The Economist

MAY 16TH–22ND 2015 Economist.com

Paternity leave: why everyone wins

China's misguided grain obsession

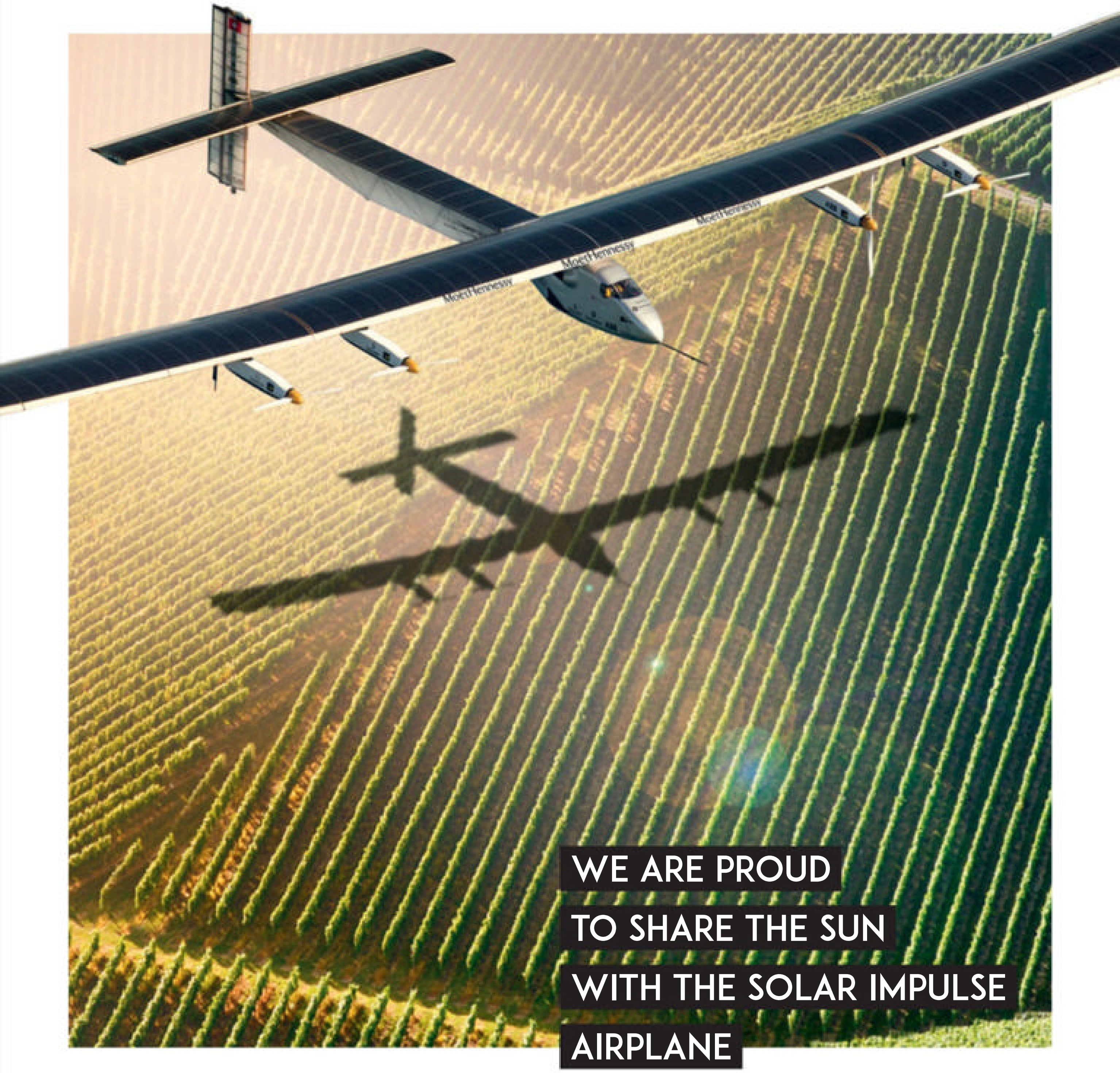
Britain and Europe: the next chapter

How to get a job at McKinsey

Limp handshake—start worrying

The great distortion

A dangerous flaw at the heart of the world economy



We are proud to be official partner of Solar Impulse, the first sun-powered airplane to attempt a round-the-world tour. As the luxury wines and spirits company, we share with the team of pilots, Bertrand Piccard and André Borschberg, the same taste for challenges and noble adventures, spirit of conquest and respect for the magnificent heritage nature has provided us.
Let's celebrate sustainability!

solarimpulse.moethennessy.com @MoetHennessy_SI

SOLARIMPULSE
AROUND THE WORLD IN A SOLAR AIRPLANE

MoëtHennessy
OFFICIAL PARTNER

Contents

On the cover
The subsidies that make borrowing irresistible need to be phased out: leader, page 9. Most Western economies sweeten the cost of borrowing. That is a bad idea, pages 19-22. A new proposal seeks to make banks' debts safe for taxpayers: Free exchange, page 70

***The Economist* online**

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

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

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

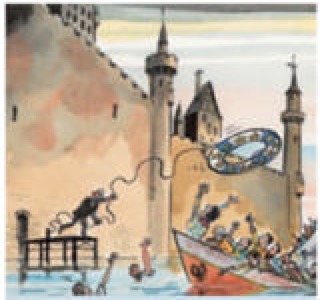
Audio edition: available online to download each Friday
Economist.com/audioedition

The Economist

Volume 415 Number 8938

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

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



Britain and Europe Winning a referendum to keep Britain in Europe should be the start of reform, not the end: leader, page 10. Emboldened and strengthened by his electoral triumph, David Cameron sets out to finish what he began a decade ago, page 50. A plan to tackle the EU migration crisis is woefully inadequate: leader, page 14 and Charlemagne, page 49

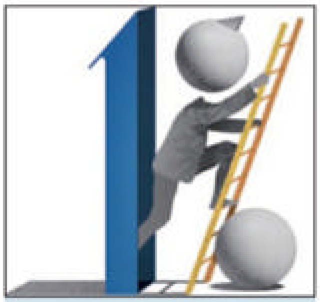
Farming in China A drive for self-sufficiency in food comes at a growing cost, page 39. As others cut farm support, China spends more, page 40

Paternity leave Both parents should spend time at home with their babies: leader, page 13. Men have long been discouraged from playing an equal role at home. This is starting to change, page 53. Children whose fathers take even short spells of paternity leave do better, page 54

▸▸ Contents continues overleaf

Cuba The transformation of the economy needs to happen much faster: leader, page 10. Despite the thaw with the United States, politics is paralysing the process of economic reform, page 31. The trickiest task is to unify exchange rates that are miles apart, page 32

Venture capital An industry that specialises in spotting potential insurgents faces some of its own, page 63



How to get a top job A book on the persistence of elites is an unexpected guide to getting a good job: Schumpeter, page 61. As more firms have set up their own "corporate universities", they have become less willing to pay for their managers to go to business school, page 55

Handshakes and death The strength of your handshake predicts the length of your life, page 74

Subscription service

For our latest subscription offers, visit
Economist.com/offers
For subscription service, please contact by telephone, fax, web or mail at the details provided below:

Telephone: **1 800 456 6086** (from outside the US and Canada, **1 636 449 5702**)
Facsimile: **1 866 856 8075** (from outside the US and Canada, **1 636 449 5703**)
Web: **Economistsubs.com**
E-mail: **customerhelp@economist.com**
Post: **The Economist Subscription Services, P.O. Box 46978, St. Louis, MO 63146-6978, USA**

Subscription for 1 year (51 issues)

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

Principal commercial offices:
25 St James's Street, London SW1A 1HG
Tel: 020 7830 7000

Rue de l'Athénée 32
1206 Geneva, Switzerland
Tel: 41 22 566 2470

750 3rd Avenue, 5th Floor, New York, NY 10017
Tel: 1 212 541 0500

60/F Central Plaza
18 Harbour Road, Wanchai, Hong Kong
Tel: 852 2585 3888

Other commercial offices:
Chicago, Dubai, Frankfurt, Los Angeles, Paris, San Francisco and Singapore

PEFC/29-31-58

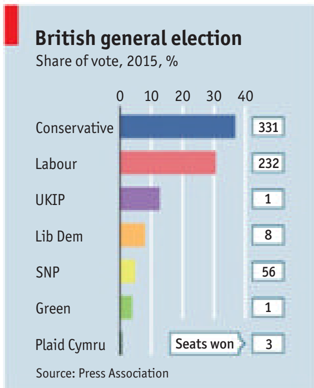
PEFC certified

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

© 2015 The Economist Newspaper Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Newspaper Limited. *The Economist* (ISSN 0013-0613) is published every week, except for a year-end double issue, by The Economist Newspaper Limited, 750 3rd Avenue, 5th Floor, New York, N Y 10017. *The Economist* is a registered trademark of The Economist Newspaper Limited. Periodicals postage paid at New York, NY and additional mailing offices. **Postmaster**: Send address changes to The Economist, P.O. Box 46978, St. Louis , MO. 63146-6978, USA. Canada Post publications mail (Canadian distribution) sales agreement no. 40012331. Return undeliverable Canadian addresses to The Economist, PO Box 7258 STN A, Toronto, ON M5W 1X9. GST R123236267. Printed by Quad/Graphics, Saratoga Springs, NY 12866


Billions of dollars in technology to combat the most mind-boggling conundrum of all: flats vs. pumps.
UPS for e-commerce. Online shoppers know they have plenty of options. Try it on. Don't like it. Send it back. Repeat. And with 67% of online shoppers* more likely to buy from a business that has a good returns policy, more and more retailers are relying on UPS to manage it all. We offer everything from simple online tools that streamline your returns to off-site warehouses that manage exchanges for online retailers around the country. And with easier returns, your customers will keep coming back. From figuring it out to getting it done, we're here to help. ups.com/solvers
ups united problem solvers™
*UPS Pulse of the Online Shopper™ Survey
Copyright ©2015 United Parcel Service of America, Inc.

Politics



David Cameron appointed a cabinet, after the Conservative Party confounded the pollsters by winning a small majority in **Britain's** election, a landmark event that has reshaped the country's political landscape. The Liberal Democrats, which had governed in coalition with the Tories over the past five years, saw their vote collapse, returning just eight MPs. The main opposition Labour Party did not do as well as had been predicted and was virtually wiped out in Scotland by a resurgent Scottish National Party. Scotland's demands and a referendum on EU membership will feature large in Mr Cameron's second term.

Ed Miliband resigned as Labour **leader** after the election, as did Nick Clegg as leader of the Lib Dems. Nigel Farage promised to step down as leader of the UK Independence Party, which came third in the popular vote, when he failed to win a seat. But his party asked him to stay on.

The European Commission outlined a plan that would allow 20,000 **refugees** to resettle across Europe. As Italy struggles to cope with an influx of people arriving by boat from north Africa, the commission also proposed an arrangement to share out asylum-seekers. More than 60,000 have tried to make the crossing so far this year alone.

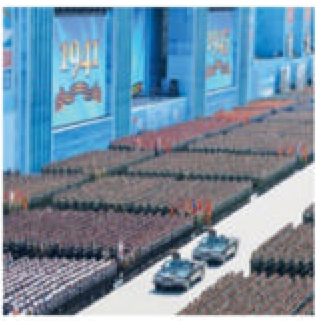
Greece came close to running out of cash. Yanis Varoufakis, the finance minister, said the country's liquidity situation is "terribly urgent…we are talking about the next couple of weeks." On the same day, he raided Greece's holding account at the IMF to repay a €750m ($844m) loan instalment owed to the fund itself. The Greek economy, meanwhile, fell back into recession.

At least 22 people died in **Macedonia** when security forces carried out an operation near the border with Kosovo against an ethnic-Albanian group that the government described as terrorists.

Don't nod off

South Korea's intelligence service said that the defence minister of **North Korea** had been executed—by anti-aircraft fire—for falling asleep in a meeting attended by the North's leader, Kim Jong Un, and for disobeying Mr Kim's orders. Recently the South's spooks have reported several executions of North Korean officials. Their past claims have not always been correct.

China declared that September 3rd would be a holiday to mark the 70th anniversary of Japan's surrender at the end of the **second world war**. The country is also expected to hold a military parade in Beijing that day, the first in the capital since President Xi Jinping came to power.



Mr Xi attended a parade held in **Moscow** on May 9th to celebrate Russia's defeat of German forces during the war. Western leaders stayed away.

India's prime minister, Narendra Modi, began a three-day visit to **China**. Relations between the two countries have long been strained by territorial disputes along their border, as well as by China's support for Pakistan, but China appears eager to draw India closer.

In **Pakistan**, gunmen on motorcycles attacked a bus carrying Ismailis, a minority Shia branch, in Karachi. At least 45 were killed.

A third liberal blogger was hacked to death in **Bangladesh**. Ananta Bijoy Das, an atheist, was attacked by four men with meat cleavers.

Cabinet maker

After sacking her entire cabinet (with the exception of the foreign minister), **Chile's** president, Michelle Bachelet, named a new one. Business cheered the appointment of a new finance minister, Rodrigo Valdés, to replace one who had backed a controversial tax reform. Ms Bachelet has shaken up the cabinet to improve her standing in public-opinion polls.

François Hollande became the first French president to visit **Cuba**. He met the leader of the Cuban revolution, Fidel Castro, and his brother, Raúl, the current president. Cuba has been a popular destination for foreign politicians since December, when Barack Obama and Raúl Castro announced they would move towards normalising relations.

While the president's gone

A coup attempt took place in **Burundi**, where violent protests had been getting bloodier after President Pierre Nkurunziza insisted on bidding for a constitutionally questionable third term in office. He was out of the country. Loyal and rebel generals are contesting control of the capital.

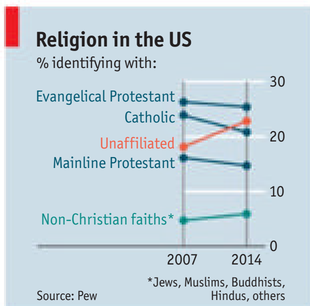
A five-day ceasefire, to allow for the delivery of humanitarian aid, began in **Yemen**, where a Saudi-led coalition is hitting Houthi rebel forces that have driven out the internationally recognised government. Though there were some reports of violations by both sides, it was for the most part holding.

At least 28 towns and villages in **South Sudan's** oil-producing Unity state have been attacked in the past few weeks, according to the UN, with numerous atrocities carried out against civilians. Fighting between forces loyal to President Salva Kiir and rebels allied to his former deputy, Riek Machar, has recently intensified.

Barack Obama held a meeting of the six Gulf Co-operation Council members in Washington and at Camp David, to address concerns about the deal on **Iran's** nuclear weapons currently being negotiated. But only two of the six rulers attended; the rest, including King Salman of Saudi Arabia, sent representatives in what some saw as a snub.

The long way to TPA

Republicans in the Senate pressed ahead with another vote to grant the president **Trade Promotion Authority** to speed the process of trade agreements, after an earlier vote failed to break a filibuster. The White House insists the measure is needed to complete the Trans-Pacific Partnership with 11 other Pacific Rim countries that is under negotiation.



A study by the Pew Research Centre found that the number of Americans describing themselves as **Christian** dropped sharply from 78.4% of the adult population in 2007 to 70.6% last year, and that those who said they were "unaffiliated" with a religion rose to 22.8%. The fall in Christian identifiers was spread among all demographic groups but particularly marked among those born since 1990. Only 56% in that cohort identified as Christian; 36% had no affiliation.

Business

In another deal that underlines the rapid shift to mobile media, **Verizon** agreed to pay $4.4 billion for **AOL**, a once-pioneering internet company. AOL is still at the forefront of mobile video and advertising, specialities that Verizon will tap to speed the launch of its own mobile-video service. AOL also owns the *Huffington Post*, *Engadget*, *TechCrunch* and other online media brands.

Friends and frenemies

Embraced by some in the media industry as an exciting innovation and decried by others as the death knell of quality journalism, **Facebook** launched a feature that publishes news articles directly to its site. The nine media companies that are initially working with Facebook can either sell adverts themselves, or let the social network place ads for them for a 30% cut.

Carlsberg reported a quarterly loss, as revenue declined by 30% in eastern Europe. The Danish brewer has taken a pounding from the effect of sanctions and a volatile rouble in Russia, one of its biggest markets. Still, the departing chief executive, Jorgen Buhl Rasmussen, insists that Carlsberg will stay in Russia to be ready for when the market rebounds.

After a lengthy campaign, an attempt by Nelson Peltz, an **activist investor**, to install a slate of directors at DuPont, a chemical company, was defeated by shareholders at the annual meeting. It is rare for an activist's schemes to go all the way to a shareholders' vote; many companies concede at least some demands before it gets that far.

Airbus resumed test flights of its **A400M** military transport aircraft, two days after one of the jets crashed after taking off from Seville airport in Spain, killing four of the six crew. Spain suspended its orders and Britain, Germany and others halted test flights of their A400Ms pending more information about the crash.

Syngenta, based in Switzerland and the world's biggest producer of pesticides and other crop chemicals, rejected a $45 billion takeover offer from **Monsanto**. The American agribusiness giant wants to add Syngenta's know-how to its lucrative seeds portfolio, though any eventual deal is likely to run into opposition from food-policy activists.

Environmentalists marshalled their forces in Seattle as **Royal Dutch Shell** prepared to move drill rigs to the city's port in advance of its exploration of Arctic waters off the Alaskan coast. After a years-long process, this week the Obama administration gave Shell approval to drill in the remote seas, to the outrage of greens. The government may have been persuaded by the fact that Shell will operate during the summer and in shallow waters, a less risky prospect than BP's Deepwater Horizon project in the Gulf of Mexico.

Noble Energy bought Rosetta Resources in a deal worth around $3.9 billion. It is the first significant takeover in America's **shale-oil industry** since the collapse of the oil price that has shaken the industry. More consolidation is expected.

A bitter bill to swallow

A study carried out by Express Scripts, a "pharmacy-benefit manager" that negotiates prices between drug companies and health insurers, found that the number of Americans with annual **prescription costs** above $50,000 had risen by 63% in 2014, to 576,000. The number whose costs were over $100,000 trebled, to 139,000. Patients are being prescribed ever more complex combinations of drugs to treat multiple conditions, but medications for hepatitis C and cancer explain a good deal of the surge in costs.

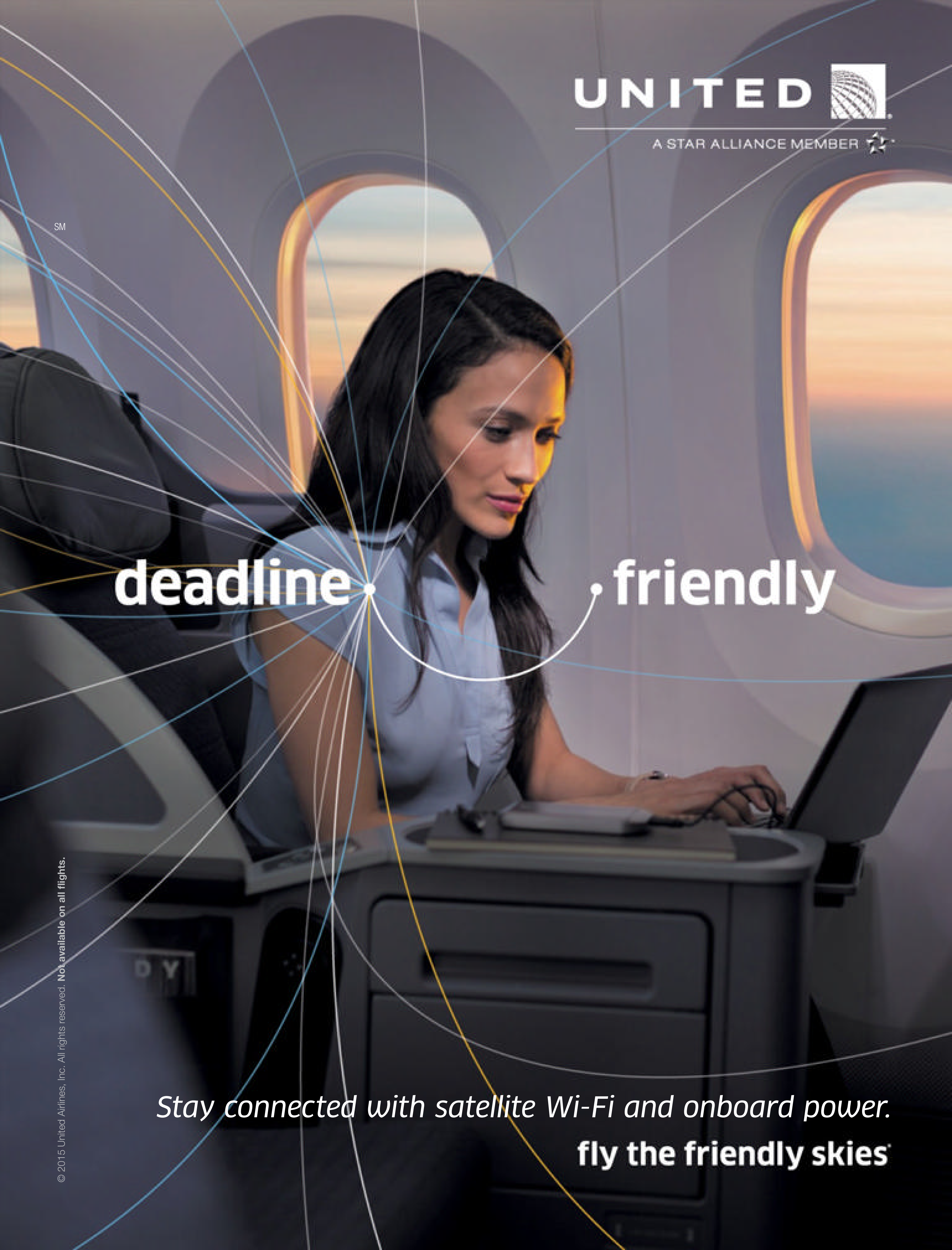
China's central bank reduced its main interest rate by a quarter of one percentage point, the third cut in six months. This came ahead of the release of more data indicating that the economy is decelerating at a faster rate than had been thought. In April China's money supply grew at the slowest rate on record; fixed-asset investment rose by 12% in January to April, the most languid pace since late 2000.

Despite a slowdown in Germany, the **euro zone** managed to chalk up growth of 0.4% in the first three months of the year compared with the fourth quarter of 2014, the fastest rate in nearly two years. The Italian and French economies expanded by more than had been expected, but the shining star was Spain, which grew by 0.9%, its best performance in nearly eight years.

Spoiling the party

Meanwhile, a few days after the Conservatives won a thumping election victory, the **Bank of England** lowered its forecast for GDP growth in Britain this year to 2.5%, from a previous projection of 2.9%. With inflation expected to remain close to zero until later this year, the consensus about when the central bank might raise interest rates has moved to the middle of 2016.

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


UNITED
A STAR ALLIANCE MEMBER
SM
deadline friendly
Stay connected with satellite Wi-Fi and onboard power.
fly the friendly skies
© 2015 United Airlines, Inc. All rights reserved. Not available on all flights.

The great distortion

Subsidies that make borrowing irresistible need to be phased out

THE way that black holes bend light's path through space cannot be smoothed out by human ingenuity. By contrast, a vast distortion in the world economy is wholly man-made. It is the subsidy that governments give to debt. Half the rich world's governments allow their citizens to deduct the interest payments on mortgages from their taxable income; almost all countries allow firms to write off payments on their borrowing against taxable earnings. It sounds prosaic, but the cost—and the harm—is immense.

In 2007, before the financial crisis led to the slashing of interest rates, the annual value of the forgone tax revenues in Europe was around 3% of GDP—or $510 billion—and in America almost 5% of GDP—or $725 billion (see pages 19-22). That means governments on both sides of the Atlantic were spending more on cheapening the cost of debt than on defence. Even today, with interest rates close to zero, America's debt subsidies cost the federal government over 2% of GDP—as much as it spends on all its policies to help the poor.

This hardly begins to capture the full damage, which is aggravated by the behaviour the tax breaks encourage. People borrow more to buy property than they otherwise would, raising house prices and encouraging over-investment in real estate instead of in assets that create wealth. The tax benefits are largely reaped by the rich, worsening inequality. Corporate financial decisions are motivated by maximising the tax relief on debt instead of the needs of the underlying business.

Debt has many wonderful qualities—allowing firms to invest and individuals to benefit today from tomorrow's income. But the tax subsidies have tilted the economy in a woeful direction. They have created a financial system that is prone to crises and biased against productive investment; they have reduced economic growth and worsened inequality. They are a man-made distortion and they need to be fixed.

Debt and taxes, life's certainties

Start with the fragility. Economies biased towards debt are more prone to crises, because debt imposes a rigid obligation to repay on vulnerable borrowers, whereas equity is expressly designed to spread losses onto investors. Firms without significant equity buffers are more likely to go broke, banks more likely to topple (see page 70). The dotcom crash in 2000-02 caused losses to shareholders worth $4 trillion and a mild recession. Leveraged global banks notched up losses of $2 trillion in 2007-10 and the world economy imploded. Financial regulators have already gone some way to redressing the balance from debt by forcing the banks to fund themselves with more equity. But the bias remains—in large part because of the subsidy for debt. Under a more neutral tax system, firms would sell more equity and carry less debt. Investors would have to get used to greater volatility; but as equity buffers got thicker, shareholders would be taking less risk.

A neutral tax system would also lead to more efficient choices by savers and lenders. Today 60% of bank lending in rich countries is for mortgages. Without a tax break, people would borrow less to buy houses and banks would lend less against property. Investment in new ideas and businesses that enhance productivity would become relatively more attractive, in turn boosting economic growth.

Removing the advantages that debt enjoys would also lead to a fairer system. Relief on mortgage payments is a subsidy that flows to people who need it least: studies show that the richest 20% of American households by income gain the most. Mortgages would become costlier. But new instruments would emerge to allow individuals to bridge the gap between current savings and future income that debt alone now closes—for example, shared-equity mortgages that divide the gains and losses from house-price movements between banks and homeowners.

Lenders and borrowers

If the arguments for getting rid of the debt distortion are overwhelming, the path to its elimination could hardly be more rocky. Politicians do not much like changes that will lower house prices. There is a big co-ordination problem: tax is a matter for national governments, and few countries will be prepared unilaterally to withdraw subsidies that might make them less appealing to footloose companies. In addition, vested interests will bleat loudly. Businesses that depend heavily on debt—banks, private-equity firms and the like—will be ready to spend some of the billions they gain from the tax subsidy on lobbying to defend it.

This argues for a staged approach. The place to start is the subsidies on residential mortgages. Not only do these subsidies increase financial fragility, they fail to achieve their purported goal of promoting home-ownership. The shares of people owning their own homes in America and Switzerland, two countries with vast subsidies, are 65% and 44% respectively—no more than in other advanced economies like Britain and Canada that offer no tax break. The wisest step would be to phase out tax relief gradually, as Britain did in the 1990s.

Getting rid of the tax breaks for corporate debt will be harder. The few countries that have tried to level the playing field have done so by giving an equivalent handout to equity. Belgium and Italy, for instance, give dividend payments and profits flowing to equity holders some of the same perks enjoyed by interest payments. But such systems are fiddly and lower a country's tax base at a time when governments need money.

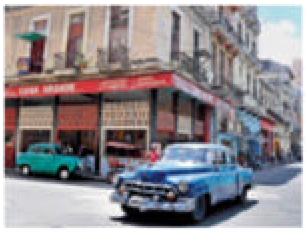
The best approach is gradually to phase out tax breaks for debt at the same time as lowering the corporate-tax rate. That would make the policy revenue-neutral, and would also defuse the risk to governments who want to push ahead but fear losing a war waged on tax competition.

Acting in concert or alone, countries should act soon. When interest rates are low, as now, the sweeteners for debt are smaller and thus easier to remove. When rates rise—as, inevitably, they will—the subsidy will become more valuable. This is the moment to tackle the great debt distortion. There may never be a better chance. ■

Reforming Cuba

Be more libre

The transformation of the economy needs to happen much faster



IT HAS been five months since Cuba and the United States announced that they would end their long cold war, but Cuba's president, Raúl Castro, is still basking in the afterglow. On his way home from Russia this week he stopped off at the Vatican to see the pope, and said he might return to the Catholic faith. Later François Hollande paid the first-ever visit to Cuba by a French president; he was granted an audience with Fidel Castro, Raúl's ailing brother, who led the revolution in 1959 and ruled until 2008.

But beneath the bonhomie lies unease. Cuba's creaky revolutionaries spent half a century blaming the American embargo for all the island's woes. Now they resist American capitalism for fear of being overrun. The result for most ordinary Cubans is not too much change but too little (see page 31). The island is poorer than many of its neighbours. Doctors earn just $60 a month—after a 150% pay rise. Food and other basics are in short supply. Boat people still flee to Florida's shores.

Cuba deserves a proper democracy and a robust market-based economy. Sadly, that is unlikely to happen soon. Some things are changing. Private guesthouses, restaurants, barber shops and the like have begun to flourish, creating the kernel of an entrepreneurial middle class. But if Cubans are to benefit from the opening with America, their rulers need to reform more boldly and quickly than they have done so far.

A cocktail of reform

Where to start? Cuba should begin by opening up many more sectors to private enterprise. Currently, Cubans can be "self-employed" in 201 activities (including reading Tarot cards), but few that require a university degree. In place of a "positive list" of permitted private activities, the government should publish a negative one that reserves just a few for the state. All others would then be open to private initiative, including professions such as architecture, medicine, education and the law. The new bourgeois are potential customers for professional services; catering to that demand would in turn expand the middle class.

Liberalisation is urgent in wholesale markets. Today enterprises such as restaurants are forced to buy supplies from state-run supermarkets where ordinary people shop, which exacerbates shortages. This undermines popular support for the emerging private sector.

The climate for foreign investment must also improve. Cuba woos foreign investors for the expertise, jobs and currency they bring, but treats them shabbily. Under a supposedly friendly new law, they must still recruit workers through state agencies, to which they pay hard currency; the agencies then pay out miserly salaries in pesos. Imported inputs pass through bureaucratic state-run enterprises. Worst of all, legal codes are vague and their application is arbitrary. In recent years several foreign businessmen have been imprisoned (and later released) with little explanation.

How much of this thicket Mr Castro is prepared to clear away is uncertain. The party's leadership has hinted that its congress would strengthen the National Assembly, a rubber-stamp body. A proper legislature that could write laws would give security to enterprise. Cuba is also bracing for a painful currency unification, which will end a huge subsidy to state companies (see page 32).

For many of the revolution's ageing leaders reform and privatisation are *yanqui*-inspired dirty words. The regime looks to China and Vietnam, where communist governments have embraced capitalism without yielding power. The Cuban communists are wary: they fear that, if they give up too much economic control, they will be obliterated just like the communists of eastern Europe. Yet the bigger risk would be merely to tinker with a system that keeps Cubans poor at a time when their aspirations are rising. ■

Britain and Europe

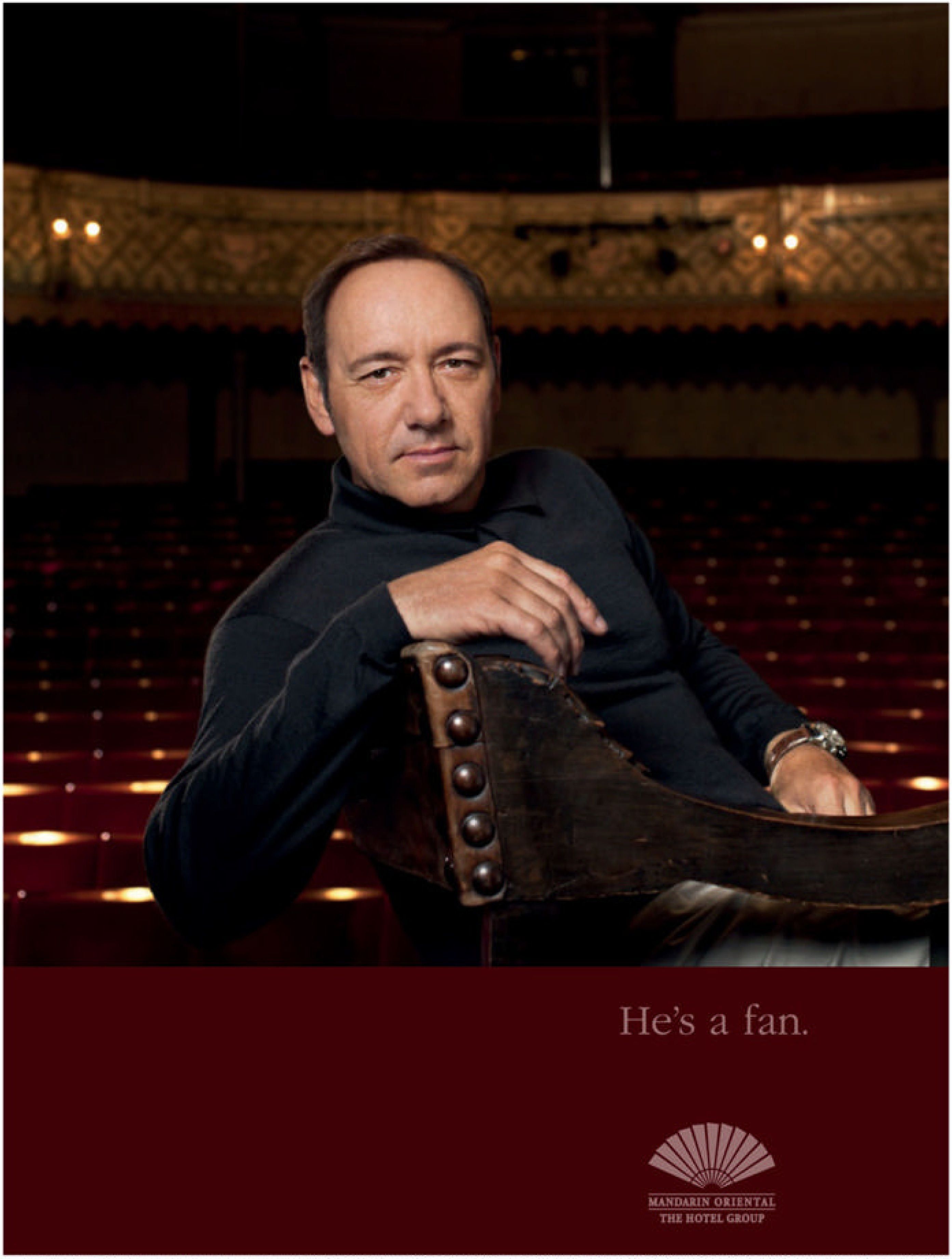
Sweat the big stuff

Winning a referendum to keep Britain in Europe should be the start of reform, not the end

ALMOST two and a half years ago Britain's prime minister, David Cameron, sought to pacify Tory Eurosceptics and keep the insurgent UK Independence Party at bay by promising an in-out referendum by the end of 2017 on membership of the European Union. It worked. The election on May 7th barely featured Britain's vexed relations with the EU. UKIP won a single seat; Mr Cameron an astonishing (if small) majority. Now the bill falls due.

The referendum is winnable. Over the next year or so Mr Cameron and his chancellor, George Osborne, can probably extract enough from their partners to persuade Britons to vote to stay in. Yet that victory must be just a first step. The real agenda—the one that matters to Britain's prosperity and to the EU as a whole—will take longer to bear fruit. It will also demand a more sustained effort than Mr Cameron has so far shown.

As the economy and Scottish secession threatened to wreck Mr Cameron's first term, so Europe looms over his second. No issue riles his party like the EU, on which opinions range from



To find out why Kevin Spacey is a fan visit mandarinoriental.com ATLANTA • BANGKOK • BARCELONA • BODRUM • BOSTON • GENEVA • GUANGZHOU • HONG KONG • JAKARTA • KUALA LUMPUR • LAS VEGAS LONDON • MACAU • MARRAKECH • MIAMI • MILAN • MUNICH • NEW YORK • PARIS • PRAGUE • SANYA • SHANGHAI • SINGAPORE • TAIPEI • TOKYO • WASHINGTON D.C.
For information on Kevin's mission go to: KevinSpaceyFoundation.com

DO YOU REALLY KNOW YOUR CUSTOMERS?

Our clients do. Through our world-class data-driven marketing and loyalty analytics, they consistently deliver relevant, timely customer experiences that build mutually rewarding long-term relationships.

Join us and harness the power of customer data to make your business more personal.

Contact us directly
customer-loyalty.na@aimia.com

Learn more
aimia.com

AIMIA
INSPIRING LOYALTY

© 2015 Aimia Inc. All Rights Reserved.

sceptical to head-bangingly furious. If Britain votes to leave the union, it will also end up outside the European Economic Area, the world's largest trade bloc, which is governed by EU-set rules: a country which concludes that EU membership is an unreasonable infringement of its sovereignty would surely balk at taking orders from the club it has just voted to leave. Foreign investors would put their money elsewhere. Scotland might well vote to break away from the United Kingdom.

Time to talk dindon

Much energy will be expended telling Mr Cameron how to win the referendum. Tactics change, but even now it makes little sense for him to wait until 2017. By then Britain's government may well be in a mid-term funk, and both France and Germany will be holding elections and less likely to give ground. Besides, a long period of uncertainty would be bad for business. The prime minister should also stop promising to amend the EU's treaties before 2017, as though this were a yardstick for measuring his seriousness: there is neither the time for that nor the willingness in Europe to enter into what would be an arduous procedure. He could limit himself to scoring some populist victories, such as limiting immigrants' access to welfare and making it clear that the EU's formal commitment to "ever-closer union" does not apply to Britain.

Yet, even if they sway a few voters, such changes are ultimately trivial. And the problem with trying to deal with populist gripes is that another one is always just around the corner. The Tory party has been plagued by divisions on Europe for decades. Partly because of that, Britain has recently failed to get the best deal for itself in Brussels. Mr Cameron should really be aiming beyond the referendum, to long-term reforms that would benefit the EU as well as its most irascible member.

That larger task entails work on three things. First is the single market. The bosses of Britain's successful services firms complain of obstructions on the continent. Only 37% of British services exports go to the EU, compared with 49% of goods exports; as the economy tilts towards services, the EU seems less worthwhile. Completing the single market in services will take longer than a year or two. But it is vital to set the direction of travel. Others expect Britain to lead on this and would welcome its efforts: Britain largely created the single market, back when it was seen not as too detached but as too influential.

In the same vein, Mr Cameron should back the efforts of Frans Timmermans, the vice-president of the European Commission, who is working to cut business regulations and transfer powers to national parliaments. By the time of the referendum, Mr Cameron ought to be able to claim some successes. If he continues after it, he could chalk up many more.

And all European leaders, Mr Cameron included, need to answer the question of how the EU will function now that most of its members, but not Britain and eight others, share a currency. Ways must be found to prevent caucusing—the stitch-up of negotiations in advance by euro-zone economies which have enough votes to force through decisions without the say of non-euro countries: a recipe for the EU's break-up. Europe's banking union shows that the euro zone can come up with institutions that do not threaten other countries. Now, before caucusing has begun, is the best time to find rules that prevent it.

Mr Cameron can get things done in Europe. His surprise election victory makes him seem stronger: at the least, other leaders know they must deal with this glossy Englishman and his referendum. It also makes him more resilient against domestic political attack (for a bit, anyway).

But his success also depends upon an inconvenient fact. More single market requires much more EU regulation. And Britain can only extend the market if it becomes a fully committed partner of the club rather than an absentee member. ■

Parental leave

More hands to rock the cradle

Both parents should be paid to spend time at home with their babies

"IN AMERICA there is nothing we wouldn't do for moms—apart from one major thing," said John Oliver, a British-born comedian, in his television show, "Last Week Tonight", on May 10th (Mother's Day). The "major thing" he was speaking of is paid maternity leave, which, as he pointed out, is standard in all but two of 185 countries surveyed by the International Labour Organisation (ILO): America and Papua New Guinea. In America some women who work for the federal government or larger firms can take 12 weeks' leave unpaid after giving birth. In a handful of states new mothers get a few weeks at a low wage, funded by a payroll tax. By contrast, in Britain new mothers can take a year off, and during much of it part of their salary is replaced by the government. Sweden grants more than a year's paid maternity leave—even to women who were not previously employed.

America would do well to take note. Many countries are proud of their maternity leave, and rightly so: the social and economic benefits of making it possible for working mothers to spend time with their newborn children are clear. But many of those countries have failed to follow the argument through to its conclusion. The gains from maternity leave would be multiplied if countries extended it to apply to fathers, too.

Mothers who struggle to combine work with child care often sacrifice work. That lowers their lifetime earnings and leaves them and their children more likely to end up poor. Much of Europe introduced paid maternity leave in the 1970s. Since then dozens of other countries have found that giving new mothers a reasonable amount of time off work—the ILO recommends at least 14 weeks—increases women's participation in the labour force.

The Papas and the Mamas

But there are problems. Overly generous provision sometimes harms women, rather than helping them. Those who take long spells off work see their skills grow rusty and fail to gain experience and promotions. And although gender discrimination at work is illegal almost everywhere, some employers still avoid hiring women they think will be away a lot.

Paid paternity leave can help. Nearly half the world's countries now offer new fathers short periods at home; a growing number let mothers cede some maternity leave to their partners while they go back to work. Several European countries have started to reserve some of that leave for fathers to encourage them to make use of the opportunity: in Sweden couples get an "equality bonus" for splitting their time off more evenly.

Fathers and offspring benefit. When a woman hands her baby to the father and heads out of the door to work, he learns how to be a better parent. The hands-on habits he picks up persist: fathers who take even short paternity leave play a bigger role in child-rearing years later. An international study found that they were more likely to brush their toddlers' teeth, feed them and read to them. Babies whose fathers take paternity leave go on to do better in cognitive tests at school. Fathers are generally keen on their progeny, so some time to bond with them is a boon. Some men who thought that child care would not be much fun discover that they rather like it.

Mothers are big winners, too. If both sexes are likely to take time off for child care, there is less temptation for employers to discriminate against women. Time-use studies show that even when both parents work the same amount, the mother usually does more child care and housework. More hands-on fathering should cut down on this "second shift", which is a big reason why many mothers work part-time or in jobs for which they are overqualified.

That leads to gains for society as a whole. Few young women these days expect to have to choose between motherhood and work. In most countries they are now better educated than their male peers, which suggests that careers figure prominently in their plans—and makes losing them from the workforce an even bigger waste. Parental leave that is generous, but not too generous, is essential if mothers are not to be forced out of work by lack of support, or eased out by a surfeit of it. And ensuring that fathers take a share of it minimises the risks and amplifies the gains. ■

Refugees

The hard journey

Europe's plan to cope with maritime refugees needs to go further

THE gulf between sentiment and action is as wide as the Mediterranean itself. On May 13th the European Commission issued its plan for dealing with immigration, including the multitude who take to boats on the shores of north Africa in the hope of reaching asylum on European Union soil—or, more likely, of being plucked from the waves by a passing vessel. The report's authors clearly lament the shameful drowning of thousands of migrants, left to their fate because of cuts in marine patrols that were deemed to be picking up too many people. Nevertheless, the commission's ideas on what to do fall lamentably short.

A nut to crush a sledgehammer

War in the Middle East, oppression in Africa and the ubiquitous human desire for a better life: all have played their part in causing a surge of migration into the EU. The fighting in Syria alone has crammed 4m fugitives into refugee camps in Lebanon, Turkey and Jordan. The tide is hardly about to dry up.

Not all of these people can find a new life in Europe. The UN convention is clear that refugees automatically qualify once they reach the EU, because they need protection. By contrast, economic migrants do not. A country picks its economic migrants and deports those it does not want.

That is the theory. The reality is a tide of human misery. Traffickers charge thousands of dollars, and rob and rape their customers. Refugees and economic migrants are mixed in together, so those that survive the sea journey are cooped up in camps to be sorted. Fewer than 40% of those who fail to gain asylum are ever deported. Some countries, like Sweden and Germany, accept a lot of refugees, many others, including Britain, are grudging. There was international outrage after more than 1,000 people drowned in a few days in the Mediterranean in April (see Charlemagne). This week's report is supposed to ensure that such a catastrophe never happens again.

Some of its recommendations were expected. It suggests, for instance, that the budget for maritime patrols should triple, that the EU should take on the traffickers by force, and that countries must accelerate the sorting of refugees from economic migrants. Others go further. Refugees are now the responsibility of the country where they land. The commission rightly wants EU countries to share the burden according to their capacity, going by GDP, population, unemployment and how many they have taken in the past.

Compared with Thailand and Indonesia, the plan is a model of compassion. Those countries are callously pushing boat people from Myanmar and Bangladesh back out to sea (see page 34). Yet the EU's plan fails in two ways. One is that the scale of the effort is unequal to the task. The traffickers will not be stopped. Development assistance of a few hundred million euros will not prevent economic migrants setting out. Too little aid is going to countries that host the vast majority of Syria's refugees. The commission calls for the EU to take in a total of 20,000 refugees who are still in third countries—the UN says the EU should take in 20,000 a year. The other is that the plan is sure to be watered down. Britain, unlike Ireland, has refused to share the burden—which, thanks to a long-standing waiver, it is legally allowed to do, even if that course is morally reprehensible. When the plan is debated in June other countries will also seek to wriggle out of their responsibilities.

The only way to keep migrants off the Mediterranean is to set up camps in north Africa that can take in people rescued at sea and sort through asylum applicants. Getting it right will be hard. North African countries will need money to host them. The processing must be fair and fast. Economic migrants can be sent home. But the one thing EU countries cannot avoid is taking in more refugees. ■

IBM Verse:
Get out of your inbox and get on with your day.
There's a new way to get more done. Powered by analytics to uncover patterns in your email, calendar and social networks, IBM Verse learns how you work and helps you prioritize your day. Get the most out of your day at ibm.com/madewithibm
Smarter communication is made with IBM.
IBM and Smarter Planet and their logos, ibm.com and made with IBM are trademarks of International Business Machines Corp., registered in many jurisdictions worldwide. See current list at ibm.com/trademark. ©International Business Machines Corp. 2015.

