2015**.

For further inquiries please use Tel: **+251-11-5517700, Ext 4308 and 4338**. E-mail Tender@africa-union.org



EUROSTAZIONI S.p.A.

As part of the corporate reorganisation and value improvement of Grandi Stazioni S.p.A. (hereinafter "GS"), Ferrovie dello Stato Italiane S.p.A. (hereinafter "FS") and Eurostazioni S.p.A. (hereinafter "Eurostazioni"), as shareholders of GS, have proposed, and GS Board of Directors has approved, the non-proportional demerger of GS (the "GS Demerger") to be carried out through the spin-off, among others, of the businesses related to the economic exploitation of commercial spaces, media & advertising spaces, luggage deposits and toilet services in the 14 major Italian railway stations, and of a 61% stake in Grandi Stazioni Ceska Republika Sro, a company under Czech law, owner of a concession relating to redevelopment and management of two railway stations in Czech Republic: Prague main railway station and Mariánské Lázně, with simultaneous transfer of such activities to a newly formed company named Grandi Stazioni Retail S.p.A. ("GS Retail")

FS and ES intend to carry out, subject to the GS Demerger, a privatization process, by launching a selection procedure (the "Procedure") concerning (i) the sale of the entire share capital of GS Retail, as resulting from the GS Demerger and, (ii) the simultaneous assignment to GS Retail of the new concessions covering the right to economically exploit the commercial and advertising spaces of the real estate complexes of the railway stations of Bari Centrale, Bologna Centrale, Florence S. Maria Novella, Genoa Brignole, Genoa Piazza Principe, Milan Centrale, Naples Centrale, Naples Piazza Garibaldi, Palermo Centrale, Rome Termini, Turin Porta Nuova, Venice Mestre, Venice St. Lucia and Verona Porta Nuova, as well as the real estate complex of Rome Tiburtina (the "New Concessions"), subject to the termination of the existing concessions.

In this context, FS and Eurostazioni seek to assess the existence of parties interested in acquiring the entire share capital of GS Retail, which will be entrusted with the ownership of the New Concessions.

For these reasons, FS and Eurostazioni, as shareholders of GS,

INVITE

to present expressions of interest to take part in the Procedure, from parties who meet the general requirements and the economic and financial capacity requirements, as specifically detailed in the notice of Procedure, available at the following website www.grandistazioni.it (the "Notice of Procedure").

These expressions of interest must be received, under penalty of exclusion, no later than 12:00 noon (Italian time) on 14 December 2015 at the headquarters of Rothschild S.p.A., in Via Santa Radegonda 8, 20121, Milan, inside an envelope containing also all the documents and declarations specifically detailed in the Notice of Procedure.

Interested parties can read the Notice of Procedure and related forms for the submission of expressions of interest by visiting the www.fsitaliane.it or www.grandistazioni.it websites.

