

The Economist

APRIL 4TH-10TH 2015

Economist.com

Dealing with Iran

Nigeria's watershed election

The lasting toll of prenatal damage

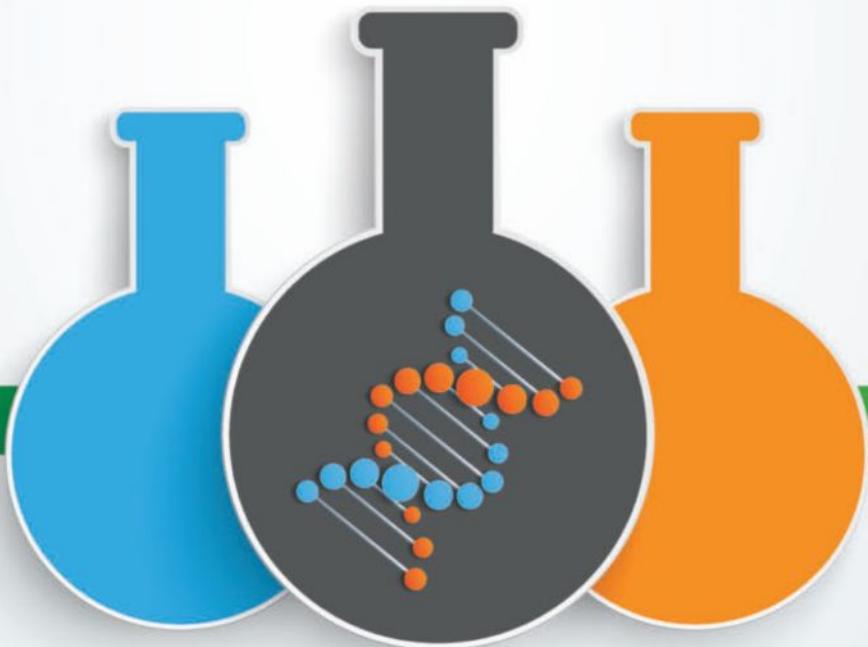
Sexism in Silicon Valley

Britain's shrunken global stature

Space and the city

The
high
cost of
wasting
land

**You could research
1,000 different stocks
find 100 you like
narrow it to 10
and invest
in just
1**



Before investing in any mutual fund or exchange-traded fund, you should consider its investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus, offering circular or, if available, a summary prospectus containing this information. Read it carefully.

ETFs are subject to market fluctuation and the risks of their underlying investments. ETFs are subject to management fees and other expenses. Unlike mutual funds, ETF shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund.

Or you could invest in a Fidelity sector fund or ETF and get targeted exposure to help manage risk.

Investing can be hard work. Hours of research to find a few investments you feel might outperform. You could do the research yourself, or let us do it for you. We bring:

- The largest U.S. sector offering*—55 funds and ETFs covering nearly every sector and industry
- Expert insight and ideas and 30 years of sector fund investing experience
- Powerful sector research, education and tools



Go to Fidelity.com/sectors



Call a Fidelity representative at 800.FIDELITY. Or call your Advisor.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Sector funds can be more volatile because of their narrow concentration in a specific industry.

*Morningstar Direct, data as of 02/09/2015. Based on a comparison of total offerings of distinct U.S. Mutual Funds and ETFs classified by Morningstar as Sector Equity within the universe of 175 U.S. investment firms offering mutual funds and ETFs.

System availability and response times may be subject to market conditions.

Fidelity Brokerage Services LLC, Member NYSE, SIPC. © 2015 FMR LLC. All rights reserved. 712582.1.0



“First Republic knows how to work with family-owned businesses. They remove all of the stressors so I can focus on my business.”

EARL “BUTCH” GRAVES, JR.

*President and CEO
Black Enterprise*



FIRST REPUBLIC BANK

It's a privilege to serve you®

(855) 886-4824 or visit www.firstrepublic.com New York Stock Exchange Symbol: FRC

Member FDIC and Equal Housing Lender 



On the cover

The huge cost of poor land use in the world's greatest cities, and what to do about it: leader, page 11. Land, the centre of the pre-industrial economy, has returned as a constraint on growth, pages 21-23

The Economist online

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

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

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

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

The Economist

Volume 415 Number 8932

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

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

8 The world this week

Leaders

- 11 Urban land Space and the city
- 12 Nigeria's election Three cheers for democracy
- 12 Prenatal care Great expectations
- 13 British foreign policy Punch and duty
- 14 Special economic zones Not so special

Letters

- 16 On Latin America, Russia, Japan, deep learning, companies, the budget

Briefing

- 21 Land-shackled economies The paradox of soil

United States

- 25 The Confederacy The present past
- 26 The South's economy They wish they were in Dixie
- 29 Delaware's economy Falling in the First
- 29 Dating apps Less choice, please
- 30 Indiana politics Religious freedom v gay rights
- 30 Harry Reid The slugger of the Senate retires
- 31 Lexington Why the gun lobby is winning

The Americas

- 32 Venezuela Maduro's muzzle
- 33 Bullfighting Matadors on the march
- 33 Peru's government The fall of Ana Jara
- 34 Bello The neglected art of biography

Asia

- 35 Malaysian politics Riding a tiger
- 36 Ethnic minorities in Vietnam Out of sight
- 37 Elections in Central Asia No choice
- 38 Japan's working poor Struggling
- 39 Banyan Asia's retiring strongmen

China

- 40 Poverty in China Just a little bit richer
- 41 The internet Great walls of fire
- 41 Stolen artefacts Relics of plunder

Middle East and Africa

- 42 Nigeria's election Hail to the voters
- 43 The Iran talks Going to the wire
- 44 Saudi Arabia Decisive or rash?
- 44 Yemen The old man who lingers
- 45 Syria's civil war Assad on the back foot
- 46 Politics in Somalia Loth to admit failure
- 46 South African history Hit the Rhodes, Cecil

Europe

- 47 Germany's logjam An uncomfortable arrangement
- 48 Minorities in France An edgy inquiry
- 48 Spanish politics The old and the new
- 49 Russia's recent past Nemtsov Bridge
- 50 An angry Dutch mood A low-spirited country
- 52 Charlemagne Europeans' privacy fears



Dealing with Iran What is needed for a nuclear settlement, page 43. The impact on Iran's oil industry, page 62



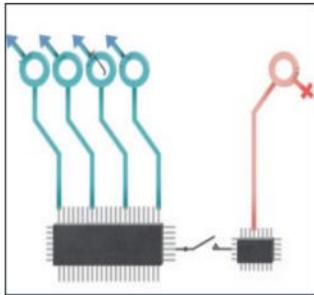
Nigeria Muhammadu Buhari wins a watershed election. May he rise to his task: leader, page 12. The ousting of an incumbent president marks a hopeful step for democracy, page 42. Nigeria's struggling economy, page 71



Little Britain A shrinking player on the global stage: leader, page 13. When allies look at Britain, they see—and lament—a country that is turning inward, page 53. In the longer term, Britain's discomfort with the EU may turn out to be a bigger risk than Greece's exit from the euro, page 78

**Prenatal health**

Why policymakers should pay more attention to pregnant women: leader, page 12. A child's long-term well-being is more profoundly shaped by influences in utero than used to be realised, page 57. Some expectant mothers struggle to quit smoking. What can help? Page 58

**Microsoft at 40** The once-dominant software giant tries to reinvent itself, page 59. Mexico's nascent tech hub, page 61**Sexism in Silicon Valley** Tech firms can banish sexism without sacrificing the culture that made them successful: Schumpeter, page 64**Britain**

- 53 Projecting power** Little Britain
- 55 Hague departs** William, it was really nothing
- 56 Bagehot** Scaring voters, not impressing them

International

- 57 Prenatal health and life** Unequal beginnings
- 58 Smoking in pregnancy** Huffing and puffing

Business

- 59 Microsoft at middle age** Opening Windows
- 61 Steel in China** Twin peaks
- 61 Startups in Mexico** Techs-Mex
- 62 Iran's oil** Rusty taps
- 63 Tyremaking in India** Apollo's mission
- 64 Schumpeter** Valley of the dudes

Finance and economics

- 65 Special economic zones** Political priority, economic gamble
- 66 Buttonwood** Jitters on Wall Street
- 67 Investing in art** A study in red and black
- 67 German property** Braking bad
- 68 Corruption in Brazil** Taxmen on the take
- 71 Nigeria's economy** To the victor the toils
- 71 Greece and its creditors** Starting to list
- 72 Free exchange** Making meetings work

Science and technology

- 73 Exploration (1)** Wiring the world below
- 74 Exploration (2)** The worlds beyond
- 75 Powering space travel** NASA's dark materials
- 76 Emergency medicine** Someone to hold your hand

- 76 An ancient mother** Cretaceous insects

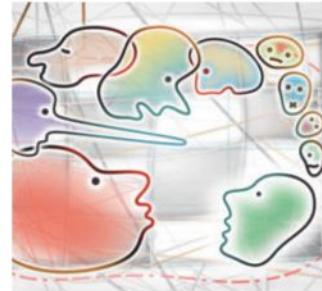
Books and arts

- 77 Becoming Steve Jobs** Jobs 2.0
- 78 Britain and the EU** The Brexit dilemma
- 78 Flash fiction** Super-short short stories
- 79 Life and friendship** Time it was
- 80 Collecting personal data** Uses and abuses

- 84 Economic and financial indicators** Statistics on 42 economies, plus a closer look at crowdfunding

Obituary

- 86 Sashimani Devi** A marriage made in heaven

**How to make meetings work**

Committees are full of biases. New research hints at ways of making meetings more effective: Free exchange, page 72

Subscription service

For our latest subscription offers, visit [Economist.com/offers](#)

For subscription service, please contact by telephone, fax, web or mail at the details provided below:

Telephone: 1 800 456 6086 (from outside the US and Canada, 1 636 449 5702)

Faxsimile: 1 866 856 8075 (from outside the US and Canada, 1 636 449 5703)

Web: [Economistsubs.com](#)

E-mail: [customerhelp@economist.com](#)

Post: The Economist Subscription Services, P.O. Box 46978, St. Louis, MO 63146-6978, USA

Subscription for 1 year (51 issues)

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

Principal commercial offices:

25 St James's Street, London SW1A 1HG

Tel: 020 7830 7000

Rue de l'Athénée 32

1206 Geneva, Switzerland

Tel: 41 22 566 2470

750 3rd Avenue, 5th Floor, New York, NY 10017

Tel: 1 212 541 0500

60/F Central Plaza

18 Harbour Road, Wanchai, Hong Kong

Tel: 852 2585 3888

Other commercial offices:

Chicago, Dubai, Frankfurt, Los Angeles, Paris, San Francisco and Singapore



PEFC certified

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





This cloud stands up to any storm.

Microsoft Azure scales to enable AccuWeather to respond to 9.5 billion requests for crucial weather data per day. This cloud rises to the challenge when the weather is at its worst.

This is the Microsoft Cloud.

learn more at microsoftcloud.com

 Microsoft Cloud

Politics



Muhammadu Buhari, a former military dictator supposedly turned democrat, was elected president of **Nigeria**, defeating the incumbent, Goodluck Jonathan, who graciously accepted the result. Unless wide-scale violence erupts, it will be the first time a Nigerian president has been more or less peacefully ousted at the ballot box.

Iran and six world powers extended their negotiations on a nuclear deal past their self-imposed March 31st deadline. Even if an outline agreement is reached in Lausanne, the most difficult issues will still have to be resolved before the June 30th deadline for a final accord.

The UN warned that **Yemen** is nearing a "total collapse", as a coalition of ten countries led by **Saudi Arabia** continued a campaign of air strikes in support of the Yemeni government against Houthi rebels. Heavy fighting was reported in the streets of Aden between the rebels and militiamen and Sunni tribesmen loyal to the embattled president, Abd Rabbo Mansour Hadi.

Law and disorder

The retrial collapsed in **Turkey** of 236 army officers who were accused of plotting to remove Recep Tayyip Erdogan as prime minister in 2003. The officers were freed last year because of errors in their original trial. Meanwhile a prosecutor heading a separate investigation into the death of a 15-year-old during protests in 2013 was taken hostage; he and two gunmen were later killed

in a shoot-out. And the government said the authorities were looking at all possible causes for a wave of power cuts that hit Turkey this week, including terrorism.

A move to fine people in **France** who pay for sex, which had been approved by the National Assembly in 2013, was rejected by the Senate, scuppering an effort to penalise the clients of prostitutes rather than the prostitutes themselves.

The centre-right UMP, led by Nicolas Sarkozy, a former president, and its conservative allies came first in the second round of **French local elections**. The far-right National Front also made sweeping gains in what was another very bad election night for the ruling Socialist government of François Hollande.



Work continued on identifying the remains of all those who died when a German airliner crashed in the **French Alps**. The co-pilot is suspected of deliberately flying the plane into the mountains. It has emerged that he had been treated for suicidal depression before getting his licence to fly.

A Peruvian pickle

Peru's prime minister, Ana Jara, resigned along with the rest of the cabinet after being censured in Congress. The opposition held her responsible for failing to supervise the country's intelligence agency, which allegedly spied on thousands of Peruvians, including businessmen, journalists and opposition politicians.

An appeals court in **Argentina** upheld a judge's decision to dismiss allegations that the

president, Cristina Fernández de Kirchner, tried to cover up Iran's involvement in the bombing of a Jewish centre in Buenos Aires in 1994. Alberto Nisman, the prosecutor who made the allegations, was found dead shortly before he was due to present the allegations in Congress. His death triggered mass demonstrations and is still unexplained.

Felipe González, who was prime minister of Spain from 1982 to 1996, formed a team to defend two jailed members of **Venezuela's** opposition. It plans to offer legal advice to Leopoldo López, who was arrested during protests against the country's left-wing regime in 2014, and Antonio Ledezma, the mayor of Caracas, who was charged with plotting a coup in February this year. Venezuela's foreign minister accused Mr González, a Socialist, of acting as a "lobbyist for international and local right-wing interests".

Brazil's economy grew by 0.1% last year, slightly better than had been thought. One reason for this was that it counted R&D as an investment rather than as a cost, in line with international accounting standards. This year output will be depressed by spending cuts and higher interest rates. The economy is expected to contract by about 1%.

Out of the frying pan...?

The government in **Thailand** said it would soon end the martial law it introduced last May. But it wants to bring in possibly more draconian restrictions under Article 44 of a new constitution that will give it wide-ranging powers to detain anyone who threatens to "disrupt or suppress" national security.

A blogger who posted writings criticising Islam was hacked to death in Dhaka, the capital of **Bangladesh**. Washiqur Rahman's murder comes just a month after Avijit Roy, a liberal Bangladeshi writer based in America, was killed in a machete attack during a visit to Dhaka to attend a book fair.

In **Singapore** a teenager was arrested after a video he posted celebrating the death of Lee Kuan Yew, the city-state's long-serving prime minister, appeared to criticise Christianity. The 16-year-old was charged with breaking Singapore's strict hate-speech laws and will be tried as an adult.

Not doing their homework

A deadline passed for countries to submit their proposals on tackling **greenhouse-gas emissions** in time for a big conference in Paris in December at which a new climate treaty will be signed. Disappointingly, only a handful of countries, including America, but not China, have handed in their plans, making negotiations ahead of the conference all the more tricky.

Harry Reid of Nevada, who has led the Senate Democrats since 2005, said he would not seek re-election in 2016. He endorsed Chuck Schumer of New York to succeed him as minority leader. His Senate seat is now up for grabs; and there is a chance that America will finally be able to store nuclear waste safely in Yucca Mountain, a site in Nevada that Mr Reid long blocked.



Mike Pence, the governor of **Indiana**, asked the state legislature to amend the state's new "religious freedom" act to make it clear that it does not allow businesses to discriminate against gay people. The law has sparked protests and boycott threats. The governor of Connecticut banned state-funded travel to Indiana, although Connecticut also has a nearly identical law, as do about 20 states in all. Arkansas's legislature passed a similar bill on March 31st.

Business

Taiwan applied to join the new **Asian Infrastructure Investment Bank**, a rival to the World Bank that has been devised and will be unofficially led by China. More than 40 countries, including Britain, Germany and Russia, have signed up to the AIIB, despite American misgivings about its openness and creditworthiness. China was cool to the idea of admitting Taiwan: a foreign-affairs spokesman said Beijing wants "to avoid the two Chinas...situation".

After some delay China at last announced that it would implement a **deposit-insurance scheme** starting on May 1st. By setting limits to the protection of savers, this is an important advance in the government's promise to liberalise the financial system and encourage competition among banks. The scheme will insure bank deposits of up to 500,000 yuan (\$81,000), which should cover up to 98% of accounts.

Examination timetable

The Bank of England published the criteria for this year's **stress tests** of seven big banks, which must demonstrate that they have adequate capital to withstand hypothetical economic shocks. The new tests place less emphasis on how the banks would respond to an economic meltdown in Britain and more on global risks, including a property crash in China and oil falling to \$38 a barrel.

UnitedHealth, America's biggest health-care group, agreed to buy **Catamaran**, one of the "pharmacy-benefit managers" that mediate prices between drug companies and health insurers, in a \$12.8 billion deal. Spending on prescription drugs ballooned by 13% in America last year, the largest increase since 2003. This was mostly because of a 31% jump in disbursements on speciality medicines, according to a report from Express Scripts, another PBM.

Charter Communications announced a takeover of **Bright House Networks** for \$10.4 billion. Charter, which will be America's second-biggest cable operator after the deal closes, had bid for Time Warner Cable last year before it was trumped by Comcast.

The corruption scandal that has engulfed Petrobras, Brazil's state-controlled oil giant, continued to reverberate, as OAS, a Brazilian conglomerate, sought bankruptcy protection for nine of its businesses. After police raided its headquarters last year as part of the investigation into Petrobras, OAS struggled to refinance its debt and raise capital. Investigators also revealed a new scandal involving a corporate-tax agency that may be even bigger than the one at Petrobras.

The legal battle between **Hewlett-Packard** and former executives at **Autonomy** rumbled on. HP alleges that Autonomy provided it with misleading accounts ahead of an ill-fated \$11.1 billion takeover in 2011. For the first time HP directly sued Mike Lynch, Autonomy's founder, and Sushovan Hussain, its former chief financial officer, seeking \$5 billion in damages. Mr Lynch said he would counter-sue.

Annual profit at **Huawei**, a Chinese maker of telecoms equipment, rose by a third, to 28 billion yuan (\$4.6 billion). Huawei's earnings were boosted in part by building some of the radio towers used in the roll-out of 4G in China. Its smartphone business is also thriving, with sales up by 33%. Although Huawei has come under suspicion in America for links to the Chinese army, a recent report to the national-security adviser in Britain concluded that it poses no threat.

Chinese hackers were thought to be behind a cyber-attack on **GitHub**, a website that is popular with software developers and used to store code. But it also links to copies of websites that are banned in China, including Greatfire.org, which provides software tools that make it easier to evade China's internet censors.

A negative feeling

Japan recorded zero inflation in February, according to a key measure from the Bank of Japan that excludes last year's increase in the sales tax (overall consumer prices rose by 2% from the same month last year). The news raised fears that Japan may slip back into deflation, despite a formidable

effort by the central bank over the past two years to break the country's deflationary spiral.

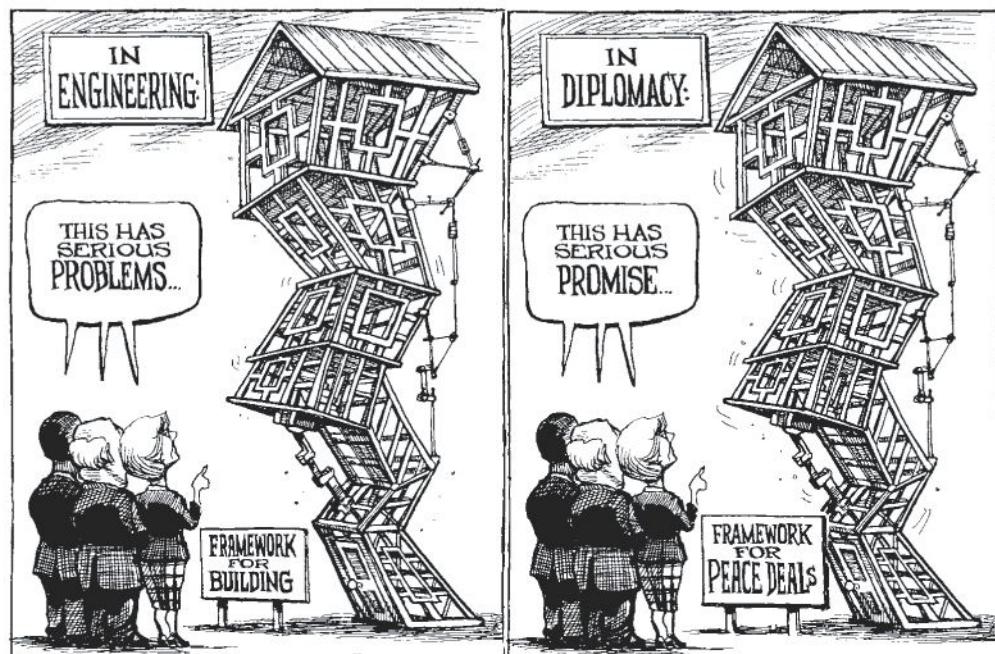
Consumer prices in the **euro zone** fell by 0.1% year on year in March. It was the currency bloc's fourth consecutive month of deflation, though it was an improvement on February's inflation rate of -0.3% and January's -0.6%.

He's happy

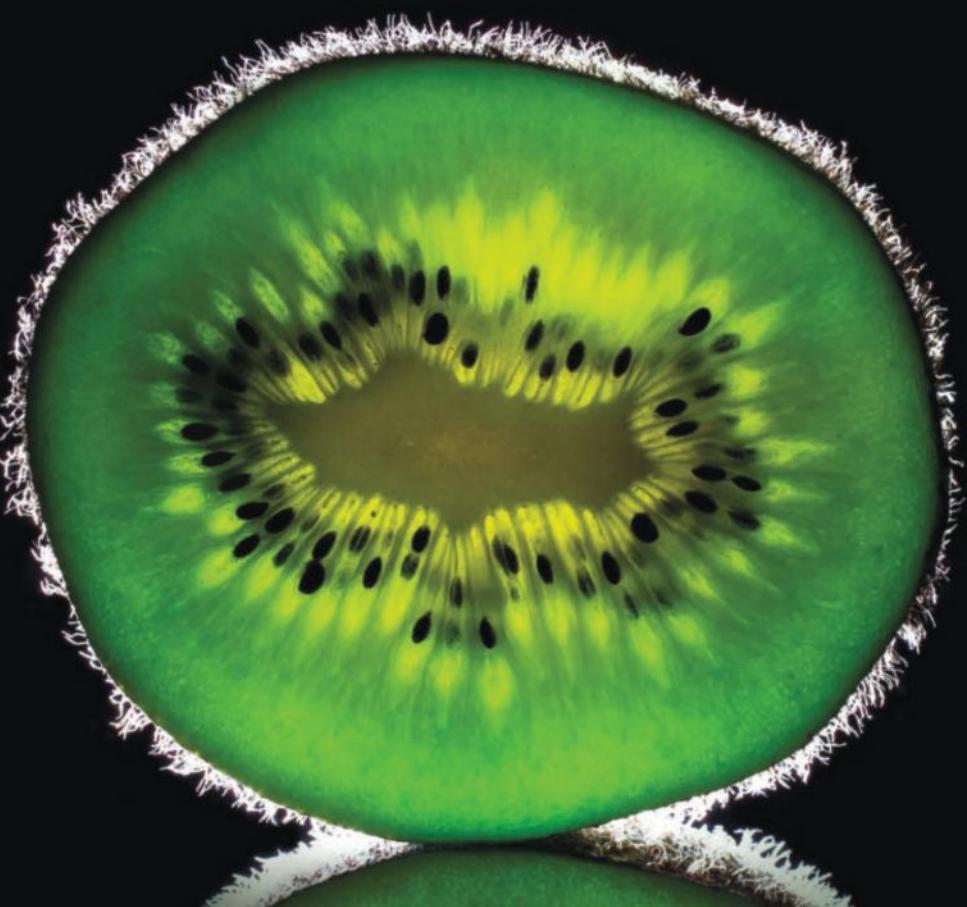


The **British economy** grew at a faster pace last year than had been thought. A second estimate found GDP expanding by 2.8% in 2014, compared with the 2.6% that had been previously published. The news was welcomed by the government in the first official week of campaigning ahead of a general election on May 7th.

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



Analytics see what you can't. So you can see opportunities within.



How do you go beneath the surface of your data to reveal the hidden possibilities? Analytics. We help our clients use analytics to turn data into insight, insight into action and action into tangible results. It's just one of our digital capabilities, along with Interactive and Mobility – everything you need to compete to win. That's high performance, delivered.

High performance. Delivered.

accenture digital

Space and the city

Poor land use in the world's greatest cities carries a huge cost



BUY land, advised Mark Twain; they're not making it any more. In fact, land is not really scarce: the entire population of America could fit into Texas with more than an acre for each household to enjoy. What drives prices skyward is a collision between rampant demand and limited supply in the great metropolises like London, Mumbai and New York. In the past ten years real prices in Hong Kong have risen by 150%. Residential property in Mayfair, in central London, can go for as much as £55,000 (\$82,000) per square metre. A square mile of Manhattan residential property costs \$16.5 billion.

Even in these great cities the scarcity is artificial. Regulatory limits on the height and density of buildings constrain supply and inflate prices. A recent analysis by academics at the London School of Economics estimates that land-use regulations in the West End of London inflate the price of office space by about 800%; in Milan and Paris the rules push up prices by around 300%. Most of the enormous value captured by landowners exists because it is well-nigh impossible to build new offices to compete those profits away.

The costs of this misfiring property market are huge, mainly because of their effects on individuals. High housing prices force workers towards cheaper but less productive places. According to one study, employment in the Bay Area around San Francisco would be about five times larger than it is but for tight limits on construction. Tot up these costs in lost earnings and unrealised human potential, and the figures become dizzying. Lifting all the barriers to urban growth in America could raise the country's GDP by between 6.5% and 13.5%, or by about \$1 trillion-2 trillion. It is difficult to think of many other policies that would yield anything like that.

Metro stops

Two long-run trends have led to this fractured market. One is the revival of the city as the central cog in the global economic machine (see pages 21-23). In the 20th century, tumbling transport costs weakened the gravitational pull of the city; in the 21st, the digital revolution has restored it. Knowledge-intensive industries such as technology and finance thrive on the clustering of workers who share ideas and expertise. The economies and populations of metropolises like London, New York and San Francisco have rebounded as a result.

What those cities have not regained is their historical ability to stretch in order to accommodate all those who want to come. There is a good reason for that: unconstrained urban growth in the late 19th century fostered crime and disease. Hence the second trend, the proliferation of green belts and rules on zoning. Over the course of the past century land-use rules have piled up so plentifully that getting planning permission is harder than hailing a cab on a wet afternoon. London has strict rules preventing new structures blocking certain views of St Paul's Cathedral. Google's plans to build housing on its Mountain View campus in Silicon Valley are being resisted

on the ground that residents might keep pets, which could harm the local owl population. Nimbyish residents of low-density districts can exploit planning rules on everything from light levels to parking spaces to block plans for construction.

A good thing, too, say many. The roads and rails criss-crossing big cities already creak under the pressure of growing populations. Dampening property prices hurts one of the few routes to wealth-accumulation still available to the middle classes. A cautious approach to development is the surest way to preserve public spaces and a city's heritage: give economists their way, and they would quickly pave over Central Park.

However well these arguments go down in local planning meetings, they wilt on closer scrutiny. Home ownership is not especially egalitarian. Many households are priced out of more vibrant places. It is no coincidence that the home-ownership rate in the metropolitan area of downtrodden Detroit, at 71%, is well above the 55% in booming San Francisco. You do not need to build a forest of skyscrapers for a lot more people to make their home in big cities. San Francisco could squeeze in twice as many and remain half as dense as Manhattan.

Property wrongs

Zoning codes were conceived as a way to balance the social good of a growing, productive city and the private costs that growth sometimes imposes. But land-use rules have evolved into something more pernicious: a mechanism through which landowners are handed both unwarranted windfalls and the means to prevent others from exercising control over their property. Even small steps to restore a healthier balance between private and public good would yield handsome returns. Policymakers should focus on two things.

First, they should ensure that city-planning decisions are made from the top down. When decisions are taken at local level, land-use rules tend to be stricter. Individual districts receive fewer of the benefits of a larger metropolitan population (jobs and taxes) than their costs (blocked views and congested streets). Moving housing-supply decisions to city level should mean that due weight is put on the benefits of growth. Any restrictions on building won by one district should be offset by increases elsewhere, so the city as a whole keeps to its development budget.

Second, governments should impose higher taxes on the value of land. In most rich countries, land-value taxes account for a small share of total revenues. Land taxes are efficient. They are difficult to dodge; you cannot stuff land into a bank-vault in Luxembourg. Whereas a high tax on property can discourage investment, a high tax on land creates an incentive to develop unused sites. Land-value taxes can also help cater for newcomers. New infrastructure raises the value of nearby land, automatically feeding through into revenues—which helps to pay for the improvements.

Neither better zoning nor land taxes are easy to impose. There are logistical hurdles, such as assessing the value of land with the property stripped out. The politics is harder still. But politically tricky problems are ten-a-penny. Few offer the people who solve them a trillion-dollar reward. ■

Nigeria's election

Three cheers for democracy

Muhammadu Buhari was the least bad presidential candidate in Nigeria. May he rise to his task



populous country, biggest economy and weightiest global actor. This is joyful news for Nigeria—and Africa (see page 42).

One big reason to cheer is that Mr Jonathan has been such a dismal failure. So has his People's Democratic Party (PDP), which has run Nigeria ever since the generals gave way to an elected civilian government in 1999. His administration has woefully failed to defeat an insurgency by Boko Haram, an Islamist extremist group that has tormented Nigeria's north-east over the past few years. Mr Jonathan tried to improve farming and provide electricity to all, but proved unable to rebuild much of Nigeria's hideously decrepit infrastructure. Above all, he was unwilling to tackle corruption, the country's greatest scourge and the cause of much of its chaos. When the central bank's respected governor complained that \$20 billion had been stolen, Mr Jonathan sacked him. Nigeria is the biggest producer of oil on the continent, but most of its 170m-plus people still live on less than \$2 a day. That is an indictment of successive governments.

Thanks to the resilience and vitality of ordinary Nigerians, the economy has been growing fast, especially around Lagos, the thriving commercial hub. But that is largely despite the government, not because of it. And with the oil price sharply down, Nigerians could well become even poorer.

Nobody can be sure that the 72-year-old Mr Buhari will turn things around fast, if at all. His brief stint as the country's leader 32 years ago, when he was a general, was little better

than Mr Jonathan's. His human-rights record was appalling. He detained thousands of opponents, silenced the press, banned political meetings and had people executed for crimes that were not capital offences when they were committed. He expelled 700,000 immigrants under the illusion that this would create jobs for Nigerians. His economic policies, which included the fixing of prices and bans on "unnecessary" imports, were both crass and ineffective.

Yet there is reason to hope that he has learnt from past mistakes. Although not always with a good grace, Mr Buhari accepted defeat in three previous presidential elections. As a northerner, a Muslim and a former soldier, he has a better chance of restoring the morale of Nigeria's miserable army, which is essential if it is to defeat Boko Haram. His All Progressives Congress is a ramshackle coalition of parties, but the calibre of a number of its leading lights is superior to that of the greedy and incompetent bigwigs who dominate the PDP. Above all, Mr Buhari, whose style is strikingly ascetic, has a reputation for honesty. Corruption in Nigeria is so ingrained that nobody should expect him to root it out overnight. But it is vital that the new president makes a start. His vice-presidential running mate is a pastor who has fought hard for human rights and cleaner government.

Setting an example

Since 1991, when an incumbent leader on the African continent—in little Benin—was for the first time peacefully ejected at the ballot box after three decades without genuine democracy, at least 30 governments and presidents have been voted out of office. Though that is an incomparably better record than in the Arab world, Africa has recently become patchier again. Mr Jonathan's magnanimous concession of victory to Mr Buhari will be a terrific boost to democrats across the continent. Just hope and pray that Mr Buhari does not let them down. ■

Prenatal care

Great expectations

What happens in the womb matters even more than was thought



FROM the compelling (don't smoke) to the flaky (stay out of saunas), pregnant women hear a lot of advice about what is best for the little creature kicking inside them. Nearly everybody knows that it is bad for the fetus if the mother is starving or sick, and that exposure to toxins during pregnancy can cause a baby to be born ill, early or small. Now the evidence is piling up that subtle or short-term harms suffered by expectant mothers can affect their children several decades later—even when they are born full-term and of normal weight and appar-

ently healthy (see page 57).

Some of the best evidence for this "fetal-origins hypothesis" comes from historical disasters. By looking at what happened to babies who were in the womb during an epidemic, a famine or an environmental calamity, and comparing them with those born a little earlier or later, researchers can disentangle the intertwined influences of genes, upbringing and the prenatal environment. Recent studies have looked at the long shadows cast by catastrophes such as the influenza pandemic of 1918, the Dutch "hunger winter" of 1944-45 and radiation from the Chernobyl nuclear meltdown. The consequences for unborn babies were visible years later. They did worse in school, earned less money and were more likely to be ill. ►

► Fetuses are harmed when their mothers are stressed. Several pieces of research have found that bereavement or exposure to airborne pollution during pregnancy has negative effects on the unborn baby in later life. Even irregular eating patterns turn out to be damaging. Children conceived shortly before Ramadan, when many Muslims shun food during daylight hours, do worse in school when they are seven. This is despite the fact that pregnant women need not observe the fast (many do, all the same) and the missed calories can be made up when the sun is down.

One obvious conclusion is that meal-skipping during early pregnancy for any reason is a terrible idea. (Yield to those cravings!) Another is that, although the perfect pregnancy is no more achievable than the perfect childhood, there is an especially powerful case for pregnant women to take good care of themselves—and for everyone else to look out for them. That leads to two less obvious lessons for policymakers.

The first is that the effects on fetuses must be taken into account when evaluating a wide range of public programmes. The economic benefits of building a road, for example, are routinely weighed against the harm more cars will cause (exhaust fumes, crashes, congestion, obnoxious bumper-stickers). Road-charging or schemes to slow traffic are judged by the number of deaths or injuries they avert. Such calculations should now include the impact of pollution on prenatal health. Likewise, the long-term damage to children caused by stress during pregnancy is an extra argument for offering paid

maternity leave and for tackling domestic violence, which often starts or worsens during pregnancy. Making family-planning services more widely available would, besides its other benefits, mean that fewer babies are conceived unintentionally and then harmed in the womb because the mother does not realise she is pregnant.

The bigger lesson is that governments need to rethink their efforts to promote equality of opportunity. In the past couple of decades policymakers across the rich world have noticed that disadvantage is entrenched early in life. That has led to a large increase in programmes aimed at the very young, from support for vulnerable mothers to food and housing subsidies for poor families. It is now clear that schemes like this should begin as close as possible to conception. Health workers who visit teenage mothers, for example, ought to start as soon as pregnancy is confirmed.

Womb for improvement

In all this, there is also a big opportunity. Pregnancy is relatively short and expectant mothers are easy to identify and reach, since nearly all see a doctor. And fetal-origins effects can be large. Some of those recently discovered do as much harm as would be inflicted by abolishing America's Head Start early-years programme, which costs \$8 billion a year. So attempts to improve fetal health could realise big gains without breaking the bank. To give more children the best chance in life, pay more attention to what happens to them in the womb. ■

British foreign policy

Punch and duty

Meet Little Britain, a shrinking actor on the global stage



JUST over 20 years ago the foreign secretary, Douglas Hurd, declared that Britain should aim to "punch above its weight in the world". Today the country seems reluctant even to enter the ring. A recently retired British NATO chief, speaking of Russia and Ukraine, has complained that the prime minister, David Cameron, has become a "foreign-policy irrelevance". America despairs of Britain's shrinking armed forces and criticises its "constant accommodation" of China. Allies are worried, opponents scornful.

The country's politicians, who are fighting to win a general election on May 7th, appear unbothered by the world's sneers. That is a mistake. Britain's diminishing global clout is a big problem, both for the country and for the world.

The uses of abroad

As a largish power in relative decline, Britain has a tendency to veer between hubristic intervention abroad and anxious introspection at home. After Tony Blair's expeditionary misadventures in Iraq and Afghanistan, the Conservative-Liberal Democrat coalition was always going to shun grand schemes. But Mr Cameron has been not so much cautious as apathetic, ineffective and fickle.

The prime minister made a brave and passionate case for

armed intervention in Libya against Muammar Qaddafi. But he did not reckon for the day after and the country is now in a state of civil war. He led America to think Britain would support it in bombing raids against Syria, but then bungled the parliamentary vote. Though Britain was one of the moving forces behind the 1994 Budapest memorandum, which supposedly guaranteed Ukraine's security when it gave up its Soviet-era nuclear weapons, Mr Cameron has been almost absent in dealing with Russian revanchist aggression against it. Last year, as host of a NATO summit, the prime minister urged the alliance's members to pledge at least 2% of their GDP to defence. Just months later a straitened Britain looks poised to break its own rule.

In Europe the promise of an in-out referendum if Mr Cameron wins the election has made Britain seem semi-detached. But rather than counteract that impression through vigorous diplomacy, the prime minister has reinforced it. In European Union summits he has been underprepared and overambitious. His humiliating attempt to block Jean-Claude Juncker from becoming president of the commission left him with only Hungary for company. Pulling the Conservatives out of the EU's main centre-right political group has had the unintended effect of cutting Mr Cameron out of vital discussions with other centre-right leaders, such as Germany's chancellor, Angela Merkel.

