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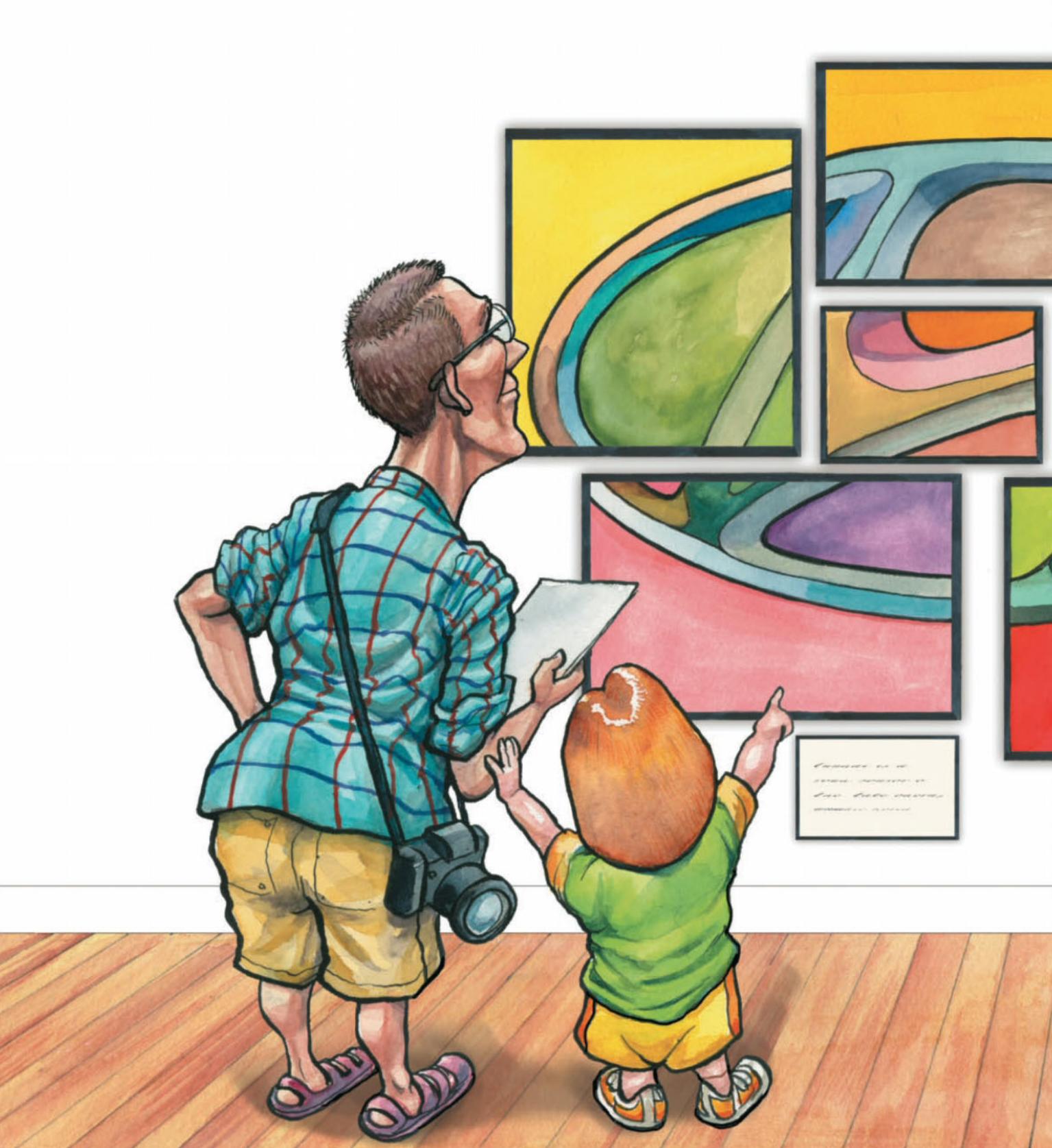
Google does a Buffett

The meaning of the multiverse

# Xi's history lessons

**How China rewrites  
the past to control  
the future**

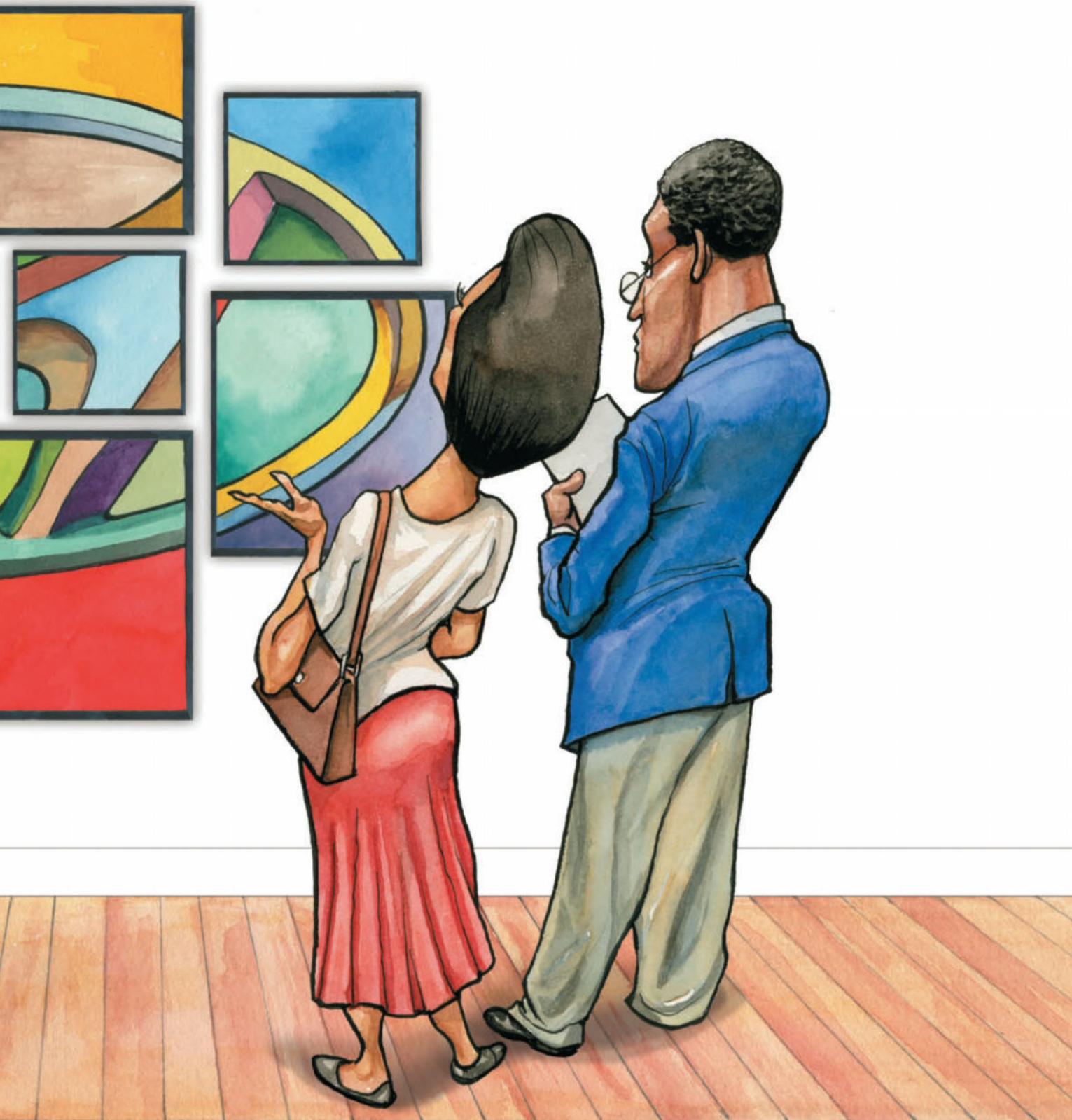




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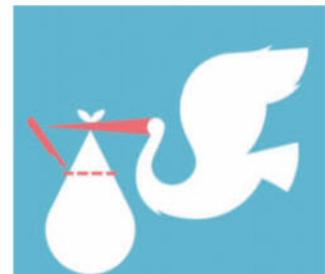
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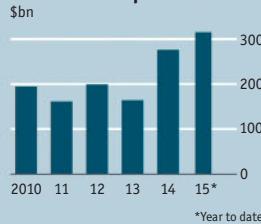


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## Politics



The **Greek** government struck an agreement with its creditors on reforms needed to unlock bail-out funds and prevent it from defaulting. The agreement involves a new independent fund for privatising government assets and other structural reforms. It clears the way for a new bail-out, Greece's third, estimated at a total of €86 billion (\$96 billion). Euro-zone governments must now ratify the deal in order for Greece to receive funds needed to make a €3 billion payment to the European Central Bank.

Nine people were killed in terrorist attacks in **Turkey**. Two were in Istanbul. The separatist Kurdish group, the PKK, claimed responsibility for a bomb attack on a police station that killed one recruit. The attacks came as the government cracks down on Kurdish, Islamist and other militant outfits.

**Ukraine** warned of an escalation of fighting with Russian-backed separatist rebels in its eastern regions. Ukraine's prime minister, Arseniy Yatsenyuk, accused the rebels of shelling Ukrainian positions, while Russia's foreign ministry blamed Ukraine for the escalation of violence. Some 200 Ukrainian soldiers have been killed since a ceasefire was signed in Minsk in February.

### Spreading south

Jihadists in **Mali** killed five hostages in an attack on a hotel used by the United Nations and foreign aid workers in the town of Sevare, which is much

farther south than the area previously afflicted by jihadist violence. Five Malian soldiers and three attackers also died in the incident.

**Islamic State** claimed to have killed a Croatian hostage who was kidnapped in Cairo. The group released pictures purportedly showing his beheaded body. His kidnapping and murder mark a dangerous escalation of IS activity in Egypt.

IS was suspected of being behind the bombing of a market in Baghdad's Sadr City district, a mostly Shia area, which killed scores of people. It is one of the worst attacks in **Iraq** since Haider al-Abadi came to power as prime minister last year.

### A deadly 24 hours



Three attacks by the Taliban in Kabul, the capital of **Afghanistan**, killed at least 50 people. One of the targets was a NATO base that houses American special forces. The attacks come amid a power struggle inside the Taliban after confirmation that its leader, Mullah Omar, died two years ago. Ashraf Ghani, the Afghan president, blamed Pakistan for allowing the Taliban to organise within its borders. The two countries have taken steps to work together for peace, a process which Mr Ghani says is now under threat.

Islamists in **Bangladesh** hacked to death another secularist blogger. Niloy Neel is the fourth writer to have been murdered by extremists in the country this year. He had apparently told the police that he feared for his life, but his pleas for help were ignored.

In **Japan** the first nuclear reactor restarted since the Fukushima disaster in March 2011 under a new safety regime. A power company reactivated one of its reactors at a nuclear plant in Kagoshima, on the southern island of Kyushu, and said its second reactor could open by October. Since the shutdown of its nuclear industry in 2011, Japan has imported much of its energy, causing its power bill to rocket, but public opinion is opposed to reopening the plants.

**Australia** proposed a cut to carbon-dioxide emissions of at least 26% by 2030 from 2005 levels, which is at the lower end of pledges made by developed countries ahead of a UN climate-change conference in December. Australia's emissions per person are among the highest in the developed world.

Explosions at a warehouse that handles hazardous materials in the Chinese city of **Tianjin** killed dozens of people and injured hundreds. The blasts destroyed buildings within a 2km radius of the warehouse and were picked up by an earthquake monitor in Beijing 100km away.

### A confrontational town

The first anniversary of the fatal shooting of an unarmed black man by a police officer in **Ferguson**, Missouri, which prompted civil disorder across America, was marred by violence. An 18-year-old man was shot and wounded by police during the latest disturbances; they said he had pulled a gun and fired it at officers.

**Hillary Clinton** handed over her personal e-mail server, through which she circumvented official protocols on sending messages while serving as secretary of state, to the Justice Department. The controversy over the classified nature of the e-mails that Mrs Clinton sent via the server has dogged her for several months now. On the policy front, Mrs Clinton proposed a \$350 billion plan to cut student debt if she becomes president.

A week after the first Republican primaries debate, **Donald Trump** was still grabbing the headlines, but again for all the wrong reasons. He seemed to suggest that a female moderator at the debate asked him tough questions because she was menstruating, saying that she had "blood coming out of her eyes...blood coming out of her wherever".

### Prelude to the main affair

Daniel Scioli, who has the backing of **Argentina's** president, Cristina Fernández de Kirchner, to succeed her in office, won the presidential primary. He was the only candidate to be the nominee of the president's Front for Victory, which attracted 38% of the vote. Mauricio Macri, the mayor of Buenos Aires, easily won a contest to be the nominee of Cambiemos, a centre-right electoral alliance. The alliance won 30% of the vote.

**El Salvador's** attorney-general issued arrest warrants for 300 gang members following a rise in violence. Police said that 24 people a day have been murdered so far in August, largely as a result of conflict between gangs.



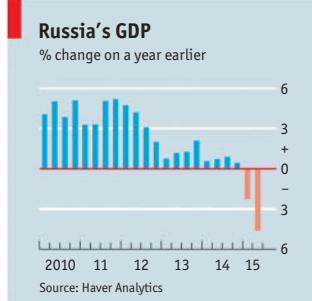
**Haiti** held the first round of parliamentary elections, which have been delayed since 2012 because of a dispute over an electoral law. Observers reported some violence, but voting was generally smooth. Preliminary results are to be reported on August 19th. Haiti will hold a presidential election and the second round of the parliamentary ballot in October. The president, Michel Martelly, has been ruling by decree since parliament was dissolved in January this year.



## Business

The People's Bank of China unexpectedly devalued the **yuan**. A 1.9% drop on the day of the devaluation, the biggest single-day fall in the yuan's modern history, was followed by further declines. The move unsettled global markets, prompting China to offer reassurances that this was not the start of a "persistent depreciation" of the yuan in order to boost the country's flagging exports. By introducing more flexibility to the exchange rate, China may have hoped to bolster its case for the yuan to join the IMF's basket of reserve currencies.

### Skidding on oil



**Russia's economy** shrank by 4.6% in the second quarter compared with the same period last year, confirming that the country is in recession after contracting by 2.2% in the first quarter. The rout in oil and other commodity prices and a fall in the ruble have battered Russia. Recent data showed that retail spending slumped by 9.4% in June, year-on-year.

**Saudi Arabia** issued government bonds worth \$5 billion to domestic investors, in only its second sovereign-bond offering since 2007 (the first was in July). The bonds have a range of maturities between five and ten years. More sales are in the works as the country seeks ways to cover the gap in public finances caused by the fall in oil prices.

The International Energy Agency raised its forecast for global **oil demand** this year by 200,000 barrels a day, to 94.2m b/d. But despite the extra demand the glut in oil is expected

to last into 2016, keeping oil prices subdued. The IEA nonetheless thinks that a "rebalancing has clearly begun" in markets and it expects America's soaring output, which has been a big factor in depressing the oil price, to decline next year. Its outlook does not include higher production from Iran if sanctions are lifted.

### Jobs fair

Data for July showed that 215,000 new **jobs** were created in America. Although that was below the 246,000 average over the previous 12 months, unemployment remained at 5.3%, close enough to the 5.5-2% range that the Federal Reserve has labelled as "full employment" to suggest that the central bank is still on course to raise interest rates this year.

**Warren Buffett** struck the biggest deal of his career as Berkshire Hathaway, his investment company, agreed to buy **Precision Castparts**, a maker of components for the aerospace and industrial gas-turbine industries, for \$37.2 billion. Some think Mr Buffett is paying too high a price for Precision, but he is banking on a steady stream of revenue from supplying engine parts for new aircraft, for which there is strong demand.

**General Electric** sold its health-care financing business to **Capital One**, a financial company best known for its credit cards, in a deal valued at \$9 billion. GE is in the process of selling around \$200 billion in financial-services assets to refocus on manufacturing.

In a boost to the Indian government's efforts to attract foreign investment, **Foxconn**, a Taiwanese manufacturer that assembles the iPhone and other consumer electronics at its factories in China, pledged to invest \$5 billion in Maharashtra state to build new facilities there. For years India has been trying, and failing, to develop manufacturing on a similar scale to China. Foxconn has already begun a partnership with Xiaomi, a Chinese smartphone company, to assemble phones in India.

**Alibaba**'s quarterly earnings disappointed investors. Profit was flat if a one-time gain from the sale of an asset is excluded. The Chinese e-commerce company's share price is down by 35% from its high last November, two months after it floated on the stockmarket in the world's biggest IPO. As a sop to investors, it has announced a \$4 billion share buy-back programme.

Google is to turn itself into a conglomerate by creating a holding company called **Alphabet**, which will house all its businesses, including its various forays into driverless cars, wearable devices and other "moonshot" ventures. The Google name will apply only to its online search and advertising businesses, including YouTube, which will be one subsidiary under the Alphabet umbrella. Investors, who want more transparency from Google about the performance of its individual enterprises, responded positively.

### Some local news

Pearson reached a deal to sell its 50% stake in **The Economist**. The British education-services company is selling 60% of the shares it owns to Exor, the holding company of the Agnelli family of Italy, for £287m (\$450m). The remaining 40% will be bought back by The Economist Group for £182m. Rupert Pennant-Rea, the group's chairman, said "the board's priority was to secure the independence of the ownership of the group and the continued editorial independence of The Economist" when agreeing to the deal.

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



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# Xi's history lessons

The Communist Party is plundering history to justify its present-day ambitions



**I**N EARLY September President Xi Jinping will take the salute at a huge military parade in Beijing. It will be his most visible assertion of authority since he came to power in 2012: his first public appearance at such a display of missiles, tanks and goose-stepping troops. Officially the event will be all about the past, commemorating the end of the second world war in 1945 and remembering the 15m Chinese people who died in one of its bloodiest chapters: the Japanese invasion and occupation of China of 1937-45.

It will be a reminder of the bravery of China's soldiers and their crucial role in confronting Asia's monstrously aggressive imperial power. And rightly so: Chinese sacrifices during that hellish period deserve much wider recognition. Between 1937, when total war erupted in China, and late 1941, when the attack on Pearl Harbor brought America into the fray, China fought the Japanese alone. By the end of the war it had lost more people—soldiers and civilians—than any other country bar the Soviet Union.

Yet next month's parade is not just about remembrance; it is about the future, too. This is the first time that China is commemorating the war with a military show, rather than with solemn ceremony. The symbolism will not be lost on its neighbours. And it will unsettle them, for in East Asia today the rising, disruptive, undemocratic power is no longer a string of islands presided over by a god-emperor. It is the world's most populous nation, led by a man whose vision for the future (a richer country with a stronger military arm) sounds a bit like one of Japan's early imperial slogans. It would be wrong to press the parallel too far: China is not about to invade its neighbours. But there are reasons to worry about the way the Chinese Communist Party sees history—and massages it to justify its current ambitions.

## History with Chinese characteristics

Under Mr Xi, the logic of history goes something like this. China played such an important role in vanquishing Japanese imperialism that not only does it deserve belated recognition for past valour and suffering, but also a greater say in how Asia is run today. Also, Japan is still dangerous. Chinese schools, museums and TV programmes constantly warn that the spirit of aggression still lurks across the water. A Chinese diplomat has implied that Japan's prime minister, Shinzo Abe, is a new Voldemort, the epitome of evil in the "Harry Potter" series. At any moment Japan could menace Asia once more, party newspapers intone. China, again, is standing up to the threat.

As our essay on the ghosts of the war that ended 70 years ago this week explains (see page 33), this narrative requires exquisite contortions. For one thing, it was not the Chinese communists who bore the brunt of the fighting against Japan, but their sworn enemies, the nationalists (or Kuomintang) under Chiang Kai-shek. For another, today's Japan is nothing like the country that slaughtered the inhabitants of Nanjing, forced Ko-

rean and Chinese women into military brothels or tested biological weapons on civilians.

Granted, Japan never repented of its war record as full-throatedly as Germany did. Even today a small but vocal group of Japanese ultra-nationalists deny their country's war crimes, and Mr Abe, shamefully, sometimes panders to them. Yet the idea that Japan remains an aggressive power is absurd. Its soldiers have not fired a shot in anger since 1945. Its democracy is deeply entrenched; its respect for human rights profound. Most Japanese acknowledge their country's war guilt. Successive governments have apologised, and Mr Abe is expected to do the same (see page 32). Today Japan is ageing, shrinking, largely pacifist and, because of the trauma of Hiroshima and Nagasaki, unlikely ever to possess nuclear weapons. Some threat.

## The dangers of demonisation

China's demonisation of Japan is not only unfair; it is also risky. Governments that stoke up nationalist animosity cannot always control it. So far, China's big show of challenging Japan's control of the Senkaku (or Diaoyu) islands has involved only sabre-rattling, not bloodshed. But there is always a danger that a miscalculation could lead to something worse.

East Asia's old war wounds have not yet healed. The Korean peninsula remains sundered, China and Taiwan are separate, and even Japan can be said to be split, for since 1945 America has used the southern island of Okinawa as its main military stronghold in the western Pacific. The Taiwan Strait and the border between North and South Korea continue to be potential flashpoints; whether they one day turn violent depends largely on China's behaviour, for better or worse. It is naive to assume America will always be able to keep a lid on things.

On the contrary, many Asians worry that China's ambitions set it on a collision course with the superpower and the smaller nations that shelter under its security umbrella. When China picks fights with Japan in the East China Sea, or builds airstrips on historically disputed reefs in the South China Sea, it feeds those fears. It also risks sucking America into its territorial disputes, and raises the chances of eventual conflict.

Post-war East Asia is not like western Europe. No NATO or European Union binds former foes together. France's determination to promote lasting peace by uniting under a common set of rules with Germany, its old invader, has no Asian equivalent. East Asia is therefore less stable than western Europe: a fissile mix of countries both rich and poor, democratic and authoritarian, with far less agreement on common values or even where their borders lie. Small wonder Asians are skittish when the regional giant, ruled by a single party that draws little distinction between itself and the Chinese nation, plays up themes of historical victimhood and the need to correct for it.

How much better it would be if China sought regional leadership not on the basis of the past, but on how constructive its behaviour is today. If Mr Xi were to commit China to multilateral efforts to foster regional stability, he would show that he has truly learned the lessons of history. That would be far, far better than repeating it. ■

## Corporate tax in America

## Inverted logic

Tax inversions are a symptom of much bigger problems with America's corporate-tax regime



last year led Barack Obama to brand inversions as "unpatriotic". The Treasury formulated rules to stamp out the practice.

That stemmed the flow of inversions for a while. Now a flurry of deals has put them back in the spotlight (see page 56). This month alone, Terex, a cranemaker, has announced a deal with Konecranes that will move its headquarters to Finland; and CF Industries, a fertiliser-maker, and Coca-Cola Enterprises, a bottler, have unveiled transactions in which they will redomicile in Britain. Policymakers are talking about making inversions even harder. The perverse consequence would be to make it more likely that taxes and jobs will leave America.

The boardroom case for inversions stems from America's tax exceptionalism. It levies a higher corporate-tax rate than any other rich country—a combined federal-and-state rate of 39%, against an OECD average of 25%. And it spreads its tentacles worldwide, so that profits earned abroad are also subject to American taxes when they are repatriated. To this problem, the tinkering of officials is no answer at all. Making it hard for American firms to invert does precisely nothing to alter the comparative tax advantages of changing domicile; it just makes it more likely that foreign firms will acquire American ones. That, indeed, is precisely what is happening.

Salix, an American drugs firm that was seeking to invert before last year's saga, has since been bought by a Canadian company called Valeant, which reckons it can save more than half a billion dollars in tax over five years by changing Salix's dom-

icile. Shire, an Irish drugs firm, has turned from prey to predator: once the target of an American company called AbbVie, it is now hunting Illinois-based Baxalta and dangling tax savings as part of the rationale for the deal. Since the start of the year foreign firms have announced acquisitions of American targets worth \$315 billion, according to S&P Capital IQ, a data provider. The annual record, set in 2007, is \$326 billion.

## Getting territorial

Tax is not the only factor in these deals, but it plays a big part. At the moment, the earnings that American firms keep abroad (\$2.1 trillion and counting) act like a magnet for tax-advantaged acquirers. Research suggests that the higher the amount of these locked-out earnings, the more likely it is that an American firm will be snapped up by a foreign one. If American policymakers really worry about losing out to lower-tax environments, they should get rid of the loopholes that infest their tax rules, drop the corporate-income tax rate and move to a territorial system.

That would have three effects. First, trapped foreign earnings would be more likely to come back to America. Second, American firms would be more likely to buy than be bought: a 2013 paper reckoned that switching from a worldwide system of taxation to a territorial one would result in a 17% jump in cross-border acquisitions by American firms. Third, jobs would be less likely to flow abroad. Moving domiciles may once have been about moving the office nameplate, but as attitudes to tax avoidance harden, changes of corporate control will increasingly involve senior people upping sticks.

It is hard for American politicians to explain to voters that taxing firms' foreign earnings is a poor idea. So Mr Obama has instead proposed taxing foreign profits at a lower rate, whether or not the money is repatriated. Alas, that would only cement the advantages of foreign ownership. How unAmerican. ■

## The world economy

## Stuck in the middle

Emerging markets are being squeezed by America's recovery and China's slowdown



TURMOIL has become a commonplace of financial markets in recent summers. This one is no different. An unexpected devaluation of the yuan this week fuelled fears about the state of China's economy, setting off falls in commodities and emerging-market currencies. Stockmarkets in Europe and America wobbled. Copper hit a six-year low; oil is below \$50 a barrel; Malaysia's currency is at its lowest level since the Asian crisis in 1998. Even Canada is flirting with recession.

No single factor can explain everything that is going on. But

two countries, and the relationship between them, provide a framework for understanding these gyrations. America is still the world's biggest economy and sets the tone for interest rates and currencies globally. China has been the fastest-growing big economy by a distance. These two behemoths are pulling in different directions. America's recovery is gradually gathering pace, while China's economy is slowing sharply. This divergence is causing trouble, particularly for those emerging markets which have lived the high life on China's investment boom and on a flood of cheap credit from America. And there is worse to come.

Start with America, where GDP has picked up after a wobbly first quarter and all signs point to more solid growth. Em- ►

▶ployers, excluding farms, added 215,000 people to the payroll in July, a hefty increase in line with the recent monthly trend. The jobless rate is inching down towards 5%.

Healthy growth in the world's largest economy is good news. But it is bringing closer—perhaps as soon as September—the moment when the Federal Reserve raises interest rates for the first time in almost a decade. That prospect has pushed up the dollar, which has risen by 15% against its trading partners in the past two years. And it has squeezed emerging markets in two ways. First, capital is drawn towards higher-yielding American assets, rather than being invested at home; and, second, corporate borrowers in the developing world face currency risk on the \$1.3 trillion of dollar-denominated bonds they have issued since 2010. According to the Bank for International Settlements, the heaviest such borrowers are in China itself, Brazil, Russia, Mexico and South Korea.

As America's economy gathers steam, China's is losing it. Alarming figures published this week showed an 8% fall in Chinese exports in July and a 5.4% drop in factory-gate prices. Output prices have fallen for 41 straight months, a symptom of overcapacity in much of China's heavy industry. Some of the slowdown in China's economy is both inevitable and welcome, reflecting as it does the transition from an investment-led economy to a consumption-centred one. But for many emerging markets it is painful nonetheless.

The impact of China's slowdown is greatest for commodity producers, from Brazil to South Africa. But it is not confined to them. GDP growth in Singapore, a bellwether of the world economy, has slowed to below 2%, the lowest rate for three years. Surveys of purchasing managers suggest factory output is contracting in Taiwan and Korea. Even inflation-prone India, which is far less tied to China than its neighbours are, is feeling

the pinch. Its steelmakers moan about a surge of cheap Chinese imports. The relentless downward pressure on factory-gate prices in China forces industry in neighbouring countries to follow suit or lose market share.

The divergence between America and China has also complicated the relationship between them. Until this week, the yuan's loose peg to the dollar meant that it had been aping the greenback's ascent even as its own economy has slowed: China's trade-weighted exchange rate has risen by more than 10% since the start of 2014. Hence fears that this week's devaluation presages a determined effort to drive down the value of the yuan to benefit Chinese exporters—and squeeze other emerging markets all the more.

Those fears are overblown. The government in Beijing is not about to start a currency war. The initial 2% devaluation of the yuan only undid the previous ten days' worth of appreciation in trade-weighted terms. The changes made by the Chinese central bank to the exchange-rate regime were designed in part to strengthen the role of market forces in determining the value of the yuan. Fear of capital outflows makes policy-makers wary of sustained depreciation (see page 64).

### A feeling that something ain't right

Similarly, the Fed's rate-setters will not want to act too abruptly. They care about the strength of the dollar. The yuan's fall this week prompted declines in other Asian currencies against the greenback. Having readied the markets for an increase this year, it may now be hard for the Fed to back away. But the turmoil this week makes it more likely that the rate-setters will move as gently as they can. That is some comfort for emerging markets, but not much. The lodestars of the global economy are moving apart, spelling more trouble ahead. ■

#### Temporal politics

## Rulers of time

### Clocks and calendars provide a timeless way for regimes to illustrate their power



**N**ORTH KOREA will go back in time on August 15th, turning back its clocks by half an hour to establish its own time zone. It seems appropriate for a country that venerates its past: the hermit kingdom already has its own calendar, with years counted from 1912, the birth year of its founder and “eternal president”, Kim Il Sung. Its time-travelling is the latest example of a long tradition of expressing political power by adjusting clocks and calendars. Doing so alters a fundamental aspect of daily life, literally at a stroke. And what better illustration could there be of a ruler's might than control over time itself?

Not all such changes stand the test of time: think of France's failed attempt to introduce a ten-hour clock and an entirely new calendar after the revolution of 1789, to emphasise the break with its monarchist past, or the Soviet Union's experiments with five- and six-day weeks during the 1930s. But those changes that do persist can memorialise past rulers more effectively than any physical monument. By order of the Roman Senate, the month of July was so named in honour of Julius

Caesar, when he reorganised the calendar starting in 45BC (709AUC, in the Roman calendar); August was later named after Augustus Caesar, which required the lengths of several months to be adjusted to ensure August was no shorter than July. Their empires are lost to history, but their names remain.

In the modern era, measurement of time provides a way to underline the clout of central government: both India and China, despite their size, have a single time zone centred on the capital. It also offers an opportunity for emphasising independence and non-conformity. Hugo Chávez turned the clocks back by half an hour in 2007 to move Venezuela into its own time zone—supposedly to allow a “fairer distribution of the sunrise” but also ensuring that the socialist republic did not have to share a time zone with the United States.

Western Australia has defied the rest of the country by voting against the adoption of daylight-saving time in four referendums. The Navajo Nation observes daylight-saving time, even though the rest of Arizona (including the Hopi Reservation, which is entirely enclosed by the Navajo Nation) doesn't. Perhaps the strangest example is that of Turkmenistan under President Saparmurat Niyazov, who renamed all the months and most of the days of the week in 2002, even renaming April ►

► after his mother. The changes were reversed only in 2008, two years after Niyazov's death. For its part, North Korea is shifting its time zone this week to reverse the imposition of Tokyo time by "wicked Japanese imperialists" in 1912.

### The times, they are a-changin'

In theory, modern technology offers liberation from temporal tyranny, by allowing people to use whichever system they prefer. The internet runs on "universal" time, a global standard used by astronomers and other scientists, based on a network of atomic clocks. As modern as this sounds, it is really the latest incarnation of Greenwich Mean Time, with all its attendant imperialist cultural baggage. But smartphones and computers can seamlessly translate between time zones and calendar systems, allowing people to use whichever they like. There is

no reason why e-mail clients or web calendars could not allow the use of the French Revolutionary clock and calendar systems, say, alongside Muslim and North Korean ones.

In practice, however, time zones and calendars are more than just arbitrary ways to rule lines on time. They do not merely specify how to refer to a particular instant or period; they also dictate and co-ordinate activities across entire societies, in particular by defining which days are working days and national holidays. These have to be consistent within countries and, in some cases, between them: just ask Saudi Arabia, which in 2013 moved its weekend from Thursday/Friday to Friday/Saturday, to bring it into line with other Arab states. The need for such co-ordination means there is no escape from centralised control of clocks and calendars—which explains why the tendency to politicise them is timeless. ■

### Letter from the editor

## A new chapter

**For only the second time in our history the ownership of The Economist changes**



THIS newspaper does not like to dwell on itself. We are proud of our heritage of editorial and commercial independence, serving no master save the liberal credo of open markets and individual freedom. But we publish no masthead listing our staff, no bylines for our journalists—and in our weekly edition no letter from the editor.

This week's issue is an exception, because it is an exceptional moment in *The Economist's* history. On August 12th we announced the most important change to our shareholding structure in almost 90 years. Pearson, the owner of the *Financial Times*, which has had a non-controlling 50% stake in us since 1928, is selling. Three-fifths of those shares will go to an existing shareholder—Exor, the holding company of the Agnelli family. The rest will be bought back by our parent company, The Economist Group.

A change in ownership is an important event for any newspaper, even *The Economist*, whose editorial independence is absolute and is fiercely guarded by four independent trustees. We are confident that this transaction, which is subject to the approval of our shareholders and is only the second significant change of ownership in our 172-year history, will serve this newspaper and its readers well. A responsible and engaged minority shareholder will increase its stake; The Economist Group has used its strong balance-sheet to reinforce the company's commercial independence. New safeguards are being drawn up to place extra limits on the influence of any individual shareholder and to allow us to raise more equity capital should we wish to do so. At a time when truly independent journalism is all too rare and often under threat, we are strengthening ours—and, in doing so, are improving our ability to serve our readers in the future.

The background against which this change of ownership takes place is the digital transformation of the newspaper industry. Mobile technology and the rise of social media offer unprecedented opportunities to reach new audiences in new

ways. But they are disrupting business models and spawning new digital competitors.

We are well placed to prosper. More people are educated and curious about the world. Millions share the liberal values we champion, seek the bold ideas and rigorous analysis we strive for—and read English with ease. We have a circulation of 1.6m, and 75% of new and renewing subscribers pay for digital access. We have almost 10m Twitter followers and 5.6m Facebook fans. In the past year we have launched Espresso, which provides a daily shot of *Economist* analysis; Global Business Review, an app that offers a selection of our articles in English and Chinese; and *Economist* Films, which recasts our journalism in the form of short video documentaries.

### The severe contest in the 21st century

It is a strong start, but we have much more to do. Success in the coming decades demands not just editorial excellence, but a commitment to invest and innovate. Pearson, our stalwart partner for decades, has chosen to move away from media and towards the education industry. Exor, which will become our biggest shareholder, wholeheartedly supports the project of modernisation. Meanwhile our share buy-back cements our commercial independence and will be paid for by the sale of an asset—our building in St James's Street in central London—that is a treasured landmark, but hardly the ideal premises for a growing 21st-century media business.

All this puts *The Economist* in a position to flourish. Our trustees, whose assent is required for the sale of part of the FT's shareholding, have approved the transaction unanimously, subject to our shareholders agreeing to the new safeguards that further strengthen our independence. All four of our living former editors have welcomed the change: it provides a platform for future generations to continue their work as a liberal voice in a world that needs to hear liberal arguments. Since 1843 this newspaper has engaged in what James Wilson, our founding editor, called "a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress". We look forward to the next instalment of that contest. ■

**Conrad Black responds**

You included me in a gallery of apparently larcenous peers in Britain's House of Lords ("The rotters' club", August 1st). The article's graphic suggests that America's criminal-justice system accords an accused what a citizen of Britain would consider due process. It does not. In the United States prosecutors win virtually all of their cases, nearly all of them without a trial, so severe is the distortion of the plea-bargain system in which inculpatory testimony is extorted from witnesses in exchange for immunity, including from charges of perjury.

I also believe I am ineligible for membership of your rotters' club, because every count against me was abandoned, rejected by jurors, or vacated by America's Supreme Court. Two spurious counts were self-servingly retrieved by a lower court that the Supreme Court had criticised and which had sent the two charges back to the lower court to assess its errors. The whole prosecution was nonsense and I achieved by far the largest libel settlement in Canadian history from my original accusers.

I would be happy to have the question of whether I am a rotter determined in a cursory review by an impartial ethics committee of Their Lordships' House.

CONRAD (LORD) BLACK  
Toronto

**Donald, meet Silvio**

Lexington proposed that Donald Trump's chances of coming to power would be better in a European-style parliamentary system (July 25th). This brought to mind

another self-promoting, uncouth businessman with comparable political aspirations: Silvio Berlusconi. If Americans want to know what it would be like to be ruled by President Trump, they need look no further than Italy's erstwhile prime minister, who brought an unprecedented level of boorishness to government but precious little in the way of economic leadership.

Just like Mr Berlusconi, whose antics and pronouncements caused no end of embarrassment for many Italians, Mr Trump's often bizarre words and actions seem untempered by logic and reason. But El Donald is no more insane than il Signore Bunga Bunga: both are simply accustomed to ruling their respective domains without ever having to explain or restrain themselves.

If Republicans believe that being vain, obnoxious and unapologetic is all it takes to run a superpower, they've found their man.

BARRY EDELSON  
*Huntington, New York*

**Trading ETFs**

Although largely on point, your informative article on how exchange-traded funds have overtaken hedge funds as an investment vehicle inadvertently reinforced one common misunderstanding of how ETFs are bought and sold ("Roaring ahead", August 1st). You said that a rush to sell bond ETFs "might force them to delay or limit redemptions (imposing 'gates', in the jargon)". In fact, gates are unlikely to be imposed because ETFs trade in two different ways that offer superior liquidity to other funds holding bonds that sometimes impose gates.

The first form of trading occurs directly between buyers and sellers on an exchange, like a stock. This allows sellers of ETFs to find buyers without selling any of the underlying securities, which provides liquidity in the ETF even if there is a lack of liquidity in the underlying securities. For iShares bond-ETFs, about 80% of all trading occurs on a stock

exchange like this.

The second form of trading occurs when trading in the ETF is high enough in one direction that its price starts to diverge from the underlying securities. If the ETF trades below the price of the underlying securities, an institutional arbitrageur, (a broker/dealer), then "redeems" shares, causing the fund to shrink. But unlike a normal mutual fund, which must sell the securities it holds to return cash to an investor wanting to sell, ETFs can deliver underlying securities to the broker/dealer who decides whether to hold or sell those securities.

Because they facilitate liquidity in these two ways, we believe that ETFs, especially in times of market stress, are an important solution and integral part of the changing fixed-income market.

MARK WIEDMAN  
Global head of iShares  
BlackRock  
New York

**At a minimum**

You counsel caution in the "global movement toward much higher minimum wages", arguing that little is known about the long-run effects ("A reckless wager", July 25th). Australia has a minimum wage of A\$17.29 per hour, (\$12.80). This has been broadly maintained for decades and the long-run effects are visible. Australia's unemployment rate is 6.3%, at the lower end of the range of OECD countries. Its growth rate has been towards the upper end. Perhaps this may provide comfort to those concerned about the current "global movement".

REX DEIGHTON-SMITH  
*Armadale, Australia*

"No business which depends for existence on paying less than living wages to its workers has any right to continue in this country," said Franklin Roosevelt at the start of the New Deal in 1933. But even \$15 per hour does not get a family out of poverty if full-time, full-year jobs are unavailable. Guaranteeing 2,000 hours of work at \$15 per hour to

every head of a family would come much closer to reaching FDR's goal.

ARNOLD PACKER  
Former assistant secretary of labour  
*Baltimore*

**No Greek tragedy in Ecuador**

Bello asked if Ecuador will turn into Latin America's Greece (August 1st)? There are two reasons why it won't. First, Greece shares a currency and a centralised monetary authority with other countries in the euro zone, whereas Ecuador can still issue debt as an immediate source of stabilisation. Second, the debt levels between the two countries could not be more different. Before the financial crisis Greek debt was already sky high. Ecuador has one of the smallest debt-to-GDP ratios in Latin America.

The Greek crisis does share some similarities with the one Ecuador had 16 years ago. Capital controls were imposed in a crisis that eventually caused Ecuador to change its currency system. Pensioners queued for their savings while young savers fled the country.

Maybe Bello would have been better off asking if Greece is becoming the old Ecuador?

CARLOS CÓRDOVA  
*Canterbury, Kent*

**A democratic deficit**

Professor Gillette was right to defend appointed boards with the power to reform a given jurisdiction's public finances (Letters, July 25th). The problem with democracy when it comes to managing the public purse was best summed up by Jean-Claude Juncker when he was prime minister of Luxembourg: "We all know what to do; we just don't know how to get re-elected after we've done it."

RICHARD MCGOWN  
*Harare, Zimbabwe* ■

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James's Street, London SW1A 1HG  
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# Executive Focus



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## Urban crime

## Midsummer murder

BALTIMORE

## Lack of trust in police forces is contributing to a spike in murder rates

**A**T THE corner in West Baltimore where a burnt-out pharmacy sits as evidence of riots, Tay Wizzle, a 26-year-old student, explains why he thinks the murder rate has spiked. "It's a decrease in police presence," he says. "The police don't patrol like they did before the riots. I think they're purposely doing that to make themselves look innocent. They ain't dumb, but they think everyone here's stupid." As he speaks, a police car arrives and two cops begin questioning a couple who were parked in a car with tinted windows. "I've been here an hour and that's the first I've seen them," says Mr Wizzle. "And they're just fucking with people."

Murders always increase in summer in America's cities. The heat brings people—and guns—out into the streets, where arguments flare up. But this summer has been particularly bloody. In July 45 people were murdered in Baltimore. That was the worst month the city has experienced since August 1972, when the population was almost 50% larger than it is today. And Baltimore is not alone. Comprehensive statistics on murders across America in 2015 do not yet exist, and it is impossible to prove whether, nationally, the murder rate is up or down. But local figures suggest the number has jumped in a number of big cities, particularly those with the most entrenched histories of racial strife and high crime.

In Milwaukee, one of America's most segregated cities, twice as many people

were killed in the first half of 2015 as in the same period last year. In St Louis, the centre of protests against police since last year, the figure climbed by 60%; in New Orleans, by 30%; in Washington, DC, by 18%; in New York by 11%. The trend is not uniform: Los Angeles, Phoenix and San Diego have seen declines in the number of murders in the first half of this year. But the trend is widespread enough to concern police chiefs, several of whom met in Washington to discuss rising gun crime on August 3rd.