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Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices latest 2015†	Unemployment rate, %	Current-account balance			Budget balance % of GDP 2015†	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$ Nov 18th year ago		
	latest	qtr*	2015†				latest	% latest 12 months, \$bn	% of GDP 2015†					
United States	+2.0	0.3	+1.5	+2.4	+0.3 Oct	+0.2 Oct	+0.3	5.0 Oct	-429.0 Q2	-2.5	-2.6	2.34	-	-
China	+6.9	0.3	+7.4	+6.9	+5.6 Oct	+1.3 Oct	+1.6	4.1 Q3§	+279.0 Q3	+3.1	-2.7	3.01§§	6.38	6.12
Japan	+1.0	0.3	-0.8	+0.7	-0.8 Sep	nil Sep	+0.7	3.4 Sep	+121.9 Sep	+2.7	-6.8	0.32	124	117
Britain	+2.3	0.3	+2.0	+2.5	+1.1 Sep	-0.1 Oct	+0.1	5.3 Aug††	-149.2 Q2	-4.6	-4.4	1.98	0.66	0.64
Canada	+1.0	0.2	-0.5	+1.2	+0.5 Aug	+1.0 Sep	+1.3	7.0 Oct	-48.5 Q2	-3.1	-1.8	1.65	1.33	1.13
Euro area	+1.6	0.3	+1.2	+1.5	+1.7 Sep	+0.1 Oct	+0.1	10.8 Sep	+353.4 Aug	+2.8	-2.1	0.50	0.94	0.80
Austria	+1.0	0.3	+2.2	+0.7	+1.0 Aug	+0.7 Oct	+0.9	5.7 Sep	+10.7 Q2	+1.2	-2.1	0.96	0.94	0.80
Belgium	+1.3	0.3	+0.8	+1.2	+2.4 Aug	+1.3 Oct	+0.5	8.7 Sep	-5.8 Jun	+1.2	-2.6	0.89	0.94	0.80
France	+1.2	0.3	+1.4	+1.1	+1.8 Sep	+0.1 Oct	+0.1	10.7 Sep	+0.2 Sep‡	-0.5	-4.1	1.02	0.94	0.80
Germany	+1.7	0.3	+1.3	+1.6	+0.2 Sep	+0.3 Oct	+0.2	6.4 Oct	+277.8 Sep	+7.8	+0.7	0.50	0.94	0.80
Greece	-0.1	0.3	-1.9	+0.5	+3.0 Sep	-0.9 Oct	-1.1	24.6 Aug	-2.9 Aug	+2.5	-4.1	7.00	0.94	0.80
Italy	+0.9	0.3	+0.8	+0.7	+1.7 Sep	+0.3 Oct	+0.1	11.8 Sep	+38.3 Aug	+2.0	-2.9	1.52	0.94	0.80
Netherlands	+1.9	0.3	+0.5	+2.0	+0.8 Sep	+0.7 Oct	+0.4	8.3 Sep	+85.3 Q2	+10.3	-1.8	0.70	0.94	0.80
Spain	+3.4	0.3	+3.2	+3.1	+4.0 Sep	-0.7 Oct	-0.5	21.6 Sep	+18.8 Aug	+0.8	-4.4	1.92	0.94	0.80
Czech Republic	+4.6	0.2	+2.0	+3.4	+0.6 Sep	+0.2 Oct	+0.3	5.9 Oct§	+2.4 Q2	-0.1	-1.8	0.51	25.4	22.1
Denmark	+2.0	0.2	+0.6	+1.7	+2.3 Sep	+0.4 Oct	+0.6	4.6 Sep	+22.7 Sep	+6.7	-2.9	0.79	7.01	5.94
Norway	+3.0	0.3	+7.3	+0.7	+3.3 Sep	+2.5 Oct	+1.7	4.6 Aug††	+37.8 Q2	+9.3	+5.9	1.65	8.70	6.73
Poland	+3.6	0.2	+3.6	+3.4	+4.1 Sep	-0.7 Oct	nil	9.6 Oct§	-2.7 Sep	-1.4	-1.5	2.77	3.99	3.36
Russia	-4.1	0.3	na	-3.9	-3.4 Oct	+15.6 Oct	+15.0	5.5 Oct§	+64.3 Q3	+5.5	-2.8	9.60	65.1	46.8
Sweden	+3.3	0.2	+4.6	+3.0	+6.3 Sep	+0.1 Oct	nil	6.7 Sep§	+35.1 Q2	+6.5	-1.2	0.85	8.73	7.38