It is hard to be more optimistic about a Labour government. Ed Miliband, the party's leader, is pro-European, but he has no ►

► more feel for American foreign policy than Mr Cameron does. He apologises for Labour's interventionist history so strenuously and unreservedly that he leaves no room for liberal intervention. Disastrously, a Labour government might well be propped up by the Scottish National Party, which wants to scrap the submarine-based nuclear-missile system that is a pillar of Britain's relations with America and NATO.

Mr Cameron's defenders say that Britons are war-weary and impoverished. But Mrs Merkel and François Hollande, the French president, have shown that you can have an active foreign policy while dealing with an economic crisis.

Just now liberal values and international co-operation especially need defending. New emerging powers, particularly China, want a say in how the world works. By seizing Crimea and invading Ukraine, Vladimir Putin's Russia has challenged norms of behaviour that were established after the second

world war. If Britain does not stand up for its values, it will inherit a world that is less to its liking.

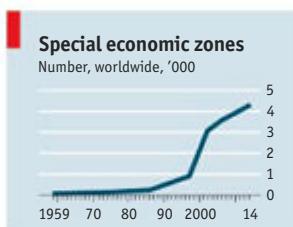
And Britain is well placed to make a difference. With a great diplomatic tradition, a permanent seat on the UN Security Council and strong, if fraying, ties to both Europe and America, Britain ought to be pushing hard to extend open trade, human rights and international law as well as newer agendas against crime, terrorism and climate change.

To make its voice heard, Britain needs to bulk up its diplomacy and its armed forces. Pledging to spend 2% of GDP on defence may seem arbitrary but it is a crucial signal to America and other countries that Britain is prepared to pull its weight in exchange for NATO's guarantee of joint security. That makes more sense than the commitment (which both Mr Cameron and Mr Miliband cherish) to spend 0.7% of GDP on foreign aid. The money can, and should, be found. ■

Special economic zones

Not so special

The world is awash with free-trade zones and their offshoots. Many are not worth the effort



WHEN the first modern free-trade zone was established at Shannon airport in 1959, few outside Ireland paid much attention. Now everyone seems to be an admirer of "special economic zones" (SEZs) that offer a combination of tax-and-tariff incentives, streamlined customs procedures and less regulation. Three out of every four countries have at least one. The world now counts about 4,300 SEZs, and more are being added all the time. Myanmar and Qatar have recently unveiled new ones; Indian officials call their SEZ ambitions "revolutionary"; Shinzo Abe, Japan's prime minister, announced special strategic zones as part of his reform agenda.

Fans of SEZs can point to several success stories, none bigger than China's zone near Hong Kong, set up in 1980 and since dubbed "the Miracle of Shenzhen". This was a way to experiment with economic reforms that Chinese leaders were fearful of rolling out nationwide in one go. Shenzhen attracted thousands of foreign investors, and the policies tested there have spread to other cities. But the craze for SEZs suggests that governments too often see them as an easy win: make an announcement, set aside some land, offer tax breaks, and—hey presto!—deprived regions or struggling industries are healed. If only it were that easy. Popular as they are, SEZs are often flops (see page 65). Africa is littered with white elephants. India has hundreds that failed to get going, including more than 60 in Maharashtra state alone in just the past few years.

Nor are these efforts cost-free. The incentives offered to attract investors mean forgone tax revenues (at least in the short term). They create distortions inside economies, one reason why nationwide liberalisation is always better than patchwork efforts. Zones are increasingly a haven for money-laundering through, for instance, the mis-invoicing of exports. To ensure that these costs are more than offset by jobs and investment, governments must learn from the failures.

First, offering nothing but fiscal incentives may help get a

zone off the ground, but it does not make for a lasting project. The most successful zones are entwined with the domestic economy: South Korea, for example, has been good at fostering links with local suppliers. Zones need to be connected to global markets. Improving infrastructure for this purpose has a bigger impact on the success of zones than tax breaks do. This often requires public spending to upgrade roads, railways and ports to handle the extra freight. Lack of such investment has been the downfall of many an SEZ in Africa. Lots of the continent's new zones will fail for lack of a reliable power supply or because they are too far from a port.

Second, the right balance has to be struck between adequate political oversight and freedom from government bureaucracy. Too much interference from the centre negates the opportunity to experiment. There are legitimate worries that Japan's new zones will fail because central-government officials reject ideas for deregulation for fear of offending vested interests. Bringing in private developers to run zones may help: that was done to good effect in the Philippines. Yet ambitious ideas for "charter cities"—zones built around new urban areas with the power to set their own laws—may be too close to setting up states within states.

Zoning out

The concept also has its limits. Export-focused zones work best in relatively low-end manufacturing, and have the biggest impact when trade barriers are high (think Bangladesh and clothing). China's new zone in Shanghai, centred on financial services, has roused limited enthusiasm—the piecemeal deregulation of activities like foreign-exchange trading is hard to pull off and potentially destabilising.

If they encourage experimentation in otherwise sclerotic economies, SEZs can be useful. The failure of some may seem a price worth paying, if you end up with a Shenzhen-style blockbuster. But they require patience and planning, and they are always inferior to nationwide reforms that cut trade barriers and boost competitiveness. The countries that don't need zones at all are the really special ones. ■



Friends with potential tax benefits.

Hurry! It's almost April 15th.

Open and fund a TD Ameritrade IRA today to take advantage of potential 2014 tax benefits. It only takes 15 minutes to open an IRA, and our retirement consultants are here to give you step-by-step help if you want it.

Get up to \$600 when you open and fund a new account.
Call **877-tdameritrade** or visit tdameritrade.com/ira



Offer valid through 4/30/2015. Funding of \$25,000–\$99,999 receives \$100; funding of \$100,000–\$249,999 receives \$300; and funding of \$250,000 or more receives \$600. Cash bonus subject to twelve-month funding-duration condition. See website for details and other restrictions/conditions. This is not an offer or solicitation in any jurisdiction where we are not authorized to do business. TD Ameritrade, Inc., member FINRA/SIPC. TD Ameritrade is a trademark jointly owned by TD Ameritrade IP Company, Inc. and The Toronto-Dominion Bank. © 2015 TD Ameritrade IP Company, Inc. All rights reserved. Used with permission.

Trade in Latin America

Bello's view of the Pacific Alliance of Chile, Colombia, Mexico and Peru, which has a combined GDP of \$2 trillion and a market of 210m people, was generally on target (March 14th). But there are initiatives under way to improve trade and financial integration that were not mentioned. Although it is true that intra-group trade is relatively small, this reflects the fact that all four countries are highly integrated with the world economy, and that three of them have large concentrations of natural resources.

Financial integration is also promising. All four are members of MILA, the integrated Latin American stockmarket. But MILA is now a platform for trade in secondary stocks only; it should expand its trading to IPOs, quotas of public funds and fixed-income instruments such as corporate bonds. For this to happen, national authorities must recognise companies under the jurisdiction of any one of the regulators in the Pacific Alliance countries.

On tax, the four have agreed to work towards the automatic exchange of tax information, and to co-operate in sharing financial information to prevent tax evasion, money-laundering and the financing of terrorism.

You are right that it will be difficult for the Pacific Alliance to converge with more protectionist regional groups such as Mercosur. But this is just further proof of its attractiveness.

FELIPE LARRAÍN
Former minister of finance of Chile
Santiago

Deadly precedent

"Uncontrolled violence" (March 7th) mentioned the fears of Russian liberals that the murder of Boris Nemtsov "will be used to unleash a new bout of political repression, as happened in 1934 after the murder of Sergei Kirov, a charismatic Bolshevik leader". A more apt comparison might be the assassination of Walter Rathenau, Germany's foreign minister, in 1922, who was shot

by ultranationalists. A politically moderate liberal, he held high office in periods of economic and political transition, promoted capitalist policies and was a strong critic of contemporary Russian economic orthodoxy and its consequences. He was also Jewish.

Then as now, many would see his death as a turning point in the demise of a liberal civil society. A year later Hitler staged his beer-hall putsch that began the ascent of the Nazis.

MARC STURZENEGGER
Versoix, Switzerland

Children of war



In the absence of commemorations in your article on the firebombing of Japanese cities ("Undigested history", March 7th), Isao Takahata's film, "Grave of the Fireflies", released in 1988 and animated by the great Studio Ghibli, provides a chillingly graphic, but non-judgemental, portrayal. It is based on Akiyuki Nosaka's autobiographical novel of the same name, recounting raids on Kobe in March 1945 and the mostly awful consequences for those who survived.

MARTIN WESTLAKE
Brussels

Deep learning, data mining

You reported on the challenge to legal services from accountants stealing their business ("Attack of the bean-counters", March 21st). Actually, lawyers and accountants alike face a stiffer challenge from algorithms used in "deep learning". Much of the revenue for those professions comes from the high volume of discovery work done by juniors. The primary job of deep learning is discovery work, which leads

to pattern recognition and is the sweet spot for the tsunami of AI deep-learning systems about to hit the commercial world. Indeed, Nvidia, a technology company, recently launched a dedicated deep-learning computer, DIGITS, costing a trivial \$15,000.

To quote KPMG's own survey from last year, new disruptive technologies "were selected by more than twice as many respondents as in last year's survey. Their dominance was noted together with the continuing impact of cloud and mobile and the steady rise of data and analytics, auto-tech, and artificial intelligence, all of which are expected to transform organisations."

I suspect Alan Turing didn't anticipate causing the demise of venerable and out-of-date professional services, such as lawyers and accountants, with such a sharp quill.

JOHN STRAW
Co-author of "iDisrupted"
London

Companies' social purposes

Schumpeter (March 21st) is correct to argue that companies need not have lofty purposes to justify their existence. The market will determine the commercial viability of their ambition. But the conditions under which they ply their trades have long been the rightful concerns of societies and governments. The raft of laws covering health and safety, minimum pay, labour conditions, environmental standards, anti-discrimination, privacy and personal security are testimony to that.

PROFESSOR DAVID KINLEY
Sydney Law School

To answer the question of what a company is for we need look no further than Peter Drucker's "The Practice of Management", first published in 1954. Drucker defines the purpose of a company as the customer, which is the "foundation of a business and keeps it in existence". It is the customer who preferred cheap air fares to premium service, not the airlines. It is the customer who thinks Uber is a handy

alternative to conventional cabs. It is the customer who determined there is a need to share selfies with the world, not the makers of the phones.

MARTYN LEWIS
Santa Rosa, California

Trimming the fat

You suggested ("Bust to boom", March 21st) that people will benefit from the British government's decision to raise the amount they can earn before paying income tax to £11,000 (\$16,300) by 2017-18. This is a welcome move, though very few are taken out of paying tax altogether, merely out of paying income tax. Most egregiously, workers' National Insurance is payable at 12% on earnings of around £8,000 a year; this is an earnings tax in all but name. Revenues from both taxes go into the same pot, so the linguistic gymnastics are unnecessary.

Whoever has the keys to 11 Downing Street after the election on May 7th should merge NI into income tax. Eliminating the difference between the thresholds in this way would not only cut tax for the lowest paid but inject a much-needed dose of honesty into Britain's tax-and-spend debate.

ANDY SILVESTER
Campaign director
TaxPayers' Alliance
London

I struggled to see the relevance of Ken Clarke being "rotund", or Lord Lawson being "more slimline". ("Ed Miliband's one-legged stool", March 21st). George Osborne, the svelte current chancellor of the exchequer, may argue that both he and the country's finances have got into shape, but it seems unnecessary to comment on the inflationary pressures faced by previous holders of the red box.

COLM O'GRADY
London ■

Executive Focus



Judges for the Dispute Tribunal and Appeals Tribunal

Does your individual and collective professional conduct demonstrate consistent adherence to high ethical principles and standards?

The United Nations is looking for judges for the United Nations Dispute Tribunal (UNDT) and the United Nations Appeals Tribunal (UNAT), which are part of its internal system of administration of justice that addresses employment-related disputes.

The Judges will be appointed by the General Assembly from candidates recommended by the United Nations Internal Justice Council, an independent body established by the General Assembly.

Work experience: Applicants should, in the case of the UNDT, have at least 10 years of judicial experience in the field of administrative law, or equivalent, within one or more national jurisdictions and in the case of the UNAT, 15 years.

Applications from women are strongly encouraged.

For more information go to:
http://www.un.org/en/oaj/files/judges_od.pdf



Are you looking for a challenging career?

Do you want to contribute to Latin America and the Caribbean?

You can make a difference at the Inter-American Development Bank.

We are searching for an outstanding strategic Executive to fill this position at our Washington, D.C. headquarters:

General Manager, Multilateral Investment Fund (MIF)

The MIF was created to promote sustainable economic development and reduce poverty in Latin America and the Caribbean (LAC) by encouraging increased private investment and advancing private sector development. The MIF is part of the Inter-American Development Bank Group (IDB or Group), headquartered in Washington, D.C. The MIF Manager is a member of the Executive management team of the IDB. S/he currently directs a team of approx. 100 operational and project specialists, as well as support staff, and 100 contractuals in Washington, D.C. and the IDB's Offices in LAC. The MIF works with both the public and private sector business of the IDB and is part of the IDB's private sector window. An operational and financial consolidation of the Bank Group's non-sovereign guaranteed business units is currently underway in order to further promote the economic and social development of LAC through the Group's private sector activities.

The ideal candidate is a seasoned professional with solid knowledge of the economic, social, and cultural framework of Latin America and the Caribbean; ample experience in private sector development and international relations expected. Collaboration experience with multilateral organizations, business leaders, non-governmental organizations, foundations, and/or fundraising entities/donors is important. Master's or equivalent advanced degree in economics, business administration or other relevant fields is required. At least 15 years+ of relevant experience, preferably with 10 years at the international senior leadership level. Experience in structuring private sector projects is preferred. Must have proven management record, strong interpersonal skills, communications skills, change management experience in complex organizations, fundraising skills, and ability to generate networks. Seeking an accomplished organizational leader with strategic vision and adaptive leadership abilities to effectively manage transition and implement change processes.

Oral and written professional proficiency in English and Spanish is required. Working knowledge of Portuguese or French a plus.

Applicants must be a citizen of one of the IDB Member Countries. Deadline for applications: 27 April, 2015.

For full job description, eligibility criteria, and to apply, please go to www.iadb.org then 'Jobs' and 'Search here' on the Careers site.



The IDB offers a diverse and inclusive work environment.



Join the bank that invests in the things that matter...

The **EIB** group has been a key partner in unlocking liquidity for European investment projects since the onset of the crisis, providing more than EUR 500bn since 2007. As a result, we are growing rapidly and are keen to recruit qualified and highly motivated people to help us take initiative, seize opportunities and share expertise, to ensure we make the right investment decisions.

The **EIB** is seeking to recruit at its headquarters in **Luxembourg**:

- **(Senior) Risk Management Officer – Credit Risk Model Management** (Job ID 102042)
- **Credit Risk Officers – Project and Structured Finance** (Job ID 102028)
- **Liquidity Risk Management Officer** (Job ID 102030)

To find out more about these and **other interesting EIB opportunities**, please go to <https://erecruitment.eib.org>

Join us and make a difference to the things that matter. To you. To your family. To everyone.

...like sustainable energy, dependable transport, innovation and entrepreneurship.

We believe that Diversity is good for our people and our business. We promote and value diversity and inclusion among our staff and candidates, irrespective of their gender, age, nationality, race, culture, education and experience, religious beliefs, sexual orientation or disability.

Executive Focus



**Chief of Field Procurement Service (D-1),
Department of Management, New York**

Do you strive for change and improvement without accepting the status quo?

The United Nations is looking for a leader experienced in high volume procurement operations to develop and implement strategies ensuring competitive, fair and transparent procurement on a wide geographical basis for the best value for money.

Education: Master's degree or equivalent in business or public administration, engineering, law or related area.

Work experience: At least fifteen years of progressively responsible experience in procurement or a related field at the international level.

Applications from women are strongly encouraged.

For more information go to:
careers.un.org



The Commonwealth

Planning & Monitoring Officer

£58,578pa gross + benefits London SW1, Pall Mall

This is an outstanding opportunity to make the most of your five-plus years' experience in development programmes, gained within a planning agency or international / inter-governmental organisation, as you monitor our Strategic Plan.

You will focus on developing monitoring reports and providing advice on monitoring reports with the aim of strengthening monitoring by our divisions. This will involve ensuring good monitoring practices; helping develop the four-year strategic plan and interim reports; contributing to meetings determining how divisions achieve strategic planning outcomes; and undertaking any required research as well as organising records and drafting, editing and proof-reading briefs, speeches and other documents.

You must have a post-graduate degree in development studies, international relations, economics, public administration or a related subject. Your experience must have included monitoring RBM systems and performance assessments as well as working with spread-sheets and databases.

We work with our member governments in areas of economic, social and political development. We provide practical technical assistance, offering thought leadership, innovative solutions and advocacy. As we improve the wellbeing of 2.2 billion citizens, we give you the opportunity to take a significant step in your career and make an important contribution through this role.

To be considered, you must be a citizen of a Commonwealth country. The closing date is Thursday 16 April 2015.

To find out more, please go to <http://thecommonwealth.org/jobs>



Vacancy for the Director, Programmes Department

Established in 2012, KAICIID Dialogue Centre (King Abdullah Bin Abdulaziz International Centre for Interreligious and Intercultural Dialogue) was founded to enable, empower and encourage dialogue among followers of different religions and cultures around the world. Located in Vienna, the Centre is an independent, autonomous, inter-governmental organization, free of political or economic influence.

The Director of the Programmes Department is responsible for developing and delivering the Centre's programmatic activities in the field of inter-religious and inter-cultural dialogue, with particular emphasis on education. He/she will manage all aspects of ongoing and future programmes, including planning, organizing and implementing programme activities.

Required qualifications: advanced university degree in interreligious studies, sociology, history, international relations, or a similar discipline, and a minimum of fifteen years of experience in the field of inter-religious and/or intercultural dialogue, including experience in developing and implementing programme activities.

For more details, or to apply, please visit www.kaicIID.org/recruitment

Executive Focus



**European Bank
for Reconstruction and Development**

CHIEF ECONOMIST | LONDON

The European Bank for Reconstruction and Development (EBRD) is an international financial institution promoting open market economies by investing in 34 countries on three continents, stretching from central Asia and Russia to eastern Europe and the southern and eastern Mediterranean.

Our forthcoming 25-year anniversary in 2016 is an opportunity to reflect on the transition to open market economies and on the economic trajectory of our countries of operations. As Chief Economist, you'll provide the intellectual leadership for this process. As part of the Bank's management team you'll also contribute to addressing the broad range of economic challenges that the Bank's regions of operations are currently confronting.

Drawing on your expertise in the economics of structural change and a team of economic researchers, you will develop high-quality research and forecasts for our regions, publish the Bank's flagship "Transition Report" and position the EBRD as the international thought leader on the subject of transition.

Promoting this research will ensure you have a high profile on the international stage, where you will speak publicly on behalf of the EBRD. Reporting directly to the President, you will also be a member of the Bank's executive committee.

You will have a Ph.D. in Economics, currently have a leading position in academia or a research (or related) position elsewhere and you'll have a good understanding of the challenges of the Bank's region of operations. You combine expertise in industrial/development economics with a solid understanding of macroeconomics and forecasting. This is an opportunity to build on your existing reputation and standing, and there may be some scope to combine the role with academic research or teaching. A strategic thinker and an exceptional communicator, you'll make a major impact on the future of transition in our regions.

For a more comprehensive job description and details of how to apply, visit www.ebrdjobs.com

Closing date: 30 April 2015

WE INVEST IN CHANGING LIVES

WWW.EBRDJOBSCOM



**International
Finance Corporation**
WORLD BANK GROUP

**Creating Opportunity
Where It's Needed Most**

Environmental and Social Specialists

Established in 1956, the International Finance Corporation (a member of The World Bank Group) is owned by 184 member countries, a group that collectively determines our policies. Our work in more than 100 developing countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities. IFC's vision is that people should have the opportunity to escape poverty and improve their lives.

Sustainability is a strategic priority for IFC. It underpins the World Bank Group's efforts to end extreme poverty and boost shared prosperity in a sustainable way. We focus on the most urgent challenges – helping businesses address climate change, and foster sustainable practices in key sectors such as agribusiness, infrastructure and natural resources and financial markets. In some of the world's most challenging markets, we help create the conditions that can accelerate investment in these areas.

IFC is seeking to strengthen its environmental and social risk management and client engagement through the recruitment of specialists to review and appraise the risks and impacts associated with IFC's investments. **Positions will be located in the Africa, Asia, Latin America or EMEA regions.**

Senior/Social Specialist (Agribusiness, Infrastructure, Manufacturing) – Position Numbers 150622, 150623

Senior/Environmental Specialist (Agribusiness, Infrastructure, Manufacturing) – Position Numbers 150624, 150621

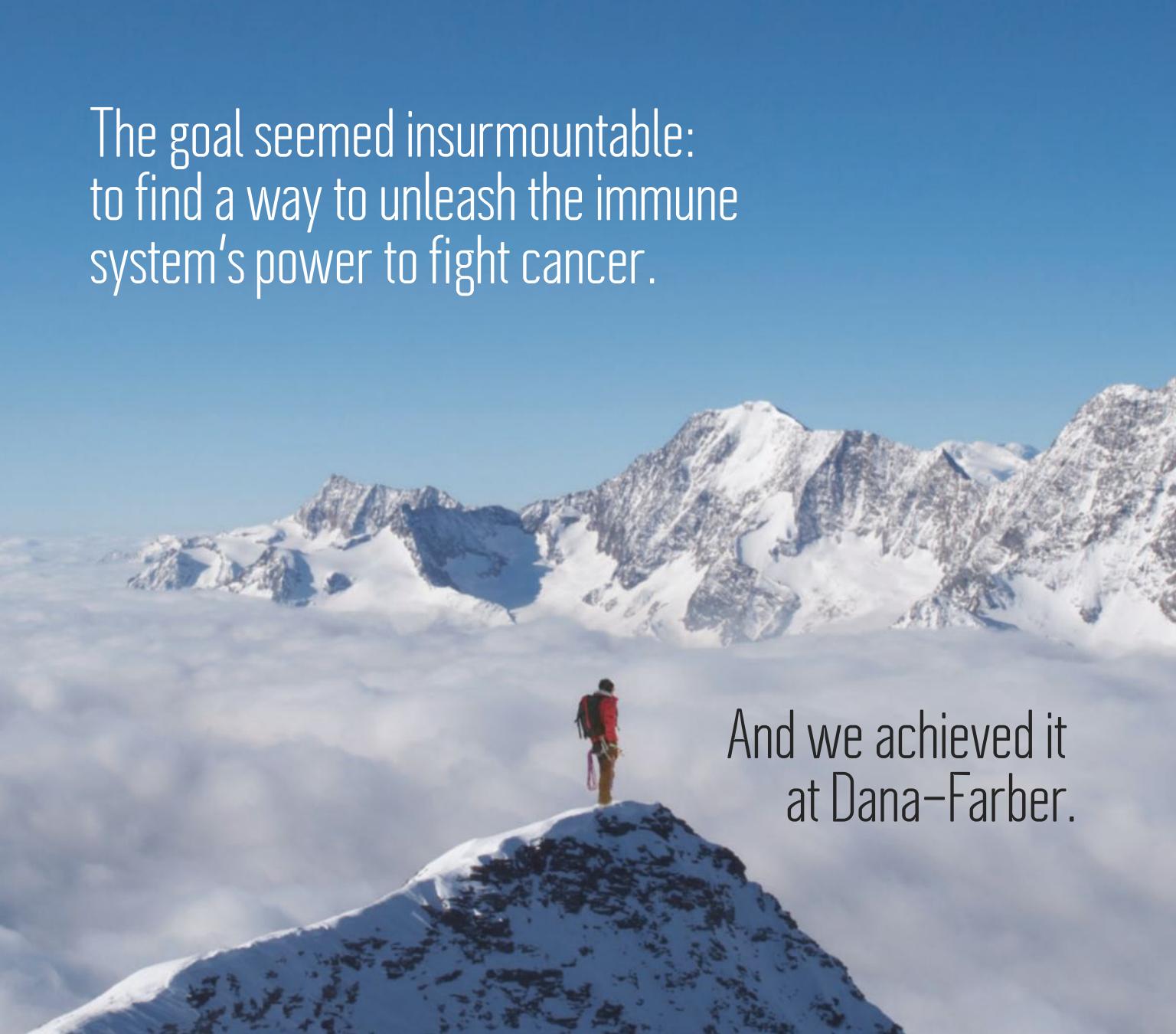
Senior/Environmental and Social Specialist (Financial Sector) – Position Numbers 150600, 150596

We require a minimum of 8-12 years of experience in environmental and/or social management across industry sectors, including agribusiness, infrastructure, manufacturing and financial services. Experience in emerging markets is preferred.

For full job descriptions and to apply on-line, please visit www.ifc.org/careers. The deadline for applications is April 30, 2015.

The World Bank Group is committed to achieving diversity in race, gender, nationality, culture, and educational background. Women are strongly encouraged to apply.

The goal seemed insurmountable:
to find a way to unleash the immune
system's power to fight cancer.



And we achieved it
at Dana-Farber.

To many physician-researchers and scientists, finding a way to get the body's immune system to attack cancer cells is a momentous achievement. And Dana-Farber researchers helped make it happen. We found that some cancer cells elude the body's immune defenses by cloaking themselves in the proteins PD-L1 and PD-L2. This discovery led to the development of several immunotherapies that are already demonstrating promising results and better quality of life for some people with deadly cancers. In fact, the new therapies have improved outcomes for many patients with advanced metastatic melanoma, kidney cancer, Hodgkin lymphoma, bladder cancer, stage IV lung cancer, and more. And the sky is the limit.

Videos, whitepapers and more at DiscoverCareBelieve.org/PD-1.



HARVARD MEDICAL SCHOOL
TEACHING HOSPITAL

Discover. Care. Believe.

© 2015 Dana-Farber Cancer Institute



The paradox of soil

Land, the centre of the pre-industrial economy, has returned as a constraint on growth

THE history of economics has been, among other things, a story of learning to care less about land. The physiocrats of 18th-century France saw it as the primary guarantor of wealth. Adam Smith included it alongside labour and capital as one of the three factors of production that combined to generate output. A little later Thomas Malthus saw its innate scarcity as ensuring eventual catastrophe in the face of exponential population growth.

Instead of succumbing to catastrophe Western countries found ways to work around land's scarcity, some of them ingenious—skyscrapers, artificial fertiliser, railways, suburbs—and some nefarious—dispossessing the oppressed and colonised. Improved transport allowed land farther off to do the work that land close at hand had done before, whether by producing crops half way round the world or housing workers out in the suburbs. High productivity allowed more food to be grown on fewer farms.

The value of land relative to GDP fell remorselessly (see chart 1 on following page). By the second half of the 20th century land was sufficiently marginalised in rich-world economies that it scarcely registered in economics textbooks. By the 1970s some seers, noting the falling cost and increasing power of information technology, con-

vinced themselves that the textbooks were anticipating the way of the world: land and location would soon cease to matter in real life, too.

Instead, concern over land has come roaring back. The issue is not overall scarcity, but scarcity in specific places—the cities responsible for a disproportionate amount of the world's output. The high price of land in these places is in part an unavoidable concomitant of success. But it is also the product of distortions that cost the world dear. One estimate suggests that since the 1960s such distortions have reduced America's GDP by more than 13%.

Old Kent Road to Mayfair

Land's new relevance is rooted in two main developments. The first, ironically enough, is related to the revolution in computers and communications that was beginning to become evident in the 1970s. In some ways this revolution has brought about the "death of distance" foreseen by Frances Cairncross (a former journalist at *The Economist*). Supply chains leap borders and oceans; calls to customer services can be answered a continent away. But if distance has died, location has not.

In the middle of the 20th century many big, previously vibrant cities in the rich world were shrinking. In the 1980s, in

some of them, that turned around. Edward Glaeser of Harvard University and Giacomo Ponzetto of CREI, a research centre in Barcelona, reckon that this was because information technology made work in some knowledge-intensive industries far more lucrative. Financial traders could manage more money across more investors; software firms could sell their products cheaply and easily across a global market. As the return to knowledge-intensive activities exploded, so did the economic fortunes of idea-producing places.

There is support for this idea in research done by Thor Berger, of Lund University, and Carl Benedikt Frey, of the University of Oxford. Before the 1980s there was no statistical link between the skill-level of a city's workforce and its tendency to create new kinds of work. From the 1980s on, by contrast, new job categories appeared with much greater regularity in places with highly skilled workers than in those that lacked them. What is more, Mr Glaeser and his colleague Matthew Ressner find a close relationship between the population of a metropolitan area and the productivity of workers within that area. It seems that workers accumulate knowledge faster in cities with lots of idea industries.

Top cities became hotbeds of innovative activity against which other places could not easily compete. The people clustered together boosted each others' employment opportunities and potential income. From Bangalore to Austin, Milan to Paris, land became a scarce and precious resource as a result; the economic potential of a hectare of rural Kentucky county is dramatically lower than that of a hectare in Silicon Valley's Santa Clara county. And ►

► there is only so much of Santa Clara to go around.

Yet more Santa Clara could be built, were it not for the second and more distressing factor behind land's return: the growing constraint imposed by land-use regulation. The Santa Clara town of Mountain View, for instance, is home to some of the world's leading technology firms. Yet nearly half of the city's homes are single-family buildings; the population density is just over 2,300 per square kilometre, three times lower than in none-too-densely populated San Francisco.

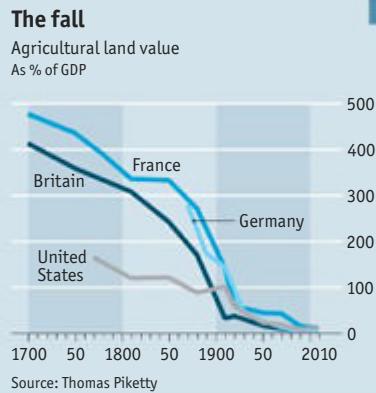
The spread of land-use regulation is not hard to understand. The clustering that adds to local economic vibrancy has costs, too, as the unregulated urban booms of the 19th century made clear. Crowded slums were fertile soil for crime and epidemics; filthy air and water afflicted rich and poor alike. Officials began imposing new rules on those building in cities and, later, on those extending them: limiting heights and building designs; imposing maximum densities and minimum parking requirements; setting aside "green belts" on which development was prohibited. Such regulations have steadily expanded in scope and spread to cities around the world.

As metropolitan economies recovered from their mid-20th-century slump populations began growing again. The numbers of people living in the central parts of London and New York have never been higher. And as demand for quality housing increased the unintended consequences of the thicket of building regulation that had grown up in most cities became apparent.

David Ricardo, an eminent early-19th-century economist who was, among other things, a friend of Malthus's, would have recognised the issue. Back when land was at the centre of the discipline his observations led him to the idea of a rent: an unearned windfall accruing to the owner of a scarce resource.

Strained food supply would raise food prices, he reasoned, which would encourage landowners to bring ever more land under cultivation. But higher food prices benefited all landowners. A lord sitting on highly productive agricultural land suddenly found his profits swelling: not as a result of innovation on his part but because humanity needed more of something he happened to own. This is what is happening in the world's cities today.

According to data gathered by Robert Shiller, of Yale University, the inflation-adjusted cost of building new housing in America is roughly the same now as it was in the 1980s. The inflation-adjusted cost of buying a new home, by contrast, has risen by 30% over the same period (during the property bubble of the 2000s house prices climbed a great deal further before falling back). Individual cities have experienced even larger increases. From 1993 to 2013



prices in Boston and San Francisco rose by 60% in real terms.

American cities are not exceptional. Economic change led to the rejuvenation of cities around the world, stress on stagnant housing stocks, and soaring housing costs. In many developed economies, the value of housing is an ever greater store of wealth (see chart 2)

Belleville to Rue de la Paix

Economists studying the issue generally reckon that rising housing costs are a product of the rising cost of land. David Alsbouy of the University of Illinois and Gabriel Ehrlich of America's Congressional Budget Office reckon that in America land accounts for a third of total housing costs, and close to half in some metropolitan areas. A high share of land in housing costs results in the creation of large rents for landowners.

If regulatory limits on building heights and density were relaxed, fewer plots of land would be needed to satisfy a given level of demand. That would reduce the rents collected by landowners, since any uptick in demand could quickly be met by new development. Just as soaring agricultural productivity led to a decline in the relative economic power of rural landowners in the 19th and 20th centuries, the relaxation of strict limits on development would lead to a decline in property wealth relative to the economy as a whole. More



of the gains of economic activity would flow to workers and investors.

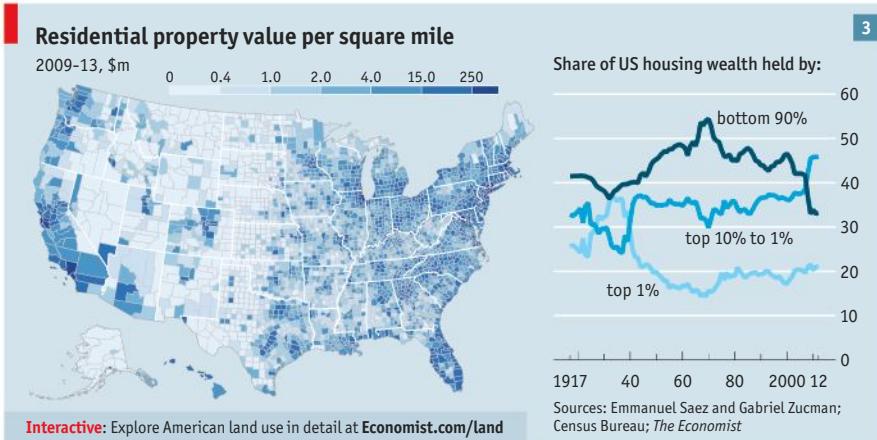
Insead building regulations keep urban-land productivity low, and the costs are staggering. A 2005 study by Mr Glaeser and Raven Saks, of America's Federal Reserve, and Joseph Gyourko, of the University of Pennsylvania, attempted to derive the share of property costs attributable to regulatory limits on supply. In 1998 this "shadow tax", as they call it, was about 20% in Washington, DC, and Boston and about 50% in San Francisco and Manhattan. Matters have almost certainly got worse since then.

Similar work by Paul Cheshire and Christian Hilber, of the London School of Economics, estimated that in the early 2000s this regulatory shadow tax was roughly 300% in Milan and Paris, 450% in the City of London, and 800% in its West End. The lion's share of the value of commercial real estate in Europe's most economically important cities is thus attributable to rules that make building difficult.

One may find it hard to sympathise with Mayfair hedge funds facing high rents. But the net effect of these costs is felt more by the poor than by the rich. Take American homeowners. The fact that 60% of households own property might seem to suggest that rising house prices and inflated land values were good for a large swathe of the middle class. Yet Edward Wolff of New York University notes that the middle class enjoyed much less of a boost to wealth because of an accompanying rise in mortgage debt (see chart 3 on next page). Meanwhile poorer Americans, who rent their homes, experienced soaring housing prices as a large and sustained increase in their cost of living.

Housing wealth has played a critical role in rising inequality, to which Thomas Piketty, an economist at the Paris School of Economics, drew attention in his bestselling book "Capital in the Twenty-First Century". In a recent paper Matthew Rognlie, a doctoral student at MIT, noted that the rising share of national income flowing to owners of capital, rather than workers, is largely attributable to increased payments to owners of housing. Capital income from housing accounted for just 3% of the total in 1950 but is responsible for about 10% today.

Land rents are also captured by landowners in many emerging markets. According to CBRE, a property company, Beijing and New Delhi are among the world's ten most expensive office markets, while Kuala Lumpur and Jakarta are among those with the fastest price increases. Extremely fast growing areas are often crucial to developing economies, which means poorly regulated property markets can do a lot of harm. In India's big cities onerous permitting procedures, tight rent control, and strict limits on how land may be used have heavily distorted patterns of growth ►



► and the allocation of its benefits.

Growth in the rents available to property owners fuels corruption and wastes resources. Landowners work to strengthen development restrictions while politicians cash in on their ability, through selective development approval, to grant fortunate supplicants a windfall. In economies where political corruption is already a problem the renaissance of land may be especially corrosive. In October 2014 the *Times of India* reported that the bribes required to clear the various stages of the planning-permission process in central Mumbai could add up to as much as half of basic building costs.

The ugliest effect of the return of land, though, may be the brake it applies to the economy as a whole. One of the main ways economies increase worker productivity, and thus grow richer, is through the reallocation of people and resources away from low-productivity segments to more efficient ones. In business this means that bad firms go bust and good ones grow to great size. Something similar should hold for cities. Where workers can be put to use at high levels of productivity labour scarcity will lead to fast growing pay packets. Those pay packets will attract workers from other cities. When they migrate and find new, high-paying work, the whole economy benefits.

Mediterranean Avenue to Boardwalk

But that process is now breaking down in many economies. For workers to move to the high wages on offer in San Francisco, they must win an auction for a home that provides access to the local labour market. The bidding in that auction pushes up housing costs until there are just enough workers interested in moving in to fill the available housing space. Salaries that should be sending come-hither signals are ending up with rentiers instead, and the unfairness can trigger protest, as it has in San Francisco. Many workers will take lower-paying jobs elsewhere because the income left over after paying for cheaper housing is more attractive. Labour ends up

allocating itself toward low-productivity markets, and the whole economy suffers.

Chang-Tai Hsieh, of the University of Chicago Booth School of Business, and Enrico Moretti, of the University of California, Berkeley, have made a tentative stab at calculating the size of such effects. But for the tight limits on construction in California's Bay Area, they reckon, employment there would be about five times larger than it is. In work that has yet to be published they tot up similar distortions across the whole economy from 1964 on and find that American GDP in 2009 was as much as 13.5% lower than it otherwise could have been. At current levels of output that is a cost of more than \$2 trillion a year, or nearly \$10,000 per person.

