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Elizabeth Warren's dangerous appeal

Saudi: new leader of the Arab world

Taming Scotland's Bravehearts

Samsung's softly-softly succession

Home-brewed heroin

India's one-man band


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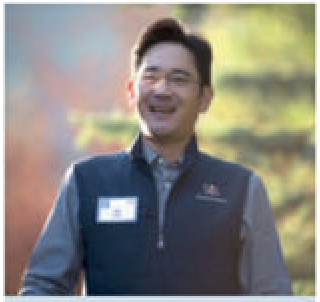

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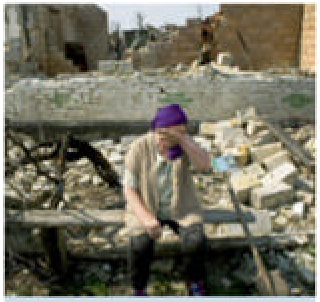

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1. European Central Bank, as of 1/22/15. Bond-buying program expected to exceed $1.1T. 2. Bloomberg, as of 3/20/15; as measured in size and contribution to eurozone GDP. 3. Based on $4.774T in AUM as of 3/31/15. **Visit www.iShares.com or www.BlackRock.com to view a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. Risk includes principal loss.** International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. ▪ These risks often are heightened for investments in concentrations of single countries. ▪ The Fund's use of derivatives may reduce returns and/or increase volatility and subject the Fund to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. The Fund could suffer losses related to its derivative positions because of a possible lack of liquidity in the secondary market and as a result of unanticipated market movements. Such losses are potentially unlimited. There can be no assurance that the Fund's hedging transactions will be effective. ▪ This material represents an assessment of the market environment as of 5/13/15 and is not intended to be a forecast of future events or a guarantee of future results. ▪ This information should not be relied upon by the reader as research or investment advice regarding the funds or any issuer or security in particular. Funds distributed by BlackRock Investments, LLC (BRIL). The iShares Funds are not sponsored, endorsed, issued, sold or promoted by MSCI Inc., nor does this company make any representation regarding the advisability of investing in the Funds. BRIL is not affiliated with MSCI Inc. iS-15213-0515

Politics

The fall of Ramadi, the capital of Iraq's largest province, prompted fears that **Islamic State** (IS) was again menacing Baghdad. The Iraqi government, whose plans to retake the province have suffered a serious setback, are massing for a counter-attack, relying heavily on Shia militia groups collectively known as "Popular Mobilisation". Meanwhile, IS fighters captured the oasis city of Palmyra in Syria, one of the world's great archaeological sites.

Egypt's former president, **Mohammed Morsi**, was sentenced to death by a court in Cairo. Last month he had been sentenced to 20 years in prison in a separate case. Lengthy appeals are expected.

A report from the Paris-based International Federation for Human Rights accused **Egypt's** security forces of the systematic use of sexual violence against both male and female prisoners.

A five-day humanitarian truce in **Yemen**, where Saudi Arabia has been carrying out air strikes against the Houthi rebels, who have displaced the government, came to an end. Bombing and fighting resumed unabated.

Binyamin Netanyahu, the **Israeli** prime minister, ordered a halt to a pilot programme that in effect would have prevented Palestinian workers from returning to the West Bank on Israeli public buses, after critics said the plan was intended to separate Jews from Arabs and smacked of apartheid. The defence ministry said it had introduced the directive as a security measure.

Forces loyal to the president of **Burundi** quashed a coup attempt by several generals. The plotters appeared to be acting in support of protesters who had taken to the streets when President Pierre Nkurunziza made efforts to change the constitution to stand for a third term.

Boko Haram, a jihadist group that originated in northern **Nigeria**, retook a border town that had been liberated by the Nigerian army.

It's no joke for Joko

Indonesia's president, Joko Widodo, received a political setback following a court ruling which makes it unlikely that the opposition Golkar party could join the ruling coalition. Golkar's membership of the coalition would give it a majority in parliament and thus help the passage of economic reforms.

Malaysia and Indonesia agreed to give temporary shelter to thousands of Rohingya **migrants**, mainly from Myanmar, who have been kept adrift at sea because of the refusal of countries in the region to let them dock.

Thailand's military-backed government postponed general elections for six months beyond the planned date of February 2016. It says this is to allow time for a referendum to be held on a draft constitution that critics say will ensure the armed forces will be able to retain political influence. Thailand's former prime minister, Yingluck Shinawatra (pictured), who was ousted by the army last year, pleaded not guilty at the start of a trial on charges of criminal negligence.

With a CNN crew filming on board, America flew a surveillance aircraft over China's land reclamation project on disputed islands in the **South China Sea**. The Chinese had warned the Americans to stay away from the area, which it considers to be its sovereign territory.

During his first visit to **China** as **India's** prime minister, Narendra Modi and his Chinese counterpart agreed to work "proactively" to settle a long-standing border dispute. Mr Modi said the two nations should be more sensitive to each other's interests.

A new era for Guyana

David Granger, the former chief of **Guyana's** army, was sworn in as the country's president, ending 23 years of rule by the People's Progressive Party. The election was fought largely on racial lines. The outgoing party is supported mainly by Guyanese of Indian origin. Mr Granger, who is Afro-Guyanese, promises to narrow the racial divide. Meanwhile, Exxon Mobil announced a "significant" oil find off the coast of Guyana.

Thousands of people in **Guatemala** demonstrated against corruption in the capital, Guatemala City. The vice-president, Roxana Baldetti, had already resigned following allegations that her private secretary took bribes in exchange for reducing customs duties. Prosecutors have not accused Ms Baldetti of any wrongdoing. After the street protests the head of the country's central bank was arrested over separate bribery charges.

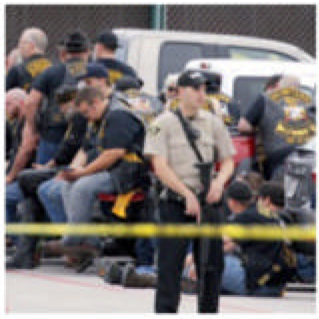
At least 78 people died in landslides triggered by heavy rains in north-western **Colombia**.

Bad omens in the Balkans

Large pro- and anti-government demonstrations were held in Skopje, the capital of **Macedonia**, each attended by tens of thousands of people. The prime minister, Nikola Gruevski, has been accused of corruption and of ordering 20,000 wiretaps to be placed on public figures. The political turmoil comes soon after clashes between police and an ethnic-Albanian group near the border with Kosovo that left 22 people dead.

In another gesture aimed at reconciling a troubled past, **Britain's** Prince Charles shook hands with Gerry Adams, a senior Irish nationalist, at a meeting in **Ireland**. The prince then visited Mullaghmore, where his great-uncle, Louis Mountbatten, was murdered by an IRA bomb in 1979.

Sons of anarchy



A brawl involving guns and knives between warring motorcycle gangs in **Texas**, the Bandidos and the Cossacks, resulted in the deaths of nine bikers and the arrest of 170 others. The clash started at the Twin Peaks restaurant in Waco, where gangs had gathered to discuss bikers' rights.

A jury handed down a death sentence to Dzhokhar Tsarnaev for his role in the bombing of the **Boston** marathon in 2013, in which three people were killed and many more maimed. His appeal process against the sentence is likely to take years.

The council in **Los Angeles** voted to increase the city's minimum wage rate from \$9 an hour to \$15 by 2020. Around half the city's workforce currently earns less than \$15. Several cities across America have increased their minimum wages in response to a campaign to lift the federal minimum wage from its current rate of \$7.25.

Business

An investigation into the rigging of **foreign-exchange rates** concluded with more whopping fines for banks. Barclays, Citigroup, JPMorgan Chase and Royal Bank of Scotland agreed to pay more than $5 billion in combined penalties to settle with American and British authorities and pleaded guilty to criminal charges. Bank of America paid a $205m fine but was not criminally charged. Neither was UBS, but it was given a $342m fine. Its immunity from prosecution over LIBOR was also rescinded and it was handed a penalty of $203m for that episode. The traders who manipulated the forex rates communicated via a chat room, sending each other comically self-incriminating messages such as "If you ain't cheating, you ain't trying".

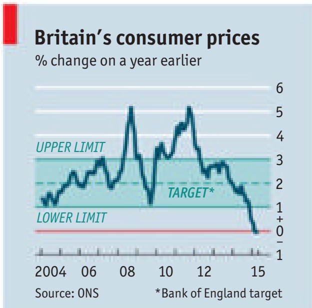
A German exit?

Deutsche Bank said it had created a working group to consider relocating parts of its operations in Britain elsewhere should the country vote to leave the European Union in a referendum promised by the Conservatives at the recent election. The German bank employs 9,000 people in Britain. Business leaders this week called on the government to bring the referendum forward from 2017 to lessen the period of uncertainty.

Trading in shares of **Hanergy Thin Film**, a solar-panel company, were suspended on the Hong Kong stockmarket after their price fell by 47% within 25 minutes. The next day shares in two units of **Goldin**, a Hong Kong finance and property group, also fell dramatically. Both companies insisted that their businesses were operating normally, and it was unclear as we went to press if there was any link between the falls in their shares.

Japan's economy grew in the first quarter by a better-than-forecast 2.4% at an annualised rate. Exports, private consumption and investment increased at a healthy pace, but the main factor behind the robust GDP figure was a build-up in inventories. This could spell trouble if consumer demand does not match the supply of goods piling up in warehouses. Still, the news helped to drive the Nikkei stockmarket index to its highest close since April 2000.

Grab your bargains



Britain dipped into **deflation** in April—consumer prices were 0.1% lower than in the same month last year. The Bank of England's inflation target is 2%. Like other countries, Britain has been flirting with deflation for months because of lower oil prices. But the government is pointing out the benefits to households of what it insists will be a temporary fall in prices, drawing a distinction with the longer periods of damaging deflation that have occurred elsewhere, such as Japan.

After a few months in the doldrums, America's **housebuilding** industry celebrated as the number of homes on which construction started rose in April by 20.2% compared with March, the biggest such increase since February 1991. Busier construction workers were probably one factor behind Home Depot, America's biggest DIY chain, ratcheting up a quarterly net profit of $1.6 billion, a 14% increase on the same period last year.

Having shaken up the telecoms industry in his native France, Patrick Drahi entered the American market for the first time when his **Altice** group bought a 70% stake in **Suddenlink**, a cable operator, in a deal valued at $9.1 billion. Mr Drahi's ambitions don't stop there. He is also rumoured to be interested in making a bid for Time Warner Cable, which recently saw its agreed takeover by Comcast fall apart over antitrust concerns.

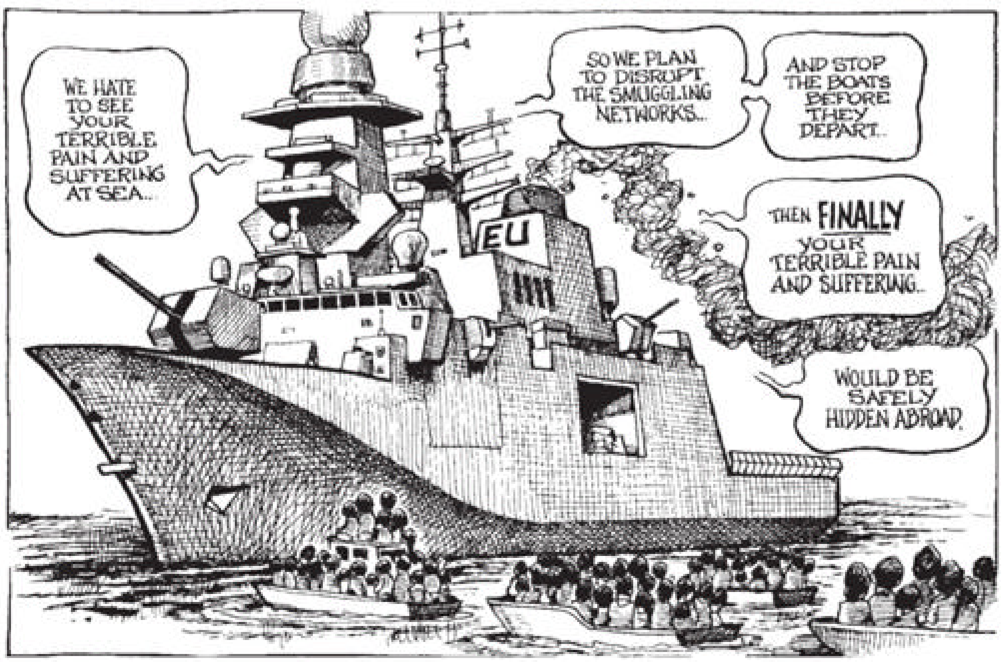
Takata, a Japanese company which makes spare parts for cars, doubled its recall in America of vehicles with its airbags installed to 34m, making it the biggest safety recall to date in the American car industry. The deaths of six people worldwide have been linked to metal shards being hurled from Takata's airbags when they inflate.

South32, a company spun off by BHP Billiton to house some of its poorer-performing mining assets, such as aluminium, made a lacklustre debut on the Australian stockmarket (it did better in secondary listings in London and Johannesburg). Named after the line of latitude along which BHP's main assets are located in Australia and South Africa, South32 ended its first day of trading valued at A$11 billion ($9 billion), towards the lower end of analysts' expectations.

Rational consumers

Walmart's earnings for the first quarter disappointed investors, sending its share price down by 4.4% in a day, the most for three years. A stronger dollar caused revenue to remain flat at $115 billion compared with the same period last year. But the retailer's chief executive, Doug McMillon, reckons American shoppers just aren't spending the way they used to and putting any extra money they gain towards paying down debt or boosting savings.

Other economic data and news can be found on pages 76-77



India's one-man band

The country has a golden opportunity to transform itself. Narendra Modi risks missing it

A YEAR ago Narendra Modi came to office promising to bring India "good times", by which he meant jobs, prosperity and international renown. His progress has been frustratingly slow. The problem is hardly a lack of opportunity. Voters gave his Bharatiya Janata Party (BJP) the biggest parliamentary mandate for change in 30 years. Mr Modi has concentrated more power in his own hands than any prime minister in recent memory. The problem is that India needs a transformation—and the task is too much for a one-man band.

The Modi blues

There is no doubting Mr Modi's conviction that India is about to achieve greatness, and he may well be right. Within a generation, it will become the planet's most populous nation. It could be one of the world's three largest economies. And it could wield more influence in international relations than at any time in its history. But, in his heart, the prime minister believes that only one man is destined to lead India down this path: Narendra Damodardas Modi.

Much has gone well, though serendipity shares the credit. Helped by oil prices, Mr Modi has presided over an improving economy. Inflation is down, interest rates are dropping, the rupee is stable, and fiscal and current-account deficits have shrunk. Official statisticians claim that India's growth, at 7.5%, outpaces China's—meaning the country has the world's fastest-expanding large economy. Foreign direct investment is up. So are the prime minister's visits abroad, where he cuts an impressive figure. This newspaper chose not to back Mr Modi in last year's elections because of his record on handling religious strife. Though he fails to control the Hindu-extremist bullies who back him, we are happy that our fears of grave communal violence have so far not been realised.

But when it comes to reform, Mr Modi's record is underwhelming—as our special report in this issue explains. The past year saw auctions of coal deposits. The past few days have brought the tiniest of baby steps towards privatisation: eight state-run hotels may be sold off. Mr Modi points out that foreigners may now invest more in railways, insurance and defence. He is cutting red tape to create a friendlier business climate. Poorer Indians will increasingly get cash welfare, not cheap rations in kind: since April the world's biggest cash-transfer scheme has replaced artificially cheap canisters of cooking gas. Massive subsidies on diesel have been scrapped; whopping ones on paraffin should follow. And by encouraging people to open 150m new bank accounts, linked to a biometric database of 850m people so far, the government is creating a structure to provide better poverty relief.

As welcome as this is, it sells India short. Mr Modi is making two mistakes. The first is to think that time is on his side and that big unpopular decisions can wait, perhaps until he has control of the upper house as well as the lower one. That rests on a delusion among Indian leaders that they must consolidate power first and reform later. In fact a brief period exists in which to get change going, early in the parliamentary term.