Switzerland	+1.2	0.2	+1.0	+0.9	-2.5 Q2	-1.4 Oct	-1.1	3.4 Oct	+60.9 Q2	+7.9	+0.2	-0.31	1.02	0.96
Turkey	+3.8	0.2	na	+2.9	-7.9 Sep	+7.6 Oct	+7.5	10.1 Aug§	-40.6 Sep	-4.9	-1.6	9.98	2.87	2.22
Australia	+2.0	0.2	+0.7	+2.3	+1.2 Q2	+1.5 Q3	+1.7	5.9 Oct	-47.4 Q2	-3.8	-2.4	2.89	1.41	1.15
Hong Kong	+2.3	0.3	+3.5	+2.4	-1.2 Q2	+2.0 Sep	+3.1	3.3 Oct‡‡	+7.4 Q2	+2.8	nil	1.69	7.75	7.76
India	+7.0	0.2	+6.6	+7.3	+3.6 Sep	+5.0 Oct	+5.0	4.9 2013	-25.9 Q2	-1.1	-3.8	7.68	66.3	61.7
Indonesia	+4.7	0.3	na	+4.7	+0.7 Sep	+6.2 Oct	+6.4	6.2 Q3§	-18.4 Q3	-2.5	-2.0	8.59	13,800	12,150
Malaysia	+4.7	0.3	na	+5.4	+5.1 Sep	+2.6 Sep	+2.5	3.2 Aug§	+7.8 Q3	+2.5	-4.0	4.35	4.39	3.36
Pakistan	+5.5	2015**	na	+5.7	+4.8 Aug	+1.6 Oct	+3.9	6.0 2014	-2.6 Q2	-0.7	-5.1	8.85†††	105	102
Philippines	+5.6	0.2	+7.4	+6.4	+3.6 Sep	+0.4 Oct	+2.4	6.5 Q3§	+11.7 Jun	+4.1	-1.9	4.09	47.1	45.0
Singapore	+1.4	0.3	+0.1	+2.9	-4.8 Sep	-0.6 Sep	+0.2	2.0 Q3	+69.5 Q2	+21.2	-0.7	2.62	1.42	1.30
South Korea	+2.7	0.3	+5.0	+2.4	+2.4 Sep	+0.9 Oct	+0.8	3.1 Oct§	+107.9 Sep	+8.0	+0.3	2.29	1,172	1,099
Taiwan	-1.0	0.3	+0.2	+3.2	-5.3 Sep	+0.3 Oct	+0.1	3.8 Sep	+72.8 Q2	+12.8	-1.0	1.18	32.8	30.7
Thailand	+2.9	0.3	+4.0	+3.4	-3.6 Sep	-0.8 Oct	+0.8	0.8 Sep§	+24.4 Q2	+2.4	-2.0	2.72	36.0	32.8
Argentina	+2.3	0.2	+2.0	+0.7	+0.2 Sep	— ***	—	5.9 Q3§	-8.3 Q2	-1.7	-3.6	na	9.64	8.51
Brazil	-2.6	0.2	-7.2	-2.8	-10.8 Sep	+9.9 Oct	+8.9	7.6 Sep§	-79.3 Sep	-3.8	-6.0	15.45	3.78	2.60
Chile	+2.2	0.3	+1.8	+2.8	+0.5 Sep	+4.0 Oct	+3.9	6.4 Sep††	-2.7 Q3	-1.2	-2.2	4.59	715	598
Colombia	+3.0	0.2	+2.4	+3.3	+2.0 Sep	+5.9 Oct	+4.2	9.0 Sep§	-20.8 Q2	-6.7	-2.1	8.07	3,101	2,161
Mexico	+2.2	0.2	+2.0	+2.3	+1.7 Sep	+2.5 Oct	+2.9	4.2 Sep	-25.3 Q2	-2.7	-3.4	6.09	16.8	13.5
Venezuela	-2.3	0.3~	+10.0	-4.5	na	+68.5 Dec	+84.1	6.6 May§	+7.4 Q3~	-1.8	-16.5	10.51	6.31	6.35
Egypt	+4.3	0.4	na	+4.2	-5.5 Aug	+9.7 Oct	+10.0	12.8 Q3§	-12.2 Q2	-1.4	-11.0	na	7.83	7.15
Israel	+2.4	0.3	+2.5	+3.3	+3.9 Aug	-0.7 Oct	-0.2	5.1 Sep	+10.2 Q2	+4.9	-2.8	2.18	3.90	3.85
Saudi Arabia	+3.5	2014	na	+2.7	na	+2.4 Oct	+2.7	5.7 2014	-1.5 Q2	-2.7	-12.7	na	3.75	3.75
South Africa	+1.2	0.2	-1.3	+1.5	+0.4 Sep	+4.7 Oct	+4.7	25.5 Q3§	-15.6 Q2	-4.3	-3.8	8.51	14.2	11.0