The good news is that the world's urban-land scarcity is largely an artificial pro-



blem. The bad news is that that does not make it a soluble one. Redressing strict land regulation is among the most politically fraught of policy issues. It is in many ways like other toxic issues, such as trade or immigration. The society on the receiving end of new imports or population inflows benefits as a whole, but those put out of business by competition or dismayed by cultural change feel a disproportionate level of damage, and organise in opposition. And in the case of land values this opposition will be rich.

There are ways to address this with policy. Governments could aim specific assistance at those harmed by dense development, as they have to those affected by liberalised trade. Disbursing some of the tax revenue earned as a result of new development to landowners within a small area around that development to compensate for short-term hardship would reduce opposition to new building.

Or they could heed the advice of Henry George, an American follower of Ricardo who in the 1880s made the case for a land-value tax. It has many theoretical virtues. Most taxes dampen, distort or displace economic activity by changing incentives on the margins. But a land tax cannot reduce the supply of land, and it would stimulate economic activity by penalising those whose land is unproductive. And your tax base is always right there—a city lot cannot be whisked off to Luxembourg.

The mayor of New York City, Bill de Blasio, hopes that taxing vacant lots by value will help deal with urban blight in the Bronx and elsewhere. But there are practical problems with a land tax—perhaps the largest of which is that by its very nature it hits the well-connected rich hardest. Even fiscally purist Estonia, which adopted a land tax in 1993, has complicated it with multiple bands, including an exemption for homeowners.

Those already blessed with property may also object to the other obvious approach to the problem: faster and higher-capacity transport links allowing the benefits to be spread farther afield. Some ways of improving transport—such as congestion charges on traffic—may be cheap, but especially in big cities new infrastructure is a slow and costly undertaking, as veterans of Boston's tunnel-enhancing "big dig" can attest. A new underground railway line in London, Crossrail, is currently Europe's most expensive infrastructure project.

In the absence of jet packs all round, what else might technology offer? In time, perhaps, it could do to location what it did to brute distance, abolishing the problem. Virtual reality and social networking might combine to provide the benefits of dense populations without the propinquity. Unlike, yes—but perhaps no more so than a skyscraper, or a subway train, to David Ricardo. ■

NOW



Move forward. With confidence.

No matter how complex your business questions, we have the capabilities and experience to deliver the answers you need to move forward. As the world's largest consulting firm, we can help you take decisive action and achieve sustainable results.

www.deloitte.com/confidence

Copyright © 2015 Deloitte Development LLC. All rights reserved.

Deloitte.
Consulting



The South

The present past

APPOMATTOX

150 years after the end of the civil war, the states that were once Confederate remain distinct

FOR something that ended 150 years ago on April 9th, America's civil war is strangely newsworthy. Last month the Supreme Court heard a case that asked whether Texas should allow the Sons of Confederate Veterans to put a Confederate flag on their car licence-plates, and two white students were expelled from the University of Oklahoma for singing a song about lynching taught to them by a fraternity founded in the antebellum South.

Many Americans remain fascinated by the conflict. In 2002 the Library of Congress estimated that 70,000 books had been published about it, more than one a day since the war ended. This year at Appomattox courthouse in Virginia 1,000 volunteers will dress up to re-enact the surrender there of General Robert E. Lee.

Events to mark the anniversary will take place around the country. At Andersonville in Georgia, the site of a Confederate prison camp, a funeral will be held later in the year for the 13,000 Union soldiers who died there of starvation and disease. "With battlefield sites there is some glory for both sides," says Stephanie Steinhorst, who works for the National Parks Service in Andersonville. "But there's not much glory in a prison camp."

Yet the war is more than an excuse for dressing up. It created a divide that has yet to disappear. For all the economic dynamism of the South, which over the past few decades has almost caught up with the

rest of the country economically (see next article), it remains a region apart, from the bedroom to the ballot box. If you know whether a state was part of the Confederacy, it is possible to make a reasonably accurate guess about where it stands on a range of seemingly unconnected matters, from party politics to gay marriage.

In the autumn of 2014, when control of the Senate was decided in the mid-term elections, one of the best ways to predict the outcome was to look up the results of the presidential election of 1860. Then the North backed Abraham Lincoln, the Republican, who would end slavery and fight to preserve the Union. The South voted for John Breckinridge, a pro-slavery Southern Democrat. In 2014 all but one of the 11 states that had been members of the Confederacy chose a senator (Florida being the exception.) Nearly all voted once again for the same party—only this time it was the Republicans.

Old times there are not forgotten

Today, only five states have no minimum-wage laws; all were Confederate 150 years ago. Of the ten states that lock up the highest proportion of their citizens, seven were Confederate. A further two that make the top ten—Oklahoma and Arizona—were created since 1865 and settled in the late 19th century by southerners escaping the depression that followed defeat. In only 12 states do most residents think abortion

Also in this section

- 26 Why people move to Dixie
- 29 Delaware's iffy economy
- 29 Dating apps: less choice, please
- 30 Religious freedom v. gay rights
- 30 Harry Reid, slugger of the Senate
- 31 Lexington: Why the gun lobby is winning

For daily analysis and debate on America, visit

Economist.com/unitedstates

Economist.com/blogs/democracyinamerica

should be illegal in all or most cases. Five were in the Confederacy.

That a war that cost over 600,000 lives should leave scars is unsurprising. The equivalent death toll today, adjusting for population growth, would be 6m. Michael Barone, author of a book on how migration shaped America, writes that his great-grandfather explained his vote for the Republicans in 1944 by saying, "The Confederates burned our barn." What is strange is that the line that divided the Union from the Confederacy should still be so visible (see maps on next page), even though the South has long since been transformed by civil rights and air conditioning.

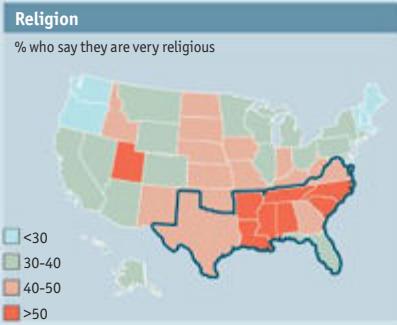
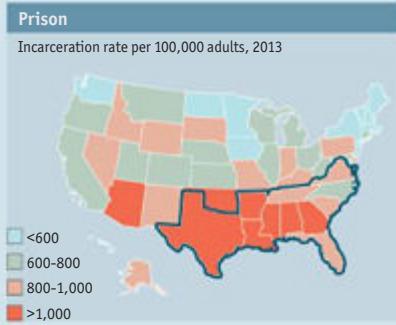
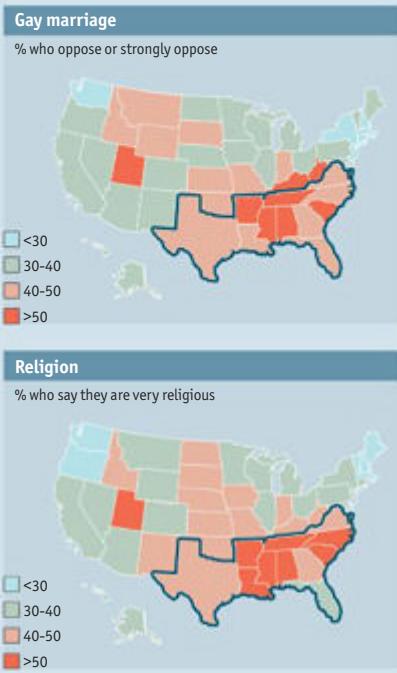
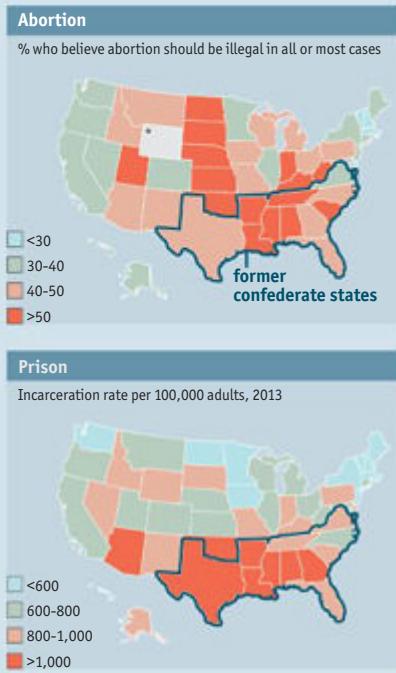
Does race explain the persistence of difference? This may have been true in the 1960s and 1970s, when the Republicans energetically wooed southern white Democrats who were outraged by Lyndon Johnson's civil-rights laws. But it no longer fits. The most segregated schools are now in the north-east. Mixed-race marriages are growing faster in some southern states than anywhere else in America. Violent mistrust between black citizens and white police officers is more a northern problem than a southern one.

Religion is a better explanation of southern exceptionalism. The civil war divided most of America's Protestant sects, says Mark Noll of the University of Notre Dame. Both the Presbyterian and Methodist churches split into northern branches, which opposed slavery, and southern branches, which did not. Even after slavery ended, theological divisions persisted. In the north, which saw mass immigration from all over the world in the decades after the war, Protestant churches had to find some accommodation with Jews, Catholics and, eventually, non-believers.

In the South the share of those born outside America (which was low to begin ➤

It's not quite over

Public opinion and public policy, the old Confederacy v the United States



Sources: Public Religion Research Institute, American Values Atlas; Bureau of Justice Statistics; Gallup Analytics

*no data

with) actually fell after the civil war. New migrants moved west or north but rarely south. Because of this, southern churches could hold more traditional views without challenge. Those tented revival meetings that were such a feature of southern Protestantism were not intended to win converts so much as to purify and strengthen beliefs that were already there.

The Southern Baptist movement, which is strongly associated with the "values voters" who favour the Republicans, has its origins in support for slavery. Southern Baptists have long since updated their views on race, as the many black Southern Baptist pastors attest, but the movement's social conservatism endures. And southerners are unusually observant: Utah is the only non-southern state where church attendance is as high as in Dixie.

When piety is grafted on to a small-government political philosophy—57% of southerners think the government does "too much" and only 37% think it should do more, according to Gallup—it explains much of why the South remains different. The link between the war and the appeal of the Reagan revolution is harder to make, but it is not implausible that antipathy towards the federal government may be connected to the loss of a quarter of all white male southerners aged 16 to 45, who were maimed or killed in a war against it.

If this is right, then there are two possible futures for what was once the Confederacy. The continuing in-migration of large numbers of northerners, including many African-Americans, may transform the rest

of the South the way it has already transformed Virginia and Florida, which are both swing states these days. Or the South might continue to expand its cultural and religious reach westwards, as it has into Oklahoma, Arizona and New Mexico. Or both. Apologists for the old South like to point out that the last action of the war, a skirmish in Texas, resulted in a Confederate victory. It's not over yet. ■

The South's economy

They wish they were in Dixie

ATLANTA

Why Americans keep heading that way

FOR all its problems, people are voting with their feet to live in Dixie. New data from the Census Bureau show that seven of the ten fastest-growing counties in America by population are in the South (defined here as the 11 states of the old Confederacy plus Kentucky and West Virginia). So are 70 of the top 100 (see chart 1 on next page). The region is home to 34% of Americans, up from 27% in 1963.

Why do so many people crave fried chicken and hot buttered biscuits for breakfast? Southerners still earn less than the American average (see chart 2), since the region has a lot of poor people. But the cost of living is low. In Chattanooga, Ten-

nessee, a family on the local median income of \$54,200 a year would find 78% of homes affordable, according to the National Association of Home Builders. In bustling Atlanta, 72% are affordable by this measure; in New York, only 25% are.

Youngsters flock to southern cities to study or work in industries like technology and tourism. The number of graduates in Charlotte, North Carolina rose by 50% in the decade to 2013; Baton Rouge, Nashville and Tampa each gained 35%. A Georgia Tech student frets that brainy newcomers will take all the best jobs—but then admits she grew up in Texas and would stay in Atlanta if offered something good. Barry Hirsch of Georgia State University argues that southern cities are now little different from those elsewhere in America.

America's greying baby-boomers find the South warms their bones and suits their budgets. Tom Gaines splits his time between Tennessee and Florida after moving from icy Michigan in 2003. Since his retirement, he and his wife have enjoyed the sun and the lack of income taxes. "We're very blessed," he says, even if the local property market has been terrifyingly volatile. The Gaineses' condo near Naples, Florida doubled in value, then fell by half, then more than doubled again.

The region is more diverse than it used to be. In the 2000s, eight of the top ten states for Hispanic population growth were in the South. Some of the early Latino migrants came to build stadiums for Atlanta's Olympics in 1996, but most of the recent growth has come from new births. Asian-Americans are now 7% of Virginia's population, 4% of Georgia's and 3% of North Carolina's. Most assimilate fast. Li Wong, publisher of the *Georgia Asian Times*, says his paper is in English because second-generation Asian-Americans "are more comfortable reading in that language than [in] Korean, Vietnamese or Chinese." Two southern governors have Asian roots.

Later this year Airbus will open a \$600m plant near Mobile, Alabama, not far from its rival Boeing in North Charleston, South Carolina. Volkswagen is expanding its car plants in Chattanooga. South Carolina makes more tyres than any other state: both Michelin and Continental have their North American headquarters there. (The Palmetto State also grows more peaches than the Peach State, Georgia.)

Southern governors nearly all say that firms find their states congenial because of low taxes, weak unions and light regulation. This is partly true, as Texas's recent record of job creation shows. But Alan Stonecipher of the Florida Centre for Fiscal and Economic Policy, a think-tank, says the tax breaks that many southern states offer to businesses that move there are not in the best interests of its residents. (Mercedes-Benz recently moved its HQ from New Jersey to Georgia after being offered a sweet-►

Oracle Cloud Applications



More Enterprise **SaaS Applications
Than Any Other **Cloud** Services Provider**

ORACLE®



Young minds in Georgia

► ener of \$23m.) "Corporations do what they were going to do anyway," he argues. The Tax Foundation, a free-market think-tank, ranks only two southern states, Florida and Texas, in its top ten for the friendliness of their business-tax climate.

Racism still casts a shadow. In 2014 40% of America's 784 hate groups were based in the region. Yet the gap between black and white household income is lower in the South than in America as a whole. And 14% of southern newlyweds marry someone of another race—a larger share than in the north-east or Midwest, according to the Pew Research Centre, a think-tank. Black and white southerners vote differently (93% of blacks voted Democratic in 2012; 72% of whites, Republican). They also worship separately, for the most part. But the workplace is much more integrated.

"It's not that racism doesn't exist, it's just now we can discuss it," says Aysha Cooper, who runs a day-care centre for the elderly in Snellville, Georgia. Ms Cooper finds that oldies brought up under Jim Crow now mix happily over games and

meals. "There are no racial barriers in my centre," she declares.

The region remains America's poorest according to the Census Bureau, which includes Maryland, Delaware, Oklahoma and the District of Columbia in its calculations. The poverty rate fell from 18.5% in 1970 to 12.8% in 2000 but then jumped back up again to 16.1% in 2013. Four southern states have unemployment rates among the worst ten in the country.

Public health care is stingier in the South than elsewhere. Of the 13 southern states, only Arkansas, Kentucky and West Virginia have expanded Medicaid (public health care for the hard-up) under Obamacare. Katia Vales, a consultant who lives in Georgia, hit her head last year when she was looking for a new job. "My friend knew that she couldn't call me an ambulance because I had absolutely no way to pay for it," she recalls.

On standardised maths tests for 13-year-olds, southern states cluster at the bottom, though Texas, Virginia and North Carolina are slightly above average. Many fear that recent cuts to southern education budgets will make matters worse. Alabama has slashed spending per pupil by 17.8% since 2008—more than any other state save Oklahoma. Cuts in North Carolina, Kentucky and Mississippi were also ferocious.

Georgia, among others, is hoping to learn from New Orleans's charter schools, which proliferated after Hurricane Katrina in 2005. Almost all pupils in the city now attend charters (which are publicly funded but independently run). Drop-out rates have halved: test results are inching up.

Still, out of every 100 14-year-olds in the South, only 18 can expect to complete college within 150% of the time allotted for their courses, compared with a national average of 21. And those who make it to college now pay more for it. Since 2008, tuition rates have risen by more than half in

Florida, Georgia and Louisiana.

Atlanta exemplifies both the virtues and the failings of the South. Its 5.5m residents live near the world's busiest airport. Several local firms are world-class: Delta Air Lines, Coca-Cola, UPS. The city also has more black businesses and millionaires than any other in America. Rap stars such as Ludacris and Drake have made its nightlife famous.

On the minus side, it is still racially divided. Traditionally black neighbourhoods, such as the Old Fourth Ward (where Martin Luther King once lived) are slowly growing more mixed, as yuppies move in. But parts of Atlanta are almost 100% African-American, and Buckhead, a wealthy area, is 79% white.

Atlanta is also America's most unequal city, according to the Brookings Institution, a think-tank. Households at the 95th percentile make 19 times as much money as those at the 20th. This gap correlates with race: black families in Atlanta are almost three times as likely to be poor as white ones. And Atlantans are not very socially mobile. Those born into the poorest quintile have only a 4.5% chance of making it to the top quintile. By comparison, those born at the bottom in San Jose, California have a 12.9% chance of working all the way up, much like babies born into similar circumstances in Canada or Denmark.

Poor public transport makes it harder for Atlanta's citizens to find new jobs. Commuting by car is a pain: citizens spend, on average, 50 hours a year sitting in traffic jams. And between 2000 and 2012 the number of jobs within an easy commuting distance of home dropped by 14.8% according to Brookings, compared with 7% across the nation.

A teacher at a black high school near Atlanta's airport says her pupils never treat her differently for being white. Her youth has attracted more attention: one cheeky pupil once called her "a stupid-ass little girl". Some of her pupils lack motivation, she frets. Yet the only way to overcome the racism they will encounter in the outside world, she argues, is "to stop fulfilling stereotypes and get an education." ■

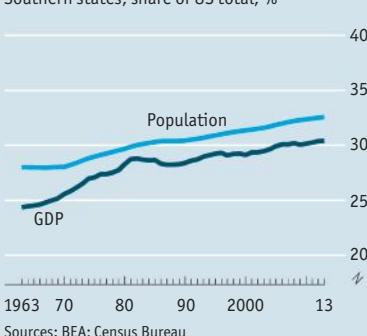
Flying south

Fastest growing counties*
Population increase, 2010-14, %



The miracle of air conditioning

Southern states, share of US total, %



Delaware's economy

The First State comes last

WILMINGTON

Living standards drop in America's business capital

WAGE growth in America has been measly for years, but since the recession one state has fared particularly badly: Delaware, an east-coast tax haven. From 2009 to 2014, it was the only state in which hourly and weekly earnings dropped in cash terms (see chart).

At first glance, this is puzzling. Unemployment in Delaware, at 4.8%, is well below the national average; many would expect such a tight labour market to result in rising wages. Moreover, the state is famously kind to business. Thanks to benign company laws and low taxes, there are more businesses registered in Delaware than there are people. More than 50% of all pub-

licly traded firms in America have chosen the state as their legal home. Last year roughly 170,000 business entities formed there, a new record. A quarter of Delawarians work in finance or business services, a higher proportion than in any other state. Such vocations typically pay well.

But dig deeper, and problems appear. In recent years Delaware's business-services industry has not looked so hot. In company litigation, its courts have lost out to rivals, particularly federal ones. Excessive litigation encourages companies to move. And Wilmington, the largest city in the state, is losing its appeal as a place to do business because of its high crime rate. Downtown is eerily quiet, even on business days. At the heavily policed railway station, a helpful video shows what to do if an armed madman launches an attack.

All this has taken a toll. The number of full-blown public and private corporations registered in Delaware is 11% lower than it was in 2000. (The number of smaller outfits has shot up, but these generate less juicy work.) Small wonder, then, that over

The Diamond State loses its sparkle

Nominal wages, 2009-14, % change

Weekly Hourly

5 - 0 + 5 10 15 20

Delaware

New Jersey

Maryland

United States

Virginia

Pennsylvania

Source: BLS

Dating apps

Too many fish in the sea

WASHINGTON, DC

In the dating market, having fewer choices can be more efficient

PEOPLE over the age of 30 may not know what a "topless mirror selfie" is. For young women trying to find a date in many American cities however, it is a major blight: young men who think it alluring to post a photo of their shirtless reflection on dating apps. For men, the equivalent grumble is women who only post photos of themselves posing with more attractive friends.

Apps have transformed dating. There's no need, as on traditional dating websites, to fill in lots of questions or pay a subscription fee. Choice seems endless. Yet many Americans seem to be using dating apps to find people as similar as possible to themselves.

The market leader is Tinder, which allows you to filter potential matches by age, sex and location only; profiles consist of a few photos from Facebook and a couple of lines of text. A left swipe is rejection; right, acceptance. If two people both swipe right, they match, and only then can they talk and arrange a date.

Many bright young things prefer a newer app called Hinge. This displays information about your job and education, and displays only potential mates with whom you have Facebook friends in common. Since the start of 2014, it has expanded from four cities to 38. Justin McLeod, the firm's boss, claims that 99% of its users have college degrees.



Ernesto, a 25-year-old student in Washington, DC, has dated 17 women since installing Hinge and Tinder on his phone in October. Hinge is better, he says: "It tells you what people are passionate about." Christine, another Hinge user, says it is like meeting people at parties, but she is "even more selective on the app than I would be in person".

Hinge is popular for a simple reason. Online, there are too many choices. Narrowing them down saves time—a blessing for busy young professionals—but at a cost. When the elite date only friends of friends, it is hard for those outside this happy circle to break in.

the same period employment in Delaware's professional and business-services sector has dropped by a tenth. Wages in that industry have fallen for the past few years. They have also tumbled in the financial sector, which has struggled recently with low profits. Delaware's moneymen are earning 25% less per hour than they did before the financial crisis.

Other parts of the economy are suffering, too. Delaware's manufacturing sector is one. Two car plants, which once employed 10,000 workers between them, have gone: Chrysler's in 2008 and General Motors' in 2009. Since the recession ended, manufacturing jobs (which typically pay well) have continued to wither in the state, despite a nationwide recovery. Delaware's industrial electricity prices, which are 25% higher than the American average, partly explain the lacklustre performance. John Stapleford of the Caesar Rodney Institute, a libertarian think-tank near Wilmington, laments the absence of a "right-to-work" law (which would prevent workers from being forced to join a union as a condition of employment). Without one, says Mr Stapleford, Delaware is an unattractive place to locate a factory: manufacturing jobs go elsewhere.

Delaware's low-wage sectors, though, have bloomed. Since 2010 the state's casinos have been allowed to host "table games", such as blackjack. That, says George Sharpley of the Delaware Department of Labour, partly explains why employment in the leisure and hospitality sector has since grown by 7%.

Retirees are also playing a role, says Gus Faucher of PNC, a bank. Many move to Delaware for its low taxes on retirement income. From 2010 to 2013 the share of the state's population over 65 grew by 7%, well above the American average, and Delaware is forecast to be one of the fastest-ageing states in the next few decades. Working for gamblers and pensioners pays poorly: hourly wages in leisure and hospitality are half the state average. To paraphrase the state song, some wonder if the sun really is shining over their beloved Delaware. ■

Indiana politics

Religious freedom v gay rights

CHICAGO

A debate in which both sides exaggerate the threats they face

HOW swiftly times change. When Bill Clinton signed the federal Religious Freedom Restoration Act (RFRA) in 1993, hardly anyone objected. The House of Representatives had supported it unanimously; the Senate by 97-3. Likewise, when a young state senator called Barack Obama voted for a similar measure in Illinois in 1998, it seemed like a shrewd move for a man with lofty ambitions. Yet when Governor Mike Pence signed a nearly identical law in Indiana on March 26th, the outrage was deafening.

The law says the state "may not substantially burden" a person's free exercise of religion unless it is "essential to further a compelling governmental interest" and "the least restrictive means" of doing so. Critics say this is a licence to discriminate against homosexuals. Protesters marched; companies threatened to cut ties with the Hoosier State. Angie's List, an online directory of local services, abandoned a planned \$40m investment in Indianapolis. Seattle and San Francisco banned publicly-funded travel to Indiana. So did Connecticut, which, oddly, also has an RFRA of its own. Hillary Clinton tweeted: "We shouldn't discriminate against [people because] of who they love." (Mrs Clinton opposed gay marriage until 2013, two years after the first Gallup poll showed most Americans supporting it.)

Some 20 states have passed RFRA since the Supreme Court ruled in 1997 that the federal one applied only to the federal government. Another dozen have adopted RFRA-style protections in other ways. They have not been invoked very often. Last month an Apache feather dancer used an RFRA to make the federal government return some unlicensed eagle feathers it had confiscated. Last year the government settled with a Sikh employee who was fired for wearing a ceremonial dagger at work. A Muslim prisoner invoked a similar law when demanding the right to grow a beard behind bars: a Jewish one used it to obtain kosher prison meals.

Perhaps the most important invocation of an RFRA (the federal one) was in the case of *Burwell v Hobby Lobby*, when the pious owners of a closely-held chain of knick-knack stores asked not to be compelled to pay for what they considered to be abortifacients for their employees under Obamacare. They won in the Supreme Court, by the narrowest of margins.

Not once, however, has an RFRA

Senate Democrats

Unbroken Reid

WASHINGTON, DC

One bareknuckle leader may be replaced by another

DAYS after Harry Reid, the 75-year-old leader of the Democratic minority in the Senate, announced that he would not seek re-election, a CNN interviewer asked if he regretted the partisan brawls that have marked his career, such as his charge in 2012—unsupported by any evidence—that the Republican presidential nominee, Mitt Romney, paid no taxes. With a shrug, Mr Reid replied: "Romney didn't win, did he?"

That moment helps to explain why Republicans describe Mr Reid's reign as majority leader, between 2007 and 2015, as a dark chapter. They accuse him of twisting Senate rules and wrecking the



A bruiser retires from the ring

chamber's traditions of compromise and lofty debate to ram through an outrageously partisan agenda.

The charge is half-true. Mr Reid is indeed an outrageous partisan. During his two terms in the House and five in the Senate, he has spread dirt, twisted arms, and staged procedural ambushes to advance the interests of Nevada and the Democrats. But it is hard to pin an ideological agenda on him. A boxer in his youth, he endured a childhood of Steinbeckian poverty (his father was a hard-drinking miner, his mother took in laundry from brothels), and paid for law school by working nights as a police officer on Capitol Hill. His rhetoric is pro-underdog and anti-Republican. Yet his votes were for a long time rather centrist, though he tacked left as a party leader on such issues as gay rights and immigration.

Mr Reid is rude. He called President George W. Bush a "loser" and a "liar". He ends phone conversations by hanging up without a word of goodbye. The charge that he has single-handedly broken the Senate is harder to sustain, however. True, when he was majority leader he blocked votes rather than let it be seen that bipartisan support existed for measures that Mr Obama opposed. But Republicans were as bad in other ways.

Mr Reid is a symptom of increased partisanship in the Senate, not its cause. He wants Senator Charles Schumer, a pugnacious New Yorker, to inherit his leader's role. Alas, his retirement in 2016 may not change very much.

"They ought to pass a good statewide gay-rights law," argues Douglas Laycock at the University of Virginia's law school. That is not on the cards, but the governor is furiously backtracking.

"Hoosiers don't believe in discrimination," Mr Pence told a television interviewer. Clearly taken aback by the vehemence of the reaction, he said he was "open" to an additional bill that "reiterates and amplifies and clarifies" the law. On March 31st he said: "It would be helpful to move legislation this week that makes it clear that this law does not give businesses a right to deny services to anyone."

Meanwhile similar laws are in the works elsewhere. Arkansas's legislature passed an RFRA on March 31st. Asa Hutchinson, the governor, says he will sign it. #BoycottArkansas could soon replace #BoycottIndiana as the hashtag du jour. ■

Protesters in Indiana retort that, unlike Washington, Indiana does not have an anti-discrimination law protecting gay people (although the cities of Indianapolis, Bloomington and South Bend have local ordinances that do). Activists worry that in other parts of the state the equivalent of Arlene's Flowers could rebuff a gay couple and get away with it. The possibility cannot be ruled out. Most businesses, when they see a gay customer, see a customer. But for a few, religious fervour may trump the desire to turn a profit.

Lexington | Why the gun lobby is winning

To prevent gun deaths, politicians offer—more guns



WHEN a young man walked into an elementary school in Newtown, Connecticut in December 2012 and murdered 20 small children and six staff with a Bushmaster rifle from his mother's gun collection, some wondered if a tipping-point had been reached. Surely America would now enact laws to keep lethal weapons out of the wrong hands?

No chance. Bids to curb sales of the most powerful guns and largest-capacity magazines failed. Congress even refused to expand the number of gun-buyers checked for histories of crime or severe mental illness—though 90% of Americans support such checks. In March this year federal regulators dropped a bid to ban a type of bullet that can pierce body armour, of the sort that police often wear, after 285 Republican and seven Democratic members of Congress objected.

The gun lobby's winning record has done little to make its members less angry. The National Rifle Association (NRA), a deep-pocketed group with 5m members, accuses Barack Obama's administration of a "relentless assault" on the constitutional right of citizens to keep and bear arms. Actual evidence of federal tyranny is a bit meagre—in part because the NRA is so good at whipping Washington politicians into line. No matter. A current "trending" alert from the NRA's Institute for Legislative Action sounds the alarm about a rule tweak for hunters taking guns on overseas trips, who—rather than filling out a form at home—may now have to wait at the airport while a customs officer enters their details into a computer. This, the NRA asserts, raises alarming questions about hunters' information being stored by the feds, and is part of a "pattern of abuse" suggesting that Mr Obama's final years in office may be the "most challenging" in the history of American gun-ownership.

Meanwhile children keep getting shot at school, sometimes by other children. In the first two years after Newtown there were at least 95 shootings at American schools and colleges, resulting in 45 deaths, according to a tally by Everytown for Gun Safety, a gun-control campaign. After Newtown a few states moved to curb sales of the deadliest weapons. Since 2012 five states have expanded background checks on gun buyers, closing loopholes left by Congress (a bill proposed on March 26th would make Oregon the sixth). But many more states have relaxed firearms laws.

Gun-advocates do not win all their fights in the states, but 2015 still looks like a banner year for them. Republicans enjoyed sweeping wins at the state level in elections last November, allowing the party's representatives to advance cherished goals during the short, intense legislative sessions under way in state capitals. In lots of places, those goals involve more guns.

Often, gun-lovers hew to a familiar conservative line: that crime is deterred when upstanding citizens pack heat. Florida is debating a "school safety" bill allowing superintendents to choose staff or volunteers with police or military backgrounds to serve as armed school guards. Iowa is pondering a law that would let children younger than 14 use pistols and revolvers (with adult supervision, legislators hasten to add). Republicans in Arkansas want to allow armed judges in courtrooms. Bills were proposed this year in 16 states to overturn gun bans on college campuses, and remain under debate in a dozen states.

Some argue that arming female students will deter rapists. As Michele Fiore, a Republican assemblywoman in Nevada, said to the *New York Times*: "If these young, hot little girls on campus have a firearm, I wonder how many men will want to assault them?" Others retort that arming potential rapists might be less helpful. William McRaven, the new chancellor of the University of Texas System, declared that concealed handguns would make his 210,000 students less safe. As a former navy Seal, Admiral McRaven is hard to portray as a hand-wringing squish, and "campus carry" may well not pass the Texas legislature. To soothe activists for whom gun rights are a test of conservative purity, Republican leaders seem likely to embrace the once-arcane issue of "open carry", allowing the roughly 825,000 Texans with concealed-handgun licences to carry pistols and revolvers visibly (Texans already carry rifles without restriction).

Some would like to go much further. The fieriest arguments of 2015 involve "constitutional carry"—the claim that the constitution's second amendment is the only permit Americans need, allowing citizens to carry a concealed or visible gun without any licence, checks or training. Such laws already exist in Alaska, Arizona, Arkansas, Vermont and Wyoming. Legislators in Kansas just approved a version. So did lawmakers in West Virginia and Montana. The governor of West Virginia, a Democrat in his final term, vetoed a bill (though, like several rural states, West Virginia allows open carry without a permit). Montana's governor, a Democrat, vetoed a bill too, though his state allows permit-less guns outside cities. Maine is weighing a constitutional carry bill.

Lethal force for all

The NRA can never declare victory, for then what would be the point of it? After each concession, it demands more. Some day, perhaps, it will ask for something so outrageous that it sparks a backlash. But for now it strikes a chord. For the first time in two decades a new poll by the Pew Research Centre found more Americans supporting gun rights than gun controls. How can this be so, when such a huge majority favour background checks? The answer is that background checks are tools of the state and trust in the state has plunged in the past decade, notably on the right where it blends with loathing for Mr Obama. Wayne LaPierre, the NRA's charismatic frontman, told a conservative crowd in February that when criminals attack, or wives, sisters and daughters face assault through "a kicked-down door", "laws can't protect you... You're on your own." That is the authentic voice of the gun lobby in 2015. Fear smothers rational debate. It is meant to. ■



Also in this section

33 The tenacity of bullfighting

33 Peru's prime minister falls

34 Bello: The neglected art of biography

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

Venezuela

Maduro's muzzle

CARACAS

Not content with harassing the press, the regime censors itself

IN JANUARY Venezuela's monthly inflation rate entered double-digit territory. Or perhaps not. The claim appeared recently in a tweet from Henrique Capriles, a leader of the opposition. But it is hard to be sure, because the Central Bank has not reported the inflation rate since December. As the economy slumps, shortages spread and inflation rises (in 2014 it was close to 70%), the government has taken to releasing data selectively, if at all. Those for the balance of payments, industrial production and GDP have not been published for six months or more. The closer Venezuela comes to a legislative election that is due to be held sometime this year, the less voters will learn about the state of their country.

Venezuela's left-wing "Bolivarian" regime, in power since 1999, has long made life difficult for independent media. In 2007 the government, then led by Hugo Chávez, announced its intention to consolidate its "media hegemony". It has denied licences to independent radio and television stations, restricted supplies of newsprint, imposed fines on opposition-run media and promoted buy-outs of newspapers and broadcasters by groups with government links. These tactics have worked (see table). Independent outlets reach few people outside the main cities.

Now social media, to which many Venezuelans have turned for news, are under pressure. Seven people were detained last year for what they wrote on Twitter; six remain in jail. On March 26th the chief prose-

cutor, Luisa Ortega Díaz, said social media should be "regulated" to avoid the spread of rumours.

Under Nicolás Maduro, who succeeded Chávez as president in 2013, the government is supplementing its relentless propaganda with self-censorship. The apparent goal is to hide from Venezuelans bad news that might weaken their already shaky faith in the regime. The health ministry, for instance, has not published a weekly epidemiological bulletin since early November, despite concurrent outbreaks of three mosquito-borne diseases. Last May Venezuela saw its first cases of chikungunya, a disease originating in Africa, which causes very high fevers and severe joint pains. It took the authorities five months to declare chikungunya a notifiable disease. The

most recent bulletin still fails to include it.

In November Héctor Rodríguez, the vice-president for social development, gave the total number of cases as 26,451 and said the "growth curve" was "descending". Independent public-health specialists doubt the figure. They point to a huge rise in cases of "fever", peaking in October at more than 200,000 a week, seven times the normal number.

At the height of the chikungunya outbreak, doctors in Aragua state, west of Caracas, called for a health emergency to be declared after eight patients with rashes and haemorrhaging died in a regional hospital. Denying any common cause, the government accused the chairman of the local medical association, Ángel Sarmiento, of a "terrorist campaign" and ordered his arrest. Mr Sarmiento fled the country. According to Rafael Orihuela, a former health minister, the deaths were caused by "a severe form of chikungunya".

Self-censorship is not confined to the health authorities. The National Statistical Institute (INE) has not published poverty data for 2014. No one has provided production figures for PDVSA, the state oil corporation, for the past three months. When officials explain their silence, which is not often, they talk of a need to avoid "political manipulation" of statistics.

Last year Public Space, a human-rights organisation, filed 21 requests for information to various government agencies. Just one, to the budget office, received a reply. Along with other NGOs, Public Space asked the supreme court, which answers to the regime, to compel the health ministry to respond. In August the court's administrative branch ruled against them. It said requests for information on issues such as the availability of medicines or the workings of the health service "threaten the efficacy and efficiency [of] the public administration", by obliging bureaucrats ➤

Bound and gagged

Venezuela's media outlets

% that are independent

- All newspapers nationwide
- of which, local and regional
- All television channels nationwide
- of which, local and regional



Source: "The Authoritarian Resurgence: Autocratic Legalism in Venezuela", by Javier Corrales
Journal of Democracy 26, (April 2015)

► to devote time and resources to them. The judges acknowledged that Article 51 of the constitution gives individuals a right to request information and obliges officials to provide it, but proceeded to ignore that.

This week lapatilla.com, a news website, quoted "technical specialists" from the Central Bank, the finance ministry and the INE as accusing these agencies of engaging in "concerted action...to destroy the national statistical system" to disguise the severity of Venezuela's economic and social crisis. Tamara Herrera, an economist who last June co-signed an open letter urging all three agencies to publish data accurately and on time, says they try to conceal all negative information and "use any achievement as propaganda". Like every authoritarian ruler, Mr Maduro knows that information is power. He hopes that silence will help him keep it. ■

Bullfighting

Matadors on the march

BOGOTÁ

A controversial "art" is not dead yet

DESPITE crumbling brickwork and graffiti-daubed walls, the bullring in Bogotá still has an air of grandeur. The Plaza de Toros de Santamaría's last bullfighting season was three years ago, not long before the mayor, Gustavo Petro, revoked a contract with its private operators. Since then aficionados have trekked to the hastily erected Plaza de Marruecos, in a field outside the city. These trips may soon end. In February Colombia's constitutional court reaffirmed its earlier ruling that bullfighting was an "artistic expression" and should be "reinstated immediately" in Bogotá.