The apparent uptick comes at a time when policing in America is troubled. On August 9th protests to mark the anniversary of the death of Michael Brown, a black teenager killed by police in Ferguson, a suburb of St Louis, ended with the shoot-

ing of another young black man during an apparent gunfight with cops. The *Washington Post* estimates that 24 unarmed black men have been killed by the police so far this year (out of a total of 585 killings by police). Polling by Gallup suggests that in June confidence in the police reached its lowest level since 1993, a year in which the national murder rate was double the rate it was in 2013 and when Congress was preparing to pass a punitive crime bill.

In Baltimore, few are sure what has caused the jump. Most link it to the riots sparked by the death of a young black man, Freddie Gray, after he was roughly arrested by the city's police. One possibility raised shortly after the riots is that drugs stolen from pharmacies disrupted the city's heroin market and set off gang wars. Another is that a slowdown of policing has indeed had an effect. Data from Baltimore's police department suggest that the number of arrests this year has been lower than last year or in 2013—and fell drastically in May, after Mr Gray's death (see chart). Another possible reason is disorganisation: the director of Baltimore's Operation Ceasefire, an anti-gun programme which is credited with reducing crime in cities like Boston, resigned in March.

Most cities have similar local concerns: in Milwaukee, the city's police chief points to Wisconsin's loose gun laws. But the fact that a number of cities have experienced jumps suggests a national effect may be at play. Police officers across America are upset by the political storm that has blown up since the protests in Ferguson last summer: they often say they feel under siege from local media and politicians. Baltimore's police union says that the decision by the city's chief prosecutor, Marilyn Mosby, to charge the six police officers who arrested Mr Gray demoralised police officers.

In New York City the police have con- ►

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► spicuously campaigned against Bill de Blasio, the city's leftish mayor since last year. In December and then again in January they turned their backs on him at the funerals of officers murdered by a man who claimed to be angered by police violence. Since then, supporters of the police—such as the *New York Post*, a scrappy tabloid—have alleged that Mr de Blasio's reduction of the use of stop-and-frisk tactics has contributed to an increase in the murder rate so far this year. That is a stretch: although the number of murders in New York has increased, the number of shootings so far this year has remained the same.

Police anger could be a factor in crime spikes, says Eugene O'Donnell, an academic at the John Jay College of Criminal Justice. Cops who feel they have less political support may become inclined to do the bare minimum. But another, more subtle, effect may also be at play, he says. Most inner-city murders are not sophisticated—they often take place in crowded streets. Yet clearance rates remain stunningly low. In Baltimore, just 36% of murders have been solved this year, compared with two-thirds nationally. Cops who are distrusted struggle to find co-operative witnesses, many of whom fear retaliation if they are deemed to be "snitches". The message that cops are sometimes racist or too violent, even when accurate, may be making it harder for them to do their jobs properly.

Once the killings start they are hard to stop. In a city such as Baltimore, where graffiti on the walls of abandoned houses commemorate dead young men, murders lead to retaliatory murders. Much violent crime is spontaneous: according to analysis by the city's police department given to the *Baltimore Sun*, only 14% of murder victims in 2014, and only 11% of suspects, were gang members. More detailed analysis by Milwaukee's Homicide Review Commission, an advisory board, suggests that in

that city arguments are by far the biggest known cause of murders. When the chance of getting caught is low, and the law is not trusted, violence reigns.

Such cities have remained intensely violent even as crime in general has declined. Last year, before the spike, more than one in 100 black men aged 15 to 24 in Milwaukee got shot; roughly one in ten of those was killed. Studies of homicide victims suggest that most murder victims (and perpetrators) come from a tiny number of young men, almost all with criminal convictions, who tend to know each other. One study of a high-crime community in Boston found that 85% of gunshot victims came from a network of just 763 young men—or less than 2% of the local population. Murder, it seems, is a disease that spreads through social interaction.

If the leap in violence proves lasting, that ought to worry reformers. Since the protests in Ferguson began, improving America's policing and prison systems has united most Democrats and some Republicans. Hillary Clinton used one of her first speeches as a presidential candidate to call for prison and police reform. Congress is expected to consider sentencing reform in the autumn. That cause, however, has been helped by low and falling crime. The case may be harder to make if cities are no longer seen to be improving.

The rhetoric of some politicians is already shifting. In April Elijah Cummings, who represents part of Baltimore in Congress, said that police reform "is the civil rights cause of this generation". On August 3rd, announcing a new partnership between the city's police and federal agencies, he took a different tone. "I hear over and over and over again, black lives matter, black lives matter. And they do matter. But black lives also have to matter to black people." He had a simpler message for killers: "You're not going to get away with it." ■

## America and Cuba

# Cuban deals

CHICAGO

**Despite the embargo, America exports plenty of goods to its erstwhile enemy**

“WE LEARNED that the steps taken by President Obama to re-engage with Cuba have launched a bit of a global race [...] to leave as little as possible for American business when the restrictions are lifted altogether.” Arne Sorenson, the boss of Marriott, a hotel chain, sounded frustrated after he returned from his first trip to Cuba last month. American business is losing out, he says, because European and Latin American companies can cater to the millions of American tourists who are expected to travel to Cuba soon, whereas Marriott and other American companies are still barred by law from doing business there.

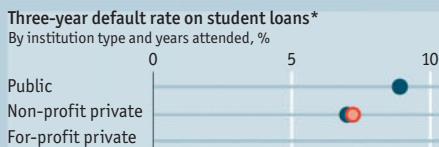
Before the Cuban revolution in 1959, the island's farm exports to America amounted to \$2.2 billion a year (at current commodity prices) while American agricultural exports to Cuba stood at \$600m, according to the United States Department of Agriculture. Cuba supplied its big neighbour with molasses, cane sugar, tobacco and coffee. America shipped rice, pork, lard and wheat flour across the Florida straits. The embargo ended all imports from Cuba but, just as the United States traded with the Soviet Union during the cold war, American farm products, some pharmaceuticals and medical equipment can be bought on the island—for a price (see chart on next page).

America is a big supplier of food to Cuba (which imports 80% of what it needs). By 2008 it was exporting \$685m-►

## College debt

Student debt in America now totals \$1.2 trillion, up more than threefold over the past decade. On August 10th Hillary Clinton announced a \$350 billion plan to reduce this sum. It would increase federal subsidies granted to state-school students, and help existing borrowers refinance their liabilities. New loan originations have decreased every year since 2010, and default rates have stabilised.

Surprisingly, the less students borrow, the more likely they are to struggle with repayments—presumably because debtors with six-figure obligations tend to have postgraduate degrees and steady jobs, whereas those with more modest loans tend to be college dropouts. Non-payment rates also vary by institution. Students at for-profit schools fare the worst: nearly 20% default within three years of leaving college. If Mrs Clinton succeeds in cutting state-school tuition, the for-profit education industry could take a big hit.

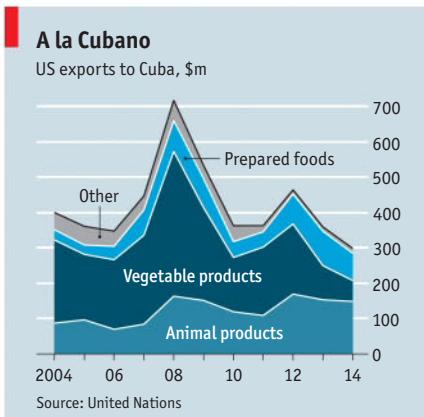


Sources: Federal Reserve Bank of New York; Department of Education

Total student loans  
By age of borrower, \$trn



\*For those who left college in 2011



worth of corn, soybeans and poultry to the island. Since then, that figure has declined; last year food exports were only \$286m, and this year is shaping up to be especially disappointing. One reason is that Cuba is paying down its debts to Russia, Japan and Mexico and so has less money to spend. Another is Cuba's decision to stop importing American poultry after an outbreak of bird flu. And a third is that Cubans must pay American exporters in cash because they are not allowed to give them credit, which puts Americans at a disadvantage to exporters in other countries. Mr Obama has helpfully redefined Cubans' obligation to pay cash in advance as "cash before transfer of title", but it remains a cumbersome process.

Despite these discouragements, several companies are venturing into the socialist paradise. As well as allowing more Americans to visit Cuba without special permits and to send more remittances to relatives on the island, Mr Obama's administration has let telecoms firms as well as banks take steps towards operating in Cuba. In February IDT, a telecoms firm in New Jersey, said it had reached an agreement with Empresa de Telecomunicaciones de Cuba, the national telecom provider, to exchange long-distance traffic. (Other telecoms firms are likely to find suspicion of the NSA an impediment to doing business.) In May banks felt easier about doing business in Cuba when the State Department took it off the list of state sponsors of terror. In July Stonegate, a Florida-based bank, signed a correspondent banking agreement with Banco Internacional de Comercio, a government-controlled Cuban bank.

For trade to return to anything like its pre-revolutionary health, though, the embargo will have to go. According to a Pew poll published on July 21st, 72% of Americans would like to end it. More surprisingly, 55% of conservative Republicans now agree, compared with just 40% in January. Among Republican presidential hopefuls, Marco Rubio, Ted Cruz and Jeb Bush (all with strong connections to Cuban exile groups in Miami) want the embargo to stay. Hillary Clinton, who has a keen sense of

## Taxis v Uber

# A tale of two cities

NEW YORK

**Does Uber substitute for cabs or attract new riders? It depends where you live**

EVER since Uber arrived in New York in 2011, the days of the city's yellow taxis have seemed numbered. Catching a cab requires standing outside until one drives by, giving directions if necessary and rummaging for cash. In contrast, Uber lets riders summon a car by phone, informs them when it is outside, feeds the destination into navigation software and lets them walk out upon arrival.

The markets believe yellow cabs are in trouble. The average price for New York's 13,771 medallions (licences to drive taxis) has fallen from \$1m during the summer of 2014 to \$690,000 over the past three months. But attributing these woes to Uber is difficult. Not all Uber passengers would otherwise have hopped in a cab—some might have taken the subway or bus, walked, cycled or stayed at home. Moreover, Uber is not taxi's only new source of competition. In 2013 the city introduced apple-green "boro taxis", which serve passengers outside the Manhattan core, and launched a bicycle-sharing scheme.

Only now has the picture begun to clear up, as both Uber and New York's taxi regulator recently released detailed data. The best news for the Uber camp is that ridership has spiked since its entrance. Although Uber has not shared 2013 statistics, a leak to *Business Insider*, a news website, revealed an average of 140,000 Uber trips per week in December 2013. Assuming a steady compound growth rate over the two years to June 2015, that yields an estimate of 333,000 Uber rides in June 2013. Adding that to the 14.4m yellow-taxi trips that month, plus a handful of green-cab rides, produces a sum of 14.8m. In contrast, the total this June was 17.5m. This 18% increase makes clear that the market is not zero-sum.

Virtually all of these gains have come in the taxi-starved areas outside Manhattan's central business district (CBD), which sits south of 59th Street and is off-limits to green cabs. Monthly ridership in these zones has soared from

4.8m to 7.3m in two years, while yellow-taxi hails have fallen by some 600,000. As a first approximation, that suggests that just 20% of the increase in Uber and boro-taxi trips in these districts were taken away from yellow cabs, with 80% representing growth in the market.

However, figures for the taxi-saturated CBD tell the opposite story. During the two years to June 2015, Uber's pickups in the CBD rose from an estimated 175,000 to 1.8m, while yellow cabs' hails in the area fell by around 1.4m. This implies that where Uber and yellow cabs compete most directly, just 13% of the growth in Uber rides has added to prior demand. The remaining 87% has replaced trips that would otherwise have gone to taxis.

A further signal that Uber bears responsibility for the drop in cab hails is that the decline is most extreme late at night, when passengers place the most value on Uber's convenience and comfort. Citywide, yellow-taxi rides from 11pm to 5am have fallen by 22% since June 2013, whereas trips at all other times are only off by 12%. Given such fierce competition, medallion prices probably have further to fall before they hit bottom.

## What's app

Rides in New York City, June, m



Sources: New York City Taxi and Limousine Commission; Uber; Google BigQuery; *The Economist*

what voters want to hear, once backed the embargo (her husband Bill signed the Helms-Burton Act, which toughened it, in 1996, though he later regretted having done so). She now wants to scrap it.

America's farmers look forward to that day. According to Parr Rosson of Texas A&M University, agricultural exports to Cuba could exceed \$1 billion annually, which, he says, would create an extra

6,000 jobs in America. Yet this will only happen if Cubans become a bit more prosperous and if Raúl Castro's government, which has done little to make trade easier since the thaw in December, embraces commerce with the old enemy (see page 27). Until then American hoteliers, and most of the American business travellers they would like to profit from, will continue to fret that they are missing out. ■

## New York property

# Towering silliness

NEW YORK

## How the city's skyline is shaped by tax breaks

ITS prospectus declares that One57 will redefine luxury New York living; its bland interiors are, apparently, the acme of Danish modernism. The best condominiums in the building are said to sell for \$100m. Strangely, the sales pitch does not mention that this luminous skyscraper beside Central Park benefited from tax breaks generously provided by New York city. Uncertainty about the future of that handout helps to explain why the city is in the midst of a building boom.

After collapsing in 2009, demand for residential building permits has been rising steadily for five years, and lately has begun to surge (see chart). Census figures show that developers for residential buildings secured permits for nearly 42,000 units in the first six months of 2015 alone—more than double the number issued in the whole of 2014. Almost half these units are slated for Brooklyn, where land is less dear than on Manhattan.

The city needs the housing. The population has swollen to 8.4m, up nearly 3% since 2010, but the housing stock has not kept up. A tight market with few vacancies (a 3.45% rate in 2014) has been pushing up prices. The median rent paid in the city grew by 12% between 2005 and 2013, after adjusting for inflation, according to NYU's Furman Centre on housing policy. More than 12% of all rental housing is now considered overcrowded, according to the city's latest Housing Supply Report.

Yet growing demand does not entirely explain this surge in promised supply. Building permits in June alone rivalled the number issued in all of 2013. One factor is a flood of money coming in from overseas. Developers are benefiting from investors from China, Russia, Brazil and other countries where wealthy people are looking for a relatively safe place to park their money. New York city's steadily rising property prices are still seen as a relative bargain when compared with London and Hong Kong, says Stuart Saft, a real-estate lawyer at Holland & Knight.

The sudden spike is largely attributable to a clause in the city's complicated property-tax code, which taxes different types of abode at different rates, and favours homeowners at the expense of renters. In order to reduce taxes on the construction of new multi-family high-rises—which tend to be taxed at especially high rates—developers rely on something called the 421-a programme, which exempts new construction

from property taxes for decades on the condition that they also build some more affordable units, and is yet to be renewed by the state legislature.

Launched in 1971 as a way to spur investment in what was then a rather decrepit city, it has since helped generate around 251,000 of the city's 2.2m rental units, a significant share—approximately 35%—of new construction in the city, according to an analysis from the New School in New York. This includes an estimated 37,400 affordable units, mostly in Brooklyn, as of 2013. The fact that this benefit could disappear in 2016 helps explain why so many developers are rushing to break ground now. "We've been working day and night to get the permits in time," says Omri Sachs of Adam America, a developer with several big projects in Brooklyn.

The 421-a scheme costs the city an estimated \$1.1 billion in lost tax revenue every year, making it a pricey way to build new housing. The developers of One57 qualified for the tax-break by subsidising 66 affordable flats in the Bronx. This and other subsidies will cost the city nearly \$66m in forgone property-tax revenue over ten years for this building alone, according to the Independent Budget Office (IBO).

The IBO is quick to say that properties like One57 are hardly representative of the scheme's recipients. Most developers argue that the city's runaway land prices and high construction costs make big rental projects unfeasible without tax breaks. The cost of buildable land below 96th Street in Manhattan has risen nearly 80% since 2011, according to Cushman & Wakefield, a real-estate firm. It then takes another three years, on average, to get something built. Charging rents high enough to make a profit is hard enough: add property taxes,



**Spot the welfare recipient**

which are among the highest in the country, and it becomes close to impossible.

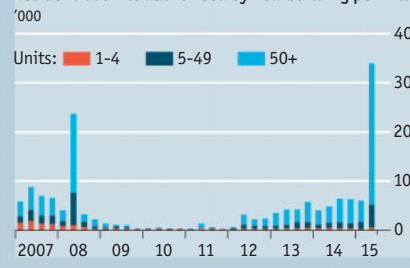
Advocates add that in time the tax exemptions expire, ensuring new 421-a buildings increase the city's tax base. But take away the subsidies and land values ought to fall, which would make building cheaper. Bill de Blasio, New York's mayor and no friend of the owners of \$100m apartments, wants to keep the 421-a scheme in place, with some changes. His proposals would kill the tax breaks for new condominium or co-op buildings, unless they are modestly-priced developments in the outer boroughs. He has also raised the proportion of affordable-housing units each new development must include to as much as 30%, up from as little as zero. To sweeten the deal, qualifying buildings can rely on the tax break for 35 years—ten years longer than before.

This revised 421-a plan is scheduled to take effect in January 1st 2016, but only if developers and construction unions can agree on wage-levels for workers. Otherwise the tax exemption expires at the end of the year—and with it an incentive for new rentals in the city. ■

## Start spreading the views

New York city

Residential units authorised by new building permits '000



## Hillary Clinton and her e-mails

# Other people's rules

WASHINGTON, DC

**A complicated tale about IT has become a lead weight for the likely nominee**

IN THE normal run of things, the location of an ageing e-mail server would not be headline news. But foes and supporters of Hillary Clinton all paid close attention when her presidential campaign announced on August 11th that the Justice Department is to be given the server that housed her personal e-mail account during her four years as secretary of state. Mrs Clinton's lawyer will also give investigators a memory stick containing backup copies of work e-mails turned over to the State Department last December.

In theory, federal officials are merely checking that security rules were followed during Mrs Clinton's time as America's top diplomat, when she eschewed a government e-mail account and routed all her work and personal e-mails through a private system. Mrs Clinton says that she used this system to avoid carrying too many electronic devices. About 60,000 messages crossed the server during her time in government, about half of which she later deleted, deeming them personal. The other 30,000 are now being reviewed by the State Department ahead of their eventual release to the public.

As for the fateful server itself, Mrs Clinton has spent months resisting requests to hand it over, saying in March that it contains "personal communications from my husband and me". Her lawyer told a congressional oversight committee that the server no longer holds any e-mails sent from the address that she used as secretary of state, [hdr22@clintonemail.com](mailto:hdr22@clintonemail.com). In July, displaying the careful attention to language for which her family is renowned, Mrs Clinton added that she is confident that she "never sent or received any information that was classified at the time it was sent and received."

In practice, even an arcane technical probe is unhelpful to Mrs Clinton, reminding voters of all the other investigations that she and her husband, the former president Bill Clinton, have survived. On August 11th the inspector-general for the intelligence community, an official watchdog, told Congress that a sample of 40 e-mails from Mrs Clinton's account revealed two containing "top secret" information. The State Department blames its employees for sharing secret files on unclassified systems and forwarding some to Mrs Clinton.

Though no evidence has emerged linking the former secretary of state to wrongdoing, Governor Scott Walker of Wisconsin

## The EPA spill

# Arsenic and lost face

**The agency charged with protecting the environment pours poison on it**

"**I** AM absolutely deeply sorry this happened," said the administrator of the Environmental Protection Agency (EPA), Gina McCarthy, on August 11th. Her apology came nearly a week after a group supervised by her agency's employees accidentally released 3m tons of waste water from an abandoned gold mine into Colorado's Animas river, turning it a sickly yellow shade. The agency may now face a full deck of lawsuits.

America has more than 3.5m miles of natural waterways. The EPA spends much time lamenting their sad state. According to its most recent draft of the National Rivers and Streams Assessment, just over half of the country's stream and river length is in poor condition: aquatic insects and other creatures living in such waters struggle to survive the pollution.

Two pools have been built to treat sludge leaking from the Gold King mine. But befouled sediment, containing lead and arsenic, could sink to the river's bed, making a quick clean-up impossible. EPA workers were there in the first place to stem the toxic water that, for years, had leaked from the mine at a rate of 50-250 gallons a minute. By August 7th, after

their bumbling excavation, waste water was pouring out of the area at a rate of 740 gallons a minute.

The Animas is a tributary of the San Juan, itself part of the Colorado river system, which supplies 25m people across seven western states and two Mexican ones. It also irrigates 3.5m acres of farmland. The governors of Colorado and New Mexico declared emergencies on August 10th, freeing state funds to deal with the mess.

The accident is awful and awfully timed. The EPA, invented during Richard Nixon's presidency, has become the federal agency conservatives most dislike, the aggressor in the "war on coal". Congressional Republicans accuse it, with some justification, of issuing diktats that override the will of Congress, and have cut its funding.

The EPA won the most recent round when it issued regulations limiting carbon-dioxide emissions from power stations on August 3rd. To be accused of unconstitutional overreach is unfortunate. To give proof of incompetence when faced with such an accusation is unforgivable.



**It's the wrong Colorado**

sin, a Republican presidential candidate, declared that Mrs Clinton's approach to security showed that she "cannot be trusted to be commander-in-chief".

A growing number of Americans have told pollsters in recent months that they do not trust Mrs Clinton. In a separate blow this week a survey for the first time put her behind her only significant rival for the Democratic presidential nomination, Sen-

ator Bernie Sanders of Vermont, a fiery leftist. The *Boston Herald* poll was conducted in a single state, New Hampshire, where Mr Sanders is something of a local hero. Its most chilling finding for Mrs Clinton did not touch on trust, but enthusiasm, with just 35% of likely primary voters "excited" about her campaign. She remains a prohibitive favourite to be her party's candidate. But a long slog beckons. ■

# Lexington | Anger management

**When Republicans ditch Donald Trump they will also have to confront his supporters**



**A**S A rule, supporters of the Republican Party tend to dislike losing elections to Democrats. Bear this in mind as opinion polls emerge, suggesting that Donald Trump may have peaked as a front-runner among Republican presidential hopefuls.

The Trump surge was always likely to slow at some point because most Republican activists—for all their bluster about the two parties' ruling elites being as bad as each other—would rather win the 2016 election than see President Hillary Clinton sitting in the Oval Office. Though Mr Trump for a while seemed to defy the laws of political gravity, surviving gaffes and rows that would have brought other candidates to earth, most conservatives already knew that the splenetic property tycoon is unelectable (thanks to the size of the field, he has routinely led with the backing of just one in four Republicans).

That does not mean that party grandes can relax, for they have not seen the last of the anger that has fuelled the Trump run. Fed-up grassroots conservatives remain sure that Barack Obama is bent on destroying their country and cannot understand why Republican leaders have not done more to thwart his agenda despite controlling both chambers of Congress. They are reluctant to accept that governing in a large, messy democracy involves compromise, or that the concerns of hard-core conservatives do not always enjoy majority support. They are quick to believe that their elites have been bought by corrupt special interests. Mr Trump has sought to fuel those suspicions, boasting that his cash allows him to boss politicians of both parties around. His particular genius has been to offer cynical voters not reform, but his own services as a leader too rich and clever to be suborned.

Some Trump fans simply relish the skunk-at-a-picnic aspects of his presidential bid. They do not care that his policy platform is a mess of boastfulness and absurdity (his plan for Islamic State: “We go in, we knock the hell out of ‘em, we take the oil”). They cheer every time Senator This or Governor That—not to mention the mainstream media—is left spluttering by his outbursts. At the RedState Gathering, a conservative forum held in Atlanta from August 6th-8th after the first televised presidential debate in Cleveland, a dismaying number of activists saw nothing wrong with Mr Trump’s repeated assertion that the Mexican government deliberately sends criminals north across the border, and

gets away with it because American politicians are “stupid”. Nor did activists quibble with his fantastical solution: a border wall, for which a President Trump would make Mexico pay.

Though nine presidential candidates addressed the RedState forum, Mr Trump’s invitation was torn up after he launched a series of attacks on Megyn Kelly, a Fox News presenter and debate co-host. Ms Kelly had asked him in Cleveland whether his record of calling women who cross him “fat pigs” and “dogs” might help Democrats paint Republicans as anti-woman. On the night, an audience of 24m Americans watched Mr Trump offer a snarling response about political correctness. Over the next few days he seemed—to many ears—to suggest that Ms Kelly’s thinking had been clouded by menstruation.

Yet a straw poll of activists at RedState suggests that what really upset them was Mr Trump’s disloyalty. They were aghast that, in the debate’s opening moments, Mr Trump declined to pledge his support for whomever becomes the Republican nominee and then refused to rule out an independent run for the presidency, explaining that this would give him “a lot of leverage”.

An ex-cop who owns a security business in Dahlonega, Georgia, recalled voting for the third-party candidacy of another billionaire populist, Ross Perot, in the presidential election of 1992, only to watch Bill Clinton win the White House for the Democrats and deny George H.W. Bush a second term. Vowing never to make that mistake again, the former policeman said he is now looking for a Republican candidate who is very conservative “but electable”. The ex-cop, like many of the activists gathered in Atlanta, favours Senator Ted Cruz of Texas, a hardliner who fired up the crowd by denouncing his Republican colleagues in Congress as a self-serving “Washington cartel”. A county official from Mobile, Alabama, predicted that: “People are angry enough with what is happening in the country that they’ll vote for Ted Cruz.”

To be fair, RedState gatherings attract a particularly flinty sort of conservative. In other forums, more pragmatic candidates have received good reviews for their first TV debate performances, among them Senator Marco Rubio of Florida and Carly Fiorina, the former boss of Hewlett-Packard, a technology firm (who dominated a separate debate for candidates who did not poll well enough to make the main show). But Republicans of all stripes agree that the 2016 campaign is unfolding in an angry country. They give credit to Mr Trump for tapping into a mood of grievance, and suggest that a clever conservative can now harness that emotion to unify a broad electoral coalition on the right.

## We want our country back

That is too glib. Mr Trump’s most loyal supporters—white men without college degrees—have much to be cross about. They have lost economic and social power, thanks partly to global competition and automation but also to feminism and civil rights. All politicians know they cannot ignore the pain of those who have lost their jobs. Mr Trump offers simple, dazzling solutions, involving fines for firms that ship jobs abroad, or promises to use his deal-making savvy to transform trade relations with China. But some voter anger—notably towards professional women and non-whites—is illegitimate. Strikingly, when RedState activists were read some of the furious e-mails sent to protest against Mr Trump’s exclusion, many called Ms Kelly a whore or a lesbian and called the man in the White House a “nigger”. Ugly forms of rage are in the air, and will survive a Trump slump. For Republicans seeking to craft nationwide majorities, anger is also a trap. ■



**Protests in Honduras and Guatemala**

## A Central American spring?

TEGUCIGALPA

### Fury at corruption sparks mass demonstrations

LIGHT from thousands of bamboo torches cuts through the gathering darkness in Tegucigalpa, Honduras's capital. The protesters who carry them call their demonstrations *marchas de las antorchas* (torch marches). They have been taking place weekly at dusk since May. Their purpose: to rail against what participants see as grotesque corruption at the highest levels of government. "We can't take it any more," says Yelso Serna, a salesman who has marched three times.

In neighbouring Guatemala the protests, and the scandals that provoke them, are even bigger. Every Saturday since April thousands have poured into Constitution Square in Guatemala City to demand an overhaul of the political system, starting with the removal of the president, Otto Pérez Molina.

The size and stubbornness of the crowds in both countries has prompted some observers to dub the protests a "Central American spring", like the Arab revolts that toppled corrupt Middle Eastern regimes in 2011. They draw inspiration from Brazil, where hundreds of thousands of people, enraged by a multibillion-dollar bribery scandal involving Petrobras, the state-controlled oil company, have rallied to demand the resignation of the president, Dilma Rousseff. (They are expected to do so again on August 16th.)

In Guatemala and Honduras the prot-

ests represent an "unprecedented social revolution" against a grasping political class, says Paulo de León, director of Central American Business Intelligence, a Guatemala-based consultancy. They may well bring change, but it is likely to be more gradual and peaceful than the Arab uprisings, which in most countries ended in chaos.

### Rot at the top

The trigger in both countries is revelations that made corruption, long thought to be inevitable, suddenly seem intolerable. In Guatemala citizens were shocked into action by the sleuthing of the International Commission Against Impunity in Guatemala (CICIG), a United-Nations-backed team that has been investigating high-level criminality since 2007. In April this year the commission reported that officials in Guatemala's customs agency had received millions of dollars in kickbacks in exchange for reducing import duties for companies, a scheme that Guatemalans have dubbed *La Linea* (the line), after a telephone hotline used by the miscreants.

The CICIG followed this up by uncovering fraud at the Social Security Institute. In July it disclosed that money from drug trafficking is financing political campaigns. Now, weeks before a presidential election on September 6th, it has alleged that the running-mate of Manuel Baldizón, the candidate who had seemed the most prob-

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[Economist.com/americas](http://Economist.com/americas)

able winner, used his position as head of the central bank to protect businesses that were laundering money.

The scandals, followed up by determined prosecutors, have led to a purge of top echelons of government. The heads of Guatemala's central bank and the Social Security Institute have been arrested and three ministers have been sacked. Roxana Baldetti, Guatemala's vice-president, resigned after investigators fingered her former private secretary as the ringleader of *La Linea*. Protesters are now demanding the head of Mr Pérez, although he has not been directly implicated in the scandals.

In Honduras the spark was provided by a local journalist, who revealed in May that the ruling National Party had benefited from a scheme to defraud the national health service. Hondurans have known since last year that health officials had been enjoying glitzy parties and living in mansions. Such lavish lifestyles were made possible by some \$300m in bribes paid by suppliers of medicines and medical devices, which were allowed to overcharge for them. Now it transpires that shell companies involved in the scheme funnelled some of the cash to the National Party. This took place while the current president, Juan Orlando Hernández, was still Speaker of Congress.

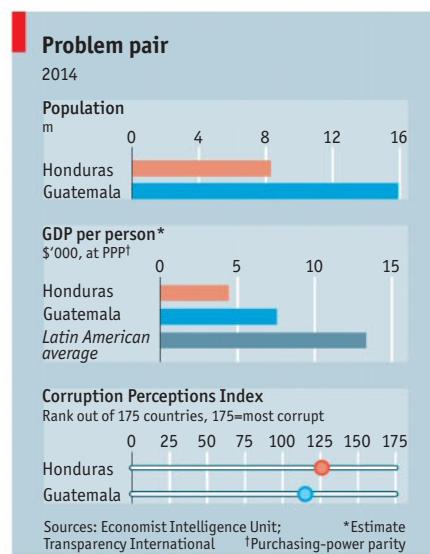
Mr Hernández has acknowledged that his party received the money and has said it should give it back; he said he had no knowledge of the scheme. Hondurans are unimpressed. "*Fuera JOH!*" ("Out with JOH"), shout the protesters, referring to the president by his initials. They are demanding an anti-impunity commission like Guatemala's.

Unlike the Arab regimes that were felled by popular anger and civil war, the Central American governments now un-

▶ der fire are democratic, though imperfectly so. In Guatemala Mr Pérez, a former chief of military intelligence during the government's brutal 36-year-long war against leftist insurgents and indigenous groups, cannot run in the election in September. He will step down as president in January, if he is not pushed out first.

The scandals have enlivened the contest to succeed him. They forced the candidate of Mr Pérez's party to drop out of the race. Now they threaten to upset the candidacy of the front-runner, Mr Baldizón, a centre-right politician with populist leanings. This month Guatemala's supreme court stripped Mr Baldizón's running mate of immunity from prosecution. If he is forced out, Mr Baldizón may be, too (as candidates may not run without a vice-presidential partner). That would open the field to rivals, including Jimmy Morales, a comedian, who is a political neophyte and thus untainted by scandal, and Sandra Torres, the ex-wife of a centre-left former president. In earlier times Mr Baldizón would have found a way to win despite the scandal surrounding his running-mate, says Mr De León. "But in the current climate, the outcome...is uncertain."

Honduras's electoral calendar offers



voters no possibility of near-term relief. Mr Hernández's term lasts until 2018. He may run again. In April the supreme court nullified a law that prohibited presidents from serving more than one term. Until the scandals erupted, most Hondurans saw Mr Hernández as a competent economic manager and credited him for a slight de-

cline in the country's horrific murder rate. With re-election now a possibility, he has strong reasons to rekindle that popularity.

Mr Hernández is trying to placate the protesters. He has called for "unconditional dialogue" with them and has proposed a Honduran "anti-corruption system" to crack down on graft in politics and in the judiciary. So far he has rejected the idea of an outside commission like the CICIG. The UN is thought to be reluctant to set up a separate commission for Honduras. Some members of the United States Congress, which is considering an aid package to stem the flow of illegal migrants from Guatemala, Honduras and El Salvador, are paying close attention to the protests, but they are unlikely to demand a Honduran CICIG run by outsiders. The Senate Appropriations Committee proposed that part of the aid should be spent on an anti-impunity commission in Honduras, if one is set up.

The protesters may not succeed in sweeping away the self-serving political elites in Guatemala and Honduras, but at least they have put them on notice. In Tegucigalpa, where torches filled the air with black smoke, the mood was festive. "Already we've achieved something," says Mr Serna. "They are paying attention." ■

## The Chinese in Canada

# Long live Cantopop

VANCOUVER

In Chinatown, Cantonese squares off against Mandarin

**I**T IS a novelty that few students are likely to notice. When the University of British Columbia (UBC) resumes classes in September it will for the first time offer a course for credit in Cantonese. That seems an unremarkable decision by a Chinese-language department that claims to be the largest in North America. In fact, it is a bookish act of resistance.

Cantonese was widely taught at Canadian and American universities 30 years ago, says Ross King, head of UBC's Asian-studies programme. That is because most Chinese immigrants came from Hong Kong and southern China, where it is the main language. Cantonese still resounds in Chinatowns, such as those of Vancouver and San Francisco. But the economic rise of mainland China, whose official language is Mandarin Chinese (or *putonghua*), is pushing Cantonese off the streets and out of the academy. UBC wants to bring it back.

Newcomers to Vancouver's Chinatown are richer and speak Mandarin. A sign advertising luxury apartments welcomes potential buyers (in Roman letters) with *ni hao*, the *putonghua* greeting, rather than the Cantonese *nei hou*. A decade ago, dignitaries at Chinese-new-

year festivities gave speeches in Cantonese; today they speak Mandarin.

Cantonese is not about to die out. About 62m people speak it, as many as speak Italian. Cantonese opera dates back to the 13th century; Cantopop from Hong Kong has lingering appeal. But there is little doubt about which language is in the ascendant in the Chinese diaspora. "Mandarin is the future and Cantonese is being passed over," says K. K. Wan, a dentist in Vancouver. His patients grumble, but "that's just the reality."

UBC is putting up a fight. The university has rejected four offers from the Confucius Institute, a cultural body financed by China's government, to expand its teaching of Mandarin. "When a university can reject money, it's a subtle form of push-back to an overbearing culture," says Mr King. Instead, in 2013 UBC accepted C\$2m (\$1.5m) from a pair of philanthropists in Hong Kong to offer Cantonese.

Demand is so great that the university turned away Mandarin-speakers. Instead, the department will concentrate on teaching Cantonese to people who speak no Chinese. Most will move on to *putonghua*. In the meantime, they may develop an ear for Cantopop.

## Rubbish in Brazil

# Legislative landfill

SÃO PAULO

Why so many laws end up in the bin

**B**RASILIANS are fastidious folk. They take more showers than anyone else. Their neighbourhoods are spotless. Even the narrow streets of *favelas* (shantytowns) are litter-free. But much of the rubbish that Brazilians scrupulously sweep away ends up where it shouldn't.

Under a federal law passed in 2010 all solid waste must be deposited in modern landfills, lined to stop toxins from soaking into the soil. The deadline was a year ago.

That the deadline was missed will surprise few Brazilians. More unsettling is that the law made virtually no difference at all. In 2010 42.4% of rubbish was dumped unsafely, according to ABRELPE, a group that represents the sanitation industry. By last year that had fallen—to 41.6%. In absolute terms the amount of misdirected garbage rose, from 23m to 30m tonnes. Brazilians have a phrase for this: the law, they say, *não pegou* (didn't take).

This is a chronic Brazilian condition. Some laws don't take because they are unworkable. One requires employers to give holidays of no fewer than 30 consecutive days. Some are outmoded, such as one that

► imposed a cap of 12% on interest rates. The supreme court eventually struck it down. The rubbish law had neither of those flaws. It was "simple, modern, high-quality legislation" says Mario Mantovani of SOS Mata Atlântica, a green NGO.

It suffered from another common failing: a shortage of money and political will to enforce it properly. Other laws are ignored for similar reasons, including a basic-sanitation law from 2007 and a requirement, enacted in 2001, that cities should draw up master development plans.

Landfill is another case in which federal lawmakers gave the orders but left it to mu-

nicipalities to carry them out. In the prosperous south and south-east, many did. In the state of São Paulo 77% of waste is disposed of properly. Its capital has a modern, privately-run landfill, which uses the methane it emits to generate energy.

The poor north-east has fewer private landfills and less money. The state of Alagoas dumps 96% of its waste illegally. The federal government budgeted 530m reais (\$154m) in 2010-14 to implement the law, but reserved just 11m reais for local authorities. Much of the rest was spent on such things as awareness campaigns.

The law provides for fining, or even jail-

ing, mayors who fail to implement it. Although 60% of Brazil's 5,600 municipalities failed to meet last year's deadline, not one has been disciplined.

The central government in Brasília has hardly set an example. The Federal District around the capital still stashes its waste in an unregulated dump 15km (nine miles) from the city centre. In July Congress bowed to reality by giving some municipalities an extra three to six years to comply. The delay will not worry most lawmakers. Brasília's "monumental axis", along which bigwigs are chauffeured, remains spanking clean. ■

## Bello | Next steps in Havana

### More is changing in Cuba than meets the eye

**S**UCH is the power of a symbol. A plane load of American journalists was due to fly to Cuba for the day on August 14th to watch John Kerry raise the Stars and Stripes and formally reopen his country's embassy in Havana after 54 years. Yet should the secretary of state look eastwards along the Malecón, the seafront of crumbling, salt-scarred buildings, towards Old Havana, his view would be obstructed by a forest of flagpoles and an open-air stage adorned with the slogan: ¡Patria o Muerte, Venceremos! ("Fatherland or death, we shall win"). Used over the past 15 years or so for anti-imperialist rallies, there are no immediate plans to dismantle this theatre of agitprop.

The official portrayal in Cuba of the decision by Barack Obama and Raúl Castro to restore diplomatic ties is that it was a victory for Cuban communism's half-century of stubborn resistance against the American economic embargo. The popular reaction was one of euphoria, a surge of hope that trade, investment, tourists and the almighty dollar will now rain down on the island.

Eight months on, euphoria has given way to cautious expectation tinged with queasy uncertainty. Many American companies will be unable to do business unless or until the United States Congress repeals the embargo (see page 20). Although Mr Castro has launched potentially far-reaching reforms of Cuba's sclerotic centrally-planned economy, these are moving slowly. Less than a quarter of the workforce of 5m is employed in a budding private sector.

Even so, change is in Havana's humid air. Emissaries of American business are sniffing around. In the first seven months of this year, the number of American tourists rose by more than half compared with the same period last year, to 89,000;

that figure excludes Cuban-Americans, of whom 164,000 came. To catch their business, scores of 1950s American cars have been lovingly restored. Buick and Pontiac convertibles, in shocking pink, tomato red or powder blue, line up outside the tourist hotels. These are full even in the August low season of broiling heat.

The prospect of an American commercial invasion once the embargo is lifted has galvanised a rush of European and Latin American trade missions and investment proposals. "Now that Cuba has relations with the United States, the country risk has diminished for foreign investors," says Antonio Romero, an economist at Havana University.

The government expects the economy to grow by 4% this year. To sustain this up-tick, additional investment and exports are essential. But the state bureaucracy moves at a glacial pace, especially when it comes to dealing with foreigners. Officials are terrified of taking decisions, partly because some of their predecessors were purged for corruption. The old guard in the Communist Party is suspicious of change. "In Cuba ideology is still more important than

the economy, and control is more important than progress," says Orlando Márquez, who edits a Catholic magazine.

But the thaw with the United States is reinforcing internal pressures for change. The government has announced plans to connect Cuba to the internet; its target is broadband in 50% of homes by 2020. Economists have long argued that connectivity is essential if Cuba is to make the most of its educated workforce, and halt the emigration of young people. The big novelty in Havana is free Wi-Fi points: each evening hundreds of Cubans hunch over smartphones, tablets and laptops on La Rampa, between the Habana Libre hotel and the Malecón. Digital publications are thriving. "The government has lost its monopoly of information," says Ricardo Torres of the Centre for the Study of the Cuban Economy in Havana.

The next milestone is the Communist Party congress next April. For the old guard who made the 1959 revolution, it will be the last such event. Mr Castro has said that the congress will approve a new economic plan. There is a "clear demand" to grant more freedom to the private sector, argues Mr Torres. Paradoxically, Cuban would-be entrepreneurs face far more restrictions than foreign investors.

Beyond that Cuba's sights are set on 2018, when Mr Castro has promised to step down as president. By then the embargo may well be gone. For the past half-century, Cuba's leaders have used the American siege of their island to justify one-party rule and a police state. That will no longer wash. "The nation, the society, is changing radically at all levels, it's happening in the minds of the people," says Mr Torres. Thanks to Mr Obama, the United States has at last disregarded the theatre of revolution and is helping Cuba to write a better script for its future.



## HEALTH CARE FORUM

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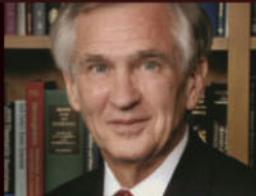
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Brunei

## All pray and no work

BANDAR SERI BEGAWAN

**An autocratic sultanate turns more devout as oil money declines**

LIKE a weird tropical flower, the Palace of the Light of Faith opens to subjects of the Sultan of Brunei for three days each year. It is a 1,800-room pile on the edge of Bandar Seri Begawan, the tiny state's sleepy capital. In its vast banqueting hall thousands of Bruneians tuck into a breakfast of beef curry and honey-roast chicken, piled up on gold-rimmed plates. Later, the men queue to greet the sultan in a green-and-gold reception room (the sultan's wife receives the women in a separate chamber). The royal family shakes tens of thousands of hands.

This annual event, held last month to celebrate the end of Ramadan, is a chance for Bruneians to praise Sultan Hassanal Bolkiah, one of the world's richest men and few remaining absolute monarchs. They will have another chance on August 15th, when he marks his 69th birthday.