Mr Modi already faces twinges of popular discontent. Surly voters drummed his party out in state elections in Delhi. Some dislike his attention to diplomacy overseas. This week he wrapped up a trip to China, Mongolia and South Korea, completing 52 days abroad in 18 countries over the past year. Others are put off by his narcissism, embarrassed that he met America's president, Barack Obama, wearing a dark suit with all 22 letters of his name stitched over and over into its golden pinstripe. As he cracks down on groups like Greenpeace, some complain of his authoritarian streak.

The second mistake is for Mr Modi to think that he alone can bring about change. On the contrary, the only way for him to realise his aims is to draft in help. And it could come from three main sources—India's states, other national politicians and the power of the market.

He has made a start by devolving some power to states. The idea is to create a manufacturing boom (though that would, at a minimum, also require wider changes to the way land is bought, labour hired and roads built). As they compete in setting priorities for policy and spending, the go-getting states will become models for the rest. Good policy will be rewarded thanks to a national goods-and-services tax that creates a common market—and hence competition—across India. Mr Modi says he wants the tax by next April, as promised, though parliament has just delayed it. The sooner, the better.

Unfortunately, national politics is a long way behind the states. Mr Modi cannot blithely assume his power will grow. The prime minister's office cannot expand to do everything. It is time to relaunch his government by bringing in outside talent. Like the previous government, he should get in bright people from the private sector—especially as the BJP is short of capable leaders—to strengthen, say, the finance ministry and the corporate-affairs ministry. In parliament Mr Modi could sometimes compromise with the opposition Congress party, to rush through the sales tax, say, or make buying land simpler.

All together now

Lastly, he needs to use markets as agents of change. Mr Modi should lead a national campaign to ease the world's worst labour laws. Perverse restrictions on domestic trade in farm produce should go. Private companies could compete to make the railways more efficient. Infrastructure must be built faster, which requires a better law on acquiring land. State-run banks should no longer be subject to political meddling, but recapitalised and put in independent, ideally private, hands. Foreign investors could raise standards in Indian universities. Across the woefully bad education system a focus is needed on excellence in teaching and standards—easing the way for more private providers.

Mr Modi acts as if a lot of small improvements add up to transformative gains. They don't. He is still thinking like the chief minister of Gujarat, not a national leader on a mission to make India rich and strong. If he is to transform his country, India's one-man band needs a new tune. ■

Scottish nationalism

How to scotch it

Giving Scotland fiscal autonomy would improve governance and weaken demands for independence

OVER three centuries the union between Scotland and England has survived skirmishes, rivalries and, last year, a nail-biting referendum. But increasingly, Scotland is its own country. It will soon decide its own income-tax levels and bands, control half the receipts from the VAT sales tax and set some welfare payments. The vote may be extended in Scottish elections to 16-year-olds (in England the voting age remains 18). After its near-clean sweep of Scotland on May 7th, the emboldened Scottish National Party is out for more. The SNP, which runs Scotland's devolved government and now holds all but three of the Scottish seats in Westminster, has confronted David Cameron, the prime minister of the shaky union, with demands to set business taxes, the minimum wage and more aspects of welfare policy. Scotland, already semi-detached, would become an even more distant neighbour (see page 46).

Ye'll take the high tax and I'll take the low tax

For those, including this newspaper, who believe that Scots and their fellow Britons are better off together, it is tempting to resist such demands. Granting concessions to a party bent on leading its country into what looks like a less prosperous, more vulnerable future is risky. Some fear that further devolution would put Scotland on a one-way road to severance. For Mr Cameron, recently returned with a thin majority, it is an unappealing time to give ground to political rivals. Yet he should grant Scotland the freedoms the SNP's leader, Nicola Sturgeon, demands—and more. Greater autonomy would lead to better, fairer government. It might even scotch demands for divorce.

Not all who voted for the SNP want independence, and its support is flattered by the first-past-the-post system, which awarded the party 95% of Scotland's seats for its 50% of the vote. It will not achieve such a wipeout in elections next year to the Scottish Parliament, which uses a proportional system (and which the rest of Britain could learn from). Even so, the Nats' crushing victory is a mandate for radical change.

And change would be welcome. Britain is suffocatingly centralised, and draining power from Westminster would do it good. There is no reason why the minimum wage should be the same in Lothian as in London, or why Scottish businesses should pay the same rates as those in England. Scots see themselves as more left-wing than the English; if they want a more generous welfare state they should be able to establish one.

But they should also have the responsibility to pay for it. That is why Mr Cameron should go further than Ms Sturgeon's immediate demands, which combine autonomy with continued subsidy. A better solution would be to press ahead to full fiscal autonomy. It could cost Scotland around £8 billion ($12 billion) a year. But it would be fairer than the existing "Barnett formula", a crude mechanism which lavishes English subsidy on Scotland while shortchanging poorer Wales. And it would force upon Scotland more grown-up politics. Decrying austerity, as the SNP has done so rousingly, is easier when the books are balanced in another country. Canada's Parti Québécois shows how the appeal of populist separatist parties can fade once they win real power (see page 27).

There are three other reasons for straightening out Scotland's relations with the union. They are called England, Wales and Northern Ireland, which are ever more fed up with their cobbled-together, inconsistent constitutional settlements. The English, in particular, resent the fact that all MPs vote on matters that affect only England, which lacks a parliament of its own. If it is to survive, the United Kingdom will have to look more like a federation. Giving Scotland real freedom—and with it real responsibility—should be the first step. ■

Ukraine

The other battleground

The West should do much more to help Ukraine's economy

IN THE early 1990s, as the collapse of the Soviet Union remade eastern Europe, two economies stood out for their size and potential. One was Poland, with 38m people; the other Ukraine, a country of 52m. It was not clear then which was destined for greater things: Poland's GDP per person was no bigger than Ukraine's, and its heavily indebted economy was shrinking fast. Today the comparison seems ludicrous. Ukraine's economy shrivelled by almost 18% year on year in the first quarter. Poles are three times richer than Ukrainians.

Some of this divergence is the bitter result of geopolitics. Russia reconciled itself to Poland entering the West's orbit; when Ukraine tried to shift towards the European Union last year, Russia seized Crimea—and it still meddles in Donetsk (see page 42). Europe could dangle the incentive of joining the EU in front of Poland; full membership for Ukraine is remote at best. But reformist policy also mattered. The West helped turn Poland into an economic success story. If it now wants to give succour to Ukraine—and to counter Russia's wrecking tactics—it needs to learn from that earlier rescue.

One lesson from Poland is the need to restructure debts. Thanks to a cut in Poland's debt-to-GDP ratio, from 83% in 1990 to 56% in 1993, debt-service obligations did not cripple the ▸▸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economy. As part of its financing programme with the IMF, the Ukrainian government is negotiating with its creditors to reduce its debt-service burden (see page 58). Rather than just extending debt maturities, Ukraine must be allowed to impose a write-off on most of the principal that its private creditors are owed, without jeopardising external funding.

Poland also points to the need for generous funding. The West spent heavily to drag Poland into modernity. From 1990 to 2000, only China, India and Egypt received more foreign aid. In Ukraine the IMF has so far been the only large source of funds. It says Ukraine needs about $40 billion of help in the form of debt relief and loans; the true needs are higher still.

Yet the sums on offer from the outside world have been pitifully small. America could supply far more than the $2 billion-worth of loan guarantees it has so far promised, at little risk to its taxpayers. The Europeans have been even stingier. By mid-May the EU had disbursed €1.6 billion ($1.8 billion) of economic assistance. That is contemptible. It is also a missed opportunity: annual investment of $6 billion could help Ukraine loosen Russia's grip by making it nearly self-sufficient in gas by 2030. Most perverse is the EU's insistence in October that the Ukrainian government must pay $3 billion in disputed arrears for gas imports to Gazprom, Russia's energy giant. Because of that, in financial terms, the club that Ukraine wants to join has hurt more than it has helped.

As in Poland, funding must be tied to long-term structural reforms. Ukraine's government is already making some useful changes. Tax evasion is getting more difficult. To improve the finances of the state gas monopoly, Naftogaz, household gas prices are rising fourfold. That has saved the state money: in the first quarter of this year Ukraine posted a budget surplus.

But much more needs to be done. Stations used by Naftogaz to measure gas flow are inside Russia, meaning that no one is sure how much passes into Ukraine: that creates huge scope for gas to be siphoned off and sold illicitly. Ukraine's murky legal system, a turn-off for business, resists change. The apparatus of corruption remains intact. And righting the public finances should not come at the expense of spending on health care and education, which has been cut.

The martial plan

The parallels between Ukraine and Poland are not exact. Poland in the 1990s had not just lost territory to invasion, nor was it vulnerable to Russia's economic blackmail. The West cannot pour limitless amounts of money into Ukraine without setting conditions. Nor can it cut off a country that has been deprived of its industrial base by force, that has seen 2m inhabitants displaced and whose economic fate rests in large part on the machinations of the Kremlin. A meaningful package of humanitarian aid to Ukraine should be offered independently of reform-linked funding. Since the crisis began, the EU and its member states have contributed just €139m-worth of aid. In 2011 the European Commission offered more money to help salad farmers affected by an outbreak of *E. coli.* ■

Geopolitics in the Gulf

The new Saudis

Chaos in the Middle East casts Saudi Arabia as the Arab world's leader. But it must reform faster

SAUDI ARABIA'S rulers have long wielded their influence discreetly. They used petrodollars to buy stability at home, tame governments abroad and spread a puritanical brand of Islam. But now, amid the violent mess of the Middle East and their growing rivalry with Iran, the Saudis are acting with uncharacteristic boldness across the whole range of domestic, foreign and economic policies. Whether by design or default, they stand out as the leading force in the Arab world.

Arabs badly need modern, dynamic leaders. But much of what the new Saudi rulers are doing looks like a rash gamble rather than an attempt to deal with the real problems of their country, let alone the region. If Saudi leadership is to work well, then it needs to take a different form.

Why the sheikhs are stirring

As the custodian of Islam's two holiest places and, until recently, the world's largest oil producer, Saudi Arabia is bound to occupy an important place in the Arab and Islamic worlds. But today's unusual times have led to a burst of unusual activism. When oil prices fell, Saudi Arabia no longer sacrificed its output to stabilise the market; instead it kept pumping oil to drive out rivals. When Islamists were elected to power in Egypt after a popular revolt, Saudi Arabia and other Gulf states backed the army coup that toppled the president, Muhammad Morsi; they have bankrolled the generals ever since. And when Iranian-backed Houthi rebels threatened to take over Yemen this year, Saudi Arabia went to war.

At home, King Salman (pictured left) is overseeing a constitutional revolution. Instead of passing the crown along the line of gerontocratic sons of Abdel Aziz bin Saud, the dynasty's founder, he is favouring a new generation—above all, his own son (see pages 17-20). Aged about 30, Muhammad (pictured right) has become the central economic policymaker; as defence minister, he embodies the sword of the Saudi flag.

This amounts to radical change from the retiring, conservative, consensus-building habits of the past. But then Saudi Arabia is grappling with three new factors. All around, Arab states have collapsed or faded away. Iraq, once the Arab bulwark against Iran, is devastated, as is Syria. Egypt, the most populous Arab country, is busy consolidating its counter-revolution. That leaves Saudi Arabia as the only state with the standing, size and wealth to salvage something from the wreckage.

A second factor is geopolitical realignment: the American protector wants to retreat from the chaos, and the Iranian arch-enemy is surging forward. By negotiating a nuclear deal with Iran, America has deepened Arab monarchs' fear of abandonment. They think they must fend for themselves.

The third factor is the new economics of shale: America has displaced Saudi Arabia as the world's biggest oil producer. As the price falls, Saudi Arabia is fighting to retain its share of the ▸▸

market and put higher-cost producers out of business.

The trouble is that the plan is not working. The war in Yemen, though popular at home, is going badly. After weeks of bombing, the Houthis are still advancing. A naval blockade has led to a humanitarian crisis that is causing outrage.

The war, and the rush to buy Western weapons, are burning a hole in the public finances. Saudi Arabia is running a double-digit budget deficit at a time when the oil price shows little prospect of further recovery. Although the princes are changing the pecking order in their palaces, they are not giving the people any more of a voice. On the contrary, Bedouin-style consultation has yielded to top-down direction. They have done nothing to revise their unholy pact with Wahhabi clerics, whose puritanism helps underpin jihadist ideology—indeed, public beheadings are more frequent.

The old Saudi model, in which the people ask no questions of their munificent, American-protected rulers, is reaching a dead end. The kingdom can no longer keep handing out do-nothing government jobs to its men; its women are increasingly educated but woefully underemployed because of outdated social restrictions. Finding alternative livelihoods requires an economy that is open to the outside world and a population educated to do more than read the Koran. Look around: Riyadh is drab, while across the border Dubai is glistening.

Saudi Arabia needs to diversify away from oil. Citizens should be taxed rather than subsidised. That would help the public finances, and make for healthier relations between the rulers and the ruled. One way or another, change will force itself on the country. Those in power should use that to bring about reform. That would also be the best way to show leadership, stand up to Iran, resist radicalism—and preserve the fraying alliance with the West. ■

Financial crimes

Unfair cop

America's approach to punishing financial crime is muddled, lenient and self-defeating

"THE message to every Wall Street banker is loud and clear," cried Elizabeth Warren, a senator from Massachusetts, last year. "If you break the law, you are not going to jail." After the savings-and-loan crisis of the early 1990s, Ms Warren pointed out, over 1,000 people were prosecuted, and more than 800 convicted. Yet since the financial crisis of 2007-08, which did far more damage to the economy, no senior banker has been convicted of any crime related to it. America's regulators and prosecutors, Ms Warren complained, were not only failing to pursue those responsible; they were also declining to take the banks themselves to court. Instead, they were negotiating murky settlements, in which financial firms agree to pay big fines if prosecutors promise not to press charges.

Events this week have only made the senator more apoplectic. Regulators and prosecutors announced settlements with six international banks for alleged manipulation of currency markets (see page 61). The six agreed to pay some $5 billion in fines. Two did not admit to any crimes related to this abuse; the other four did, but received waivers shielding them from the consequence that would normally follow—the loss of an all-important banking licence. This week also marked the end of a 90-day period the Department of Justice (DOJ) had given itself to decide once and for all whether it could launch any prosecutions related to the financial crisis. The DOJ says only that it is reviewing the results of the review.

Ms Warren is wrong on many things; on this, she is spot on. (Well almost: one senior banker has been convicted of fraud linked to the financial crisis.) If banks have been involved in acts serious enough to qualify for billions of dollars in penalties, then a few more executives must surely have committed a crime. Negotiated settlements are no substitute for criminal proceedings. For one thing, the punishment falls on shareholders, since the bumper fines come straight out of profits. For another, the lack of trials means there is no proper public examination of the merits of the cases or the calculus behind the penalties; no firm precedents are set indicating how banks should behave in future and what penalties they can expect if they transgress.

Yet this is the way the Obama administration has handled all manner of alleged misdeeds at banks, from turning a blind eye to money-laundering to helping customers get round American sanctions. Even its campaign against banks that abet tax evasion, the one financial crime it is widely reckoned to have tackled with firmness and consistency, looks muddled on close scrutiny (see page 62).

The wooliness of the government's approach has sparked a political backlash. Ms Warren, a former academic, secured her seat in the Senate and became a hero of left-wing Democrats by harrumphing about it (see page 26). It is not just the left that is outraged, however: anger at the lenient treatment of big banks has been one of the main factors animating the right-wing Tea Party movement.

No one's happy—they're doing something wrong

Even bankers balk at today's arrangements. They say they can never contest criminal charges, because they will lose their licences if found guilty. A few small banks that have incurred their prosecutors' ire have indeed gone out of business. That gives the big ones a strong incentive to agree to whatever settlement the DOJ proposes. Since banks remain unsure which activities will lead to which punishment, they are responding less by altering their behaviour than by hiring former prosecutors and regulators and lobbying for leniency. Smaller foreign banks are trying to limit their activities in America in the hope of escaping this capricious system.

It need not be this way. There is nothing to stop prosecutors pursuing individuals, and being more open and consistent about how they strike deals. At least some cases should go to trial. In the longer term, Congress should make the consequences for banks of a criminal conviction commensurate with the gravity of the crime. That would both serve justice and make America a more attractive financial centre. ■

Experimenting with drugs

You are right to suggest that the UN's special meeting on drugs next year should provide a critical opportunity to review the war on drugs ("The wars don't work", May 2nd). The meeting is taking place three years earlier than planned at the behest of Colombia, Guatemala and Mexico, countries that have suffered appallingly from the war on drugs. They deserve the support of European governments that have largely accepted de facto, but only in the Portuguese case de jure, that drugs are best dealt with as a health problem rather than as a law-enforcement issue.