Fans of bullfighting in Latin America,

Spain and Portugal have had little to cheer about lately. In 2006 Televisión Española (TVE), Spain's state broadcaster, stopped covering some of the biggest festivals, citing costs and a fear that children might watch fights held early in the evening. Four years later, Catalonia's regional parliament banned bullfighting. A referendum in Ecuador in 2011 led to a ban on killing bulls in Quito, the capital. In 2012 Panama banned bullfighting; the Mexican state of Sonora followed suit in 2013. In Colombia last year eight novilleros (trainee matadors) staged a hunger strike outside Bogotá's bullring, under a banner that read: "We don't want food. We're hungry for bull!"

Even where it is legal, audiences are smaller and fights fewer. In recession-hit Spain the number of bullfights fell from 2,204 in 2007 to 956 in 2014. Breeders are now as likely to send bulls to the slaughterhouse as to the bullring. In Mexico the number of bullfights has fallen by half in a decade, and the share of people who say they have been to one fell from 28% in 2007 to 19% in 2011.

Although gravely wounded, the sport has begun to fight back. In 2014 the number of spectators in Spain grew slightly. Tourism is one reason: 20,000 foreigners flocked to Pamplona last July to witness the "running of the bulls", which invites spectators to outrun the beasts as they rampage through slippery cobbled streets. TVE resumed live coverage in 2012.

A year later 590,000 people signed a pro-bullfighting petition. This prompted Spain's government to push through a law recognising it as part of the country's cultural heritage, which in theory overturns Catalonia's ban. Mexican campaigners have helped to stall a 2012 proposal to ban bullfighting nationally. In Peru devotees are mobilising to defend the sport against a bill in Congress to ban it. The department of Puno alone, in the highlands around Lake Titicaca, stages 100 corridas a year.

Polls in Europe and Latin America

show that more people oppose bullfighting than support it. But not all foes want a ban. In 2010 *El País*, a Spanish newspaper, found that, although 60% of Spaniards were against bullfighting, 57% opposed a national ban. Anti-bullfighting groups have been more successful with local bans. In Ecuador, whether killing bulls is legal in a town depends on which way it voted in the referendum. Some towns have embraced alternatives. The "running of the balls" in Mataelpino, a village in central Spain, requires those who take part to outrun polystyrene balls three metres (ten feet) in diameter and weighing 125kg (275 pounds) as they rumble through the *calles*.

Animal-rights groups remain hopeful. Bogotá's bullring is about to be refurbished; that gives activists time to appeal to Congress in an attempt to force a referendum. A UN committee recently castigated Colombia and Portugal for not keeping children away from such gory spectacles—and out of training, which can start when "calf-fighters" are as young as nine.

Bullfighting "has only a decade left," says Marta Esteban of *La Tortura No Es Cultura* (*Torture Isn't Culture*), a Spanish campaign group. "I don't think new generations will let it continue". Perhaps, but today's fans are full of fight. ■

Peru's government

A jarring defeat

LIMA

The loneliness of Ollanta Humala

TO LOSE one prime minister might be considered a misfortune, but to lose six in less than four years in office, as Peru's president, Ollanta Humala, has done, must be seen as carelessness. The loss of the sixth, Ana Jara, who was censured by Congress on March 30th by 72 to 42 votes, was by far the most painful.

Mr Humala's previous prime ministers resigned or were sacked. Ms Jara was the first to be censured by Congress since 1963. She was held responsible for a scandal in which the national intelligence agency was alleged to have spied on political opponents and gathered information on properties owned by more than a hundred prominent Peruvians.

Ms Jara was in many ways victim rather than perpetrator. In eight months in the job she showed deftness. While the spies formally report to her, it is no secret that Mr Humala, a former army officer, staffed the agency with friends from the army.

It is a French-style quirk of Peru's constitution that the directly elected president appoints a prime minister who is account- ►



There's life yet in the afternoon

able to Congress. The system works smoothly when the government has a clear programme and a legislative majority. But Mr Humala is prone to zigzags. His hold over Congress was never more than tenuous; now it is gone.

Ms Jara's departure could precipitate a minor constitutional crisis. If Mr Humala's nominee to replace her is rejected, he can dissolve Congress, causing a legislative election. But with presidential and congressional elections due in April 2016, that would subject Peru to unnecessary upheaval. Mr Humala would be wise to appoint a conciliatory figure as prime minister.

ter. And having made its point, the opposition would do well not to push it.

Ms Jara's censure underlines Mr Humala's isolation. Accustomed to top-down command in the army, he admits that he has found the presidency "a challenge". He has overseen rising crime and an economy that is slowing after a dozen years of rapid growth. More encouragingly, investment in infrastructure has risen and some of his social policies have been enlightened. Mr Humala's approval rating of 25% is respectable in a country where few politicians are loved. He says his priority for the rest of his term is social inclusion.

Even assuming that Congress approves Ms Jara's replacement, the risk for Peru is that political drift will cause investment to tail off until after the election. Already several big mining projects are on hold—in some cases because of falling world prices, in others because of the government's failure to resolve social conflicts.

Much depends on who is elected to replace Mr Humala, who cannot run again next year. Polls make Keiko Fujimori, the daughter of Peru's disgraced autocrat of the 1990s, the early front-runner. She has sharper political instincts than the president, but much still to prove. ■

Bello | The neglected art of biography

Jorge Castañeda makes the case for the individual in history

AUTOBIOGRAPHY is "almost unknown" in Mexico, writes Jorge Castañeda, in his recently published contribution to the genre, "Amarres Perros" (the title is an untranslatable play on the name of a film that could be rendered as "Shaggy Entanglements"). The same goes for biography and for Latin America as a whole. In other regions, as Mr Castañeda writes, a life that is important, interesting or illuminating of a historical period is held to be worth telling. He reckons that his own life fits the bill sufficiently to warrant "a small break with the Mexican tradition of keeping quiet about everything or paying others to talk."

In that he is correct. For Mr Castañeda is a *rara avis*, a cosmopolitan Mexican who spends part of each year teaching at New York University, an intellectual who entered politics, and a protagonist in several of the most important political debates in contemporary Latin America. Possessed of a sharp mind and tongue, rare intellectual honesty and an ego as big as the pyramids of Teotihuacán, he divides opinion. But on the big questions of the day he has generally been right. That alone makes "Amarres Perros" worth reading, even if its length (622 pages) may deter non-Mexicans.

The child of a Mexican diplomat who was foreign minister in 1979-82 and a Polish-Jewish mother who earned a doctorate in biochemistry at the age of 24, Mr Castañeda has a horror of Latin American nationalism and provincialism. He earned a PhD in political economy at the Sorbonne. There he fell under the spell of Louis Althusser, who attempted to make Marxism more scientifically rigorous. But what he ultimately learned from France was a Cartesian insistence on following his beliefs to their logical conclusions, wherever they led.



Characteristically, Mr Castañeda ended a brief stint in the Mexican Communist Party when it refused to change its rules to allow him, a neophyte, to join its central committee. There followed a formative period as an unofficial envoy of his father to the left-wing guerrillas in Central America and their Cuban sponsors.

By the time the Berlin Wall fell, Mr Castañeda had already realised that the era of armed struggle and revolution was over in Latin America. The left should embrace democracy, human rights, the market economy and social reform—and stop its obeisance to Cuba. As for Mexico, creating a modern democracy and economy meant ending the authoritarian nationalist rule of the Institutional Revolutionary Party. He helped do this by working with Vicente Fox, a nominally conservative businessman who was elected president in 2000.

As Mr Fox's foreign minister, Mr Castañeda could at last apply his convictions. His belief that Mexico's interests lay in economic integration with the United States and in seeking immigration reform in el Norte led him to back the American invasion of Afghanistan (but not that of Iraq).

He argued that Mexico could not proclaim its support for human rights at home and condone their violation in Cuba. That led to a spectacular bust-up with Fidel Castro. Of the Cubans, Mr Castañeda writes that "they fight with you even if you don't fight with them"—something Barack Obama may discover as he seeks to normalise ties with Cuba.

Mr Castañeda spent three years trying to become a presidential candidate in 2006. He failed: he had offended too many, and was too exotic to win the votes of the Mexican masses. Still only 61, he now claims to be content to wield influence rather than power, though that doesn't quite ring true to form.

"Amarres Perros" implicitly makes a broader case for Latin Americans to give biography its due. Mr Castañeda's life is a denial of the Marxist belief that class conflict drives history, which still exerts a stultifying influence over the contents of the region's non-fiction bookshelves.

There are honourable exceptions. In Mexico, Enrique Krauze has penned probing biographies of his country's presidents and of the late Hugo Chávez, Venezuela's populist leader. In Chile, Ricardo Lagos, a former president, has released the first volume of a two-part autobiography. Biography has become a fertile field in Brazil over the past two decades: studies of Elis Regina, a singer, and of Jorge Paulo Lemann, a businessman, and his associates currently rank in its bestseller charts, while a three-volume life of Getúlio Vargas, the country's mid-20th-century nation-builder, has featured too.

Political biography still faces barriers in a region with too few readers and unconnected national book markets. Its timid emergence is a hopeful sign. In fledgling democracies, not least, it is a way of holding rulers to account.



Also in this section

36 Ethnic minorities in Vietnam

37 Elections in Central Asia

38 Japan's working poor

39 Banyan: Asia's retiring strongmen

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

Malaysian politics

Riding a tiger

KOTA BHARU

A floundering government indulges calls to toughen Islamic law

SEVERING a thief's hand is the work of seconds, but a campaign to introduce strict Islamic punishments in Kelantan, a state in northern Malaysia, has ground on for 50 years. It could now be reaching a climax. In March state politicians in Kelantan's capital, Kota Bharu, took a big step towards forcing a vote in the federal parliament that they hope will lead to local judges being allowed to sentence miscreants to whipping, amputations and even death by stoning.

It is hard to imagine *hudud*, corporal and capital punishments laid down in traditional Islamic law, actually being implemented in Kelantan. But the renewed discussion is harming Malaysia's reputation as a bastion of moderate Islam. It is worrying Malaysia's ethnic Chinese and Indians, who make up more than one-third of the population, not to mention a great many ethnic-Malay Muslims. It risks tearing apart the country's opposition coalition. And it should concern America, which has made Malaysia a key ally.

For decades Malaysia has allowed Islamic courts to operate in parallel with secular ones, handing down rulings on civil matters to Muslims. Federal law limits the sentences such courts may deliver to three years in jail, a moderate fine or six strokes of the cane. But that is not enough for some members of the Pan-Malaysian Islamic Party (PAS), which has run Kelantan since 1990. At the very least they want fiercer

lashings—up to 100 strokes for drinkers and adulterers. But they are also pushing for courts to have the power to order adulterers to be stoned to death. They want national lawmakers to vote on the issue. A private-members' bill may force them to do so in May.

This is an old debate. What distinguishes the latest row is the ambiguous position of Malaysia's ruling party, the United Malays National Organisation (UMNO). It has governed the country in coalition since independence but nearly lost at the most



recent general election (the opposition won the popular vote but not a majority of seats, thanks to gerrymandering). UMNO has long opposed *hudud*, but behind the scenes it has lately been encouraging PAS, even though that party forms part of the opposition. Najib Razak, UMNO's leader and Malaysia's prime minister, has yet to clarify his stance. If a vote goes ahead he may tell his MPs to decide as they wish.

The UMNO leadership has reason to appear sympathetic to PAS's *hudud* demands. It will exacerbate divisions in the opposition coalition, Pakatan Rakyat, a fractious alliance that binds PAS with two larger and more mainstream parties: the People's Justice Party, a liberal, multi-ethnic outfit, and the Democratic Action Party, a secular, ethnic-Chinese one. Both complain that PAS is reneging on an earlier promise to suspend its quest for *hudud*. Meanwhile, the jailing in February of Pakatan's charismatic leader, Anwar Ibrahim, on a sodomy charge looks politically motivated. Spinning out a debate about Islamic punishments is one way to widen rifts in Pakatan, which is struggling without Mr Anwar.

The second reason is the terrible performance of UMNO's coalition at the 2013 election, the result of big defections of ethnic-Chinese and ethnic-Indian voters. It has convinced UMNO to refurbish its former identity as a fierce defender of ethnic Malays and of Islam, the religion to which all Malays are assumed to adhere. The party looks ever less inclined to rein in Malay supremacists and Islamist firebrands incubating on its fringes. Creeping social conservatism has brought more frequent rows over such shockers as pop concerts and dog-petting events.

Compounding all this is the relentless use of the Sedition Act, a vague and noxious law left over from the British colonial era, to harry growing numbers of activists ►

► and opposition leaders. Mr Najib's supporters paint him as a reformer restraining his party's authoritarian impulses. Yet last year he reversed a promise to do away with the Sedition Act and instead vowed to strengthen it with clauses prohibiting speech that denigrates Islam and other religions. This week five members of a news website were arrested for reports on opposition to *hudud*.

These dark clouds explain why Malaysia's ethnic-Chinese and Indian citizens—and many moderate Muslims—are not reassured that *hudud* is promoted by its advocates only in the conservative north. Some clashes caused by Malaysia's existing dual-track legal system are still unresolved, such as who should rule in divorces and custody battles when only one spouse is Muslim. Meanwhile, introducing stricter punishments for a particular ethnicity is unlikely to improve Malaysia's already fraught racial politics.

It remains uncertain whether Parliament will vote on the bills that PAS has introduced. The government could decide its interests are best served by stringing out the public debate. Certainly, the chances of PAS gaining the simple parliamentary majority needed to implement *hudud*—not to mention the two-thirds majority needed to change the constitution, which many experts reckon would be necessary—seem small. PAS may end up asking Parliament to sanction a greatly diluted version of the judicial code that it appears to want.

The longest-lasting consequence of the controversy may be to encourage a redrawing of the two coalitions which will do battle at the next general election. PAS is itself torn by squabbling between liberal and conservative factions over the direction the party should take. Some speculate that the hardliners hope the latest push for *hudud* will cut short the bickering by encouraging PAS's coalition partners to kick it out of Pakatan. On March 24th the Democratic Action Party warned that it was no longer willing to work with the PAS leader, Hadi Awang. Tensions within PAS will come to a head in a party leadership election in June. Analysts warn that without a compromise the party could split.

Some observers maintain that a split might be a big step towards reinvigorating Malaysia's opposition. Shorn of their more extreme colleagues, PAS moderates could recommit themselves to a coalition that could survive even without Mr Anwar. But hiving off a rump of disaffected Islamist politicians could also bring UMNO closer to forming a majoritarian government comprised of ethnic Malays. It could then rule with a deaf ear to the interests of the country's minorities. That would be a victory so far as UMNO strategists are concerned. But many Malaysians, moderate Malay Muslims among them, would find it a harsh punishment indeed. ■



Ethnic minorities in Vietnam

Out of sight

PHOTOGRAPH BY PHUONG NGUYEN FOR THE ECONOMIST

Continuing grinding poverty in Vietnam's minority regions is a liability for the Communist Party

XUXEO GIA ekes out a living in Pho, a remote village in Vietnam's northern mountains. Mr Gia comes from the Hmong ethnic minority. He is grateful for the education and health-care subsidies that his family receives from the government. But he struggles on marginal land to raise livestock and grow rice. The odd \$25 he earns from selling a pig is just enough to clothe his children and keep creditors at bay. "Life is getting better," he says, "but not fast enough."

The same is true for many people from Vietnam's 53 ethnic minorities. They barely scrape by even as, in the cities, over two decades of economic growth has forged a car-buying middle class. Ethnic groups make up around 12m of Vietnam's population of 90m, but account for over two-fifths of the poor. They live mainly in the countryside, and sometimes high up in the mountains. They have higher illiteracy and school drop-out rates than the ethnic Kinh majority, which tends to treat minorities as an underclass. One study found that workers from ethnic minorities were paid up to a quarter less for the same work than their Kinh colleagues.

Conscious of widening disparity between Kinh and the rest of the population, the government has for years attempted to build roads, schools and hospitals in hinterlands where some of Vietnam's poorest ethnic groups live. Agricultural consulting and other forms of development assis-

tance are pouring in. Le Quang Binh of ISEE, a human-rights group in Hanoi, says that, although government policies towards ethnic minorities have been patronising, the National Assembly, Vietnam's parliament, is drafting a raft of civil-rights laws that in theory could greatly improve their lot.

Many existing programmes for ethnic groups are certainly clunky. In Pho Mr Gia gets free fertiliser, but what he really wants is more pesticides to fight crop infestations. Elsewhere, piglets and rice seeds are distributed to mountaintop farms, yet the breeds and varieties are best-adapted to the hotter lowlands. School textbooks are mainly published in Vietnamese rather than in local languages. The disconnect seems rooted in a general aloofness—even racism—among the Kinh towards minorities. Vietnam's state-controlled press is rife with ethnic stereotyping.

Just as worrying, Vietnam's ethnic groups have ceded countless acres to Kinh settlers and developers, often with inadequate compensation. Land grabs are especially common in the north-west and central highlands, where state-affiliated firms often demand property concessions for mines, plantations and hydropower dams. Ethnic minorities there complain of beatings, arrests and harassment for affiliations with informal churches or underground political groups.

Among the most persecuted are the ►

► Montagnards, a largely Christian minority in Vietnam's central highlands whose members have openly protested against land grabs and religious discrimination. Like the Hmong, the Montagnards may be targeted for repression in part because many of their parents and grandparents fought alongside American and South Vietnamese troops in the Vietnam war.

Any perceived minority challenges to Kinh hegemony are a "non-starter" for the government, says Stale Torstein Risa, a former Norwegian ambassador to Vietnam. The Communist Party of Vietnam considers ethnic minorities its top national-security priority, he argues, more important even than territorial sovereignty in the South China Sea, where Vietnam worries about Chinese encroachment. Another diplomat says the party practises "systematic discrimination and exclusion" against any ethnic minorities that appear to threaten its authority.

Perhaps, says Phil Robertson of Human Rights Watch, the government keeps eth-

nic minorities out of the public eye lest they develop the kind of international profile—or separatist campaigns—that Tibetans and Uighurs from China have managed to carve out. The possibility is hard to prove, although it is true that the Vietnamese authorities prevent foreign charities and embassies from working in the more restless corners of the north-west and central highlands.

Still, the chief concern of most minorities is not to start revolution but to make ends meet. And they are struggling. Grinding poverty is painfully obvious in villages in the central highlands. At Diom B, where many are from the K'ho minority, Ma Duong, a farmer, says that life has been hard ever since Kinh settlers colonised her family's land four decades ago. Now, rather than grow her own rice, she buys it out of the daily wage of \$6 that she earns working on Kinh-owned plantations. Her family's one-room bungalow has no running water. Local officials advised her to dig a well, but all her shovel hit was rock. ■

by law to stand indefinitely. He was not due to face voters until late in 2016. But, as he has done for every election since independence, he moved the date forward. The fawning state media explained that the 74-year-old was responding to spontaneous outpourings of affection from fans demanding an early poll. The point of elections in Kazakhstan, says Nargis Kassenova of KIMEP University in Almaty, is not to contest ideas but to "demonstrate overwhelming support for the leader". The authorities claim that the early election will ensure stability and grant Mr Nazarbayev a mandate to attend to Kazakhstan's economy, which has been hit by falling oil prices as well as Russia's economic woes.

Kazakhstan's president does not play fair. His courts lock up opposition figures on spurious charges. Hostile media outlets are shut down. And there is no proper opposition—indeed, one of the candidates running against Mr Nazarbayev in 2011 admitted that he had voted for him. Yet Mr Nazarbayev is genuinely popular, and despite Kazakhstan's problems, he has overseen an economy that is a model of prosperity compared with the basket cases elsewhere in Central Asia.

Mr Nazarbayev once called his rule an "enlightened dictatorship". The state spends fortunes on flattering his and his country's image abroad; Western statesmen, none more eager than Tony Blair, a former British prime minister, also play their part. Next door in Uzbekistan Mr Karimov is less concerned about his image, overseeing a paranoid police state. His goons force critics into psychiatric hospitals. Human Rights Watch, an NGO, says that dozens are in Uzbek jails on "politically motivated charges". Thousands of pious, peaceful Muslims are also locked up.

Yet the West is usually silent about Uzbekistan's abuses, seeing Mr Karimov as a useful buttress against Islamist terror on Afghanistan's northern border. Ten years ago, in Andijan in the east of the country, Mr Karimov's troops opened fire on peaceful protesters, killing hundreds. Even so, in January the administration of Barack Obama said it would send him more than 300 armoured vehicles.

The biggest question in the run-up to Uzbekistan's vote was Mr Karimov's health, long thought poor. In February the 77-year-old disappeared for three weeks, missing the ruling-party congress at which he was officially nominated. "Islam Karimov's only competitor is his age," says Daniil Kislov, an exile at Fergana News, a Central Asian news agency based in Russia.

For years both leaders were assumed to be grooming fabulously wealthy children to take over one day. Mr Karimov's older daughter, Gulnara Karimova, who is now 42, has been ambassador to the UN, a flamboyant pop-star wannabe and a rapacious collector of business interests (she is being ►

Elections in Central Asia

No choice

ASTANA

Democracy in Kazakhstan and Uzbekistan is a managed affair, without clear rules of succession

EVER since communist bosses morphed into democrats after the fall of the Soviet Union in 1991, they have polished a veneer of democracy. It means staging elections from time to time. It does not mean that votes are fair or that power changes hands.

Two presidential elections in Central Asia this spring guarantee new five-year terms for two Soviet-era strongmen. Both Islam Karimov of Uzbekistan and Nursultan Nazarbayev of Kazakhstan were first appointed to head their Soviet republics in June 1989. When the Soviet Union disintegrated two years later, they reluctantly declared independence. Since then, the men have built up personality-driven regimes not unlike the one in President Vladimir Putin's Russia. Rather than creating institutions to ensure a smooth political succession, they give the impression of wanting to rule for ever. They treat elections as carefully managed ceremonies to legitimise their reigns. Yet both are now in their mid-70s, and their health is the subject of persistent rumours.

Mr Karimov and Mr Nazarbayev ban genuine opposition, running against puppet candidates. They manipulate their countries' constitutions and hardly bother to campaign. On March 29th Mr Karimov snatched another term in office in Central

Asia's most populous republic with a nail-biting 90% of the vote.

Kazakhstan, the second-most populous—it has 17m citizens, compared with 30m in Uzbekistan—will stage a similar show on April 26th. Mr Nazarbayev is enshrined in Kazakhstan's constitution as "leader of the nation". He alone is allowed



Nazarbayev and Karimov swap tips



► investigated in Europe for over \$1 billion in alleged kickbacks from Western telecoms firms). In late 2013 Ms Karimova appeared to have fallen out with the head of Uzbekistan's secret police. Then she disappeared. In a recording that she smuggled out last August, she said she was being held under house arrest in Tashkent, the capital. What her father thinks or knows is unclear.

Mr Nazarbayev's family has had its dramas, too. Rakhat Aliyev was a spook turned ruthless businessman who was married to the president's daughter, Dariga

Nazarbayeva, before an almighty falling-out with the ruling family. In February he was found dead in his prison cell in Austria, where he was part of a murder investigation. His death could clear the way for Ms Nazarbayeva, who is head of her father's party in parliament, to pitch either herself or her 30-year-old son, the deputy mayor of the capital, Astana, into the top spot. But no one knows for sure. Cliffhangers are great in soap operas, but lousy in the last reel of the lives of Central Asia's two oldest dictators. ■

minuscule. Unemployment is below 4%, and jobs are being generated as the prime minister, Shinzo Abe, attempts to boost the economy through monetary easing. Yet the poor quality of new jobs is compounding the problem of the working poor, says Kaori Katada, a sociologist at Hosei University in Tokyo. Since Mr Abe took office in late 2012, the number of irregular workers—often earning less than half the pay of their full-time counterparts with permanent employment contracts—has jumped by over 1.5m. Casual and part-time employees number nearly 20m, almost 40% of the Japanese workforce.

The effects of this shift to irregular work have not always been visible. One reason is parents' benevolence. Millions of young workers remain living at home, rent-free. But once the older generation that drove Japan's post-war boom goes, underlying poverty will become more evident, says Ms Katada.

Mr Abe has been pushing Japan's cash-rich corporations into hiring more people and paying better wages, with some success. In the past few weeks some of the biggest companies have announced pay hikes for elite salaried workers. But people on the margins are losing out even as Japan's economy recovers. Welfare applications bottomed out at 882,000 in 1995 but have been rising steadily since. Last year they topped 2m for the first time.

Under pressure to limit Japan's huge public debt, which stands at almost two-and-a-half times GDP, the government cut benefits last summer. Tom Gill, an anthropologist and author of "Yokohama Street Life: The Precarious Career of a Japanese Day Labourer", says that has pushed more people into official poverty. Yokohama is one of many local governments in the red. The men who now crowd its homeless shelter once earned a living on building sites or car production lines, paying national and local taxes. Today, construction at least has picked up again. But it is a much smaller industry than before, and wages are lower. Some men have found work. But most in Kotobuki remain a burden. ■

Japan's working poor

Struggling

YOKOHAMA

Poverty worsens as more Japanese work on non-permanent contracts

THE residents of Kotobuki live not far from the glitzy shops and upscale restaurants of Yokohama, Japan's second-biggest city, adjoining Tokyo, the capital. Yet Kotobuki is an altogether different world: a squalid district, it is a pit stop for local Japanese on their way to destitution. Men living here in cheap hostels have lost jobs and families. Some survive on casual day work, but many have no work at all. A 250-bed shelter dominates the centre of Kotobuki, part of a public network of around 40 built in the past decade. Though these have helped to take 18,000 people off Japan's streets, it has been harder to check the creeping poverty that put many of them there in the first place.

Last year, the Japanese government recorded relative poverty rates of 16%—defined as the share of the population living on less than half the national median income. That is the highest on record. Poverty levels have been growing at a rate of 1.3% a year since the mid-1980s. On the same definition, a study by the OECD in 2011 ranked Japan sixth from the bottom among its 34 mostly rich members. Bookshops adver-

tise a slew of bestsellers on how to survive on an annual income of under ¥2m (\$16,700), a poverty line below which millions of Japanese now live.

The country has long prided itself on ensuring that none of its citizens falls between the social cracks. Japan's orderly, slum-free neighbourhoods seem to confirm that. Street crime, even in Kotobuki, is



Pit stop

Banyan | The power and the hoary

Singapore shows how to deal with an opinionated patriarch



IN FRONT of an audience including an array of serving and retired world leaders, Lee Hsien Loong, Singapore's prime minister, delivered a eulogy on March 29th at the funeral of his father, Lee Kuan Yew, prime minister from 1959 to 1990. The outpouring of praise and grief told the younger Mr Lee yet again what big shoes he is filling. Cabinet meetings from 2004 to 2011 would have given a similar reminder. His father sat as "minister mentor", and his immediate predecessor, Goh Chok Tong, as "senior minister". Lee Kuan Yew was not there for fun. His son recalled his promise—or, to his successors' ears, threat—to intervene if he felt his legacy was in danger: "Even if you are going to lower me into the grave and I feel something is going wrong, I will get up."

Other national leaders have similarly treated their retirements as partial or even provisional. China's Deng Xiaoping is perhaps the most striking example. What is unusual about Singapore is that it was formalised. Lee Hsien Loong said other countries' prime ministers had told him they could not imagine governing with two predecessors in the cabinet. But, he said, it worked—as indeed it seemed to. And that may offer lessons for other Asian countries where elder statesmen have been awkward to handle.

One is that, since political power and influence often accrue to individuals rather than their office, it may be better to try to institutionalise elder statesmanship, giving former leaders an official role, rather than leaving them to snipe from the outside. In power, leaders build up networks of loyalists that do not disappear the moment they stand down. And in many Asian countries, age itself commands respect—among the general population as well as among politicians—for the wisdom it allegedly brings. It can be very hard for serving leaders to flout the wishes of their elders. Better to formalise and circumscribe their role.

In his eulogy, Lee Hsien Loong made clear that his father's continued presence in the cabinet was not friction-free. Ministers would sometimes urge Lee Kuan Yew to "soften" the tone of his speeches, to make them "less unyielding to human frailties". Yet the arrangement avoided the mismatch between power and office that has proved problematic in China. On paper, the most powerful leader in the history of the Chinese Communist Party was neither Mao Zedong nor Deng, but Hua Guofeng, Mao's immediate successor. He was, for a while, chairman of the party,

prime minister and, as chairman of the party's military commission, in effect commander-in-chief of the army. No other Chinese leader has combined all these roles. Yet in retrospect Hua, who died in 2008, was a transitional figure between two far more powerful leaders, Mao and Deng.

Although he was long China's most important political leader, Deng himself never ran either the party or the government. In 1989, as students were massed in Tiananmen Square, Zhao Ziyang, the party chairman, told the visiting Soviet leader, Mikhail Gorbachev, that the party had decided Deng was still the arbiter on most important questions. China's people and the outside world had not been informed of this. But that Deng held ultimate sway had been assumed anyway. Resigning from his final official leadership post in 1990 did not change anything. When Zhao was sacked because of the protests, Jiang Zemin, who succeeded him, had to struggle against the perception that he was an ornamental "flowerpot" in a party whose real decision-makers were Deng and other octogenarian "immortals". Yet after he was succeeded by Hu Jintao, Mr Jiang too came to be seen as a force behind the scenes. In consolidating his own power, partly through a concerted drive against corruption, Xi Jinping, China's current leader, has taken aim at loyalists of both his predecessors.

It is not just in China that former leaders can prove to be a nuisance to their successors. In Malaysia Mahathir Mohamad, prime minister from 1981 to 2003, has made trouble for both his two successors, despite having played a big part in picking them. He turned against Abdullah Badawi after a poor electoral showing in 2008 and against the incumbent, Najib Razak, after an even worse one in 2013. Commanding the respect and loyalty of many on the right wing of their party, the United Malays National Organisation, Dr Mahathir is still a serious threat to Mr Najib.

In neighbouring Thailand, Bhumibol Adulyadej, the much-revered 87-year-old king, also has some of the qualities of an elder statesman, being seen as above the day-to-day political fray yet an important source of advice and legitimacy. For that reason the prospect of his death seizes the Thai elite with something approaching panic. Having exploited the king so that he plays a bigger and more decisive role than the mainly symbolic one envisaged when absolute monarchy ended in 1932, Thailand's rulers naturally fear instability when he dies.

Going quietly

On his death Lee Kuan Yew was widely (and misleadingly) described as almost the sole architect of Singapore's success. Yet he had ensured that his own going caused no disruption. Nor did his long withdrawal from political leadership. And that, for his generation, was one of his most remarkable contributions: quitting office voluntarily in the first place.

In Timor-Leste, Xanana Gusmão has just copied him, standing down as prime minister while staying in the cabinet. But it was not common among 1960s independence leaders or Asian autocrats. In China it took death to end Mao's long and often violent reign, in 1976. Of the five leaders of the founding members of the Association of South-East Asian Nations in 1967, all but Lee Kuan Yew departed amid chaos on the streets. Nowadays orderly leadership transitions are more common, even in China. Singapore has managed two, thanks partly to Lee Kuan Yew's role in picking and grooming his successors. As for the succession to the next generation, that, oddly for such a far-sighted leader, is a problem he has left for his son to solve. ■



Poverty in China

Just a little bit richer

TIANZHEN COUNTY, SHANXI

How much has a flagship official scheme played in China's impressive record of reducing poverty?

THE villagers of Dingjiayan subsist on corn, potatoes, sunflowers and the few vegetables they grow. They sell the surplus and buy meat and a few other necessities in the nearby county town of Tianzhen. Its mud-and-brick buildings, and its setting among dusty hills in the north-eastern corner of Shanxi province, offer little to the occasional visitor to distinguish it from countless other parts of China where hard work brings but a meagre living. Yet Tianzhen county, of which Dingjiayan is a part, is one of just 592 areas that the central government designates as "impoverished".

China's official threshold for rural poverty is an annual income of 2,300 yuan (\$370) per person. But the criteria for classifying a village or county are complex and often revised. They include comparisons of poverty rates and average incomes with those of the province, adjustments for inflation, quotas on the number of villages that may count as poor and a ban on including villages that own collective enterprises, whatever their income level. Though dozens of places have been listed and delisted every few years since the 1990s, the total has remained curiously fixed—at 592.

An "impoverished" designation brings substantial subsidies. But Ding Tianyu, who has lived in Dingjiayan for all his 73 years, says he hardly notices. Most households earn about 10,000 yuan a year, he says, and get a subsidy of 80 yuan for each

mu (614 square metres) of land they farm. "I have five *mu*," Mr Ding says. "When there is enough rain I am fine, and when I get the subsidy I feel just a little bit richer."

With bustling shops and a fair number of pricey cars on its roads, Tianzhen's county town does not, by Chinese standards, feel impoverished. There is little disclosure about how subsidies are used, says a restaurant owner. "We are told a lot of it goes into the local credit union and that we can apply for loans there, but they only lend to people with good connections."

Beautiful on the mountains

In 2012, when the list was last updated, Xinshao county in Hunan in south-central China was added. Local officials used the county's official website to trumpet this "exceptional good tidings" after two years of "arduous efforts" and "untold hardships". A large roadside board added its "ardent congratulations". After nationwide criticism, the officials accepted that their words had been badly chosen. But their cheer was understandable: the official designation was worth an extra 560m yuan for the county each year from the central government.

The episode caused many to question the value of the system and the perverse incentives it creates for local governments. A commentary last year in the *Legal Daily* claimed that many places were misusing the funds and had fudged their figures to

Also in this section

41 The internet

41 Stolen artefacts

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

qualify as impoverished. Officials from the State Council Leading Group Office of Poverty Alleviation and Development, which manages the list, have acknowledged widespread abuses. In February it banned lavish new buildings and "image projects" in officially designated poor areas.

State television reported on two counties, one in Ningxia and one in Hubei, where local governments spent 100m yuan each on new headquarters. In March, during China's annual full legislative session, the council's poverty head, Liu Yongfu, raised a different question about the programme. He told the *Southern Metropolis*, a newspaper, that hundreds of counties would be taken off the list by 2020. "If a poor area as big as a county still exists, then can Chinese society still be called moderately prosperous?" he asked.

Attainment of a "moderately prosperous society" is a goal that previous Chinese leaders set and that Xi Jinping, the current president, has adopted as well. Much progress has been made since reforms began in earnest in the late 1970s. China claims to have lifted 620m people out of poverty since then. Others may quibble over that number—the World Bank puts it at 500m—but few question the premise that China deserves immense credit for alleviating so much poverty.

Much still remains, however. A little uphill from Dingjiayan sits a smaller village, Dingyuanyao. Its higher elevation means it gets less water, and a resident says most of its 90 residents will clear just 1,000 yuan a year after paying for seeds and fertiliser. Some own motorbikes and televisions, and they are grateful for the basic health insurance they receive. They laugh in unison when asked if they receive subsidies. The arrival of electricity 30 years ago was a vast improvement, they agree. But little has changed in their lives since then. ■

The internet

Great walls of fire

BEIJING

A wave of internet attacks points to an attempt to hobble foreign websites

ON MARCH 26th GitHub, an American-based website for programmers, began to suffer what it says is its biggest ever denial-of-service attack. The means and apparent motive were just as noteworthy: the Great Firewall, China's web-filtering infrastructure, was used. The assault seems to have been intended to persuade GitHub to drop content the Chinese authorities object to, including the Chinese-language edition of the New York Times. The attackers' identities will probably never be confirmed. But the rules of online engagement with China have taken a nasty turn.

As its nickname suggests, the Great Firewall is a defensive barricade against foreign web content which officials see as undesirable. Until now internet users outside China have been little affected. That changed on March 17th, security analysts say, when the firewall began to be used by unidentified hackers to hijack traffic and redirect it to sites set up by Greatfire.org, an activist outfit that helps users in China to access content that is normally blocked (including the Chinese-language New York Times). The assault on GitHub was similar. Both attacks intercepted foreign traffic entering China that was meant for Baidu, China's largest search engine, and sent it to the targeted American sites. (Baidu has said it was not involved and is "determined" to prevent a repeat.)

The immediate aim of such attacks is to bring down the targeted website, depriving Chinese users of access to copies of blocked sites (at least until new ones are set up). In the longer term, it may be to discourage foreign internet firms from hosting such "mirror" sites. Amazon's cloud service, for example, hosts the Greatfire.org sites that were attacked. On March 27th GitHub's administrators said they believed the purpose was to "convince" them "to remove a specific class of content".

Whoever was behind the attacks, they are part of a wider Chinese challenge to the existing online order. Since the 1990s, when China first connected to the internet, its officials have been concerned both about America's influence over it and about the difficulty of maintaining control of online content. The first systematic filtering of foreign websites began in 1996, after which the Great Firewall was built and repeatedly upgraded. For years it has blocked access to Facebook, Twitter, YouTube and the sites of some foreign news organisations, notably those that have inves-



tigated the finances of leaders' families. Since Xi Jinping became the Communist Party's general secretary in late 2012 the authorities have clamped down even more, much as they have on voices offline.

This year officials have stepped up attempts to disrupt the use of virtual private networks (VPNs), which can be used to circumvent firewalls. They have become more assertive about what they regard as national sovereignty online, and have called on other countries to respect it. Breaches of online sovereignty might well include a foreign website giving Chinese users an alternative route to blocked content. In January the Cyberspace Administration of China (CAC), the regulator, said Greatfire.org was run by "anti-China" for-

ign forces. (The site does not disclose who or where its founders are.)