Bountiful oil has made Bruneians the fourth most wealthy people in Asia, with generous state handouts. That has helped forestall criticism of an autocratic government. But now reserves of hydrocarbons are dwindling, to which the government seems to have few answers—other than fostering a harsher form of Islam. Last year it announced plans to introduce a severe form of sharia (Islamic law).

Perched on the northern coast of the island of Borneo, surrounded to landward by Malaysia, Brunei gained full indepen-

dence from Britain only in 1984, having chosen in the 1960s not to join the federation that became Malaysia. Oil has gushed since the 1920s. The money from that—plus Brunei's firm support for ASEAN, the ten-member Association of South-East Asian Nations eyeing closer integration—lends the country of about 400,000 a clout that belies its size.

Yet Brunei is no brash Gulf emirate. The capital is quiet and surprisingly scruffy, even if Bruneians seem pretty content. The sultan, who has ruled since 1967, enjoys genuine popularity, especially among the ethnic Malays who make up the majority of the population. Bruneians pay no income tax, enjoy free education and have access to cheap home loans and social housing. Many men find comfortable jobs in government: attendance at Friday prayers and royal ceremonies is compulsory; hard work is optional.

### The oil that greased the social contract

However, tumbling oil prices have begun to undermine this cosy social contract. Oil-and-gasfields are ageing, their equipment increasingly costly to maintain. With petrodollars scarcer than before, Brunei's economy has contracted for two years in a row and will shrink in 2015, when the government will run a budget deficit of 16% of GDP. The IMF has advised it to freeze public-sector wages and hiring, cut fuel subsi-

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dies and abandon big projects. It calls for measures to boost low productivity and encourage job growth.

Huge fiscal reserves provide a big cushion. But the softness points to bigger worries ahead. Without new discoveries, Brunei's oil and gas reserves will last only 24 years, according to a report by BP, an oil company. The returns from surpluses invested overseas over the years could take up a lot of the slack. Marie-Sybille de Vienne, a French academic, guesses that the country has assets of at least \$170 billion, equivalent to roughly ten times its GDP. Yet she calculates that by 2030 cash from those investments will be able to contribute 27.45% of GDP—in other words, perhaps considerably less than the 54% contribution to GDP made by oil and gas in the ten years to 2010.

The solution, it was agreed in a government-sponsored report nearly a decade ago, is to boost a private sector that accounts for only a quarter of the economy (outside the oil and gas sector). The government is building roads, bridges and power projects to draw in Japanese and other investors and encourage manufacturing, such as a much-trumpeted methanol factory. It sees opportunities in Islamic finance. It wants to make Brunei a research, certification and export hub for halal food, drugs and cosmetics. It talks of attracting more tourists, perhaps to tour its jungle which, unlike Malaysia's next door, has not been turned into palm-oil plantations.

These attempts have brought "gradual progress", according to the Asian Development Bank. That is polite. In the decade to 2014 Brunei's economy expanded at an average of less than 1% a year, the slowest rate in South-East Asia and well below the 6% annual growth that the government had hoped for. A high-paying civil service con-

continues to steal talent from private employers, while trussing them in red tape. Firms in Brunei's halal cluster have not found it easy to meet its rigid religious standards, and tourist numbers have not grown as hoped. A strict ban on booze limits the country's appeal to decadent infidel holidaymakers.

It is against this sluggish backdrop that the sultan is taking an ever more dogmatic line over how Brunei's religious heritage is to be considered. Brunei's increasingly strict Islamic penal code may soon allow for stonings and amputations. The first of three stages towards full sharia, launched in May 2014, has enforced fasting during Ramadan and brought a crackdown on Christmas and new year celebrations. The second stage, due this year but seemingly delayed, will be more severe. The change is undermining one of Brunei's big draws for investors: a stable legal system based on English law.

Some think the new penal code aims to give Brunei's royals more ways to quash dissent. Another, simpler theory is that the sultan, who led a wild youth, has grown more religious. Zealots assert that a more pious Brunei will probably grow faster, because Allah will perhaps let it discover more hydrocarbons. The growing consensus, as one analyst puts it, is: "You don't need to work, but to pray." ■

#### Politics in Indonesia

## Bye-bye beer banner

SINGAPORE

**Amid slow growth and currency woes, Jokowi reshuffles his cabinet**

**S**INCE taking office last October, Joko Widodo, best known as Jokowi, has been Indonesia's pitchman as well as its president. He has trotted the globe seeking foreign cash for infrastructure. He promised that investors in Indonesia would "make incredible profits".

That looks increasingly fanciful. Growth last quarter was the lowest since 2009, as the price of commodities has fallen and demand from China has weakened. Jokowi took office aiming for growth of 7% but he will struggle to hit 5% this year. Consumer confidence has plummeted and the rupiah has slid. Political infighting and bureaucratic delays have hampered ambitious infrastructure plans. Investors are frustrated. And so, apparently, is Jokowi; on August 12th he shuffled his cabinet.

Thomas Lembong, a Harvard-educated private-equity specialist, is Indonesia's new trade minister. He replaces the eccentric Rachmat Gobel, who appeared fonder of banning trade than encouraging it. Mr Gobel barred imports of second-hand clothes for fear they could

#### Afghanistan and the Taliban

## A bloody message

KABUL

**Mullah Omar's replacement hints that he will be just as nasty**

**A**GAINST loud opposition at home Afghanistan's president, Ashraf Ghani, has gambled that improving relations with Pakistan is the best way of bringing the Taliban into peace talks. On August 7th he received a sharp and bloody rebuke.

Within 24 hours insurgents killed at least 50 Afghan civilians in Kabul, the capital, and injured more than 300. It was the worst civilian toll in years. Early in the morning a bomb in a lorry killed 15 people. Then a suicide-bomber murdered 28 police cadets, and eight Afghan contractors and an American died in an attack on an American military base. On August 10th another suicide-bomber killed five people outside Kabul's airport.

It looks as if the Taliban's leaders are trying to prove to their foot soldiers and enemies alike that the insurgency remains strong. The movement has been in disarray since last month, when it confirmed that its founder and chief, Mullah Omar,



**Grief lit up**

had died in Pakistan a while ago.

Mullah Akhtar Mansour, his less-eminent successor, has his work cut out—not least because many Taliban do not recognise his authority. Without a unifying figure, the group has been left exposed to competitors looking for recruits, including Islamic State. Hardliners within the Taliban have criticised Mullah Mansour, who is regarded as a pragmatist, for letting the Pakistanis lure him into peace talks with Mr Ghani's government. Mullah Mansour had already postponed a second round. Ramping up the violence would drive home the point that his Taliban are no puppets of the Pakistanis. War is the great unifier; peace can wait.

Ordinary Afghans are convinced that the Pakistani government and army hold great sway over the Taliban. At a vigil for the victims over the weekend, there was palpable rage against Pakistan. Before blown-out buildings at the site of the truck bomb, some activists lit a string of candles spelling "peace". But others shouted "Death to Pakistan" and burned Pakistani rupee notes.

People in Kabul are grief-struck and furious with their own government for failing to keep its citizens safe. On August 10th Mr Ghani spoke from his palace, slamming both the Taliban and the mediators. "We hoped for peace, but war is declared against us from Pakistani territory," he said.

The reconciliation process is not dead, however. Mullah Mansour may be hoping that a show of force will give him the upper hand in talks. Mr Ghani needs the process to bear fruit soon, to rebut the charge that he has turned to Pakistan naively. His people's patience is running out. ■

**Clarification:** In our article about the South China Sea, "Small reefs, big problems" (July 25th), we wrote that "under UNCLOS Taiwan claims only the 12-mile limit around its islands". That is wrong. Taiwan's 1947 claim predates UNCLOS. However, Taiwan's claim does relate only to islands and their surrounding waters.

spread AIDS. After he banned minimarts from selling beer, Bintang, one of Indonesia's biggest brewers, reported a 42% drop in profits. His recent decision to slash cattle imports sent the price of beef soaring. Mr Lembong is a political novice, but he should not find it hard to do better than Mr Gobel.

Darmin Nasution replaces Sofyan Djalil as economy minister. Mr Nasution led Indonesia's central bank from 2009 to 2013 and before that served in the finance ministry under Sri Mulyani Indrawati, a respected minister now at the World Bank. With this background he may prove better suited to his position than Mr Djalil, an able politician but not an economist. Jokowi also dismissed three other cabinet members.

Paul Rowland, a Jakarta-based political consultant, believes the reshuffle is politically savvy but insufficient. Big guns have not been brought in to shake things up and push through changes that inspire investors. They, meanwhile, will still face legal uncertainty and a Byzantine civil service.



## Politics in Japan

# Enraptured

TOKYO

**In the face of falling popularity, the prime minister seems unconcerned**

AS HIS handlers grow more jittery because of public dissatisfaction over his moves to nudge Japan away from pacifism, the prime minister, Shinzo Abe, grows only more serene. The security legislation he is pushing through the Diet (parliament) this summer would reinterpret the constitution in ways to make it possible for the armed forces to defend allies under attack, notably America. His handlers fear that opposition to the change is coming to resemble the left-wing protests that roiled the government of Nobusuke Kishi in 1960 as he pushed through a revised security

treaty with America. But Mr Abe likes comparisons with the late Kishi, who happens to be his grandfather. He recently told *The Economist* that just as Kishi was vindicated for unpopular but crucial changes, so too would he be with his security bills. That is no consolation for Mr Abe's handlers—long before he was vindicated, Kishi was forced to resign.

Popular opinion has hardened against the bills—and against Mr Abe—in a month full of 70th anniversaries: of the dropping of the atomic bomb on Hiroshima on August 6th 1945, of the atomic destruction of

Nagasaki three days later, and of Emperor Hirohito's high voice coming across the air waves on August 15th explaining that the war had gone "not necessarily to Japan's advantage". That radio address marked Japan's surrender and the end of the second world war. Lawmakers say that remembrance of the war has added a more fraught and emotional tone to the debate over the bills, which have yet to pass the Diet's upper house.

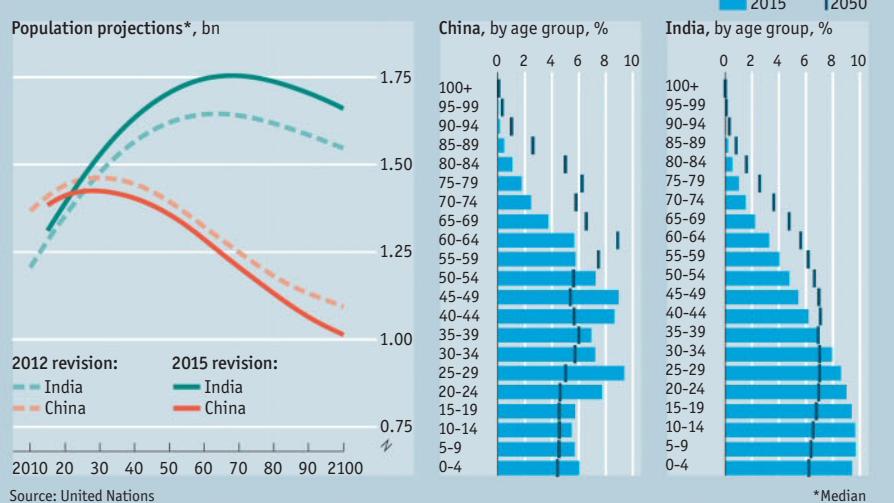
Whatever Mr Abe says in the formal statement that he is preparing to make about the war (see box on next page), his previous prevarications over history and Japanese wartime responsibility have hurt perceptions of the legislation among ordinary Japanese. In Tokyo and elsewhere, fresh-faced students and middle-class mothers have come out to march alongside the usual grey-haired radicals, left-overs from the 1960s. At a ceremony in Nagasaki, one of the bomb survivors publicly dressed Mr Abe down, claiming that the defence bills would lead to war.

In reality, the changes are not as sweeping as many people claim. For instance, Japan would still not be allowed to take military action unless the country's own security was at risk. Yet the political damage has been done. The spectacle of Mr Abe's Liberal Democratic Party (LDP) ramming the bills through the lower house last month even as the opposition boycotted the vote undermined backing for the government. The *Nikkei*, a financial newspaper, reports that Mr Abe's approval rating slid to 38% at the end of July; not long ago his support stood at 60-70%. For the first time since Mr Abe's return to office in late 2012 half of people polled now disapprove of the cabinet.

With a majority in both houses of the Diet, Mr Abe has the means to pass the defence bills and he has extended the Diet session into September to do so. Yet the method matters, and in the upper house ➤

## Population forecasts

That India will overtake China as the world's most populous country is not in question. But the date has just moved closer. The UN now reckons India will surpass China in 2022 rather than in 2028, as it thought two years ago. The new estimates put China's fertility rate a bit lower, at 1.6 children per woman. India's higher fertility rate (2.5 children per woman) and younger population mean it will swell faster, reaching 1.4 billion in 2022, when China's population will peak. China's working-age population is already shrinking as the country greys. India will eventually follow. By 2050 about 500m Chinese will be over 60, and 330m Indians.



not all members of the ruling coalition, which includes Komeito, a smaller, Buddhist-linked party, might vote for the government. It hopes to get some support from among the opposition, especially from the Japan Innovation Party, a right-leaning group. It would be embarrassing for Mr Abe if the upper house voted against the legislation, obliging him to override the upper house's objections with a two-thirds majority vote in the lower one.

#### The Abe shine comes off

Such strong-arming of the bills could easily push Mr Abe's popular support down to levels at which previous prime ministers have felt obliged to resign. Mr Abe's advisers are worried how quickly his political capital is being depleted, given that what many Japanese and foreign investors want is renewed focus on the kinds of reforms that will boost a still-sluggish economy (see page 66).

Yoshihide Suga, the chief cabinet secretary and the prime minister's key minder, is particularly edgy. Last month he urged Mr Abe to jettison plans for a vast stadium for Tokyo's 2020 Olympic games that was drawing criticism for its scale and cost.

Then on August 4th Mr Suga took the unexpected step of announcing that construction of a new airstrip for American marines on a pristine beach at Henoko on the island of Okinawa would be suspended, if only temporarily. The new facility, though intended to replace one in a crowded part of the island, is much hated by Okinawans, and the point of the suspension is to make Mr Abe appear more sympathetic. But the move has astonished observers, for American and Japanese officials have spent almost two decades trying to move forward with the relocation. Given the staunch opposition to the base by Okinawa's governor, Takeshi Onaga, it is hard to see how the construction, once suspended, can easily be resumed.

Other policies may also worsen perceptions. On August 11th a nuclear reactor on the southern island of Kyushu became the first to come back on-stream since the Fukushima disaster in 2011 barring a limited resumption in 2012-13. Three-fifths of Japanese polled oppose restarting nuclear plants, and the LDP worries that the anti-nuclear movement will now unite with those opposed to the defence legislation.

For all the popular grumbling, Mr Abe knows that he faces little challenge either from within his own party or from a hopeless opposition. Still, next summer elections will be held for the Diet's upper house, where the government's majority is slim. Just because the opposition is unattractive does not mean the public will not vote for it, says Gerald Curtis of Columbia University. If voters have shown themselves to be anything in recent elections, it is volatile. ■

#### Apology diplomacy

## The hardest word

TOKYO

### The suspense over Shinzo Abe's statement will soon be over

AS IS now the custom for sitting Japanese prime ministers on every tenth anniversary of the second world war's end, Shinzo Abe will issue a statement about the war on or before August 15th, the date of Japan's capitulation in 1945.

It has been the subject of fevered speculation. Advisers had at one point said that the prime minister, a man of true not manufactured feelings, was not minded simply to repeat by rote the earlier "heartfelt apology" for Japan's "colonial rule and aggression" of a socialist prime minister, Tomiichi Murayama, in 1995 and Junichiro Koizumi, a conservative, a decade ago. Mr Abe does not think imperial Japan did much wrong that other warring nations did not do, and he believes that a gruel of Japanese guilt and apologies has been a poor diet for Japanese now lacking a sense of pride and patriotism.

And so a lot of people, from Chinese and South Korean leaders to Western academics, have been worried sick about what he might say. Yet as one of his people puts it, rather condescendingly, Mr Abe has recently grown up as a politician—that is, his political head has overridden his heart. Besides, he may have struggled to break out of what are now accepted global norms about how leaders are meant to deal with the politics of the past, including apologies.

The indications are that Mr Abe will hew more closely to the spirit and perhaps the content of past prime ministerial statements than many dared think, even if some quibbling over terms may

still be divined. He may well affix the full authority of the cabinet to his statement. He may even manage to kick the whole apology debate into the long grass.

Mr Abe would have to say something pretty shocking for a recent if mild improvement in ties with China and South Korea to be set back. Some months ago President Xi Jinping of China decided to bring Mr Abe in from the cold, perhaps because of concerns about the impact of sundered relations on the Chinese economy. South Korea's president, Park Geun-hye, quickly followed, sensing the risks of being left out of a Sino-Japanese love-in. A meeting in Beijing between the Chinese and Japanese leaders now looks likely—though not before Mr Xi's grandiose military parade, marking the war's end, on September 3rd. Mr Abe and Ms Park could meet after that. Yet relations will remain fragile, susceptible especially to Chinese whim.

Other initiatives are encouraging. In July Chinese forced in the war to labour for Mitsubishi accepted an apology and compensation from the Japanese conglomerate—a first. And though South Korea had at first objected to Japan's application for world-heritage status from UNESCO for a remarkable set of Meiji-era sites that were vital to Japan's early industrialisation—Koreans had later been forced to work at some of them, including on Hashima island with its coal mine, below—the two countries negotiated a deal. Japan acknowledged the forced labour, and South Korea backed the successful bid.



Scene of mutual co-operation



## The unquiet past

Seven decades on from the defeat of Japan, memories of war still divide East Asia

T

HERE can be no more pleasing spot in Tokyo on a July evening than the Yasukuni shrine. The cicadas murmur as you pass along the avenue of ginkgo trees framing the great *shinmon* gate, fashioned out of dark balks of cypress. The chrysanthemum drapes of the worship hall flutter alluringly; lanterns line the way, and the crowds are in a holiday mood and summer robes. Parties chant with gusto as they parade past with the palanquins housing their neighbourhood deities.

Yasukuni's summer celebrations reach their climax on August 15th, the anniversary of Japan's defeat in the second world war. As the date draws closer the avenue expands into a Bartholomew Fair of stalls and revelry. Not everyone is jolly. Sombre groups that include some of Japan's few surviving war veterans and their families remember fallen friends. There are chin-jutting Yakuza thugs in suits a size too small, and strutting military fantasists kitted out with officers' swords or *kamikaze* flight suits. There are protesters—many of them middle-aged or older—and police to keep them in their place.

And there are ghosts. Without them Yasukuni would have no purpose. The shrine honours the souls of those who have died protecting the emperor; they are revered as *kami*, which can loosely though not wholly satisfactorily be translated as "divine spirits". Consecrated in 1869, the year after the Meiji Restoration which launched Japan's modernisation, the striking combination of solemn ritual and popular entertainment that can come as a surprise to people from other cultures was present from the beginning; the first rites of apotheosis were attended by fireworks, cannons and sumo.

The first *kami* so enshrined were those who had fought on the imperial side in the civil wars around the time of the Meiji Restoration. The number of their fellowship, and the size of the festivals, grew with the occupation of Taiwan (1895), Korea (1910), Manchuria (1931), China's eastern seaboard (1937) and South-East Asia (1941). There are now 2,466,532 imperial protectors inscribed in Yasukuni's "Book of Souls". Collectively, they are viewed as a divine shield for the emperor.

By the tenets of the shrine, all these spirits are equal. To the world at large, they are not. No one objects to a nation honouring its war dead, even if the cause for which they fought was a bad one. But in 1978 the priests of Yasukuni surreptitiously enshrined 14 political and military leaders, including General Hideki Tojo, the wartime prime minister, who had been found guilty by the Tokyo War Crimes Trial of planning ►



**"I'm not an activist or a scholar, just the daughter of a father whom I never met."**

pied Korea. By the time Lee Sa-hyon was growing up in the 1930s, most of his hometown's city walls and royal palaces had been razed; there was just enough left to make tour parties from Japan think that they were taking in something exotic (Korean brothels were on the tourist trail, too). The huge dome of the governor-general's palace dominated the city centre. The Imperial Subject Oath Tower, built for the celebrations in 1940 of the (wholly fabricated) 2,600th anniversary of the Japanese imperial family, housed written vows of loyalty to the emperor from 1.4m Korean students.

Lee Hee-ja, Lee Sa-hyon's daughter, was born in 1943, a time when Japan's prospects were looking grave. The Americans were fighting their way up through the country's Pacific-island possessions. The war against China that had begun in 1937, and which the Japanese had expected to be a relatively short affair, had developed into a long struggle on an epic scale thanks to the resistance of the ascetic Christian generalissimo, Chiang Kai-shek, and his Kuomintang (KMT). The demands of the war effort stripped Korea and occupied Manchuria to its north of both resources and people. Thousands of Korean women were tricked and abducted into military brothels; tens of thousands of men were forced into labour in mines and on industrial sites, mainly in Japan. And from 1944 many were conscripted into the army. Lee Sa-hyon became one of those conscripts. In June 1945, just a few weeks before the war's end, he was killed in Guangdong, in southern China.

His daughter is now 72. Like all East Asian septuagenarians she has lived through times of startling disruption. Like China, Ms Lee's country was wracked by civil war and divided into two; like Japan and Taiwan, and later China itself, it was also transformed by remarkable economic growth. Its population has tripled, its GDP risen by a factor of 50. It has become, for the first time in its history, a democracy. From the far end of a lifetime of such profound change the war might be expected to seem distant—as it does, for the most part, in America and Europe. But in ways both great and small, in the details of individual lives and in the relations between states, the war that ended 70 years ago still shapes East Asian worldviews, animating its politics—and its ghosts.

In 1959 the spirit of Lee Sa-hyon was quietly enshrined at Yasukuni; having died fighting for the emperor, he became one of his divine protectors. When his daughter found this out, in 1996, she became determined to have his name, and *kami*, removed from the shrine. "I'm not an activist or a scholar," she says, "just the daughter of a father whom I never met. So I feel I have an obligation to him: to bring him back from Yasukuni." His proper resting place, she has always maintained, should be at Cheonan, south of Seoul, where a memorial honours what is known as the March 1st movement:

or prosecuting the military aggression of the 1930s and 1940s. All 14 had either been executed by Japan's new American overlords or died in prison. For many—including many in Japan—granting divine honour to such men went beyond the pale. Emperor Hirohito, in whose name millions died, stopped visiting Yasukuni; the current emperor, Akihito, has upheld the boycott. Yet visits by conservative nationalist politicians, including the prime minister, Shinzo Abe, have increased, drawing admonishment in much of the world and stoking anger in China and South Korea.



There are other spirits that stand out, too—less infamous, but more poignant. One is that of Lee Sa-hyon, who was a native of the city that today is Seoul but from 1910 to 1945 was Keijo, the capital of Japanese-occupied Korea.

millions of Koreans who took to the streets in 1919 to protest against Japanese rule. Thousands were mown down; many more ended up in Keijo's infamous Seodaemun prison.

Moving a soul in Japan proves to be not so easy. Yasukuni's priests were polite but firm. Once a spirit has joined the *kami* there is no going back, whatever the circumstances. Ms Lee turned to the government. Officials told her that Lee Sa-hyon's enshrinement was just evidence that all imperial soldiers had been treated equally. Ms Lee notes, though, that the government never made any attempt to find his remains, as it did those of Japanese soldiers.

Along with others eager to liberate relatives from Yasukuni—including some Japanese—Ms Lee has turned to the courts. They have offered no joy. In the latest set of cases, one of the names for removal is that of an elderly plaintiff, the reports of whose death have clearly been exaggerated—yet even being alive, it seems, does not get you struck from the list of the *kami*. It is rude even to ask, apparently. A recent Tokyo High Court ruling said that the plaintiffs should "show tolerance for others' freedom of religion".

Why, Ms Lee asks, does Japan's establishment not understand the humiliation of families like hers, one it would be so easy to redress? Japanese prime ministers have apologised for their country's aggression; its government has acknowledged its culpability in enslaving women in brothels. And the Japanese know what it is to have people taken from them. Mr Abe made his political reputation when, more than a decade ago, he stood up to North Korea over a number of Japanese citizens kidnapped in the 1970s and 1980s to serve the brutal regime as translators and spies. Every day Mr Abe wears a blue ribbon in his lapel as a reminder of them. Can he not see, Ms Lee says, that her father was abducted too?

But no name has ever been removed from Yasukuni.

## Rich country, strong army

The Meiji Restoration initiated a bout of modernisation the like of which the world has never seen elsewhere. Not even China's transformation since 1978 compares to it. In less than two generations an insular feudal shogunate became a modern power—not just an economic power, but a military one. Japan's leaders never forgot the indignity of American gunships forcing open what Herman Melville called their "double-bolted land". *Fukoku kyohei*, went the rallying cry: "rich country, strong army".

In the 70 years since 1945 Japan has fired not a bullet in anger. In the 70 years before that, war was central to its progress. Its expansionism began in 1874, when it launched a first punitive expedition to Formosa (now Taiwan). In 1879 it annexed the peaceful Ryukyu kingdom—modern-day Okinawa. A war against the Qing dynasty in 1894–95, fought largely on the Korean peninsula, ended in humiliating defeat for China; its centuries-old dominance of East Asia was usurped. In 1905, in the greatest naval victory since Nelson's at Trafalgar 100 years before, Japan sent nearly the entire Russian fleet to the bottom in the Tsushima Strait between Korea and Japan, setting the scene for its subsequent uncontested annexation of Korea.

Given the condemnation Japanese militarism was later to receive, it is worth recalling the admiration Japan's military modernisation inspired in these early decades. It dressed its imperial adventures abroad in a cloak of righteousness, legalism and brute force—just as Western imperial powers did. Impressed, those Western powers could hardly deny their pupil a place at the top table—even if the new member of the club was quick to detect racist slights.

Asian nationalists, too, admired this new Japan—among them Sun Yat-sen, the future founder of republican China. Radicals and intellectuals flocked to Tokyo to learn from an Asian power that could foster pride and prosperity at home while standing up to the West abroad. The admiration even extended to Yasukuni, embodying as it did the virtues of loyalty, self-sacrifice and patriotism. In the early 1890s Wang Tao, a Chinese intellectual and reformer, wrote approvingly that it was "easy to understand the ►

intention behind the Japanese government's enshrining of the war dead: the enthusiasm of the masses will flourish, and their loyalty will never be found wanting." Imperial China's defeat at Japanese hands followed shortly thereafter.

Like the imperialism of the European powers it sought to emulate, Japan's colonialism was rooted in violence and, often, racism. But by the early 1930s it had also become oddly chaotic—the result not so much of a strategic aim to further national greatness as of a lack of control over adventurism. The last of the oligarchs who had wielded power after the Meiji Restoration, and who had a restraining influence on the armed forces, shuffled off the stage. In 1931 a clique of army officers presented their occupation of Manchuria to the government as a *fait accompli*. After the League of Nations condemned the move, Japan withdrew from the body and entered a pact with Nazi Germany in the name of fighting communism. In 1937 a flare-up between Chinese and Japanese troops at the Marco Polo Bridge outside Beijing precipitated a "war of annihilation", as Japan's prime minister, Fumimaro Konoe, called it, down the length of China's eastern seaboard.

John Dower, a historian of Japan at MIT, underlines that modern societies are not mobilised for war in the name of committing aggression, and that Japan was no exception. Its aggression was painted at home as either a defence of legitimate interests or a selfless crusade against communism. Condemnation by Western colonial powers was dismissed as so much hypocrisy: Japan was the liberator and natural leader of Asian nations suffering under Western colonialism. Pan-Asianism was the philosophical, and at times spiritual, underpinning of Japanese expansionism. For Japan, as Mr Dower puts it, the years in which it fought to subjugate what developed into its "Greater East Asia Co-Prosperity Sphere" were a period of "beautiful, modern war".

Many conservative Japanese nationalists still see the beauty of that period. Mr Abe believes that Japan's pursuit of *fukoku kyohei* was essentially right then and still is today, and that its resumption is the key to making Japan what some would call a "normal" nation again. It is what Mr Abe chooses to call "the post-war" which is the shameful historical exception, with its reliance on American tutelage and a constitution that clips Japan's wings abroad.

To take such a position is not to deny that Japan did wrong. John Delury, a historian of East Asia at Yonsei University in Seoul, argues that, instead, it is to believe that imperial Japan behaved in war little differently from other countries. And other countries did grievous wrong. Witness the smouldering aftermath of the fire-bombing of Tokyo, in which 100,000 died; witness the atomic bombing of Hiroshima and Nagasaki. On this view history places no special obligation of remorse or apology on the Japanese: "in-

deed, not feeling obliged to express special remorse...is a manifestation of Japan's belated return to normalcy".

Back at Yasukuni, the shrine is bathed in beautiful lies. A visit to its associated museum, the Yushukan, finds the militarism that brought Japan to its knees still glorified. Grim engines of death have pride of place, including the *Kaiten* ("Return to Heaven") torpedo, a 15-metre, matt-black projectile with a tiny seat inside and a small periscope—in effect, a submersible suicide vest. The atrocities of Nanjing (1937) and Manila (1945), in which Japanese troops massacred tens if not hundreds of thousands of civilians and prisoners-of-war in an orgy of murder and rape, are downplayed or denied. Always, war aims are painted as noble and pure: Japan standing as a bulwark against Western imperialism, communism or the anarchy of Chinese warlords.

## The horcrux theory of history

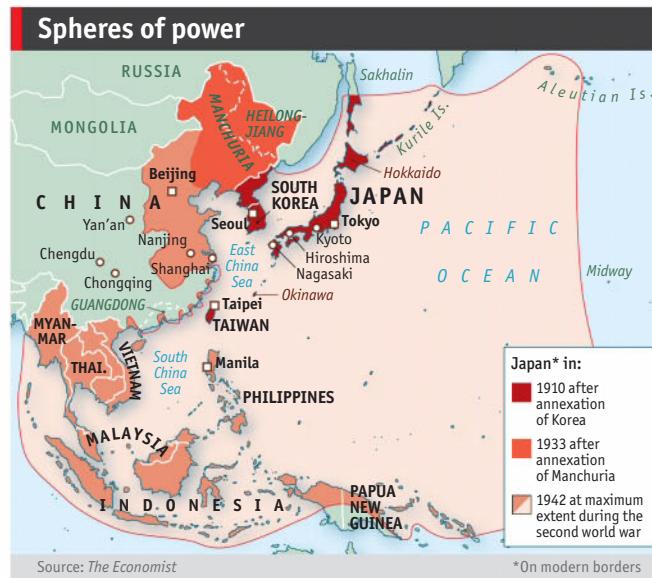
When Mr Abe paid his respects at Yasukuni in late 2013 he fulfilled a campaign promise and generated a diplomatic storm. Around the world China's diplomats took to op-ed pages with the aim of stoking anti-Japan sentiment. In Britain's *Daily Telegraph* the Chinese ambassador to London, Liu Xiaoming, called Yasukuni a "kind of horcrux, representing the darkest parts of [Japan's] soul". He expected his readers to know that, in the world of Harry Potter, a horcrux stores a fragment of a sundered soul in hope of immortality, and can be created only by murder. He hoped they would infer that Mr Abe was the new Lord Voldemort.

It was a smart stroke of rhetoric. It was also more than a little disingenuous. China's Communist Party has a horcrux of its own on which until not long ago it pinned all hopes of immortality—the corpse of Mao Zedong. His violent rule saw the murder in purge and famine of millions of his countrymen. Yet since his death in 1976 his remains have lodged under a huge and ugly mausoleum in Tiananmen Square, the symbolic centre of Chinese power, embalmed but very slowly putrefying.

Mao is a necessary source of legitimacy for China's rulers, but no longer a sufficient one. There is enough awareness of the violence and misrule that he oversaw that even the Communist Party has had to avow that his rule was only "70% good". And as China's economic and diplomatic clout grow, prestige matters to its rulers in ways that never really interested Mao, and which his legacy can do nothing to promote. So a reinvigorated nationalism has joined economic growth and military strength as part of the "Chinese Dream"—a nationalism defined above all in opposition to wartime Japanese aggression. President Xi Jinping clearly sees the memory of that struggle as a tool for shaping Chinese identity.

China's leaders think memories of its role in the war should matter abroad, too. America's claim to a Pacific presence rests on its defeat of Japan. China's claim to leadership in its region rests on its role in that same defeat—a role for which, after all, it was at the time rewarded with one of the permanent seats on the UN Security Council reserved for the victors. In Mr Liu's horcrux op-ed he referred to Chinese soldiers standing "shoulder to shoulder" with Allied troops. Last month he sent this correspondent an invitation to a 70th anniversary commemoration of August 15th that refers to "the Victory of the World Anti-Fascist War and the Chinese People's War against Japanese Aggression".

China's contribution to the second world war certainly deserves a reappraisal, as Rana Mitter of the University of Oxford argues in a recent book on the Sino-Japanese war, "Forgotten Ally". From the outbreak of hostilities at the Marco Polo Bridge in 1937 to December 7th 1941, when Japan's attack on Pearl Harbor forced America into the war, China fought Japan alone. Mr Mitter argues that, had China surrendered in 1938, as seemed all too likely at the time, East Asia might have been a Japanese imperium for decades. Instead it fought on, at enormous cost. Perhaps 15m Chinese soldiers and civilians died in the war of 1937-45, with 100m made refugees; of the other nations at war only the Soviet Union suffered losses on a similar scale. True, China failed in the end to beat the ►





Chongqing, 1941

► Japanese. But its dogged resistance tied down hundreds of thousands of Japanese troops.

This is the legacy that Mr Xi insists be recognised. But there is an inconvenient truth. For decades the official Communist Party narrative had little space for the KMT and Chiang Kai-shek; if they were mentioned at all, it was as anti-communist forces too cowardly, corrupt or unpatriotic to take on the Japanese. China's "liberation" came not in 1945 but in 1949—that is, with the Communists' defeat of the nationalists in the civil war that followed Japan's collapse. Communism's victory over nationalism was thus framed as the end point of its victory over fascism.

Yet it was in fact the armies of the anti-imperialist, fiercely nationalist KMT that offered the chief resistance to Japan's army, drawing it ever deeper into the mire. It was they who shared in the suffering, hardship and endurance on the part of hundreds of millions of Chinese civilians that marked the eight wartime years beyond the relatively small and secure Communist base areas. It is quite possible that, had the KMT not spent so much of its force in that struggle, Chiang would have won the subsequent civil war.

Viciously suppressed in the decades following the war, this part of the country's history is now being cautiously and selectively rehabilitated as part of the new nationalism through which China is expressing its regional and global aspirations. Among other things, this serves the purpose of uniting the stories of Taiwan—to which Chiang and the KMT fled in 1949—and mainland China, stressing the common struggle of the Chinese against Japanese aggression rather than their division by civil war. Beyond reasons of state, though, it is also bubbling up from below, as regions of China previously marginalised manifest a new desire to tell their own war stories.



In a large apartment in a brand-new suburb of Chongqing, a city in China's south-west, Wang Suzhen, a diminutive lady in floral pyjamas, disappears into a vast faux-leather sofa surrounded by three generations of her family. Opposite, a television covering the entire wall pumps out a reality programme devoted to parental indulgence: a father takes a girl in a tutu to a ballet lesson; a little emperor in sunglasses drives a scale model of a BMW. Outside, Chongqing is Dickensian in its smog and nearly hellish in its summer heat, the Yangzi river winding brown and swollen at the feet of its steep hillsides.

Chiang Kai-shek retreated to Chongqing with his government in 1938, the year after Nanjing, then the capital of the Republic of China, fell to the Japanese amid great slaughter—an infamous victory which put the invaders in control of nearly all of China's

coast, including Shanghai. Millions of Chinese followed Chiang to Chongqing; it was the provisional capital until the end of the war.

They were seven hard years. Though geographical remoteness and mountain topography offered the city a degree of protection, the war was always present. Many civilians died in air raids; on June 5th 1941 some 1,500 civilians died from suffocation in a single shelter. Boatmen were paid half a kilo of rice per body to take the corpses out of the city.

The Wang family did better than most. Living outside Chongqing in a town called Shilong, they escaped the air raids. Just six days before the defeat of Japan, Ms Wang was born. Soon after the family moved to Chongqing proper where they made a living selling the silk embroidery they made in the city's wholesale markets. But the Communist victory in the civil war changed the city. Chongqing's sense of itself as a centre of resistance, and its price in its wartime experience, were suppressed. Its Monument to Victory in the Anti-Japanese War was renamed the Liberation Monument. People with a "bad" class background—that is, evil "landlords" and nationalists who had come to the region with Chiang Kai-shek—were stigmatised. Ms Wang's family was forced out of the city and into the countryside.

One political campaign after another washed over the agricultural collective where Ms Wang's mother struggled to feed eight children. Ms Wang remembers a cow being brought to the production team in winter, but having no hay with which to feed it. Then people started eating grass themselves, leading to bloating and sometimes starving all the same. Later, during the Cultural Revolution, Red Guards dragged evil "landlords" outside and beat them. "We didn't ask questions," Ms Wang says. "We didn't dare speak, or we'd get beaten too."

In 1987 Ms Wang and her family left the commune and prospered growing their own crops for market. The government gave her daughter, a teacher, a flat, into which they all moved. In 1989 they got their first television, and a fridge. In 2005 they bought their first car. No one in the family imagined that things could change so fast. A few years ago Ms Wang found spiritual comfort, too. It happened when an elderly relative died, leaving behind her troubled ghost. A Taoist master was called in to appease the ghost but it did not work. "Then some Christian friends said that their kind of prayers could bring peace, and they did." The ghost no longer troubles the family; Ms Wang goes to church each week.

In her spiritual development Ms Wang is somewhat unusual; in her family's enrichment she is quite typical of her city. And as the south-west has grown richer, so it has started to tell the story of its wartime experience more openly. On August 15th Chongqing's newspapers used to spout the same national narrative one might read in Beijing. Now they celebrate local wartime heroes. The air-raid shelter that suffered the disaster of 1941 has been designated as a memorial site. In Chiang Kai-shek's hilltop hideout of Huangshan visitors are welcomed by a young actor decked out in the generalissimo's scholarly gown and thin moustache.

If Chongqing is reclaiming its past—and China as a whole coming to acknowledge the role of nationalism, and not just communism, in fighting the forces of imperialism—what does that mean for relations with the Japanese? There are signs it may improve them; a more nuanced view of Chinese history permits a more nuanced view of its adversary.

On the face of it, Ms Wang still sees things the old way: the Japanese, she says, are cruel and she dislikes them. Has she ever met one? No, she admits, but—nodding at the television—she sees them all the time. Reminded that the Japanese in the war movies on television are Chinese actors in costume, she laughs. "It's just propaganda, I know," she says, before becoming absorbed along with the rest of the family in the girl in the pink tutu.

Mr Xi's use of old antagonisms to buttress a modern nationalist identity is a worrying one. But there is a lot else shaping the ideas of a richer society than any China has known. As if to underline the point Ms Wang murmurs, as much to herself as to this correspondent, "Who would miss the past?"

## The displaced

The spirits of Yasukuni are not the only ones with whom Mr Abe communes. After his election victory in 2012 he went straight to the tomb of his grandfather to make a promise. Like his grandson, Nobusuke Kishi rose to be prime minister, serving from 1957 to 1960. A fervent nationalist, he had nonetheless accepted, in the face of Japan's surrender to the United States and its neutered post-war role as little brother, that the restoration of wealth had to come before the resumption of power. But—and Kishi was clear on this point—this was to be only a temporary expedient.

In 1965 Kishi argued that rearment was necessary as "a means of eradicating completely the consequences of Japan's defeat and the American occupation. It is necessary to enable Japan finally to move out of the post-war era and for the Japanese people to regain their self-confidence and pride as Japanese." The words could have come from Mr Abe's manifesto. The promise Mr Abe made by his grandfather's grave was that he would "recover the true independence" of Japan.

This is not to say that Mr Abe is anti-American. Like his grandfather, he needs America to ensure his country's security. He has strengthened the countries' military alliance, agreeing to revised defence guidelines in April in the face of a rising China. But he feels deeply America's role in "the history of Japan's destruction"—by which he means not the physical devastation of the war, but the subsequent period of American-imposed order. He hates the war-crimes tribunal that sat in Tokyo: what hypocrisy to hang the Japanese leaders who conquered Asia at the same time as the Western powers were reasserting their rule in Asian colonies. He sees the constitution imposed on the country as constraining Japan's legitimate ambitions. A left-wing conspiracy in education inculcates war guilt and an aversion to patriotism.

The role of that post-war order in the subsequent seven decades of peace, prosperity and democracy from which Mr Abe's Liberal Democratic Party has been a great beneficiary is passed over in such analysis. Yet America is in no position to call Japan's nationalists out on the grounds of double standards. It was, after all, General Douglas MacArthur who chose not to prosecute Emperor Hirohito for the crimes that were committed in his name and by a political system to which he was central, on the unprovable but implausible grounds that a crushed people would be more biddable with their emperor still in place. That decision made it harder for Japan to examine its actions, and make a full accounting of them, both to its victims and to itself. The cold war, for which America needed experienced, conservative allies in Japan, removed any lingering chance of such a reckoning. Almost immediately after the Tokyo tribunal handed down its first batch of sentences, the other people indicted for Class A crimes were released from Tokyo's Sugamo prison and put in positions of authority.

Notable among them was the mastermind of Japan's Manchurian puppet state, known as Manchukuo, in north-east China. By harnessing private capital to a heavily state-directed economy, he had turned Manchukuo into the engine of Japan's war machine. Mark Driscoll of the University of North Carolina at Chapel Hill has written of the system's "necropolitical" vision of dehumanised Chinese labour. Yet the brutal human cost of this experimental, hyper-modern state is now largely forgotten, while its marriage of private capital and heavy state direction was a direct inspiration not just for Japan's post-war development, but also, subsequently, for that of South Korea—and China, too. And the



*"I did what they said. And then they started hitting me."*

mastermind behind this? Nobusuke Kishi himself.

Mr Abe's uncritical belief that his country's essence is inextricably bound into the institutions of the Meiji Restoration and all that they went on to spawn is wrongheaded. But it is equally wrong to decry all aspects of continuity between Japan's pre-war and post-war. On all sides ghosts are kept locked away. Instead they should be allowed to speak and also to listen—to hear and voice the complex truths of war, responsibility and victimhood.