The Russian experience

Like many Russian citizens, I have a problem with your highly biased piece on the great patriotic war ("Great patriotic war, again", May 2nd). You overlook the fact that the second world war was critical in moulding our national identity, pretty much as the first world war was for Britain. Notwithstanding ideology or regime, Russia, as at the time of Napoleon, was doomed by history to pay dearly for another total failure of European politics. The 1938 Munich agreement and the 1940 phoney war showed that Moscow could rely on the word of Paris and London no more than Warsaw could.

The vastness of our sacrifice and the fact that nobody else was capable of stopping and destroying the German war machine; that experience transcends everything else. We should remember that the possibility of us having our present debate was paid for with the blood of the Soviet people, including Russians. Yet the war also established an intimate brotherhood between us and our allies, such as Britain. This brotherhood is forever, and the sentiment is kept alive not only by us, but by British veterans, in particular those who went to sea on the Arctic convoys.

What is happening in Ukraine has a lot to do with history. It was nationalistic and repressive regimes, like the one taking shape in Ukraine with Western acquiescence, that brought about the war. Those who back the authorities in Kiev today take up the cause of the nationalists. No wonder that the Ukraine crisis is viewed in Russia as the unfinished business of the war.

State sovereignty is no carte blanche to suppress one's own citizens. There is a huge gap between the policies of the authorities in Kiev, such as imposing their historical narrative on the entire population, and perceived European values or the ideals of Maidan.

A more statesmanlike response by the West to Vladimir Putin would account for the fact that the events of 1989-91 were an enormous humiliation for many Russians, for whom the Soviet Union's world role was a source of great pride. Westerners, who glibly thought of the USSR as a rather tatty Evil Empire, not worth a moment of regret, have found this reaction incomprehensible. To impose the further misery of economic sanctions on a humiliated and diminished Russia is dangerous. The understandable but self-indulgent wish-to-punish finds its parallel in the Treaty of Versailles, now more or less universally regarded by historians as having disastrous consequences.

ALEXANDER YAKOVENKO
Russian ambassador
London

DAVID BLACK
London

Gay marriage has a history

At its hearing on gay marriage, you say that America's Supreme Court "seemed nervous about tinkering with an institution that has existed for millennia" ("Showtime for gay marriage", May 2nd). Yet according to John Boswell's "Christianity, Social Tolerance and Homosexuality" and "Same-Sex Unions in Pre-Modern Europe", official ceremonies took place in the Roman Empire and early Christian era that bound men to each other. Homosexual "marriages" were sanctified by the church and homosexuality was tolerated well after Christ's death. Homosexuality only became controversial when it was condemned during the Middle Ages.

For those who think it is preferable to resolve controversial cultural issues through the political process at the state level rather than the federal courts, look at the case of Alabama and interracial marriage. In 1967, the federal Supreme Court ruled in *Loving v Virginia* that no state could forbid interracial marriage. Yet that prohibition, though unenforceable, remained embedded in Alabama's constitution until it was removed by referendum in 2000. Even then, more than 40% of voters in the state chose to keep the ban. It was a narrow and belated victory for equal protection, individual liberty and the rule of law.

JAN EWING
WILLIAM CATALDI
New York

GEORGE KOVAC
Miami

In support of bullfighting

To say that fans of bullfighting have "little to cheer about" is somewhat at odds with the Iberian reality ("Matadors on the march", April 4th). In Spain 17,000 bullfighting festivals are celebrated each year, each with its own fight calender. Some 130,000 bulls are bred for this by 1,200 bull breeders. Spain has hundreds of permanent bullrings and 3,000 temporary structures are set up in smaller villages up and down the country for local festivals. These provide gainful employment to locals on top of the 2,000 full-time professional matadors and 3,000 younger *novilleros*, each with supporting *picadores* and *banderilleros* in what is a billion-dollar industry.

The San Fermín festival in Pamplona is watched by millions on television. I think there is plenty of life yet in bullfighting.

OLAF CLAYTON
Madrid

Voting online

Barbara Simons argues that "there is a consensus within the computer-security industry" that online-voting systems are insecure and subject to hacking (Letters, May 2nd). I have worked in the industry for 18 years and I disagree. The fact that a large number of online systems are badly designed does not mean that the idea is fundamentally insecure. Cryptographic checksums, peer-reviewed open-source code, adherence to mature, published standards, and independent third-party verification of votes are elements that should be incorporated in any online voting system. They would make online voting easily more secure than paper ballots. Such practices exist and are proven to reduce risk to an absolute minimum when implemented correctly.

JOHN SALOMON
Zurich

Swine fever

I read your article on eating the whole hog while enjoying a portion of barbecued pork ribs ("Nose-to-tail eating", May 2nd). However, your porcine piece could easily apply to another animal: the goat. The Spanish word *barbacoa*, and thus the American "barbecue", comes from the combination of *barba* (beard) and *cola* (tail), which describes the practice of roasting a young goat in an earthen pit, and eating it from tip to tail until the bones are the only thing left.

ANGEL SUSTAETA
Austin, Texas

You asked "how much is a happy pig worth"? Readers who enjoy a nice piece of crackling might like to ponder the fact that pig's skin has long been used for human transplants where the patient lacks enough of their own skin.

This, and the prospect of using pig organs for human transplants, only adds to a pig's worth. Surely the pig is a happier animal knowing that it can heal as well as feed its human masters.

ROBIN LAURANCE
Oxford ■

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

Resolution Foundation

The Resolution Foundation *is an award-winning independent think-tank focused on improving living standards for those on low to middle incomes. Our reputation for analytical work that results in effective policy solutions places us at the forefront of the UK debate on economic and social policy.*

Director | Competitive package | SW1

We're looking for an exceptional candidate with a track record of intellectual leadership and the senior management and public communication skills to lead our team and build on the Foundation's growing influence.

Working closely with our new Executive Chair, David Willetts, the Director will develop and oversee a programme of research and policy development that builds on the strengths of the Foundation (on issues ranging from low pay, the future of the jobs market, welfare reform, housing and fiscal policy) at the same time as it expands into new areas.

In addition to demonstrating intellectual rigour, analytical credibility, strong management skills and political sensitivity the post-holder will need the vision to lead the next phase of our development at an exciting time for the Foundation. They must also have a clear commitment to achieving effective change that improves the lives of those on low to middle incomes.

In exchange, we offer a competitive benefits package. For further details and an application form (we do not accept CVs), visit **www.resolutionfoundation.org/about-us/opportunities/**

Resolution Foundation welcomes applications from under-represented communities and groups. We also welcome applicants on secondment and candidates from overseas as well as the UK.

Closing date: 23:59 on 31 May 2015.
First round interviews are likely to be held on: 8 and 10 June 2015.

FINANCIAL CONDUCT AUTHORITY
PAYMENT SYSTEMS REGULATOR

Are you interested in working for a new regulator where you can really make a difference?

The Payment Systems Regulator is the new economic regulator for payment systems in the UK, with regulatory and competition functions. We're the first regulator of this kind in the world and we're looking for economists, policy advisors, lawyers, communications professionals and operations experts.

Payment systems underpin our economic and financial system and last year handled over 21 billion transactions worth around £75 trillion. The PSR's role is to promote the interests of users of payment systems – that's the businesses, organisations and people that use them – through greater competition and innovation.

You'll have a real opportunity to shape and drive regulation in the payment systems sector.

Our benefits

The value we place in our people is reflected in our attractive package of salary and benefits; and extensive development opportunities in economic regulation, financial services and broader professional skills.

You can find out more about these roles on the PSR website at www.psr.org.uk/jobs-psr. There you will find links to full job specifications and can apply online via the FCA's website.

Closing date: Monday 1 June 2015 (Midnight GMT)

POSITIVE ABOUT DISABLED PEOPLE

Stonewall TOP 100 EMPLOYERS

Director Essential Medicines and Health Products

World Health Organization

Geneva, Switzerland

The World Health Organization (WHO) is the directing and coordinating authority for Health within the United Nations system, responsible for providing leadership on global health matters, shaping the health research agenda, setting norms and standards, articulating evidence-based policy options, providing technical support to countries and monitoring and assessing health trends.

The Essential Medicines and Health Products (EMP) department is situated within the Cluster of Health Systems and Innovation (HIS). Its mandate and vision are to ensure that people everywhere have access to the essential medicines and health products that they need; that the medicines and products are safe, effective and of assured quality; and that they are prescribed and used rationally, and affordable to the health systems and patients.

The Role:
To lead the Essential Medicines and Health Products (EMP) department with around 160 people, serving as the definitive and responsible authority for the EMP department's performance, and responding for WHO on all issues related to essential medicines and health products.

The Candidate:
- An advanced university degree in medicine, pharmacy, or other health science, plus post-graduate training (Master or PhD level) in health science, or public health, or (health) economics or management.
- Extensive knowledge of essential medicines and health products issues, policies and regulations at the national, regional and global levels.
- Demonstrated ability to mobilize resources.
- Proven people leadership and managerial experience.
- Ability to represent the Organization and interact effectively with national and international authorities.
- Excellent communication and negotiating skills.
- Expert knowledge of English. Knowledge of French or another official WHO language will be an asset.

Please find all details of the position and apply online via the WHO website at www.who.int/employment "Current Vacancies". Vacancy Notice No: HQ/15/HQ/FT182. Closing date is May 25, 2015.

Observe, the Odgers Berndtson Global Magazine

Gartenstrasse 19,
8002 Zurich, Switzerland.
+41 43 344 31 31
www.odgersberndtson.com

ODGERS BERNDTSON
Executive Search
Over 50 Offices in 29 Countries

World Health Organization

hrp research for impact

The World Health Organization and the UNDP/UNFPA/UNICEF/WHO/World Bank Special Programme of Research, Development and Research Training in Human Reproduction (HRP) are seeking to fill the position of

DIRECTOR, REPRODUCTIVE HEALTH AND RESEARCH

Managing a biennial budget of $80 million and a team of 80 scientific and support staff, the Director will play a key role in advancing sexual and reproductive health and rights within the international development agenda.Based at WHO's headquarters in Geneva, Switzerland, **the Director will:**

- develop and implement innovative approaches to improve sexual and reproductive health globally, in particular in low- and medium-income countries;
- lead the agenda on implementation and other research to advance sexual and reproductive health;
- promote the application of research evidence into sexual and reproductive health and strengthen the gender and human rights dimensions of policies and programmes;
- play a key role in the promotion and coordination of international action on sexual and reproductive health and research, including capacity strengthening.

The successful candidate will have an advanced degree in a health-related field with a postgraduate qualification related to sexual and reproductive health, and at least 10 years of experience in research and research management, including at international level.

The assignment comes with an attractive international expatriate package. For a full description and to apply, please see **www.who.int/reproductivehealth/hrp/employment**

THE AFRICAN DEVELOPMENT BANK

Appointment of a Member of the Roster of Experts of the Independent Review Mechanism of the African Development Bank Group

The Independent Review Mechanism (IRM) was established by the Boards of Directors of the African Development Bank Group in 2004 and became effective in 2006. The mandate of the IRM is to respond to complaints of people who are or likely to be adversely impacted by a Bank financed project due to non-compliance with the Bank Group policies and procedures. The mechanism handles the complaints through problem solving and/or compliance review. Also, for the purpose of enhancing institutional learning regarding problem-solving and compliance review matters, the IRM provides advisory services to the Bank. The IRM is administered by the Compliance Review and Mediation Unit (CRMU) headed by a Director, assisted by professional and support staff. Compliance review is undertaken by the IRM Roster of Experts, while problem – solving is carried out by CRMU.

The IRM's Roster of Experts comprises three (3) individual experts, each serving a fixed term of five years. The experts are appointed by the Boards of Directors upon the recommendation of the President. They work on part time basis, and sit in Independent Compliance Review Panels authorized by the Boards of Directors of the Bank Group or the President, depending on the status of the project. The Panels report their findings and recommendations to the Boards of Directors for projects approved by the Boards, and to the President for projects under consideration for financing by the Bank Group. The IRM experts also undertake annual spot checks to ensure projects' compliance with Bank's policies and procedures. Interested applicants can find more information about the IRM Operational Rules and Procedures on **http://www.afdb.org/en/about-us/structure/independent-review-mechanism-irm/about-the-irm/**

Applications for the position of a member of the Roster of Experts of the IRM are invited from individual experts/consultants who should be a national of a member state of the African Development Bank Group and fluent in English and French.

The applicant to be selected should demonstrate integrity and ability to act independently; have relevant, solid and broad academic background (minimum Master Degree, preferably PhD) with practical experience in development, particularly in environment, social, involuntary resettlement, economics, and legal issues in the public and/or private sector fields. They must have experience in compliance review and be in a position to act with impartiality in the accomplishment of their duties.

Further information on the function of IRM Expert, responsibilities as well as the requirements of the post, can be obtained from the Bank Website at: **www.afdb.org**

Applicants should register their personal history form and full CV on the Bank website: **www.afdb.org/jobs** by no later than **30 May 2015**.

www.afdb.org

FSC

Financial Services Commission Mauritius

Post of Chief Executive

The Commission is inviting applications from high calibre professionals for the position of Chief Executive. The appointed person will have the ultimate responsibility to ensure that the strategic objectives and operational goals of the Commission are achieved whilst providing strategic leadership direction to staff of the Commission.

Candidates need to possess relevant regulatory experience and a good understanding of working with a wide and diverse group of stakeholders.

Employment will be on a contractual basis for an initial period of 2 years.

Benefits comprise of an internationally attractive remuneration package, which will commensurate with qualifications and experience.

For further information and a detailed Position Description, log on to the Commission's website (Careers Section) at: **www.fscmauritius.org**

Closing date for applications is **25 May 2015**.

The Commission reserves the right:

- *To call only the best qualified and experienced candidates for the selection exercise; and*
- *Not to make any appointment as a result of this advertisement.*

Financial Services Commission
2 May 2015

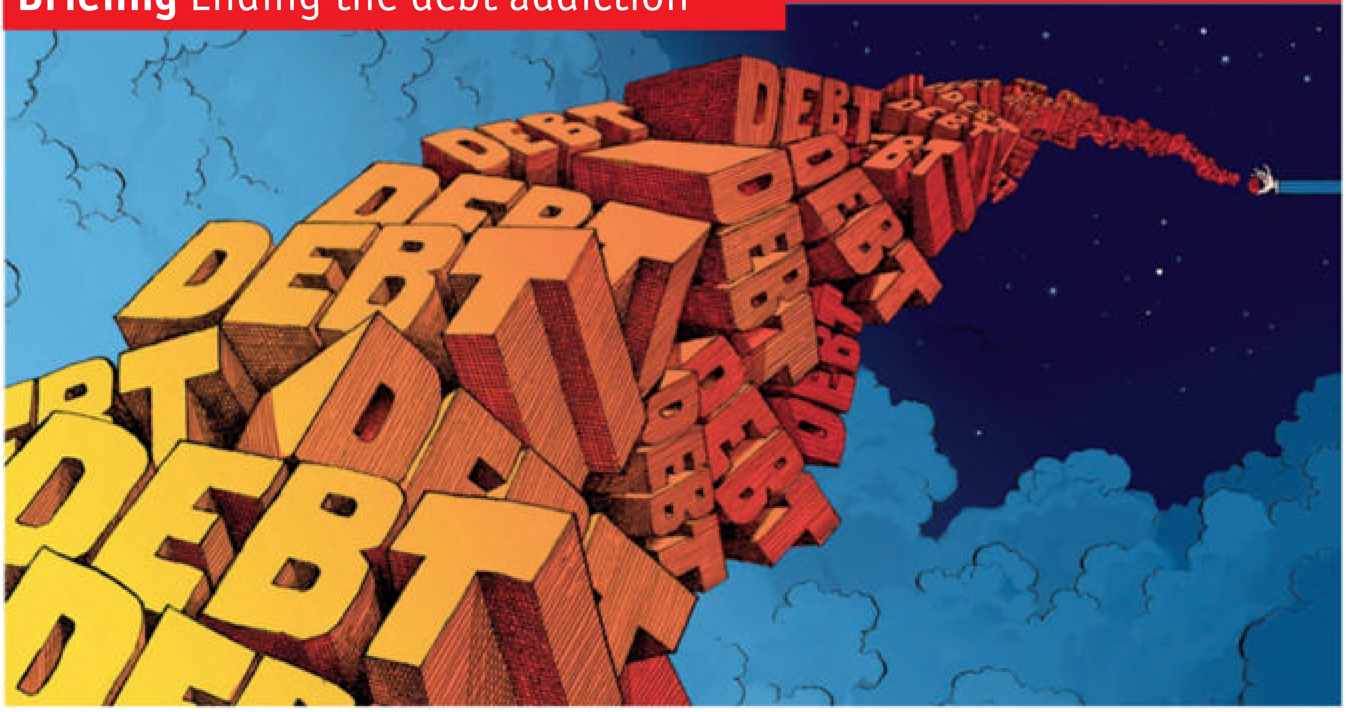
The **Financial Services Commission, Mauritius** is the integrated regulator for the financial services sector (other than banking) and for global business.

FINANCIAL STABILITY ADVISORS

The Banking & Financial Services program in the U.S. Department of the Treasury's Office of Technical Assistance is seeking experts in financial stability to serve as resident and/or intermittent advisors. *This recruitment is for global assignments and significant international travel is required.* Candidates should have the proven ability to map out key financial system vulnerabilities in the context of central bank financial stability units or boards, solid understanding of the content and role of financial stability reports, and past experience working with counterparts in client countries, both at the policy and operational levels. A working knowledge of Spanish or French is a plus.

Candidates must be U.S. citizens or U.S. resident aliens.

Please refer to **https://www.fbo.gov** solicitation number A15061 for details on how to apply.



A senseless subsidy

Most Western economies sweeten the cost of borrowing. That is a bad idea

THE field for the title of world's worst economic distortion is a crowded one. Fuel subsidies in the emerging world are one contender; the implicit government guarantee that props up big banks another. But it is a less noticed and more pervasive warping of the economic fabric that is the most damaging. Despite the fact that the world is mired in debt, governments make borrowing costs tax-deductible, cheapening debt and encouraging borrowers to pile on more.

Tax breaks for debt come in two principal forms. Interest payments on mortgages are tax-deductible for personal tax purposes in at least some way in America and over a dozen European countries, including Belgium, Italy, the Netherlands, Spain, Switzerland and most Nordic states. And across the world firms can deduct interest payments to debt-holders from their taxable earnings. In contrast the dividend payments and retained profits that flow to shareholders are taxed in most places.

The global convention that debt should enjoy tax perks emerged as much by accident as design. Its original proponents could not have imagined the scale of debt that now exists (global debt stands at 286% of GDP today). Britain made interest paid by firms tax-deductible in 1853. America allowed the partial deduction of interest for firms in 1894, a decision which was overturned as part of a Supreme Court ruling in 1895. A muddle of laws, judgments and a constitutional amendment partly restored the interest deduction in America from 1909 to 1916. One aim was to help the indebted railroad industry. The full deductibility of interest was eventually permitted in 1918 as part of a package to help companies struggling with the effects of the first world war. Mortgage-interest deduction was allowed in 1913, at a time when few Americans had mortgages. It was only after the second world war that this perk became associated with the political aim of boosting home-ownership.

Today, tax breaks for debt are embedded in all economies and viewed as the natural order of things. For a half-accident of history they have grown mighty big. There are three ways to demonstrate their scale. First, their cost in forfeited tax revenue soared to between 2-5% of GDP a year in the rich world just before the crisis (see box on page 21). In 2007 Britain and the euro zone spent more on subsidies for debt than on defence.

Second, the value of tax breaks is large relative to the assets they are linked to. In America their present value (the value in today's money of the potential tax benefits for borrowers) equates to perhaps 14% of the value of the stock of homes and 11% of the assets of firms. These calculations discount the tax saved by 3%, the yield on long-term Treasuries, and exclude the benefits accruing to financial firms and to partnerships.

A third way of showing the size of the tax distortion is to see how it affects the calculations that borrowers make. The annual interest payments on a $1m mortgage can be reduced by over a quarter as a result of interest deductibility. A big American firm typically pays an after-tax interest rate of 3% on debt, while the cost of equity (based on the annual return that shareholders expect) is 8% or more. About half of that gap is explained by tax breaks.

Colonel Mustard, with a subsidy

Debt subsidies did not cause the financial crisis. Corporate-tax rates in many countries fell in the run-up to the crash, lowering the potency of the tax perks. Most multinationals run solid balance-sheets. In America rich households get much of the benefit of the mortgage-interest relief—and few of those defaulted.

Yet a bias in the global tax system probably made the crisis worse, says Simon Johnson of the Massachusetts Institute of Technology. It boosted the overall level of debt and created pockets of distress. The Netherlands had the world's most generous tax subsidies of mortgages, worth 2% of GDP a year, more than double the level in America. It built up one of the highest levels of mortgage debt, which still hangs over the economy. And many corners of the corporate world took lots of risk. Leveraged buy-outs and commercial real estate relied on heavy borrowing, made cheaper by tax breaks, and generated heavy losses. In the latest stress tests conducted by the Federal Reserve and European Central ▸▸

Bank, the corporate sector accounted for 30-40% of expected banking-system losses.

Banks, inevitably, took most advantage, gaming the tax rules with devastating results. Most issued "hybrid" securities that were treated as debt by the taxman but as capital by credulous regulators. In the crisis hybrids did not act as a buffer that absorbed losses. About a third of big Western banks' capital was made up of these instruments. Had they raised equity instead, fewer banks would have wobbled, says Ruud de Mooij of the IMF. The resulting financial crisis left a debt burden that largely remains (see chart 1).

I'll be at your side forever more

None of this is to deny the importance of debt. It serves many useful economic functions. It allows money to travel through time and across social divides. A firm that is short of cash but that has good prospects can raise funds and repay them tomorrow. A rich or frugal person with more money than they wish to spend can lend to those whose outlays exceed their income.

Bosses like debt because it allows them to raise funds while keeping full control of their firms, as long as they meet their payment schedule. Savers like to own bonds or make loans because those interest payments are usually a safe stream of income. If the borrower gets in trouble, creditors have first claim on their assets. Debt can take complex income streams and make them regular. Everything from Korean shipbuilders' cash flows to the royalties from David Bowie's song, "Space Oddity", have been fashioned into bonds offering predictable payment schedules.

Nor is there a logical limit to the amount of debt. One man's debt is another's asset. Global debts should cancel out to zero. A thicker web of debt contracts is taken as a sign of economic sophistication, not impending insolvency. "Credit is the vital air of the system of modern commerce," said Daniel Webster, an American senator, in 1834. "It has excited labour, stimulated manufactures, pushed commerce over every sea." Emerging economies have long been told that "financial deepening" is essential to pay for the new roads and factories that they need.

Beyond a certain point, though, debt seems to be bad for the economy. The Bank for International Settlements (BIS), a club of the world's central banks, reckons the threshold is 85% of GDP for household debt, and 90% of GDP for non-financial corporate debt. Most rich countries breach, or are close to breaching, at least one of those benchmarks.

Excess debt hurts growth in two ways. In the rich world most new debts do not finance new productive assets like factories or machines; they just reshuffle claims on existing assets. But these debts still need a big financial industry to administer them, says Stephen Cecchetti, now of Brandeis International Business School and before of the BIS. That sucks resources from the rest of the economy.

Debt also hurts growth by creating fragility. Fixed payments mean that households and firms are more sensitive to downturns, cutting their spending deeper and faster in response, or going through disruptive defaults. The economy's middle-men—banks—create a second layer of trouble since their solvency is especially sensitive to shocks. If banks have lots of short-term debt that needs to be rolled over, then they become vulnerable to runs.

The fragility of debt stands in contrast with another financial instrument—equity or shares. Unlike interest, the dividends paid to equity holders can be cut if things go wrong, without triggering a default. Equity does not expire, so does not need to be refinanced. The benefits of this flexibility were shown in the 2000-02 dotcom stockmarket crash. The losses then were $4 trillion, more than the $2 trillion global banks suffered in 2007-10. Yet there was no credit crunch. In a crisis, equity bends while debt breaks. Despite this, equity has been a fading form of finance in the rich world. The net amount of corporate equity issued in America has been shrinking for a decade. In contrast, between 2007 and 2014, debt in the non-financial sector—governments, households and firms—rose in 41 of 47 of the planet's big economies, relative to their GDP, says Richard Dobbs of McKinsey, a consultancy (see chart 2).

The closest there is to a rule governing the right level of debt is the theory of Modigliani and Miller. It says that the capital structure of a firm cannot alter its value (assuming a world without tax). Its operating profits and riskiness remain the same, no matter how its funding is sliced and diced into equity, debt or other instruments. The theory does not specify what the right level of debt or equity might be but it makes clear that firms should not regard one form of financing as better than the other. Broadly speaking the same principle should apply to household balance-sheets too.

Yet in the real world, there is a strong bias towards debt. What explains this? The tax break is one factor, but not the only one. The bias also reflects the wiring in humans' brains. Savers are prone to think that the fixed flow of payments offered by debt is safer than it actually is. When asset prices (in particular property) rise, borrowers are tempted to think that they will rise further and use debt to buy more assets in order to magnify their profit.

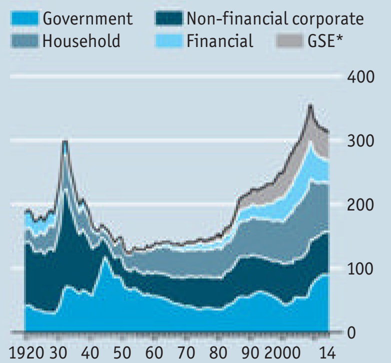
The bias towards debt created by tax and psychology has been amplified by powerful forces in the global economy that have led to more financial deepening, says Adair Turner, a former chairman of Britain's Financial Services Authority and the author of a forthcoming book called "Between Debt and The Devil".

Consider global imbalances, first. Exporters such as China build up savings and invest them abroad. In theory they could buy equities. But had China invested its foreign reserves in American shares, it would now own about a fifth of the S&P 500 index and have de facto control of corporate America, a politically impossible position. So the exporting countries bought safer and less controversial debt instead—75% of the rise in foreign ownership of American securities between 2004-08 was in the form of debt, most of that mortgage and corporate bonds.

Income and wealth inequalities within economies also amplify the impulse towards debt. Rich people have a lower propensity to spend than most, so the more they earn the more they save. That money

In the midst of life, we are in debt 1

Debt as a % of GDP



Source: Morgan Stanley *Government-sponsored entity

Developing problems 2

Debt as a % of GDP

Source: McKinsey

has to be recycled into the financial system, creating more financial instruments. Those in need of capital are often poor people with stagnant incomes. In practice debt is the only way to funnel money to them. You cannot, after all, buy shares in a household. Subprime debt secured against houses seemed safe.

A third and final accelerant is the financial industry. Its natural impulse is to create new instruments to drum up business. And it much prefers creating debt to equity. Debt is the magic ingredient that makes modern finance possible. Risky cash flows can be packaged into apparently steady payments, making it easy to reassure—or deceive—customers. Arbitrage (exploiting differences in price between similar assets) is only profitable if magnified by leverage. By using layers of debt with different seniority, risk can be transformed in almost infinite ways.

The financial industry also has its own distortions that encourage it to issue debt on its own balance-sheet. Banks—and in America, the housing agencies Fannie Mae and Freddie Mac—proved to be government-backed, an implicit guarantee that makes their borrowing costs artificially low. What is more, bank executives are often paid on the basis of badly designed profit measures, such as return on equity, that are flattered by leverage. All of which means that debt would retain some of its allure even without the tax breaks.

If you take a walk, I'll tax your feet

Some, but not all. So what would happen if these subsidies were removed? It would be a revolutionary step because the breaks are embedded in the way firms and home-buyers behave. That suggests it would cause some short-term disruption. But the longer-term pay-off could be immense.

Start with the short term. So far as withdrawing mortgage relief goes, the historical examples are muddy. Britain's mortgage-related tax perks contributed to a house-price boom in the 1980s but their abolition in 2000 did not stop another bubble from inflating. The sheer complexity of today's financial industry adds to the murkiness. But it seems likely that there would be an initial jolt to house prices if the subsidy were withdrawn. The Netherlands saw a price drop of about a tenth when it cut mortgage subsidies in 2012. An equivalent drop is likely in America given the value of the subsidies relative to the housing stock. The direct pain would be felt by the well-off—almost 90% of the value of the mortgage-interest tax break goes to households making over $75,000 a year. But lower house prices would be uncomfortable given that 17% of households have negative equity. The same is true in the euro zone, which is battling deflation.

As for corporate tax, much would depend on how policymakers went about reform. The purest option is to abolish corporate tax entirely—and instead have one layer of tax levied on the income individuals receive from investments in firms. That would remove a vast amount of complexity from the system and limit the incentive for tax-dodging and lobbying by firms. But cutting corporate taxes would be politically toxic at a time of stagnant wages for many workers around the world.

Two alternative approaches exist. The first balances the scales between debt and equity by levelling down: creating an equivalent tax break for shareholders. This system, which is in place in parts of Europe and is known as the "allowance for corporate equity" (ACE), permits firms to make a certain level of profit without incurring tax. The trouble is that, on its own, it would lead to a drop in tax revenues—Belgium introduced ACE in 2006 and saw corporate-tax revenues halve. It has recently introduced a "fairness tax" to try to recoup some revenue.

The second approach balances the system by levelling up: making interest taxable on the same basis as shareholders' profits. This would hugely expand the tax base, allowing a drop in the headline tax rate. Robert Pozen of Harvard Business

The size of the subsidy

Finance's Bermuda triangle

Quantifying the size of tax breaks for borrowing is no easy matter

HOW valuable are tax breaks for debt? Most governments say how much mortgage-interest relief costs them in forfeited revenue. But the second type of tax break—interest deductibility for companies and financial firms—is harder to get to grips with. As the financial system has got bigger and fiddlier, no-one really knows how much interest the world's firms pay. National accounts, the figures of publicly listed firms and the limited tax statistics that exist all give very different answers.

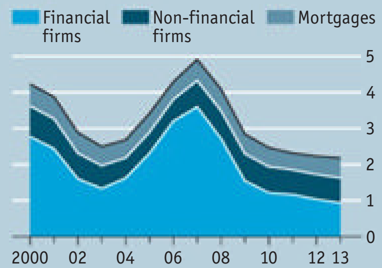
To come up with estimates (see table), *The Economist* has used national-accounts data because they should show the broadest range of activity. We make adjustments that lower the tax break's size. We include net rather than gross interest for non-financial firms. For financial firms we include an estimate of interest paid on debt but not that paid by banks on deposits. In America we exclude partnerships and "pass-through" entities that pay no corporate tax.

There is nonetheless a lot of uncertainty about the figures. National accounts use a crude definition of "financial firm" that can include not just banks but many other entities—for example, the assets of investment funds, which may not pay corporation tax. The aggregate figures net the profits and losses of firms, and so may fail to capture loss-making firms that would not be liable for tax under any regime. Some investors who own shares are exempt from tax on dividend income. This may partly cancel out the bias toward debt at the firm level. We have not tried to capture this effect.

Two conclusions can be drawn from this exercise. First, governments need to improve their data collection. Second, notwithstanding this, it seems that tax breaks for debt today are big, even at a time of very low interest rates. If rates normalise and interest payments rise, they will balloon back to the levels last seen before Lehman Brothers collapsed.

The greatest gift

United States tax revenues forfeited as a result of interest deductibility, as a % GDP



Sources: Federal Reserve; Bureau of Economic Analysis; *The Economist*

Quantifying debt subsidies

Tax revenues forfeited as a result of interest deductibility as a % of GDP

	2007			2013		
	America	*Euro zone*	Britain	America	*Euro zone*	Britain
Financial firms' debt	3.6	1.4	2.7	0.9	0.7	0.5
Non-financial firms' debt	0.7	0.5	0.9	0.7	0.3	0.4
Mortgage debt	0.6	0.5	–	0.6	0.2	–
Total	**4.9**	**2.4**	**3.5**	**2.2**	**1.3**	**0.9**

Sources: National accounts; central banks; *The Economist*

School reckons that if firms could only deduct two-thirds of their interest costs, the headline rate of corporate tax in America could be cut from 35% to 25% while keeping tax revenues stable. Using his figures, were interest-deductibility to end completely, the tax rate could fall to about 15%.

On paper, the impact on firms of either approach should be small. If the absolute tax take from firms remained unchanged, then their enterprise value (debt plus equity) would be unaffected. Firms' underlying cash flows and risk profiles would be the same. Companies would simply rejig their mix of debt and equity.

In the real world, things would be bumpier. An ACE system might boost firms' values, since the aggregate tax bill might fall. The alternative approach of taxing interest would be more disruptive—although not to big non-financial firms. Were interest deductibility to be abolished and the tax rate cut so that tax revenues were flat, only 8% of the S&P 500 index of American firms, and 6% of the top 2,000 global firms, would see their profits drop by over a fifth (excluding financial firms).

But outside the public markets, taxing interest would bash a cohort of firms with low margins or that have over 75% of their balance-sheet funded by debt. In America the obvious victims are utilities, cable-TV firms and commercial real-estate firms. Many leveraged buy-outs would be in trouble. One private-equity chief warns, "You're opening up a Pandora's box…It would cause massive disruption and market turmoil." Firms might rush to list their shares and issue new equity, causing the overall stockmarket to fall in the face of the extra supply of shares.

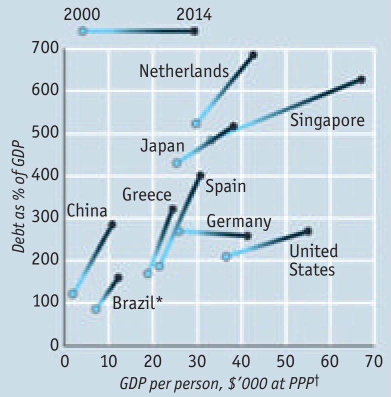
Taxing interest would hurt bits of Main Street, too. Small firms find it hard to raise equity. Farmers would find it more expensive to get loans to smooth the seasonality of their incomes. In Europe and Asia indebted holding companies are often used to control corporate empires: some of these structures would wobble.

The financial industry would be profoundly affected. Assume that banks were taxed on the interest paid on their debt (but not on their deposits), and the headline tax rate dropped by a third. For HSBC, a global bank, profits would not have changed much last year. But that reflects the fact its cost of debt is close to zero. At some point central banks will raise rates. Were HSBC's cost of debt to rise to 5%, the tax change would wipe out a quarter of its profits. It would have to charge its customers more.

Whichever tax reform took place it would prompt a flurry of evasive action. Financial firms would try to reclassify their debts as deposits. Unless governments tried to unify their corporate-tax and personal-tax codes, businesses would change their legal status to evade tax. For example, if interest were taxed, more American firms might become "pass through" entities such as partnerships, where tax is levied at the personal, rather than corporate, level. And unless the reform was global, multinational firms would surely try to issue debts in countries that still offered tax relief. A vast edifice of cross-border finance contracts would be rearranged.

Up like a rocket 3

Change in national indebtedness 2000-14



Sources: IMF; McKinsey *2000-13 †Purchasing-power parity

Interactive: See more countries and their debt over time at **Economist.com/taxdebt15**

Dismantling the doomsday machine

In the long run, however, the rewards from reform could be great. The surge in debt seen since the turn of the century might be halted (see chart 3). A neutral tax system would tilt the world's balance-sheet away from debt towards equity. It would appear more volatile—like a corset, debt masks nature's wobbles—but actually be more flexible. The pillars of the financial system—borrowers, savers and financial intermediaries—would all work differently.

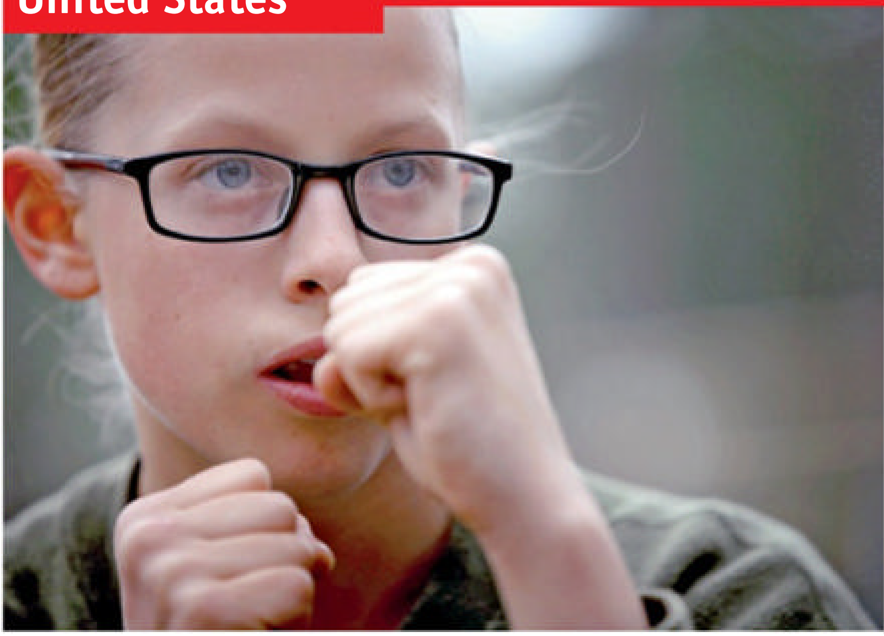
Today four-fifths of the stock of global financial assets is debt or deposits. This mix would change, with more shares being issued and new equity instruments being invented. There would be a wave of experimentation with equity-linked mortgages, in which a share of the risk of a house-price change is assumed by lenders or third-party investors. Today these products are penalised by the tax system, says Jason Furman, the chairman of the Council of Economic Advisers at the White House. "Landlord companies" might emerge that listed their shares and invested in the equity of people's houses.

Savers would join a modern cult of equity. Today pension and insurance funds are obsessed with debt, egged on by regulators who ask them to hold "safe" bonds regardless of their price. In this brave new world, savers would have to get used to owning equity products whose price moved up and down. Dividends from shares would replace interest income from bonds. Those payments could be cut in a downturn—in 2008-09 American dividends dropped by a fifth. That would prevent a crisis but hurt pensioners who live off investment income.

Borrowers would have to change their ways, too. Lower house prices would help the young and poor, but they might find it harder to get conventional mortgages. Renting is one alternative—the 20th century's obsession with home-ownership might ebb. Allowing third parties to own a share in a home might be another. Companies would issue more shares. It is hard to see any big downside to this. A more equity-focused culture might help younger firms get up and running, perhaps one reason why Marc Andreessen, a venture capitalist in Silicon Valley, backs tax reform.

Lastly, the financial system would have to shift its emphasis towards arranging equity contracts between savers and firms and households. This would be far easier in America, where capital markets dominate—getting mutual funds to buy stocks instead of bonds is relatively simple. In Europe and Asia, where banks suck up most savings and recycle them as loans, the process would be harder. But around the world banks would shrink.

Reforming the bias in the tax system is not the stuff of public campaigns. A vast web of contracts has been woven around a fiscal technicality, guarded by huge vested interests. America last seriously considered the idea in 1992, and beyond some tweaks to the tax code in Belgium, Britain, Italy and the Netherlands, there has been little sign of reform. But the moment for change may never be better. Interest rates are low, profits are high and house prices stable. As rates increase from rock-bottom levels, interest costs will rise, inflating the size of the distortion. The tax subsidy on the vast debts of rich countries will head back towards the levels seen just before the crisis in 2008. And the debt machine will kick into overdrive again. ■



Also in this section

For daily analysis and debate on America, visit
Economist.com/unitedstates
Economist.com/blogs/democracyinamerica

Defence policy

America's Amazons

FORT BENNING, GEORGIA

The law now makes women more or less equal in the armed forces. But how much can they really do?

SPOTTING the woman amid recruits preparing to hurl themselves from a plane at Fort Benning can be difficult. She has cropped hair, a baggy uniform and looks terrified; so do her male peers. The army welcomed women to its elite Ranger School for the first time last month: 19 of them started alongside 381 men. But training for one of America's toughest infantry forces is not easy. And it is not meant to be. On the first day, candidates ran five miles in less than 40 minutes and then completed 49 push-ups, 59 sit-ups and six chin-ups. After the first week just eight women and 255 men remained after a 12-mile march, a night-time "compass mission", a giant obstacle course, and more.

But then the female students fell behind. News came on May 8th that all eight need to repeat tasks before they can proceed to the next phase of training in Georgia's northern mountains (101 men must do the same.) Those who succeed can look forward to three hours of sleep a night, two small meals a day and gruelling patrols. Previous candidates have even snapped toothbrushes in half to make their packs lighter.

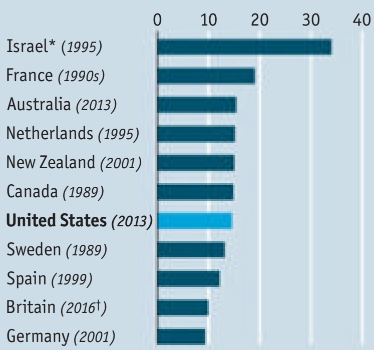
If a woman does manage to prove herself tough enough, however, she will not be assigned to the Ranger Regiment. She will instead just wear the black and gold tab: her foray comes only as part of research into whether women can be integrated within special combat units. A typical man loses up to 20lb (9kg) in weight during the course. No one yet knows how it will affect a woman.

The fort's commander, Major-General Scott Miller, says "Standards haven't changed, and they won't change." Command Sergeant Major Curtis Arnold, an instructor at the school, sees integration as a natural step: "I don't care whether my soldiers are male, female or Martian. I just want more Rangers in the army." Major Arnold may yet get his wish, even if the first female Ranger students fail.

It was President Harry Truman, just after the second world war, who first signed laws allowing women to become permanent members of the armed forces. By 2011 more than 203,000 women were in the active-duty force—about 14.5% of the total. By 2025, estimates say, one in every four military personnel will be female. Efforts to integrate the armed forces, support enlisted parents and curb sexual assault mean there has never been a better time for women to join up.

GI Jane and company

Women in the armed services, 2015, %
(Year close combat roles allowed)



Sources: UK Ministry of Defence; *The Economist*

*Includes conscripts
†Planned

The crucial change came in January 2013 when Leon Panetta, then secretary of defence, lifted the ban on women in combat, opening 230,000 battlefront positions to them. They can now crouch in foxholes and shoot as snipers, but are still banned from driving tanks (although female engineers may fix them). The forces have until 2016 to figure out how to work women into special operations, where possible.

America's move comes alongside a shift towards integrating armed forces across the world (see chart). Israel leads the way: a quarter of the officers in its Defence Forces are female and 92% of its jobs are open to women (proportions probably improved by its conscription policy). Countries such as Canada, Poland, France, Germany and, more recently, Australia also let women engage in combat. Britain will join the lists next year.

The thinking goes that if a female soldier can meet the necessary physical standards, there is no reason why she should not fight. Besides, a larger pool of candidates for the grittiest jobs will strengthen elite units. Women can also bring different skills to bear, according to Captain Katherine Fichtner of the army: the female Ranger School trainees were particularly good at planning and navigation (giving the lie to that old adage about women and maps). Lieutenant-General David Brano, a Ranger who led both American and international forces in Afghanistan between 2003 and ▸▸

2005, and is now retired, agrees: "Commanders look for the brightest, best people—not just those who can do the most press-ups—because being an infantry soldier is about out-thinking your enemy, as much as anything."

Chaitra Hardison, who studies the best ways to hire and train people for the RAND Corporation, a think-tank, says that "plenty of women are going to make it in infantry roles". She notes that professional female boxers would whop a man off the street, and that women are keen marksmen. "We'll see fewer women in combat than men, but that doesn't mean there won't be females who are capable." And although women are smaller than men and have weaker upper bodies, effective training can build up both stamina and strength. The most important thing, Ms Hardison says, is to find women with an appetite for combat. Elaine Donnelly, president of the Centre for Military Readiness, disagrees. "There is no evidence that women are the physical equal of men in the combat arms," she says. "You cannot deploy people who are not capable, that will endanger both women and men."

The few, the male, the marines

Other critics argue that women just aren't tough enough, physically or mentally, or worry about their effect on men. Knights in shining body armour may be unable to resist protecting women in a battle. Or the women may just prove too sexually distracting. But naysayers are losing the debate. Lt-Gen Brano says arguments about unit-cohesion were also made, and disproved, when the army was desegregated after the second world war and when, in 2011, openly gay candidates were accepted into the ranks. Besides, women have already proved their cool in combat. They have been combat air pilots since 1993; and more than 150 women have died, with more 800 injured, in service in the decade since 2001.

One female veteran who faced enemy fire in both Kuwait and Iraq says she never felt nervous: "The training that you go through means your emotions don't get involved. They can't. Otherwise, it might cost the life of another soldier." Front-line experience abroad has not led to the promotions it should have done, where women are concerned, because it was technically illegal. Now it is officially allowed, more promotions should follow.

Clearing the path for female advancement will also change the structure of the services' highest ranks—now disproportionately male. Rosemery Tijada, a combat engineer sent five times to Iraq and Afghanistan, frets over the lack of senior women in her field. But she believes things are changing. "I want to show that anybody is capable of any job," she says.

Some paths may remain blocked, however. After more than two years and attempts by 29 women, not one has passed the marine corps' infantry officer course. Most fail the combat endurance test—a gruelling day's march carrying 80lb of kit, followed by an obstacle course with 20-foot climbing ropes. Meanwhile, the navy is still considering whether female sailors can join special-warfare and SEAL units.

But women in the armed services are sometimes their own biggest obstacles to promotion. They are more likely than men, for example, to transfer to the national guard or reserve after having children. The greater flexibility helps, as they are also more likely to be single parents: female service members' marriages fail at three times the rate that male service members' do. This means that 12% of active-duty women bring up children alone, compared with 4% of men. Jennifer Spooner, a marine officer until 2006, says one of the main reasons she stopped serving was in order to be with her small daughter. "So often I couldn't even call her because of the time differences. That was the hardest thing for me when I was deployed," she says.

A better map-reader, too

Military members with children are required to have a plan for their custody if they deploy. Arrangements become messier after a divorce (especially as almost half of servicewomen marry servicemen, who may also be whisked abroad). Almost all states have passed laws protecting the custody rights of military parents; in Georgia, for example, a parent about to be deployed can now transfer the guardianship of children to a friend or family member, rather than an untrustworthy ex. Changes like these may convince more women to stick with military life.