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. ~2014 **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, August 27.01%; year ago 38.49% †††Dollar-denominated

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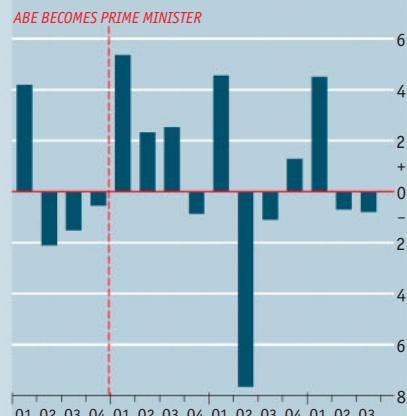
Markets

	% change on			
	Index Nov 18th	one week	Dec 31st 2014 in local currency terms	in \$
United States (DJIA)	17,737.2	+0.2	-0.5	-0.5
China (SSEA)	3,737.0	-2.2	+10.3	+7.1
Japan (Nikkei 225)	19,649.2	-0.2	+12.6	+9.2
Britain (FTSE 100)	6,279.0	-0.3	-4.4	-6.7
Canada (S&P TSX)	13,400.0	+0.4	-8.4	-20.5
Euro area (FTSE Euro 100)	1,144.0	-0.5	+10.3	-2.9
Euro area (EURO STOXX 50)	3,431.9	-0.5	+9.1	-4.0
Austria (ATX)	2,465.1	-0.1	+14.1	+0.4
Belgium (Bel 20)	3,683.4	+0.8	+12.1	-1.3
France (CAC 40)	4,906.7	-0.9	+14.8	+1.0
Germany (DAX)*	10,960.0	+0.5	+11.8	-1.7
Greece (Athex Comp)	671.8	+0.6	-18.7	-28.5
Italy (FTSE/MIB)	22,091.6	-1.3	+16.2	+2.2
Netherlands (AEX)	465.9	-0.7	+9.8	-3.4
Spain (Madrid SE)	1,035.7	-1.1	-0.7	-12.6
Czech Republic (PX)	992.1	nil	+4.8	-5.4
Denmark (OMXCB)	881.3	+0.4	+30.5	+14.6
Hungary (BUX)	23,279.9	+3.4	+40.0	+25.2
Norway (OSEAX)	668.5	+0.5	+7.9	-7.0
Poland (WIG)	49,345.3	-0.4	-4.0	-14.5
Russia (RTS, \$ terms)	876.6	+3.6	+20.2	+10.9
Sweden (OMX30)	1,514.2	+0.2	+3.4	-7.3
Switzerland (SMI)	8,991.0	+1.2	+0.1	-2.4
Turkey (BIST)	80,514.1	-1.5	-6.1	-23.4
Australia (All Ord.)	5,189.1	+0.2	-3.7	-16.2
Hong Kong (Hang Seng)	22,188.3	-0.7	-6.0	-6.0
India (BSE)	25,482.5	-1.5	-7.3	-11.8
Indonesia (JSX)	4,497.9	+1.0	-13.9	-22.8
Malaysia (KLCSE)	1,656.5	-0.5	-5.9	-25.1
Pakistan (KSE)	33,949.3	nil	+5.7	+0.7
Singapore (STI)	2,886.1	-3.2	-14.2	-20.2
South Korea (KOSPI)	1,962.9	-1.7	+2.5	-3.9
Taiwan (TWI)	8,340.5	-0.9	-10.4	-13.7
Thailand (SET)	1,376.8	-1.0	-8.1	-16.0
Argentina (MERV)	13,773.9	+4.7	+60.6	+41.0
Brazil (BVSP)	47,435.6	+0.8	-5.1	-33.3
Chile (IGPA)	18,496.6	-0.8	-2.0	-16.8
Colombia (IGBC)	8,502.1	-6.1	-26.9	-44.0
Mexico (IPC)	44,505.6	+0.4	+3.2	-9.3
Venezuela (IBC)	12,466.6	-0.7	+223	na
Egypt (Case 30)	6,414.0	-5.7	-28.1	-34.4
Israel (TA-100)	1,359.2	-0.3	+5.5	+5.2
Saudi Arabia (Tadawul)	6,953.5	-2.5	-16.6	-16.5
South Africa (JSE AS)	51,654.5	-1.8	+3.8	-15.6

Japan's GDP

Japan's economy is in its second recession since Shinzo Abe took office in late 2012. GDP contracted at an annualised pace of 0.8% in the third quarter of this year, after also falling in the previous quarter. Weak business investment and shrinking inventories were behind the fall. The figure is not as bad as it seems, however. Consumption is in perkier shape. The real potential growth rate in Japan is probably only a little above zero, thanks to the country's shrinking workforce. And critically, Japan's nominal GDP (the sum of real GDP plus inflation) rose in the third quarter and has grown by 3.1% over the past year. That sort of growth in nominal GDP represents a banner performance by Japan's recent standards.