Xu Ming remembers the first time she found herself outside without her mother holding her hand. She asked a group of children if she could play. "No", said one. "Why not?" I asked. "Because you're a *xiao riben guizi*—a little Japanese devil." Then the tallest child intervened. "Okay", he said, "You can play. But you have to be a dog. You must crawl between our legs and say bow-wow." So I did that. And then they started hitting me."

Ms Xu was born in Heilongjiang province in north-east China, part of Manchuria, in 1944—three years after Kishi had been recalled from his position there to serve as industry minister in Tokyo. She was an only child brought up by loving and protective parents. And she was badly bullied. When she was seven her class were taken to see a war film that showed Communist troops in glorious battle against the murderous, evil Japanese. The children around her started shouting "Down with the Japanese". And then they were spitting at her. After the film the teacher held a roll call, but Xu Ming was missing. The teacher found her crouched under her chair, her eyes red with crying. She scolded the class: Xu Ming, she said, is only a child; and the film is only a film. That day, Xu Ming determined to be a teacher.

A year later an officer from the Public Security Bureau came to her house. Xu Ming was sent outside but craned to hear the conversation. The officer was shouting: "You had better admit it: the child is Japanese and you adopted her." Her mother burst into tears. Xu Ming ran in to comfort her. Mother and daughter cried so much that the officer gave up any further questioning.

It was then that Xu Ming asked: "I'm Japanese, aren't I?"

"Yes", her mother replied, "you are."

According to John Dower, there were over 6m Japanese stranded overseas when the war ended. Their story is strangely little told, even in Japan. Something over half of the stranded were servicemen, many wounded, malnourished or diseased. The rest were administrators, bank clerks, railwaymen, farmers, industrialists, prostitutes, spies, photographers, barbers, children. For them and for their families and friends back home, just as for conscripted and exiled Chinese and Koreans in similar situations, August 15th was far from a definitive end. A year after its defeat 2m Japanese had still not made it home. Many never did. A national radio programme, "Missing Persons", was launched in 1946. It went off air only in 1962.

The Allies took advantage of surrendered servicemen. The Americans used 70,000 as labourers on Pacific bases. The British, in a supreme irony, made use of over 100,000 Japanese to reassert colonial authority over parts of South-East Asia that had just been "liberated". In China tens of thousands of Japanese fought on both sides of the civil war.

The worst fate was to be under Russian "protection". The Soviet Union, which entered the war in its last week, accepted the surrender of Japanese forces in Manchuria and northern Korea. Perhaps 1.6m Japanese soldiers fell into its hands. About 625,000 were repatriated at the end of 1947, many having been sent to labour camps in Siberia and submitted to intense ideological indoctrination. Others were able to make their way south to the American-controlled sector of the Korean Peninsula. In early 1949 the Soviets claimed that only 95,000 Japanese remained to be repatriated—leaving, by Japanese and American calculations, over 300,000 unaccounted for.

In August 1945 there were also 1m Japanese civilians in Manchuria. Some 179,000 are thought to have died trying to get to Ja-

► pan in the confusion and Soviet-perpetrated violence following surrender, or during the harsh winter of 1945-46. Children returned to Japan as orphans, the family's ashes in a box hung around their neck. In Manchuria parents begged Chinese peasant families to take in their youngest children.

That is what Ms Xu's natural mother had done. Her father, serving in the imperial army, had been dragged off to Siberia. Her mother thought Ming, the youngest of her daughters, would not survive the journey to Japan. She begged a couple to take the baby. When that couple later had more children of their own they sold Ming on to the Xu family.

In due course Ms Xu passed as a teacher. She qualified with flying colours that might have hinted at a stellar career. But the following years were spent teaching the children of loggers in dismal mobile camps deep in Heilongjiang's forests. "There's nothing you can do about it," her professor had said: "You're Japanese." In the timber camps they ground up sweetcorn husks and tree bark for bread, but living in such remote places shielded Ms Xu from the worst madness of the Cultural Revolution. Back in her home town the ethnic-Japanese dentist, gentle and diligent, was dragged to the crossroad with a sign around her neck denouncing her as a Japanese spy. Every time she was asked whether she was a spy and denied it she was hit. Three days later she was dead.

In 1972 the Japanese prime minister, Kakuei Tanaka, visited China, initiating a programme of billions of dollars of bilateral aid for its former foe. Japanese people started coming to Heilongjiang to look for family members. A visiting journalist promised Ms Xu he would place advertisements on her behalf in Japanese publications so that she might find her birth family. An old soldier in Hokkaido responded to one, certain she was his daughter. In 1981 a visa was secured for Ms Xu. She was intensely excited to go to Japan; her meeting with the old soldier was emotional. Then a DNA test showed they were not related. The old soldier would have no more to do with her.

Japanese bureaucrats threatened to deport Ms Xu: Chinese court documents affirming her Japanese blood counted for nothing. While fighting through the courts to stay, she volunteered her help at a local NGO dealing with the "Manchurian orphans". One morning, in a nearby café, two Japanese women on the way to the NGO asked whether they could share her table. Of course, Xu Ming said, in her still accented Japanese. The women asked whether she was Chinese and if so from where? Heilongjiang, Xu Ming replied. That's where our mother left our sister, the women said. The coincidences grew: the town, the name of the family, Li, that first adopted Ms Xu, the Li home being right by the railway track. The three sisters were together again for the first time since 1945. For Sumie Ikeda, as Ms Xu now knew herself to be, the elation was tempered only by her learning that their mother had died just months before. But now her ghost, at least, could rest.

The lives scarred in the second world war are nearing their ends. The Asian history they are part of continues to shape the worlds of those people's children and grandchildren, though. In some places it is distorted, in others denied. Some victims and some victors are commemorated. Others are forgotten.

In the 1960s a head priest at Yasukuni more liberal than today's put up a tiny shrine in a corner of the grounds to pacify the spirits of fallen enemies. It is now surrounded by a high metal fence, and out of bounds to visitors. On its annual feast day in July a young priest unceremoniously places a bowl of fruit outside the shrine as an offering and shambles off. As for the Japanese victims of aggression—the young soldiers, let down by their generals, who died of hunger and disease in New Guinea jungles, the hundreds of thousands of civilians killed as the war came to the Japanese home islands: they are nowhere to be seen. Yasukuni remembers only glorious deaths.

"Who would miss the past," asks Ms Wang, from her sofa in Chongqing. Who indeed? But the past is not just there to be missed. ■





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China and Russia

## Packing up the suitcase trade

HEIHE

**Hard times at the border these days**

A FERRIS wheel visible from the Russian bank turns alluringly on the low island of Daheihe on the Chinese side of the Amur river. But the main attraction is the Daheihe Island International Trading City, with its bright ferry terminal and multi-level trading hall. Russian traders used to flock across the border to stuff their suitcases with cheap Chinese goods. Yet that trade, which long sustained the nearby Chinese city of Heihe, has hit a rough patch. Inside the vast trading hall stall-keepers spend more time knitting, napping and playing cards than they do making deals.

Shi Ying, a purveyor of medicines, tea, cosmetics and knick-knacks, blames the drop in value of Russia's currency. Just over a year ago 100 roubles bought more than 18 yuan (about \$3), but today they buy fewer than ten. The Russian economy has been hit by slumping prices for oil and gas, and by Western sanctions following Russia's invasion of Crimea in 2014 and meddling in Ukraine. Russians, Ms Shi says, "have no money, it's that simple."

The stalls cover a huge space and offer wigs, watches, wheel rims, studded leather belts, fake Jim Beam bourbon, high-powered outboard motors and low-powered sex toys. Yet despite the astonishing range of goods, the traders all tell the same tale: declining sales. The few surly buyers from the Russian Far East are struggling too. "It is barely worth the trip," says Irina, from Khabarovsk. "If the rouble falls any further,

I'll stop coming."

Political leaders on both sides of the border have said they want to boost bilateral trade. They have focused on oil and gas from Russia, and machinery going the other way. Last year bilateral trade topped \$95 billion, a 6.8% increase over the previous year. Work has just begun on China's portion of a 4,000-kilometre (2,500-mile) pipeline that will carry natural gas from Siberia—through Heihe—to Shanghai. But although the project will create a small number of local jobs during construction, residents expect to see few benefits once the gas starts flowing past their town.

The provincial government of Heilongjiang has been looking to boost trade in other ways. It shares a border of nearly 3,000 kilometres with Russia. It accounts for a quarter of China's bilateral trade, and 30% of China's total investment in Russia. Yet the sums are hardly spectacular—\$1 billion of investment last year. The province intends to improve infrastructure. Plans for the first-ever bridge between the two countries across the Amur are being touted. Yet such plans have been on the drawing board for years.

Even if a bridge gets built, bilateral promise has a habit of falling short. Much is made of the warm political and personal ties between the Chinese and Russian presidents, Xi Jinping and Vladimir Putin. In May, when many national leaders stayed away from Russia's parade marking

the 70th anniversary of the end of the second world war in Europe, Mr Xi cheerfully attended. Mr Putin is expected to return that favour in September, when China holds a parade of its own to commemorate the anniversary of the war's end in Asia.

By far the biggest commercial deal to come out of the relationship was a 30-year contract for gas supplies that China signed last year with Gazprom, Russia's state giant. Over \$400 billion of gas, the deal's boosters said, would be delivered over 30 years. The agreement was portrayed as having huge benefits for both countries. Yet even at the time, China was reckoned by analysts to have got Russia, suffering from Western sanctions, over a barrel. Since then energy prices have more than halved, leading many to suspect that under the terms of the deal Gazprom is losing lots of money already.

If so, it will do nothing to dispel Russian suspicions of China that lurk not far below the surface. In the late 1960s the two countries traded fire across the Amur river. Relations are now a world away from that period, yet while Russia sells arms to China, it is not trusting enough to provide its most advanced equipment. And in the Russian Far East, people are often quick to claim, with little evidence, that their empty land is being infiltrated by nefarious Chinese.

Back on Daheihe island, Oleg, a Chinese-speaking Russian, is doing his bit to improve relations—and profit from Russian woes. His Russian Products Direct Sales Centre opened early this month and offers 5-litre jugs of Russian sunflower oil and thick slabs of Russian chocolate to Chinese buyers. On the shop's first day the top-selling item was milk powder for babies—Chinese trust foreign brands much more than domestic ones following years of contamination scandals. The weak rouble, Oleg says, can only be good for business. ■

## The environment

# Mapping the invisible scourge

BEIJING

**A new study suggests that air pollution is even worse than thought**

THE capital's "airpocalypse", the choking smog that descended on Beijing in the winter of 2012-13, galvanised public opinion and spooked the government. The strange thing is, though, that information about air pollution—how extensive it is, how much damage it does—has long been sketchy, based mostly on satellite data or computer models. Until now.

Responding to the outcry, the government set up a national air-reporting system which now has almost 1,000 monitoring stations, pumping out hourly reports on six pollutants, including sulphur dioxide, ozone and (the main culprit) particulate matter less than 2.5 microns in diameter, or PM2.5. These are tiny particles which lodge in the lungs and cause respiratory disease. The six are the main cause of local pollution but have little to do with climate change, since they do not include carbon dioxide, the main greenhouse gas. Scientists from Berkeley Earth, a not-for-profit foundation in America, have trawled through this recent cloud of data for the four months to early August 2014, sieved out the bits that are manifestly wrong (readings where the dial seems to be stuck, for instance) and emerged with the most detailed and up-to-date picture of Chinese air pollution so far.

Pollution is sky-high everywhere in China. Some 83% of Chinese are exposed to air that, in America, would be deemed by the Environmental Protection Agency either to be unhealthy or unhealthy for sensitive groups. Almost half the population of China experiences levels of PM2.5 that are above America's highest threshold. That is even worse than the satellite data had suggested.

Berkeley Earth's scientific director, Richard Muller, says breathing Beijing's air is the equivalent of smoking almost 40 cigarettes a day and calculates that air pollution causes 1.6m deaths a year in China, or 17% of the total. A previous estimate, based on a study of pollution in the Huai river basin (which lies between the Yellow and Yangzi rivers), put the toll at 1.2m deaths a year—still high.

The sliver of good news is that pollution levels are better in some places than in others. They are worst in the corridor between Beijing and Shanghai and least bad in the south (see map—the study covers China east of 95°E, accounting for 97% of China's population), probably because that area was washed by monsoon rains during the



period of the study. More importantly, levels of PM2.5 in large western cities such as Chongqing and Chengdu are about half the national average. Figuring out what they are doing right would be a first step towards reducing the smog elsewhere. ■

## An industrial accident

# Inferno

TIANJIN

**The new rules of disaster management in authoritarian countries**

“IT SOUNDED,” said Guo Jianfu, who was asleep in a workers’ dormitory at the time, “like the start of a war. I thought maybe Japan was bombing our port.” Just before midnight on August 12th a pair of huge explosions in an industrial warehouse tore through Tianjin, a major city in north-east China, killing at least 44 people and injuring over 400. A swathe of the industrial zone was devastated, with shipping containers strewn about like toys. Residential areas also suffered extensive damage. On the China Earthquake Administration’s seismograph, the biggest blast registered a tremor of magnitude 2.9.

Disasters, man-made or natural, are

dangerous to authoritarian governments since public distress can turn to public anger. Social media add to the problems since they make it harder for governments to hush up the scale of damage or the inadequacies of the response.

The Tianjin explosions showed the new rules of disaster management in action. With a few exceptions, the authorities allowed reporters access and have so far done little to censor coverage. Tweets were not blocked, even those criticising the response: why, asked one, were firemen allowed into a burning warehouse full of dangerous chemicals? (They had been called to a fire 40 minutes before the explosions; several were killed when the warehouse erupted with them inside).

Openness helps the government demonstrate concern and competence. President Xi Jinping urged “all-out efforts” and full transparency over the cause of the disaster. Eyewitnesses praised the local emergency services, which rose to the occasion. Taxi drivers offered free rides to those affected.

But old habits persist. The national online database which lists Tianjin companies became unavailable, making it impossible to investigate the company concerned, Ruihai International Logistics. A post complaining that Tianjin television stations were not covering the fires was blocked. Global Times, a state-run newspaper, lauded the transparency of the operation but then argued, bizarrely, that “we should work together to quell any controversies about disclosing information” (ie, shut up about them).

In the long term, the phenomenal scale of the blasts in Tianjin may reinvigorate domestic anger about China’s record of industrial safety and its willingness to site huge factories in populated areas. Since April at least five large explosions have taken place at chemical plants in cities. In 2011, in Dalian, also in north-eastern China, demonstrators forced the closure of a downtown chemical plant after it was damaged in a storm. The authorities were rocked by that scandal. It remains to be seen whether the Tianjin disaster will have a similar political impact. ■



After the blast, the blame



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**Islamic State**

## The propaganda war

CAIRO

**The terrorists' vicious message is surprisingly hard to rebut**

A MASKED man stands behind a kneeling victim preparing to slit his throat, put a bullet in his head, or slice it off with a sword. Islamic State (is) did not invent this gory bit of stagecraft, but it has now, in effect, taken ownership of it. Televised murder—all too often mass-murder—is the main trademark for the group's particular brand of jihadism. Its most recent appearance was on August 12th, when it circulated macabre pictures showing the body of a Croatian hostage purportedly beheaded in Egypt. Such images are appalling; that they have become familiar is even more so.

The success that is has had in winning followers with such messages perplexes its enemies, who are many. Indeed it has no friends at all; loathing for is is about the only thing that unites Shias and Sunnis, Saudi Arabia and Iran, America and Russia, Turkey and the Assad regime in Syria. Within this motley coalition there is a growing belief that the battle of ideas and imagery may prove as important as war on the ground. After all, governments have repeatedly succeeded in eradicating terrorist groups, only to find that new ones, often similar but worse, pop up to replace them.

So it is that virtually every Muslim-majority country has taken some form of ideological countermeasure against is, from pressing traditional religious authorities to excommunicate the group to encouraging comics to satirise it. A growing number of Western countries, including

Britain and America (see page 50), have joined the propaganda war, too. Some have hired digital scribes to undermine the is message online, for instance by highlighting its atrocities against fellow Muslims. Others have pressed internet firms to police their content, and to close accounts associated with is where possible. Despite wariness of wading into battles over dogma, some Western officials favour openly promoting "moderate" Islam.

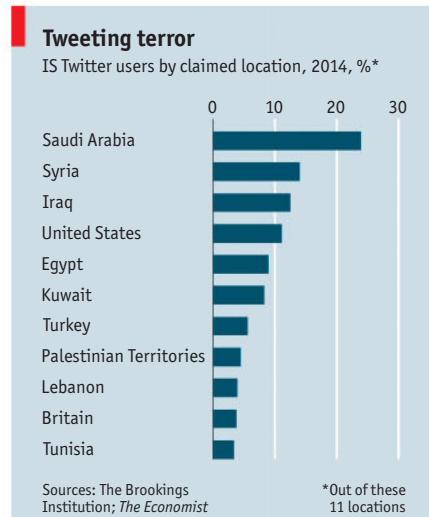
Clashing ideas are harder to measure than kinetic warfare, and it is possible that such initiatives have dented the appeal of

is. Yet it is also clear that the group continues to inspire many. Since September the American-led coalition fighting it has flown some 6,000 sorties and killed, according to American intelligence sources, as many as 15,000 of its fighters. Yet estimates of the group's force have grown in the same period from around 20,000-30,000 soldiers to as many as 70,000, including 15,000-20,000 foreigners.

Despite some territorial setbacks, is continues to dominate an area the size of Britain. It has spawned brutally thriving franchises in half a dozen other countries, from Afghanistan to Egypt, Nigeria, Tunisia and Yemen. Its size and, more important, its recruiting prowess now dwarf those of al Qaeda, a group with 20 years more experience in the terror business. The style of the self-declared caliphate, whether in dress, speech or cruelty, is what wannabe jihadists everywhere now aspire to.

One reason may be that since its declaration of a caliphate in Iraq and Syria last year, is has stood out from terrorist predecessors for the quality of its propaganda. Its video productions are "a generation ahead" of other groups, reckon Cori Dauber and Mark Robinson, media experts at the University of North Carolina. In a recent paper they outline a range of sophisticated techniques the group wields to heighten the power of its visuals, from care in choosing starkly contrasting colours—think black uniforms and orange jump-suits—to the use of multiple cameras, tight focus, "subjective" angles and intimate sounds to create an eyewitness effect.

As well as excelling in production skills, the group has succeeded at reaching audiences. Alberto Fernandez, who ran the State Department's counterterrorism communications unit before recently joining the Middle East Media Research Institute (MEMRI), believes that is sympathisers ➤



► hold more than 50,000 Twitter accounts. Many of these are scattered across the Middle East (see chart on previous page). This means its every message can be swiftly magnified. A study of a single week's output by is conducted by Aaron Zelin of the Washington Institute for Near East Studies found 123 media releases in six languages, 24 of them videos. The savage imagery that many contain is calculated to shock and grab mainstream media attention.

Yet violence may not be is's most potent visual message. In a detailed analysis of its propaganda, Charlie Winter of the Quilliam Foundation, a think-tank, identifies a range of themes that include mercy, victimhood, belonging and Utopianism in addition to war and murder. Rather than the chopping of heads, it is dreams of Sunni brotherhood and of revived Muslim glory that inspire, says Mr Winter.

Whereas previous jihadist narratives were all about "resistance" to imagined enemies, is proclaims what Mr Winter calls "the propaganda of the winner". Building on well-worn grievances of political Islam, it does not just talk about creating a caliphate but actually does so (sort of). It doesn't merely speak of eradicating colonial borders but physically bulldozes them. And it does not merely aspire to reintroduce "full sharia", but imposes the most starkly unrevised and demonstratively cruel version of Islamic law seen in centuries, if not ever.

In Mr Zelin's research of a week's propaganda output, more than a third of is's messages were not about war. Instead they extolled the caliphate and its Islamic virtues, showing hospitals opening, schoolchildren smiling and citizens eagerly pledging loyalty to the caliph. Charles Lister, a scholar at Brookings, another think-tank, suggests that such positive images explain is's staying power: "In both Syria and Iraq, is presents itself as both an army and an alternative "state" to defend against and replace repressive or failed political systems perceived as oppressive to Sunni Muslims." This approach has allowed is to put down roots that could help it survive for a long time, he says.

In the context of collapsed states, in other words, is functions as a mafia or street gang, a cruel but necessary arbiter with its own code of honour. Don Winslow, the author of a book on Mexico's drug cartels, calls their similar mixing of extreme violence with flamboyant acts of civic virtue "terro-communication". Having goaded the Mexican state to respond with brutality equal to their own, he says, "the cartels would follow up by building clinics, churches and playgrounds, hold festivals for children and Mother's Day celebrations in which they would give every woman a washing machine or refrigerator."

The gangland context within which is operates, whether in Iraq, Syria, Egypt's lawless Sinai peninsula or in Sirte, Libya,

where the group has staked territory, is partly what explains its adherents' immunity to persuasion. Traditional Islamic religious figures, and even jihadist preachers who are seen as not radical enough, have no authority over a group that believes most Muslims have strayed from the true path. "is is a product of the democratisation of knowledge and information," says Mr Fernandez of MEMRI. "Its religious argument is delivered by people with no credentials except fighting, being on the ground and in action."

All this implies that the most effective way to combat is propaganda is not with more propaganda, but with counteraction. "The key to defeating is is solving the societal and political failures in Iraq and Syria," says Mr Lister. But it is a tall order to put back together states that have broken or are failing. In the meantime, fighting the group may be the best option. "is is a puffer fish," says Mr Fernandez; "they blow themselves up to be bigger than they are." Nothing would be so devastating to their propaganda as a sound military defeat. ■

## Algeria

# Bouteflika buffeted

CAIRO

**The police state is not a happy place**

AS CONFLICT roils the Middle East, some are gazing fondly upon strongmen and military juntas as potential bulwarks against jihadists and other violent troublemakers. Yet Algeria is a reminder that repressive regimes often store up the very problems that lead to chaos. Of late there have been several signs that the murky north African country is looking wobbly.

The first relates to the regime of Abd elaziz Bouteflika, the president, who has been in charge since 1999. He is 78 and won re-election last year despite appearing only once, and then in a wheelchair. Behind him the cabal of security and army men who make up *le pouvoir*, as Algeria calls those who pull the strings, are fighting among themselves over who will succeed him.

The latest intrigue was sparked by Mr Bouteflika's replacement of three security chiefs in a move that appears to consolidate power in the hands of the presidency and the army chief of staff, Ahmed Gaid Saleh, a close ally. Some see the president as trying to pave the way for Said, his brother, to take over when he eventually goes.

It is not a good time for uncertainty, since threats lie all around. Only 63 Algerian jihadists have gone to Syria and Iraq, the government claims. If the number is really so low, that is perhaps because Algeria is a police state. (Few locals want a return to the terrible Islamist violence of the 1990s, so they don't complain as much as they might.) However, small attacks are on the rise.

Fourteen soldiers were killed by al-Qaeda in the Magreb (AQIM) in July. This local Islamic State (is) franchise has been bombarded ferociously since it beheaded a French tourist late last year, but the group has a stronghold in Libya to the east and has carried out two big attacks in Tunisia, also to the east. A video



Trouble on the horizon

filmed in Raqqa, is's Syrian capital, in July specifically threatened Algeria. The Sahel at the country's southern tip, meanwhile, is a combustible mixture of violent Islamists and smugglers.

Periodic clashes between Arabs and Berbers, who are ethnically and religiously distinct and have disputes over land, have increased this year too. On July 8th the government said that 22 people had been killed near Ghardaia, on the fringes of the Sahara, in the worst episode of intercommunal violence to date. Algerians have also protested against plans to frack for gas.

The sclerotic regime is ill-equipped to deal with troubles at the best of times. But the fall in the price of oil has squeezed the state's finances. Algeria is scarcely less dependent on the black stuff than the Gulf: it makes up over 95% of exports and more than half the budget. The economy doesn't produce much; nor does it employ many. Without reforms, economic and political, Algeria will slump ever deeper into crisis.

## Israel's defence spending

# Locker hurt

JERUSALEM

**The generals blow away a plan to cut their budgets**

THE best time to push for radical economic change is straight after winning an election. Moshe Kahlon, who was sworn in three months ago as finance minister in Binyamin Netanyahu's fourth government, has just such an opportunity. As leader of a new party, Kulanu, the second-largest in the Likud-led coalition, Mr Kahlon ran on a platform promising sweeping reforms. His budget proposal, authorised last week by the Israeli cabinet, includes a few tentative first steps towards relaxing planning rules to make it easier to build homes (which would ease house-price inflation), and ending the duopoly of two banks on the local credit market. It missed, however, a unique opportunity to reform the least accountable area of public spending: the defence budget.

Israel lavishes more than 6% of GDP on its armed forces, a much bigger share than any Western democracy. This is understandable, given that it is a tiny country surrounded by enemies. But as the main Arab military powers—Egypt, Syria and Iraq—are either imploding or preoccupied with internal unrest, more Israelis are asking whether they really have to spend so much on tanks and bullets. A survey published this month by the Israel Democracy Institute revealed that although the Israel Defence Force (IDF) remains the most respected of Israel's institutions, 41% of Jewish-Israeli citizens believe its budget is too high.

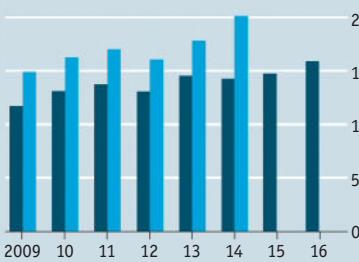
Last month a committee headed by Yochanan Locker, a former air-force general, published a report, commissioned by Mr Netanyahu, on the military budget. Among its far-reaching recommendations were that Israel should cut its professional officer corps by 11%, reduce compulsory service by male conscripts to two years (from two years and eight months) and increase the retirement age of non-combat officers who draw their pensions at 47. This would trim the IDF's wage bill by 14%. The other big proposal in the report is that civilian bean-counters at the ministries of finance and defence should oversee the military's budget plans relating to personnel.

The size of the military budget is decided annually in advance by the government: for 2016 it is 56.9 billion shekels (\$14.9 billion). However, each year the IDF demands and receives supplementary funding for "operational purposes". In 2009-13 the modified budget was, on average, 24% higher than the original one (see chart).

### Aiming low

Israel's defence budget, \$bn

Planned    Actual

Sources: Ministry of finance; Knesset research unit; Thomson Reuters; *The Economist*

"The ritual is that the IDF's planning chief comes to the ministry with the requirements and no one asks whether this is actually needed," says a senior civilian inside the defence ministry. The Locker Report proposed ending this practice and basing the budget on an assessment of the threats facing Israel.

The army has reacted to the report with predictable fury. One general anonymously briefed the media that the commission had "fired a bullet between the eyes" of Israel's loyal soldiers. With the exception of Moshe Yaalon, the defence minister, who refused even to meet the committee, most of the cabinet, including Mr Kahlon, favoured adopting the recommendations. But the prime minister, despite originally commissioning the report, told his finance minister not to include its proposals in the budget, saying they would be discussed at some unspecified later date. Despite a promising start, Israel's politicians have proved again that they have little stomach for doing battle with their generals. ■

### Kuwait and Islamic State

## Terrorists v Muslims

ABU DHABI

**The authorities fear their country is a soft target in a bad neighbourhood**

IN THE hours after the worst terrorist attack in Kuwaiti history, scores of citizens lined up to donate blood. Social media erupted with hashtags denouncing sectarian rifts, and Sunni and Shia held prayers side by side. A suicide-blast at the capital's Imam al-Sadeq mosque on June 26th, which killed 27 Shia worshippers, seemed unlikely to achieve what attackers claiming allegiance to Islamic State (is) intended. "You have foiled the desperate attempt [to] stir sectarian tensions," Sheikh Sabah al-Ahmad al-Sabah, the emir, told Kuwaitis a few days later.

Yet behind the calming talk, officials

whisper their fears that tensions are on the rise. Hoping to stem the trend, Kuwait's security forces have cracked down. "We are in a state of war," Muhammad al-Khaled al-Sabah, the interior minister, told parliament after the attacks. The increased vigilance may well be warranted, but a series of new laws and a string of arrests threaten to squeeze the space for all dissent in Kuwait—long the Gulf region's most open, semi-democratic state.

In the immediate aftermath of the attack Kuwait's parliament passed a sweeping new counterterrorism law. It requires all citizens, residents and visitors to Kuwait to provide a DNA sample for a national database. The government has proposed extending the period that the police may detain suspects without charge. Days before the bombing the parliament gave its approval to a new cyber-security law that some say will make it easier for the government to silence critical media. "There is a threat from is, it's not just the government being draconian," says Madeleine Wells, a researcher on Kuwait at George Washington University. "But it also happens to coincide with policies that limit the potential for any opposition."

Kuwait is an example of how sectarian splits in the region are infecting societies long thought immune. With its 25-30% Shia population, and a diverse mix of Sunni Islamists, tribalists, Salafists and liberals, Kuwait has a well-earned reputation for tolerance. Cross-sectarian coalitions are common in the country's boisterous parliament. Kuwaitis, especially younger ones, mix with little heed to creed.

Still, the social fabric had shown signs of fraying in the months before the attack. Although Kuwait's government has stayed on the sidelines in the region's myriad conflicts, its citizens haven't been so reserved. Throughout 2012 and 2013, a small group of Kuwaiti clerics and politicians served as a hub for private donations to devout Syrian Sunni rebel groups including an al-Qaeda affiliate, Jabhat al-Nusra. A minority of Kuwaiti Shia, meanwhile, raised the banner of Hezbollah, the Lebanese Shia militia, and vowed to assist the beleaguered Syrian president, Bashar Assad.

Twenty-nine people are now standing trial for the mosque bombing, accused of links to is. The charge sheet describes how a network hosted, supplied and helped arm a Saudi suicide-bomber. The accused include Kuwaitis, Saudis, Pakistanis and stateless residents of Kuwait.

This is not the first time tensions have flared in Kuwait but the security response now may be the sternest yet. Kuwait is in a difficult neighbourhood and has long feared that regional giants could see it as a soft target in their proxy wars. It now risks following other Gulf states in sacrificing its nascent openness on the altar of security. As the terrorists doubtless wished. ■

**Nigeria's oil company**

# Petrodollar spill

LAGOS

**The president vows to clean up the leaky state oil firm**

THE huge headquarters of the Nigerian National Petroleum Corporation (NNPC) has been a jumpy place since President Muhammadu Buhari took office in May, and with reason. He swept to power promising to root out corruption and bring back stolen oil loot. The NNPC's towering office is a good place to start.

The state-owned oil company sells almost half the 2m barrels that Africa's biggest producer churns out each day, making it the government's single largest source of revenue. It has been dogged by allegations of wrongdoing since Mr Buhari helped create it back in the 1970s. Under the watch of the former president, Goodluck Jonathan, and his petroleum minister, Diezani Alison-Madueke, it ran totally out of control. Even as the price of oil boomed between 2011 and 2014, remittances to the treasury fell (see chart). Now that prices have plummeted, government coffers are empty and the currency has tanked.

There is hope: Mr Buhari has sacked the NNPC's board and earlier this month named Emmanuel Kachikwu, a Harvard-trained lawyer and former Exxon Mobil bigwig, as chief executive. He has already started axing old-guard executives.

Yet it will take more than a few rolling heads to clean up NNPC. The behemoth, which has 24,000 employees, regulates the oil industry, taxes it and competes in many parts of it. Its inner workings are opaque to outsiders and even to many who work for it: one government probe found it had two sets of accounts detailing its oil sales that differed by \$100m.

In a report released in August the Natural Resource Governance Institute (NRGI), a non-profit group based in New York, found huge anomalies in the NNPC's workings. To begin with, it ostensibly provides four times more oil to its domestic refineries than they need. It also took part in swap agreements that exchange oil for finished petroleum on eye-wateringly profitable terms for its partners. Moreover, it is allowed to collect income from oil and then to spend freely with no oversight before handing over whatever is left to the government. In 2012 it retained \$79 billion, or close to half of the value of oil in the "do-

mestic-crude allowance" that was set aside for domestic use, the NRG1 reckons.

An audit by PricewaterhouseCoopers found that the state oil company owed the central government as much as \$4.3 billion for a 19-month period from January 2012. That is probably conservative. Lamido Saunsi, a former central bank governor, reckons that \$12.5 billion was "diverted".

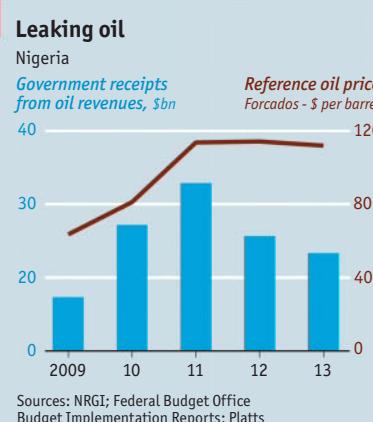
Since the election of Mr Buhari reserves of foreign currency have been edging up, presumably because officials are pocketing less cash. Yet there would be less opportunity for mischief if payments for oil went straight into government accounts instead of through its own.

Another hole could be plugged, the NRG1 reckons, by doing away with the "domestic crude allowance". Shady swap agreements are being reviewed, but future contracts should be put out to tender. Operating licences awarded to cronies of the previous government should be investigated, and failing state-owned refineries and transmission networks privatised. Most important of all may be to start a proper audit of the NNPC's books.

Reforms such as independent audits ought not to be controversial, but there are reasons to fear that they may not happen, largely because the NNPC is a rich source of patronage. Its employees are already in talks with their powerful unions over steps they may take to protect jobs. The ruling party, meanwhile, is divided over whether to split up the company.

The oil firm's troubles underline a bigger concern about Mr Buhari, who was elected in March amid jubilation because of his promises to clean up corruption and govern Nigeria better. Two-and-a-half months after his inauguration he has still not appointed a cabinet, and says he will not do so until September. Nor has he outlined any substantial economic policies. Unless there are signs of effective governance from Mr Buhari soon, the surge of confidence that followed his election may disappear as quickly as the NNPC's oil revenues have traditionally slipped into the capacious pockets of persons unknown. ■

**Correction** In our article on Barack Obama's visit to Kenya ("The prodigal grandson returns, July 25th") we presented a chart showing figures for EU aid to Africa. The data actually showed aid contributions from EU institutions only. The chart has been corrected online. Sorry

**Comedy in South Africa**

# To laugh or cry

JOHANNESBURG

**The rise of Rainbow-nation rib-tickling**

TREVOR NOAH, the breakout star of South African comedy, does a cracking impression of a cheerily drunk Nelson Mandela. During a recent show in Johannesburg, his jokes about power outages, electric fences and a giggling, eye-rolling President Jacob Zuma ("he sounds like he's downloading his speech as he's reading it", he tweeted recently) went down a storm with the crowd. Their whooping, Mr Noah joked, was unnerving for a black man because of its similarity to a police siren.

Mr Noah, 31, who was raised in Soweto, will next month take over from Jon Stewart as host of "The Daily Show", an American satirical news programme. His new job will inevitably mean far fewer parodies involving obscure South African accents, but his countrymen will still find other sources of comic relief.

These are boom times for South African humour, with a growing number of young, talented comedians finding fresh audiences. New comedy clubs have opened, and stand-up artists (so much nicer than the stick-up variety) pack venues at casinos.

Many of the jokes focus on politics and race relations, skewering stubborn stereotypes and the otherwise unfunny legacy of apartheid. Mr Noah, who is of mixed race, jokes that he was "born a crime" and couldn't legally walk with his parents. His father would stay on the other side of the road, and "wave at me from afar like a creepy paedophile." His mother would walk with him, but if the police showed up, "she'd have to let go of me and drop me and pretend I wasn't hers ... I felt like I was a bag of weed."

Mr Noah has described himself as a "connoisseur of racism", hailing from a country where bigotry is "export quality". His willingness to talk about what couldn't be discussed in past decades has attracted in particular the emerging black middle class.

Sometimes the South African news is absurd enough to need little embellishment. Few stand-up jokes are funnier than the government's explanation for why it used taxpayers' money to build a swimming pool at Mr Zuma's private home: that it is a handy reservoir in case his house catches fire. Nor could many top the explanation for taxpayers funding an enclosure for Mr Zuma's cattle: that it is "strategically located". Some of the humourists on the public payroll could make a good living on stage.



### Russia's Ukrainian prisoners

## The Kremlin's new show trials

ROSTOV-ON-DON

### Russia is no longer confining its abuse of the law to its own citizens

**T**HE latest episode in Russia's long history of judicial travesties played out this week in a stuffy courtroom in Rostov-on-Don, a provincial city near the Ukrainian border. As two defendants sat in a cage behind their lawyers, a prosecutor in dark glasses described them as bloodthirsty Ukrainian radicals who ran a terrorist cell in Crimea in early 2014. They had allegedly plotted to blow up a statue of Lenin.

The lead defendant is Oleg Sentsov (pictured), a Ukrainian film director, and the supposed terrorist plot is every bit as fictional as his screenplays. Mr Sentsov's real offence was to oppose Russia's annexation of his native Crimea, helping deliver food to Ukrainian soldiers trapped on their bases after the Russian invasion. After his arrest, Mr Sentsov says, he was tortured by Russia's Federal Security Service (FSB). (The prosecution claims his injuries came from sadomasochistic sex.) Mr Sentsov faces a potential life sentence. Dmitry Dinze, his lawyer, estimates his chance of acquittal at "none".

Mr Sentsov is only the tip of the iceberg. The Ukrainian government says that at least ten of its citizens are political prisoners in Russia. Apart from Mr Sentsov, the best-known is Nadia Savchenko, a Ukrainian helicopter pilot captured during fighting in eastern Ukraine and transferred to Russian custody. Russia claims she crossed the border voluntarily, and accuses her of involvement in the deaths of two Russian

journalists in eastern Ukraine, an indictment her lawyers call Kafkaesque.

The Ukrainian cases appal Russian human-rights activists. "There's a sense that [security officials] have permission," says Zoya Svetova, a liberal journalist and member of a public prison oversight council. Many wonder what would happen if the FSB were to turn on internal enemies with a similar vindictiveness and impunity. Alexander Popkov, a lawyer for one of the Ukrainian defendants, invokes Stalin's purges: "We haven't reached 1937 yet, but we're surely moving in that direction."

For the rest of the world, meanwhile, the concern is that Russia's abusive legal system is spilling across its borders. The government's legal oppression of Russians

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has become familiar enough over the years. But the trumped-up prosecutions of Ukrainians (and of Eston Kohver, an Estonian security services officer seized by Russian border guards in September) suggest that citizens of neighbouring countries are now at risk as well.

For Ukrainians, simple business trips can become nightmares. Yuri Yatsenko, a 23-year-old law student from Lviv, set out with a friend for Russia last May, planning to buy cheap electronics to sell back home. It took a year for him to get home. After detaining Mr Yatsenko for visa violations, Russian agents took an interest in his western Ukrainian background. They asked him to appear on television and say that he had been sent as a saboteur by Right Sector, a Ukrainian nationalist group. Mr Yatsenko refused. He was jailed, prevented from sleeping for days on end, and denied contact with relatives, lawyers and Ukrainian consuls. "They made it clear that no one could help me," Mr Yatsenko says.

He eventually managed to pass a message through a cellmate to a friend back home, who arranged for a lawyer to take up his case. The next day, Mr Yatsenko says, FSB agents handcuffed him, drove him out of town, beat him up and "threatened to chop me to pieces". Afterwards he slashed his abdomen and wrist with a razor blade, hoping self-inflicted injuries might excuse him from another beating. For months Mr Yatsenko bounced around detention centres, spending a three-month stretch in solitary confinement. In May 2015 a court convicted him for possession of explosives, said that he had served his time, and unexpectedly sent him back to Ukraine. "I was the happiest man in the world," he says.

Others have not been as lucky. Yuri Soloshenko, a 73-year-old charged with espionage, has been held for more than a year at Lefortovo, once the main prison of Sta- ►



lin's secret services. Two Ukrainian men arrested last year, Stanislav Klikh and Mykola Karpyuk, have been accused of fighting alongside Chechen rebels some 20 years ago. Mr Klikh, who is being held in the North Caucasus, claims he has never been to Chechnya, and says he was tortured into confessing. Mr Karpyuk (who is, in fact, a Ukrainian nationalist) has not surfaced since his arrest.

To judge by Mr Sentsov's prosecution, the Ukrainian cases are largely political fabrications. The only evidence directly linking him to the alleged plot is the testimony of two "co-conspirators". One, a self-styled radical with a history of psychological problems, accepted a reduced sentence in exchange for testifying. The second retracted his testimony in court last week, saying he too had been tortured.

It is the fabricated, political nature of Russian justice that makes it dangerous. Soldiers such as Ms Savchenko are treated as terrorists rather than prisoners of war because Russia claims not to be at war in Ukraine. Citizens such as Mr Yatsenko are arrested to pressure them into spouting anti-Ukrainian propaganda on television. For the Kremlin, courts are instruments of political fiction, not justice. And this abuse of the law in the service of propaganda is spreading far beyond its own borders.

Within Russia, few question the official version of events—but some do. Natasha Josef, a Russian documentary-maker, has organised screenings of Mr Sentsov's film "Gámer" and corresponded with him during his detention in Lefortovo. "When he was arrested," Ms Josef says, "I understood that anyone could be put in jail." ■

#### Russia's food embargo

## The bonfire of the vans of cheese

#### A famine-prone country tests its citizens' loyalty by destroying food

**S**OVIET news programmes were often recently filled with cheerful reports of ever-greater harvests, even as store shelves remained stubbornly empty. Modern Russia's shops are full, but its news broadcasts recently have been dominated by ugly images of the destruction of food smuggled into Russia from behind the lines of "the enemy"—Europe, America and their allies.

Stone-faced presenters report victories on many fronts: hundreds of tonnes of peaches and tomatoes pulped by bulldozers, meat burned at supermarket doors, cheeses incinerated in a "Russian fondue". A young reporter cheerfully chuckles a head of cheese under the chains of a tractor. On August 6th, a Russian news agency report-



**Russian raclette**

ed, the country burned 300 tonnes of food.

All of this is being done with the blessing of Russia's president, Vladimir Putin. Last year the government banned imports of food from countries which had imposed sanctions on Russia. Now food that slips through the embargo is being destroyed in the name of Russian sovereignty.