Those who do head abroad are also safer from harm at the hands of their colleagues. The latest report on sexual assault in the forces, released on May 1st, found that the share of females on active duty who suffered unwanted sexual contact declined from 6.1% in 2012 to 4.3% in 2014 (for men, the figures dropped from 1.2% to 0.9%). It is also easier to seek recourse. The special victims counsel programme gives soldiers and their dependants aged over 18 a lawyer to represent and guide them through the military courts in a sexual-assault case. (This programme, started by the air force, has been adopted by the army and the navy.) Commanders also no longer have the power to change or dismiss a verdict on a serious charge in a court-martial: previously, a superior's favourite might escape with a slap on the wrist.

Niki Tsongas, a congresswoman who has promoted bills to change assault procedures, believes it is "a good time" for women to join the forces, but worries that those who report sexual wrongdoing too often face retaliation (in about 62% of cases, she says). Marcia Gutiérrez, who served at a base in Germany for two years during the 1970s, faced violent retaliation after reporting a colleague for his threatening advances. The day after she spoke to her superior officer, the man she feared tried to force her face against a hot kitchen grill. Only afterwards were her complaints taken seriously. "Now is the time to get these stories out there," she says. "If more women are reporting, it is because there is finally more openness to women in the military." A new bill sponsored by Ms Tsongas and under consideration in Congress aims to curb retaliation, as well as increasing support for assaulted men.

But most victims never speak out: fewer than two in ten, according to Greg Jacob, policy director at the Service Women's Action Network (SWAN), an advocacy group. And a new study released last month suggests that only a third seek the medical help they may need afterwards.

Find armour that fits

Health care has been another battleground for serving women more generally. Contraception and gynaecologists can be hard to find, though abortions after rape or incest may now be performed in military hospitals. As for those wounded in the service of their country, prosthetic limbs designed for men are often still a woman's best option for a missing arm or leg. Others might have escaped harm if their body armour had fitted them properly; efforts to design it specifically for women began only in 2011.

Armed forces that adapt to the needs of their female members will probably keep them longer, making the time and cost of training them more worthwhile. That in turn will make the forces a more attractive career—and as more women enlist, their demands will become harder to ignore. There is still a long way to go, but undoubtedly there is strength in numbers. ■

Trade policy

Toying with a poorer world

WASHINGTON, DC

A Democratic revolt exposes a party deeply divided by foreign trade

A SEEMINGLY arcane dispute about how to strengthen America's hand in foreign trade talks—which for 24 hours this week saw Senate Democrats block debate on a negotiating tool sought by Barack Obama—has exposed just how deeply the Democratic Party is divided by global commerce, and whether it is a threat or an opportunity for American workers.

It is rather rare for parties to filibuster their own president. So it was quite a snub when 44 Democratic senators—including about a dozen who normally support his free-trade agenda—voted on May 12th to stall discussion of Trade Promotion Authority (TPA). The stand-off appeared to be resolved a day later, when Democratic and Republican leaders in the Senate agreed to look at a raft of trade-related measures before considering TPA. Those measures range from a scheme to compensate American workers hurt by globalisation to a proposal to slap tariffs on foreign rivals accused of making their goods unfairly cheap through currency manipulation.

Mr Obama would probably veto a currency-manipulation bill if one reached his desk—such a law could spark a trade war. But he needs TPA, also known as "fast-track", to seal foreign-trade deals, notably a big agreement under discussion with 11 other Pacific Rim countries, the Trans-Pacific Partnership (TPP), and eventually a pact with the European Union. Under TPA, Congress temporarily gives up its right to amend or unpick trade deals with other governments, retaining only the power to vote yes or no to finished agreements.

In the days before the May 12th rebellion the president angered left-wing Democrats by challenging their populist standard-bearer, Senator Elizabeth Warren of Massachusetts. Ms Warren objects to trade deals being negotiated "in secret", and is especially suspicious of a dispute-resolution mechanism in recent trade pacts that allows companies to sue foreign governments for enacting discriminatory regulations. She says that this could allow a future Republican president to team up with banks and big business to "override" American financial regulations. Mr Obama says Ms Warren's arguments "don't stand the test of fact and scrutiny".

If anything, TPA faces a rougher ride in the House of Representatives. There Mr Obama's trade ambitions must run a double gauntlet. To his right loom perhaps 60 hardline Republicans wary of granting him extra authority on anything. To his left stand as many as 150 House Democrats who either dislike free trade or fear the trade-sceptics who run big unions.

A longer-term philosophical clash simmers beneath this week's squabbling (loftily dismissed by a White House spokesman as a "procedural snafu"). Mr Obama calls TPP a chance to write global trading rules on America's terms, which if missed will give China and other rising powers a free hand. But many in his own party take a more defensive view of trade. Representative Sander Levin of Michigan, the leading Democrat on the Ways and Means Committee, says that TPP must include stronger language to make foreign rivals protect workers' rights and the environment, and avoid currency manipulation, to ensure a "level playing-field" for American workers. "The president says we need to write [global trade] rules, not China. I agree, so let's write the right rules," Mr Levin says.

As a result it will take massive Republican support to pass TPA. Hillary Clinton, the putative Democratic presidential nominee, said little during the TPA rebellion, though as Mr Obama's first secretary of state she declared that TPP could set a "gold standard" for trade agreements. Her silence is hardly brave, but it does reflect the realities of a divided party. ■

The Texan economy

Not quite so sunny

AUSTIN

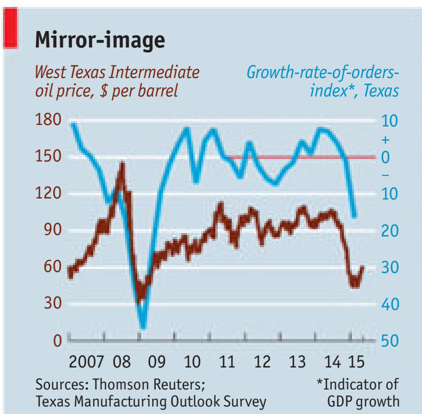
Lower oil prices are having a bigger impact than many had expected

FROM 2009 to 2014, one in five jobs created in America was in Texas. Over the same period workers in the Lone Star State—on its own the world's 13th-largest economy—saw some of the biggest wage rises in the country. Last year it probably grew faster than many emerging markets, such as Lithuania and Mexico. Now, though, things are getting tricky for the state that produces 40% of America's oil. Despite a recent bump, oil prices are still much lower than they were a year ago. Boosters have claimed that Texas is well-placed to withstand a big price drop. Is this true?

For decades, the fortunes of the Texan economy were tied to oil. In the mid-1980s, after an oil-price crash, the state suffered the savings-and-loan debacle, big house-price declines and a deep recession. Unemployment rose from 6% to 9%, even though it was falling across the country as a whole.

Since then, say many Texans, the state has shed its reliance on black gold. Government finances are in better shape: whereas in the early 1980s 10% of tax revenues came from oil production, today it accounts for less than 5%. The banking sector has grasped the importance of diversification: there are more interstate firms, which means that credit losses in Texas are spread more broadly across the country. Low taxes and stable regulations have encouraged many corporate giants, such as Toyota, a carmaker, to move their American headquarters to the state. The Dallas area thrives in telecoms, aerospace and banking. Houston has lots of oil, but also NASA.

The less oily side of Texas is epitomised by Austin, the trendy state capital (below). Thanks to a university system that churns out brainy grads, it has become a thriving tech hub. Nerdwallet, a personal-finance website, reckons the city has nearly twice the national average of startups. Go-getting youngsters, keen to escape the tiny flats and high taxes of the east and west coasts, flock there. According to a report by ▸▸



the City Observatory, a think-tank, college-educated 25-to-34-year-olds make up about 7% of Austin's population—one of the highest rates in the country.

All this led many economists to believe that Texas would brush off the effects of the oil-price slump. Other parts of the economy, the argument went, would take up the slack. Richard Fisher, then president of the Dallas Federal Reserve, compared one gloomy economic report about the state, released when the oil price was tumbling, to "bull droppings". In January the Dallas Fed predicted that the state would add 235,000-295,000 jobs this year (a higher rate of job growth than most states achieved in 2014). Economists thought gross state product (GSP), over the same period, would grow by about 3%.

They may have got ahead of themselves. In the past five years Texas's share of national oil production has jumped from 25% to 40%. It is still far more reliant on extracting natural resources than the American economy as a whole. According to Michael Feroli of JP Morgan, a bank, the state's oil-and-gas economy is no less important than it was a few decades ago: it accounts for a tenth of GSP. The percentage of the workforce employed in energy has fallen since the mid-1980s, but not by much. And in Texas the differential in earnings between oil jobs and others has increased in recent years, since the industry increasingly requires highly qualified people. Oil wages, in other words, may do more to power the Texan economy than they once did; if those jobs go, the economic damage will be disproportionately large. And tech jobs do not seem to be coming to the rescue: employment in management, scientific and technical consulting services, and in computer manufacturing, has fallen in recent months.

Small wonder, then, that the oil-price fall has caused many problems. In March the total number of jobs in the state suffered the largest month-on-month fall since 2009. Consumer confidence is falling. And as oil firms slash investment spending, Texas has been hit especially hard. Mr Feroli reckons that declines in energy-related investment could slice 2.7 percentage points off first-quarter growth. The Texas Manufacturing Outlook Survey growth-rate-of-orders index—a strong leading indicator of state output growth—plunged in the first quarter of this year (see chart on previous page).

A recession is now a possibility, since a slowing American economy is another drag. In the first three months of this year GDP growth for the country as a whole was just 0.2%. Texas will not be the worst-affected oil state; Wyoming, North Dakota and Alaska are likely to lose more jobs. But it is harder than it looks to hedge against the ending of an oil boom - as the Lone Star State is finding out. ■

Alternative politics

A Contract for the left

NEW YORK

Bill de Blasio goes national with his progressive agenda

IN THE run-up to the 1994 midterm elections Newt Gingrich released his "Contract with America", a prospectus of what Republicans would do if they won the House. The platform helped them win, set the legislative agenda and made Mr Gingrich nationally famous (or notorious). Two decades later Bill de Blasio, New York's mayor, unveiled his own "Contract with America", this time for the left.

The 13-point plan, zippily called "The Progressive Agenda to Combat Income Inequality", is inspired by what Mr de Blasio has done or wants to do in New York. Short on detail (such as how to pay for anything), but big on vision, it calls for raising the federal minimum wage to $15 an hour and indexing it to inflation; bolstering unions; bringing in national paid sick and family leave and universal pre-kindergarten; ending tax breaks for firms outsourcing overseas, and closing tax loopholes for the rich.

Mr de Blasio has made ending inequality his main theme, with good reason. Although some of America's richest postcodes are in New York, 46% of the city's population (by his office's calculations, heavily adjusted for the high local cost of living) lives at or near the poverty line. In his first year in office, in 2014, the mayor secured paid sick leave and rolled out universal pre-kindergarten. But he also promises to lift 800,000 New Yorkers out of poverty over the next decade. And to do this, he will need a little help from Washington.

That is why he went there to unveil his plan. Under the heavily scaffolded Capitol, he was flanked by liberals from Congress as well as activists like Al Sharpton and heads of unions like Randi Weingarten, who represents teachers. His plan also has the support of economists (Jeffrey Sachs) and Hollywood celebrities (Mark Ruffalo, best known for playing the Hulk).

But not every Democrat has signed up. Many find Mr de Blasio's grab for the spotlight bewildering. Tabloids speculate that he is eyeing the White House, but the mayor says the only office he is running for is a second term as mayor in 2017. He may just want to push Democrats left in the run-up to next year's presidential election. It is notable that, though he was Hillary Clinton's campaign manager for her Senate run in 2000, he has yet to endorse her for president. Recently he has seemed cosy with Elizabeth Warren, a popular progressive. On the day he unveiled his new contract he joined her to listen to Joseph Stiglitz, a Nobel-prizewinning economist, unveil his own plan to end inequality.

New Yorkers, who are used to mayors using their job as a bully pulpit (see Michael Bloomberg on gun control, banning fizzy drinks and smoking), are beginning to grumble about Mr de Blasio's gallivanting. In recent weeks he has also been in Nebraska, Wisconsin and Iowa and is heading to California. Nearly half say his national barnstorming is distracting from his work at City Hall. His polls are lower than ever. For his part, Mr Gingrich is happy to see Mr de Blasio on the road and would be delighted to debate "the merits of our conservative 'Contract with America' compared to his 'Contract from the Left'." ■

Illinois's public pensions

The bottomless pit

CHICAGO

A setback for efforts to tackle enormous unfunded liabilities

ON MAY 12th President Barack Obama and the First Lady announced on video that Chicago's hardscrabble South Side had been chosen as the site of the presidential library. Rahm Emanuel, Chicago's mayor, who had fought hard to get the library for his city rather than New York or Honolulu, watched proudly as the president proclaimed: "We can attract the world to Chicago."

Even at that great moment, however, Mr Emanuel was reminded of the bad news of the week: the voiding by the Illinois Supreme Court of a plan to fix the state's and the city's gargantuan pension debt. A reporter popped up to ask how the city, with more than $20 billion in unfunded pension liabilities, could possibly pay for better transport for all those visitors to the new library. And a few hours later

#Amen_humanity

We believe in humanity without boundaries.

Have faith in humanity. Take a pledge and participate:
www.alwaleedphilanthropies.org

ALWALEED
PHILANTHROPIES
الوليد للإنسانية

35
YEARS

Alwaleed_Philan

Moody's, a credit-rating agency, revealed that it had downgraded Chicago's rating to junk, because it believes that "the city's options for curbing growth in its own unfunded pension liabilities have narrowed considerably".

The bill the Supreme Court struck down on May 8th was passed by state lawmakers in 2013. It reduced annual increases in pension payments, raised the retirement age and capped pensionable salaries. The bill was supposed to become law right away, but was held up by legal challenges and ultimately rejected by John Belz, a judge of the Sangamon County circuit, for violating the state constitution, which makes existing pension-contracts virtually untouchable. In a last-ditch effort to save the reform, the attorney-general, Lisa Madigan, appealed against the ruling to the state Supreme Court, but the court sided with Judge Belz. "Crisis is not an excuse to abandon the rule of law," argued Lloyd Karmeier, one of the judges. "It is a summons to defend it."

Illinois has piled up a whopping $111 billion in unfunded pension liabilities—the most underfunded retirement system of any state. In addition, it is $56 billion in debt for health benefits for the retired. It already devotes one in four of its tax dollars to pensions, according to the Civic Federation, a budget watchdog. Without the reform of 2013, say its advocates, this burden will keep increasing, which is why the well-being of Illinois citizens should override the constitutional protections given to pensions. This was the decision reached in Colorado and Florida, where annual pension increases for current and future public-sector pensioners were cut.

Opponents of the reform retort that Illinois lawmakers recklessly underfunded the pension system for years. They also assumed an over-optimistic 8% return on investment over 30 years. Pensioners, opponents argue, should not suffer because lawmakers have been irresponsible. Instead, Illinois should put up taxes and reschedule its debt payments.

But tax increases have been tried, and they haven't worked, according to the Illinois Policy Institute, a think-tank. In 2011 Illinois raised the state income-tax rate to 5% from 3.75%, which brought in $31 billion until the temporary increase came to an end this year. The additional revenue was supposed to pay old bills and balance the budget, but instead 90% of the extra cash was gobbled up by pensions—and the pension debt still increased.

The new Republican governor of Illinois, Bruce Rauner, was never an advocate of the bill that has been struck down. He has his own pension-reform plan, which would move all current employees into a lower-paying plan created for newer state workers in 2010. The trouble is that this requires a change to the state constitution, a process that will take several years (if it happens at all), and Illinois needs a pension overhaul right now. Diana Rickert at the Illinois Policy Institute proposes a radical cure: the governor should lay off all state employees and rehire them with a 401(K), a defined-contribution pension plan. Recently hired state employees already have the choice between a defined-benefit plan and a 401(K) type. Ms Rickert wants to put all public-sector workers on 401(K)s, though she admits it won't be easy.

Meanwhile, Mr Emanuel is scrambling to save his pension reform. He insists that the deal he negotiated with the unions to save two of the city's four pension funds—the municipal employees' and labourers' plans—by raising contributions by 29% and reducing annual increases, still stands. The mayor's team is trying to persuade a Cook County court that his pension changes are constitutional, as the unions have agreed to them. The diminutive Mr Emanuel doesn't shy away from a fight—but this one is likely to be the toughest and most complex of his career so far. ■

Amtrak

Derailed

NEW YORK

Another crash reveals how much else is going wrong

LATE on May 12th, a New York-bound Amtrak passenger train derailed near Philadelphia, killing seven people and injuring scores more. Many of the seven carriages were mangled and rolled on their sides. The engine's metal chassis lay in twisted pieces, and the track was left in ribbons. The accident closed the busiest passenger-rail corridor in the country.

Investigators say that speed seems to have been the main culprit; when the train left the track it was travelling at around 100mph, even though it was passing through a residential area where speeds are restricted. Whatever the reason, rail incidents, particularly for Amtrak, a government-subsidised passenger rail company, seem to be ever more common. Last week three people were killed when one of its trains hit a truck at a crossing in Louisiana. Last month another Amtrak train derailed in Maine. In March, 55 people were injured in North Carolina when a train hit a tractor-trailer.

On the busiest line, too

The Philadelphia accident came hours before the House Appropriations Committee was due to meet to debate a transport bill, which helps fund Amtrak. The company is an odd beast. It runs for profit, but its board is appointed by the president. It is funded by the government, receiving roughly $1.4 billion a year in subsidies. Even with that help it operates in the red, losing $227m in 2014, or about $7 per passenger.

Congress, fed up with this mismanagement, has been considering tightening the purse-strings. The Senate has been slow to approve $7.8 billion in Amtrak funding that has already been cleared by the Republican-dominated House. Much of the money goes to prop up sagging rails and rusting rolling stock. Anthony Coscia, Amtrak's chairman, remarked recently that the passenger network is "still entirely underfunded for what we accomplish".

Yet never has rail travel, particularly in the north-east, been more important. In the past 15 years passenger traffic in the region has increased by about 50%. The north-east corridor, from Washington to Boston, has never been busier. More than 750,000 passengers use its service each day. According to the Northeast Corridor Commission, if the corridor is shut down for even a day, it would cost America's economy around $100m in increased congestion costs and lost productivity.

But the north-east corridor is unusual. Most of the Amtrak network is little-travelled, and loses hundreds of millions of dollars a year. The Brookings Institution, a think-tank, has recommended that states in the money-losing areas should chip in to fill the hole. Closing long-haul train routes altogether would also help, but Congress would dislike that even more than giving Amtrak extra money.

© 2015 Optum, Inc.

OPTUM

People. Technology. Data. Action.

HEALTHIER IS HERE

These days, people value staying well as much as getting better. And everyone could use a little help in the pursuit of that wellness. As a health services and innovation company, we power modern health care by combining data and analytics with technology and expertise. It means we can enable millions of people to manage their health through tools for wellness, benefits and health finances. After all, the desire to be well should be met with everything it takes to get there.

optum.com

Lexington | Not running, but fleeing

With rare exceptions, America's young are turning their backs on politics

BRANDON PAULIN, the new mayor of Indian Head, Maryland, has been researching his flagship policy—a scheme to discourage out-of-town landlords from leaving properties empty—for seven years. If that makes Mr Paulin sound a bit slow-moving, he has an excuse. When he began that research he was 12 years old. Now a tall, gravely polite college student, he was elected mayor in a mini-landslide on May 5th, sweeping aside town elders who had run Indian Head since before he was born.

By the standards of any age, Mr Paulin is an unusually serious 19-year-old. He first spoke at a town council meeting when he was 11, to report a dangerous road-crossing. Earlier this week, chatting in a coffee shop in a gap between appearing on local TV and being sworn in as mayor, he named Dwight Eisenhower as his favourite president, praising that centrist Republican for building interstate highways and maintaining social safety-nets while balancing the federal budget. Mr Paulin ran as a centrist in Indian Head, a quiet spot on the banks of the Potomac river, where the 4,000 residents mostly work at a nearby naval base or commute to Washington, DC. Like many mayors' offices, his post is officially non-partisan. In person he also shuns party labels. He calls himself a "moderate conservative", while hailing his local (Democratic) congressman, Steny Hoyer, as a "genuinely good dude" who has proved willing, on occasion, to cross party lines. He is not from a political dynasty. His father works on Capitol Hill, it is true, but as a policeman.

By the standards of his generation—so-called Millennials, aged between 18 and 34—Mr Paulin is typical in distrusting labels of all sorts. A recent poll of young Americans by Harvard University's Institute of Politics found that only just over a quarter called themselves either strong Democrats or Republicans, while 40% claimed to be politically independent. Some may be cheered by this; after all, increased partisanship has hardly improved the places that oldies control, such as Congress. What is more, unease with party labels does not stop younger Americans from being civic-minded: surveys find them volunteering for community projects in large numbers, and worrying about questions of public policy from climate change to health care.

But Millennials stand out for a more worrying reason, and one that reveals Mr Paulin to be a startling outlier. Lots of American youngsters appear to be losing faith in electoral politics as a way of tackling society's problems. Disengagement by young voters has long caused angst. In the 1972 presidential election (Nixon v McGovern, a youth-pleasing clash) half of eligible 18-24-year-olds cast ballots. Only a third of that age-group voted in 2000. Big events (such as the war in Iraq) or fresh-faced, charismatic candidates (Bill Clinton in 1992, Barack Obama in 2008) can prompt bounces in youth voting. But the trends are downwards.

Now researchers have started pondering a related question: if young people cannot be bothered to vote, will they see any point in running for political office? Early findings are triggering some alarm. Earlier this month two political scientists, Jennifer Lawless and Richard Fox, published "Running From Office: Why Young Americans Are Turned Off To Politics", a book analysing the political ambitions of more than 4,000 high-school and university students. Overall, only about one in nine young people in their study could seriously imagine running for public office. Youth disdain was sharpest when contemplating Congress and the federal government. But local, non-party offices were not immune. Asked to pick three possible jobs from a list of 20, students ranked "mayor of a city or town" 17th: above "member of Congress" but below even such despised trades as journalism.

No democracy thrives on apathy. But America is unusually dependent on citizen-legislators. Counting school boards, parks commissions and so on, the country is home to almost 520,000 elected officials. Professors Lawless and Fox worry about the 25% of students who have no opinions about politics. They fret about the roughly 60% who have negative views of it, and so try to avoid the subject. Unfamiliarity breeds contempt, the professors discover: those who tune out politics are the most likely to think politicians are all awful (people in politics are "squirrelly", a Texan student told them, flatly).

An age of distrust

The young were not always so jaundiced. A 1973 study of high-school students is instructive: back then, most youngsters thought that folk in government knew what they were doing. Today a minority trusts the government to do the right thing most of the time. In the 1970s almost three-quarters of students regularly talked politics with their parents. Now three-quarters seldom do. The subject is deemed distasteful. The professors quote a student who says that among friends, politics "kills the mood".

They did find a minority of present-day youngsters who follow current affairs, debate with their peers and volunteer on campaigns. Even then, there are worries about how representative such folk are. The children of strong Democrats, for instance, are almost three times more interested in public office than those brought up by strong Republicans (who would rather their kids went into business). College-going men are twice as likely as women to think about running for office in later life.

Many big beasts of politics have been in a hurry. Bill Clinton knew he could be "great in public service" at 15. Newt Gingrich, the former Republican Speaker of the House of Representatives, launched his first campaign—for a zoo in his home town—at 12. The problem is not that there are no new prodigies. Mr Paulin is about to juggle his new office with studying for a political-science degree (handily, he may write a thesis on being mayor). The danger is that modern politics seems to be repelling most young Americans as rarely before. Democracy cannot afford for the gap between prodigies and the rest to grow wider. ■

Also in this section

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

Cuba's economy (1)

Picturesque, but doing poorly

HAVANA

Despite the thaw with the United States, politics is paralysing the economy. The first of two stories

BY DAY grey-haired Americans trundle through the streets of Havana in pink 1957 Chevy convertibles, klaxons blaring. By night they recline over rum and cigars, tipping generously, listening to hotel salsa and reminiscing about the cold war. Many of the new American visitors to Cuba, whose numbers have surged since a diplomatic detente in December, are old enough to remember life before the internet and relish a few days in one of the world's last Facebook-unfriendly bastions. What tourists find quaint seems stifling to many Cubans themselves.

For a lucky minority life has improved since "D17" (December 17th), the day Barack Obama and his Cuban counterpart, Raúl Castro, announced that they would seek to end five decades of hostility. Mr Obama's decision to relax some restrictions on American visitors is expected to push tourism to Cuba up by 17% this year, bolstering foreign exchange by around $500m, or 1% of GDP, estimates Emily Morris, an economist at the Inter-American Development Bank. Visitors spend CUCs (Cuba's dollar-equivalent hard currency) at a few swanky private restaurants where the quality (and prices) have reached fashionable Florida standards. Cubans are borrowing whatever they can to spruce up accommodation in a city where hotels are now booked up weeks in advance. According to Omar Everleny, a Cuban economist, 18,000 private rooms have become available. That is the equivalent of 31 new hotels the size of the 25-storey Habana Libre.

This activity is expected to boost economic growth from last year's meagre 1.3%. But there is little sign as yet of the $2.5 billion a year in investment that the government hoped to woo with a new foreign-investment law last year, mostly because it sends mixed signals. It has authorised at most two manufacturing projects at its Mariel port and special economic zone, despite hundreds of applications. It continues to view private business with distaste, and believes socialist state enterprise will remain the core of the Cuban economy. As one economist puts it, "the government wants to create prosperity, but it doesn't want to create prosperous citizens."

As a result, it risks creating neither. Some of the 500,000-odd people self-employed in private enterprise—about 10% of the labour force—benefit from earning hard currency, and represent a nascent middle class. Unlike the rest of the labour force, their productivity is improving.

But the majority who work in the state sector earn Cuban pesos, live on ration books and can barely make ends meet unless they receive remittances from abroad or do informal jobs illegally. This produces stark inequality, which is exacerbated by shortages, especially of food. Some of the new restaurateurs admit that they face wrath in Cuban supermarkets when they pull out wads of notes to stock up on scarce beer, milk and cheese, leaving shelves empty and pushing prices higher. They insist it is not their fault; the government has failed to open up well-supplied wholesale markets or allow them to import goods. But that argument counts for little with a hungry public.

What's more, it exacerbates a vicious circle in which disgruntled government employees slow down at work, further sapping output and causing more shortages. In a bid to counter inequality, the government has raised salaries of favoured state workers such as doctors. It has authorised public entities such as the sugar monopoly to raise pay if productivity improves (this year, sugar production is up 22%). But partly as a result of higher wages, the budget deficit is expected at least to double to above 6% of GDP this year.

All this creates a headache for Mr Castro. He has less than a year before a Communist Party congress next April. There he will have to defend reforms launched at the previous congress in 2011, including a planned unification of Cuba's two currencies (see next page), despite their disappointing results so far. Mr Castro must also worry that a Republican will succeed Mr Obama, who will leave office in early 2017. To forestall a renewed tightening of the American embargo, he will want to show that Cuba is making economic progress.

Next April's congress could also mark the start of a generational change in Cuba's leadership. Mr Castro, who took over from his brother, Fidel, in 2008, is expected to step down as president in 2018. He has said that he is keen to promote younger leaders, replacing the "historic generation" of octogenarians who fought under Fidel in the 1959 revolution.

He is grooming Miguel Diáz-Canel, the 55-year-old first vice-president, to replace him. There is a possibility that Mr Castro ▸▸

could step down as head of the party next year. Economists working for the government say some of Mr Diáz-Canel's peers are receptive to reformist ideas. They are often seen carrying PCs or tablets, suggesting an interest in bringing more internet to Cuba. But they are also reluctant to defend reform publicly, so it is hard to know what they stand for.

Many in the establishment are terrified that change will jeopardise what they see as the main gains of the revolution, such as free education, health care and welfare. "The economy has to become more efficient, but you can't ignore our principles or you'll get a tsunami of capitalism washing over the whole island," says Luis René Fernández of the University of Havana.

Mr Castro may be preparing to take on Communist Party conservatives. The party's central committee said in February that it would discuss a new electoral law at next year's congress. It gave no details; no one expects anything like political freedom. The aim may be to pressure mid-level bureaucrats to stop paralysing reform. "Change starts from the top and those at the bottom want it, but it gets stuck in the middle," says Rafael Hernández, editor of *Temas*, a social-sciences journal.

Mr Hernández believes that a priority for the government will be a stronger National Assembly that can approve laws to underpin economic liberalisation, such as the right to own a business (currently, private firms, however prosperous, are considered "self-employment"). He also argues that professionals such as lawyers, teachers and doctors should be able to moonlight from their state jobs in private consultancies, consolidating a "socialist middle class" that pushes for further reform. However, he frets that hardship has made ordinary Cubans apathetic about greater political representation. For them "the glass is always half empty."

Among intellectuals, though, resistance is growing. Dagoberto Valdés, editor of *Convivencia*, a Catholic journal, says the American thaw has robbed the regime of its ability to cast its neighbour as an "external enemy", so its own shortcomings have moved into the spotlight.

El Capitolio, a marble landmark in central Havana, modelled on (and with a bigger dome than) America's Capitol, points to a brighter future. It is being refurbished and is supposed to become the seat of the National Assembly for the first time since 1959. Alberto Pagés, a wiry old man who for 30 years has been operating a home-made box camera for small change on the building's steps, thinks it will attract more tourists and could become "a symbol of how Cuba and the United States can look more like each other". But ask him whether it could also become a harbinger of democracy and he clams up. "I know absolutely nothing about politics," he mutters. ■

Cuba's economy (2)

Day zero or D-Day?

HAVANA

The tricky task of unifying a crazy system of exchange rates

CUBA has two currencies and a mind-boggling number of exchange rates. So when President Raúl Castro set out four years ago to unify the currency system by 2016, it was not surprising that he gave few details on how he would achieve it. A year in advance, it is still not clear. Nor is there a fixed date. Cubans call the unknown day of reckoning *Día Cero* ("day zero").

The main difficulty is not unifying the two currencies per se. They are the Cuban peso, which most people use, and the convertible peso (CUC), worth about $1, which is a dollar substitute used by individuals in tourism, for remittances and in the private sector. It would be relatively easy for the average Cuban to scrap the CUC and conduct all transactions in pesos. Already many goods can be bought with either currency. The exchange rate for the peso is 24 per CUC, a level that has changed little since the CUC was created in 1994.

But for the economy at large what looks like a relatively simple book-keeping exercise could have devastating consequences, because there is a parallel exchange rate, mostly hidden from the public, that is used in accounting by state-owned firms and foreign joint ventures. It is one peso per CUC (or dollar). The massively overvalued rate has been in place since the 1980s, when Cuba was subsidised by the Soviet Union. It creates huge distortions in the economy, allowing importers to buy a dollar's-worth of goods for one peso, a wheeze that drains precious foreign exchange from the country. Cutting the overvalued rate to the cheaper one would be the equivalent of a 96% devaluation. This could bankrupt many state-owned firms, whose costs have been accounted for at the overvalued rate.

Augusto de la Torre, the World Bank's chief economist for Latin America, says he doesn't know of any country that has started unification with such diverse exchange rates, and that it could be "suicidal" to join them in one big bang at 24:1. Vilma Hidalgo, vice-rector of the University of Havana, urges caution. She says many segments of the economy, such as exporters and firms that struggle to compete against subsidised imports, would benefit from devaluation, but others could be devastated.

So Cuba is, typically, treading carefully. The government has started with hotels and the sugar and biotech industries. Though their new exchange rates are far from uniform, the most common is 10:1, which some think may be the target rate for unification. But even if the whole economy were to merge at that rate, it would still represent a 90% devaluation for most.

Typically, a country embarking on such an upheaval would get financial help from the IMF and World Bank. Because of its history of enmity with the United States, Cuba does not have that option. Ms Hidalgo hopes that rapprochement will spur enough trade and financial flows to support the new exchange rate. In the meantime, gradualism will remain the guiding principle, which means the distortions will persist. Expect many day zeroes. ■

Brazil's supreme court

Courtly intrigue

The battle between president and Congress moves to the judiciary

WHEN a Brazilian president picks someone to serve on the supreme court, he (or she) expects the choice to be waved through. The last time Congress rejected a nominee to the highest court was in 1894, when it turned down a former army medic and writer whose judicial experience consisted of serving on a military tribunal during the Paraguay war of 1865-70. Luiz Fachin, a former state prosecutor and expert in family law, is better qualified. But on May 12th he was subjected to a grilling by the Senate's justice commission the likes of which no recent candidate has experienced.

The panel ended up approving him, by a vote of 20 to seven. But the Senate Speaker, Renan Calheiros, nominally a coalition ally of the president, Dilma Rousseff, has made it plain that Mr Fachin's confirmation in a secret ballot of the full Senate on May 19th will be no mere formality.

Mr Fachin's travails have little to do with jurisprudence and everything to do

with a power struggle between an unruly Congress and an enfeebled president. The two sides have been tussling ever since the start of Ms Rousseff's second term in January. The new battleground is the supreme court, the final interpreter of the constitution. On May 5th Congress amended the constitution to raise the age at which judges on higher federal courts must retire from 70 to 75. This could deprive Ms Rousseff of five supreme court nominations she had expected to be able to make before her term ends in 2018.

In principle, tougher congressional scrutiny and a higher retirement age are good ideas. The constitutional reform makes it easier for Congress to raise the retirement age for all public officials, which could save the government 4 billion reais ($1.3 billion) a year in pension payments. Mr Fachin's inquisitors questioned him about his earlier political support for Ms Rousseff. He said he would be above party.

But the senators have less high-minded motives for their diligence. One is their struggle with the president, whose popularity has slumped because of a weakening economy and a multi-billion-dollar corruption scandal at Petrobras, the state oil company. Another motive, some suspect, is that eight members of the justice commission are being investigated in connection with the Petrobras scandal; they are among the 34 congressmen who face such investigations. All deny wrongdoing.

Only the supreme court can try elected federal officials, so the senators are vetting someone who could sit in judgment on them. Mr Fachin, if he is confirmed, would fill a seat left vacant by the retirement of Joaquim Barbosa, the first black justice. He became a popular hero for his pursuit of politicians embroiled in an earlier scandal. Ordinary Brazilians hope that Mr Fachin, if called upon, will be equally fearless. ■

Bello | The futility of coca eradication

While cocaine remains illegal, Latin America has to find better ways to fight the mafias it sustains

SELDOM can such a laborious public policy have been devoted to such a futile end. For the past 15 years or so Colombia has used crop-dusting planes operated by American contractors to spray around 130,000 hectares (321,000 acres) a year of its land with glyphosate, a powerful weedkiller, in an attempt to wipe out the coca crop that provides the raw material for cocaine. Put all that land together, and it amounts to an area almost as big as the state of New Jersey.

The defenders of spraying, who include the drug warriors in Washington, DC, claim that it has played a vital role in cutting coca cultivation in Colombia to a third of its peak of the late 1990s, and with it the output of cocaine (though by less). But studies have linked the spraying to increased rates of skin and respiratory diseases, and of miscarriages among farmers' families. In March a research arm of the World Health Organisation reclassified glyphosate as "probably carcinogenic". The finding is rejected by Monsanto, its manufacturer, and some independent scientists. But it prompted Juan Manuel Santos, Colombia's president, to ask his officials this week to halt aerial spraying by October and find an alternative.

That will not be easy. In Peru the government conducts manual eradication, sending workers to yank out coca plants one by one. But Colombia's countryside is littered with landmines planted by guerrillas who rely on drug revenue, making manual eradication dangerous. To try to preserve the spraying programme American officials leaked a report that coca planting rose by 40% in Colombia last year. That happened in part because FARC guerrillas are seeking to raise cash ahead of a possible peace agreement.

Yet Mr Santos is right not to be swayed by such scaremongering. Few public poli-

cies in Latin America are as ineffective as coca eradication. Daniel Mejía of Bogotá's University of the Andes has found that to be sure of wiping out just one hectare of coca 30 must be sprayed. Manual eradication does not work much better. Nowadays coca farmers replant straight away. Latin Americans may be generally poor at business innovation but coca is an exception: in Peru farmers have adopted high-density planting and drip irrigation to raise productivity. Some have doubled their harvests, to four a year. Rather than destroy the crop, eradication just pushes it into new areas. Total cocaine output in the Andes has remained abundant enough to supply the world without anything more than occasional price spikes.

So what is to be done? Many, including this newspaper, believe that legalising cocaine is the least bad option. Such is the fatigue with the drug war in the Americas that some presidents, including Mr Santos, have begun to muse about that. But legalisation remains decades away.

Meanwhile, Latin American democracies suffer the lethal, corrosive power of the drug gangs. That was on display on May 1st in Jalisco, in Mexico, where a newish mob answered a government crackdown by shooting down a helicopter with a rocket-launcher, killing six soldiers, and setting up roadblocks across the state. Peruvians are becoming used to gangland killings in Lima; in a recent poll 72% said Peru is "on the way" to becoming a "narco-state". That is an exaggeration, but the drug trade has penetrated politics and the courts as well as the police.

No state can ignore the kind of challenge posed in Jalisco. Mexican officials stress that dismantling drug mobs is only part of a broader strategy that includes strengthening the police and crime prevention in vulnerable communities. But they are struggling to turn those intentions into reality.

The same applies farther south. Peruvian officials talk up their coca eradication. But the state barely disturbs organised crime. Peru is now the world's biggest source of cocaine and supplier of counterfeit money, and a rising money-laundering centre. Yet the government seizes less than 10% of estimated cocaine output and few of the chemicals used in its manufacture, and almost nobody has been charged with money laundering.

Colombia does much better at interdicting the cocaine trade, frequently seizing up to half of estimated production. Bello's suggestion to Mr Santos would be to forget about eradication altogether. After all, harvested coca accounts for less than 10% of the value of cocaine exports (and much less of retail value in foreign markets). Forget, too, about consumers and small-scale dealers. Instead, redouble efforts to go after the cocaine laboratories, the chemical suppliers, the traffickers and the money launderers, with better intelligence and better policing. And continue to argue for legalisation.

Also in this section

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

People-trafficking in South-East Asia

Adrift

SINGAPORE

Thanks to a crackdown in Thailand, thousands of boat people are left out at sea

FOR decades people-traffickers have plied a lucrative trade on South-East Asian waters. On May 10th their grim business burst into the open—and on to an Indonesian beach. Panicked by a recent government crackdown in Thailand that has made it hard for smugglers to land there, criminals abandoned nearly 600 migrants in boats just off the northern coast of Sumatra. The men, women and children who splashed onto the sand were sick and exhausted, but lucky. Some 7,000 migrants are thought still to be trapped on vessels in the Bay of Bengal and the Andaman Sea. Some are still in the charge of people-smugglers; others have been cast adrift. It is an emergency which the region's bickering neighbours seem ill-equipped to resolve.

Roughly half of South-East Asia's boat people are economic migrants from Bangladesh. The other half are Rohingyas, a long-persecuted Muslim minority, originally from Bangladesh but whose home is now in coastal Rakhine state in north-western Myanmar, where Rakhine officials and many from the Buddhist population are keen to get rid of them.

Migrants pay up to $2,000 for a passage to smuggler camps in southern Thailand, from where they hope to sneak across the border into Malaysia, one of South-East Asia's richest countries (and Muslim to boot). It is a long and dangerous journey. Some succumb to disease or abuse in Thai camps, where they are often held until friends or family cough up a ransom. Others are waylaid by slavers and forced to work on Thai fishing and shrimping boats.

For years the trade has carried on under Thai officials' noses. Bigwigs have, at the very least, turned a blind eye. In some places the police and navy may have helped traffickers to move people along. Yet the generals who have run Thailand since a coup a year ago have stepped up their efforts to combat the problem. On May 1st the authorities found 26 bodies at an abandoned trafficking camp in the southern province of Songkhla. They have vowed to close the rest. European countries have threatened to ban imports of seafood unless Thailand stamps out slavery. Sanctions loom should Thailand get another black mark in the American government's annual review of efforts to deal with people-trafficking.

Expecting firmer action from the Thai government, some smuggling networks had already started to process migrants on ships serving as holding pens far from shore. But that made the journey even more treacherous, just as the number of migrants has climbed. According to the UN, about 25,000 people set sail from the Bay of Bengal between January and March this year, roughly double the rate of the two previous years.

This is partly because living standards among persecuted Rohingyas are worsening. Also, more families are choosing to join men who have already made it to Malaysia. A third of the migrants are under the age of 18, and one in seven is a woman. Boats are getting more crowded, with a vessel typically carrying over 400 people. The UN guesses that 300 people died at sea in the first three months of the year.

Thai police say that they have found at least seven abandoned trafficking camps and have rescued over 300 migrants. The greatest worry is for those still at sea. Not long after the landings in Indonesia another 1,000 migrants streamed from small fishing boats onto the Malaysian resort island of Langkawi. But on May 14th Malaysian authorities said they had turned back another migrant boat and would prevent any more migrants from landing. On May 12th the Indonesian navy said that it had escorted a vessel carrying 500 migrants back into international waters after providing it with more fuel and supplies. No one wants the expense of sheltering newcomers, but Ro- ▶▶

hingyas are especially problematic because Myanmar often refuses to take them back. Neither Thailand, Indonesia nor Malaysia have signed up to the UN's refugee convention. There is little hand-wringing about the boat people.

The crackdown has slowed the number of vessels leaving from Bangladesh and Myanmar, at least for now. Yet the knotty social and economic problems (and, in the case of many Rohingyas, the violence) that drive migrants to flee are still there—along with the pervasive corruption encouraging the people-trafficking. For all the talk of deepening integration among South-East Asian nations, their response to the crisis has been piecemeal. Thailand has at least now called for an international summit to discuss regional approaches to combating people-trafficking, to take place on May 29th. For some of those now afloat, that will be too late. ■

Vietnam

Lost generations

HO CHI MINH CITY

The Communist Party back-pedals on pension reform

FOREIGN firms love Vietnam for its cheap electricity and docile workers. On the outskirts of Ho Chi Minh City, the country's economic hub, hundreds of drab factories hum with quiet efficiency. Uniformed employees file by impassive security guards; shoes, garments and widgets leave by the truckload for nearby ports.

Yet the calm occasionally shatters. In March perhaps 80,000 workers at a giant factory owned by Pou Yuen, a Taiwanese firm, walked off the job in protest at mooted changes to Vietnam's social-insurance system—suspending the supply of shoe soles to companies such as Adidas, Converse, Nike and Reebok. The employees returned to work only after a top official, Nguyen Van Nen, hinted at a U-turn. He said that a government meeting scheduled for May 20th would look for solutions to the protesters' concerns.

One change in particular has riled the workers. For years they have been entitled—oddly—to claim their pension pot as a lump sum a year after leaving a job. A new law passed last year but yet to take effect would lock funds away until retirement. That is a step backward for workers' rights, according to Le Thi Cong Nhan, a labour activist. Luong Thi Mai Thi, a 21-year-old worker at the Pou Yuen factory, says the idea of the government holding a worker's money until retirement is "unfair".

Big changes to the Vietnam Social Security Fund (VSS) seem inevitable, sooner or later. In 2013 the International Labour Organisation warned that without reform the system, created in 1995, would run a deficit by 2021 and would run dry by 2034. Pensions for civil servants, at more than 100% of their wages, are absurdly high. A declining birth rate makes the system ever less sustainable.

It is also crippled by fraud. Companies chronically underreport wages as a way of skimping on the 14% of an average worker's salary that VSS requires employers to cough up. Bosses tend not to recalculate pension contributions when giving their staff pay rises, for example. Those firms that play by the rules find themselves at a disadvantage when hiring and retaining staff, because their honesty means workers must sacrifice more of their own pay cheques, too.

But Vietnam's youthful population (more than two-fifths are under the age of ▸▸

Singaporean food

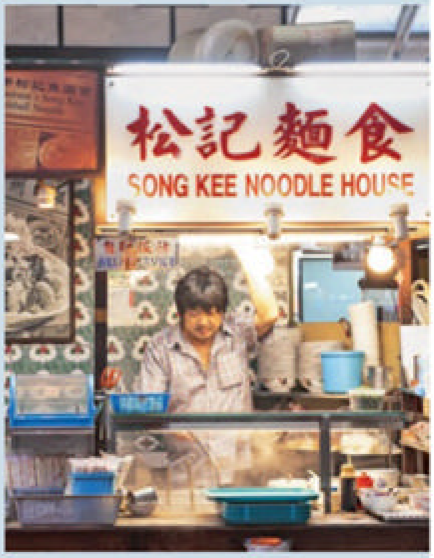
How much longer can they satay?

SINGAPORE

The future of Singapore's iconic hawkers

GOLDEN fishcakes from the size of a golf-ball to that of a baguette; mounds of chopped, glazed pork skin and offal waiting to be strewn on rice sheets and lashed with a savoury broth; fluorescent rows of steamed rice cakes—elbow your way through the lunch crowds at Tiong Bahru food centre and it is hard to believe that crisis looms.

Yet over a bowl of *bak kut teh*—braised pork ribs in a peppery stock—Leslie Tay worries about the future of Singapore's famous "hawker food", the affordable fare once sold by itinerant street-sellers but now found in stalls housed in 100-odd hawker centres dotted around the island. Dr Tay, who runs an indispensable blog, ieatishootipost, dedicated to ferreting out the best stalls, frets that Singapore may be seeing the end of hawker food in its current form.



Pining for the old ways

The main problem is that Singaporeans have grown used to paying prices that the market can no longer bear. When the government moved the first generation of hawkers off the streets and into fixed locations with electricity, clean running water and regular hygiene inspections, it kept rents artificially low as an incentive. Roughly half of the 6,258 government-managed stalls pay rents as low as S$160 ($120.80) a month. The other half, however, must pay market rates, which can exceed S$4,100 a month. These stallholders must compete with each other on price. People will not pay S$8 for a bowl of fishball noodles that they can get for S$3 two stalls away.

Some newer hawkers have turned to branding across multiple centres. This works well for foods such as fishballs and chicken rice that can be made in a central kitchen and then delivered to multiple stalls. It works less well for dishes such as *char kway teow*—Singapore's hot mess of fat rice noodles, sausage, cockles and bean sprouts—that need a master at a wok. Some chefs have gone upscale: pasta, for baffling reasons, commands higher prices than Asian noodles. Others treat stalls as incubators, trying out their talents before taking the plunge and opening a restaurant.