% change on previous quarter, annualised



Source: Japan's Cabinet Office

Other markets

	% change on			
	Index Nov 18th	one week	Dec 31st 2014 in local currency terms	in \$
United States (S&P 500)	2,083.6	+0.4	+1.2	+1.2
United States (NAScomp)	5,075.2	+0.2	+7.2	+7.2
China (SSEB, \$ terms)	373.4	-0.9	+32.2	+28.4
Japan (Topix)	1,586.5	-0.6	+12.7	+9.4
Europe (FTSEurofirst 300)	1,495.8	+0.1	+9.3	-3.8
World, dev'd (MSCI)	1,691.6	nil	-1.1	-1.1
Emerging markets (MSCI)	822.8	-1.3	-14.0	-14.0
World, all (MSCI)	407.0	-0.1	-2.4	-2.4
World bonds (Citigroup)	861.3	nil	-4.5	-4.5
EMBI+ (JP Morgan)	714.7	+0.6	+3.3	+3.3
Hedge funds (HFRX)	1,189.0 ^b	-0.4	-2.4	-2.4
Volatility, US (VIX)	16.9	+16.1	+19.2 (levels)	
CDSs, Eur (iTRAXX) ^t	70.2	-0.8	+11.5	-1.9
CDSs, N Am (CDX) ^t	81.9	+1.0	+23.9	+23.9
Carbon trading (EU ETS) €	8.6	+1.7	+17.5	+3.4

Sources: Markit; Thomson Reuters. *Total return index.

^bCredit-default-swap spreads, basis points. ^tNov 17th.**Indicators** for more countries and additional series, go to: Economist.com/indicators**The Economist commodity-price index**

	2005=100		
	Nov 10th	Nov 17th*	% change on
	Nov 10th	Nov 17th*	one month
Dollar Index			
All Items	128.0	126.5	-4.0
Food	149.3	148.8	-2.5
Industrials			
All	105.8	103.3	-6.3
Nfa ^t	108.7	107.7	-3.4
Metals	104.5	101.4	-7.5
Sterling Index			
All items	154.1	151.1	-2.5
Euro Index			
All items	148.8	147.6	+2.2
Gold			
\$ per oz	1,090.8	1,075.1	-8.7
West Texas Intermediate			
\$ per barrel	44.2	40.7	-11.1

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
^tNon-food agriculturals.

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The bureaucrat's secret

Cédric Mauduit, management consultant and civil servant, was one of 129 people killed in the Paris attacks on November 13th. He was 41

THE word “civil servant” hardly carries the oomph of its French cousin, *fonctionnaire*. A civil servant shuffles papers; a *fonctionnaire* is the man or woman who, though deskbound, makes the wheels of government turn at levels high and low. The French make an art and science of bureaucracy; and in this venerated culture, Cédric Mauduit was tipped for higher things.

His cv was impressive, if in a provincial way: Lycée Le Verrier at Saint-Lô in Normandy, economics degree at Caen University, then Sciences Po Rennes, where he was near the top of his class. He did a longish stint as a management consultant, rising to senior manager at Kurt Salmon; then worked for the town council in Rouen, advising on strategy, management and evaluation of public policy. All this nicely positioned him to become, in January this year, director of modernisation and performance for the department of Calvados, also in Normandy.

By this time, having spent several years in Paris, he relished the chance to move back closer to his roots. That meant the village of Rouxeville (Manche), where his father had been an agricultural technician and his mother ran the school, and where he was remembered—when they gathered on Sunday, in shock, to remember him—as

a bundle of energy and fun. He now lived, not so far away, with his wife Fabienne and two small children at Lion-sur-Mer, with its row of faded but elegant grey hotels overlooking the English Channel, its beach of fine, gritty sand and its museum of fossils found thereabouts.

