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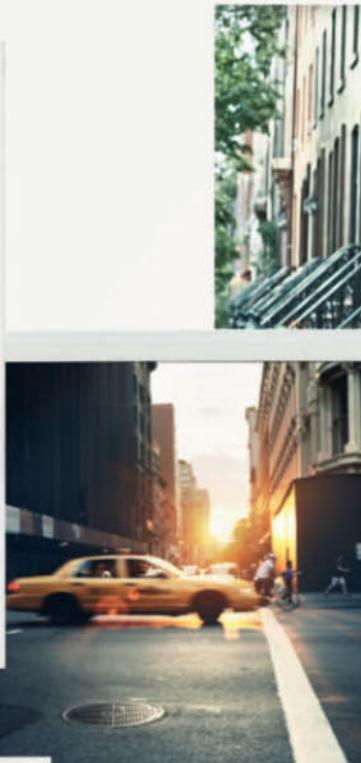
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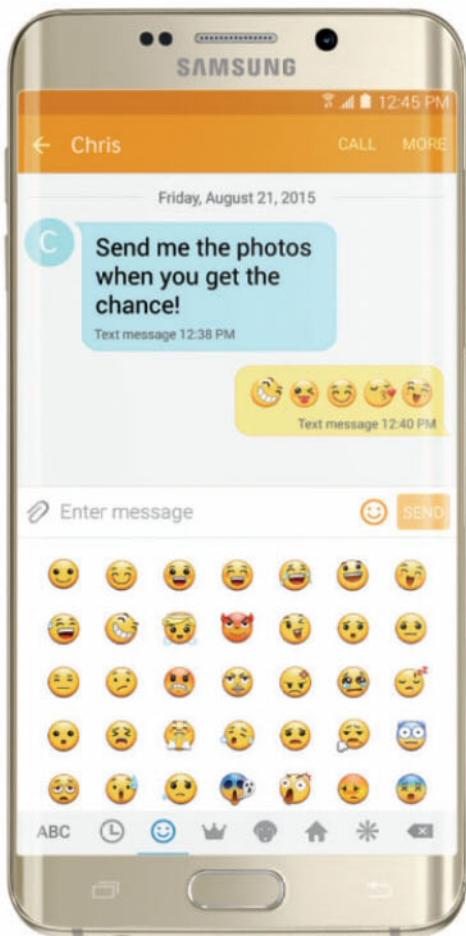
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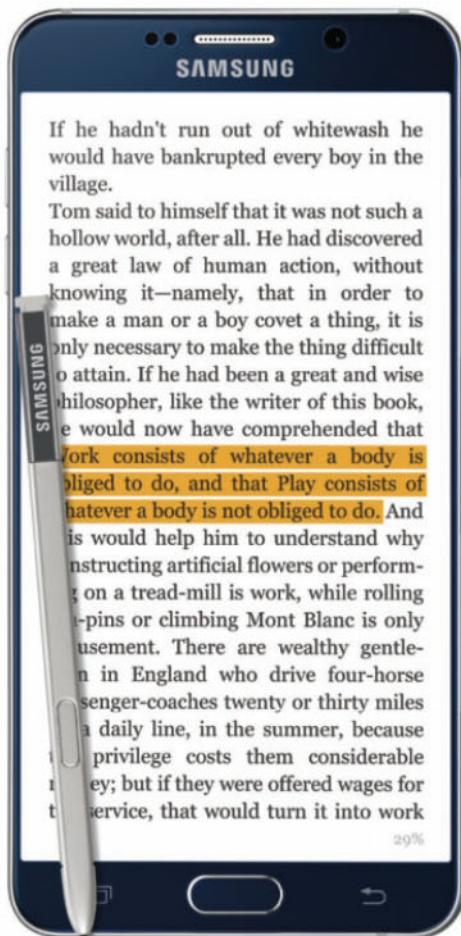
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intelligence, which presses forward, and  
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our progress."

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## Politics



**Turkey's** Justice and Development (AK) party won national elections by a surprisingly large margin, taking 317 of 550 seats in parliament and giving it back the majority it lost in previous elections in June. It is a victory for Recep Tayyip Erdogan, Turkey's president, who wants to change the constitution to grant himself more powers. In a divisive campaign, the AK government had shut down opposition media and accused the pro-Kurdish HDP party of supporting terrorism.

The prime minister of **Romania**, Victor Ponta, resigned over fraud allegations and popular protests over a nightclub fire. He was charged by the country's powerful anti-corruption authorities with faking documents related to payments from an associate whom he later appointed minister of tourism. The protests that brought him down followed a fire that killed at least 32 people at a nightclub that did not comply with regulations.

Authorities at the **Vatican** arrested two people accused of leaking confidential reports about the Holy See's finances to journalists. Details from the reports appear in two books published this week, which allege the church possesses vast property wealth and has spent hundreds of thousands of euros on luxury accommodation and travel for clergy.

The **British** government unveiled a bill that would give more powers to the intelligence agencies to hack devices and collect personal data. Internet providers will also be

required to keep records of every website their customers visit for a year.

### A historic occasion

Officials in Beijing and Taipei unexpectedly announced that President Xi Jinping of **China** and President Ma Ying-jeou of **Taiwan** would meet in Singapore on November 7th. It will be the first encounter between the two sides' leaders since 1949, when Mao Zedong's forces overthrew Chiang Kai-shek's Kuomintang (KMT) party and forced it to flee to Taiwan. It will take place weeks before elections on the island, in which Mr Ma's KMT is expected to perform badly.

**Anti-corruption** officers in China detained Zhang Yun, the president of Agricultural Bank of China, the country's third-largest bank. He is the highest-ranking banking official to be targeted in a sweeping campaign against graft.



The **Maldives**, an archipelago in the Indian Ocean, declared a state of emergency amid political turmoil triggered by the arrest of the country's vice-president, Ahmed Adeeb, on treason charges. Mr Adeeb has been accused of involvement in an explosion on board President Abdulla Yameen's speedboat in September.

In Seoul, the leaders of **South Korea** and **Japan** held their first bilateral meeting since May 2012. Relations had soured because of differences over Japan's wartime record. President Park Geun-hye of South Korea and Shinzo Abe, Japan's prime minister, also met Li Keqiang, China's prime minister, for the first three-way meeting between the countries since 2012.

**Myanmar's** opposition leader, Aung San Suu Kyi, said she would be "above the president" if her party wins the country's first openly contested election in 25 years. Her party, the NLD, is expected to do well in the poll on November 8th, but she is banned from being president because her sons hold British passports.

### Terror in the sky

A **Russian airliner** crashed in Egypt's Sinai peninsula after taking off from Sharm el-Sheikh, killing all 224 people on board. Islamic State, which operates in the area, immediately claimed responsibility. The British government later announced it was suspending all flights to and from Sharm el-Sheikh, citing the possibility that the disaster may have been caused by a bomb. Four days after the first plane went down, a second Russian aircraft crashed in South Sudan, killing at least 36 people.

America said that so far 85-90% of Russian air strikes in **Syria**, which started last month, have hit the moderate Syrian opposition. Islamic State has been almost untouched.

**Ahmed Chalabi**, an Iraqi exile who played a leading part in pushing America to invade Iraq in 2003, died aged 71. Mr Chalabi, a Shia, was at one point tipped to lead the country after the fall of Saddam Hussein, but fell out with his American backers after forging close links with Iran.

Three journalists were arrested in **Zimbabwe** after they released a report alleging that a senior policeman was part of a syndicate involved in elephant poaching. The government accused them of bringing the police force into disrepute. Human-rights activists say their arrest was an attempt to intimidate the media.

The pope hinted that his planned visit to the **Central African Republic** could be cancelled if violence there gets worse. The mostly Christian country is ruled by Muslim rebels who took power in 2013.

### The more things change...

**Paul Ryan** began his new job as Speaker of America's House of Representatives by ruling out any chance for working on immigration reform with Barack Obama, whom Mr Ryan said was "untrustworthy" on the issue. He also warned the White House that Republicans won't relent in a fight over spending that could result in a government shutdown by mid-December.



More big campaign donors flocked to Marco Rubio in the race to become the **Republicans'** presidential candidate after a dismal performance by Jeb Bush in the most recent debate. Prediction markets now favour Mr Rubio.

State and local **elections** were held across America. A Republican, Matt Bevin, won election as Kentucky's governor, snatching the office from the Democrats. Voters in Houston repealed an ordinance that had outlawed discrimination against gays. And in San Francisco a referendum failed to pass that would have curbed short-term rentals made through Airbnb in the city.

### New blood

Justin Trudeau, **Canada's** newly elected prime minister, appointed 30 people to his cabinet, half of them women. Bill Morneau, a former chairman of a human-resources company, is the new finance minister. Stéphane Dion, a former leader of Mr Trudeau's Liberal Party, becomes foreign-affairs minister.

**Mexico's** supreme court ruled that to forbid people from growing marijuana for personal use is unconstitutional. The judgment could eventually lead to legalisation.

## Business

In another bad week for **Volkswagen** America's Environmental Protection Agency said the scope of the German car-maker's cheating on emissions tests on diesel cars was wider than had been thought, extending to models from its premium Porsche and Audi brands. VW denied this, but admitted it had also found "unexplained inconsistencies" on carbon-dioxide emissions that could affect another 800,000 cars, including, for the first time, some petrol vehicles. VW's share price slipped again as it set aside another €2 billion (\$2.2 billion) for this latest problem.

### Pills and thrills

An American Senate committee began its investigation into what it alleges are "huge spikes" in **drug prices** that appear to "have no relationship" to R&D costs. Accusations about improper pricing practices have rocked the drug industry. Valeant, whose share price has fallen by more than half since mid-September, recently severed its links with a pharmacy group after questions were raised about their relationship. In a statement the drug company said that "operating honestly and ethically is our first priority".

The parliament in **Greece** approved a bill to recapitalise the country's banks. The European Central Bank recently found that the four biggest Greek banks had a capital shortfall of €14.4 billion (\$15.9 billion), a lower amount than the €25 billion set aside by international creditors as part of the summer's bail-out. Much of the capital, which must be raised before the end of the year, is expected to come from private sources rather than bail-out money from the euro-zone's rescue fund.

Japan's government raised ¥1.4 trillion (\$12 billion) from its stockmarket flotation of **Japan Post**, making it the world's biggest IPO since Alibaba's in September last year and the

biggest sale of a state asset in Japan since 1987. Shares in Japan Post's holding company, bank and insurance business were sold separately; all three soared on the first day of trading. The government hopes to encourage Japan's multitude of savers to invest in shares.

### It's no joke

A former high-frequency trader was found guilty by a jury in Chicago of "spoofing", which is when a large number of small orders are placed electronically to create the illusion of demand and drive prices higher before they are cancelled. Michael Coscia's conviction is the first for spoofing under a provision of the Dodd-Frank financial reforms.

Peter Hancock, the CEO of **American International Group**, said that a proposal from Carl Icahn, an activist investor, to split the insurance company in three makes no financial sense. Mr Icahn thinks AIG's "too-big-to-fail" status subjects it to intense regulatory scrutiny, curtailing its ability to return capital to shareholders. But Mr Hancock argues that splitting the firm would make less money available to distribute. Since 2012 AIG has returned \$26 billion to investors through buy-backs.

Battered by slowing demand in its core Asian business and regulatory investigations into possible legal transgressions on money-laundering and sanctions against Iran, **Standard Chartered** reported its first quarterly loss in years. The bank, based in London, announced a £3.3 billion (\$5.1 billion) rights issue to fund a restructuring plan that will result in 15,000 job losses.

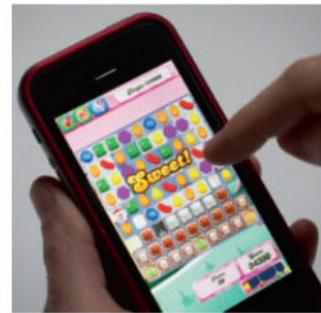
**HSBC's** profit for the third quarter rose by 32% compared with the same period last year, to \$6.1 billion. This was mostly because of a drop in legal costs from various regulatory probes. Underlying revenue was down, as was profit from China. The bank has delayed a decision on whether to move its headquarters from London, possibly to Hong Kong, until next year.

The Johannesburg stock exchange had to suspend trading briefly in shares of **MTN**, Africa's biggest mobile operator, when its share price plunged following news that it had been fined \$5.2 billion by Nigeria's communications regulator. The penalty was imposed because MTN was supposedly too slow to disconnect 5.1m unregistered SIM cards in Nigeria, but the com-

pany insists it acted in accordance with the law.

After 76 years as a single company, **Hewlett-Packard** formally split in two: HP Inc, which will house the computer and printer businesses, and Hewlett-Packard Enterprise, which will handle software and business services.

### The Candy community



**Activision Blizzard**, the American video-game company behind the "Call of Duty" and "Warcraft" series for consoles, agreed to buy **King Digital Entertainment**, the London-based developer of the "Candy Crush Saga" mobile games, for \$5.9 billion. Candy Crush's simple but addictive playing formula has built up a huge following of around 450m users in 200 countries.

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



# The indispensable European

Angela Merkel faces her most serious political challenge yet. But Europe needs her more than ever



**L**OOK around Europe, and one leader stands above all the rest: Angela Merkel. In France François Hollande has given up the pretence that his country leads the continent (see Charlemagne). David Cameron, triumphantly re-elected, is turning

Britain into little England. Matteo Renzi is preoccupied with Italy's comatose economy.

By contrast, in her ten years in office, Mrs Merkel has grown taller with every upheaval. In the debt crisis, she began as a ditherer but in the end held the euro zone together; over Ukraine, she corralled Europeans into imposing sanctions on Russia (its president, Vladimir Putin, thinks she is the only European leader worth talking to); and over migration she has boldly upheld European values, almost alone in her commitment to welcoming refugees.

It has become fashionable to see this as a progression from prudence and predominance to rashness and calamity. Critics assert that, with her welcoming attitude to asylum-seekers, Mrs Merkel has caused a flood that will both wreck Europe and, long before, also bring about her own political demise. Both arguments are wrong, as well as profoundly unfair. Mrs Merkel is more formidable than many assume (see pages 19-21). And that is just as well: given the European Union's many challenges, she is more than ever the indispensable European.

## Why Mutti matters

Mrs Merkel's predominance in part reflects the importance of Germany—the EU's largest economy and its mightiest exporter, with sound public finances and historically low unemployment. She is also the longest-serving leader in the EU.

Her personal qualities count for much, too. She has defended Germany's interests without losing sight of Europe's; she has risked German money to save the euro, while keeping sceptical Germans onside; and she has earned the respect of her fellow leaders even after bruising fights with them. Most impressively (and alone among centre-right leaders in Europe), she has done this without pandering to anti-EU and anti-immigrant populists. For all the EU's flaws, she does not treat it as a punchbag, but rather as a pillar of peace and prosperity.

Mrs Merkel is far from perfect. She is not given to great oratory or grand visions. She can be both a political chameleon who adopts left-wing policies to occupy the centre-ground, and a scorpion who quietly eliminates potential rivals. Her natural caution has given rise to a German neologism, *merkeln* ("to merkel", or put off big decisions). Her timidity in handling the euro's woes deepened the crisis unnecessarily; she has spurned the risk-sharing that the euro area needs to thrive.

Ironically it is boldness, not timidity, that has brought Mrs Merkel the greatest challenge of her time in office. Her staunch refusal to place an upper limit on the number of refugees that Germany can absorb has caused growing consternation at home and criticism abroad. As German municipalities protest, her political allies are denouncing her and eastern European

countries are accusing her of "moral imperialism". With *Willkommenskultur* fading, there is even talk of her losing power.

The doubts are overblown. Critics are wrong to assume that Mrs Merkel is about to be toppled. Grumbling aside, she remains the dominant figure of her Christian Democratic Union (CDU). A recent poll found that 82% of CDU members approve of her leadership and 81% want her to run for a fourth term as chancellor at the election due in 2017. The electoral maths favours another CDU-led government. Mrs Merkel is unlikely to go unless she chooses to.

And the naysayers are wrong to suggest she has lost her way on migration. Quite the opposite. During the crisis the Lutheran pastor's daughter has found a forceful political and moral calling. Mrs Merkel did not cause the onrush of migrants, as her critics maintain. The migrants were coming anyway: she acted to avert a humanitarian disaster. Fences will not hold back the flow. Mrs Merkel can neither stop the wars that drive people out of their homes nor set the policies of the countries they pass through. Her critics offer no plausible alternative. Short of overturning international and European law, and watching refugees drown or die of exposure, EU countries must process the claims of asylum-seekers. The question is: will the process be orderly or chaotic?

Under Mrs Merkel, a four-part policy is taking shape: unapologetically absorb refugees at home; share the burden across Europe and beyond; strengthen controls and the processing of asylum-seekers at Europe's external borders; and negotiate with transit countries.

This approach is principled and, in the long run, it is the only one that can work. Of course it comes with drawbacks and risks. There are likely to be less-than-principled deals, particularly with Turkey: turning a blind eye to the erosion of civil liberties and the disturbing election victory of President Recep Tayyip Erdogan's ruling Justice and Development (AK) party (see page 48), and other concessions, in the hope that he will agree to act as Europe's gatekeeper.

And there is no denying that the mass influx of refugees is aggravating many of Europe's other looming problems: it is fraying relations between Germany and eastern European countries just when solidarity is vital to contain Russia's aggression; it is adding to the burdens of Greece, already crushed by years of austerity and never far from leaving the euro; it is bringing Brexit from the EU closer, too, by giving voters more reasons to leave in Mr Cameron's promised in/out referendum; and it is stoking populism everywhere.

## Stormy weather

This is Europe's biggest crisis in a generation. If integration once seemed inexorable, the pressing question now is how to stop the EU from fraying. Mrs Merkel did not cause this grim reality, but she is the continent's best hope for dealing with it. It is in Europe's best interests to help the chancellor rather than leave her to confront the crisis alone. After a decade in power, politicians usually retire, lose touch or are overthrown. But, without Mrs Merkel, it is hard to see Europe mastering its destructive forces. ■

## China and Taiwan

## Talk strait

The leaders of Taiwan and China have agreed to meet for the first time. It is too early to celebrate



**I**N THE dying days of China's civil war, Mao Zedong's Communist forces chased the remnants of Generalissimo Chiang Kai-shek's army from their hideouts in south-west China. Mao had declared the founding of a new "people's republic" a month earlier. He had only some mopping up to do, and the vast mainland would be his. Chiang, however, denied Mao a complete victory: he fled to the island of Taiwan, where he kept up the pretence that he still ruled China. The two sides never declared a ceasefire. Although there is no fighting today, the unfinished business of 1949 remains one of the world's biggest potential sources of conflict between two nuclear-armed powers: China, and Taiwan's only military backer, America.

On the face of it, then, the surprising news that Ma Ying-jeou, the president of Taiwan, will meet his Chinese counterpart, Xi Jinping, on November 7th, is cause for celebration. It will be the first such meeting between the two sides since Chiang's flight. Only two decades ago the threat was war, as China fired missiles in the Taiwan Strait and America sailed aircraft-carriers close to the island to ward off China. Today Mr Ma is preparing for talks and a dinner with Mr Xi in a luxury hotel in Singapore (see page 33). Yet, although that is undoubtedly progress, dangers still lurk.

#### Ma's gamble

The meeting comes as Taiwan is campaigning for elections in January. The constitution obliges Mr Ma to step down next year but his party, the Kuomintang (KMT), which once ruled all of China, appears to be heading for a humiliating defeat in the presidential vote and possibly in simultaneous polls for the legislature. The risk is that Mr Ma may make a desperate last-

minute effort to revive the KMT's battered fortunes by playing the peacemaker, while lacking the gumption to stand up for his island state.

To raise China's expectations of Taiwanese pliancy would be bad for Taiwan, and for peace in the region. Mr Ma's successor is likely to be Tsai Ing-wen, who is far more sceptical about China's intentions. Some members of her Democratic Progressive Party (DPP) even want the island to declare its permanent separation from China. Inevitably, China abhors such a notion; when the DPP ruled Taiwan, between 2000 and 2008, Chinese officials refused to deal with the government.

If Mr Ma is not to fuel cross-strait tensions, he needs to make it clear to Mr Xi that the search for lasting peace must involve the DPP. He should advise Mr Xi to meet Ms Tsai—if she wins—without preconditions. Insisting, as Communist Party officials do, that the DPP must first embrace the notion of "one China" is a recipe for added tension in a region already seething with it (see page 34).

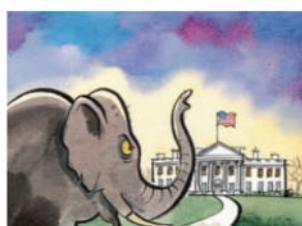
To his credit, Mr Ma has put a strong message across in the past. He has stipulated, for instance, that for Taiwan to contemplate unification, the mainland must first become democratic. That is because the people of Taiwan, who have enjoyed democracy since the KMT gave up its authoritarian rule in the 1990s, will never trust a deal with a one-party dictatorship. Mr Ma has also asked China to stop threatening Taiwan. He is right on this point, too. Even during his own rule, which has been marked by a rapid increase in cross-strait exchanges, including the first regular direct flights and a boom in visits to the island by Chinese tourists, China has been building up its military deployments on its side of the water. It has hundreds of ballistic missiles pointing at the island.

In the interests of his country, Mr Ma must be resolute. He will finish his presidency with rock-bottom approval ratings. Standing firm would at least add to his legacy. ■

## The Republican Party

## Clean-cut radicals

At last, the ascendant stars of the Republican Party are serious and electable. They may even be reformers



**F**OR months the Republican Party has seemed more like a casting agency for pantomime characters than a serious political force. Its presidential primary race has been dominated by two men who have never held elected office. One is a bragadocious bully whose most celebrated idea is the construction of a "beautiful wall" along the country's southern border; the other is a Bible-thumping neurosurgeon who believes America is living in a "Gestapo" age and has a "psychopath" for a president. In the House of Representatives a small group of

arch-conservatives, for whom compromise is apostasy, defenestrated their Speaker for refusing to shut down the government in order to stop public funding for Planned Parenthood, a health-care organisation that also provides abortions.

Yet in the past couple of weeks something has changed. Serious people are on the rise. Paul Ryan, the newly installed Speaker, is both widely admired among conservatives and known for his policy expertise. Marco Rubio, the junior senator from Florida, is climbing up the presidential primary polls, leading the field on prediction markets and picking up endorsements from other politicians and backing from donors apace. Plenty could still go wrong, but one year from election day, many Republican grandees have a new spring in their ▶

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► step. They reckon that a non-crazy candidate could become their party's nominee. And with a plausible presidential candidate and strong leadership in Congress, a clean sweep in 2016—winning the White House and retaining control of both Houses of Congress—might be possible after all.

The grandees are right, for several reasons. First, the tragedy of the past few months has obscured a truth about the Republican Party: it may be a collection of warring factions, but it is nonetheless a formidable election-winning machine (see page 23). The party controls both houses of Congress; it has total control of 31 of the 50 statehouses and supplies 32 of the 50 state governors, after a surprise victory in Kentucky this week. Second, most presidential elections are decided by a percentage point or two in a handful of key states. After years of a Democratic presidency and with a lacklustre economy, many voters may hanker for a change, particularly if they are faced with a worthy choice. Third, although Hillary Clinton has many political strengths, campaigning has never been one of them.

If the ascendancy of people like Messrs Ryan and Rubio makes a Republican sweep more likely, the big question is what their brand of Republicanism adds up to. The answer, so far, is a curious balance between bold new ideas for dealing with subjects that Republicans have long ignored, particularly entrenched poverty and widening income gaps, along with fidelity to the party's standard policy menu of slashing regulation, taxes and spending.

Both Mr Rubio and Mr Ryan have a more realistic assessment of America's economic challenges than most other Republicans, too many of whom tend to assume that if only Mr Obama would get out of the White House, the post-war decades of ever-rising incomes for everyone would automatically return. Mr Rubio has thoughtful things to say about the effect of technology on the workforce. He has spoken of how the

jobs his immigrant parents did, assembling garden furniture, have been replaced by machines, leaving "the path to the middle class narrower today than it has been for generations". He has ideas for revamping higher education and training, with a much bigger role for mass open online courses and equity-like schemes for financing college. He has floated plans for topping up the income of the low-paid. Mr Ryan has spent much of the past couple of years pondering what an effective right-wing approach to tackling poverty would look like, and how to inject some competition into the provision of welfare.

These are the roots of a reformist Republican agenda. But, at the same time, the old orthodoxy looms large. Mr Rubio would cut the top rate of income tax to 35%, slash taxes on investment income and inheritance and introduce an additional child-tax credit. Even more than the tax plans of Jeb Bush, the establishment candidate, whose star is fading, this would put a large hole in America's public finances—one that would only partially be filled even by implausibly heroic assumptions about growth. Mr Ryan came to prominence when the House committee he chaired issued a budget that took a chainsaw to federal spending on the poorest Americans.

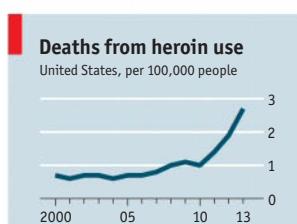
### The Republican road

Over the coming months the tensions between reformist impulses and the old tax-cutting orthodoxy will become clearer. Mr Rubio, in particular, will have to decide which side of his agenda matters more. The omens, so far, seem good. He is yet to tie himself to deep cuts to Medicaid and other schemes for the poor. The experience of Republicans who are actually governing bodes well, too. John Kasich, governor of Ohio and another Republican candidate, expanded Medicaid in his state, incurring the wrath of conservatives—and won re-election by a landslide. Sometimes the most successful radicalism is to be found in the centre. ■

## Heroin addiction

### How to smack it down

#### To beat the scourge of heroin, governments should deal the drug themselves



**T**HE war on drugs is at last subsiding. A growing gang of both rich and poor countries are choosing to tolerate or even legalise drugs that they once tried to suppress with force. And many of the calls for a ceasefire are coming from unexpected places. The main moves to allow people to use cannabis have been in America, which was long the world's chief cheerleader for prohibition. This week Mexico's supreme court opened the door to legalising marijuana. Even more surprising is conservative Ireland, a country that still outlaws abortion, which announced plans to permit some consumption of heroin.

The Irish plan would establish "medically supervised injecting facilities"—better known as shooting galleries—where heroin addicts can take their drugs, using clean equipment, under doctors' supervision. This will reduce the dreadful harm done by heroin to its users and to society, which suffers from the crime that always goes hand in hand with such an addic-

tive and expensive drug. But regulating how heroin is consumed ought to be just the first step. Next, Ireland and others should muscle in on the supply of the drug itself.

### Beat them at their own game

After a decline in the 1990s, heroin has come roaring back. The dishing-out of prescription painkillers earlier this century got millions in the West hooked on opioids; a tightening-up of the rules then sent them looking for substitutes. The heroin dealers were waiting. In America, where this trend is most acute, the number of annual users has almost doubled in the six years to 2013; overdoses have risen faster still (see page 24).

Shooting galleries are a proven way to reduce the health risks to those who have fallen into this trap. Seven countries in Europe already run them, as do Australia and Canada. The unsurprising evidence is that if you are going to fill your veins with a dangerous drug, you are better off with a doctor on hand. In Sydney the number of local ambulance call-outs for overdoses fell by 80% in the places where shooting galleries opened. In Madrid the use of clean needles increased, cutting ►

► the risk of blood-borne infection. Everywhere they have given the authorities an opportunity to coax hard-to-reach addicts into treatment, the best chance of getting clean. Contrary to the fears of their detractors, the galleries do not seem to encourage more people to take up the habit.

The weakness of consumption-rooms is that most of them, including the ones proposed in Ireland, operate on a “bring your own” basis, so the heroin consumed in them is the illegal sort. This means that drug-takers still risk overdosing on impure or unusually strong stuff bought on the street—a serious risk with heroin, where the difference between an effective dose and an overdose is wafer-thin. Just as bad, it means that the heroin market, thought to be worth more than \$50 billion a year worldwide, remains in the hands of criminals. Addicts still rob, burgle and sell their bodies to pay for their habits; the profits still go to local gangsters—and in turn to everyone from the Sinaloa cartel to the Taliban.

The state should snatch this market back. A handful of European countries have experimented with providing not just

safe facilities in which to take drugs, but also prescribing unadulterated, free heroin itself. The policy makes drug-taking as safe as it can ever be (the medical-grade diamorphine given out is the stuff women receive in labour), while robbing dealers of their best clients. This brings the greatest pay-off of all: fewer people taking up the ruinous drug in the first place. With free heroin available on prescription, dealers cannot make a living selling the stuff and so they give up the trade. After Switzerland introduced such a programme, heroin became much harder to buy on the street; in Zurich the number of new addicts fell from 850 in 1990 to 150 in 2005.

Persuading voters to finance rationed, state-sanctioned narcotics is not easy. Britain shut its small heroin-prescription scheme earlier this year, despite studies showing that it was more effective than the methadone programme it replaced. But if governments really want to limit the harm from drugs—saving addicts’ lives, crushing dealers’ profits and slashing the number of people who take them in the first place—then they must seize control of the market themselves. ■

### Family planning in China

## Two little, too late

**China has replaced its “one-child policy” with a two-child one. It should stop dictating family size altogether**



FOR more than 35 years, the Chinese Communist Party has governed the world’s most populous nation by means of a thinly disguised threat: the country could become rich only if most couples limited themselves to having no more than one child. If they disobeyed, women were forced to undergo abortions; parents were subject to fines equivalent to several years’ income and sometimes dismissed from their jobs; in the countryside, the homes of poor peasants who could not afford the penalties were occasionally stripped of anything of value and then knocked down. The “one-child policy”, as the benighted approach to the country’s development was known, became synonymous with some of the most brutal aspects of the party’s rule. The bitter irony is that China’s problem today is too few babies, not too many.

On October 29th the party belatedly decided to switch to a two-child policy. It had already been allowing this for some couples—for example, if one of the parents was an only child. Easing up a bit more, it reasoned, would help slow the country’s rapid ageing. More children would (eventually) mean more people to look after the elderly—a looming problem in a country with only a rudimentary welfare system. Once again, however, the party has miscalculated.

In 1979, when it introduced the one-child policy, it believed that coercion was the only way to ensure that population growth did not become unsustainable. The party has since claimed that the policy has helped prevent 400m births.

In fact, there is little evidence to back this claim. China’s birth rate had been falling rapidly since the early 1970s with the help of little more than education campaigns. The birth rate continued to fall under the new policy, but other countries have seen similar declines without resorting to cruelty and op-

pression. Their experience suggests that the more important factors behind China’s lower birth rate were rising female participation in the workforce, improvements in education, later marriages and the rapidly increasing cost of education and housing. The main effect of the one-child policy was to foster egregious human-rights abuses against the minority who ignored it.

By that measure, the new policy is also misguided. Some couples may feel encouraged to have two children, but it is unlikely that the overall birth rate—now well below the level needed to keep the population from falling—will climb by much (see page 39). This is clear from the lukewarm response to previous changes allowing couples to have two children in certain circumstances. A generation has grown up indoctrinated in the belief that China has “too many people”. Except for the very rich, most prefer to use their family’s resources (increasingly stretched by the demands of the elderly) to give one child the best opportunities.

### A bitter pill

Bizarrely, the party still believes that coercion remains necessary. Those who have had two children in violation of the previous policy will still have to pay off their fines. It is likely that those who have three children will be punished. There is no evidence that lifting these controls would result in a crippling population surge. So the party’s insistence on maintaining them appears mostly a way of demonstrating power and saving face—as well as the jobs of the 1m-strong army of family-planning officials, who thrive on issuing fines.

The party would struggle to admit that the world’s biggest attempt at demographic engineering has failed. But that is what it must do by lifting the remaining restrictions. Not for the sake of boosting the birth rate—it may well be too late for that. Rather because, after forcing so many Chinese to suffer to such little effect, a disastrous policy deserves to be abolished. ■

**Staying in**

Your special report on the debate about Britain leaving the European Union (October 17th) refreshingly demythologised many of the assertions made in favour of a "Brexit". I represent 22,000 Gibraltarians who will be able to participate in Britain's referendum. David Cameron has been supportive of Gibraltar's rights and as eager Europeans we back his bid to remain in a reformed, better, EU (Gibraltar had to win a case at the European Court of Human Rights to secure voting rights in the EU and we vote as part of the United Kingdom's South West).

Access to the single market, especially for financial services, is critical to our economy just as it is for Britain. Hugely imperfect as it may be, the European Commission, which asks a lot of us in terms of regulation, has firmly challenged Madrid's bid to squeeze our access to free movement of goods and services despite the fact that we provide jobs for 6,000 Spaniards. The EU is good for them and for our economy.

Leaving the EU would be like opting out of the digital age, a jump into the unknown that will cut off markets, access and influence. I would add Gibraltar to your geopolitical analysis. We remain an important military asset at a time when the Mediterranean is crucial in relation to north African and Russian issues. Every piece of the jigsaw counts. Let's keep it together.

**FABIAN PICARDO**  
Chief minister of Gibraltar

A notable omission from your list of selected referendums on Europe was the most recent one, in July this year when Greeks voted on new bail-out terms. The polls were fairly close in the run-up, though on the day the "No" vote took a resounding 61.3%, demonstrating your point that polling on referendums is notoriously unpredictable and surprises will happen. Perhaps you excluded it because of how neatly it demonstrated a key Eurosceptic argument: a near-

identical bail-out was imposed weeks later without any consultation with the Greek people, signalling a distaste for democracy which constitutes perhaps the strongest argument for Brexit and Grexit.

**ROBERT BEAUCHAMP**  
*Colchester, Essex*



Mr Cameron's approach to the EU is consistent in one feature: he is influenced far more by pressure from the right wing of his Conservative Party and the rival UK Independence Party than by his own judgment. We have a right to expect leadership from our prime minister. He knows full well that we have got to stay in the EU (and, incidentally, that we need young, healthy immigrants), yet he has made matters worse by attempting to appease the right.

The most effective way of achieving change in the EU is for Britain to be firmly and positively engaged in Brussels and the other European capitals, which it is not at the moment. Shooting from the fringes is counter-productive. I can only hope that once the referendum is past we give the EU the attention it deserves.

**MICHAEL STURDEE**  
*Kingsbridge, Devon*

You say the speech given in 1988 by Jacques Delors, in which he argued for a "social dimension" for Europe, provided "the biggest boost to British Euroscepticism". Well, yes and no. The right of the Tory party was turned off by the social aspect, but its big effect was to give the left and the trade unions leave to be pro-European, thereby forming a broad coalition of moderates solidly behind the EU. What was the net effect? William Hague ran an election campaign when he

was Tory leader entirely based on Euroscepticism in 2001 and failed to improve on his party's catastrophic defeat of 1997. The undoing of this broad coalition is the EU's saddest tale.

**VINCENT CARROLL-BATTAGLINO**  
*London*

Britain's greatest contribution to European unity has been the English language. Fifty years from now almost all Europeans will speak it fluently, making a real social and political union possible for the first time since the fall of Rome.

**GERALD BRAY**  
*Cambridge, Cambridgeshire*

**The blowback on buy-backs**

You point to share buy-backs as a quick fix for stagnating businesses ("The age of the corporation", October 24th), but look deeper and it is worse than that. Big tech players in America like Cisco, IBM, Microsoft and Intel have bought back billions of shares in recent years, mainly to soak up share grants issued to management and employees. Shareholders in these companies see little benefit from the vast sums expended. IBM spent \$121 billion on buy-backs over the past decade, nearly 100% of its \$129 billion market capitalisation in 2005, yet its share count has only been reduced by 40%.

As these grants turn into new shares earnings per share take a hit, so management are driven to sterilise this dilution with more buy-backs. Buy-backs are a way for managers to pay shareholder's funds, to management. At best, buy-backs at large tech giants are a waste of money; at worst it's a way of fiddling the accounts.

**BOLKO HOHAUS**  
Manager of the Lombard Odier technology fund  
*Geneva*

**The future for Myanmar**

The military in Myanmar has indeed had a great influence on the country's affairs ("Still the generals' election", October 31st). In fact, its role is unique compared with other Asian states that were under military rule, commanding all

aspects of economics, politics, civil society, the Buddhist hierarchy and education. Since 2011 the system has begun to relax and now all these fields (except the Buddhist hierarchy) are far more open. The military's influence will begin to wane, but slowly, and more slowly than many in the West or in Myanmar would like to see. Yet the system, designed through the constitution to ensure the armed forces' perpetual control and autonomy, has already begun to erode.

The issue of some fair sharing, in a Burmese sense, of power and resources among the majority and various minority ethnic groups remains, as it has been since Burmese independence in 1948, the single most important issue facing the state, which is not yet a nation with an overarching national ethos.

**DAVID STEINBERG**  
Professor of Asian studies emeritus  
Georgetown University  
*Washington, DC*

**Name that company**

I was surprised to learn that Tesla got its name "from a unit for measuring the density of a magnetic flux", rather than from the Serbian-American electrical engineer who invented it (Schumpeter, October 24th). And that Orange was named after a fruit, and not a colour? And I take it new companies seek to appeal to the spelling-is-dispensable tribe of millennials by dropping letters. Let's face it, all the cool names have been taken. Acme Corp, Skynet, Stark Industries, Wayne Enterprises, all gone. Even MomCorp is taken.

We either have to steal names from pop culture, or look to Soviet children's names: who else could think up Traktor, Ideya and Energiya?

**YACOV ARNOPOLIN**  
*New York* ■

## Executive Focus

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Please contact [infofsdz@dai.com](mailto:infofsdz@dai.com) to obtain a detailed Job Description and to submit application. Deadline for applications is **Monday, 23rd November 2015, 12:00 CAT.**

# Executive Focus

## Director of the Austrian Institute of Economic Research (WIFO)



This is to announce the opening of a full-time position as Director of the Austrian Institute of Economic Research. The new Director is to take up his/her duties on 1 September 2016.

The Austrian Institute of Economic Research (WIFO), based in Vienna, is an independent and non-partisan research institution, which analyzes and forecasts regional and international economic developments and provides economic policy analysis with a strong focus on innovation, social and environmental policy. Founded in 1927, the Institute currently employs more than 100 staff members.

Theory-based research, advanced empirical methods and a detailed insight into institutional and political structures ensure the high quality of WIFO's research. The Institute works for national institutions as well as for the European Commission, the European Parliament, the OECD and other international organizations. The involvement in international scientific networks and research projects, e.g. in EU research programs, extends the range of services and ensures a high level of quality. More information about WIFO is available at <http://www.wifo.ac.at/en>

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- familiarity with economic and political institutions in Austria, the EU and international economic organizations,
- familiarity with WIFO's areas of research, publications and economic assignments as well as with its commitment to scientific plurality,
- convincing personal skills in the management of scientific institutions as well as in the leadership and motivation of a highly qualified team,
- international research and teaching experience is of advantage, excellent German skills,
- full-time employment, which can only be limited by a university engagement (maximum one day per week) at a university nearby

In his/her capacity as Director, he/she reports directly to the Board of the Institute. His/Her tasks include the strategic planning, the organization of the research process, and the Institute's external representation. In all staff-related, financial, and organizational activities he or she is supported by an executive team and an executive secretariat. For the time being, the contract for the Director of the Institute is limited to a term of five years, extensions for further five year periods are possible.

Please submit your written application for the period of 2016-2021, containing a cover letter including remuneration expectations, a CV, and any other supporting documents until 10 December 2015 to: Attn. President Dr. Christoph Leitl, c/o WIFO, Arsenal Objekt 20, 1030 Vienna, Austria or via e-mail to [sekretariat@wifo.ac.at](mailto:sekretariat@wifo.ac.at)

Inquiries can be made to the secretariat of Professor Dr. Karl Aigner, the current Director, at +43 (0)1/798 26 01-212 (ext.) or [sekretariat@wifo.ac.at](mailto:sekretariat@wifo.ac.at)

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Instructions for applications and further information:

<http://www.who.int/pmnch/media/news/2015/iap/en/>



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Geneva, Switzerland

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## The chancellor's crucible

BERLIN

**After ten years in power, Angela Merkel is being forged anew in the refugee crisis**

THIS September, at the height of what the German press has since dubbed an “autumn fairy-tale”, Angela Merkel visited an asylum centre in Spandau, near Berlin. The refugees greeted the German chancellor as though she were their saviour, pressing close for selfies with her. Mrs Merkel does not usually take kindly to unsolicited male hugs. But this time she posed gamely and flashed winning smiles.

What made her a heroine to the refugees was a decision she had taken only days earlier. Thousands of people trudging through the Balkans toward northern Europe were stranded in Hungary in precarious conditions. Empathising with these huddled masses, Mrs Merkel temporarily ignored the European Union’s asylum agreements, which stipulate that the member state in which refugees first arrive must process their asylum requests. On the chancellor’s command, Germany opened its borders to the refugees. Coming via Austria on foot, bus and train, more than 20,000 arrived in the first weekend of September alone.

At first, many ordinary Germans greeted them in a euphoric mood—from the railway station in Munich where the refugees disembarked by the wagonload to asylum

centres around the country like the one in Spandau. But others in Germany and across Europe were taken aback. There has since been a marked backlash against the August *Willkommenskultur* whose spirit Mrs Merkel captured and encouraged, with those Spandau selfies held up as reckless enticements for yet more Syrians and others to join the 1m refugees now expected in Germany this year.