On March 31st Greatfire.org pinned the blame for the recent attacks on the CAC, saying that the Great Firewall could not have been used without its approval or that of Lu Wei, the minister in charge. But attribution is hard to prove. According to Nathan Freitas of the Berkman Centre for Internet & Society at Harvard University, there is no smoking gun implicating the Chinese government—but the authorities should be asked how they allowed critical internet infrastructure to be "compromised by criminals". The Economist sought comment from CAC via its preferred means of communication, the fax, but has received no reply. ■

Stolen artefacts

Relics of plunder

SHANGHAI

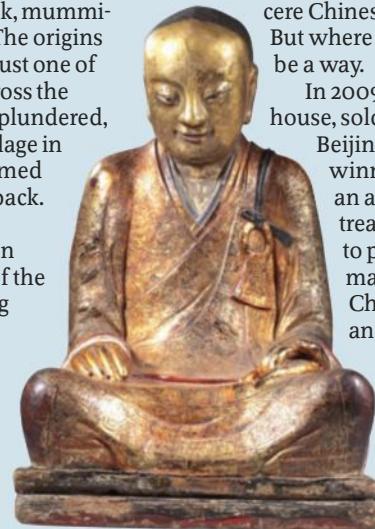
China seeks to gather up its scattered treasures

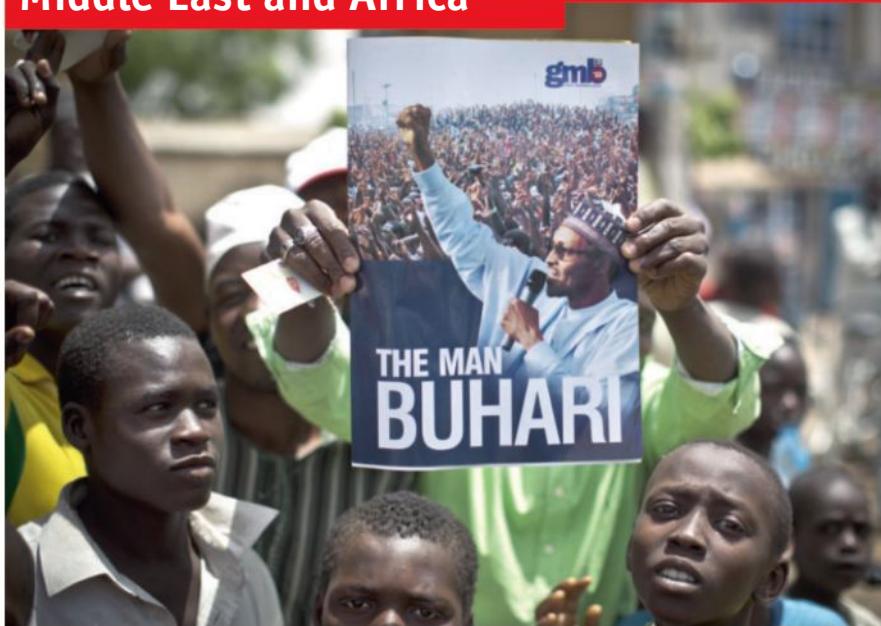
BEFORE it was removed from display earlier this month, a Buddha statue formed the centrepiece of an exhibition at Budapest's Natural History Museum. Encased in layers of clay, enamel and gold paint was a monk, mummified 1,000 years ago. The origins of this Chinese relic, just one of millions scattered across the globe, many of them plundered, were misty until a village in south-east China claimed it—and demanded it back.

On March 6th Lin Yongtuan of Yangchun chanced on a photo of the statue while browsing online. He thought it looked like the statue of Zhanggong Zushi, a revered monk, stolen from the village temple in 1995. After reviewing the archives and faded

photographs, the authorities agreed. They have pledged to secure its return. This will not be simple. It belongs to a private collector who acquired it in 1995 from another who bought it from a "sincere Chinese Hong Kong art friend". But where there is a will, there may be a way.

In 2009 Christie's, an auction house, sold two bronze heads despite Beijing's open disapproval. The winning \$38m bid came from an adviser to China's national treasures fund—who refused to pay. Eventually the chairman of Kering, which owns Christie's, bought the heads and gave them to the National Museum of China. They were repatriated in 2013—the very year Christie's became the first Western auction house licensed to operate by itself in China.





Nigeria's election

Hail to the voters

KANO

The ousting of an incumbent president at the ballot box in Africa's most populous country marks a hopeful step for democracy across the continent

ECSTATIC crowds engulfed Kano's streets as it became clear that Muhammadu Buhari, a former military强人 who ruled Nigeria in the 1980s, had led an opposition party to victory in a presidential contest for the first time in the country's history. Passengers piled on top of lorries waved the national flag as drivers honked their horns in northern Nigeria's biggest city. Jubilant drumbeating revellers shouted the name of the man back in the seat of power after an absence of three decades.

"We will celebrate for seven days," said Aliyu Haruna Aliyu, a farmer, outside the Kano headquarters of Mr Buhari's All Progressives Congress. "We have won the most free and fair election ever to take place in Nigeria. This is a new Nigeria."

It is indeed a watershed for Africa's biggest democracy and most populous country, 170m-strong. The defeated president, Goodluck Jonathan, graciously conceded defeat, acknowledging that the rule of his People's Democratic Party, unbroken since the generals gave way to a civilian government in 1999, had ended.

Mr Buhari, a northern Muslim who led a coup in 1983, had fought three previous elections in vain. This time he won all the northern states but also made inroads in the south and centre, easily meeting the electoral requirement that the winner must get at least a quarter of the votes in two-thirds of the 36 states to show support across the tribal and sectarian spectrum.

His party has a lot to prove. It has proclaimed itself a harbinger of change, winning voters disgusted by the government's dishonesty and failure to end the Boko Haram Islamist insurgency in the north-east that has cost at least 15,000 lives.

Despite the brutally repressive regime headed by Mr Buhari in the 1980s, people are putting enormous faith in him. His fierce denunciation of corruption and his frugal lifestyle appeal to the poor, who make up the majority of Nigerians. Many think it will take a former general to root out corruption rampant in the upper echelons of the army and to defeat the jihadists. "We will end Boko Haram," his party's posters promised.

But Mr Buhari will be hamstrung from the start by an economy that relies massively on oil for government revenue and foreign exchange. The federal coffers have emptied as the price of oil has tumbled. Mr Buhari says he will make up the difference by cutting waste and corruption. Some of his party men are genuine reformers. Yet others are crooks.

Moreover, as a Muslim from the north, Mr Buhari may find it hard to contain violence in the Niger delta. Fighters in that oil-producing region laid down their arms in 2009 and have since grown fat on amnesty payments and dodgy security contracts. Some of them promised to return to war if Mr Buhari's lot, who are expected to do away with the expensive peace pact, won.

Also in this section

- 43 Inching to a nuclear accord with Iran
- 44 Saudi Arabia's gamble
- 44 The man who troubles Yemen
- 45 A rebel victory in Syria
- 46 Doubtful diplomacy in Somalia
- 46 Race and history in South Africa

For daily analysis and debate on the Middle East and Africa, visit

Economist.com/world/middle-east-africa

Mr Jonathan, a Christian from the delta, had banked on landslide wins in that region. He notched up a hefty vote there, but people failed to turn out for him in the same dedicated masses as Mr Buhari's fans in the north. In Kano, the second most populous state, almost 2m people queued for hours in the baking sun to cast their votes for him, whereas Mr Jonathan's tally was paltry. Mr Buhari also won Lagos, Nigeria's burgeoning commercial capital, whose GDP exceeds that of many west African countries. He swung a lot of voters who previously backed Mr Jonathan onto his side in the south-west and in the so-called middle belt, defying the conventional wisdom that Nigerians vote almost entirely along ethnic and religious lines.

The poll was still marred by technical glitches, Boko Haram terror and concerns that the electoral commission might succumb to political interference in collating the figures. But Attahiru Jega, the commission's indefatigable head, has received well-deserved plaudits for maintaining his independence in overseeing the process. He withstood government pressure to ban new permanent voter cards and biometric scanners which, despite teething problems, made box-stuffing harder. "Analogue rigging met digital countermeasures," said Tunji Lardner, a civil-society campaigner. "Analogue lost."

The current government has another two months in power. A peaceful handover at the end of May would send a telling signal to leaders elsewhere in Africa, some of whom want to breach their constitutional term limits. Meanwhile Nigerians hope that their first-ever ejection of an incumbent president at the ballot box marks the maturing of their democracy. "If things are not better with Buhari", says Aisha Musa, a housewife in Kano, "we will get rid of him in four years' time". ■

The Iran nuclear talks

Not yet the real deal

There is still work to be done to convince the sceptics

TALKS in Lausanne between Iran and six world powers on a ground-breaking deal to constrain its nuclear programme, in return for the staged lifting of sanctions, were continuing past a March 31st deadline as *The Economist* went to press. The cause of the overrun was tension between the fuzzy declaration of principles that the Iranians would prefer and the detailed framework agreement that the Americans need to persuade a sceptical Congress, which returns on April 13th, not to vote for new sanctions.

The Americans want precise numbers on how many uranium-enrichment centrifuges Iran can spin, how much uranium it can hold and how much plutonium can come out of a reactor at Arak. The Iranians want to avoid specifics on nuclear limits at this stage, while securing firm commitments on the lifting of sanctions, particularly those imposed by the UN. On sanctions, the West wants automatic "snap-back" if any serious violation by Iran is detected, which the Iranians reject.

All this makes it unlikely that whatever comes of these negotiations will be seen as historic. If a comprehensive agreement is signed by the end of June the interim deal will be seen as an important milestone on the way. But if the process collapses, this accord will have been the high-water mark of a brave effort that met with failure.

The apparent inability to nail down critical details and the number of issues that remain unresolved mean that the next round of the negotiations will be even harder. The broad aim is to leave Iran free from most sanctions and far enough from the ability to make a nuclear weapon that,

if it were to head in that direction, America and its allies would have time to forestall it. This would reduce the incentives for other regional powers, such as Saudi Arabia and Egypt, to move towards the nuclear threshold themselves.

The yardstick is Iran's "breakout capability"—the time it would take to produce enough weapons-grade uranium for one device. Extending it from a couple of months—the situation today—to at least a year is a sensible, quantifiable goal. Iran had previously indicated it would cut its number of operating centrifuges to about 6,500. Not yet agreed is the amount of low-enriched uranium Iran will be allowed to stockpile—a variable that dictates the number of centrifuges it can keep.

Centrifugal forces

However, the biggest problems which still need to be tackled lie elsewhere. One is the ambiguity about what rights the Iranians will have to continue nuclear research and development. They are working on centrifuges up to 20 times faster than today's, which they want to start deploying when the agreement's first ten years are up. The worry is that better centrifuges reduce the size of the clandestine enrichment facilities that Iran would need to build if it were intent on escaping the agreement's strictures.

That leads to the issue on which everything else will eventually hinge. Iran has a long history of lying about its nuclear programme. It only declared its two enrichment facilities, Natanz and Fordow, after Western intelligence agencies found out about them. A highly intrusive inspection

and verification regime is thus essential, and it would have to continue long after other elements of an agreement expire. Inspectors from the IAEA would have to be able to inspect any facility, declared or otherwise, civil or military, on demand.

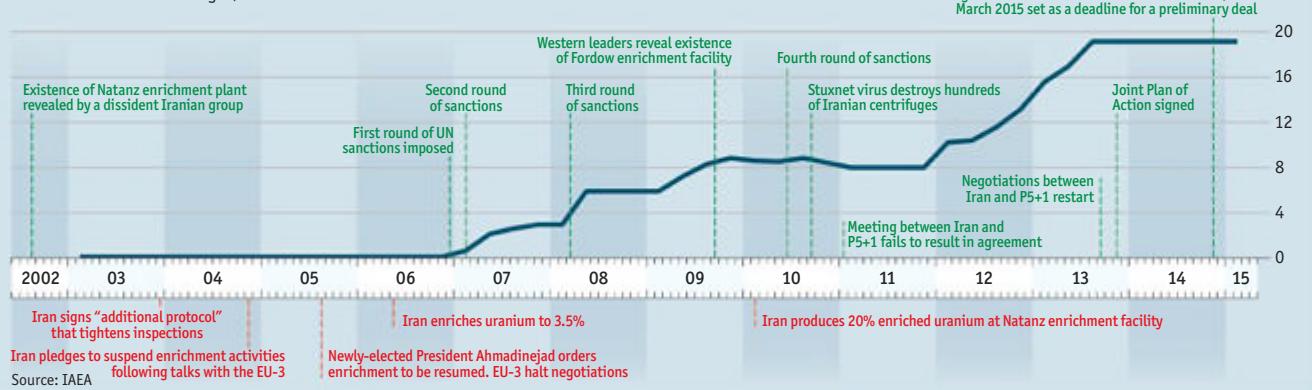
Such powers for the IAEA are a lot more sweeping than those it has under the safeguard agreements that are part of the Nuclear Non-Proliferation Treaty. They go beyond those that the so-called "additional protocol" gives the IAEA, powers that allow it not only to verify that declared nuclear material is not being squirrelled away for military use but also to check for undeclared nuclear material and activities. But in Iran's case an enhanced "additional protocol plus" is seen as essential.

For a deal to be done in June, Iran will have to consent to such an inspection regime. It will also have to answer about a dozen questions already posed by the IAEA about the "possible military dimensions" of its nuclear programme. Yet on March 23rd Yukiya Amano, the agency's director, said that Iran had replied to only one of those questions. Parchin, a military base which the IAEA believes may have been used for testing the high-explosive fuses that are needed to implode, and thus set off, the uranium or plutonium at the core of a bomb, remains out of bounds. Nor has the IAEA been given access to Mohsen Fakhrizadeh, the physicist and Revolutionary Guard officer alleged to be at the heart of the weapons development research. The IAEA's February 19th report on Iran stated that it "remains concerned about the possible existence...of undisclosed nuclear-related activities...including activities related to the development of a nuclear payload for a missile."

Iran says that it will sign up to stringent new inspections only when all the main elements of the deal are in place. But its lack of co-operation with the IAEA does not bode well. Even if this week produces a limited success, it would be well to remember the negotiator's watchword: "Nothing is agreed until everything is agreed." ■

Breakthrough or breakout?

Number of Iranian centrifuges, '000



Saudi Arabia and Yemen

The test for a new monarch

CAIRO

King Salman goes swiftly to war, but will find it hard to end it

SAUDI ARABIA'S recently enthroned King Salman pulled off a striking diplomatic coup last month when he gathered a ten-country coalition of Sunni states to bomb the upstart Shia rebels in Yemen known as Houthis. Even Qatar and the United Arab Emirates, rivals in regional politics, put aside their differences to confront a perceived Iranian proxy. Egypt sent planes and ships. Countries as far apart as Morocco and Pakistan pledged help, too.

Saudi Arabia is usually shy about speaking loudly and taking part in military action. Its uncharacteristic assertiveness may be a sign of the influence of the new king's son and defence minister, Muhammad, who is in his 30s. Sunni states no doubt want to draw a line against further encroachment by Iran, which exerts strong influence in Iraq, Syria and Lebanon. But Saudi Arabia, which treats the Arabian peninsula as its backyard, is particularly sensitive about trouble in Yemen.

Politically nimble as King Salman's team may be, the real test will be the outcome of the military action and whether it can stabilise his poor, tumultuous southern neighbour. Saudi Arabia's oil wealth and custodianship of the two holiest sites in Islam, Mecca and Medina, give it a central place in the Sunni world. But the kingdom also has a reputation as a blunderer. Its attempt to unseat Syria's president, Bashar Assad, by supporting rebel groups has been stymied by the backing that Iran and its Lebanese ally, Hizbullah, gives him.

Saudi Arabia has long relied on America for its own security. Its army has many weaknesses. "The military has some excellent niche capabilities, but it doesn't yet reflect the country's massive defence budget," says Emile Hokayem of the International Institute for Strategic Studies, a British-based think-tank. During its latest foray into Yemen, in 2009, the Saudi army achieved a draw at best against the Houthis, then confined to their northern stronghold. A leaked American cable called Saudi strikes "imprecise".

On March 30th an air strike hit a camp for displaced people in northern Yemen, killing at least 29. A day later, a bomb hit a dairy factory near Hodeida, killing 23. The Saudis have not admitted to any mistakes.

Saudi Arabia and its allies have bombed airfields, arms dumps and missile launchers in the hands of the remnant of the Yemeni army loyal to the former president, Ali Abdullah Saleh, who has allied himself with the Houthis (see next story). Ships are blockading Yemeni ports to stop arms deliveries. But the Houthis still appear to be advancing. "Bombing from the air is unlikely to do much more than inflict pinprick damage," says Kristian Coates Ulrichsen of Rice University in Texas.

A land intervention is a different matter. The Houthis are renowned as fearsome fighters. And any ground force might also have to contend with al-Qaeda and other jihadist groups that have expanded amid Yemen's chaos. Who else would offer

ground forces? Egypt, which has a large army, still remembers Yemen as its "Vietnam" from the days it fought there in the 1960s. Pakistan is reluctant to be drawn into a war when it is fighting its own militants, the Taliban; it also fears exacerbating its own Shia-Sunni troubles.

Ultimately Yemen will have to be pacified by a political agreement. King Salman seems bent on reinstalling Abd Rabbo Mansour Hadi, the internationally backed president and, it is said, on excluding the Houthis. Saudi imams are said to be under orders to denounce them as "enemies of Islam". The trouble is that Yemen's Zaydis represent only about 40% of its population, so the Houthis will be hard to exclude. Mr Hadi, moreover, is discredited among many Yemenis, and has fled the country. As America has discovered in recent years, starting a war is harder than ending it. Saudi Arabia's enemies would not be sorry to see it bogged down: Iranian comments on social media already talk of Yemen being the "Saudis' Afghanistan". ■

Yemen

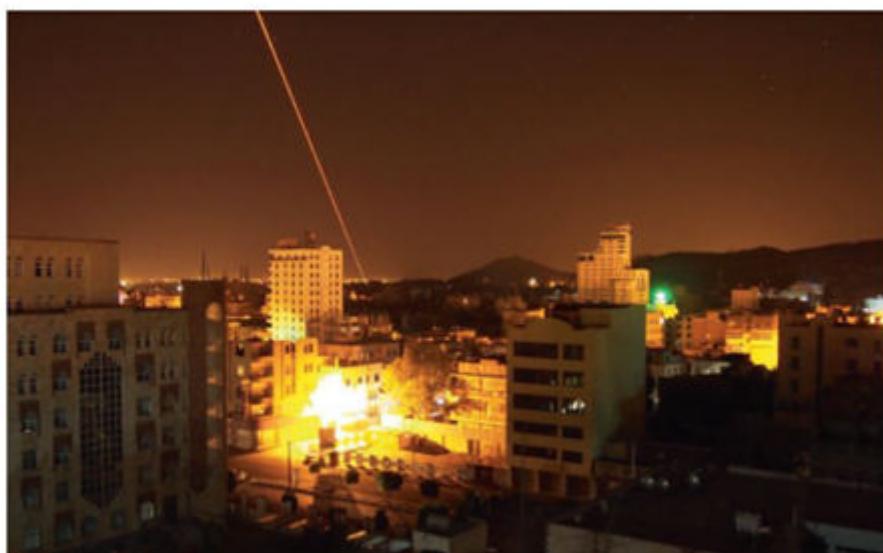
The old man who won't go away

THE former president, Ali Abdullah Saleh, may have overreached at last

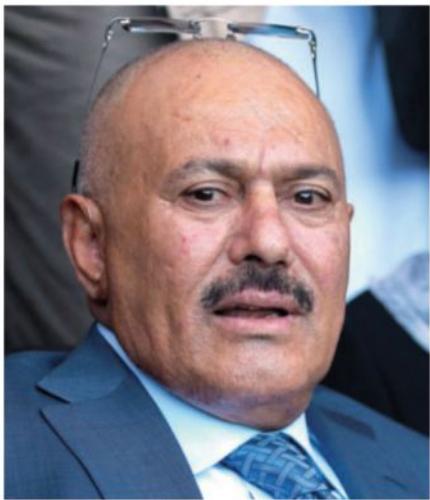
WHEN Ali Abdullah Saleh spoke on Yemeni television on March 28th, he did not look or sound his usual self. Proposing a peace deal that would stop the bombing, by Saudi Arabia and others, of the country he led for 33 years, his voice betrayed an unfamiliar tension as he nervously rubbed his nose and chin. In the old days he would have hectored. This time he pleaded, begging his Gulf Arab neighbours, who have been united in wanting to peg back Mr Saleh and the Houthi movement to which he is allied, to back off. At the same time he called for elections and promised that, if the neighbours stopped bombing, neither he nor any member of his family would seek power again.

Many Yemenis wondered aloud if he could be taken at his word. After all, he has rarely been willing to loosen his grip on a country that he has treated as his fief for the better part of 30 years, despite his ousting from the presidency after mass demonstrations in 2011. Was this television performance, many speculated, just another of his ploys to stay in power, whether as a leader or behind the scenes?

Mr Saleh once described governing Yemen's mixture of tribes, while containing northern and southern insurgencies as well as a ferocious branch of al-Qaeda, as akin to "dancing on the heads of snakes". ►



The Houthis fire back in Sana'a



Saleh, still dances with snakes

► His own slipperiness is legendary. During the final decade of his rule he managed, for instance, to fight against al-Qaeda but at the same time accommodate it. He secured American and Saudi help, while tipping the winks to the jihadists that they would be worse off if he lost power.

When he reluctantly agreed to step down under growing international pressure in November 2011, he wangled a deal that gave him immunity from prosecution for crimes committed during his time in office. And he kept control of the party that had ruled Yemen under his thumb and is still the largest bloc in parliament. Aided by a personal fortune said to be many billions of dollars, he still wields great influence. Though in theory retired, he has relentlessly impeded the transition to a less dictatorial type of government.

But his plans have backfired. He helped the rise of the Houthis, who practise a Zaydi version of Shia Islam that is largely unique to northern Yemen, though his regime fought a string of bruising wars with them between 2004 and 2010. When they captured Sana'a, Yemen's capital, in September 2014, it became abundantly clear that Mr Saleh, who still controls a big chunk of the army, had been co-operating with the Houthis. The "popular committees" that have manned checkpoints in Sana'a since the Houthi takeover are made up of an equal mix of Houthi fighters and Saleh loyalists. Army units loyal to Mr Saleh have openly fought alongside Houthi militias in the west and south.

Mr Saleh may have wanted the Houthis to sow enough chaos to ensure the fall of his replacement as president, Abd Rabbo Mansour Hadi. Then he might have wanted to turn on them and arrange for his son, Ahmed Ali Saleh, to be given the top spot by Yemen's grateful neighbours. But it may be too late. Mr Saleh misjudged just how seriously Saudi Arabia would take the threat of the Houthis, whom they see as part of an Iranian axis in the region. ■

Syria's civil war

Assad on the back foot

BEIRUT

Despite Iran's support, the president is weakening

FOR the rebels fighting against President Bashar Assad, it was a huge victory. On March 28th a collection of Islamist fighters, including Jabhat al-Nusra, an al-Qaeda affiliate, captured the city of Idlib. Long contested, it is only the second big one to fall to the rebels in four years of war. The first, Raqqa, was snatched by the jihadists of Islamic State (is), who made it the capital of their caliphate. Only three days before the rebels won Idlib, they took Bosra, a town in southern Syria famous for its second-century Roman amphitheatre.

This opposition surge suggests that Mr Assad is weaker than he was, not that the rebels are stronger. He and his main allies, Iran and Hizbullah, the Lebanese Shias' party-cum-militia, are struggling to hold their piece of the divided country, despite the West having turned its attention to fighting is. Disputes within Mr Assad's camp are growing, too. "Militarily and economically the regime is worse off today than a year ago," says Noah Bonsey, who watches Syria for the International Crisis Group, a think-tank based in Brussels.

In Idlib the rain helped the rebels by stopping Mr Assad's regime carrying out air strikes, which it relies on since it has long been short of soldiers on the ground. The embattled president increasingly banks on local and foreign militias. He has had to recruit more widely for the army, yet he cannot trust the conscripts drawn from Syria's Sunni-majority population. It is said that Sunni pilots are not now allowed to fly aircraft. A well-connected man in Damascus says many are flown by Russians, whose government backs Mr Assad.



Taking it out on Bashar's father



Elsewhere he is looking no stronger. His much-heralded offensive to take back Aleppo earlier this year seems to have fizzled. His troops are consolidating in the west, but only thanks to Hizbullah. Its fighters are creeping into his territory from the east. In the south he has gradually been losing ground to the most moderate of Syria's rebels, as Hizbullah and Iran focus on securing areas nearer Damascus.

Yet it is unlikely that these victories for the rebels will spur America to increase its modest support for them, especially around Idlib, where Jabhat al-Nusra is the strongest force. The southern rebels have received more help, since they have fewer jihadists in their ranks and are less fragmented. But an American plan to train and equip 5,000 vetted men has still to get going. On March 27th Turkey said that the Americans had delayed their plans to start training there, for unspecified reasons.

So Syria's fate may depend ever more on how well Mr Assad's regime hangs together—and on Iran. His army and paramilitary forces often clash. Hizbullah men talk of Syrian soldiers firing on them. Syrian soldiers, in turn, are annoyed by Iranian and Hizbullah checkpoints set up to ensure that they stay in line. Syrian soldiers have long found understandings with rebels; sometimes they agree not to fight, while the rebels sometimes buy ammunition from the soldiers. Overall, Mr Assad's position is being hollowed out. "The regime is in charge of administrative matters," says the same Damascus man. "But Iran is ever more in control militarily."

That could pave the way to negotiations, since it still seems unlikely that either side will win militarily. Iran's rulers may be more pragmatic than Mr Assad, who wants to cling to power at any cost. There are signs that they see him as a burden; Hizbullah certainly does. If nuclear talks with Iran come good, some Syrians hope for a solution in their own country. "We'll get rid of Mr Assad at some point," says a Hizbullah commander. "I think Iran is just waiting until the right time." ■

Politics in Somalia

Reluctant to admit another failure

MOGADISHU

Might it be wiser to postpone elections yet again?

WHEN the British and Swedish ambassadors to Somalia recently queued up to meet a new member of the government appointed by the third prime minister in 18 months, the man they met was so new to Somali politics that a government adviser was unsure of his name. But it was not long before Mohamed Omar Arte, the incoming deputy prime minister, found himself in the midst of the bloody turmoil that remains a grim hallmark of politics in Somalia. On February 20th, two days after he met the Western envoys, he narrowly escaped with his life when suicide-bombers from the Shabab, Somalia's extreme Islamist group linked to al-Qaeda, attacked a hotel in Mogadishu, the capital, during Friday prayers, killing 25 people (plus both bombers). On March 27th gunmen hit another Mogadishu hotel popular with politicians, killing at least 17 people.

Meanwhile, strife within the government continues to damage President Hassan Sheikh Mohamud. After his election in 2012 he was greeted as a breath of fresh air. Respected for his record as a human-rights enthusiast, he was free of the blood and murk that stained so many of Somalia's more seasoned politicians. He was chosen by a 275-strong parliament whose members were nominated by elders from a cross-section of clans. Though it was a flawed method, with plenty of vote-buying and little direct say for ordinary Somalis, it was better than what had gone before.

But Mr Mohamud has since squandered much of the goodwill of war-weary Somalis and vexed foreigners alike. Corruption remains rife. Political progress is glacial. Since late last year the president and prime minister have been locked in an argument over who has the right to hire and fire ministers. The president won, a new prime minister was named, and in February his cabinet was approved at the parliament's third attempt.

The political crisis has been "devastating", says Abdirashid Hashi of the Heritage Institute for Policy Studies, based in Mogadishu. "It has ruined the leaders' reputation," he says. In theory there will be a new constitution and fresh elections by September next year. But despite the constant chivvying of Western governments and international agencies, few think that deadline will now be met.

Nonetheless, diplomats refuse to discuss an alternative plan for fear that Somalia's politicians may ditch the present one



Bloodied by the Shabab

forthwith. "The election should not be clan elders in a conference room selecting MPs, who then select a president," says Michele Cervone d'Urso, the European Union's ambassador, recalling Mr Mohamud's advent to power in 2012. "We should aim for one person, one vote across Somalia," says Neil Wigan, Britain's ambassador. "But exactly what's going to be possible, we'll have to see." Ken Menkhaus, a Somalia expert from Davidson College in North Carolina, says some kind of "appointocracy" is once again inevitable.

Mr Mohamud's biggest success so far has been to bring in an element of federalism without worsening the strife. Two new regional states are in their infancy. Devolving a measure of power to such newly created states may prove a good idea only so long as it is not seen as another stitch-up by the old guard in Mogadishu. "It's not enough to come up with a process designed in Mogadishu and agreed between the government and parliament," says Matt Bryden, a Canadian expert who runs Sahan Research, a think-tank in Kenya's capital Nairobi. "It's got to have federal administration buy-in."

Western governments seem bent on getting Mr Mohamud to move towards some kind of election, however circumscribed. "This top-down, legalistic form of state-building focused on federalism, constitution-writing and elections has pushed Somali politicians to face the thorniest issues first," says Dominik Balthasar, another Somalia watcher, based in Ethiopia. He argues for a slower, grassroots approach. "The idea of elections is mad," says Cedric Barnes of the International Crisis Group, a Brussels-based think-tank. "They simply buy into the kind of elite politics that has been so detrimental to Somalia."

Will Mr Mohamud have the nerve to brake a rushed process that may make things worse? "It's very difficult for us to talk about alternatives, at least until the Somalis do," says a Western diplomat. ■

South African history

Rhodes rage

JOHANNESBURG

A row about a colonial legacy

CECIL RHODES sits in pride of place at the University of Cape Town (UCT), his imposing statue framed by mountain peaks soaring above and the Cape Flats stretching out far below. But Rhodes has recently been wrapped in plywood and plastic, while the university authorities decide his ultimate stony fate, prodded by student protesters determined to have the statue removed.

The dispute began in February when Chumani Maxwele, a politics student, threw faeces at the statue, declaring it a symbol of painful "colonial dominance" that many black students feel continues to imbue the university. "Rhodes Must Fall" demonstrations have since spread to Rhodes University in Grahamstown, where people have long called for the name to be changed. At the University of KwaZulu-Natal, a statue of King George V has twice been defaced.

Rhodes, a British colonialist who died in 1902, led a rapacious campaign through South Africa and what is now Zambia and Zimbabwe, with dreams of securing the land from Cape Town to Cairo for Britain. His diamond-mining wealth was later used to found Rhodes University, while the international Rhodes scholarships at Oxford University in Britain are provided by his will. The stunning UCT campus was built on Groote Schuur, Rhodes's donated estate.

At the heart of today's debate is the slow pace of "racial transformation" at the best universities, two decades into democracy. The Rhodes statue has become a rallying point for those who feel excluded from academia. In 2013 only five professors at UCT were black Africans. At Rhodes University, 94% are white. There are just 28 black South African female professors in the entire country. Student representatives at the UCT criticise the curriculum for being too Eurocentric and accuse the university of "institutional racism".

Prominent South Africans have weighed in. Albie Sachs, a retired judge, thinks the Rhodes statue should be turned into a new work of art in a new space, forcing Rhodes posthumously to witness the country's constitutional democracy. Julius Malema, a fiery populist leader, declared that "the masses must crush that statue" if it is not brought down. Most people think the memorial should be moved but not destroyed. And resolving the deeper issues is not as simple as shifting one old statue.



Germany's political logjam

An uncomfortable arrangement

BERLIN

Neither party in Angela Merkel's grand coalition really wants to be there

GERMANY may be emerging as Europe's chief actor on the global stage. But its domestic politics are stuck in a strange logjam, leaving all the main parties, including the partners in the ruling right-left coalition, wondering how to break it.

Eighteen months after the most recent federal election, all parties in the Bundestag stand almost exactly where they were on the night of the polls. This absence of movement is unprecedented in German politics, says Manfred Güllner at Forsa, a pollster in Berlin. The rating of the centre-right Christian Democrats, led by Chancellor Angela Merkel, and their Bavarian sister party, the Christian Social Union (CSU), is very close to the 41.5% they got in 2013. Meanwhile the centre-left Social Democrats (SPD), the junior partners in the "grand coalition", are stuck near their tally of 25%. And the two small opposition parties, the Left and the Greens, have barely moved, despite the small rise of the anti-euro Alternative for Germany.

For the SPD, in particular, all this is both surprising and frustrating. After the 2013 election they exacted huge concessions, captured in a 134-page coalition contract, from Mrs Merkel as the price for agreeing to become her partner. Since then they have methodically worked through their wishlist of social democratic policies, including a new minimum wage, early retirement for

various groups of workers, a quota for women on corporate boards and a "brake" on rent increases.

Germans tell pollsters they mostly agree with these measures. And yet the SPD's fortunes are not rising. Part of the reason may be that voters are confused about the policies' provenance, because Mrs Merkel is good at taking credit for the ideas of others. In the 2013 campaign, for example, she came out for a rent-brake, poaching the issue from her SPD opponents.

But the main reason for the SPD's stasis lies with international crises, above all in Ukraine and Greece. These have overshadowed domestic affairs, allowing Mrs Merkel to shine as a reassuring world leader. And this is causing panic among Social Democrats. A few, especially on the party's left wing, believe they should behave in more cantankerous ways towards their coalition partner, to raise their profile.

This is also the conclusion drawn by TNS Infratest, a polling institute that has been commissioned to come up with a strategy for the SPD. Whereas Mrs Merkel and her party convey "security" to voters, the SPD stands for nothing but petty side-issues, the strategy argues. To become "recognisable" again, it reckons, the party "must, where necessary, engage in conflicts" with the Christian Democrats.

As if on cue, Manuela Schwesig, the SPD minister for families and women, last

Also in this section

48 Ethnic minorities in France

48 Spain's old guard

49 Russia's politics of memory

50 An angry Dutch mood

52 Charlemagne: Europe's privacy fears

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

month started bickering with Wolfgang Schäuble, the Christian Democratic finance minister, who has been rather distracted with Greece of late. Mr Schäuble, who is 72, plans to increase child benefits—but only by a trivial €6 (\$6.46) per child. Ms Schwesig, who is 40 and nicknamed "coastal Barbie" (she is blonde, from the Baltic and seems to speak in prefabricated sound-bites) called it outrageous that Mr Schäuble had ignored her demand for more help for single mothers or fathers. But fighting for its own sake is risky for the SPD, because trying to be in government and opposition at the same time confuses voters and makes it look untrustworthy.

One Social Democrat who is aware of the dangers is Sigmar Gabriel, the party's boss (pictured above, with Mrs Merkel) as well as vice-chancellor and minister of energy and the economy. As the default candidate to compete against Mrs Merkel in 2017, he increasingly realises that he stands little chance. As one way out the SPD is discreetly pursuing another possible path to power. A three-way coalition between it and the other two left-leaning parties—the Greens and the Left—would have a mathematical majority in the present Bundestag.

But the Left, a descendant of East Germany's Communist Party that is filled with a spirit of radical anti-capitalism and anti-Americanism, is still regarded as a pariah in more respectable parts of the German political spectrum. To see how a pan-leftist coalition might fare, people are watching an experiment in the state parliament of Thuringia, where the three parties, with the Left in the lead, have been governing together since last year.

The Christian Democrats are also unhappy in their marriage to the SPD. They reveal their crankiness by sticking as many exceptions and loopholes into the SPD's ➤

laws as they can, thus making the government's legislation incomprehensibly complex. They too would like a different coalition partner next time round. Their hope is that the Free Democrats, a classically liberal party that was voted out of the Bundestag in 2013, will get back in. But that seems a stretch at present.

So the Christian Democrats are also wooing the Greens. A state-level rehearsal for this is taking place in Hesse, where the CDU and Greens govern together, with Mrs Merkel personally making sure that the local CDU acts nicely. Given her personal popularity, her own position seems secure for the next couple of years. The real danger for her party is the vacuum that it will face whenever this formidable woman, now in power for ten years and in her third term, decides she has had enough. ■

Ethnic minorities in France

An edgy inquiry

PARIS

A taboo on studying immigrant families' performance is fraying

BY LAW, French authorities cannot collect ethnic statistics. All citizens are considered equal. Differentiating them is felt to imply stigmatisation, or even worse to echo the singling out of Jews that took place under the collaborationist Vichy regime in the 1940s.

Yet however strong the historical reasons, this approach makes it difficult to tell whether French people of different backgrounds really do fare as well as each other. A new study suggests they do not.

It comes, surprisingly, from an official source: France Stratégie, the government's economic-strategy unit, which is run by Jean Pisani-Ferry, an economist. The authors get round the ethnicity taboo by using census data on national origin. Several decades after mass immigration began, enough long-term data exist to see how the generation raised in France by parents from other countries has done.

In a word, badly. Youth unemployment of 32% for French-born citizens whose parents arrived from Africa, including sub-Saharan countries and those of the Maghreb, is twice as high as for those with no immigrant background. Fully 30% leave high school without any diploma or qualification, against 16% of those without immigrant parents. French people with parents from Africa have less stable working lives, and are more likely to live in poor neighbourhoods, than those with non-African immigrant backgrounds, the report finds.