The government, says Dr Tay, "has committed to providing cheap food for the masses". With tiny flats and cramped kitchens, and with the number of two-working-parent families steadily rising, plenty of Singaporeans count on hawker markets for their sustenance. But with the first generation of hawkers retiring and their replacements paying market rents, food prices will certainly rise.

And as the masses change, so will the food. Some Singaporeans lament that a recent influx of immigrants from northern China has made their traditional Teochew or Hokkien favourites harder to find. Out has gone *ampang yong tau foo*, beanpaste-slathered tofu filled with minced fish. In has come *mala xiang guo*, a tongue-numbing Sichuan-style dish. In 20 years' time, a S$3 bowl of Teochew minced-meat noodles could be as hard to find as a free table at lunchtime.

25) struggles to see the benefit of locking away some 8% of their monthly salary throughout their working lives. Some workers at Pou Yuen's factory, for example, planned to use the lump sum that would be owed to them after a few years' hard graft to invest in family farms or start their own businesses. Beyond considerations of fairness, many simply do not trust the government to guard their cash piles until they retire.

In the end, fears that the strike in Ho Chi Minh City would lead to violence proved unfounded. Nor does it appear to have shaken foreign investors much. Yet Vietnam's leaders now have reason to tread cautiously. The strike was unusually large, and leaders are probably keen to suppress any signs of public unrest as they jostle for position ahead of a political transition at the start of 2016 (see Banyan). Hoang Thi Minh, an expert on social security policy at Hanoi Law University, says that the National Assembly may well agree to restore lump-sum payments.

Delaying tough reforms will doubtless make workers less secure in the long term, even though VSS is not immediately at risk of collapse. But even timely fiddling will do nothing to help Vietnam's millions of informal-sector workers, who make up about a quarter of the workforce but only a tiny fraction of people in the social-security system. "Social security is only good if you have a job and your company pays," says Tran Thi Ha, who sells vegetables in Ho Chi Minh City. In retirement, her only safety net will be whatever financial support she receives from her daughter and future grandchildren. ■

Australia's budget

No more emergencies

CANBERRA

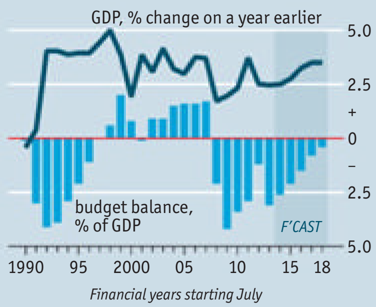
Tony Abbott's government tries to restore its political fortunes

BEFORE he led the conservative Liberal-National coalition to power in 2013, Tony Abbott promised to fix Australia's "budget emergency" by turning a string of deficits under the previous Labor government into surpluses. He endorsed a pledge by Joe Hockey, now the treasurer, to deliver a surplus in each year of his government's three-year term. Surpluses, the prime minister said, were in the coalition's "DNA".

On May 12th Mr Hockey delivered the government's second budget—and second deficit. It has grown to A$41 billion ($32 billion), equivalent to 2.6% of GDP, for the fiscal year ending in June, from a projected A$30 billion a year ago. The deficit is forecast to be A$35 billion for the coming fiscal year, with deficits of A$47 billion in all for the following three years.

Brighter future, promise

Australia's:



Sources: Australian government; Haver Analytics

A resources boom linked to China, Australia's biggest trading partner, helped Australia chalk up a quarter-century of continuous economic growth this year. But earnings from iron ore and coal, Australia's two biggest exports, have waned. Iron-ore prices have almost halved since last year. The government has written off A$52 billion in tax revenues, more than a third of that due to the falling price of iron. Feeble wage growth has not helped. The central bank sees unemployment rising a quarter of a percentage point to 6.5% by mid-2016.

The treasury still forecasts robust GDP growth of 2.75% for the coming fiscal year, rising to 3.5% three years later. That is despite the central bank predicting that mining investment will "fall sharply" over the next two years, as Chinese demand for Australia's commodities weakens. A week before the budget, the bank cut interest rates by a quarter of a percentage point, to 2%. It seems to think that more than Mr Hockey's budget will be needed to stimulate a cooling economy.

Mr Hockey is relying mainly on owners of small businesses to boost the economy. He is cutting their tax rates from 30% to 28.5%, and they will now be able to write off A$20,000-worth of new equipment. He has also promised to crack down on multinational companies avoiding taxes in Australia. Authorities have already identified 30 firms (unnamed as yet) suspected of diverting profits from Australia.

The populist ring to Mr Hockey's second budget is a far cry from his first. The budget a year ago imposed big spending cuts that fell most heavily on Australians least able to bear them. Some of its measures remain blocked in the upper house, where the government lacks a majority. A political backlash from that budget almost cost Mr Abbott his position as Liberal Party leader (and hence prime minister). The government has trailed the Labor Party in opinion polls ever since.

Now, talk of budget emergencies has faded. Some economists worry that Mr Hockey's second budget has abandoned the government's earlier commitment to a robust fiscal plan, presumably in hopes of restoring its political fortunes before an election due next year. Still, the budget has won support from some business leaders, who say it will boost investment.

Others are reserving judgment. Warren Hogan, chief economist with ANZ Bank, says that the political fallout from the first budget was "extraordinarily damaging" for business and consumer confidence. The test of the latest budget will be whether it boosts the competitiveness of Australian firms during a "painfully slow" transition away from mining to other sectors of the economy, mainly in services. Mr Hockey insists that the government is still on a "clear and credible path back to surplus". But the budget suggests that will not happen before 2020 at the earliest. ■

Apology: In our article on Cambodia, "The faithful couple" (May 9th), we drew without attribution on the exclusive reporting of the *Cambodia Daily* for two quotes from Hun Sen. We are sorry.

The media in Japan

Speak no evil

TOKYO

Japan's media are quailing under government pressure

WITH a weak opposition, an election in the bag and buoyant approval ratings, the government of Shinzo Abe, Japan's prime minister, would hardly seem to have much to fight against. Yet it is waging an increasingly heavy-handed campaign to intimidate the media. Even pro-government journalists are crying foul.

Discreet interventions by politicians have long been customary. But bullying recently broke into the open when a bureaucrat turned political gadfly, Shigeaki Koga, accused the government on a television show of strong-arming the media by securing his removal from "Hodo Station", a news show owned by TV Asahi, a liberal broadcaster. The ruling Liberal Democratic Party (LDP) promptly proved Mr Koga's point by grilling the programme's producers over the outburst under the auspices of Japan's broadcast law.

That brought the LDP close to overstepping the law's guarantees of freedom of expression, media scholars say. Other recent cases of muzzling the media include thinly veiled threats over broadcasters' licences. Last autumn the LDP demanded fair and neutral reporting on the snap general election in December. Many Japanese thought the election a waste of time and money. Television channels cut back their coverage. Not coincidentally LDP—which is able ▸▸

to get out its core voters and does better on low turnouts—won easily.

Mr Abe has objected to television interviews in which ordinary people say that his economic schemes are not helping them, though such a perception is common. Personnel changes at Japan's main broadcasters are now routinely rumoured to be down to government pressure. Even foreign journalists complain that diplomats try to steer their reporting.

The long-term aim may be a broad reshaping of the media. While the LDP was out of office in 2009-12, it blamed the media for its humbling by the opposition Democratic Party of Japan. Today Mr Abe's cherished aim is to revise Japan's constitution, written seven decades ago by the Americans, in which Japan renounces war as a sovereign right. Shifting the public away from its deeply held pacifism would require broad media backing, or at least for criticism to be muted.

A particular target is NHK, the state broadcaster. The government also summoned executives from "Close-up Gendai", a hard-hitting current-affairs programme, to answer for minor flaws. The broadcaster's newish director-general, Katsuto Momii, a friend of Mr Abe, last year declared an intent generally to hew more closely to the government line. The LDP also cheered the departure in 2013, for family reasons, of Monta Mino; his forthright guests used daily to skewer the ruling party on television, says Michael Cucek of Sophia University.

The assault on broadcasters accompanies pressure on the most forceful of the establishment-minded big daily newspapers, the *Asahi Shimbun*, sister paper to TV Asahi. Last autumn the government and conservative media outlets savaged it for its admission that some of its reporting on the imperial army's wartime use of sex slaves had relied on false testimony. The broad historical facts are not in doubt, yet journalists say that inside the *Asahi* it is now hard to write about the issue at all. The paper's political reporters are often too cowed even to ask questions at government press conferences, rivals say.

Mr Abe would never go so far as to yank a broadcast licence, says one LDP politician, for that would smack of authoritarian government and prompt retribution at the ballot box. Yet there seems plenty of scope to encourage timidity. A new law on state secrets that could send journalists to prison for receiving leaked information will presumably dampen investigative appetites. In a global ranking of media freedom by Reporters Without Borders, a Paris-based watchdog, Japan now comes 61st, a fall of 50 places in just five years. ■

Indian politics

Resurrection

DELHI

Tamil Nadu's chief minister until last year is cleared of corruption

Following a court's overturning of Jayaram Jayalalitha's conviction for corruption, we received a film script made for the former film star, titled "Amma: the Goddess Returns".

Scene: A full orchestra plays. Amma, the greatest Tamil actress of the 1960s and 1970s, appears in a colourful sari. As she dances, newspaper headlines flash across the screen: "Amma elected to run Tamil Nadu!" (1991). "Amma back in office" (2001). "Amma again!" (2011). "General election: landslide win for Amma in Tamil Nadu; quadruples her seats!" (April 2014).

Cut to: A screaming television anchor, Arnab Goswami. "Breaking news! History made in September 2014! Jailed! First time a sitting chief minister goes behind bars for corruption. Jayaram Jayalalitha, Amma, four-time chief minister, faces four years. We ask tough questions: how corrupt are our politicians?"

Cut to: Amma, convicted, is led to jail. Newspaper headlines flash. "Guilty of having disproportionate assets". "Horror: Amma supporters kill selves". "193 Amma supporters dead".

The best act of her career

Scene: A red court building, a dazzling hot day in May 2015. A huge crowd, tear-stained faces, shouting "Mother, mother", "Amma is back". From a window a 919-page court ruling flies out with a whoosh. A man with a thick moustache catches it, then calls out: "Oh happy mother's day! Overturned! Overjoyed! Freed on appeal!" Crowd roars. Camera pans out to a huge billboard poster showing world leaders, led by Barack Obama, kissing Amma's feet.

Cut to: Television news anchor. "Freedom for Amma! We ask tough questions: can we trust our courts?"

Cut to: Interior room with 10,500 saris, 91 designer watches, sparkling jewels, 750 pairs of shoes, 800 kilos of silver, 28 kilos of gold, company deeds and 44 air-conditioners. Loud jangly music. Amma, in late bloom of middle age, twirls happily, wiggles her hips, tears into pieces a price tag of "660m rupees", scattering it like confetti. She steps to a window and sings to a crowd: "I am gold, pure, and tested / My legal wallahs can never be bested." Men below beat their bare chests, sob, and sing back in unison: "Oh! This ruling is quite fortunate / We see your assets so proportionate / You're not the least extortionate / Amma you're the one!" Violins and xylophones play.

Scene: Amma skips through flower beds of Chennai's municipal gardens, to the Tamil Nadu state assembly building. Inside she dances with a middle-aged man, filmed in black-and-white—the ghost of M.G. Ramachandran, revered film star, ex-chief minister, founder of the ruling party of Tamil Nadu. She croons: "Oh this will be my fifth-time lucky / Hug me quick my honey-ducky." She continues: "Sing for me, darling, my resurrection / Perhaps I'll call a snap election / The opposition's all in tatters / I'm back in power, it's all that matters." They dance. Fade out as orchestra plays.

Banyan | Là, tout n'est qu'ordre et beauté

A generational shift looms for South-East Asia's last communist states

ALL of the three countries that make up what used to be called Indochina are deeply authoritarian. At least Cambodia holds something resembling proper elections, and allows an opposition, even if the ruling Cambodian People's Party has the state's resources at its disposal, and the strongman, Hun Sen, has been in power for 30 years. But Vietnam and Laos are run by grizzled old communist parties, and elections are non-events. Though factional splits exist, hidden from view, there is little question of these parties losing their grip anytime soon. Still, slowly the generation of leaders who came of age during the years of the Viet Cong and the Pathet Lao is slowly fading from the political stage.

The rulers' growing challenge is to balance increasingly dynamic economies with political stability. The region's young population—the median age ranges from just 22 in Laos to 29 in Vietnam—expect a better tomorrow. They also, as vibrant social media suggest, expect more from their leaders, for instance in confronting rampant corruption that runs to the very tops of the parties, as well as in standing up to China, the increasingly assertive northern neighbour. That is why leadership changes in Vietnam and Laos in the coming year will be watched closely for signs of responsiveness and renewal.

Early next year, at an important five-yearly congress, Vietnam's Communist Party will see a change of generational leadership, much as China experienced in 2012. Most of the 16 members of the Politburo are past retirement age. All four of the country's top leadership posts—party general secretary, state president, prime minister and head of the National Assembly (the legislature)—will be contested. Of current holders of those four posts, only one, the prime minister, Nguyen Tan Dung, is eligible to serve beyond 2016 (even though, at 65, he is no spring chicken). Mr Dung is the closest thing Vietnam has to a politician with charisma. He has placed economic development over communist ideology. That goes down well in a country whose population, unlike many in its ruling party, is enthusiastic about free markets. His reformism has put him at odds with the more doctrinaire Nguyen Phu Trong, the party's general secretary. But Mr Dung enjoys the growing confidence of the legislature. He is thought to want to replace Mr Trong as general secretary. If he succeeds, it would put Vietnam's more ideologically driven apparatchiks on the back foot—and signal to foreign investors that, despite several years of relatively slow growth and stubborn inflation, there is life yet in reforms.

The Lao People's Revolutionary Party also holds a crucial congress next year, probably in April. Outwardly, all will be calm. Yet behind the scenes they will be fighting like ferrets. At least five of the Politburo's 11 members are well over retirement age and due to step down. Choummaly Sayasone, the party general secretary (and state president), is 79. The coming battle appears to pit younger bureaucrats, many of whom have worked their way up from local and provincial posts, against the children of high party officials. Phuong Nguyen at the Centre for Strategic and International Studies, a think-tank in Washington, DC, reckons that at least four such princelings are poised to ascend to top spots. Their elevation would—as in China under its general secretary, President Xi Jinping—entrench a communist aristocracy. Ms Nguyen worries that this would mean even more authoritarianism and cronyism. At lower levels of China's Communist Party, meritocratic selection takes place. It is unclear that the party in Laos is up for making use of administrative talent in similar fashion.

In both Vietnam and Laos, politics is highly factionalised. Personal relationships and local business and political interests count for much. But geopolitical concerns also play a part, especially where China is concerned. A year ago China towed an oil rig into disputed waters off the coast of Vietnam, sparking deadly anti-Chinese riots around Ho Chi Minh City. A pro-China faction in the ruling party attempted to calm things down by rebuilding fractured relations—a millennia-old instinct of trying to get on with a huge northern neighbour that has often meddled in, and occasionally invaded, Vietnam. Laos, which is much smaller and weaker, has in recent years given the impression of being overrun by Chinese, something that many cadres deemed preferable to being pushed around by Vietnam. Chinese run gambling, prostitution and drug rackets in Laos's border regions, as well as agricultural colonies. And the Chinese state is heavily involved in plans for a railway linking Kunming in China's south-west to South-East Asia via Laos, which is to be loaned $7 billion to finance construction. In 2013 China replaced Thailand as Laos's biggest foreign investor as gleaming malls and office towers go up. But too many dirt-poor Lao wonder what is in it for them. Anti-China feeling is rising. In both countries, being seen as too close to China can be a liability for the ruling parties.

Spotting the strategic opening

Some in the West see a strategic opening for the United States and its friends. They note improving relations between America and Vietnam in the face of China's assertiveness in the South China Sea. And they urge America to grant Laos preferential trade terms to cement a relationship. There is precedent for a South-East Asian country swinging out of China's orbit and into the West's: Myanmar did it in 2011.

Yet for all the discomfort China causes Vietnam and Laos, at least it does not harp on about human rights, as pesky Westerners do whenever bloggers are locked up or activists disappear. What is more, China offers leaders in Vietnam and Laos not just money, but also a governance model they can recognise. They are all in the same boat, after all: a self-selecting ruling class, enriched through corruption but appealing to their people through nationalism and a promise of increasing prosperity. Probably better the devil you know. ■

Also in this section

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

Farm subsidies

Bitter harvest

CHONGZUO

A drive for self-sufficiency in food comes at a growing cost

OVER the past five years, as farm wages soared, sugar-cane growers in southern China looked across the border to Vietnam for help. They hired Vietnamese workers—nearly a quarter cheaper than Chinese ones—to tend their fields, especially during the winter harvest. The immigrants were illegal but local authorities looked the other way. Some 50,000 Vietnamese streamed annually into Chongzuo, China's "sugar capital" in Guangxi province, where cane stalks sprout from red fields nestled among the karst hills. But given recent political tensions with Vietnam, China has started to turn the migrants away. For sugar-cane growers, the effect is akin to Mexican workers suddenly disappearing from Californian fruit farms.

Even without this blow, Chongzuo's farmers should have been in deep financial trouble because of competition from cheap imports. But they were just about making ends meet, thanks to efforts by the central government to prop up the country's sugar industry. It has slowed approvals of imported sugar and bought the more expensive local product for bulging state reserves. To encourage loss-making farmers to go on planting sugar cane, officials in Beijing are considering a system of direct subsidies. Chongzuo will not be allowed to die. While blocking Vietnamese labour, the local government has started offering "sweet loans". Increasingly common recourse to such tactics is symptomatic of a widespread malaise in China's production of agricultural commodities, not just of sugar. Costs are rising, crop yields are stagnating and the government is providing ever more support to keep its farms afloat.

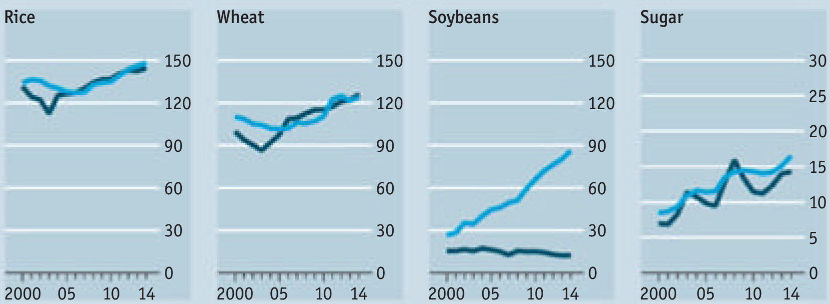
Since a largely man-made famine that started in the late 1950s, in which tens of millions died, China has defied the odds by feeding its people almost entirely on its own. It has provided for two-fifths of the world's population with just a tenth of its arable land. Now, as middle-class appetites grow, China is past the point of being able to rely on its own farms. In 2011 it became the world's largest importer of agricultural products, powered by its demand for soybeans, a feedstock for pigs.

But China's openness to soy contrasts with the barricades it erects around what it deems to be key foods. Since the earliest days of its rule, the Communist Party has striven for self-sufficiency in grains and extensive self-reliance in commodities from sugar to pork. The second draft of a proposed new law on national security, which was published on May 6th, specifies the state's responsibility for guaranteeing "grain security", a term that Chinese officials often associate with self-sufficiency. Enabling China to grow enough to feed itself was a strategic goal for Mao (notwithstanding the famine he caused). For much of his rule, the Soviet Union and America were enemies; he had little faith in global markets. Some Chinese officials think in much the same way today.

Maintaining self-reliance is expensive. China spent $165 billion on support for farmers in 2012, twice as much as five years earlier, according to the OECD, a rich-world think-tank. It also creates inefficiency. State-set minimum purchase prices for rice, wheat and corn are well above global ▸▸

Not all crops are equal

China, tonnes m



Source: USDA

levels (see next story). This helps to boost production, but it also deters farmers from diversifying into cash crops that would make better use of land resources. The state's intervention results in thirsty crops such as wheat and corn being widely grown on land where water is scarce. Chemicals used to boost their production pollute water supplies. Yield growth has slowed since the 1990s and output plateaued in recent years, but costs continue to rise—not least of labour, as the young migrate to cities.

In years when China's farms produce a surplus of staple crops, the state buys the excess for its reserves. Many other countries do the same, building up reserves to stabilise food prices and as insurance in case of drought or blight. But China's reserves are believed to be unnecessarily big (exact figures are a state secret). Its corn stockpile, for example, is estimated to cover seven months of consumption; a level of three months is normally seen as safe.

The government's grain chief, Ren Xiaozheng, has called the huge reserves "a cheerful burden", a view undermined by a state television report in April revealing corruption in the system. Officials in the north-east had bought low-quality grain at discounted prices, reporting that they had paid the higher state-set price for good grain. They pocketed the difference, stuffing the inferior product into the reserves. Such fiddling is thought to be common.

Even in the production of sugar, a commodity that is less important to China's food strategy than rice or wheat, dysfunction caused by the state's interference is abundantly apparent. Officials call for 85% of annual consumption to be met through domestic production. But Chinese sugarcane farms are inefficient, producing less than half the yield of those in Brazil, the world's biggest producer. Domestically grown sugar costs more than twice as much as international sugar. After factoring in shipping costs and import tariffs of up to 50%, it is still cheaper to buy from abroad—hence the government's foot-dragging on import approvals, to prevent the local market from being flooded.

Some officials appear to understand the need to make self-sufficiency goals more flexible. Li Keqiang, the prime minister, last year said China's goal was "absolute security" in edible grains. Some saw ambiguity in his wording: public debate ensued about whether buying more on global markets, rather than growing more at home, could provide that security. But the party prides itself on its rural origins. It does not want to stoke unrest in the countryside. So it continues to block imports when it feels domestic producers are threatened. As Chongzuo's farmers can attest, the government is still only too willing to keep farmers working on otherwise unprofitable fields. ■

China and global farming

The wrong direction

As others cut farm support, China spends more

THE total value of support given by the Chinese government to farmers exceeds that of any other country. In 2012, the most recent year for which comparative data exist, China paid out $165 billion in direct and indirect agricultural subsidies. The next highest totals were those of Japan at $65 billion and America at just over $30 billion, according to research by the Organisation for Economic Co-operation and Development (OECD).

On a relative basis, however, China's support is more in line with global norms. Subsidies as a share of farm income are about 17%, rapidly catching up with the average for the OECD, a group of wealthier countries. The most lavish spenders include Japan, South Korea and Switzerland, where subsidies account for more than half of farm income.

More troubling is the trajectory (see chart). Among major emerging markets tracked by the OECD, China is second only to Indonesia in the rate of its subsidy growth. China's farm support rose from 1.4% of GDP in 1995-97 to 2.3% in 2010-12. It is moving in the opposite direction from developed countries, which are gradually reducing such support. Average spending on it in the OECD countries fell from 1.6% of GDP in 1995-97 to 0.9% in 2010-12.

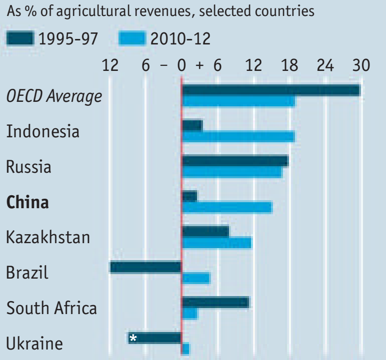
There are also concerns about the kind of support provided by China. Even those who advocate less intervention in farming by governments acknowledge that it can play a useful role in mitigating boom-bust cycles. The challenge is to design support that minimises distortions. Schemes that lead to more investment in yield enhancements or that provide flat subsidies, regardless of production levels, are best. Those that encourage farmers to plant crops even if real demand is weak are harmful.

The OECD calculates that nearly 70% of Chinese subsidies are of the most distorting sort. For example, the government guarantees minimum purchase-prices, currently well above global levels, to grain growers. Other Asian countries are worse offenders. In Indonesia, the most problematic forms of subsidies account for nearly all of the government's agricultural spending. But given China's size, its interventions and the mismanagement of its food reserves are likely to have more far-reaching consequences for global markets. ■

Propping them up

Government transfers to farmers

As % of agricultural revenues, selected countries



Source: OECD *1996-97

A taste for art

Bidding masters

BEIJING

Wealthy Chinese buy Western art

THE art world shook on May 11th when a painting by Pablo Picasso was sold for $179m at a Christie's sale in New York to an unidentified bidder—the highest sum ever paid for an artwork at auction. But a Sotheby's auction on May 5th, also in New York, caused a bigger tremor. At that sale, bidders from mainland China agreed to pay a combined total of $116m for works by Vincent van Gogh, Claude Monet and another by Picasso. It was striking evidence of China emerging as a new source of demand for the European masters, and of its buyers' willingness to bid handsomely.

Two of the successful bidders at Sotheby's were movie moguls: Wang Zhongjun, the chairman of Huayi Brothers Media, one of China's largest film companies, who took Picasso's "Femme au Chignon dans un Fauteuil" for $29.9m; and Wang Jianlin, the chairman of Dalian Wanda, a property conglomerate, who bought Monet's "Bassin aux Nymphéas, les Rosiers" for $20.4m. Mr Wang was recently named as Asia's richest man by *Forbes* magazine. He already has dozens of European works and more than 1,000 Chinese ones. Guo Qingxiang, who advises him on his art purchases, says the Wanda boss plans to exhibit the Western collection when it is large enough.

The number of mainland Chinese bidding for non-Chinese art at Sotheby's auctions doubled from 2010 to 2014: some 650 of them paid a total of more than $410m for non-Chinese pieces from Sotheby's during that period. But Mr Guo is not alone in saying that Chinese buyers are sometimes unsophisticated. If *sotto voce* sniping is any measure of the maturity of an art market, maybe China has already arrived.

Also in this section

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

Economist.com/world/middle-east-africa

The war in Yemen

From Aden to Camp David

AMMAN AND RIYADH

Could a temporary truce in Yemen help end the fighting?

THERE is a sense of grievance in Riyadh, the staid Saudi capital. The country takes pride in having gathered a coalition to counter the advances of the Houthi rebels in Yemen. In Saudi eyes, the war has been caused by Iran's backing for the Houthis, allowing them to take over swathes of the country. Yet its military efforts have been criticised not just by enemies but by allies. America, in particular, is worried by the humanitarian toll of the conflict.

So there is great pressure on King Salman, the monarch, to keep his country's side of an agreement to a five-day truce, which came into effect on the evening of May 12th. As *The Economist* went to press, the Saudis appeared to have largely halted the airstrikes that have pummelled Yemen for over 50 days, though at least one attack on a Houthi military convoy was reported.

The scale of Houthi violence also seemed to have diminished. But the group, which is allied with army units loyal to the former president, Ali Abdullah Saleh, has reportedly continued to battle tribes and anti-Houthi resistance fighters in the oil-rich central province of Mareb; in the strategically important southern port of Aden; and in Taiz, Yemen's third-largest city. On May 13th the Saudi army said that rockets had been fired into Jizan, a Saudi port town just across the border.

Few of Yemen's beleaguered residents were expecting the quiet to last the full five days. This worries the aid agencies that pushed hard for the truce on humanitarian grounds. The coalition's naval blockade—meant to stop Iran shipping weapons to the Houthis—has also prevented food and fuel from getting in. Aid workers say the country of 24m is on the brink of famine. Half the population lacks enough food, clean water, fuel and medicine, says the UN. Some 300,000 people are displaced.

UN officials who returned to Sana'a ahead of the ceasefire are trying to hand out tens of thousands of tonnes of supplies as fast as possible. They worry that any renewed aerial campaign, which has put Sana'a airport out of action several times in recent days, could halt a distribution effort that was already highly ambitious.

The Saudis may not be able to resist further retaliation. Since they joined the war at the end of March they have not let humanitarian concerns get in the way of military action. On May 8th, after announcing the ceasefire under heavy pressure from America, they intensified their campaign in the run-up to the deadline. Their bombing of Saada, the Houthis' northern provincial heartland—all of which was declared a military target in response to Houthi rockets striking a Saudi town—was so intense that aid agencies warned international law may have been breached.

Aware of the mounting criticism, this week the king was due to open the King Salman Centre for Relief and Humanitarian Action in Riyadh; he has already donated some $275m to the Yemenis. But the relatively new monarch (he came to power in January after the death of his brother, Abdullah) needs to be able to present the war as a success. The reputation of his son, Muhammad, the defence minister, whom he is grooming for power, rides on it.

For the moment, though, the Houthis are still looking successful. On May 11th they consolidated their hold over Crater and Khormaksar, two districts of the port city of Aden, despite heavy bombing. The Saudis feel, however, that the campaign is going well, and are keen to continue with it. So there are fears that the airstrikes will resume once the humanitarian pause expires, and the criticism will not be far behind.

But the truce may also offer the Saudis an opportunity to start to disengage. They are arming and training a 3,000-strong force of Yemeni tribal fighters. Some coalition members think they can persuade Mr Saleh, the former president, to switch sides. And on May 17th Riyadh will host a conference to discuss a political solution, though this is mainly a stunt since neither the Houthis nor Iran are attending. The real work of getting the parties to talk to one another is likely to be left to the UN. It has dispatched a newly appointed envoy, Ismail

Ould Cheikh Ahmed, a Mauritanian, to Yemen.

Barack Obama was expected to put pressure on the Gulf states to support the UN-sponsored process during a two-day summit at the White House and Camp David on May 13th and 14th. The meeting was meant to reassure the six states of the Gulf Co-operation Council that they are as important as ever to America as it finalises a deal with Iran to curb its nuclear programme. But the Saudis are less willing to listen to their closest ally than they once were—as shown by the last-minute announcement that King Salman would not attend in person. In the end, only two of the six GCC states sent their rulers.

The Saudis no longer think they can rely on America, says one Riyadh-based analyst. They see the war in Yemen as a dramatic omen of regional instabilities that will only worsen once America clinches the deal with Iran. The news on May 12th, as the emirs and sheikhs flew to Washington, DC, that Iran was sending a warship to accompany an aid shipment to Yemen—and issuing dire threats to anyone who tried to intercept it—only seemed to underline their point. ■

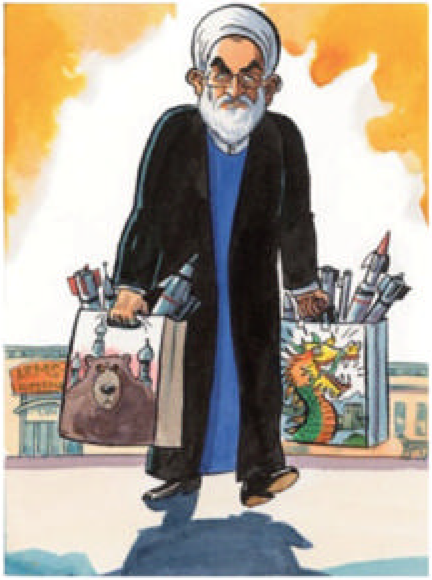
Arming Iran

After the nuclear deal

Should Russia and China expect an arms bonanza from Iran?

AMONG the many concerns voiced at Barack Obama's summit with Gulf Arab leaders this week was that a nuclear deal with Iran will open the way to sales of sophisticated weaponry to the Islamic Republic. Already there is tension between America and Russia over the continuation of the restrictive arms embargo imposed by the UN Security Council in 2010.

Less than a fortnight after the framework deal was reached on April 2nd, Russia's president, Vladimir Putin, lifted a ban on supplying the S-300 air-defence missile system to Iran under the terms of a $800m contract signed in 2007. The Russians maintain that the ban on the sale had been purely voluntary because UN Security Council Resolution 1929 only forbids the transfer of offensive weapons. But Russia is making little secret of its desire to sell a lot more military kit to the Iranians. In January, Sergei Shoigu became the first Russian defence minister to visit Tehran for 15 years, while Russia's main negotiator at the Iran talks called for the lifting of the arms embargo "immediately after [final] agreements are reached". Russian commentators estimate weapons sales to Iran could



reach $13 billion. Whether Iran has that kind of money is another matter.

The American view is that while all UN nuclear-related sanctions will be lifted simultaneously once Iran has fully complied with a final agreement, "important restrictions on conventional arms and ballistic missiles" will be re-established by a new UN resolution. A meeting in Sochi this week between Mr Putin and John Kerry, America's secretary of state, mainly to discuss Ukraine and Syria, also sought a compromise on future arms sales to Iran. Mark Fitzpatrick of the International Institute for Strategic Studies in London expects there to be a new resolution but one which allows Russia "some carve-outs for its defence industry".

Whatever is formally agreed, it seems likely that the international legitimacy that Iran expects to gain from a nuclear deal will give it growing access to military technology from both Russia and China, Iran's biggest trading partner, if not from the West (neither America, Britain nor France will jeopardise their lucrative weapons contracts with Gulf Arab states). But for all the talk of Iran's ambition to be a regional hegemon, its conventional military capabilities are relatively feeble. Decades of sanctions, distrust of foreigners, attrition suffered during the Iraq war and an indigenous industry hampered by corruption and lack of access to technology have all taken their toll.

Iran's air force is antiquated, consisting mainly of American aircraft bought by the Shah. Dependent on spares scavenged on the black market, only about half are serviceable. Although large, its poorly equipped land forces, split between the regular army and the Iranian Revolutionary Guard Corps (IRGC), are structured to prevent coups and conduct irregular warfare against an aggressor, rather than to threaten neighbours. The IRGC aids and trains proxy forces outside the country that serve Iran's strategic aims, such as Hizbullah in Lebanon (which confronts Israel and is fighting in Syria), the Shia militias in Iraq and the Houthis in Yemen. With more money from oil revenues and a stronger economy, Iran's appetite for meddling may well grow. But it lacks the capacity for traditional military power projection that made Saddam Hussein such a menace.

To compensate for this weakness Iran, with Chinese and North Korean help, has acquired considerable missile know-how which it has used to develop so-called anti-access/area denial capabilities in waters near its own coastline. Shore-based anti-ship missiles, fast missile boats, midget subs and conventionally-armed ballistic missiles that threaten its enemies' air bases, refineries and oil terminals are intended to be a deterrent against the more powerful forces Iran sees ranged against it.

And those forces certainly are powerful. Saudi Arabia's defence budget is five times bigger than Iran's. Together, the Gulf Co-operation Council countries outspend Iran on defence by more than seven to one and have access to some of the most sophisticated weapons the West can offer. America's Fifth Fleet is based in Bahrain, and it has air bases throughout the region. Iran will take decades not years to rebuild its atrophied conventional military capabilities. It knows how to make a great deal of trouble when it wants to, but a potentially dominant military power it is not. ■

Egypt's economy

The lure of Sisi

CAIRO

The president has secured investment but not yet fixed the economy

WHICH country's stockmarket delivered the best returns for investors in 2014? In spite of its struggling economy and tumultuous politics, Egypt's bourse managed to beat all comers, its index rising nearly 30% in dollar terms.

Investors piled back into the market in the belief that Abdel-Fattah al-Sisi, Egypt's strongman president, would restore order to the country after years of upheaval that wrecked the economy. Mr Sisi has consolidated power and ruthlessly crushed dissent. His firm rule and programme of economic development have also attracted much-needed investment. Freedoms must be sacrificed in the service of progress, the president argues. For now, at least, he may feel vindicated.

Most of Egypt's indicators are pointing in the right direction. Economic growth rose to an annualised 5.3% in the first half of this fiscal year, compared with 1.2% in the same period the year before. Unemployment, still painfully high at around 13%, is falling. The return of investors may be the most telling sign of renewal. Foreign direct investment is up by nearly 140% year-on-year, albeit from a low base. With a budget deficit over 11% of output, and a debt-to-GDP ratio near 95%, Egypt's government needs foreign money.

Some $12.5 billion in new aid and investments has come from Gulf states that endorse Mr Sisi's politics. But the president has also wooed more profit-driven investors by claiming to have provided stability to Egypt. At a conference in March, he announced commitments worth billions of dollars, mostly in the energy and real-estate sectors. BP, a British oil giant, called its new $12-billion project "a vote of confidence in Egypt's investment climate". Coca-Cola, a beverage producer, has pledged to spend $500m in Egypt within the next three years. Majid Al Futtaim, a Dubai-based retail operator, has increased its investments by nearly the same amount. In April Moody's, a credit-rating firm, upgraded Egypt's rating.

Investors like Mr Sisi's fiscal and economic reforms. He cut fuel subsidies, which has lowered the deficit and allowed Egypt to pay more for gas. That, along with the payment of old debts, has lured firms like BP back to the energy sector. The government hopes the new investment will ease electricity shortages that have deterred investment in other sectors. Mr Sisi has also approved measures that aim to cut red tape and improve the way legal disputes involving companies are resolved.

Yet much work remains. Egypt still ranks 112th on the World Bank's ease-of-doing-business index (see chart), behind Zambia and Swaziland. The investment minister, Ashraf Salman, admits that in order to start a company, investors must get permits from 78 different agencies. It can take up to five years. The government has promised to create a one-stop shop for such approvals, though only by the end of next year. Reforming the bureaucracy is "easier said than done", says Karim Awad of EFG Hermes, an investment bank.

More uncertainty surrounds taxes. The government has promised to lower the maximum rate for individuals and corporations to 22.5% for the next decade. But only last year the rate was hiked from 25% to 30%, supposedly for three years. Investors also complain about a new 10% tax on share dividends and capital gains.

The foreign-exchange system may be the biggest problem. Dollars have been in short supply since the Arab spring, due to declines in tourism and foreign investment. So when the Egyptian pound appeared overvalued last year, black-market traders began selling dollars at a premium. In order to wipe out the illicit trade the government allowed the pound to depreciate and placed restrictions on bank deposits and withdrawals in dollars. But a drop in the value of the euro, the currency of Egypt's biggest trading partner, has again made the pound look dear. The back-alley traders have returned.

Egypt has allowed the pound to weaken by around 8% in the past year. But the currencies of two competitors, Turkey and Morocco, have dropped by around 20%, making their goods and services better deals. Besides, those countries rank 55th and 71st respectively in ease of doing business. Morocco, which like Egypt features low wages and good transport links, has attracted big investments in manufacturing with generous tax incentives.

Some also note that authoritarianism is not synonymous with stability. The president's crackdown on dissent has pushed grievances underground. Security concerns are rising, along with scattered bombings, not just in Sinai, where jihadists are most active, but even from time to time in Cairo. Activists predict more upheaval unless Mr Sisi loosens his grip, but there is little sign that he will. Parliamentary elections were postponed indefinitely in March. The uncertainty sent the stockmarket to a four-month low last month. ■

Iraq's orchestra

The melody of life and death

BAGHDAD

Music is balm to a city at war

AFTER a bomb hit his home district, Karim Wasfi sat near the site and played his cello. It was, said the conductor of Iraq's only orchestra, a gesture to the dead as much as to the living.

Keeping high culture alive in a city where explosions claim hundreds of victims a month is the sort of job that forces you to go with the daily flow and seize opportunities. As well as honouring the dead, he has given impromptu performances at military checkpoints, psychiatric hospitals, wholesale markets, old peoples' homes and orphanages.

And against all the odds, he has kept the orchestra intact, drawing impressive crowds to concerts at the National Theatre. For safety, performances end before dark; but usually, two-thirds of the 1,200 faded velvet seats are full as musicians in dark suits and evening gowns tune up.

In some other ways, things have improved. When the strife was at its worst eight years ago, performance times and venues had to be kept secret; the fact that the orchestra can now advertise such details is a small victory. But he says that growing sectarian division means that at rehearsals some musicians sit apart.

In an oil-rich country like Iraq, there should be enough money to fund at least one orchestra. But apart from violence, corruption and bureaucracy seem to snarl things up. Mr Wasfi has not received a pay cheque for eight months, and some of his musicians get less than $300 a month. At one point the orchestra was promised a new $150m home in a proposed new opera house on the banks of the Tigris river. But work by the Turkish building firm mysteriously stopped soon after ground was broken two years ago.

So there is little choice but to live for the moment and respond to events, not all of them grim. On New Year's Eve Mr Wasfi played his cello at a traffic roundabout as families drove around, honking their car horns in celebration. As he puts it: "My concept is that life itself can be very improvisational."

Victory one note at a time

Angola

The music stops

NAIROBI

An economic wunderkind comes a cropper

MUCH conspires to make Angola the least-known big country in Africa. Its 27-year civil war has left a landscape dotted with millions of landmines and a deep suspicion of outsiders among the victorious guerrillas, who tend to speak Portuguese, the former colonial language, rather than English. They have seen little need for trade other than in oil, of which the country is the second-biggest producer in Africa.

The impact of collapsing oil prices over the past year has been devastating but was initially obscured by Angola's remoteness (getting a visa can take months). The damage is now showing. Analysts predict GDP growth of 3% this year, down from 6.8% in 2013. But some observers warn that things could turn out a lot worse. Oil used to account for about half of GDP, nearly all foreign-currency earnings and three-quarters of state revenues.

In recent months the government has stopped paying many of its bills after slashing expenditure by $15 billion, the equivalent of its entire infrastructure budget. Officials are hoping to raise a total of perhaps $25 billion. "They are tapping everyone from the World Bank to Goldman Sachs," says an African diplomat.

Road projects across the war-ravaged country of 15m people are on hold, endangering efforts to diversify away from oil. Construction firms are shedding workers at an unprecedented rate. Suppliers of machinery say orders are down by up to two-thirds. Foreign embassies report a dramatic drop in imports. State-owned companies are being told to cut costs by 30% and investment by half.

Angolan banks have frozen their dwindling dollar reserves on the orders of the central bank as the local currency hits record lows. No new credit cards are being issued, and foreign currency withdrawals are limited. As a last resort, on May 7th the government announced an end to fuel subsidies, which used to consume a whopping 4.5% of GDP.

This generally sensible move—the subsidy distorted markets and encouraged smuggling—will hit the poor especially hard in an already highly unequal society. While the elite in Luanda, the beach-front capital, enjoys European standards of living, the vast majority of Angolans struggles to attain the basics of life. Child mortality under the age of five is the highest in the world; one in six does not survive.

The government's main insurance against insurrection has been general fatigue with fighting. Nobody wants to return to civil war. Nonetheless, the government is unpopular, not least due to widespread corruption. Generals award themselves big tracts of land, in one case 300 square kilometres (115 square miles). Since the oil-price slump, the government has stepped up repression. Its most prominent domestic critic, Rafael Marques de Morais, faces defamation charges. And police recently killed dozens (the opposition claims it was more than 1000) of members of an obscure religious sect in an attempt to arrest its leader. As part of the biggest propaganda campaign since colonial times, countless billboards celebrate what is left of the economic miracle. "More electricity, more development," says one. But by night, it can rarely be seen—thanks to power cuts. ■

South Africa's opposition

Black star rising

PORT ELIZABETH

Can Mmusi Maimane persuade blacks to vote for the liberal opposition?

MMUSI MAIMANE, South Africa's youthful new opposition leader, is an agreeably modern man of his country. He grew up in Soweto, a sprawling black township on the edge of Johannesburg, the son of migrant labourers. He won a bursary to a good school, then earned two masters' degrees. He married a white woman, Natalie, whom he met through church. They live in the sedate suburbs of Johannesburg with their two young children. After a swift rise through the ranks of the Democratic Alliance (DA), the main opposition party, Mr Maimane, who is 34, became its leader on May 10th.

The new contender

His landslide election at a party congress makes him the first black man to lead the liberal DA. He takes over from Helen Zille, a former anti-apartheid journalist, who is white. She strove to shift the DA from looking like a party for whites and make it a realistic alternative to the ruling African National Congress (ANC).

Now Mr Maimane must seek to pose a serious challenge to the ANC, which has governed since 1994 and will rule, says President Jacob Zuma, "until Jesus comes again". The ANC has shed support in the past two elections, but even under the unpopular Mr Zuma it got 62% of votes last time, in 2014. That was still far ahead of the DA, whose vote crept up from 17% to 22%.

Mr Maimane acknowledges that being successful in South African politics is not as simple as being black. His party must begin to challenge the ANC in its rural heartlands and reach out to black voters elsewhere, most of them still emotionally attached to the party of Nelson Mandela.

It has a long way to go. Before the last general election Ipsos, a pollster, reckoned that half the DA's supporters were white, 27% Coloured (South Africans of mixed-race ancestry), 20% black and 3% Indian; whereas 96% of the ANC's faithful were black. In response to the DA's efforts to diversify, many ANC leaders have sneered. A cabinet member recently had to apologise after calling Mr Maimane a "hired native".

One plus for the DA is that where it has won power it has done well. The city of Cape Town and the province of Western Cape, both DA-run, are widely considered to be better governed than the ANC's main fiefs. The DA's rosy rhetoric echoes Nelson Mandela's dream of a rainbow nation.

But in recent months a smaller, angrier opposition party, the Economic Freedom Fighters (EFF), has stolen the spotlight. Led by Julius Malema, a populist former ANC Youth League leader, it has appealed to frustrated young black voters. Eusebius McKaiser, a prominent commentator, argues that Mr Maimane will need to move away from rainbow nation platitudes and tackle the thorniest issues facing South Africa, such as land reform.

Local elections next year will test Mr Maimane. A tight race is expected in the municipalities of Johannesburg, Pretoria and Nelson Mandela Bay, which includes Port Elizabeth, where the ANC squeaked back into power in 2011. If it is to advance, the DA may have to build ad hoc coalitions with other bits of the opposition. Apart from the EFF, a left-wing workers' party is being planned by a breakaway from the main trade-union confederation. Mr Maimane knows that the DA will not suddenly win national power on its own. ■

Also in this section

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

Ukraine and history

Fighting with ghosts

DONETSK, KIEV AND LVIV

As well as shells and rockets, Ukraine is afflicted by the struggle over its past

WHILE the world marked the 70th anniversary of Hitler's defeat, Ukraine's president, Petro Poroshenko, sent his embattled compatriots a mixture of messages about the past and their identity. His words and gestures had to be carefully crafted because of his country's role as a battleground between Nazis and Soviet forces, with Ukrainians fighting on both sides and suffering terribly. Sensitivity was running extra-high because, in today's war between his government and separatist rebels, many combatants feel those old battles are still in progress.

So on May 8th, the date when the Western world remembers the Allied victory, he ceremonially addressed parliament and stressed the vital role of Ukrainian soldiers (albeit in Red Army uniform) in quashing Germany. The following day, the date for Soviet victory festivities, there were further official commemorations in Kiev, the capital. They included a march past the Motherland monument, which looms over the city and is communist in style: the silver maiden holds a shield emblazoned with a hammer and sickle. But the stolid statue was adorned with poppies, a Western way of remembering war.