Mrs Merkel at first seemed surprised by the sudden turn in public opinion. “Do you really think that hundreds of thousands leave their home and embark on this difficult journey only because of a selfie with the chancellor?” she asked Anne Will, a television talk-show host, on October 7th. Since then, however, Mrs Merkel has turned defiant and bold, as though inspired by a clear moral purpose.

Having been governed by her for ten years—she first took office on November 22nd 2005—Germans thought they knew Mrs Merkel. Whereas her predecessor, Gerhard Schröder, was dubbed the “*basta* chancellor” for his brash assertiveness, Mrs Merkel was valued, if often also criticised, for her caution. Her governing was a “politics of small steps”, lampooned for endless hedging and “leading from be-

hind”. As recently as this summer, the jury that chooses Germany’s “youth word of the year” from a list of zeitgeisty neologisms was expected to plump for *merkeln* (“to merkel”), meaning to delay and obfuscate so as to avoid big decisions.

To widespread surprise and some unease, though, the merkelling chancellor has been transformed. She has found a new voice that is simple and strong. “If we start having to apologise for showing a friendly face in emergencies,” she says, “then this is not my country.”

### Cometh the hour

The change in style reflects the nature of the new challenge. A lot of Mrs Merkel’s decade in power has been taken up with the international demands of what might be called crisis management, had the problems involved not become chronic: the financial troubles in the euro zone, especially Greece; the confrontation between Vladimir Putin and the West; the spectre of a British exit from the EU. Preoccupied with these international worries, she stuck to small-bore fiddling at home, and the Germans forgave her. The dramatic acceleration of the refugee crisis, though, merges international and domestic demands into one daunting task.

The past challenges have all served, one way or another, to enhance Mrs Merkel’s stature as Europe’s pre-eminent leader. The euro zone’s response to Greece always hinged mainly on her stance, even if she failed to act boldly enough. In the Ukraine confrontation, she reacted faster and more vigorously; while she brought François ►

Hollande, the president of France, along to summits in Minsk with Vladimir Putin, the president of Russia, and his Ukrainian counterpart, it was she who talked Mr Putin down from even worse escalation (at least so far). And it is Mrs Merkel who matters most to Britain's prime minister, David Cameron, in his effort to win the concessions he thinks needed to keep Britain in the EU (see *Bagshot*).

There are four main reasons for Mrs Merkel's central role. First, she governs at a time when other European leaders seem weak or even absent and America's interest in solving European problems is on the wane. Second, she has no credible challenger within Germany, either in her own party or in others. Third, Germany is the biggest and strongest economy in the EU; it has a budget surplus and an unemployment rate (6%) last seen before reunification. Fourth, Mrs Merkel has proven herself adept at crisis diplomacy. At home or abroad, she has a knack for dealing with complicated, vain or macho men, from Mr Putin to Turkey's Recep Tayyip Erdogan.

Now two more of Europe's many difficult men threaten to undermine her stature. One is Viktor Orban, the illiberal Hungarian prime minister whose answer to the refugees has been barbed-wire fences. Speaking for several eastern members of the EU he has called Mrs Merkel's welcome of the refugees "moral imperialism".

That a nationalist demagogue should cause trouble is hardly a shock. More surprising are the attacks by Horst Seehofer, who is the premier of Bavaria, the state through which most refugees enter Germany, and also the boss of the Christian Social Union (CSU), the regional sister party to Mrs Merkel's national party, the Christian Democratic Union (CDU). These two Union parties, as they are called, sit as one group in the Bundestag and are usually reliable conservative allies. There is a long CSU tradition of sniping against the federal government to assert the interests of Bavaria. But CSU leaders usually stop short of damaging CDU chancellors.

This time is different. In September Mr Seehofer called Mrs Merkel's embrace of



**Mr Orban and Mr Seehofer: double trouble**

the refugees a big mistake. He then invited Mr Orban to a CSU gathering as guest speaker and smiled smugly as the Hungarian railed against the chancellor. He constantly demands that Mrs Merkel restore the "rule of law", implying that she has broken it. And he insists that she put a stop to the refugee flows, even though she has repeatedly said that the constitution foresees "no upper limit" to the human right for asylum—and even though he can offer no explanation of how a stop would work. In October he warned ominously about "an existential crisis for the CDU-CSU."

#### If not her, who?

His rebellion has spread in attenuated form to Mrs Merkel's own party. In October 34 regional CDU politicians complained in an open letter that her "policy of open borders accords with neither European and German law nor with the programme of the CDU". In meetings of the parliamentary party some members have openly attacked Mrs Merkel.

The internal whingeing, unusual in a party that sets much store by unity behind its leader, coincides with a deteriorating tone in public debate. At an anti-Muslim rally in Dresden in October, a man held up a drawing of a gallows with the caption "reserved for Angela Merkel". In Thuringia Björn Höcke, a politician of the Alternative for Germany, a xenophobic right-wing party, led a chorus of demonstrators chanting that "Merkel must go".

Polls confirm a turn in public opinion. Support for the Union parties has dropped seven percentage points since the summer and is now at its lowest point since 2012. Three other politicians in her coalition now enjoy higher ratings in opinion polls than Mrs Merkel, long Germany's most popular politician. Yet this slide should not

be exaggerated. None of those more popular than Mrs Merkel will ever be a candidate for her job. Among members of the CDU only one in three takes Mr Seehofer's side on what to do about refugees, while 57% stand with the chancellor.

Her personal support is even higher than support for her position. One poll in October found that 82% of Christian Democrats approve of Mrs Merkel's leadership and 81% want her to run for chancellor for a fourth time at the election due in 2017. Sigmar Gabriel, leader of the Social Democrats, Germany's second largest party and the Union parties' coalition partner, can but dream of such numbers. Though he is likely to be Mrs Merkel's challenger in two years' time, only 40% of his party approves of him.

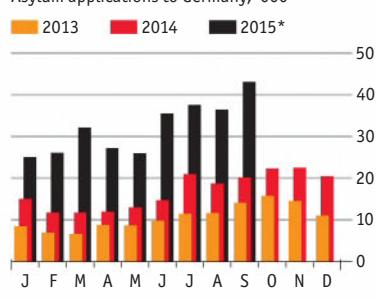
Support in the CDU might not matter if the public was turning wholeheartedly against the chancellor. So far it hasn't: averaging the most recent opinion polls shows the Union parties with 37.5% of the electorate, the SPD with 25%. The backlash, while real, is confined to a minority. A poll of seven European countries by IFOP, an institute in Paris, shows that German support for the idea that sheltering refugees from war and persecution is right in principle is dropping. But it is still high both in absolute terms and in comparison to attitudes in other countries. In September 79% of Germans agreed with the proposition; in October 75% did. Less than half the British, Dutch or French feel the same way. The differences are starker among conservatives: 72% of Union supporters in Germany favour the principle of asylum; only 29% of Republicans in France do so. Part of the difference stems from German optimism about the economy and some of it from a sense of Germany's special responsibility given its past. The effect of Mrs Merkel's leadership probably plays a role, too.

Far from being the beginning of the end for the chancellor, this crisis seems to be re-invigorating her. Mrs Merkel has never commented on how long she intends to stay in power, but for years a few contrarians have surmised that she has been planning to step down after a decade, or perhaps when her third term ends in 2017. By doing so, they argue, she would avoid the fate of her only two longer-serving predecessors, Konrad Adenauer (1949-1963) and Helmut Kohl (1982-1998), both of whom overstayed their effectiveness and their welcome.

Mrs Merkel, however, gives every impression of being focused not on a graceful exit but on rising to her biggest challenge. A quantum chemist by background, she takes a scientific approach to intellectual conundrums, cutting them into their component parts. She enjoys the challenge of doing so even—perhaps especially—when the problem is as large and complex as the latest crisis. If she has eyes on some high-in-

#### Europe's biggest welcome mat

Asylum applications to Germany, '000

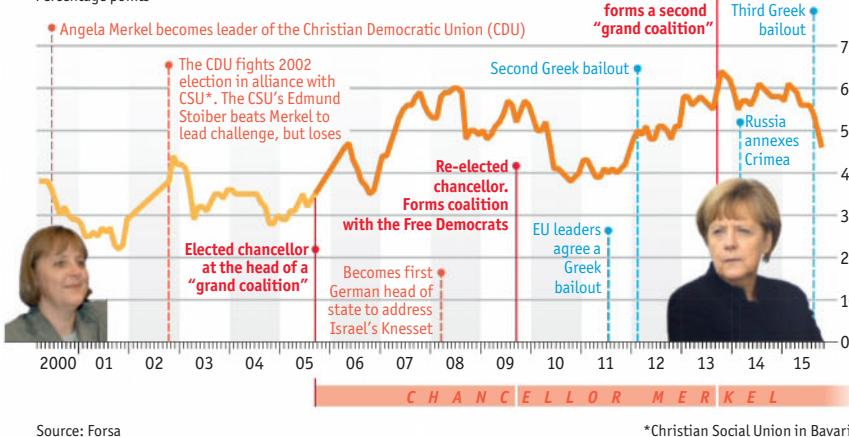


Sources:  
Eurostat; German  
Interior Ministry

\*Full year forecast of asylum  
seekers = 800,000 (based on  
official estimates from August 2015)

## Mutti knows best

Angela Merkel's popularity within Germany  
Percentage points



Source: Forsa

International office it can surely wait; she is only 61. When she failed to win the Nobel peace prize last month, after being rumoured to be the favourite, she appeared more relieved than disappointed; she has no yen for global recognition that might, as was the case with Barack Obama, make things harder domestically.

Moreover, she is all but assured of a fourth term. At present the parties to the left of the CDU—the Social Democrats, the Green party and The Left—have a narrow majority in parliament; they do not make up the government because The Left, descended from East Germany's communist party, remains a pariah. An anti-refugee shift in 2017 would probably deprive the left of this notional majority and bring in the Alternative for Germany on the right, leaving Mrs Merkel in the middle and, barring an unprecedented CDU collapse, the leader of the largest party. She would thus be free to set about forming a centrist coalition (she has ruled out ever governing with the Alternative).

### Black and green all over

The Greens may be her likeliest partners. They are hungry for power, and a CDU-Green state government in Hesse that some regard as a warm-up for a national deal is working well. That such a deal is possible reflects the fact that in her 15 years as leader of the Christian Democrats Mrs Merkel has nudged her party leftward to squat on centre ground. Where once the CDU stood for patriarchy and the traditional family, it now accepts civil unions for gays and lesbians, boardroom quotas for women and a legal right to crèches so that mothers can work.

And, in an about-face after the disaster at Fukushima in 2011, Mrs Merkel ended the CDU's long support for nuclear energy with a decision to turn off Germany's nuclear plants by 2022. There were many who saw in that U-turn a telltale "Merkevillian" streak. German public opinion already fa-

voured phasing out nuclear power. Mrs Merkel, while appearing spontaneous, neatly brought her party into line with an emerging consensus and neutered the Greens' main campaign issue. The CDU and the Greens are now on the same side in trying to transform Germany into a nation powered by renewables.

Combining such guile with unideological pragmatism has served Mrs Merkel well in her "grand coalitions" with the Social Democrats. To keep things stable, Mrs Merkel has conceded some policies that she is thought to consider dim-witted. For example, the pension age for some workers was lowered from 65 to 63, which is insane given the ageing population. But Mrs Merkel calculated that costs of the insanity were manageable and the political capital that would have been required to stymie it was needed for bigger problems.

By that logic the refugee crisis, which Mrs Merkel has described as greater than that of the euro zone, and on a par with the turmoil of reunification in 1990, will have her reaching deep into her reserves. She stands ready to do so. It is one of the few policy areas where this daughter of a Protestant pastor thinks in terms of non-negotiable principles. Others include the security of Israel, which she called part of Germany's *raison d'état* in an address to the Knesset in 2008, European harmony and the transatlantic alliance. She viscera-ally opposes Mr Putin's transgression across internationally agreed borders in Ukraine. And now she sees succour for people fleeing war as a categorical imperative.

Mrs Merkel understands the pressure this puts on Germany. Municipal governments are overwhelmed by the challenges of finding accommodation. Schools are straining to integrate refugee children who speak no German. And there are legitimate questions about whether Germany can culturally integrate so many Muslims into a society that values sexual equality and free speech. There is a great deal on which

to spend carefully nurtured political capital (not to mention cash).

In managing all this here is room for some judicious walking back from the heady days of September. Hurred legislation this autumn has tightened some rules. All Balkan countries are now considered "safe", which makes it easier to reject and deport asylum applicants from that region. Cash allowances to refugees are being replaced by vouchers, in the hope that this will reduce incentives for economic migrants. On November 1st she also did her best to freeze the conflict with Mr Seehofer, hashing out six pages of joint positions that he can trumpet as a victory to his supporters in Bavaria. Many of them, such as joint border patrols with Austria, have little more than symbolic value.

At the European level, Mrs Merkel's task is trickier. For a long time she opposed the relocation of asylum-seekers between EU states. Only since September, when Germany itself became the centre of the crisis, did Mrs Merkel begin pushing for large-scale and formal solidarity. So far the EU has agreed to share only 160,000 asylum-seekers, a comparatively modest number. Her demands for more solidarity have run into hard walls, especially with the eastern countries.

### Merkelling no more

The roles defined by the euro crisis have thus reversed; Germany needs help and is finding other member states to be recalcitrant. Mrs Merkel needs to play the supplicant. But in reality, she remains Europe's indispensable leader. Among other things, she has the most clout to help reimpose order on the EU's frontier with Turkey. Already she has softened her opposition to eventual Turkish membership in the EU and her criticism of Mr Erdogan's encroachments on free speech. She hopes that Turkey's election on November 1st, in which Mr Erdogan's party won an absolute majority, will allow him to press forward with a deal whereby the EU gives Turkey lots of money, and perhaps visa-free travel, while Turkey agrees to hold the 2m refugees already there.

The ultimate causes of the refugee crisis are neither Mrs Merkel's fault nor in her control. She cannot end the civil wars and proxy conflicts in the Middle East. Bernd Ulrich, a German pundit, puts it nicely: Mrs Merkel "did not make history in early September, the refugees did. She only acknowledged history." But her legacy will be determined by whether she can hold together Germany and the EU as they absorb this shock. For a woman who spent half her life behind the intra-German wall, a Europe of fences and barbed wire would be a failure. Keeping Germany open and tolerant inside an EU true to its humanitarian founding values is not her policy. It is her mission. ■

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### The Republicans

## The trouble with being right

WASHINGTON, DC

**A year out from the election, the GOP looks simultaneously chaotic and enormously successful**

**A**SKED to name his biggest political success, over a curry in the congressional chamber where he works, sleeps and plots the downfall of his party bosses, Mick Mulvaney, a Republican member of the House of Representatives from South Carolina, is briefly stumped. There have been so many. The House Freedom Caucus he helped launch has made a lot of noise in recent months. That is in itself an achievement for a group of little-known congressmen, mostly elected in a flood of anti-establishment feeling in 2010, with a mission, says the Caucus's chairman, Jim Jordan, seated opposite, with curry, to "fight for the countless number of Americans who think this place has forgotten them."

That mainly means fighting to stop the House Republican leadership negotiating with Barack Obama, whom many Caucus members consider to be a power-hungry socialist. They have therefore taken uncompromising positions on trade, public spending, abortion and other issues, at times depriving the House Republicans of their majority. The Caucus's willingness to create a budget crisis, in September, forced the then Speaker, John Boehner, to seek Democratic help to stop the government running out of money, a humiliation that cost him his job. That was the Caucus's biggest scalp; also a warning to Mitch McConnell, the party's leader in the Senate. "Mitch is next," says Mr Mulvaney.

Most of the 246 Republicans in the House are more interested in governing—yet not immune to the sort of grandstand-

ing, on spending, welfare and other neuralgic right-wing issues, that the Caucus is dedicated to. "Too often we make every vote a vote about principle, which makes it harder for us to pursue our agenda," says Mike Fitzpatrick, a moderate Republican congressman from Pennsylvania. Indeed, the worrying truth for Republicans is that the Caucus is less an outlier in their party than a caricature of it. Its members' intolerance, apparent indifference to the vulnerable and relentless negativity are qualities that Americans, especially women and ethnic minorities, increasingly associate with Republicans at large.

According to a recent survey by the Pew Research Centre, 60% of Americans, and a third of Republicans, have an unfavourable view of the party. Compared with the Democrats, it is considered by double-digit margins to hold extreme views and be unconcerned about "the needs of people like me". To compensate, Republicans would at least expect to score well on economic management, which they pride themselves on; most Americans preferred the Democrats on that, too. A year before a presidential election, in which the Grand Old Party must expand its base to have any chance of keeping pace with demographic change, those are horrible numbers.

The primary is not improving matters. One front-runner, Donald Trump, wants to wall off Mexico. Another, Ben Carson, has a tax plan that entails a 30% cut in the size of the government. And if such right-wing posturing makes it hard for more reason-

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able candidates to remain so, the Republican mainstream, currently led in the primary by Marco Rubio (pictured) and in the House by Mr Boehner's successor, Paul Ryan, a representative from Wisconsin, is anyway immoderate. Mr Rubio, a 44-year-old senator from Florida, proposes tax cuts that by one estimate could increase the deficit by \$12 trillion over a decade. Both would repeal Mr Obama's health-care reform without promising a reassuring alternative to the 17.6m Americans it has provided with insurance. "I think it's funny that people talk of Marco Rubio and Paul Ryan as mainstream Republicans," smiles Mr Jordan. "They're the classic class of 2010, like most of the Freedom Caucus."

To end their damaging purity contest, the Republicans need to understand what is fuelling it. That starts with a relentless drive to differentiate the party from the Democrats, whose erstwhile obsessing over ideology has given way to pragmatism. "At some point, people will say what's the difference between Republicans and Democrats, and it can't just be abortion," says Mr Mulvaney.

Yet the change that has come over their opponents is something Republicans should celebrate, not fight. Whatever Bernie Sanders, Hillary Clinton's socialist challenger in the Democratic race, might say, the victory of Reaganite economic policy in the 1980s was complete. That was plain in the following decade when Bill Clinton declared the era of big government to be over. Yet instead of revelling in Reagan's economic legacy, many Republicans hardly recognise it. They misremember the Reagan years as a time of inexorable tax, deficit and spending cuts (the Gipper at various times raised all three) and mischaracterise everything that has followed as a retreat from that imagined perfection. This is a path that leads to the vast, unfunded tax cuts almost all the Republican primary candidates are now promising, as they vie ➤

► to be what their party craves: the second coming of something that never actually existed.

George W. Bush's early stab at compassionate conservatism was an effort to restore moderation. It didn't go well. Mired in profligate wars and bank bail-outs, his presidency ended as a recruiting sergeant for the caustic right. "I got into politics because of George W. Bush," says Mr Mulvaney. "We expected him to be like Reagan, but what did we get? No Child Left Behind, Medicare Part D, compassionate conservatism—just spending more and more."

Then, in 2009, came an \$830 billion stimulus package, signed off by a black, left-leaning Democrat president. It, and almost everything Mr Obama has done since, has driven the right wild. This sometimes manifests itself as a virulent antipathy to welfarism, which many Republicans, unfairly to a degree, associate with black Americans. Asked how he would woo black voters, Jeb Bush, a former governor of Florida and one of the more moderate candidates in the primary, said he would offer them aspiration, not, as the Democrats do, a promise to: "Get in line, and we'll take care of you with free stuff." Black Americans are not, as it happens, all welfare claimants. But because they are much likelier to vote for the Democrats, whom Republicans traduce as the party of scroungers, this is another half-truth that polarisation has reinforced.

Working themselves into a lather over Mr Obama and free stuff has not made the Republicans more liked. Nor has it helped them fill the hole where a credible, centre-right, socio-economic policy should be; Mr Rubio, to his credit, has some suggestions—

including decentralising welfare programmes and topping up low wages with a bigger state subsidy—but he is untypical. The third televised Republican primary debate, on October 28th, was supposedly about economic policy; almost none was discussed except tax cuts.

The impression is of a party so accustomed to carping that it has forgotten how to govern. Yet in the states the Republicans are in rude form. They occupy 32 governors' mansions and control both houses in 31 state legislatures, having secured an extra 900 seats since Mr Obama became president. In Michigan, Indiana, Wisconsin, Iowa and elsewhere, Republican governors have balanced budgets with hard-headed, but sometimes innovative, policies. "I'm not a very partisan person," says Iowa's veteran governor, Terry Branstad. "I'm like many Republican governors."

This divergence, between antagonism in Washington and pragmatism closer to home, may be less paradoxical than it seems. "In America, small state conservatism is about localism," says Frank Luntz, a Republican pollster. By extension, Washington has become for many conservatives a bogey and irrelevance: "When you send someone to DC, you say screw you. When you elect someone to run your state, you want your trash to be collected."

An alternative view is that the party's success in state and congressional elections has convinced those Republicans still interested in winning national power that the need for reform is less urgent than it is. A post mortem by the Republican National Committee into Mitt Romney's defeat in the 2012 presidential election found that the party was widely viewed as "scary",

"stuffy" and "out-of-touch". But then, in a wave of anti-establishment rage, it swept the mid-terms in 2014, and whatever impetus for reform existed was lost.

Can it be regained before next year's presidential election? It is otherwise hard to see how the party can carry out the necessary expansion of its base. In 2012 Mr Romney hoovered up the white vote, but lost because he won support from only 27% of Hispanics, the fastest-growing electoral group. To win next year, his successor will need to get around 40% of the wary Hispanic vote, reckons Mr Rubio's pollster, Whit Ayres.

That would require the party not only to stop bashing immigrants, but also allay the wider concerns about its motives, discipline and intemperance. It is not only Mr Trump's excesses that are hurting it. Political parties, like people, tend to get the reputations they deserve, and the Grand Old Party's may yet shut it out of the White House next year. ■

## Obamacare

### Take three

#### JERSEY CITY

**The law's merits and flaws become clearer as it enters its third year**

THE future of the Affordable Care Act—the ambitious, sprawling law better known as Obamacare—depends in part on modest places like Horizon Health Centre, in Jersey City. Its small lobby, with fluorescent lights and linoleum floor, boasts a framed thank-you note from the president. Horizon is, first, a clinic. It mostly treats black patients, Hispanics and immigrants from the Middle East. For the past two years, however, Horizon has also helped them get insurance. Staff have extolled Obamacare at churches and mosques, at meetings for students and meetings for prisoners. Now they are at it again.

It is sign-up season for Obamacare. On November 1st the law's online exchanges opened for business, selling policies that begin in January. This year's "open enrollment", in certain respects, shows the law's progress. In 2013 Obamacare's computer programs sputtered. Horizon's Nastassia Fleischer had to help clients sign up by phone. "This year the website is working great," she says. More important, after years of touting Obamacare's theoretical benefits, Democrats can now point to some real ones. In the past two years 17.6m have gained insurance. As with so much about the health law, however, Obamacare's record remains devilishly complex.

That is inevitable, given the law's tangled design. Obamacare bars insurers from ►

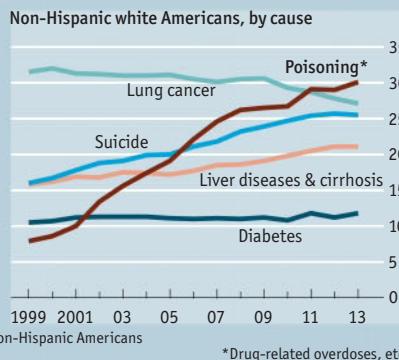
#### White America's mid-life crisis

A new paper claims that whereas mortality rates for 45-54-year-olds around the world have steadily headed downwards since the late 1990s, in America mortality is on the up. The less-educated are suffering most—between 1999 and 2013, deaths per 100,000 from "external causes" among those with at most a high-school degree increased by 69, compared with just 4 for those with a university degree. Had mortality rates remained on the downward path they followed between 1970 and 1998, half a million fewer lives would have been lost. By comparison, AIDS cost 650,000 American lives between 1981 and mid-2015.

Deaths per 100,000 population, aged 45-54  
By country



Source: "Rising morbidity and mortality in midlife among white non-Hispanic Americans in the 21st century", by Anne Case and Angus Deaton



▶ raising costs for the ill. To broaden insurers' pool of risk, the law fines those who do not buy coverage. It offers states money to extend eligibility for Medicaid, the health program for the poor. For Americans who are marginally better off, Obamacare gives subsidies to buy insurance on new online exchanges. Together, these provisions have had impressive results. The share of Americans without insurance dropped from 20.3% in October 2013 to 12.6% in September.

Even so, there are still more than 32m uninsured in America. Nearly twice as many people lack coverage as have gained it. Many will remain uninsured, for two reasons. First, millions do not qualify for subsidised coverage. More than 4m are undocumented immigrants, according to the Kaiser Family Foundation. Nearly 3m are uninsured because they live in states that did not expand Medicaid—perversely, they are also too poor to receive subsidies, which were intended for those earning \$11,800 to \$47,000 a year. A disproportionate number of these, nearly 1m, are black

adults. Officials project only a modest increase of fewer than 1m new enrollees in 2016. Second, many who do qualify for Medicaid or for subsidies will not sign up. Some states, wary of costs, make it difficult to enroll in Medicaid. Most of the uninsured do not know they might qualify for subsidies. And many will have sticker-shock when they see the cost of premiums.

In Obamacare's first two years, insurers set prices before knowing their costs. Only about 35% made money in 2014, according to McKinsey, a consultancy. This year more health plans left the market than entered it. Insurers are adjusting their prices. Some are lower; many are higher. In Indiana, for instance, the average premium of a standard plan for a 27-year-old is 12% lower than it was last year. In Oklahoma, the average price jumped by 36%.

On November 3rd Kentucky voters elected a new Republican governor, Matt Bevin, who ran on a pledge to dismantle a law that has helped half a million residents of his state gain coverage. With Obamacare, politics is never far away. ■

### The unicorn's horn

US average house prices, 2015 prices, \$m



Sources: Zillow; BLS; *The Economist*

**Interactive:** Compare the ups and downs of housing across America at [Economist.com/ushouseprices](http://Economist.com/ushouseprices)

The cost of San Francisco property has doubled since 2000, compared with a rise of 48% nationally (see chart).

Many longtime residents have found themselves priced out. People who work in the city but do not earn much, such as teachers, struggle to find anywhere to live. "The economy of the Bay Area has outgrown the area," says Gabriel Metcalf of SPUR, a non-profit focused on civic planning. San Francisco's onerous permit process (which means it can take years before new constructions break ground), as well as its strict zoning laws, have limited the supply of new dwellings.

Some blame tech firms directly for the city's problems. One closely-watched ballot initiative would have restricted property-owners from renting out their homes for short-term stays through websites like Airbnb for more than 75 nights a year. This, too, was defeated, in part because Airbnb spent so much to fight it. Supporters of tighter regulation think Airbnb is partly to blame for rising rents (by enabling landlords to keep their apartments off the long-term rental market profitably), and fear San Francisco runs the risk of having its neighbourhoods gutted and filled with transient guests. Protesters stood outside Airbnb's offices on election day with placards and black balloons.

San Francisco's mayor, Ed Lee, has been a friend of the technology industry, which has earned him both critics and kudos. He created a "Twitter tax break" to encourage the social network and other technology companies to move to the Tenderloin, a particularly poor area of the city, which has been good for developers. This week voters approved a proposal, backed by Mr Lee, that the city should fund the building of cheaper dwellings by selling housing bonds, which will create 30,000 new affordable dwellings in four years. Such a target seems ambitious; a mere 6,600 affordable units were constructed between 2004 and 2014. However, even if Mr Lee's target is miraculously achieved, it is not nearly enough to meet the city's needs. ■

### Property in San Francisco

## Golden gates

SAN FRANCISCO

### The capital of disruption fears it may be experiencing too much

WHEN Spanish explorers first landed in San Francisco they settled on a sunny patch of land known today as the Mission District, displacing the Native Americans who had been living there. Now the neighbourhood is facing a new, disruptive influx of settlers, as hordes of yuppies who work in the thriving technology sector move in, pushing up rents and pushing out longtime residents. New urban money has altered the largely Hispanic district, which now hosts designer coffee shops and a Michelin-star restaurant, as well as the home of Facebook's billionaire founder, Mark Zuckerberg.

Those concerned about gentrification of the Mission supported a ballot measure—decided by voters in San Francisco's election on November 3rd—which would have stopped all new construction in the area for 18 months. Supporters believed this could temporarily halt rising rents and save poorer residents from eviction, which is occurring not only in the Mission but throughout the city. The proposition was defeated at the polls; but it points to larger tensions over the effects of the technology boom in San Francisco and nearby Silicon Valley. In all, five ballot initiatives had to do with housing.

San Francisco has the most expensive

rents in America. A one-bedroom apartment costs, on average, over \$2,640 a month, 23% more than in New York city. Second to San Francisco, at \$2,590 a month, is nearby San Jose in Silicon Valley, where many tech companies have their headquarters. New York city comes third.



Nonsense on stilts

## Guns in universities

# Revenge of the nerds

AUSTIN

**Texas's new campus carry law may yet, er, backfire**

IN JUNE, Texas became the eighth state to adopt legislation allowing guns to be carried on university campuses. (In a ninth, Arkansas, only faculty are permitted to bear arms while wandering about the quads.) "Campus carry" has been a priority for gun-rights groups since the shootings in 2007 at Virginia Tech. It was bound to get a hearing in Texas, even in the absence of a grim precedent: in 1966 an engineering student at the University of Texas at Austin took half a dozen guns to the top of the clock tower that marks the centre of campus, and began what is now considered to be America's first school shooting.

By the time it was over he had left 14 people dead, more than 30 wounded, and a generation of students with terrifying memories of the day. One of them, Jeff Wentworth, was among the legislators who filed a bill proposing campus carry in Texas, back in 2009. Over the next several sessions the legislature debated the subject at length. The arguments against it have been laid out exhaustively. UT Austin has held two public forums on the subject this term, at the student union, in the shadow of the clock tower. Most of the students who spoke were opposed to having guns on campus, but that would have been old news to the university administrators, who also opposed the law, and to the legislators, who passed it over their objections.

A wrinkle has emerged from these discussions, however. Although the legislature clearly passed a campus-carry law, it seems that lawmakers may not have read it first. On closer examination, Texas law now requires the heads of public universities to come up with "reasonable rules" about guns on campus, "after consulting with students, staff and faculty". The strictest injunction in the law itself is a vague phrase stating that public colleges cannot "generally prohibit" Texans licensed to carry a gun from doing so on campus.

The question of whether that means universities can ban guns in classrooms, for example, is fiercely contested. Brian Birdwell, the Republican senator who drafted the bill, says he is counting on universities to adhere to "the letter and the spirit" of the law. It would be surprising and generous if any university president whose stated opposition to campus carry was ignored by the legislature were to adhere scrupulously to its wishes. And besides, in the event of a court case, it is the letter of the law that will be put on trial.

Despite widespread enthusiasm for guns in Texas, public opinion on the subject is not as clear-cut as the politics of guns on campus might imply. Republicans have controlled Texas politics for almost 20 years. That they were mysteriously thwarted by Democrats over the measure for three legislative sessions in a row suggests that some compromise may still be possible, if only behind closed doors—and, perhaps, among the university working groups that right now are hammering out what campus carry—a phrase that almost everyone seems to have a strong view on—actually means. ■

ber 23rd. Mr Pruitt, who calls the plan "constitutionally infirm", promptly sued—as have 26 states in all.

Under the terms of the plan, the Environmental Protection Agency (EPA) has given each state an emissions-reduction target to meet by 2030, and considerable leeway over how to achieve this. The states can, for example, measure their progress in terms of tonnes of avoided emissions, an approach which lends itself to the creation of the sort of cap-and-trade scheme America has used to mitigate other forms of air pollution for decades. Or they can focus on reducing the carbon intensity of their electricity generation, which would be costlier for most states early on, but would not put an overall limit on their emissions. Yet Mr Pruitt, who tried to sue the EPA over an earlier version of the plan, is unimpressed.

The plan, he says, trespasses on states' rights by "trying to co-opt state officers to carry out federal policy and federal will". Legislation, which Mr Obama would have preferred but could find no support for in Congress, is the only way to settle that conflict, he argues. "Just because Congress has not provided the means by which you want to do this doesn't mean you can make it up as you go along."

The legal fight, which will be waged at first in the appeals court of Washington, DC, is going to be messy. Besides those filed by the states, around 20 suits against the CPP have been filed by private firms, mostly big energy users and producers, and more are expected. A dozen, mostly-Democrat-run, states are expected to file petitions in support of the plan. Assuming it proceeds to the Supreme Court, it is unlikely to be settled before 2017, by which time it is possible that America will have a Republican president, who might scrap the plan. The litigants are therefore trying to buy themselves time by asking the courts to stay, as well as scrap, the plan—ostensibly on the basis that being forced to take the first steps towards compliance would do them "irreparable damage".

This illustrates, first, how divisive and compromised Mr Obama's recourse to executive action is, on this and other issues. It necessitates much slower progress than legislative reform could. America would ideally reduce all its carbon emissions; not, as under the CPP, only those from a portion of its electricity generation, which is in turn responsible for only a third of its total emissions. It leaves an important change vulnerable to the whim of judges. And it chases politics—which Mr Obama's pen may circumvent but never escape—into a murky realm of lawyers, lobbyists and furtive political rivalries, where it is hard for voters to follow. Politics and murk are both evident in the different ways state governments have responded to the CPP, which go beyond the usual party divide. They fit into three broad categories. There are sup-

## Energy policy and the states

# Mostly over bar the shouting

WASHINGTON, DC

**Most states will comply with the new rules on mitigating carbon emissions**

BARACK OBAMA has no more committed adversary than Scott Pruitt. The ambitious Republican attorney-general of Oklahoma has, since his election in 2010, filed legal challenges to pretty much everything Mr Obama's administration has done: including its new immigration rules, the Affordable Care Act and laws or regulations on contraception, banking and measures to protect the Lesser Prairie Chicken. So it was inevitable that Oklahoma would lead the charge of Republican and energy-rich states against the Clean Power Plan (CPP), Mr Obama's effort to cut pollution from fossil-fuel power stations, which was published in the federal register on Octo-



King no more

portive states, which typically have cap-and-trade regimes already in place, and include several—such as Massachusetts and Maryland—with Republican governors. There are also states fiercely resistant to the plan, for ideological, economic or political reasons. Oklahoma's governor, Mary Fallin, a climate-change denier (she considers prayer the most effective way to mitigate drought), issued an executive order forbidding any state official from complying.

Mr Pruitt is under similar pressure from Oklahoma's natural gas lobby. Last year he was exposed in the *New York Times* for having sent a letter of complaint to the EPA under his own name, though it had been written by an energy company. The Republican governors of Louisiana, Ohio and Wisconsin all came out against the plan, at least partly because all were then vying for their party's presidential nomination.

There are also many states divided on the issue: including Pennsylvania, where the Democratic governor is keen, but is having to negotiate traps set by the state's Republican-dominated legislature. In Colorado, a Democratic governor is supportive; the state's Republican attorney-general is meanwhile suing the EPA. The same is happening in Michigan, though there both these officials are Republican. "The best way to protect Michigan", says Valerie Brader, head of the state's energy agency, "is to come up with a state plan—to take decisions in Michigan, not leave them to the bureaucrats in DC." The state's attorney-general, Bill Schuette, who scored a rare victory against the EPA in July with a petition to dilute its rules on mercury pollution, is suing nonetheless.

Those differences illustrate a second fact about this scrap between the states and the feds. Despite the legal action, the number of outright rejectionist states is falling, and a quiet pragmatism spreading. In March Mitch McConnell, a powerful Republican senator from Kentucky, wrote to the states urging them to "just say no" to the plan; half a dozen, including Oklahoma and Texas, took up the challenge. Yet even they may be reconsidering. Only the day before Mr Pruitt filed his suit, Oklahoma's energy secretary, Michael Teague, hinted that the state may produce a compliance plan after all.

Mr Pruitt denies that any shift is taking place: "Nothing has changed and nothing is going to change." Yet even Oklahoma has realised that the cost of complying with a plan that goes with the grain of long-standing trends in America's energy mix (principally, the falling gas price and pre-existing environmental controls) looks manageable. The costs of failing to comply, which would include suffering the humiliation of having an off-the-peg plan foisted onto the state from Washington, look steep by comparison. Despite the shouting, in short, the plan is already working. ■

### Sea snakes

## Fangs a lot

LOS ANGELES

### Something is lurking in California's waters

FOR the first time since the early 1970s, a highly venomous sea snake has turned up on a southern California beach—the latest in a string of unusual wildlife sightings, including hammerhead sharks and red-footed boobies. Though a bite from this yellow-bellied snake can theoretically be lethal, shutting down all nerve signals to the respiratory system, "Jaws" this is not: the snake attacks only when provoked, and no one has ever documented a human fatality from *pelamis platura*.

This snake, which typically lives in tropical waters, has never before turned up so far north (in this hemisphere at least). While it is not clear what has brought it to Ventura County, experts say its arrival is a symptom of the record high ocean temperatures along the west coast. The phenomenon, climate scientists say, appeared in 2013 with the emergence of "the blob", a large mass of warm water (four or five degrees Fahrenheit hotter than average) in the Pacific Ocean. This has been associated with unusually dry, warm weather in the west.

As the Pacific continues to heat up, Californians are bracing for particularly strong storm surges this winter, part of the natural cycle known as El Niño, which occurs every 2-7 years (see page 53). Storms provide a welcome respite from the drought that has ravaged this parched state. But rain can wreak its own

sort of havoc. In 1997-98 El Niño claimed 17 lives and caused more than half a billion dollars in damage throughout the state. This year's episode may prove even more powerful. "This El Niño will probably be larger and more intense than what we've seen in recent years," says Bill Patzert, a climatologist at NASA's Jet Propulsion Laboratory in La Cañada Flintridge, who coined the term "Godzilla El Niño".

Part of what's at work is a little-understood pattern called the Pacific Decadal Oscillation (PDO), which propels ocean currents and affects temperatures. In recent years the west coast has experienced unusually weak winds, which caused the Pacific to warm up. Storms, by contrast, draw heat out of the ocean. The Pacific can remain in warm or cold phases for decades at a time, and can then switch between the two abruptly. PDO shifts can mirror El Niño episodes, but they are more profound and last longer. As Mr Patzert puts it: "El Niño is a sprint, while the PDO is a marathon."

Scientists disagree about the origins of these weak winds, which began to warm waters off the west coast several years ago, long before El Niño began to affect weather patterns this past spring. "Nobody predicted this ocean heatwave," says Nate Mantua of the National Oceanic and Atmospheric Administration in Santa Cruz. "And nobody has identified one simple explanation for it."

One thing scientists do agree on is that the Pacific will continue to heat up this autumn, and because of that more yellow-bellied snake sightings may lie in California's future. That prospect has left some positively giddy. "These snakes typically don't get farther north than Magdalena Bay [in Mexico], maybe San Diego in an El Niño year," says Greg Pauly a herpetologist at the Natural History Museum of Los Angeles County who drove 90 minutes to collect the snake after a retired professional surfer found it on the beach. "Only in my fantastic day-dreams did I imagine that one would show up right near L.A."

Unfortunately, just before Mr Pauly arrived at the scene the snake expired. Undeterred, he packed it in a ziplock bag inside a cooler and drove it back to the Natural History Museum, where it was preserved. Don't expect to see it on public display, however; Mr Pauly says it will stay in the research collections, for scientists to study in private.



Cue sinister cello music

# Lexington | Move over, Grover

If Hillary Clinton wins she will face a hostile Congress. This reality is shaping her pitch



SOMETIMES, rather odd political gatherings can be among the most revealing. Hillary Clinton's quest to lead the free world recently led her to address a ballroom full of Democrats in Carroll County, New Hampshire. Her warm-up act was George Cleveland, a local party stalwart who wore a frock-coat and wing collar and scolded Republicans as "popinjays"—the better to impersonate his grandfather, Grover Cleveland, a 19th-century president whose family settled in the area.

Video of the event shows Mrs Clinton gamely playing along, raising her arms aloft in her own mimicry of Victorian oratory. This was wise: New Hampshire, a small state which hosts the first primary in each presidential election cycle, expects even very grand candidates to be approachable. Mrs Clinton spoke of her "particular liking" for Grover Cleveland, calling him "the original comeback kid" who enjoyed a "meteoric" ascent through New York state politics, suffered a stinging loss, then rose again. This was a fair summary of Cleveland's career, as the only man to serve as president for one term (from 1885-89), lose office and then retake the White House four years later. It was also a nod to her own story as the First Lady-turned-senator from New York, who entered her party's presidential nominating race in 2008 as a front-runner, only to lose to a younger rival.

But Mrs Clinton made no mention of another, still more instructive parallel with Cleveland. If she wins the presidential election in 2016 she is almost certain to face a Congress that is partly or wholly run by her Republican opponents from her very first day in office. That fate is so rare that Grover Cleveland was the last Democratic president to face a hostile Congress as he was sworn in (Republicans controlled the Senate throughout his first term). All modern Democratic presidents have enjoyed a friendly Congress for at least their first two years in office.