A pragmatic "harm reduction" approach for drug users arguably falls within the UN's conventions. But harm reduction for drug-producing countries can only take the form of regulating production and supply, which the conventions outlaw. However, Uruguay now has such a regulatory regime for cannabis, as do several American states. This means that the United States, the architect and enforcer of the conventions, is itself in breach of them and would find it hard to oppose amendments to, or a creative interpretation of, the conventions that would allow other countries to experiment similarly.

With the new champions of prohibition—China, Russia and Indonesia—proposing an ever harder line, this makes it all the more important that the Europeans take a firm stand for the principle of harm reduction and back the moves by the Latin Americans for flexibility in the UN's conventions.

SIR KEITH MORRIS
British ambassador to Colombia, 1990-94
London

West Africa, too, has become a significant transit route to Europe and North America for drugs, as trafficking networks establish footholds by exploiting weak governing systems. Drug-related violence has not become a big feature of the drug trade in the region so far, but that may yet change.

Local consumption of illicit drugs has also increased, but the region is neither prepared nor equipped to deal with the problem. Rich countries whose citizens consume large amounts of drugs must share the burden and seek humane ways to reduce the demand (prevention, harm reduction, treatment). They must also do more to support countries "caught in the middle".

African delegations recently caused the withdrawal of a vote on ketamine at the UN, a hopeful sign that the continent is waking up to the issues and learning from mistakes made elsewhere. The West Africa Commission on Drugs, which I chair, does not want the region to become a new front line in the failed war on drugs. I sincerely hope that neither will Asia, which was the focus of your article.

OLUSEGUN OBASANJO
Former president of Nigeria
Abeokuta, Nigeria

Toil and trouble

David Cameron's name reeks of Scottish nobility ("Ajockalypse now", May 9th). All three of his Christian names (David, William, Donald) were kings of Scotland and his surname is famously Scottish. Nicola Sturgeon, the leader of the Scottish National Party, has a name that is about as Scottish as a Dorset cream tea. Nicola is of Italian origin, and Sturgeon has French/Germanic roots. True, her middle name, Ferguson, is Scottish/Irish, but the prime minister's claim to Scottishness is surely stronger.

Perhaps a change of name is needed for Ms Sturgeon. Lady Macbeth perhaps?

BOB SEARLE
Kuala Lumpur

Amtrak off track

America used to have the best passenger trains in the world ("Derailed", May 16th). Legend has it that American railroads abandoned passenger services because of competition from cars and aeroplanes, and that is indeed part of the story. But misguided regulation of fares, and restrictions on mergers clearly played a role.

Only when freight services were also threatened was the government persuaded to deregulate. American freight railroads are now among the most efficient in the world, but the commercial skills that made passenger rail work were entirely lost. Passenger rail is trapped in the public sector, with high costs, inefficient working practices and pricing structures designed by politicians. Despite massive subsidies, equipment is often obsolete and sometimes poorly maintained.

Government has a role in regulating rail, but until America finds a way to bring private enterprise back, most passengers will drive or fly even on routes that are served more effectively by rail elsewhere.

MICHAEL SCHABAS
Partner
FCP Rail Consultants
London

Follow you, follow me

If the management-pundit industry is a "shadow of its former self" (Schumpeter, April 25th), it is not because of a "lethargy" in the "thought-leadership" industry. Rather it is because leadership, and yes, followership, have changed radically. Changing cultures and technologies have affected relationships between leaders and followers in ways that make them more fraught and less satisfactory. Both power and authority have been diminished, which necessitates new rules of the game that are not easy to discern or apply.

Single, simple sets of ideas on how the world works (disruptive innovation, for example), and what leaders and managers should do in response are no longer adequate. The best we can hope for is thought-leadership as it applies to a problem that is narrowly defined. So, for example, Andrew McAfee's and Erik Brynjolfsson's "The Second Machine Age" takes on only one issue: changes in work as a result of advanced technology.

Let's face it, the heyday of management gurus is over forever. Leading and managing no longer lend themselves to monolithic interpretations of how others should be herded to get them to toe the company line. Instead, thinking about leadership in the second decade of the 21st century requires a more systemic approach, in which leaders and followers and the contexts within which they are located all get equal time.

BARBARA KELLERMAN
Lecturer in leadership
Harvard Kennedy School
Cambridge, Massachusetts

One traditional definition of "management" in older English dialects was, according to the Oxford English Dictionary, "to spread manure". This has not been lost on those of us who have observed, and misguidedly sometimes employed, managers trained in punditry who have pursued agendas consistent with that ancient description.

BRIAN DAY
Vancouver

Cobblers

Your article on the success of Britain's luxury shoe industry ("Asian brogue", May 9th) was most heartening. Things have clearly progressed since this comment from Margaret Halsey, a late American writer: "Englishwomen's shoes look as if they have been made by someone who had often heard shoes described, but had never actually seen any".

CRISPIN D'APICE
Windsor, Berkshire ■

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bruneihalal

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Wildlife Justice Commission (WJC)

The Hague, The Netherlands

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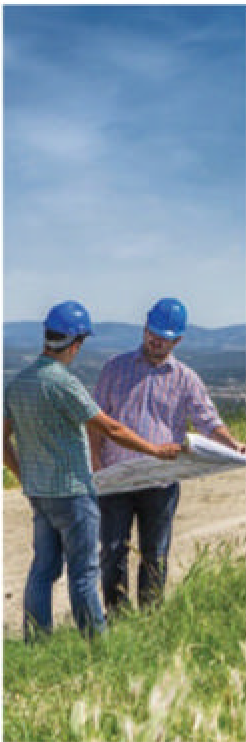
To find out more, please go to **thecommonwealth.org/jobs**



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The challenged kingdom

JEDDAH AND RIYADH

The new leaders of Saudi Arabia want to increase its clout. They face a hard task

ABAYA-clad women swoon over his photo on their smartphones; journalists garland every mention of him with fawning adjectives; diplomats scramble to relay titbits about him to their capitals. Bureaucrats who once snoozed all day at their desks now spend nights in the ministries to do his bidding. Muhammad bin Salman—Saudi Arabia's defence minister and, following a recent decree by his father, King Salman, second in line to its throne—has set Riyadh, the stifling Saudi capital, abuzz.

Little wonder. King Salman, who took over in January, is the sixth of the sons of King Abdel Aziz bin Saud, the modern kingdom's founder, to have worn its crown. His decision that he will also be the last king of that generation, with the line of succession passing first to his (son-less) nephew, the 55-year-old Muhammad bin Nayef (pictured, centre), and then to Muhammad bin Salman (pictured, right), who is in his late 20s or early 30s, would be a big shift under any circumstances, opening the possibility of a ruler similar in age to the ruled (see chart 1 on next page). But Muhammad bin Salman is not merely a young face in a gerontocracy; he is a dynamic and apparently purposeful one. In a few short months he has launched a war in Yemen, travelled to Camp David to meet Barack Obama, and become the overseer of Saudi Aramco, the country's oil company. "The country was a ship afloat with no compass and a dark sky," says Mohsen al-Awaji, a cleric and former government critic. "It is early days, but now we at least have stars."

Fortunate, if true—because the waters the country has to navigate are more perilous than they have been for decades. It is surrounded by civil wars and failed states, and the sharp fall in the oil price has dealt it a severe economic blow. Through various Shia proxies its adversary, Iran, is both adding to the regional tumult and taking advantage of it. And Iran's influence and wealth seem set to grow further if, as seems likely, the sanctions imposed as a response to its nuclear programme are lifted as part of a deal with America, Russia and Europe later this summer.

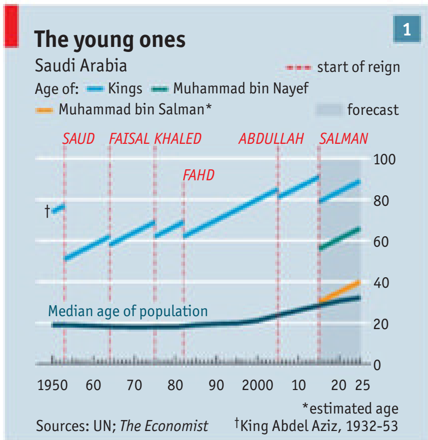
Thrust upon them

This all requires a new approach on Saudi Arabia's part. The country has long enjoyed an importance based not on what it does, but what it is; the source of vast oil exports and the home to the holiest sites in Islam. Now its leaders feel it needs to earn its status by demonstrating an ability to confront Iran and support its fellow Sunnis in the region's sectarian struggles.

On top of that, its leaders feel they can no longer rely on America to the degree that once they did. Under Mr Obama the United States has been reluctant to engage in a region that is consumed by civil wars. Its shale-energy boom makes it less dependent on Saudi oil. And America is trying hard to make that deal with Iran.

Saudi Arabia's decision to intervene in Yemen in March—an operation in which it is firmly in the driving seat, though with American support in intelligence and logistics—is ostensibly aimed at crushing the Iranian-backed Houthi rebels. Its greater purpose, though, is to demonstrate to Iran and others the kingdom's new willingness to lead. "The war is not to do with Yemen, but is trying to send a signal of Saudi's intent and capacity," says John Jenkins, who was once Britain's ambassador to Riyadh and now heads the regional branch of the International Institute for Strategic Studies, a British think-tank. Gregory Gause, an academic, agrees that the Saudis are trying to send a message. "The question", he goes on, "is what are they going to be demonstrating?"

For one adviser to the royal family, the point being made is simple: "The Gulf and Saudi Arabia [are] not going to have the Persians or sectarianism destroy our countries." He says the action should be viewed as a precursor to a new Gulf military alliance styled on NATO, with Saudi Arabia at its head. Such ideas have been mooted for years by the Arab League, a largely ineffective club, but such Saudi leadership has never looked particularly plausible. Now, though—to the discomfort of some Saudis—it is the only leadership on offer. Egypt, a much older and more populous country, used to wield regional power. But it has a stagnant economy, fossilised politics and ▸▸



The young ones
Saudi Arabia

Sources: UN; *The Economist*
*estimated age
†King Abdel Aziz, 1932-53

terrorist attacks to deal with. Though its officials sniff at the idea of Saudi Arabia's "Bedouins" leading the Arab world, they have enough on their plate dealing with the mess that used to be their neighbour Libya. Iraq, built up as a bulwark against Iran, has now become an Iranian proxy. Syria has collapsed. Turkey has limited influence over its Arab co-religionists.

Within hours of deciding to go into Yemen, Saudi Arabia was able to gather up a ten-member coalition of Sunni states, including Jordan, Morocco, Egypt and, significantly, Qatar, with which it has quarrelled of late. In something of a diplomatic coup, the kingdom also got the UN Security Council to back its action.

But the war is hardly a diplomatic or military success. Although Saudi is the world's biggest arms importer, its armed forces are much better at some things than others, and are not used to planning whole campaigns. They have been criticised for imprecise bombing and for a naval blockade which has stopped almost all fuel and food reaching the country. Most other members of the coalition—some of whom were, in effect, ordered to take part, rather than asked—are contributing little, with only three mounting air strikes: Pakistan has refused to send troops. Egypt has seen its role as checking Saudi ambition, rather than facilitating it. As coalitions go, this seems to be one of the unwilling.

Outside the kingdom there is a broad consensus that the war is going horribly wrong. The Houthis continue to advance. Aid agencies broadcast the humanitarian toll—the UN's reckoning of civilian deaths stands at 1,849—and the risk of famine faced by millions. The Saudis, accused by Yemenis of turning a blind eye to al-Qaeda-minded groups in the hope of pushing back the Houthis, have no credible plan for a political settlement in Yemen, not least because they refuse to talk to the Houthis. "They are making it up as they go along," says one observer in Riyadh.

Saudi Arabia's years of backing the rebels in Syria have not revealed any depths of diplomatic or strategic nous. Despite its wealth the kingdom has spent less on its favoured rebel groups than Iran has on propping up the regime of Bashar Assad; what it has spent it spread over too many groups, failing to co-ordinate its efforts with others.

Things may be changing. King Salman has started to set aside past differences with Turkey, which could make a difference. Increased co-ordination with the Turks and Qataris in Syria has led to significant rebel advances in the north-west of the country. But the Saudi role in Syria, and indeed more widely, is complicated by the rise of the so-called Islamic State (IS). The kingdom, which has suffered a handful of lone-wolf attacks inspired by IS, is deeply concerned about the caliphate. It does not support IS, and has moved quickly to stop private funds from reaching it. Muhammad bin Nayef, who was in charge of extirpating al-Qaeda from the kingdom after 2001, is assiduous when it comes to counter-terrorism. He is said to have given America details of every Saudi who has travelled to the caliphate.

But it is difficult for Saudi to confront IS when its ideology of religious purity and intolerance bears many similarities to Saudi Arabia's own Wahabbi creed: the wafer-thin—but crucial—difference is that the Wahabbis preach loyalty to the sovereign. The deal through which the royal family—seen as being at the more liberal end of Saudi society—wins legitimacy from the kingdom's clerics by allowing their intolerant ideas free rein undermines the country's ability to use the religious soft power it should have as the birthplace of the Prophet Muhammad and the country of Mecca and Medina to discredit IS's teachings.

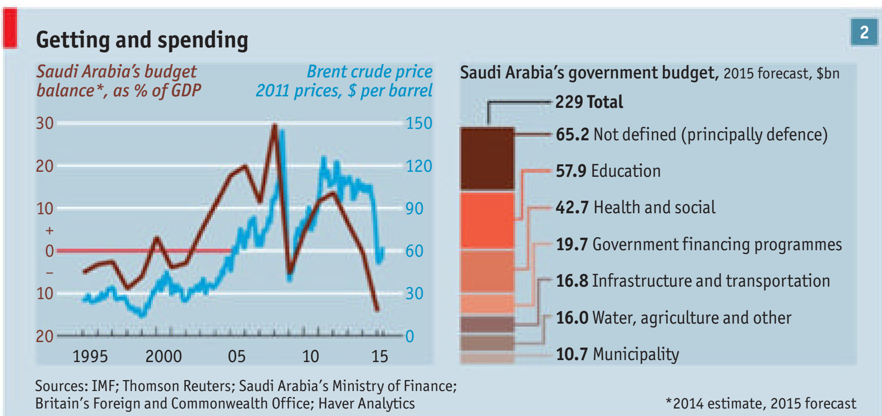
Powers of concentration

Saudi Arabia's religious soft power is thus stymied; its other sources of non-military, non-monetary prestige are scant. Compared with the Egypt of old, with its film industry, or Dubai today, with its snazzy architecture, the kingdom has no cultural clout. And it is sadly lacking in savoir faire, littered as it is with projects flubbed in their execution, from the empty buildings in Riyadh's new financial district to the drabness of Riyadh, a dull backwater not merely compared with glittering Dubai but also with Manama, the Bahraini capital. It is not the sort of place others aspire to be.

If the world at large is unimpressed by the kingdom's efforts towards regional leadership, its people, while a bit perturbed by the idea that princely youth might have its fling, like at least some of what they see. The war in Yemen is very popular, and has sounded a new militaristic note into the country's culture. Zain, a mobile-phone operator, has offered soldiers a 50% discount. Women responded with great enthusiasm to a Twitter hashtag asking whether they would marry a man in uniform (Saudis are among the world's most devoted tweeters). And it adds to the carefully crafted popularity of the King and the princes—especially Muhammad bin Salman, the war's figurehead.

By reshaping the succession, King Salman has both settled a long-standing issue—the jostling for position between the 8,000-odd princes of the family's third generation—and consolidated power in a way that the family is not used to. In something of a palace coup he removed his half-brother Muqrin from his place next in line shortly soon after taking power to make way for his nephew, who was already respected by the public as a safe pair of hands, and his favourite son. The Allegiance Council, made up of princes representing the bloodlines of each of Abdel Aziz's 45 sons, rubber stamped the deal. Rumour has it that the disappointed Muqrin has not gone unrecompensed.