Other studies use the data to reveal further differences by national origin. French-

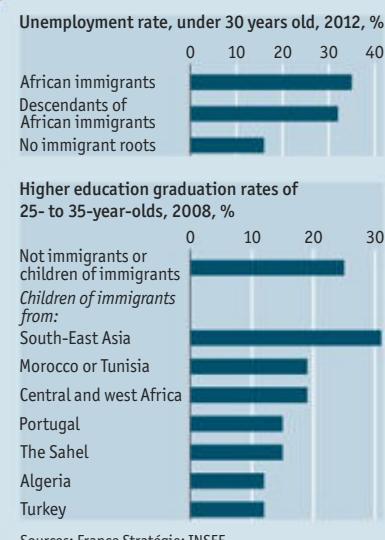
born citizens with parents from Morocco or Tunisia, for example, seem to do better at school than those with parents from Algeria or the African Sahel. Only 10% of French men aged 25-35 with Algerian-born parents, and just 9% of those with parents from the Sahel, have a degree, against 19% of those with Moroccan or Tunisian parents and 23% of the non-immigrant population. (Among those with south-east Asian roots, the figure tops 30.)

Girls also seem to do better than boys. Just 49% of French-born men aged 20-35 with Algerian parents have passed the *bacca*lauréat, the national school-leaving exam, compared with 58% of women (and 68% of the non-immigrant population). Those with parents from the Sahel do little better: 63% of young French-born women have the *bac*, and 51% of men. Interestingly, when the sexes are combined, young French citizens born to Moroccan or Tunisian parents do better at school not only than those from Algeria or the Sahel but also those born to parents from Portugal.

Such divergent patterns mirror those found in other European countries. British-born Bangladeshis have pulled away from British-born Pakistanis in terms of school results, for instance, and now perform better than white British children.

What explains the French pattern? History may play a part. The bloody war for Algeria's independence may have created feelings of hostility to the French system, and general alienation, which are slow to disappear. Poverty and discrimination clearly play a role. Many French immigrants came from countries with very low living standards, like Mali, Mauritania and Niger. And coming from a poor family background, notes the France Stratégie study, seems to have a stronger impact on school performance in France than it does in other comparable countries. ■

Roots make a difference



Spanish politics

Something old, something new

MADRID

A feisty power-broker shows why a traditional style endures

WITH her folksy manner and humble origins, Susana Díaz does not at first sight seem a likely saviour of old-style Spanish politics. But this 40-year-old local heroine salvaged the fortunes of the battered Spanish Socialist Party (PSOE) by retaining her position as political leader of Andalusia in a regional election on March 22nd. She is now in the vanguard of a fight-back by established parties as they resist newcomers bent on cleaning up politics.

Although her age and sex mark her out (Spain has never had a female prime minister), Ms Díaz is very much an old-school politician. She worked her way discreetly through the party ranks, heading the regional youth group and becoming a city councillor in Seville at 24. Long experience at the political coalface made her a plausible successor when the previous Andaluzian president resigned in 2013.

Good at banging heads together, she made her name as an efficient (and feared) backroom apparatchik. Such skills are badly needed by her party. It says something about the state of Spanish socialism that her recent, moderately successful performance has won her accolades as a miracle-worker in an otherwise dismal situation. She held on to 47 deputies in the 109-seat regional parliament, while the Socialist ►

▶ vote dropped by four percentage points to 35%. That is a smaller decline than expected, though it is still the party's weakest showing in the 33 years that it has dominated Andalusia. Her personal rating is now so high that she sometimes overshadows Pedro Sánchez, the party's leader.

He, and the party as a whole, have their hands full. Spanish socialism is fighting to avoid the fate of the PanHellenic Socialist Movement (PASOK), which dominated Greek politics for most of the years since 1981 but in January was almost wiped out by the more radical Syriza.

In Spain, the Socialists face two adversaries. One is Podemos, an upstart Syriza-style party that has built up nationwide support of above 20% since appearing in the European elections ten months ago. The new party calls the Socialists part of *la casta*, a generic term for self-serving, corrupt political and financial elites.

The other enemy is Ciudadanos (Citizens), a centrist party that has broken out of its Catalan home into the rest of Spain by pledging social democratic measures to reduce inequality, while also cleaning up corruption. Podemos and Ciudadanos took 15% and 9% respectively in the Andalusian poll, their debut in the region.

If Ms Díaz is to lead a minority regional government, as seems probable, she must lean on one or other of these parties; both want firmer action against sleaze. But she is negotiating from relative strength, because her winning style limited the newcomers' surge. She said her only *casta* was the plumbing trade, her father's job. Her mix of empathy and firmness averted the rout that some feared, even though one in three Andalusians lacks a job and her two predecessors are due to testify to a magistrate who is probing corruption.

Cronyism and rule-bending clearly alienate some voters, but they are also features of a political way of life that has served, and may still serve, to maintain the Socialists' domination of Spain's poor south. The enduring bad habits of the old system were confirmed on March 24th, when police in Andalusia detained 16 senior regional employment and training officials. A tape recording appeared to show one public servant telling underlings to campaign for the Socialists in the 2012 elections. Such things shock some voters, but probably not all of them.

In any case, with a general election due by December, the PSOE still has reason to tremble. It has lost a third of its Andalusian voters since 2008 and can expect to do worse nationwide. In 2011, its score in the rest of Spain was eight percentage points below its performance in Andalusia.

As for the Popular Party (PP) of Mariano Rajoy, the prime minister, it faces an even tougher future. Its share of the vote in Andalusia fell from 41% to 27%; this suggests that voters are ignoring signs of economic

Russia's politics of memory

Nemtsov Bridge

MOSCOW

A fight over the site of a politician's killing is a proxy for a broader battle

MEMORY has long been the subject of fierce and often deadly ideological battles in Russia. Those who control the past also control the present. Following the murder of Boris Nemtsov, a liberal opposition leader, on a bridge by the Kremlin, a fight for his memory, and for the Russian flag, is taking place. In Soviet times, purged Communist Party members were excised from photographs as though they never existed. Now it seems the Kremlin is trying similarly to airbrush Mr Nemtsov.

First Kremlin spin-doctors tried to divert attention from Mr Nemtsov's murder to the "sudden" disappearance of Vladimir Putin, Russia's president. Ten days later, Mr Putin re-emerged triumphantly and celebrated the anniversary of Russia's annexation of Crimea at the spot where Mr Nemtsov died. A frenzied crowd yelled "Ross-i-ya", as if that could quash memories of Mr Nemtsov and his opposition to war in Ukraine.

In the middle of the night on March 27th, a month after Mr Nemtsov's murder, the authorities cleared the bridge of flowers and photographs. Thanks to Mr Nemtsov's friends and followers, the memorial was restored. People across the

country ordered flowers online, and supporters took them to the bridge. Mr Nemtsov's photographs under Russian tricolours have been remounted on the balustrade. Volunteers guard the memorial day and night in snow and rain, sustained with tea and food by ordinary folk. They will not go away; they are being true to Mr Nemtsov's spirit.

He managed to stay in politics despite state propaganda labelling him a "foreign agent" and "fifth column". But fighting Mr Nemtsov after his death may prove even harder than it was during his life. Groomed to be Russia's liberal president by Boris Yeltsin, the charismatic, honest Mr Nemtsov could turn into a symbol of Russia's unfulfilled promise. The display of Russia's national flag next to his name should be particularly troubling for the Kremlin.

The bridge has already been dubbed Nemtsov Bridge. It could now become a focal point of liberal opposition to a brutal regime, a role that after 1991 was played by the White House, then the seat of the Russian parliament. The Kremlin will try to clear the bridge of traces of Mr Nemtsov's murder. But the harder it tries, the more resonant the spot will become.



Remembered with love

recovery, and that Ciudadanos may steal centrist or centre-right votes nationwide.

Elections in 13 of the 17 Spanish regions on May 24th will be the next test of the new four-way split, forcing parties to strike pacts if they want to govern, according to José Pablo Ferrández of Metroscopia, a pollster. Podemos may come first in such regions as Asturias and Aragón, with the PP or PSOE winning elsewhere. The general

election later this year is too close to call, with Podemos, PP and PSOE running level.

Ms Díaz's comparative success vindicated her decision to call a snap regional election. Yet the two-party system that has prevailed in Spain since 1982 is clearly bust, and Andalusia has set a pattern by forcing an old party to seek help from newcomers. Spanish voters want change, though not, apparently, a complete revolution. ■



An angry Dutch mood

A low-spirited country

AMSTERDAM

The Dutch remain indignant with bankers and politicians, despite a recovery

MISREADING the public mood can be costly when the government owns your bank, as the directors of ABN AMRO found out last week. The bank has been in the hands of the Dutch state since it was bailed out in 2009 as part of the global financial crisis that also dumped Royal Bank of Scotland in the laps of British taxpayers. The Dutch government had hoped to begin privatising ABN AMRO this autumn—until the news broke that the bank's directors had awarded themselves a salary bump of €100,000 (\$107,000) a year. An outcry in parliament led the directors to forgo their raises and Jeroen Dijsselbloem, the Netherlands' finance minister, to postpone indefinitely the bank's return to the markets.

The directors' error of judgment is perhaps understandable. As in Britain, public sentiment in the wake of the collapse was furious with fat-cat bankers. But the Dutch board had been correspondingly cautious. The directors receive no bonuses, and their raise had been approved by parliament in 2011 but renounced each year until now.

Moreover, the Dutch economy is recov-

ering after years of recession. The national forecasting body predicts 1.7% growth this year. Unemployment has dropped from 7.9% to 7.2%, and consumer sentiment has turned positive for the first time since 2007. One might expect the public's feelings about politics to grow less bitter as well.

Instead Dutch voters seem as grumpy as ever, and not just about bankers' pay. In March they gave a thumping to the government in elections to the country's provincial assemblies. The assemblies determine the composition of the Dutch Senate. That body will now be so splintered between 12 parties that it is hard to see how the government can form a coalition to push through new legislation (see chart).

Why, despite the good economic news, is the Dutch public mood still sour? Partly because of a problem that many European governments face: they have not delivered the policies their constituents were promised. The Dutch government, like the German one, is a centrist, two-party grand coalition. In the 2012 election, leftists voted for the largest centre-left party, Labour (PvdA), in opposition to austerity and the

dismantling of the welfare state. Conservatives voted for the largest centre-right party, the Liberals (VVD), in opposition to redistribution, Europe and immigration. What they got instead was a Liberal prime minister, Mark Rutte, at the head of a hybrid government whose horse-trading led to an unsatisfying mix of policies.

That government has carried out a series of far-reaching reforms which have left nobody entirely happy. Budget cuts continued, but so did progressive tax increases. Wealthy homeowners' tax-deductible mortgages were restricted, a step that economists saw as crucial to reducing sky-high household debt; but public housing was downsized. Labour conceded cuts to health-care subsidies for the poor and for the disabled. The Liberals won no real concessions on immigration. In Brussels, Labour provides two high-flying Dutchmen: Mr Dijsselbloem, who is president of the euro group of finance ministers, and Frans Timmermans, a deputy president of the European Commission. But they are carrying out hard-nosed, centrist policies that raise few objections from Liberals.

Labour's voters are especially dissatisfied. As with other leftist parties that have pursued centrist policies (like Germany's Social Democrats and France's Socialists), many supporters have defected while other voters see the party as ineffectual. In the provincial elections it dropped from 14 to just eight of the 75 seats. The Liberals were hit less hard, falling from 16 seats to 13.

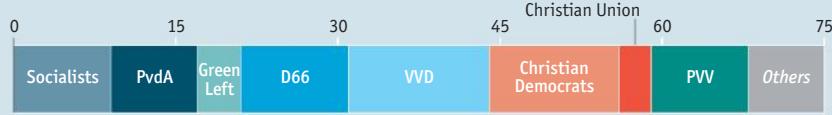
Confusingly, voters have scattered in all directions. The far-left Socialists and the far-right Party for Freedom (PVV) retained their strength. Many voters rejected the centrist government by backing the centrist opposition: the centre-right Christian Democrats and the left-liberal D66 party. In the end six large parties got between eight and 13 Senate seats. The government has already had to co-operate with D66 and two smaller parties to get bills through the Senate. It will now be even harder to pass a planned tax overhaul this autumn.

Dutch voters' mood may stem from a lack of new issues. Both D66 and the Christian Democrats campaigned on calls for yet more austerity, despite an expected budget deficit of just 1.2% of GDP, better than the government target of 1.9%. After the elections, the Liberals returned to the anti-immigration theme with a quixotic proposal to stop refugees entering the EU, denounced by their Labour partners.

It all chimes oddly with a brightening economy. The government's reforms, disruptive at first, have started working, says Dimitry Fleming, an economist at ING Bank. "People feel we have seen the major necessary reforms, so policy uncertainty is diminishing." House prices and residential investment are rising. Exports are up. The tulips are sprouting. Maybe public enthusiasm will too. ■

Hopelessly scattered

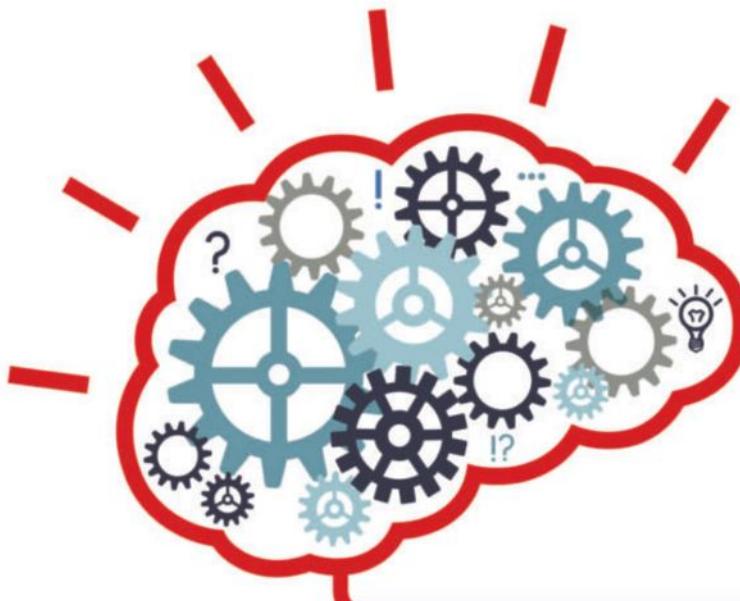
Seats in the Dutch Senate by party, 2015, projected



Source: NRC Handelsblad

Win a \$25,000 MBA scholarship

Enter the Economist GMAT Tutor Brightest Minds MBA Scholarship Contest



To participate, complete our simulation GMAT exam online.

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



gmat.economist.com/contest



Sheffield
University
Management
School.



UCD Michael Smurfit
Graduate Business School



Charlemagne | Not-so-private lives

Can America and Europe ever get over their differences on data protection?



A FEW years ago your columnist received an impassioned lecture from the square-jawed owner of a gun shop in Denver, Colorado. Governments, the proprietor noted, have a natural tendency to tyranny; firearms insure individuals against it. The man added that he once lived in East Germany, where he had seen how rapidly the slide can occur, once citizens lack weapons.

Charlemagne found this unpersuasive, even if, surrounded by assault rifles and handguns, he was too polite to admit it. But the owner's logic resembles a claim heard in parts of Europe with memories of dictatorship more recent than George III. Tough laws, it is said, are needed to limit the abilities of governments (or firms) to record, store and distribute data on individuals. The spectre of the Gestapo is often raised. These concerns, perhaps unsurprisingly, are strongest in Germany.

German and American attitudes to privacy are grounded in different ideas of the relationship between the individual and the state, and encoded in different types of law. In 1970 Hesse, a German state, passed the world's first data-protection statute. A federal law followed six years later. Thanks to patient-confidentiality rules, journalists, prosecutors and even his employer, Lufthansa, struggled to get the full medical facts about Andreas Lubitz, the pilot who flew an aircraft into a French mountain recently. Such difficulties would be hard to imagine in America, where data protection is mostly an issue of consumer regulation.

The growth in transatlantic travel and commerce has forced various creaky compromises. But the strains are showing. Edward Snowden's revelations in 2013 about the National Security Agency's snooping did not, in the end, have much lasting impact in the United States. Yet in Germany they were devastating, especially after it emerged that the NSA might have been tapping the phone of Chancellor Angela Merkel.

Europe's other great bulwark of data protection has been the European Union, and particularly the European Parliament. For years its members blocked a proposal to create a pan-European "passenger name record" (PNR) data-sharing scheme for airline passengers. American officials have been irked by the difficulty of negotiating transatlantic PNR arrangements with the EU. The first, agreed on after the September 11th 2001 attacks, was squashed by the European Court of Justice (ECJ) in 2006. MEPs

have never been satisfied with the provisions of its successors.

That is awkward enough. But now spats over privacy threaten the biggest joint project: the Transatlantic Trade and Investment Partnership, an ambitious but teetering proposal to lower tariffs and boost investment. Just as German shoppers fear that TTIP will fill shelves with chlorine-dipped chicken from Arkansas, geeks worry about importing America's lax data standards. Perhaps the biggest effect is indirect: the Snowden affair has helped set off a wave of anti-Americanism in Germany and Austria that found its fiercest expression in opposition to TTIP.

Yet the wall of hostility faced by America's politicians and diplomats is nothing compared with the problems faced by its tech firms. Google and others share Germany's concerns over the NSA. But their own activities are consistently tripped up by European regulations. Last May the ECJ ruled that Google must consider requests from individuals to wipe links to incriminating data. "Google", thundered Germany's vice-chancellor, Sigmar Gabriel, "can no longer simply bypass European standards." Another case before the court threatens to unpick the "safe harbour" agreement that allows companies based in America to transfer their European customers' data back home after pledging to protect it. Silicon Valley dreads having to deal with Europe's patchwork of data-protection laws instead.

It would be easier for America and Europe to negotiate over this if their tech firms were of comparable size. But the field is dominated by Americans. Europeans have done badly at building internet firms whose services they like using. Quaero, a Franco-German attempted rival to Google, failed risibly. Now a proposal to complete the EU's digital single market could correct this by helping online businesses to trade across borders. So could an updated European data-protection law, to replace one drawn up in 1995, if it is not overburdened with regulation.

Yet the transatlantic data divide will not close soon. Europeans are right to be wary of today's unprecedented data-hoovering, particularly by internet giants: public policy has failed to keep up. But for that very reason Europeans should seek to steer the debate, not eschew it. Two things make old defences of privacy harder to justify: the growth of online services that require data to be transferred and stored, and the terror threat.

The terrorism dimension

Europe faces an even greater risk of terrorism than America does, and that weakens the case of privacy-conscious MEPs. Calls on the European Parliament to relent on PNR have grown louder since France's Charlie Hebdo attacks. Spooks speak as one in their fears of terrorists "going dark": the head of Europol, a European law-enforcement agency, frets as much about impossible-to-crack encryption on new devices as do the Americans.

When talk of agreed standards looms, it is best for privacy advocates to avoid leaving them to the securocrats. If the European Parliament does not act on PNR, Europe could be left with a mess of national schemes, some overly intrusive. Similarly, tech firms anxious about granting spooks access to encrypted communications are well placed to negotiate new rules that balance security and liberty. If Google and Germany have been at odds on other issues, here they could find common cause. And Germans might take comfort from the idea that they now have a democracy robust enough to be able to alter the balance occasionally. ■



Defence and diplomacy

Little Britain

The country is running down its armed forces and its diplomatic resources, to the despair of allies

WITH the general election just a month away, foreign eyes are turning to Britain. But they are not noticing the lean state and the triumphantly growing economy that the prime minister, David Cameron, is boasting of, nor the profound debate about equality that the Labour Party leader, Ed Miliband, wants to have. Instead, they see a gap where Britain should be on the international-relations radar.

Russian aggression is not limited to Ukraine: the country's bombers are now testing Britain's air defences as frequently as they did at the height of the cold war. Meanwhile hundreds of radicalised young Britons have gone to fight for Islamic State (is) in Syria and their jihadist colleagues are ostentatiously murdering Christians on Mediterranean beaches in Libya. "Every witness to our committee, from Henry Kissinger to Madeleine Albright, says these are the most tumultuous times they have seen in their lives," says John McCain, chairman of the armed services committee in America's Senate. Yet Britain is cutting back on defence—something that, he says, "diminishes Britain's ability to influence events".

Margaret Thatcher saw herself, and was seen, as an essential partner of two American presidents. She stoutly defended nuclear deterrence when she thought her friend and ideological soulmate, Ronald Reagan, was getting carried away in talks with the Russians. Tony Blair pushed NATO and Bill Clinton into military action

in Kosovo. Ill-fated though the later invasion of Iraq proved, Mr Blair was never an American poodle. He believed that Britain should be in the first rank of countries prepared to counter the threat of Saddam Hussein's supposed weapons of mass destruction. Even the maligned Gordon Brown co-ordinated the international response to the financial crash of 2008.

David Cameron came to office in 2010 promising a different kind of foreign policy, but still a highly active one. The notion that Britain was fated to play a smaller role in the world, the prime minister said in a 2010 speech, was simply wrong. It had the fourth-biggest defence budget in the world. It had a deep, close relationship with America and was an active member of the European Union. It also had great commercial strengths, which—and this was the new idea—it could use to enhance its status. "Few countries on earth have this powerful combination of assets, and even fewer have the ability to make the best use of them," he boasted.

Those assets have instead been depleted and squandered. Britain has run down its armed forces: its defence budget has slipped from being the world's fourth-biggest to its sixth (see chart on next page). The ending of NATO's combat mission in Afghanistan at the end of last year supposedly drew a line under difficult counter-insurgency campaigns in distant places. Any remaining appetite for adventures abroad was sated by the 2011 intervention in Libya,

Also in this section

55 Farewell, William Hague

56 Bagehot: Scaring voters, not impressing them

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

which drew attention to dwindling military resources and the perils of plunging in without having a follow-up plan.

Since then Britain has become ever more unwilling to deploy the diplomatic and military resources it does possess. For a country that has long been respected for the skills of its diplomats, the professionalism and dash of its armed forces, the global outlook of its political leaders and its ability to punch above its weight, the decline has been unmistakable.

Hosting NATO's summit in Wales last September, Mr Cameron cajoled other countries into pledging to follow Britain's example and spend 2% of their GDP on defence—as all are supposed to do. Yet in December his chancellor of the exchequer, George Osborne, was announcing spending plans for the next parliament that implied not only that Britain would fall just short of the NATO target in the coming fiscal year (to 1.95%, despite including war pensions in the defence budget for the first time) but that it would go on falling.

Pound foolish

This is because Mr Osborne has decreed that Britain is only halfway through necessary cuts to departmental spending, and defence is not one of the three "ring-fenced" departments (health, education and overseas aid). In interviews following his budget speech on March 18th, Mr Osborne repeatedly refused to say that a Conservative government would keep its own 2% promise.

Malcolm Chalmers of RUSI, a London-based think-tank, calculates that if another Tory-led government sticks to its fiscal plans, the Ministry of Defence might face a 10% real cut in spending over the next five years at a time when both personnel and equipment costs will rise faster than inflation. What makes the squeeze even tighter is that, towards the end of the period, the ➤

► first of two new aircraft-carriers will be entering service—requiring expensive F-35s to fly from it—and construction of four new Trident ballistic-missile submarines will also be under way. Even if the government sticks to an earlier promise to increase equipment spending by 1% from next year and hold the rest of the budget flat in real terms, Britain would still spend only about 1.75% of its GDP on defence by 2019, compared with 2.6% in 2010.

This matters. Kori Schake, a former security official in Republican administrations, now at the Hoover Institution, says Washington sees the 2% figure as totemic. “We think of Britain as the standard-bearer for allied behaviour,” she says. More pragmatically, Ray Odierno, America’s army chief, wonders whether in future Britain will have enough soldiers to work alongside an American division. On the most pessimistic of Mr Chalmers’s calculations, the British army, already shrinking from 102,000 to 82,000 soldiers, could end up with around 50,000.

Shrinking violent

Britain is much less engaged overseas, both militarily and diplomatically. Mr Cameron has left the difficult and unsavoury job of dealing with Vladimir Putin to other European leaders, principally Angela Merkel. Britain’s contribution to the fight against IS in Iraq has been about one air strike a day. Philip Hammond, the foreign secretary, ruled out any action against the group in Syria, saying, not accurately, that Parliament had already voted against it—a reference to the bungled debate in August 2013, when Mr Cameron sought and failed to win approval for punishing President Bashar Assad’s use of chemical weapons.

“In this job I travel a lot and I had underestimated the extent to which our allies expect us to be there when it counts,” says Michael Clarke, RUSI’s director. “They are disappointed when we are not and they note the reduced ambition.” It does not help, he says, that President Barack Obama has rarely set a firm or consistent foreign-policy course that Britain could follow. Yet when American leadership has wavered in the past, British prime ministers have helped stiffen their spines.

François Heisbourg of La Fondation pour la Recherche Stratégique, a think-tank in Paris, draws a different comparison. Although an Anglo-French defence treaty signed in 2010 has led to much co-operation, even over nuclear weapons, the French notice Britain’s lost appetite for military expeditions. Mr Heisbourg says: “The French still think they can make a difference and if they can, they should. Take Boko Haram. Where are the Brits in Nigeria?” France has fought Islamist insurgents in Mali, a former French colony, and is trying to unite Chad and other neighbouring countries against Boko Haram.

How modest

Military spending, 2013, \$bn



Morale at the once-mighty Foreign and Commonwealth Office is low. Mr Blair undermined it by moving foreign policy to 10 Downing Street, and it has suffered years of neglect. “You can see how its Russian expertise has been hollowed out,” says one of the country’s most senior former ambassadors. “When the Ukraine crisis happened, the old cold-war cadre of people just wasn’t there.” He blames Mr Osborne for dictating a mercantilist foreign policy, lamenting “the kowtowing to China”.

Scarce diplomatic resources have been poured into Beijing and an ambassador has been appointed to The Association of South-East Asian Nations. Admittedly, Britain’s pivot to Asia is not just about trade: diplomats are engaged in trying to stop conflicts in Mindanao and Myanmar. By contrast, despite the huge amount of development aid Africa receives from Britain each year, that rising continent has been largely ignored by senior politicians.

The Foreign Office’s puny annual spending of about £1.6 billion (a cut of 16% in real terms since 2010, nearer 30% if the money that used to fund the BBC World Service is included) compares with the largesse showered on the Department for International Development (DfID), which will enjoy a budget of over £11 billion, and rising, this year. While refusing to commit Britain to the 2% target for defence spending, the government was nonetheless happy last month to confirm that, regardless of

circumstances, DfID would receive each year 0.7% of GDP. Professor Sir Lawrence Freedman, a leading academic strategist, reports “a striking decline in interest in international affairs at the senior levels of politics. It was surprising to see the parties tie their hands in this way. DfID doesn’t do foreign policy.”

A further reason for the Foreign Office’s sense of impotence is that it has been uncomfortable with the government’s approach to the EU. The perception that Britain has become a semi-detached member, and perhaps fully detached if Mr Cameron’s gamble of holding an in-or-out referendum in 2017 goes wrong, is hard to argue with. Although Britain has always preferred a transactional approach to the EU, Mr Cameron has sought to do deals without forming the relationships that would make them possible.

From his ineffective “veto” of a fiscal treaty in 2011 to his ill-fated attempt to halt Jean-Claude Juncker’s campaign to become president of the European Commission last year, Mr Cameron has repeatedly got it wrong, finding himself isolated with little to show for his intransigence. One reason for his failure is that when Mr Cameron was battling for the Tory leadership a decade ago, he courted Eurosceptics by promising to leave the centre-right European People’s Party group in the European Parliament. That cut him off from vital political intelligence.

Remaining outside the euro, while unquestionably a blessing for the economy, has also contributed to Britain’s separateness. But Charles Grant, director of the Centre for European Reform, believes that the euro is not the issue: “Look at Tony Blair at his best. The problem now is a lack of ambition. We are capable of leading on a range of issues—climate, energy, trade, the single market, defence, foreign policy. But too often we don’t even when we could.”

Two of the EU’s great achievements—the creation of the single market in the 1980s and eastward expansion in the 2000s—were championed by Britain. Its liberal, free-market instincts have countered the protectionist tendencies of the ►



► French and others, while its permanent membership of the UN Security Council and its nuclear deterrent have given the EU strategic heft. Those days now seem largely gone. Tough but fair pursuit of Britain's national interest has been replaced by point-scoring and posturing, say Eurocrats.

Mr Cameron's promise of a referendum has done less damage than the rhetoric that has followed it. At times he has come close to disparaging the cherished principle of free movement of European citizens across borders. The government's anti-immigration rhetoric has damaged relations with natural allies such as Poland, according to Mr Grant. (It has also annoyed well-to-do Indians, who used to send their children to British universities but now favour America.)

The failure to nurture relationships with potential allies or to understand how the EU works might mean that Mr Cameron gets less help in resetting the terms of British membership than he hopes for. British ministers have a reputation for arrogantly ignoring smaller member countries, while at least two larger ones, Spain and France, would not be all that sorry to see Britain leave the EU. Mr Heisbourg says: "The French elite finds living with the UK a pain. 'Brexit' is not an unpleasant prospect to some of them, if it means investors deserting Britain."

One-legged stool

It is possible that more money will be found for defence; that if the Conservatives win the general election they will go on to win a referendum on EU membership; that once the election is out of the way, the next government will make a concerted effort to show that Britain can regain the confidence of allies and the respect of foes. But the converse is also possible. And it is hard to imagine that a minority Labour government supported in office by the Scottish National Party (SNP) offers a happier prospect. Ed Miliband beat his brother in the race to lead Labour partly by loudly (and retrospectively) opposing the Iraq war, while the SNP wants to scrap Trident.

Xenia Wickett, head of American affairs at Chatham House, a London think-tank, puts the view of Britain's most important ally succinctly. As far as Washington is concerned, the relationship rests on a three-legged stool. The first is respect for Britain's military and intelligence capabilities; the second is Britain's EU membership; the third is Britain's "soft power" in Washington. There it has traditionally been both a trusted partner with a sometimes different perspective on world affairs, and one that sends a message internationally that America is not acting unilaterally. "Cuts in defence would crumble the first leg," she says, and "leaving the EU would destroy the second. The third might survive, but stools don't balance on one leg." ■

A Tory titan retires

William, it was really nothing

The Conservatives bid farewell to a talented parliamentarian

THE high esteem in which William Hague is held was evident on March 26th even amid the Conservative leader of the House of Commons's shabby last act. To mark the end of the parliament, which also concluded his 26-year-long career as an MP, Mr Hague launched a surprise, failed, bid to oust the speaker, John Bercow, who many Tories dislike. It was typical of the Tories' bungling in Parliament; but, MPs tutted, also an unseemly exit for one of its best performers of modern times.

They were wrong. Because the 54-year-old Yorkshireman was following party orders—and that, even more than his laconic drawl and brilliance at the dispatch box, epitomises his career. The episode was also typical of the sort of orders Mr Hague has often had to follow, as an absurdly young Welsh secretary under John Major, as his successor as party leader, and, between 2010 and 2014, as foreign secretary.

So what did he achieve? In an interview in his parliamentary office, Mr Hague names, without hesitation, a law he got passed in 1995 to outlaw discrimination against the disabled as his proudest legislative achievement. His spell as party leader ("I don't regret taking the leadership on, or giving it up; somebody had to do it") is harder to enthuse about. After a stab at forging a kinder Conservatism—which remains elusive—he fell back on Euroscepticism, was humiliated in the 2001 election and resigned. That he remained an MP was an act of courage, which he burnished with dazzling speeches and unshakable loyalty to his successors. David Cameron, who took the helm in 2005, called him the Tories' deputy leader in all but name.

This made Mr Hague the most powerful foreign secretary since Tony Blair, a globe-trotting prime minister, emasculated the job. Even in a time of cuts—which Mr Hague ensured were lighter at the Foreign Office than they might have been—he had an opportunity to strengthen his office ("the best job in the world") and Britain's place in the world. He did not really take it.

He did some excellent things—restoring confidence to a department he found to be "shockingly" demoralised, including through a renewed emphasis on learning languages and other lapsed skills. He also expanded its operations, opening 20 missions, especially in India and China, the focus of a commercial push. He was also bold, early on, supporting Mr Cameron's championing of the Arab spring, including



Sonorously serious

the intervention in Libya in 2011. Mr Hague describes their failure to win parliamentary support for strikes on Syria's regime in 2013 as one of his "worst experiences".

But after that setback Mr Cameron seemed to lose interest in the world. And Mr Hague did nothing obvious to fill the gap. He did not demur when Mr Cameron ordered a pullout from Afghanistan more abruptly than Britain's allies wanted. "We would have been there for decades" otherwise, he says; NATO only wanted Britain to stay, with a tiny force, for a year or two.

Mr Hague's absence from the early Franco-German efforts to end the Ukraine crisis seemed similarly indicative of shrunken ambition. "You can't be everywhere", he protests. But when it comes to tackling the continent's biggest security threats, Britain should always be with its main European allies. That Mr Hague was meanwhile more prominent in campaigning against rape in war, often alongside the film star Angelina Jolie, seemed a bit odd. The cause was important, but there was little in the history of such campaigns to suggest it would succeed, and the foreign secretary was required elsewhere.

He retires to a pile in Wales and the 18th century, about which he writes fine books. It has been a thoroughly commendable political career; but, especially when set against Mr Hague's gifts, not a great one. ■

Bagehot | Pricking the bubble

Britain's mainstream politicians cannot scare voters, so they had better start impressing them



JAMES ILLINGWORTH, of Marchwood Drive, Sheffield Hallam, says he will not vote for his sitting MP in May because he is "not Labour". Given that Nick Clegg is the leader of the Liberal Democrats, that might sound rather obvious. But as it did not stop Mr Illingworth voting for him in 2010, he is pointing, with Yorkshire brevity, to a more sophisticated explanation. The Lib Dems' grip on the prosperous Sheffield suburb, which they took from the Conservatives in 1997 and hold with a 15,000-vote majority, was based on uniting left-wing voters against a common enemy. But then Mr Clegg got into bed with that Tory foe, and his base crumbled. Thousands of Lib Dem voters-of-convenience, such as Mr Illingworth, have gone grumbling back to Labour.

Constrained by coalition—for example, into allowing a rise in university tuition fees he had foreshown—Mr Clegg has since lost more support. One opinion poll shows a huge swing to Labour in Sheffield Hallam, putting him three points behind its candidate, Oliver Coppard. A softly spoken local, Mr Coppard is now working hard to spread the message that he is "not Nick Clegg". ("Any thoughts on your MP?" he asks at every door.)

It is nothing personal. Mr Clegg is the MP voters would most like to have a drink with and, according to users of the website Mumsnet, have sex with. His troubles mainly illustrate how unused Britons are to coalitions. But they also show what a fragile base negative voting, which in recent decades has fuelled the Lib Dems' rise, makes. It is therefore surprising that Labour and the Tories are desperate to emulate the tactic. To break their deadlock, both are appealing to voters less on the strength of their plans for Britain than on a built-on-sand basis of what they are not.

David Cameron says a vote for the right-wing UK Independence Party (UKIP) is a vote for Ed Miliband. That is at least logical: if forced to choose, most UKIP voters would pick the Tory leader over his Labour rival. A comparable claim by the Scottish Labour leader Jim Murphy, that a vote for the leftist SNP is a vote for Mr Cameron, is more dubious. If, as looks likely, the SNP grabs most of Labour's 41 Scottish seats, it would support a Labour government, not deny it power. Yet both negative claims point to an important truth about this campaign.

Instead of going after each other's votes, by making the moderate pitch to the centre honed by their predecessors, both big par-

ties are trying to scare voters back from the more dynamic and unstable margins, where UKIP and the SNP reside. Their method is to stir fear of a common enemy, just as the Lib Dems did. But even in the UKIP case, this is unlikely to pay off.

That is partly because Britain's fracturing vote is throwing up so many options for tactical voting the electorate is as likely to be befuddled as scared by Mr Cameron's and Mr Murphy's warnings. While Mr Murphy tries to rally the Scottish left, grassroots campaigners—such as Forward Together and Scotland's Big Voice—are trying to rally unionists against the SNP. Down south, pragmatic Tories, in Stop Labour, are trying to rally the right, in 88 constituencies, to whichever party, UKIP or the Tories, looks likelier to win. To keep UKIP out, some liberals will no doubt also switch between the big parties—from Labour to the Tories in places like Newark, where Labour has no chance; from the Tories to Labour in seats such as Great Grimsby, which UKIP could take.

Another reason to drop the scare tactics is that, set against the structural cause of this great fragmentation, they look utterly inadequate. Even if most SNP supporters prefer Labour to the Tories and most UKIP voters prefer the Tories, that is no longer their whole choice. Fractured by devolution, coalition, resurgent nationalism and a deep sense of economic malaise, Britain finds itself with a multiparty system. Its leaders cannot change that by trying to scare voters back to allegiances they have already dispensed with. Research by Stephen Foster of Oxford University suggests switchers from Labour to the SNP have only a mild preference for their old party over the Tories. Troublingly for unionists, it also suggests most Scottish Tory, Lib Dem and Labour voters do not prefer each other's parties to the SNP.

Instead of wrestling each other into further decline, in what is already a dismally negative campaign, Labour and the Tories need to reflect on what is pushing their voters away. The answer is that, for all the "nats" are little Scotlanders, the "Kippers" little Englanders and the Greens a little crackers, all have a clear and positive vision of a kind the mainstream parties struggle to offer.

Disgruntled, but open to a good offer

This cannot be fixed by May; the post-financial-crash complexities, which are at the core of the problem, are imposing. On the right, the weakness of Britain's economic model has discredited the laissez-faire management Tories hanker after, even as it has stymied their effort to shrink the state and exacerbated the inequality they always struggle to respond to. Under Mr Miliband, Labour has devoted himself to these issues, but its fixes—involving more regulation and other bad news for business—are dreary and unconvincing. These problems are hardly exclusive to Britain, and solving them will take time. But there is much Britain's established politicians can do to improve their pitch meanwhile.