Alas for Mrs Clinton, even a Democratic wave in 2016 is unlikely to wash away the Republicans' majority in the House of Representatives. Democrats would need a net gain of 30 seats: an near-impossible feat in a House dominated by ultra-safe seats. According to ratings compiled by Roll Call, our sister publication, with the Rothenberg & Gonzales Political Report, just 31 of the 435 House districts will be competitive next year, 25 of them Republican-held. The Senate is more of a toss-up. Democrats need a net

gain of five to control the 100-seat chamber and seven Republican seats look vulnerable, because they represent swing states which backed Barack Obama in his presidential contests. But even if Democrats take the Senate, they will not secure the 60-seat super-majority needed to ram laws past united Republican opposition.

Thoughtful centrists have begun urging Democrats to prepare for divided government, notably at a recent meeting at Third Way, a think-tank in Washington. Several speakers at the gathering, on October 28th, cited Cleveland to emphasise what an unusual moment this is. The conclusions they draw set them on a collision course with many on the populist left, who are thrilled by the presidential candidacy of Senator Bernie Sanders of Vermont, with his calls for a populist "revolution".

In contrast, speakers at Third Way urged Democrats not to head too far leftward, arguing that many of the party's congressional and state-level candidates ran in 2010, 2012 and 2014 on populist platforms focused on economic inequality, and were thumped. Left-wing Democrats sound as if they want to return to a past before globalisation and automation, mourned one speaker, Governor Jack Markell of Delaware. But that past is not coming back: employers now have the choice of creating jobs in "Wilmington or Wuhan".

Next, the centrists called on their party to ponder progressive policies that a President Clinton might get through a Republican-run Congress—policies aimed less at reversing economic "unfairness" than at educating and equipping Americans to prosper in an era of jolting economic change. Another Third Way speaker, William Daley, who served Mr Obama as his first White House chief of staff and was commerce secretary under Bill Clinton, stressed the importance of crafting policies with broad appeal. Policymaking through the executive actions of a president cannot bring fundamental change, he noted. It takes legislation to enact lasting reforms, and making laws requires compromise.

## Let Hilly take over

Though Republicans dismiss Mrs Clinton as an outrageous partisan, her campaign rhetoric contains hints that she, too, is thinking about how to work with opponents. For sure, her standard stump speech is full of attacks on "out of touch" Republicans, and Democrat-pleasing lines about gay marriage, climate change and gun control. But at the Grover Cleveland Dinner in New Hampshire she gave a more sorrowful than angry account of arriving in the Senate in 2001, as George W. Bush proposed steep tax cuts that favoured the wealthy. Rather than call Mr Bush's move wicked, as Mr Sanders might, she framed it as a missed opportunity. She listed bipartisan policies she had hoped to see passed: from shoring up the solvency of Social Security and Medicare programmes for the old, to investing in education, medical research and science. Alas, Republicans had a different approach, she sighed.

Turning to the future, Mrs Clinton called for repairs to America's crumbling infrastructure. She dropped hints that she might means-test new benefits for the elderly and called for "more competition" in the health-insurance market, even as she vowed to defend Obamacare. Those are all centrist priorities.

"I know how to find common ground, and I know when to stand my ground," Mrs Clinton said in New Hampshire. That can be hard. History recalls Grover Cleveland's first term as an exercise in frustration, as he used veto powers against Congress hundreds of times. But as a pragmatist, Mrs Clinton knows that the middle ground is the only place she will get anything done. ■



## Mexico's economy

## Shopping therapy

MEXICO CITY

## The mood is gloomy, but the tills are ringing

**S**HARES in Walmart, the American retail behemoth, have dropped by a third so far this year. But those of Walmax, its separately listed Mexican arm, are up 30%. This shaft of sunlight is surprising, for the mood south of the border has generally been glum. A series of outrages, starting in September last year with the disappearance of 43 student-teachers in the southern state of Guerrero, has sharpened Mexicans' mistrust of officialdom, undermined their faith in the rule of law and deepened their pessimism about the country's future. Walmax itself was at the centre of a scandal after reports in 2012 that it had bribed local officials to win permits to open new stores.

Yet its buoyant performance suggests that, although Mexicans are gloomy citizens, they are cheerful consumers. Retail sales (excluding new stores) increased 6.2% in the first nine months of this year after growing less than 1% in 2014 and barely at all the year before, according to ANTAD, a group that represents retailers. Walmax's profits jumped by more than a fifth between the third quarter of 2014 and the same period this year. Crowded malls are a hopeful sign. The economy is "coming out of the doldrums", says Damian Fraser of UBS, a bank. The push is coming partly from the United States, the huge market

next door. More intriguingly, structural reforms introduced in 2013 by the government of President Enrique Peña Nieto may be starting to nudge the economy forward.

The United States' relatively strong growth is boosting remittances from Mexicans living there. Thanks to a devaluation of the peso against the dollar, by about a fifth since August 2014, those remittances have more buying power. The weaker peso is also a spur to non-oil exports and to firms that compete against foreign suppliers to serve the domestic market. So far, the peso's weakness has not pushed up prices.

## Pesos in pockets

Mexican household-spending power

% change on a year earlier

Wages	Employment	Remittances
Pensions	Consumer credit	



Source: UBS

## Also in this section

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The inflation rate has dropped from 4.1% last December to a record low of 2.5% in August, which is below the central bank's target rate of 3%. That helps sustain real wages, one reason for consumers' high spirits (see chart 1).

It is also a sign that the reforms are having some effect. In an overhaul of the telecoms sector, the government encouraged new entrants to challenge América Móvil, a near-monopoly. It gave independence to the regulator and abolished long-distance charges for fixed-line calls within Mexico and the fees charged by América Móvil for national roaming. The cost of fixed-line calls dropped by more than 4% from last December to August this year; mobile-phone calls are 15-20% cheaper.

Electricity prices have also dropped, especially for industrial consumers. The state-owned electricity supplier, forced to compete directly with private providers for the first time, shifted from oil to cheaper natural gas to fuel its plants. Lower power prices are probably contributing to the recent strength in investment, especially in machinery.

The government says it is beginning to overcome one of the biggest causes of low wages: low-productivity jobs in small firms that escape tax and regulation, which account for 60% of employment. The evidence of progress is patchy. This year the number of people in formal employment has risen at an annual rate of 4.4%, its fastest pace in decades, says Luis Madrazo, the finance ministry's chief economist. He at- ►

**Correction:** In our story on October 17th about Canada's election ("Struggling to stay afloat"), we mislabelled a chart entitled "Harper's legacy". It showed the share of spending at each level of government, not government spending as a proportion of GDP. Sorry.

tributes the shift to government incentives, such as a ten-year tax subsidy for companies that hire formal workers, one part of a deeply unpopular tax reform. Demography is helping. As they age, Mexicans are more avidly seeking out formal employment, which comes with health insurance and pensions. Companies that offer such jobs also have higher productivity than informal ones and are more likely to grow.

Some of its reforms will take longer to pay dividends, but they seem to be moving forward. The plan to end the oil monopoly of state-owned Pemex started badly in July, when it put up for auction the rights to exploit 14 oil-exploration blocks. It ended up awarding just two. After changing contracts to reassure bidders that they would not be rescinded without arbitration, the second auction in September went much better; three of five shallow-water blocks found takers.

A crucial education reform, which had been partially blocked by a radical teachers' union in the southern state of Oaxaca, also seems to be back on track. In July the government intervened, helping the state dissolve its education department and set up a new one willing to implement the reform. By curbing a lawless union and holding transparent energy auctions, the government is showing that it can apply the rule of law when it really wants to.

This is not likely to impress Mexicans who remain furious about scandals: the disappearance of the 43 students (apparently murdered by drug traffickers and local police); a controversy revolving around house purchases by the president's wife and the finance minister; and the escape in July of Joaquín "El Chapo" Guzmán, Mexico's most notorious criminal, from its highest-security federal prison. Crime and corruption are uppermost among Mexicans' worries, the opinion polls say.

Nor will shoppers alone pull the economy out of its rut, as most seem to realise (see chart 2). The government now expects GDP to grow by 2.8% at most in 2015, well down on the 3.2-4.2% it predicted at the beginning of the year. Mr Madrazo attributes that disappointment to an unexpected

drop in oil production caused by accidents at Pemex, and to a lull early this year in industrial production in the United States. "Strip away these two shocks and the Mexican economy is doing a little better than you would understand from the headlines," he says.

Growth next year is likely to be just a little faster, held back by weak oil exports, tighter fiscal policy and the curses of infor-

mality, crime and oligopoly, which the reforms are just starting to address. But optimism may be creeping back. Mexican business executives are the most hopeful in Latin America, and nearly as cheerful as their American counterparts, according to a recent survey by CFO magazine. If bosses at companies like Walmex are feeling chipper, they probably expect their customers to cheer up, too. ■



### Canada's Inuit

## Easier said than written

OTTAWA

**Aborigines of the Arctic share a language, but not a script**

MISSIONARIES in northern Canada saw themselves as spreading the "three Cs" among the region's Inuit peoples: Christianity, commerce and civilisation. But in translating the Bible and other religious works into Inuktitut, the Inuit language, they accidentally left behind a fourth: confusion. Today Canada's 59,500 Inuit have nine different writing systems, which makes it hard for them to communicate with each other and to keep their language alive. Their leaders want to adopt a single way of setting down the language, but finding agreement on just how to do that is proving difficult.

In the western Arctic and on the Labrador coast missionaries moonlighting as linguists used the Roman alphabet to capture Inuktitut in written form, but each had his own system for doing so. Sounds denoted by one combination of letters in one region are expressed by a different assortment in another. "You" can now be rendered as "ib-

bit", "ivvit" and "illit". In northern Quebec and the eastern Arctic, the proselytisers eschewed Roman letters in favour of phonetic symbols based on the Pitman shorthand system (see picture).

With no agreed-upon way of writing the language, documents composed by Canadian Inuit officials have to repeat the same text multiple times. Brief reports become massive—and expensively produced—tomes. Often, the bureaucrats resort to English. Teenagers are more adventurous spellers, so standardised writing should matter less to them, but even they tend to text each other in English.

This is slowly killing the language. The percentage of Inuit able to carry on a conversation in Inuktitut dropped to 63% in 2011 from 69% in 2006, according to the Canadian census. A committee set up to investigate a unified writing system held most of its meetings in English, says a participant, Jeela Palluq-Cloutier, head of the ►

### I'm all right, Juan

Mexican consumers' confidence in the economic situation of: January 2013=100



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► language authority in the mainly Inuit territory of Nunavut.

Greenland's Inuit, whose dialects resemble those in eastern Canada, worked out their differences over a decade starting in the 1960s and adopted their agreement as an official language in 2009. Canada's have talked desultorily about doing the same thing. A report on Inuit education in 2011 gave the project a fresh impetus. It found that 75% of young Inuit fail to complete secondary school in part because the curriculum does not reflect their culture and history. The report's authors said that students should be taught in their mother

tongue, rather than in English and French, for the first few years of primary school. But without a unified writing system, which would allow for the distribution of Inuktitut texts across the scattered communities of Canada's vast north, that recommendation is impossible to carry out.

On October 25th, after three years of contentious discussion among elders, linguists and community groups, the Inuit Tapiriit Kanatami, the Inuit national organisation, opted for a system based on the Roman alphabet rather than syllabic symbols. That is just a first step, says Ms Palluq-Cloutier. There will be arguments about

which of the nine or so dialects and which grammar will become the basis for the new system. The Innu, an unrelated aboriginal group from Quebec and Labrador, agreed on a system that took the spelling from one dialect and the grammar from another. But many Inuit are reluctant to give up the script they grew up with. In Nunavut and Nunavik many older Inuit remain attached to syllabic symbols, believing them to be uniquely Inuit. But if the Inuit are to preserve their language, they will have to clear up the confusion that the missionaries left behind. Odds are they will—eventually. ■

## Bello | The politician as thinker

### Fernando Henrique Cardoso dissects Brazil's problems

**A**S BRAZIL'S finance minister and then its president from 1995 to 2003, Fernando Henrique Cardoso slew inflation and modernised his country's economy by privatising state enterprises and opening up to foreign trade and investment. He also began some of the social programmes that would be massively expanded by his successor, Luiz Inácio Lula da Silva. It was Mr Cardoso's misfortune that in his second term Brazil was buffeted by instability that swept through emerging markets, from Asia to Argentina. He waited too long to allow the real, his new inflation-busting currency, to float, and left office bereft of the popularity he had once enjoyed. Though unfair, Lula's remorseless attacks on the "cursed inheritance" bequeathed by his "neoliberal" predecessor—in fact a moderate social democrat—had an effect.

At the age of 84 Mr Cardoso is enjoying a renaissance of his reputation. Speaking to Bello at his institute in downtown São Paulo, he seems relaxed and says he no longer has political ambitions, but admits to enjoying "a lot of political and intellectual influence". He is the unofficial leader of the opposition to a weak and unpopular government, that of Lula's chosen successor, Dilma Rousseff. While investigations into a vast web of corruption based on Petrobras, the state oil giant, lap ever closer to Lula, Mr Cardoso enjoys respect as an elder statesman. And as Brazil sinks into what threatens to be its worst recession since the 1930s, his government's economic record looks much better.

He has two new books out. One is a collection of articles and speeches, many criticising Lula's second government and that of Ms Rousseff. The other, published on October 29th, is the first of four projected volumes of transcriptions of tape recordings he made every two or three days

during his presidency. These reveal his frustrations, often with friends more than foes, and his thoughts on government. He had originally intended these tapes to be made public only after his death. Why did he change his mind? The chance to highlight the contrast between Brazil's current plight and the progress and lack of big scandals in his government was clearly too tempting to miss. "People are starting to re-evaluate what we did," he says. "The book reflects that [contrast]. You have to have values and to show them."

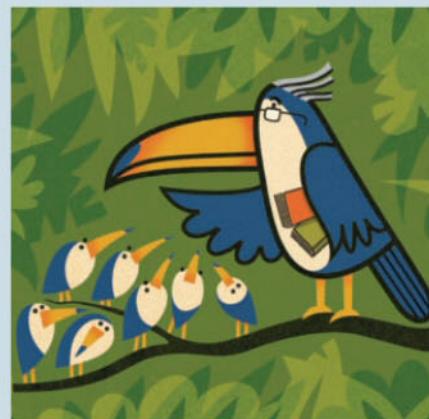
He thinks that, for the sake of maintaining its hold on power, the governments of the left-of-centre Workers' Party (PT) to which Lula and Ms Rousseff belong lost sight of a clear policy agenda. That led party officials to use bribes to strike alliances with smaller, retrograde parties. Mr Cardoso concedes that Brazil's failure to curb the proliferation of parties in Congress (there are now 28) has created a "model of ungovernability". Even so, "everyone still looks to the president", he adds. "If you have the capacity to talk to the country and an agenda, Congress falls into line. When you have neither, it

doesn't." That is Brazil's current drama: Ms Rousseff is jeered whenever she talks, and is half-hearted in backing the fiscal reforms the country needs.

Unlike much of the opposition, Mr Cardoso does not support Ms Rousseff's impeachment ("You have to have legal cause as well as society pressing"). Instead, he thinks she should resign. This could be an act of "grandeur" if it is a means to "a new consensus" on a minimum agenda of three or four points, including political reform and limits to public spending and debt. She shows no sign of agreeing.

As president, Mr Cardoso persuaded Congress to approve no fewer than 35 constitutional amendments, most rolling back the corporatist state established in the mid-20th century. His aim, he has often written, was to equip Brazil to flourish in an era of globalisation, through innovation, technology and competitiveness. Lula at first followed this path. But after 2007, laments Mr Cardoso, Brazil reverted to a "regressive Utopia" of statist protectionism. It missed an opportunity that may not come again soon.

He thinks the political conditions and leadership are not yet there for a fresh drive to carry out the fundamental reforms the country needs, of pensions, labour markets and public finances. For that, Brazil needs a "new focal point and a new leader", he argues. It is striking that, according to the polls, the opposition has failed to profit from the weakness of the government and the PT. He thinks his own Party of Brazilian Social Democracy (PSDB), informally known as the tucanos (toucans), should take bolder positions. His critics argue that he failed to encourage the PSDB's renewal, through primary elections for example. But his role as a thinker is more important than ever.





### Cross-strait relations

## Hands across the water

BEIJING AND TAIPEI

### The leaders of China and Taiwan are to meet, for the first time in their history

EVER since he was elected president in 2008, Ma Ying-jeou has sought to improve Taiwan's rocky relations with China. On November 7th in Singapore the world will see the culmination of these efforts, when the Taiwanese leader meets his Chinese counterpart, Xi Jinping. The news is a surprise. It will be the first meeting between the two countries' leaders since the Communists' victory in the civil war in 1949, when Chiang Kai-shek's defeated Kuomintang (KMT) forces fled to the island fortress across the Taiwan Strait.

No agreements will be signed in Singapore, nor any joint statement issued. The two sides will be careful how they refer to each other, Mr Xi especially not wanting to confer too much legitimacy on the leader of an island which the mainland claims as its own. Mr Ma's office says that the meeting will "consolidate cross-strait peace and maintain the status quo". That reassurance is necessary. Especially during Mr Ma's second term as president, many Taiwanese have grown increasingly unhappy over a flurry of agreements with China, 23 in all, promoting greater economic integration across the strait. Last year hundreds of thousands took to the streets of the Taiwanese capital, Taipei, in anti-trade protests led by students who also occupied the legislature. Their concerns were not only about jobs, but also about the political leverage that greater integration, negotiated largely in secret, might give the mainland.

Mr Ma has never been wholly trusted to stand up for the de facto independence that most Taiwanese treasure in the face of China's insistence on unification. He himself was born in Hong Kong soon after his family fled the mainland, and he was raised in a household committed to the unification cause.

He has long argued that politicians must follow voters' lead on the issue. And he, along with most Taiwanese politicians, also emphasises that China must democratise first. However, his apparent caution does not matter to many Taiwanese, especially of the younger generation. While he will present the summit with Mr Xi as proof that he has enabled stable relations with China, many Taiwanese believe the KMT to be too pro-China and are prepared to believe that their president will sell them down the river.

For that reason, it is not clear how much of a coup the summit will be back home for Mr Ma or for the KMT. His popularity, after all, is plumbing the depths, and his eight years in office will come to an end next year, after a presidential election on January 16th, when parliamentary elections will also be held. His party is in turmoil over the prospect of losing. It has recently dumped its unpopular and staunchly pro-China presidential candidate, Hung Hsiu-chu, in favour of Eric Chu, a pragmatist who made his name as mayor of New Taipei City, the exurbs surrounding the capi-

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tal. Though charismatic, in opinion polls he lags far behind Tsai Ing-wen of the opposition Democratic Progressive Party (DPP), which leans more towards independence. An even-tempered lawyer who studied in America and Britain, she looks a shoo-in as the next president.

Ms Tsai has sent reassuring signals, not least to Taiwan's American protectors, that she is not going to rock the boat (she says she respects Taiwan's constitution, and by implication will not challenge its one-China ethos). Still, many of the DPP's members despise the notion that both Chinese and Taiwanese governments uphold, namely that there is but "one China", with each side agreeing to disagree over that phrase's exact definition. The Singapore summit is a sign of just how concerned Mr Xi is that improved ties during Mr Ma's term in office could be harmed if the DPP returns to power. Cross-strait relations sank to a low point in 2000-08, the last time the island was led by a DPP president, Chen Shui-bian.

The Chinese government is concerned that Taiwan may yet move towards officially declaring independence and has solemnly warned it would meet any such pronouncement with force. In a veiled threat to Ms Tsai, Mr Xi himself has urged "high vigilance" against what he called Taiwanese "splittists". A sweeping national security law passed in July included the responsibility of "fellow citizens in Taiwan" to protect China's sovereignty and support the cause of unification.

Given an almost certainly cooler relationship following Taiwanese elections next year, Mr Xi may try banking what gains he can in Singapore. Mr Ma, hoping to create some legacy of cross-strait co-operation after a chequered time in office, is presumably not foolish enough to think that the kudos from the summit gives the KMT better odds of keeping the presiden- ►

cy. The meeting is a gamble for him, with the Taiwanese electorate disgruntled about a sluggish economy and keen to assert the island's identity distinct from mainland China.

Two years ago Mr Xi said that cross-strait differences should no longer be handed down from generation to generation. He may be keen to appear as a peacemaker at a time when China's aggressive

island-building in disputed waters in the South China Sea is creating friction in the region and with America (see next story). Still, it remains difficult even for as confident a Chinese leader as Mr Xi to seek any change in the relationship with Taiwan when Taiwanese themselves do not want it. And, whatever happens in Singapore, in the January elections they are likely to make that abundantly clear. ■

### China's offensive charm

## Reef knots

SEOUL AND SINGAPORE

### No more Mr Nasty Guy? China tries to be nice

IT IS not just towards Taiwan that China has been showing a friendlier face. Recent days have seen a flurry of high-level diplomacy that has helped calm some of its many other quarrels in Asia. China's president, Xi Jinping, has paid a rare state visit to Vietnam, despite continuing tensions over competing claims in the South China Sea. And China has taken further steps to normalise relations with Japan, fraught for the past five years over disputed islands and a long-running row about Japan's view of its own history.

The overture to Vietnam is perhaps the more surprising, given recent developments. Like other claimants in the region, notably the Philippines, Vietnam has been angered by the breakneck pace of Chinese land reclamation around rocks and reefs in the sea. When, late last month, America sent a naval destroyer close to one of those reefs to assert "freedom of navigation", Vietnam did not publicly cheer, as the Philippines did. But it was undoubtedly pleased. China, for its part, fulminated against the American "threat", and held live-fire military exercises in the sea. But its reaction, though shrill, was formulaic. It seems reluctant to provoke a showdown with the United States.

Nor, however, is China making any concessions. Along with the Philippines and Vietnam, it was among 18 countries attending a meeting of defence ministers in Kuala Lumpur this week. Unusually for an event organised by the Association of South-East Asian Nations, this wound up with no agreed joint statement. China objected to the inclusion of anything related to the South China Sea.

The dispute is causing China legal as well as diplomatic embarrassment. On October 29th the Permanent Court of Arbitration in The Hague ruled that it did have jurisdiction over a case filed by the Philippines under the United Nations Convention on the Law of the Sea (UNCLOS). It



accepted that the Philippines' submission was not about sovereignty, but about the interpretation of the law. China has refused to take part or to recognise the court's jurisdiction. It will consider whether China has illegally obstructed Philippine fishermen and broken obligations to protect

the environment.

The court will also pass judgment on whether the features that China is building up—now, in effect, artificial islands—are entitled to the 12-nautical-mile territorial waters and 200-nautical-mile exclusive economic zones (EEZ) that UNCLOS allows to habitable natural islands. The Philippines maintains that they are either uninhabitable rocks, which get no economic zones, or reefs submerged at high tide, with no territorial waters either. This was the point America wanted to make in sending the USS Lassen near one feature, Subi reef: it used to be a "low-tide elevation" and, whoever owns it, building around it does not alter its legal status.

Against this backdrop, Mr Xi's visit may have been an effort to remind the region that it is an indispensable economic force as well as a rising military power. For Vietnam, as for many other Asian countries, China is the single largest trading partner. And China will have followed the debate in Vietnam ahead of a leadership transition at a Communist Party congress in early 2016. Some Vietnamese leaders want the country to tilt more decisively towards America. In recent years it has forged much closer ties and joined the American-led trade pact, the Trans-Pacific Partnership. Others favour maintaining a balance, arguing that America is fickle, whereas China will always be next door.

### The American friend

Japan's territorial dispute with China, over the tiny uninhabited Senkaku or Diaoyu islands, has a different context—that of Japan's security treaty with America. As China sees it, this has allowed Japan to risk China's wrath, as when, in 2012, it nationalised three of the islands that had been privately owned. Since then bilateral relations have been dire. Japan has been engaged in equally bitter disputes with South Korea, over yet another rocky island, and over Japan's 20th-century militarism.

So a trilateral summit in Seoul this week between China's prime minister, Li Keqiang, his Japanese counterpart, Shinzo Abe, and South Korea's president, Park Geun-hye, was a breakthrough. Their disagreements are substantial and heated, and the most important were dodged in the joint statement. Yet the three declared that co-operation had been "completely restored", after a break since May 2012.

This will be welcomed by America; it has long cajoled Japan and South Korea, its two most important East Asian allies, to make it up, and watched with some alarm as South Korea has grown closer to China. But America will also be relieved that China and Japan seem to be edging away from confrontation. They agreed to resume talks between their ministers for trade, finance and foreign affairs, suspended since 2010. Both realise the risks of a flare-up in the ➤



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► East China Sea, so they are working to manage their rivalries instead. Incursions by Chinese vessels into the waters surrounding the Senkaku islands continue. But they are calibrated and orchestrated.

Undercurrents abound, however. China also appears to be slowly repairing ties with its old ally, North Korea: ties which, shrouded in secrecy and arcane rhetoric, have been strained since Kim Jong Un came to power four years ago. Last month China sent its first high-ranking official to the North since 2013 for the celebrations of the 70th birthday of the North Korean Worker's Party. That is all to the good, if it helps China rein in its obstreperous neighbour. But the South's present cordial relations with China have yet to be tested by a North Korean provocation as serious as its presumed torpedoing of one of the South's warships in 2010; then, China's equivocal response soured relations with the South.

Some think China has good reasons to want better relations across the region. Douglas Paal of the Carnegie Endowment, a Washington think-tank, says the recent diplomacy is part of China's "counterbalance" to America's rebalance in Asia. China has realised that it has been "scoring own-goals all over the region"; now it wants to tone down disputes. Worried about managing hostility on two fronts, it is trying to mend some fences. But China's neighbours would like to see smiles from Mr Xi and Mr Li translated into a less assertive approach on the high seas. ■

## Bangladesh

# Fear in the shadows

DHAKA

**A series of murders puts writers and bloggers on edge**

IN BANGLADESH, the killing in broad daylight of progressive, secular members of the intelligentsia has become almost routine. On October 31st, assailants burst into an office in the capital, Dhaka, armed with machetes and hacked to death Faisal Arefin Deepan, a publisher. On the same day, another publisher was critically injured, as were two other writers present.

Ansarullah Bangla Team, sometimes known as Ansar al-Islam, a banned group inspired by al-Qaeda, has claimed responsibility for this and most other killings of secular thinkers in Bangladesh. It has published a "hit list" of those deemed to be critics of Islam and vowed that "no one who supports atheists will be spared".

Ever since partition in 1947, when it was known as East Pakistan, Bangladeshi politics has had a radical Islamist fringe. But, as during its war of independence from Paki-



**A publisher is slain**

stan in 1971, the fringe is growing in strength. The ruling Awami League (AL) remains the country's only mainstream secular force, but the obsession of its leader, Sheikh Hasina, the prime minister, with destroying the opposition alliance—made up of the Bangladesh Nationalist Party (BNP), led by her nemesis, Khaleda Zia, and the BNP's Islamist ally, Jamaat-e-Islami, the largest Islamist party—is weakening Bangladesh's secular, tolerant traditions.

Sheikh Hasina has rejected claims that the Islamist fringe is linking up with international terrorist groups such as Islamic State (is). Instead, her party has accused the BNP and Jamaat of being behind the recent killings.

Yet the AL appears to be emboldening some Islamist radicals, too. Critics say its crackdown on opposition politicians and other opponents is pushing some towards more extremist groups. And in trying to avoid being seen as unpious—which could spark demonstrations against the government by the devout—the AL is appeasing Islamist conservatives by caving in to pressure not to pass secular laws. It is also selectively using defamation laws only to target critics of itself and of Islam.

The latest machete attacks came only weeks after two foreigners—an Italian aid worker and a Japanese farmer—were shot dead, in attacks claimed (on Twitter) by is. Dhaka's diplomatic area has been turned into a high security-zone. The murder of foreigners may be unrelated to the killings of secular publishers, but shoddy, politicised policing means that neither locals nor foreigners trust the authorities. The Italian was killed just as Australia pondered whether the country was safe for its cricket team to tour, and his death was an important factor in its decision to cancel the visit.

Other murders have added to a climate of fear. On October 24th two people were killed and scores injured in a bomb attack on Bangladesh's small Shia community in old Dhaka—the only attack on the group in memory. Followers of Sufi Islam, a moderate branch, have come under attack. Writers, bloggers, as well as female journalists, some of whom appear on television unveiled, have also been threatened.

It could get worse. Sheikh Hasina has continued to pursue war crimes trials, aimed at settling scores from the struggle for independence. Top leaders of Jamaat have been sentenced by a self-styled International Crimes Tribunal (ICT) and two senior Islamists are now being prepared for execution.

Ali Ahsan Mohammad Mujahid, the secretary general of Jamaat-e-Islami, was sentenced to death for crimes, including murder, committed by a pro-Pakistani paramilitary group for which the prosecution said he was responsible. Salauddin Quader Chowdhury is a wealthy former adviser of Mrs Zia who has close links to Pakistan. At his trial he mocked and interrupted the judges as they sentenced him. On November 17th the ICT is due to review an appeal by the two men. If it upholds their death sentences, they may be executed by the end of the year, an act that could lead to unrest in cities across the country.

Amid all the fear, the battling begums continue to trade insults. On a long visit to London, Mrs Zia recently referred to Sheikh Hasina as "Lady Hitler". Of the four pillars of the 1972 constitution—nationalism, socialism, democracy and secularism—the last three appear to be collapsing or threatened. Under the Awami League's control, Bangladesh is moving further and further away from the country imagined at independence. ■

## Vanuatu

# Pardon me

WELLINGTON

## For the first time, Vanuatu jails corrupt legislators

POLITICIANS pardoning friends who have done wrong are nothing new. It is rare, however, that a politician will attempt to pardon himself. In early October, the president of Vanuatu, Baldwin Lonsdale, travelled abroad and the speaker of the nation's parliament, Marcellino Pipite, automatically became acting head of state. Mr Pipite took the opportunity to pardon himself and 13 other MPs who had been convicted, though not sentenced, on charges of bribery.

On his return, a furious Mr Lonsdale rescinded the pardons. As a result, the 14 MPs, including two former prime ministers, were sent to prison on October 22nd. This is the first time that sitting MPs have been successfully prosecuted for graft.

The country's politics are now plunged into uncertainty. Those imprisoned amount to half of the government's MPs. Parliament now needs to sit to pass a budget for 2016, but the prime minister, Sato Kilman, is reluctant to assemble the legislators because he has lost his majority, and fears a no-confidence challenge. The opposition has called on him to do the honourable thing and step down, but Mr Kilman contests whether the court's ruling on Mr Pipite and friends was fair and wants to await the outcome of the appeals. The president has given the parties until November 6th to resolve the impasse, or he may order an early dissolution (general elections are anyway scheduled for 2016).

Corruption scandals are a familiar theme in this scattered archipelago of 281,000 people. What distinguishes the latest one is how openly the politicians flouted the law. The story began in 2014 when the country's then opposition leader, Moana Carcasses Kalosil, offered legislators a total of 35m vatu (\$355,000) to support a no-confidence motion (he later claimed that the money had been offered as loans). Those who have now been convicted accepted the offer and helped bring down the government and install a new one in June this year, with Mr Carcasses as deputy prime minister. He is now in jail.

Vanuatu is a poor country in the grip of a severe drought and suffering from the after-effects of cyclone Pam, which swept across its islands in March. Most citizens live far from the urban centres, and rarely punish politicians at the ballot box for indiscretions in the capital city, Port Vila—especially if rewards trickle down to their remote communities. But current food

## Australia and Britain's monarchy

# Knightmare's end

SYDNEY

## A new prime minister nips colonial nostalgia in the bud

THE burial was swift. On November 2nd Malcolm Turnbull, Australia's prime minister, announced his government had removed the titles of knight and dame from among the honours that the country bestows. Tony Abbott, his predecessor, had resurrected them—40 years after they had been consigned to history as a quaint relic of Australia's British colonial past. In their latest life, they lasted just 20 months.

Mr Turnbull unseated Mr Abbott as leader of the conservative Liberal Party, and prime minister, in mid-September, before Mr Abbott had served even a full term. The former prime minister's fondness for British-style gongs played a big

part in his downfall. He astonished Australians when he revived them early last year, without consulting his cabinet. In January, on Australia's national holiday, he awarded a knighthood to Prince Philip (pictured), the husband of Australia's head of state, the British queen. The press ridiculed the award as "Abbott's knightmare", and accused him of being completely out of touch with Australia's egalitarian ethos.

Unlike Mr Abbott, Mr Turnbull is a republican (he is also less impulsive: he discussed his plan with the cabinet first). He called the titles "really anachronistic" and "not appropriate" for Australia. Prince Philip and four other of Mr Abbott's knights and dames, will keep their honours. But the timing of Mr Turnbull's announcement hinted at a disregard for the monarchy. Prince Charles, Prince Philip's son who is next in line as Australia's head of state, is due to visit the country on November 10th with his wife, the Duchess of Cornwall.

Tim Mayfield, who heads a republican group once led by Mr Turnbull, reckons support for a monarch-free Australia is higher now than it was 16 years ago when 45% of Australians voted in a referendum against keeping the tie with Britain (John Howard, then prime minister, and Mr Abbott's chief mentor, campaigned for the monarchy, ensuring the republicans' defeat.) Mr Mayfield may well be right. Apart from a handful of diehard monarchists, politicians across the spectrum and the media have welcomed Mr Turnbull's move to scrap the awards.

He has been enjoying a political honeymoon generally. Opinion polls suggest that his steering of the Liberal Party towards the political centre is popular among voters. With a general election due in about a year, Mr Turnbull's conservative enemies within his own party have fallen unusually silent.



Mr Abbott and friend

shortages, triggered by the drought and the cyclone, particularly in the southern islands, have increased anger about corruption in high places.

The convictions in Vanuatu echo similar problems across Melanesia. In neighbouring Papua New Guinea (PNG) and the Solomon Islands, politicians are frequently convicted for stealing state funds. Local businessmen, often with links to logging operations, bankroll opposition parties or offer cash to vulnerable prime ministers to

prop up fragile governments. Over the past decade, reformers in both PNG and the Solomon Islands, influenced by each other's efforts, have tried to fight corruption by passing new laws to prohibit side-switching by money-hungry MPs, but with little success. They may now be hoping that the high-profile conviction of MPs in Vanuatu will serve as a warning to corrupt politicians in other Melanesian island nations that existing laws are strong enough to bring them to justice. ■

# Banyan | Intolerable

The ugliness of Indian politics threatens to scupper Narendra Modi's grand visions



POLITICS in India is rarely less than febrile. In a federation where 29 states and two "territories" have elected governments, the campaign season never ends. And its press is both outspoken and herd-like, turning the most tippy-toed of trends into a thunderous stampede. Even so, the uproar over the alleged spread of "intolerance" is remarkable. Many blame the 18-month-old government led by Narendra Modi of the Hindu-nationalist Bharatiya Janata Party (BJP). Its most fervent members believe that India should be a Hindu state. But its priority was supposed to be rapid economic growth, not sectarian bickering. So it is puzzling that in a few short weeks it has alienated not just India's non-Hindu minorities and its liberal intelligentsia, but broad swathes of domestic and foreign opinion.

A sense of alarm has mounted since the lynching in late September of a Muslim man in Dadri, a village in northern India. The mob wrongly thought he was storing beef and attacked his entire family. Cows are considered holy by many Hindus, and most Indian states ban their slaughter. The country had already been shocked by the murder in August of M.M. Kalburgi, a writer known for his denunciation of idol-worship. Less gruesome intolerance, beef scares and vigilantism have proliferated: blackink was thrown over the organiser of a book launch for a former Pakistani foreign minister. Other inking victims included a beef-eating legislator in the state of Jammu and Kashmir.

The government did not initiate any of this. But its response has been mealy-mouthed, calling for harmony but rarely directly criticising the excesses. Mr Modi himself this week turned the argument around, suggesting the opposition Congress party had no right to preach tolerance, because of the anti-Sikh pogrom over which it presided in 1984. Congress has, nevertheless, seized on signs that the BJP is the tool of extremists in its ranks. Alarmed intellectuals have protested. More than 50 leading historians have expressed collective "anguish"; dozens of writers and filmmakers have returned government awards; prominent Christians have denounced "the growing intolerance in the country". The president of the republic (a Congress man) has spoken out in favour of India's "power of assimilation and tolerance".

Perhaps more worrying for Mr Modi are warnings from those concerned about the economic impact of the poisonous mood.

An arm of Moody's, a rating agency, reported that if he cannot rein in his party, Mr Modi risks "losing domestic and global credibility". Even the governor of the central bank has weighed in, to defend India's "tradition of debate in an environment of respect and tolerance". Some of India's leading businessmen have also come out as pro-tolerance, and so implicitly anti-BJP.

Business cheered the BJP's election victory last year, relieved by the end of a ten-year Congress government tainted by corruption scandals and incapable of the reforms the economy needed. Mr Modi, with his anti-corruption zeal, can-do reputation and promise of liberalisation, was seen almost as a saviour. Relentless globe-trotting since he took office has spread the same message: India is open for business. So it is odd that Mr Modi should allow the impression to spread that, on the contrary, India does not care whether or not it projects an image of tolerance.

One explanation is the importance of a legislative election in the state of Bihar, where the fifth and final round of voting took place on November 5th. It is India's third-most populous state, with more than 100m people; the result is also seen as a gauge of the federal government's national popularity. The BJP, which is in opposition in the state, risks losing again to a coalition appealing to lower-caste Hindus, and supported by Muslims, who make up about 17% of Bihar's population (compared with about 14% nationally). In response, the party has made a naked appeal to Hindu unity. Mr Modi himself intervened to hint that its opponents were planning to take affirmative-action privileges away from lower-caste Hindus in favour of Muslims.

Caste politics in Bihar, as elsewhere, has made sense to voters. Bad governments cannot keep promises of building good roads or supplying reliable electricity. But they can reward their voters with "reservations" for their castes of places in college or of government jobs. When a lousy state government run by the party of Lalu Prasad Yadav and his wife fell in 2005, it was seen as a turning point: a vote for "development", not caste. But Mr Yadav is back in this election, in a lower-caste coalition with the man who ousted him then, fighting the BJP together. Both they and the BJP are indulging in the old politics of communal and caste division.

## Which BJP?

Similarly, on a national scale, the BJP's election victory last year was attributed to its promise of competence and good governance. It persuaded enough voters that the Hindu-nationalist part of its agenda and the shadow over Mr Modi's past—allegations of his complicity in anti-Muslim violence in the state of Gujarat in 2002—were marginal. Now many worry that Hindu nationalism is a pillar of Mr Modi's vision after all. During its previous stint in power the BJP ruled with a parliamentary minority and had to ditch some of its Hindu aims, such as a federal ban on cow slaughter. Now, although it has a majority on its own, with a coalition as an optional extra, many hoped its emphasis on economic progress would nevertheless serve as a constraint.

Mr Modi's willingness to play communal politics in Bihar, and his failure to take a firm stand against those perpetrating crimes in the name of Hinduism, cast doubt on that. Perhaps, with his eye already on re-election at the end of his term by 2019, he feels that he cannot alienate the BJP's Hindu activists, who are an essential part of his support and electoral machine. That is a disturbing notion, implying that defeat as well as victory in Bihar might make Mr Modi more beholden to the extremists. Worse, however, is the thought that perhaps he agrees with them. ■



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## Population control

## Now, the two-child policy

YICHENG

### A small town offers a glimpse of what a two-child China might look like

**W**HEN China introduced its one-child policy in 1979, it cut a few air-holes in the blanket of coercion. Four towns were quietly allowed to experiment with different approaches, allowing couples to have two children. On October 29th the Communist Party extended that kind permission to everyone. If it had been paying closer attention to its two-child enclaves, it might have done so sooner.

So sensitive was the notion of allowing anyone to have two children that it was not until 2010 that mainland media drew attention to these towns' policies. One of them, Yicheng in Shanxi province, lies in the basin of the Yellow River. At first sight, it seems like any other small town in China, though a little poorer than the national average. Before long, however, a visitor may notice it is full of sights that are rare elsewhere. A young woman, six months pregnant, holds her five-year-old daughter's hand. Families race around on mopeds, as everywhere, but in Yicheng, two young children are clinging to the handlebars, not one. When the Zhi Cai primary school breaks for lunch, siblings race towards their waiting mothers. "It's better to have two children," says Zhu Chengwen, an apple-seller. He has two himself.

These oddities are thanks to the efforts of Liang Zhongtang of the Shanxi Academy of Social Sciences. In 1984 he argued that the best way to control the population would be to encourage later marriages and

longer gaps between births. So Yicheng's rules say that if a woman marries at 23 or later (three years after the legal age of marriage), and has a child, she may have a second after the age of 28. The policy has been in force for 30 years. It shows what might be possible under the country's new two-child policy. It also shows what might have been possible once, but no longer.

In 2000 Yicheng had a fertility rate about 0.3 points above the national average, implying it was about 1.8 (the fertility rate is the number of children a woman is likely to have in her lifetime). Both the national and local rates were below what they had been in 1985, and well below 2.1, at which level the population remains stable. But fertility had fallen more slowly in

Yicheng, implying that some parents in other parts of China, given the chance, would have had more than one child.

But that does not necessarily mean that they will have more now that the one-child policy has changed. Yicheng is unusual because it has not experienced so-called "ultra-low fertility"—usually defined as a fertility rate below 1.5. At this point, experience elsewhere suggests, expectations change; demand for just one child becomes ingrained. When China relaxed its policy in 2013, allowing people who were only children to have a second child, only 12% of those eligible applied.