As Mr Poroshenko told parliament, "Ukrainians were the first to feel the effects of two totalitarian regimes, Nazi and Communist." In other words, he was rejecting attempts by Russia's president, Vladimir Putin, and his supporters in Ukraine's rebellious east, to paint all patriotic Ukrainians as "fascists", insisting instead that his nation had a place among the democracies which rejected tyranny of all kinds.

As shelling still rumbles across areas of eastern Ukraine that are held by pro-Russian rebels, Mr Poroshenko sounds a bit too hopeful when he claims that Ukraine is at last "looking at its history with its own eyes, not through the glasses of Moscow". Nothing he can say about his land's terrible travails in the mid-20th century will please everybody.

Ukraine is often presented as a country split by language, with Ukrainian predominant in the far west, Russian in the south and east and both tongues widely spoken in the centre. But in many ways ideological rifts over the past run even deeper—and have implications for the future.

Ever since Ukraine gained independence from a collapsing Soviet Union in 1991, it has been torn apart by contrasting memories, says Georgiy Kasianov, a professor at the Ukrainian Academy of Science. People in western cities like Lviv, which came under Soviet rule only in 1939, have accepted a "national" narrative that stresses the distinctiveness of Ukraine. Meanwhile nostalgia for the Soviet epoch lingered in the south and east. That does not mean that Ukrainians are obsessed by history; most are more concerned with earning a living. But Russia's propaganda, portraying last year's overthrow of an authoritarian government as a "fascist coup", has reopened historical wounds.

And although many Ukrainians played a gallant role in the second world war, it is also a fact that the country was divided. There were nationalist fighters in western Ukraine who joined the Nazis, hoping to advance their dream of independence; they often battled countrymen in the Red Army. This led to rival mythologies, says Timothy Snyder, a Yale University professor. One side stressed the Soviet-led fight against fascism, and the other a struggle for Ukrainian independence that was sometimes careless in choosing friends.

On both sides of today's front line, the fighting is presented as an extension of those 20th-century struggles. Ukrainian nationalist battalions, some of which have an arm's length relationship with the government in Kiev, see their war as the latest phase of a long campaign for freedom from Russia. Meanwhile the pro-Russian separatists call their campaign a battle against resurgent neo-Nazis and fascists.

That has troubling implications for the remaking of Ukraine as a single land. In theory, the Minsk peace plan lays down that the rebel-controlled Donbas region, of which Donetsk is the capital, will remain part of Ukraine and, eventually, be reintegrated with the whole country.

But in the separatist "republics" built round the cities of Donetsk and Luhansk, ▶▶

local leaders have not only renounced Kiev's political authority, they are also rewriting history in a way diametrically opposed to the story now told in the capital.

For example, in the so-called Donetsk People's Republic, teachers have been told not to term as genocide the *Holodomor*, the famine induced by Soviet policies in the 1930s that killed millions. The rebel republics marked May 9th in neo-Soviet style with a pompous military parade and orange and black ribbons filling the streets. Donetsk also celebrated 70 years of victory (over the Nazis) and one year of independence (from the "neo-Nazis" who supposedly dominate Kiev).

In Kiev, though, the politicians who swept into office after last year's uprising have shown two different approaches to history. Some have wisely pushed for inclusive gestures, such as celebrating both May 8th and 9th, and holding joint events with veterans from the Soviet Red Army and Ukrainian nationalist groups. But there is also a divisive faction at work. One of its successes was the passage last month of a series of "decommunisation" laws.

Two laws stand out. One officially recognises those who fought for Ukrainian independence in the 20th century, including controversial groups that are tainted in many people's eyes with fascist links. The law describes groups like the Organisation of Ukrainian Nationalists (OUN) and the Ukrainian Insurgent Army (UPA) as "independence fighters" and makes it illegal to deny their role in battling for statehood. Another law threatens jail time for publicly denying the "criminal nature" of the Soviet regime. Soviet-era names of streets and cities would have to be changed and statues of Soviet leaders torn down.

A human impulse

In some ways, this is understandable. The impulse to destroy symbols of a hated and discredited regime is deep-seated. In Kharkiv, where activists felled the country's largest Lenin statue last autumn, Sergei Yangolenko, a local pro-Kiev commander, says bringing down the monument "made it easier to breathe".

Yet if Mr Poroshenko signs them, the decommunisation laws will exacerbate tensions, not unite the country. Even as support for Ukraine's political turn to the West has consolidated, contrasting historical convictions have proved resilient. A recent poll by the the Democratic Initiatives Foundation in Kiev showed that across much of the south-east, even in regions under central-government control, the Soviet collapse is perceived in a negative light.

"We can't build a new Ukrainian nation on divisive old historical figures," Vasyl Rasevych of the Institute of Ukrainian Studies in Lviv argues. The glorification of OUN and UPA has dismayed many Jews and Poles. By elevating these groups, Ukraine "turns Hitler's henchmen into heroes", says Efraim Zuroff of the Simon Wiesenthal Centre, a Jewish Nazi-hunting group.

The irony is that the decommunisation laws remind many of the communist approach to solving problems. "They are fighting the Soviet remains with Soviet methods," says Mr Kasianov. He has a point. In 1918 Lenin issued a decree that statues "erected in honour of the tsars and their minions" be torn down, and the "old inscriptions, emblems, names of streets" be changed to reflect the "ideas and sentiments" of the revolution.

By using laws and punishments to change people's ideas about history, "we are repeating the mistakes of the past," says Mikhail Minakov, a political philosopher in Kiev. As he see things, "we are fighting with a ghost" of totalitarianism. It is a battle that can only be won with openness, free argument and light. ■

Violence in Macedonia

Danger or distraction?

After a long political ferment, a short burst of fighting

SOME things are clear. What happened this month in Kumanovo, Macedonia's second city, was the worst violence in the Balkans since 2004—and indeed the worst in that fissile country since it teetered on the edge of inter-ethnic war in 2001. Over May 9th and 10th, police made a full-scale military assault on what they called "Albanian terrorists". Eight policemen were killed, as were 14 Albanians. Fear of a new Balkan conflict rippled across the region.

But for anybody trying to work out what it all means, there are more questions than answers. According to the authorities, the alleged terrorists, many of whom came from neighbouring Kosovo, were starting a battle for a "Greater Albania" comprising Albania, Kosovo and parts of Macedonia. A quarter of Macedonia's 2m people are Albanian; since war was averted 14 years ago, power has been shared uneasily by coalitions representing both the ethnic majority, who are Orthodox Christian and speak a Slavic language, and the mainly Muslim Albanians.

It may be that the gunmen did plan such attacks. But the group is reported to have overlapped with criminal fraternities plying the border between Kosovo, Macedonia and Serbia: gangs which may have been had some leeway from Macedonia's police, thanks to political connections.

So turning on the gunmen seemed like a change of tactics by Macedonia's government, headed by Nikola Gruevski since 2006. He is hard-pressed on other fronts: since February his Social Democratic opponents have been making hugely embarrassing leaks of information, based on phone taps of up to 20,000 people which were made by the security services and somehow reached the opposition.

Plenty of people have an interest in taking the public's mind off that mess. The tapes seem to implicate members of the government in judge-fixing and vote-rigging. The next set of revelations could embarrass senior ethnic-Albanian figures. Also expected are fresh insights into the killing of five fishermen in 2012, which the state blames on Islamists. A big anti-government rally is planned for May 17th.

In what seemed like a sop to public anger, the country's intelligence chief and ministers of transport and the interior resigned on May 12th. This followed stern warnings from Western governments about the need to preserve stability. In this feverish climate, says Veton Latifi, a political scientist, few believe the official claim that the recent burst of killings was just a terrorist plot foiled; most assume that whoever stoked the fires of violence was interested in a distraction.

The public mood was captured in a viral video in which a Kumanovo Albanian tells a news crew that "nobody wants war" and exchanges a hug with a neighbour from the country's ethnic majority. The Albanian then declares that he and his friend know they are being manipulated.

The violence is a setback for a country which longs for diplomatic respectability. Macedonia has been a candidate for European Union membership since 2005, and every year the European Commission vainly calls for entry talks to start. One obstacle is posed by Greece, which objects to its neighbour's use of the name Macedonia and has also stopped it joining NATO. In this glum climate, the country has seen a dip in indicators of political health, such as press and judicial freedom. Macedonia is small, and few outsiders follow it. But it plays its part in a wider Balkan pathology of ethnic tension and misrule. "The EU will learn the hard way, there is no such thing as benign neglect," says one veteran Balkan diplomat. ■

French education

High flyers and sad failures

PARIS

A misguided effort to fix a school system that leaves too many losers behind

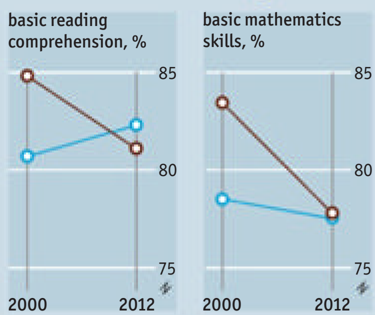
FRANCE is justly proud of some aspects of its education system. At prestigious public-sector high schools such as Henri IV (pictured), an ancient establishment in the centre of Paris, pupils emerge with rigorous, well-trained minds, thanks to a broad-based final exam, the *baccalauréat*. The country boasts five of the top 15 European business schools. Their high-flying graduates are snapped up by banks in New York and London. French tech engineers are in high demand with startups in San Francisco. Yet, although it caters well to the top end of the ability range, French education is miserably failing the bottom.

Each year 122,000 pupils—17% of the total—leave school with no high-school diploma. Last year the French army evaluated national levels of reading and comprehension during a compulsory day of military and civic service for 17-year-olds. It found that one in ten attendees could not understand basic French. Such difficulties are concentrated in the outer-city *banlieues*, where family support is minimal and schools tend to get the least experienced teachers. But even the average is dropping. According to PISA, an international comparison of education standards run by the OECD, a club mostly of rich countries, French 15-year-olds' standards of written comprehension and mathematics have fallen since 2000.

Early pre-school and primary school work well in France. The weak link seems to be the first four years of secondary, known as *collège*. This chunk of schooling, which is run with no selection for ability and along comprehensive lines, "does not today guarantee the acquisition of basic knowledge", in the words of the education ministry. Which is why Najat Vallaud-Belkacem, the Socialist government's education minister, recently unveiled an overhaul of *collège*, which she hopes will come into effect in September 2016.

A dismal trend

15-year-old students with:



Source: French ministry of education/OECD PISA results

Some elements are uncontroversial, such as a plan finally to get digital technology and programming into classrooms, an area where France is woefully behind. Others, such as the rumour that the history of Islam would replace that of other religions, have turned out to be false (in reality, Islam is already in the curriculum). But some parts of the reform package are causing widespread revolt.

The first is a move to close specialist bilingual French-German classes and give much less emphasis to Latin and Greek. Ms Vallaud-Belkacem says middle-class parents use the German-French classes, which cater to just 16% of pupils, as a proxy for selection to secure their children an elite education. Critics, however, see a sacrifice of excellence on the altar of egalitarianism. If these are rare examples of high performance in language teaching, why put an end to them? The German government is alarmed. Susanne Wasum-Rainer, the German ambassador to Paris, went to see Ms Vallaud-Belkacem over worries about the future of the teaching of German in France. ▸▸

A makeover for Milan

Time to spruce it all up

MILAN

Italy's finance-and-fashion capital gets a shot in the arm

ELECTRIC bicycles have been added to Milan's bike-sharing scheme. The city's canals have been restored, with boats now dotting a formerly dilapidated harbour. Thousands of events have been planned to coincide with Milan Expo, the world fair that opened on May 1st and is due to last six months. In its first week the fair reportedly drew 650,000 visitors.

The Milanese, with the Boston Consulting Group at hand, hope this heralds a longer-term revival. Fondazione Prada, an art foundation set up by the eponymous fashion house, has just opened a sparkling permanent abode in a revamped distillery to tickle up the city's surprisingly dull contemporary-art scene. Its presence in the old industrial quarter on the city's south side will—it is hoped—brighten up an entire area.

The Unicredit tower, which opened in 2011, has already transformed the city's skyline, while the redevelopment of the surrounding Porta Nuova district has pulled two areas together. The project, which includes residential, commercial and retail property, was bought out by Qatar's sovereign wealth fund in February and is valued at €2 billion ($2.3 billion). Westfield, a global property group, is planning to build a vast retail complex on Milan's eastern outskirts.

Such high hopes are set against a glum backdrop. From 2007-2014 the economy of Lombardy, of which Milan is the capital, shrank by 3.6%. The unemployment rate is 8.2%. Public housing is shoddy and scarce. And the building of two new metro lines, one linking up with Linate airport, will put the city heavily in debt.

Still, Italy's culture minister compares these latest projects to the rejuvenation of Barcelona and Berlin. The next decade, he predicts, will belong to Milan.

From doldrums to sparkles

Bruno Le Maire, a centre-right former Europe minister and a German-speaker, has organised a petition to abolish the reform; it has been signed by more than 230 deputies. Leftist intellectuals have deplored the dumbing down. Even Jack Lang, a Socialist former education minister, said he was "shocked" by the relegation of Classics.

In the face of this outcry, Ms Vallaud-Belkacem has retreated a bit. She has agreed that Latin should still be an option for pupils, though with fewer classroom hours. And she claims that in theory just as many pupils could still learn German under the new scheme, since all pupils will henceforth learn two foreign languages—although nothing guarantees that German will be one of them. The minister has been less accommodating so far over the second source of indignation. This is her plan to make teaching more "fun" and inter-disciplinary, to encourage more teamwork and to give teachers more freedom over how they do their job.

To the outsider, this sounds like common sense. Educationalists point out that the best global cases of improved school results, such as those in the Canadian province of Ontario, have been achieved when schools were given more autonomy. Finland, a high performer in PISA, makes much use of inter-disciplinary projects and teamwork in classrooms. The old-fashioned, desks-in-a-row French approach is in many ways ill-suited to the changing nature of jobs in the knowledge economy. It is a measure of how much is still dictated centrally that it is seen as radical to let teachers use 20% of weekly classroom time for the new ideas, and to decide themselves how to put them into practice.

The debate has turned into an ideological battle. Nicolas Sarkozy, the leader of the centre-right and a former president, has called the reforms "disastrous". There has been much mockery of the idea that pupils will be building tree houses in the playground, or studying rap lyrics rather than Racine. Some teachers consider the idea of cross-subject projects an assault on disciplinary purity, not to mention their preparation time. The notion that anybody should worry that pupils are "bored" in class, as Ms Vallaud-Belkacem put it, is judged preposterously indulgent. Teaching unions have called for a strike on May 19th.

The real difficulty is that ideological differences are getting in the way of a proper debate on how to improve school results and ensure that all pupils, including those in the peripheral *banlieues*, leave school with basic skills. Too many questions are not even on the table, such as poor levels of pay in the teaching profession, head teachers' lack of freedom to recruit their own staff, and the difficulty they face getting rid of poor teachers. Greater autonomy ought to be part of the solution. But so far it seems to be judged a problem. ■

German wages

Misery with a silver lining

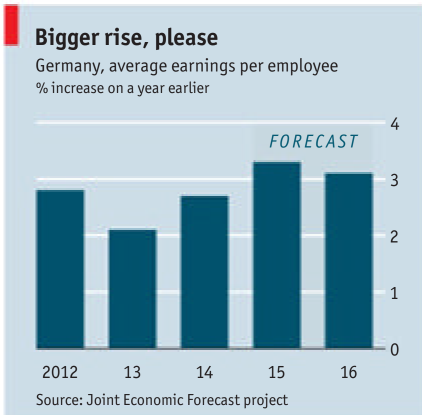
BERLIN

When strikes are a sign of health

COPING with strikes is a new experience for Germans. This week parents had nowhere to drop their kids because crèches were closed. Verdi, Germany's largest trade union in the service sector, called a stoppage to demand pay rises averaging 10% for pre-school teachers. People also had to wait longer for mail: once again thanks to Verdi, postal workers struck, seeking a 5.5% hike and shorter hours.

Disruptions were even worse the week before, when a train drivers' union halted service for six days. It was the union's eighth strike in ten months. Pupils were unable to travel to their college-entrance exams. New cars waited idly to be transported to buyers. And ordinary commuters turned into a miserable, cranky mass of humanity as they squeezed into buses or underground trains which were unaffected. This recalled the misery of last year, when the pilots' union struck, grounding thousands of Lufthansa flights.

Such labour strife is rare in Germany, which is known for its orderly and consensual industrial relations. Indeed, a decade ago, employers and unions were so civil with each other that they agreed on years of wage restraint, just as workers in the southern euro zone were getting excessive rises. This made German goods competitive, but also led to the current-account surpluses that threw the euro zone and parts of the world economy out of whack. Restraining German wages amounted to an internal devaluation; it had the same export-boosting effect as would have been achieved by depressing the national currency if Germany still had one.



Now a low unemployment rate (6.5% in April), rising domestic demand and inter-union competition are making workers bolder. But that is by no means all bad. In some ways this new upward pressure is "exactly what is needed", says Hans-Werner Sinn of the Ifo Institute, a think-tank in Munich. It marks a revaluation relative to crisis economies such as Greece, just as those countries are now deflating their prices and wages.

German wages per worker rose by 2.7% last year, faster than inflation. Germany's four leading economic think-tanks project vigorous real wage growth this year and next as well. Growth is fastest in booming sectors like construction.

For poorly-paid jobs, a new minimum wage has helped. And white-collar jobs are also paying more; a recent study of 12 developed economies by Robert Half, a human-resources firm in Munich, suggests that German professionals can expect the biggest raises this year. If they are lucky, they will be able to spend the money on flights and trains that run to schedule. ■

A change worth waiting for

Charlemagne | Small boats, choppy seas

BRUSSELS

A plan to deal with the boat people is ambitious, but the outcome will be woefully inadequate

THE European Union faces an ocean of troubles, from the integrity of its currency to the security of its neighbourhood. Yet none presents as bewildering an array of difficulties as the movement of people. In under 10,000 words the European Commission's "agenda on migration," unveiled on May 13th, identifies war, poverty, globalisation, persecution and climate change as forces driving migration from outside the EU. And it touches on challenges like multilateral diplomacy, criminal networks, military intervention and the ageing of European societies. Next to lists like these, fixing Greece or Ukraine looks like a doddle.

So large is the conundrum over migrants, especially of boat-people in the Mediterranean, that the EU has done its best to forget about it. Until last month, that is, when it received a grisly reminder that they had not forgotten about Europe: in a few days more than 1,000 would-be migrants drowned off the Libyan coast. An emergency summit was convened amid the often-heard call that such tragedies could not be allowed to happen again. Yet leaders agreed on little beyond a commitment to spend more on border-surveillance missions, and a pledge to think about a military mission to capture or destroy smugglers' boats (for which a mandate from the UN Security Council is needed).

The strategy is more ambitious than leaders might have expected when they urged the commission to draw up "a more systemic and geographically comprehensive approach". It proposes a one-off pan-European scheme to resettle 20,000 refugees from third countries. It promises technical assistance to "front-line" countries like Italy, Malta and Greece (and warns that they will be punished if they nod through migrants making their way to the wealthier north). It also aims to improve the EU's dismal return rate (39%) for failed asylum-seekers.

Most controversially it calls for the relocation of most asylum-seekers who reach the EU, so that the burden of processing them may be more equally shouldered. The country-by-country allocation would be determined by a "distribution key", based on population, economic strength and refugees already present.

Taken together, suggests Frans Timmermans, the powerful Dutch commissioner who has overseen much of this work, the ideas should restore public trust in a broken system and, perhaps, open the door to more ambitious plans in future. Mr Timmermans is right that asylum policy across the EU is a mess. After a series of "harmonisations" most countries are supposed to apply similar criteria to asylum-seekers' claims. But Germany, for example, grants asylum to 94% of Syrians who apply; Greece just 60%.

Asylum is only part of the picture. Migrants seeking better economic prospects crowd onto boats as keenly as refugees from civil wars. If they get in, Europe often finds places for them, for, as the new strategy notes, Europe's migration policy is not equal to "the economic demands of a Europe in demographic decline." Even more than with asylum, European countries make their own policies for economic migration. And set against the fiery anti-immigration politics of many European countries, the good intentions in Brussels can melt like icicles in the sun.

That explains why two huge questions loom over this week's strategy. The first is how governments will react; the proposals must be approved by EU leaders at a summit in late June. That will bring more than the usual squabbles. Eastern Europeans with little experience of housing and integrating refugees will hardly be placated by the small sums of money on offer. (Hungary is already kicking up a stink.) Denmark and others will complain about rewriting the EU's asylum rules. And Britain, despite an opt-out that means it need not accept a single refugee, is not keeping quiet. Big countries like Germany, France and Italy are behind the plan, which is an achievement. But the strategy released this week sets the bar deliberately high for governments; one way or another they will surely lower it.

The bigger problem is that, until the EU works out how to end war and poverty, no proposal can match the scale of the problem. Almost 180,000 tried the Mediterranean crossing last year. Many more entered Europe via other means, or overstayed visas. The sum of 20,000 refugees to be resettled looks impressive only if set against Europe's low ambitions. Only four countries will be asked to take more than 1,000 refugees. But millions are languishing in Turkish and Lebanese camps. If this plan is supposed to be an alternative to boats in the Mediterranean, it fails.

Growing old disgracefully

With delicious timing this week the commission also published a sobering demographic forecast. By 2060, it said, the EU's population will be in absolute decline. There will be just two workers for every man or woman over 65, compared to four today. If Europeans want to continue to fund the generous health care and pensions they have awarded themselves, then in the absence of a hitherto concealed fondness for procreation they will have to attract more workers from abroad.

The ambitious young men and women who leave their homelands for better lives in Europe might be a good fit for countries facing long-term labour shortages. But that is a hard sell when wages are stagnant and unemployment high. Moreover, countries would prefer to pick their migrants rather than the other way around. On how to manage channels for legal migration, and open EU markets to help neighbours develop their economies, the commission proposes little that is new and leaders will agree to even less. They need to be far braver.

The commission deserves credit at least for acknowledging the scale of the problem. And EU leaders are now willing to talk about how they might tackle it collectively. That is progress, but of the mildest sort. ■

Economist.com/blogs/charlemagne

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

The new government

David Cameron's big embrace

Emboldened and strengthened by his electoral triumph, the prime minister sets out to finish what he began a decade ago

AT THE general election on May 7th David Cameron led his party to its first majority in the House of Commons for 23 years. The next day he did something almost as important and surprising: he drew the right lessons from his win.

The prime minister had run a solid, unspectacular campaign focused on stability and competence. Worried by the opposition Labour Party's economic instincts and its possible reliance on Scottish nationalists to govern, voters dutifully turned out for the Conservative Party. True to the modest mandate they had given him, Mr Cameron talked about giving Britons "a good life", promised apprenticeships and house-building and hailed his party's unifying, "one nation" tradition.

He was also reviving the original mission of his leadership. The Tories were in despair when he took over in 2005, three election defeats and three previous changes of leader since the party had last won an election. In the eyes of voters it was still too curmudgeonly, exclusive and right-wing to be put in charge of Britain. Mr Cameron set about trying to change that. He spoke earnestly of protecting the environment and boosting national happiness. Yet his upbeat, quality-of-life politics began to seem eccentric after the financial crisis, when joblessness and debt soared. Many Tories blamed Mr Cameron's airy, garbled message for their failure to win a majority at the 2010 election. In the coalition that ensued, the centrist Liberal Democrats, with their greenery and social liberalism, made the Conservatives look like dull accountants at best, bad guys at worst. The Tory modernisation programme was put in the freezer.

Freed from the complexities of coalition, Mr Cameron now seems to be defrosting that programme—and adding the cost-of-living dimension that its first iteration naively lacked. The new focus has been evident in senior Tories' language. All are now crow-barring "one nation" into their comments. At the first meeting of his cabinet, Mr Cameron said his priority would be to find "bread-and-butter" ways to improve people's lives. His guiding principles, he added, would be "true social justice and genuine compassion".

Some of the prime minister's appointments point in a similar direction. On May 8th he made George Osborne, the liberal chancellor of the exchequer and co-author of his political project, the first secretary of state—deputy prime minister in all but name. He then promoted Mr Osborne's reformist allies, including Sajid Javid, who became business secretary. Robert Halfon, a champion of blue-collar "white-van Conservatism", was rewarded with his first ministerial job.

One of Mr Cameron's first priorities is to double parents' free child-care allowance from 15 to 30 hours a week. In his speech on May 8th he hailed Mr Osborne's "northern powerhouse" scheme to integrate and empower the northern English cities (still electoral no-go zones for the Tories) and bolstered this by making Greg Clark, a fervent decentraliser, local-government secretary. He promises to keep Scotland in the United Kingdom by giving it "the strongest devolved government anywhere in the world".

It remains to be seen whether Mr Cameron can lead his party down this sunny, temperate road. The Tories have a working majority of just 15—smaller than the number of MPs who want to concentrate on traditional right-wing priorities like crime, immigration and the European Union. Already some are muttering about the last of these (see next story). An impending battle over unpopular rulings by the European Court of Human Rights will only inflame the decades-old Tory obsession with Europe, even though it is separate from the EU. At a time when MPs in general are becoming more independent and ornery (the last parliament saw more rebellions than any since 1945) that bodes ill for Mr Cameron's plan to convince voters that his party has changed.

For now, though, the prime minister is in a delightfully strong position. With the Lib Dems gone, he has more patronage to bestow. He can pull the levers of government without having to negotiate with his coalition partners. And if, despite the efforts of his party's cantankerous wing, he succeeds, he could open up to his party new segments of the electorate beyond its southern, middle-class strongholds. Labour is downtrodden, faces months of internal debate and may tilt left (see Bagehot). The Lib Dems have been reduced to a tiny, traumatised rump. The centre ground is there for the taking. A decade after he first set his sights on it, Mr Cameron has a chance to seize it. ■

Britain and Europe

The interpreter

David Cameron embarks on two simultaneous negotiations over Britain's EU membership

POLITICAL negotiation is done differently on different sides of the English Channel. In Westminster parties threaten, bluster and slap red lines on tables. "Non-negotiables" are brandished. In the end somebody wins. In Brussels negotiation is a silkier business. Forms of words are found, disagreements are smoothed over or conveniently overlooked and compromises brokered. Each side leaves the room with something—or at least feels that way.

David Cameron now finds himself caught between these two cultures. The prime minister never wanted to make Britain's relationship with the EU a priority. In his first conference speech as party leader, in 2006, he told the Conservatives to stop "banging on" about the subject—one that electrifies some of them but stirs voters little. Yet in 2013, under pressure from his MPs and the anti-EU UK Independence Party, he conceded that he would renegotiate Britain's membership and put it to a referendum by 2017 if he was re-elected. He now has two years to make good on the pledge.

Predictably, the running commentary on his efforts from within his party began within hours of his win. Negotiating with Brussels will be like negotiating with a brick wall, mused Peter Bone, an inveterate Eurosceptic, adding: "I only hope he knocks the wall down." Boris Johnson, the mayor of London and a newly elected MP, warned Mr Cameron that he must threaten to take Britain out of the EU if he does not get what he wants. David Davis, a leading anti-EU campaigner, announced that up to 60 MPs were ready to demand that the House of Commons be able to veto all new legislation coming from Brussels.

The reaction from the continent was as trepidatious as that from the Tory Party was boisterous. German newspapers called for negotiations "conducted with respect" and with "good will". *Der Spiegel* magazine called on Mr Cameron to stand up to his "noisy Eurosceptic back benchers" rather than giving in to their "blackmail". "There are rules in Europe, and among those rules there is consultation," cautioned François Hollande, the president of France.

Mr Cameron will try to reconcile these two worlds—by having it both ways. At home he will talk tough. On May 11th the victorious prime minister told his MPs (to loud cheers and fist-banging on tables) that he had won a mandate for a "tough" renegotiation. In his reshuffle he pleased back benchers by reappointing Philip Hammond, a firm Eurosceptic, as foreign secretary. He also put Eurosceptics at the helm of the justice and culture departments and found ministerial jobs for a bevy of younger ones. That ought to please the Tory right while binding in some notorious troublemakers: by convention, ministers do not openly criticise the government.

In his dealings with other European leaders, by contrast, the prime minister has adopted a conciliatory stance. Shortly after his election win he hit the phones to open discussions. Over the coming weeks he and George Osborne, the chancellor of the exchequer, will try to build relationships and find out what others will tolerate before the European Council summit on June 25th, when the prime minister plans to set out his demands. These are likely to include new restrictions on welfare claims by recently arrived EU migrants, a reduction in red tape, progress on market liberalisation (particularly developing the single market in services), new measures to prevent euro-zone members from marginalising non-euro countries, and a British exemption from the reference to "ever-closer union" in European treaties.

Will he get his way? Some of the changes Mr Cameron has proposed, especially restrictions on tax credits and other in-work benefits for new immigrants, might require changes to EU treaties. Almost no country wants treaty change in the next year or two—it would trigger plebiscites and would open the door to French and Italian demands for stronger social protections, thus making the EU even less Anglo-Saxon. Mr Cameron might be able to secure concessions that could be inserted into the treaties later on. But Eastern European governments have already warned that freedom of movement is sacred—and removing tax credits from new immigrants could be interpreted as an attack on that freedom.

Mr Cameron has allies. Finland's new government is co-operative, while Germany and the Netherlands support parts of his agenda. In Frans Timmermans, the reformist Commission vice-president, the prime minister has a comrade in his battle against red tape (though he and others saw Britain's criticism of European plans to rescue refugees in the Mediterranean as a bad start to the renegotiation). The Foreign Office thinks it will be possible to secure the "ever-closer union" opt-out—a symbolic victory, if nothing else. The prime minister appears to realise that he needs to work to improve his relationships with other European leaders. In the past he has been seen by his prospective partners as rather "transactional", says Charles Grant of the Centre for European Reform, a think-tank.

Still, the overlap between what the majority of his MPs will accept and what his European partners can grant will shrink as the political capital of his unexpectedly good election result seeps away. Mid-term gripes will multiply in Britain, making the referendum harder to win. By late next year, France and Germany will both be approaching elections, so their leaders' attentions will be focusing on home. For that reason, Mr Cameron is reportedly seeking to get his renegotiation done in the second half of this year, before a referendum next year. As he tacks between his party and Europe, he will find momentum the surest ally of them all. ■

What would Peter Bone do?

Bagehot | For the loser, the scraps

British voters have showed a crushing disdain for the Labour Party. It faces a painful recovery

IN THE election's blurry aftermath, as Bagehot, dull with tiredness, struggled to think through the causes of the Labour Party's calamitous defeat, he found clarity in a traditional journalistic resource: the taxi-driver who ferried him between television studios. A 40-something British Pakistani, resident in Essex and one of five sons to an immigrant father, none of whom had previously voted for anyone but Labour, he mentioned that three, including himself, had just voted Tory. "Because of the economy" he muttered gnomically, then added, as if it were hardly worth mentioning, "and because Ed Miliband's completely useless."

As members of Labour's depleted parliamentary cohort look with bleary eyes on the wreckage of their party's hopes, they should find in that disdainful verdict, echoed nationally in their worst result for three decades, a reason for hope. Voters' dismissal of Mr Miliband's left-wing vanity project was resounding. To compensate for its expected wipeout in Scotland, Labour had targeted 80 Tory-held seats in England and expected to win around half of them. In the event, facing an unpopular governing party, which had cut a million jobs from the public sector and public spending by £120 billion ($190 billion), it made a net gain of four. That points to a gross humiliation for Mr Miliband—but also, signposted in neon, Labour's only viable path to recovery.

The gravity in British politics did not shift, as Mr Miliband thought, to the left after the financial crisis. It remained where it ever was, in the cautiously conservative centre ground. That is where most British voters, grudgingly respectful of the market because aspirational, grumblingly demanding of the state because used to being nannyed by it, reside. Every Labour electoral victory of the past half century has accordingly been won from that terrain. And if the party wants to win another it must reclaim it, as Tony Blair, who pulled off three victories, and his former acolytes have been quick to argue. Asked what Mr Miliband lacked, the former Blairite minister Peter Mandelson replied, "an economic policy". An Essex cabbie could not have put it better.

Others in Labour, with its history of self-validating opposition, are trying to bury that truth as effectively as the "Ed Stone"—a slab of limestone hubris, chiselled with Mr Miliband's electoral promises—has been carted off to a south London lock-up. Len McCluskey, leader of the Unite union which funds Labour, has suggested the party's defeat was more for presentational than political reasons. Labour "lacked a coherent narrative linking together individually popular policies", he reckons. And because most of its losses were to a party preaching socialism—the Scottish National Party (SNP), to which it lost 40 of its 41 seats in Scotland—that view will no doubt gain support. Yet, among the many ways in which it is wrong, it ignores the fact that the SNP is not really a left-wing party.

Judged on its governing record in Scotland, it is a conservative one. The SNP has held down taxes and held back spending on universities and hospitals, even as it disingenuously accuses the Conservative-led government in Westminster of doing precisely these things. Its socialist rhetoric is little more than a willing suspension of disbelief by which Scottish voters kid themselves that they are more altruistic and less nationalistic than they truly are. It is a national delusion, not something Labour can outcompete on the left. And if it tries, as Mr McCluskey would like, it will become irrelevant elsewhere in Britain, which, lest the union meister forget, has just elected a majority Tory government.

It is astonishing, two decades after Mr Blair won the argument against his party's unelectable left, that it is being rerun. It also risks diverting attention, in the four-month window the party has given itself to elect a new leader, from the subtler choices Labour faces. Because while the Blairites' prescriptions are necessary, against proliferating troubles, they also look insufficient.

Mr Blair's frantic overture to the aspirational, mostly English, middle class was based on an assumption that Labour's working-class base was solid. Now it is splintering, and not merely because of the SNP. The UK Independence Party bit deep into its northern English votebank and cost it (not, as had been predicted, the Tories) marginal seats elsewhere. Labour lost perhaps a dozen seats to the Tories—including Bolton West, Corby and Morley and Outwood, formerly occupied by the shadow chancellor Ed Balls—for this reason. Similarly, the Tories probably held onto a score, including Nuneaton and Thurrock, because UKIP hurt Labour there most. Where Mr Blair battled the union dinosaurs, Labour's next leader will face a three-headed hydra: Tories in the south, UKIP in the north, the SNP in Scotland.

Wanted: hero, must be versatile

And there is no hero to hand, but an emerging handful of pretenders to the role, who are at best promising. Mr McCluskey's likely choice, Andy Burnham, is low down that list. The former Blairite health secretary, who has renounced the liberal reforms he helped bring, appears lightweight and fecklessly populist. Chuka Umunna and Liz Kendall, both Blairites, yet untainted by the in-fighting of the Blair era, are worthier of consideration.

Mr Umunna is Labour's star media performer, has a compelling personal history, and was at times a lone battler against Mr Miliband's anti-business pitch. Ms Kendall, a more provincial figure, is clever, sensible and the candidate half a dozen Tory MPs told Bagehot they would most fear. Yvette Cooper, the shadow home secretary, is politically inscrutable, yet organised and influential in Labour. Tristram Hunt, the stylish shadow education secretary, probably has the most interesting mind of the lot, but may lack hunger for the task.

If so, he is on to something. Because whoever leads the party faces more complicated politics than Mr Blair did, in a colder economic climate and, in the SNP especially, more formidable opponents. To succeed is going to take a Herculean Labour. ■

Parenting and work

A father's place

Men have long been discouraged from playing an equal role at home. That is at last starting to change

AT A "boot camp" for parents-to-be in New York, course leaders guide their students through baby maintenance for beginners: what goes in, what comes out, and how to keep them warm and clean. The students have the same questions and worries as expectant parents the world over. But there is one difference: at this particular boot camp, they are all men.

The City Dads Group, which offers the course to new and expectant fathers, was founded when Matt Schneider and Lance Somerfeld became fathers and discovered that society saw their place as firmly outside the home. New York was full of parents' support groups, but nearly all were aimed at mothers. Parenting classes focused on birth and breastfeeding, not child-rearing; general-interest groups were needlessly gendered, such as a music class called "Mommy and Me". Frustrated, the friends set up their own group, which has spread to 17 cities in America, helping dads who want to get involved from day one. "Fatherhood doesn't start when they join the Little League," says Mr Schneider.

Around the world, legal and financial support for new parents is better than it has ever been. According to the International Labour Organisation (ILO), 85% of countries now provide at least 12 weeks' maternity leave. In all but two of the 185 countries it surveys mothers are entitled to some leave paid for by the state, employers or some combination of the two. (The hold-outs are Papua New Guinea and America, although a few states offer basic support.) Though only a third of countries meet the ILO's recommended minimum of at least 14 weeks off for new mothers, paid at two-thirds their salary and funded publicly, the picture in the rich world is broadly good, and in the poor world improving.

But how many countries meet the ILO's guidelines on paternity leave? None, because no such guidelines exist. Though it publishes detailed advice on such matters as breastfeeding breaks for female employees, the organisation has drawn up no formal recommendations on fathers' rights and duties. Until recently, national governments have been similarly uninterested: less than half of countries offer paternity leave of any sort. Only around half a dozen offer new fathers more than a fortnight. Employers, not the state, usually foot the bill. In the eyes of most of the world, responsibility for bringing up baby still falls squarely on the mother.

It takes two

That view is slowly changing. Growing evidence suggests that children benefit from seeing more of their dads (see next article). But much of the demand for a shift in attitudes towards parenting has come from women, who have started to conclude that they are victims as well as beneficiaries of generous maternity-leave policies.

Most countries have found that when they offer decent maternity leave, they increase female employment. If women have no right to take time off, or are entitled only to short or poorly paid spells of absence, many have little choice but to leave the workforce when their baby is born. If they can take a few months of paid leave before returning to their old job, they are more likely to continue working. American states that introduced a right to family leave found that women were 5% more likely to go back to work within nine months of giving birth. Canadian provinces experienced a similar effect when they began to introduce maternity leave a generation ago. A review examining 40 years of evidence across 30 members of the OECD, a club of mainly rich countries, found that female employment rises until the maternity leave allowance reaches two years. Only then does it start to ebb, as women decide not to return to work.

But it turns out that even shorter maternity breaks have unintended consequences. Time away from the labour market reduces women's earning power, as their skills degrade and they miss chances to gain experience and win promotion. Moving into senior management becomes particularly hard, partly because of discrimination by bosses and hiring committees, who reject candidates they think may be away a lot, and partly because many high-level jobs are hard to combine with serial leave-taking. In Germany studies have found that each year of maternity leave a woman takes lowers her earnings upon resuming work by 6-20%. In France each year of absence is estimated to lower earnings by 7-17%.

The effect is magnified when lengthy maternity leave is combined with policies to encourage part-time work, which tempt more women back into the labour force but help keep them in junior positions. Francine Blau and Lawrence Kahn of Cornell University found that in America, where miserly maternity policies mean ▸▸

relatively few women work outside the home, those who do are more likely to work full-time and twice as likely to hold managerial positions as women in other rich countries.

Rather than simply cutting maternity leave in response to such findings, a growing number of governments are trying to spread the child-rearing burden (or joy, depending on how one looks at it). Last month Britain became the latest country to combine maternity and paternity leave into a single chunk of parental leave, to be split between mother and father however they see fit. Several European countries, as well as Australia and New Zealand, already have such a system. The extreme in gender-blindness was reached in Sweden's 1995 Parental Leave Act, which was so right-on that it contrived not even to use the words "mother" and "father".

The problem is that dads tend not to take up the offer. In Austria, the Czech Republic and Poland, where all parental leave is transferable, only about 3% of dads make use of it. Swedish mothers complain that their partners always seem to book their leave during the elk-hunting season. In Britain the government has billed its shared-leave reform as a step forward from the previous, "Edwardian" system, under which mothers got 52 weeks off and dads got two. But its own estimate is that only 2-8% of dads will take more than their existing fortnight. The reform will make "barely a ripple", predicts Rebecca Asher, whose book, "Shattered: Modern Motherhood and the Illusion of Equality", laments the "time machine" of parenthood which transports women back to the sexist 1950s.

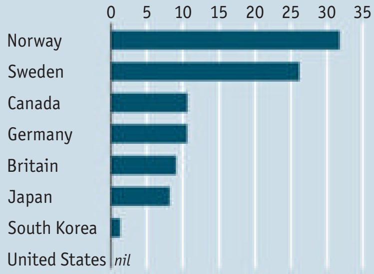
One reason for low take-up by fathers is financial: even pre-childbirth, women are paid less than men, meaning that their salaries are easier to forgo during a period of unpaid or low-paid leave. But cultural pressures also weigh heavily. A rise in adoptions by gay couples—who in most countries are entitled to the same parental leave as everyone else—has helped make clear that time off is about bringing up the baby, not just recovering from childbirth, says Mr Schneider. But society still tends to see mothers as the main carers, with dads as blundering sidekicks. An advert for Huggies nappies a few years ago showed them being put to "the toughest test imaginable: dads", who were portrayed as well-meaning buffoons. Fathers who ask for more than a minimal time must prepare to be "trailblazers" in their workplaces, Mr Schneider tells the City Dads.

To overcome these obstacles, some countries are giving fathers a firm nudge. In a few, including Chile, Italy and Portugal, paternity leave is compulsory. Others offer incentives that are hard to turn down. Sweden has relaxed its gender-neutral approach and now grants a bonus to parents who share leave more equally. Swedish

Because they're worth it

Public spending on parental leave per child

2011, $'000 at PPP*



Source: OECD *Purchasing-power parity

dads now account for more than a fifth of all parental leave taken, compared with almost none when shared leave was introduced. Germany introduced a similar system and saw the share of fathers taking time off rise from 3% in 2006 to 32% in 2013. In Norway, which has ring-fenced leave for dads, seven out of ten now take more than five weeks off. Poland has switched from shared leave to gender-specific quotas; France gives bonus payments to couples that split child care between them.

Where leave is well-paid and not seen as "belonging" to the mother, dads seem willing to request it. A little bribery, in the form of extra money or time off, accelerates the take-up. State meddling in what has historically been regarded as a natural division of labour may irk some. But traditional maternity leave, which channels men into breadwinning and women into child-rearing, is hardly neutral. And shared parenting stands to improve women's careers, children's development and perhaps even dads' life satisfaction. ■

Paternity leave and child development

The dad dividend

Children whose fathers take even short spells of paternity leave do better

MOST fathers who are not entitled to paternity leave look with envy upon the dads in other countries who get to spend months at home with their child. Others may breathe guilty sighs of relief as they escape each morning to their peaceful offices. But never mind the dads: the intended beneficiaries of paternity leave are the children. What do they get out of it?

A review by the OECD, a club of mainly rich countries, examined longitudinal studies of children born around the turn of the century in America, Australia, Britain and Denmark. Though the four countries enjoy similar standards of living, they take differing views on the value of having both parents around. In Denmark, 99% of the dads in the cohort took at least a week off when their child was born, and 90% took more than two weeks. In America, where fathers have no right to paternity leave, a quarter took less than a week and two-thirds were back at work before their baby was a fortnight old.

Dads were asked whether they helped with basic parenting responsibilities, from reading stories to brushing teeth. No country covered itself in glory: for most of the chores, less than half the dads reported helping. But after controlling for income and education, the researchers found that fathers in all countries who had taken time off work when their child was born were more likely to pitch in than others. Five out of ten who had taken paternity leave claimed to change nappies daily, against four out of ten of those who hadn't; they were also more likely to feed, dress, bathe and play with their child.

Moreover, the survey showed that these habits, formed during the child's first year, seem to stick. By the time the children were aged two, dads who had taken leave still reported doing more than those who hadn't. And as their children got older they branched out from routine drudgery to more educational interaction. In Britain dads who took time off at birth were almost a third more likely to read books with their toddlers than those who hadn't; in America the difference was nearly a half. Paternity leave is too new in most places for longer-term effects to be known. But a Norwegian study found that it improved performance at secondary school; daughters, especially, seemed to flourish if their dads had taken time off.

It could be that dads who take paternity leave are more dedicated, and therefore more willing to change nuclear nappies and soldier through the adventures of Peppa Pig, independent of how much time they take off at birth. The OECD controlled for this by using two other measures of paternal dedication: attendance at antenatal classes and presence during birth. Paternity leave was the factor that made the difference. Even dads who braved the boredom of birthing classes and the drama of the delivery room did not get as involved in child-rearing if they failed to take time off work following the baby's birth.

Because paternity leave tends to be short and poorly paid—or non-existent, leaving fathers to rely on their annual holiday allowance—the dads who took extended time off tended to be a relatively privileged bunch. Older, rich, married, well educated, home-owning, white dads took more paternity leave than the rest, according to the British survey. For now, the lasting benefits of having dad at home in the weeks following birth accrue mainly to the children who are already well off. ■

Also in this section

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

Management training

Keeping it on the company campus

As more firms have set up their own "corporate universities", they have become less willing to pay for their managers to go to business school

"DON'T ask the barber if you need a haircut—and don't ask an academic if what he does is relevant." So wrote Nassim Nicholas Taleb in his 2007 book, "The Black Swan". The trouble for academics, particularly those who teach business, is that companies seem to be posing that awkward question more and more; and then coming up with an even more discomfiting answer.

Firms looking to put their managers through development programmes are increasingly creating their own, rather than relying on business schools, consulting firms and the like. Companies are not only spending more of their training budgets in-house but are setting up their own "corporate universities".

The idea is not new. General Electric is considered to have opened the first corporate university, in 1956. Perhaps the most famous is McDonald's "Hamburger University". Since 1961 around 275,000 people have passed through one of its seven campuses worldwide. However, such in-house academies have become a lot more common in recent years. A survey by the Boston Consulting Group (BCG) found that the number of formal corporate universities in America doubled between 1997 and 2007, to around 2,000. Since then, it reckons, they have continued to spread, and now more than 4,000 companies around the world have them.

The numbers are vague because the definition of what qualifies as a corporate university is slippery. Unlike conventional universities, they tend to focus more on practice than theory, and they rarely hand out degrees. But they are about more than just slapping a grand title on companies' hotch-potch of ad hoc training courses. Corporate universities have two distinguishing features: the first is a dedicated facility, whether built of bricks or housed online; the second is a curriculum tailored to the company's overarching strategy.