In a country which suffered famine in the 1930s, where hundreds of thousands starved to death in the siege of Leningrad and 22m people live below the poverty line, the destruction of food is taboo. All the more shocking, then, that it has been turned into a public spectacle. To add context, Russian TV displays images of sad European farmers suffering from the Russian ban. But in reality Mr Putin's counter-sanctions harm ordinary Russians most: the upwardly mobile types who used to enjoy foreign fruit and cheese no longer can, and the poor have to watch good food being wasted before their eyes.

Mr Putin's aim is to deepen the nation's siege mentality and to show that Russians can defy foreign sanctions, suggests one columnist. Articles by senior Russian officials portray their country as a fortress surrounded by enemies. In a government newspaper last week, Sergei Naryshkin, the speaker of the Duma (Russia's parliament), accused America of planning a provocation in the near future. "You may ask, what is [America's] ultimate goal? The answer is the same as ever: its foreign debt is enormous and pillaging other countries is its favourite method," he wrote.

The Kremlin's great grocery graveyard reinforces the ideology of political mobilisation fostered by Mr Putin for the past several years. After the collapse of the Soviet regime, precipitated by food shortages and the state's inability to provide Western-style goods, Russians embraced consumerism in the 1990s and 2000s. Soaring disposable income and better shopping were

considered the main achievements of Mr Putin's first decade in power. European supermarkets and street cafés excited the new Russian middle class more than political parties. Much of what Russians consumed was imported.

The social contract of the 2000s is now smouldering like a heap of freshly impounded Dutch tulips. Instead of new supermarkets Russia is installing incinerators on its borders to protect itself from Western food. The conflict with the West explains the deepening crisis in the Russian economy, officials insist. (Russia has suffered double-digit inflation and a contraction of 4.6% in GDP over the past year.) Unable or unwilling to reform the economy, the Kremlin is offering nationalism as a substitute for foreign luxuries.

And it is not just food that is affected by Mr Putin's counter-sanctions. A lot of Western medical equipment is blocked, too, including MRI scanners and defibrillators. If Russia is at war, as its rulers proclaim, sacrifices must be made. For the first time since the collapse of the communist regime, the state is intruding into people's private lives, limiting their choices and forcing changes to their daily habits.

In a recent article Vladimir Yakunin, the head of Russia's railway company, a former KGB officer and an ally of Mr Putin, cited Ivan the Terrible: "If you want to defeat a country easily—feed it your food." Consumerism destroys "the slightest shoots of spirituality, historic traditions and national culture", Mr Yakunin wrote. (According to Alexei Navalny, an anti-corruption blogger and opposition politician, Mr Yakunin's grandson has been attending a private school in London.)

It is hard to see how bulldozing peaches and tomatoes will make Russia a more spiritual place. But it seems like another step towards making it hungrier, angrier and less stable. ■

Turkey's Kurds

## Bombs away

DIYARBAKIR

**The Kurds' chance for peace is being blown apart**

OZGUR TEKE had high hopes after Turkey's elections in June sent the moderate, pro-Kurdish People's Democratic Party (HDP) to parliament for the first time. Mr Teke, who owns a small window-blind factory in the largely Kurdish city of Diyarbakir in Turkey's east, had watched talks between the government and the HDP over a Turkish-Kurdish peace deal make hesitant progress over the course of two years. The militant Kurdistan Workers' Party (PKK) was observing a ceasefire. Negotiators reached a roadmap to an agreement. Then, last month, the war between the Turkish government and the PKK suddenly reignited. "Just when a solution was appearing, it's like someone pressed a button," says Mr Teke.

Since late July, the sound of warplanes taking off to strike PKK bases has resounded daily over Diyarbakir. The PKK has struck back with attacks across Turkey's south-east. At least 20 Turkish security personnel have been killed, and the violence is spreading. On August 10th in Istanbul, a policeman died in a bomb attack by Kurdish fighters, and two leftist terrorists opened fire on the American consulate.

In Diyarbakir the reigning response is dismay. "We voted for peace; instead we got war," says one disillusioned resident. Anger has rebounded on the governing Justice and Development (AK) party, which many accuse of relaunching the war in order to drum up Turkish nationalist sentiments after an electoral setback. Party officials deny scrapping the peace talks. "We want to continue the process," insists Muhammed Akar, the AK party's provincial chair. Rather unconvincingly, he blames other countries for trying to destabilise Turkey.

In Turkey's south-east, memories of the savage fighting between the Turkish army and the PKK in the 1990s are still fresh. Since it erupted in 1984, the conflict has taken more than 30,000 lives; over 3,000 villages have been forcibly emptied. "In 30 years, we saw that neither side can win militarily," says Sahismail Bedirhanoglu, a local businessman.

Today Kurds' feelings about the PKK are mixed. Most say the militants have the right to retaliate. Others resent the roadblocks the group has established, which hurt local trade. PKK attacks are also reducing the HDP's room for manoeuvre. "People don't want this war," says Imam Tasier, an HDP deputy.

Yet every day is carrying Turkey further away from peace. The funerals of security personnel, broadcast on television, inflame Turkish tempers. Some Turkish nationalists vilify Kurds as terrorist sympathisers, deepening the polarisation. Human-rights groups say over a thousand Kurds have been detained in the south-east in the past few weeks. Allegations of maltreatment are spreading.

Many warn that the situation could spin out of control. Young Kurds born in families displaced by the earlier conflict tend to support the militants. In October 2014, protests against Turkey's lack of support for the Syrian Kurds fighting Islamic State (is) led to street violence in which nearly 40 people died. Meanwhile the autonomous area carved out by Kurdish fighters in Syria, which they call Rojava, is fuelling dreams on the Turkish side of the border too. In Kurdish towns, the fresh graves of young fighters killed in Rojava, festooned with flowers and flags, testify to the growing numbers joining the struggle.

Civil-society organisations say there is little time left to avert disaster. "The calls for weapons to be silenced have never been so clear or so loud," says Nebahat Akkoc, a Kurdish women's-rights advocate. Yet she acknowledges that the peace process has suffered a critical blow.

De-escalation is not yet impossible. In the unlikely event that coalition talks between AK and the Republican People's Party (CHP) bear fruit, the atmosphere could improve. Giving Kurdish delegations access to the imprisoned PKK leader, Abdullah Ocalan, who has been isolated since early April, would help restore confidence. "I'm not without hope," says Tahir Elci, head of Diyarbakir's bar association. "Both sides know that the violence needs to end, but no one knows how to get out of it." ■



Less and less likely



Italian politics

## Not so forza any more

ROME

**Silvio Berlusconi's once-dominant Forza Italia party is disintegrating**

AT A dinner just before Italy's parliament took its summer recess, Silvio Berlusconi, a former prime minister, told a group of deputies from his Forza Italia party that he wanted "to die as the number one of this movement". Lately it has started to look like Forza Italia could die before its founder. Next month Mr Berlusconi will turn 79, yet he has not named a successor. On the contrary, the leadership of his party has become ever more personalised. At the centre is Mr Berlusconi; around him is a circle of courtiers, including his 30-year-old girlfriend, a former showgirl.

Forza Italia was once the dominant party of the Italian centre-right, leading an alliance that won 47% of the vote at the 2008 general election. It now polls less than 12%. Voters have fled in droves, some because of Mr Berlusconi's inept handling of the euro crisis, some in disgust at his private life, and others still in protest at his decision last year to make a pact with the centre-left prime minister, Matteo Renzi, on constitutional reforms. Italians see Mr Berlusconi as someone who belongs to their country's past, not its future.

Rather than go down with the party, several of Mr Berlusconi's former dauphins and confidants have left. The defections were consummated on July 29th when Denis Verdini, formerly the head of Forza Italia's party machine and architect of the pact with Mr Renzi, presented a new parliamentary group which he sees as the basis for a new movement. The first to leave was Angelino Alfano, once designat-

ed as Forza Italia's next leader, who split in 2013 to form the New Centre Right (NCD), now a junior partner in Mr Renzi's coalition. Paolo Bonaiuti, Mr Berlusconi's erstwhile spokesman, joined the NCD soon after. Raffaele Fitto, another potential successor to Mr Berlusconi, broke with him earlier this year.

One would think that the disarray of Italy's major centre-right party would comfort Mr Renzi. Paradoxically, it may instead cause him trouble. Mr Renzi needs all the allies he can get to push through his daunting constitutional-reform package. Mr Berlusconi stopped backing the reforms in February, and Forza Italia's schisms complicate the picture.

Constitutional reform could be Mr Renzi's biggest achievement. For decades, Italian governance has been nearly paralysed by the equal powers of parliament's two houses. Mr Renzi wants to restrict the powers of the Senate, and an amendment to do so is coming up for a vote this autumn. The prime minister's Democratic Party (PD) is the strongest group in a fragmented parliament, and he has pushed through earlier reforms using shifting coalitions for each bill. Italians refer to this as the "politics of two ovens", in which one is used to bake the roast while the other bakes the fish.)

But after a year and a half in power, Mr Renzi has weakened. Opinion polls at the end of July put his popularity at just 35%, and recent local elections handed the PD sharp reversals. The prime minister may be too weak to entice other parties into the shifting coalitions of two-oven politics, says Giovanni Orsina, a professor of contemporary history at Rome's LUISS-Guido Carli University. In May parliament approved a new electoral law that guarantees a majority to the party with the most votes, and not, as previously, the winning electoral alliance. That may boost the PD in the next election, but is of little help now.

Mr Verdini's new group intends to support Mr Renzi's reforms, though its members will not join the governing majority. Yet the backing of a set of former Forza Italia deputies will exacerbate the discontent on the left of the PD, which is already smarting over what the party's more radical members see as Mr Renzi's excessively business-friendly policies. Moreover, Mr Verdini has even more problems with the law than Mr Berlusconi. He is a defendant in four trials on charges that include fraud, embezzlement and corruption.

Mr Verdini denies all wrongdoing, but he is not exactly an ideal ally for the PD. Italian newspapers have been speculating for weeks that Mr Renzi may seek a new deal with Mr Berlusconi. That could split the PD entirely. Forza Italia may be on its last legs. But Mr Renzi's project to revitalise Italian democracy is not looking terribly healthy either. ■

### French slang

## Arabesque

### The langue de Molière gets a north African infusion

**W**ITH a bright "Wesh meuf!" a French teenager hails a friend in slang that would appal linguistic purists. It is the sort of counter-cultural vernacular usually heard on the concrete estates of the outer-city *banlieues*, where French youngsters of Arab and African descent have long devised an alternative lexicon. But this greeting comes from a white middle-class girl in a posh high school near Paris. Is mainstream French, whose guardians have traditionally fought contamination, embracing more playful disruption than the purists like to think?

The word *wesh*, from *Wach rak?* (How are you?) in an Algerian dialect of Arabic, has crossed into mainstream youth culture in all but the snootiest corners of urban France. *Meuf* is a common word in *verlan*, the French backwards slang that spread in the *banlieues* in the 1970s and 1980s and which inverts syllables: it upends *femme*, French for woman. Plenty of other *banlieue* terms based on Arabic have edged towards the mainstream too, often via rap music, hip-hop or cinema, such as *kiffer* (to like or love, from *kif*, the Arabic word for cannabis). This word features in the title of a French novel, "*Kiffe Kiffe Tomorrow*", by Faïza Guène. The French embassy even ran a cultural festival in New York entitled "I kiffe NY".

Some words have become so firmly established in mainstream French (*avoir la baraka*, or to be lucky, from the Arabic for benediction) that they are considered passé by today's youth. More contemporary street slang includes *avoir le seum* (to be annoyed, from the Arabic for poison). Other terms have yet to cross over from the *banlieue*, their incomprehensibility

part of their angry charm.

Until recently, occasional official appropriations of street slang did not imply real linguistic openness. France maintains strict rules limiting the use of foreign words in advertising, packaging or songs on the radio. In 2013 language inspectors investigated 8,475 cases of linguistic rule-breaking. The Académie Française sees English as the "real menace", and suggests handy alternative French vocabulary for new offenders, such as *mot-dièse* for hashtag.

Yet to mark French language week earlier this year, Fleur Pellerin, the (South Korean-born) culture minister, gave an important speech in which she applauded "the capacity of our French language to welcome new or foreign words". Quoting Victor Hugo, she said that French was "not fixed" and that importing and innovating was a source of enrichment. The country's grand dictionaries now accept some English words, such as *le selfie*, and some Arabic ones, such as *caïd* (gang leader). The 2014 edition of "*Le Petit Robert*" listed *chelou*, *verlan* for *louche* (weird).

In reality, French has borrowed Arabic words such as "algebra" and "tariff" since the Middle Ages, and incorporated others, such as *bled* (village), from the period of French rule in Algeria in 1830-1962. Bred by defiance, street slang by nature resists any stamp of approval, and mutates in response. Since *verlan* was partly devised as a verbal rebellion against French as the language of colonisation, though, there is something fitting about the ex-coloniser's language at last embracing the creative result of that revolt.



# Charlemagne | The man who told us so

**What the West, and the Soviet Union's victims, owe to Robert Conquest**



THE intellectual history of the West in the 20th century was dominated by arguments over totalitarianism: its causes, effects—and possible justification. Even after flag-waving supporters of the Soviet Union had dwindled to irrelevance, the conviction that communism was a good idea poorly executed persisted in certain quarters. Others still thought the communist threat overstated, or drew equivalences between crimes committed in the name of socialism and those of Western anti-communism. The position that communism was a monstrously evil system responsible for unprecedented atrocities was held by only a minority of scholars. Robert Conquest, who died on August 3rd, was one of the most eloquent and implacable members of that camp. To the chagrin of his opponents, he turned out to be right.

He did not start out as a scourge of the left. He emerged from a brainy ancient British school as an ardent socialist and a crack shot, and fought for the Republican side in the Spanish civil war (albeit for one day, firing a single round). While at Oxford he joined the Communist Party. But he soon left, disgusted by a party hack who claimed that Britain's bourgeois leaders could never declare war on Hitler.

## Mindslaughter

Witnessing the lies and terror of the Soviet takeover in Bulgaria in 1947 showed him what Stalinism was like in practice. He helped his lover, the beautiful Tatiana Mihailova, escape the clutches of the secret police, blighting his diplomatic career. She became his second wife; his fourth and last marriage, to Elizabeth Neece Wintgate, was the longest and happiest of his 98-year life.

For all his brains and later academic renown, he was no swot: he started cramming five days before finals, from an undemanding textbook nicknamed "Economics for the Half-witted Child". He was an accidental historian, too. He worked, like George Orwell, in a branch of the Foreign Office (now long-closed, sadly) which analysed the Kremlin's power and practice, sharing the results confidentially with journalists. Those papers turned into books—initially more solid than sizzling. When he later moved to an American university, it was not for prestige, but because he needed the money to support two families. He had won a PEN prize for the best long poem written during the second world war,

but was not allowed to teach English literature because he lacked a degree in the subject.

His poems were by turns amusing, bawdy, lyrical, profound and satirical. He parodied others, and himself. But his greatest work was chronicling chapters of the Soviet nightmare, which had been cloaked first in secrecy and then in shame. First-hand accounts existed of the man-made famine in Ukraine, the great terror of the late 1930s, and the destruction of nations in the maw of Stalinism. What he did was to turn these fragments of available information into comprehensive histories.

He wrote more calmly about totalitarianism than about the accomplices and the deniers of its crimes. Stalin was a thug, Lenin a maniac. But why did so many sophisticated, educated Westerners ignore or excuse what was happening? He harried and skewered fellow-travellers and wishful thinkers, reserving particular scorn for apologist historians such as Eric Hobsbawm. Margaret Thatcher and Ronald Reagan admired him. Critics called him a rabid anti-communist. He enjoyed teasing them, coining "Conquest's Laws"—the first being that, generally speaking, everyone is "reactionary" on things he knows about.

When the Soviet archives opened, his meticulous work was utterly vindicated. His books were published in Russia, and he brought out updated editions in English. Mulling a new title for "The Great Terror", his pal Kingsley Amis suggested "I told you so, you fucking fools". He preferred derision to self-righteousness, summarising Soviet Communism in a much-quoted limerick:

There was a great Marxist called Lenin  
Who did two or three million men in.  
That's a lot to have done in,  
But where he did one in  
That grand Marxist Stalin did ten in.

The kind of people who overlooked such trifles, he reckoned, were also willing to scrub their minds on other issues. He despised much modern literary criticism: it used "important" freely but shunned "beautiful". For him, the great pursuit was the "deep blue clarities of a delighting mind". He wrote: "Just as it is people who think they have discovered the laws of history who have, in our time, inflicted our major public catastrophes so—in a lesser field, or at least one in which the results are not so literally bloody—it is those who think they have discovered the laws of literature who have been the destroyers."

Academic pettifogging, conventionality and gullibility were favourite targets. He longed for "The Oxford Book of Untrendy Verse", and published a bogus critical analysis of Christian imagery in Amis's "Lucky Jim", delighting in the fuss when literary types wrote solemn responses. Other pranks were nastier. He faked an official letter to his friend Philip Larkin (who had a rather greater interest than he did in erotica) warning him of prosecution under the Obscene Publications Act (Larkin hired a lawyer; a contrite Conquest paid the bill). In the days when gay men met in public toilets, Conquest (to amuse Amis) bellowed "All right, Sergeant, get your notebook at the ready," sending the hapless denizens scurrying. But the cruel streak was atypical. Having seen where grand designs led, he cherished scepticism and moderation. A late poem, "Sooner or Later", ends:

What's helpful? Not much. Nothing?  
But to fill in the time  
There's little harm in clothing  
Such nude truths with a rhyme. ■



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## Islamist extremism

## The battle of ideas

### Britain is struggling to deal with a new breed of fundamentalist

**B**Y THE time a video of a British man beheading an American journalist on behalf of Islamic State (is) surfaced in August 2014, Britons had for three years been travelling overseas to join the terrorist group. They have gone mostly to Syria and Iraq; once there, they have not lingered on the sidelines. Instead they have become suicide-bombers, executioners and, perhaps most valuably to their handlers, propagandists. The British government estimates that around 700 Britons have gone to wage jihad as members of is.

Britain is producing a new kind of terrorist. Those who left its shores to fight for the Taliban in Afghanistan after September 11th 2001 were overwhelmingly male, mostly 25-35 and motivated by fellow-feeling for Muslim civilians killed abroad, according to Hanif Qadir, who runs an anti-radicalisation youth programme in east London. Many did "humanitarian" work, away from the front lines.

Since then, and especially in the past seven months, the typical age of the British jihadist has dropped, to around 14-25. Women make up about 10% of the group. Some are white, some previously Christian or atheist. And the class of 2012-15 is more troubled—mental-health problems and criminal records are common—as well as less devout than previous generations. A pair of 22-year-olds from Birmingham bought a copy of "The Koran for Dum-

mies" before leaving Britain to fight for is last year (the dummies were arrested on their return after failing to delete jihadist snaps from their camera).

The demographic change is a result of is's powerful brand, which appeals to those looking for something big to do with their lives, says Alyas Karmani, a Bradford imam. Britain's 3m Muslims are not overwhelmed by opportunities: 46% of them live in the most deprived 10% of local authorities in England.

The internet makes it easier than ever for recruiters to seek out the most vulnerable (see page 41). Al Qaeda is said to have tried to hack into American mental-health records to find potential recruits. In 2015, is can address them directly via social media. Twitter hashtags and YouTube clips edited into Hollywood-style sequences spread its message to second-generation immigrants who feel more westernised than the square elders in the mosque, but not westernised enough to integrate fully. Mr Karmani suggests that for some, jihad may have "something to do with sexual frustration. Maybe guns are penis extensions."

### Alarms and siren songs

Once a person is persuaded by is's rhetoric, violence is only a short step away, says Haras Rafiq, head of the Quilliam Foundation, a think-tank. "Put me in a room with ten Islamists and I could turn one of them

into a terrorist," he says.

Soon after being returned to office in May, David Cameron announced plans to stop the spread of this ideology. Proposed new "extremism disruption orders" would allow the government to restrict the activities of people and organisations deemed to be "promoting hatred", loosely defined. Announcing plans to impose tighter restrictions on foreign broadcasters, the prime minister used a speech on June 19th to frame extremist rhetoric as a "gateway" to terrorism.

The approach faces a problem of definition. In his speech Mr Cameron condemned as "extreme" a sweep of unpleasant practices that had little to do with blowing things up, including forced marriage, female genital mutilation and the oppression of women in general. "No more turning a blind eye on the false basis of cultural sensitivities," he vowed.

Critics said this was confusingly broad. A particular worry, says Mr Qadir, is that the approach will alienate conservative Muslims, who may not be too hot on gender equality but are useful allies in dissuading would-be jihadists. A plan to prosecute universities if they allow extremist speakers on campus drew predictable complaints from lecturers—but also from Eliza Manningham-Buller, a former head of MI5, the domestic security service, who worried that it could drive non-violent extremists towards more sinister groups.

A second idea is to encourage the public—and especially, it is implied, moderate Muslims—to challenge extremist rhetoric. This is harder than it sounds. Many discussions on the merits of jihad take place not in public but in the online echo-chamber. And it may be that Mr Cameron's desire to combine vigorous public debate with the outright banning of certain types of mes-►

► sage is liable to be misunderstood. A few days after his speech, "Homegrown", a play exploring young Britons' motives for joining IS, was cancelled, amid talk of pressure from local authorities. (The director blamed a "landscape of fear"; the theatre that was due to stage the play says it just wasn't very good.) Mr Cameron has dubbed his strategy a "battle of ideas", but some see it as a battle against them.

A third approach is to seek out those who are susceptible to IS's siren song and attempt to steer them away. "Prevent", a counter-terrorism initiative set up by the Labour government in 2007, requires schools to identify vulnerable pupils. It doesn't always work: Mr Karmani recalls a sixth-former who dropped out of school after being "deemed an extremist" by his teachers (he had simply expressed disagreement with British foreign policy, Mr Karmani says).

Charlie Edwards of the Royal United Services Institute, a think-tank, says that potential jihadists are too varied a bunch to be easily identified by particular risk factors. But he argues that such analysis may be helpful in tracking where violence may come from next. Communities that produce terrorists tend to be less integrated. One idea floated by Mr Cameron is to tinker with the way social housing is allocated, to prevent segregation. It might be simpler to stop state-funded schools from selecting pupils on the basis of religion, which he has no plans to do.

In this business tools are limited, and rather blunt. It may be easier to characterise Britain's new cohort of terrorists; it is as hard as ever to stop them. ■

### Scottish Muslims

## The thistle and the crescent

**Muslims seem happier to identify as Scottish than English**

WHEN Glasgow Central Mosque was commissioned in the early 1980s, the architect received an important instruction: "Make it Scottish". It ended up sharing a feature of many Glaswegian public buildings (but not many mosques): large panels of glass, creating long shafts of natural light inside. Now, facing renovation, it will get more Scottish still: there are plans to remodel it in the style of Charles Rennie Mackintosh, Glasgow's favourite architect. Inside, people marry in kilts (the hem let down an inch, in keeping with the dress code for Muslim men) to the sound of bagpipes. Halal haggis is sold nearby, and across the River Clyde is the council office where in 2012 a new tartan was launched: blue for the Saltire, green for Islam.

The relationship between Scottish nationalism and the Muslim community seems unusually harmonious. Six out of ten Scots believe Muslims are integrated into everyday Scottish life, according to a poll in 2010 by Ipsos Mori. A survey in 2011 by the Scottish government found Muslims in Scotland felt that being Scottish was an important part of their identity, and that for them "community" tended to mean the shop down the road, rather than a local or global network of other Muslims.



**Scottish from head to toe**

In last year's referendum the pro-independence Yes campaign was backed by 64% of Asians, most of them Muslims, according to a poll by Scotland's main Asian radio station. Mazhar Khan of the Muslim Council of Scotland says that Muslims in Scotland will define themselves as Scottish, while those in England are prepared only to call themselves British. Why?

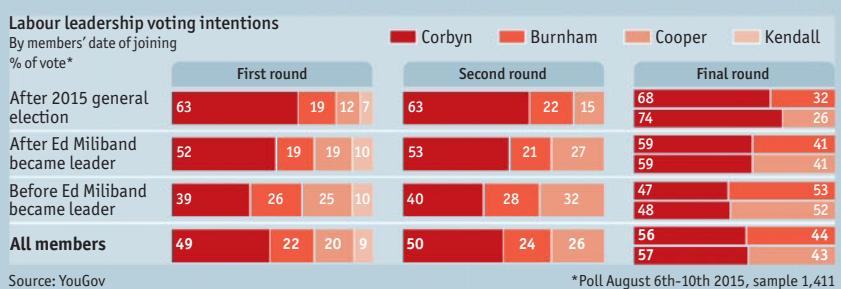
Scottish Muslims have greater economic power than their English counterparts: many are involved in business, and arrived with the means to set themselves up (a large proportion are from Punjab, a relatively rich Indian state). Most English Muslims hail from poorer bits of Pakistan and Bangladesh, and often went into industries that have since faltered. In Scotland ethnic minorities sometimes benefit from "reverse discrimination": as the National Health Service was the first employer to send minorities to some of Scotland's farther-flung areas, it is often assumed that non-whites are doctors. Mohammad Sarwar, a Scot, was Britain's first Muslim MP.

Theories abound: Scots regard themselves as a minority, persecuted by the English; left-leaning Scottish nationalism is friendlier to minorities than English Conservatism. And Scottish Muslims are few—they make up just 1.5% of the population, compared with 4.5% across Britain—giving them a greater incentive to integrate.

So far, so historical, but recent policy may have something to do with it too. Whereas the government in Westminster makes sweeping criticisms of Muslim extremism (see previous article), its counterpart in Holyrood does not dwell on the subject and therefore, says Mr Kahn, does not wind up local Muslims. Only a tiny minority of the 700 people reported to have left Britain for Syria appear to have come from Scotland. The happy relationship may not be the result of luck alone. ■

### Corbyn's cohort

Labour's summer leadership election has entered its final month; ballot papers go out to members and registered supporters from August 14th. The latest polling by YouGov suggests that—even under the party's fiddly, multi-stage electoral system—the far-left candidate, Jeremy Corbyn, is on track to win. Where is his support coming from? Party members, after all, voted for the moderate David Miliband in 2010 (over his more left-wing brother, Ed, who won thanks to union votes). The poll sheds some light on the mystery: although the party's membership as a whole supports Mr Corbyn, different generations vary starkly. Those who joined before Mr Miliband became leader would back Yvette Cooper, a relative centrist. Those who signed up under his leadership prefer Mr Corbyn; those who have arrived since the election on May 7th even more so. In other words, the Labour Party is tilting to the left. That should worry moderate MPs, who are already plotting to overthrow their hard-left comrade if he wins on September 12th. They can oust him fairly easily. Less so the membership that elected him.



# Bagehot | Where truth and myth collide

Panic about the sexual abuse of children could be as dangerous as myopia



IT IS not hard to see why "Paedogeddon" attracted more complaints than any British television programme to date. In this spoof documentary, broadcast by Channel 4 in 2001, a presenter reported that a paedophile had disguised himself as a school, activists belonging to "Milit-pede", a militant pro-paedophile group, stormed the studio and gullible celebrities claimed that paedophiles shared more DNA with crabs than with other humans. It was over-the-top, in terrible taste and a vehicle for the attention-seeking programme-makers.

And yet it served a purpose. At the time, Britain was in a panic following the rape and murder of a schoolgirl. The *News of the World*, a now-defunct tabloid, had named dozens of alleged paedophiles. A mob in Portsmouth had pelted a block of flats with stones and set fire to a car outside. "Paedo" was daubed on a paediatrician's house. "Paedogeddon" merely held up a fairground mirror to a society losing its grip. The popular response to the programme was disgusted (the "sickest TV show ever", ran one headline), but it rather proved the programme-makers' points. One newspaper ran an article harrumphing about it directly next to a revealing picture of a 15-year-old singer, captioned: "She's a big girl now".

That pattern—a blanket of shock and hypocrisy smothering the complicated realities and lessons of a child sex scandal—is back. The past three years have thrust into the limelight a wave of crimes (variously proven and alleged) by paedophiles in the 1970s and 1980s, many involving prominent figures in the media and politics. And once more it seems Britain has only two gears: myopia and hysteria.

The revelations and claims, it is true, are grotesquely awful. Many involve the rape of vulnerable children by powerful men. Jimmy Savile, a now-dead television personality, stalked hospital wards under philanthropic pretexts; nurses advised children to feign sleep during his visits. A group of politicians, including the late Cyril Smith, a gargantuan Liberal Party grandee, reportedly met at a flat in south London to abuse teenagers. On August 14th Lord Janner, a former Labour MP, is due to go before a court (after unsuccessful appeals citing his dementia) to face allegations that he abused youths in local-government care.

Many of these cases betoken a deferential past in which in-

conveniences were hushed up and rumours ignored. Dossiers were lost, police investigations halted, items of evidence confiscated and mislaid. Tim Fortescue, a Tory whip during the 1970s, boasted that he kept MPs in line by helping them quash "scandals involving small boys". The whole saga paints a blood-chilling picture of cosy networks of cosseted chaps overlooking the crimes of other cosseted chaps, leaving small, terrified children unprotected and without redress.

That such stories are finally emerging is, of course, a credit to Britain's more open, less pompous present. Yet today's establishment has not covered itself in glory. In 2011 the BBC pulled an exposé of Savile's crimes. A later inquiry found that, although there had been no cover-up, the corporation had mishandled the allegations and had gone ahead with a tribute to the entertainer despite internal concerns. Attempts to set up a public inquiry into child sex abuse became a farce; it took the Home Office almost a year, and two abortive appointments, to find a chairman not personally linked to figures of interest.

All of which has made the mood even more jittery. Months after the BBC's aborted Savile report, "Newsnight", the programme for which it had been slated, ran a sensationalised story accusing Lord McAlpine, a senior Tory, of being a paedophile—which then unravelled. Days afterwards Philip Schofield, a broadcaster on another network, ambushed David Cameron on live television with a list of allegedly child-abusing politicians that, he boasted, it had taken him three minutes to find on the internet. Leon Brittan, a Tory peer, went to his grave in January believing (incorrectly) that the police still wanted to prosecute him over a child rape allegation. This month seven police forces have announced—to lurid speculation in the newspapers—that they are investigating claims of child sex abuse by Ted Heath, a former prime minister who died a decade ago.

## The first casualty

Enough. Britain is swaying from one extreme to another; turning an institutional blind-eye to such claims one minute, plunging into a moral panic the next and rarely alighting on the calm, considered, prosecutorial ground between the two. As the makers of "Paedogeddon" tried to say: hysteria can be as dangerous as complacency, throwing claims and counter-claims into an epistemological twilight in which the as-yet innocent are less distinctly innocent and the guilty, as a consequence, are less distinctly guilty.

Why? Hysteria makes it easier for the guilty to muddy the waters. It conflates victims with fantasists and frustrates the prosecution of genuine criminals. The public inquiry, finally launched last month under Lowell Goddard, a New Zealand judge, could last five years. In the current climate, and in an age of frenetic social media, it is hard to imagine it reaching its conclusion without partial details and innuendos leaking—which, when or if that happens, will undermine confidence in the inquiry's conclusions and recommendations.

Those are sorely needed. Public institutions need advice and, in some cases, sanction. Past victims and the wrongly accused need the truth and redress. Future victims need to feel safe to come forward without public stigma or histrionics. And—it being increasingly acknowledged that adults attracted to children should self-report to authorities, so that they can be monitored and counselled—paedophiles need to be stopped before they offend. Breathless panic and finger-pointing is easy. But justice and prevention, surely, are worth the greater effort. ■



## Childbirth

## Caesar's legions

NEW YORK AND SÃO PAULO

**The global rise of Caesarean sections is being driven not by medical necessity but by growing wealth—and perverse financial incentives for doctors**

A YEAR ago a hospital in São Paulo announced that its maternity ward would henceforth only admit clients from 10am to 4pm, Monday to Friday. The message was clear: births by appointment only—that is, by Caesarean section. For Arthur Chioro, Brazil's health minister, it was equally unequivocal: the country's attitude to birth "has become absurd".

In 2009 Brazil became the first country where less than half of babies were born as nature intended. At the last count, in 2013, fully 57% of births were by Caesarean section, in which the baby is delivered through an incision in the abdomen and uterus—almost double the proportion two decades ago. In Brazil's private health-care system, Caesareans now account for nearly nine in ten births. Brazilian mothers say, only half jokingly, that their obstetricians would not know how to pull out a baby without cutting them open.

A recent study of 21 countries published in the *Lancet*, a medical journal, estimated that 31% of births were by Caesarean section in 2010-11. The rate is rising almost everywhere. The Dominican Republic and

Egypt have joined Brazil in the greater-than-half club.

In many poor countries, C-sections are dangerously rare. In Chad, for example, less than 2% of babies are thought to be delivered this way. In other words, many Chadian women who need a C-section cannot get one—and many die as a result, as do many Chadian babies. Globally, more surgery is associated with fewer maternal deaths—but only until the proportion of babies delivered by C-section reaches about 10-15%. Above that level, more surgery does not mean fewer deaths in childbirth. Nor are babies saved.

As with any major surgery, C-sections sometimes cause complications such as haemorrhage and infection. A large Canadian study found that otherwise healthy women whose babies were breech (head-up rather than head-down) and who opted for a C-section before they went into labour were three times more likely to experience emergencies such as shock or cardiac arrest than those who delivered their babies vaginally. The procedure also increases the chance of problems

in future pregnancies, such as placenta previa, when the placenta blocks the baby's exit through the cervix.

Women who undergo Caesareans take longer to recover and are more likely to feel depressed after the birth. Children born by Caesarean section may suffer, too, as a result of not picking up bacteria in the birth canal. A study from the University of Copenhagen found that of the 2m children born in Denmark between 1977 and 2012, the 14% who had been born by Caesarean section were much more likely to suffer from ailments including asthma, juvenile arthritis and bowel inflammation.

So why has the procedure become so common? One explanation is that people are wealthier and more able to pay for surgery. Another is that expectant mothers are often older and heavier than in the past, making birth more complicated. A study of low-risk, first-time expectant mothers in Norway found that those aged over 40 were three times as likely to have their babies delivered by emergency Caesarean than women in their early 20s.

But otherwise similar countries often have quite different C-section rates. Mexico is about as wealthy as Costa Rica, but the two countries have rates of 46% and 22%. The procedure is more than twice as common in Italy as in the Netherlands. Huge differences exist between hospitals and individual obstetricians even in a single country. American hospitals' rates vary from 7% to 70%.

In Brazil, C-sections were for years offered together with sterilisation; the combination was not banned until 1996. And for a long time natural birth was traumatic, says Regina Torloni, a former obstetrician. The state health service, known as SUS, only started paying for pain-blocking epidurals in 1998. As incomes and enrolment in private health plans have shot up in the past decade, more Brazilian women have decided they are too posh to push. The fear of getting stuck in one of São Paulo's epic traffic jams while in labour probably makes some keener on a birth that can be scheduled in advance.

Still, a study last year found that at the start of pregnancy, two-thirds of Brazilian women wished to deliver vaginally. That less than half end up doing so suggests they are being steered.

Hospitals' neonatal wards profit handsomely from Caesareans, which tend to be performed pre-term. So do obstetricians, who are generally paid per delivery. In the time it takes to assist a single natural birth, ►

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► a medic might perform several Caesareans. Some charge patients who insist on the time-consuming natural route "stand-by fees", though they are not supposed to. Many doctors are wary of malpractice suits involving complications from natural births. Obstetricians are hit with even more lawsuits than plastic surgeons.

All this has combined to "medicalise birth", laments Ana Cristina de Andrade, an activist. Midwives like her, common in rich-world maternity wards, are scarce in Brazil. The country trains just 60 a year, at one college in São Paulo, and only since 2005. Health plans make no provision to pay them (or the more numerous specialist nurses); only doctors.

Some of these pressures are felt in rich countries, too. Economists at the University of Toronto analysed data from nearly 5m hospital records between 1994 and 2010 in Canada, where the Caesarean rate is now 27%. When doctors earned twice as much for a C-section as for a vaginal delivery, they were 6% more likely to choose it than when the two procedures paid the same. American doctors can grow impatient if labour is not progressing swiftly enough, particularly at the end of a shift or before a weekend. An analysis of three years of American data by *Consumer Reports*, a non-profit magazine, found that far fewer babies were born on public holidays.

Fear of lawsuits is widespread, says Ana Pilar Betrán of the World Health Organisation. Aggrieved patients are more likely to sue over heroic measures not taken than for needless but standard interventions. One study estimated that nearly three-quarters of all American obstetrician-gynaecologists would face a malpractice claim by the time they were 45. They were the most likely of all specialists to

have to make payouts exceeding \$1m.

Jim Zhang of Shanghai Jiao Tong University says that Chinese parents, anxious about creating a perfect baby that might be their only one, can demand compensation from obstetricians who are thought to have erred. Some protest outside hospitals until they have been paid off. The association of certain dates and numbers with good fortune also means Chinese women are keen to give birth on an auspicious day. Many also fear pain—hospitals often provide little pain relief—and believe that a baby born with a perfectly round head, rather than the distortion common after a vaginal delivery, is better off.

### Untimely ripped

In Egypt some women ask for a C-section because they believe it is the safest way to give birth, says Hany Abdel-Aleem, an obstetrician in Assiut. Latin Americans often believe that women who have had one can start to have sex again sooner than those who give birth vaginally, says Dr Betrán of the WHO. Still, most patients get their cues from doctors. A study of women in Shanghai, where the Caesarean rate is 57%, found that most were influenced by their health-care providers.

A few countries are now trying to reverse the trend. In Britain, where more than a quarter of deliveries are via Caesarean, twice as high a share as in 1990, the National Health Service provides expectant mothers with information about the risks, and maternity services with information about how to avoid unnecessary procedures. China's government has begun to warn of the complications women may run into if they want another child after a C-section.

Individual hospitals have done more.

Hoag Memorial Hospital Presbyterian in California, which delivers 6,000 babies a year, cut its C-section rate from 38% of births to 33% in just three years after a big health insurer threatened to exclude it because of its high maternity costs. It shared information with its staff about Caesarean rates for individual doctors, made it harder to schedule a surgical delivery, informed patients about the risks and paid bonuses to particularly helpful nurses. It also agreed to charge the same for Caesareans as for normal deliveries.

Even in Brazil, a few birth clinics staffed solely by midwives and nurses are cropping up. With budgets tight, the health ministry is keen to trim unnecessary spending on surgery. If the Caesarean rate in state SUS hospitals had been 30% instead of 40% in 2010-14, the government would have saved 772m reais (\$220m), it reckons—enough to add 2,000 neonatal cots a year.

Some private hospitals are trying to spare the scalpel, too. Last December the Albert Einstein hospital in São Paulo, Brazil's swankiest, teamed up with International Health Initiatives, an advocacy group, and the National Supplementary Health Agency, which regulates the sector, in a pilot project to help 28 hospitals brush up on natural-birth techniques. They want to tweak incentives for doctors and midwives so that Caesareans become less appealing. Last month the agency decreed that hospitals' and individual physicians' Caesarean rates must be given to patients who request them.

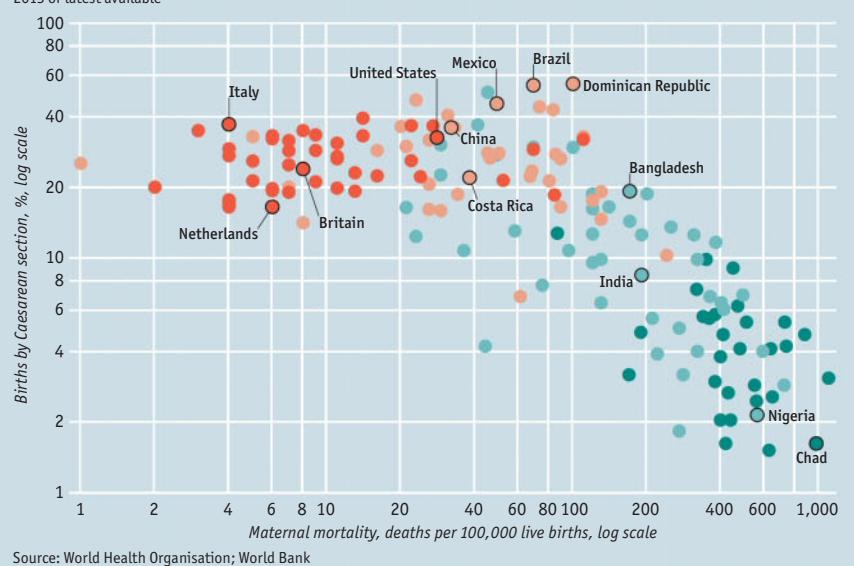
At 68%, the Einstein's rate remains too high, concedes Rita Sanchez, an obstetrician at the hospital who co-ordinates the project. But three floors above the sterile Caesarean ward, state-of-the-art natural-delivery rooms—complete with a jacuzzi (for natural pain relief), a big rubber ball (to loosen the hips) and surgical lamps mounted inconspicuously in the ceiling (to avoid that operating-theatre vibe)—are increasingly sought-after, Dr Sanchez reports.

Many hospitals lack such facilities, or indeed any non-surgical ones. Demand for them is rising, but only slowly. More role models like Kate Middleton in Britain, who recently gave birth naturally to a second royal baby, are needed, says Amanda Meskauskas, the administrator of Casa Angela, a charity-run birth clinic. "A telenovela would be great," sighs Dr Sanchez, referring to Brazil's popular soap operas, which have often championed social causes.

On a recent Sunday 15-odd expectant mothers, with flummoxed fathers-to-be in tow, shared tales of doctor discouragement. One woman was asked to pick a birth date when just eight weeks pregnant; another was told that natural birth is for cave-women. These women are motivated to avoid C-sections. Still, Ms Meskauskas estimates that more than a third will end up having one. ■

### Motherhood and medics

Caesarean sections and maternal mortality  
2013 or latest available



Google

# Spelling it out

The internet giant's new corporate structure will provide more clarity for investors

**T**HESSE days it seems as if there is almost no area of technology that Google can resist dipping its toes into. Among other things it is working on driverless cars, delivery drones, insulin-detecting contact lenses for diabetics, devices for the “smart home” and research into extending human lifespans. The corporate reorganisation it announced this week is an acknowledgement of what Google has become: a sprawling conglomerate, albeit with one predominant, profit-generating division in the form of its original internet business.