Even if such attitudes shift, it will not make a large difference. Kristin Bietsch of the Population Reference Bureau, a think-tank in America, calculated the demographic path under the new two-child policy, assuming the fertility rate rises to two by 2050. She found that even in that unlikely event the impact would be modest. The peak population would be only 23m people greater—about 2%—under the two-child policy. Meanwhile the number of people over 65 would still double. In short, the Yicheng example suggests that while a two-child policy would have slowed the decline in fertility in the past, its effect in future is likely to be very modest.

There are two areas, however, where the new policy could have a bigger impact: on the sex ratio and on the unpopularity of the family-planning system. In 2010 there were 116 boys born for every 100 girls; the natural ratio is about 105. Other countries such as India and South Korea have distorted ratios, too. But the one-child policy has aggravated the problem. China's ratio is worse and has persisted longer.

Yicheng's is near normal: 107 in 2000 and 100 in 2010 (see chart). The town does not show one of the patterns of societies with distorted ratios: a big difference be-



►ween the sex ratios of first-born and second-born children. In such places the ratio for first-born children is typically somewhat above normal, but that for the second is wildly skewed. This happens because, though most parents tend to welcome their first child, whether boy or girl, if they get a chance of another, and the first was a girl, they will do much more to ensure that the second is male. So in China the sex ratio for firstborns in 2000-10 was 110, but that for second children was 140. In Yicheng, though, the ratio for firstborns was 102 and that for second children, for unclear reasons, was only 104. The chance of having a second child appeared to reduce pressures to have a son.

Yicheng's experience also suggests a two-child policy may be less unpopular. The one-child policy has long been bitterly contested. Fines raised from those who break the rules exceed \$3 billion a year by one estimate. Yicheng's policy still requires policing. Officials keep track of when people marry and try to prevent a second conception before 28. Fines in Yicheng soared from 144,000 yuan in 1985 (\$49,000) to 4.7m yuan in 1995. But people have come to accept the restrictions. Fines are now below 90,000 yuan annually. The national two-child limit may make the worst forms of coercion, such as forced abortions, less common.

When the two-child policy was adopted in Yicheng in 1985, Mr Liang said he hoped it would become national by 2000. If it had, it would not have solved China's demographic problems. But it might have made its fertility decline less abrupt, improved its distorted sex ratio and given the country more time to prepare for the burden of ageing. ■

#### Family planning in Xinjiang

## Remote control

KASHGAR

**The government in Xinjiang is trying to limit Muslim births**

BIRTH restrictions imposed on China's ethnic minorities have always been lighter than those on the Han majority. Han Chinese are only now being granted the right to have two children; most minorities living in urban areas have long enjoyed it. Non-Hans living in the countryside are allowed to have three, and sometimes more. But although family-planning rules are now being relaxed in China, in the far-western region of Xinjiang, where ethnic Uighurs make up 50% of the population, the government is tightening controls.

In 1983 Uighurs—never entirely happy

#### Singles day

## Bare and profligate

BEIJING

**Preparations are under way for an orgy of online spending**

FOR much of the world November 11th is a sombre day, marking the armistice that ended the first world war. Not in China, where the date—chosen because it contains four ones—is dubbed "Singles' Day". Observance once consisted of unmarried people getting together to revel in—or lament—their single status. But in recent years it has evolved into a frenzy of consumerism.

Much of the buying takes place online. On November 11th last year, Alibaba, an e-commerce company, sold 57.1 billion yuan (\$9.3 billion)-worth of goods; the first 10 billion yuan-worth was sold in just 38 minutes. This far eclipsed the \$1.5 billion spent online by Americans on "Black Friday", the day after Thanksgiving, which in the United States has become the biggest spending day of the year online, thanks to steep discounts. Surveys suggest Chinese consumers will set new records this year on Singles' Day (also called "Bare Branches Day", after a slang term for single men).

Chinese leaders may be keener than they once were for people to marry and have children, but they are even more eager to encourage consumer spending. They hope this will wean the country off an overreliance on state-led investment. Singles will play a growing role in this (although just as Christmas is celebrated by many non-Christians, so Singles' Day has become an excuse for everyone to spend). As traditional values fade, more Chinese are waiting before marrying, especially in the cities. Urban women in the 1950s married, on average, at the age of about 20. This rose to 25 by the 1980s. In 2013 the average marriage age in Shanghai passed 30 for the first time.

For women—especially well-educated and high-earning ones—living the single life longer than their parents did is their own choice. For men, it is less so, thanks to the skewed sex ratio. By 2030 China may have 160 men of marriageable age for every 100 women. That will make November 11th a more sombre occasion.

with rule by a Han-dominated Communist Party based in far-distant Beijing—rioted when officials introduced the current limits. Some of them saw the restrictions as an affront to Islam. As a result, officials in some areas applied them more flexibly, even allowing couples in some far-flung places to have four or five children. Uighurs have fewer children than they used to, but since 2010 the birth rate has been rising again. In mainly Uighur Kashgar, a prefecture which borders on Pakistan, Afghanistan and Central Asia, it is four times the national average.

Hans, who feel targeted by rising separatist militancy among Uighurs, worry that they may become outnumbered. So the government is relaxing residency restrictions to attract more Han immigrants. Since 2012 all Hans in southern Xinjiang—a hotbed of separatism—have been allowed to have two children. The government is also trying to curb Uighur births.

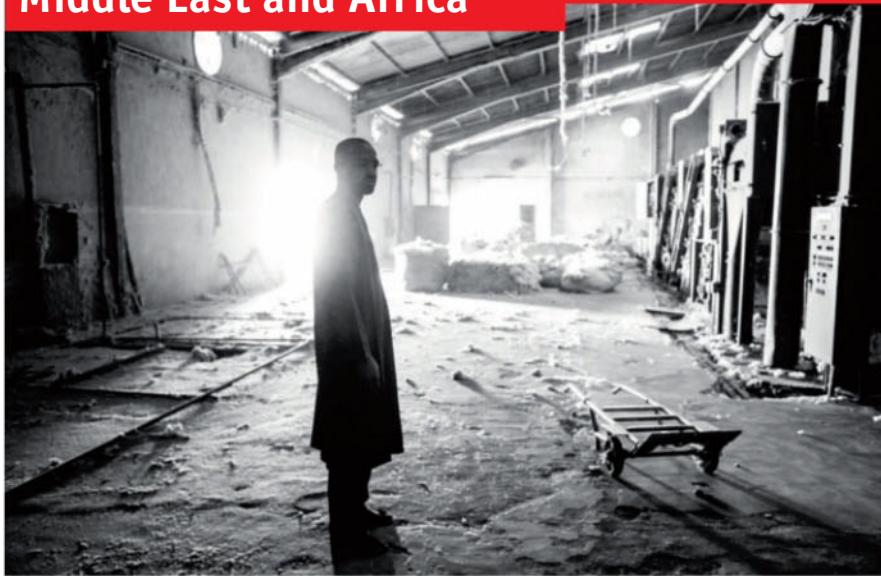
Last year Xinjiang's party chief said it was necessary to lower fertility and implement a family planning policy "equal for all ethnic groups", as part of efforts to fight terrorism. Early this year another senior official said southern Xinjiang had "worryingly high birth rates". This year, southern Xinjiang doubled payouts to Uighur couples who have fewer than their quota to 6,000 yuan (\$950). Each parent also receives 1,800 yuan a year for life.

In Yining, a city in north-western Xin-

jiang, which four years ago became the first part of Xinjiang to ban the wearing of face-covering veils in public, a local newspaper reported in March that the government there was cracking down on unauthorised births as part of a battle against "extremism". In June a township in Yining posted news of a similar campaign against "illegal births". The government may have made some progress with its assault on large families. Though birth rates in Xinjiang as a whole are rising, those in Yining have been falling for the past three years. ■



Three but not free



### Industrialisation in Africa

## More a marathon than a sprint

### There is a long road ahead for Africa to emulate East Asia

**V**IEWED from above, the great steel roofs of Nigeria's textile mills are an impressive sight, occupying block after block in the northern city of Kano. Yet from the ground a very different picture emerges. Entire estates sit eerily empty in what was once the country's industrial heartland. A handful of indigo-dye pits and the odd leather tannery constitute what little is left of a manufacturing business that was booming just a couple of decades ago. The collapse of Nigeria's textile industry, which has gone from employing more than 350,000 people to fewer than a tenth as many, reflects a wider problem of deindustrialisation across Africa that has occurred during a decade of rapid growth driven by high commodity prices.

Over the past 15 years sub-Saharan African economies have expanded at an average rate of about 5% a year, enough to have doubled output over the period. They were helped largely by a commodities boom that was caused, in part, by rapid urbanisation in China. As China's economy has slowed, the prices of many commodities mined in Africa have slumped again. Copper, for instance, now sells for about half as much as it did at its peak. This, in turn, is hitting Africa's growth: the IMF reckons it will slip to under 4% this year, leading many to fret that a harmful old pattern of commodity-driven boom and bust in Africa is about to repeat itself. One of the main reasons to worry is that Africa's manufacturing industry has largely missed out on the boom.

The figures are stark. The UN's Economic Commission for Africa (UNECA), which is publishing a big report on industrialisation in Africa next month, reckons that from 1980 to 2013 the African manufacturing sector's contribution to the continent's total economy actually declined from 12% to 11%, leaving it with the smallest share of any developing region. Moreover, in most countries in sub-Saharan Africa, manufacturing's share of output has fallen during the past 25 years. A comparison of Africa and Asia is striking. In Africa manufacturing provides just over 6% of all jobs, a figure that barely changed over more than three decades to 2008. In Asia the figure

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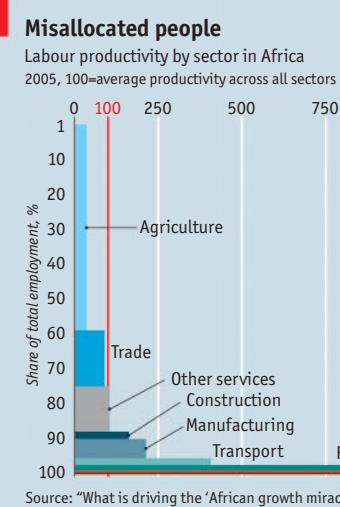
grew from 11% to 16% over the same period.

"Name any country in Africa, and I could have found a world-class firm there a decade ago," says John Page of the Brookings Institution, a think tank, the co-author of a forthcoming book on African manufacturing. "The problem is, two years later, I'd go back and still find just the one firm. In Cambodia or Vietnam, I would go back and find 50 new ones."

To be sure, many countries deindustrialise as they grow richer (growth in service-based parts of the economy, such as entertainment, helps shrink manufacturing's slice of the total). But many African countries are deindustrialising while they are still poor, raising the worrying prospect that they will miss out on the chance to grow rich by shifting workers from farms to higher-paying factory jobs.

Premature deindustrialisation is not just happening in Africa—other developing countries are also seeing the growth of factories slowing, partly because technology is reducing the demand for low-skilled workers. "Manufacturing has become less labour intensive across the board," says Margaret McMillan of Tufts University. That means that it is hard, and getting harder, for African firms to create jobs in the same numbers that Asian ones did from the 1970s onwards.

Yet deindustrialisation appears to be hitting African countries particularly hard. This is partly because weak infrastructure drives up the costs of making things. The African Development Bank found in 2010 that electricity, a large cost for most manufacturers, costs three times more on average in Africa than it does even in South Asia. Poor roads and congested ports also



► drive up the cost of moving raw materials about and shipping out finished goods.

Africa's second disadvantage is, perversely, its bounty of natural riches. Booming commodity prices over the past decade brought with them the "Dutch disease": economies benefiting from increased exports of oil and the like tend to see their exchange rates driven up, which then makes it cheaper to import goods such as cars and fridges, and harder to produce and export locally manufactured goods.

Africa's final snag is its geography. East Asia's string of successes happened under the "flying geese" model of development, where a "lead" country creates a slipstream for others to follow. This happened first in the 1970s, when Japan moved labour-intensive manufacturing to Taiwan and South Korea. But Africa seems to have missed the flock. "We don't have a leading goose, a Japan," says Ngozi Okonjo-Iweala, Nigeria's former finance minister. Light manufacturing is leaving China for neighbouring Bangladesh and Vietnam rather than distant Africa, despite its promise of plentiful cheap labour. "Africa's growth is not driven by export-led manufacturing," says Dani Rodrik, an economist. "And in the coming century Africa will find it difficult to grow through that route."

Yet some African countries are bucking the trend. Ethiopia's manufacturing has grown by an average of over 10% a year in 2006-14, albeit from a very low base, partly because it has courted foreign investors. "We approached Holland's horticultural firms, China's textile and leather firms and Turkey's garment firms. Now we're bringing in German and Swiss pharmaceuticals," says Arkebe Oqubay, a minister who promotes Ethiopia's industrialisation.

Ha-Joon Chang, a co-author of UN-ECA's report, argues that Ethiopia's relative success has come from its focused policy. Poor countries often find it hard to decide whether to spread their new infrastructure widely or to focus on the most promising areas. Rather than electrify the whole country, Ethiopia has concentrated on providing power and transport links to its in-

### Failure to launch

Exports as a share of world total, %  
Current prices



dustrial parks. It also seems wise to bring in firms with links to industries that already exist there. "Domestic firms learn from being in the same value chain as the foreign firm," says Mr Page. Firms buying from local suppliers tend to raise local quality by sending managers and technicians to them. This helps them to produce more sophisticated goods.

Ethiopia is not alone. Tanzania, where manufacturing output has grown 7.5% annually from 1997-2012, is wooing Chinese and Singaporean clothing firms and started building its first megaport and industrial park last month. Rwanda has attracted investment from Helen Ai, the woman behind Ethiopia's most successful shoe firm. Her garment factory plans to hire 1,000 workers by the end of the year.

Nonetheless, factories are not creating nearly enough jobs for the millions of young people moving into cities each year. Most of them end up in part-time employment in low-productivity businesses such as groceries or restaurants, which are limited by the tiny domestic economy; Africa generates only 2% of the world's demand. To grow fast, African countries need to shift workers into more productive industries. Their governments need to provide the infrastructure and the incentives for manufacturing firms to set up. Without determined action, they risk another lost decade as the commodity bust deepens. ■

### Health care in Kenya

## Vegetables, not samosas

NAIROBI

Even poor Kenyans are starting to get developed-world diseases

TERESA MAGESA, who lives in Mukuru, a slum in the south of Nairobi, did not realise for years that she had type 2 diabetes. "I was always feeling that I was carrying a burden," she says. But despite her frequent headaches and dizziness, diabetes, she thought, was a disease for "fat people". Only in late middle age did she begin to learn that she needed to manage her blood sugar and eat a more balanced diet.

Historically, non-infectious diseases such as diabetes, cancer or asthma have been more prevalent in the rich world than the poor. But that is changing. Infectious diseases, though still an enormous problem, are on the wane. Across Africa, the mortality rate from malaria has fallen by more than half since 2000. That is a remarkable achievement, but chronic diseases, by contrast, are becoming more common. According to the World Health Organisation, of 16m people below the age of 70 who die each year from such diseases, fully 82% live in the developing world. In Kenya they account for 27% of all premature deaths.

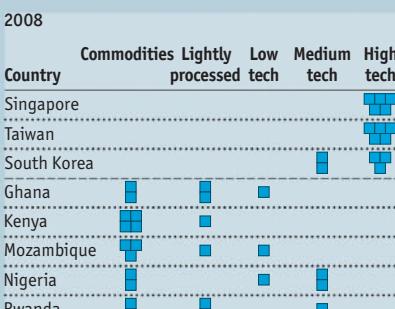
The rise of these diseases in the poor world is the result of growing wealth and urbanisation. Whereas subsistence farmers get lots of exercise and eat whatever they can, urban slum-dwellers can live relatively glutinous lives. On a Sunday afternoon in Mukuru, elderly ladies fry potato chips and samosas in vats of oil to sell to passers-by. Young men sit smoking cigarettes and drinking *changaa* moonshine. Healthy options are few and far between.

Health care, meanwhile, has not kept up. Slum-dwellers tend to have access to free antiretrovirals if they are HIV-positive, and they can usually get treatment for diseases like cholera and TB. But chronic diseases are unlikely even to be diagnosed. The International Diabetes Federation, which represents sufferers, reckons there are around 775,000 people with diabetes in Kenya, only a quarter of whom know it. As a result, complications such as blindness, kidney stones and the like are more common than in the West, says Daphne Ngunjiri, the chief medical officer of Access Afya, an NGO that treats Ms Magesa. Diseases such as breast cancer in Africa are typically a death sentence.

That is changing. In October Novartis, a large Swiss pharmaceutical firm, launched a programme selling 15 drugs to low-income patients in Kenya for the treatment of diabetes, breast cancer, respiratory illness- ►

### A blessing and a curse

Biggest five exports for each country, by sector



Source: "From Flying Geese To Leading Dragons" by Justin Lin, November 2012

es and heart disease and hypertension. A course costs around a dollar a month. Delivering such drugs requires more sophisticated health-care systems than many poor countries have, admits Harald Nusser, the head of the programme. But the firm reckons there are 30 poor countries where the business could be viable.

In 2008 Uganda, a country of almost 38m people, had just one oncologist who was responsible, in theory, for the treatment of around 10,000 people a year. It

now has 12, as well as a cancer-treatment centre in Kampala, the capital. Technology helps, too. A smartphone app used with white vinegar allows a doctor to do a physical inspection of a woman's cervix remotely without doing a Pap smear; another app allows doctors to monitor heart rhythms without an expensive ECG.

Perhaps best of all, Africans are finding ways to pay for their own health care. In Nairobi even slum-dwellers are members of informal savings clubs that cover unex-

pected health costs.

The question is whether improvement can keep up with changing lifestyles. Urbanisation, with its many benefits, also means more slum-dwellers living on chips, changaa and cigarettes, and getting less exercise. Still, people like Ms Magesa are learning how to cope with their conditions. That knowledge alone will help. She has six children and grandchildren, she says. And now she knows what diabetes is, she insists that they eat their vegetables. ■

## Urban traffic

# Paralysed

LAGOS

**Why Nigeria's largest city is even less navigable than usual**

**T**RAFFIC is a way of life in Lagos, Africa's most populous city. Home by some counts to over 20m people, it is among the most notoriously congested places in the world. The "go-slow" piles up long before dawn as businessmen in SUVs and traders in battered buses hit the overburdened roads. It lasts until well after dark. Often the queues can be unfathomable: a rainstorm, a breakdown or a public holiday can condemn a driver to hours in horn-honking hell. Tardy workers proffer one irrefutable excuse: "Traffic is bad."

Yet the gridlock that Lagosians have suffered in recent weeks is noteworthy even by the city's horrendous standards. Rush hours have lengthened, and vehicles back up at unusual hours along the bridges linking the mainland with an island business district. Safety concerns are mounting as armed robbers pillage stuck cars while police are far away. Security experts reckon this is symptomatic of a broader increase in organised crime under a new and less competent state government.

Lagos is a hub for investors in Africa—it is a bigger economy in its own right than most countries on the continent, so this is of serious concern. The state's former governor, Babatunde Fashola, who left office after elections in March, was lauded for improving traffic and security. He curbed dangerous motorbike taxis and brought local "area boys" (street children), under control. Cars were terrified into order by a state traffic agency, LASTMA, whose bribe-hungry officers flagged down offending drivers.

His successor, Akinwunmi Ambode, is full of excuses, but few solutions, for the worsening gridlock. Traffic is always bad during the rains, he says. Nigerians are migrating to Lagos en masse in search of work in a worsening economy, his office adds. Yet the root of the problem is in policy: Mr Ambode cut the powers of

traffic controllers by banning them from impounding cars. In retaliation, officers have refused to enforce the rules.

Reform in a culture riddled with corruption is never easy. Mr Ambode's office says the measure was intended to create a more "civil society". Less fastidious types think it amounts to weakness, and would prefer that he focused on public transport instead. The biggest concern is that the gridlock is a sign of a breakdown in relations between security forces, government agencies and the new governor. If that is the case, there could be worse to come. That is bad news not only for Lagosians, but all Nigerians too.



The lawless roads

## Just one catch

# Black gold under the Golan

KANAF

**Geologists in Israel think they have found oil—in very tricky territory**

**A**RIG carrying out exploratory drilling is hardly a rare sight in the Middle East; but this is no ordinary place. Israeli flags fly on it, though no other country in the world recognises Israel's sovereignty over the area. A few miles to the east, jihadist rebel groups are fighting a bloody war. And few people ever expected that significant amounts of oil might lie there at all, under a dormant volcanic field. Welcome to the Golan Heights.

Israeli and American oilmen believe they have discovered a bonanza in this most inconvenient of sites. After three test-drillings, Yuval Bartov, the chief geologist of Genie Oil & Gas, a subsidiary of American-based Genie Energy, says his company thinks it has found an oil reservoir "with the potential of billions of barrels".

Veterans of Israel's energy sector are sceptical. Despite many optimistic starts, only two small oilfields in Israel have ever been commercially exploited. The indications are that the Golan field is of a different magnitude. But since there is little experience anywhere of drilling for oil under once-volcanically-active areas, it will take more comprehensive work to determine whether oil can be extracted profitably. And even then, big obstacles will remain.

This is not Genie's first foray into Israel. In 2008 it launched an investment to extract shale oil in the Valley of Elah, in central Israel, but was forced to stop operations there in September 2014 when a coalition of environmentalists prevailed on planning authorities to withhold the necessary permits. This time the company has managed to get exploratory licences, despite opposition from green and local groups concerned that drilling could pollute the largely unspoilt Golan countryside and the Sea of Galilee below, the source of most of Israel's drinking water. But many more legal and planning battles await. ►

The biggest problems, though, revolve around the issue of sovereignty. Israel's decision in 1981 to annex the Golan (unlike the West Bank, which remains formally under military occupation) caused a diplomatic crisis with America. The heights are still regarded internationally as illegally-occupied Syrian territory. Israel's leaders in the past have offered to pull back from the Golan, which it captured in 1967, in return for a comprehensive peace treaty with the Syrian government. But any such deal has been firmly out of the question since Syria began disintegrating in 2011.

An influential group is now lobbying Israel's government to take advantage of the chaos in Syria and demand international recognition of its control of 1,200 square kilometres (460 square miles) on the Golan. The group includes Zvi Hauser, a former cabinet secretary to the prime minister, Binyamin Netanyahu, who has urged that Israel should demand this as a compensation for having to tolerate the nuclear agreement with Iran.

It is not clear whether Genie shares this objective, but if it chose to, it would be no surprise. Genie's founder and CEO is Howard Jonas, an influential American-Jewish

businessman. The president of Genie's Israeli subsidiary is Effie Eitam, a Golan settler and a former general who is close to the prime minister. And in America Genie has increased its clout. In September it added some influential new members to an advisory board that already included a former vice-president, Dick Cheney, and a media tycoon, Rupert Murdoch. One was Larry Summers, who was treasury secretary in the Clinton administration and director of the National Economic Council under Barack Obama. Also added were two other Clinton-era appointees: Bill Richardson, an ex-ambassador to the United Nations and energy secretary, and James Woolsey, a former CIA director.

For most of its existence, Israel has relied on unstable or distant sources for its energy. Recent large finds of offshore gas have opened new opportunities, but have also caused fights over pricing, export quotas and private ownership. This week Israel's economics minister, Aryeh Deri, resigned in a row over these issues. So the prospect of energy independence for his country—as well as the idea of establishing recognition of its control of land captured 48 years ago—is certainly alluring. ■

explosion in or near one of the engines, but provides no cause. Investigators have not been helped by the one group claiming responsibility for the attack, the local IS affiliate in Sinai. "Prove we didn't do it or how it was downed," challenges the group.

On November 4th Britain, the first country to say it suspected a bomb, suspended all flights to and from Sharm el-Sheikh, the resort from which the doomed plane departed, and advised against "all but essential" travel through the airport. The move infuriated Egypt's foreign minister, who said it was premature and will damage the country's fragile tourism industry. "He hasn't seen all the information that we have," said Philip Hammond, Britain's foreign secretary, while acknowledging the "huge negative impact for Egypt".

Britain's announcement could not have been more awkwardly timed, coming on the same day as Abdel-Fattah al-Sisi, Egypt's authoritarian president, arrived in London for an already controversial visit with David Cameron, Britain's prime minister. The former general, who toppled Egypt's first democratically elected president in 2013 and was elected himself a year later against meagre opposition, desperately seeks legitimacy. He has recently toured Paris and Berlin, and secured renewed arms sales from America. Many foreign governments see him as a bulwark against Islamic extremism and are therefore willing to overlook his vicious crackdown on dissent.

But the jihadists in the Sinai peninsula have tormented Mr Sisi and killed hundreds of his troops, despite a scorched-earth campaign to stop them. The government claims to have complete control of the closed-off peninsula. Few believe that. Only the southern tip, where Sharm el-Sheikh is located, was thought to be safe. Now that is in doubt, though the security concerns focus only on the airport, not the resorts. His weakness embarrassingly exposed, Mr Sisi may now become even more ruthless. He has often tried to use the fight against terrorists, real and imagined, as a rallying cry to unite the country behind his leadership.

There are other implications. Russia's campaign in Syria, on the side of Bashar al-Assad, the country's president, was supposed to be a bloodless affair, fought from a safe distance. If it becomes clear that terrorists brought down the plane, the sterile, televised image of the war will begin to crack. Like any act of terror, it will be a blow to the government, and to Mr Putin's image as Russia's protector. But Russians will not necessarily blame Mr Putin or his decision to go into Syria directly. Instead, the attack could well be spun to confirm his warnings about the threat posed by IS and so to reinforce Russia's fortress mentality. More authoritarianism is on the cards in both Russia and Egypt. ■

## A Russian plane crashes in Sinai

# Two crackdowns expected

CAIRO

## The evidence starts to point to a bomb

THE wreckage of the Russian airliner that crashed in the Sinai Peninsula on October 31st, killing all 224 people on board, is strewn over more than two miles of desert. Investigators are still searching the twisted metal for clues to what brought the plane down. But others in America and Britain have already reached a conclusion, pointing to a bomb as the likely cause.

Some anonymous American officials, while still unsure, are fingering Islamic State (IS) as the culprit.

A more definitive verdict on the crash will take time, as investigators sort through the plane's data recorders, known as black boxes, one of which (containing the cockpit audio) was damaged. The other (containing flight data) reportedly indicates an



Probably an act of murder



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Russia's Sergei Shoigu

## Master of emergencies

MOSCOW AND TUVA

**The trusty defence minister is the only person to serve in every government since the fall of the Soviet Union. He could be the next president**

ON VLADIMIR PUTIN'S birthday in October, his defence minister, Sergei Shoigu, brought him a gift: the latest briefing on Russia's military campaign in Syria. It included news that cruise missiles fired from the Caspian Sea had struck targets nearly 1,500km away. "We know how complicated such operations are," Mr Putin replied approvingly. That evening the pair celebrated by playing an ice-hockey match with their amateur club. Mr Putin knocked in seven goals, and Mr Shoigu scored one for good measure. Their team won handily.

Since Mr Shoigu took over the defence ministry in late 2012, his partnership with Mr Putin has flourished off the ice, too. The Russian armed forces have emerged as the primary instrument of Mr Putin's foreign policy. In Crimea and eastern Ukraine, along the edges of NATO airspace and now in Syria, Russia has projected power with newfound effectiveness. Under Mr Shoigu, Russia's armed forces have "demonstrated a capability and organisation and logistics skill-set that we have not seen before," says Evelyn Farkas, who was until recently the Pentagon's top official on Russian affairs.

But Mr Shoigu is much more than Russia's latest defence minister. At 60, three years younger than Mr Putin, he is the longest-serving member of the Russian government; his tenure stretches back to 1990, before the collapse of the Soviet Union, when Mr Putin was still toiling in obscurity.

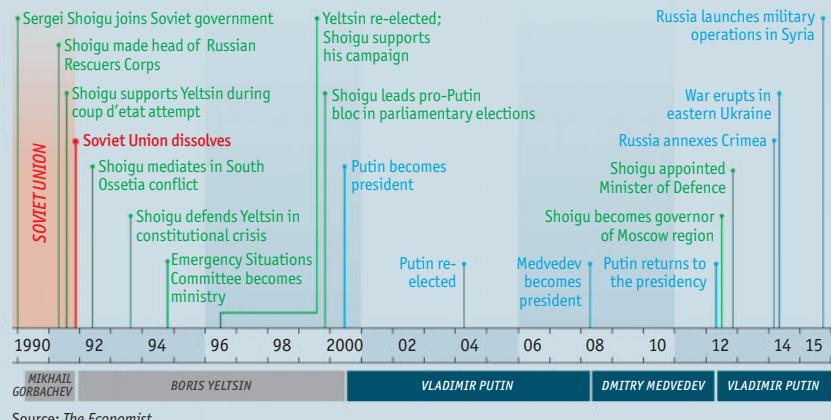
in the St Petersburg mayor's office. He made his name at the Ministry of Emergency Situations (mchs), a semi-militarised rescue service with a wide remit that he built himself and led for nearly 22 years. By skilfully navigating Russia's Byzantine bureaucracy, he has accrued power and popularity without making any notable enemies. "There's no one else like him in the ruling class," says Evgeny Minchenko, an analyst who studies the Russian elite. "It's an absolutely unprecedented story."

Russia is a land of emergencies, from droughts and forest fires to sinking submarines, apartment-block bombings and

school hostage dramas. The most recent addition is the crash of a charter plane over the Sinai peninsula, possibly due to terrorism (see page 44). So it is hardly surprising that the minister of emergency situations should become one of the best-known figures in Russian politics. Although Mr Shoigu does not belong to Mr Putin's coterie of ex-KGB men from St Petersburg, he is a trusted insider. Mr Minchenko, who releases a widely circulated yearly report called "Politburo 2.0", puts Mr Shoigu second in influence among Mr Putin's associates, trailing only his chief of staff, Sergei Ivanov. When big decisions like the operations in Ukraine or Syria are made, Mr Shoigu is indispensable. His combination of loyalty, competence and popularity also makes him one of a handful of potential successors to Mr Putin.

Mr Shoigu grew up in southern Siberia, in the little-known republic of Tuva (see box, next page). He had a liking for sports, backyard brawls and risky stunts, such as hopping the ice floes across the powerful ►

### Last man standing



► Yenisei river. Such high jinks earned him the nickname *Shaitan* ("Satan"). An engineering degree in Krasnoyarsk and several successful construction projects led to a summons to Moscow in 1990 by the Communist Party leadership. After a stint on an architecture committee, Mr Shoigu took over a new corps of rescue workers, turning it into the highly effective organisation that eventually became Mchs. He also

showed unflinching loyalty, coming to the aid of Boris Yeltsin during the attempted coup in August 1991 and again during the constitutional crisis of October 1993.

In the chaos of the 1990s, Mr Shoigu became a reassuring presence. Besides handling fires and natural disasters, he served as a mediator in conflicts from South Ossetia to Tajikistan and Chechnya. In 1999, as Mr Yeltsin prepared to hand the reins to Mr

Putin, his team tapped Mr Shoigu to lead a new political party called Unity, which later morphed into United Russia, the current ruling party. Mr Yeltsin described Mr Shoigu as "our greatest star".

When Mr Putin took power, his strategists needed to define the amorphous new leader for the public. Gleb Pavlovsky, a former Kremlin adviser, says the administration "consciously crafted" Mr Putin's image in part on Mr Shoigu's: "Putin was supposed to be a rescuer, too." Mr Shoigu, who had never wanted to enter party politics, wisely ceded the spotlight. He understood, as Mr Pavlovsky puts it, "that one log can't support two bears".

Instead, Mr Shoigu ingratiated himself. In 2000 he gave Mr Putin a black labrador, Koni, who became the president's favourite dog. He accompanied Mr Putin on his macho, shirtless adventure trips. He patriotically took holidays in Russian forests rather than on French beaches. The men shared an interest in history; Mr Shoigu became president of the Russian Geographical Society, a revived tsarist-era group that serves as a club for the Russian elite.

#### Officer and gentleman

After Anatoly Serdyukov, the previous defence minister, fell out of favour, Mr Putin put the armed forces in Mr Shoigu's hands. Mr Serdyukov oversaw much-needed reforms, but alienated the top brass. Mr Shoigu has largely preserved the changes while restoring morale. "Under Shoigu, the army began to believe in itself," says Mikhail Khodarenok, editor of the *Military-Industrial Courier*, a defence weekly.

Mr Shoigu has concentrated on military readiness—and public relations. He has ramped up exercises and snap inspections, says Dmitry Gorenburg of Harvard University, an expert on the Russian army. Early decisions, such as ordering soldiers to switch from archaic cloth foot-wraps (*portyaniki*) to socks, helped restore the reputation of an army that had been derided throughout the post-Soviet era.

At first this pragmatic attitude held for relations with the West, too. Mr Shoigu affably called Chuck Hagel, then the American defence secretary, by his first name. "Whereas the default position for many Russian security officials is to throw up roadblocks, he seemed to relish blowing through them," says Derek Chollet, a former assistant secretary of defence.

The Ukraine crisis ended that chumminess. When Mr Putin decided to seize Crimea, Mr Shoigu dispatched a deputy, Oleg Belaventsev, to oversee the invasion. (Mr Belaventsev is now presidential envoy to Crimea.) Mr Shoigu's experience as a crisis manager served him well. "The Crimean operation demonstrated a new Russian army," says Mr Minchenko. "And Shoigu became a symbol of that army."

On May 9th, during celebrations of the ►



Tuva's cultural history

## Let me hear your khoomei ringing out

TUVA

Sergei Shoigu's childhood home is not your average Russian region

**N**ESTLED along the northern border of Mongolia, Tuva is easy to miss. There are no direct flights from Moscow; the only ways in are turbo-prop planes from nearby Siberian cities or a long drive through the surrounding mountains. Most of the region's 308,000 people are native Tuvans, a Turkic people some of whom still practise a traditional nomadic lifestyle. Shamanism and Buddhism remain more widespread than Orthodox Christianity, Russia's dominant religion. As Oksana Tyulyush, artistic director of the Tuvan National Orchestra, quips, "God is a long way up and Moscow is a long way away."

Russians typically know little of the region, which lived under Mongol or Chinese rule for most of its history. Between 1921 and 1944 Tuvans enjoyed a brief run of *de jure* independence as Tannu Tuva, or the Tuvan People's Republic, which delighted philatelists by issuing a series of oddly shaped stamps. After the end of the second world war, the Soviet Union moved in, making Tuva an

official protectorate at the request of local authorities. (When Soviet officials came to distribute passports, they found that everyone in the home village of Sergei Shoigu's family had the same surname, Kuzhuget. They solved the problem by reversing some inhabitants' first and last names.)

For most outsiders, Tuva is best known for its music: *khoomei*, or throat singing, a trance-inducing drone created when one singer hits several notes simultaneously. *Khoomei* is inspired by nature, as performers seek to channel the waters, winds and beasts of their surroundings. In Tuva harking back to tradition has helped fill the void left after the Soviet collapse. Throat singing has also become a career path in one of Russia's most depressed regions. The most skilled musicians perform around the world—though some feel the music only works in its native habitat. "To live in an apartment and sing *khoomei* doesn't make sense," says Ms Tyulyush. "You have to live in a yurt and see the stars."

► 70th anniversary of the Soviet Union's victory over Nazi Germany, Russian television cameras fixed on a black convertible ferrying Mr Shoigu onto Red Square. Decked out in full military regalia, he crossed himself as he passed under the Kremlin walls. The highly unusual gesture was seemingly designed to allay any questions about the half-Tuvan, half-Russian's Christianity. The attention bestowed upon Mr Shoigu became the topic of fresh speculation: was he destined for higher office?

### The ultimate emergency

The question of what comes after Mr Putin haunts Russia's political system. The president's grip on power is based in part on the idea of *bezalternativnost*, the lack of alternatives. If a real number two were to emerge, it would "be the start of a game

that [Mr Putin] fears because he cannot control it," argues Mr Pavlovsky.

But if a shortlist exists, Mr Shoigu is probably on it. He remains Russia's most trusted and popular politician not named Putin. He has avoided scandals and is perceived as relatively clean. (The anti-corruption campaigner, Alexey Navalny, has accused him of building a gaudy pagoda-style home worth \$18m—charges Mr Shoigu's representatives have denied.) Mr Shoigu has long denied having political ambitions. Yet that may work in his favour. "He's not obviously desperate to climb the greasy pole," argues Mark Galeotti, a Russia scholar at New York University, "which might mean that he's precisely the one who ends up on top of it." When the ultimate emergency strikes, Russians may well turn to their first rescuer-in-chief. ■

a cardinal's penthouse apartment and €23,800 to charter a helicopter for him.

Other disclosures bear on the Vatican's relationship with Italy. According to a leaked auditors' report, the Vatican earns €60m a year selling petrol, cigarettes and other products at below-market prices in Italy. They should be available only to the city-state's citizens, yet more than 40,000 Italians are said to have cards giving them access to the shops beyond the Vatican's walls. One of the books reports a request from Italian prosecutors for information on a named individual suspected of hiding taxable assets in the Vatican bank. (Vatican officials insist all accounts opened without good reason by lay Italians are now blocked.)

While the city-state can be a thorn in the side of Italy and its capital, it can also be a blessing, both spiritually and fiscally. Every 25 years, by tradition, the Vatican declares a holy year, or "jubilee", which attracts millions of pilgrims and pours money into Roman coffers. Popes can also declare jubilees in intervening years, as Francis has done. This extraordinary jubilee is due to start on December 8th.

Yet even this windfall can become a burden. Francis's announcement of the jubilee took Rome's government by surprise. The city administration is already plagued by corruption and deficient public services; with just a month to go, it is woefully unprepared for a deluge of new tourists. On October 30th, more than half the city's councillors resigned to oust the mayor, Ignazio Marino, who was accused of (and denies) fiddling his expenses. He has been replaced by a government-appointed commissioner. The central theme of all jubilees is pardon. Quite a lot may be needed in the Vatican, as in Italy, in the months ahead. ■

### Arrests at the Vatican

## Church of the poor judgment

ROME

### The Holy See cracks down on leaks about its scandalous finances

**T**HE Vatican is an oddity: a state within a city that is the capital of another state. Seldom have the anomalous relationships between the Vatican, Rome and Italy been more in evidence than this week. On November 5th, two books came out in Italy that included the latest in a long series of eyebrow-raising revelations about the Vatican's finances. Both draw on leaks from confidential reports prepared for Pope Francis and his predecessor, Benedict XVI, as part of a drive to clean up the Vatican's act (not least in order to comply with international regulations on money-laundering and the funding of terrorism).

Three days before publication, the papal spokesman revealed that detectives of the Vatican Gendarmerie had traced the origin of the leaks and locked up two former members of a committee established by Francis to advise him on restructuring his financial bureaucracy. Francesca Chaouqui, a public-relations executive who denies any wrongdoing, was let go after being detained overnight in a convent. But a senior Vatican prelate, Lucio Ángel Vallejo Balda, was still being held as *The Economist* went to press. (He has been detained in the same lock-up in which the pope's butler, Paolo Gabriele, was confined in 2012, after he was fingered as the source of the last big leak of embarrassing Vatican secrets.) Neither Ms Chaouqui, an Italian, nor Monsignor Vallejo, a Spaniard, has Vatican citizenship. But the pope's prosecutor claims jurisdiction over their alleged offences. If indicted, they risk up to

eight years in jail.

The books' allegations may trouble the consciences of the Catholic church's leaders. They hardly square with the church of (and for) the poor that Francis says he seeks. One of the authors claims the Holy See's real-estate holdings, not including church properties such as cathedrals, are worth at least €4 billion (\$4.4 billion). He also says a fund for the care of sick children paid €200,000 towards the conversion of



Who will rid me of these troublesome auditors?

## Turkey's AK party

# Another victory for illiberalism

ISTANBUL

**Turkey's government escalated its conflict with the Kurds, then ran on promises of security. It won big**

**O**PTIMISTS might have hoped that after his Justice and Development (AK) party scored a stunning victory in the election on November 1st with 49% of the vote, Recep Tayyip Erdogan, Turkey's president, would turn over a new leaf. True, the election took place only because AK refused to accept losing its majority in the previous poll in June. Worse, the religious-nationalist party's campaign strategy involved cracking down on independent media and waging war on Kurdish militants, all in order to inflame Turkish chauvinism. AK could have dropped those tactics after the election, using its political capital to restart the peace process with the Kurds and leaving the liberal opposition to grumble impotently in defeat.

Instead the government is moving in the opposite direction. The day after the ballot, authorities raided the leftist magazine *Nokta*, confiscated the latest issue and arrested two editors, charging them with incitement to violence. Dozens of employees at television stations and newspapers owned by the Koza Ipek holding company have been dismissed over the past week. Their media outlets have been seized as part of an ongoing case against supporters of the exiled cleric Fethullah Gulen, a former ally-turned-foe of Mr Erdogan. Bureaucrats and police officers suspected of being loyal to Mr Gulen have also been detained. "The gloves are off," says Jenny White, an anthropologist and Turkey expert at Boston University. The AK government has begun "running roughshod over laws, institutions and individuals that they find inconvenient".