The thicket of committees in which decisions used to be made—or left unmade—has been replaced with two overarching councils that put power in the hands of the new Crown Prince and his cousin and deputy. Muhammad bin Nayef oversees the body co-ordinating security and internal affairs. Muhammad bin Salman heads its economic counterpart responsible for development and oil. The previous king, Abdullah, favoured a Bedouin method of trying to build bottom-up consensus, floating ideas in community gatherings across the country before acting; that has been set ▸▸



Getting and spending

Sources: IMF; Thomson Reuters; Saudi Arabia's Ministry of Finance; Britain's Foreign and Commonwealth Office; Haver Analytics
*2014 estimate, 2015 forecast

aside. "Now we have pointing fingers at the top," says a diplomat.

For this newly consolidated power to amount to much in the long term it will have to be used to bring about economic reform. The fall in the oil price from $110 a barrel in May 2014 to $65 today has not yet pushed Saudi Arabia into financial crisis, as the price slump of the late 1990s did, because the country has foreign cash reserves of $697 billion. At roughly the size of the country's GDP, that is large enough not just to cushion the blow but to allow the country's leaders to look blasé about it. The budget passed in December last year contained not a peep about spending cuts, instead allowing a $36.8 billion deficit. On his accession in January King Salman lavished a bonus on state employees and various other goodies on the rest of his subjects that could cost a further 3-4% of GDP.

But with oil accounting for some 90% of government revenues and oil prices, while no longer as low as they were, showing no signs of climbing more, such generosity cannot last (see chart 2). Spending has soared over the past decade to pay for a growing welfare state and infrastructure projects. This year's fiscal deficit is likely to be about $100 billion, or 15% of the GDP forecast by the IMF, according to Jason Tuvey of Capital Economics, a research firm. "As long as oil is $65 and they spend as if it is $100—with Yemen on top of that—their reserves will be drained," says a Riyadh-based economist.

Some royals are worried. Lower oil prices are a "catastrophe", Prince Alwaleed bin Talal Al Saud, who fancies himself as a Saudi Warren Buffett, told his twitter followers last year. Some investors are jumpy, too. In January the market price of the riyal dropped a little below the official rate at which it is pegged to the dollar, hinting that speculative capital outflows were taking place. Between the end of January and the end of March, Saudi Arabia's foreign currency reserves dropped by 5%, suggesting that the central bank was selling dollars to offset capital flight of some kind, perhaps as rich folk, banks or firms took fright.

At that rate Saudi Arabia's reserves would run out in just three years. If the kingdom does not have to spend to prop up its currency, though, its reserves will allow it to live with big deficits for longer than that. The state's balance-sheet is a good bit stronger than it was in the 1990s. It has repaid almost all of its domestic debts. Were it to continue to run a deficit of $100 billion a year while emptying its reserves and issuing debt at home worth up to 50% of GDP, it could keep going for ten years. It could also seek support from oil customers overseas, such as China.

Ten years is a lifetime for Western finance ministers and oil traders, but for Saudi Arabia's rulers, among whom political lifetimes are actual lifetimes, it is a span that matters. They have made some attempts to deal with spending—Salman has culled some white elephants, including a herd of new football stadiums. A new tax on unused land is planned, and there is talk of introducing VAT. Charges for the *haj*, the pilgrimage to Mecca that all Muslims must do once in their lifetime, could be increased. But even if all that were to come to pass the country is locked in to a level of spending that it cannot afford in the medium term, assuming the current oil price. And domestic energy consumption, currently around a quarter of production, is rising frighteningly fast as the population grows (it is predicted to reach 45m by 2050, from 28m today). By some estimates there may be no oil to export by 2030.

Unpopular imperatives

Efforts to diversify the economy began in the 1990s, when the price slump led then-crown-Prince Abdullah to declare that "the age of abundance is over". When the oil price recovered the efforts faded, though, and left little progress behind them. The private sector is dominated by industries, such as petrochemicals and aluminium, that rely on subsidised energy. Although the state spends heavily on education, the country provides very few jobs for its young people—especially women, who make up under 20% of the labour force. Dealing with this would require a level of commitment to radical restructuring that the cautious, conservative royal family has never shown before. Because change would include the slashing of some subsidies and a transformation of the country's stand against the rights of women, it would raise political tensions that the regime does not want to face. But avoiding restructuring and running out of money could end up being just as disruptive.


The non-eternal flames

The potential for unrest is easily overstated. Saudis have seen what happened elsewhere in the Arab spring, and the overwhelming majority of them do not like the look of it. Even the most downtrodden, such as the suppressed minority Shia in the east or the activists locked up simply for calling for reform, think they are better off than the would be in Syria or Libya. But young people—globally connected and increasingly well-educated—want services and housing at home rather than foreign adventures abroad, and if they are not hankering for full-blown democracy they still want a greater say.

Historically the devout, rather than the liberal, have been the source of most of the kingdom's instability. But the royal family, needing the support of the clerics, has done little to tame the Wahabbist ideology, which many, including Sunnis, see as forming an ideological pillar for violent jihadism. Belief inside the kingdom is more diverse than it was, and pretending otherwise is increasing the rate at which the official scholars of Islam, the *ulema*, are losing followers and legitimacy. But King Salman appears to be giving the *ulema* a longer leash. He is said not to be urging them, as Abdullah did, to speak out against IS. In January he dismissed the head of the religious police who was viewed as trying to trim their claws. Vicious rants against Shia Muslims go unchecked.

For King Salman and his heirs to make Saudi Arabia a credible leader they must reform its economy. In terms of soft power they would do well to take on its extremist clerics, too. Both are huge tasks, and the first would make the second harder if the ructions caused by economic restructuring take on a religious form. Further complications could follow from the way in which King Salman consolidated power in his branch of the royal family.

The House of Saud is well aware that, at the turn of the 20th century, open conflict between its members brought down the second Saudi state. But few imagine that Abdullah's sons, or for that matter Muhammad bin Salman's elder brothers, are overjoyed with the way the succession has been rearranged. If things start to go wrong they might see a chance to undo those changes. It is also possible that the crown prince and his deputy could fall out; Muhammad bin Salman must be well aware that the precedent his father set in getting rid of a crown prince could be followed to his disadvantage.

The Saudis may remain enraptured by their young deputy crown prince for a while. And his ambition, properly channelled, might earn his country the clout it has lacked. If, decades on, he does one day to become king, it could be because he has changed the kingdom for the better. But such an accession is no sure thing. ■

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The Patriot Act

Reviewing the surveillance state

WASHINGTON, DC

America argues anew over how much snooping the NSA can do

DEEP in the desert in Utah, the National Security Agency (NSA), America's signals intelligence branch, has built a $1.5 billion centre to scoop up and analyse data from the internet. The building includes its own water-treatment facility, electric substation and 60 back-up diesel generators. It will use over a million gallons of water a day. Its data-storage capacity would be enough, according to one estimate, to store a year of footage of round-the-clock video-recording of over a million people. At this centre, communications from across the globe are tapped directly from the fibre-optic backbone of the internet.

And yet even as these data are gathered, America's politicians are fretfully discussing how much of the pile government snoops can look at, and under what circumstances. Two years after Edward Snowden, a contractor for the NSA, revealed the extent of it, the technical capacity of America's surveillance state has never been more dramatic. Its legal capacity, however, is becoming markedly more restricted. In Congress and in the courts, the right of the government to collect the data of Americans is being challenged. Politically, the consensus that this level of surveillance (at least of American citizens) is necessary appears to be breaking down.

As *The Economist* went to press on May 21st, Congress was in a fraught debate about whether and how to renew Section 215 of the Patriot Act—a law passed in the immediate aftermath of the attacks of September 11th 2001—which was due to expire. House Republicans, urged on by Rand Paul, a libertarian-leaning senator who is running for president, were deadlocked with Republican leaders in the Senate. On May 20th-21st Mr Paul spoke against renewal for 10½ hours, arguing that the act damaged both liberty and privacy. Senate leaders, though, worried about hampering the ability of spooks to spy.

Americans are protected against much government spying by the Fourth Amendment, which bans unreasonable searches. They are also buffered by a legal framework first constructed in the 1970s after the bugging and dirty tricks of the Watergate scandal, and the discovery that J. Edgar Hoover's FBI had spied extensively on suspected communists and civil-rights leaders. Under this system, a federal court

Listening in

*Opinions of US adults on whether it is acceptable or unacceptable for the American government to monitor communications from:**

Source: Pew Research Centre

*Nov 26th 2014 - Jan 3rd 2015

(known as the FISA court) exists to issue secret warrants for spying for counter-espionage purposes. Surveillance of Americans or people within America by methods such as wiretaps requires permission from a judge. The Senate Intelligence Committee oversees the court's decisions.

The internet has muddied this picture considerably, however. As Mr Snowden revealed, the capacity of the American state to spy has become spectacularly broad, partly because so much internet traffic travels through America, and so can be easily tapped (something NSA agents call "home-field advantage"). And its legal reach, too, has been far wider than most people were aware of. The Patriot Act, in particular, has allowed more government spying than even its drafters realised.

For example, before Mr Snowden's whistleblowing, few realised that Section 215 of the Patriot Act had a secret legal interpretation which justified the collection of "metadata" of phone calls made by hundreds of millions of Americans. This did not include the content of phone calls, but did include details of who had phoned whom, when, and for how long. Another programme, started under George W. Bush and ended in 2011, collected similar metadata on e-mails sent and received.

Other concerns involve Section 702 of the Foreign Intelligence Surveillance Act, which allows the NSA to eavesdrop on communications by people outside the United States. As well as allowing America to spy on foreigners *ad libitum*, this allows the government to collect inadvertent content in citizens' communications: for example, if an American has e-mailed a foreigner who is being spied on.

All this the government had deemed legal. But on May 7th the Second Circuit Court of Appeals ruled in favour of the American Civil Liberties Union (ACLU) in a case against the government over Section ▸▸

215. Looking at metadata remains legal, the court ruled, but its "bulk collection" is not. That, says Mark Jaycox of the Electronic Frontier Foundation, a civil-liberties-minded pressure group, is a partial vindication of Mr Snowden's whistleblowing.

Civil-liberties campaigners are now raising questions about the oversight of the intelligence agencies. "What the Snowden revelations showed...was that the oversight structure is totally broken," says Neema Singh Guliani of the ACLU. In the FISA court, she points out, there is no advocate for privacy—it is biased in favour of the agencies. Of 34,000 surveillance applications put to the court between 1979 and 2012, only 12 were refused.

Neither, she argues, does the Senate Intelligence Committee's oversight work properly. The efforts of Senator Ron Wyden, a Democrat on the Senate Intelligence Committee who raised concerns about mass surveillance before 2013, were choked off by more hawkish colleagues. False claims, such as one in 2013 by James Clapper, the director of national intelligence, that the NSA was not collecting data on hundreds of millions of Americans, went unpunished.

A few politicians are beginning to change their tone. Mr Paul, for example, has built a large part of his campaign round the argument that "what you discuss on your phone is none of the government's business". He hopes that this message will appeal to young voters who do not trust the feds. It certainly sets him apart from other Republican contenders, who tend to think that the security agencies should have more power, not less.

Yet according to Benjamin Wittes, a legal scholar at the Brookings Institution, a think-tank, the actual legal failings of the security agencies are relatively minor, given their physical capacity to hoover data up. And public opinion is not as libertarian as some think. Although few Americans like being spied on themselves, polling suggests they are perfectly happy to let the government spy on terrorists, foreigners in general and even on American leaders (see chart on previous page). This suggests that the dismantling of the security state is unlikely to go far. Should Mr Snowden ever return to America (as he has said he would like to), he will probably still face tough charges. There is little doubt that his revelations aided America's enemies.

The security agencies have to prove they will not abuse the vast technical power they are accruing. Sophisticated terrorists, foreign spies and criminals can use encryption software to help them stay below the radar, but ordinary citizens post details of their lives online routinely. For all that information to be instantly available to officials staring at screens in Utah is worrying. Americans must be able to trust the law that determines when it can be seen. ■

The Philadelphia mayor's race

Hard graft endangered

PHILADELPHIA

The city is doing better, but it will miss Michael Nutter's touch

JIM KENNEY, a progressive with union support and backing from black leaders, handily won the Democratic Party's nomination in Philadelphia's mayoral primary on May 19th. Because Democrats outnumber Republicans by seven to one, he will probably win the general election in November. Mr Kenney wants to raise the minimum wage, end stop-and-frisk police procedures and bring in universal pre-kindergarten—in short, do most of the things outlined recently by New York's Democratic mayor, Bill de Blasio, in his new agenda for the left. He has said he will build on the positives of Michael Nutter, a fellow Democrat who is stepping down because of term limits. Given Mr Kenney's politics, that will be quite a challenge.

When Mr Nutter took office in 2008 he swore, unusually, the Athenian oath, and had it printed on the back of his business card. It includes a promise not to disgrace the city: no small vow in a place then plagued with corruption. To that end, Mr Nutter set up an office of integrity and re-established an independent inspector-general, a government watchdog with teeth. Nepotism and accepting gifts were forbidden by executive order. The new mayor also promised to make Philadelphia "greater and more beautiful". Parts of the city do seem to aspire to that, particularly Centre City and the waterfront. Cranes strut on the skyline, and plans for new development are springing up on all sides.

Mr Nutter has been a steady hand at the city's helm. An unassuming, slightly nerdy fellow, he is neither rich nor part of the political machine. He has a tendency to nanny, lecturing Philadelphians constantly on guns, obesity and recycling their rubbish. But he is clever, understands numbers and uses common sense. Shortly after he took office, the recession hit. He made politically tricky decisions (cutting the pay of non-union city workers, raising the sales tax, but avoiding layoffs), which ultimately helped Philadelphia stay afloat. Only just, though: although its wage taxes are among the highest of any big American city, and businesses are taxed both on gross receipts and net income, it is able to fund less than half of its $10 billion in pension obligations, a bind exceeded only by hopelessly-in-debt Chicago.

In a place once nicknamed "Killadelphia", one of Mr Nutter's promises was to reduce the number of murders. Today crime is at its lowest levels since 1971, and the homicide rate has fallen by more than a third since he took office. This is partly because of demographics, but also the result ▸▸

The terrorists' lock-up

Had Dzhokar Tsarnaev not been sentenced to death on May 15th for his part in the Boston bombings (the first death sentence in a federal court since Timothy McVeigh's in 1997), he would probably have gone to a prison in Colorado known as ADX Florence. It is the most secure in the country. Most convicted terrorists end up there.

Inmates are kept in solitary confinement, and spend 23 hours a day in their cells. A sliver of a window offers a glimpse of the sky. All furniture is made from concrete. Exercise is taken in a windowless pit or outside in cages. Prisoners have almost no other contact with the world.

The "Alcatraz of the Rockies" holds more than 30 terrorists, including Zacarias Moussaoui, a 9/11 conspirator, and Richard Reid, the "shoe bomber". It also holds Ted Kaczynski, the "Unabomber", who in the Harvard directory for the class of 1962 gives his occupation as "prisoner", his awards as "eight life sentences", and his home address as US Penitentiary-Max, P.O.Box 8500, Florence, CO.

Nutter's version of ancient Athens

of community-policing methods that have drawn national attention (the city's police commissioner chairs the White House task-force on the subject).

The mayor has also invested heavily in schools, in part to compensate for severe cuts in state funding, and controversially supported the School Reform Commission's decisions to close bad schools down. High-school graduation rates have risen from 52% to 65% since he came in, though they are still well below state and national levels.

After decades when manufacturing jobs left the city, Philadelphia is at last seeing some job growth, but it is a long way from where it should be. (Businesses don't care for that double taxation.) More jobs are needed because the population is growing too, after decades of decline. Immigrants are pushing in and young people are staying put: Philadelphia has the fastest-growing population of Millennials (18- to 30-year-olds) of any big city.

Bruce Katz of the Brookings Institution, a think-tank, says Philadelphia should "supercharge its economy" by creating an innovation district around the 30th Street station, the city's main railway terminal. The station is close to Drexel University, University City Science Centre and the University of Pennsylvania. These three institutions, among others, are investing in the area, bringing in new houses and shops as well as creating space for incubators and research. Drexel has also bought a closed-down high school, and means to turn it into labs, flats, shops and an elementary school. After that it has designs on redeveloping 85 acres of railway tracks and yards.