They need to be hopeful, not negative; strategic, not tactical; and more candid, by admitting errors as well as boasting about success. Voters are likelier to associate these qualities with the adept SNP and UKIP leaderships than with Labour or the Tories, which is another reason for their struggles. Mr Cameron and Mr Miliband need urgently to learn from that; if they can, they would find that voters give them a surprising hearing. Because the upside of people's unwillingness to be corralled by politicians is that most are not terribly committed to any party. That includes Mr Illingworth, who is less set against Mr Clegg than he at first suggests. "To be fair, the one thing he got right," he muses, "was that business about the tuition fees." ■



Prenatal health and life outcomes

Unequal beginnings

A child's long-term well-being is more profoundly shaped by influences in pregnancy than used to be realised

HALF a century ago doctors saw the fetus as a "perfect parasite"—absorbing what it needed but sealed off in the womb from any harm done to the mother. About half of American women smoked through pregnancy. When babies were born with the damage now described as fetal-alcohol syndrome, heredity was blamed.

Since then it has become a commonplace that healthy habits and good nutrition during pregnancy make it less likely that a baby will be born early, underweight or ill. Now a growing body of research is showing that problems caused by the prenatal environment may not be apparent at birth, but can resonate throughout life. Infections, hunger, stress and air pollution have been implicated in a host of long-term problems for those exposed to them in utero, including bad health, poor school results and lower earnings. Even relatively minor exposure can increase the odds of suffering from chronic disease or disability.

Long-term consequences, by definition, take time to become apparent. And pregnant women cannot be randomly assigned to suffer different types of adversity—which can, anyway, be correlated either with each other or with inherited traits. So some of the strongest evidence has come from comparing those in the womb during sudden calamities such as famines, natural disasters and environmental accidents with those born just before or after. This approach untangles the

effects of environment from those of genes or upbringing. Comparisons between entire cohorts should mean that those who were affected are the same as those who were not in every respect except their environment. That permits researchers to draw inferences about the effects of harms inflicted in utero on individuals rather than groups.

The 1918 influenza pandemic affected a third of all American women of child-bearing age. Fifty years on, those who had been in the womb at the time had done worse in school and were earning less than those slightly older or younger. The men were 20% more likely to be disabled. Similarly, babies born to Dutch women who were pregnant during the 1944-45 "hunger winter", when the Nazis blocked shipments of food to the occupied western provinces of the Netherlands, were more prone in adulthood to a host of health problems, including obesity, heart disease, diabetes, schizophrenia and depression. And Swedes born in the months after the 1986 Chernobyl nuclear accident, which sent radiation-bearing dust clouds across swathes of the country, were 40% more likely to fail in middle school than those born just before or after, even though they were exposed to radiation at doses now considered harmless, and their physical health did not seem to be affected.

Less extreme events can also have long-term effects. A study from Sweden found

Also in this section

58 Smoking in pregnancy

that the children of women who had lost a relative while pregnant grew up to be more likely to suffer attention deficit disorder, anxiety or depression. Another, of Bangladeshi and Pakistani families in England, found that children whose first trimester in the womb coincided with Ramadan, when observant Muslims fast from sunrise to sunset, lagged behind educationally when they were seven—even though only some pregnant Muslims observe the fast. The negative effect on school performance was of similar size to the positive one associated with America's Head Start, an early-years education programme.

One explanation for such ill effects is that poor prenatal health retards the growth of the fetus or causes premature birth. Pregnant women who live in areas with badly polluted air are more likely to give birth early and their children are on average smaller. Underweight newborns are more prone to the same types of ills that are linked to fetal-origins effects.

Nurture meets nature

But not all of the long-term harm caused by prenatal suffering can be linked to birth weight, suggesting that something else is at work. One theory is that adversity during pregnancy "switches on" genes that predispose an unborn child to chronic illness. The long-vaunted distinction between nature and nurture is therefore "outdated and unhelpful", says Janet Currie of Princeton University's Centre for Health and Child Wellbeing. Poor nurture during pregnancy can worsen the hand that nature has dealt.

One sobering conclusion is that children born to poor mothers are at an even greater lifelong disadvantage than previously thought. Poorer people are more likely to go hungry and less likely to know what pregnant women should eat. In America, nearly a third of black, unmar-

ried expectant mothers who did not graduate from high school gain less than the recommended amount of weight during their pregnancies—twice as high as the share for white, married women with college education. A life in poverty is all too often a life of chronic stress. American women who earn less than \$25,000 a year are two-and-a-half times more likely to suffer domestic violence than those who earn more.

In developing countries newborn babies face a wide range of hazards that they were protected from in the womb, at least partly. These include dirty water, gross undernourishment and infectious disease. That is why development experts emphasise the importance of the “first 1,000 days”—the nine months spent in the womb and the first two years outside it. In the rich world, small babies face fewer risks. The time spent in utero is therefore relatively more significant.

But in the fetal-origins hypothesis there also lies one policy advantage. Many of the stresses known to damage fetuses can be ameliorated by better health education, nutrition supplements and targeted subsidies. Food vouchers have been shown to reduce the incidence of low birth weight among poorer women. Tanzanian children who were in utero during iodine-supplement programmes did better in school; the gains were equivalent to six months of extra schooling. A monthly nurse-visiting scheme in America for poor unmarried first-time expectant mothers, which started when they first came to a clinic for pre-

natal care and continued until their children turned two, led to fewer delinquent adolescents.

It can take a long time for environmental policies to have an impact. But housing subsidies that allow poor pregnant women to move away from highly polluted areas can help fast. Even stress during pregnancy can be reduced. In America and Canada, cash transfers to poor families with young children have improved mothers' mental health. An American law that mandated 12 weeks of unpaid maternity leave for some working women cut the incidence of premature births. Cracking down on domestic violence by reducing the discretion of police and prosecutors not to proceed with cases, and increasing community resources for victims, have also led to higher birth weight.

Making sure women realise early that they are pregnant can help to avoid unnecessary risks. Nearly half of pregnancies in Britain are unplanned, and many women binge-drink before they know they have conceived. Alaska is installing free pregnancy-test dispensers in bars in an attempt to cut the rate of fetal-alcohol syndrome. Increasing access to family planning by including contraception in health-insurance programmes for the poor can help make unintended pregnancies rarer. Well-designed and targeted interventions can be very cost-effective, points out Douglas Almond of Columbia University. Fetal-origins effects are often large—and pregnancy, after all, lasts just nine months. ■

Tar, mum

Smoking prevalence among women, 2011 or latest

Total, %

During first trimester, % of pregnant women



Sources: EURO-PERISTAT;
WHO; CDC

*Third trimester
†During pregnancy ‡24 states

harm their unborn child. They may have smoked during an earlier pregnancy and argue that since the older child seems fine, the younger one will be, too. Such faulty logic can be reinforced by families and peer groups. In some poor areas of Britain a quarter of pregnant women smoke—more than twice the national rate. Just one in a hundred college-educated American women smoke while pregnant, against 17% of high-school dropouts. It is important to help expectant fathers to quit, says Carlo DiClemente of MDQuit, a Maryland smoking-cessation centre. If they keep smoking their partners probably will, too.

One promising approach is paying women to quit. A recent trial in Scotland gave up to £400 (\$590) in shopping vouchers for women who stayed off cigarettes until their babies were born, as well as the usual package of counselling and nicotine patches. The success rate rose from 9% to 23%. If further trials show similar results, the scheme may go nationwide. Even smaller amounts may help: the state of Maryland recently started giving pregnant women who call a smoking-cessation service up to \$90 in shopping vouchers that can be used to buy items for the baby. To get the full amount they must keep calling after the baby is born. (Figures from many countries suggest that at least half those who quit during pregnancy start again soon after giving birth.)

Such bribery could pay off in the long run. In America smoking-related medical costs for a mother and baby in the first year after birth average well over \$1,500. Britain's National Health Service is estimated to spend between £20m and £88m a year to treat such health problems. But the best way to ensure that women do not smoke when pregnant is to ensure that fewer light up in the first place. ■

Smoking in pregnancy

Huffing and puffing

Some expectant mothers struggle to quit smoking. What can help?

CIGARETTE packets in France will soon carry a logo warning pregnant women of the dangers of smoking. The addition was prompted by recent data finding that 18% of French expectant mothers admit to smoking right through pregnancy—more than in many other rich countries, where fewer women smoke to start with (see chart). The true figure may be higher: blood tests suggest that many pregnant smokers lie about their habit—in studies in Scotland, as many as a quarter.

Most women who smoke give up when they learn that they are pregnant. Getting the rest to follow is hard. The usual approach is to tell them at their first prenatal visit that smoking is bad for the baby, encourage them to call a helpline and offer counselling. Some countries subsidise nicotine patches for pregnant women. The

more of these steps are included, the higher the success rate. But even the best programmes get only a tiny fraction of this rump of smokers to break the habit.

Mental-health problems, poverty and domestic abuse all make quitting harder. Poor medical advice may, too: in several countries, including Britain, Bulgaria and France, some women may be told that a few cigarettes a day are better than the stress of cold turkey. That may be the least bad advice for the hopelessly addicted. But it is being given too readily. When health workers smoke themselves they may also be less zealous—and less credible. Surveys in 2009-10 found that a fifth of Spanish and Italian medical students smoked, and almost half of Bulgarian ones.

Some women still believe, despite what they hear, that smoking will not

Correction. In our article on development goals (“The good, the bad and the hideous”, March 28th), we said that fossil-fuel subsidies cost \$50 billion a year. In fact they cost \$550 billion. This has been corrected online.



Microsoft at middle age

Opening Windows

REDMOND AND SAN FRANCISCO

A once-dominant software giant is determined to prove that life begins again at 40

WHAT are you on? The ‘fuck Windows’ strategy?” Back in the late 1990s, when Bill Gates was still Microsoft’s boss, any employee who had the temerity to suggest something that could possibly weaken the firm’s flagship operating system was sure to earn his wrath. Even after Steve Ballmer took over from Mr Gates in 2000, that remained the incontestable law at the company’s headquarters in Redmond, in Washington state. Everything Microsoft did had to strengthen Windows, to make it ever more crushingly dominant. Many of the company’s best innovations were killed because of this “strategy tax”, as it was known internally.

Today the rules are different in Redmond. The new boss who took over last year, Satya Nadella (pictured, centre, with Mr Gates to the left and Mr Ballmer on the right), recoils when he hears the term “strategy tax” and says he now tells his staff simply to “build stuff that people like”. Some of the things he has done would surely have been seen by his two predecessors as “fuck Windows” strategies. Office, the company’s popular suite of word-processing, spreadsheet and other applications, now runs on mobile devices that use competing operating systems. The company is embracing free, “open-source” software, which it used to regard as anathema. At an event in San Francisco last October Mr Nadella showed a slide that read: “Microsoft loves Linux”. In contrast, Mr

Ballmer once called the open-source operating system a “cancer”.

As Microsoft celebrates its 40th birthday on April 4th, its executives and shareholders will be looking back wistfully to their company’s lost youth. Born in the year that Captain & Tennille topped the American charts with “Love Will Keep Us Together”, by its 20s it had leapt ahead of the stumbling behemoth of information technology, IBM, only to slow in its 30s and be overtaken by its eternal arch-rival, Apple, a company barely a year younger than itself (see charts, next page).

Mr Nadella’s formula for reinvigorating Microsoft is to move as quickly and as far as possible away from being a Windows-only company to be a global network of giant data centres that provide a broad range of online services for companies and individuals. So far he has done well in beginning to turn round a supertanker of a company, with 123,000 employees and \$87 billion in annual revenues.

Microsoft’s transition is being watched by other tech giants, old and new—because they are either going through similarly wrenching changes or worry that they may have to reinvent themselves in the future. Cisco, EMC, Hewlett-Packard, Oracle, IBM and SAP—all these have to navigate the shift from a world where computers lived on people’s desks or in companies’ basements to one in which number-crunching mostly resides in the “cloud”,

Also in this section

- 61 Steel fatigue in China
- 61 Tech clusters down Mexico way
- 62 Will Iran’s oil start flowing?
- 63 An Indian tyremaker goes global
- 64 Schumpeter: Silicon Valley sexism

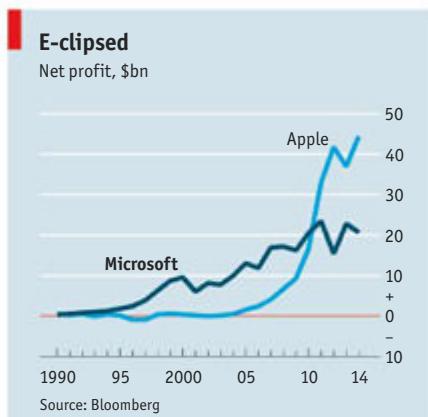
For daily coverage of business, visit
Economist.com/business-finance

meaning remote data centres, and in people’s hands, in the form of mobile devices.

Amazon, Apple, Facebook, Google and others like them are constantly on guard for the emergence of a new technology “platform” that allows rival businesses to build applications that lure away their customers. That is why the 11-year-old Facebook recently spent \$22 billion on WhatsApp, a fast-growing messaging service, and \$2 billion on Oculus VR, a maker of virtual-reality headsets.

That Microsoft is just about Windows has always been somewhat of a simplification. A more accurate image is that the operating system was the core of a tight bundle of programs the firm built over the years. After Windows had achieved dominance of desktop personal computers in the 1980s, it was packaged with Office, which became just as ubiquitous. As high-powered PCs, called servers, became standard equipment in companies’ internal data centres, Microsoft repeated the trick: it created a suite of server software, including e-mail systems, databases and all manner of other business applications, that were tightly integrated with Windows. It was this bundling that helped Microsoft overtake IBM as the most valuable tech company in the mid-1990s.

All the programs can be made to work with rival products, but work best together. That boosted Microsoft’s business (and got it into antitrust troubles)—but has also been a benefit for customers. Yet as computing is moving into the cloud, this model is breaking down. Software is becoming a service delivered over the internet and mostly based on open standards. “It is easier than it has ever been to use programs from multiple vendors,” explains George Gilbert of TechAlpha Partners, a consulting firm. “And the idea of an operating system is much less relevant.”



Ironically, Microsoft was among the first software firms to recognise the potential of cloud computing. But its vision was distorted by its obsession with protecting its existing product line. So from 2006, when it began working on Azure, its cloud-computing service, it was mainly an online replication of Microsoft's bundle of proprietary programs. That left open a market for other cloud providers—in particular Amazon—to sell businesses raw computing power, on which they could run whatever mix of programs they wished. Likewise, Microsoft was among the first to see the promise of hand-held computers, as smartphones were once called. But it tried to force users to run Windows on them, rather than developing a new operating system better suited to mobiles, as Apple did.

Before becoming chief executive Mr Nadella had been in charge of Azure, and he revived its flagging fortunes by cutting the price of its cloud services and letting customers use their own choice of software. Since assuming the top job, besides making Office available on Apple and Android mobiles, he has moved it towards a “freemium” model: for personal users (though not businesses) the basic version costs nothing, but you pay for extras. Under Mr Nadella the company is showing flexibility in other ways, such as by cutting deals with rivals. For instance, users of the online version of Office, called Office 365, can now save their files on the servers of Box, another cloud-storage firm. “They used to treat us like arch-enemies,” says Aaron Levie, Box’s boss.

Mr Nadella is also seeking to rejuvenate Microsoft’s internal culture, to make it more like the startup it was back in the days of flared trousers and outsized lapels. Far from having them stamped on, Microsofties are now encouraged to test their “wild ideas” on a public website called Garage. It rushes early versions of products out of the door, so customers can try them out, and help spot any bugs. Microsoft has also bought some hot young startups. One such is Mojang, the maker of Minecraft, a popular online game. Another is Acompli, whose e-mail app has been renamed Out-

look and is now Microsoft’s e-mail service for Apple and Android mobiles.

Yet Mr Nadella’s biggest achievement so far is that he has given Microsoft a coherent purpose in life, as it enters its fifth decade. He sums it up in two mottos. One is “mobile first, cloud first”: since these are where the growth is going to come from, all new products need to be developed for them. The other is “platforms and productivity”. Windows is still an important platform, and Office still an important set of productivity tools. But Azure is an increasingly significant, and more flexible, platform. And among a new range of productivity applications Microsoft offers is Cortana, an intelligent personal assistant much like Apple’s Siri and Google Now. It already recognises natural language, answers questions and issues reminders; in future it will increasingly anticipate what a user needs, for instance by pulling together the documents for a meeting.

Talent competition

Although industry observers mostly praise what Mr Nadella has done so far, they have several nagging questions. One is about talent. “Microsoft has lost a lot of great people,” explains Marco Iansiti of Harvard Business School. Although it has also gained fresh blood by buying startups, it will have to work hard to keep up in the battle to hire the best programmers. Another problem may be the quality of its software. In the past Microsoft has worked hard to prove to commercial customers that its programs are reliable, says Rob Helm of Directions on Microsoft, a research firm. As it tries to function like a startup, releasing products early and often, they may become less “trustworthy”, to quote another of Microsoft’s mottos.

What should happen to Microsoft’s other businesses is also an open question. Analysts have called for them to be hived off. Bing, the firm’s search engine, seems safe: after losing billions, it will soon be profitable; and it provides important data inputs for Cortana and other services. The Xbox, a gaming console, is recovering from

misguided attempts to turn it into a hub for the digital living room. But Nokia’s handset business, which Microsoft bought last year to save the last big maker of Windows-powered phones, now looks like a mistake after the changes in the firm’s strategy.

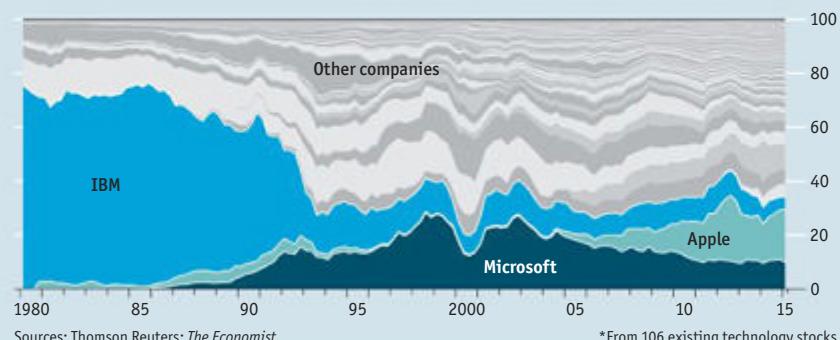
The biggest question is about Microsoft’s finances. As people and businesses buy ever fewer, and cheaper, PCs, the revenues from Windows are falling. In the quarter to December 31st they were down by 13% on a year earlier. Sales in the commercial cloud business, including Office 365, more than doubled year-on-year, to reach an annual run-rate of \$5.5 billion. But this is only a small fraction of total revenues, and the division is still thought to be losing money. Furthermore, says Rick Sherrlund of Nomura, an investment bank, it is unclear how newer applications, such as Cortana, will make a living. “The business models have yet to be invented.”

They are unlikely to be as much of a cash cow as Windows and Office, which still generate 44% of revenues and 58% of profits. The gross margin of classic Office is 90%; that of Office 365 is currently only 53%. In other cloud businesses profits will be elusive, given the intense competition from Amazon, Google and increasingly IBM. Citigroup, another bank, recently estimated that Amazon’s margin in the cloud was between -2% and -3%. In other businesses Amazon has shown a high tolerance for losses as it strives for growth.

As other tech firms, young and not so young, seek to learn from Microsoft’s middle-aged decline, the main lesson they will draw is that it was too protective, for too long, of its main franchise, which led it to ignore threats that eventually became unignorable. Mr Gates was most to blame for this; Mr Ballmer was adept at continuing to milk the Windows cash-cow for longer than might have been expected, but he too was slow to respond to the rising threat from the moves to mobile and the cloud. Now Mr Nadella is having to move rapidly to dispel the impression, among customers, analysts and tech talent, that his company’s better days are behind it. ■

From Big Blue, to mighty Microsoft, to Apple’s ascendancy

US technology sector market value, % of total*





Steelmaking

Twin peaks

SHANGHAI

China's steel production and consumption may soon start falling

FOR three decades China has been a steelman's paradise. Years of double-digit economic growth and relentless urbanisation gave the country an increasing appetite for the alloy. Steel went into everything, from buildings and infrastructure to cars and appliances. Consumption in China has risen at an average rate of 15% a year since the turn of the century, and at 689m tonnes last year it made up almost half of the world's total usage.

Alas, the ferrous fiesta may soon fade. China's annual growth rate has slowed from double-digit figures to around 7%. The massive investments in infrastructure that the government unleashed as a stimulus response to the global financial crisis are subsiding. Property markets around the country are cooling fast, leaving developers with a nasty debt hangover.

The upshot is that China may be close to "peak steel". Analysts at Morgan Stanley, an investment bank, believe that this is the year in which the country's consumption and production will reach its apex, to decline gently thereafter (see chart). Zhang Guangning, chairman of the China Iron and Steel Association, recently declared that "China's steel production has already hit a peak."

For the handful of big firms that produce most of the world's iron ore, the raw material for steel, such arguments are hard

to swallow. BHP Billiton, an Australian miner, insists that Chinese demand will keep growing robustly for years. Sam Walsh of Rio Tinto, a British colossus, has predicted that steel production in China will keep rising and eventually reach 1 billion tonnes a year (compared with about 823m tonnes last year). But such notions may prove to be wishful thinking. By one estimate, these and other mining firms have together splashed out \$120 billion since 2011 on new iron-ore deposits.

In a sign of how China's cooling demand for steel is affecting ore miners, last month Fortescue, an Australian company, was forced to call off a \$2.5 billion bond issue, having days earlier tried to raise the same amount through the loans market. CITIC, China's largest state-run conglomerate, recently announced that its net profits fell by nearly 18% last year thanks in part to the troubled iron and steel markets. It was forced to take an impairment charge of \$2.5 billion on a massive iron-ore project in Australia that has run into delays and cost overruns.

Aside from the risk of undermining the rationale for investments such as these, what are the potential knock-on effects of China hitting peak steel? Trade wars, for a start. Unable to peddle all of their output at home, Chinese steel producers have been exporting increasing quantities—to the consternation of producers elsewhere, who accuse them of dumping. MEPS, a consulting firm, estimates that China exported more than 90m tonnes of steel last year, which is greater than the entire output of America's steel industry and was a rise of over 50% on the previous year. Exports are continuing to surge this year.

Western steelmakers are pressing their politicians to protect them against the wave of cheap Chinese imports. On March 25th the European Union said it would impose anti-dumping duties of up to 25.2% on various stainless-steel products from China, as well as from Taiwan, after European steelmaking's trade body, Eurofer, accused mills in both countries of unfair dumping. The next day, the bosses of America's steel companies went to Capitol Hill to press

their congressmen to take similar action. Unless China finds ways to moderate its exports (the recent elimination of an export-tax rebate on certain steel alloys may help, for example), these grumblings may end up at the World Trade Organisation.

The bigger impact, though, could be in China itself. Its steel industry is highly fragmented, woefully inefficient and burdened with excess capacity. The central government has tried to force the many state-supported firms to consolidate, but recalcitrant provincial officials keen on preserving local jobs have scuppered such efforts. There are reports that the industry ministry is preparing a fresh push to restructure Chinese steelmaking by making it easier for troubled mills to go bust.

A sign of the central government's desire for a shakeout is its recent decision to end a long-standing ban on foreign investors owning majority stakes in local steel firms. In the current climate, however, it seems unlikely there will be any great rush by foreigners to buy them. Even though senior industry figures such as Mr Zhang are acknowledging that the good times are over, it may yet be some time before economic logic prevails in the Chinese steel business. ■

Startups in Mexico

Techs-Mex

GUADALAJARA

A nascent tech hub may succeed by solving local problems

AN ON-CALL masseuse is the clearest sign of Kueski's ambitions to be a Silicon Valley-style tech star, perks and all. But the startup, which lends money to middle-class people starved of credit, is based not in San Francisco but a four-and-a-half hour flight to the south, in Guadalajara—a Mexican city more associated with tequila, conservative families and Catholicism than the modern religion of entrepreneurship.

Guadalajara has long been a magnet for American electronics firms. Motorola arrived here in 1968, followed by IBM, Hewlett-Packard and various contract manufacturers, all of whom produced mainly for export. According to Erik Peterson of Oracle, an American technology firm that opened its third global development centre here in 2011, the city is now progressing from churning out hardware in bulk to creating software, somewhat like a textile factory moving into designing its own clothes. "It's the most tightly knit tech community in Latin America," he says. Last year Jalisco, Guadalajara's home state, exported almost 25 times as much tech as tequila, in dollar terms. ■



To foster the rise of a *Valle de Silicio* south of the Rio Grande, in February President Enrique Peña Nieto pledged 300m pesos (\$20m) this year to start building a "Creative Digital City" in central Guadalajara. Ricardo Alvarez, a researcher at the Massachusetts Institute of Technology and a promoter of the project, says Guadalajara has many of the ingredients to become a tech cluster, but "it's not a done deal yet". One thing it doesn't lack is chutzpah, though. A banner outside the airport welcomes visitors to "The land of entrepreneurs".

Such claims bring a smile to the face of Andy Kieffer, an American venture capitalist who moved to Guadalajara from San Francisco in 2008. The business climate could not be more different, he says. In Silicon Valley, everyone is from somewhere else; in Guadalajara, families stretch back generations. In the Bay Area, dropouts rule; in Guadalajara, without a university title a secretary will not let you through the door. In Silicon Valley, success is celebrated to the point of self-adulation; in Guadalajara, it is hidden, partly to stop criminals putting you on their hit lists.

Yet entrepreneurship in a place without a culture of business innovation is not as impossible as it sounds. Though Mexicans may not be about to create the next global hit such as Facebook or Uber, they have plenty of room to deploy technology to improve efficiencies in their country's lumbering "old economy". For instance, its banks are so risk-averse that only 15% of Mexicans have a credit card and just 5% have access to an overdraft, says Adalberto Flores, Kueski's chief executive. His firm analyses data, such as the number of social-media friends someone has, that provide a gauge of trustworthiness, and offers promising customers loans averaging \$150 for periods that average 22 days.

Voxfeed, another local startup, has just raised a second tranche of venture capital, according to its backers. Its aim is to drag Mexico's \$5 billion-\$7 billion a year advertising business into the digital age. Mexico is way behind its northern neighbour in switching from traditional marketing methods to online and smartphone ads. Many advertisers, for example, still use "yellow pages" paper directories or stick billboards on the sides of lorries. Yet Mexico has one of the world's highest participation rates on social networks. In a digital version of word-of-mouth advertising, Voxfeed pays people with an influential presence on Twitter and other networks to recommend places and products.

This sort of thing is exactly what Mexican startups should focus on, says Mr Kieffer: instead of trying to invent something completely new, they should disrupt sleepy Mexican industries. For example, trucks and trains often travel to the United States full of exports but return empty, even though Mexico imports all manner of

things, from machinery to meat, from its northern neighbour. This demonstrates that there is scope for using technology to modernise the logistics business. Few of Mexico's hotels, apart from the priciest ones, offer online bookings—so they are left with empty beds. Mr Kieffer says it is like America was decades ago. Instead of using technology to find customers and suppliers, "Businesses in Mexico are used to working in a few relationships where everyone knows and trusts each other. That is breaking down."

Guadalajara has rivals. Mexico City and Monterrey, each of which has a longer-established business culture, are also promoting tech startups. The Pool, a vibrant entrepreneurs' club that runs in both cities, introduces startups' founders to established businessmen, in a bid to make up for the shortage of venture capital in Mexico. But Guadalajara has the advantages of a more tight-knit community, abundant universities and, by Mexican standards, a strong tech culture. The potential for making money by attacking inefficiencies in the old economy is huge. The back massages are pretty good, too. ■

Iran's oil

Rusty taps

A deal on nuclear weapons will help more oil and gas to flow—but slowly

IN IRAN'S glory days in 1974, it pumped a record 6m barrels of oil a day (b/d). Revolution, war, politicking, mismanagement and sanctions have all taken their toll. Production is 2.8m now. If an outline deal on Iran's nuclear programme, discussed this week, is firmed up, it should begin to reverse that trend by opening new export markets and bringing in foreign investment to develop the world's fourth-biggest oil reserves. The International Energy Agency, representing oil-consuming coun-

tries, thinks that in the short term, Iran's production could rise by 0.8m b/d. Global oil prices weakened this week on the prospect of extra supply entering the market.

Hopes of a rapid rise in Iranian output may be optimistic. Though its geology is friendly and production costs low, other problems abound. Global demand for oil has slackened, supply from elsewhere is plentiful, Iran's oil industry in poor shape, and its investment climate unfriendly.

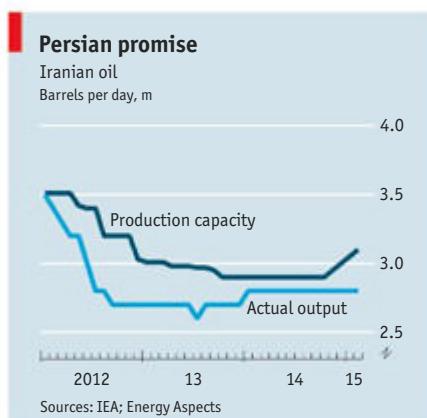
The current sanctions regime, relaxed in stages since November 2013, is already somewhat leaky. Iran exports over 1m b/d, mostly to Turkey, India, Japan, South Korea and China, which are among the 20 countries beyond the reach of the sanctions. But others benefit too: wily middlemen have long managed to evade the sanctions, using ships with frequently-changing names, operating under flags of convenience.

But lifting sanctions generally takes longer than imposing them. Though President Barack Obama can temporarily suspend America's curbs on Iran's finances and exports, permanently ending sanctions would require the approval of a highly suspicious Congress. Lifting the EU's sanctions would be easier. It could end its ban on crude imports (which were 0.7m b/d before 2012), ease restrictions on shipping insurance, and allow Iranian banks to use the SWIFT financial-transactions system.

Low prices and a dip in demand from India mean that Iran has perhaps 30m barrels in floating storage. By starting to run that down it could quickly raise its exports by 0.3m b/d. But any further significant boost to foreign sales should not be expected until late this year, says Amrita Sen of Energy Aspects, a consulting firm.

The country has been working hard to prepare its fields for the lifting of sanctions, which explains a recent rise in their capacity (see chart). But getting production back anywhere near 1970s levels will be a long job. Ms Sen says that some of the country's older fields are declining at an annual rate of 15%. They will need perhaps \$30 billion a year spent on them, for a number of years, just to stem the decline in productivity, let alone reverse it. Chinese and Russian involvement does not make up for the absence of big Western companies, which are currently looking for ways to cut their capital expenditure, rather than increase it.

Attracting the Westerners back would require not just an end to sanctions, but big changes to Iran's oil and gas laws. These do not allow foreign ownership, but instead reward international oil companies for their investments with a slice of the revenues, a scheme known as "buy-backs". The Iranian authorities say this regime already offers sufficient incentives, and will become even more favourable. Most foreign companies will need more details—and more reason to trust the authorities—before they are convinced. ►



► Another obstacle is internal politics. Iran's technocrats have long tussled with its radical Revolutionary Guards for control of the industry. This is not just a matter of ideology: the militia's business empire includes companies selling engineering services. They see foreigners as unwelcome competition. A final difficulty is OPEC, the oil-exporters' cartel, which is dominated by Iran's arch-rival, Saudi Ara-

bia, and its Sunni Muslim neighbours. They may seek ways to prevent the detested Shias from gaining market share.

So the best long-term prospects may be not in oil, but in other hydrocarbons. Iran has even richer reserves of gas than it does of oil, and these fields are in a less parlous state. The EU yearns to lessen its dependence on Russian gas imports. Why not from a newly approachable Iran? ■

world. Power cuts and strike-prone car unions have made it harder for car-component makers there to compete with a wave of cheap Chinese imports. And the deal offered only a limited gateway to new markets, because Apollo's use of the Dunlop brand was restricted to Africa. So in 2013 Apollo sold its rights to the brand to Sumitomo Rubber of Japan (which owns rights to it in some other places). It kept two former Dunlop plants in Zimbabwe, but has since closed one in South Africa.

Vredestein looks a better fit. The deal gave the firm a recognised name in Europe and meant it could match more efficiently the portfolio of brands offered by global tyre giants, such as Michelin and Firestone. It broadened Apollo's product range to include high-performance car tyres. And by bringing Apollo closer to drivers in carmad places such as Germany, it has helped to sharpen the firm's research and development, says Apollo's boss, Neeraj Kanwar. The company now sells 1m Indian-made tyres a year in Europe.

In contrast, the purchase in 2008 of Jaguar Land Rover (JLR) by Tata Motors, another Indian firm, has resulted in few spillovers for the parent's operations. JLR is run at arm's length and is highly profitable. But whereas Vredestein has been a bridgehead for Apollo's products in Europe, Tata's cars have made few inroads there.

Nor did JLR seem to need any advice from Tata on how to run its plants in Britain. But Apollo had much to teach Vredestein about efficiency. At the Limda plant there is a visible zeal for Japanese-style *kai-zan*, continuous small improvements that add up to significant gains. Apollo runs contests to spur its workers to come up with cost-saving ideas; trophies for the best ones are on display. Such enthusiasm may have infected Vredestein, a century-old firm that had perhaps lost vigour. "Suddenly you're part of a pool of seven other units," says Mr Kanwar. Only then do flaws became apparent. For instance, materials wastage at the Dutch plant was more than 4% of inputs, compared with an industry norm of less than 1%.

In conquering Europe, Apollo has not neglected India. In the same year it bought Vredestein it invested \$500m at its Chennai plant to meet growing demand from Indian lorry-makers. Ford's new factory in the Gujarati city of Sanand is the latest of several new Indian car plants that will bolster demand for Apollo's products. But these days sales in India provide just 55% of Apollo's profits. Its ambitions are global, as demonstrated by Mr Kanwar's decision to move his office to London in 2013. The company will open a €475m (\$510m) factory in Hungary in 2017, to serve European carmakers. After that, he says, there may be a plant in Thailand, to cater to the promising South-East Asian market. Before long, Apollo will be circling the planet. ■



Tyremaking

Apollo's mission

LIMDA, INDIA

An efficiency-obsessed Indian company takes on the world

PERHAPS there is a little-known rule of thumb in manufacturing that the quieter the plant, the bigger the profits. Take Apollo Tyres' factory in Limda, in the Indian state of Gujarat. The busiest of its three production halls noisily cranks out 18,000 car tyres a day. By contrast, the one where it makes smaller quantities of giant "off the road" tyres for mining and construction vehicles is like a library. The varying demands of coal pits, bauxite mines and limestone quarries require tyres that are custom-built, which means fat margins.

Buyers of such tyres are willing to pay a premium for products whose reliability saves them money in the longer run. Even a tiny deviation from the customer's specifications can lead to costly wear and tear. Precision also helps to keep Apollo's raw-materials bill slim. A 1% reduction in scrap on its biggest tyre, which is a whopping 3.5 metres tall, saves 35kg of expensive rubber.

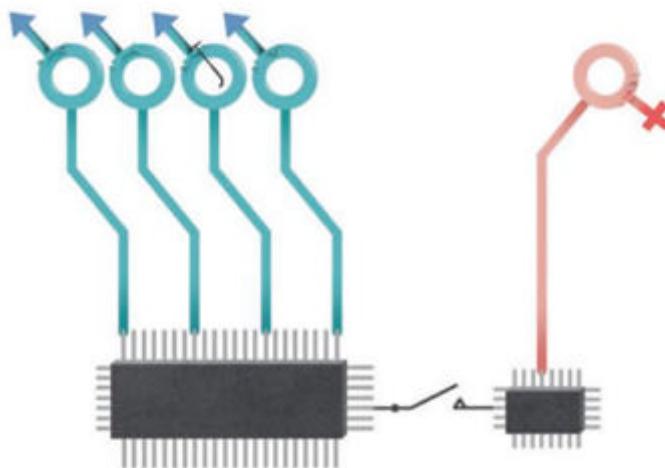
Apollo began without great fanfare in 1972, but it is now a big noise in the global

tyre industry. It has an annual turnover of \$2.2 billion from seven factories in three continents. Like other emerging-market companies, Apollo has bought businesses in rich countries to dilute its dependence on its home market and to bolster its brands and technology. The proposed takeover of Pirelli, an Italian tyremaker, by ChemChina is the latest example of this wider trend. In many such cases the developing-country buyer has much to learn from, but little to teach, the business it has bought. But Apollo claims it has given as well as taken. Its operations are efficient by world standards, and after it bought Vredestein Banden, a Dutch tyremaker, in 2009, it widened profit margins at its factory.

This success in Europe came after Apollo had made a false start in its globalisation. In 2006 it bought the southern African business of Dunlop, a tyremaker with British origins. For a while this seemed a shrewd buy. Then South Africa's economy was hit hard by financial crises in the rich

Schumpeter | Valley of the dudes

Tech firms can banish sexism without sacrificing the culture that made them successful



ON MARCH 27th the California Superior Court gave Ellen Pao a chance to test one of Silicon Valley's most cherished pieces of wisdom—that failure is a wonderful pedagogic opportunity. Ms Pao lost her case for sexual discrimination against her former employer, Kleiner Perkins Caufield & Byers, a venture-capital firm. But she succeeded in turning a spotlight on sexism in tech: the Valley has talked about little else since her trial began, and two other discrimination cases, against Facebook and Twitter, were launched while it was under way.

Silicon Valley likes to think of itself as the very embodiment of meritocracy. Its heroes are brainy entrepreneurs such as Peter Thiel and Mark Zuckerberg, who transform IQ points into dollars. More than half of its firms are founded by immigrants. However, the spirit of meritocracy fades when it comes to the female sex (as it also does in respect of some racial minorities). Silicon Valley has its share of high-profile women, such as Yahoo's Marissa Mayer, Facebook's Sheryl Sandberg and Hewlett-Packard's Meg Whitman. Yet about half of America's publicly traded technology companies, including Twitter, have all-male boards. Women's share of jobs in software and computing fell from 34% in 1990 to 27% in 2011. An analysis by the Kauffman foundation, which studies entrepreneurship, found that of high-technology firms created in 2004, only 1% were founded by women.