Pro-government commentators are warning that more opposition media groups could be targeted. "If the government maintains its pressure on the media, by the time we get to the next election in 2019, there might be no TV channel to cover the opposition party programmes," says Ceren Sozeri, a media expert at Galatasaray University. Faced with four years of AK rule, some publications are already adjusting their coverage to avoid harming other business interests. Space for debate is increasingly confined to social media and online news sites. Shares in Dogan Holding, a media group the government is investigating for alleged "terrorism propaganda", fell by 15% after the election.

The ruling party, which has yet to form a new government, is also showing little sign of compromise on the Kurdish issue. It

says it wants to resume the peace process, but only if the militants of the Kurdistan Workers' Party (PKK) leave Turkey and stop their armed attacks. Violence has been escalating since July, after a two-year truce between the PKK and government forces collapsed. Yalcin Akdogan, the deputy prime minister, suggested the day after the election that the government could bypass the main Kurdish political force, the moderate Peoples' Democratic Party (HDP), which lost some of its seats in Turkey's heavily Kurdish south-east to AK.

"They'll try to find alternatives and drive a wedge between different sections of Kurdish society," says Ertugrul Kurkcu, an HDP deputy. Mr Erdogan and AK, he says, believe they can use their pro-religious credentials to split conservative Kurds away from left-leaning Kurdish parties. The HDP and other Kurdish groups have called for a parliamentary commission to oversee new peace negotiations, but AK has yet to respond.

Meanwhile, the government has resumed bombing the PKK's camps in northern Iraq and redoubled its actions against PKK strongholds inside Turkey. Three civilians were killed in the south-east on November 2nd. A curfew was reimposed in part of the restive town of Silvan. For its part, the PKK is unlikely to stop fighting. It rejects the argument that its attacks are to

blame for the HDP's political setback, instead blaming the government.

AK officials have begun discussing plans for Mr Erdogan's long-standing ambition: changing the constitution to create an executive presidency. The president's spokesman said the goal was to "make the system in Turkey as effective as possible". AK is just 13 parliamentary votes short of the 330 it needs to call a referendum on altering the constitution, and it may be able to get them from the ultranationalist MHP party. That would erode the country's populous democratic checks and balances still further. In the meantime Mr Erdogan will allow Ahmet Davutoglu, the prime minister, to wield official power, while pulling the strings in the background.

Mr Erdogan's victory leaves Turkey looking increasingly like Russia, Venezuela and other illiberal democracies, where popular strongmen cow institutions and dominate a weak, divided opposition. Turkey's ambitions of joining the European Union might once have checked the slide to illiberalism. Indeed, the EU's enlargement commissioner, Johannes Hahn, and America's State Department have both warned the country not to intimidate journalists. But European leaders are desperate for Turkish help in stemming the flow of migrants; in mid-October the EU and Germany's chancellor, Angela Merkel (see story page 19), agreed to reopen negotiations on several aspects of accession in exchange for a deal on refugees. And Turkey is too crucial to the fight against Islamic State for America to raise much of a fuss. That leaves Mr Erdogan holding all the cards. For him, the lessons of an electoral campaign based on escalating war, torquing up ethnic tension, and repressing press freedoms are clear: it worked. ■



A man, a plan: Erdogan

# Charlemagne | The dispensable French

France has less and less influence in the EU, and fears to use what it still has



**B**ACK in September, as Germany struggled to cope with the politics and logistics of the greatest influx of refugees in modern history, France decided to put on a show of European solidarity. French bureaucrats, armed with Arabic translators and loudspeakers, chartered three coaches and set off for the German city of Munich. The idea was to fill the vehicles with refugees and drive them over the Rhine to France, thus easing Germany's load. The French had planned to fetch some 1,000 asylum-seekers. But in the end, only a few hundred could be persuaded to climb on board. It seemed they were not interested in French solidarity; they wanted to live in Germany. The coaches left half-empty.

The pattern was a familiar one. As Europe has scrambled to respond to the ground-shifting events of the past few months—first the Greek currency drama, now the refugee crisis—France has found itself increasingly marginalised: at best a junior partner to Mrs Merkel, at worst a mute spectator. With Greece teetering on the brink of expulsion from the euro zone in July, Mr Hollande cajoled, consulted and mediated. But it was Mrs Merkel's word, after the best part of a long night, that determined Greece's fate.

The refugee exodus finds France on Europe's sidelines again. When vast numbers of migrants started to land on Mediterranean shores earlier this summer, Mr Hollande refused to countenance the idea of national quotas to share out the asylum-seekers. It was not until Mrs Merkel turned Germany into a haven, earning accolades as the guardian of Europe's humanitarian spirit, that the French began to shift. By September Mr Hollande went into reverse, backing a compulsory European quota scheme after all. As fences went up and barbed wire was rolled out, Mr Hollande—a protégé of Jacques Delors, architect of a borderless Europe—stood quietly by. It was Mrs Merkel alone who went off to Ankara last month to try to persuade the Turks to tighten controls at their frontier with Europe. And it was she who then led an emergency meeting in Brussels of countries along the “Balkan route” favoured by migrants; France was not even present.

Up to a point, the eclipse of France over refugees is the product of geography and history. When Libya imploded a few years ago, and migrants took to the western Mediterranean, France and Italy were on the front line. This time, the surge happened in the east, far from French borders: from Syria and Iraq via Turkey and

the Aegean islands of Greece. If anything, migrants' ties of family, faith or tongue to towns in Germany, Britain or Sweden, as well as better job prospects in those places, have turned France into a country of transit, not a terminus. Its greatest problem with refugees is in Calais, where some 6,000 migrants are camped out under plastic sheeting on muddy tracks—but they are seeking to flee the French port, and make it through the Channel tunnel to the stronger economy of Britain.

It would be wrong to suggest that the French have quietly agreed to be Europe's bit-players. After all, Mr Hollande sought only one outcome from the negotiations with Greece, and he secured it: that the country should remain in the euro zone. The French president has since been arguing for a number of ideas designed to strengthen the single currency, such as a euro-zone parliament, budget and fiscal transfers. France is also pushing for common European border guards. And the force of joint Franco-German muscle still matters: it was not until the French at last swung behind the idea of quotas that the policy took shape. In some ways, an informal division of labour gives Germany the lead within Europe, and France the lead outside it. Abroad, France brings its military might to bear in ways that Germany would find unthinkable (and which now eclipse Britain's efforts): picking off jihadists in the Sahel, or unloading bombs over Syria and Iraq. Its efficient diplomatic corps is sparing no effort to try to secure a binding global deal to curb carbon emissions at the Paris climate talks, which start on November 30th.

## The sound of silence

Ever since the signing of the Treaty of Rome in 1957, France has tied itself to Germany on a simple understanding: that whatever divergences of interests or policy the pair had, they would find a way to co-operate. This used to mean compromising on an egalitarian basis. But over the past decade, as economic weakness has enfeebled its political hand and enlargement has diluted its power, France has struggled to accept its diminished status. The growing imbalance was disguised only by the hyperactivity of Nicolas Sarkozy, Mr Hollande's predecessor. Today, Mr Hollande's unimposing presidency has exposed the French to the uncomfortable reality of a German-led Europe. Faced with Germany's unilateral policymaking over the migrant crisis, the French have found themselves wrong-footed, and silenced.

The French government's response, suggests François Heisbourg of the Foundation for Strategic Research, a think-tank, can be summed up in the common French term *tétanisé* (derived from the muscle-tightening disease tetanus, or lockjaw). France has said as little as possible about migrants, and done even less. It has agreed to accept just 24,000 asylum-seekers, less than a third of the capacity of its national football stadium. Since the beginning of September, Germany has taken in some 500,000.

The real fear at the back of the French government's mind is that anything it says or does will be a gift to Marine Le Pen and her far-right National Front. As it is, she is the favourite to win control of the northern French region at elections next month. A canny tactician, Ms Le Pen knows that she scarcely needs to murmur a word to win support: images of refugees snaking their way across Balkan fields, or washing up in boats on Greek shores, do the work for her. Mrs Merkel urgently needs other European states to share the refugee burden. Whatever Mr Hollande's reservations, he has neither the force nor the inclination to defy her. But he steps in to bail her out at his peril. ■



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## The environment

## Less green and pleasant

**Some cuts to green-power subsidies are sensible. But mixed messages risk deterring much-needed investment**

KEEN on green policies, David Cameron used to cycle to work in a variety of fetching helmets (his briefcase sometimes following by car). So dedicated was he to environmental causes that both solar panels and a wind turbine were installed at his London home. On becoming prime minister in 2010, he declared that he would lead Britain's "greenest government ever".

Commitments and cash duly followed: carbon emissions would be halved by the mid-2020s, compared with 1990; £3.8 billion (\$5.8 billion) would go into a new Green Investment Bank; Heathrow airport would be denied a third runway; fracking would be banned in national parks. A nationwide clean-up has restored beaches to their most sparkling state since the Industrial Revolution and improved 10,000 miles of river (though it has not done much for fish stocks—see next story).

Yet since winning a general election in May and ditching its tree-hugging coalition partner, the Liberal Democrats, Mr Cameron's Conservative government has gone less green. Wind and solar projects must "stand on their own two feet", says Amber Rudd, whose Department for Energy and Climate Change (DECC) plans to phase out all renewable-energy subsidies over the next decade. Onshore wind farms will lose them in April, a year earlier than scheduled. Payments for power generated by solar panels on homes will fall by 87% next year. A scheme to insulate draughty

homes has gone; new houses will no longer need to be carbon neutral. An official report has said that Heathrow should get another runway (the government has yet to agree). And a proposed new law would allow some fracking under national parks.

Green types are depressed about the backtracking. "It's as though the government has pushed a boulder to the top of a hill," says Alastair Harper of the Green Alliance, a think-tank, "and just before reaching the top has decided to let go."

### Park me my chariot of fire!

Some of the grumbling is unwarranted. For one thing, several of the subsidies being slashed looked over-generous. "Feed-in" tariffs—which allow households generating their own renewable electricity to sell it to the grid—were introduced with cross-party support in 2010, but civil servants had advised against the plan, under which the government buys electricity back at prices far above market rates.

Nor did boosts to renewables offer good value. Their power was too intermittent, says David MacKay, a Cambridge professor who served as the DECC's chief scientific adviser in 2010-14. Although the cost of photovoltaic cells has plummeted in recent years, sunny days are infrequent in Britain; nor does the wind reliably blow. Onshore wind turbines produce energy less than 27% of the time, and large solar projects just 11% of the time, relative to their

maximum potential. Green subsidies, funded by a levy on consumers' energy bills, were originally forecast to reach £7.6 billion a year by 2020; before the recent cuts they were heading for £9.1 billion.

Yet some of the government's surviving investments are even less frugal. Offshore wind turbines, far from the sensitive eyes of voters, have so far hung on to their subsidies. On October 28th Dong Energy, a Danish company, announced that it would build the world's largest wind farm, in the Irish Sea, generating electricity for 460,000 British homes by 2018. This is despite the fact that, by the DECC's figures, generating offshore wind-power costs more than £122 per megawatt hour, whereas energy prices are forecast to be less than £50 in 2019-20.

This also makes a promise by the government to pay up to £92 per megawatt hour for 35 years for energy from a new nuclear plant at Hinkley Point look odd. And it is subsidising some forms of energy that are far from green: taxpayers could be on the hook for millions in subsidies to operators of dirty diesel generators, which have been roped in to fill the gap in the country's energy provision.

The inconsistencies are spooking investors. More than 1,000 jobs in Britain's solar industry have gone in recent weeks; its trade association warns that 27,000 of the remaining 35,000 are at risk. "I can't invest in renewables in the UK while we've got these people [in office], it is too uncertain," says Nick Pascoe, head of Orta Solar, a firm that is closing. Michael Parker, head of onshore wind in Britain at RWE Innogy, a German company, says nine projects have been cancelled in England because of what he calls "an energy-policy vacuum".

Some argue that the development of carbon capture and storage (CCS) technology ought to be the priority, given the low prices of fossil fuels. The Committee on ►

► Climate Change, an advisory panel, reckons this technology could halve the cost of meeting Britain's target to cut emissions by 80% by 2050, compared with 1990. But CCS is wildly expensive, and uncertainty in energy policy makes attracting investors harder. In September Drax, a power firm, cancelled a plan to install a £1 billion CCS facility in Yorkshire because it could not rely on government support.

Despite all this, last year Britain managed a substantial cut in carbon relative to GDP: economic growth of 2.6% alongside a drop in energy-related emissions of almost 9%, according to PwC, a professional-services firm. Yet after Germany, Britain remains Europe's biggest energy-guzzler, and one of the most reliant on fossil fuels. There is plenty left for its "greenest government ever" to do. ■

#### The war against Islamic State

## A vote postponed

**David Cameron's hopes that MPs will authorise air strikes on Syria are fading**

WHEN it comes to asking MPs to authorise bombing against Islamic State (IS) in Syria, the British government has decided that discretion trumps valour—at least for now. The official position is that Britain is still keen to do its bit. The defence secretary, Michael Fallon, argues that, as IS does not recognise the border between Syria and Iraq (where British Tornado jets are already in action), there is an "inescapable logic" to going after the group in both countries. It is a logic that appears to have escaped so many MPs that David Cameron has decided to postpone a vote.

The prime minister's caution, if not admirable, is understandable. He cannot afford a repeat of the debacle of August 2013, when he lost a vote to sanction air strikes on the Assad regime after its use of chemical weapons. Until recently, Mr Cameron was confident that he could get parliamentary backing before Christmas. But that depended on limiting to a handful the number of rebels on his own side (the government's working majority is just 17), while relying on around 40 Labour MPs to defy their new left-wing leader, Jeremy Corbyn, which would give the endeavour the extra authority of cross-party support.

A report this week from the Commons foreign-affairs committee served as a warning of the difficulties in winning a vote. The committee, on which the Tories are in the majority, said of prospective British strikes: "The benefits...are more than outweighed by the risks of legal ambiguity, political chaos on the ground in Syria, mil-

#### Wild salmon

## Floundering

#### Sinking stocks present a fishy whodunnit

FEW species illustrate the principle of "survival of the fittest" as well as the salmon. The sushi staple is born in rivers, migrates to the sea once mature, then attempts a daunting "run" back to its birthplace to spawn the next generation. A large percentage never make it, ensuring that only those in top condition are able to pass on their genes.

In Britain, however, this Darwinian filter is getting more stringent. Twenty years ago, 30% of wild salmon managed to complete the trip up their home river; today, the figure is 5%. At the Bushmills monitoring station in Northern Ireland, less than 3% of tagged fish returned to spawn in 2011, the lowest level since recording began in 1987. Fewer than 3,000 salmon made it back to the River Eden in north-west England last year, short of its "conservation level" of 5,000. Most of those that do make it have spent two years at sea, whereas in the past the majority came back after a single year.

There is no consensus over the cause. Warming seas may be one. But these do not seem to be harming herring or mackerel, which have both been caught in record numbers. Another theory is that salmon farms, which rear most of the fish that wind up on dinner plates, are crowding out the wild kind by releasing large amounts of salmon lice—a parasite that can kill juveniles—into their surrounding waters. Last month Salmon and Trout Conservation Scotland, a trade group, called for a freeze on farm expansion; farmers, unsurprisingly, deny any link.

Even if scientists are unclear why

stocks are declining, they have ideas about how to bolster them. One step is to construct more "fish passes", ladders that enable migrating salmon to bypass the trickiest obstacles; since 2009 the government has built 63, opening up 3,700km (2,250 miles) of salmon-friendly waters. Salmon were recently found on the River Dearne in Yorkshire for the first time in 150 years. Cutting the number of salmon-fishing licences would also help.

But fiscal austerity means less money for fish ladders and the like: since 2010 the Environment Agency has lost a quarter of its budget. For now, conservationists are struggling against the current.



Not in the pink

ity irrelevance and diplomatic costs." It concluded that the government should refrain from action unless part of a "coherent international strategy to both defeat [IS] and end the Syrian war"—a counsel of perfection it knows cannot be met.

Russia's intervention, launching an air campaign against any rebel groups threatening the regime, has added to Mr Cameron's difficulties. It has given an excuse for MPs who might once have supported military action to demur now. Another factor changing the parliamentary arithmetic is that Labour MPs, who earlier welcomed the chance to cock a snook at Mr Corbyn, are increasingly fearful of efforts to de-select those who can be accused by activists of being "Tories in disguise".

Russia has also muddied already murky waters in Syria. The tempo of American air strikes there has slowed in

the past month. As the foreign-affairs committee noted, Britain's contribution in Syria would hardly be a game-changer. But in the real world, the exercise of military power increases rather than diminishes diplomatic leverage (just ask Vladimir Putin). There is also the question of Britain's fading status as America's most reliable ally. Officials in Washington were shocked by the Commons vote in 2013 and are annoyed by Britain's courtship of China. British planes flying over Syria would repair some of that damage.

An option open to Mr Cameron, if a Syria vote looks too risky, would be to boost the role Britain is playing in Iraq, the site of the main fight against IS. One possibility would be to add to the eight Tornadoes flying from Cyprus. Another would be to send more military trainers and special forces. Neither would need a vote. ■

# Bagehot | Let battle commence!

**Britain's upcoming "renegotiation" of its EU membership targets a straw man**



AS GEORGE OSBORNE appeared before Germany's business leaders at their annual conference on November 3rd, dozens of them rose and shuffled off for lunch. Britain's chancellor of the exchequer was not put off. There followed a well-calibrated speech articulating the *Wertegemeinschaft* (community of values) uniting the two nations: German firms use components made in Britain, Mercedes builds its racing cars there and both exhibit a commitment to balanced books, hard work and new technology that is not entirely shared by other European countries Mr Osborne could mention. Nonetheless, it was not all flattery. Under the girders of a former station for mail trains in Berlin, the chancellor warned that Britons are worried about Europe's economic decline, fed up with the EU's idealistic commitment to "ever closer union" and tired of having decisions—like Britain's later-overturned participation in the Greek bail-out—foisted on them by the euro-zone countries that dominate Brussels.

No problem, reply the Germans. That Europe needs to become more digital and competitive is uncontroversial. Ever closer union was, in effect, killed off by an EU statement last June recognising that member states want different levels of integration. Wolfgang Schäuble, the counterpart of Mr Osborne—who took him out for an Italian meal on the eve of the speech—was talking about a multi-speed Europe over two decades ago. Germany is closer to most non-euro-zone members of the EU than to Italy and Greece and thus wants to keep states like Britain and Denmark influential. Though some in Berlin grumble about Britons trying to cherry-pick the benefits of integration (access to the single market) without the costs (taking in migrants and subbing bail-out funds), all hope that they will vote to stay in the EU in their upcoming referendum. Before Mr Osborne arrived at the conference, Angela Merkel had urged delegates to tell him: "Stay in!"

Still, in a country convulsed by the arrival of some 10,000 migrants a day, the fact that Britain might flounce out of Europe over such a vague list of complaints seems odd. As *The Economist* went to press, David Cameron was about to write to Donald Tusk, the president of the European Council, setting out his asks; incorporating the concerns voiced by Mr Osborne in Berlin as well as a bid to curb migrants' right to claim benefits. In other words: Britain is about to demand things that are variously symbolic, uncon-

troversial and already in train—but with plenty of noise.

Why, then, is it making such a fuss? Blame Mr Cameron's commitment in 2013 to reconfigure Britain's EU membership ahead of a plebiscite by 2017. His problem is that the "renegotiation" has unveiled a story too pro-European to chime with the British public. It started with the Balance of Competences review, a grand bid to identify fields in which "Europe" had too much power. This was launched to great fanfare in 2012, but its final report (a fine, detailed study of the Britain-EU relationship) was buried because it concluded that the balance was broadly right. Since then talk of "renegotiation" has given way to that of "reform". The hope for imminent treaty-change to accommodate London's wishes has faded. British officials sent to Brussels have found that, on balance, membership is good for Britain, that other members share the country's objections and that, where they do not, the gripes in question do not justify Brexit. The country's current situation has been found to be infuriatingly satisfactory.

Yet reality is only incidental to British debates on Europe. According to the Eurobarometer survey, voters in Britain are the second-worst informed of any electorate in the EU. Only 5% of senior Eurocrats are British (down from 13% in the 1980s). A lack of interest in the EU defines the country's public attitudes towards it; ludicrous tabloid claims about Brussels—playing on Britons' love of an eye-roll—define the outlook of otherwise yawning voters. This mix of indifference and mythology also applies to the political elites: in Westminster the European Scrutiny Committee is often unable to meet because it is inquorate, while some in the German commentariat are more aware of Mr Cameron's Balance of Competences review than are their British counterparts. So Mr Cameron and Mr Osborne dare not claim that, on reflection, the country's EU membership is fine. They must instead pretend that their ongoing support for it depends on the outcome of the renegotiation. They are in hand-to-hand combat with a phantom; charging towards a straw man as if he were made of steel.

## Wrestling with smoke

There is nothing new about this. The recent history of Britain's dealings with the EU is defined by politicians' attempts to reconcile the messy, imperfect but broadly positive reality of membership with critical caricatures of it at home. In 1984 Margaret Thatcher boasted about defying Europe over Britain's budget rebate when she had actually compromised. In 1997 Gordon Brown imposed five arbitrary economic tests on the country's prospective membership of the euro. Last year Mr Osborne claimed he had cut Britain's contribution to the EU budget, without mentioning that this concession had been pre-agreed. Only a few British leaders—including, to his credit, Tony Blair on a good day—have done the sensible thing: challenging the misconceptions and championing the essentially benign reality of EU membership.

Therein lies a lesson for Britain's partners, especially Germany. They should take the country's Euroscepticism with a pinch of salt. Even Mr Cameron, the most anti-EU prime minister in decades, recognises the value of the union. But so distorted is the picture voters get that he must deal with the EU as it is perceived rather than as it exists. So let politicians in Paris, Brussels and Berlin coo at the audacity of the negotiators from London. Let them cheer the British ministerial delegations with their complaints. Let them credit Britain's electorate with reforms already in the works—and hope that future generations of the country's politicians are more frank with it than were their predecessors. ■



## Planning for El Niño

## Disaster foretold

NORTH WOLLO

**The world's biggest climatic weather phenomenon is easier to predict than many calamities. But it shows the importance of preparing for other disasters, too**

**J**UMPING a fence of prickly pears, Gumat Hussain, a local chief in the driest district of North Wollo, Ethiopia's most drought-prone province, walks gloomily through his sorghum. "The crops have not produced grain. They are useless even for the animals," he sighs. El Niño, the world's largest climatic weather phenomenon, is keeping the rains away across swathes of Africa this year. Ethiopian officials say that the harvest is failing as completely as in a series of droughts that together killed more than 1m of the country's people between 1965 and 1985, and made Ethiopia a byword for hopeless famine.

More than 8m Ethiopians are now going hungry. But a decade-old food-security programme is keeping the poorest from starvation—and showing how preparation for extreme weather events can mitigate the worst effects. In Africa's largest social-protection scheme, 6m Ethiopians spend five days each month for the lean half of the year on public works such as digging water-holes for animals and building terraces for crops. In return they get 13kg of cereal and 4kg of pulses a month, or the cash equivalent. Another million who are unable to work get the handout, too.

El Niño was named after the Christ-child by Peruvian fishermen who noticed that the global weather pattern, which happens every two to seven years, cut their hauls around Christmas. El Niño sees warm water, collected over several years in the western tropical Pacific, slosh back

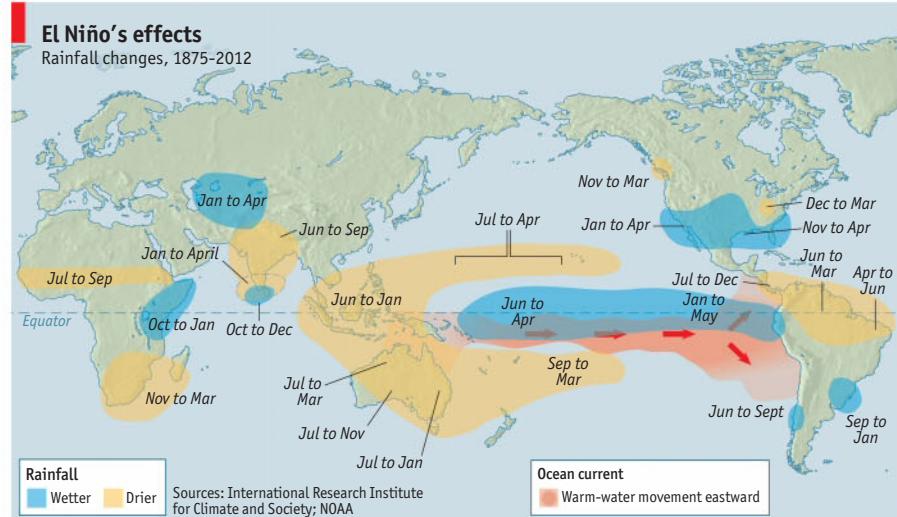
eastwards when winds that normally blow westwards weaken, or sometimes reverse. America's National Oceanic and Atmospheric Administration says this year's Niño could be the strongest since records began in 1950.

The weather effects, both good and bad, are felt in many places (see map). Rich countries gain more from mighty Niños, on balance, than they lose. Their largely temperate climes mean that extra deaths during heatwaves are more than offset by fewer during cold snaps. A study from the IMF and Cambridge University found that a strong Niño in 1997-98 boosted America's

economy by \$15 billion, partly because of higher agricultural yields: farmers in the Midwest gained from extra rain. The total rise in agricultural incomes in rich countries is greater than the fall in poor ones, says Solomon Hsiang of the University of California, Berkeley. One knock-on effect of El Niño—fewer Atlantic hurricanes—particularly benefits America. (Storm activity in the Pacific, by contrast, increases.)

But in Indonesia tinder-dry forests are in flames (see next article). A multi-year drought in south-east Brazil is intensifying. Though parched California may gain relief if El Niño sweeps away a "blocking" ridge of high pressure that has diverted winter storms for the past four years, heavy rains on bone-dry land are likely to cause surface flooding and mudslides. In any case, what the Golden State most needs is snow in the Sierras to replenish its water supplies—unlikely in the heat of a Niño year.

The most recent mighty Niño, in 1997-98, killed around 21,000 people and caused damage to infrastructure worth \$36►



## Also in this section

## 54 Indonesia's forest fires

► billion around the globe. But such Niños come with months of warning, and so much is known about how they play out that governments can prepare—if they are sufficiently farsighted. According to the Overseas Development Institute (ODI), a British think-tank, and the Global Facility for Disaster Reduction and Recovery, however, just 12% of disaster-relief funding in the past two decades has gone on reducing risks in advance, rather than recovery and reconstruction afterwards. That is despite evidence that a dollar spent on risk-reduction saves at least two on mopping up.

Simple improvements to infrastructure, such as those carried out by Ethiopia's public-works programme, can reduce the spread of disease. Better sewers make it less likely that heavy rain is followed by an outbreak of diarrhoea. Stronger bridges mean villages are less likely to be left without food and medicine after floods. According to a paper in 2011 by Mr Hsiang and co-authors, civil conflict is correlated with El Niño's malign effects—and the poorer the country, the stronger the link. Though the relationship may not be causal, helping divided communities to prepare for disasters would at least lessen the risk that those disasters are followed by bloodshed.

#### Stitches in time

Mexico has already reaped the benefits of astute planning. Hurricane Patricia, which hit its coast last month, was the strongest Pacific hurricane to reach land on record, probably because El Niño added to its oomph. It caused far less harm than expected. That was partly because it moved too fast to whip up a big storm surge at sea, and also because it passed only through rural areas of south-western Mexico. But it was also thanks to government readiness. More than 3,000 homes were damaged in the state of Jalisco, but no one was killed because residents had been moved to shelters built for just such an emergency. Almost a quarter of Mexico's territory is vulnerable to tropical cyclones and the country suffers from around 500 floods a year. Consequently, at least 0.4% of the federal budget is used for disaster preparation—a decent chunk in a country where government spending is low.

Disaster insurance can be too costly for poor governments and individuals: uncertain demand, weak regulation and local corruption all put insurers off, too. But by making the cost of risks explicit, insurance can encourage their mitigation. Collective schemes, such as the Caribbean Catastrophe Risk Insurance Facility, can make insurance more affordable, and disseminate information that helps governments, citizens and those running ports and airports to prepare. Since the poorest are least likely to recoup their losses from disasters linked to El Niño, minimising their losses needs to be the priority. ■

#### Indonesia's forest fires

## Burning questions

JAKARTA

#### El Niño leaves much of South-East Asia choking in smog

**O**NE of the countries most seriously affected by this year's mighty Niño is Indonesia. By the middle of last month more than 20,000 firefighters were battling blazes across its jungles and peatland. Only the onset of heavy rains has brought some respite from the toxic smoke which has shrouded South-East Asia since August. Perhaps \$200m has been spent trying to douse the blazes, which at times have outnumbered firefighters five-to-one. Some scientists think that by drying out already-parched earth, trenches dug to supply water for hoses may even have made things worse.

Indonesia has long suffered from forest fires during the annual dry season. Many are set deliberately, by farmers and firms clearing land for crops such as oil palm. The blazes have grown more serious as agriculture has expanded onto peatlands, which become volatile when drained. But this year's El Niño has lengthened and intensified the dry season, creating a calamity. A reeking white mist which closed schools and cancelled flights in Singapore and Malaysia has spread as far as Thailand and the Philippines. Closer to the hotspots, which are mostly on the islands of Sumatra and Borneo, a thick yellow fog has caused respiratory problems in more than 500,000 people.

Bad as all this is, the environmental impact goes much further. Conservationists

fret about the effect on Indonesia's endangered wildlife, such as its orangutan colonies. Data produced by Guido van der Werf, a Dutch researcher, suggest that emissions from this year's fires have caused Indonesia to surpass Japan as the world's fifth-biggest polluter. On the worst days the fires have emitted more carbon than America's entire economy—which is more than 20 times the size of Indonesia's. Louis Verchot of the Centre for International Forestry Research warns that El Niño may yet induce a second burning season, next February and March.

Tackling the causes would be cheaper than fighting the flames, according to experts from the World Resources Institute, a research outfit. Lax laws are part of the problem. Even more serious are official incompetence and corruption, which have allowed plantations to keep spreading on land that is supposed to be off-limits.

Smallholders will need new skills and equipment if they are to abandon familiar slash-and-burn techniques. Finding ways to raise their productivity would reduce the incentive to expand their plots. So would solving the land grabs and title disputes that still force many otherwise guiltless Indonesians to clear new plots to tend.

In recent years boycotts by Western consumers have forced some big palm-oil firms to promise change—although those serving less-picky Chinese and Indian markets remain unmoved. A regional treaty designed to combat the haze, drawn up in 2002, is full of grand promises but lacks teeth. A new law in Singapore which aims to drag Indonesia's fire-starters through its own courts may make more difference; retailers in the city-state have already stopped selling products made by some firms under investigation.

Indonesia's newish president, Joko Widodo, seems more concerned about the fires than any of his predecessors. A forestry graduate himself, he has toured the worst-affected regions, and last month returned early from a long-planned state visit to Washington to oversee the crisis. His administration looks prepared to prosecute at least a handful of executives from fire-linked firms, a small but symbolic step forward. And the severity of this year's crisis has caught the attention of governments far beyond the region, says Simon Tay of the Singapore Institute of International Affairs, a think-tank—just as the world's prime ministers and presidents prepare for a conference on climate change in Paris in December.

But only a clueless optimist could dismiss the difficulties of forcing lasting change in Indonesia, a sprawling and sometimes chaotic democracy that can bristle at foreign criticism. In recent weeks the country has ploughed resources into lifting the smog. It must not stop when the skies return to blue. ■



Fuel and fire



### Silicon Valley's startup boom

## Y Combinator, the X Factor of tech

SAN FRANCISCO

### A tech talent-spotter has come to dominate Silicon Valley's startup scene

**I**T SOUNDED like an oddball idea, but that is how many breakthroughs in Silicon Valley begin. In late 2008 three young men applied to Y Combinator (YC), a school for startups, looking for help with their tiny firm, AirBed & Breakfast, a website that helped people rent out inflatable mattresses in their living-rooms during conferences. Paul Graham, one of YC's founders, did not think much of their idea, but liked their pluck. Strapped for cash, the three had sold novelty breakfast cereals during the presidential election (Obama O's and Cap'n McCains) to earn enough money to keep their startup going. Mr Graham and his partners at YC helped them to refine their idea and meet early investors. Today Airbnb, as their firm is now known, rents out whole apartments in 190 countries and is one of the most talked-about startups, valued at \$25.5 billion.

Since 2005 YC has taken on batches of promising founders, and this month will celebrate the funding of its 1,000th startup. Though about half of its startups have failed, which is typical of early-stage investing, it has had a head-turning record of success. In addition to Airbnb, YC has had a hand in Dropbox, a cloud-storage firm, and Stripe, a payments company (see table, next page). Eight of its firms have become what Valley folk call "unicorns", valued at \$1 billion or more. Combined, the companies it has invested in are worth around \$65 billion (based on their most re-

cent funding round), although YC's share is only a small fraction of that total—perhaps \$1 billion-\$2 billion.

It is because of this record that YC has become a juggernaut in Silicon Valley. Today fast-growing startups, not big incumbents like HP (see box, next page), are celebrated as the centres of innovation and influence in technology. By providing training and producing a group of successful alumni, YC has helped popularise the idea that startups are a viable career.

Aspiring entrepreneurs clamour to attend the three-month YC programme, as much for what they learn there as for the stamp of approval and network they can claim when they leave. Just as an Ivy League degree opens doors in certain professions, graduating from YC is a priceless asset in the tech industry. For its spring 2015 batch YC received more than 6,700 applications and accepted around 1.6% of them. In contrast, Harvard's admissions process this year was the most competitive in its history, yet its admissions rate was 5.3%.

### Investor, teacher, talent-show judge

Paul Graham, an entrepreneur who sold his startup, Viaweb, to Yahoo in 1998, started YC with Jessica Livingston, a banker, and two Viaweb colleagues, Trevor Blackwell and Robert Morris, ten years ago. They hoped to devise a more efficient way to invest in startups but never expected to make a fortune. They stumbled upon a for-

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mula that melds the best of an investment firm and a university, and which in some respects also resembles television talent shows such as "The X Factor". YC admits batches of startups in classes, and each receives coaching on how to refine their product—though they are usually not quite as blunt as Simon Cowell.

YC's small campus in Mountain View, a short zip down the freeway from the Googleplex, has long tables reminiscent of a dining hall. The classroom setting creates a sense of paranoia and competition, encouraging entrepreneurs to accomplish in a few months what might otherwise take far longer. The programme teaches engineers—some of whose idea of a polished pitch is to look at your shoes rather than their own while speaking—how to sell their ideas to investors.

At the end of three months they graduate at "demo day", when they deliver a presentation about their business to a group of the Valley's top investors, who plan their schedules around it, like tennis fans booking seats for the Wimbledon finals. Demo day fosters a sense of urgency, because investors have only a limited opportunity to see a business and decide whether to back it. Venture capitalists complain that YC has pushed up prices for startups, which is probably true. YC typically pays all those it admits \$120,000 in return for a 7% stake, valuing each one initially at more than \$1m. Sam Altman, YC's president, says there is "no question YC has driven up the price of early-stage investing...But I think in the long run it's going to be in investors' interest, because there will be better companies."

In its investments YC has benefited from the power of "network effects", the notion that a platform becomes more valuable the more people use it. As it grows, YC has become better at what it does, by en- ►

**Greatest hits**

Largest Y Combinator-funded startups

	Value* \$bn	Date of joining
Airbnb	\$25.5	2009
Rents out places to stay for local hosts		
Dropbox	\$10.0	2007
File-sharing and storage in the cloud		
Stripe	\$5.0	2010
Software for selling from within apps		
Zenefits	\$4.5	2013
Online HR and payroll services		
Instacart	\$2.0	2012
Grocery collection and delivery service		
Docker	\$1.1	2010
Platform to manage distribution of software		

Sources: CB Insights; CrunchBase

\*Latest funding round

listing its alumni to find new applicants, advise those going through the programme and be the first testers of their products. Some of the earliest users of Stripe, for example, had come out of YC, says Patrick Collison, one of Stripe's founders. They even have their own private social network, cheekily titled Bookface. Mr Graham's frequent blogposts on his startup philosophy are quoted like scripture by many in the Valley.

YC has also given startup founders more negotiating muscle with investors by acting as a sort of union to protect their rights. "If an investor is abusive toward a YC founder, we're going to remember, and we're going to let other YC founders know about it," says Paul Buchheit, a partner who was the creator of Gmail, Google's e-mail service. YC discreetly maintains a ranking of investors, and lets its startups, but no one else, glimpse at it. All this has changed the power relationship compared with the past, when "venture capitalists treated entrepreneurs like employees rather than the talent," says Steve Blank, an entrepreneur and academic.

YC has taken care to avoid one of the pitfalls that many firms, in tech, investment and other industries, fall into: succession. Last year Mr Graham, who had been running YC, chose Mr Altman as his replacement. He had been among the first batch of YC startups and sold his firm, Loopt, in 2012, for around \$43m (it is not known how profitable this was for investors). The energetic and ambitious Mr Altman, aged 30, wants to make YC even more influential than now. Last month YC raised a \$700m fund to invest in YC startups at later funding stages. This sort of investing requires different skills, and risks annoying the venture capitalists YC works with, whose turf it is invading.

Mr Altman is also setting his sights be-

**Hewlett-Packard**

# Growing old, but not together

SAN FRANCISCO

**HP's break-up will not solve all its problems**

FOUNDED by two tech guys in a garage in Palo Alto in 1939, the giant created by Bill Hewlett and Dave Packard is remembered as Silicon Valley's original startup. In its heyday, its flair for innovation was unrivalled, and it devised technologies that shaped people's work and personal lives, from calculators to cameras to computers. Today it is regarded as a has-been: a reminder of Silicon Valley's past but not a beacon of its future.

Meg Whitman, HP's boss, knows her firm needs a reset. On November 2nd it began trading as two separate companies on the New York Stock Exchange. The split creates a seller of printers and computers, called HP Inc, and a purveyor of information-technology services to businesses, called HP Enterprise. The latter is thought to have brighter long-term prospects, and that is the one that Ms Whitman will run, while HP Inc will be overseen by Dion Weisler, who previously led the firm's printer and personal-computer division in Asia. The two HPs will be behemoths, each with around \$50 billion in annual revenue. "We have scale that startups could only dream about," says Ms Whitman.

Senior executives in each company will have the benefit of running a more focused operation; and shareholders will be able to choose how much exposure they have to each of the two lines of business. But neither of the two daughter firms has an easy road ahead. HP Inc must try to grow while global sales of personal computers and printers are modestly declining, as people make more use of smartphones and tablets. HP

Enterprise's business clients are shifting their computing power and storage to the online cloud, an area in which it has less expertise and faces stiff competition. Having tarnished its own reputation with ill-advised takeovers of Compaq, a computer-maker, and Autonomy, a software firm, HP may now, by dividing itself into two more digestible bits, make them into bid targets.

And separation may not solve HP's biggest problem: a perceived lack of innovation, which discourages top talent from working there, thereby making it harder to innovate. Ms Whitman points out that Steve Jobs, Apple's late boss, chose to do a summer internship at HP. But today's engineers and aspiring entrepreneurs prefer to work at nimble startups where their ideas are more likely to be listened to, and the share price has more room to grow. HP Enterprise alone employs around 250,000 employees (although it plans to trim jobs). In contrast, Apple, Google and Facebook together employ around 160,000. "I don't think anyone comes out of college saying, 'I want to go work at HP,'" says Ali Behnam of Riviera Partners, a recruiting firm.

Splitting HP in two seems unlikely to change its image problem. It seems almost inevitable—with Apple as perhaps the most striking exception—that yesterday's cool young startups eventually become today's stodgy, greying corporations. A similar fate has befallen Microsoft and Cisco and may some day await Google and Facebook. At least, unlike so many startups that vanish without trace, HP has survived for 76 years.

yond the Valley. YC is investing in companies that have not typically been of interest to tech investors, including one that works on nuclear fusion. This year YC launched a "light" version of its programme, an eight-week fellowship, so more people can take part without moving full-time to Silicon Valley for three months, which the core programme requires. This may help attract a more diverse group, and earlier-stage ideas, but it might, again, be a risky move away from YC's successful formula of the hands-on cultivation of small groups.

Tech firms' fortunes can turn rapidly, and no one knows that better than a startup factory. Most of YC's profits are still on paper. With the exception of Twitch, a firm that streams videos of people playing games—acquired by Amazon for nearly \$1 billion last year—none of its biggest suc-

cesses have gone public or been bought. Their valuations could just as easily fall as rise. Some wonder, for example, if Dropbox will be valued so highly once it goes public. If the valuations of some of its stars droop, this could hurt perceptions of YC's Midas touch.

YC's partners seem surprisingly uninterested in money, or competitive threats. There are hundreds of other "accelerators" worldwide that have replicated YC's investment and training philosophy, but none with its brand or its record. The greater risk is not that founders choose to go with a rival, says Mr Altman, but that they decide they can do without advice from any accelerator. That would be another sign that YC had changed the environment for entrepreneurs for the better. But no firm wants to put itself out of business. ■

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## Cyber-security

# The cost of immaturity

### The business of protecting against computer-hacking is booming

THE average time between an attacker breaching a network and its owner noticing the intrusion is 205 days. Like most statistics touted by the cyber-security industry, such as the supposed annual \$575 billion global cost of 90m cyber-attacks, it is little more than a guesstimate. But there is no doubt that criminals and pranksters are thriving by attacking computers and networks (see box), that companies are struggling to cope and that businesses offering answers are charging fat fees.