"Nutter really made a lot of this work," says John Fry, the head of Drexel University; the mayor helped not with money, since he had none, but with zoning permissions and the strong backing of City Hall at every stage. The question now is whether Mr Kenney, with his very different priorities, will carry that enthusiasm on—and whether he will dare take on the problems, especially taxes and pensions, that even Mr Nutter could not solve. ■

Correction: Our piece on women in combat ("America's Amazons", May 16th) unfortunately misspelled the name of Lieut-General David Barno, who led allied forces in Afghanistan between 2003 and 2005. Our apologies.

Chicago's gun violence

What's in a name?

CHICAGO

Controversy erupts over Spike Lee's new film

MORE than a quarter of a century has passed since Spike Lee made "Do the Right Thing"—a film about racial tensions exploding into violence in Bedford-Stuyvesant, a mostly African-American district of New York. At the time, some (white) critics warned that blacks would riot after seeing it. In another contentious film, "Bamboozled", Mr Lee, who is black, poured scorn on racism in the entertainment industry and the way blacks are portrayed in the media. He frequently comes up with examples of anti-black bias in Hollywood, or laments the gentrification of black neighbourhoods.

Mr Lee's latest project is ruffling feathers even before filming starts in the next ▸▸

The biker brawl in Waco

Rotarians with chains on

WASHINGTON, DC

Yet another punch-up made fatal by lax laws

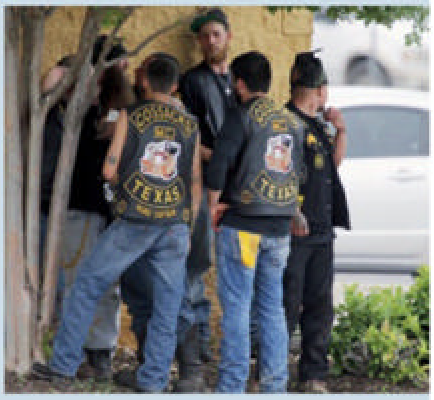
WACO, a small city in Texas roughly halfway between Austin and Dallas long known for a bloody siege in 1993, now has a new massacre to its name. On the afternoon of May 17th, a Sunday, a gathering of 200 or so motorcycle-club members at a Twin Peaks restaurant (offering beer served at below-freezing temperatures and scantily clad waitresses) descended into a brawl involving knives, guns and chains. By its end nine men were dead, 18 more in hospital and the others arrested.

The fighting involved members of at least five motorcycle gangs, including the Bandidos and the Cossacks, two big Texan groups. The proximate spark was apparently a parking dispute. Bail for those arrested was set at $1m each.

Motorbike gangs in America date back to the 1940s, when thrill-seeking former soldiers spent their earnings on powerful machines. According to the FBI, there are now more than 300. Some traffick drugs and weapons, and in many parts of the country police claim they are the most violent threat present. In other ways, however, they are more like Rotarians: they also run charity events and attend annual general meetings.

They have spread globally, too. The Justice Department thinks the Bandidos have up to 2,500 members in 14 countries; only the Hells Angels are bigger. Recently they have become infamous in the Netherlands; on May 8th Dutch Bandidos members smashed a café in Sittard. They have been fighting for years with Hells Angels in Germany and Sweden.

Outside America, however, they tend not to be so well-armed. Police estimated that 500 weapons were recovered in Waco. A day later, politicians in the state debated whether to allow pistols to be carried openly in public. As Greg Abbott, the governor of Texas, pointed out, "The shoot-out occurred when we don't have 'open carry', so obviously the current laws didn't stop anything like that."



Temporarily off-road

Still doing the right thing, he's sure

few days, but this time it is blacks who are annoyed. He is working on a movie with the working title "Chiraq", which will focus on black-on-black violence on the South Side of Chicago, one of the poorest, most violent parts of the city. A Chicago-based rapper, Louis Johnson (aka King Louie), claims that he came up with the name Chiraq a few years ago, conjuring up images of a war zone. It was tossed around on social-media channels, printed on T-shirts, acquired its own Twitter hashtag, #Chiraq, and was taken up by other rappers such as Tavares Taylor (Lil Reese), who rapped in "Traffic": "Where I'm from? This Chiraq, you get left as tragic."

Yet as soon as "Chiraq" became more popular, a social-media campaign (with hashtag #AntiChiraq) started to reject it. "People who live on the South Side don't like the term, which they feel further stigmatises their neighbourhoods," says William Burns, an alderman on the South Side. He is urging the state of Illinois to withhold a $3m tax break for Mr Lee's project, arguing that, to qualify for the credit, a film has to make a "positive economic contribution" to Illinois, and that this one is not looking as if it will.

Chekitan Dev, a marketing expert at Cornell University, agrees that in the short term "Chiraq" may do some damage to the city. Yet in the longer run, he says, Mr Lee may be doing a service by shining a spotlight on the South Side. In the 1970s and 1980s, scores of films were made about violent crime in New York, which was then as broke as Chicago is today. These films probably helped the city in the long term, by focusing the minds of policymakers on bringing down crime rates.

At a press conference on May 14th at St Sabina's, a Catholic church on the South Side, Mr Lee dismissed his critics as "people who don't know the hell what they are talking about". He was flanked by Father Michael Pfleger, St Sabina's priest and an ardent anti-gun campaigner; John Cusack, a popular actor who will star in the film; and mothers who have lost their children to gun violence. "We cannot ignore this reality," said Father Pfleger, after citing grim city statistics for the first 144 days of this year: 116 people have already been killed in more than 780 shootings.

Though hundreds of South-Siders lined up for the casting call for extras for the film earlier this month, many remain sceptical. Kyle Holder, a hairdresser, says that she would feel differently if the film were a serious documentary, but she doesn't like the idea of local suffering becoming a lucrative entertainment vehicle for Mr Lee. (The film will apparently be a musical based on Aristophanes's "Lysistrata", a comedy about women who try to end the Peloponnesian war by refusing to have sex with their husbands until the fighting is over.) And according to Charlene Carruthers, the national director of Black Youth Project 100, an activist group, Mr Lee's film will also ignore some salient causes of the violence, such as heavy-handed policing and decades of neglect by city government.

"They are going to look stupid and be on the wrong side of history," Mr Lee said of his latest critics, comparing them to those who objected so long ago to "Do the Right Thing". He may be annoyed by the controversy, but it is creating lots of presumably welcome publicity. And meanwhile he is trying to win South Siders over in his own defiant way: on Memorial Day, May 25th, he is planning to attend a block party at St Sabina's. ■

American families

Having it all, and then some

WASHINGTON, DC

Why the best-educated women are opting for more children

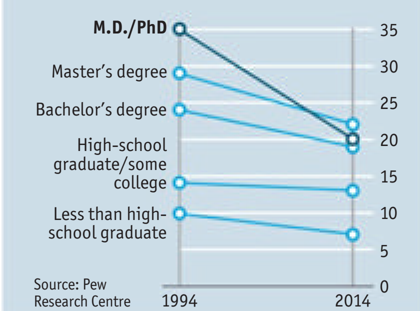
IN 2007 Cathy McMorris Rodgers, a 37-year-old Republican congresswoman from Washington state, became the first woman in over a decade to give birth in office. In 2010 she had a second child, and in 2013 a third. That made her the first, and so far only, woman to give birth more than once while in Congress. Yet although her experience is rare among legislators, new data on births show that she is, in fact, rather typical of one category of American women. While the overall birth rate keeps declining, well-educated women seem to be having more children, not fewer.

A new report from the Pew Research Centre, based on an analysis of census data, looks at women who have reached their mid-40s (when the vast majority of women stop having children) over the past two decades. It finds that the proportion of all women who reach that age without ever having a child has fallen, but the decline is sharpest among the best-educated women. In 1994, 35% of women with a doctoral degree aged 40 to 44 were childless; by last year, this had fallen to 20% (see chart). Their families are bigger, too. In 1994, half of women with a master's degree had had two more or more children. By last year, the figure was 60%. It still holds true that the better-educated a woman is, the less likely she is to have a child. But Pew's data show that the gap has narrowed.

At the same time, data from the Centres for Disease Control, which monitors

Both books and babies

Childless women aged 40 to 44, by educational attainment, %



Source: Pew Research Centre

births, show that the average new mother has become substantially older. Since the start of recession in 2007, America's general fertility rate has declined to its lowest level in recorded history. But all that drop is accounted for by teenagers and women in their 20s. Birth rates for women in their 30s have increased markedly. Because older, better-educated women are more likely to be married, this has also stabilised the proportion of children born in wedlock. In 2009 41% of newborn babies had unmarried parents; in 2013, 40.6% did.

Why might older, better-educated women be having more children? Partly because access to education has widened—and so women who were always going to have children are spending more time in college. Another reason is that fertility treatment has improved dramatically, and access to that, too, has widened. Older women who, in the past, wanted children but were unable to have them are now able to.

But according to Philip Cohen, a demographer at the University of Maryland, this does not explain the entire leap. Rather, social changes in the nature of marriage seem to be driving the change. Whereas marriage was once near-universal and unequal, in recent decades it has become a deliberate option and more equal. Well-educated women have been able to form strong relationships with similarly brainy men, in which both parents earn and both do some child care. Getting an education and having a career are no longer always a barrier to having children; sometimes, they make it easier.

In 1965, mothers spent seven times as long caring for children as fathers did. By 2012 they were spending "only" twice as much time elbow-deep in formula and Pampers. According to Stephanie Coontz, of Evergreen State College in Washington, how much time fathers spend helping to bring up children is the main determinant of whether mothers will have a second child. And as more career-minded women have had children, they have become powerful enough to demand time off from their employers. Although America has no national system of paid maternity leave, many professional firms now offer it—Ernst & Young, an accountancy firm, offers 39 weeks to its employees, for example.

Poorer women, however, have had little luck of that sort. As the economic prospects of blue-collar men have faded, women find the menfolk are pitching in not more, but less, suggests Ms Coontz: "And if I'm a lower-income woman…do I want to hitch myself to a guy who may become just another mouth to feed?" Their employers, meanwhile, are less likely to give them time off. When recession came in 2007, it was these women who delayed having children. Giving birth is not yet a luxury good—but it may be getting that way. ■

Hope, Arkansas

Something in the water

HOPE

A crop more mysterious than watermelons

FOR nearly 25 years, Hope, a small town of 10,000 people in south-western Arkansas, has built a successful tourism industry on politics. Bill Clinton was born here in 1946, and his personality runs all through the town.The National Park Service looks after his two-storey birthplace, including his iron-framed childhood bed, and a local elementary school is called William Jefferson Clinton Primary. Another house where he lived briefly is preserved by local volunteers, and the railway depot has a museum full of Clinton pictures, plaques and flags. A mural on an abandoned downtown building shows him playing the saxophone; alongside him is Mike Huckabee, former governor and now Republican presidential contender, playing bass guitar.

For Mr Huckabee was born in Hope, too. Earlier this month, he launched his second bid for the White House at a local community college. After his announcement, his campaign aides drove a bus full of reporters around the town to show them Mr Huckabee's boyhood home. Photos of him, too, decorate the railway museum. "Hope to Higher Ground" is his motto, rather less poignant and catchy than Mr Clinton's "I Still Believe In A Place Called Hope" of 1992. Still, residents joke that there must be something in the water to produce all these presidential candidates.

Before political history captured the town, Hope was best known as the home of some of the world's largest watermelons. ("Hope, a slice of the good life" was the town's motto then.) Each August the city still holds a watermelon festival, which began in the 1920s to promote its local wonders. Both Mr Huckabee and Mr Clinton have, of course, returned to base to munch away stickily with everybody else.

During the 1990s, with their boy in the White House, things looked up for the residents. The community college became part of the University of Arkansas system, and the city received many public and private grants to do itself up. Industry and fast-food restaurants crowded in, pleased to find that the town was not completely lost in the pine woods, but lay on Interstate 30 between the state capital, Little Rock, and Dallas, Texas.

In 1993 Hope started a campaign to become a designated passenger stop for the *Texas Eagle*, an Amtrak train that runs between Chicago and Los Angeles by way of San Antonio. It took 20 years and the installation of a whole new platform, but in 2013, 150 citizens celebrated Hope's new stop-status by riding the train to Texarkana and then coming back (by school bus) to feast on eggs, grits and bacon.

The town now has a new concert venue, and tries to lure sports events to its parks. The past five years have brought a steady uptick in revenue from tourists. Much remains to be done; many buildings sit vacant in the centre of town, and unemployment hovers around 5.8%. Hillary Clinton's candidacy won't help; her birthplace was Chicago. But for Mr Huckabee, the town's political cachet is already good enough. "That it was the hometown of a sitting president and a sitting governor at the same time gives it a unique claim no other city in America has," he says. "It wasn't New York, Chicago, Philadelphia, or Los Angeles—but Hope." ■

The train stops these days

Lexington | What Elizabeth Warren wants

It's not the presidency, and for good reason

MOST Democrats, presumably, would like to hang on to the White House in 2016. Because convinced liberals are a minority of the American electorate, they will need to woo millions of centrists and swing voters to win the presidency. This being so, it is—to put it kindly—puzzling that so many Democrats want to fight the next election by marching angrily to Barack Obama's left. Yet, logically, that is what Democratic activists and pundits mean when they urge Senator Elizabeth Warren, de facto leader of the party's populist wing, to challenge Hillary Clinton for the presidential nomination.

There are a lot of Warren-admirers out there. Even more moderate sorts, who back Mrs Clinton but want her to adopt lots of Mrs Warren's ideas and rhetoric, should be clear what that means. Mrs Warren stands for more redistribution than Mr Obama does. She would increase Social Security payments to the old and sick by collecting more tax from higher earners, and has clashed with the president over his (very modest) proposals to trim Social Security benefits by adjusting the cost-of-living rate to which they are pegged. Mrs Warren is also leading a Democratic revolt against Mr Obama's foreign-trade agenda. On paper she is just a first-term senator from Massachusetts. But she has achieved clout far beyond her seniority, thanks to her rare talent for turning wonkish arguments into placard-ready slogans. Almost every Democratic senator joined her in a 24-hour rebellion against Mr Obama's trade policy earlier this month, including several who normally support free trade. A frustrated Mr Obama says Mrs Warren is "absolutely wrong" about trade, arguing that America already imports lots from cheaper rivals, would like to nudge partners to open markets, and has a moment of leverage now to shape trading rules that suit all sides. Alas, Mrs Warren smells a conspiracy. She issued a 15-page report this week called "Broken Promises", complaining that Mr Obama and previous presidents have not sued foreign governments often enough over their labour or environmental laws. At the same time she says existing trade pacts make it too easy for multinational corporations to sue America. It is sometimes hard to know what sort of trade pact could both please her and be acceptable to any foreign government. No matter. Fans cheer when she denounces deals that favour big business and "leave workers in the dirt".

Such angry talk resonates. Mrs Warren received thunderous applause when she told the California Democratic Party convention on May 16th, "This country is not working for working people. It's working only for those at the top. That's not the American dream. That's the American nightmare."

To be fair, Mrs Warren is sincere in her moral indignation, and she came by it the hard way. Her Oklahoma childhood was stalked by financial ruin after her father fell ill. Her career as a scholar of bankruptcy law led her into the public arena, as a campaigner against predatory lenders. While still a Harvard professor she came to Washington to tangle with banks and their lobbyists over a new bankruptcy law then, after the credit crunch of 2008, over new regulations for Wall Street. She swiftly showed a knack for politics, as she cast complex financial regulations as homely and all-American. One early triumph saw her compare subprime mortgages to dangerous toasters: both can cost families their houses, she would say, and consumer-protection laws have long banned lethal kitchen appliances. When Republicans (egged on by banks that loathed her) blocked her ambitions to head a new agency protecting financial consumers, she ran successfully for the Senate in 2012.

That back-story helps explain Mrs Warren's power. Like most Democrats, she thinks of federal regulation as a force for good, shielding regular folk from harm. But her own story has left her seething about the way Washington politics works most of the time. That combination puts her in a sweet spot with the grassroots left. She tells audiences that if they think the deck is stacked against the middle classes, they are right. "The game is rigged," she likes to say, describing Wall Street CEOs and lobbyists strutting around Congress, bending the government to their will.

Warren fans think that such lines find support across America. They think voter disaffection is the most powerful force in modern politics, creating a natural majority for bold, radical policies to spread wealth and opportunity. They fret that Mrs Clinton, a rich woman with still richer friends, some of them on Wall Street, will fail to harness this populist moment. Mrs Warren sounds as if she agrees, telling Californian Democrats: "When we stand together, when we make it clear what we believe in, America is ready to stand with us."