The venture-capital business, where Ms Pao tried to make her career, is the Valley's most macho corner. A study by Babson College showed that the proportion of female partners in American venture capital-firms declined from 10% in 1999 to 6% in 2014. A survey by Fortune magazine found that only 4.2% of the partners of the 92 most successful firms are female.

The dearth of female tech leadership is partly a question of supply. In 1985 American universities awarded 37% of their undergraduate degrees in computer and information sciences to women; by 2010 it had fallen to just 18%. Yet in most other areas of higher education, women have made strong gains. There are now 140 women graduating from university for every 100 men. The number of women taking MBAs has increased fivefold since the 1970s. And in American schools, girls have reached rough parity with boys in physics, mathematics and biology.

This suggests another explanation for the shortage of talent:

culture. Critics of Silicon Valley argue that it is a boys' club—not only dominated by men but shaped by male-bonding rituals. It may be truer to say that it is two boys' clubs rolled into one—the frat-boy club of moneymen and the geek club of computer programmers. The jury in Ms Pao's case were apparently not moved by her testimony that, among other "small indignities", women were excluded from a dinner with Al Gore on the excuse that they "kill the buzz". But it produced a slogan that high-tech women can rally behind. The Valley is in danger of being caught in a self-reinforcing cycle: a study by Paul Gompers of Harvard Business School shows that female venture capitalists underperform their male colleagues by about 15% when there are only a few of them, but that the difference disappears when their numbers increase and they receive formal mentoring.

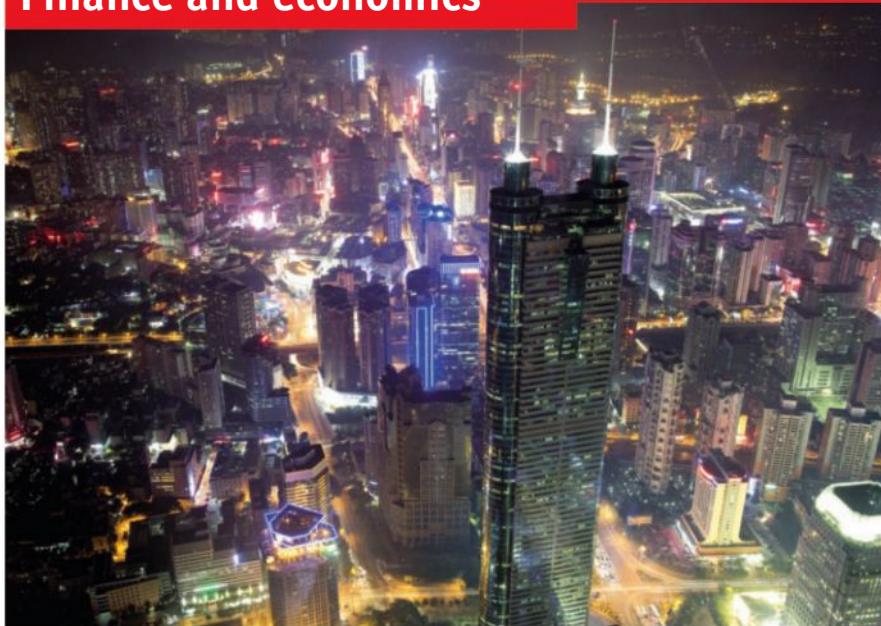
Some in the Valley had begun to make efforts to solve its sexism problem even before Ms Pao filed her suit. Microsoft's Satya Nadella, Facebook's Mark Zuckerberg and Intel's Brian Krzanich had all made public commitments to diversity and appointed executives charged with improving it at their firms. Maxine Williams, Facebook's head of global diversity, is reforming its recruitment systems in a drive to eliminate bias. Mr Krzanich has pledged that his company will be "fully representative of the diversity of the country's available talent" by 2020. Ms Sandberg has led a campaign to encourage women to "lean in" at work—that is, not to be shrinking violets.

However, Ms Pao's case has added urgency to the problem. Silicon Valley companies are busy recruiting human-resources advisers to make sure that they are not caught out in future legal cases. (For its part Kleiner Perkins acknowledged on hearing the verdict that, "There is no question that gender diversity in the workplace is an important issue.") The question is not whether the Valley will take on the problem in the coming years but how well it does so.

Box-ticking is not enough

The biggest risk is that the Valley's leading figures simply outsource the problem to a bunch of "diversity consultants". However brilliant such folk are at identifying unconscious biases and concocting quota schemes, they may have little grasp of the virtues that turned the Valley, for all its faults, into the world's greatest centre of wealth creation. The danger is that if the job is left entirely to such outsiders, they will come up with a bureaucratic, box-ticking exercise that stifles the Valley's creativity; or a public-relations makeover that does little to advance women's chances.

Boardrooms in many other industries have realised the strong business argument, as well as moral case, for giving women equal opportunities. What makes this a genuinely knotty problem in the Valley—one that needs the full attention of the tech industry's leaders—is that venture-capital partnerships, like the tech startups they back, often work best when they are run by a tight-knit group of partners. At the moment, most such circles are all-male, and as Ms Pao appears to have found, notwithstanding the verdict in her case, it is difficult for females to break into them. It is a lot harder to recruit the first woman to such a group than the second, third or fourth. The Valley's testosterone-infused culture needs to change so as to address this, without losing the *esprit de corps* that seems essential to success. That cannot be beyond the Valley's massive brains. As this column noted recently, there is a war for talent among tech firms; neglecting half of the potential talent base is foolish. ■



Special economic zones

Political priority, economic gamble

Free-trade zones are more popular than ever—with politicians, if not economists

RWANDA has developed a strategic plan for them. Myanmar is embracing them as it opens up. Countries that have long been fans, from China to the United Arab Emirates, are doubling down. India's plans in the area are "revolutionary" and could add 2% to its GDP, says a minister. Special economic zones (SEZs) are all the rage among governments hoping to pep up their trade and investment numbers. Such havens are appearing even within havens: the Cayman Islands has a new one. "Any country that didn't have [an SEZ] ten years ago either does now or seems to be planning one," says Thomas Farole of the World Bank.

Studying history may give eager trade ministers pause. SEZs—enclaves in which exporters and other investors receive tax, tariff and regulatory incentives—create distortions within economies. Other costs include required infrastructure investment and forgone tax revenues. The hope is that these are outweighed by the boost to jobs and trade. In reality, many SEZs fail. Performance data are elusive because the effects of zones are hard to disentangle from other economic forces. But anecdotal evidence suggests they fall into three broad categories: a few runaway successes, a larger number that come out marginally positive in cost-benefit assessments, and a long tail of failed zones that either never got going, were poorly run, or where investors gladly took tax breaks without producing sub-

stantial employment or export earnings.

SEZs have a long pedigree: the first free-trade zones were in ancient Phoenicia. The first modern one was set up at Shannon airport in Ireland in 1959, but the idea took off in the 1980s after China embraced them. There are now more than 4,000 SEZs (see chart). A study conducted in 2008 estimated that 68m people worked in them. They come in many forms, from basic "export processing zones" to "charter cities", urban zones that set their own regulations in all sorts of areas that affect business.

The biggest success story is China, whose decision in 1980 to create a zone in Shenzhen transformed the city (pictured) into an export powerhouse. Dozens of SEZs have since popped up across the country. In March, Xi Jinping, the president, urged a faster pace of roll-outs. Other successes include the United Arab Emirates, South Korea and Malaysia. The Philippines has won praise for its "PEZA" zones, which offer a streamlined permit process for foreign investors, says Shang-Jin Wei of the Asian Development Bank.

Most economists agree that SEZs catalysed liberalisation in China, which used them to test reforms that were seen as too hard to unveil nationwide. In the Dominican Republic they helped create a sizeable manufacturing sector in an economy previously reliant on agriculture.

The overall impact of SEZs on trade is poorly understood. A paper published in

Also in this section

- 66 Buttonwood: Jitters on Wall Street
- 67 The art market goes wild
- 67 Warping Germany's property market
- 68 A corporate-tax scandal in Brazil
- 71 Nigeria's ailing economy
- 71 Greece and its creditors
- 72 Free exchange: How to make meetings worthwhile

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

2014 by economists at Paris-Dauphine University found that, for a given level of tariff protection, SEZs increase exports for the countries they are in and for other countries that provide intermediate goods or components. This helps explain why the World Trade Organisation generally tolerates SEZs, even though many breach its subsidy rules. However, the paper also concluded that zones sometimes give countries an excuse to retain protectionist barriers around the rest of the economy.

More prosaic problems pop up, too. Bureaucracy can be excessive, and the bureaucrats underfunded—sometimes at the same time. Too little is often spent on railways, roads and ports to link the zone to the rest of the world. Many African SEZs have struggled for such reasons. One in Senegal flopped because of a combination of excessive bureaucracy, high electricity costs and its distance from a good port.

Developers have withdrawn from 61 of the 139 approved SEZs in the Indian state of Maharashtra because of capricious policy-making, a murky screening process and concern over economic prospects. One ➤

Enclave heaven

Number of special economic zones worldwide '000



► survey found that firms sometimes had to deal with 15 different agencies to do business in an Indian zone. Violent protests by locals over land acquisition for zones have also deterred investors.

Moreover, governments sometimes embrace SEZs for the wrong reason: to win praise for reform (and votes) without having to risk full liberalisation. Partial liberalisation can also be a way to preserve some of the rents earned elsewhere by shielding businesses from competition.

Some officials see zones as vehicles for graft. In 2005 some 60% of firms in Indian SEZs reported having to make "irregular"

payments to zone authorities. Last month Ukraine's prime minister said he opposed SEZs because of corruption. SEZs in Nigeria were firmly resisted by the customs agency, which did not want to lose its clout. Another concern is the use of zones to launder money, by inflating export values.

The SEZ concept appears to have natural limits, too. What works in manufacturing may not work in other sectors. The Shanghai Free Trade Zone, launched in 2013 and focused on finance, has been disappointing. Economists fret that it is impossible to tinker within the zone with China's capital controls, for instance, without the

effects spilling over to the rest of the economy. Perhaps as a result, the authorities have been cautious: in a recent survey, three-quarters of American firms in Shanghai said the zone offered them no benefits.

That hasn't stopped China approving plans for more financial SEZs. The government is also promoting zones abroad: it is helping six African countries to set some up. Although they are state-run, ever more SEZs are likely to be privately owned and operated. The Philippines already has more than ten times as many private zones as public ones. This shift may go further, if privately run charter cities and other so-►

Buttonwood Hung, drawn and first-quartered

The trend in corporate profits in America is worrying

IF ONLY America could abolish the first quarter, its economy would look so much better. In 2014 a cold snap triggered by the "polar vortex" caused GDP to fall by 2.9% at an annualised rate. This time round, more cold weather, a decline in oil drilling and a labour dispute at west-coast ports is causing growth estimates to be revised down once more.

Figures for manufacturing output, durable-goods orders, housing starts and retail sales have all been weaker than expected. The consensus forecast for growth in the first quarter is 1.4% at an annualised rate. But a nimbler model created by the Atlanta Federal Reserve points to just 0.2%—barely any growth at all.

A weak first-quarter number will make life even harder for the Federal Reserve, which has hinted that it might push up interest rates later this year. Inflation is running at zero, so the justification for higher rates would look very flimsy if the growth outlook was faltering too.

However, as in 2014, most economists expect the first-quarter figures to be a blip, with activity rebounding in the rest of the year. Low oil prices should be a boost to spending; consumer-confidence figures released on March 31st showed an upturn. The employment figures for March, which are due to be published on April 4th, will be the next big test of the economy's strength. The Fed has indicated that the labour market may trigger a decision to raise rates; if unemployment falls much below the current rate of 5.5%, wage pressures might start to appear. Strong figures on job creation have generally belied the weak tone of numbers on durable-goods orders and retail sales.

Some investors may be inclined to take a relaxed view of the Fed's dilemma. After all, if the economy is strong enough to allow the central bank to raise interest



rates, that would be good news; and if the economy isn't strong enough, then investors will continue to enjoy the benefit of low rates. However, that rosy view is being somewhat undermined by the recent weakness in corporate profits.

After plunging in 2008, profits rebounded strongly, hitting their highest levels as a proportion of GDP since the second world war. That trend may be coming to an end. Corporate profits in America fell by 1.6% in the fourth quarter of 2014, according to the Bureau of Economic Analysis, and were 6.4% lower than in the same quarter of 2013. Those figures do not translate directly into the profits of S&P 500 companies, many of which are multinationals: their earnings per share rose at an annual rate of 7.8% in the fourth quarter, with the help of buy-backs, which spread profits among a smaller number of shares (see chart).

However, the dollar's surge in 2015 is dragging down earnings forecasts for the current year: earnings per share for S&P 500 firms are now expected to rise by only 2.6%. Three factors are at work. First, the strong dollar is reducing the value of profits earned in other currencies. Second,

those foreign profits are being squeezed by a slowdown in developing economies. And third, the fall in the oil price is battering the profits of the energy sector.

Wall Street analysts tend to be optimistic when it comes to medium-term profit projections. After a sluggish 2015, they think 2016 will be a bumper year, with earnings per share rising by 12.9%. That allows them to claim that the market looks cheap when future earnings growth is taken into account: using their 2016 forecasts, the market is on a prospective price-earnings ratio of 15.3.

But if the market is compared with past earnings numbers, the picture looks rather different. The cyclically-adjusted price-earnings ratio (which averages profits over ten years) is currently 27.9, according to Robert Shiller of Yale University. The long-term average is 16.6. The sluggish performance of profits may explain why the American stockmarket has struggled to make progress so far this year.

Investors in the rest of the world should also be concerned about weak economic data. There have been 29 instances of monetary easing by central banks around the world in the past five months, an indication that monetary authorities are worried about growth. Low government-bond yields and falling commodity prices are further signals of poor economic momentum.

Although there have been tentative signs that the euro-zone economy is recovering, the world has been very reliant on China and America in recent years. China's growth rate has slowed to 7% or so from the double-digit rates regularly seen in the past decade. If America's growth slows as well, the global economy may find itself becalmed.

► called “special governance zones” gain traction. The idea is to create enclaves that write their own rules in all business matters, from labour regulation to anti-corruption codes—“to look at laws as services that companies demand”, says Lotta Moberg of George Mason University. Such ventures will provide competition more effectively than zones focused on fiscal incentives, says Shanker Singham, founder of Enterprise Cities.

Mr Singham is in talks to develop sites in the Dominican Republic, Colombia, Morocco, Bosnia, India and Oman. But these are mostly at an early stage. The most advanced charter-city project, backed by a group of American libertarians, is in Honduras. But it has yet to start and is already controversial: many Hondurans worry that it will operate as a state within a state, milked by business interests. In most countries, such parastatal ventures are likely to encounter political difficulties.

Whether or not such freewheeling zones catch on, expect more experiments. South Korea and Thailand are developing eco-industrial parks. Others are considering SEZs for refugee populations. For better or worse, the number of zones could top 5,000 before long. ■

Investing in art

A study in red and black

The global art market is booming, but treacherous

IT MAY be modern art going under the hammer at one of Christie’s auction halls in London, but most of the prospective purchasers look downright antique: tweed jackets and threadbare twinsets abound. No matter: when it comes to the big pieces of the day, the serious cash comes in via the internet or phones manned by sleek women with bright lipstick and thick-rimmed glasses. A painting that once belonged to Noël Coward causes a bidding war between telephone buyers. It was expected to go for no more than £20,000 (\$30,000), but ends up selling for £250,000. Helpful displays throughout the room convert the sum into roubles and Hong Kong dollars. “I just come to watch the spectacle,” says a middle-aged man. “Prices are mad!”

The global art market is booming. Last year sales reached a record €51 billion (\$68 billion), nearly double the level of 2009 and slightly above the previous peak of €48 billion in 2007, according to the European Fine Art Foundation. Last month an anonymous buyer paid \$300m for Paul Gauguin’s “When will you marry?” (pictured)—the highest price ever paid for a



Prettier than a share certificate

work of art. A few days later another record was broken when an American paid £30m for a painting by Gerhard Richter—a record for a living European artist. On average, prices for contemporary and post-war art have risen by 19% over the past year.

The sums changing hands are so colourful that they have inspired a whole new profession: consultants who pick out paintings for their clients based not on aesthetics but on potential returns. Philip Hoffman, who manages funds that invest in art on behalf of rich families, notes a steady shift from buying art for pleasure to buying for investment. According to Deloitte, a (conventional) consultancy, rising prices in recent years have attracted lots of speculators: nearly three-quarters of art purchases are made at least partly as an investment, up from half as recently as 2012.

Institutional investors first entered the art market in the 1970s as a hedge against inflation: the pension fund of British Rail, for instance, put £40m, or about 3% of its holdings, into oil and canvas. (Although returns were not bad, it sold its last piece in 2003.) Art is also billed as a useful form of diversification, although like many other supposedly “uncorrelated” assets, it did not live up to that billing during the financial crisis. Another selling point is that it is tangible—a popular attribute since the crisis, when lots of abstract and incomprehensible financial instruments proved huge liabilities.

Unlike many other real assets, such as farmland or property, art is also movable, which is handy for buyers who do not plan to tell the taxman about it. It can be a relatively discreet way of investing, too: Christie’s arranged \$916m of private purchases in 2014, compared with just \$266m in 2009.

Even so, the risks of investing in art are high. Prices are volatile and the market is

idiosyncratic—no two pieces are interchangeable. “Especially at the top it’s based on the passions and whims of a small group of collectors,” says Orlando Rock from Christie’s. The most popular genres and the most expensive pieces skew art’s overall performance as an asset. Last year 0.5% of transactions accounted for nearly half the value of all fine art sold at auction. According to Arts Economics, a research firm, the value of works of art that cost more than €200,000 is growing five times faster than the cheaper stuff. And although contemporary art has had a great year, prices for Old Masters are stagnant and Chinese decorative art is losing value.

Worse, transaction costs, sometimes as high as 4%, make art an especially expensive asset to trade. Those who buy for aesthetic reasons tend to get better returns than those who buy purely for financial gain, says Philip Hook of Sotheby’s, another auction house.

“People buy art when they’re confident about their future wealth,” says Clare McAndrew, an art economist. She sees the current boom as part of a wider resurgence in optimism since the crisis. When gloom next sets in, unlucky investors will at least have something pretty to look at. ■

German property

Braking bad

BERLIN

A coming “rent brake” will sap a strengthening property market

WHO doesn’t like affordable housing? Press reports about sharp rent rises in big cities prompted Germany’s two biggest parties, upon forming a coalition in late 2013, to attempt to turn into law the irresistible proposition that everyone should be able to put a roof over their head without hardship. The result is a “rent brake”, due to be applied later this year, which limits increases in prices. As with all price controls, it is likely to lead to a black market, while crimping supply. That, in turn, would hold back investment in an economy that needs more of it.

Germans buy cars, not houses: just 46% of Germans own their homes, the lowest rate in the European Union. But the idea that this nation of renters is being squeezed by greedy landlords is not borne out by the data (see chart on next page). In fact, Germans have done rather well from renting: apartments have grown even as families have shrunk. In the former West Germany (for which data go back furthest), apartment size per inhabitant has more than doubled since 1956–57, from 18 to 39 square metres. Meanwhile, throughout Germany, ►

► the proportion of net pay spent on rent has stayed constant for 30 years, at about 23%.

Rents have only climbed significantly and consistently in Germany's biggest and most prosperous cities. Wealthy Hamburg has seen average annual rises of 4.5% since the financial crisis. In Berlin, which draws many young people and non-Germans, rents have risen by 1.2% annually. In attractive central districts (the kinds of places where journalists who write about out-of-control rents tend to want to live) prices have risen much faster.

There is already a law in place that limits rent increases under an existing lease, based on local housing costs. The brake concerns new leases: it prevents landlords from charging rent that is more than 10% above the local average for a comparable property. After howls from owners, many apartments will be exempted: those first let after October 2014 (in order not to deter new investment) and those that have been extensively renovated (defined as an investment of a third of the property value or more). The brake will apply only in "tight" markets, a term which it is up to the 16 federal states to define. Berlin (a city-state) intends to apply the brake to all eligible housing as soon as the law takes effect. It should have a big impact: an analysis by Iw Köln, a think-tank, found that 60% of the Berlin listings on a widely-used flat-finding website would be over the 10% limit.

Hitting the brake

Economists are almost united in opposing the brake. A report by the German Institute for Economic Research, another think-tank, details the worries. It is likely to deter renovations of dilapidated properties, since they must be lavish to justify higher rents. It may also deter construction, since the exemption for new properties might not last. A black market is likely to spring up, in which brokers pass bribes to owners from potential tenants willing to pay more than the brake permits. Alternatively, landlords may stay within the prescribed cap on rent, while asking for an inflated supplementary payment for the use of kitchen equipment, which is typically paid for separately in German lettings.

The meddling is occurring in a market that had been gaining strength. Current ultra-low interest rates mean low returns on many other types of asset. With rents rising landlords are getting keener on property as an investment. Ordinary Germans, who tend not to buy stocks or bonds, but save in low-yielding deposit accounts, are also warming to housing. At the same time, cheap mortgages make it easier for renters to become buyers. Home-ownership rates have begun ticking up, with some €190 billion (\$206 billion) of property changing hands in 2014, 50% more than in 2009.

With demand robust, house prices are rising too: between 2010 and 2014 they

A real deal
Residential rents in Germany
% change on a year earlier



climbed by 47% in Munich and 41% in Berlin. To some this may justify measures to cool the market, including pouring cold water on rents and thus the incentive to buy an investment property. But the rise in prices looks more like an overdue adjustment than a bubble. An analysis by Iw Köln, which takes into account mortgage rates, forgone interest from other investments and likely future price rises, concludes that changing economic conditions more than justify the rise in prices.

A thriving property market would help nudge Germany away from an export-centred growth model that looks in danger of running out of steam. Building more houses would help lift the country's investment rate, which at 20% of GDP is below the average of rich countries. Greater spending on home improvement would raise consumption, too, as Germans splashed out on power tools and paint. By meddling in a healthy market Germany's politicians are pumping up their own popularity but not the country's prosperity. ■

Corruption in Brazil

Taxmen on the take

SÃO PAULO

A scandal at a tax agency may dwarf the one surrounding Petrobras

IN BRAZIL, where the state collects a hefty 36% of GDP in taxes and offers mediocre public services in return, tax-dodging is a national sport. The latest scam unearthed by police, treasury and finance-ministry sleuths sets a record. On March 26th they revealed that over the past ten years the government had been cheated of at least 5.7 billion reais (\$1.8 billion) in back taxes and fines from firms, and perhaps as much as 19 billion reais. That would be enough to pay three-quarters of the bill for last year's football World Cup. It is nearly twice the suspicious payments in a separate corruption scheme involving Petrobras, a state-

controlled oil company.

Unlike the *petrolão*, the tax imbroglio does not implicate top politicians. It centres instead on the Administrative Council of Fiscal Resources (CARF), part of the finance ministry, which hears appeals by firms that feel wronged by the tax collectors. Some of its 216 councillors, who decide cases in teams of six, allegedly promised to slash companies' bills for various taxes, including sales and industrial tax, or make them disappear altogether. In exchange they apparently received 1-10% of the value of the forgone revenue. The bribes were paid in the form of bogus consulting contracts with law firms. To deflect suspicion, the conspirators used firms that do not specialise in tax law.

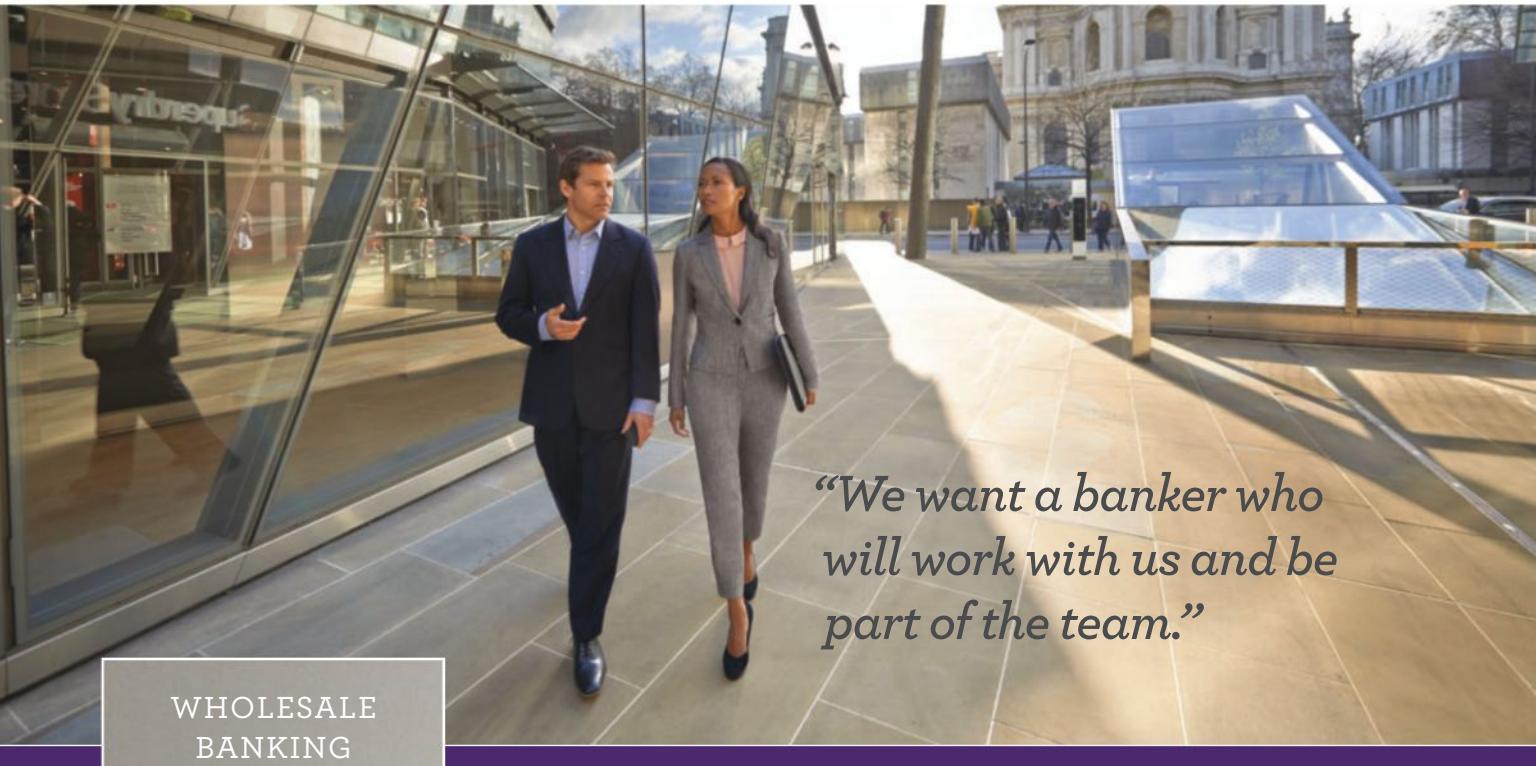
The identity of the suspects remains secret for now. But leaks published in the press suggest that some of Brazil's biggest firms, in industries ranging from banking to manufacturing, are involved. So, apparently, are a handful of multinationals. There is also much speculation that the dimensions of the scandal will grow: CARF has 105,000 cases pending, with a total value of 520 billion reais.

On March 31st the agency suspended all its judgments until further notice. Assuming the dodgy rulings are eventually reversed, however, revenues will get a welcome boost. That would be good news for the treasury: the finance minister, Joaquim Levy, is struggling to keep his promise to deliver a primary (ie, before interest payments) surplus of 66 billion reais this year and to maintain Brazil's investment-grade credit rating. Things are not going well: in February the government actually posted a primary deficit, of 2 billion reais.

The case has stoked debate about the CARF. Unlike similar appellate bodies in other countries, not all its councillors are appointed by the government; half are nominated by industry confederations and are not paid for their work. This supposedly makes the system more democratic. Federico Paiva, the prosecutor in charge of the operation, called it a recipe for influence-peddling.

Reforming the body, which has operated in some form since 1924, would not be easy. The idea of handing more power to the federal revenue agency would appal Brazilian business, which must contend with one of the world's most complicated tax codes. A typical midsized firm spends 2,600 man-hours each year complying with it, according to the World Bank, compared with 334 hours in Mexico.

In the meantime, the scandal is likely to make a burdensome system even more so. CARF's councillors may be reluctant in future to side with businesses disputing their taxes lest they be accused of corruption—even if the complainants are in the right. Brazil needs honest tax collectors; it needs simpler and lower taxes, too. ■



"We want a banker who will work with us and be part of the team."

WHOLESALE BANKING

Asset Management^{*1}

Capital Finance

Commercial & Corporate

Commercial Real Estate

Government & Institutional

Insurance^{*2}

International

Investment Banking &
Capital Markets^{*3}

Treasury Management

When you need someone to strategize with, we'll be ready to talk. Our relationship managers take the time to learn your business and gain a deeper understanding of your expansion goals. We've successfully partnered with mid-sized to large corporations to help them meet their global business needs. With our full suite of products backed by our time-tested strength and stability, we've never been more ready to support your business today and for years to come. To learn more about how our capabilities can work for you, visit **national.wellsfargobank.com/EM26**.

Together we'll go far



* Investment and insurance products: **NOT FDIC-Insured • NO Bank Guarantee • MAY Lose Value**

¹ Wells Fargo Asset Management is a trade name used by the asset management businesses of Wells Fargo & Company. Certain investments are distributed by Wells Fargo Funds Distributor, LLC, Member FINRA/SIPC, a subsidiary of Wells Fargo & Company.

² Insurance products and services are offered through non-bank affiliates of Wells Fargo & Company including Wells Fargo Insurance Inc. and Wells Fargo Insurance Services USA, Inc.

³ Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC, a member of FINRA, NYSE, NFA and SIPC, Wells Fargo Institutional Securities, LLC, a member of FINRA, NFA and SIPC and Wells Fargo Bank, N.A.

© 2015 Wells Fargo Bank, N.A. All rights reserved. Deposit products offered by Wells Fargo Bank, N.A. Member FDIC. Deposits held in non-U.S. branches are not FDIC insured. WCS-1242293 4/15

The world is crazy.

But at least it's getting regular analysis.

Get a grip on global events, with weekly insight from *The Economist*.

With a full subscription you enjoy:



Unlimited access to Economist.com, providing news and analysis throughout the week and our extensive online archive.



The full weekly edition in print, at Economist.com and via our apps for a range of mobile devices.



The audio version of each week's issue of *The Economist*, read by professional broadcasters.



A head start each weekday morning with our new daily briefing, via smartphone app or e-mail.

Receive global analysis for just **US\$3.06 per week**.
Visit economist.com/analysis

**The
Economist**

Nigeria's economy

To the victor the toils

KANO

The low oil price has revealed grave problems in Africa's biggest economy

THE shelves of the Visible Difference corner-shop are half empty, where once they were weighed down with oil, biscuits and soap. Yusuf Hassan, who has proudly run this little business in the northern Nigerian city of Kano for two decades, stands forlornly in front of them. "Everything is so expensive now," he says with quiet frustration. "I almost closed the shop. I have had to borrow money just to

pay rent."

The economy soon to be inherited by Muhammadu Buhari, who was elected this week as Nigeria's president, is in a bad state. It is Africa's biggest, with huge reserves of hydrocarbons, an attractive market of 170m people and a fast-growing services sector. But its continued dependence on oil is a big problem. The resource still accounts for 95% of foreign earnings and two-thirds of government revenue. Since June prices have declined by half, draining coffers and highlighting the failure of the outgoing government to save during the boom years.

Oil's plunge, in turn, has sent the local currency, the naira, into a tailspin. It has fallen by 18% against the dollar over the past six months—grim news for an economy that imports everything from milk to

cars. After talking about interest-rate cuts when he took office last year, Godwin Emefiele, the governor of the central bank, reversed himself and hiked rates to a record 13% in November in a bid to defend the plunging currency.

Yet inflation, now at 8.4%, is still rising, prompting complaints from the likes of Mr Hassan. It will reach double digits in the coming months, says Razia Khan of Standard Chartered, a multinational bank. Analysts at Merrill Lynch, an investment bank, reckon that rates could reach 15% before the end of the year. Over the past decade the economy has grown by an average of almost 7% a year, but the IMF projects an expansion of just 4.8% this year.

Jittery international investors have pulled out in their droves, wiping almost a third off the Lagos stock exchange's main index since oil prices started their fall. Big Nigerian businessmen like Aliko Dangote, whose conglomerate accounts for a quarter of the market's capitalisation, have lost billions of dollars as it plunges. Just before the elections, Standard & Poor's downgraded the country's credit rating to B+, four levels beneath investment grade.

The elections have made matters worse. The political uncertainty contributed to foreigners' anxiety. The refrain "after elections" has been echoing around the hotel bars where rich Nigerians talk shop. An official in the finance ministry suggests that politicians on both sides accelerated the naira's fall by converting huge sums into dollars. (Such high-value foreign notes, the theory goes, take up less space in the suitcases they use to haul cash around on the campaign trail to buy support.)

Mr Buhari has pledged to crack down on corruption—a mammoth ambition. Optimists hope he will get to grips with other problems as well, including chronic under-investment that has left Nigeria with clogged roads and patchy power. But the new government will have little wriggle-room. It will have to borrow more to make up for the shortfall in oil revenue. Public debt is low, at 12% of GDP—but so is non-oil revenue to service it. As it is, the government is paying 9% of its revenue in interest. A 500 billion naira (\$2.5 billion) bond matures this month, and must be refinanced.

The cost of fuel subsidies has at least fallen along with the price of oil. But more budget cuts will be needed. Road-building and other construction may be frozen because there is no money to pay contractors.

Mr Buhari will need to pay for his promised campaign against Boko Haram, the Islamist insurgency that is plaguing the country's north-east. He is also likely to extend a costly amnesty, expiring this year, which has maintained relative calm in the Niger delta, the source of much of Nigeria's oil. Poverty is still widespread and severe. It makes you wonder why Mr Buhari wanted the job. ■

Greece and its creditors

Starting to list

Pensions are at the heart of the continuing row over Greece's parlous finances

ONCE again, Greece's new left-wing government has handed a list of reforms to other euro-zone governments and the IMF in the hope of securing the next dollop of the country's bail-out. The list was due to be reviewed by senior euro-zone financial officials on April 1st, after *The Economist* had gone to press, but the initial reaction was dismissive.

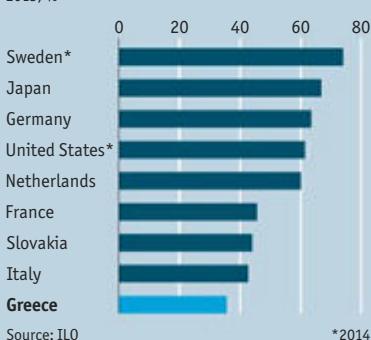
Some of the iciest comments concern pensions. Greek spending on them is the highest in Europe as a share of GDP, an astonishing 17.5% in 2012. That contrasts, for example, with expenditure worth 12.3% of GDP in Germany, Greece's main creditor. It is double the share of GDP that goes to them in Slovakia, one of Greece's fiercest critics.

Lavish spending on Greek pensions has been a source of acrimony with northern creditor nations ever since Greece was first rescued, almost five years ago. Germany had only recently pushed through a pension reform raising the retirement age from 65 to 67 between 2012 and 2029. That made Germans ill-disposed to dip into their pockets to help a country whose workers were able to retire much earlier on generous pensions. Slovakia, a poorer nation than Greece, pulled out of the first bail-out in the summer of 2010 in response to public anger at the prospect of subsidising Mediterranean spendthrifts.

In fact, a series of reforms in Greece have restricted pension spending. A big overhaul in 2010 slashed prospective promises that would have caused pension expenditure to vault to 25% of GDP by 2050. The retirement age was raised to

Workers and shirkers

Employment rate among 55- to 64-year-olds
2013, %



67 for men and women from 2013. The "replacement rate"—the value of the pension in relation to prior earnings—was reduced from 96% for average earners, the second-highest in the OECD, a club mainly of rich countries, to 54% in 2012. And pensions have been cut by eliminating two annual bonuses.

But the reforms have not gone far enough. In particular it is still relatively easy to retire early, and the link between contributions paid in and benefits received is too weak; the system is not actuarially fair. Although the revised reform list includes a pledge to reduce early retirement, Greece's creditors will want to see hard evidence that this will be tough enough. The proportion of 55-64-year-olds who work in Greece, just 36% in 2013, is unusually low; in Germany the share was 63% (see chart). There is a lot of ground still to make up.

Cartier



ROTONDE DE CARTIER

GRANDE COMPLICATION SKELETON 9406 MC

THE ULTIMATE FEAT IN FINE WATCHMAKING, THE "POINÇON DE GENÈVE" CERTIFIED ROTONDE DE CARTIER GRANDE COMPLICATION SKELETON IS THE EMBODIMENT OF THE EXCEPTIONAL EXPERTISE OF CARTIER'S MASTER WATCHMAKERS. THE WATCH BLENDS THE FLYING TOURBILLON, PERPETUAL CALENDAR AND MINUTE REPEATER COMPLICATIONS IN AN EXTRA-FLAT MOVEMENT. ESTABLISHED IN 1847, CARTIER CREATES EXCEPTIONAL WATCHES THAT COMBINE DARING DESIGN AND WATCHMAKING SAVOIR-FAIRE.