The penalties for getting cyber-security wrong are steep. Nortel, a Canadian telecoms giant, went bust in part because hackers stole so much of its intellectual property. Target, an American retailer, lost the credit-card details of 40m customers. Some of them are suing. Its share price plunged, and the CEO stepped down. TalkTalk, one of the biggest phone and internet companies in Britain, is floundering after an attack last month which leaked customer information—which was apparently stored unencrypted, on a computer accessible through a public website.

Unsurprisingly, then, the cyber-security industry is booming. A report by Bank of America Merrill Lynch reckons the market is \$75 billion a year now and will be \$170 billion by 2020. Not only is demand soaring, but barriers to entry are low. Anyone able to spout a bit of computer jargon can set up shop (it also helps if you can say you have a background in an intelligence service or the military). Unlike, say, businesses based on engineering or science, there are no standard qualifications, nor any established trade associations.

The range of products is bafflingly wide. Among those on offer are “threat intelligence” (finding out who is planning to attack your company and why); “endpoint protection” (making sure that nothing is lurking on your computers or mobile devices); “penetration testing” (hacking into your systems to reveal their security weaknesses); “identity assurance” (making sure that only the right people get onto your network); “incident response” (dealing with the aftermath of attacks); and “anomaly detection” (spotting mischief by looking for peculiar movements of data).

Quality varies hugely. The worst products may appear to work perfectly, but do nothing against the real threats. Anti-virus software, for example, can do a splendid job against old malevolent software, but fail to spot new versions (especially be-

cause those who invent malware fine-tune it to evade existing defences). And they defend against only one kind of attack. Other products do such a good job in spotting possible mischief that they create a plethora of false alarms. Keeping up-to-date is hard—malefactors who spot weaknesses quickly sell or share their knowledge.

Ropier providers are helped by the fact that customers, especially at board level, are usually ill-informed about what they are buying. Understanding how attackers work and what they are after is hard. Few senior executives have enough of a technical background to understand encryption or network design. Sharing data about attacks would help corporate buyers to be-

come more informed but carries risks of its own—you may breach customer privacy by doing so, and publicising an attack highlights what may look like incompetence. (New laws pending in America and the European Union should give some much-needed clarity on what disclosure is required when cyber-attacks happen.)

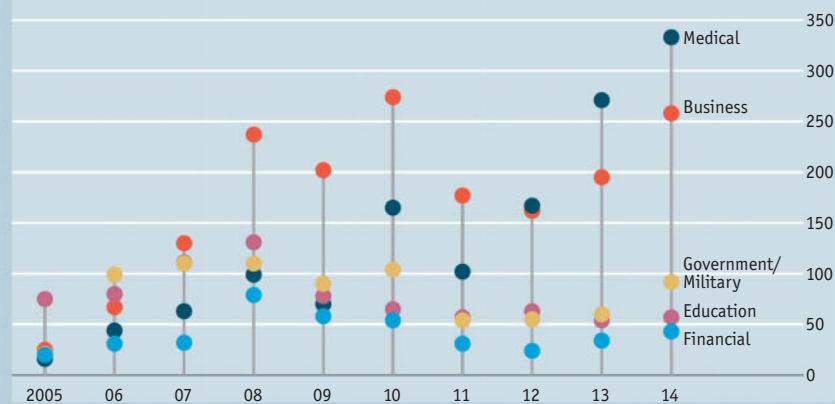
All sorts of companies offer cyber-security services, from small, specialist outfits to giant arms companies such as BAE Systems (which TalkTalk has hired to sort out its mess). The biggest firms are finding it hard to keep staff. As in the public-relations and corporate-intelligence industries, if you know your stuff, you can make more money starting up on your own. Venture-►

### Data breaches in America

Computers are not great for storing secrets. The number of reported data breaches at organisations in America hit a record high of 783 in 2014 according to the Identity Theft Resource Centre, an industry body. It defines a data breach as the loss of information from computers or storage media that could potentially lead to identity theft, including social-security numbers, bank-account details, driving-licence numbers and medical information.

Since 2005 there have been more than 5,000 known incidents of this type, involving an estimated 675m individual records. The real figures are likely to be far higher: many firms fail to report data thefts, since the consequences of disclosure can be severe. Hacking into computers via the internet is the most common cause of personal-information theft (and it is on the rise), but malicious actions and negligence by employees and subcontractors with access to computer systems also contribute to the total. Over a third of known data breaches are at businesses. They are rarer in the civilian and military arms of government—though they have risen again after a three-year lull. But it has been the medical sector that has had the biggest increase in thefts by far since 2010. In 2014 medical records accounted for 43% of all data stolen.

By sector, number of attacks



By type of incident, %



Source: ITRC

► capitalists are not showering money on the industry as prodigiously as they did a year ago, but the fast growth rate means that raising capital is still easy. The big companies are still able to trade on their brand name (nobody gets fired for hiring IBM) but the mammals are beating the dinosaurs.

Purely technical solutions are also going out of fashion. Even the best technology doesn't work if the humans who operate it are careless or ill-trained. Attackers often use a mixture of computer hacking and "social engineering" (in effect, confidence tricks) to gain access to their targets. People who obligingly click on links or open attachments in bogus e-mails are the single biggest security weakness: even the strongest front door is insecure if those inside open it to all comers.

Even the best cyber-security products offer little protection against employees who are bribed or bullied to help the attackers, or who harbour a grudge against their bosses. Weeding out such people requires an approach more like that of the spy world. Training loyal staff to be sensible, while not infuriating them with restrictive rules or paralysing them with fear, is hard. Naturally, there are up-and-coming consulting firms which stand ready to offer these sorts of service.

Security will get worse before it gets better. The "internet of things"—hooking up all sorts of appliances to the web—offers new opportunities for attackers. Many companies do not have a proper understanding of the threat they face. Eventually, they will become choosier and thriftier. But for now, cyber-security companies of all kinds can feast on misfortune. ■

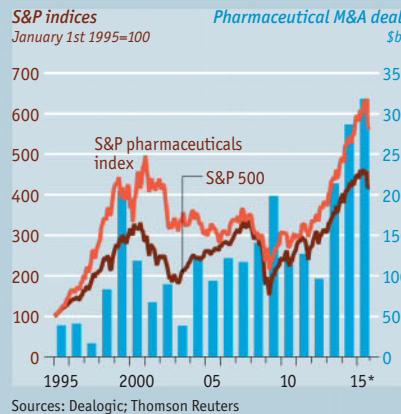
## Pharmaceuticals

# Drug-fuelled couplings

### Why giant mergers are especially popular among drugmakers

**F**EW industries have been shaped more by mergers and acquisitions than pharmaceuticals. Even so, the frenzy of deal-making in recent years has been remarkable (see chart). In the first ten months of this year, mergers involving drug companies in the S&P 500 share index were worth a total of \$328 billion, according to Dealogic, an information provider. Last year pharmaceuticals was the most deal-hungry industry in America. So far this year it is behind only the technology industry. But that was before news emerged on October 29th of a possible bid by Pfizer to buy Allergan, a Dublin-based firm best known for its Botox anti-wrinkle treatments. If it went ahead, the deal would create the world's

## Drug deals



Biggest pharmaceutical mergers and acquisitions  
As of October 2015

Date complete	Target	Acquirer	Deal value \$bn
Jun 2000	Warner-Lambert	Pfizer	111.7
Dec 2000	SmithKline Beecham	Glaxo Wellcome	79.6
Mar 2015	Allergan	Actavis	72.7
Jul 2004	Aventis	Sanofi-Synthélabo	71.2
Oct 2009	Wyeth	Pfizer	68.3
Jan 2013	AbbVie	Shareholders	64.0
Apr 2003	Pharmacia	Pfizer	59.8
Nov 2009	Schering-Plough	Merck & Co	53.8
Mar 2009	Genentech	Roche	46.7

\*To October 29th 2015

largest drug firm, with a stockmarket value of more than \$300 billion.

Some of the merger mania is driven by reasons not specific to the drugs industry, such as historically low interest rates. These make the returns on buying assets relatively more attractive. Mergers also offer the promise (though not always the reality) of cost savings and improvements in pricing power. Another motive is the desire to achieve an "inversion". This is a ploy in which a business based in a country with high corporate-tax rates merges with one based in a low-tax place, so as to shift the combined group's domicile to the target firm's home country.

Pfizer's boss, Ian Read, has made no secret of his frustration with the high taxes his firm faces in America. A successful merger and inversion with Allergan would let Pfizer cut its effective corporation-tax rate from around 25% to perhaps one-fifth as much. Allergan itself arrived in Dublin by means of an inversion in which it combined with Actavis, which in turn had moved to Ireland by buying another firm.

Yet there is more to the industry's interest in mergers than tax savings and efficiency gains. Setting pharmaceuticals apart from many other industries are the exorbitant costs and the high risks involved in developing new products. In recent years it has appeared that the return on research-and-development spending is dwindling, and that blockbuster drugs are getting harder to find. That has increased the attractions of buying another firm with a promising pipeline of new medicines.

This is why many of the largest firms, including Sanofi, Merck and GlaxoSmithKline, are based to some extent on successions of deals. Pfizer's recent, and rebuffed, attempt to acquire AstraZeneca, a British firm, was based on the desire to acquire new pipeline drugs as well as achieve an inversion. One company, Valeant of Canada, has taken the idea to its limits, and used mergers to sidestep the costly business of drug research entirely. Its "buy, not build" strategy is particularly controversial be-

cause Valeant has typically raised the prices of the older drugs that it has bought in. The firm recently said it would pursue fewer transactions on this basis. Nonetheless, this week the United States Senate said it would investigate drug pricing, and was seeking documents from Valeant. (The firm has also faced questions about its relationship with an online pharmacy, which it has now severed.)

Some mergers are being pursued out of what might be called higher motives. Shire, domiciled in Ireland, this week bid \$5.9 billion for Dyax, an American firm that specialises in rare diseases, seeking complementary treatments to those it already has. But Shire is also seeking to buy Baxalta for \$30 billion, partly because of the tax benefits of shifting Baxalta's domicile from America (though also as part of its strategy to gain scale in the market for rare-disease treatments).

Another trigger for deals is that many big firms are suffering from the expiry of patents on their drugs—which allows makers of cheap copies to grab much of their business. This is another reason to buy a rival firm with promising new medicines in development. Between 2010 and 2014 about \$78 billion was lost in worldwide annual sales of branded drugs whose patents had expired. A report last year by GlobalData, a research firm, said that between now and 2019 the industry will suffer a further \$65 billion drop in sales.

Will all these giant mergers make money for investors? A report last year by McKinsey, a consulting firm, argued that in pharmaceuticals they have created significant shareholder value, and some have been "critical" for the longer-term sustainability of the acquirers. It reckoned that two years after a deal being announced, a merged firm's shares typically beat the industry average by 5%. Compare that with marginal returns in most other industries, and the returns of -19% in tech-industry mergers. Too often dealmaking disappoints; in pharmaceuticals, the rationale looks stronger. ■

## Volkswagen's emissions scandal

# Fuel on the fire

### Another blow for the German carmaker

**V**OLKSWAGENS can be fitted with nifty kit that takes control of a car's brakes after a smash to slow it down and help avoid subsequent collisions. If only the carmaker itself were equipped with a similar device. In September the firm admitted rigging 11m diesel vehicles worldwide to cheat tests for emissions of nitrogen oxides (NOx). American regulators now say that more vehicles are fitted with test-tricking software and, on November 3rd, vw confessed that it overstated claims about the carbon-dioxide (CO<sub>2</sub>) emissions and, thus, fuel efficiency of 800,000 cars, including, it seems, some with petrol engines.

vw is vague about its latest misdeeds, referring to "irregularities" in CO<sub>2</sub> levels during testing. But that suggests that the cars' software suppressed emissions in tests before reverting to a more polluting mode in normal driving conditions. Nor does vw reveal how many of the cars with CO<sub>2</sub> problems are among the 11m that cheated the NOx tests. Presumably the cars are in Europe—America measures fuel efficiency directly, not CO<sub>2</sub> as a proxy for it. As the "majority" of the cars are said to be diesel, this suggests some run on petrol.

vw reckons that fixing the CO<sub>2</sub> problem will cost another €2 billion (\$2.2 billion) on top of the €6.7 billion it put aside to cover recalling and fixing cars with the NOx test-cheating software. Having already fallen by a third since the scandal en-

gulfed the firm, vw's share price slipped further in the first day of trading after the latest revelations. The falls reflect the costs of fixing the cars affected, the mounting damage to vw's reputation and the fear that its new bosses are struggling to contain the scandal.

vw's third-quarter results, released at the end of October, showed that its sales have not yet suffered much as a result of the scandal—though it can look forward to a lot more bad publicity to come, including lawsuits and possibly the indictments in America of senior managers. The latest chapter threatens to have a more serious impact. Fixing cars with the NOx problem is likely to mean that their fuel efficiency goes down, but only if their owners choose to have it fixed. Those cars with the CO<sub>2</sub> problem have already forced their owners to spend more on fuel than they may have expected. vw's reputation for good mileage is likely to be dented.

There is no easy means of fixing cars that spew out additional CO<sub>2</sub> because they burn more fuel than during the tests. So vw will have no recall costs in this case. But customers will surely seek compensation for their extra spending on fuel, and the falling second-hand value of their vehicles. If some of the cars' supposedly low emissions took them into a low-tax band, governments may come knocking at vw's door demanding reimbursement of lost revenues. Exane BNP Paribas, a bank, reckons that all the scandals will together cost vw €16 billion rather than the €8.7 billion so far put aside. And this does not include fines and other legal liabilities, which the bank puts at €15 billion. Lawsuits from shareholders could add more to the bill.

As costs continue to mount, the financial pressure on the company is stacking up. Moody's, a rating agency, downgraded vw on November 4th, citing the cost and time it will take to put things right and restore the company's image. The agency also criticised the way vw has been run, a situation it urges the firm to "address aggressively in the coming months".

vw has said little about how it intends to fix itself beyond some promises to cut costs and decentralise decision-making. Pressure is mounting on its new boss, Matthias Müller. Shortly before vw's latest confession, American regulators claimed that software to cheat NOx tests was also fitted to some of vw's Porsche and Audi models with larger engines than those al-

ready implicated in defying the testing regime. Though vw denies the charge, it has halted sales of the cars in America. The accusation casts a shadow over Mr Müller, who was boss of Porsche, vw's sports-car arm, before taking over the whole firm. Parochial and insular, vw was always unlikely to appoint an outsider to replace Martin Winterkorn, who resigned as CEO shortly after the scandal broke. But it is unclear that someone so intimately involved with vw can engineer the upheaval in corporate culture that is required.

As the crisis rumbles on for vw, the most worrying news for the rest of the car industry is that petrol engines, fuel efficiency and CO<sub>2</sub> emissions in the European Union are also under closer scrutiny. They can take some comfort that, at the end of October, governments seeking to protect their national carmakers ensured that new EU tests designed to more closely resemble real-world driving, to be introduced in 2017, will allow diesels to emit twice the current "maximum" NOx levels for a time and 50% more for ever. But given widespread gaming of the existing regime, there are suspicions that vw was not alone in breaking, not just bending, the rules. If so, the unmasking of others is surely a little closer. ■

### New aircraft

## Take-off delayed

### A Chinese planemaker will find it hard to break the Airbus-Boeing duopoly

**S**INCE the 1990s the global market for full-sized commercial airliners has been a duopoly. The market, which by some estimates will be worth \$4.6 trillion over the next 20 years, is dominated by Airbus, a European firm, and Boeing, its American competitor. But in theory, at least, airlines will soon have a wider choice of planes. On November 2nd COMAC, a Chinese state-owned planemaker, revealed its C919 plane (pictured, next page), a competitor to Airbus's A320 and Boeing's 737, the two most popular airliners in the skies. COMAC says the C919 will have its maiden flight next year—two years later than first scheduled—and enter service around 2019.

The Chinese are not the only ones who think they can break the duopoly. After several delays, Irkut, part of Russia's state-owned United Aircraft Corporation (UAC), hopes to launch its MC-21 aircraft, another potential rival to the 737 and A320, into service in 2017.

Many aviation analysts remain sceptical about whether these rivals, even with generous state backing, will ever put a significant dent in the bulging order books of ►



Testing times



**Boarding begins in 2019, maybe**

► Airbus and Boeing. The C919 will contain a great deal of Western-designed equipment—including its engines, until such time as China succeeds in a parallel venture to be a maker of world-class commercial-airliner engines. But analysts suspect that if and when it flies, its fuel efficiency will lag that of the newest versions of the Boeing 737 and Airbus A320.

And although the Russians and the Chinese may well be fairly good at designing aircraft, they have little experience in creating the complex production systems and supply chains needed to build them to the extremely high standards of reliability and safety that airlines expect. The need to improve their safety record will ensure that they are “not a near-term risk” for the likes of Boeing, says Jason Gurksy, an aerospace-industry analyst at Citigroup.

Even Bombardier of Canada, which has a good record of safety and quality for the smaller aircraft that it makes, has struggled to break into this lucrative market. Fewer than 250 of its much-delayed Cseries planes have been ordered. In contrast, Boeing has already delivered more than 8,700 of the 737 in its various incarnations, and has orders for a further 4,200.

It emerged recently that Bombardier had tried unsuccessfully to sell a stake in the Cseries project to Airbus. On October 29th Bombardier announced that the provincial government of Quebec, where the firm is based, would pay \$1 billion for a stake of 49.5% in the plane, whose development has so far cost \$5.4 billion.

Incumbents are just as hard to dislodge in the market for smaller “regional” jets (ones with up to around 100 seats), which is dominated by Bombardier and Embraer of Brazil, but which COMAC, UAC’s Sukhoi subsidiary and Mitsubishi of Japan are all trying to break into. COMAC’s regional jet, the ARJ21, had its first test flight in 2008, but

## Video games

# A crush on mobile

NEW YORK

## A big merger shows where the money is heading in the industry

COMPARE “Candy Crush Saga” with the “Star Wars” franchise and it comes as a shock that the casual game’s creator, King Digital Entertainment, would sell for almost 50% more than the \$4 billion that Disney paid for Lucasfilm in 2012. But in paying \$5.9 billion in cash and stock for King on November 3rd Activision Blizzard, a giant in video games for computers and specialist gaming consoles, is doing more than buying another industry leader. Its purchase is an acknowledgment that the future of video games, and of gaming profits, is in mobile, where games are usually given away, and where their creators make money by selling extra features to the most enthusiastic players.

Mobile games have been by far the fastest-growing part of the market in recent years, and have broader international appeal because of the penetration of smartphones. By Activision’s reckoning, worldwide revenues from mobile games will almost catch up with those from PC and console games by 2019, reaching \$55 billion (up from an estimated \$36 billion this year). PC and console games’ sales are projected to reach \$57 billion by then.

With “Candy Crush” in its arsenal, Activision will have one of the most successful mobile games yet seen, access to an active monthly user base of nearly half a billion people and dozens of new foreign markets where smartphones, not consoles, are the game platforms of choice. Those users might enjoy mobile versions of some of Activision’s hits, like the “Guitar Hero” series. The combined company will become the world’s second-biggest in terms of video-gaming revenues, with close to \$7 billion a year, placing it behind only Tencent, a Chinese gaming and social-media conglomerate.

Activision has flailed about in mobile gaming (even if it has had a recent hit with “Hearthstone”, a digital card game).

because of concerns about cracks in its wings and dodgy wiring it has still not been certified for commercial flights in America. Mitsubishi’s MRJ and Sukhoi’s Superjet were also delayed by technical problems. The Superjet is now in service with a handful of airlines, though orders have been sparse; and the MRJ may make its maiden flight shortly.

To be fair, the giants of the industry also find that it is not easy to get an entirely new aircraft design off the ground. The re-

Though King’s shares have weakened since it gave a profit warning in May this year, there are worries that Activision may be paying richly for its big move into mobile. James Gwertzman, the boss of Playfab, a provider of back-office technology for game developers, says it is not clear if Activision and King can add that much value to each other’s gaming platforms, in the way that Disney can exploit the “Star Wars” characters and stories across its various businesses.

There is also no guarantee that King can establish another runaway success like “Candy Crush Saga”—although it has created a moderately successful sequel in “Candy Crush Soda”—or that the flagship “Saga” game will remain a hit. The faddish mobile game of the moment, like, say Zynga’s “FarmVille”, can give way seemingly overnight to new franchise hits—in its case, to “Candy Crush Saga” itself.



**Sweet success**

search-and-development costs for Boeing’s newest aircraft project, the 787 Dreamliner, grew to \$28 billion as a result of problems with its supply chain and electronics. And revenues from Airbus’s newest aircraft, the giant A380, hardly cover its production costs, never mind the capital sunk into its development. If even the industry’s two dominant firms find it a long, expensive struggle to get a new aircraft design in the sky, no wonder their would-be rivals are having such a hard time. ■

# Schumpeter | Not-so-happy returns

**Big businesses fail to make the most of employees with foreign experience**



**C**OMPANIES devote a lot of thought to sending people abroad. They offer foreign postings to their most promising employees. They sweeten the deal with higher salaries and big allowances, and sometimes help to find work for spouses. But when it comes to bringing the employees home, it is a different story. One study suggests that a quarter of firms provide no help for repatriates at all. Many others offer at best a few links to websites.

Big companies are more globalised than ever. So you might think that they would treat staff with foreign experience as particularly important for maintaining their competitive advantage. Yet in practice they neglect such employees, blithely assuming they will soon be back in the swing of head-office life. The cost of this neglect is high. Sebastian Reiche of IESE business school in Spain estimates that anything between 10% and 60% of "repats" quit the company within a couple of years of returning home. Their attrition rate is notably higher than for those not sent abroad.

This represents a squandering of investment, given that expats often cost several times as much as locals to employ. It damages the leadership pipeline. It may discourage high-flyers from taking a foreign posting. Worst of all, it can be a subsidy to rival firms: they end up with the people best placed to bury your company, trained at your expense.

Repats often complain of culture shock: things that once seemed familiar about home can seem strange and parochial. No one in the office wants to hear their war stories about the struggles of working in foreign climes. They find they have lost their niche at headquarters—partly because the balance of power has changed (allies have left and newcomers have greased their way into favour) and partly because they have got used to running their own fief rather than slotting into a hierarchy. Add to this the fact that they have to adjust to a lower standard of living—particularly if they have the misfortune to be moving back to an expensive city like London—and it is a recipe for discontent. One review of the academic literature, by Jan Sebastian Knocke of the University of Erlangen-Nuremberg, notes that "there are signs of repatriation being more difficult than integration into a culturally distant country."

Most repats would be happy to put up with a bit of culture shock if they came back to a plum job. But most do not. Clare

Hughes of PwC, a consulting firm, says that a striking number of them are given no properly defined job. "They wander the corridors or get given 'projects,'" she says. A 2013 study by Christina Bailey and Lisa Dragoni of Cornell University shows that, far from moving up the hierarchy, the majority of repats return to a job on the same level as the one they had left when going abroad.

A 2011 study by Monika Hamori and Burak Koyuncu of IE, another Spanish business school, casts doubt on the entire idea that a foreign posting is the road to the top. Ms Hamori and Mr Koyuncu studied the CEOs of the 500 biggest European companies and the 500 biggest American ones (the total came to 1,001 because one company had two CEOs), to see what effect being sent abroad had on their careers. They found that the more foreign experience the employees had accumulated—that is, the more foreign postings they had been sent on and the more time they had spent abroad—the longer it had taken to reach the top.

The majority of the 1,001 CEOs—60% in Europe and 76% in the United States—had never had a foreign posting. Of those with foreign experience, more than half were the CEO of a company other than the one that had sent them abroad. So, any doubts employees may have about accepting foreign postings turn out to be well-grounded. Out of sight often does mean out of mind: bosses over-reward the people they meet every day compared with those rarely seen around the office.

Companies' poor management of foreign transfers extends beyond their blasé treatment of individuals. Firms often justify overseas postings in terms of the circulation of ideas. But repats routinely complain that their bosses ignore the time they have spent abroad. They do not give them jobs that allow them to use their experience, let alone provide them with ways to spread their new insights to other employees. A lot of expensively accumulated global expertise is allowed to moulder away.

## Welcome (back) aboard

How can companies improve this dismal record? Half the battle lies in recognising that repatriation is a problem. Bosses need to fight the out-of-sight-out-of-mind problem by making sure that those on foreign assignments have champions back at HQ who look after their interests. They need to pay as much attention to "re-boarding" repats as they do to "on-boarding" new employees: for example, PwC holds cocktail parties at which returning staff can meet each other, and provides them with mentors to help them fit back in. Firms should also find ways to help repats disseminate what they have learned abroad. But some of the onus also lies with the employees themselves. You cannot disappear for a few years and expect to be welcomed back like a hero: you need to keep cultivating your network back home and pestering your allies and mentors to keep your name in the mix.

There are some signs that companies are beginning to recognise that they have a problem—some are even talking about measuring their return on investment for foreign postings and holding senior managers responsible for the loss of repats. But the pace of improvement is glacial. Most CEOs are capable of giving an elegant spiel about how the bulk of the firm's growth in coming years will come from cities you have never heard of, and how it is being transformed into a "learning machine" that picks up ideas from every corner of the world. That is nothing more than globaloney so long as they continue to spend millions of pounds training high-flyers only to ignore or sideline them when they return to the mothership. ■

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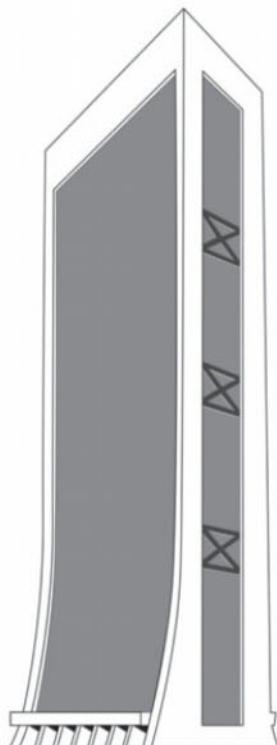
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### The Securities and Exchange Commission

## Pots and kettles

NEW YORK

**Misleading numbers and a confused mission, the hallmarks of troubled financial firms, dog one of their regulators too**

TWO of the five seats on the Securities and Exchange Commission (SEC), the main Wall Street regulator, are about to be filled. The process is a partisan one, with Barack Obama, a Democrat, picking one new commissioner and the Republican leadership of the Senate the other. That, naturally, is a recipe for discord at an already bruised agency. Its clout has diminished thanks to its poor oversight of investment banks before the financial crisis, to say nothing of its failure to spot the Ponzi scheme of one Bernard Madoff. Now new research suggests that the SEC is doing less well at its main job—policing firms that list shares or issue bonds, among other investments—than its own data suggest.

Start with the new commissioners. Even as the SEC's standing among regulators has diminished, the Dodd-Frank act of 2010, which overhauled financial regulation in America, has added to its responsibilities, from gathering better data on corporate pay to supervising credit-rating agencies. The two new arrivals are likely to undermine, or at least complicate, much of this additional work. That is because the two nominees, who have yet to be approved by the Senate, have diametrically opposed views on financial regulation.

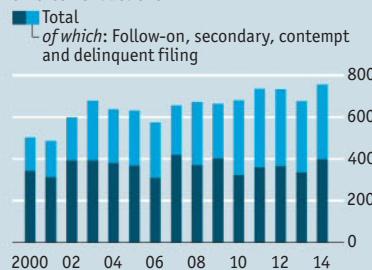
Mr Obama has nominated Lisa Fairfax, a professor of law at George Washington University and an advocate of shareholder activism. In 2011 she published a paper on the gender and ethnicity of corporate

boards, which argued that calls for greater diversity on business grounds had been unsuccessful, so “social and moral justifications” should be used instead. That is important because Dodd-Frank requires the SEC to create an Office of Minority and Women Inclusion which “shall develop standards for...assessing the diversity policies and practices of entities regulated by the agency”.

Senate Republicans, meanwhile, have put forward Hester Peirce, a former Senate staffer who is now a research fellow at the Mercatus Centre, a free-market think-tank. She co-edited a book, “Dodd-Frank, What It Does and Why It’s Flawed”, which asserts that “the underlying assumption that regulators can effectively micromanage

### Less impressive than it looks

US Securities and Exchange Commission enforcement actions



Source: “Reporting Agency Performance: Behind the SEC’s Enforcement Statistics” by U. Velikonja, forthcoming

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the market is flawed. Giving regulators more levers to pull and buttons to push with respect to the financial system only creates a false sense of security.”

The confusion at the SEC is not just philosophical, however. It also appears to be manipulating its own statistics—the sort of conduct it is supposed to be weeding out at the firms it regulates. Every October, the SEC tots up its legal accomplishments for the year and releases the data to the public, usually with a press release suggesting it is becoming ever tougher on corporate crooks. Yet research by Urska Velikonja, a professor at Emory University, calls these numbers into question.

Ms Velikonja examined 9,679 “enforcement actions” taken by the SEC between 2000 and 2014. She calculates that the SEC inflates the number of actions it brings each year by 23-34% by double-counting and other forms of padding. That means that the number of substantive cases has not risen steadily in recent years, but stagnated (see chart). “The SEC has used invalid and unreliable statistics in congressional reports and testimony, press releases, and public speeches,” Ms Velikonja argues, in an effort “to suggest an increase in activity, to calm wary investors and the general public after scandals and to suggest a better use of resources.”

Ms Velikonja cites the example of a person sued several times for the same offense, initially for fraud, then to be barred as an attorney, then barred from the securities industry and then again from appearing before the SEC as an attorney. Such duplicative actions have become more common in recent years. So have redundant ones, such as moves to ban convicted financial criminals from associating with brokers, investment advisers and the like, even though they are already in jail.

There has also been a surge in the num-

►ber of cases involving relatively minor offences, such as late filings. Sometimes these can be indicators of more serious wrongdoing; often they stem from simple clerical errors. The SEC has likened its pursuit of such cases to "broken windows" policing, arguing that by clamping down on small violations, it deters bigger ones. But there is no evidence that preventing securities fraud bears much resemblance to fighting street crime.

The SEC also likes to tout its ever-rising tally of "monetary penalties ordered". But this, too, is misleading, since it includes fines that other agencies are also claiming,

as well as many that are subsequently waived. In practice, the SEC only collects about half the sum it advertises, Ms Velikonja says.

The SEC readily admits that many of its cases are follow-ons or actions against late filings—something it made explicit in its annual report this year. It says it is focusing on quality rather than quantity. But analysing its data is difficult, because there is no single public record of all its enforcement actions. Instead, researchers must piece them together one by one—a huge task. Ironically, this could be fixed with the sort of remedies the SEC often prescribes to the firms it

oversees, including better disclosure and greater consistency in reporting.

The urge to fudge things is understandable. The SEC must constantly justify its existence to a sceptical Congress, and, like many government agencies, is under pressure to defend its budget. It does not help that the Federal Reserve has become the main regulator of investment banks, or that Dodd-Frank has created a new outfit, the Financial Stability Oversight Council, to take charge of overall regulatory strategy. But there is no excuse for the agency charged with stamping out corporate misbehaviour to fiddle its own figures. ■

## Buttonwood | Age may well wither them

### Americans are not saving enough for their retirement

**E**VERYONE knows that the baby-boomer generation is in the process of retiring, and that all those ex-hippies and punks can expect to live longer than the Americans who retired before them. But the financial challenge this poses is less well understood. Any lingering complacency ought to be exploded by two papers in the latest *Journal of Retirement*.

The first\*, from the Centre for Retirement Research (CRR) at Boston College, estimates the proportion of 65-year-olds who will be able to retire without a big hit to their disposable income. Pensioners do not usually need as much money coming in as workers: for a start, they no longer need to save for retirement. The CRR estimates that 65-85% of their previous income is a reasonable "replacement rate", depending on the type of household.

As well as private pensions, elderly Americans receive income from the federal government (in the form of Social Security, the public pension) and many earn money from their accumulated wealth, particularly by taking equity out of their houses. Even allowing for these sources of income, the CRR estimates that 52% of Americans may not be able to maintain their standard of living (which it defines as having an income that falls no more than 10% below the replacement rate).

Unsurprisingly, the biggest problems face those with no private pension at all: 68% of these Americans are expected to fall short. Those lucky enough to be covered by defined-benefit plans—in which pensions are linked to a worker's salary—have the least difficulty: only 20% are deemed at risk. Of those in defined-contribution (DC) plans—in which workers receive whatever pension pot they have accumulated by retirement—53% probably will not reach the replacement rate.

The problem is that many people sim-



ply do not save enough in a DC pension. The combined contributions of employers and employees average just 11.3% of salary. This will not generate the same level of pension as a typical defined-benefit plan. The CRR found that the average retirement assets of those aged 50-59 were just \$110,000 in 2013, slightly lower than in 2010. This balance will improve over time, since DC plans are relatively new, but there is a long way to go. If pensioners take an (inflation-adjusted) 4% a year from their pot, they will need \$250,000 just to generate an income of \$10,000.

At least, you might think, Social Security will provide a basic income for the elderly. But the second paper\*\*, by Sylvester Schieber, a former chairman of the Social Security Advisory Board, points out that there are holes in the safety net. Retirement income is based on an average of every worker's highest 35 years of earnings. But if a worker was not in employment for the full 35 years—because of sickness, an inability to find work or time spent caring for children or other relatives—the missing years count as zeroes for the calculation.

Mr Schieber finds that people whose to-

tal careers lasted just 10-19 years comprise 8% of pensioners, but just over half of the poorest tenth of the elderly. Such workers could hardly have saved more for their retirement; they had barely adequate income in the first place.

That could be a looming problem, given Social Security's finances. Payroll taxes on current workers no longer exceed the benefits paid out, prompting the government to tap the surplus of past years. On current projections, this will run out in 2034. After that, the cost of pensions could still be met mainly by contributions from workers. But the politicians of the day may be forced to consider benefit cuts.

Mr Schieber thinks the Social Security system is underfunded by around 25%. If an across-the-board benefit cut of that magnitude were applied, it would hit the poorest workers hardest, since they have few alternative sources of income. At present, a 25% benefit cut would reduce the income of the median pensioner by 12.3%. But the poorest tenth would lose 18.9% of their aggregate income.

So budding pension reformers will have to solve several problems simultaneously. First, they need to stabilise Social Security while protecting (and indeed enhancing) the incomes of the poorest. That should involve some combination of higher taxes, benefit cuts for the best-paid and greater saving in the middle rungs of the income ladder—at the same time as ensuring that people do not save too much too quickly, in case the impact on demand crashes the economy. Good luck.

\* "National Retirement Readiness Index (NRRI) Shows Half of Working Age Americans Still Falling Short", by Alicia Munnell, Wenliang Hou and Anthony Webb.

\*\* "US Retirement Policy Considerations for the Twenty-First Century", by Sylvester Schieber

## Recapitalising Greek banks

# The damage

### The bill is cheaper than expected

BANKS have been at the centre of Greece's economic and financial misfortunes this year, as the radical-left Syriza party won an election and then became embroiled in a bitter struggle with the country's international creditors. Deposits drained out of them on fears that the country would leave the euro and revert to the drachma, inflicting huge losses on depositors. Banks' woes multiplied when the European Central Bank (ECB) refused to provide them with further liquidity, forcing the government to close them for three weeks during the summer and to impose capital controls. In the end, Greece managed to secure a third bail-out and stay in the euro. But the injuries the banks had sustained along the way seemed ruinous.

As a result, the €86 billion (\$94 billion) bail-out from the European Stability Mechanism (ESM), the euro zone's rescue fund, included a buffer of up to €25 billion, or 14% of GDP, to rebuild the banks. The exact amount would be specified once the supervisors had combed through their books. The ECB, which has directly supervised big banks in the euro zone for the past year, was to examine the four main Greek banks—Alpha, Eurobank, National Bank of Greece (NBG) and Piraeus. Greece's central bank was to review Attica, a smaller lender.

The supervisors appraised the banks' assets as of the end of June 2015 to see how many loans had soured owing to the economy's travails under Syriza. They also gauged the banks' resilience through a stress test, which simulated the effects of an even worse recession in 2015-17 than the European Commission was already projecting. The commission envisaged GDP declining by 2.3% this year and 1.3% in 2016 before growing by 2.7% in 2017. Under the supervisors' "adverse scenario", GDP would be 5.9% lower in 2017 than in the commission's "baseline" forecast.

The supervisors' findings, published on October 31st, were sobering, but less dire than expected in the summer. To maintain a capital ratio of 8% of risk-weighted assets at the end of 2017 under the adverse scenario, the big banks will require an injection of €14.4 billion, ranging from €2.1 billion for Eurobank to €4.9 billion for Piraeus. Attica will need €1 billion. That means the total necessary to put the banking system on a sound footing is €15.4 billion rather than the €25 billion originally assumed.

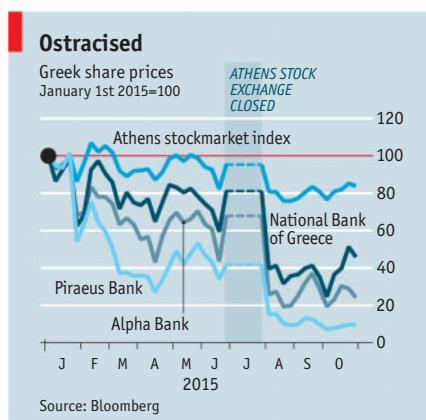
Moreover, the call upon bail-out mon-

ey from the ESM, which will be made available in Greece via the Hellenic Financial Stability Fund (HFSF), should be even less than that. The ECB is expecting private sources to provide at least €4.4 billion for the four main banks—the capital shortfall under the baseline scenario. In fact, the four should be able to raise more than that. NBG, for example, is planning to sell Finansbank, its subsidiary in Turkey, which could raise around €3 billion. That compares to a total shortfall for NBG under the adverse scenario of €4.6 billion.

Moreover, any recourse to the HFSF will trigger a "bail-in" of some creditors, meaning that they would be obliged to contribute to the recapitalisation. Depositors will be excluded but banks currently have around €6 billion of preference shares and debt that could be bailed in, according to Nondas Nicolaides of Moody's, a credit-rating agency. The threat hanging over such creditors, which include senior bondholders, will allow banks to drive a hard bargain with them when offering to exchange bonds for shares. Alpha, for instance, could get around €1 billion through such a deal out of the total of €2.7 billion in capital that it needs to raise.

Investors in Greek banks have had a torrid year (see chart). But for the adventurous there is a case for taking a punt. Political risk may have trumped financial calculations earlier this year, but it looms less now. Alexis Tsipras, the prime minister, has learnt the hard way that Greece's creditors hold the cards. The hard-left faction of Syriza peeled away before a second election, in September, and Mr Tsipras won a new mandate on a more moderate platform.

As for the banks, they have been more sinned against than sinners all along. Before the euro crisis they were one of the better functioning elements of the Greek economy, which succumbed to fiscal mismanagement and political miscalculation. Indeed, the banks may find it easier to regain the trust of international investors than of domestic depositors, who are likely to remain wary of them until they feel more confident about Greece's long-term future within the euro area. ■



## Tax evasion

# The mega-haven

### An index of financial secrecy highlights American hypocrisy

THE world is becoming less welcoming to tax dodgers. That is the conclusion of the latest Financial Secrecy Index, published every two years by the Tax Justice Network (TJN), an NGO. It looks at various measures of financial transparency and information-sharing in more than 90 countries, then weights them according to the level of financial services each country provides to non-residents. Most countries' scores have fallen since 2013, indicating greater transparency. Among the biggest improvers are the Cayman Islands, once a notorious tax haven, and Luxembourg, which tax campaigners used to call Europe's "death star" of financial secrecy.

The reason for the shift is the global, austerity-era push for countries to share more information on tax arrangements. Under the fast-spreading, OECD-sponsored Common Reporting Standard, countries will routinely exchange data on each other's citizens so they can be taxed appropriately in their home countries. Rules on the registration of corporate ownership are being tightened, too, in order to reduce opportunities to hide dirty money in anonymous shell companies.

But America, the country that has arm-twisted so many others to join the transparency revolution, is dragging its feet. It is now the third most secretive jurisdiction, behind Hong Kong and, inevitably, Switzerland (where rumours of the death of bank secrecy have been exaggerated).

America was in the vanguard in the fight against tax havens, first targeting the Swiss, then passing the Foreign Account Tax Compliance Act, or FATCA, which forces financial firms all over the world to spill the beans on their American clients. While demanding concessions from others, however, Washington has made few itself. It has, for instance, failed to engage with the OECD's data-sharing scheme. Worse, anonymity-friendly incorporation regimes at the state level mean America is unmatched in corporate secrecy.