This latter trait gives the best clue as to why they have become so popular. "The world is changing quickly," says Rainer Strack of BCG. "Each firm has specific challenges, be it financial crises, the rise of digital or artificial intelligence, or increasing globalisation." Having training and development under the auspice of a central, in-house facility makes it easier to focus on its distinct needs. Business schools, he says, can be too standardised.

Corporate universities can be particularly useful when a firm is attempting to overhaul its culture. Unilever, a consumer-goods firm, opened its first campus in London more than half a century ago. In 2013 it spent €50m ($65m) opening another in Singapore. When it wanted to change the company's ethos to focus more on "sustainable" business, its university played a central role. Jonathan Donner, an executive who oversees it, says that programmes espousing the management style the firm was after—"purpose-driven leaders who can deal with a volatile and ambiguous world", no less—were not available on the open market. So it cherry-picked a bunch of professors, from business schools such as Cambridge and INSEAD, to tailor and teach programmes to be delivered on Unilever's campus. Apple has gone further, poaching Yale business school's dean, Joel Podolny, to run its corporate university.

Unilever's university focuses mainly on its top tranche of management. Other companies take a broader approach. One such is ArcelorMittal, a steelmaker, which has six corporate university campuses, including sites in Ukraine and South Africa. It will soon open three more, two of them in Kazakhstan and Brazil. In 2012 more than 27,000 employees spent around 200,000 hours in its classes. Such a geographic spread is important. Since only around 15% of the firm's employees have English as a first language, says Christian Standaert, the head of ArcelorMittal University, the firm needs to provide lots of training in local tongues. This helps it develop managers locally, rather than having to send in expatriates to run its operations.

Lecture theatre, or echo chamber?

Although there are many good reasons for firms to invest in corporate universities, they have their limitations. One is the danger of building an echo chamber. Managers who go to a university business school are exposed to ideas from peers in other companies, notes Sim Sitkin of Duke University. And students can safely ask awkward questions without the risk of this affecting their careers.

Even more troubling is that, for all the millions spent on them, it seems all but im-

The Economist's Executive MBA ranking, 2015

Rank*	Programme	Country	Average salary a year after graduating, $	Average increase on pre-EMBA salary, %
1 *(2)*	IE	Spain	259,838	78
2 *(4)*	Oxford (Said)	Britain	250,075	45
3 *(8)*	Northwestern (Kellogg)	US	207,324	38
4 *(3)*	UCLA/Nat Univ Singapore†	US/Singapore	120,673	22
5 *(1)*	Northwestern (Kellogg)/York (Schulich)†	US/Canada	220,108	39
6 *(7)*	Northwestern (Kellogg)/WHU Otto Beisheim†	US/Germany	222,861	51
7 *(-)*	Thunderbird	US	196,523	29
8 *(-)*	ESMT	Germany	153,060	31
9 *(9)*	Chicago (Booth)	US	219,330	44
10 *(-)*	Yale	US	200,200	46
11 *(6)*	Northwestern (Kellogg)/Hong Kong UST†	US/Hong Kong	287,089	15
12 *(21)*	Texas Christian (Neeley)	US	230,308	59
13 *(18)*	Southern Methodist (Cox)	US	200,851	44
14 *(22)*	Georgia (Terry)	US	138,625	30
15 *(19)*	Columbia	US	172,634	39

Source: *The Economist* *2013 rank in brackets †Joint programme

Online: Full coverage of our latest ranking is available at **Economist.com/whichmba**

possible to measure the effect a corporate university has on the bottom line. Too often, companies do little more than ask those completing a course to fill out a survey on how useful they felt it was. A few try to track employees' effectiveness for perhaps two years after attending a programme. Corporate universities usually come under the auspices of firms' human-resources departments, which are usually not geared up to do a more rigorous analysis of what they achieve.

Privately, some firms confide another benefit of shifting management development in-house. Companies have been known to use the offer of education at a prestigious business school, whether an "Executive MBA" (EMBA) degree or a shorter leadership course, as a way to keep their rising stars happy. Even if the business need was not always apparent, splashing out on an EMBA from an Ivy League school made such managers feel treasured and, it was hoped, loyal. Unfortunately, it often had the opposite effect, providing a firm's brightest and best with a highly marketable qualification that made them more prone to being poached by rivals. Certificates from corporate universities, being more focused on the sponsoring firm's needs, are less attractive to competitors.

Many firms have now stopped paying to send managers to external business schools altogether. After the financial crisis a lot of companies concluded that they were an extravagance. As better times returned, few have reverted to their old ways. A long-running survey of EMBA students by *The Economist* suggests that the number who have their tuition fees paid for by their employers has fallen precipitously. In 2005, 69% of students were sponsored; this year 39% were.

Yet the overall demand for EMBAs does not seem to have fallen, according to Michael Desiderio of the Executive MBA Council. That is because despite steep tuition fees, many managers think it is worth paying for themselves. They may be right. Students on the EMBA programme offered by IE in Spain, which has come top in our latest ranking of such programmes (see table), enter the course earning an average of around $144,000. A year after they graduate, this has risen to $260,000, more than covering the $81,000 cost of the programme. Some 82% say they were promoted soon after graduation. Of course, they may have been destined for higher things regardless of their sojourn in academia, but most who took our survey believe that their EMBAs played a part in their rise. For those managers willing to pay, there now seem to be two types of business education: the one they want, and the one their firm wants to give them. ■

The oil industry

After OPEC

American shale firms are now the oil market's swing producers

BIG companies making big bets on big oilfields, while a cartel of oil-producing states fixed the price to keep itself rich and others, including the oil majors, profitable. That, in caricature, was how the oil industry once ran.

That model now seems broken. On May 13th the International Energy Agency, representing the main oil-consuming countries, said a global oil glut was building, as Saudi Arabia pumped oil frantically in a continuing battle for market share with American shale-oil producers. The shale firms have proved a lot more resilient, and a lot more productive, than the Saudis and other members of OPEC, the producers' cartel, had expected. Last November, with prices already slipping, OPEC's members stopped trying to agree production quotas among themselves, sending crude tumbling further. Their hope was that this would force rival producers, especially in the American shale beds, to slash investment. As supply tightened drastically, the oil price would rebound.

This has not happened. Prices have staged only a partial recovery: West Texas Intermediate (WTI), one of the main benchmark prices for crude, was just above $100 a year ago and hit a low of around $44 in March; it had recovered to just $60 by the middle of this week. If the glut persists, the price is likely to slip back. As OPEC oil ministers prepare for a meeting in Vienna next month, a draft paper leaked to the *Wall Street Journal* said that even in its most optimistic scenario, the price will not exceed $76 a barrel until after 2025. It also considered a scenario in which it fell below $40. OPEC denied that the draft existed, but the conclusions ring true: the chances of a return to triple-digit crude prices look slim.

The big oil multinationals, such as BP, Chevron, ExxonMobil, Shell and Total, have responded to the weaker oil price by cost-cutting, and postponing and cancelling some of their exploration projects (although Shell this week got a provisional go-ahead to restart a $6 billion project in the Arctic, troubled by delays and accidents). However, the output of the shale firms has proved surprisingly robust, even though they have cut their number of rigs significantly since the peak last October (see chart, next page).

One reason for this is canny hedging by some shale producers, which means they are in effect getting paid above the current market price. But many unhedged producers have also continued to pump oil, since the market price is still above the marginal cost of producing another barrel, even if it doesn't cover the upfront costs of drilling the well. Most important of all, their productivity has continued to improve in leaps and bounds. Wells that used to take 35 days to complete now take 17, says Daniel Yergin of IHS, a research firm. The amount of oil produced per dollar invested will rise by 65% this year, he says. Better seismic data, improvements to the fracking liquids pumped into wells and more intensive deployment of rigs are all helping.

In all, IHS reckons that 80% of the new capacity this year will be profitable with WTI at $50-$69 a barrel. As its price has edged above $60 in recent days, some shale companies have begun to talk about increasing output again. The size of the "fracklog", the pipeline of ready-to-roll projects awaiting better prices, is contested. But the principle is clear: American shale firms have become the new "swing producer" of the global oil market.

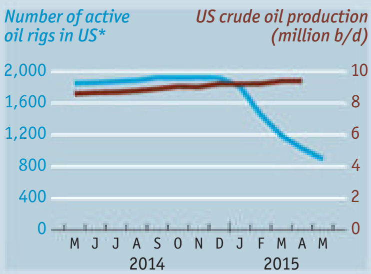
Its main influence used to be OPEC, and particularly the Saudis, switching the taps on and off to try to rig the price. Now the market is increasingly led by the American frackers, ramping their drilling up and down in response to global prices. Petromatrix, a consulting firm, has coined the phrase "shale band" for the price range between $45 and $65: below that range, American production falls sharply; above it, it surges. If so, there should be a tendency for prices to stay within that range.

The greater the proportion of the world's oil supply that comes from fracking, the stronger this effect will be. The American government's Energy Information Administration has in the past three years raised its forecast of American oil output in 2020 by 3.1m barrels per day to 10.6m—the equivalent of adding another producer the size of Iraq. There is scope to reduce production costs further through the consolidation of what is still a fragmented fracking business. This week, in the first big deal of its kind since the oil-price drop, Noble Energy said it would buy Rosetta Resources, a smaller and indebted rival, for $2 billion, paid in shares. More such deals are likely. Paul Stevens of Chatham House, a think-tank in London, expects a "flurry of mini-mergers".

As American production continues to rise, pressure will grow on the government to ease its restrictions on exports of crude. In the meantime America's imports are diving—they fell below those of China last month. Other countries, from Russia to Argentina, have promising shale beds. Although they lack America's expertise, finance and legal system, they may eventually begin to produce oil from them in significant quantities.

All this leaves the Western oil majors in an uncomfortable place. They are used to overseeing huge, high-risk, long-term projects, and have not shaken the habit of indulging in costly bespoke solutions which delight their engineers but give their accountants nightmares. Mr Yergin of IHS notes that there are 328 standards within the industry just for valves. Contrast this with the shale firms, whose wells are small, cheap and drilled quickly using standardised, interchangeable parts. The current weakness in prices will eventually force the oil majors to strain themselves to find cheaper and more flexible ways of working, however. Oswald Clint of Sanford C. Bernstein, another research outfit, thinks that the majors have scope to cut perhaps tens of dollars a barrel from their breakeven prices.

Still pumping



Oil price, West Texas Intermediate, $ per barrel

Sources: EIA; Baker Hughes; Thomson Reuters

*Shale and conventional

Plenty of oil, much scope for cost-cutting

Unless some large-scale conflict erupts that takes out some of the world's biggest oilfields, the oil industry may be heading for a new normal in which the price of crude oscillates in the mid-double digits. The one thing that might make it break out of this range and head back above $100 is a surge in demand. However, economic growth and energy consumption have decoupled in the rich world; and it is an open question if emerging economies will be as wasteful of energy in coming decades as the established ones were in the past century. Ever more affordable renewable-energy sources, and cheap gas, are proving increasingly attractive alternatives to many users of oil products.

Paul Sankey of Wolfe Research, a New York-based outfit, believes that underinvestment resulting from the recent sharp dip in crude may lead to one last spike in the oil price; but after that, he reckons, the "oil age is over". Even if that proves an exaggeration, a return of OPEC's dominance seems a distant prospect. ■

Japan and corporate governance

At the sharp end

TOKYO

The troubles of two big firms show how far corporate reform still has to go

EUPHORIA has recently broken out over a supposed new dawn of better corporate governance and higher profits for Japanese industry. But bad news this week from Sharp, a firm once a symbol of the country's economic clout, and Toshiba, another engineering giant, were reminders of how incomplete the transformation is.

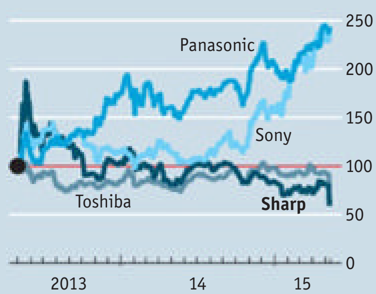
On May 14th Sharp announced its second restructuring and bail-out plan in three years. The chronically indebted and lossmaking firm said it would make an accounting adjustment that will almost entirely eliminate its shareholders' capital of roughly ¥120 billion ($1 billion), wiping clean a slate of accumulated losses on its balance-sheet. The drastic move was presumably at the behest of two Japanese banks, Mizuho Financial Group and Mitsubishi UFJ Financial Group, that are keeping Sharp afloat. They will invest a further ¥200 billion into Sharp through a debt-for-equity swap. The firm will cut its global headcount of 50,000 by a tenth, including 3,500 job cuts in Japan, through voluntary retirement. However, Sharp is refusing to sell any of its struggling businesses.

Only five years ago, Sharp had strong competitive positions in television, LCD panels, solar panels and, in Japan, mobile phones. Now, aside from a smallish home-appliances division, it lacks any sustainably profitable products on which to base a turnaround, and its sales in China, once a source of hope, are faltering, says Atul Goyal of Jefferies, a stockbroker. Unlike some competitors, such as Sony and Panasonic, Sharp shows little inclination to exit entire businesses.

Across Japan, banks keep legions of zombie firms on life support. For Sharp's lenders, the sheer scale of its debt means ▸▸

Sharp contrasts

Share prices, May 1st 2013=100



Source: Thomson Reuters

they cannot allow a bankruptcy without crippling their own profits. Yet the market judges its eventual default to be so likely that the cost of insuring against it by means of a credit-default swap is now among the highest in the world.

Nicholas Benes, head of the Board Director Training Institute of Japan, says Sharp's case also raises the question of why the government never encouraged stronger foreign firms, such as Samsung of South Korea, to bid while parts of the business still had value. In 2012 Hon Hai of Taiwan agreed to buy a slice of Sharp, but the deal later fell apart when the Japanese firm's share price collapsed.

As for Toshiba, the news that it would withdraw its earnings forecast and cancel its dividend due to accounting problems in its infrastructure division (which makes rail equipment and electrical-transmission gear, among other things) at one point knocked 17% off its share price. The firm will now undertake its second inquiry into its accounting practices in two years.

Toshiba has no fewer than four outside board directors to scrutinise managers. But the irregularities suggest there may still be problems with its overall corporate culture and governance, admits someone close to its board. Although it sold its mobile-phone operations in 2010, Toshiba's hidebound top managers have avoided exiting its unprofitable television and personal-computer businesses to rein in the conglomerate's sprawl. In all, it has been a dispiriting week for Japan's growing band of corporate-governance bulls. ■

News companies and Facebook

Friends with benefits?

SAN FRANCISCO

Facebook and several news firms have entered an uneasy partnership

"INSTANT ARTICLES" is a new service announced by Facebook on May 12th, in partnership with nine news firms, including the *New York Times*, the *Guardian* and *National Geographic*. Facebook users will be able to read stories from these publishers without leaving the social network, since it will host the articles rather than just providing web-links that send readers off to the news firms' websites. In return, newspapers will be able to sell advertising that appears next to their stories and keep all the revenue, or let Facebook sell the ad space, and give it a 30% cut.

The nascent partnership highlights Facebook's growing clout in the news business. Newspapers have become dependent on it to send readers to them, and tweaks to Facebook's algorithm can dramatically change websites' traffic. The *New York Times* gets around 15% of its traffic from Facebook; some news sites get over half. News firms have already cultivated legions of Facebook fans (see chart). Through the partnership publishers can reach new audiences, while Facebook will keep users from straying, and serve up more ads.

The friendship is not without its complications. With 1.4 billion users, Facebook has grown into a Goliath, controlling around 9% of all online advertising globally. Newspapers risk giving Facebook even more power by conditioning young Facebook users to think that they can get everything they need in one stop, and undermining their own websites as destinations. In the past, firms that have hitched their business to Facebook have been bruised. For example, Zynga, an online gaming company, excelled until Facebook changed how often its users were shown alerts from their friends boasting of their game scores.

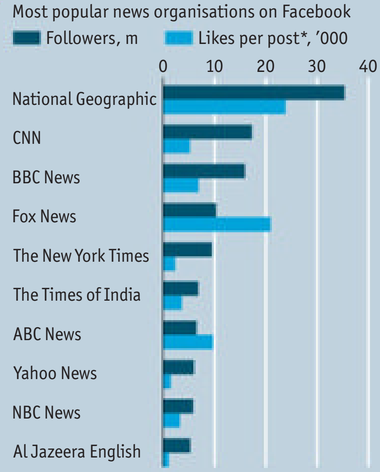
Recently, news firms have tried to take a more analytical approach to their online businesses. Some are hiring teams of data-crunchers, and using traffic-analysis firms such as ChartBeat to help them see in real time where readers come from. However, the risk is that they pay too much attention to the number of visitors driven through social media and not enough to the time people spend engaging on their websites, says Gordon Crovitz, a media entrepreneur.

Other firms will follow in Facebook's wake. "There is suddenly a lot of competition among the social networks to host premium content," says Edward Roussel, chief innovation officer at Dow Jones, a media company. Earlier this year Snapchat, a messaging service, started offering articles from a select group of news firms to its users. Paul Zwillenberg of the Boston Consulting Group predicts that some social networks, including Facebook, will ultimately pay publishers to host content.

This will make news firms less vulnerable to the whims of any one social network's algorithms. However, the gravest risk to publishers is that social networks continue to transform themselves into a form of modern-day newspaper, curating content, engaging users and selling their attention to advertisers.

Facebook is our friend

Most popular news organisations on Facebook



Sources: Facebook; *The Economist*

*Based on 3,000 most recent posts

Germany's corporate lobby

Turning American

BERLIN

As corporate lobbying booms, stronger regulation is needed

GERMANS' reputation as early risers extends even to their lobbying. One colourful Berlin lobbyist told a television programme why he likes talking to members of the Bundestag over a good breakfast: they have had a night's sleep, they are ready to listen—and their refrigerators are empty after travelling from their home districts back to Berlin.

A new book, "Die Lobby-Republik" by Hans-Martin Tillack, an investigative journalist, sounds an alarm about such activities. Just a few big firms and interest groups had offices in the pre-unification capital, Bonn. But Berlin, to which the government moved in 1999, is becoming infested with lobbyists. An estimated 5,000-6,000 of them now work in the city, compared with the 12,000 in Washington, DC, the trade's romping-ground. Parliamentwatch, a German pressure group, reported recently that hundreds of lobbyists have passes to enter the Bundestag, approval of which requires the support of a parliamentary party.

Until recently most lobbying was conducted by cautious, conservative industry associations. Numbering over 2,000, these range from the mighty Federation of German Industry (BDI) to the Association for Zoos. But brash new players are joining the game. Many lawyers, from specialist German firms and big international ones like White & Case and WilmerHale, double as lobbyists. International public-relations firms are also expanding their lobbying business in Germany: Burson-Marsteller, one of these, has near-doubled its staff to 25 in the past five years. And companies, foreign and domestic, are expanding their ▸▸

Oxford Executive MBA

Go from a game player to a successful game changer. The Oxford Executive MBA is your opportunity to transform yourself and your ambitions. Our participants are making a difference in every walk of life, influencing the rules of the game for businesses across the world. This modular programme offers you the chance to join one of the world's most powerful networks and create a new future for your organisation and for yourself as a leader.

Find out if the programme is right for you – submit your CV for review at:
www.sbs.oxford.edu/emba

SAID BUSINESS SCHOOL
UNIVERSITY OF OXFORD

NEW

《经济学人 · 全球商业评论》

全新双语App，网罗全球商业、金融及科技新闻精华
中英双语，一键切换
在应用商店里搜索“经济学人商业评论”，立即体验新视野
限时免费下载

The Economist Global Business Review

Our new bilingual app delivering insightful analysis on global trends in business, finance and technology.
Switch effortlessly between English and Chinese.
Search for "Economist Business Review" in your app store and get a new perspective today.
Download now and enjoy free full access for a limited time.

Launch sponsored by
HYUNDAI NEW THINKING. NEW POSSIBILITIES.

Find out more at **www.tegbr.com**

Get it on Google play
Download on the App Store

How clean, how open?

Scores, 100 = ideal
2014

	Lobbying transparency	Corruption perceptions
Britain	34	78
Poland	29	61
Netherlands	25	83
France	24	69
Germany	**13**	**79**
Italy	11	43
Spain	10	60

Source: Transparency International

in-house lobby shops. Big firms such as Google and ExxonMobil have opened offices on Unter den Linden and other streets near the Bundestag, creating a local version of Washington's K Street.

Transparency International (TI), another watchdog, is worried. In a recent report on the regulation of lobbying in Europe, it ranked Germany low, alongside Bulgaria and Portugal. TI says Germany, like other weak regulators, should bring in an obligatory register of lobbyists, a clear code of conduct, and a "cooling-off" period for public servants who move to the private sector. (Roland Pofalla, the head of Angela Merkel's cabinet office, raised eyebrows by announcing, as he left last year, that he would soon join Deutsche Bahn, a rail operator—and he is hardly alone.)

But is influence really easily bought in Berlin? Business lobbies point ruefully to the current government, a grand coalition of left and right. It has introduced a minimum wage, quotas for women on companies' supervisory boards and pension rights for many workers at age 63. Protests by the BDI and the Federation of German Employers fell on deaf ears. Property developers' lobbyists failed to stop a law limiting rent rises, which goes into effect this summer. Germany continues both its exit from nuclear power and its heavy subsidies for renewables, despite the objections of the power utilities.

German voters have been strict with politicians they feel are too close to corporate lobbyists. Under the previous government, a coalition between Ms Merkel's Christian Democrats and the more business-friendly Free Democratic Party, a hoteliers' lobby pressed for cutting the value-added tax on hotel stays, around the same time as a firm with ties to Mövenpick, a hotel chain, made a big donation to the FDP. The tax was soon cut. Though the FDP and the hotelier denied any quid pro quo, the story began a slide in the polls that ended with the FDP's ejection from parliament in the September 2013 election.

Lobbying is not in itself corrupt, of course. TI notes that it is itself a lobby group, and expressing policy preferences is part of democracy. According to another recent TI survey, businesspeople regard Germany as one of the cleanest countries in the world (see chart).

In the last truly big political scandal, Helmut Kohl, Germany's chancellor from 1982 to 1998, ended his career in disgrace over undisclosed donations received by his party. (Mr Kohl insists he did nothing wrong aside from a failure to disclose.) But the sum in question, perhaps 2.1m Deutschmarks (about $1.3m at the time), pales in comparison to the big cheques that lobbies routinely give to American politicians: the main presidential candidates are each expected to raise about $1.5 billion for the 2016 campaign.

Clear rules would nonetheless help ensure that Germany stays relatively clean as lobbying becomes more pervasive. The BDI is sceptical about compulsory registers and cooling-off periods, saying that new laws could be a bureaucratic mess, and that politicians and officials moving in and out of other walks of life is a good thing.

That is short-sighted, not least because rules would also constrain environmental, labour and consumer lobbies that often line up against business. These groups, too, are becoming more organised: an American working in Frankfurt for a foreign PR firm says union officials now appear at negotiations with research commissioned from McKinsey or the Boston Consulting Group, to support their case. Making all groups that seek to influence politicians disclose how they get funded and how they spend their money is the best way for Germany to keep its clean reputation. ■

Business in Brazil

Courting the state

SÃO PAULO

The upside of professional lobbying

THERE is nothing unusual about a retired president jetting around the world drumming up work for his country's businesses. But amid the various corruption scandals surrounding Brazil's governing Workers' Party, prosecutors have decided to look into the trips that Luiz Inácio Lula da Silva has taken since leaving office in 2011. Lula has visited places like the Dominican Republic and Ghana, where chums of his are still in power, allegedly to persuade them to sign contracts with Odebrecht, Brazil's biggest engineering conglomerate.

For now, the prosecutors are merely pondering whether there is a case for investigating Lula formally for alleged influence-peddling, given his continued close links to power. He and Odebrecht deny any untoward dealings: both say that the firm simply offered Lula hospitality in foreign talking-shops that it sponsored. But the prosecutors' move reflects broader worries about the cosy links between Brazilian business and politics. The country's commercial and political elites have long been joined at the hip. Bosses and officials attended the same schools and frequent the same parties.

Enter the unlikeliest of heroes: the corporate lobbyist. A growing "government relations" industry is trying "to replace personal relationships with institutional ones", says Caio Rodrigues, head of ABRIG, the lobbyists' lobby. ABRIG has gone from 12 members in 2008 to 145. Most big companies now have in-house government-relations departments; law firms are increasingly offering advice in this area; and specialist university courses are springing up.

Keen interest in its new MBA in institutional relations prompted Fundação Getulio Vargas, a business school, to offer 45 places at its Brasília campus, instead of the 40 it first planned. ABRIG reckons Brazil now has around 2,000 government-relations professionals. Their ranks have swelled since the global financial crisis, when first Lula and then his protégée and successor, Dilma Rousseff, started meddling more in the private sector.

Brazilian lobbyists still lack a set of clear rules to follow. Some aspects of the job are governed by laws against corporate bribery, conflicts of interest and the like. But ABRIG is pushing for reforms, modelled on Canada's, that would require lobbyists to join a register and to report whom they met, in whose name, and why. "Formality is an antiseptic," says Mr Rodrigues. No doubt, as in other countries, furtive lobbying would continue to take place outside the formal system, but at least it would provide a legitimate, regulated route for businesses to make their case to government.

Whether government is willing to listen is another question. Many in Ms Rousseff's inner circle wouldn't touch a lobbyist with a bargepole. So government-relations firms continue to tread carefully. Patri, one of the biggest, says it arranges to put businessmen in the same room as decision-makers, but does not represent them directly. Arko Advice offers its clients in-depth analyses of congressmen's votes but says it does not try to influence those votes. Even so, in a country where 40% of GDP passes through the state, lobbying will always go on. Better the professional variety.

Schumpeter | How to join the 1%

A book on the persistence of elites is an unexpected guide to getting a good job

MANAGEMENT consultants, investment banks and big law firms are the Holy Trinity of white-collar careers. They recruit up to a third of the graduates of the world's best universities. They offer starting salaries in excess of $100,000 and a chance of making many multiples of that. They also provide a ladder to even better things. McKinsey says more than 440 of its alumni run businesses with annual revenues of at least $1 billion. The top ranks of governments and central banks are sprinkled with Goldman Sachs veterans. Technology firms, though they are catching up fast, have nothing like the same grip on the global elite.

Which raises a pressing question: how do you maximise your chances of joining such elite professional-services firms? Lauren Rivera of Northwestern University's Kellogg School of Management has spent a decade studying how these firms recruit. The result, "Pedigree: How Elite Students Get Elite Jobs", is an academic book with the requisite references to gender theory and Marxist concepts of inequality. But read it carefully and it becomes something far more useful—a guide on how to join the global elite.

The bad news is that by far the best way to get into the tiny group of elite firms is to be studying at the tiny group of elite universities—Ivy League colleges in America (where Ms Rivera did her fieldwork) or Oxford and Cambridge in England. The firms spend millions of dollars love-bombing these institutions with recruiting events: students can spend the recruitment season wining and dining at their expense. However, as Ms Rivera notes, firms reject the vast majority of elite students they interview: so even the most pedigreed need to learn how to game the system.

The most important tip is to look at who is doing the recruiting. Whether in consulting, investment banking or the law, firms use revenue-generating staff rather than human-resources people to decide who has the right stuff. The interviewers are trying to juggle their day jobs with their recruiting duties: they seldom spend more than a minute or so reviewing each application form. In the interview room they behave predictably: they follow a set script, starting with some ice-breaking chit-chat, then asking you about yourself, then setting a work-related problem. That makes them desperate for relief from the tedium. Be vivacious. Hang on their every word. And flatter their self-image as "the best of the best" and the most jet-lagged of the jet-lagged.

The most important quality recruiters are looking for is "fit": for all their supposedly rigorous testing of candidates, they would sooner choose an easy-going person with a second-class mind than a Mark Zuckerberg-type genius who rubs people up the wrong way. Staff in professional-services firms spend most of their time dealing with clients; so looking the part is essential. They also expect their employees to spend extraordinary amounts of time together—learning the ropes in boot camps, working late in the office, having constant work dinners, getting stuck together in airports in godforsaken places. Recruiters repeatedly told Ms Rivera that they looked for people who could be their friends as well as their colleagues. One compared hiring to "picking a team on the playground growing up"; another described his firm as "a fraternity of smart people".

It is easier to give the impression you will fit in if you have swotted up on the firm in question. Speak to any friend-of-a-friend you can find on the inside, to learn about its internal culture and its inside gossip. One candidate in Ms Rivera's sample passed the interview by adopting the persona of a successful consultant that he knew at that firm. Even if you do not go that far, you must at all costs avoid appearing nerdy or eccentric: there are plenty of jobs with tech companies for those types. The old-fashioned belief still prevails that playing team sports, especially posh ones like rowing, makes for a rounded character.

The final key to success is to turn your interviewer into a champion: someone who is willing to go to bat for you when the hiring committee meets to whittle down the list. Emphasise any similarities that you can find between the two of you. If the interviewer sees a little bit of himself in you, a phenomenon known as "looking-glass merit", he will regard any attempt to eliminate your name as a personal slight.

Minority margaritas

As for those who have not got into the elite universities, all hope of joining the bulge bracket of professional-services firms is not lost. As Ms Rivera's book demonstrates, even the most tenuous connection with insiders can be of help. If you belong to an underrepresented group and meet a recruiter over cocktails at a "diversity event", exploit the connection ruthlessly.

Ms Rivera notes that coming from an underprivileged background can actually be a plus, if sold well. Recruiters love to hear stories about gritty candidates triumphing against the odds. She also notes that there are organisations that can help non-elite candidates to sell themselves. Sponsors for Educational Opportunity, an American outfit, has an excellent record of pre-selecting ethnic-minority youngsters and getting them internships that can lead on to full-time jobs. America's armed forces play a similar role of giving a career leg-up to the disadvantaged. "I've spent two years in a job where any minute might be my last," one military candidate told an interviewer coolly. "Yes, I think I can handle high-pressure situations." But don't harp on about the odds being still stacked against you, or reveal that you have a sick mother or a demanding child, or you kill the Horatio Alger buzz.

This overwhelming emphasis on style rather than substance may seem an odd way to select members of the 1%. But those at the top of the consulting, investment-banking and legal professions know that the most prized possession in uncertain times is not brainpower, but self-confidence. For all the talk of the world becoming dominated by a "cognitive elite", in reality it appears it is nothing more than a "confidence elite". ■

AIRFRANCE

SKYTEAM

FRANCE IS IN THE AIR

MY PALACE IN THE SKY

La Première Suite: discover absolute comfort
and five-star service throughout your journey.

AIRFRANCE KLM

Available on select Boeing 777 long-haul aircraft.

AIRFRANCE.US

Also in this section

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

Venture capital

Disrupters disrupted

SAN FRANCISCO

An industry that specialises in spotting potential insurgents faces some of its own

PARTYING like it's 1999 might be unwise, but venture capitalists have reason to open a few bottles of Dom Pérignon. In the first three months of the year American VC funds invested $13.4 billion, continuing their best run since early 2000, before the dotcom bubble burst (see chart). The comeback has fuelled an already heated debate about whether the technology sector is foaming again. It has also attracted competition from a host of alternative forms of financing. Could VC, which has fostered so many disruptive companies, itself be disrupted?

The VC industry has not changed much since it emerged in America in the late 1950s. Most VC partnerships are as low-tech as it gets. They are best understood as brotherhoods (only 6% of partners are female) that invest money in high-risk ventures. Ideally, their cash comes with two even scarcer resources: advice in the form of experienced board members and access to VC firms' connections. "It's an industry based on personal relationships," explains Reid Hoffman of Greylock Partners, one of its stalwarts. "I can't ask somebody else to make an important recruitment call," says Peter Fenton of Benchmark Capital, another top Silicon Valley firm.

As a result, the sector lacks something that venture capitalists consider essential for most technology startups: it is not "scalable"—that is, able to grow rapidly. Adding partners to a VC firm tends to reduce returns. "The more people you put around the table, the more risk-averse you get," says Andy Rachleff of Stanford's Graduate School of Business, who co-founded Benchmark Capital.

The process of starting and building a business, however, is evolving fast. Thanks to cloud computing and smartphones, among other things, it has become much cheaper and easier to get going. This has led to an explosion of young firms seeking, at least initially, sums not worth a VC's attention: first financing rounds in the tens of thousands of dollars are common, as opposed to the millions that prevailed during the dotcom bubble.

Conversely, once startups have found a big market, they now need much more money to grow. Hiring top developers, acquiring customers and opening offices abroad can gobble up hundreds of millions. All this typically has to happen fast, since many startups operate in winner-take-all markets. Increasing startups' needs for private capital even further, few strive to list themselves on a stockmarket as soon as possible, put off by the tangles of red tape associated with such a move.

At the same time, the low returns on many other investments have driven more money towards startups. In America alone VC funds raised more than $30 billion in 2014—nearly twice as much as the previous year, according to the National Venture Capital Association. They are now managing investments of $157 billion. But rival forms of finance for new firms are also growing fast. For instance, America now boasts more than 300,000 "angels", rich individuals who put money directly into fledgling companies, according to the Centre for Venture Research.

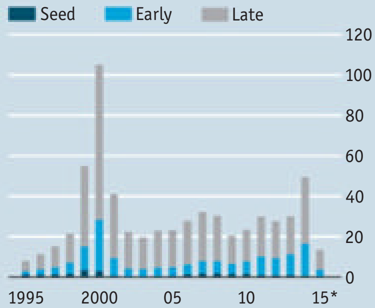
The "seed stage", when a startup raises its first money, is especially vulnerable to disruption. Most ventures are experiments with an uncertain outcome; investing is often a case of "spray and pray". Many startups are now launched on crowdfunding sites, where they can raise equity or money for pre-sold products. Firms can also solicit funds on AngelList, a social network of sorts for both founders and angels. Meanwhile, "accelerators" such as Y Combinator and Techstars invest small sums in entrepreneurs with bright ideas, polishing their offering over a few months before serving them up to VCs.

Another set of newcomers in the seed stage are VC firms that limit the size and ▸

Another adventure

United States venture capital

Amount invested by stage, $bn



Source: PWC

*1st quarter

number of their investments to allow them to focus on helping their wards. These range from "micro funds", with assets of less than $100m, to somewhat bigger ones, such as First Round Capital in Philadelphia, Union Square Ventures in New York and Mosaic Ventures in London.

The other end of the financing spectrum, the "late stage", in which companies need cash more than advice, also has lots of new entrants. Big institutional investors are now providing startups with much of their capital. When Zenefits, which offers web-based payroll services, recently raised $500m, the financing round was led by Fidelity, a big asset manager, and TPG, a big private-equity firm. Such deals are essentially "private IPOs". For tech firms, these now outnumber public ones, according to CB Insights, a financial-data service.

This model was pioneered by DST Global, a Russian fund, which invested more than $500m in Facebook starting in 2009, allowing the social network to postpone its listing. Though welcomed back then, such private IPOs are increasingly seen as feeding what Bill Gurley of Benchmark calls a "risk bubble". Late-stage investors, he recently wrote, have "essentially abandoned their traditional risk analysis" to get a stake in a "unicorn"—a no-longer-so-rare startup valued at more than $1 billion (the latest census revealed more than 100 of these magical creatures around the world).

Given the competition from below and above, many venture firms are concentrating on filling the gap between the early and late stages. But even in this area, the pressure is mounting, thanks to the technological forces venture capital has helped to unleash, argues Fred Destin of the European arm of Accel, another Silicon Valley firm.

Online media, from CrunchBase to Twitter, allow entrepreneurs to see which VC firms and partners have done which ▸▸

Buttonwood | Don't write off write-offs

Bad news often reflects past overoptimism

WHEN big companies announce write-offs, they tend not to do things by halves. Back in 2008 AIG, an insurance group rescued by the American government, reported an annual loss of $99 billion, with almost $62 billion of that occurring in a single quarter. In 2001 JDS Uniphase, an optical-equipment maker, chalked up a deficit of $56 billion.

Such losses are so big they can seem almost unreal. That can serve a dual purpose. First, the deficit can be dismissed as the product of "mere accounting", the result of pedantic number-crunching. Assets have been written down in value, but that is not the same as a cash loss. Second, when new managers are appointed, a huge loss can be blamed on the previous regime. All the bad news can be revealed at once, a phenomenon known as "kitchen-sinking". From that point on, the only direction for profits must be up.

Analysts tend to be very supportive of such arguments. They typically dismiss big write-offs, even when they failed to forecast them. They argue that it makes more sense to focus on operating profits, which reflect the health of the underlying business. These, it is said, are a better guide to the future direction of the firm.

The same arguments crop up at the aggregate level. Robert Shiller of Yale averages profits over ten years to get his cyclically-adjusted price-earnings ratio. So this measure includes numbers from 2008, when firms in the S&P 500 index reported a plunge in profits thanks to huge write-downs at banks (see chart). This, argue critics such as Jeremy Siegel of the Wharton School, makes the stockmarket look more expensive than it truly is.

This optimistic view, dubbed "earnings without the bad stuff", has deep roots. Investors place a high value on predictability. They like companies at which

More exception than rule

S&P 500 earnings-per-share
12-month trailing, $

Source: Bloomberg *Forecast

profits grow, quarter after quarter, year after year. They want the corporate sector as a whole to produce steadily higher profits—and that is just what analysts tend to forecast. Predictions of recession are rare. Indeed, back in February 2008, Mr Siegel said there would be no recession that year and that profits, the stockmarket and the financial industry would all do well.

Companies are well aware of investors' biases and strive to gratify them. But this creates behavioural problems. A short-term focus on the next quarter's earnings means that companies may reject long-term projects that could boost the value of the company but would hurt profits in the coming year or two. Managers will also resist changing a failing strategy (and thus admitting assets are worth less than before) until the last minute.

Take the recent catalogue of disasters at Tesco, a British supermarket chain. The company unveiled one set of write-downs in 2013, reflecting poor results in its foreign operations. But that was merely the prelude to the even bigger £6.4 billion ($10.4 billion) loss announced last month, which reflected a write-down of the value of its British property. Tesco had been slow to realise that its customers were losing enthusiasm for huge out-of-town stores and were switching to online shopping and to discount stores such as Aldi and Lidl.

Seen through this prism, a write-off of assets is not merely an accounting nicety. Ultimately, equity holders have a stake in the assets as well as the profits of a company; if those assets are worth less, shareholders are poorer. To the extent that the business paid too much to acquire those assets, that is a loss as real as selling baked beans below cost. Indeed, investors' calculations of future profits were probably based on the company's ability to earn a decent return on such assets. Furthermore, such write-downs tell investors something about the management's ability to understand its own industry.

In the case of the financial industry, the massive write-downs during the crisis were a necessary correction of the overstatement of profits in previous years. Banks had generated profits by issuing, underwriting or lending against mortgage securities. Those profits turned out to be illusory. If you were to ignore the ensuing write-downs, you should also adjust down profits for previous years.

The simplest answer, which lies at the heart of Mr Shiller's analysis (and was proposed by Ben Graham, the doyen of security analysts, before him), is to average profits over several years. The mistake is to believe rosy forecasts for future profits, and to dismiss spikes in losses as exceptional. Write-offs are usually right.

Correction: In last week's Buttonwood, we quoted Richard Thaler as saying that behavioural economics theories "do not make easily falsifiable predictions, and the data are relatively scarce". In fact, the quote referred to macroeconomists' theories. Sorry.

Economist.com/blogs/buttonwood

deals. Startups are also much more connected and talk about their experiences online or at one of the legions of tech conferences. Most want to get financed by the best-known VC brands. As a result, business is getting much tougher for weaker funds, many of which have already fallen dormant or closed down.

Nor is it business as usual at the top of the heap. The very attributes that make it hard for the most prestigious venture-capital firms to grow rapidly have shielded them from competition to some extent. Their contacts are unrivalled, and their experience raising other firms from obscurity to fame and fortune is rare. But this environment still requires sharp elbows.

It may be cheaper to start a firm today, but in America the startups with a chance of making it really big each year still number around 15. Over 30 years, just 7% of the industry's investments brought a tenfold return, and these accounted for 65% of the industry's profits, reckons Fred Giuffrida of Horsley Bridge Partners, a "fund of funds" that spreads its bets across many VC firms.

To get in on these deals, VC firms often outbid each other, which is one of the main reasons tech firms' valuations have reached such dizzying heights. Stories abound of entrepreneurs calling at one office after another on Sand Hill Road near Stanford University, where most of the top VC firms are based, with the valuation of their company soaring at each stop.

The increased competition is not limited to money. When Marc Andreessen and Ben Horowitz, two former entrepreneurs, launched their firm in 2009, they opted for a new, more corporate model: its main partners still make the investment decisions, but dozens of specialised partners then help portfolio companies with everything from recruiting to public relations. This approach—plus clever marketing—has proven popular with entrepreneurs, putting Andreessen Horowitz among the most sought-after VC investors.

Older firms are following its lead. Most grand VC firms in Silicon Valley have hired at least one specialist partner, often to help startups in the war for talent. Many also use software to keep track of entrepreneurs, business partners and technology trends. Some are trying to "scale their network", in the words of Danny Rimer of Index Ventures, a firm with offices in both San Francisco and London. Among other things, it fosters exchange among the executives of its portfolio companies. For now, the changes are small—but disruption usually ends up claiming victims. ■

Australian banks

Like a shag on a rock

A good run for Australia's big banks may be ending

BANKS in Australia, like the rest of the country perhaps, have a certain upside-down quality to them. Their share prices broke free from the gravitational pull that dragged down their international rivals' during the financial crisis. In recent years they have soared as others have sagged (see chart). Now that big banks in other rich countries are regaining their poise, it is the turn of Australia's to slide. This topsy-turviness may yet continue given the worsening outlook Down Under.

Serving a buoyant domestic economy with none-too-fierce competition, and unburdened by flailing investment-banking arms, Australia's big four lenders—Commonwealth Bank, National Australia Bank (NAB), ANZ and Westpac—used to delight shareholders with bumper dividends. But concerns over their balance-sheets and exposure to Australia's frothy housing market have caused their shares to dip by 10%-16% in the past month. Annual results released in recent weeks lacked the ebullience of past years, with lending margins slipping and costs ticking up.

Strewth

Total return* on shares in the biggest banks†
May 13th 2005=100

*Assuming dividends are reinvested
†With a market capitalisation of $10bn or more
Source: Bloomberg

Investors fear that the exceptional circumstances underpinning the vibrant returns of recent years are coming to an end. The commodity "super-cycle" that boosted both Australia and its banks has fizzled. Unemployment is creeping up.

The biggest concern is the health of banks' mortgage books. Home loans have been fabulously lucrative for Australian banks. According to Brian Johnson of CLSA, a brokerage, returns on them top 50%, levels which would make even pre-crisis Wall Street bankers salivate. A concentrated market—the big four dominate finance and move prices in lockstep—and rising house prices have kept margins high and losses low.

No wonder, then, that domestic home loans now represent 40-60% of Australian banks' assets, up from 15-30% in the early 1990s. Mortgages in New Zealand account for another 5-10%. A growing number of loans are going to property speculators, or to homeowners paying back only the interest on their loan. That could make a downturn disastrous.

House prices have been supported by low interest rates around the world, which have helped funnel money into relatively high-yielding Australian assets (including bank stocks). This has been compounded by cheap money domestically: the central bank cut its main rate to 2% on May 6th, the lowest level ever—down from 4.75% in 2011.

Stress tests in November suggested that a property downturn would ravage banks. Around 80% of mortgages are variable-rate, so even a small rise in interest rates would result in higher repayments for borrowers and, in all likelihood, a surge in defaults. Regulators fret about the lack of diversification in banks, especially given their dependence on foreign money for funding. They want banks to curb growth in the riskiest mortgages and to finance them with more equity and less debt.

A government inquiry into the Australian financial system called for banks to be better capitalised. Dividend growth has slowed as a result; on May 6th NAB announced it would issue A$5.5 billion ($4.4 billion) in new shares, though some of that will go towards extricating it from its misfiring British subsidiary, Clydesdale Bank, which it wants to spin off. Collectively, Australian banks may need as much as A$40 billion in fresh capital to meet regulators' demands.

The big four are still highly profitable, and their returns will remain better than most despite all the new equity they will have to raise. After all, banks around the world are being forced to fund themselves with more equity. Aussie borrowers are less likely to default on mortgages than American ones, as lenders have a claim on all their assets, not just the property in question. Loan-to-value ratios are stable.

But regulators' changing tone has brought other concerns to the fore. Credit growth in Australia is slowing, raising the spectre of fiercer competition for market share. Expansion into crowded Asian markets seems difficult. That leaves little scope for the diversification watchdogs want. If they cannot make banks less dependent on mortgages, they will have to find other ways to make them safer. ■

The Federal Reserve

Railing against bailing

Congress launches new attacks on America's central bank

DURING a financial panic, said Walter Bagehot, a former editor of *The Economist*, a central bank should help the deserving and let the reckless go under. Bagehot reckoned that the monetary guardians should follow four rules: lend freely, but only to solvent firms, against good collateral and at high rates. Many American politicians complain that the Federal Reserve is all too happy to lend, but that it ignores Bagehot's other dictums. On May 13th two senators of very different hues—Elizabeth Warren, a darling of the left, and David Vitter, a southern conservative—joined forces to introduce a bill that would restrict the Fed's ability to lend during the next financial panic. Does that make sense?

Emergency lending under Section 13(3) of the Federal Reserve Act was one of the most controversial policy responses to the financial crisis. In a letter to Janet Yellen, the chair of the Fed, Ms Warren and Mr Vitter say that from 2007 to 2009 the Fed provided over $13 trillion to support financial institutions. The loans were cheap. A study from 2013 by the Levy Institute, a nonpartisan think-tank, found that many of them were "below or at the market rates" (sometimes less than 1%). Many of the banks that benefited were insolvent at the time. And much of the $13 trillion went to just three banks (Citigroup, Merrill Lynch and Morgan Stanley), leading many to suspect that the Fed was indulging favoured firms.

Critics focus on details but miss the big picture, counters the Fed. Elizabeth Duke, a former governor, says that the Fed targeted its lending programmes at the right markets, such that it helped to stop the crisis from getting even worse. Jerome Powell, a current governor, points out that "every single loan we made was repaid in full, on time, with interest."