His new job, based in Caen, came with a big office and an enormous remit, covering almost everything the department did. Granted, his first experience was a bit downbeat. When the president of the departmental council, Jean-Léonce Dupont, introduced him at a general staff meeting in November 2014, he did so only after a long dutiful eulogy and a minute's silence for an ancient former councillor-general in the canton of Thury-Harcourt. Mr Mauduit, who liked any meeting to be short and sweet, would have felt awkward, commemorating a man he didn't know. Still less did he know that, not a year later, his colleagues would be commemorating him; and Mr Dupont would be crying.

Behind the Gare Sud

The whiz from Sciences Po Rennes made an immediate impression on the governance of Calvados. His door was always open, his tie tugged off, and ideas bursting in his head. Times were hard; the French economy was in the doldrums, with scant

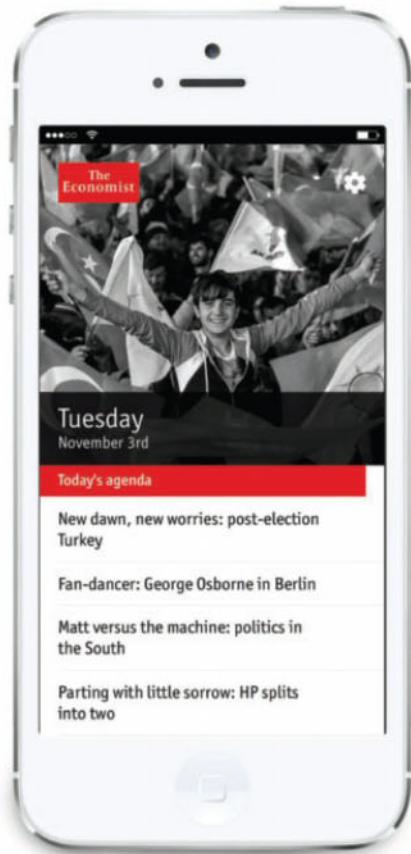
growth and unemployment high; government funding was being cut back, causing severe budget crises at department level. Mr Dupont's presentation at *la rentrée* in September was gloomy in the extreme, with much talk of “our sombre autumn” and “heavy clouds”. On top of everything else, Calvados had taken in 200 young migrants; he expected that to cost more than 5m euros in 2015. One bright spot was tourism, up 20% since 2013 because of British visitors coming to the D-Day beaches. The other was Mr Mauduit's office, where his team thrived under a man who seemed less a boss than a coach and friend, *un vrai leader* and *un chouette type* (great guy) all round. Soon enough, he was tipped to be vice-president.

Some colleagues knew about his secret other side. If they visited his house, it sang out from the posters on the walls and the books on the shelves. He was, said his younger brother Mathieu, possibly the greatest fan ever of David Bowie and the Rolling Stones. The passion for rock had seized him at school, when he discovered, and helped organise, the Écran Sonique concerts in Saint-Lô. But it took him over entirely at Rennes, where—despite the aptitude for local public-policy evaluation that marked him out in the class of 1991—he was remembered mostly for the wild ear-splitting parties in his digs behind the Gare Sud, his Ramones t-shirts and his attempt to drag his whole year to Nirvana's concert at Transmusicales, which passed into rock-music legend.

Among the audience in the Bataclan on November 13th—with Chileans, Romanians, Tunisians, young people from all over—he was on the old side. But when he and his 40-something friends went to such gigs, they forgot their age and the relentless office round. He was there with four mates, one of whom, David Perchirin, had shared his digs in Rennes. He was a Gaullist, Mr Perchirin an anarchist; so what? Together they whooped and waved as the Eagles of Death Metal opened their set. And there it ended, for both of them.

In the offices in Caen the entrance hall was transformed into a shrine to him, with his picture on an easel just in front of the information leaflets and beside the leatherette sofas. His colleagues left candles there. More gathered at the Caen Memorial on the Esplanade Général Eisenhower, by an outsize bronze revolver with a knotted barrel and the inscription “Non-violence”. At Lion-sur-Mer, old soldiers joined a minute's silence at the war memorial. His brother Mathieu, though, had the best idea: he appealed to the Rolling Stones and David Bowie to come and sing at Cédric's burial. Yes, he said in his Facebook message, it was a bit mad, but how better to say what Cédric would have wanted: “F**k terrorism” and “Rock and roll!” ■

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