There are striking parallels with diehard conservatives. Senator Ted Cruz of Texas, a darling of the Tea Party right who is running for president, tells crowds that America is "fundamentally a centre-right country", at least outside Washington, a place he calls "profoundly broken". Republicans, Mr Cruz says, lose national elections when they choose moderate candidates who "don't stand and draw a clear distinction, when [they] don't stand for principle."

Power without responsibility

Purists of left and right both face a similar problem: neither side has the numbers to win a presidential election without some crossover voters. But the left arguably has an extra problem. Mrs Warren's message boils down to: Americans are right to be furious, Washington is run by special interests, government is broken and the economic pie is shrinking—and the solution lies in more Washington, and trusting government to distribute pie more fairly. How would she resolve that paradox? Nobody knows, because Mrs Warren—a shrewd politician—is not actually running for the presidency. Some time soon, her fans might like to stop and ask themselves why that might be. ■

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Separatism in Quebec

No, we shouldn't

MONTREAL

Note to Scotland: support for nationalism can fall as well as rise

"INDEPENDENCE is more alive than ever!" proclaimed Pierre Karl Péladeau as he accepted the leadership of the separatist Parti Québécois (PQ) on May 15th. That brought cheers from supporters, but only incurable optimists believed him. The previous leader resigned after Quebeckers ejected the PQ from power in Canada's French-speaking province in 2014 in favour of the federalist Liberals. The Bloc Québécois, a kindred party that champions separatism in federal elections, lost official party status in the House of Commons after winning just four seats in 2011.

That is a startling comedown, both for the parties and for the cause. In the 1993 federal election, Quebec elected so many separatist MPs that they formed the official opposition. Two years later the province, then governed by the PQ, nearly succeeded in breaking away from Canada. In a referendum on independence 49.42% of Quebeckers voted yes. That was the separatists' best showing. Since then they have lost power and influence. Britons watching the rise of the Scottish National Party (SNP), which won nearly all the Scottish seats in this month's British election, will learn from Quebec that separatist enthusiasm can shrivel as well as bloom (see page 46).

Quebec and Scotland are not twins. Quebec uses a different language. Britain conquered the area in 1760; it thus has a history of resenting its forced incorporation into what became Canada. Scotland's wars with England had long ended by the time it joined the United Kingdom in 1707. Canada has always been a federal state; Britain is just starting to become one. Despite such differences, Quebec's experience might hold a lesson for Scotland in one important way: partial success, combined with political wear and tear, can weaken a separatist movement.

When the Bloc Québécois arrived in Ottawa in 1993 "it seemed like the sky was falling on Canada", says Jean-François Lisée, a former separatist minister in the Quebec government. It wasn't. The Bloc was a well behaved but ineffectual party of opposition. With no hope of forming a national government, it could not achieve much. "I didn't see any evidence of the Bloc getting something for Quebec," says François Vaillancourt, an economist at the University of Montreal. Quebeckers eventually tired of electing impotent MPs. In 2011 they turned en masse to the left-leaning, federalist New Democratic Party.

The PQ, the Bloc's provincial counterpart, achieved far more. Starting in 1976 it governed the province for long periods and twice tried to prise it away from the rest of Canada through referendums (in 1980 and 1995). Those attempts failed, but the PQ secured much of what separatists wanted most, especially protection of French. It has been the province's sole official language since 1974, but the PQ ensured its dominance in business and education. Like today's SNP, the PQ also benefited from charismatic and canny leaders, such as the party's founder, René Lévesque, and Lucien Bouchard, a leader of the Bloc and premier of Quebec.

Quebeckers learned early on that nationalism has costs. The marginalisation of English prompted a fifth of the Anglophone minority to emigrate. Companies pulled out. The executive offices of the Bank of Montreal today are in Toronto. The exodus probably left Quebec poorer, but made French speakers *maîtres chez nous* (masters in our own house). Business, once dominated by Anglophones, is now run by French speakers. Mr Péladeau is a prime example: he owns a controlling stake in Quebecor, a media and telecoms company.

Now Quebeckers wonder what more they could gain from independence. Under Canada's federal system, provinces already have the tax and spending powers to which the Scots aspire. Like Scotland, Quebec receives more from the central government than it contributes. It would lose that subsidy if it broke away from Canada.

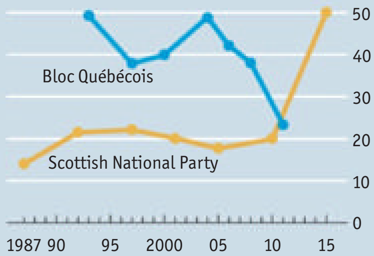
Since the near-miss of 1995, PQ governments have dithered about whether to hold another referendum. Mr Bouchard, who governed from 1996 to 2001, said he would not hold one without "winning conditions", which never arose. In 2010 he declared that independence was out of reach and that the party should concentrate on Quebec's economic problems.

Such heresies have split the separatist movement. Doubters have turned to the Coalition Avenir Québec, which, like Mr Bouchard, wants the province to focus on the economy; die-hards back smaller parties such as Québec Solidaire and Option Nationale, which want a referendum now. The ageing militants who started the movement retain their fervour. The young have drifted away.

Mr Péladeau, a novice politician who shows little of the deftness of earlier separatist leaders, will try to win them back. ▸▸

Separatist, but unequal

Share of votes in Quebec and Scotland in national elections, %



Sources: Simon Fraser University; electionresources.org; *The Economist*

Despite the autonomy Quebec has won, he argues that outsiders still have too much say. The federal telecoms regulator dictates what Quebeckers watch and hear; the federal government still controls ports and rail networks. Mr Péladeau claims, without much evidence, that independence would make the province richer.

He will have a hard time persuading voters. His call for independence during last year's provincial election campaign alienated soft nationalists, who like the PQ's emphasis on social justice but want to avoid constitutional wrangles.

One issue that could play into the separatists' hands is negotiations on a proposed Trans-Pacific Partnership, a trade agreement among a dozen countries. To join, Canada might have to scrap its system of quotas and tariff protection for producers of dairy, poultry and eggs. That prospect would rouse dairy farmers, who are concentrated in Quebec. Mr Péladeau is wrong to claim that separatism is more alive than ever. But it is not dead yet. ■

Sexual harassment

Criminalising the catcallers

BUENOS AIRES

A crackdown on public displays of machismo

IN ARGENTINE cities, *piropos*, or catcalls, are as common a sound as honks and sirens. They can be as subtle as the pop of a kiss from a lorry driver or as menacing as a shout of, "Oh God, if I got my hands on you…" Some men think these are compliments. Mauricio Macri, Buenos Aires's mayor (and probable candidate in this year's presidential election), said not long ago that "secretly, all women like it when you catcall them."

Most emphatically disagree. In a survey of Argentine women conducted by Interamerican Open University last year, 72% said they had recently been catcalled. Nearly two-thirds said the advances made them feel uncomfortable or worse. It took the case of Aixa Rizzo, a college student, to make this a political issue. She posted a video recounting that electricity workers near her house repeatedly intimidated her. One asked his companion, "Where should we take her?" As he approached, she shot him with pepper spray. At first, the police refused to take her complaint. The video has been viewed more than 500,000 times since she posted it in April.

Now, lawmakers have introduced a flurry of bills to outlaw catcalling in three legislatures, those of the city and province of Buenos Aires and the national Congress. While their details differ, all would punish street harassment, defined as unwanted verbal or non-verbal attention, with fines and community service. A few would mandate jail time for the worst cases. One objective is to make women aware that such behaviour "is violent and shouldn't be tolerated", says Victoria Donda, a congresswoman who wrote the national bill.

If Argentina criminalises catcalling, it will be joining a Latin trend. Peru's Congress enacted a law outlawing street harassment in March; Panama's is debating one. Abuse of female politicians in Bolivia became so severe that many gave up after one term in office. In 2012 the government passed a law making harassment of politicians a crime. Such laws draw inspiration from measures outside the region. In 2011 the Council of Europe approved a convention that calls for punishment of unwanted behaviour, including speech, "of a sexual nature".

Sceptics doubt such laws can be enforced. So far, the European convention has had no apparent effect in countries that signed it, according to Holly Kearl of Stop Street Harassment, an NGO. Advocates contend that catcalling laws can discourage macho behaviour that leads to worse crimes. Last year 27 women a day were sexually assaulted in the province of Buenos Aires. "By no means can one law change an entire culture," admits Ms Donda. But, she thinks, it is a start.

Guyana's election

A time to heal

The new government could narrow the racial divide

IN THE half century since Guyana won independence from Britain, it has switched governing parties only twice. The second time was on May 16th, when David Granger, a former chief of the country's tiny army, was sworn in as president. His election ends 23 years of rule by the People's Progressive Party (PPP), which is dominated by Guyanese of Indian origin, whose forebears came over as indentured workers. Mr Granger belongs to the country's other big ethnic group, descendants of slaves from Africa.

Whether this month's election will do anything to lessen the racial polarisation that defines Guyana's politics is unclear. The most hopeful sign is that Mr Granger ran at the head of a two-party coalition that includes the Alliance for Change (AFC), a multiracial party. It named the prime minister and also has other cabinet posts. Mr Granger's party, A Partnership for National Unity, is also promising less divisive politics. That offers a glimmer of hope.

The conduct of the election itself does not. It was triggered by a stand-off between the outgoing president, Donald Ramotar, and parliament, which was controlled by his opponents. Each side blocked legislation proposed by the other. To avoid a no-confidence vote, Mr Ramotar prorogued parliament in November and called early elections in February.

It was a close race, which sharpened its tone. In the Indo-Guyanese village of Enterprise, PPP supporters spray-painted two donkeys in opposition colours, then beat them nearly to death. The PPP reminded voters that when the forerunner to Mr Granger's party last held power, through rigged elections, from 1964 to 1992, basic goods such as cheese and wheat flour were almost unobtainable. Race riots in the 1960s left scores of people dead and forced thousands from their homes.

Under the PPP the economy improved but it did not have much else to boast ▸▸

The brigadier and the man from Whim

about. The trans-shipment of cocaine flourishes alongside gold mining. After a generation in power the PPP acquired a reputation for mismanagement and crony-ism. Among its parliamentary candidates were one of the president's sons and six children of present or former ministers.

Participation among fired-up voters was 20% higher than in the last election in 2011. The PPP slightly increased its share of the vote (and continues to insist that it won). In fact, Mr Granger's coalition won narrowly because it fought the election on a single electoral list. In 2011 its two parties ran separately, gaining a majority in parliament, which is elected by proportional representation, but losing the presidency to Mr Ramotar, because his party was the largest single vote-getter. The emigration of Indo-Guyanese also helped Mr Granger's coalition win this time.

The 69-year-old former brigadier promises useful changes including, fortuitously, a sovereign wealth fund. On May 20th Exxon Mobil announced Guyana's first significant oil find. The best chance of overcoming Guyana's racial divide may be Mr Granger's partnership with the new prime minister, Moses Nagamootoo, an Indo-Guyanese from the wonderfully named village of Whim in the east. He was a senior figure in Mr Ramotar's party (and had been seen as a potential president) but left to join the multi-racial AFC in 2011. Under the new government, the prime minister will have expanded powers: he will chair cabinet meetings and appoint heads of state agencies.

The role set out for Mr Nagamootoo and other Indo-Guyanese in the cabinet looks like something more than the tokenism that past governments have practised. That is a good sign. If the new coalition can get Guyana thinking about issues besides race, it can make progress. ■

Bello | The Chinese chequebook

Latin America needs to be more hard-headed with its big new partner

DUBBED "Mad Maria", the Madeira-Mamoré railway was said, with only some exaggeration, to have cost a life for every sleeper laid. Built for booming rubber exports, the 367km (228-mile) line from Porto Velho in the heart of the Brazilian Amazon to the Bolivian border was rendered obsolete by new Asian plantations almost before it opened in 1912.

A century later a plan for a much longer railway across the Amazon, from Brazil's Atlantic coast to Peru, is among a sheaf of infrastructure projects that China is offering to finance in Latin America. Li Keqiang, China's prime minister, signed an agreement for a feasibility study for the railway during an eight-day trip through South America that began on May 18th in Brazil and will take him to Colombia, Peru and Chile.

Mr Li came armed with proposed investments and loans that could total up to $103 billion in Brazil alone (see page 54). His destinations and the projects both point to a maturing of China's relationship with Latin America. This saw explosive growth in trade, as China gobbled up Latin America's minerals, oil and soyabeans while exporting its manufactures.

Now economies are slowing on both sides of the Pacific. China's slowdown has prompted a steep fall in commodity prices, and thus the value of Latin America's exports. Brazil's exports to China slumped by a third in the first quarter of this year compared with the same period in 2014.

But Chinese investment and loans are set to carry on growing. In January President Xi Jinping said that Chinese companies would aim to invest $250 billion in Latin America over the next ten years, compared with a previous total stock of $99 billion. While early Chinese investment was almost wholly in oil, gas and

mining, it is broadening out to involve more companies and industries, including food and agriculture, manufacturing and, above all, infrastructure.

The same goes for Chinese loans. The $22 billion lent last year outstripped credits from traditional multilateral development banks, according to *China-Latin America Economic Bulletin*, published by Boston University. Apart from Brazil, the money has mainly gone to Venezuela, Ecuador and Argentina, where it has helped to sustain left-wing governments. Mr Li's trip suggests a new interest in the business-minded countries of the Pacific Alliance.

Many governments in Latin America have embraced the Chinese dragon as a welcome alternative to the United States and the conditions imposed by the IMF and the World Bank. For a region with huge shortcomings in infrastructure, China's investment, like its trade, is potentially a boon. But both have pitfalls.

An obvious one is sweetheart deals. Last year Cristina Fernández de Kirchner, Argentina's president, negotiated a currency swap with China, as an alternative to settling her dispute with foreign bondholders. The price is high: the money is tied to 15 infrastructure deals in which Chinese firms face no competition.

More broadly, China has served to reinforce Latin America's specialisation in commodities. That may not be the route to sustained growth. In a report published this week, the World Bank finds that increases in Latin America's trade with and investment from countries of the "South" (ie, the emerging world) were associated with a smaller boost to growth and productivity than equivalents from the "North" (ie, the developed world).

China's interest in developing Latin America's infrastructure is not altruistic. It wants to lower the transport costs of its imports, such as soya from Mato Grosso state. Its railway and other infrastructure companies have spare capacity because consumption is replacing investment as the main source of Chinese growth.

Because of the concentration in commodities, Chinese trade and investment in Latin America have been "a major driver of environmental degradation", according to the team at Boston University. The transcontinental railway is a new concern. Peruvian officials favour a northern route through virgin forests rich in biodiversity. Environmentalists prefer a southern route, to Matarani, beside a new road linking Brazil to Peru opened in 2012. But as with Mad Maria, traffic along this highway has been lower than forecast.

It would be wrong to blame China for these risks. Most of its companies in the region have a reasonable record of complying with environmental standards. Rather, it is up to Latin America to become as effective as its new partner in defending its interests in the relationship. Those interests include protecting the environment and avoiding one-sided deals struck for short-term political convenience.

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South Korea's orphans

Pity the children

SEOUL

Once among the biggest sources of infants for international adoption, South Korea is stemming the flow. But at a cost

AT JUSARANG Community Church, in southern Seoul, a pastor maintains a "baby box" where mothers can leave unwanted infants (pictured above). Its intake is sadly rising. Since revisions were made to South Korea's adoption law in 2012, the number it receives each month has risen from two to 20. The church says the chief reason for this upsurge is the revised law itself. Some babies are delivered with notes pinned to their chests to say their mothers did not want to register them, as the law now requires.

Adoptions in South Korea have had an unusually troubled history. After the end of the Korean war in 1953, biracial children who were the product of fleeting wartime unions between foreign servicemen and South Korean women in the 1950s, were abandoned to drift in South Korea's ravaged cities. The waifs—"dust of the streets" as they were called—were shunned by a Confucian society that prized bloodlines and could not countenance raising another's child. Thousands of foreign homes began to take them in—probably the largest exodus of infants from a single country into adoption.