But whether the Fed should be able to offer this kind of financial support at all is a different question. Choosing certain firms or markets to receive credit over others is inherently problematic, says a recent paper from the Federal Reserve Bank of Richmond. The prospect of easy money encourages firms to take excessive risks. And according to a paper by Alexander Mehra, then of Harvard Law School, the Fed "exceeded the bounds of its statutory authority" when it bought privately issued securities as well as making loans.

The Dodd-Frank Act, passed in 2010, was supposed to ensure that the Fed never again made such large, open-ended commitments. Congress told the Fed's board to ensure that emergency lending propped up the financial system as a whole, not individual firms. However, say Ms Warren and Mr Vitter, the Fed has not implemented the new rules in the spirit of the law. The new bill proposes a number of Bagehot-like changes: to toughen up the definition of insolvency, such that the Fed lends only to viable firms; to offer any lending programme to many different institutions; and to ensure that when the Fed does lend, it charges punitive rates.

This battle is not the only one the Fed faces. On May 12th Richard Shelby, a Republican senator and chair of the Senate Banking Committee, introduced his own bill, which he hopes will rein in the Fed's powers in different ways. It would increase the threshold at which a financial institution became "systemically important" (and thus subject to tougher regulatory scrutiny) from assets of $50 billion to $500 billion. Mr Shelby also wants to shake up the structure of the Federal Reserve System, including changing how the president of the New York Fed, which oversees big banks, is appointed. They may have different complaints, but lots of America's lawmakers agree that the Fed must change. ■

Ethnic inequality and development

The ins and outs

Growth suffers when there is inequality between different ethnic groups

ECONOMISTS have long recognised that there is an association between inequality and development. Unequal incomes can impair growth if those with low incomes suffer poor health and low productivity as a result. But in a forthcoming paper* in the *Journal of Political Economy*, three economists look at the question in a new light. What may matter most for development, they argue, is not inequality in itself, but economic differences between different ethnic groups.

The authors pinpoint the location of 2,129 ethnic and 7,581 linguistic groups in 173 countries. Then, to estimate their wealth, they use data on night-time light intensity from satellites. (If a given area has more lights, it is likely to be richer.) That allows them to produce an "ethnic Gini index", a measure of inequality between different ethnic groups within a country. They find that sub-Saharan Africa and East and South Asia are the most ethnically unequal regions, thanks to small but prosperous groups such as Arabs in west Africa. Western Europe, by contrast, is the most ethnically equal.

Prosperity for some

The authors show that as a country's ethnic inequality falls, average GDP per person rises. A one-standard-deviation decline in a country's ethnic Gini index—the equivalent of moving from the level of Nigeria to that of Namibia—is associated with a 28% increase in GDP per person. It seems likely that ethnic inequality leads to low levels of development, not the other way around. After all, in other tests the authors find that ethnic inequality mostly reflects unequal geographical endowments, such as more fertile land and distance to the coast.

What explains these results? When there is inequality along ethnic lines, the paper suggests, those grouped at the bottom feel their poverty more keenly. The rich are easier to identify, and thus an easier target. All told, ethnically imbalanced societies may be more prone to conflict, which is hardly good for growth.

A powerful and rich ethnic minority may also gear the state to suit its interests at everyone else's expense. Using data on 18 sub-Saharan African countries, the authors find a negative relationship between ethnic inequality and the provision of basic infrastructure such as electricity and sewerage. Poor public services hold back growth, and a state serving one ethnicity is unlikely to pursue reforms, like privatisation and trade liberalisation, that foster broad prosperity.

* "Ethnic inequality", by Alberto Alesina, Stelios Michalopoulos and Elias Papaioannou, forthcoming in *Journal of Political Economy*.

Member FDIC

NO BRANCHES = GREAT RATES

EQUALS MORE MONEY FOR YOU.

And that equals happy customers. So instead of spending money on expensive branches, we pass the savings to you. Plus, your deposits are FDIC insured up to the maximum allowed by law, so you can save stress-free.

allybank.com | 1-877-247-ALLY

ally BANK.

Your money needs an Ally.℠

©2009-2015 Ally Financial Inc.

Italy's regional divide

A tale of two economies

CATANIA

As the north limps ahead, the south swoons

AFTER three years of recession, Italy's economy actually grew in the first three months of the year, by 0.3% compared with the previous quarter. It is forecast to grow by 0.7% over the year as a whole, boosted by a weak euro, cheap oil, the European Central Bank's bond-buying programme and a reform-minded government. That looks good compared with the country's grim recent record: between 2001 and 2013 GDP shrank by 0.2%.

National economic data always mask regional differences. In Italy, however, they disguise a divide that is deeper than normal (see charts). The country is, in effect, made up of two economies. Take that 2001-13 stagnation. In that period northern and central Italy grew by a slightly less miserable 2%. The economy of the south, meanwhile, atrophied by 7%.

This is partly because the south grew more slowly than the north before the financial crisis. But the main source of the divergence has been the south's disastrous performance since then: its economy contracted almost twice as fast as the north's in 2008-13—by 13% compared with 7%. The *mezzogiorno*—eight southern regions including the islands of Sardinia and Sicily—has suffered sustained economic contraction for the past seven years. Unicredit, Italy's biggest bank, expects it to continue this year. The Italian economy is both weaker and stronger than it appears, depending on the part of the country in question.

Of the 943,000 Italians who became unemployed between 2007 and 2014, 70% were southerners. Italy's aggregate workforce contracted by 4% over that time; the south's, by 10.7%. Employment in the south is lower than in any country in the European Union, at 40%; in the north, it is 64%. Female employment in southern Italy is just 33%, compared with 50% nationally; that makes Greece, at 43%, look good. Unemployment last year was 21.7% in the south, compared with 13.6% nationally. The share of northern and southern families living in absolute poverty grew from 3.3% and 5.8% respectively in 2007, to 5.8% and 12.6% in 2013.

Downward pressure on demand is exacerbated by the south's lower birth rate and emigration northward and abroad. The average southern woman has 1.4 children, down from 2.2 in 1980. In the north, fertility has actually increased, from 1.4 in 1980 to 1.5 now. Net migration from south to north between 2001 and 2013 was more than 700,000 people, 70% of whom were aged between 15 and 34; more than a quarter were graduates. Marco Zigon of Getra, a Neapolitan manufacturer of electric transformers, says finding engineers in Naples, or ones willing to move there, is becoming ever harder. According to Istat, Italy's statistical body, over the next 50 years the south could lose 4.2m residents, a fifth of its population, to the north or abroad.

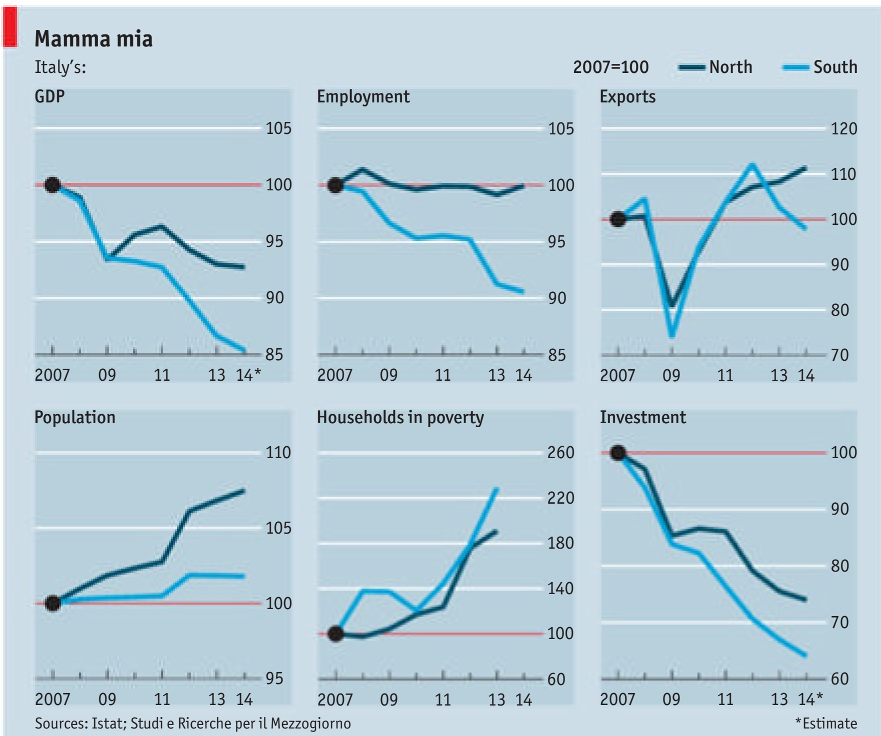
These demographic trends have tempered the gap in GDP per person with the north, according to SVIMEZ, an association for the development of the *mezzogiorno*. But the loss of human capital, coupled with low investment in the physical sort, is sucking the region dry of the resources it needs to recover. Investment in the north shrank by a quarter between 2008 and 2013; in the south it fell by a third.

These problems are not new, nor are they uniquely southern. But they are more virulent than the economic afflictions that sap growth in the north of Italy. Crumbling infrastructure is a good example. Mr Zigon complains that the port of Naples has fallen into disrepair, hampering Getra's exports. In April part of the main highway across Sicily collapsed due to a landslide, almost doubling the time it takes to get from one end of the island to the other. Fixing it could take years. Railways in the south include Italy's oldest, opened in 1839.

Most of Italy lags behind Europe in terms of digital infrastructure, but the south is especially backward. The same is true of civil justice and the bureaucracy, both of which are generally slower in the south. Corruption is common enough in the north, says Antonio La Spina of LUISS university in Rome, but it is more diffuse in the south, even if sums involved tend to be smaller. That makes it harder to root out.

Buoyant exports and cheaper credit have helped Italy's economy revive in recent months. But these effects are more muted down south. The region accounts for just over a tenth of Italy's annual exports of €400 billion ($450 billion), and much of that goes to other European countries. Whereas exports from the north grew by 2.9% last year, those from the south shrank by 4.7%, partly because the low price of oil dampened revenues at Sicilian and Sardinian refineries. Loans are often harder to get and more expensive in the south, thanks to the high rates of delinquency and bankruptcy that prevailed during the crisis.

Regional divides are common in many countries, says Gianni Toniolo, an economic historian at LUISS, but Italy's case is peculiar because of its longevity. The gulf between east and west Germany was much wider than that between northern and southern Italy in the 1990s; now it is smaller. If Italy's economy is to grow anywhere near as fast as that of the euro zone's powerhouse, it will have to find some way to narrow its internal divisions. ■



NEPAL EARTHQUAKE SURVIVORS NEED YOUR HELP!

WFP is on the ground, responding to the needs of people whose lives have been shattered by a massive earthquake. We've been preparing for this type of disaster. We are mobilizing food, IT and logistics support, but we need your help.

PLEASE DONATE.
wfp.org/nepal

WFP
World Food Programme
wfp.org

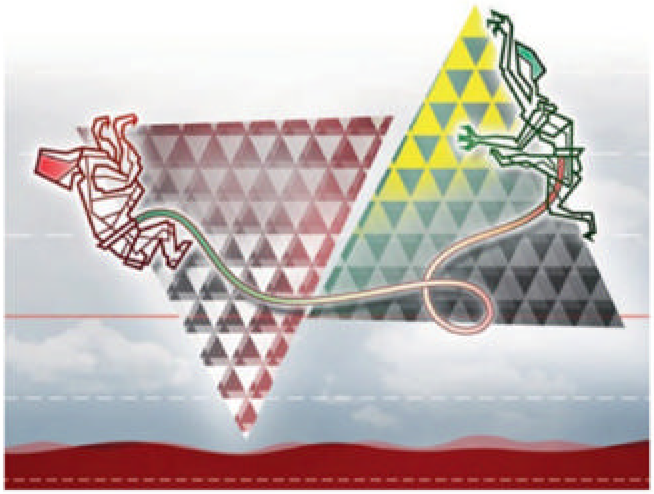
Fighting Hunger Worldwide

Join us on Facebook

follow us @WFP

Free exchange | Miraculous conversion

A new proposal seeks to make banks safer but keep regulators at a distance



ALMOST everyone agrees: before the financial crisis, banks were hooked on debt. In 2007, a year before its failure, Lehman Brothers held equity (the money shareholders put into the business) worth just 3.3% of its balance-sheet; virtually all the rest was financed by borrowing. Leverage is an elixir that makes profits soar when times are good, but magnifies losses when the economy sours. Since the crisis, regulators have cranked up their supervision of banks and ordered them to hold more equity and less debt. A new proposal would tweak this model, making banks safer using the discipline of the market rather than the heavy hand of the state.

Banks like debt for several reasons. First, it is cheap compared to equity: banks' creditors charge relatively little because they know they are likely to be bailed out if the bank fails. Tax breaks for interest payments make debt cheaper still (see this week's briefing). And unlike equity, issuing it does not entail any dilution of control. But regulators prefer equity, which can absorb losses in downturns and thus ward off bail-outs.

A new breed of hybrid instruments is billed as the best of both worlds. So-called contingent convertible bonds, or "cocos", turn into equity when a bank is struggling, trimming its debts and interest payments. Coco issuance has soared since 2010, as banks have sought to keep regulators happy by bolstering their ability to withstand losses. These fancy bonds have the upsides of debt in good times, but provide a cushion in a crisis.

Or so the theory goes. Cocos usually convert when regulators decree that a bank's capital has fallen below some threshold. In the height of a crisis, that puts regulators in a bind: announcing that a bank is weak can cause panic. A conversion also imposes sudden losses on bondholders, who find themselves holding shares worth much less than the bonds that spawned them. If the bondholders are themselves in distress, those losses can reverberate around the financial system.

Jeremy Bulow of Stanford University and Paul Klemperer of Oxford University see a way to overcome these problems with a new instrument called an equity recourse note, or ERN.* Like a coco, an ERN functions as debt in normal times. But the trigger for the conversion is the bank's share price, rather than a regulatory measure of capital. When the share price falls by enough—say, to 25% of its initial value—the bank can make repayments on the bond with new shares rather than with cash.

For example, suppose a bank issues a \$50m ERN when its shares are worth \$100 each. The ERN would pay interest like a normal bond unless the share price stood below \$25 on the day a payment was due or the bond was to be redeemed. In that case, investors would be paid in shares valued at \$25 each—even if the market price was lower still. So to redeem the \$50m ERN, the bank would issue 2m new shares. Since the share price is below \$25, those new shares would be worth less than \$50m, meaning the conversion would be a good deal for the distressed bank.

This avoids several problems with cocos. There is no uncertainty about how regulators will behave. Abrupt losses are minimised: investors can see when the share price is nearing the trigger, and if it recovers, cash payments resume. Because the new shares are worth no more than the cash saved, ERN conversions should shore up a bank's share price (by contrast, when cocos convert, enough new shares are created to push the price down).

ERNs might benefit the economy, too. Distressed firms usually struggle to raise new funding thanks to a problem known as "debt overhang": new cash is diverted to pay off debts rather than fund new investments. That makes funding pricier, so banks would rather shrink their loan books than issue shares, starving the economy of credit. This problem does not arise with ERNs. If the distressed bank issues new ERNs when its share price falls to \$25, the conversion point for the new note would be only \$6.25, meaning with a share price between \$6.25 and \$25, new investors would receive cash payouts while old ones still get shares. That puts debt overhang into reverse, helping to tame credit booms and busts—something not even more equity can do.

The best of all worlds

This might seem too good to be true; indeed, ERNs are untested. It is not certain, for instance, that investors would be keen to swap conventional bonds for riskier, more complex instruments. However, the two economists argue that, for firms, issuing ERNs is just like issuing normal debt bundled with options allowing them to sell shares at the conversion price if they so wish. That should make ERNs easy to value. It also means investors can turn ERNs back into riskless debt by buying their own options to sell the shares on, so that they end up with cash in any event.

A better criticism of ERNs applies to all hybrid instruments: if banks' preference for debt is artificial—the tax benefit, for instance, is a distortion in its favour—then a simpler solution is to require much more equity. Bankers may complain, but only because they have to pay more for funding.

Yet hybrids allow firms, not regulators, to decide on the best funding mix. And harnessing the benefits of both debt and equity is a laudable aim that has applications beyond banks. For instance, Robert Shiller of Yale University has called for governments to use bonds with interest tied to GDP growth, so that government debt is less burdensome in a slump. Others want mortgage debts to be automatically written down when property values fall, so that house-price risk is borne not solely by indebted homeowners. Rigid debt contracts may seem good in booms. But in a downturn, flexibility is everything. ■

*Studies cited in this article can be found at www.economist.com/erns15

Economist.com/blogs/freeexchange

Also in this section

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

Solar energy

Crystal clear?

OXFORD

Perovskites may give silicon solar cells a run for their money

ON THE desk of Chris Case, chief technology officer of Oxford Photovoltaics, there sits a small but heavy vial filled with a canary-yellow liquid. "That's enough for a kilowatt," he says. The material in the vial is called methylammonium lead iodide, and enthusiasts such as Dr Case believe it, and materials like it—known collectively as perovskites—could lead to a dramatic increase in the world's use of power from the sun.

Oxford Photovoltaics is one of many firms, both small and large, that see promise in perovskites. These are compounds that share a crystal structure and are named, collectively, after the mineral that was the first substance found to have this structure. Often, they are semiconductors. This means that, like the most famous semiconductor of all, silicon, they can be used in solar cells.

The first perovskite solar cells were made in 2009. They converted 3.8% of the light falling on them into electricity. Now, the best hoover up around 20%. This rate of conversion is similar to the performance of commercial silicon cells, and researchers are confident they can push it to 25% in the next few years.

Moreover, unlike silicon, perovskites are cheap to turn into cells. To make a silicon cell, you have to slice a 200-micron-thick wafer from a solid block of the element. A perovskite cell can be made by mixing some chemical solutions and pouring the result onto a suitable backing, or by vaporising precursor molecules and letting them condense onto such a backing. If these processes can be commercialised, silicon solar cells will have a serious rival.

Light work

Solar cells, perovskite ones included, all function in broadly the same way. When light hits a crystal of the material they are made from, it frees electrons (which are negatively charged) and leaves behind what are, in effect, positively charged holes in the crystal lattice. This formation of electron-hole pairs is characteristic of semiconductors exposed to light. Neighbouring materials then capture the positive and negative charges and transport them to electrode layers on the cell's outer faces, where they generate a current.

This general theme, though, is capable of variation. Last year, for example, Michael Grätzel of the Swiss Federal Institute of Technology, in Lausanne, devised a cell in which the perovskites were infused into the electron-capturing material, rather than being a separate layer. That design, he thinks, will make cells cheaper to manufacture, and more stable. Dyesol, an Australian firm with which Dr Grätzel is collaborating, agrees. It is building a factory in Turkey, planned to open in 2017, to manufacture solar cells that are based on the Grätzel infusion principle.

But the variations on the photovoltaic theme that most excite researchers at the moment are tandem cells, which have layers of both perovskite and silicon in them. These will permit more of the spectrum to be converted into electricity. Perovskites can be made to many different formulae, which means they can be tuned to absorb different parts of the spectrum. The top layer of a tandem cell is a perovskite that has been tweaked to absorb strongly at the blue end of the spectrum. Beneath it is a layer of silicon, which mops up the red.

The first such tandem was unveiled in March by researchers from Stanford University and the Massachusetts Institute of Technology. It had an efficiency of 13.7%. This week, Oxford Photovoltaics showed off one that has an efficiency of 20%. It hopes to see its first commercial tandems roll off production lines in 2017. This marriage of convenience between the old and new ways of doing photovoltaics may not, however, last long. Henry Snaith, Oxford Photovoltaics' founder, looks forward to all-perovskite tandems that have cells of different composition, each tuned to harvest a particular part of the solar spectrum.

The main obstacle to the march of perovskites is water: they decompose in it. Perovskite solar panels must thus be totally watertight. But technology exists to make effective seals on solar cells. The standard tests for cells, including those for watertightness, are set by a body called the International Electrotechnical Commission. One of these tests requires that cells sustain their performance for more than 1,000 hours at 85°C and 85% humidity. Others put cells through drastic temperature swings, artificial hailstorms and so on. Dr Snaith says that Oxford Photovoltaics' cells have passed the 1,000 hour test and are ▸▸

well on the way to making 2,000 hours.

Another way around the problem of a potentially limited lifetime is to find applications where it does not matter. In these, perovskites should do well. Some firms, for example, hope to enter the mobile-device market—reasoning that such devices are usually replaced by their owners every few years and so do not require a long-life cell. Saule Technologies, in Poland, and VTT, in Finland, are experimenting with flexible perovskite cells intended to charge mobiles. Olga Malinkiewicz, Saule's founder, says that her company has made prototype flexible cells which are 3% efficient, and she thinks its engineers can get to 10% in the next two years. When Saule's cells are commercialised, she plans to make them using inkjet printers that spray perovskite precursors onto adhesive backings. This will permit the cells to be stuck onto any device that needs power.

Oxford Photovoltaics and Dyesol, though, are looking at larger-scale, longer-lasting products. They hope to glaze buildings with panes covered in semi-transparent perovskite cells, allowing such edifices to declare, if not independence then at least autonomy from the power grid. The ultimate dream, though, would be to feed that grid itself with power from perovskite cells. At the moment, solar energy contributes a little over 1% to the world's electricity production. Silicon cells are teetering on the brink of being properly competitive with fossil fuels, but a new way of doing things might push costs down dramatically. Perovskites could be that innovation. ■

Innovation

The X-files

RANCHO PALOS VERDES

Want a new invention? Organise a competition and offer a prize

FROM the Longitude Prize offered by Britain's parliament in 1714, as reward for a way for ships to determine their location when out of sight of land, to the Orteig Prize, offered in 1919 for a crossing of the Atlantic Ocean by aeroplane, the giving of prizes for technological endeavour has had an illustrious history. Such prizes fell out of favour after the second world war, but a renaissance began in 1996 when Peter Diamandis, an entrepreneurial engineer, announced a $10m purse, the XPRIZE, for the launch of a reusable manned spaceship. A torch had been lit.

On May 7th and 8th, the XPRIZE foundation, which exists to keep that flame alight, gathered hundreds of corporate bosses, philanthropists and ideas merchants in Rancho Palos Verdes, California, for its annual "Visioneering" workshop, to dream up new prizes. Though some believe the torch is flickering (there is enough dissatisfaction with the foundation's management among its employees that Robert Weiss, its president, has promised that there will be action on the matter), the dreaming went on.

Hand in glove with Peter Homer

Prize fight

This year's shortlist included prizes for creating artificial intelligence "capable of aggregating collective wisdom", for devising a means of "sorting and processing 95% of landfill waste in an immediately profitable way", and for inventing technology that will reduce by 70% the amount of water used per hectare in farming. The winner was the idea of helping refugees by creating pack-and-go housing that can provide efficient water, electricity and sanitation, and that will last for at least six months.

The first XPRIZE was won, eight years after it was proposed, by Mojave Aerospace Ventures, a Californian company. Mojave then licensed its technology to Virgin Galactic, which hoped to create a sub-orbital flight industry. As the subsequent history of Virgin Galactic has shown, prize-winning technology does not always lead smoothly to commercial success. A fatal accident last year, involving one of the company's prototype space planes, has set things back a long way. But other XPRIZE winners have been more successful. Elastec/American Marine, a firm in Illinois, won $1m in 2011 by recovering oil spilled at sea at a rate three times better than the industry's previous best. It has since launched a product based on this technology. A fuel-efficiency prize of $5m was awarded in 2010 to Edison2, a Virginian company, for a safe, cheap and easily built car that could do more than 100 miles per American gallon (42.5km/litre). The firm's trick was a novel system of suspension.

For the more audacious, a prize of $20m awaits whomever is able to get a rover to the moon's surface and operate it successfully there. Two teams hoping to do this announced recently that their rovers will share a ride on a rocket launched next year by SpaceX, a private rocketry company. And $10m will go to the winner of the Qualcomm Tricorder XPRIZE, which was inspired by the fictional, hand-held diagnostic device seen on "Star Trek". To bag this award, someone must come up with a tool that can diagnose 16 medical conditions, among them anaemia, diabetes, strokes and urinary-tract infections, and be able to monitor five vital health signs, including blood pressure, respiratory rate and temperature. Cloud DX, one of the runners in the race, has already created a wearable device that captures these vital signs, and applies appropriate algorithms to them to spot potential problems.

Other prizes announced recently include one of $15m for open-source software that will teach children in poor countries how to read, write and do sums within a period of 18 months. And future prizes look likely for adult literacy, for sequestering carbon dioxide from the atmosphere and for a plastic that will degrade harmlessly in the ocean.

The idea of all these prizes, according to Dr Diamandis, is to set goals that are "audacious but achievable". Many of the foundation's awards, such as the tricorder and child-literacy prizes, come from ideas proposed at Visioneering workshops. Ideas also come from potential sponsors and from members of the public. The foundation scrutinises suggestions to see if the award is feasible and will have the intended impact. For those that pass, but have no sponsor, one is then sought.

The XPRIZES' success has generated many imitators. The Methuselah Mouse Prize, created in 2003, offers cash to teams that breed longer-living rodents, and thus contribute to knowledge about how animals age. In 2004 a firm called Bigelow Aerospace put up a pot of $50m for the first American team to create a reusable manned capsule that would visit a space station. Though the prize expired, unclaimed, in 2010, such a capsule now exists. It was built by SpaceX; has flown, unmanned, six times; and will, if all goes well, fly with a crew next year.

Even Google, which is sponsoring the moon-rover XPRIZE, now offers its own awards. Every year it hosts Code Jam, a competition in which programmers, both professional and student, are challenged to solve algorithmic puzzles of interest to the company. Smaller prizes, too, have their place. A website called InnoCentive, for example, can be used by firms to harness the power of the crowd to solve tricky corporate problems. Cash awards are doled out to givers of the best answers.

Prizes also mobilise talent from unexpected areas. In 2007 NASA, America's space agency, sponsored one for the best design of a new astronaut's glove. The winner, Peter Homer, was unemployed at the time. Now, he runs a company that makes his invention. ■

Technology and health

To sleep, perchance

Screens before bedtime harm sleep. The effect is biggest for teenagers

PITY the poor pineal gland, tucked behind the thalamus in a gap between the brain's hemispheres. It has a simple task—to make melatonin, a hormone that regulates sleep. In days gone by, it would start doing so after sunset, ramp up to a maximum in the middle of the night, and then taper off toward the morning. The result was regular, dependable periods of sleep and wakefulness.

Modern life, though, is confusing for the pineal because its signal to start work is the absence of light—specifically, of blue light. This part of the spectrum radiates by the bucketful from light-emitting diodes in the screens of phones, tablets and laptop computers. As far as the gland is concerned, that turns night into day. Study after study has suggested night-time use of screen-based gadgets has a bad effect on people's sleep. Indeed, things are getting worse as screens get smaller and are thus held closer to the eyes. As a consequence there is a tidy market in devices and apps which regulate the amount of blue light a screen emits.

The latest research suggests one group of people—teenagers—may be particularly susceptible. Those in their mid-teens already have unusual sleep patterns. Left to themselves, they stay up late and sleep in in the morning because their melatonin cycles start and finish later than those of adults. Add teenagers' reputations for being glued to their screens and it certainly seems reasonable to hypothesise that adolescents, in particular, will suffer from sleep-disruption-by-gizmo.

One study, published in October by researchers in Switzerland, tracked boys aged 15 to 17 over a fortnight in which they wore either glasses fitted with filters that blocked blue light, or else clear glasses of similar design, for several hours before they went to bed. It measured the youths' melatonin levels and reaction times over the course of the evening. Minus blue light, participants were more ready for bed.

In February, research on nearly 10,000 Norwegian adolescents aged between 16 and 19 confirmed what casual observation might suggest. Almost all used computers, phones and the like in the hour before they went to bed. The data showed that gadget use was correlated with sleep patterns. The more the teenagers looked at screens, the longer they took to get to sleep and the less sleep they got.

A third piece of work, published this week in *Lighting Research and Technology*, by Mariana Figueiro of the Rensselaer Polytechnic Institute in Troy, New York, also studied people aged between 15 and 17. Though Dr Figueiro looked at only 20 teenagers, her results were so much at variance with her previous work on adults that they seem worth following up.

First, participants wore orange glasses, to screen out blue light, until bedtime. The next night they went without the glasses. On glasses-free nights, their melatonin levels were 23% lower after an hour of looking at a screen, compared with their levels on begoggled nights. After two hours, they were 38% lower.

Dr Figueiro's previous studies with adults yielded falls in melatonin of only 14% after two hours in front of a computer. In the matter of sleep and screens, it seems, teens really are different. Not that such knowledge will make a jot of difference to their behaviour. ■

Blue meanies

Nuclear proliferation

The watcher in the water

It may be possible to detect plutonium factories from a distance

"TRUST, but verify." That was Ronald Reagan's mantra for nuclear agreements, though the proverb itself is Russian. But verifying that a country is not cheating on one important matter of nuclear diplomacy, the manufacture of plutonium, is hard. At the moment, it can be done only by visiting the site of any and every nuclear reactor which could be employed for the task—even then, one might be hidden away. But if a project now being undertaken in America works well, hiding reactors will become much more difficult.

The Water Cherenkov Monitor for Antineutrinos, or WATCHMAN, brainchild of the energy department and the National Nuclear Security Administration, should be able to spot a suspicious reactor up to 1,000km away. A network of such devices, set up within range of someone who might not be playing by the rules, should indeed verify whether he can be trusted.

The WATCHMAN is a neutrino detector—or, to be precise, an antineutrino detector. Neutrinos and their antimatter equivalents are particles that have little mass and no electric charge. They are produced in huge quantities by stars such as the sun, by the explosion of supernovae and by nuclear reactors on Earth, but they interact with other forms of matter so weakly that a piece of lead a light-year thick (around 9 trillion kilometres) would block only half of those passing through.

It is this penetrative power which may make these particles useful for diplomats. No amount of shielding can stop them escaping from a reactor. If it were possible to tell both where the particles were coming from, and whether that source was natural or artificial, then it would be impossible to hide a reactor. The WATCHMAN's designers think they can do that. Though most of the neutrinos and antineutrinos which pass through the 3,500 tonnes of gadolinium-doped water a WATCHMAN will contain will remain unnoticed, a minuscule minority will interact with those contents. These interactions should be enough to give the game away.

Flashes of inspiration

Determining where a neutrino or antineutrino has come from is reasonably easy. Several neutrino "telescopes" around the world can manage the trick, and are thus able to tell, for example, which neutrinos come from the sun. They do it by watching for flashes of light, called Cherenkov radia- ▸▸

tion, which are made when something electrically charged is moving faster than the speed of light in the medium in which it is travelling. (Though nothing travels faster than light in a vacuum, light's velocity falls when it passes through matter.) In the case of neutrinos or antineutrinos, the light-generating particle is an electron knocked at speed out of a water molecule by a neutrino's impact. The direction of the Cherenkov light, which is measured by sensitive photodetectors in the wall of the vessel that contains the water, shows the direction of the original particle's source.

This so-called "recoil" method cannot, however, distinguish between neutrinos and antineutrinos. That matters, because the nuclear reaction which turns the non-fissile form of uranium into fissile plutonium, from which bombs can be built, makes antineutrinos. By contrast, the fusion that powers the sun and other stars makes neutrinos. To tell a reactor from sources like those, you must be able to tell between neutrinos and antineutrinos. And this is what the gadolinium is for.

Antineutrinos sometimes do something that neutrinos do not: they merge with a proton to create a neutron and a positron (the antimatter version of an electron). The positron then shoots off so fast that it creates a flash of Cherenkov radiation. The neutron, meanwhile, blunders around until it runs into a gadolinium atom. Gadolinium nuclei have an appetite for neutrons, and the process of absorption generates a second flash of light. The two flashes in quick succession show that the apparatus has captured an antineutrino.

You now have both parts of the puzzle. Double flashes show the size of the antineutrino flux. Recoil flashes show where that flux is coming from. At least, that is the theory. The practice will be tested shortly. A prototype WATCHMAN is under construction in an old salt mine (to shield it from cosmic rays and other sources of interference) in Painesville, Ohio. This is 13km from a nuclear power station at North Perry, on Lake Erie. Though the Perry reactor is built for electricity generation rather than plutonium production, all reactors create some plutonium as a by-product, so its proximity will be a good test for the WATCHMAN system.

If that system works, and the decision is taken to deploy it, then there will still be the question of where and how. The predicted 1,000km range means quite a bit of diplomatic arm-wrestling may be involved, for the detectors would be of little use if built on American soil. But if, say, a country like Turkey could be persuaded to house one, the nuclear activities of a neighbour such as Iran might thus be monitored without inspectors having to set foot on the soil of the country in question. If that can be done, the WATCHMAN may help make the world a safer place. ■

How long will you live?

Getting a grip

The strength of your handshake predicts the length of your life

NEXT time you shake hands with your doctor, beware—you may be giving away your life expectancy. A paper just published in the *Lancet*, by Darryl Leong of McMaster University in Canada, reports that a simple way to assess how likely someone is to die in the next few years is to test the strength of his grip.

Using a hand-held device called a dynamometer, Dr Leong and a team of collaborators across the world tested the grips of 140,000 people aged between 35 and 70 in 17 countries. Three of these countries—Canada, Sweden and the United Arab Emirates—were rich. Four—Bangladesh, India, Pakistan and Zimbabwe—were poor. Ten, including Colombia, Poland and South Africa, were defined as middle-income. The researchers then followed their volunteers for an average of four years, and noted how many died, and what from.

There was a good deal of national variation. Swedes, it seems, have the world's firmest handshakes, and Pakistanis the limpest. But, overall, the strength of someone's grip was indeed a good predictor of how likely he was to die during the course of the study.

The average grip strength the team recorded was 300 newtons (the force needed to hold a 30.6 kilogram weight against Earth's gravity). Every 50-newton drop below this was associated with a 16% rise in the risk of death, and a 17% increase in the risk of dying in particular from heart disease. It was also associated with a 7% greater risk of having (but not necessarily dying from) a heart attack, and a 9% rise in the chance of having a stroke. Among those with cancer or chronic heart disease, the strong-gripped were more likely to survive the follow-up period than the limp. The correlation held when the researchers corrected for other factors known to play a part in death rates, including age, education, drinking and smoking.

Admittedly, grip strength is not a completely reliable indicator of robustness. Dr Leong found no correlation with hospital admissions for pneumonia, for instance, or the rate of diabetes. Nor, oddly, did there appear to be a correlation with deaths from falls, a cause of injury in which muscular weakness might be assumed to play a direct role.

Interpreting exactly what is going on is hard. Because the study was observational rather than experimental, it is impossible to know whether muscular weakness is causing illness or is a symptom of illness that is already there. That matters. If the former is true, then building up strength through exercise might avert early death. If it is the latter, a person's cards are probably marked irreversibly. Most likely, it is a bit of both, with muscle strength being a good marker of "real" ageing—in other words, of generalised biochemical decrepitude—which correlates only imperfectly with someone's calendar age.

An advantage of Dr Leong's method is that it is easy to execute. Dynamometers are cheap, and can be used with minimal training. Grip strength is thus simpler to assess than other signs of frailty, such as high blood pressure, body-fat percentage or blood-sugar levels. Along with a person's waist-to-height ratio, which another recently published study confirmed is a better measure of disease-inducing abdominal fat than the familiar body-mass index, a flaccid handshake may be a warning that all is not well.

Also in this section

For daily analysis and debate on books, arts and culture, visit
Economist.com/culture

Amitav Ghosh's fiction

The great bobachee-connah

A new narrative landscape that stretches from Mauritius to the South China Sea

THIS is the last volume in a rich and sweeping trilogy set across the vastness of maritime Asia. The historical backdrop is England's looming first opium war with China (1839-42). But the magic of these novels—along with much of the narrative propulsion—comes from the way Amitav Ghosh weaves together and then apart and then together again the fates of those aboard a former slave ship, the *Ibis*, carrying convicts and indentured workers from Calcutta bound for Mauritius.

The first volume, "Sea of Poppies", launched the *Ibis* out into a great ocean of words—away from the hot, dusty north Indian plain and the godowns and opium factories on the silt-laden Hooghly river to the sapphire waters of the Bay of Bengal. There is nothing like a ship for overturning the established order—unless it is a good storm, and in "River of Smoke" (2011), the sequel, a powerful one combines and scatters the characters in bewitching ways. In a brilliant feat of parallel narratives, "Flood of Fire" slowly recombines those and related characters as they all converge, as if by *kismet*, on the *Ibis* and on Hong Kong just at the time of the British colony's founding.

In north-east India, Kesri is soldiering in an East India Company regiment until ostracised by the senior sepoy (to whom he is related through marriage) for the alleged misdeeds of his beloved younger sister, Deeti. Escaping the oppression, he signs up for what turns out to be a punitive expedition that the British are preparing against the Chinese, who have banned imports from India of the iniquitous opium they called "foreign mud".

Flood of Fire. By Amitav Ghosh. *John Murray; 616 pages; £20. To be published in America by Farrar, Straus and Giroux in August*

In Bombay's community of Parsis, Shireen Modi learns of the death on the China coast of her husband, a trader who had bet all on selling a huge consignment of opium just as the Chinese were cracking down. She wants to know more about his end, and salvage a lost fortune. Neel, a bankrupt Raja falsely accused of forgery (he was one of the *Ibis* convicts), finds himself in Canton (present-day Guangzhou) drawn to help the Chinese authorities against the English. And in Calcutta the former first mate on the *Ibis*, Zachary Reid, ivory-skinned but hiding his black ancestry, is repairing a houseboat that once belonged to Neel but which had been acquired by the wealthy English opium trader who broke him. Much of this first part of the novel is hilarious, not least the way Zachary's priapism is treated, with missionary zeal, by the trader's wife. "It's my turn now," she proclaims, "to bajow your ganta."

As ever for Mr Ghosh, language is a great *tumasher*, and it is not surprising that he is on the shortlist for the biennial Man Booker International prize, the winner of which will be announced on May 19th. He swims with relish in a lexicon he has made his own, a rich brew of English, Bangla, Hindi, Parsi, Malay, Cantonese and pidgin at a time when free trade and imperialism were recombining Asian cultures and tongues. He describes a "plural society" existing nearly a century before John Furnivall, a British colonial administrator, came up with the term. Mr Ghosh's genius is to paint this world from its teeming heart, rather than from the perspective of metropolitan centres of power in London or, for that matter, Peking.

Furnivall was in fact a critic of the plural society: he called it "in the strictest sense a medley" in which different races "mix but do not combine. Each group holds by its own religion, its own culture and language, its own ideas and ways. As individuals they meet, but only in the market-place, in buying and selling." Mr Ghosh is mesmerised by the mixing. But, you sense, he is just as critical of the amorality of free trade underpinned by imperialism as was Furnivall, a Fabian socialist. At anchor off the Chinese coast, a Scottish trader likens hindering the opium trade to holding back the ocean's tides. The drug's flow "was governed by abstract laws like those that Mr Newton had applied to the movements of the planets." This was balm to Zachary's ears, a budding trader himself.

By now, however, the novel has changed tone. A British military expedition wreaks havoc along this part of the China coast—and on many of the central characters. Kesri is sickened by the expression in death of a Chinese soldier fighting for everything he holds dear—land, homes, families, customs. Neel, watching the al- ▸▸

most casual destruction of Chinese forces in the Pearl river delta, is struck by how a battle is "a distillation of time: years and years of preparation, decades of innovation and change were squeezed into a clash of very short duration. And when it was over the impact radiated backwards and forwards through time, determining the future and even, in a sense, changing the past." There was a terrible power "contained within these wrinkles in time".

The novel's end vividly marks the birth of a British colony that grew to be extraordinary. Yet it is more than anything apocalyptic, including for many of the central characters. There is escape for some, however, among them Kesri and Neel, and Neel's little boy, Raju, newly reunited with his father. And redemption comes in the form—what else?—of the *Ibis*. ■

Russia and the first world war

Blindly over the brink

Towards the Flame: Empire, War and the End of Tsarist Russia. By Dominic Lieven. *Allen Lane; 429 pages; £25. To be published in America by Viking in August*

THE first world war brought many afflictions to Europe: revolution, civil war, two famines, collectivisation, dictatorship and terror. The botched peace of Versailles stoked revanchism and brought further catastrophe in 1939. So the decisions which took Russia into a needless war in 1914 can be blamed for the death of at least 50m subjects of the tsarist and Soviet empires, plus countless others.

Tsar struck

The origins, course and effects of the war have been minutely researched by Western historians, but not, until Dominic Lieven's masterly new book, from a Russian point of view. The result is a gripping, poignant and in some respects revolutionary contribution to European history. The author—a distinguished British scholar descended from several of the protagonists he describes—has had unprecedented, and possibly unique, access to the Russian state archives. Shortly after he finished his research, the library fell into a Moscow railway tunnel. A week later it was closed.

"Towards the Flame" begins with a lucid sketch of the decades leading up to the war. The balance between the six great powers—Austria-Hungary, Britain, France, Germany, Russia and Turkey—was always at risk of upset. It depended on a mixture of cool-headed bluff and good diplomacy. They were all too often lacking.

By the end of the 19th century the European security order was disintegrating, pulled apart by nationalism, imperialism and globalisation. The empires were like tigers, which even when threatened with extinction will not co-operate. Preservation required statecraft based on common interests, not those of ethnic groups whose own linguistic and cultural aspirations were crystallising into the desire to run their own affairs. Globalisation was eroding national boundaries. But that was anathema to economically illiterate leaders who saw interdependence as weakness. Thinking was also skewed by what Mr Lieven calls "vapid" biological metaphors in which the state was seen as a living organism, ruthlessly competing for size and resources, prizing prestige and strength over stability and practicality.

Britain and France had overseas empires. The other European powers had colonies closer to home. Austria-Hungary was grappling with restless Slavs inside its borders, and still more unruly ones in its Balkan neighbours. It was heavily, and humiliatingly, dependent on Germany, which in turn felt stifled by its late arrival in the race for overseas territories.

Russia had the greatest woes. Humiliated in the war of 1905 with Japan, it was not modernising fast enough to keep up with the other great powers. The rise of Ukrainian national feeling (partially encouraged by Austria-Hungary) was a lethal threat to Russian identity; much the same as now, some would say. Russia hankered after liberating the Slavs of the Balkans and seizing control of the Bosporus from the ailing Ottoman empire, thus boosting its naval power. Pent-up anger among peasants and industrial workers, and an impatient middle class, meant that reform and repression alike risked a social explosion.

The leaders were grotesquely ill-suited to the problems they faced. Mr Lieven paints a series of vivid portraits of the Russian decision-makers and functionaries, and their attempts to overcome a system of government which elevated autocracy to a virtue: the tsar had to be "pope, king and dictator" at once, and was bad at each one.

What nowadays would be called civil society played a "nefarious" role too, Mr Lieven argues. He outlines the unhelpful part played in many countries by a hysterically nationalist press, voluntary bodies, such as the powerful naval fan clubs in Germany, which saw it as their role to prevent compromise besmirching the national honour, and segments of the Russian aristocracy which detested professionalism and pragmatism in state administration.

Mr Lieven's Russia-centred point of view may jar with Poles and others who see the collapse of the tsarist empire as the midwife of national rebirth. But the book's eloquence, insights and detail make it an indispensable read for anyone trying to understand European history in the last century—or world affairs in general.

Readers will be left aghast at the way in which largely sensible, humane and well-educated men brought about such suffering and havoc with their blinkered decision-making. Mr Lieven's concluding thoughts, written from a Japanese mountainside where he has a second home, add a further note of dismay. He draws some sketchy but alarming parallels between Europe's descent into disaster 100 years ago, and East Asia's fractious security today, which is beset by a familiar cocktail of strident nationalism and brinkmanship. ■

Joseph Mitchell of the New Yorker

The grammar of hard facts

Man in Profile: Joseph Mitchell of the New Yorker. By Thomas Kunkel. *Random House; 366 pages; $30*

"AT ANY hour of the day or night," wrote Joseph Mitchell, "I can shut my eyes and visualise in a swarm of detail what is happening on scores of streets." That, for Mitchell, was New York, where he worked as a reporter—starting in 1929, when he arrived as a college dropout from a small town in North Carolina, until 1964, when he submitted his last piece to the *New Yorker*.

Researching a story, Mitchell could spend whole days on the bus, taking notes on what he saw out of the window, or wandering around a cemetery to identify the weeds that grew there. Mitchell, wrote one critic, could "achieve the same effects with the grammar of hard facts that Dickens achieved with the rhetoric of imagination." He came to be widely imitated. ▸▸


YOU WILL TRAVEL
IN A LAND OF MARVELS.
—JULES VERNE
kindle voyage
BRILLIANTLY CRISP DISPLAY • REMARKABLY THIN DESIGN
EFFORTLESS PAGE TURNING • LIGHT THAT ADJUSTS WITH YOU
amazon

Calvin Trillin dedicated one of his books "to the *New Yorker* reporter who set the standard—Joseph Mitchell."

Meticulousness, however, had its price. Once a newspaperman filing many articles a week, Mitchell started taking months, then years, on his magazine stories. He spent half a decade writing his final profile. Then, for more than 30 years, he arrived every day at the *New Yorker* office without ever submitting another piece. According to a revealing new book, Mitchell's colleagues even started searching his bin for clues about what he was doing.

Mitchell's subject was life at the periphery of his metropolis. At the long-vanished *New York Herald Tribune*, he began his reporting career by, as he put it, "hoofing after dime-a-dozen murders." The young writer could be jaunty and jokey. "I think, as a matter of fact," he wrote, "that burlesque strippers are a great deal like elephants: when you've seen one you've seen them all." He relished precise description. When, at 26, Mitchell covered the executions of three men convicted of murder, he noticed that the electric chair rested on exactly three sheets of rubber carpet.

Proud of his vigilance, the young Mitchell claimed: "A newspaper can have no bigger nuisance than a reporter who is always trying to write literature." Just eight months after these words were published Mitchell began working full time for the *New Yorker*, where his ambitions turned literary. More and more he found himself evoking the past. His humour grew reflective and wry and a touch metaphysical. He wrote about the decline of New York beefsteak parties, which had begun admitting women and consequently lost an appreciation for "the man who let out the most ecstatic grunts, drank the most beer, ate the most steak, and got the most grease on his ears"; and about a downtown dive, Dick's Bar and Grill, whose modernising renovation caused Mitchell to reflect: "I am aware that it is childish, but sometimes, leaning against the spick-and-span new bar, I am overcome by nostalgia for the gutter."