Google's founders, Larry Page and Sergey Brin, will serve as chief executive and president, respectively, of a new holding company, called Alphabet. Google's internet-search and advertising business, including its YouTube online-video service, Chrome web browser and Android operating system, will be a subsidiary of Alphabet. So will its other, newer ventures, which will henceforth be run more independently from the main business. In creating this new set-up, Messrs Page and Brin are taking inspiration from Berkshire Hathaway, a successful conglomerate that invests in more established industries (see next article, and Schumpeter).

In practical terms, the two founders will be freer to spend time on emerging business lines that tickle their fancy. The group's main moneymaking activity—

which last year produced 89% of its \$66 billion in revenues—will be overseen by Sundar Pichai, a well-liked veteran Googler. An engineer, he understands the firm's internet and advertising products well, and can concentrate on driving improvements in them. The heads of the other units will report directly to Mr Page, and be able to ask for more investment or support without navigating the bureaucracy of Google's core business. (Eric Schmidt, who will be Alphabet's chairman, is on the board of *The Economist*'s parent company.)

The new structure will also bring more transparency, pleasing shareholders fed up with the firm's opacity. Google can serve up search results on any subject in fractions of a second, but it has been slow in providing detail on its own businesses. For example, no one outside Google knows whether YouTube, which Google bought in 2006, is profitable. Nor is anyone certain how much it is pumping into its “moonshots”, its speculative research projects. “All they have done every quarter is offer investors assurances that their spending is controlled and proportional, but now we are going to be able to see if it is,” says Peter Stabler, an analyst at Wells Fargo Securities. The day after Google's announcement, its shares gained over 4%. Likewise, Amazon, another secretive web giant, got a boost to its share price when it released

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more detail about its cloud-computing business in April.

Mr Page quipped that one reason they chose the name Alphabet was because they strive to make the group an “alphabet”, that is, one that will outperform the market. For now, outperformance looks likely. Google's internet operation has successfully anticipated shifts in consumer demand, such as the rise of mobile devices and the growing popularity of online video. Few firms can claim such a lucrative core business: Google's advertising operation probably has profit margins of more than 60%, reckons RBC Capital, an investment bank, and it gets more than 70% of all worldwide online-search revenues.

However, the need for a new corporate structure reflects its transformation into a mature company, with the challenges that brings. The European Commission accuses Google of abusing its dominance of the online-advertising market by favouring its own products in search results. Google is due to respond to the charges soon. Meanwhile, even Google's most devout boosters are anxious to see proof each quarter that its impressive growth rate can continue unabated. Ads on the small screens of mobile phones are not as lucrative as desktop ad-

### An alpha bet



Berkshire Hathaway

## All you can eat, Buffett?

A new investment may show the limits of Warren Buffett's winning formula

**T**HE \$37 billion (including debt) takeover of Precision Castparts, a supplier to the aerospace and oil industries, is the biggest deal in Berkshire Hathaway's 50-year history. The acquisition, announced on August 10th, fits the formula that has made Warren Buffett's conglomerate such a success: the target is a well-run, easy-to-understand business with a strong market position. The deal got a good reception from investors. However, it may be getting harder for Mr Buffett to find suitable candidates for purchase.

Precision Castparts shares some similarities with another firm Mr Buffett bought recently, Detlev Louis, a German maker of motorcyclists' clothing, for which it paid €400m (\$454m) in February. Sales of motorbikes are growing briskly, just as orders for passenger jets are strong. Detlev Louis has a strong protective "moat" against competitors, in the form of its brand; in Precision Castparts' case the moat consists of its technology and the large amount of capital it has invested in its plants.

With his latest deal, timing is vital too. Mr Buffett is betting that low oil prices have unduly depressed the value of Precision Castparts, which relies on energy firms for a fifth of its revenues. His previous largest deal, the \$27 billion paid in 2009 to gain control of Burlington Northern Santa Fe, America's second-biggest railway, came as the shale-oil boom was getting under way. He successfully bet that this would boost traffic for rail tankers, and the price he paid for the railway now looks like a bargain.

As Berkshire continues to grow, it gets ever harder for it to find target firms that fulfil his criteria but are large enough to "move the needle", according to Cliff Gallant of Nomura, a bank. It will be harder still now that private-equity firms

have rediscovered an appetite for deal-making and are also on the lookout for bargains. That may explain why Berkshire has set aside its usual formula in some recent deals, and gone into restructuring underperforming firms in partnership with 3G Capital, a Brazilian private-equity firm. Earlier this year the pair engineered the merger of Kraft and Heinz, two food firms.

To keep finding big enough purchases, Mr Buffett will need to look farther and wider than ever—perhaps seeking more deals outside America, like the one for Detlev Louis. Potential targets are up for grabs in almost every industry, says Meyer Shields of Keefe, Bruyette & Woods, another bank. But Mr Buffett will have to spend more time familiarising himself with firms he has never heard of. Then again, he admits he knew nothing of Precision Castparts—even though Berkshire already had a small stake in it—until he began to think about buying it a couple of months ago.



He's still got a healthy appetite

► vertisements, and could be a drag on margins in the future.

In the longer term Alphabet will also have to prove that its various dream factories can turn into viable businesses. In setting them up as stand-alone companies, Messrs Page and Brin have raised hopes that they are getting close to being commercialised. But so far, with the exception of a smallish business that provides fibre-optic broadband service and Nest, a maker of smart thermostats that was bought last year for \$3.2 billion, the group's newer initiatives have no revenues, according to Mr Stabler of Wells Fargo Securities.

Many technology firms have tried to exploit promising new ideas, only to see them stifled by the existing, profitable core business—Microsoft being one example. In creating the holding company and liberating their moon-shot ventures from the main internet business, Messrs Page and Brin are seeking to avoid this fate. Turning them into formal subsidiaries could be a step towards spinning off the successful ones, if that is the chosen outcome for them. It also makes it harder quietly to sideline those that do not pan out. In either case, the expectation is that Alphabet will spell things out more clearly. ■

Tax inversions

## All my bags are packed

Corporate America's tax-driven exodus continues

**W**HEN President Barack Obama said last September that he would get tough on companies that avoid tax through "inversions"—merging with or buying foreign firms so as to shift their domicile abroad—some wondered if this would end a wave of corporate emigration. Some high-profile deals were called off, but other companies have continued to tiptoe out of America to places where the taxman is kinder and has shorter arms. On August 6th CF Industries, a fertiliser manufacturer, and Coca-Cola Enterprises, a drinks bottler, both said they would move their domiciles to Britain after mergers with non-American firms. Five days later Terex, which makes cranes, announced a merger in which it will move to Finland.

For many firms, staying in America is just too costly. Take Burger King, a fast-food chain, which last year shifted domicile to Canada after merging with Tim Horton's, a coffee-shop operator there. Before the move, it would have had to pay up to 39% tax on foreign earnings when it brought them into America. Now that it is Canadian, it pays 39% only on profits earned in America, about 26% on Canadian profits and the (often lower) local rate elsewhere.

Inversions can cause a domino effect within industries, as the first companies to emigrate to a low-tax country gain an advantage that prompts rivals to follow suit. The logical way to stem the tide would be to bring America's tax laws in line with international norms. Britain, Germany and Japan all have lower corporate rates and are among the majority of countries that tax firms only on profits earned on their territory. But the likelihood of a substantial tax reform in America is low—vanishingly so before 2017.

So, rather than making it nicer for companies to stay, the US Treasury has been trying to make it harder for them to leave. There has long been a rule whereby any inversion resulting in the American firm's shareholders owning 80% of the merged group would be taxed as if it were still American. In September, loopholes in this rule were closed. Inversions that comply with the 80% rule became harder to pull off. For example, the use of "hopscotch" loans, in which an American firm used its trapped overseas cash to finance a transaction, was curbed.

AbbVie, a drug company, blamed these stricter rules when it abandoned plans to merge with Shire of Ireland. Walgreens, a ►

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**Tax exiles**

US company tax-inversion bids announced since September 2014

Company	Acquisition/merger partner	Target's home country	New domicile
Terex	Konecranes	Finland	Finland
Coca-Cola Enterprises	Coca-Cola Erfrischungsgetränke/ Coca-Cola Iberian Partners	Germany/Spain	Britain
CF Industries	OCI	Netherlands	Britain
Arris	Pace	Britain	Britain
Monsanto	Syngenta	Switzerland	Britain
Cyberonics	Sorin	Italy	Britain
Steris	Synergy Health	Britain	Britain
Wright Medical	Tornier	Netherlands	Netherlands
Civeo	(Self-directed redomiciling)	United States	Canada

Source: *The Economist*

▶ pharmacy chain, insisted it also had other reasons for dropping a plan to move to Europe, though its patriotic decision to stay American earned it some good publicity. Medtronic's merger with Covidien, another medical-device maker, was under way when the rules changed, which meant Medtronic could no longer use its offshore cash to finance the deal without paying tax on it, and had to use debt instead.

Despite such speed bumps, inversions still make enormous sense for companies with large overseas operations. If anything, the rule changes have led to more companies looking to get out before it is too late, says a New York lawyer. In the current mergers boom, companies that are combining for commercial reasons are also taking the opportunity to choose the cheapest tax jurisdiction for the merged group's new base. The Coke bottlers' deal is one example, as is Terex's merger. "The Coke deal should bring its effective tax rate down significantly and should allow the company to move cash freely amongst subsidiaries, which it couldn't when incorporated in the us," says Sam Lichtman, a partner at Haynes and Boone, a law firm.

Emigrating from Deerfield, Illinois to London, as in CF Industries' case, or from Minnesota to Dublin, as in Medtronic's, isn't as dramatic as it seems. These tend to be mainly paper moves. "Here in the Netherlands you don't even need a chimney to be domiciled," says Indra Romgens, a corporate researcher, of the country's many brass-plate headquarters. But the tides are slowly turning, as low-tax countries are beginning to require relocating companies to have a more substantial presence. In anticipation of this, and to avoid the perception of tax-dodging, some firms are starting to shift executives and head-office functions to their new domiciles. This helps to explain why London, with its broader appeal as a global centre for finance and business services (as well as its low tax rate), has become a main beneficiary of the corporate exodus (see table). Now America is starting to lose not just tax revenues but jobs too, laments an American banker.

Another worry is that, now stricter anti-inversion rules make it harder for American firms to pursue de facto takeovers of foreign rivals, they are becoming the prey rather than the predators. If the American authorities succeeded in stopping inversions, all that would happen is that foreign takeovers of American firms would accelerate, says Matthew Mealy of EY, an accounting firm. That surely is not what Mr Obama intended. ■

**Lotte's succession****A whole Lotte drama**

SEOUL

**A fraternal feud over inheritance fires up South Koreans and regulators**

THE recent performance of the Lotte Giants, one of a dozen baseball teams belonging to South Korea's chaebol, its family-owned conglomerates, has been uninspiring. But when the team's chief executive resigned this week, it was to distance himself from the "disgrace" of another turf war: a jostle for succession at the team's parent group between his two cousins, the sons of the Lotte chaebol's nonagenarian founder and chairman, Shin Kyuk-ho.

His business empire has operations in South Korea (where it is the fifth-biggest conglomerate) and Japan, and combined assets of \$96 billion—and it is the last of the chaebol to be managed by its founder. Mr Shin began Lotte as a chewing-gum business in post-war Japan. In 1967 he took the business home, where Park Chung-hee, South Korea's then dictator, was offering tax breaks and perks for foreign investors. From its base in Seoul, Lotte Korea moved into fast food, hotels, amusement parks, department stores and cinemas.

The group's controlling companies, however, remained in Japan, and for years Mr Shin's sons have shared the spoils geographically: Shin Dong-joo, the eldest,

managing its unit in Japan; and Shin Dong-bin, the youngest, overseeing Lotte Korea's 74 affiliates (which account for four-fifths of the group's business) and the group's operations in other countries.

Each is now vying for the other's patch. Rivalries over inheritance are common enough at South Korea's family-run firms: Chaebul.com, which tracks them, says that roughly half of the 40 biggest have been embroiled in disputes over founders' succession plans. The difference this time, says Chung Sun-sup, its chief analyst, is that a son has appointed himself heir.

In January the board of directors at Lotte Holdings, which in effect controls the group from Japan, dismissed Shin Dong-joo, then its vice-chairman, from all executive posts. It looked like their father was paving the way for Shin Dong-bin to succeed him; and last month the younger brother was made chairman of Lotte Holdings. But on July 27th the founder, elder son at his side, said he was firing all the firm's board members, including his younger son. The next day Shin Dong-bin gathered Lotte directors to mount a counter-coup, demoting his father to an honorary position at Lotte Holdings.

Accusations have flown. Shin Dong-bin says his older brother was preying on their father's frailty, forcing his hand. Shin Dong-joo produced a letter and an audio recording of a conversation with his father suggesting he was the rightful heir. He also claims his brother hid from his father large losses at Lotte's Chinese unit. Both have appeared on television to stake their claim. On August 11th Shin Dong-bin made his second public apology for the squabbling this month. In a live television address (pictured) he pledged to improve transparency at the group and assured viewers that "Lotte belongs to Korea".

An "unmanaged scandal" of this scale is unusual, says Jun Sung-in of Hongik University in Seoul, even by the standards of fractious chaebol families. It is intense be- ➤



The Shins atone for their sins

cause "the stakes are high and the arena is small": securing the chairmanship of Lotte Holdings at a forthcoming shareholder meeting. That firm is thought to have a near-absolute stake in Hotel Lotte, the de facto holding company of Lotte Korea.

South Koreans' goodwill towards the *chaebol* has been tested recently. Misbehaviour by prominent scions of business dynasties has caused outrage, as have internal restructurings that appear to benefit the founding families but disadvantage outsiders. Lotte has a particularly woolly structure. The country's Fair Trade Commission says its 416 circular shareholdings account for over 90% of all those at South Korean firms. According to Chaebul.com, Shin Kyuk-ho uses these to control the Lotte group through a minuscule 0.05% stake (Lee Kun-hee, the ailing chairman of Samsung, has 2.24% of his group).

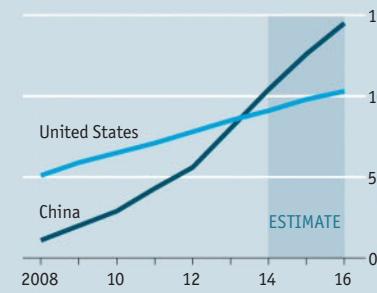
At this week's press conference Shin Dong-bin vowed to eliminate at least four-fifths of these cross-shareholdings; to push for a listing of Hotel Lotte; and to switch Lotte Korea to a holding-company structure. The finance minister, Choi Kyung-

hwan, had given warning that state agencies would scrutinise Lotte's "opaque ownership structure and cashflow" if necessary; the Fair Trade Commission and the Financial Supervisory Service have already begun investigations. The Federation of Small Business Owners, a 7m-strong lobby, has launched a boycott of Lotte products; some shopkeepers say they may refuse to accept Lotte credit cards.

This is in part because all the talk of ownership structures has ignited nationalist sentiment. The Shins use Japanese names and speak halting, accented Korean. Many South Koreans have learned that Lotte is, in effect, controlled from Japan just at the moment when they are celebrating 70 years of being freed from Japanese occupation. In a show of patriotism for the anniversary, Lotte made much of a huge South Korean flag that it displayed (at a cost of \$100,000) on the unfinished Lotte World Tower in Seoul. The skyscraper, soon to be the tallest in the country, has been beset by safety issues. South Koreans have grumbled that Lotte is trying to conceal its problems with their national flag. ■

## Going online

E-commerce sales as % of total retail market



Sources: iResearch; Forrester Research; Credit Suisse

It is also seeking more e-commerce customers beyond China's borders. Earlier this month it said Michael Evans, a Canadian banker who used to work at Goldman Sachs, would take charge of its international efforts. Macy's and Costco, two big American retailers, have already agreed deals to use Tmall Global, one of Alibaba's online platforms, to sell goods to Chinese shoppers with fewer delays and customs hassles than they had previously faced, since they can now use Alibaba's bonded warehouses in China's free-trade zones.

The warehouses are one aspect of Alibaba's evolution from being an "asset-light" firm. China's woefully inefficient logistics network, which acts as a brake on e-commerce growth, has forced the firm to get its hands dirty. Two years ago it organised Cainiao, a consortium that runs a digital platform linking more than a dozen logistics providers, 1,800 distribution centres and more than 100,000 dispatch points.

Now, Alibaba is investing in bricks and mortar too, to keep pace with rivals. One of its competitors, JD, has taken an "asset-heavy" approach to e-commerce akin to Amazon's in America. JD has spent a fortune developing warehouses and logistics networks. This month, it announced a 4.3 billion yuan investment in Yonghui Supermarket, a big grocery chain, to boost its "online to offline" (O2O) offering, in which customers choose and pay for goods online but collect them from, or have them delivered by, a shop. Two other Chinese online giants, Tencent and Baidu, have already struck big O2O deals with Dalian Wanda, a big shopping-centre operator.

This week Alibaba followed suit by making a \$4.6 billion investment in Suning, one of China's largest electronics retailers. Suning will open an online storefront on Tmall, selling home appliances and gadgets, product areas in which JD has bested Alibaba.

The deal will not only let shoppers pick up and return their online purchases at Suning's stores. It also means that Suning's delivery network, which reaches every corner of China, will join the Cainiao logistics platform, considerably strengthening ►

## Alibaba

# Clicks to bricks

SHANGHAI

## The Chinese online giant is looking for new sources of growth

"IN FIVE years, we will sell one trillion dollars." That is the bet that Jack Ma, the chairman of Alibaba, made with American businessmen on a recent trip to Chicago. The Chinese firm is already the world's biggest e-commerce outfit. But now Mr Ma thinks he can more than double the volume of sales on his firm's online-sales platforms by 2020.

First, he must win over investors. The firm's shares have fallen sharply from their peak of \$19 late last year, though at around \$74 they remain above the \$68 price at which they (or rather, shares in a "variable interest entity" linked to Alibaba, and registered in the Cayman Islands) were floated last September. On August 12th Alibaba unveiled its latest results. Its quarterly revenues grew by 28% year on year to 20.2 billion yuan (\$3.3 billion), and profits rose by 23% to 10.6 billion yuan. Yet investors were still disappointed. The firm now plans to spend up to \$4 billion on buy-backs to bolster its share price.

Part of the reason that profit growth was not stronger is that Alibaba is investing heavily in such growth areas as the mobile internet. Promisingly, its quarterly revenues from mobile services, of 8 billion yuan, represent a year-on-year leap of

225%. They now make up half of the firm's total e-commerce revenues from China, up from just 19% a year earlier. With economic growth cooling in China's big cities, the firm is making a big push to develop e-commerce among rural consumers. China has relatively few bricks-and-mortar shops per head of the population compared with other large economies. Studies show people outside its big cities are ready to spend a higher share of their incomes on online shopping, and Alibaba aims to tap into their desires.



► it. Cainiao now hopes to offer deliveries in as little as two hours. Suning may also suffer less from “showrooming”, in which shoppers examine products in its shops but buy them online from another retailer.

Alibaba is also ploughing ahead with cloud computing. Its business, Aliyun, is China’s largest cloud provider. So far, smaller Chinese firms are making less use of cloud services than counterparts elsewhere. Alibaba is planning a vast expansion of Aliyun, by offering prices that will tempt even the most frugal of small entrepreneurs. Having already invested heavily in cloud services aimed at Chinese firms, it intends to spend another \$1 billion taking Aliyun global.

The biggest future prize for Mr Ma could be online finance, though shareholders in Alibaba’s listed entity may not see all the profits. Ant Financial, a related private company controlled by Mr Ma, houses all of the group’s financial initiatives. Alipay revolutionised online payments by using escrow, which helped buyers and sellers overcome distrust. With some 120m daily transactions, Alipay is miles ahead of the rival payment offering from Tencent.

Ant Financial’s online money-market fund, Yu’E Bao, had roughly 600 billion yuan in assets at the end of June. Ant has also made more than 400 billion yuan of microloans. Though the firm requires no guarantee or collateral, it reports a default rate of below 2%. Ant is headed for a public flotation soon, and analysts think it may be worth up to \$50 billion.

Since Alibaba has so much data on the online transactions and other activities of consumers, it is often a better judge of their creditworthiness than the banks. Several countries, including Singapore, are using Sesame, Alibaba’s credit-scoring system, for such things as whether to approve visa applications—so too are Chinese dating websites.

Perhaps the most intriguing look into Alibaba’s future involves a deal struck in July with Unilever. The European consumer-products giant saw its sales in China fall by 20% in the last quarter of 2014. Now Alibaba’s online marketing-services outfit, Alimama, will tap into its parent’s vast consumer database to help Unilever do digital marketing, reach rural consumers and bolster cross-border sales.

In all, Alibaba is developing from a shopping platform into a broad-based provider of online services. Its ambitions will require heavy investment. Some ventures may fail. Others may have their wings clipped by Chinese regulators (their suspension of Alibaba’s online-lottery business was one reason for the group’s slow revenue growth in the past quarter). Investors will grumble about the costs involved and the profits deferred. Still, if even some of these big bets pay off, Mr Ma’s trillion-dollar dream just might come true. ■

## The dairy industry

# Turning sour

WELLINGTON

### As boom turns to bust, global milk prices slump

LITTLE over a year ago, New Zealanders were still talking about a “white-gold rush”. Strong prices for milk were prompting sheep and cattle farmers to convert to dairy, and Chinese firms were coming in to buy up agricultural land and milk processors. Inevitably, influx has led to glut. Prices have fallen to their lowest in more than ten years (see chart). Farmers in France, Britain and Belgium have recently been staging protests against low milk prices, but few places are as badly affected as New Zealand, whose dairy industry produces a quarter of its export earnings.

On August 7th Fonterra, a co-operative owned by New Zealand farmers which is the world’s largest dairy-export firm, said it expected to pay its members NZ\$3.85 (\$2.55) per kilogram of milk solids in the current season, ending in May 2016. That is less than half the record price of NZ\$8.40 it was paying two years ago, and well below breakeven for many farmers.

There are three main reasons why the milk trade has turned sour. One is the economic slowdown in China, a giant market where demand for dairy produce had hitherto been growing strongly. Another is the abolition of the European Union’s dairy-production quotas earlier this year, which is encouraging big producers in Germany, the Netherlands and elsewhere to boost their output and exports. A third is Russia’s ban on EU produce, in retaliation for European sanctions, which is forcing those European farmers that had been selling to Russia to seek other markets.

Andrew Little, the leader of New Zealand’s opposition Labour Party, says he fears prices will stay low, and that the industry’s bankers will lose patience. If this leads to a lot of indebted farms being put

on the market, many may fall into foreign hands, especially Chinese and American ones—something New Zealanders would not welcome. As a stopgap, Fonterra is offering farmers a loan of 50 cents for each kilogram of solids they sell to the firm between June and December. The loan will be interest-free for the first two years, and the farmers have to pay it back only if and when the price recovers to NZ\$6.

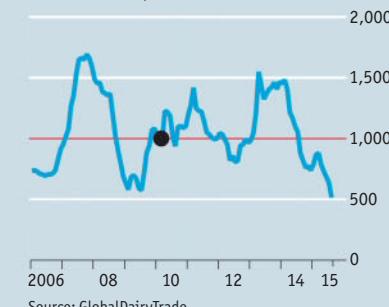
There have also been calls for Fonterra to suspend the twice-monthly online auctions of GlobalDairyTrade, a trading system it owns, which is used to set benchmark prices, until prices pick up. Fonterra’s boss, Theo Spierings, has said he would like New Zealand to have something like Europe’s price-intervention scheme, in which the EU buys farmers’ stock when prices of milk powder, butter and other produce hit certain levels.

Some think Fonterra itself is the problem. Jacqueline Rowarth, professor of agribusiness at Waikato University, argues that it has concentrated too much on trying to be big and to dominate the dairy trade, instead of paying attention to consumer demand. Its market intelligence seems to have been weak: it appears to have underestimated the effects of China’s slowdown on milk-powder stocks there, and the impact of ending EU quotas on European farms’ exports. If it had given farmers more warning of the impending downturn, they might not be in such trouble now.

Both Fonterra and the government are urging farmers not to panic, and assuring them that demand for dairy produce will bounce back in a year or so. However, China is continuing to boost its domestic milk production, while taking advantage of Western sanctions to sell more produce to the Russians. For example, a huge farm with 100,000 cows is being set up in Mudanjiang, a Chinese city near the border with Russia. With China’s farms expanding, at a time of subdued domestic demand, and with European ones freed from production quotas, milk prices could slip further. That could make it impossible for some farmers in New Zealand and elsewhere to carry on. ■

### Milk shaken

GlobalDairyTrade price index  
March 2nd 2010=1,000



# Schumpeter | From alpha to omega

Conglomerates are back in fashion, but only the best will thrive



**F**EW management fashions have waxed and waned quite as dramatically as that for conglomerates. From the 1960s to the 1980s business gurus praised conglomerates such as ITT of America and Hanson Trust of Britain as the highest form of capitalism. Today they routinely dismiss them as bloated anachronisms. Companies should stick to their knitting; investors should minimise risk by investing in a portfolio of companies rather than backing corporate megalomaniacs. Peter Lynch, an investment guru, talks about "diworsification". Stockmarkets routinely apply a sizeable "conglomerate discount" to diversified companies.

To judge by this week's events, the mood has shifted again. Warren Buffett has been steadily and almost single-handedly restoring the popular appeal of conglomerates. And the positive reception given to the latest deal by his investment vehicle, Berkshire Hathaway, shows how he has succeeded. On August 10th the group said it would buy Precision Castparts, a maker of aerospace components, for \$37 billion, in the biggest deal in Berkshire's 50-year history. Mr Buffett boasts of running a sprawling conglomerate that is "constantly trying to sprawl further".

Later that day Google announced a big reorganisation in which, in effect, it admits to being a conglomerate. Larry Page and Sergey Brin, its founders, will run a holding company called Alphabet. Google's original business—internet search and advertising—will be the largest subsidiary; its "moon-shot" projects, such as those to create driverless cars and extend human lifespans, will become separate companies within the group. A tech blogger has quipped that Alphabet is "Berkshire Hathaway for the Burning Man crowd". Indeed, Mr Page has acknowledged that he looks to Berkshire as a model of how to run an increasingly diversified company.

Google's transformation into a conglomerate is being driven by two things: technology and cash. The company believes that information technology will transform all manner of established industries, from transport (driverless cars) to education (online courses) to homebuilding (smart thermostats and the like). This means that the company has to put its fingers into all sorts of pies. Google also has a growing cash pile that gives it the luxury to make bets on all sorts of other projects, such as creating artificial meat or delivering internet access through a network of balloons,

that might come to nothing or might change the world.

Other tech billionaires are diversifying, each in his own way. Jeff Bezos's Amazon is investing in server farms and drones. He also personally owns the *Washington Post*. Mark Zuckerberg's Facebook is investing in virtual-reality equipment. Elon Musk, the boss of Tesla, an electric-car maker, has separate companies that are investing in space travel and solar-energy systems. They are treading a well-trodden path: General Electric became a conglomerate because Thomas Edison, its founder, was obsessed by electricity's capacity to transform the everyday world. GE produced its first electric fans in the 1890s and then went on to develop a full range of electric heating and cooking devices before becoming an industrial and financial behemoth.

Berkshire's steady evolution into a conglomerate is based on a different idea: that success lies in applying a consistent set of criteria when choosing acquisitions and managing them thereafter. They must be low-risk, easy for Mr Buffett and his team to understand, already be well-run and enjoy a strong market position. Mr Buffett, and his long-term partner Charlie Munger, have repeatedly demonstrated their genius for spotting and buying hidden gems. They also have a talent for giving those companies the right combination of guidance and freedom. They provide long-term capital that lets them ride out market volatility or short-term declines: Mr Buffett says that his ideal holding period is "forever". But the duo do not intervene too much: their empire of more than 300,000 employees is overseen by a team of just 24 at head office.

If GE's core competence is no longer finding new uses for electricity, it is perhaps its ability to select, train and promote general managers. Among other successful conglomerates, Koch Industries—whose interests run from oil and gas to finance, fertilisers and cattle ranching—has a secret sauce with two main ingredients: meritocracy and operational efficiency. Charles Koch, its boss, has organised the company on the principles of democratic capitalism, as laid out in his book, "The Science of Success". Workers can earn more than their bosses. High-school-educated farm boys from Kansas can rise faster than Ivy League MBAs.

## The good, the bad and the discounted

The number of companies that command revolutionary technologies or brilliant management skills is limited. Many conglomerates are anachronistic and bloated: the emerging world in particular is teeming with companies that do lots of things badly rather than a few things well, and which make up for their incompetence by courting politicians. And even the best conglomerates have to engage in a constant fight with flab. GE is trying hard to focus on a few industrial sectors (for example by buying chunks of Alstom, a French rival) and to get rid of other businesses such as NBCUniversal and GE Capital (of which it sold another chunk this week). Around 60% of the group's sales in 2001 came from businesses that it has since got rid of.

But it is now clear that you should not apply the same conglomerate discount to all diversified groups. There are now more examples than ever of a new breed of high-performing conglomerates that bear little relation to the bloated dinosaurs of old. Some possess managerial talents that allow them to achieve rapid growth in an era of stagnation. Others are led by multi-talented entrepreneurs with the ability to revolutionise old industries by applying new technologies. Focused companies may still be safer bets for many investors. But the best conglomerates have the patience and skills to end up changing the world. ■

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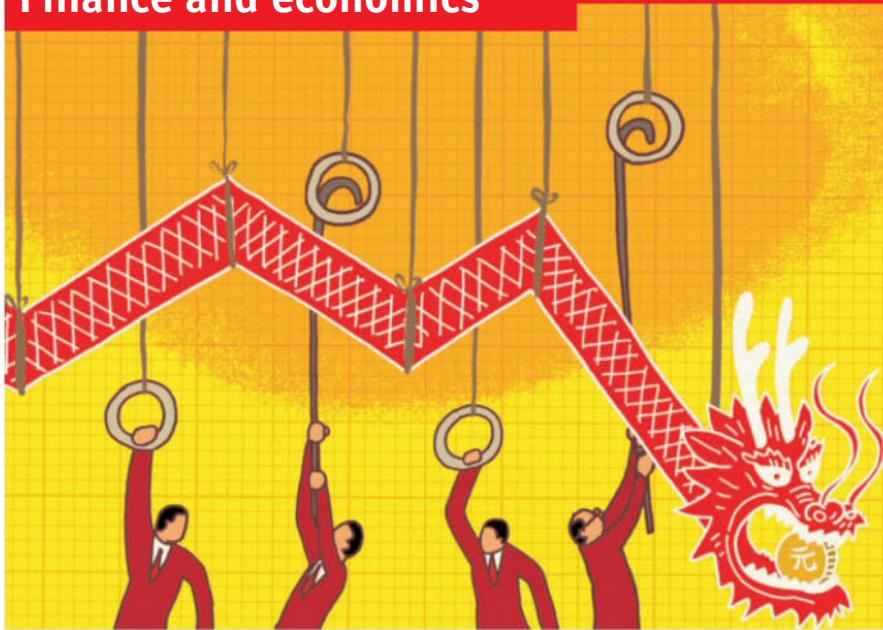
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### The devaluation of the yuan

## The battle of midpoint

### China initiates market reforms of its currency, then backtracks

**T**RICK question: did China's central bank intervene over the past week to weaken the yuan or to strengthen it? Given all the headlines about devaluation, weakening would seem the obvious answer. In fact, the opposite is true: it first tried to stand aside, giving the market more say in the yuan's value, and then backtracked, intervening to stem the ensuing decline. The volte-face reveals much about both the oddities of China's economy and the difficulty of reforming it.

Every morning, marketmakers such as the big state-owned banks submit yuan-dollar prices to the People's Bank of China (the central bank). It then averages these to calculate a "central parity" rate, or midpoint. Over the course of the day, the PBOC intervenes to keep the exchange rate from straying more than 2% above or below the midpoint.

In theory, it is the marketmakers, not the central bank, that set the midpoint and thus the trading band. In practice, the PBOC gets marketmakers to submit rates that will yield its preferred midpoint, irrespective of market sentiment (state-owned banks are pliant, after all). Critics in America and elsewhere have long alleged that China has manipulated the market in this way to keep its exchange rate cheap. They had a point up until 2012 or so.

For much of the past year, however, the central bank has in fact tipped the scales in the opposite direction, preventing a depre-



ciation even as the Chinese economy weakened and the dollar surged. In recent months especially, trading of the yuan has regularly swung towards the weak end of the 2% band, but the central bank has nudged it back up by orchestrating stronger midpoints.

The reform the PBOC announced on August 11th sought to change this. From now on, the central bank declared, the midpoint would simply be the previous day's closing value. Given that traders had been selling and buying yuan at a big discount to the manipulated midpoint, the new market-determined midpoint immediately fell by 1.9%, the biggest single-day

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drop in the yuan's modern history.

That led to an even weaker market-determined midpoint on August 12th, whereupon the yuan fell yet again, sparking fears that the currency might be on the brink of a rout. It was at this point that the central bank intervened. It ordered state-owned banks to sell dollars and buy yuan, propping up the exchange rate at the very time that it was being accused of devaluing it. This tug-of-war could play out for weeks, with traders repeatedly testing the limits of the PBOC's tolerance for depreciation.

This raises the question of what the central bank is hoping to achieve. The most popular explanation is that it wants to stimulate its sluggish economy by cheapening its currency. The depreciation, after all, came just a couple of days after a surprisingly big drop in exports. However, the scale of the yuan's weakening belies such a motive (see chart). The initial 2% devaluation only undid the previous ten days' worth of appreciation in trade-weighted terms. The yuan remains more than 10% stronger against the currencies of China's trading partners than it was a year ago. Much bigger falls would be needed to make a difference. But Chinese officials have forsaken a large one-off devaluation, believing it would undermine faith in the yuan and would do little to help the economy, since it would just persuade others to let their currencies weaken too.

Instead, another event seems the main trigger for the central bank's actions. Later this year the IMF will decide whether to include the yuan in the select group of currencies it uses to calculate the SDR, its unit of account. Inclusion would amount to declaring the yuan a global reserve currency. Just last week the fund hinted that the yuan is still too heavily controlled.

For the PBOC, getting into the SDR has never been just about prestige. Rather, it ►

► has been using this objective as a means to push for reforms that remove some of the policy distortions still hobbling the economy. Introducing a truly floating exchange rate is an essential part of its programme.

Yet there is another complication. Some \$250 billion of "hot money", equivalent to roughly 2.5% of GDP—an unprecedented amount—has left China over the past year as the economy has slowed. Strong inflows via the trade surplus have allowed the PBOC to absorb these losses so far, but it is wary of doing anything that might accelerate capital flight. A sustained devaluation would do just that, inviting speculators to short the yuan. Hence the central bank's apparently contradictory actions, in letting the yuan fall and then trying to make it stop. As ever, China's willingness to trust market forces extends only so far. ■

#### China, the Fed and emerging markets

## Yuan thing after another

#### A cheaper yuan and America's looming rate rise rattle the world economy

THE cloud hanging over emerging markets seemed to darken in the past week. As it was, fears that the Federal Reserve is about to raise rates, pushing up debt-servicing costs and sucking capital out of emerging markets, had been weighing on currencies and stockmarkets from Brazil to Turkey (see chart). Now a fresh worry is blotting the horizon. On August 11th China engineered a small devaluation of the yuan, prompting concerns that, with growth sputtering, its government was ready to risk a global currency war.

The angst about the state of the world's two biggest economies is understandable. China's economy has slowed markedly: it is likely to grow by 7% this year, its most languid rate in a quarter-century. In addition the government has been trying to reorient the economy from investment to consumption. For emerging markets that had been catering to China's investment binge—those selling it coal and iron ore, copper and bauxite—the past few years have been little short of brutal. The economy's slowing and rebalancing explain much of the 40% fall in commodity prices since their peak in 2011 and, by extension, the travails of countries which make their fortunes digging stuff out of the ground, from Peru to South Africa.

For other emerging markets, the importance of China as a source of direct demand is less pronounced. Exports to China account for less than 9% of total shipments from developing countries, calculates Jonathan Anderson of Emerging Advisors, a

consultancy, whereas exports to the rich world account for 55%. For countries exporting food and fuel—the majority of the global resource trade—China's slowdown has had a limited impact. Except for a small group of countries heavily concentrated on exports of ores and minerals, "China has hardly mattered at all," he says.

China can make itself felt in other ways, however. A slowdown in the world's second-largest economy, for instance, is bound to have second-order effects on demand. Deflation in China puts pressure on firms in other emerging markets to cut prices. And some worry that the yuan's fall may initiate a series of competitive devaluations, with other exporters racing to weaken their exchange rates or, perhaps, resorting to trade barriers as a last resort. Fortunately, the changes to China's exchange-rate regime do not seem nearly big enough to set such a vicious cycle in motion. Even after its devaluation, the yuan remains stronger than it was a year ago in trade-weighted terms. Moreover, the authorities are now intervening to slow its decline. In other words, the depreciation is a small, belated step to keep the yuan's value in line with those of its peers, not a dramatic shift in exchange-rate policy.

China's slowdown continues to amplify jitters about the Fed's impending "lift-off". The sensitivity of developing countries to changes in policy at the Fed was amply illustrated by the "taper tantrum" of 2013, when the announcement that it would slow and eventually stop its huge purchases of government bonds led to turmoil in emerging markets.

An American rate rise, which may come as soon as September, could put pressure on emerging markets in a variety of ways. Rising rates will add to the allure of American assets, potentially making the dollar even stronger. For the governments, households and firms in the developing world that have borrowed trillions of dollars in recent years, interest and repayment costs will climb in terms of local currency. If fears about their debts lead to more outflows of capital, central banks in the weakest countries will face an invidious choice



between letting their currencies plummet and ratcheting up interest rates to defend them. The former will only aggravate the burden of their foreign-debt load; the latter will stifle growth. Bill Gross, the world's best-known bond manager, has spoken of a "currency debacle" for emerging markets.

Not all agree that higher American interest rates need spell doom. That the Fed has been edging towards lift-off is no secret. Anticipation of this is one reason for the dollar's recent strength. If its tightening is gradual, as expected, emerging markets may fare better than feared.

The presumption that the dollar strengthens when the Fed raises rates is not borne out by evidence. In the first 100 days of its four big tightening cycles of the past 30 years, the dollar has actually weakened every time, according to David Bloom of HSBC, a bank. The notion that Western central banks' efforts to keep interest rates low sent a torrent of money into emerging markets that is now about to drain away may also be wrong. Average quarterly flows from America to emerging markets were actually higher before the crisis, according to Fitch, a ratings agency. If so, monetary policy in America may not be the be-all and end-all for emerging markets. That, at any rate, will be their hope. ■

#### Personal loans

## Whom to trust

#### NEW YORK

#### Credit records are not the only test of sound borrowers

AMERICAN banks typically drum up new borrowers by bombarding anyone with a decent credit score with junk mail offering credit cards and ignoring everyone else. A host of new competitors, however, are much more imaginative about how they recruit new customers.

Take Kabbage, a startup based in Atlanta which began lending to small companies online in 2011. A third of their applicants did not qualify for business loans because they had not yet started operations, had insufficient revenue or no formal legal structure. Many of them, however, did qualify for personal loans. So in September Kabbage launched a subsidiary called Karrot to give personal loans of up to \$30,000 at interest rates of 6% to 26%.

Karrot worries less about borrowers' credit history—the conventional approach—than about their cash flow. Customers must allow Karrot to monitor their current accounts and other financial data, such as credit-card bills. A big decline in income prompts an inquiry about an extended payment plan (to pre-empt a default); an ►

► increase prompts an offer of more credit. The initial evaluation takes only four minutes. Growth has been impressive: Karrot expects to lend \$1 billion this year. Its default rate is 5%.

Upstart, based in Palo Alto, is another firm learning to look beyond the credit record, in this case to borrowers' educational history—an indicator of future earnings and thus the capacity to repay debt. It offers borrowers the chance to refinance credit-card debt, which comes at an average interest rate of 22%, with loans that typically cost half as much. Its credit model considers what college applicants attend-

ed (its database rates 5,000 of them), what their grades and scores in nationally administered tests were, and what subjects they studied. Those who specialised in science, technology, engineering and maths are better credit risks, predictably enough. But so are those studying teaching or nursing. They may not be future millionaires, but they are likely to find secure employment with stable salaries.

Among the most novel experiments is Vouch, based in San Francisco, which began providing small amounts of credit to people with poor credit scores last October. Its first customer was a medical stu-

dent who received \$5,000. To diminish the risk of default, borrowers must get several friends or family members to guarantee a small part of the loan.

Vouch determines the amount customers can borrow based on its assessment of their ability to pay. But the interest rate hinges on the amount pledged by supporters. It is still early days: just a few hundred loans have been granted so far, worth \$2m. Not one has defaulted. That may merely reflect how recently the loans were issued, but it may be also be that borrowers are less inclined to disappoint friends than a faceless financial firm. ■

## Buttonwood | A new contract for growth

### Short-termism may be caused by the way investors employ fund managers

**B**USINESSES have been disappointing slow to invest since the financial crisis. Global capital expenditure by non-financial firms is expected to fall by 1% this year, according to Standard & Poor's, a rating agency, and by a further 4% in 2016. If those predictions are right, that will be four straight years of decline (see chart) despite the adoption of very low interest rates throughout the developed world, a policy seemingly designed to encourage companies to borrow and invest.

Admittedly, the latest decline is highly concentrated in the energy and industrial-materials sectors, which have been hit by falling commodity prices. Excluding them, capex will rise by 8% this year. But that is of only limited comfort; investment in energy and materials has been hugely important in recent years, comprising 39% of all capex in 2014.

Falling commodity prices reflect worries about the outlook for the global economy. Those worries help explain not only why interest rates are so low, but also why companies are reluctant to invest. Why expand capacity if extra demand is unlikely to materialise?

On top of those cyclical reasons for weak investment, some think a structural factor may be at work. Businesses, the theory goes, have become too focused on the need to meet short-term profit targets and not enough on long-term returns. They have been encouraged to do so by shareholders, who demand that cash is returned to them in the form of buy-backs and who turn over their portfolios much more quickly than in the past. The average holding period for shares in America and Britain has dropped from six years in 1950 to less than six months today.