The outflow continued long after the Korean war. Since then South Korea has sent overseas around 200,000 of its orphaned or abandoned children, three-quarters of them to America. At the peak of the exodus, in the mid-1980s, 24 babies left their birth country every day to be taken into the care of foreigners. Adoption agencies raked in the fees. In 2001 government guidelines let them request $9,000 for an international adoption, compared with just $2,000 for a domestic one.

For many years the supply of babies was given a boost by the government's now-abandoned emphasis on the need to limit births: families with more than two children were viewed as unpatriotic. Some chose to abandon unwanted babies at police stations or in markets. Now more than 90% of adopted babies are the children of unwed mothers, who fear being rejected by a socially conservative society. Poor single-parent families receive measly financial support from the state—only half the amount given to adoptive parents and foster homes. If they have wealthy relatives, they do not qualify for the country's basic living allowance.

Closing the door 1

Number of South Korean children adopted: '000

Source: Ministry of Health and Welfare

South Korea, however, now wants to show that it can look after all of its children. Since 2007 the country has set a quota for the number that can be sent overseas, lowering it by 10% a year. The children must also stay in South Korea for five months, while agencies look for a local home, before they can be sent abroad. The revisions to the adoption law in 2012 required that babies put up for adoption be registered in court. The aim was to make the process more transparent and improve adoptees' chances of tracing their birth parents. In 2013 South Korea signed the Hague Adoption Convention, which says that children should preferably be adopted by families in their own country.

These steps were encouraged by lobby groups of South Korean-born adoptees who had grown up abroad, mostly in America. Some of their complaints, which included racial discrimination, were heard sympathetically by the government. One such group is Truth and Reconciliation for the Adoption Community of Korea (TRACK). It campaigns against international adoptions from South Korea and for the right of adoptees to find their birth parents. Even when agencies are willing to help, tracing biological parents can be difficult. TRACK says that is because adoption agencies mishandled records: registering children as orphans helped speed up state approval for adoption abroad.

The government's efforts to stem the exodus have succeeded: international adoptions have dropped sharply (see chart). Babies now being adopted will ▸▸

have a much better chance of tracing their birth parents when they grow up. A week's counselling required by the revised adoption law has encouraged some mothers to keep their infants.

But the revised law has had unintended results. Domestic adoptions, previously on the rise, have fallen since 2012, partly due to tighter eligibility requirements for adoptive parents, as well as a drop in the number of babies put up for adoption. At the same time police statistics show that the number of abandoned children has jumped, from 127 in 2011 to 225 in 2013.

One reason parents of unwanted babies often do not want to register them, is that potential employers can get access to family papers to gauge the suitability of candidates. Worse, relatives may see the records too. Parents often ostracise a daughter who has a child out of wedlock.

Taboos against adoption remain stubborn. Since the 1950s South Koreans have taken in only 4% of their orphaned children. Adoptions are often done secretly by parents who ensure that the baby's blood type matches theirs; some women fake pregnancy to pretend the babies are their own. Girls are preferred over boys to avoid difficulty during ancestral family rites, which are traditionally carried out by sons. Since the 1950s more than four-fifths of abandoned children, or about 2m, have ended up being raised in state orphanages.

Little surprise, then, that more pregnancies are aborted in South Korea than in any other state in the OECD, a group of mostly rich countries. Until recent years, this was partly because of a Confucian preference for sons: female fetuses were frequently aborted. In 1990, 117 boys were being born for every 100 girls; for a family's fourth child the ratio was 2:1. In 2012 the government briefly tried to crack down on the practice, invoking a law against abortion passed in 1953 that has been rarely enforced. Its aim was partly to boost the birth rate which, at fewer than 1.3 babies per woman, is among the world's lowest.

Today the sex ratio at birth is much closer to normal. But abortions remain common, not least because of the social stigma of unwanted pregnancy. Lee Bong-chu of Seoul National University suspects that rates may have risen since the adoption law was changed. He says that by including so many restrictions, the law now gives "the wrong message" that adoption is bad.

The law's perverse effects may be mitigated by a bill to limit access to family registers, which is expected to pass when the government puts it to parliament soon. Since last month children put up for adoption can also be registered in fathers' records. This should help to ease some of the pressure on unwed mothers. But prejudice against them remains rife. That makes the revised adoption law a flawed one, as even some of its backers admit. ■

The politics of water

Peace pipe

KINMEN

Officials plan to pump water from China to its political rival, Taiwan

KINMEN, a cluster of tiny islands two kilometres (just over a mile) off the coast of China's Fujian Province, bears the scars of many a past battle. Chiang Kai-shek used the archipelago for his rearguard after Mao Zedong's forces had driven his Kuomintang (KMT) from the mainland to Taiwan. China frequently lobbed shells at Kinmen, even up to the 1970s.

Now Kinmen is facing a new threat: a water shortage. Officials say that groundwater on its largest island is being depleted. Tourism from the mainland, which has grown rapidly since 2008, when Ma Ying-jeou, a politician friendly to China, was elected president, is putting pressure on its reservoirs. More than 220,000 Chinese tourists visited Kinmen last year to see attractions including anti-landing barriers (pictured below) and concrete bunkers.

Kinmen Kaoliang Liquor Inc, a big local employer, may end up suffering too. The company, founded by a KMT general in 1952 to boost the troops, produces one of the most popular brands of Kaoliang, a fiery brew made from sorghum that is Kinmen's most famous export. It relies on pristine groundwater.

Help is at hand from an old enemy. Kinmen's water authorities are ready to sign a 30-year agreement with their counterparts in Fujian to buy water from Longhu Lake in Jinjiang city (see map). Taiwan is to build a submarine pipeline 17km long from Fujian's coast to Kinmen at a budgeted cost of 1.35 billion Taiwanese dollars ($442m).

Relics of bad times

After 2017, when it is scheduled to be finished, China will eventually provide up to 40% of Kinmen's water. The signing is expected soon after a meeting on Kinmen on May 23rd between ministers from China and Taiwan, the first such encounter on the islands since the KMT's flight from Mao.

When Taiwan's parliament approved the budget for the pipeline in January, the opposition Democratic Progressive Party (DPP), which supports independence, made surprisingly few objections. Only the small, hardline Taiwan Solidarity Union voiced concerns about having such a large share of Kinmen's water supplied by China. Pragmatists see the deal as the best way to boost Kinmen's economy: piping water from China is much cheaper than using desalination plants. Taiwanese officials would be allowed to carry out inspections in China, such as testing water in the lake.

Such co-operation may be rarer in future. Since a drubbing in municipal elections last November, Mr Ma's China-friendly KMT has been looking less likely to win next year's presidential election. Victory looks even more remote now: just two candidates are now registered for the party's primary; neither of them have much charisma. The KMT's leader, Eric Chu, did not put himself forward before a deadline on May 16th. He had been regarded as the KMT's best chance of beating the DPP's candidate, Tsai Ing-wen.

Mr Ma, who is barred under the constitution from standing for a third term, has fostered the closest ties between Taiwan and China since 1949. But in the past few years the popular mood has changed. Many ordinary Taiwanese think his cross-strait business agreements secretive and of benefit only to the rich. Last year saw street protests and a three-week-long student occupation of parliament in protest at a trade deal with China. Should Ms Tsai win, tensions with China could rise once more. And though the pipeline would probably go ahead, other cross-Strait deals would be less likely to follow. ■

Rohingya boat people

Myanmar's shame

SITTWE

Poverty, politics and despair are forcing thousands of Rohingyas to flee Myanmar. The authorities remain woefully indifferent to their plight

THE Rohingyas have often been called the most persecuted people in the world—with good reason. Most have lived in Rakhine state in western Myanmar for generations, yet have always been denied citizenship by the government. Indeed, they are not even recognised as one of the country's 135 official ethnic groups. Over the decades these Muslim non-people, without legal or any other sort of protection, have been the victims of wanton discrimination and violence by both the virulently anti-Muslim Rakhines, a Buddhist ethnic group, and agents of the central government. One of the few things Rakhines and members of the ethnic Burmese majority have in common is a shared hatred of the "Bengalis", a label they both apply to Rohingyas with contempt.

Rohingyas may once have imagined that their plight could not get much worse. If so, they were wrong. After two bouts of vicious ethnic cleansing by Rakhine nationalists in 2012, about 140,000 of an estimated 1.1m Rohingyas fled into refugee camps. They have not been allowed to leave. Growing numbers have been trying to escape by sea to Malaysia, Indonesia and Thailand (see Banyan). An unprecedented 25,000 of them, including Rohingyas from neighbouring Bangladesh, got on boats during the first quarter of this year, desperate to get out before the start of the tropical monsoon season renders travelling all but impossible. And unprecedented numbers are dying in the attempt: about 300 between January and March, and more since.

A 15-year-old boy, Mohammed Haryot, describes how he left one of the camps with seven other members of his family to try to reach Malaysia. Each had to pay a trafficking gang about $500 to board a flimsy rowing boat and then a further $2,000 to transfer to a bigger vessel for the rest of the voyage. These are huge sums for most Rohingyas. There were about 300 people on Mohammed's rusty tramp, with no food or water. After about a week at sea they were intercepted by a naval ship and forced to return to Sittwe in Myanmar's Rakhine state. Mohammed says he is "happy" to be back, but would gladly try again. As one elder puts it: "People know well about the dangers at sea, but they also know that the situation on land is worse than on the boats."

Since 2012 all the Rohingya villages and camps have been totally cut off from predominantly Rakhine towns like Sittwe. This has made it almost impossible for inhabitants to make a decent living. Tall wire fences are now being erected, completing their isolation. One Rohingyan says he used to have a good taxi business in Sittwe. Now he uses his motorcycle to carry a few customers in a small village. He makes about one-third of the money he used to. Most Rohingyas are farmers or fishermen. The former cannot return to their fields; the latter have few boats left and are driven away from fishing grounds by Rakhines if they manage to get out to sea.

Cut off

The local authorities insist that this forced isolation is for the Rohingyas' own good, to protect them from further attacks.

Dangerous journeys

Estimated number of people making irregular departures by sea from the Bangladesh/Myanmar border, '000

Source: UNHCR

Rohingyas, however, see it as the culmination of a long-standing policy of apartheid, depriving them of the last benefits that they enjoyed living among Rakhines. No Rohingya student, for instance, has been allowed into the university at Sittwe during the last three years. They are not allowed into the township hospitals unless it is a life-and-death situation. "It's really inhumane stuff," says an aid worker.

Any hopes among Rohingyas that the country's turn to quasi-civilian rule in 2011 after decades of military dictatorship might improve their lot have evaporated. While life is improving for many others in Myanmar, it is not for Rohingyas. They are unwitting victims of a deadly political game for control of what some Burmese proclaim to be the "New Myanmar". Thus, for instance, while the rest of the country is preparing for a general election in November—the first democratic one in a quarter-century—a sleight of hand involving their voting documents has effectively deprived Rohingyas of the right to participate. Last year, during the first national census for years, Rohingyas were only allowed to register as "Bengalis". In protest, most of them boycotted the count.

The government is pandering to a growing anti-Muslim hysteria in the country. Such sentiment has been encouraged by hardliners in the army and the ruling party who calculate that humiliating the millions of Muslims in Myanmar plays well with many Buddhist Burmese. It is often supported by the more chauvinist Buddhist monks as well. The hardliners have an election to win; they believe that playing to anti-Muslim feeling might give them an advantage over the opposition leader Aung San Suu Kyi and her National League for Democracy party.

Even Ms Suu Kyi, however, a Nobel peace-prize winner who campaigns relentlessly for human rights and the rule of law, has been loth to stand up for the human rights of Rohingyas. For some of her supporters, this has been extremely disappointing. Her low-key response has made it easier for the government virtually to ignore the boat-people crisis. By May 19th there had been no mention of it in the government-run *Global New Light of Myanmar*, an English-language newspaper. Rohingyas are not technically "citizens", so the government feels that it can wash its hands of the problem.

Clearly ministers feel that they have no wider moral or humanitarian obligation to people whose families have lived and worked here for, in many cases, over a century. In the face of such callous indifference from all quarters in Myanmar, it is hardly surprising that so many thousands are taking to the sea. Unless the situation changes, the only guarantee is that even more will try to flee at the start of the next dry season, with the same appalling results. ■

Banyan | All at sea

South-East Asia's boat people shame the whole region

FOR nearly three months a small green fishing boat has chugged around South-East Asia's vast blue waters, packed with people no one wants. At first the 300 or so refugees on board—most of them Rohingyas, a Muslim ethnic-minority persecuted in Myanmar—were guided by people-smugglers. But after their traffickers fled, fearing arrest, they sailed on alone and with no clear destination, prevented from reaching the shores of Thailand and Malaysia by naval patrols. When a small vessel carrying journalists from the BBC and *New York Times* pulled alongside, hurling bottled water onto the decks, one passenger claimed that ten of their number had died. Their voyage finally ended on May 20th when Indonesian fishermen rescued them.

The ship was one of many which have drifted in the Strait of Malacca and the Andaman Sea in recent weeks, bearing thousands of people. Some of them are escaping poverty and oppression in their home countries, mainly Myanmar and Bangladesh; a few are victims of kidnappings, their captors intending to demand ransoms for their release. Since the start of May, when a police crackdown in Thailand started to block the land routes over which criminals have long smuggled Rohingyas and other migrants, more than 3,000 of them have scrambled onto beaches in Malaysia and Indonesia. Yet all three countries have turned boats away in sight of shore, at times giving them directions to their neighbour's waters. On May 20th Malaysia and Indonesia at last agreed to stop pushing away boats, but only after much international pressure. It has been a callous and haphazard response from a region that boasts of its deepening integration, and which wants to bolster its standing in the world.

South-East Asian countries rightly insist that the problem's source, and its only lasting solution, lies in Myanmar. For years it has persecuted its Rohingya minority. The country's government—and, as far as can be gauged, almost all its people—regards Rohingyas as illegal Bengali immigrants; violence against them by other ethnic groups has given officials an excuse to herd some 140,000 of them into rancid refugee camps. In recent years the trafficking networks that sprang up to sneak Rohingyas away from such horrors have also successfully targeted better-off people living on the shores of neighbouring Bangladesh.

Yet Myanmar's neighbours share considerable blame for the emergency. Only Cambodia, the Philippines and Timor-Leste have signed the UN Convention on Refugees, under which "pushbacks" are outlawed. Regional politicians agree they are morally obliged to resupply the boats, and to rescue those whose vessels have capsized. But until this week they said that allowing seaworthy boats to land only encouraged more to attempt the crossing. That reasoning was largely accepted by their electorates, even though it was flawed. Increasing migrant deaths in the Mediterranean have not reduced the numbers of those attempting to get from Africa to Europe. Some of the Asian boat people had taken to flinging themselves into the water at first sight of land, believing (correctly) that coastguards would usually take them to shore when seeing lives at immediate and grave risk.

Several South-East Asian countries have tolerated—and benefited from—the people-smuggling they decry. For years Thai officials are thought to have quietly allowed refugees discovered within its borders to proceed to Malaysia. That gave the smuggling networks space to flourish, and helped enrich a few corrupt locals (many Thai fishing and seafood businesses have used migrants forced into what amounts to slavery). Malaysians, for their part, have sometimes turned a blind eye to the influx—Rohingyas help make up a shortage of cheap, unskilled labour.

The crisis has highlighted the woeful inadequacy of regional governance and of its main implementer, the Association of South-East Asian Nations (ASEAN)—a talking-shop with minuscule resources and a shared belief in the dubious principle of "non-interference". The region's leaders promise not to meddle in each other's internal affairs, thus helping Myanmar (which chaired ASEAN last year) escape broad censure for its treatment of Rohingyas. It has also allowed ASEAN leaders to sign flowery declarations—such as a convention in 2012 in support of human rights—without having to fear that their neighbours will actually hold them to account. ASEAN leaders mutter that quiet diplomacy is more likely to lead to reform than public hectoring would. They are sometimes right, but often wrong.

Since the start of the year ASEAN bigwigs have been talking up how much more closely bound the region is becoming with the formation of the ASEAN Economic Community, a collection of regional trade agreements which are supposed to take effect by the end of 2015. But attempts to co-operate on tricky social and security issues are lagging far behind. ASEAN was sluggish in its response to the devastation wreaked by Typhoon Haiyan, which struck the Philippines in 2013. So far it has bungled again.