Mitchell was eulogising worlds he was often too young to have known personally. As he aged, the traces of these pasts—one could call them the pasts of his own past—began to fade. The New York Mitchell had explored as a young reporter was vanishing. In response, his stories darkened. In his profile of George Hunter, an elderly resident of New York's remote Sandy Ground community, Mitchell follows Hunter around the local cemetery as the old man talks of long dead neighbours. At his own future grave-site, Hunter falls into a gloom. "It won't make any difference," he says of his burial ceremony. Mitchell would go on to publish only three more articles.

It is just one of the enlightening discoveries of Thomas Kunkel's biography that Mitchell continued trying to produce new

Made up in Manhattan

work until the end of his life. Among Mitchell's papers Mr Kunkel found drafts of three chapters of an unfinished autobiography, all of which have now been published in the *New Yorker*, most recently this past February. Mr Kunkel shows how Mitchell struggled for years to alight on a subject representative of his increasingly general sense of displacement. He was, the author contends, "a gifted writer who was trapped by his own expectations".

Mr Kunkel, who depicts Mitchell as saintly, worries a lot about the most telling discovery of his research: the famous reporter made things up. Kunkel determines that Cockeye Johnny Nikanov, one of Mitchell's beloved profile subjects, was a composite character invented by Mitchell. He uncovers reporting notes and editorial memoranda that indicate that Mitchell regularly altered experiences and quotations referred to in his stories.

Mitchell did not think this light fictionalising would discredit his work. In its early years, before literary journalism had become popular in American magazines, it was not so unusual for the *New Yorker* to run composite profiles. The practice has long since been banned at the magazine, which ran its own review of Mr Kunkel's book and addressed what is clearly a difficult issue. Mitchell, at least, felt his technique could conjure a major literary effect. "He is truer to life than I would've been able to make him had he been a real person," he said of Nikanov.

Fanatical reporting and occasional invention did not seem contradictory to Mitchell; each was a means of finding beauty in the mundane. How to classify his approach may remain an open question. It would be inaccurate to call it nonfiction, but Mitchell's editors were not alone in thinking he got his stories just right. ■

The Korean war

Tyrant and truant

The Great Leader and the Fighter Pilot: The True Story of the Tyrant Who Created North Korea and the Young Lieutenant Who Stole His Way to Freedom. By Blaine Harden. *Viking; 290 pages; $27.95. Pan Macmillan; £16.99*

THE vain feats of Kim Il Sung, the Korean guerrilla leader who fought the Japanese occupiers from Manchuria, were irresistible to the destitute North Koreans who, by the 1940s, had suffered nearly four decades of brutal colonisation. They did not know the truth: that Kim lost his war, fled east and later slinked home in a Soviet uniform, kowtowing to Stalin until his death. Nor did they see that Kim's monstrous regime, which would last another 41 years until he died in 1994, was built on fiction.

In 1945 No Kum Sok was one of those who thought that young Kim, the Soviet poodle, was a sham. In the boy's hometown, Russian soldiers ransacked and raped, and his family fell on hard times. Mr No longed to escape to America. Posing as a false communist, spying and snitching to prove his fervour, he became the youngest pilot in the North Korean air force. In 1950 the Soviet-backed North invaded the South, prompting a UN-backed American-led force to step in. The Chinese, in turn, supported the North. Just after the conflict ended, Mr No flew a Soviet MiG-15 jet over the border and defected to the South.

Both men's lives in the nascent North Korean state are deftly woven together by Blaine Harden, an American journalist, who has made good use of Mr No's memoirs, as well as newly declassified air-force intelligence reports, presidential papers and Chinese and Soviet archives. The history of the war unfolds at the top, as Stalin, Mao and Kim (mostly "stewing in his irrelevance") jockey, bicker and bootlick for influence. It is played out at the bottom through Mr No, who hears of the war at his naval academy in Chongjin, in the north-east, and goes to China to train as a pilot.

North Korea was deeply vulnerable from the skies. Three weeks into the war, almost all of its combat planes had been strafed; America described its early air-force campaign as "leisurely". Its bombers destroyed more than four-fifths of the North's infrastructure. The destruction of Chongjin, which Mr No witnessed, was a "steady, systematic and unhurried chore". Within two months the B-29 bombers said they were running out of targets.

If China fought America to a bloody stalemate on the ground, in the air the Soviet Union's best pilots fought its air force ▸▸

to a draw. By late 1951 about 2,500 MiGs prowled the skies above a section of the Sino-Korean border, known as "MiG Alley". Stalin wanted his meddling kept quiet, so Soviet pilots flew without identification papers, in Chinese flight uniforms aboard jets with Chinese markings. America was not fooled, but it chose to ignore the charade—a move, Mr Harden says, that may have kept "the cold war cool".

America, too, engaged in deceit. Mr No says he saw American pilots cross into Manchuria, in violation of the rules of combat, to attack enemy planes, including those of his colleagues, as they landed (the air force would try to cover this up for decades). They also dumped over 32,000 tonnes of napalm on the North, nearly twice as much as fell on Japan in 1945. Enemy soldiers lived on rice, so the Americans blew up dams to flood the paddy fields.

How Mr No witnessed the savagery and still clung to his admiration for America is not quite spelt out. But Mr Harden does make clear that Mr No's flight was for freedom and not for the American cash that awaited him under the terms of Operation Moolah—a bribe of $100,000 (about $900,000 today) set up in 1953 for the first pilot to defect in a MiG. An American general called Mr No's defection the country's most "spectacular" piece of psychological warfare against the communists; Mr No had never heard of the reward.

The destruction of the North prompted much guilt across the socialist world, which Kim was quick to prey on. In 1954 China spent more than 3% of its budget helping the North. The devastation became Kim's most potent propaganda. He found in it the trope that would continue to justify his people's suffering for decades to come: that foreign powers—chiefly America—had always been to blame. ■

French banlieue film

Chronicles of the years of fire

PARIS

A new film set in France's poor housing projects mines a rich seam

TWENTY years ago, a raw angry film burst on to the big screen and into the French mind. "La Haine" (Hatred), written and directed by Mathieu Kassovitz when he was just 26, was a stylised black-and-white drama about youth, guns and police brutality that opened French eyes to the rage on the housing estates of the country's *banlieues*. Although nothing since has quite matched its dramatic power, "La Haine" opened the way for a generation of French film-makers, who have turned their backs on the elegant salons and leafy boulevards of Paris for the tense, angular vibrant world of the *banlieue*.

Even today, "La Haine" is worth watching again. Its haunting opening voice-over, relating a story about a man who falls from a skyscraper and tells himself as he plunges to the ground, "So far, so good; so far, so good," sets the movie up for its shocking end. It also acts as the film's central metaphor. The simmering rage of Saïd (of Arab origin), Vinz (a Jew) and Hubert (an African), three young drifters whose friend, Abdel, dies after being detained by the police, speaks for the multiracial *banlieues* as a whole: a peripheral place of exclusion and resentment that the rest of France ignores at its peril.

Mr Kassovitz's film, which won the prize for best director at the Cannes film festival and launched Vincent Cassel's acting career, was not the first film made about the French *banlieues*. Malik Chibane ("Hexagone", 1994) and Thomas Gilou ("Raï", 1995), for example, also set their movies in the harsh housing projects. But none captured the imagination in quite the same way, nor did it with such cinematic style. "La Haine" helped draw film-makers towards a rich seam.

The most recent example is Céline Sciamma's "Bande de Filles", released in English on May 8th as "Girlhood". Part coming-of-age girl movie, part social commentary on the narrowness of options in the *banlieues*, it follows Marieme (Karidja Touré—pictured), a black French teenager with younger sisters to look after and an older brother to fear. She falls in with a gang of girls who offer her straightened hair, shoplifted clothes, street fighting and affection. The end is not uplifting, but the performances, from four sassy newcomers, are wonderfully so. It speaks eloquently of female loyalty and empowerment, as well as the wretched limits of both.

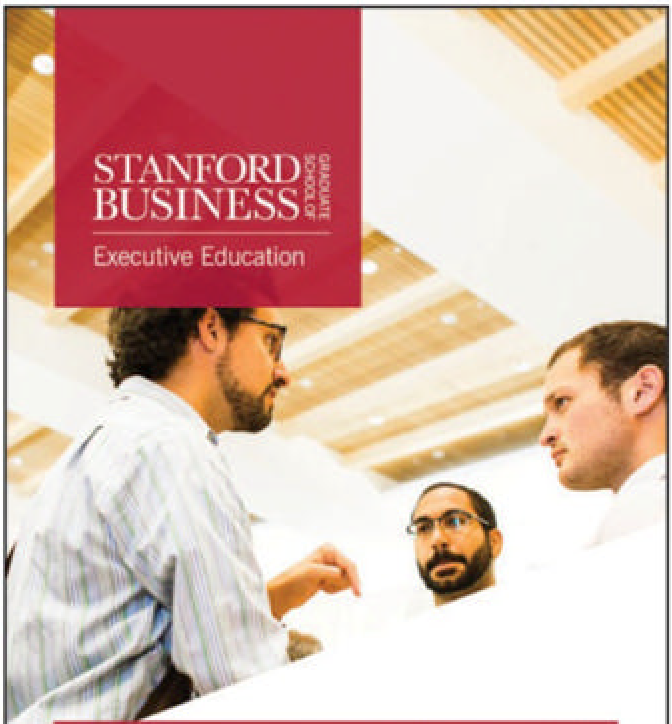
Girls in hoods, not veils

Up to a point, "Bande de Filles" carries the familiar markers of a *banlieue* movie: brutalist tower blocks, long rides on suburban trains to reach central Paris, faceless fast-food joints open late into the night. The only glimpse of the Eiffel Tower is a faux monument on a mini-golf course. But, with its blue palette and female energy, "Bande de Filles" also seems to be saying that there is more to this world than drab monochrome and masculine aggression.

In this sense it follows other French films, such as Abdellatif Kechiche's "L'Esquive" ("Games of Love and Chance", 2003), in which the *banlieue* is backdrop more than subject matter. Improbably, and seductively, this movie chronicled the production of an 18th-century French play by Pierre de Marivaux, bodices and all, in a mixed-race secondary school. Other film-makers have turned to comedy, where ethnic minorities in France thrive. "Tout ce qui Brille" ("All that Glitters", 2010), for instance, directed by Géraldine Nakache and Hervé Mimran, is a bittersweet movie about two high-octane girls from the *banlieue* who try, just a bit too hard, to escape into high Parisian society.

If French *banlieue* film has broadened out and now defies two-dimensionalism, "La Haine" stands out nevertheless. "The kind of serious cinematic exploration of the *banlieues* that 'La Haine' provided hasn't really been replicated," says Ginette Vincendeau, professor of film studies at King's College London. Social realism does not have strong roots in French cinema, dominated as it is by directorial creative vision. Perhaps Laurent Cantet came closest with "Entre les Murs" ("The Class") in 2008, a sobering documentary-style film about a well-meaning teacher up against apathy, family dysfunction and insolent high spirits in a multiracial Paris school.

It is not for want of subject matter. As Ms Vincendeau points out, the burning difficulties in today's *banlieues*, such as the place of Islam in secular France, are largely absent from the big screen. "Bande de Filles", for example, features not a single veiled girl, nor any reference to religion. For all the willingness of French film-makers to engage with the contemporary drama of multi-ethnic *banlieue* France, *jihad* and radical Islam still remain, for the time being, off limits. ■



FYI: Innovation can be taught.

Thousands of senior global executives are the beneficiaries of this unique opportunity: To tap into the innovation engine that powers Silicon Valley. To access the minds who've educated generations of the world's most successful innovators. To discover an invaluable catalyst for building a corporate culture of innovation. Are you ready? Come to the source. There's only one: Stanford.

UPCOMING PROGRAMS

The Corporate Entrepreneur: Driving Innovation and New Ventures
August 2 – 7 and October 25 – 30, 2015
(two-module program)

Strategic Marketing Management
August 9 – 19, 2015

Design Thinking Boot Camp: From Insights to Innovation
September 15 – 18, 2015

Executive Program in Leadership: The Effective Use of Power
October 10 – 16, 2015

Enroll. Re-boot. Transform: stanfordexecutive.com

Change lives. Change organizations. Change the world.

Executive Master in
Positive Leadership & Strategy

From strong to extraordinary

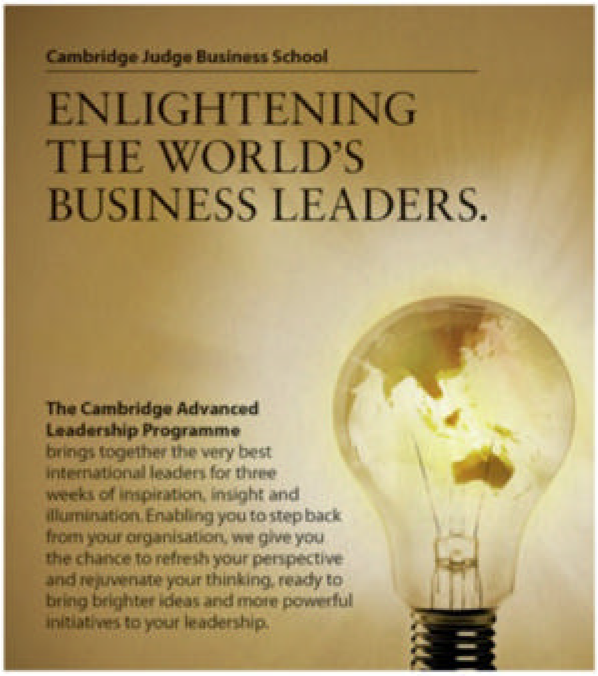
Positive Leadership is about achieving extraordinary results by optimizing human performance.

Under the guidance of world-renowned faculty, candidates will transform the way they lead: themselves, their teams and their organization.

Five intense 6-day executive training sessions in Madrid, each followed by action-oriented projects addressing current leadership challenges at work.

Next Intake: April 2016

ie school of social and behavioral sciences | exmpls.admissions@ie.edu | exmpls.ie.edu



UNIVERSITY OF CAMBRIDGE
Judge Business School
ExecutiveEducation

To register for our free ALP webinar visit:
www.jbs.cam.ac.uk/alp

Get ready to embark on a truly transformational journey: the **Global CEO Program**, a joint initiative between three of the world's most prestigious business schools.

Join CEOs and business leaders from a variety of backgrounds and industries to share perspectives, identify opportunities and challenge current business models in today's fast-changing world.

With modules in **Shanghai**, **Philadelphia** and **Barcelona**, you are given the opportunity to expand your professional network, exchange valuable insights on the issues directly affecting your business and gain first-hand experience of disruptive realities in both industrialized and emerging economies. Contact us today.

iese.edu/gcp

Property

EMERALD LIVING

EMERALD LIVING – LUXURY LIVING ABOVE LAKE LUGANO

In Lugano with breathtaking lake view: Modern and exclusive apartments of various sizes, 3 ½ - 8 ½ rooms, suitable as holiday or principal residence. Boutique hotel with gourmet restaurant, Wellness & SPA, indoor pool offers a wide range of services for the residents.

Emerald Casa SA, Via Cassarinetta 10, CH – 6900 Lugano,
Fon +41 91 985 20 50,
info@emerald-casa.ch, www.emerald-living.ch

Business & Personal

WALDHAUS SILS

A family affair since 1908

★★★★★

Summer season 2015:
17th June to 19th October

6 miles from bustling St. Moritz:
Family owned and managed ever since it
opened in 1908. Grand, but friendly and relaxed;
children very welcome!"

Location of the movie „Clouds of Sils Maria".

Tel +41 (0)81 838 51 00
www.waldhaus-sils.ch

Tenders

The Commonwealth

As the inter-governmental body of the Commonwealth, comprising 53 sovereign states, we provide technical assistance through practical professional advice, transfer of best practice and the enhancement of skills and knowledge.

This is your opportunity to make a valuable contribution to the well-being of 2.2 billion people while taking a significant step in your career.

Based in central London, both new executive-level positions call for at least 15 years' senior management experience, gained in a governmental or international organisation; work experience in a developing country; and citizenship of a Commonwealth country.

Each role involves leading and inspiring a team of professionals to meet objectives and targets while achieving maximum impact and value-for-money; providing policy, strategic and intellectual leadership; and presenting our perspectives through the media and public speaking.

The salary of £106,790pa is backed by attractive benefits. The closing date for both posts is Wednesday 27 May.

Director, Oceans & Natural Resources Advisory Division

You should have at least 15 years of working experience at senior management level, and substantial experience in at least two of the following areas: ocean, maritime, natural resource management and sustainable development, supported by a degree, and ideally postgraduate qualifications in marine, natural resource management, international law, economics, economic development or a related social science or science-based subject.

Director, Trade Division

You should have at least 15 years of working experience at senior management level, and extensive experience in at least two of the following areas of trade: aid for trade, trade competitiveness, and regional and multilateral trade issues, supported by a degree, and ideally postgraduate qualification, in economics, economic development, international law or a related social science.

To find out more, please go to **thecommonwealth.org/jobs**

FMDQ
...empowering the OTC markets

REQUEST FOR PROPOSAL (RFP)
FEASIBILITY STUDY ON THE INTRODUCTION OF OTC DERIVATIVES FOR FMDQ OTC PLC

FMDQ OTC PLC ("FMDQ") is an over-the-counter (OTC) market securities exchange and self-regulatory organisation (SRO) with a mission to empower the financial markets to be innovative and credible, in support of the Nigerian economy. In line with this mission, FMDQ is providing the secondary market with world-class market development and governance services, for the benefit of market participants, and in support of the objectives of the Nigerian financial services regulators.

The Management of FMDQ is seeking proposals from Consultants with significant wealth of experience in financial markets research, to undertake the assignment of carrying out a feasibility study on the introduction of OTC derivatives in FMDQ markets.

Interested Consultants are required to provide information confirming they are qualified to offer the following services:

a. **Conduct feasibility study on the introduction of OTC derivatives in FMDQ markets**
b. **Provide recommendations based on the findings of the study**

Copies of the detailed Request for Proposal (RfP), including a description of the requirements to be provided by respondents and evaluation criteria are available for download on FMDQ's website **http://www.fmdqotc.com/rfp-2/**

Consultants will be shortlisted based on the selection criteria outlined in the RfP.

All proposals from respondents must be submitted by 16:00hrs (GMT +1) on June 12, 2015 to the below named:

Jumoke Olaniyan
Markets and Business Development Division
FMDQ OTC PLC
1, Olosa Street
Victoria Island, Lagos, Nigeria
jumoke.olaniyan@fmdqotc.com

Only successful respondents shall be contacted.

TO DOWNLOAD THE DETAILED REQUEST FOR PROPOSAL, VISIT FMDQ'S WEBSITE:
http://www.fmdqotc.com/rfp-2/

GLOBAL COMPETITIVENESS   OPERATIONAL EXCELLENCE   LIQUIDITY   DIVERSITY

FMDQ OTC PLC

DISCOVERY FOR US IS BEYOND ENERGY

We, at Cairn India are embarking on one of the largest drinking water initiatives in the country as part of our CSR commitment to bring safe drinking water to the people in our areas of operation in the Barmer district of Rajasthan.

For us energy does not mean only oil and gas - after having made the largest onshore discovery of oil and gas in the last two decades, we are now transforming the definition of resource to go beyond energy.

EXPRESSION OF INTEREST (EOI)

An 'Expression of Interest' is sought for the above CSR (Corporate Social Responsibility) project to provide safe drinking water in the Barmer district.

The initiative will involve setting up of 300-340 Reverse Osmosis (RO) plants over the next 3 years to provide safe drinking water to a large number of people (estimated in excess of 1 million) living in ~800 villages. Cairn India Limited (CIL) is seeking interest from credible organisations to partner in providing an end-to-end solution that includes establishing the RO plants, operating & maintaining them for 7 years, distributing water, creating demand, generating awareness and providing a solution for reject disposal.

KEY FEATURES OF THIS COMMUNITY UPLIFTMENT INITIATIVE ARE

Providing access to safe drinking water through 300- 340 RO plants across ~ 800 villages in Barmer district in partnership with the Government of Rajasthan.

Providing ~6 million litres of water to more than 1 million people every day, it will be the largest initiative in India.

Help to reduce water borne diseases.

Solar panels to power the RO plants.

Creation of direct & indirect employment opportunities.

Directly linked to, two of the most important UN Millennium Development Goals.

To obtain more details and apply for this opportunity, please visit **www.cairnindia.com**

CIN: L11101MH2006PLC163934
Regd. Office address :101, First Floor, C Wing, Business Square, Andheri Kurla Road, Andheri (E), Mumbai - 400 059
Telephone:+91 22 40902613, Facsimile: +91 22 40902633, www.cairnindia.com

Follow Cairn India:

Economic and financial indicators

Economic data

% change on year ago

	Gross domestic product latest	Gross domestic product qtr*	Gross domestic product 2015†	Industrial production latest	Consumer prices latest	Consumer prices 2015†	Unemployment rate, %	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2015†	Budget balance % of GDP 2015†	Interest rates, % 10-year gov't bonds, latest	Currency units, per $ May 13th	Currency units, per $ year ago
United States	+3.0 Q1	+0.2	+2.6	+2.0 Mar	-0.1 Mar	+0.3	5.4 Apr	-410.6 Q4	-2.3	-2.5	2.24	-	-
China	+7.0 Q1	+5.3	+6.9	+5.9 Apr	+1.5 Apr	+1.4	4.1 Q1§	+291.5 Q1	+2.8	-2.8	3.17§§	6.20	6.23
Japan	-0.8 Q4	+1.5	+0.8	-1.2 Mar	+2.3 Mar	+0.7	3.4 Mar	+68.5 Mar	+1.9	-6.9	0.46	119	102
Britain	+2.4 Q1	+1.2	+2.5	+0.6 Mar	nil Mar	+0.3	5.5 Feb††	-161.3 Q4	-4.3	-4.4	2.03	0.64	0.59
Canada	+2.6 Q4	+2.4	+2.0	+1.6 Feb	+1.2 Mar	+1.1	6.8 Apr	-39.3 Q4	-2.7	-1.8	1.83	1.20	1.09
Euro area	+1.0 Q1	+1.6	+1.5	+1.8 Mar	nil Apr	+0.2	11.3 Mar	+298.6 Feb	+2.6	-2.2	0.73	0.88	0.73
Austria	+0.4 Q1	+0.7	+1.0	-0.2 Feb	+1.0 Mar	+0.9	5.6 Mar	+3.2 Q4	+1.5	-2.1	0.68	0.88	0.73
Belgium	+0.9 Q1	+1.2	+1.2	-4.6 Feb	+0.3 Apr	+0.2	8.5 Mar	+7.4 Dec	+0.6	-2.6	0.90	0.88	0.73
France	+0.7 Q1	+2.2	+1.1	+1.3 Mar	+0.1 Apr	+0.1	10.6 Mar	-21.8 Mar‡	-0.9	-4.2	0.97	0.88	0.73
Germany	+1.0 Q1	+1.1	+2.0	-0.1 Mar	+0.5 Apr	+0.4	6.4 Apr	+289.7 Mar	+7.5	+0.7	0.73	0.88	0.73
Greece	+0.1 Q1	-0.9	+1.4	+5.0 Mar	-2.1 Apr	-0.9	25.4 Feb	+1.6 Feb	+2.7	-3.5	10.57	0.88	0.73
Italy	nil Q1	+1.3	+0.6	+1.5 Mar	-0.1 Apr	+0.1	13.0 Mar	+45.9 Feb	+1.9	-2.9	1.90	0.88	0.73
Netherlands	+2.4 Q1	+1.6	+1.6	+1.7 Mar	+0.6 Apr	+0.1	8.9 Mar	+90.2 Q4	+9.3	-1.9	0.86	0.88	0.73
Spain	+2.6 Q1	+3.6	+2.6	+4.7 Mar	-0.6 Apr	-0.5	23.0 Mar	+11.9 Feb	+0.5	-4.4	1.84	0.88	0.73
Czech Republic	+1.2 Q4	+1.5	+2.9	+6.2 Mar	+0.5 Apr	+0.2	6.7 Apr§	+1.4 Q4	-0.5	-1.7	0.79	24.2	20.0
Denmark	+1.5 Q4	+2.1	+1.7	+4.9 Mar	+0.5 Apr	+0.7	4.9 Feb	+22.4 Mar	+5.7	-3.0	0.94	6.58	5.45
Norway	+3.2 Q4	+3.7	+0.9	+1.5 Mar	+2.0 Apr	+1.5	4.1 Feb‡‡	+42.5 Q4	+11.5	+6.7	1.76	7.39	5.92
Poland	+3.1 Q4	+2.8	+3.3	+8.7 Mar	-1.5 Mar	+0.2	11.3 Apr§	-5.3 Feb	-1.7	-1.5	2.90	3.61	3.05
Russia	+0.4 Q4	na	-4.0	-0.5 Mar	+16.5 Apr	+15.4	5.9 Mar§	+57.1 Q1	+4.3	-2.6	10.47	49.3	34.9
Sweden	+2.6 Q4	+4.6	+2.8	+0.3 Mar	-0.2 Apr	+0.2	8.0 Mar§	+35.7 Q4	+5.7	-1.3	0.83	8.24	6.55
Switzerland	+1.9 Q4	+2.4	+0.8	+2.7 Q4	-1.1 Apr	-0.9	3.3 Apr	+49.1 Q4	+8.0	+0.2	0.09	0.92	0.89
Turkey	+2.6 Q4	na	+3.2	+4.9 Mar	+7.9 Apr	+6.7	11.3 Jan§	-45.5 Mar	-4.6	-1.7	9.19	2.63	2.07
Australia	+2.5 Q4	+2.2	+2.4	+3.3 Q4	+1.3 Q1	+1.7	6.2 Apr	-40.1 Q4	-3.2	-2.3	2.96	1.23	1.07
Hong Kong	+2.2 Q4	+1.5	+2.4	-3.6 Q4	+4.6 Mar	+3.3	3.3 Mar‡‡	+5.6 Q4	+2.3	-0.2	1.76	7.75	7.75
India	+7.5 Q4	+4.0	+7.6	+2.1 Mar	+4.9 Apr	+5.3	8.6 2014	-27.4 Q4	-0.9	-4.1	7.96	64.0	59.4
Indonesia	+4.7 Q1	na	+5.1	+6.7 Mar	+6.8 Apr	+5.9	5.8 Q1§	-26.2 Q4	-3.1	-1.9	7.86	13,106	11,495
Malaysia	+5.8 Q4	na	+5.5	+6.9 Mar	+0.9 Mar	+2.9	3.2 Feb§	+15.2 Q4	+3.4	-4.4	3.92	3.59	3.23
Pakistan	+5.4 2014**	na	+5.7	+0.9 Feb	+2.1 Apr	+4.2	6.2 2013	-1.9 Q1	-0.6	-5.1	8.85†††	102	98.7
Philippines	+6.9 Q4	+10.4	+6.7	+13.6 Mar	+2.2 Apr	+3.0	6.6 Q1§	+12.7 Dec	+3.8	-2.0	4.42	44.7	43.8
Singapore	+2.1 Q1	+1.1	+3.1	-5.5 Mar	-0.3 Mar	+0.4	1.8 Q1	+58.8 Q4	+22.2	-0.7	2.38	1.32	1.25
South Korea	+2.4 Q1	+3.1	+3.1	-0.1 Mar	+0.4 Apr	+1.1	3.9 Apr§	+97.5 Mar	+6.7	+0.5	2.55	1,093	1,022
Taiwan	+3.5 Q1	+4.8	+3.9	+6.5 Mar	-0.8 Apr	+0.6	3.8 Mar	+65.3 Q4	+12.6	-1.2	1.61	30.7	30.2
Thailand	+2.2 Q4	+7.1	+3.9	-1.8 Mar	-1.0 Apr	+1.3	1.0 Mar§	+15.9 Q1	+2.2	-1.9	2.61	33.5	32.6
Argentina	+0.4 Q4	+0.1	-0.7	-1.6 Mar	— ***	—	6.9 Q4§	-5.1 Q4	-1.5	-3.1	na	8.95	8.02
Brazil	-0.2 Q4	+1.3	-1.2	-3.5 Mar	+8.2 Apr	+8.0	6.2 Mar§	-101.6 Mar	-4.1	-5.3	12.74	3.04	2.22
Chile	+1.8 Q4	+3.8	+3.0	-3.2 Mar	+4.1 Apr	+3.7	6.1 Mar§‡‡	-3.0 Q4	-1.5	-2.0	4.62	603	549
Colombia	+3.5 Q4	+2.9	+3.6	-1.3 Feb	+4.6 Apr	+4.1	8.9 Mar§	-19.8 Q4	-6.4	-2.1	6.96	2,388	1,924
Mexico	+2.6 Q4	+2.7	+2.8	+1.7 Mar	+3.1 Apr	+3.2	4.2 Mar	-26.5 Q4	-2.3	-3.4	6.01	15.3	12.9
Venezuela	-2.3 Q3	+10.0	-3.4	na	+68.5 Dec	+65.9	7.9 Jan§	+10.3 Q3	-1.8	-15.9	11.03	6.30	6.35
Egypt	+4.3 Q4	na	+4.2	-0.1 Mar	+11.0 Apr	+9.8	12.9 Q4§	-5.8 Q4	-1.3	-10.7	na	7.63	7.07
Israel	+3.4 Q4	+7.0	+3.5	-0.3 Feb	-1.0 Mar	-0.3	5.3 Mar	+9.0 Q4	+4.8	-3.0	1.82	3.84	3.45
Saudi Arabia	+3.6 2014	na	+2.6	na	+2.0 Mar	+2.7	6.0 2014	+81.2 Q4	-2.0	-10.9	na	3.75	3.75
South Africa	+1.3 Q4	+4.1	+2.1	+3.2 Mar	+4.0 Mar	+4.6	24.3 Q4§	-19.1 Q4	-5.4	-3.7	8.14	11.9	10.3

Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, Mar 27.1%; year ago 38.03% †††Dollar-denominated bonds.

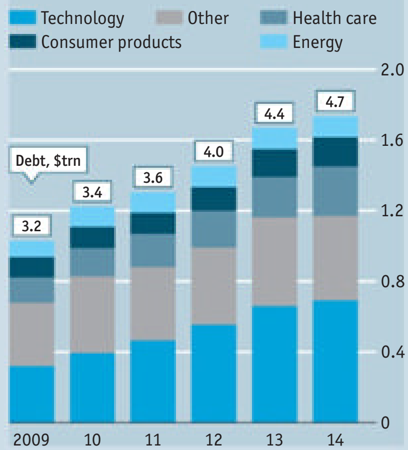
Markets

	Index May 13th	% change on one week	Dec 31st 2014 in local currency	Dec 31st 2014 in $ terms
United States (DJIA)	18,060.5	+1.2	+1.3	+1.3
China (SSEA)	4,583.8	+3.5	+35.2	+35.2
Japan (Nikkei 225)	19,764.7	+1.2	+13.3	+14.0
Britain (FTSE 100)	6,949.6	+0.2	+5.8	+6.7
Canada (S&P TSX)	14,980.7	-0.3	+2.4	-1.0
Euro area (FTSE Euro 100)	1,180.2	+0.2	+13.8	+6.8
Euro area (EURO STOXX 50)	3,553.4	-0.1	+12.9	+6.0
Austria (ATX)	2,659.6	+3.4	+23.1	+15.5
Belgium (Bel 20)	3,657.9	+1.9	+11.3	+4.5
France (CAC 40)	4,961.9	-0.4	+16.1	+8.9
Germany (DAX)*	11,351.5	nil	+15.8	+8.6
Greece (Athex Comp)	828.9	+1.5	+0.3	-5.9
Italy (FTSE/MIB)	23,211.0	+2.4	+22.1	+14.5
Netherlands (AEX)	486.7	+1.8	+14.7	+7.6
Spain (Madrid SE)	1,148.0	+1.4	+10.1	+3.3
Czech Republic (PX)	1,034.4	+1.7	+9.3	+3.4
Denmark (OMXCB)	855.7	+1.0	+26.7	+18.6
Hungary (BUX)	22,394.0	-2.0	+34.6	+29.6
Norway (OSEAX)	710.7	+1.4	+14.7	+16.7
Poland (WIG)	57,246.7	+0.6	+11.3	+9.7
Russia (RTS, $ terms)	1,082.2	+1.5	+12.3	+36.9
Sweden (OMXS30)	1,622.0	+2.4	+10.8	+5.5
Switzerland (SMI)	9,050.7	+1.8	+0.7	+9.1
Turkey (BIST)	86,417.4	+4.8	+0.8	-10.3
Australia (All Ord.)	5,710.8	+0.3	+6.0	+5.2
Hong Kong (Hang Seng)	27,249.3	-1.4	+15.4	+15.5
India (BSE)	27,251.1	+2.0	-0.9	-2.3
Indonesia (JSX)	5,246.1	+1.2	+0.4	-5.4
Malaysia (KLSE)	1,803.0	-1.0	+2.4	-0.5
Pakistan (KSE)	33,023.8	-2.4	+2.8	+1.5
Singapore (STI)	3,453.2	-0.2	+2.6	+2.6
South Korea (KOSPI)	2,114.2	+0.5	+10.4	+10.3
Taiwan (TWI)	9,724.1	-1.0	+4.5	+7.6
Thailand (SET)	1,496.0	-1.6	-0.1	-2.2
Argentina (MERV)	12,192.2	+0.5	+42.1	+34.6
Brazil (BVSP)	56,372.0	-1.3	+12.7	-0.6
Chile (IGPA)	19,872.7	-0.2	+5.3	+6.5
Colombia (IGBC)	10,583.0	-3.3	-9.0	-9.1
Mexico (IPC)	45,038.1	+0.4	+4.4	+1.0
Venezuela (IBC)	5,637.8	-1.0	+46.1	na
Egypt (Case 30)	8,526.4	-2.6	-4.5	-10.5
Israel (TA-100)	1,439.0	+1.6	+11.6	+13.3
Saudi Arabia (Tadawul)	9,672.0	-0.5	+16.1	+16.1
South Africa (JSE AS)	54,053.9	+0.4	+8.6	+5.7

Treasure chest

Corporate America is holding $1.73 trillion in cash, with the top five companies hoarding almost half a trillion between them, according to a report published by Moody's Investor Services. The firm estimates that $1.1 trillion (or 64%) of the total is being held abroad, a 16% increase on the previous year, as companies choose to take advantage of cheap borrowing costs at home to fund their spending, rather than face the tax bill when repatriating profits. Technology firms are increasingly responsible for this stockpiling of money. Tech companies now hold $690 billion in cash between them, more than double their 2009 holdings, and 40% of the total. Apple alone holds $178 billion.

US non-financial companies' cash holdings, $trn



Source: Moody's Investor Services

Other markets

	Index May 13th	% change on one week	Dec 31st 2014 in local currency	Dec 31st 2014 in $ terms
United States (S&P 500)	2,098.5	+0.9	+1.9	+1.9
United States (NAScomp)	4,981.7	+1.3	+5.2	+5.2
China (SSEB, $ terms)	423.6	+5.8	+45.7	+45.7
Japan (Topix)	1,604.2	+1.2	+14.0	+14.7
Europe (FTSEurofirst 300)	1,570.1	+1.4	+14.7	+7.6
World, dev'd (MSCI)	1,790.0	+1.0	+4.7	+4.7
Emerging markets (MSCI)	1,033.9	-0.6	+8.1	+8.1
World, all (MSCI)	438.2	+0.8	+5.1	+5.1
World bonds (Citigroup)	882.4	-0.1	-2.2	-2.2
EMBI+ (JPMorgan)	711.6	-0.1	+2.9	+2.9
Hedge funds (HFRX)	1,243.7§	-0.1	+2.1	+2.1
Volatility, US (VIX)	13.8	+15.2	+19.2	(levels)
CDSs, Eur (iTRAXX)†	61.5	-2.3	+0.1	-6.1
CDSs, N Am (CDX)†	65.5	+0.2	-1.1	-1.1
Carbon trading (EU ETS) €	7.7	+1.3	+5.2	-1.3

Sources: Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. §May 12th.

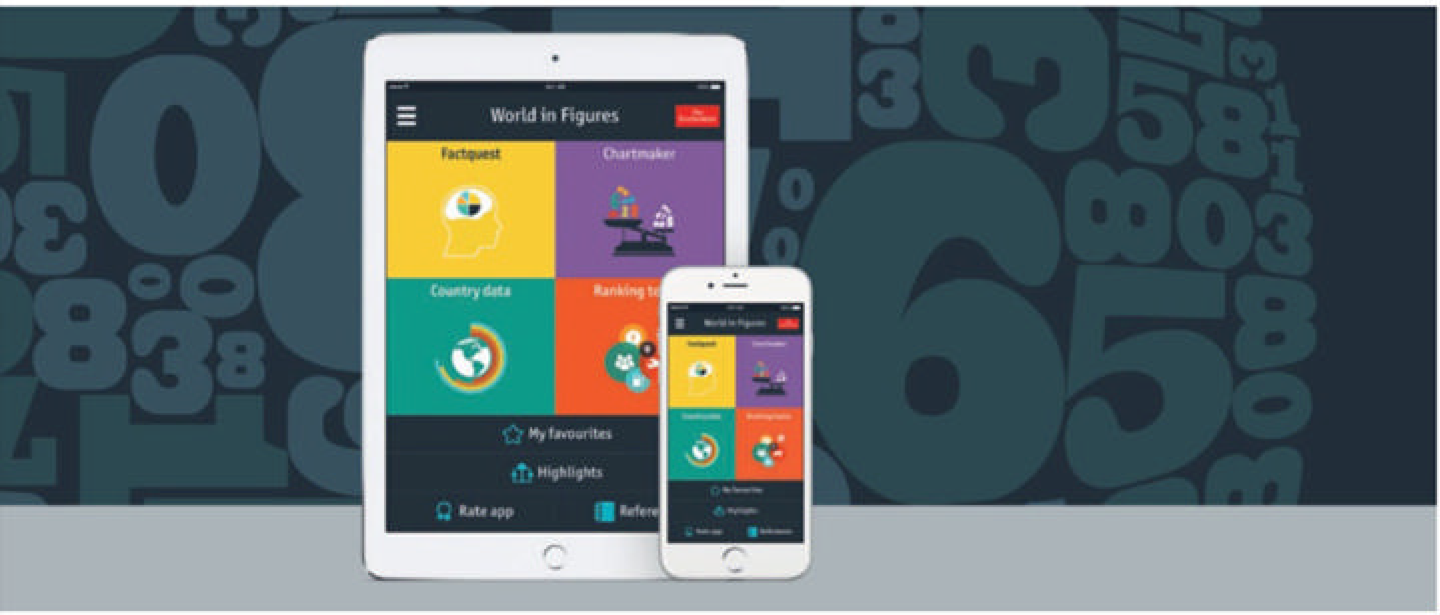
Indicators for more countries and additional series, go to: **Economist.com/indicators**

The Economist commodity-price index

2005=100

	May 5th	May 12th*	% change on one month	% change on one year
Dollar Index				
All Items	145.6	144.8	+2.8	-17.8
Food	157.5	157.6	+0.3	-23.2
Industrials				
All	133.2	131.6	+6.0	-9.9
Nfa†	124.2	122.1	+3.0	-18.7
Metals	137.0	135.6	+7.2	-6.1
Sterling Index				
All items	174.3	168.2	-3.0	-11.6
Euro Index				
All items	161.8	160.1	-2.3	+0.2
Gold				
$ per oz	1,196.1	1,191.4	-0.5	-8.1
West Texas Intermediate				
$ per barrel	60.5	60.5	+13.8	-40.5

Sources: Bloomberg; CME Group; Cotlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional
†Non-food agriculturals.



The pipe-smoking warrior

Brian Beedham, foreign editor of The Economist for a quarter of a century, died on May 11th, aged 87

FOR nearly all the 25 years leading up to the collapse of communism in 1989, two intellects dominated the pages of *The Economist*. They were Norman Macrae, as deputy editor, and Brian Beedham, as foreign editor. Their marks were influential, enduring—and quite different. Norman, who died in 2010, relished iconoclasm, and original ideas sprang like a fountain from his effervescent mind. Brian, bearded, tweed-jacketed and pipe-smoking (or pipe-poking), held ideas that were more considered. It was he who provided the paper's attitude to the post-war world.

In that world, nothing was as important as seeing off communism, which in turn could be achieved only by the unyielding exercise of American strength. This view was not in itself unusual. What made it remarkable, and formidable, were the clarity, elegance and intellectual power with which it was propounded.

No issue demanded the exercise of these qualities more than the Vietnam war, and probably none caused Brian more anguish. A man of great kindness, and without a hint of vanity or pretension, he was far from being either a heartless ideologue or a primitive anti-communist (though he never visited either Russia or Vietnam to put his opinions to the test). But his unwavering defence of American policy drew criticism from both colleagues and readers. Why did he persist in pounding such a lonely trail, even after it had become clear that the American venture in South-East Asia was doomed? The short answer was conviction. His anti-communism was born of a love affair with America.

As a young man, at Leeds Grammar School and Oxford, his politics had been leftish. They might have stayed that way. But in 1955 ambition bore him from the *Yorkshire Post* to *The Economist* where, after a few months, he won a Commonwealth Fund fellowship and with it a year studying local politics in the South and the West of the United States. In America Brian discovered a national ideology based on individualism, bottom-up democracy and an active belief in liberty that meant problems could be solved at home and nations could be freed abroad. This was exactly in tune with his own emerging ideas.

The dispassionate romantic

Coming from drab, class-ridden, 1950s Britain, Brian might have stayed. But he felt indubitably British. The Suez crisis was beginning just as he left for America in August 1956; he so strongly backed the invasion of Egypt that he volunteered his service to the British military attaché in Washington, ready even to give up his great new American adventure to fight for this hopeless cause. And though he later became enthusiastic about direct democracy (an enthusiasm, like that for homeopathic pills, which was fostered by his links with Switzerland through Barbara, his wife), he was a monarchist to the end.

Suspicious of intellectuals, Brian relished exposing the soft, less-than-rigorously-thought-out (he was fond of hyphens) orthodoxies of the liberal left. As foreign editor, he liked to draw unsparing comparisons between the Soviet Union and the Nationalist regime in South Africa: to deny freedom on the basis of ideological convictions, he argued, was no less objectionable than denying it on the basis of colour.

It was no doubt Brian's command of words that helped to make him our Washington correspondent in 1958 and then, in 1963, foreign editor. In this role he wrote leaders on all manner of topics, often arguing a difficult case: for nuclear weapons, say; for supporting Israel (another of his unshakable causes) when sentiment was running otherwise; or indeed for the domino theory itself, which was never so ringingly defended.

Brian was equally skilled as a sub-editor. Articles that arrived on his desk with no clear beginning, end or theme were turned, apparently effortlessly, into something perfectly sharp and coherent. More annoyingly for authors, articles that were perfectly coherent were sometimes turned with a few tweaks, deft as a paw-dab from one of his beloved cats, into pieces that said something quite different from what had been intended. A statement of fact might be qualified by "it is said" or the American invasion of Cambodia would become a "counter-attack".

These intrusions could be difficult to square with *The Economist's* tradition of open-mindedness; especially as Brian's own mind was more contradictory than it seemed. His favourite conversation-partners were men like Henry "Scoop" Jackson and Richard Perle, hawkish interventionists; but he also had an acquaintance, almost friendship, with at least one KGB man at the Soviet embassy in the 1980s.

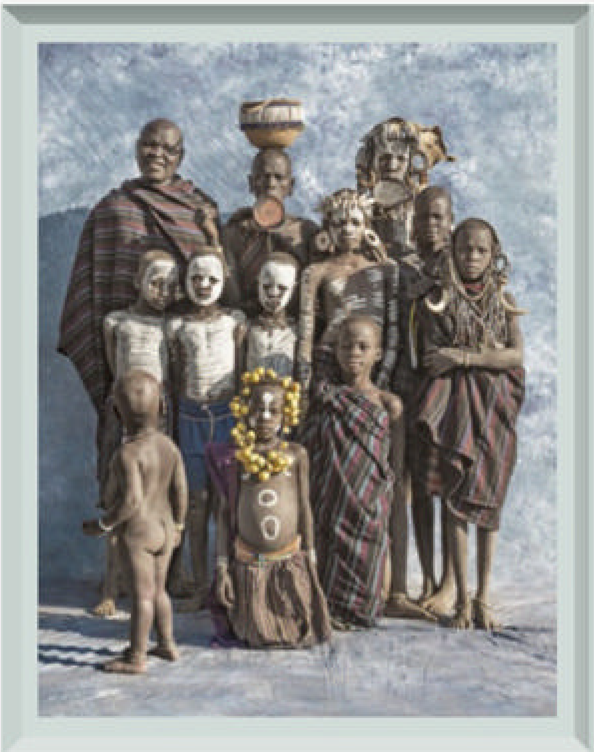
Away from work, the world he was analysing weekly was kept at bay. He did not own a television set, and found the best use of computers was to listen to American civil-war songs. Some of his pieces were pounded out on an ancient Olivetti in a turret of Barbara's family castle in the Alps, surrounded by peaks and clouds.

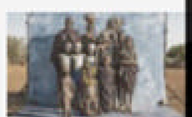
Deep down he was a romantic, capable of great human feeling, whose head constantly seemed to remind him to keep a rein on his heart. He wrote sympathetically and perceptively about Islam, and movingly about refugees—especially boat people, and especially if they were Vietnamese. They were making his point for him. ■

THEIR FIRST FAMILY PORTRAIT IS PROBABLY THEIR LAST.

Every 20 seconds, families just like this lose a loved one to unsafe drinking water. Without anything to remember them by. That's why we traveled to the Omo Valley of Ethiopia to give them their first family portraits. Knowing it might be their last.

It doesn't take much to keep these families together. Donate to help provide clean water, sanitation and hygiene at **WATERisLIFE.com**





Tslongo Family, Hamar Tribe
Omo Valley
Ethiopia

© All rights reserved 2015

Oracle Cloud Applications

HCM
Human Capital
Recruiting
Talent

CRM
Sales
Service
Marketing

ERP
Financials
Procurement
Projects
Supply Chain

More Enterprise SaaS Applications Than Any Other Cloud Services Provider

ORACLE®

Copyright © 2015, Oracle and/or its affiliates. All rights reserved. Oracle and Java are registered trademarks of Oracle and/or its affiliates.