This matters, because America hosts a lot of offshore business—just ask a billionaire from Caracas or Cairo where he buys property or sets up the shell companies that hold it. The TJN offers a solution: it reckons Europe should mimic FATCA by imposing a stiff withholding tax (it suggests 35%) on payments from Europe to American financial institutions, until America gives as much data as it takes. That would induce wry smiles in Zurich. ■

## The yuan and the SDR

# Feeling special

### The IMF debates whether to include China's currency in its reserves

THE summer of 1969 is remembered for many things: the moon landing, Woodstock and the start of American troop withdrawals from Vietnam. The International Monetary Fund's creation of the Special Drawing Right (SDR) does not rank high on this list. An artificial accounting unit, the SDR resides on the margins of the global financial system. But over the next few weeks, China will haul it into the spotlight.

The question is whether the IMF will include the yuan in the basket of currencies of which the SDR is composed. Its decision, part of a five-yearly review, is expected at the end of the month. Since the late 1990s the SDR has comprised four currencies: the dollar, the euro, the pound and the yen. The IMF allocates some of its notional stash of SDRs to its members, which can be swapped in a pinch for their constituent parts to make external payments.

Adding the yuan to the basket would give it the IMF's imprimatur as a reserve currency: easily tradable and a good store of wealth. This does not mean it would suddenly rival the dollar. The outstanding value of SDRs is just over \$300 billion, about 2.5% of global currency reserves. The yuan would only form a small portion, and it is rare for countries to make payments in SDRs.

The symbolism would nonetheless be powerful. Central banks might feel more comfortable holding yuan, as would institutional investors. Standard Chartered, a bank, estimates an extra \$1 trillion will be allocated to Chinese assets in the coming five years if the IMF brings the yuan into the SDR.

That the yuan even qualifies for consideration might seem surprising. The People's Bank of China (PBOC) has a big hand in determining its value and the yuan is not freely convertible. China limits how much money its citizens can send abroad and foreigners can bring in. But convertibility is not a prerequisite for SDR status. As IMF staff explained in a report in August, there are only two criteria: the issuing country must be a big exporter and its currency widely used.

China, the world's biggest exporter since 2009, obviously satisfies the first criterion. The second, however, is woollier. The yuan is not as widely used as the other SDR currencies. In 2014 it ranked seventh in countries' official reserves, eighth in international bond issuance and eleventh in global currency trading. Yet its trajectory is

impressive: SWIFT, a global transfer system, calculates it has gone from the 20th most-used currency for cross-border payments at the start of 2012 to fifth today.

Elevating the yuan might serve two ulterior purposes for the IMF. First, the PBOC has been the strongest proponent of financial reform in China, and bringing the yuan into the SDR would strengthen its authority and spur it to do more. In the past three months, to prepare the yuan for the SDR, the PBOC has opened the Chinese bond market to foreign central banks and changed the way the yuan is managed, giving the market more influence. These are important steps towards opening the capi-

tal account. Rejection from the SDR would risk undermining China's financial reforms, at a time when other efforts, notably in overhauling state-owned monopolies, are sputtering.

Second, bringing the yuan into the SDR is as significant for the IMF as for China. Reforms to give emerging markets more voting power have been held up for years by America's dysfunctional politics, and in any case do not go far enough. The SDR would be a consolation prize for the world's biggest emerging market. "The IMF needs this to go forward so that it maintains legitimacy," says Eswar Prasad of Cornell University. ■

### The OPEC of maple syrup

## A sticky situation

### American forces are freeing a Canadian icon from captivity

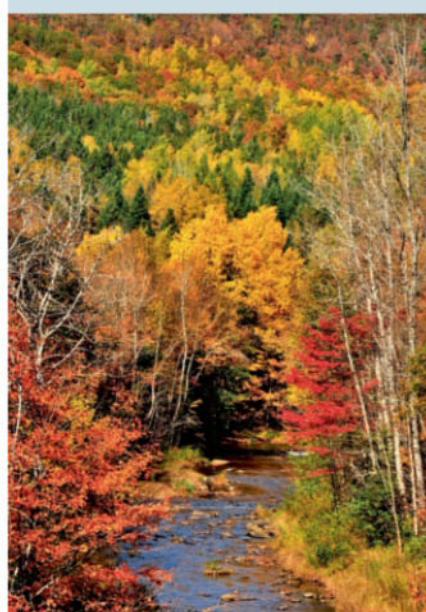
TOURISTS flock to Quebec each autumn to see its forests turn bright colours. The beautiful foliage, however, conceals a dark secret: the province's tree-tappers are ripping off pancake-lovers. The Federation of Quebec Maple Syrup Producers (FPAQ) tries to control the price of its product much as OPEC does that of oil. Its members—and all syrup producers in the province must join or risk having their output seized by FPAQ's enforcers—are subject to quotas. Any excess syrup is put into FPAQ's stockpile, and producers only get paid for it when it is sold, often years later. The intention is to keep prices high and stable by limiting supply. But like most cartels, FPAQ is sapping its own prospects.

Quebec is the Saudi Arabia of syrup,

accounting for 71% of global production. But in a bittersweet echo of the oil price run-up of recent years, high prices have encouraged the development of new supplies. America's maple-syrup harvest grew from 21m pounds (7.2m litres) in 2012 to 35m in 2014. The state of New York alone has more maple trees than all of Quebec, although few of them are tapped. America out-produced Canada until the 1930s; it could do so again.

Moreover, keeping maple syrup expensive limits demand and encourages substitution. A ready, and much cheaper, alternative exists in America, in the form of toppings made from corn syrup. Each year Americans drizzle (well, let's face it, drown) their pancakes with as much of a single brand of such stuff, Aunt Jemima, as they do with all brands of maple syrup. Though the Federation publicises the health benefits of its wares, it has failed to develop new markets. Export volumes have hovered around 26m litres a year for the past decade. About 85% of FPAQ's foreign sales go to Europe and America—the same proportion as in 2008.

Production is outpacing what the Federation can sell. Its "strategic reserve" has swollen to 25m litres of syrup—almost a year's worth of sales. As America's output grows, the organisation will have to cut its members' quotas, stockpile ever more of Quebec's harvest, or allow prices to fall. The first two options would cede market share to America while keeping prices helpfully high for rivals. But mimicking Saudi Arabia's current strategy, of allowing oil prices to fall to drive higher-cost producers out of business, might not work for FPAQ either. The operating costs of maple plantations are very low, so the American upstarts would be unlikely to close shop.



Agents of extortion

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## Property in Sweden

# Home is where the heartache is

STOCKHOLM

**House prices in Sweden continue to soar, to regulators' despair**

**A**SK a central banker what regulators should do when rock-bottom rates cause house prices to soar, and the reply will almost always be "macropru". Raising rates to burst house-price bubbles is a bad idea, the logic runs, since the needs of the broader economy may not square with those of the property market. Instead, "macroprudential" measures, meaning restrictions on mortgage lending and borrowing, are seen as the answer. But this medicine is hard to administer, as Sweden's housing market vividly illustrates.

Swedish house prices have doubled in the past decade, their rapid ascent only briefly interrupted by the financial crisis (see chart). So far this year they have risen by about 14%. Apartment prices have been even giddier, rising by more than 150% in ten years.

In part, this is a simple function of supply and demand. Stockholm is among Europe's fastest-growing cities, with the recent influx of Middle Eastern refugees only adding to the demand for housing. Last month the country's migration agency said it expected as many as 190,000 new arrivals by the end of the year, double its previous estimate. Sluggish and restrictive planning procedures limit supply: the current shortage of around 150,000 homes is expected to triple by 2025. A counterproductive rent-control regime has crimped the supply of flats in particular, and led to long waiting lists. Earlier this year an apartment in central Stockholm went to someone who had been in the queue since 1989.

Low interest rates have given Swedes the capacity to borrow more, pushing prices ever higher. The debt of the average household has reached 172% of income after tax. For people with mortgages in the big cities, the figure is nearly double that.

The most obvious way to calm things down is to raise rates. But the Riksbank, Sweden's central bank, tried that in 2010-11, with disastrous results. Unemployment stopped falling and inflation soon withered, stirring fears of deflation. That prompted the Riksbank to reverse course in late 2011 and start cutting rates again. The benchmark has ended up lower than it was to begin with, at -0.35%, increasing the sums flooding into housing. "It's like mopping whilst the tap is running at full flow," complains one official.

To try to stanch the flow, the Finansinspektionen (Fi), the country's financial watchdog, has adopted curbs on both

**A rare sight**

lending and borrowing. In 2013 it tightened capital requirements for mortgages, and since September it has required banks to hold an extra counter-cyclical capital buffer of 1% of all risk-weighted assets, to increase to 1.5% by next June. This will help if the property bubble bursts, but clearly has not been enough to stop it inflating.

Caps on how much individuals can borrow, in the form of maximum loan-to-value (LTV) and debt-to-income ratios, are another option. A recent IMF study found that in more than half of countries where this has been tried, credit growth and asset-price inflation fell. In 2010 the Riksbank embraced this policy, requiring a deposit of at least 15% for new mortgages.

The authorities have also tried to re-



strict the use of interest-only mortgages, which are common in Sweden. If borrowers use these to protect themselves from temporary financial problems while still paying down their debt, they can be helpful. But if they take out interest-only loans simply to borrow more, they exacerbate the bubble. Almost 40% of Swedish mortgages by value are not being paid down at all, and for many of the remainder the pace of repayments is slow. The Fi has been trying to push banks and borrowers to agree voluntary repayment plans. It suggested that those with LTVs above 70% pay down at least 2% a year, and those with LTVs of 50-70% pay 1% a year. But in April a court quashed such efforts, arguing the Fi had no authority to promote such plans.

In any case, the allure of cheap loans is so great that households in Sweden and beyond will find ways around the restrictions that remain in place. When the Slovakian government put limits on housing loans, banks boosted other forms of lending to bridge the gap. In Sweden, so-called "blanco-loans", more expensive unsecured loans, can be used for that purpose. All told, credit is still growing and asset prices climbing, despite regulators' efforts.

A better solution might be to eliminate the tax code's various incentives for home ownership. Property taxes were abolished in Sweden in 2008; up to 30% of mortgage interest can be deducted from personal tax bills and a rebate of up to 50% can be claimed on home extensions and repairs. The Riksbank thinks that abolishing mortgage-interest relief alone could cut aggregate debt as a share of income by more than 50 percentage points over the next 50 years. Reducing the maximum LTV ratio to 80% would only trim debt-to-income ratios by five percentage points; the Fi's repayment scheme would cut them by 12.

The tax code is in the hands of politicians, as are the planning and rent-control regimes that impede the construction of new homes. An independent commission last year recommended urgent reforms to all three, but has been ignored. Politicians at least seem to be warming to the idea of cutting mortgage-interest relief, partly because they are looking for money to pay for the influx of refugees. But for the most part, measures to slow the property boom seem politically unpalatable. "People feel rich today thanks to these crazy prices," says one member of parliament. "Nobody wants to be the one who breaks the spell."

Politicians and regulators also know that any measure that obliges Swedes to spend more of their income on deposits or mortgage payments would be a drag on consumption, and thus a blow to an already fragile economy. "Ideally, I'd like to have something in my toolkit with which I could influence the housing market and nothing else," says Henrik Bracomer of the Fi, "but up to now I have not found it." ■

# Free exchange | The Japanese solution

**Despite Shinzo Abe's best efforts, Japan's economic future will be a leap into the unknown**

HERE are four kinds of countries in the world, the Nobel-prize-winning economist Simon Kuznets supposedly said: developed, undeveloped, Argentina and Japan. Yet much of the rich world now looks remarkably Japanese, with chronically low interest rates and inflation, and eye-watering levels of sovereign debt. Many governments are therefore watching keenly as Shinzo Abe, the prime minister elected in 2012 on a platform of economic rejuvenation, takes on Japan's economic mess. His task is harder than many appreciate. What is needed is not simply growth, but growth fast enough to allow Japan to come to grips with its massive public debt.

Mr Abe promised three expansion-boosting "arrows"—fiscal, monetary and structural—to deliver a much more powerful stimulus than the half-measures taken by previous governments. In September of this year he gave a clearer sense of the end-goal: a 20% rise in Japan's nominal GDP (NGDP), to ¥600 trillion (\$5 trillion) from the current ¥500 trillion, where it has stood for the past 20 years, more or less.

Mr Abe's archery has moved the economy in the right direction. NGDP, which measures growth without adjusting for inflation, is up by about 6% since the end of 2012. Higher prices account for about half of the increase. The unemployment rate has also fallen, from 4.3% to 3.4%. Yet this progress is still woefully inadequate. The recovery has been halting: growth slumped in the second quarter. Prices are falling again, and even the "new core" inflation index cooked up by the Bank of Japan (BoJ) over the summer remains short of its 2% inflation target. A return to monetary-policy normality looks as distant as ever. The BoJ disappointed markets on October 30th by failing to increase the pace of its asset purchases, but it is still buying ¥80 trillion in government bonds a year, and may add to that if inflation stays weak.

Meanwhile, Japanese sovereign debt, at more than 240% of GDP, is easily the highest in the world and still growing. Bond markets have been remarkably tolerant of this: the yield on Japan's 30-year bonds is just 1.36%. That is partly because the Japanese, prodigious savers, own so many bonds. The central bank owns most of the rest. Yet few economists reckon the borrowing spree can continue for ever. As more Japanese workers retire, domestic saving is falling and spending on the old soaring. Even a modest rise in borrowing costs could bring insolvency.

Mr Abe had hoped that a quick return to rapid growth would allow for an eventual turn to austerity, but the pivot to parsimony

is proving tricky. Japan will run a structural budget deficit of more than 5% of GDP this year. After a rise in the country's consumption tax in April of 2014, from 5% to 8%, both household spending and GDP tumbled, leading the government to postpone a second rise to 10% that had originally been scheduled for October of this year. That experience is especially worrying given the modesty of the rises. An analysis published in 2013 estimated that stabilising Japan's debt would require tax revenues of between 30% and 40% of total consumption, equivalent to a consumption tax rate of about 60%. Other studies are less dire, but nonetheless suggest that far bolder measures than anything under consideration will be needed to stabilise the debt.

At current growth rates, any big tax rises or spending cuts would tip Japan straight back into recession. Yet generating faster growth is a tall order. Supply-side reforms could be more vigorous: Japan remains far too willing to protect favoured sectors, like agriculture and cars, despite some recent concessions in trade negotiations. Yet the scope to improve productivity in Japan is smaller than might be imagined. Real output per worker is similar to that in Germany and the Netherlands. A more welcoming attitude to immigrants would help: recent growth in output per person has been offset by Japan's shrinking population. In 2012 net migration to Japan was equivalent to just 0.3% of the existing population, compared with 1.6% in America. Yet Mr Abe has shown little interest in admitting a rush of new workers.

## The price is wrong

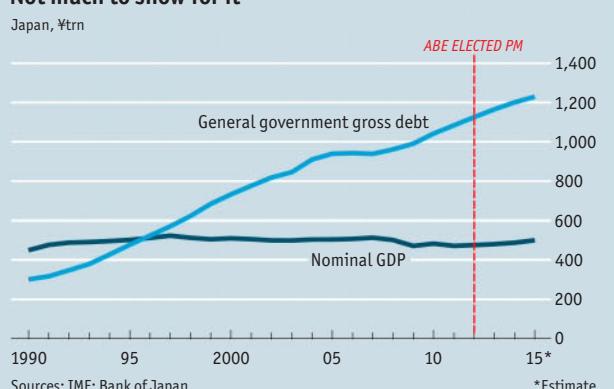
The only way out is higher inflation. Had NGDP grown at even 2% a year since 1992, its debt-to-GDP ratio would be just 82%—close to America's. Yet pushing up wages and prices has proved devilishly hard. In the past year alone the BoJ's asset purchases lifted the share of Japanese government debt that it owns from 23% to 32%. Despite low unemployment, a tumbling yen and soaring stock prices, inflation has barely poked its head above zero at any point in the Abenomics era. A more ambitious inflation target, of 4% perhaps, would help if markets believed it. But having failed to hit the 2% mark it adopted in January of last year, the BoJ lacks the credibility to make bolder promises without further action to prove its resolve.

Japan is not without options, however. At the current pace of purchases, the share of government bonds held by the central bank will rise to two-thirds by 2020. Were purchases to rise to ¥100 trillion a year, the BoJ would own nearly all of the government's outstanding debt by 2026. The government would in effect owe the money to itself; debt payments made to the BoJ would be returned to the government as seigniorage.

A plan to monetise the debt meets any standard definition of economic insanity. Orthodox economics suggests it must inevitably generate rapid inflation. Yet given that faster inflation is what Japan has sought in vain for two decades, and that the only alternative seems to be waiting patiently for a debt crisis, monetary madness does not look so bad. It has the further advantage of following the path of least resistance.

Other governments would understandably recoil should Japan take this route or stumble into it inadvertently. Monetisation would open a Pandora's box of economic risks. Yet recent experience suggests that where Japan leads, other economies may eventually follow. ■

### Not much to show for it





## Driving in old age

### Hell's grannies

TORONTO

**A souped-up simulator could help extend people's driving careers, while getting the truly dangerous off the road in short order**

**M**OBILITY matters. Losing the right to drive is, for many elderly people, as traumatic as being widowed. And, as the population ages, that trauma will be felt by more and more people in the future. Yet the safety of other road users, let alone that of an elderly driver himself, is paramount. So, an awful lot rides on the licence-renewal tests older drivers face in certain places—and perhaps even more on the judgment of drivers in places that do not have them.

Normal driving tests are flawed, however. One problem is that, at the moment, licensing is usually a binary decision: either someone is permitted to drive or he is not. But this is silly. Reactions slow with age, but do so gradually. Eyesight deteriorates similarly. Some people may be safe to drive during the day, but not at night. Others may not be safe on long trips, because of loss of concentration, but would be fine pottering down to the shops. Some might be okay at low speeds, and could thus be given licences on condition their car is fitted with a speed governor. Unfortunately, neither the authorities nor drivers themselves have reliable methods of telling the difference. This cuts both ways. A minor prang or proscribed medical condition might end someone's driving career prematurely. Alternatively, a person who should have hung up his ignition key long ago might cause a serious accident.

One answer would be customised licences that, for example, prohibit long-dis-

tance driving but permit trips to the supermarket. But knowing how to tailor these licences to individuals requires a sophisticated and systematic way to assess people's capabilities. And that is the purpose of DriverLab, a simulator being built at the Toronto Rehabilitation Institute, in Canada. It is expressly designed to test how good existing licence-holders are.

#### Road age

The researchers behind DriverLab, led by Geoffrey Fernie, have taken an actual vehicle (an Audi A3), removed its engine, mounted it onto a turntable that can swivel 360°, and surrounded it with a seamless grey projection screen. The car's rear-view mirrors look ordinary, but they are actually the screens of computers. That means the team can show the driver only what they want him to see.

The main screen displays the combined computer-generated images from 12 projectors suspended above the car. These projectors constantly monitor each other's outputs, to make sure the colour and brightness of adjacent parts of the picture match. And, when bumpy terrain or rapid acceleration need to be simulated, the pod in which the car is sitting can be moved around by a special actuator.

The resulting illusion can take the occupant of the car on virtual journeys ranging from busy streets to mountain passes, in broad daylight or in the middle of the

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night, in rainstorms, fog or clear weather. It can even mimic that hazardous moment towards the end of the day when the sun is nearing the horizon and oncoming lorries may loom suddenly out of it, like Spitfires during the Battle of Britain.

While all this is happening, cameras continuously track where the driver's hands, feet and eyes are, and a voice recorder preserves his every word. The system measures things like how much distance he keeps between his car and the one in front, how well he stays in lane, how accurately he steers and whether he brakes smoothly. It can also throw up unexpected hazards, to see if he reacts appropriately to a bicycle turning into the road in front of him, or a toddler running into his path.

Dr Fernie and his colleagues are putting effort into making all these effects seem real, using features not found in any previous driving simulator. It is hard, for example, to make lights shine dazzlingly using projected computer graphics. To simulate the sun the system therefore uses a special lamp of appropriate colour balance and brightness. This lamp is held in front of the screen on a robotic arm. Likewise, oncoming headlights are mimicked by bright LEDs precisely synchronised to the images of the cars they are meant to be attached to—with careful adjustments of size, width and glare as they approach.

To create the illusion of rain, the system is fitted with a specially designed nozzle that can spray different kinds of ersatz raindrops onto the windscreens. And, though DriverLab's ability to simulate the weather does not extend as far as producing artificial snow and ice, it can model changes in handling, braking and visibility caused by winter conditions in ways that match the authentic experience of manoeuvring through Ontario in February.

According to Dr Fernie, Ontario's Minis- ►

try of Transportation (the body that licenses the province's drivers) is interested in his approach. Though more costly than a standard driving test, it would be more fine-grained—and, at least for those elderly drivers who otherwise face losing their licences completely, the extra cost would no doubt be borne willingly by the person being tested.

Changing the law to allow restricted licences to be issued on the basis of a test like this would, though, depend on its working in practice. Initially, therefore, Dr Fernie envisages that DriverLab's customers will be the elderly themselves, or possibly their concerned children. He imagines people using evidence garnered from DriverLab to try to persuade the authorities not to stop them driving. He also imagines the children of those who should be thinking of calling it quits suggesting a stationary spin in Dr Fernie's Audi as a way to persuade them that the game is up.

Before this happens, though, the system must go through trials of its own. Early

next year, Dr Fernie and his colleagues will let driving instructors loose on the equipment, with clients who have volunteered to test it. One thing which worries the researchers is that standard driving simulators have a tendency to induce nausea, because they do not quite get their mimicry of the world correct and the sensory dissonance that induces upsets people's balance. They hope DriverLab will not suffer from this problem, since they have worked hard to ensure that when scenery is moving around the car, the car is moving appropriately too.

Making this prototype suitable for widespread deployment will take several years. But if it does work for old people it might also be used to help teach learners how to drive, by giving them experiences, such as motorway driving, which some jurisdictions deny them while they still have their "L" plates on. However, even if it only achieves its objective of keeping people driving for as long as it is safe, but no longer, it will have proved its worth. ■

air-breathing rocket engine) endeavours to have the best of both worlds. When the atmosphere is thick enough, it uses air and thus saves weight. But when it enters the vacuum of space, it switches to liquid oxygen. The result, if attached to a suitable airframe (see artist's impression), which the firm dubs *Skypon* because it resembles a piece of sculpture of that name that was on display at the Festival of Britain in 1951, would create a fully reusable spacecraft. This could take off from a runway and fly into orbit carrying satellites, or might whisk passengers from London to Sydney in less than five hours.

Though the idea of such a hybrid between rocket and jet sounds reasonably straightforward, it is technically daunting. The biggest challenge is that at around the craft's proposed cruising velocity, Mach 5 (five times the speed of sound, or 6,180kph) the oncoming air is heated by friction to 1,000°C. In air-breathing mode the engine needs to compress this onrush to 140 times atmospheric pressure before it is injected into the combustion chamber. But that would heat it further, and no materials exist that could be used to build such a compressor without melting. The consequence is that the incoming air has to be cooled to -150°C before it reaches the compressor—which happens less than a hundredth of a second after it enters the engine.

For this, SABRE's engineers have devised what may be the world's fastest refrigerator. It consists of thousands of pipes made from an alloy of nickel. Each pipe is a mere millimetre in diameter and has walls 27 microns thick. These tiny tubes greatly increase the surface area available for the coolant being pumped through the system to absorb heat. SABRE uses helium, which is particularly good for the purpose.

Nor is the absorbed heat wasted. First, the expansion of the helium that it causes is used to drive a fuel pump and a compressor. Then, the remaining heat is extracted by running the helium through a second set of pipes that are bathed by liquid-hydrogen fuel on its way to the combustion chamber. This evaporates the hydrogen, preparing it for combustion.

The switch to rocket mode, at an altitude of about 25km, where the atmosphere is too rarefied to support this process, involves closing the air intake at the front of the engine and then injecting liquid oxygen from a tank on board directly into the combustion chamber. This will take *Skypon* from Mach 5 to around Mach 25—and thus into orbit, whence it could deliver a satellite before gliding down to land.

Not surprisingly, SABRE has met with a fair amount of scepticism. But Reaction Engines has beavered away and, in recent years, has demonstrated in a series of trials that its heat exchanger works and is a robust piece of kit able to withstand high temperatures and pressures. Favourable ➤



## Spaceplanes

# SABRE-rattling

**After more than 30 years of research, a new sort of rocket engine starts to sizzle**

SOME good ideas take years of dogged perseverance to come to fruition. That has certainly been true of a hypersonic engine which Alan Bond, a British engineer, began developing in 1982. Its first incarnation was as part of a government-backed spaceplane project called HOTOL (horizontal take-off and landing), run by Rolls-Royce and British Aerospace. When the money for this dried up in 1989, Mr Bond and two fellow Rolls-Royce engineers set up a company called Reaction Engines to keep the work going. This week BAE Systems (as British Aerospace is now called) bought 20% of Reaction Engines for £20m (\$31m). That vote of confidence suggests Mr

Bond's novel propulsion system may be turning into reality.

His system is, as the firm's name implies, a reaction engine. That means it relies on Newton's third law of motion (to every action there is an equal and opposite reaction) to drive it forward. Broadly, reaction engines come in two varieties—rockets and jets—in which hot gases created by burning fuel are ejected out of the back, providing the action part of the law. The reaction part is forward movement. The distinction between rockets and jets is that rockets carry their own oxidant, as well as fuel, whereas jets use oxygen from the atmosphere for the purpose. However SABRE (synergetic

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► assessments of the technology by the European Space Agency and America's Air Force Research Laboratory have helped persuade the European Union to approve a £60m development grant from the British government, which the company should receive this year.

With BAE's assistance the plan is, according to Mark Thomas, Reaction Engines' new managing director, to have a ground-based version of SABRE running by 2020. Mr Thomas joined the firm in May, having previously worked for Rolls-Royce, where he oversaw a number of new jet-engine projects. Gradually, then, and with several changes of name, the space-plane is returning to its roots. How long it will be before anything SABRE-powered actually takes off remains to be seen. But Mr Bond, who is now 71, lives in hope that he will yet see his baby take to the sky. ■

### Renewable energy

## Waving good buy?

SEATTLE

**A hitherto-obscure piece of physics may be the secret to ocean power generation**

THE idea of extracting energy from ocean waves and turning it into electricity is an alluring one. The first serious attempt to do so dates back to 1974, when Stephen Salter of Edinburgh University came up with the idea of "ducks": house-sized buoys tethered to the sea floor that would convert the swell into rotational motion to drive generators. It failed, as have many subsequent efforts to perform the trick. But the idea of wave power will not go away, and the latest attempt—the brainchild of researchers at Oscilla Power, a firm based in Seattle—is trying to address head-on the reason why previous efforts have foundered.

This reason, according to Rahul Shendure, the firm's boss, is that those efforts took technologies developed for landlubbers (often as components of wind turbines) and tried to modify them for marine use. The consequence was kit too complicated and sensitive for the rough-and-tumble of life on the ocean waves, and also too vulnerable to corrosion. Better, he reckons, to start from scratch.

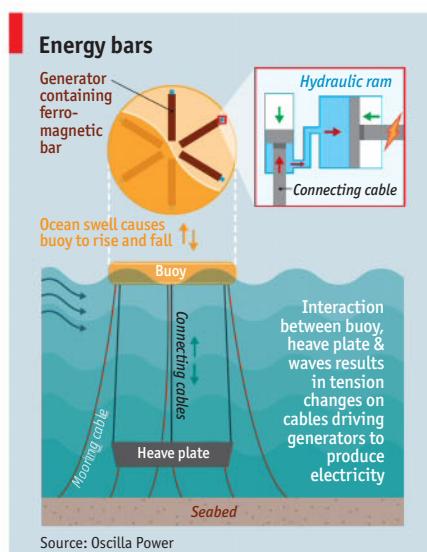
Instead of generators with lots of moving parts, Oscilla is developing ones that barely move at all. These employ a little-explored phenomenon called magnetostriiction, in which ferromagnetic materials (things like iron, that can be magnetised strongly) change their shape slightly in the presence of a magnetic field. Like many physical processes, this also works in reverse. Apply stresses or strains to such a

material and its magnetic characteristics alter. Do this in the presence of permanent magnets and a coil of wire, such as are found in conventional generators, and it will generate electricity.

The core of Oscilla's design is a bar made from an alloy of iron and aluminium, a mixture that is strongly ferromagnetic. Such bars need to be compressed by only one part in 10,000 to have the desired effect. This means, to all intents and purposes, that the generator has no internal moving parts that can go wrong. But compressing a solid metal bar by even this tiny amount requires the application of a huge force. Fortunately, ocean waves are powerful enough to generate this force. Oscilla's design, as the firm's name suggests, does it by oscillation.

Its oscillating generators consist of two large objects connected by cables (see diagram). At one end of these cables, floating on the surface, is a buoy that contains the generating apparatus of alloy bars, magnets and coils, together with sets of hydraulic rams which can squeeze the bars as desired. At the cables' other ends hangs a structure called a heave plate, which is kept stationary by a combination of inertia and the drag of the surrounding water. This arrangement means that, as the buoy rises and falls with the waves at the surface while the heave plate stays more or less put, the tension on the cables increases and decreases. That changing tension drives the rams. The whole system is kept in place by a second set of cables that moor it to the seabed.

A full-scale device, which Oscilla hopes to build by 2018, will be a foam-filled steel buoy 27 metres in diameter, six metres high and weighing 1,000 tonnes, tethered to a toroidal concrete heave plate 70 metres below the surface. It will carry 12 magnetostrictive generators within. Mr Shendure says that a single such buoy, placed a few kilometres offshore, should deliver an av-



erage of 600 kilowatts—about the same as an onshore wind turbine. A prototype four metres in diameter underwent a brief but successful open-ocean trial off the Atlantic coast of America last year.

Oscilla's generators will, Dr Shendure acknowledges, be expensive to build and install. But their simple design, he says, should allow them to operate for decades with no more maintenance than an occasional scrub to remove accumulated barnacles. He calculates that the cost of producing electricity from them will be around ten cents a kilowatt hour. That compares with 16 cents a kilowatt hour for offshore wind farms and six cents for the onshore variety. A grid-connected fossil-fuel power station would be cheaper still—five cents or less. But ten cents represents a decent start for such a novel way of generating electricity. ■

### Sexual selection and evolution

## My pretty maid

**A glamorous raiment sometimes helps a female bird as much as it helps a male**

HOW the peacock got his tail is one of natural history's "Just So" stories that biologists like to think they have cracked. His tail is for showing off to the ladies just how fit he and his genes are. A less-than-perfect tail means no offspring. Genes for spectacular male tails are thus preserved and promoted over the generations in a process that is called sexual selection.

There is, though, a problem with this story. Peahens, though not as showy as cocks, are by no means dowdy. Their heads have fetching crests, and their necks are a beautiful, iridescent blue. Such flummery is costly to grow and likely to attract predators. If you do not have to strut your stuff to get a mate, why do you need it?

Even more confusingly, in many species both sexes are equally showy—the Gouldian finches overleaf, for example (the female is on the right). So, though no one thinks the theory is incorrect, as far as it goes, it clearly does not go far enough. To understand things better James Dale of Massey University, in Auckland, New Zealand, and his colleagues have therefore examined the plumage of both sexes of all 5,983 species of passerine bird (peafowl, not being passersines, are not among them), and compared them in exquisite detail.

First, the team had to devise a way to deal with the 11,966 types of plumage they had set out to examine. Using the "Handbook of the Birds of the World", regarded by ornithologists as the definitive work in the field, they picked six points on a bird's ►



Nice outfit, dear

► body (nape, crown, forehead, throat, upper breast and lower breast) and performed a spectral analysis of each to measure how red, green and blue it was. The average let them plot each plumage as a dot on a graph with three axes—red, green and blue.

To translate this into a “showiness” score, the researchers started from the fact that, despite the exceptions, showiness is still more a male than a female phenomenon. They therefore calculated, as a proxy for showiness, a “maleness” score for each dot, regardless of which sex it represented, by counting the sexes of its nearest 120 neighbours in the graph (ie, the nearest 1% of dots). They then ran these scores against characteristics, such as the size of a species, its habitat and its pattern of family life.

Their first observation, as they report this week in *Nature*, was that in species where a few males monopolise all the females, with a consequent lack of male involvement in parental care, males were more colourful than females. This is what the theory of sexual selection would predict. What it would not predict in its simple form, though, was a second finding—that females in co-operatively breeding species (those in which, for lack of other opportunities, several females collaborate to raise the young of only one of them) are more ornamented than those in which all adult females have a chance of breeding. In this case it is females who are competing for the right to reproduce, thus putting themselves in a more male-like position.

Another widespread belief Dr Dale and his colleagues confirmed is that tropical species are more colourful than those from temperate climes. But again, there was a twist—the effect was much more marked in females than in males. Something about the tropics favours colourful females. It may be that tropical birds, which face more intense competition for food and nesting sites than temperate ones do because the tropics have more species, form more stable and collaborative pair-bonds than do temperate birds. In these circumstances males also need to be choosy, and females competitive. Selection for gaudy plumage therefore works in both directions.

The final effect the researchers found was that big species are more colourful than small ones. That is true of both sexes, and probably reflects the fact that bigger

birds are more difficult prey and thus have less need to hide. When released from the threat of predation, then, females tend to be gaudier. That suggests gaudiness is always good when it can be got away with (for even in a promiscuous species, pretty females are likely to be at an advantage to ugly ones)—and probably explains the decorated necks and heads of peahens, which are among the biggest of birds.

Putting these results together, then, suggests that what is happening in the arena of sexual selection is as much to do with females as with males. Just as females are half the world, so the conventional explanation of the peacock’s tail, though not wrong, is only half the story. ■

#### Religion and altruism

## Matthew 22:39

**Far from bolstering generosity, a religious upbringing diminishes it**

**A**ND ARGUMENT often advanced for the encouragement of religion is that, to paraphrase St Matthew’s report of Jesus’s words, it leads people to love their neighbours as themselves. That would be a powerful point were it true. But is it? This was the question Jean Decety, a developmental neuroscientist at the University of Chicago, asked in a study just published in *Current Biology*.

Dr Decety is not the first to wonder, in a scientific way, about the connection between religion and altruism. He is, though, one of the first to do it without recourse to that standard but peculiar laboratory animal beloved of psychologists, the undergraduate student. Instead, he collaborated with researchers in Canada, China, Jordan, South Africa and Turkey, as well as with fellow Americans, to look at children aged between five and 12 and their families.

Altogether, Dr Decety and his colleagues recruited 1,170 families for their project, and focused on one child per family. Five hundred and ten of their volunteer families described themselves as Muslim, 280 as Christian, 29 as Jewish, 18 as Bud-

dhist and 5 as Hindu. A further 323 said they were non-religious, 3 were agnostic and 2 ticked the box marked “other”.

Follow-up questions to the faithful among the sample then asked how often they engaged in religious activities, and also about spirituality in the home. That let Dr Decety calculate how religious each family was. He found that about half the children in religious households came from highly observant homes; the spiritual lives of the other half were more relaxed. He then arranged for the children to play a version of what is known to psychologists as the dictator game—an activity they use to measure altruism.

In truth, the dictator game is not much of a game, since only one of the participants actually plays it. In Dr Decety’s version, each child was presented with a collection of 30 attractive stickers and told that he or she could keep ten of them. Once a child had made his selection, the experimenter told him that there was not time to play the game with all the children at the school, but that he could, if he wished, give away some of his ten stickers to a random schoolmate who would not otherwise be able to take part. The child was then given a few minutes to decide whether he wanted to give up some of his stickers—and, if so, how many. The researchers used the number of stickers surrendered as a measure of altruism.

The upshot was that the children of non-believers were significantly more generous than those of believers. They gave away an average of 4.1 stickers. Children from a religious background gave away 3.3. And a further analysis of the two largest religious groups (Jews, Buddhists and Hindus were excluded because of their small numbers in the sample), showed no statistical difference between them. Muslim children gave away 3.2 stickers on average, while Christian children gave away 3.3. Moreover, a regression analysis on these groups of children showed that their generosity was inversely correlated with their households’ religiosity. This effect remained regardless of a family’s wealth and status (rich children were more generous than poor ones), a child’s age (older children were more generous than younger ones) or the nationality of the participant. These findings are, however, in marked contrast to parents’ assessments of their own children’s sensitivity to injustice. When asked, religious parents reported their children to be more sensitive than non-believing parents did.

This is only one result, of course. It would need to be replicated before strong conclusions could be drawn. But it is suggestive. And what it suggests is not only that what is preached by religion is not always what is practised, which would not be a surprise, but that in some unknown way the preaching makes things worse. ■



Alexander von Humboldt

## Man of the world

**Why a Prussian scientific visionary should be studied afresh**

**I**N A superb biography, Andrea Wulf makes an inspired case for Alexander von Humboldt to be considered the greatest scientist of the 19th century. Certainly he was the last great polymathic in a scientific world which, by the time he died in Berlin in 1859, aged 89, was fast hardening into the narrow specialisations that typify science to this day. Yet in the English-speaking world, Humboldt is strangely little-known. That is partly because polymaths are out of fashion. But it is also because Humboldt suffers, given the legacy of two world wars, from having been German. In 1869 thousands marched in Ohio to celebrate his centenary. Fifty years later German books were burnt in a huge public bonfire in Cleveland, while in Cincinnati Humboldt Street was renamed after that mediocre president, William Howard Taft.

Once, Humboldt seemed to be on everybody's lips; his portrait even hung in the palace of the King of Siam. Born into an aristocratic Prussian family, he showed an early and insatiable curiosity for the natural worlds "perpetual drive", he said, as if chased by "10,000 pigs". As young men he and his brother, Wilhelm, were lights in Berlin's intellectual circle which, though admittedly small, included Johann Wolfgang von Goethe and Friedrich Schiller. But always Humboldt was consumed by *Fernweh*, a longing for distant places. His misery was to be "too good a son". A cold and distant mother (his father had died

**The Invention of Nature: Alexander von Humboldt's New World.** by Andrea Wulf. Knopf; 496 pages; \$30. John Murray; £25

when he was young) had strict ideas about what it meant to be a member of the Prussian elite. In 1790, at 21, he was all set for a career in the ministry of mines. Then came Humboldt's jubilee with the death of his mother and a generous inheritance.

Suddenly vistas opened; the dutiful son did not even attend his mother's funeral. Resigning his position as a mining inspector, he rushed about Europe buying meteorological instruments and the necessities for conducting electrical experiments. He sought knowledge of astronomy, botany, geology and zoology. Above all he sought a destination: Greece, Lapland, Siberia, the West Indies, even the Philippines—in his excitement, it seemed not to matter where.

In the end the French revolutionary wars then consuming Europe and spilling out into the North Atlantic narrowed the options. With Aimé Bonpland, a talented young French botanist whom he had met in the corridors of their rooming-house in Paris, Humboldt headed on a Spanish frigate for South America. He was, among other things, fleeing the ghost of his mother, which was by now preying on his filial guilt. In July 1799 they landed in Cumaná on the coast of New Andalusia, in modern-day Venezuela.

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Humboldt's five years of travels with Bonpland in South America made his reputation. The red-blossomed palm trees, the pink flamingos, the blue-and-yellow crayfish—there was so much to catch their attention that they ran around "like fools", he wrote. They pushed on up a tributary of the Orinoco until they found a route to the Amazon, confirming that the two great rivers shared a watershed. And they inspected volcanoes: on Chimborazo they climbed higher than anyone had done before: 19,413 feet (5,917 metres), according to the barometer they carried.

They returned to Europe to a hero's welcome, their cases groaning with specimens; 2,000 new species of plants alone, which was astonishing given that only 6,000 had hitherto been recorded. The account of their travels, "Voyage to the Equinoctial Regions of the New Continent", eventually ran to 34 volumes. One, Humboldt's "Personal Narrative", became a bible to young scientists, dreamers and adventurers. His was an unabashedly emotional response to nature. Intuition was paramount.

At a time when scientists saw their duty as chiefly taxonomic—stuffing things into ever narrower categories—Humboldt's genius was to see the interrelatedness of things—in particular the link between plants, climate and geography. Nature was a web of life. He introduced the idea of vegetation zones slung around the globe; he also invented isotherms, lines of equal temperature. He was the first person to be alive to man's ecological impact—for instance, the effect of deforestation on patterns of rainfall and soil erosion. In Latin America these effects were amplified by the slavery Humboldt witnessed and to which he remained implacably opposed.

Humboldt's human connections were as fecund as those he made in the natural ►

world. He was friends with Goethe, Thomas Jefferson and Simon Bolívar. His conversations glittering stream of knowledge—was legendary in Europe's salons. Budding scientists worshipped him for the encouragement he gave them.

Eventually, and only with extreme age, did his endless monologues come to grate on listeners. By then Humboldt, a lifelong republican who depended on Prussia's absolute monarchs for a stipend, was weighed down by his chores at court and by having to answer so many letters—as many as 4,000 a year from admirers that he was obliged to take out a newspaper advertisement begging “the people of the two continents not to be so busy about me”. Soon after, he was dead.