Hillary Clinton recently described this problem as "quarterly capitalism", a term used by Andrew Haldane, now the Bank

of England's chief economist, in a paper written (along with Richard Davies, a former journalist at this newspaper) back in 2011. He found statistically significant evidence of short-termism in the pricing of companies' equities, with investors applying excessive discount rates to their estimates of future cashflows. In simple terms, modern investors would fail the "marshmallow test", seeking instant gratification instead of waiting for greater rewards. Another paper which Mr Haldane helped write suggested that shareholders' flightiness affects corporate decisions: publicly quoted companies tend to invest less than private companies with similar profits and turnover.

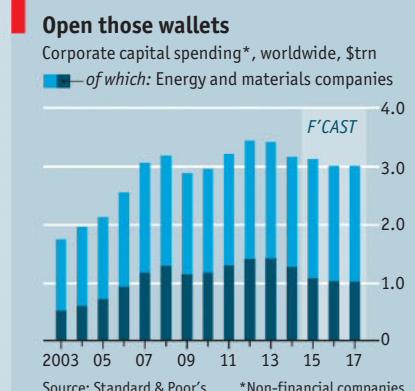
Mr Haldane sketches a number of approaches to the problem, including changing bosses' pay, giving greater voting rights to long-term shareholders and amending company law. An alternative idea comes from Paul Woolley, a former fund manager who is now an academic at the London School of Economics. He wants to see a change in the contracts between investors and fund managers.

This is a classic example of the prin-

pal-agent problem, in Mr Woolley's view. Clients employ fund managers to look after their investments, but they cannot be sure of the manager's skill. All they have to guide them is past performance, which may be attributable to luck. To monitor this risk, they therefore compare fund managers' performance with a benchmark, such as the S&P 500 index. The result is that "active" managers (as opposed to passive funds that simply track the index) have to be wary of straying too far from the benchmark. This can lead to mispricing as stocks that have performed well (and are thus potentially overvalued) tend to get chased higher by fund managers—the momentum effect.

Instead, Mr Woolley thinks that clients should use a benchmark based on the return on cash, or an economic measure such as inflation or the growth of GDP. They should employ managers who look for cheap assets using a value approach (but not hedge funds, which charge high fees and tend not to be patient capital). Value strategies have been shown to outperform over the long term. So the performance of managers should be assessed over a period of five years or more. The main measure of risk should not be the volatility of the portfolio's value but of its cash flows (dividends and interest payments). Clients should also check that their portfolios are not being traded excessively (eg, more than 100% in a year).

A world in which fund managers were patient would give business executives the breathing space to invest for the long term. Or that is the hope. Whether there are enough long-term equity investors to tip the balance in a world where pension funds and insurance companies are switching to bonds is another matter.



## Japan's economy

## In jeopardy

TOKYO

**Shinzo Abe's sliding popularity is putting Abenomics at risk**

**N**O SOONER does the Japanese economy raise its head from the mat than it falls down again." So wrote one longtime Japan-watcher last month on the news that, after zooming along at a real annualised rate of 3.9% in the first quarter, GDP may well have contracted during the second. Preliminary data will be released on August 17th.

This is the year that the economic plan of Shinzo Abe, the prime minister, should be taking wing. The negative effect on consumer demand of a rise in the consumption tax in April 2014—the economy tipped into recession afterwards—is by now safely past. Meanwhile a drop in oil prices has been a boon for household budgets.

Yet the economy's performance has been underwhelming. The problems have been weak industrial production, thanks to a slowdown in exports to America and China, and anaemic household consumption. In a recent report on Japan, economists at the IMF attributed some of consumers' reluctance to open their purses to their worries about how Japan's dire fiscal position—debt now stands at 246% of GDP—could affect their future income. Companies and consumers may also doubt whether Abenomics is here to stay.

The longer-term picture, though, looks more encouraging. Average real annualised GDP growth for the first half is likely to come in at about 1.5%, which is relatively strong considering Japan's shrinking and ageing population. Many economists are



forecasting a further acceleration of growth in the second half, although this depends on a rebound in the global economy—hardly a forgone conclusion given the gloomy news from emerging markets.

Most encouragingly, GDP is on a steady upward trend in nominal terms (see chart). It was Japan's chronic failure to grow in nominal terms over the past two decades that set it apart from other developed countries. Core consumer prices and the GDP deflator, another measure of inflation, have both started rising. And although the news on wages in June was disappointing—a 2.9% fall in real terms—they should soon rise as the labour market continues to tighten. Naohiko Baba of Goldman Sachs, a notable bear on Abenomics, expects real wage growth of 0.2-0.3% in the current fiscal year.

Adding to the momentum on pay, Mr Abe outlined the largest increase in Japan's minimum wage since 2002 on July 29th, from ¥780 (\$6.30) an hour to ¥798 an hour, a rise of 2.3%. (That will still leave it much lower than in many other rich countries.) The rise should help low-income earners most at risk from the Bank of Japan's quest

to raise inflation.

The question now is whether firms and households can start driving faster growth. Japan's companies have slashed their debts and corporate profits are high. According to the Tankan survey, they consider business conditions to be as favourable now as they were during the most recent period of sustained growth, under former prime minister Junichiro Koizumi. For households, aggregate wage income—wages multiplied by employment—is growing.

Yet Mr Abe's public support is now falling, because of unpopular defence legislation (see page 31). There is little sign yet of any real challenge to his position, but he may in future wield less clout. The government's ability to demand that firms raise wages, as it did with some success this year, could wane, adds Mr Baba. A poor second quarter will increase misgivings about Mr Abe's economic plans. But it is hard to believe that the economy would be stronger without him. ■

## Saudi Arabia's finances

## Asset-rich, cash-poor

CAIRO

**The kingdom borrows to compensate for falling oil prices**

IT WAS not a hard sell. On August 10th Saudi Arabia issued bonds worth 20 billion riyals (\$5.3 billion). Local banks, the only institutions allowed to take part in the sale, have lots of spare cash. The price was appealing, too: the ten-year bonds (there were also five- and seven-year issues) will yield almost half a percentage point more than their American equivalents.

The government did not publicise the sale, but it was hardly a surprise given its deteriorating finances. To maintain spending despite falling oil revenue, it has been cashing in foreign assets at a rapid clip: \$60 billion in the first six months of the year. In July Fahd al-Mubarak, the head of the Saudi Arabian Monetary Agency (SAMA), the kingdom's central bank, announced the government had raised \$4 billion selling bonds to state-owned institutions, and talked of more sales to come.

Saudi Arabia does not like borrowing—the last time it issued bonds was in 2007—but the books are not balancing. Oil makes up 90% of government revenues, and its price, roughly \$50 a barrel, is less than half what it was in June last year. That is partly Saudi Arabia's doing: it has not reined in its production, as it typically does when the price falls, but instead pumped record amounts in the hope of putting producers with higher costs out of business. ►



Progress is glacial

► At the same time Saudi Arabia's spending has been increasing. Lavish public-sector wages, grandiose infrastructure projects and hefty subsidies on power, fuel and other consumer goods have long gobbled up most of the budget. But Saudi Arabia's new king, Salman, who came to power in January, is also pursuing a more active, and expensive, foreign policy. He and his son, the defence minister and second-in-line to the throne, have launched a war in Yemen (involving bonus pay for the army) and are spending on aid projects to counter Iran's influence across the region. At home, the government is having to beef up security in response to a terror campaign by Islamic State, which bombed a Saudi mosque on August 6th—its third attack on the kingdom. The IMF predicts a budget deficit of 20% of GDP this year, but that may turn out to be an underestimate, a local economist says.

The government plans to sell bonds each month until the end of the year, raising 100 billion riyals in total. Economists reckon there will be further issuance in 2016, perhaps to foreign buyers. "Given the size of bonds and debt, they will tap the international market," says John Sfakianakis, the Riyadh-based Middle East director at Ashmore Group, a fund manager.

Saudi Arabia has plenty of leeway to borrow (see chart). Before the new bonds were issued, its debts stood at just 1.6% of GDP. Against that, it held foreign reserves of \$672 billion in June, or 93% of GDP. In the 1990s, after a prolonged spell of low oil prices, Saudi Arabia's debt rose to more than 100% of GDP without sending its borrowing costs spiralling. Officials point out that government debt will also help to develop the nascent financial sector, by creating benchmark prices and yields.

Yet as the population of 30m grows, and especially if the oil price remains low, it will have to reform as well as borrow. Officials talk of boosting the private sector and conserving energy. But to provide an incentive for change, they will have to cut subsidies and public-sector jobs. That is a far harder sell than bonds. ■



#### Greece's latest bail-out

## Third time lucky?

#### Another step away from the brink for the euro's perpetual delinquent

JUST one month ago Greece was on the verge of leaving the euro. Germany had raised the prospect of a "time out" lasting at least five years, following a breakdown in trust between euro-zone countries and the Greek government. Even when an acrimonious weekend summit in Brussels ended on July 13th with a tentative plan for a third bail-out, providing up to €86 billion (\$96 billion) over three years in return for further austerity and reforms, there was widespread pessimism about whether a more detailed agreement could really be reached. Yet on August 11th the Greek government settled the specific conditions of the rescue with the four institutions representing the interests of creditors: the European Commission, the European Central Bank (ECB), the IMF and the European Stability Mechanism (ESM), a rescue fund for the euro zone.

The new proposals were due to be passed into law by the Greek parliament on August 13th, after *The Economist* had gone to press. The hope among Greek officials was that euro-zone finance ministers would endorse the deal the following day. That could in turn pave the way for a release of funds from the ESM in time for the Greek government to redeem bonds held by the ECB worth €3.2 billion when they mature on August 20th.

This timetable may yet prove too optimistic. The agreement will still have to be ratified by several euro-zone parliaments, including the German Bundestag. Despite the surprisingly swift progress in the negotiations, the German government has struck a cautious tone, arguing that thor-

oughness is more important than speed. If Germany drags its heels, Greece may need a second emergency loan from a rescue fund backed by the whole of the European Union in order to repay the ECB (it received a first one in mid-July to clear arrears with the IMF and repay another lot of bonds held by the ECB). The question of relieving some of Greece's huge public debt, to be addressed once the bail-out has been agreed, is another potential pitfall: the IMF has made clear it requires European concessions on this point if it is to join the bail-out later this year.

In order to get this far, Greece has already had to legislate two sets of reforms in the past month. These have raised VAT and made minimum pensions payable only at the age of 67. A European directive on dealing with failing banks has been adopted and the independence of the national statistics agency has been reinforced. Judicial delays are also to be tackled.

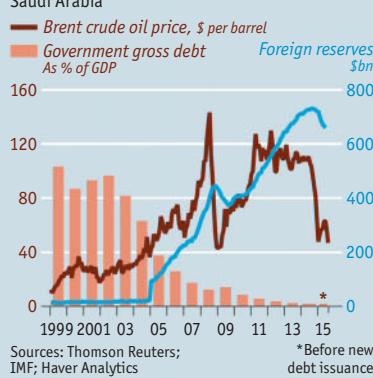
This week's agreement includes steps to liberalise markets, especially energy. Tax administration is to be overhauled with tougher procedures to deal with taxpayers who are in arrears. A new privatisation fund is being set up, with the objective of eventually raising €50 billion, of which half will go to recapitalise Greek banks, a quarter to pay down debt and the remaining quarter to investment. Privatisation is expected to raise up to €6.4 billion between 2015 and 2017, an ambitious target given that Greece has managed to raise only €3 billion in the past five years.

Important though such structural reforms may be in improving Greece's long-term prospects, what matters in the short term is healing a traumatised economy that has slipped back into recession and is fettered by capital controls. One encouraging sign is that the creditors have not imposed overly harsh fiscal targets for this year and next. Greece is expected to run a primary deficit (ie, excluding interest payments) of 0.25% of GDP in 2015 and a surplus of 0.5% in 2016. Another helpful development is an acceptance on the part of euro-zone creditors that attempts to impose a "bail-in" to recapitalise the banks (by converting large deposits into equity) would be wholly counter-productive since this would destroy the working capital of Greece's small businesses.

Yet even if the hurdles to a full agreement can be surmounted, the outlook for Greece remains precarious. Despite the recent promising developments, the risk of more political upsets remains very real. The decision by Alexis Tsipras, Greece's prime minister, to accept the bail-out terms has split his party, forcing him to rely upon opposition parties to pass legislation. That may lead to an early election. Chronic political uncertainty was a crucial reason why Greece's first two bail-outs went wrong. It may also blight the third. ■

#### Shifting sands

Saudi Arabia



# Free exchange | Automation angst

Three new papers examine fears that machines will put humans out of work



AS FAR back as the Industrial Revolution there have been periodic panics about the impact of automation. Handloom weavers' resistance to new machines earned them a pejorative name—Luddites—that has become a byword for all those who try in vain to stop technological progress. Such anxieties resurfaced in America in the early 1960s, thanks to the rapid automation of agriculture, even though the economy was booming. They are even more prevalent in the rich world now, as advances in information technology (IT) threaten jobs that previously seemed invulnerable to automation. Whether the anxiety is any more justified this time round is the subject of three new papers\* in the *Journal of Economic Perspectives*.

Angst about automation typically focuses on the substitution effect, whereby jobs once done by people are taken over by machines—the fate of the Luddites. The current fear is that ever more versatile robots will substitute for labour on a scale never seen before. However, previous experience shows that focusing on substitution shows only part of the picture. According to David Autor, an economist at MIT and author of one of the papers, those with a gloomy view of automation are disregarding the many jobs that come into being thanks to the existence of whizz-bang new machines. Only that, he argues, can explain why the share of America's population in work rose during the 20th century despite dazzling technological advances, or why the drop in agricultural employment, from 40% of the workforce to 2%, did not lead to mass unemployment.

Between 1980 and 2010, Mr Autor points out, the number of bank clerks in America actually increased despite the rapid spread of the cashpoint. That was because the IT revolution not only enabled machines to dispense cash; it also allowed clerks to work out what extra financial products customers might be interested in and process applications for them. The new jobs that technology makes possible, Mr Autor argues, more than compensate for those lost through substitution. It is just easier to identify the disappearing but familiar occupations than it is to foresee the new ones created in their stead.

Modern techno-pessimists argue that the ground is shifting because so many more jobs can now be handed over to machines. Another of the three papers suggests that advances in

machine intelligence may be revolutionary rather than evolutionary. Gill Pratt, an expert on robotics, highlights two techniques that could cause such a breakthrough. One is "cloud robotics", in which robots learn from one another, leading to a rapid growth in competence. The second is "deep learning", in which robots process vast amounts of data to expand their capabilities, forming associations that can be generalised. Enhancing these two approaches are some more general trends, such as the exponential growth in the availability and capacity of wireless internet access, data storage and computational power.

If this potential were to be realised, robots could march off the production lines where they carry out specific tasks and take over a far more diverse set of roles in large parts of the economy, including manual occupations. One much touted example would be driverless vehicles, which could endanger the livelihoods of legions of taxi drivers and couriers. Moreover, suggests Mr Pratt, the advances could be so rapid that unlike previous waves of automation robots might displace a much bigger share of the workforce in a much shorter time.

One way to think about the impact of technology is by categorising the tasks involved in any job between cognitive and manual on the one hand, and routine and non-routine on the other hand. It is occupations in administration and middle management, which involve cognitive but routine tasks, that have been the most vulnerable to automation so far. By contrast, employees whose work is cognitive but not routine have largely gained from technological change, since it enables them to process and present information more readily. Likewise, many forms of manual employment have proved difficult to computerise, and have thus been largely unaffected.

This explains a pattern that has become common in the labour markets of advanced economies in recent decades, whereby there has been growth in employment at both the top and the bottom of the spectrum but a hollowing-out in the middle. But Mr Pratt's work suggests that this comforting resilience may not last, as machines begin to take on both previously manual jobs (thanks to advances in automation) and non-routine ones (courtesy of improvements in artificial intelligence).

## This time is the same

Mr Autor argues that many jobs still require a mixture of skills, flexibility and judgment; they draw upon "tacit" knowledge that is a very long way from being codified or performed by robots. Moreover, automation is likely to be circumscribed, he argues, as politicians fret about wider social consequences. Most important of all, even if they do destroy as many jobs as pessimists imagine, many other as yet unimagined ones that cannot be done by robots are likely to be created.

The difficulty of foreseeing the jobs of the future is a theme of the third paper, by a trio of economic historians, on the history of automation angst. In 1930, for example, John Maynard Keynes published a famous essay that predicted that the grandchildren of his generation would scarcely have to work at all. Keynes regarded that as a sign of progress, whereas many today fear such an outcome. Current predictions of the obliteration of jobs may be as far off the mark as his hopelessly rosy view. ■

\* Studies cited in this article can be found at [www.economist.com/automation15](http://www.economist.com/automation15)



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### Data privacy

## We'll see you, anon

### Can big databases be kept both anonymous and useful?

FREQUENT visitors to the Hustler Club, a gentlemen's entertainment venue in New York, could not have known that they would become part of a debate about anonymity in the era of "big data". But when, for sport, a data scientist called Anthony Tockar mined a database of taxi-ride details to see what fell out of it, it became clear that, even though the data concerned included no direct identification of the customer, there were some intriguingly clustered drop-off points at private addresses for journeys that began at the club. Stir voter-registration records into the mix to identify who lives at those addresses (which Mr Tockar did not do) and you might end up creating some rather unhappy marriages.

The anonymisation of a data record typically means the removal from it of personally identifiable information. Names, obviously. But also phone numbers, addresses and various intimate details like dates of birth. Such a record is then deemed safe for release to researchers, and even to the public, to make of it what they will. Many people volunteer information, for example to medical trials, on the understanding that this will happen.

But the ability to compare databases threatens to make a mockery of such protections. Participants in genomics projects, promised anonymity in exchange for their DNA, have been identified by simple comparison with electoral rolls and other publicly available information. The health re-

cords of a governor of Massachusetts were plucked from a database, again supposedly anonymous, of state-employee hospital visits using the same trick. Reporters sifting through a public database of web searches were able to correlate them in order to track down one, rather embarrassed, woman who had been idly searching for single men. And so on.

Each of these headline-generating stories creates a demand for more controls. But that, in turn, deals a blow to the idea of open data—that the electronic "data exhaust" people exhale more or less every time they do anything in the modern world is actually useful stuff which, were it freely available for analysis, might make that world a better place.

### Of cake, and eating it

Modern cars, for example, record in their computers much about how, when and where the vehicle has been used. Comparing the records of many vehicles, says Viktor Mayer-Schönberger of the Oxford Internet Institute, could provide a solid basis for, say, spotting dangerous stretches of road. Similarly, an opening of health records, particularly in a country like Britain, which has a national health service, and cross-fertilising them with other personal data, might help reveal the multifarious causes of diseases like Alzheimer's.

This is a true dilemma. People want both perfect privacy and all the benefits of

openness. But they cannot have both. The stripping of a few details as the only means of assuring anonymity, in a world choked with data exhaust, cannot work. Poorly anonymised data are only part of the problem. What may be worse is that there is no standard for anonymisation. Every American state, for example, has its own prescription for what constitutes an adequate standard.

Worse still, devising a comprehensive standard may be impossible. Paul Ohm of Georgetown University, in Washington, DC, thinks that this is partly because the availability of new data constantly shifts the goalposts. "If we could pick an industry standard today, it would be obsolete in short order," he says. Some data, such as those about medical conditions, are more sensitive than others. Some data sets provide great precision in time or place, others merely a year or a postcode. Each set presents its own dangers and requirements.

Fortunately, there are a few easy fixes. Thanks in part to the headlines, many now agree that public release of anonymised data is a bad move. Data could instead be released piecemeal, or kept in-house and accessible by researchers through a question-and-answer mechanism. Or some users could be granted access to raw data, but only in strictly controlled conditions.

All these approaches, though, are anathema to the open-data movement, because they limit the scope of studies. "If we're making it so hard to share that only a few have access," says Tim Althoff, a data scientist at Stanford University, "that has profound implications for science, for people being able to replicate and advance your work."

Purely legal approaches might mitigate that. Data might come with what have been called "downstream contractual obligations", outlining what can be done with ➤

► a given data set and holding any onward recipients to the same standards. One perhaps draconian idea, suggested by Daniel Barth-Jones, an epidemiologist at Columbia University, in New York, is to make it illegal even to attempt re-identification.

While some level of anonymisation will remain part of any resolution of the dilemma, mathematics may change the overall equation. One approach that would shift the balance to the good is homomorphic encryption, whereby queries on an encrypted data set are themselves encrypted. The result of any inquiry is the same as the one that would have been obtained using a standard query on the unencrypted database, but the questioner never sets eyes on the data. Or there is secure multiparty computation, in which a database is divided among several repositories. Queries are thus divvied up so that no one need have access to the whole database.

These approaches are, on paper, absolute in their protections. But putting them to work on messy, real-world data is proving tricky. Another set of techniques called differential privacy seems further ahead. The idea behind it is to ensure results derived from a database would look the same whether a given individual's data were in it or not. It works by adding a bit of noise to the data in a way that does not similarly fuzz out the statistical results.

### Hot fuzz

America's Census Bureau has used differential privacy in the past for gathering commuters' data. Google is employing it at the moment as part of a project in which a browser plug-in gathers lots of data about a user's software, all the while guaranteeing anonymity. Cynthia Dwork, a differential-privacy pioneer at Microsoft Research, suggests a more high-profile proving ground would be data sets—such as some of those involving automobile data or genomes—that have remained locked up because of privacy concerns.

For now, differential privacy's difficult mathematical underpinnings make it tricky to implement more broadly. That needs to change, according to Salil Vadhan, of the Centre for Research on Computation and Society at Harvard. "The ball is in our court to not just to write papers, but to produce general-purpose tools," he says.

Public education is also needed. Data science could well lead to safer roads and long-sought cures, but people have to understand the trade-offs. In July researchers at Britain's Office for National Statistics (ONS), whose releases of data underpin billions of pounds of public spending, began to consult members of the public about their comfort with different types of data disclosure. There is always some risk to anonymity, says Jane Naylor of the ONS. But "there's also a risk of not making the best use of data." ■

### Better batteries

## Tiny balls of fire

### A nanotechnological accident may lengthen battery lives

MOST scientific discoveries are the result of deliberate experiment. A few, though, occur by chance. One such piece of serendipity has just happened to Wang Changan of Tsinghua University, in Beijing, and Li Ju of the Massachusetts Institute of Technology. Its consequence may be batteries that last up to four times longer than those currently on sale.

Dr Wang and Dr Li are materials scientists, and they have been working on tiny particles (known as nanoparticles, because they are mere nanometres, or billionths of a metre, across) made of aluminium. This metal is a good conductor of electricity, but its effectiveness is reduced by the thin coat of oxide which forms on its surface when it is exposed to the air. For large lumps of the stuff this does not matter much. For tiny particles of it, though, it matters a lot, so the two researchers were experimenting with a way to get rid of the nanoparticles' oxide coats.

Their method was to soak the particles in a mixture of sulphuric acid and titanium oxysulphate. This replaces the aluminium oxide with titanium oxide, which is more conductive. However, they accidentally left one batch of particles in the acidic mixture for several hours longer than they meant to. As a result, though shells of titanium dioxide did form on them as expected, acid had time to leak through these shells and dissolve away some of the aluminium within. The consequence was nanoparticles that consisted of a titanium dioxide outer layer surrounding a loose kernel of aluminium.

Many people would, at this point, have thrown the aberrant batch away. Dr Wang

and Dr Li, however, realised they might have something valuable on their hands. And, as they report in *Nature Communications*, it seems they did.

Lithium-ion batteries are remarkable in many ways, and have revolutionised consumer electronics and electric vehicles. They do, though, have a finite lifespan brought about by the constant expansion and contraction of their graphite anodes to accommodate the lithium ions that migrate in and out of those electrodes during each cycle of use (see diagram).

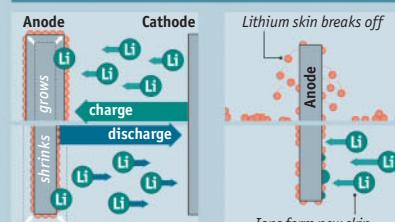
It is not the expansion and contraction *per se* that causes the problem. Rather, it is that during the course of a battery's operation, a thin skin of lithium compounds is deposited on its electrodes' surfaces. If this were undisturbed, there would be no difficulty. But the continual expansion and contraction causes it to slough off, and a new skin then forms on the now-exposed electrode surface. Gradually, this process saps the battery of the lithium ions it needs to function, and it stops working.

Battery designers prefer graphite to aluminium because aluminium expands and contracts even more than graphite does. Otherwise, aluminium would be the better material. Dr Wang and Dr Li suspected, however, that electrodes made of their nanoparticles might barely shape-shift at all. The expanding and contracting would go on inside the titanium-oxide shell. Lithium compounds would build up on the shell, but because that shell remained rigid, they would not get sloughed off.

And so it proved. Dr Wang and Dr Li built some batteries with their newly designed nanoparticles and ran them through 500 cycles of charging and discharging. At the end of that time the new batteries retained as much as four times the capacity of graphite-electrode equivalents put through the same charging cycle. If the process of making the nanoparticles can be industrialised, which does not seem an unreasonable hope, then the lifetimes of lithium-ion batteries might be considerably extended. ■

### Shell game

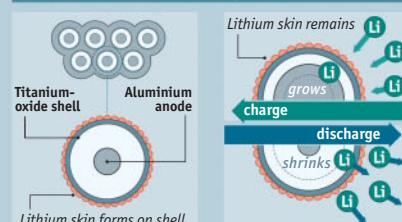
#### Lithium-ion battery



As the battery is charged and used, lithium (Li) ions move back and forth between its cathode and its graphite anode.

Sources: *Nature Communications*; *The Economist*

#### Titanium-oxide-shell battery



In the new battery the graphite is replaced by aluminium particles held inside tiny shells made of titanium oxide.

The aluminium particles expand by up to 96% when charged but stay inside the shells, so these shells do not shed their skins.

## Octopuses, genes and intelligence

# Tentacles that think

**Studying cephalopods may illuminate the evolution of brains of all sorts**

**A**LMOST all intelligent creatures, be they parrots, sharks or human beings, are vertebrates. This is inconvenient for anyone trying to understand the nature of intelligence because it means, by and large, that he can study only how it has developed down a single evolutionary path. But there is an important exception. Molluscs branched off to form their own lineage before any organism had a spine—and one particular class of them, the cephalopods, has since become smart enough to rival some vertebrates.

Modern cephalopods are octopuses, squid, cuttlefish and an unusual shelled creature called the nautilus. Octopuses, in particular, are rated as intelligent. Some carry coconut shells across the seabed to make shelters. Others have worked out that fishing boats offer easy pickings. There have even been cases of them climbing out of aquarium tanks to raid a neighbouring tank that contained a tasty morsel. Many researchers would like to know whether these behaviours have come about in a different way from vertebrate intelligence, or if there are common traits that are necessary for smart creatures of any sort.

Caroline Albertin, of the University of Chicago, and her colleagues have been trying to understand the basis of cephalopod intelligence. To do so, as they report this week in *Nature*, they have mapped the genome of an octopus species called the California two-spot. They wanted to see which sets of genes in this species were pronounced in comparison to those in other, simpler, molluscs. They found two genetic families that were indeed greatly expanded. One of these, known as C2H2, encodes proteins called transcription factors, which regulate the activities of other genes. The second is the protocadherins, which encode proteins that guide the development of neurons in the nervous system. Both of these gene families are also expanded in vertebrates—but not, as far as is known, in any other group of animals.

Ms Albertin's co-author, Daniel Rokhsar, of the Okinawa Institute of Science and Technology, in Japan, describes protocadherins as molecular barcodes that identify a cell to its neighbours, enabling appropriate connections to be made. This is vital when building a nervous system. Such a system's essence is the correct connection between its neurons. Expanding the number of genes for these proteins means they can exist in more diverse forms. In verte-

## Exoplanets

# Crowdsourcing the galaxy

**The guardians of astronomy are asking the public to name alien planets**

**T**HE names of the planets reflect the history of the Earth. Five—Mercury, Venus, Mars, Jupiter and Saturn—were known in antiquity. The titles they now bear were chosen by the most powerful and influential civilisation of the classical era, Rome. The others, Uranus, Neptune and, until its demotion in 2006, Pluto, were discovered by Westerners, who saw themselves as Rome's heirs and decided they would carry on the tradition (though Uranus is named after a Greek god, rather than a Roman one).

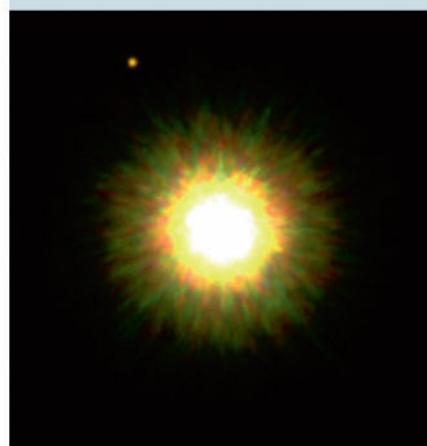
In 1992, however, astronomers discovered their first exoplanet—one that orbits a star other than the sun. Nowadays they are swimming in the things. Almost 2,000 have had their existence con-

firmed. Nearly 5,000 possible others await verification.

None has a name so poetic as those in the solar system. Most people use the prosaic labels assigned by the International Astronomical Union (IAU), the group of celestial bureaucrats which decided that Pluto should no longer be counted as a planet. The IAU's names are more functional than memorable: 51 Pegasi b, for instance, or Kepler-186f. In both cases the letter refers to the order of the planet's discovery within its system, with the star itself in position "a".

But that is about to change. In 2014 the IAU promulgated a plan to let the public choose the names of some exoplanets. The organisation solicited ideas from astronomy clubs around the world, which it whittled down to a shortlist. On August 11th, at a meeting in Hawaii, it announced that public voting on that shortlist was open.

The 32 planets to be named inhabit 20 star systems. The suggested names are an eclectic bunch. Some, like their counterparts in the solar system, are classical ("Hypatia", "Icaria"). Some are Arabic ("Foros", "Kharoof"), because several of the host stars were catalogued by Arab astronomers. Others are authors of science fiction ("Asimov", "Clarke", "Heinlein"). One suggestion, "Fyren" (Swedish for "The Lighthouse"), comes from the Moomins, a series of lighthearted children's books. Votes can be cast by anyone at <http://nameexoworlds.iau.org/>



**A nameless planet (top left) and its star**

bbrates this makes it possible for nerve cells to form more complex circuits, and the same is probably true in octopuses.

The effects of the C2H2 genes are less well understood, but having more of them presumably lets octopus genes function in more diverse ways than those of simpler creatures. That would allow a more sophisticated nervous system to develop.

Certainly, the octopus nervous system is sophisticated. It is also different from that of vertebrates, the neurons of which are concentrated in the brain and spinal cord, whence protuberances called axons travel to the rest of the body, to tell it what to do. An octopus brain holds only a third of the animal's neurons and, being an invertebrate, an octopus by definition has no spinal cord. Instead, the balance of its neurons are concentrated in its arms, which therefore have a curious sort of independence.

This arrangement seems to have come into existence after the split, 270m years

ago, that separated octopuses from other cephalopods. The arms of squid and cuttlefish remain under the control of the brain. Each octopus tentacle, however, acts autonomously as it feels around for food or threats. The brain can take over if necessary, but their decentralised nervous systems make octopuses less dependent than vertebrates on transmitting long-range signals through their bodies. That means they can act quickly and instinctively, though at a cost: they can exercise precise control of their arms only by looking directly at them.

With around half a billion neurons, a California two-spot can probably outthink a rat, which has only 200m of them. Yet the decentralisation of its nervous system means the nature of that thinking is surely alien to the vertebrate approach. This, alone, shows intelligence can develop in more than one way. Pursuing Ms Albertin's approach may help researchers to get their arms around the details. ■



**Is the universe alone?**

## Multiversal truths

In our second brief on scientific mysteries, we ask whether the world might make more sense if other universes existed

THE expansion of the universe, starting with the Big Bang, is a well-attested physical phenomenon. But over the past 400 years the universe has also undergone a different sort of expansion—a mental one. This began with a big bang too, the shattering in the early 17th century by astronomers such as Galileo Galilei and Johannes Kepler of the crystal spheres hitherto supposed to have held heavenly bodies on their proper courses. That led people to realise the so-called fixed stars, the celestial backdrop on which the movement of the planets is played out, are vastly farther away than had been believed, which led in turn to an understanding that the Milky Way, as seen in the night sky, is actually the view from Earth of a gigantic system of stars, of which the sun is a single, lowly member.

For a time the Galaxy, as this star system became known from the Greek name for the Milky Way, was thought to be the whole universe. Then, about 100 years ago, as telescopes grew in size and power, astronomers came to realise it is only one of many such groups of stars, and the mental picture expanded again, to where it is today—namely a galaxy-filled space which dates back 13.8 billion years, and whose evolution through that period is now understood in some detail.

But the question of what constitutes universality has not been laid to rest. Some physicists suspect that just as the Galaxy—once thought unique—is merely an example of a general phenomenon, so too the universe may not be reality's final frontier. Their idea is that there is not so much a universe as a multiverse. Indeed, there may be more than one sort of multiverse. These are grand claims, and hard to test. But, if true, they might solve some of the most puzzling questions of existence.

One of the leading proponents of

multiverses is Max Tegmark of the Massachusetts Institute of Technology. Dr Tegmark suggests a fourfold classification of possible types of multiverse. It has to be said that only three of these four seem comprehensible to mere mortals. But they are a good place to start.

### Worlds within worlds

The simplest Tegmark multiverse is an infinite extension of the familiar. Modern telescopes can see a long way, but the finite speed of light, and the finite age of the universe, mean they can peer only at things within a limited radius. Were space static, this horizon, known as the Hubble radius, would be 13.8 billion light-years away. In fact, because of the expansion of space after the Big Bang, the Hubble radius is 42 billion light-years.

How far things stretch beyond the Hubble radius no one knows. But some theories suggest they stretch to infinity. If that were true, then all permitted arrangements of matter might exist somewhere. They might even exist in infinite numbers. There might be an infinite number of Earths with readers reading this article on them. In effect, these places, cut off from one another by their own Hubble radii, would be isolated universes as the term is

currently understood by science.

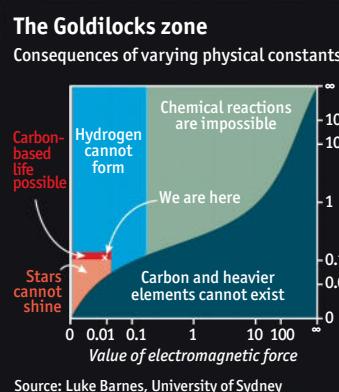
That may sound mind-boggling, but it is pedestrian compared with the second type of Tegmark multiverse. The first type assumes the laws of physics are the same everywhere. The second suggests they can vary from one universe to another. Tinkering with physics's laws would change the nature of reality, so these universes would be different—perhaps very different—from each other.

In the third type of Tegmark multiverse, as in the first, the laws of physics are the same from one to another. In this type, though, the component universes are continually separating from each other as time passes. At every moment within such a multiverse, all possible futures allowed by the uncertainties of quantum mechanics actually happen somewhere, and that somewhere constitutes a new universe.

The final type of multiverse Dr Tegmark proposes is one in which any and all coherent systems of mathematics describe a physical reality of some sort. What this translates to in practice is hard to conceive of. It is more the province of metaphysics than physics. But the other three types of multiverse, though they push the bounds of physical theory, do not overstep them. Moreover, if the second and third type did turn out to be true, each would solve a profound problem of reality that is hard to deal with if the observable universe really is the be-all and end-all of everything.

Believers in a type-two multiverse think each of the universes within it began with something like the Big Bang that gave birth to the universe familiar to human beings. The Big Bang's defining characteristic was a phenomenon called inflation. A very short time after the universe came into existence it underwent a very large expansion. By very short, physicists mean within a trillionth of a trillionth of a trillionth of a second of the beginning. By very large, they mean, possibly, infinite.

The idea of inflation was proposed in 1979 by Alan Guth. In the years after Dr Guth published his idea Andrei Linde extended it to suggest that the universe emerged from what he called an inflationary field. But if this field can spawn the universe humans see, there is no reason why it cannot spawn others. There is also no reason why the universes so spawned should have the same laws of physics as one another. Indeed, there is quite a good





► reason why they should not.

This reason was worked out a decade or so ago by several physicists, including Leonard Susskind, of Stanford University, and Martin Rees, Britain's Astronomer Royal. They observed that the equations of string theory, the deepest sort of explanation for the way matter and energy are organised into particles and fields, have a lot of possible solutions. Some correspond to what observable reality has to offer. Most do not. But Dr Susskind and Lord Rees suggest that those other solutions do describe reality in other universes.

This idea is intellectually pleasing because it bears on a puzzling problem: why are conditions in the observable universe so finely tuned to the needs of mankind? Fiddle only slightly with some of physics's constants, such as the strength of electromagnetism or the strength of the force that binds atomic nuclei, and the resulting universe would be unable to sustain humans, or anything resembling them (see chart on previous page).

The fine-tuning problem, as this puzzle is known, is solved by some by the invocation of a Creator who made things just right for people to evolve. If universes are commonplace, though, and the rules that govern them vary, then the fine-tuning problem—and thus the need for a human-friendly Creator—vanishes. It is no longer a fluke that at least one universe has the right conditions for intelligent life to emerge, since there are also zillions that do not. And it is inevitable that any intelligent life which did evolve would observe that it lived in a universe whose physical laws were just right to support its existence.

Type-two multiverses, then, offer an answer to the fine-tuning problem. Type-three multiverses similarly deal with one of 20th-century physics's kludges, the so-called Copenhagen interpretation of quantum theory. Indeed, they were devised for precisely that purpose.

Before 1900 physicists had, broadly, divided the universe into particles and waves. This division applied particularly to fundamental things like light (waves) and atoms (particles). In the 20th century's early decades, though, it became apparent that light waves sometimes behave like particles, and particles sometimes behave like waves. This "wave-particle duality" is one of the bases of quantum mechanics, and is described, mathematically, by what

is known as a wave function.

As Erwin Schrödinger showed in the 1920s, in his well-known uncertainty principle, a wave function is pregnant with possibility about where the particle it describes actually is, and thus what it might do next. Some outcomes are more likely than others. But observation shows, of course, that only one outcome happens. Schrödinger, in collaboration with Niels Bohr, suggested that which it is, is somehow fixed by observing the particle. In the jargon, the act of observation "collapses" the wave function into a single outcome.

Although quantum behaviour was discovered by studying individual elementary particles, and light, it applies to all objects, however large. Schrödinger illustrated this with a famous thought experiment in which a cat sits in a box containing a lethal device, triggered by the decay of a single radioactive atom. Radioactive decay being a wave-function-governed phenomenon, this turns the cat, too, into a creature governed by quantum mechanics. Its wave function is in a state of being both dead and alive until the box is opened, the cat observed, and the wave function collapses one way or the other. Bohr and Schrödinger worked in Copenhagen at the time, and that city has become eponymous for their ideas.

In the 1950s, however, an American called Hugh Everett offered a different interpretation of what is going on. The universe itself, Everett observed, can be described by a wave function. He reasoned that, instead of the wave function—be it of a particle, of a cat in a box, or even of the whole universe—collapsing, all the outcomes these wave functions allow actually will occur. As a consequence, the

universe is constantly undergoing multiple fission into daughter universes, each with its own reality (the cat is dead; the cat is alive). Any observer, though (or, rather, any future version of the same observer in one of these universes) will see only one outcome. From his point of view, the wave function will appear to have collapsed. But that is not what has really happened.

### Bet your life?

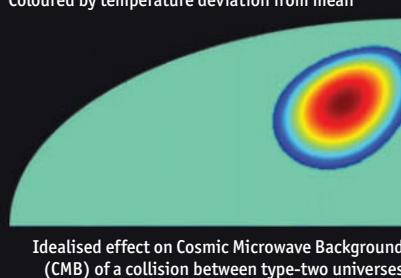
Intellectually, this is a more satisfying explanation than the Copenhagen interpretation, because no one has been able to explain clearly just how the act of observation causes a wave function to collapse. But is it true?

That, of course, is the crucial question for all versions of multiversal theory. And there are a few ideas about how it might be asked. Stephen Feeney of Imperial College, London, for example, wonders if universes in a type-two multiverse might butt up against each other, leaving imprints in each other's space, as adjoining soap bubbles might. Such imprints, he reasons, would show up in the cosmic microwave background created shortly after the Big Bang (see diagram)—though none has yet been found.

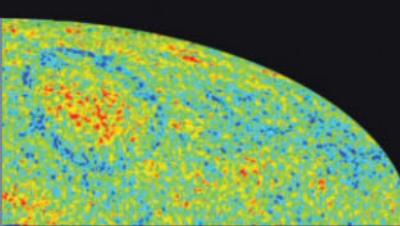
There is also an experiment which, though it would not prove the reality of a type-three multiverse, would certainly test the experimenter's belief in it. This experiment is Quantum Russian roulette, a version of Schrödinger's cat in which the experimenter stands in for the unfortunate animal. In some futures, he will be killed. In some, he will remain alive. But since, from his point of view, he will be aware only of the latter, he will always perceive that he survives. Any takers? ■

### If worlds collide...

Coloured by temperature deviation from mean



Source: Feeney et al, 2011





## New fiction

**Friend in need**

## An unlikely summer hit

**W**HOMO would put money on a novel that is so long it weighs well over a kilo and focuses in forensic detail on the trauma of a man who suffered unspeakable physical and sexual abuse as a child? Or on a novel about an intimate, operatic friendship between four men (three black and one white) that is set almost wholly in Manhattan but written by a Japanese-American woman brought up in Hawaii who has never lived long in New York?

Hanya Yanagihara's second novel, "A Little Life", is just such a book. Published in America in March and just out in Britain, it is, against all odds, the talk of the season. The *Los Angeles Times*'s critic confessed to having been left sobbing after reading it, something that had never happened to her before; a writer for the normally unflappable *New Yorker* said it was a book that could "drive you mad, consume you, and take over your life". Late last month "A Little Life" stepped on to the first rung of the year's literary-award ladder, when it was longlisted for the Man Booker prize.

The four friends are JB, a painter who dreams of fame; Willem, an aspiring actor who makes money as a waiter in a posh restaurant; Malcolm, who grew up in midtown Manhattan and is working as an architect in a big firm; and Jude, a rising star at the US attorney's office who switches sides and becomes a corporate litigator with a relentless streak.