Yet, and here Ms Wulf is especially good, his ideas enjoyed an afterlife. On the day of Humboldt's death, Charles Darwin wrote to his publishers to say that the first chapters of his “On the Origin of Species” were nearly ready; the passion and precision of that revolutionary work owe a huge, acknowledged, debt to Humboldt. Henry David Thoreau and John Muir, America's two most influential naturalists, shared both Humboldt's wonder for the world and his conviction that knowledge could, in his words, never “kill the creative force of imagination”. Ecologists today, Ms Wulf argues, are Humboldtians at heart. With the immense challenge of grasping the global consequences of climate change, Humboldt's interdisciplinary approach is more relevant than ever. ■

#### Military hubris

## Their own worst enemy

**Hubris: The Tragedy of War in the Twentieth Century.** By Alistair Horne. Harper; 400 pages; \$28.99. Weidenfeld & Nicolson; 304 pages; £25

SIR ALISTAIR HORNE is a wise old bird. One of the British historian's many books, an account of the Algerian war and its bitter aftermath, was seized upon by a beleaguered president, George W. Bush, four years into the American occupation of Iraq as a source of sound advice in dealing with brutal insurgencies. Summoned to the Oval Office in 2007, more than 30 years after the publication of “A Savage War of Peace: Algeria 1954-72”, it is likely that the ever-courteous Sir Alistair refrained from saying that the best counsel he could have given Mr Bush was not to go into Iraq in the first place. His latest book, published in the author's 91st year, is a reflection on military hubris and the part it played in 20th-century conflicts.



#### So, here's the logic

For the ancient Greeks, hubris was the folly of a leader who through excessive self-confidence challenged the gods. It was always followed by *peripeteia* (a reversal of fortune) and, ultimately, nemesis (divine retribution). Sir Alistair's subject is the embedded tendency of generals and nationalistic political leaders who experience military triumph to overreach, and for the next generation to inherit their arrogance and complacency with disastrous results. The author was spoilt for choice in looking for conflicts to illustrate his central point, but he confines himself to six battles that spanned the first half of the 20th century, the bloodiest by far in human history.

They include the smashing of the Russian fleet by the Japanese at Tsushima in 1905; the little-known battle of Nomonhan in 1939 when General Georgy Zhukov, the most successful commander of the second world war, destroyed the Kwantung Army and put paid to any further thought of Japanese northward expansion; the Japanese defeat at Midway just six months after the reckless gamble of their attack on Pearl Harbour; and the defeat of the once-preening Wehrmacht outside Moscow in 1941, which Sir Alistair sees, even more than the later battle of Stalingrad, as the “end of the beginning” of the war.

This melancholy account of military delusion closes with two conflicts that had huge consequences. The first is General Douglas MacArthur's vainglorious dash across the 38th Parallel to the Yalu river in 1950, which brought China into the Korean war with calamitous results. And the second, four years later, is the fall of Dien Bien Phu (where the French had convinced themselves they were reliving the glorious defence of Verdun in 1916) to General Vo Nguyen Giap's Viet Minh, which would later drag America into the Vietnam war.

One constant theme is how decisions were influenced by a misguided concept of racial superiority. Although at the turn of

the century Japan was rapidly industrialising and had equipped itself with some of the best warships money could buy (cheerfully supplied by their ally, Britain), the Russians constantly underestimated them. It was surely folly to send a fleet 18,000 miles to the Far East to relieve besieged Port Arthur. When the Russians arrived, their ships and men were so exhausted that the faster Japanese ironclads, superbly commanded by Admiral Heihachiro Togo, were able to outmanoeuvre and destroy them. But in that smashing victory the seeds were sown that led inexorably to Hiroshima and Nagasaki 40 years later.

Isoroku Yamamoto, who planned the attack on Pearl Harbour and led the Japanese fleet at Midway, was a junior officer at Tsushima. For Yamamoto and Japan's increasingly nationalistic and militaristic leaders in the 1920s and 1930s, Tsushima inspired a kind of “mystical Messianism” that gripped the country and made expansion into the Asian mainland seem almost preordained. The samurai code of honour, hyper-nationalism and the illusion of invincibility at sea combined to convince the leadership that there was no foe “divine Japan could not vanquish”. Japan, as much as imperialistic Europeans in the previous century, believed in its racial and cultural supremacy, particularly over the Chinese, but also over white colonisers and decadent America. It was, says Sir Alistair, “a suicidally dangerous philosophy”.

The case against the awful consequences of military hubris is not hard to make. But Sir Alistair makes it with erudition and eloquence. His account of the conflicts he cites contains little that is new. But his narrative is never dull; his judgments are informed by a weary understanding of human folly. This is a book that any political leader contemplating military action should read. Had it been available to Mr Bush, he might not have needed to seek help from the author's earlier work. ■

## Foggy days

# Grey and dreichy

**London Fog: A Biography.** By Christine Corton. Belknap Press; 391 pages; \$35 and £22.95

JOHN EVELYN, a 17th-century diarist, lamented the "Stink and Darknesse" of London, and suggested moving smoke-producing industry out, beyond a sweet-smelling hedge to be planted round the city. In the 18th century Joseph Haydn found London's fog so thick "one might have spread it on bread". But it was not until the 1830s, when the city's population exceeded 2m, that London fog became the famous sulphurous pea-souper.

London, in its river basin ringed by hills, has always had what the Scots call "dreich"; cold, wet winter mists that in early November led to flights being cancelled at Heathrow. Pea-soup fogs were quite different; they were so polluted with soot from domestic and industrial coal fires that people coughed up black mucus. As the Times put it in 1853, London's fogs converted "the human larynx into an ill-swept chimney". In 1921 a sample cubic inch of air contained 340,000 sooty particles. One of the last great fogs, in 1952, was so thick that a performance of "La Traviata" at Sadler's Wells was cancelled after fog seeped into the theatre. No one could see the stage.

Christine Corton takes a subject that is now scarcely more than a heritage item—like gaslight and hansom cabs—and puts it where it belongs among the great public-health movements of the 19th and 20th centuries. The difficulty for the clean-air re-

formers was that unlike, say, sewage or water, fog was never a candidate for grand public engineering works—though someone did once suggest piping clean air in from the countryside. The answer was regulation, which brought legislators up against the two great pillars of a capitalist society: the free market and private property, as embodied in the sanctity of hearth and home. Industry's right to buy the cheapest, smelliest coal, and the citizen's right to his or her own fireside, meant that every attempt at properly enforceable anti-smoke legislation was doomed—until the Clean Air Acts of the 1950s and 1960s.

Of course, fog was not solely a public-health problem. With the help of wonderful contemporary illustrations, Ms Corton vividly describes the chaos it brought—pedestrians groping, traffic crawling, accidents, crime and drunkenness soaring. The melting, blurring, looming transformations of fog seemed to symbolise the dissolution of society itself. Writers saw the possibilities, and Ms Corton pursues their metaphorical fogs through every kind of moral, psychological and social disintegration. Charles Dickens, Henry James, Joseph Conrad, Robert Louis Stevenson, all are here—plus a mass of fascinating and forgotten popular literature—their cultural meanings perceptively analysed, if a little doggedly at times.

This is a rich and multifaceted book, but it is perhaps the politics of fog that provokes most thought. Even after the so-called "Great Killer Fog" of 1952, the government was unconvinced it had a role. Despite 12,000 extra deaths, Harold Macmillan, then a Conservative minister, grumbled at public expectations and suggested a committee: "We cannot do very much, but we can seem to be very busy—and that is half the battle nowadays." ■



Fog is for the birds



## Italian politics

## He's back

**My Way: Berlusconi in His Own Words.** By Alan Friedman. Biteback; 300 pages; £20

THE subtitle of Alan Friedman's new book on Silvio Berlusconi is misleading. Mr Friedman was granted unrivalled access to his subject: "over 100 hours of meetings, videotaped interviews and conversations". Yet Mr Berlusconi's words comprise but a fraction of the text. The rest is Mr Friedman, plus a team of "editorial staff, researchers and fact-checkers". The writing of Mr Berlusconi's authorised biography, for that is what it is, seems to have been an enterprise of appropriately extravagant proportions.

The author, formerly a *Financial Times* correspondent in Mr Berlusconi's native Milan, says he warned his subject that the book would not be a hagiography. And the author takes care to balance the magnate-turned-politician's account of his life with other versions. He quotes extensively the former prime minister, his associates and others with whom Mr Berlusconi came into generally friendly contact, but any alternative narrative of his life is made to seem questionable.

Those who have crossed Mr Berlusconi, or failed to do his bidding, are consistently discredited. Thus his second wife, Veronica Lario, up in arms about her husband's flirting with other women in public, "appeared 'shocked' at his behaviour, as though she had only now seen 'the real' Berlusconi". For Mr Friedman, the former president, Giorgio Napolitano, who helped oust Mr Berlusconi in 2011, is nothing more than a "cynical former communist". Mario Monti, who replaced Mr Berlusconi, is merely an "ambitious economist"; Mr Monti's successor, Enrico Letta, a "political lightweight".

► The author also deals unsatisfactorily with the mystery over who really provided the backing for Mr Berlusconi's stupendously ambitious and costly early business ventures. Mr Friedman says it came from two main sources. One was the now defunct and ill-famed Banca Rasini, where Mr Berlusconi's father worked and where, the author acknowledges, several leading Mafiosi had accounts. The other was a Swiss fiduciary trust. Later, Mr Friedman writes, Mr Berlusconi "would face unpleasant questions" about his seed capital, but "would deny any irregularities with vigour and venom". Really? On November 26th 2002 the then prime minister had every opportunity to do so when questioned on this very subject by prosecutors in Rome. Instead, he availed himself of the right to silence.

"My Way" is recent Italian and European history seen from Mr Berlusconi's relentlessly self-justificatory standpoint. And sometimes the effect is hilarious. The reader learns that "the moment of greatest pain" for Mr Berlusconi came in 2009 as a result of his wife's incomprehensible reaction to the fact that he had "attended a birthday party for a pretty and lithe 18-year-old lingerie model". Then there is the tricky matter of the conviction for Mafia collusion of Marcello Dell'Utri, who worked shoulder to shoulder with Mr Berlusconi for most of his career. When in 2014 the verdict came in, Mr Dell'Utri had "disappeared to Beirut for what he would later claim was heart treatment".

The most illuminating passages highlight just how awful relations were between Mr Berlusconi and his European counterparts as the euro crisis deepened and the others came to see him as a liability. Nicolas Sarkozy, then president of France, refused to shake his hand. America's treasury secretary, Tim Geithner, is quoted as saying he was approached for help in ousting Mr Berlusconi from office.

"In no other Western country has one national leader so dominated a country's life or stamped his own personality and tastes on its culture so completely," Mr Friedman writes. He is right. Yet, in the end, what shines through most in "My Way" is the utter inconsequentiality of Mr Berlusconi's political and diplomatic legacy. He failed in his dream of uniting the Italian right. His only significant international role was as a covert means of communication between Washington and his more unsavoury friends, like Muammar Qaddafi.

Understandably, the author does not even mention the economic record of the man who entered politics promising a "new Italian miracle". By 2011, when Mr Berlusconi left office after a decade in which he had governed his country for all but two years, Italians were on average poorer in real terms than they had been ten years earlier. ■

## 20th-century American art

# Modern man

NEW YORK

### If you think Frank Stella's work is out of date, think again

**I**N RECENT decades Frank Stella, who is almost 80, has seemed increasingly out of step. A champion of pure abstraction in an age that distrusts purity and prefers its art to be topical, he is a survivor from a by-gone era when artists conceived their mission as a heroic and hermetic pursuit. This aloofness is something Mr Stella relishes, claiming to have no interest in contemporary trends and dismissing Jeff Koons (to name one prominent target) as an artist for people with more money than taste. But a new show at the Whitney Museum, organised with the Modern Art Museum of Fort Worth, reveals an artist more relevant than either he or his critics care to admit. The comparison with Mr Koons is particularly apt, since the current one-man retrospective is the first the Whitney has put on since its Koons show last year.

Mr Stella's nonrepresentational works appear to have little in common with Mr Koons's pop-derived imagery. But both display a penchant for pugnacious, in-your-face statements and a hands-off approach in which the artist maintains his distance from the production. Mr Stella's more recent constructions—many of them plotted using computer-aided design and fabricated with the help of skilled artisans—share an industrial process with those by Mr Koons. In both cases the artist's touch is suppressed; he acts as designer rather than craftsman, an orchestrator of pictorial concepts rather than a shaper of materials.



Stella turnout

This similarity of practice is not incidental. When Mr Stella started out in the late 1950s, he was rebelling against the emotionally fraught painting of the New York School. His seminal "Black Paintings" (1958-60) consist of parallel bands made with a house-painter's brush and enamel. While still handmade, they were executed without a trace of painterly expressiveness. Mr Stella's paintings left no room for personal expression and made no claims to transcendence. From here, Mr Stella went on to create works in which he introduced subtle shifts in the flow of the stripes and cut into the canvas to conform to those predetermined patterns. These shaped canvases, in turn, were followed by more elaborate variations in which he rung changes on the traditional picture plane, first in two and then in three dimensions. Conceived with logical rigour and carried out with deadpan precision, they denied that art was anything but material form.

Mr Stella once said of his art, "What you see is what you see": a matter-of-fact attitude that set the tone for the emotionally cool era that followed the psychodrama of Abstract Expressionism. Once the basic premise was determined, the artist followed through with all the passion of a worker on an assembly line—an approach that characterised most of the work by his Pop contemporaries as well. Even when Mr Stella abandoned the classical austerity of these early works for the baroque profusion of his constructions, which tumble out like the contents of an overstuffed cupboard, the final product is the result of conscious decisions, problems to be solved, rather than spontaneous outbursts of an authentic self. A work like "Kandampat" (2002), a tangle of stainless-steel sheets and aluminium tubes that fly off the wall like plumbing fixtures caught in a whirlwind, results from Mr Stella's desire to push the limits of pictorial space rather than an effusion of raw emotion.

This coolness links Mr Stella to the present. By denying that a work of art must be a precious handcrafted object, Mr Stella paved the way for later artists who were also inclined to view claims of spiritual transcendence with scepticism. Of course one can overstate the debt. Artists like Mr Koons are more the descendants of Jasper Johns, Roy Lichtenstein and Andy Warhol, artists who combine coolness with imagery drawn from the mass media. In this context Mr Stella seems to be involved in a rearguard action, defending the values of pure art against the barbarians who insist on dragging it from the museum and out into the street where it can engage with real life. But by introducing the techniques and, even more crucially, the attitudes of industrial production into the realm of the fine arts, Mr Stella provided a road map to the digital age where the idea of the hands-on artist is increasingly quaint. ■

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The Economist November 7th 2015

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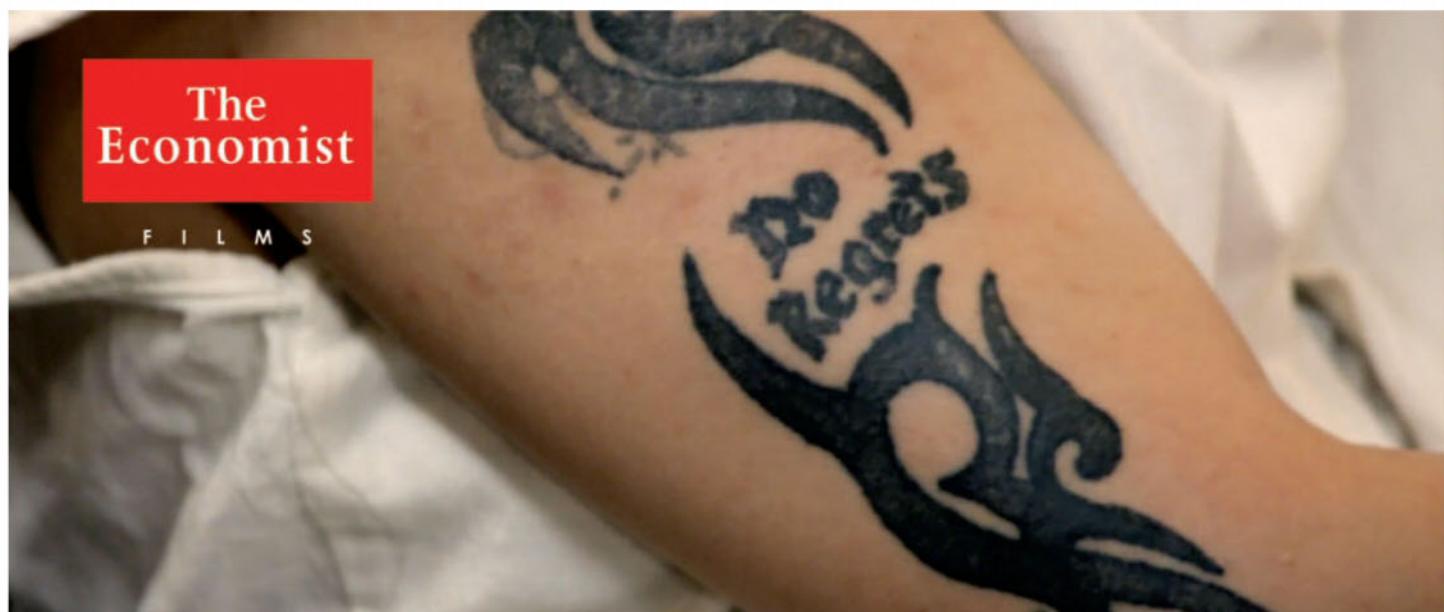
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## Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices latest 2015†	Unemployment rate, %	Current-account balance			Budget balance % of GDP 2015†	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$ Nov 4th	Currency units, per \$ year ago
	latest	qtr*	2015†				latest	% of GDP 2015†	latest 12 months, \$bn				
United States	+2.0	0.3	+1.5	+2.4	+0.4 Sep	nil Sep	+0.3	5.1 Sep	-429.0 Q2	-2.5	-2.6	2.21	-
China	+6.9	0.3	+7.4	+6.9	+5.7 Sep	+1.6 Sep	+1.6	4.1 Q3§	+287.8 Q2	+3.1	-2.7	2.94§§	6.34
Japan	+0.8	0.2	-1.2	+0.7	-0.9 Sep	nil Sep	+0.7	3.4 Sep	+118.8 Aug	+2.7	-6.8	0.31	122
Britain	+2.3	0.3	+2.0	+2.5	+1.9 Aug	-0.1 Sep	+0.1	5.4 Jul††	-149.2 Q2	-4.6	-4.4	1.97	0.65
Canada	+1.0	0.2	-0.5	+1.2	+0.5 Aug	+1.0 Sep	+1.3	7.1 Sep	-48.5 Q2	-3.1	-1.8	1.63	1.31
Euro area	+1.5	0.2	+1.4	+1.5	+0.9 Aug	nil Oct	+0.1	10.8 Sep	+353.4 Aug	+2.8	-2.1	0.60	0.92
Austria	+1.0	0.3	+2.2	+0.7	+1.0 Aug	+0.7 Sep	+0.9	5.7 Sep	+10.7 Q2	+1.2	-2.1	0.85	0.92
Belgium	+1.3	0.3	+0.8	+1.2	+2.4 Aug	+1.3 Oct	+0.5	8.7 Sep	-5.8 Jun	+1.2	-2.6	0.93	0.92
France	+1.1	0.2	nil	+1.1	+1.6 Aug	nil Sep	+0.1	10.7 Sep	-0.4 Aug‡	-0.5	-4.1	0.94	0.92
Germany	+1.6	0.2	+1.8	+1.6	+2.5 Aug	+0.3 Oct	+0.2	6.4 Oct	+280.7 Aug	+7.8	+0.7	0.60	0.92
Greece	+1.7	0.2	+3.7	+0.5	+4.5 Aug	-1.7 Sep	-1.1	25.0 Jul	-2.9 Aug	+2.5	-4.1	7.92	0.92
Italy	+0.7	0.2	+1.3	+0.7	+1.0 Aug	+0.3 Oct	+0.1	11.8 Sep	+38.3 Aug	+2.0	-2.9	1.57	0.92
Netherlands	+1.8	0.2	+0.8	+2.0	-0.7 Aug	+0.6 Sep	+0.4	8.3 Sep	+85.3 Q2	+10.3	-1.8	0.74	0.92
Spain	+3.4	0.3	+3.2	+3.1	+5.1 Aug	-0.6 Oct	-0.5	21.6 Sep	+18.8 Aug	+0.8	-4.4	1.73	0.92
Czech Republic	+4.6	0.2	+4.4	+3.4	+6.3 Aug	+0.4 Sep	+0.3	6.1 Sep§	+2.4 Q2	-0.1	-1.8	0.52	24.9
Denmark	+2.0	0.2	+0.6	+1.7	+2.4 Aug	+0.5 Sep	+0.6	4.6 Sep	+23.2 Aug	+6.7	-2.9	0.92	6.87
Norway	+2.2	0.2	-0.4	+0.7	+5.2 Aug	+2.1 Sep	+1.7	4.6 Aug‡‡	+37.8 Q2	+9.3	+5.9	1.67	8.62
Poland	+3.6	0.2	+3.6	+3.4	+4.1 Sep	-0.8 Oct	nil	9.7 Sep§	-1.9 Aug	-1.4	-1.5	2.79	3.90
Russia	-4.6	0.2	na	-3.9	-3.5 Sep	+15.7 Sep	+15.0	5.2 Sep§	+64.3 Q3	+5.5	-2.8	9.85	63.0
Sweden	+3.3	0.2	+4.6	+3.0	+3.8 Aug	+0.1 Sep	nil	6.7 Sep§	+35.1 Q2	+6.5	-1.2	0.67	8.63
Switzerland	+1.2	0.2	+1.0	+0.9	-2.5 Q2	-1.4 Sep	-1.1	3.4 Sep	+60.9 Q2	+7.9	+0.2	-0.26	0.99
Turkey	+3.8	0.2	na	+2.9	+8.4 Aug	+7.6 Oct	+7.5	9.8 Jul§	-43.0 Aug	-4.9	-1.6	9.61	2.86
Australia	+2.0	0.2	+0.7	+2.3	+1.2 Q2	+1.5 Q3	+1.7	6.2 Sep	-47.4 Q2	-3.8	-2.4	2.73	1.40
Hong Kong	+2.8	0.2	+1.6	+2.4	-1.2 Q2	+2.0 Sep	+3.1	3.3 Sep‡‡	+7.4 Q2	+2.8	nil	1.64	7.75
India	+7.0	0.2	+6.6	+7.3	+6.4 Aug	+4.4 Sep	+5.0	4.9 2013	-25.9 Q2	-1.1	-3.8	7.65	65.5
Indonesia	+4.7	0.3	na	+4.7	+4.4 Aug	+6.2 Oct	+6.4	5.8 Q3§	-21.6 Q2	-2.5	-2.0	8.68	13,555
Malaysia	+4.9	0.2	na	+5.4	+3.0 Aug	+2.6 Sep	+2.5	3.2 Aug§	+8.8 Q2	+2.5	-4.0	4.15	4.27
Pakistan	+5.5	2015**	na	+5.7	+4.8 Aug	+1.6 Oct	+3.9	6.0 2014	-2.6 Q2	-0.7	-5.1	8.80†††	105
Philippines	+5.6	0.2	+7.4	+6.4	+3.7 Aug	+0.4 Oct	+2.4	6.5 Q3§	+11.7 Jun	+4.1	-1.9	3.75	46.8
Singapore	+1.4	0.3	+0.1	+2.9	-4.8 Sep	-0.6 Sep	+0.2	2.0 Q3	+69.5 Q2	+21.2	-0.7	2.54	1.40
South Korea	+2.7	0.3	+5.0	+2.4	+2.4 Sep	+0.9 Oct	+0.8	3.2 Sep§	+107.9 Sep	+8.0	+0.3	2.18	1,132
Taiwan	-1.0	0.3	+0.2	+3.2	-5.3 Sep	+0.3 Oct	+0.1	3.8 Sep	+72.8 Q2	+12.8	-1.0	1.22	32.4
Thailand	+2.8	0.2	+1.5	+3.4	-3.6 Sep	-0.8 Oct	+0.8	0.8 Sep§	+24.4 Q2	+2.4	-2.0	2.65	35.5
Argentina	+2.3	0.2	+2.0	+0.7	+0.2 Sep	— ***	—	6.6 Q2§	-8.3 Q2	-1.7	-3.6	na	9.57
Brazil	-2.6	0.2	-7.2	-2.8	-10.8 Sep	+9.5 Sep	+8.9	7.6 Sep§	-79.3 Sep	-3.8	-6.0	15.57	3.80
Chile	+1.9	0.2	nil	+2.8	+0.5 Sep	+4.6 Sep	+3.9	6.4 Sep‡‡	-0.3 Q2	-1.2	-2.2	4.52	691
Colombia	+3.0	0.2	+2.4	+3.3	+2.6 Aug	+5.4 Sep	+4.2	9.0 Sep§	-20.8 Q2	-6.7	-2.1	7.74	2,824
Mexico	+2.2	0.2	+2.0	+2.3	+1.0 Aug	+2.5 Sep	+2.9	4.2 Sep	-25.3 Q2	-2.7	-3.4	6.01	16.5
Venezuela	-2.3	0.3~	+10.0	-4.5	na	+68.5 Dec	+84.1	6.6 May§	+10.3 Q3~	-1.8	-16.5	10.51	6.31
Egypt	+4.3	0.4	na	+4.2	-5.5 Aug	+9.2 Sep	+10.0	12.7 Q2§	-12.2 Q2	-1.4	-11.0	na	8.03
Israel	+1.8	0.2	+0.1	+3.3	+3.9 Aug	-0.5 Sep	-0.2	5.1 Sep	+10.2 Q2	+4.9	-2.8	2.13	3.89
Saudi Arabia	+3.5	2014	na	+2.7	na	+2.3 Sep	+2.7	5.7 2014	-1.5 Q2	-2.7	-12.7	na	3.75
South Africa	+1.2	0.2	-1.3	+1.5	+0.6 Aug	+4.6 Sep	+4.7	25.5 Q3§	-15.6 Q2	-4.3	-3.8	8.43	13.9

Source: Haver Analytics. \*% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. ~2014 \*\*Year ending June. ††Latest 3 months. ††3-month moving average. §§5-year yield. \*\*\*Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, August 27.01%; year ago 38.49% †††Dollar-denominated



## Markets

	% change on			
	Index Nov 4th	one week	Dec 31st 2014 in local currency terms	in \$
United States (DJIA)	17,867.6	+0.5	+0.2	+0.2
China (SSEA)	3,623.0	+2.5	+6.9	+4.7
Japan (Nikkei 225)	18,926.9	+0.1	+8.5	+7.0
Britain (FTSE 100)	6,412.9	-0.4	-2.3	-3.6
Canada (S&P TSX)	13,661.8	-1.5	-6.6	-17.7
Euro area (FTSE Euro 100)	1,146.1	+0.6	+10.5	-0.8
Euro area (EURO STOXX 50)	3,439.2	+0.5	+9.3	-1.9
Austria (ATX)	2,432.6	-0.1	+12.6	+1.1
Belgium (Bel 20)	3,609.7	+0.8	+9.9	-1.4
France (CAC 40)	4,948.3	+1.2	+15.8	+4.0
Germany (DAX)*	10,845.2	+0.1	+10.6	-0.7
Greece (Athex Comp)	708.6	-2.6	-14.2	-23.0
Italy (FTSE MIB)	22,312.6	-1.6	+17.4	+5.3
Netherlands (AEX)	468.8	+1.2	+10.5	-0.9
Spain (Madrid SE)	1,057.0	+0.5	+1.4	-9.0
Czech Republic (PX)	980.9	nil	+3.6	-4.7
Denmark (OMXCB)	860.6	-0.6	+27.4	+14.2
Hungary (BUX)	22,057.8	nil	+32.6	+19.5
Norway (OSEAX)	677.7	+2.1	+9.4	-4.9
Poland (WIG)	50,466.3	-1.4	-1.8	-10.5
Russia (RTS, \$ terms)	886.4	+3.7	+17.7	+12.1
Sweden (OMX30)	1,529.4	+2.0	+4.4	-5.3
Switzerland (SMI)	8,951.8	+0.2	-0.4	-0.3
Turkey (BIST)	83,684.1	+6.6	-2.4	-20.1
Australia (All Ord.)	5,294.8	-1.5	-1.7	-13.6
Hong Kong (Hang Seng)	23,053.6	+0.4	-2.3	-2.3
India (BSE)	26,552.9	-1.8	-3.4	-6.9
Indonesia (JSX)	4,612.6	+0.1	-11.8	-19.4
Malaysia (KLCSE)	1,685.6	-0.1	-4.3	-21.5
Pakistan (KSE)	34,523.0	+1.4	+7.4	+2.4
Singapore (STI)	3,040.5	nil	-9.6	-14.7
South Korea (KOSPI)	2,052.8	+0.5	+7.2	+4.1
Taiwan (TWI)	8,857.0	+2.2	-4.8	-7.0
Thailand (SET)	1,423.4	+1.0	-5.0	-11.9
Argentina (MERV)	12,799.1	+3.8	+49.2	+32.0
Brazil (BVSP)	47,710.1	+2.1	-4.6	-33.3
Chile (IGPA)	18,973.3	+0.1	+0.5	-11.7
Colombia (IGBC)	9,207.9	-0.9	-20.9	-33.4
Mexico (IPC)	45,373.2	+1.4	+5.2	-6.1
Venezuela (IBC)	11,941.6	-0.2	+210	na
Egypt (Case 30)	7,450.4	-0.4	-16.5	-25.7
Israel (TA-100)	1,371.5	+0.8	+6.4	+6.5
Saudi Arabia (Tadawul)	7,035.5	-1.2	-15.6	-15.5
South Africa (JSE AS)	54,609.0	+1.6	+9.7	-8.9

*The Economist* poll of forecasters, November averages (previous month's, if changed)

	Real GDP, % change		Consumer prices		Current account	
	Low/high range	average	2015	2016	2015	2016
Australia	1.9/2.5	2.0/3.0	2.3	2.5 (2.6)	1.7	2.5
Brazil	-3.5/-2.4	-2.5/-0.4	-2.8 (-2.7)	-1.2 (-0.9)	8.9	6.6 (6.4)
Britain	2.2/2.7	1.6/3.0	2.5	2.3	0.1	1.3 (1.4)
Canada	1.0/1.7	1.2/2.3	1.2 (1.1)	1.9	1.3 (1.2)	1.9
China	6.7/7.1	5.7/7.2	6.9 (6.8)	6.4 (6.5)	1.6	2.0
France	1.0/1.2	0.9/1.7	1.1	1.4	0.1 (0.2)	1.0
Germany	1.5/1.8	1.3/2.1	1.6	1.8	0.2	1.4
India	6.3/7.8	6.0/8.4	7.3 (7.4)	7.6 (7.7)	5.0 (5.1)	5.4 (5.3)
Italy	0.5/0.9	1.0/1.6	0.7	1.3 (1.2)	0.1 (0.2)	0.9 (1.0)
Japan	0.4/1.0	0.6/2.2	0.7	1.2	0.7	0.9
Russia	-4.7/-3.3	-2.0/1.0	-3.9 (-3.8)	-0.4 (-0.3)	15.0 (15.2)	7.5 (7.3)
Spain	2.8/3.2	2.3/3.1	3.1 (3.2)	2.6	-0.5 (-0.4)	0.7 (0.8)
United States	2.1/2.6	1.9/3.1	2.4 (2.5)	2.5 (2.6)	0.3	1.8
Euro area	1.3/1.8	1.3/2.1	1.5	1.7	0.1	1.1

Sources: Bank of America, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Decision Economics, Deutsche Bank, EU, Goldman Sachs, HSBC Securities, ING, Itaú BBA, JPMorgan, Morgan Stanley, Nomura, RBS, Royal Bank of Canada, Schroders, Scotia Capital, Société Générale, Standard Chartered, UBS. For more countries, go to: Economist.com/markets

## Other markets

	% change on			
	Index Nov 4th	one week	Dec 31st 2014 in local currency terms	in \$
United States (S&P 500)	2,102.3	+0.6	+2.1	+2.1
United States (NAScomp)	5,142.5	+0.9	+8.6	+8.6
China (SSEB, \$ terms)	364.1	+5.2	+27.9	+25.2
Japan (Topix)	1,540.4	-0.4	+9.4	+7.9
Europe (FTSEurofirst 300)	1,501.1	+1.1	+9.7	-1.5
World, dev'd (MSCI)	1,717.4	+0.2	+0.5	+0.5
Emerging markets (MSCI)	860.8	+0.1	-10.0	-10.0
World, all (MSCI)	414.4	+0.2	-0.7	-0.7
World bonds (Citigroup)	874.2	-1.1	-3.1	-3.1
EMBI+ (JPMorgan)	721.4	+0.2	+4.3	+4.3
Hedge funds (HFRX)	1,201.8 <sup>§</sup>	+0.4	-1.4	-1.4
Volatility, US (VIX)	14.9	+14.3	+19.2 (levels)	
CDSs, Eur (iTRAXX) <sup>†</sup>	70.5	-1.7	+12.0	+0.5
CDSs, N Am (CDX) <sup>†</sup>	77.3	-1.5	+17.0	+17.0
Carbon trading (EU ETS) €	8.5	-1.5	+16.0	+4.1

Sources: Markit; Thomson Reuters. \*Total return index.

<sup>†</sup>Credit-default-swap spreads, basis points. <sup>§</sup>Nov 2nd.

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

## The Economist commodity-price index

	2005=100			
	Oct 27th	Nov 3rd*	% change on	% change on
	Oct 27th	Nov 3rd*	one month	one year
Dollar Index				
All Items	130.7	130.9	-0.4	-17.2
Food	151.9	153.4	+0.5	-12.3
Industrials				
All	108.7	107.6	-1.6	-23.6
Nfa <sup>†</sup>	108.9	108.6	-1.0	-15.7
Metals	108.6	107.1	-1.9	-26.6
Sterling Index				
All items	155.2	154.6	-1.6	-14.1
Euro Index				
All items	147.1	148.6	+2.5	-5.7
Gold				
\$ per oz	1,167.2	1,123.9	-2.2	-3.9
West Texas Intermediate				
\$ per barrel	43.2	47.9	-1.6	-38.1

Sources: Bloomberg; CME Group; Cottlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. \*Provisional

<sup>†</sup>Non-food agriculturals.

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## One little word

**Günter Schabowski, the man who accidentally opened the Berlin Wall, died on November 1st, aged 86**

PRESS conferences, Günter Schabowski thought, were something he was good at. And the autumn of 1989 was proving a damnably tricky time for him and his colleagues in the Politburo that then ruled communist East Germany. First they had forced grim old Erich Honecker, party leader for 18 years, out of the door—health reasons, of course. Then they had promised reforms to stem the flow of fed-up citizens out of the country. Mr Schabowski, first secretary in East Berlin, was the more acceptable face of the party—scowly and jowly, but with a sense of humour and a Berlin accent loud as a foghorn, earning him the nickname *grosses Maul*, Big Mouth. As such, he had been labouring to explain the new policies both to journalists and to growing crowds on the streets. At the Alexanderplatz in Berlin on November 4th he had boom-lectured 500,000 people, who had whistled all through it. Things were getting very difficult.

At least the foreign press listened and, as a journalist himself, he was at ease with them. Granted, his was not the sort of writing they would recognise or necessarily respect: true socialist-believer stuff, first for a trade-union journal and then for *Neues Deutschland*, the organ of the ruling Socialist Unity Party, which he had edited for seven years. But he understood their thinking.

So he felt relaxed on November 9th as he gave an evening audience, sitting with three colleagues on the podium amid the regulation brown panelling and brown curtains, four men in cheap grey suits with party pins in their lapels. He spoke for an hour about personnel changes in the Politburo, comfortably, without revealing in the least the panic reigning there.

### A big red arrow

Then someone asked about freedom of travel. It was a sore topic with him. East Germany was bleeding people, 300-500 a day leaving for the West through Czechoslovakia to Austria. Frustration was building up like steam in a pressure cooker. He still loved East Germany, and believed in communism as fervently as when, at 23, he had joined the party. He wanted people to stay, and the small, grudging reforms were intended to persuade them to. Nonetheless when he went home every evening, to his messy writer's flat by the Potsdamer Platz in East Berlin in which even the cutlery was provided by the state, his glamorous Russian wife Irina would be grumbling in Russian about what a dump East Germany was and how dowdy the women were, as she brewed up tea in a samovar with a dollop of raspberry jam and listened to the rasping songs of Vladimir Vy-

sotsky, a dissident Russian poet. Even their pet parrot would be squawking saucy, unorthodox things. All that was enough to sow a doubt or two.

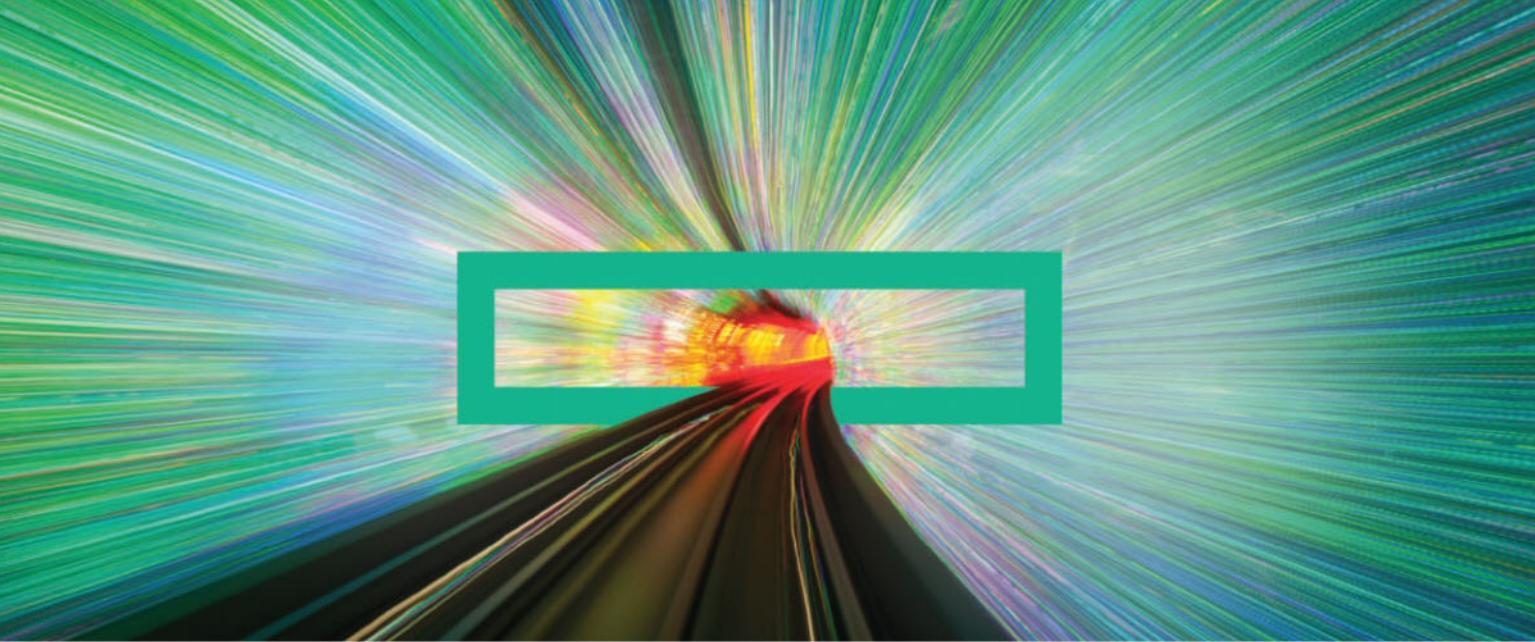
The Politburo had discussed travel the day before; he was out of the room. But Egon Krenz, the new party leader, had thrust a note into his hand before the press conference—just like a shopping list, clucked Irina—on which were scrawled four points, the fourth blazoned with a big red arrow. He had put it in his briefcase after a skim-read of it, and now had to work it out publicly with everyone listening. Uncharacteristically, the swaggerer began to stammer. “We have decided today ...um...to implement a regulation that allows every citizen of the German Democratic Republic...um...to...um...leave East Germany by any of the border crossings.”

The question came: “When?” And he answered, scratching his head and shuffling papers, “Sofort”. Immediately.

He was wrong on the facts: there was meant to be a delay until 4am the next day, so that the border guards could be alerted. But in any case he did not mean “immediately” in the Western sense. This was East Germany. Everything worked in a slow, grinding, disciplined way. On the cheerless public stairways of his apartment building, overlooking both the Wall and the ruins of Hitler's bunker, a notice ordered everyone to stick to the cleaning rota “or organise your own replacement”. People wishing to leave would obey the rules, forming a queue at the appropriate state agency with their blue identity cards to get their new visas stamped. This was what he anticipated; not what actually happened, which was a stampede of reporters out of the room and East Berliners, with hammers, to the Wall. And that was that, he instantly knew, for East Germany.

The rest of the Politburo thought he might be a Western agent, and soon expelled him from the party. He said it was just a cock-up, but one that had released the inevitable, in his own head as well as on the streets. East Germany didn't work; its system was inhuman, its economics rubbish; the experiment had failed. And he later unstintingly accepted moral responsibility for the deaths of East Germans at the Wall, serving time in jail and eating loudly and endlessly the “sour apple” of remorse.

On the night of November 9th he went to the border crossing at Bornholmer Strasse, the first to open. For once he was unnoticed. Honecker's hundred-year Wall was being merrily smashed down. Among the jubilant crowds, some in their night-clothes, vodka was being passed round with chunks of the Wall replacing ice; shards of it were flying through the air. And the thought must have crossed the mind of *das grosse Maul*, even if, for once, unspoken: Did I do this? ■



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