**A Little Life.** By Hanya Yanagihara.  
Doubleday; 720 pages; \$30. Picador; £16.99

What divides them is not race or ambition so much as childhood experience. JB may have been brought up by a single mother after his father died, but love was never in short supply when he was young and, as an adult, his Haitian family's faith in him is still endless. Malcolm's parents are wealthy, well-connected and spoiling; his mother, who has her own literary agency, drops off his laundry on her way to work and it is picked up by the maid. He may be in his 20s, but his parents still take him on winter holidays to St Barts. Life was different for Willem. He was the only surviving child of poor Scandinavian immigrants who fetched up as ranch hands in western Wyoming; for a while he looked after an older, disabled brother, but was left bereft after all three of his family died in short order. But it is Jude, whose beginnings are a mystery even to his friends, who provides the real key to the novel.

When "A Little Life" opens, the four have moved to New York from the good university where they met. Willem and Jude are so poor they take on a tiny illegal sublet just to have their own flat, squeezing two narrow cots into a single bedroom. Ms Yanagihara draws the reader into the friends' world, writing in a clean, realist

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For daily analysis and debate on books, arts and culture, visit

[Economist.com/culture](http://Economist.com/culture)

voice that is ascetic in tone and withholding of information. The friends are cosy. They work. Jude cooks gougeres for them at their parties rather than make them eat cheese straws. And even when one night they find themselves on the roof of the building with no keys to get back in, their lives appear to be an adventure.

Early reference is made to Jude having trouble negotiating the stairs, but the author's signposting is subtle and only very gradually do Jude's problems become apparent. He sometimes uses a cane and suffers such pain in his legs that he blacks out; he seems to have no parents and came to college with all his worldly possessions in a backpack. His only supporters are his three friends; Andy, his doctor who is a surrogate older brother; and Harold, his law tutor and stand-in father. When, 200 pages into the book, Harold and his wife Julia decide to adopt Jude, it is clear that, despite all they can offer him, the orphan still has a great deal of suffering ahead.

So it is; so it has always been. Jude was discovered in a dustbin bag soon after he was born. He was taken in by the monks who found him but, in time, they began to abuse him. He sought safety with one particular man whom he regarded as a friend, only to find the two of them leaving the monastery and taking to the road, the monk pimping him out to paedophiles who assaulted him and gave him infections. His life becomes a litany of beatings and buggery. Eventually he is rescued and placed in the care of a social worker who recognises his intelligence and encourages him to try for a scholarship to university.

Jude, who was named after the patron saint of lost causes, becomes part of a circle of saintly friends. He never lets on that he knows nothing of summer camps, television programmes or sleepovers—and far ➤

► too much about other things. His dreams are the stuff of nightmares. While in the monks' control, he started throwing himself about in a frenzy to try and erase the memories, banging his head against the wall until he passed out. Now he has taken to self-harming, which Ms Yanagihara recounts in graphic detail. He keeps razor blades taped under the cistern and his arms become striped with scars.

With its plain sentences and graphic detail that unspools paragraph after paragraph, "A Little Life" appears at first glance to be a piece of modern hyperrealism. Yet that cannot explain its hypnotic, immersive quality, its grip upon the reader. Living in Manhattan some time between the onset of AIDS and the legalisation of gay marriage, the four heroes gossip, squabble and ride in limousines. But the author's aim, it becomes clear, is not the exploration of gay New York (although that is important) so much as the study of something altogether darker and more elemental. What happens to the child who meets the ogre in the forest? How much pain can the human psyche withstand before it is crushed? At its heart "A Little Life" is a fairy tale that pits good against evil, love against viciousness, hope against hopelessness. The cruelty of the life Ms Yanagihara describes is trumped only by the tenacity with which she searches for an answer. The love Jude is shown by his friends may not be enough to save him, but friendship—especially male friendship in a gay world—is the only talisman against the dark wood full of bad men and evil spirits. ■

## Finance

# What's the alternative?

**Capitalism: Money, Morals and Markets.** By John Plender. Biteback; 334 pages; £20

CAPITALISM lacks defenders these days, while protests against it have fresh vigour. A vocal coalition of critics, from Occupy Wall Street to Pope Francis, castigate global trade as being exploitative and people's fixation on money as the "dung of the devil".

Worries about the impact of economic inequality on social cohesion lend new urgency to moral questions about markets. But, as John Plender points out in his new book, "Capitalism", discontents about its effects are as old as the world's most powerful -ism itself. The pursuit of profit has been "unloved" since Socrates declared that "The more [men] think of making a fortune, the less they think of virtue." Anti-business sentiment characterises the lampooning of Trimalchio's feast in Petronius's "Satyricon", and persists through Molière's

miserly 17th-century lucre-seekers to the portrayals by Charles Dickens and Emile Zola of dreadful 19th-century bosses and the modern incarnation of greed on the screen, Gordon Gekko in "Wall Street".

Mr Plender, who once worked for *The Economist*, is a columnist with the *Financial Times*. He has written incisively for decades on the excitements, oddities and disasters of financial markets. He approaches the quandaries of capitalism with a shrewd eye for detail. The reader discovers, for example, that Voltaire turned up at the court of Frederick the Great as a pet Enlightenment intellectual, only to run a bond-market scam that could have bankrupted the Prussian exchequer. In the mid-1980s Japanese fund managers visited the shrine of Madame Nui, a restaurateur whose porcelain toad delivered tips on stocks—for a while successfully, acquiring its own portfolio worth \$10 billion—until they collapsed when the Japanese bubble burst in 1990. If free markets emerge from this survey as dynamic, their claim to be rational is suspect indeed.

But Mr Plender is wise enough to realise that for all its faults, capitalism has raised the living standards of billions of people since the 18th century and improved their life expectancy. The rapid improvement in the growth rates of China and India in recent decades as they headed (albeit not entirely) in a capitalist direction are further signs of the system's vitality, as is the contrast between capitalist South Korea and the communist North.

The revival of anti-capitalist rhetoric owes much to the financial crisis of 2008 and its aftermath. The crisis was merely the latest example of the inherent stability of capitalism, a process that, while allowing the economy to benefit from "creative destruction", causes a lot of collateral damage along the way. The real problem is that capitalism has become associated with high finance, rather than the heroic entrepreneurship of Thomas Edison, whose inventions still surround us. It is not just that few people can see the benefits of complex financial products like credit default swaps. He adds that "bankers have undoubtedly done their best to give capitalism a bad name. The extraordinary scale on which big banks have been rigging interest rates and foreign-exchange markets and ripping off their customers is almost beyond comprehension."

Mr Plender fears that another great financial crisis is inevitable—international banks are bigger and more interconnected than ever. But he also thinks that the world will muddle through; capitalism will adapt as it has so often in the past. In conclusion, he echoes Churchill's words on democracy "capitalism is the worst form of economic management, except for all those other forms that have been tried from time to time." ■



Richard Wagner

# Taskmaster

**My Life with Wagner.** By Christian Thielemann. Translated by Anthea Bell. Weidenfeld & Nicolson; 267 pages; £25

CHRISTIAN THIELEMANN has risen fast through the ranks of orchestral conductors, although not quite as quickly as he might have wished. He wanted to be the first German artistic director of the Berlin Philharmonic Orchestra since Wilhelm Furtwängler 61 years ago, but the Berlin musicians chose Kirill Petrenko, a Russian rival, instead. He has, however, received an agreeable consolation prize. He is to become only the second music director of the Bayreuth festival drawn from outside the Wagner family. (Furtwängler was the first in 1930, but he lasted only a year.)

Mr Thielemann will be happy in Bayreuth, where Richard Wagner—"The Master"—is beyond criticism. His book is an act of homage, part revealing autobiography ("Wagner confronted me with myself... not always [an] undiluted pleasure") and part informative guide to the Wagner oeuvre, describing the plots and performances of all the operas, with discography thrown in. His favourites are "Tristan und Isolde" and "Die Meistersinger von Nürnberg". His enthusiasm breathes life into them.

For 41 years until 2008, the festival was run by Wagner's grandson, Wolfgang, an irascible Bavarian who inherited Richard's autocratic style, and excluded from the Festspielhaus all members of the family except his wife and daughter, and, reluctantly, his daughter from his first marriage, Eva ►

► Wagner-Pasquier. But he gave the young Mr Thielemann work, and stuck with him as he learned his trade as a Wagner conductor. Wolfgang had few friends, but Mr Thielemann was one of the best of them. The only thing he could not stand was Wolfgang's love of sausage salad.

Mr Thielemann was born in Berlin in 1959, the son of music-loving parents in a politically conservative home. He was listening to Berlin Philharmonic concerts at the age of five; as a teenager he had no interests outside music. He knew what he wanted—he was going to be an orchestral

conductor. The right-wing politics of his home live on in his recent sympathy for Pegida, Germany's anti-Islamic movement (which may well be one reason why he did not get the top job in Berlin).

He is fierce about the separation of music and ideology. He writes: "I can't play or conduct a six-four chord to make it sound either anti-Semitic or pro-Semitic, fascist, or socialist or capitalist." His judgments are uniformly single-minded: he thinks only German-speakers can conduct Wagner, and that opera directors who go against the spirit of the music are unconscionable.

Bayreuth is famous for the braying violence of its first-night audience, but there were few boos to be heard after Mr Thielemann's debut as music director last month, with a new production of "Tristan", directed by Wolfgang's daughter Katharina. Both conductor and orchestra got excellent reviews. Mr Thielemann certainly has the Wagner virus: a hopeless addiction to the master's music. If conducting Wagner's great operas of love and death, such as "Tristan", he gets lost in "a psychedelic state of intoxication" and takes days to recover, then Bayreuth will be his drug den. ■

## New American theatre

# Magical realism

NEW YORK

A new work from a gifted playwright

MOST playwrights are afraid of silence. Much of life's drama lurks in the gaps between words, but few know how to dramatise this for the stage. To handle silence properly, a writer must have a keen ear for the way people actually talk, with all the stammers, stumbles and speed bumps. It is only when these rhythms are understood that a playwright can convincingly convey what is left unsaid.

Annie Baker, a rising young writer for the theatre, is well attuned to the "ums" and "whatevers" of real speech. On the face of it, her plays seem uneventful. They feature ordinary people talking about ordinary things, often at great length and to no great purpose. "The Flick", which won the Pulitzer prize in 2014 and is now being restaged at the Barrow Street Theatre in New York, consists of more than three hours of patter and griping among workers at a cinema as they clean between screenings. But the power of Ms Baker's work—and what makes it stand apart—is the way every moment and hesitation feels acutely observed and quietly meaningful.

This attention to detail has earned her a loyal following. Many have been patiently awaiting the premiere of "John", Ms Baker's fifth play, which has just opened at the Signature Theatre. It does not disappoint. Directed by Sam Gold, a regular collaborator (who bagged his first Tony earlier this year), the play follows a young couple from Brooklyn who spend a fraught weekend at a chintzy bed-and-breakfast in Gettysburg, Pennsylvania.

Jenny and Elias (played by Hong Chau and Christopher Abbott) are plainly going through a rough patch. Their alternating tenderness and tetchiness with each other is made slightly absurd by the almost oppressively cosy atmosphere; there are dolls and porcelain figurines

everywhere. The inn's owner, an awkwardly cheerful older woman called Mertis (the excellent Georgia Engel), eagerly dotes on her only guests, serving biscuits and non-sequiturs as she hobbles about.

"John" is a subtle meditation on faith and love. The play lasts more than three hours, but never drags. Ms Baker keeps things lively with dialogue that is both realistic and unpredictable. Chatter about menstrual cramps or the secret needs of dolls can drift towards big questions about God and conviction. As with her other works, Ms Baker is not in the habit of offering answers. Rather, her gift is for creating characters that feel real enough to care about, who say a great deal when they talk, but reveal even more when they fall silent.



Silent night

## Russian fiction

# A man for all seasons

**Nabokov in America: On the Road to Lolita.**

By Robert Roper. Bloomsbury; 354 pages; \$28 and £20

Vladimir Nabokov never doubted his own talent: "By the age of 14 or 15 I had read or reread all Tolstoy in Russian, all Shakespeare in English and all Flaubert in French—besides hundreds of other books." From that foundation came a stream of literary criticism, translations, short stories, poetry and fiction—including, of course, "Lolita", one of the most controversial novels of the 20th century.

Did other authors match this talent? Nabokov mostly thought not: Proust and Pushkin were to be admired, but certainly not Hemingway, Faulkner or Boris Pasternak (whose "Dr Zhivago" was, in Nabokov's opinion, a Soviet plot to earn foreign exchange). In the end, Nabokov even scorned Edmund Wilson, an American critic and author who had been his friend and literary and social ally for almost all his time in America, from his flight with his Jewish wife from the Nazis in Europe in 1940 to his tax-efficient departure for Switzerland two decades later.

Robert Roper, for whom Nabokov is "the great python of art" with his "bulging repasts" of Russian, French and English literature, balances Nabokov's arrogance with his sense of fun and eccentricity (no other great writer has been a serious lepidopterist, travelling more than 200,000 miles across America in search of yet more butterflies to catalogue). His insights are not necessarily new—he pays tribute to the biographies by Brian Boyd and Stacy Schiff—but they are perceptive: "He is not like us-us Americans. Not because he reads a lot, and not because he reads in three languages, but because he hears his sources as he writes." And in that writing, Mr Roper adds, "in general he derogated plot—plottedness was a characteristic of lesser works, he thought." ■

▶ Perhaps inevitably, and despite Mr Roper's conscientious descriptions of the motifs of the American West and the butterflies of its high mountains, "Lolita" dominates much of "Nabokov in America". As this author and others before him have argued, "Lolita" may well be a parody. Martin Amis takes a firmer view: "Of Nabokov's 19 fictions, no fewer than six wholly or partly concern themselves with the sexuality of prepubescent girls."

One delight of Mr Roper's book is his

willingness to quote at length from Nabokov's writings. It is hard not to be impressed anew by Nabokov's tongue-in-cheek humour, the brilliance of his language and the clever complexity of books such as "Pnin" and "Pale Fire". A minor annoyance is the occasional pretentiousness. With such literary inspiration, why use words such as "cathexis", French phrases for no real reason or the horrible "the country that had refused them"? A writer should pay heed to his subject. ■

ment. (The remaining \$90m will cover the smaller projects.) It has set itself a challenge. Other public bodies compete for the same pot of funds, including the Smithsonian, which wants to spend \$2 billion over 20 years to renovate the museums lining the Mall. Some donors rightly question why private money must be found for government lands that are neglected by government. Yet the trust has already managed to raise \$52.7m.

Preserving the Mall's integrity also means contending with the ever-expanding infrastructure devoted to security. In 2011 two firms drew up a plan to rationalise the tangle of concrete barriers and guard shacks that encircle the White House grounds. A final plan has yet to be agreed.

The strangest and most anomalous building is the National Museum of African-American History and Culture, due to open in the autumn of 2016. A square wedding cake of outwardly tilting metal screens, it has risen near the Washington Monument and the White House. Designed by a Ghanaian-British architect, David Adjaye, together with two American firms, the Freelon Group and Davis Brody Bond, its silhouette, inspired by exuberant Yoruba art, contrasts with the classical stone solemnity of nearby buildings. The screens are fretworked to evoke the lightly curlicued 19th-century ironwork of southern cities, yet the dark bronze colour of the screens looks sombre.

In the 105,000 square feet (9,755 square metres) of galleries Lonnie Bunch, the museum's director, has included a railway carriage with the comfortable section that was reserved for whites and bare benches where blacks were segregated. Some of the stories told are so discomforting that a room has been provided for contemplation. A veil of sun-dappled water falls from the edges of a skylight oculus in the ceiling. Portals cut through the metal-screen exterior or open on to important views, including the Lincoln Memorial, where crowds stretching the length of the Reflecting Pool witnessed Martin Luther King deliver his "I Have a Dream" speech in 1963.

The \$540m museum may be the last big new structure on the Mall. For years Congress has pledged to stop the proliferation of memorials that threaten to turn Washington's monumental core into a virtual necropolis, though it has had trouble keeping that promise. Competing interest groups argue in terms of symbolic equity: how can the second world war and the wars in Vietnam and Korea be represented by memorials on the Mall and not the first world war, for example?

The pressure to keep on building on the National Mall will not go away. But the recent evolution brings a human scale and an appealing American idealism to spaces where self-conscious and overbearing grandeur have held sway for too long. ■

## Public architecture

# America's front yard

WASHINGTON, DC

### Transforming the National Mall

**T**HE majestic tranquillity of the National Mall in Washington, D.C., has become frazzled in recent years. Funds for maintaining its lush greenery have shrunk, while more and more people scrap for a memorial or museum of their own on America's hallowed ground.

The Mall is known as America's "front yard". Its monuments, memorials and museums have become the canvas on which Americans paint their identity, self-confidence and global ambitions. From the steps of the Capitol to the Lincoln Memorial on the Potomac stretch two miles (3.2km) of grass and trees. A great cross axis, marked by the obelisk of the Washington Monument, descends from the White House to the picturesque Tidal Basin, famous for its blossoming cherry trees. Patches of earth made bare by the trampling of 29m visitors a year are so common that the tattered Mall is fast becoming a symbol of American decline.

Congress has approved costly new buildings but is stingy about maintenance. The turf is finally being upgraded and last year the restored Washington Monument reopened. Further transformation promises to be subtle, yet extraordinary.

At the edge of the Washington Monument, Weiss/Manfredi, an architecture firm, and Philadelphia-based OLIN, landscape architects, will warp the lawn sensuously upwards to form a grassy amphitheatre facing a stage that will have the great obelisk as its backdrop. The reworked Sylvan Theatre also tucks a leaf-shaped glass pavilion under a wing-like planted roof. It is at once a romantically inviting café, meeting place and porch for viewing the monument.

The \$110m project is the work of a recently established non-profit organisation, the Trust for the National Mall. It is part of a plan to raise \$350m that will match the fed-



The grass could be greener

eral government's contribution and be dedicated to addressing a staggering \$700m shortfall in delayed maintenance. "The Mall has not seen any significant investment in 40 years," says Teresa Durkin, the trust's senior project director.

Rogers Partners and Peter Walker Partners will oversee renovation of Constitution Gardens with a much richer mix of plantings to create an intimate refuge from the grandeur of the rest of the Mall. It replaces dying trees that surround a pond bilious with algae near the Vietnam Memorial. A large white-latticework pavilion will appear to float above the restored pond edge as a horizontal counterpoint to the Washington Monument rising above.

In addition to the \$110m Sylvan Grove scheme, the trust needs to raise \$160m for this project and for an operating endow-



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## Tenders



### Call for proposals – Pre-investment Inception Study: Iron, Steel & Metal Products Manufacturing Project (ISMP), Ethiopia

The Government of Ethiopia, in collaboration with the UK Department for International Development (DFID), would like to invite qualified organisations to submit proposals to carry out a pre-investment inception study of iron-steel-metal product sector investment opportunities, with the ultimate aim of creating a sustainable and internationally competitive iron, steel and metal industry in Ethiopia.

*The study will comprise four components:* 1. market study; 2. technical configuration; 3. institutional structure; 4. transport and logistics. The key output will be a comprehensive, evidence-based report containing recommendations on whether to proceed to the next pre-investment/pre-feasibility stage. It is expected that the inception study will be completed by February 2016.

The successful bidder will be contracted through the DFID-funded Private Enterprise Programme Ethiopia (PEPE).

To obtain the terms of reference for this work please contact [ismp tender@pepeteam.org](mailto:ismp tender@pepeteam.org).

**Deadline for applications:** 18 September 2015



### Call for proposals – Pre-investment Inception Study: Petrochemicals and Chemical Product Manufacturing Project (PCPMP), Ethiopia

The Government of Ethiopia, in collaboration with the UK Department for International Development (DFID), would like to invite qualified organisations to submit proposals to carry out a pre-investment inception study of petrochemical and chemical product sector investment opportunities, with the ultimate aim of creating a sustainable and internationally competitive petrochemical and chemical product sub-sector in Ethiopia.

*The study will comprise four components:* 1. market study; 2. technical configuration; 3. institutional structure; 4. transport and logistics. The key output will be a comprehensive, evidence-based report containing recommendations on whether to proceed to the next pre-investment/pre-feasibility stage. It is expected that the inception study will be completed by February 2016.

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To obtain the terms of reference for this work please contact [pcpmptender@pepeteam.org](mailto:pcpmptender@pepeteam.org).

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- To develop and implement annual business plans for promoting inward investment to Hong Kong and to achieve key performance indicators
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**Interested Companies** based in the markets above are invited to email a short profile of their company highlighting their business capabilities, including consultancy experience in investment promotion, economic development, or international business development and business network in the specified market, in performing the aforementioned services to [IPConsultant@investhk.gov.hk](mailto:IPConsultant@investhk.gov.hk) in English by 2:00pm, 28 August 2015 Hong Kong time; any late response will not be considered. Selected companies will be provided with a consultancy brief with more detailed scope of services and other information and invited to submit a formal proposal.

Only shortlisted companies will be notified. Companies which do not hear from InvestHK before 18 September 2015 should consider their bids unsuccessful.

For further information on InvestHK, please visit our website at [www.InvestHK.gov.hk](http://www.InvestHK.gov.hk)



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For more information please refer to [www.common-fund.org](http://www.common-fund.org) or contact [managing.director@common-fund.org](mailto:managing.director@common-fund.org).

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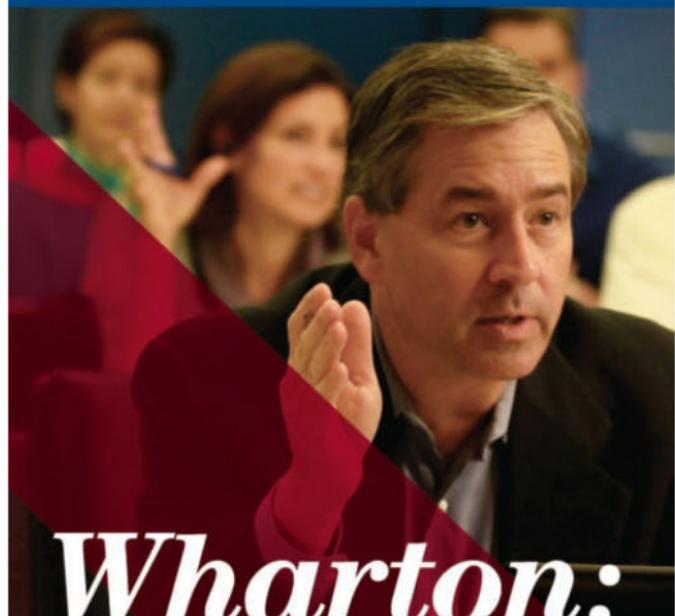
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**Economic data**

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices latest	Unemployment rate, %	Current-account balance		Budget balance % of GDP 2015†	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$ Aug 12th	Currency units, per \$ year ago
	latest	qtr*	2015†				latest	months, \$bn				
<b>United States</b>	+2.3 Q2	+2.3	+2.4	+1.3 Jun	+0.1 Jun	+0.4	5.3 Jul	-406.4 Q1	-2.6	-2.6	2.12	-
<b>China</b>	+7.0 Q2	+7.0	+6.9	+6.0 Jul	+1.6 Jul	+1.5	4.0 Q2‡	+291.4 Q2	+3.0	-2.7	3.26§§	6.39
<b>Japan</b>	-0.9 Q1	+3.9	+0.9	+2.3 Jun	+0.4 Jun	+0.7	3.4 Jun	+97.1 Jun	+2.6	-6.8	0.40	124
<b>Britain</b>	+2.6 Q2	+2.8	+2.6	+1.5 Jun	nil Jun	+0.2	5.6 May††	-180.5 Q1	-4.8	-4.4	2.06	0.64
<b>Canada</b>	+2.1 Q1	-0.6	+1.5	-4.1 May	+1.0 Jun	+1.1	6.8 Jul	-42.2 Q1	-2.7	-1.8	1.40	1.30
<b>Euro area</b>	+1.0 Q1	+1.5	+1.4	+1.2 Jun	+0.2 Jul	+0.2	11.1 Jun	+305.9 May	+2.5	-2.1	0.61	0.90
<b>Austria</b>	+0.4 Q2	-2.9	+0.6	+0.7 May	+1.0 Jun	+1.0	6.0 Jun	+6.5 Q1	+1.2	-2.1	0.90	0.75
<b>Belgium</b>	+1.3 Q2	+1.8	+1.3	+0.5 May	+0.5 Jul	+0.4	8.6 Jun	+12.1 Mar	+1.3	-2.6	0.98	0.90
<b>France</b>	+0.8 Q1	+2.5	+1.2	+0.6 Jun	+0.3 Jun	+0.3	10.2 Jun	-4.2 Jun‡	-0.9	-4.1	0.93	0.90
<b>Germany</b>	+1.0 Q1	+1.1	+1.7	+0.6 Jun	+0.2 Jul	+0.5	6.4 Jul	+283.1 Jun	+7.4	+0.7	0.61	0.90
<b>Greece</b>	+0.2 Q1	-0.7	+0.5	-4.3 Jun	-2.2 Jul	-1.0	25.0 May	+2.7 May	+2.6	-3.8	10.27	0.90
<b>Italy</b>	+0.1 Q1	+1.2	+0.6	-0.3 Jun	+0.2 Jul	+0.2	12.7 Jun	+45.0 May	+2.1	-2.9	1.82	0.90
<b>Netherlands</b>	+2.5 Q1	+2.3	+2.0	+3.6 Jun	+1.0 Jul	+0.4	8.8 Jun	+91.4 Q1	+9.6	-1.8	0.79	0.90
<b>Spain</b>	+3.1 Q2	+4.1	+2.9	+7.4 Jun	nil Jul	-0.3	22.5 Jun	+15.8 May	+0.7	-4.4	1.91	0.90
<b>Czech Republic</b>	+4.0 Q1	+10.5	+3.1	+8.0 Jun	+0.5 Jul	+0.3	6.3 Jul§	+0.8 Q1	-0.1	-1.8	0.89	24.2
<b>Denmark</b>	+1.5 Q1	+2.0	+1.8	+10.6 Jun	+0.7 Jul	+0.6	4.7 Jun	+21.4 Jun	+6.7	-2.9	0.79	6.69
<b>Norway</b>	+1.5 Q1	+1.0	+0.7	+5.7 Jun	+1.8 Jul	+1.6	4.3 May‡‡	+39.3 Q1	+9.3	+6.0	1.52	8.16
<b>Poland</b>	+3.7 Q1	+4.1	+3.4	+7.6 Jun	-0.8 Jun	+0.2	10.1 Jul§	-1.2 May	-1.4	-1.5	2.88	3.75
<b>Russia</b>	-4.6 Q2	na	-3.6	-4.7 Jun	+15.6 Jul	+14.8	5.4 Jun§	+68.7 Q2	+5.0	-2.8	10.96	64.5
<b>Sweden</b>	+2.9 Q2	+4.0	+2.5	+1.2 Jun	-0.4 Jun	+0.2	8.5 Jun§	+38.1 Q1	+6.1	-1.2	0.64	8.59
<b>Switzerland</b>	+1.1 Q1	-0.8	+0.7	-0.5 Q1	-1.3 Jul	-1.0	3.3 Jul	+53.7 Q1	+6.7	+0.2	-0.18	0.98
<b>Turkey</b>	+2.3 Q1	na	+2.9	+7.4 Jun	+6.8 Jul	+7.4	9.6 Apr§	-44.7 Jun	-4.6	-1.6	9.63	2.78
<b>Australia</b>	+2.3 Q1	+3.8	+2.4	+2.8 Q1	+1.5 Q2	+1.7	6.3 Jul	-41.9 Q1	-3.1	-2.4	2.66	1.36
<b>Hong Kong</b>	+2.1 Q1	+1.5	+2.3	-1.6 Q1	+3.2 Jun	+3.1	3.2 Jun‡‡	+6.1 Q1	+2.8	nil	1.69	7.76
<b>India</b>	+7.5 Q1	+11.0	+7.6	+3.8 Jun	+3.8 Jul	+5.4	4.9 2013	-27.5 Q1	-1.2	-4.1	7.80	65.0
<b>Indonesia</b>	+4.7 Q2	na	+4.9	+5.8 Jun	+7.3 Jul	+6.3	5.8 Q1§	-25.2 Q1	-2.6	-2.0	8.63	13,848
<b>Malaysia</b>	+5.6 Q1	na	+5.5	+4.4 Jun	+2.5 Jun	+2.6	3.1 May§	+11.3 Q1	+3.4	-4.1	4.23	3.19
<b>Pakistan</b>	+5.5 2015**	na	+5.7	+6.2 May	+1.8 Jul	+4.1	6.0 2014	-2.3 Q2	-0.6	-5.1	9.40†††	102
<b>Philippines</b>	+5.2 Q1	+1.2	+6.6	-3.6 Jun	+0.8 Jul	+2.6	6.4 Q2§	+14.5 Mar	+4.1	-1.9	4.24	46.2
<b>Singapore</b>	+1.8 Q2	-4.0	+3.1	-4.4 Jun	-0.3 Jun	+0.4	2.0 Q2	+69.5 Q2	+21.3	-0.7	2.53	1.40
<b>South Korea</b>	+2.2 Q2	+1.2	+2.8	+1.2 Jun	+0.7 Jul	+1.0	3.7 Jul§	+102.2 Jun	+7.6	+0.4	2.27	1,174
<b>Taiwan</b>	+0.6 Q2	-7.7	+3.7	-1.4 Jun	-0.7 Jul	+0.3	3.8 Jun	+72.4 Q1	+12.7	-1.2	1.24	32.2
<b>Thailand</b>	+2.2 Q4	+7.1	+3.6	-8.0 Jun	-1.0 Jul	+1.1	0.8 Jun§	+16.1 Q1	+2.3	-2.0	2.61	35.3
<b>Argentina</b>	+1.1 Q1	+0.8	-0.2	+1.0 Jun	— ***	—	7.1 Q1§	-6.0 Q1	-1.4	-3.3	na	9.23
<b>Brazil</b>	-1.6 Q1	-0.6	-1.7	-3.2 Jun	+9.6 Jul	+8.7	6.9 Jun§	-93.1 Jun	-4.1	-5.8	13.48	3.48
<b>Chile</b>	+2.4 Q1	+4.2	+2.9	+1.6 Jun	+4.6 Jul	+3.8	6.5 Jun‡‡	-1.3 Q1	-1.3	-2.0	4.54	683
<b>Colombia</b>	+2.8 Q1	+3.3	+3.4	-3.9 May	+4.5 Jul	+4.1	8.2 Jun§	-20.7 Q1	-6.5	-2.1	7.31	2,939
<b>Mexico</b>	+2.5 Q1	+1.6	+2.6	+1.4 Jun	+2.7 Jul	+3.0	4.4 Jun	-25.5 Q1	-2.4	-3.4	5.96	16.3
<b>Venezuela</b>	-2.3 Q3	+10.0	-4.2	na	+68.5 Dec	+76.4	6.6 May§	+10.3 Q3	-1.8	-16.5	11.43	6.31
<b>Egypt</b>	+4.3 Q4	na	+4.2	-0.5 May	+8.3 Jul	+9.9	12.8 Q1§	-10.2 Q1	-1.4	-11.0	na	7.83
<b>Israel</b>	+2.2 Q1	+2.0	+3.4	-1.5 May	-0.4 Jun	-0.2	5.2 Jun	+11.7 Q1	+4.8	-2.9	2.25	3.81
<b>Saudi Arabia</b>	+3.5 2014	na	+2.7	na	+2.2 Jun	+2.7	5.7 2014	+39.7 Q1	-2.4	-12.1	na	3.75
<b>South Africa</b>	+2.1 Q1	+1.3	+2.0	-1.0 Jun	+4.7 Jun	+4.9	25.0 Q2§	-18.7 Q1	-5.3	-3.8	8.11	12.8
												10.6

Source: Haver Analytics. \*% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. ‡Not seasonally adjusted. §New series. \*\*Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. \*\*\*Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, June 26.7%; year ago 39.46%. †††Dollar-denominated bonds.

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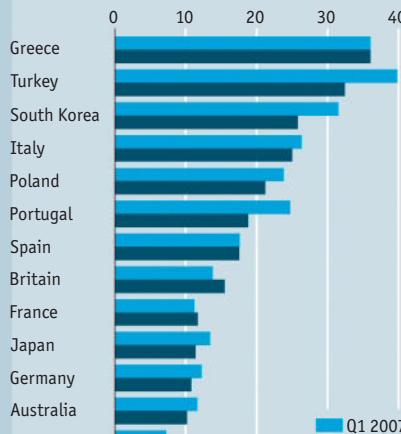
## Markets

		% change on			
	Index Aug 12th	one week	Dec 31st 2014 in local currency terms	in \$	-2.4
United States (DJIA)	17,402.5	-0.8	-2.4	+2.4	
China (SSEA)	4,071.6	+5.2	+20.1	+16.7	
Japan (Nikkei 225)	20,392.8	-1.1	+16.9	+13.1	
Britain (FTSE 100)	6,571.2	-2.7	+0.1	+0.4	
Canada (S&P TSX)	14,339.5	-1.1	-2.0	-12.6	
Euro area (FTSE Euro 100)	1,155.5	-5.3	+11.4	+3.0	
Euro area (EURO STOXX 50)	3,484.4	-5.2	+10.7	+2.4	
Austria (ATX)	2,414.4	-3.5	+11.8	+3.4	
Belgium (Bel 20)	3,637.1	-5.1	+10.7	+2.4	
France (CAC 40)	4,925.4	-5.2	+15.3	+6.6	
Germany (DAX)*	10,924.6	-6.1	+11.4	+3.0	
Greece (Athex Comp)	691.4	+7.5	-16.3	-22.6	
Italy (FTSE/MIB)	22,997.6	-3.8	+21.0	+11.9	
Netherlands (AEX)	477.4	-5.2	+12.5	+4.0	
Spain (Madrid SE)	1,104.4	-3.5	+5.9	-2.0	
Czech Republic (PX)	1,022.5	-1.2	+8.0	+2.4	
Denmark (OMXCB)	866.7	-6.2	+28.3	+18.4	
Hungary (BUX)	22,202.0	-2.5	+33.5	+25.1	
Norway (OSEAX)	662.7	-3.7	+6.9	-1.6	
Poland (WIG)	52,554.9	-2.1	+2.2	-3.0	
Russia (RTS, \$ terms)	831.6	-1.5	+12.7	+5.2	
Sweden (OMX30)	1,575.0	-3.2	+7.5	-1.7	
Switzerland (SMI)	9,183.9	-3.6	+2.2	+4.7	
Turkey (BIST)	78,174.8	+0.1	-8.8	-23.0	
Australia (All Ord.)	5,383.5	-4.9	-0.1	-9.8	
Hong Kong (Hang Seng)	23,916.0	-2.4	+1.3	+1.3	
India (BSE)	27,512.3	-2.5	nil	-2.5	
Indonesia (JSX)	4,479.5	-7.6	-14.3	-23.0	
Malaysia (KLCSE)	1,609.9	-6.7	-8.6	-20.9	
Pakistan (KSE)	35,892.8	-0.7	+11.7	+10.3	
Singapore (STI)	3,061.5	-4.1	-9.0	-14.0	
South Korea (KOSPI)	1,975.5	-2.7	+3.1	-4.8	
Taiwan (TWI)	8,283.4	-3.0	-11.0	-12.9	
Thailand (SET)	1,408.3	-2.0	-6.0	-12.5	
Argentina (MERV)	11,635.8	+6.6	+35.6	+24.4	
Brazil (BVSP)	48,388.0	-3.8	-3.2	-26.4	
Chile (IGPA)	18,640.1	-1.1	-1.2	-12.2	
Colombia (IGBC)	9,835.0	nil	-15.5	-31.7	
Mexico (IPC)	44,032.4	-2.0	+2.1	-7.7	
Venezuela (IBC)	15,374.7	-0.5	+298	na	
Egypt (Case 30)	7,911.9	-2.5	-11.4	-19.1	
Israel (TA-100)	1,478.1	-0.7	+14.7	+17.2	
Saudi Arabia (Tadawul)	8,708.3	+0.6	+4.5	+4.5	
South Africa (JSE AS)	50,570.6	-4.2	+1.6	-7.8	

## Self-employment

The share of employed people who work for themselves is still largely below pre-crisis levels across the OECD, a group of mostly rich countries. Self-employment rates in America, Australia, Germany and Poland are about a tenth lower than they were in early 2007; declines in Portugal, South Korea and Turkey have been bigger. There is no clear link between the self-employment rate and the state of the labour market. The self-employment rate in jobs-rich Britain has been flourishing. But it has also risen in France, where unemployment is high. Greek and Spanish self-employment rates are back to pre-crisis levels, even though their labour markets have taken a fearful battering in the past few years.

## Self-employment as a % of total employment



## Other markets

		% change on			
		Index Aug 12th	one week	Dec 31st 2014 in local currency terms	in \$
United States (S&P 500)	2,086.1	-0.7	+1.3	+1.3	
United States (NASDAQ)	5,044.4	-1.9	+6.5	+6.5	
China (SSEB, \$ terms)	363.6	+5.2	+28.8	+25.1	
Japan (Topix)	1,665.8	nil	+18.3	+14.5	
Europe (FTSEurofirst 300)	1,516.8	-5.3	+10.8	+2.5	
World, dev'd (MSCI)	1,742.4	-1.2	+1.9	+1.9	
Emerging markets (MSCI)	861.7	-3.4	-9.9	-9.9	
World, all (MSCI)	419.9	-1.4	+0.7	+0.7	
World bonds (Citigroup)	876.6	+1.9	-2.8	-2.8	
EMBI+ (JP Morgan)	700.0	-0.1	+1.2	+1.2	
Hedge funds (HFRX)	1,228.0 <sup>s</sup>	-0.4	+0.8	+0.8	
Volatility, US (VIX)	13.6	+12.5	+19.2	(levels)	
CDSs, Eur (iTRAXX) <sup>t</sup>	68.9	+9.7	-0.2	-7.7	
CDSs, N Am (CDX) <sup>t</sup>	76.0	+5.4	+9.1	+9.1	
Carbon trading (EU ETS) €	8.2	+4.9	+12.5	+4.0	

Sources: Markit; Thomson Reuters. \*Total return index.

<sup>t</sup>Credit-default-swap spreads, basis points. <sup>s</sup>Aug 11th

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## The deepest dive

**Natalia Molchanova, the world's greatest free diver, was presumed drowned on August 5th, aged 53**

IT OFTEN seemed strange to Natalia Molchanova, as she dived down and down through the blue water of the Mediterranean or the Red Sea, that the fish did not notice her. Sharks hovered, but did not approach. Schools of small fish flickered past unconcerned. She noticed one day, however, that a little band was imitating her: swimming not from right to left, but up and down vertically, following (as she was) a long rope let down from the surface.

She did not bother them because her own movements, as she swam, were those of a fish: her arms extended to a point before her, her legs straight, her chest and back sinuously curving, and attached to her feet a tail-fin like a mermaid's that she flipped to propel her through the water. Her diving suit, her own brand, was a mere 1.5mm thick, thinner than fish-skin. Otherwise, she let the water clothe her.

Such techniques were essential because she was swimming and diving on a single breath, without gas. In this extraordinary sport, free diving, she had 41 world records. She could hold her breath, when floating motionless with her head under water in a pool, for nine minutes and two seconds. Swimming horizontally underwater with a fin, she could cover 237 metres. Diving with the fin alone (as she preferred), rather than aided by a metal

weight, she could reach 101 metres. When she resurfaced, between her measured and grateful gulps of air, she would wink, grin, whoop and wave as another record fell. After she turned 50 she liked to break diving records on her birthday, to show other middle-aged women what they could do.

Not that many were likely to follow her. The sport involved extraordinary dangers. Currents could drag her away, and cold-water layers could hit her like an ice-bath. Every morsel of energy and oxygen had to be conserved to penetrate the depths of the sea; yet for the first 20 metres or so she also had to fight her body's natural buoyancy, using energy to do so. After that, she sank; but, unless she was careful, the fast depletion of oxygen could build up lactic acid in her muscles to a toxic level. If she tried to reascend too fast, she risked blacking out at the surface. At the deepest point, her lungs would be compressed to a quarter of their volume and would feel completely empty.

### An ocean trance

In short, this was not the obvious pursuit for a scooter-riding Moscow housewife with two children and a divorce to worry about; but, at 40, she read about free diving in a magazine and decided to try it. When she was younger, she had enjoyed diving for seashells on holiday; she loved sea-

food, and she had always liked competitive swimming. That was about the size of it. No one was more surprised than her when she ended up as an assistant professor of extreme sports at Moscow University, the author of treatises on free diving, a full-time coach and the manager, with her son, of a diving-equipment company.

But then, free diving had surprised her too. This was not just a sport. To do it at all, she realised, required much more than physical training in swimming, breathing and timing. She had to enter a different state, one in which "surface fuss", as she called it, faded away, and she became one with the serenity of the water.

Her name for this was "attention deconcentration": an ancient discipline, close to meditation, practised by samurai warriors and, more recently, recommended for Soviet workers with tedious jobs. In it, the eye ceased to focus on particular objects; awareness shifted to the periphery of vision, or to an imaginary screen in front of everything. The pulse and heart-rate slowed, and with them the tendency to panic (as when apparently drowning). Spectators noticed that, before a dive, the usually bubbly Ms Molchanova seemed to be in a trance. She was.

As she dived down, she remained so. She still knew, as a physiologist of the sport, every chemical reaction that was taking place in her body, but kept that in the background. As for world records, much as she craved them on the surface, deep down they didn't matter either:

Unite in silence  
With the blue tender flow,  
And come to know  
Your spirit-law.

The most intense experience of her career came in 2004 when, on one breath, she swam through the Blue Hole at Dahab in Egypt, a tunnel 56 metres underwater and 26 metres long. The sapphire water, the craggy grey of the rock roof and the sudden dazzle of the light were intoxicating. A notice warned divers that it was dangerous; dangerous, that is, even for those with gas-tanks on their backs.

She was careful almost all the time: not diving alone or overdoing her dives, staying aware of wind and weather. On the other hand, she much preferred the perilous ocean to the pool: the difference, she said, between working a treadmill and wandering in the forest. She did not like being tethered to the guide-rope by a lanyard, slipping it sometimes. And her many poems showed her in love with the blue deep. She felt at one with creation there, in a sacred and primeval space. Her personality, however merry and competitive, could not get her back to the surface, she wrote; only her spirit could. Possibly, on that last dive, it felt no particular wish to. ■

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