Here be dragons

Richer countries would be in a better position to criticise if they could set high standards in dealing with their own refugee problems. They do not push boat people back to sea. But Europe's approach in the Mediterranean is clearly inadequate; hundreds might have been saved from shipwrecks in April had it kept up spending on maritime rescue. Australia diverts migrant boats before they reach its waters; on May 17th Tony Abbott, its prime minister, refused to criticise his South-East Asian neighbours.

It is tempting for ASEAN countries to think that these weak records excuse their own failure. But by swiftly resettling the rescued migrants, and by better handling Myanmar, a region that tires of Western moralising could seize an opportunity to lead. Many South-East Asians see ASEAN as a tool to enrich its elites, not as a bulwark against egregious abuses and suffering. Here is a chance to change their minds. ■

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Politics

And the law won

BEIJING

The rise and fall of China's civil-rights lawyers says much about the Communist Party's approach to the rule of law

IN DECEMBER 2005 *Asia Weekly*, a Chinese-language magazine in Hong Kong, put 14 Chinese civil-rights advocates on its cover. It hailed them and their brethren in the cause of *weiquan*, or rights protection, as "men of the year" for their brave efforts to advance the rule of law in China. The cover might as well have been a "most wanted" poster. Since then authorities have turned the lawyers into a gang of "criminals" and fugitives.

All of the activists pictured on the magazine's cover have since been imprisoned, detained, beaten or threatened, except for one lawyer who had already fled the country into exile in Canada. The most vocal among them were, as their sympathisers like to put it, "disappeared" by party-hired thugs in extralegal abductions.

It has been a long and hard fall that says much about the Communist Party's chosen path of evolution. Activists seeking to protect the legal rights of ordinary citizens rose to prominence in the early 2000s. At the time the party was trying to professionalise its legal system, to encourage people to seek redress through the courts and to reassure them that their land, their homes or the wealth they were fast accumulating would be safe from local officials who often had scant regard for the sanctity of private property. At first the party tolerated the activists' emergence. It soon lost patience.

Since Xi Jinping took over as China's leader in 2012, he has tightened the noose on them further. The remaining outspoken *weiquan* activists have been jailed or silenced. On May 15th prosecutors in Beijing formally charged Pu Zhiqiang, a 50-year-old lawyer who had been in custody for more than a year, with "inciting ethnic hatred or discrimination" and "picking quarrels and provoking troubles". Mr Pu (pictured above, talking in 2012 outside a court in south-west China) is a giant of the *weiquan* movement; his trial, which is likely to take place in a few weeks, will cast an even deeper chill over like-minded lawyers.

The evidence against Mr Pu includes tweets in which he ridicules Chinese propaganda, calls China's ethnic policies "absurd" and appears to question the legitimacy of party rule. The charges are ironic: Mr Pu made his name defending the free-speech rights of journalists and writers. He can expect to spend several years in jail, a fate already being suffered by other prominent activists such as Xu Zhiyong, a moderate advocate for legal rights, who was sentenced last year to four years in prison for disrupting public order. Gao Zhisheng, a fierce critic of the party who took on politically sensitive clients, has been repeatedly abducted, tortured and imprisoned over the last several years. He was finally released from prison in August but little has been heard of him since.

Mr Xi's apparent determination to crush what little remains of the *weiquan* movement may seem odd. He has been talking up the virtues of the "rule of law", even suggesting that courts should "lock power in a cage". But it is clear that he does not want activists to use this as an excuse to embarrass the party. Lawyers who help citizens stand up to land grabs have a tendency to be liberals with strong misgivings about party rule—even though many, unlike Mr Pu, prefer not to tweet about them.

The party was not always so worried. In 2001 Jiang Zemin, who was then China's leader, made a speech about the rule of law that had the opposite effect of Mr Xi's utterances on the topic: it heralded a more relaxed era for lawyers. That year the Ministry of Justice described Mr Gao as one of the top ten lawyers in China. In 2003 *weiquan* activists felt triumphant after the scrapping of regulations allowing the detention of migrants from the countryside for not having the right papers (one such migrant had been beaten to death in custody). The lawyers' own petition against the regulations may not have been decisive in securing their repeal, but the case inspired the *weiquan* movement. Its lawyers became frequent participants in cases against the bureaucracy filed by aggrieved citizens, and sometimes helped them win.

In the end, however, the lawyers fell victim to their own success. The party became suspicious of their networks, and their rapid deployment at scenes of confrontation with officialdom, such as protests by residents enraged at the bulldozing of their houses by government-backed developers. In 2006 Luo Gan, then China's security chief, urged that "forceful measures" be used against saboteurs of the system who operate "under the guise of *weiquan*". That is when the men on the cover of *Asia Weekly*, already by then under intense official scrutiny, became China's most wanted. President Xi is now finishing the job of locking them away. ■

Propaganda

A mighty mission

BEIJING

An historical documentary uses the past to serve the present

THE Chinese Communist Party does not go up against America's mightiest heroes very often. But this month the latest Avengers film starring comic-book superheroes hit Chinese cinemas within days of "Mr Deng goes to Washington", a documentary on a different kind of superpower alliance—Deng Xiaoping's nine-day trip to America just after the two countries established diplomatic ties in 1979. The Avengers strive to save humans from extinction, whereas Deng must rescue China from poverty. Yet the biopic has diplomatic ambitions too: it seeks to polish the image of China's relationship with America ahead of Xi Jinping's first state visit to Washington as Chinese president in September.

The biopic is part of Mr Xi's campaign to deploy the image of Deng, who ruled China from 1978-1992, to bolster his own position. Last year, for example, a 48-episode drama about Deng was aired on state television. The government did not directly fund the just-released "Mr Deng", but its author and director, Fu Hongxing, used to run the state-backed China Film Archive. During the editing some of the wider geopolitics was reportedly stripped out. A reference in English to the brewing conflict at the time between Vietnam and China is not translated into Chinese.

The film, whose American release date has yet to be set, is aimed at both foreign and domestic audiences and sternly warns that China will not be cowed. "We do not want wars unless others force wars upon us," Deng declares to his American hosts, a statement that could as easily sum up Mr Xi's own foreign policy, which combines lofty rhetoric about the country's "peaceful rise" with increasingly belligerent land reclamation in the South China Sea and provocative action elsewhere. Yet the film also repeatedly stresses how crucial relations with America have been to China's ensuing economic growth.

The film points to a new openness within China about the limits and risk of foreign relations, compared with the tightly scripted meetings and dealmaking the Chinese media generally show. Unusually for a Chinese production, it does not hide how controversial Deng's trip was in America or the opposition he faced both from politicians and the public. Most social-media users have seized on the revelation for the first time in China of an attempted attack on Deng by an American Ku Klux Klan member. Though the assailant had only a can of spray-paint, the film presents him as a possible assassin.

Despite some hagiography, "Nine days in the whirlwind", as the film is called in Chinese, is far better than most party propaganda. Lasting 90 minutes, it skilfully weaves historical with contemporary footage and even makes use of animation (see still, above left). Judged by box-office takings alone, the Avengers defeated Deng with barely a punch. "Mr Deng" took 1m yuan ($160,000) on its first day, meaning that around 28,000 people went to see it, whereas the Avengers' "Age of Ultron" marked China's second-biggest opening day ever, notching up 224m yuan. ■

Trees

Deep roots

BEIJING

Developers raze homes, but preserve trees

IN RECENT years the sight of historic neighbourhoods, their houses often a century or more old, reduced to rubble to make way for grim new structures has been tragically common in Chinese cities. Officials have often appeared to care little about the architecture they destroy and the communities they scatter. Oddly, however, they have just as often made strenuous efforts to preserve one beloved feature of the urban landscape: ancient trees.

The capital, Beijing, the scene of some of the most brutish flattening of traditional housing, boasts that it has the most trees over a century old of any Chinese city: more than 40,000, of which more than 6,000 are at least 300 years old. Many are in the grounds of former imperial palaces, which are well protected, but those in ordinary neighbourhoods are usually looked after lovingly, too. On new roads, traffic sometimes has to weave around them. So sacred are old trees that concessions are made for them even when tarmac is laid.

Officials charged with monitoring the trees' welfare have long toured courtyards and alleyways with tape-measures and callipers, making punctilious handwritten additions to previous years' notes in bulky registry books. Haidian district in north-western Beijing is now trying to make this easier. In December it announced plans to switch to a new "ancient tree electronic identity-card" system for the 14,000 specimens under its jurisdiction. People near trees will be able to use smartphones to read information about them relayed by implanted electronic tags. The tags will also be able to alert police if trees fall or are taken away. The punishment for tree theft can be harsh: six people were sentenced in December to between two and 12 years in prison for chopping down a 900-year-old village tree in Sichuan province to sell it.

Residents often protest vigorously when their homes are demolished to make way for development, but rarely are their pleas heeded. The complaints of tree-lovers, however, are likely to get a more sympathetic hearing. In April a court sentenced the dismissed former mayor of Nanjing to 15 years for taking kickbacks from developers. His troubles began in 2011 when residents protested against his decision to cut down dozens of sycamores.

No poem lovelier

Correction: Our article on farm subsidies ("Bitter harvest", May 16th) said China was providing food for two-fifths of the world's population with a tenth of its arable land. In fact it provides for one-fifth of humanity with that area. This has been corrected online.

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Islamic State

The caliphate strikes back

The fall of Ramadi and Palmyra shows that the jihadists are still in business

FOR months Iraqis were told that Islamic State (IS) was on the way out. In April Haider al-Abadi, the prime minister, declared he had won the "psychological battle" after chasing the jihadists from Tikrit, Saddam Hussein's old hometown. Baghdad residents played pop songs mocking IS on their car radios. But Ramadi's fall on May 15th has punctured that optimism, and the streets are again filled with foreboding. IS is only a short drive away, and also menaces the oil refinery and power plant at Baiji on which Baghdad depends. The news five days later that IS had seized Palmyra, in Syria, heightened the alarm.

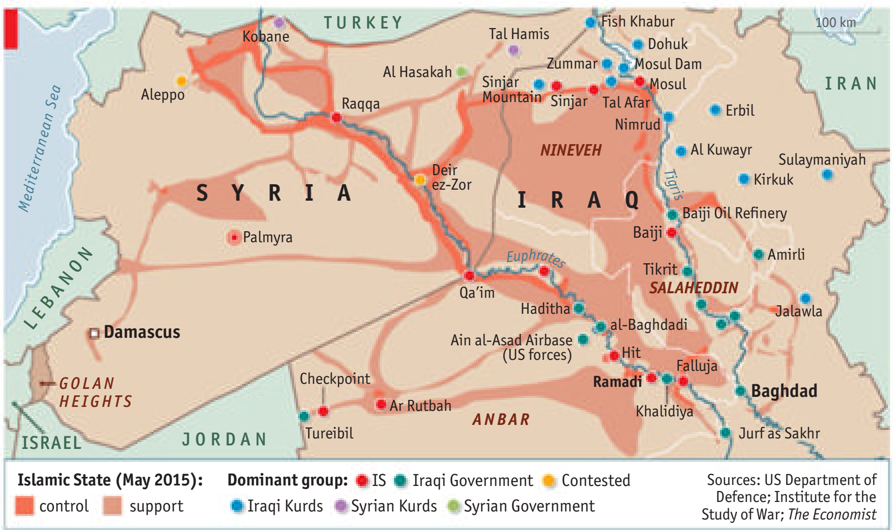
Ramadi, some 110km (70 miles) west of Baghdad, is the capital of Anbar, Iraq's largest province, and was the last remaining city held by the government in the Sunni-dominated region. IS had occupied parts of the sprawling city for many months, but retaining control of government buildings there was a key part of plans to reconquer the province. In the event, the Iraqi army fared no better than when it fled Mosul, Iraq's second city, last June, again leaving large quantities of military hardware behind. A wave of suicide trucks punched through Ramadi's defences, and sent the men who held them running.

After almost a year of American-led bombardment and Iranian-backed ground operations, IS appears unbowed. It has suffered reverses and has lost territory to the Kurds as well as to the Baghdad government and its militias. It has seen some of its commanders, including its deputy leader, killed by American bombs. Air raids have wrecked oil installations it controls, slashing its revenues.

But IS still continues to attract foreign and local fighters. Its deployment of convoys of suicide bombers in 15-tonne trucks renders futile attempts to hold fortified lines. It is pushing forward again in Anbar, the heartland of Iraq's Sunni tribes, and therefore fertile ground for IS, which has drawn much of its support from Sunnis fearful of and marginalised by the Shia-dominated government in Baghdad. And it is also gaining ground again in Syria, on May 20th storming Palmyra. The fear is that it will destroy the site of one of the world's treasures, a Roman-era city, as it has done to other pre-Muslim antiquities.

It is easy to blame Mr Abadi for the Ramadi debacle. But the government's problems are far bigger than the choice of prime minister. Its army is a paper tiger, with commanders who inflate their ranks with ghost soldiers and claim the extra salaries, but who flee when in danger. The mostly Shia rank-and-file soldiers follow their lead, terrified of capture by a ruthless foe that views them as heretics. After overrunning Tikrit last June, IS butchered 1,500 army cadets at Camp Speicher.

Unable to depend on his own forces, Mr Abadi has turned to the Hashid al-Shabi, or "popular mobilisation units", unleashed last June to prevent IS sweeping into Baghdad. These are a conglomeration of some 40 militias, almost exclusively ▸▸



Sources: US Department of Defence; Institute for the Study of War; *The Economist*

Shia and many backed by Iran. Over the past year, they have pushed IS back from the Iranian border and cleared a belt around Baghdad. They are now preparing, along with the Iraqi army, to launch a counter-assault on Ramadi. But the Hashid al-Shabi could prove a double-edged sword. If the Shia militias lose, they weaken Baghdad's best defence. If they win, they may challenge the government for control. Whatever the case, their deployment in Sunni areas risks sparking fresh sectarian bloodletting.

Instead, the Americans and Iraq's Sunni neighbours have encouraged Mr Abadi to arm the Sunni tribes, though so far to little effect. They recall the "Sunni Awakening" of 2006-7 when America's commanders paid, trained and armed Anbar's tribesmen, and within seven months pushed IS's precursors, al-Qaeda in Iraq, out of the province. But the trick will be hard to repeat. The province's 13 main tribes are as divided as they are weak.

Concerned outsiders look on but would rather pass the buck. Jordan is helping the Americans train a small number of Sunni tribesmen but wants the Iraqi government to pay for a proper roll-out. Saudi Arabia is preoccupied with its war in Yemen. America continues to train Sunni soldiers at its Ain al-Asad base deep in Anbar, but pending their deployment has welcomed the militia's intervention, apparently hopeful that the Shia units will succeed where the Iraqi army and the coalition have failed. Putting any more American troops, beyond a few thousand advisers and trainers, on the ground, risks dragging the United States back into ground combat.

For now, IS's leaders seem focused on pursuing tactical advantages, while consolidating their hold on Iraq's predominantly Sunni provinces and winning the battle, through both fear and the supply of government services, for local hearts and minds. Decapitations notwithstanding, their administrators win plaudits for their efficient management, clean streets and timely payment of salaries. They have partially restored electricity to Mosul, refurbished a hotel there and opened Saddam Hussein's palaces for weekend strolls. Debt-burdened Jordan hopes that IS might see a mutual interest in keeping its border crossing open for trade, and even recognises the receipts it issues for import duties as tax-deductible.

The danger is that the IS caliphate is becoming a permanent part of the region. The frontiers will shift in the coming months. But with the Kurds governing themselves in the north-east, and the Shias in the south, Iraqis question the government's resolve in reversing IS's hold on the Sunni north-west. "Partition is already a reality," sighs a Sunni politician in exile. "It just has yet to be mapped." ■

Egyptian football

Red card for the ultras

CAIRO

The sport's most volatile supporters are banned

FOOTBALL, like politics, arouses strong passions in Egypt. Bring the two together and you get a combustible mixture. Add police brutality and you get the explosive atmosphere of Egypt's football league.

Rivalries between opposing clubs are heated. The league was cancelled in 2012 after a brawl at a match in Port Said left 74 dead. (Play was suspended the next year, too.) But the animosity between Egypt's hard-core fans, known as "ultras", and the authorities—who share blame for the Port Said violence—is even fiercer. Matches are now played behind closed doors, without fans, to avoid incidents. On May 16th a court in Cairo tried to stamp out any remaining embers by banning ultra groups.

The case against the ultras was brought by Mortada Mansour, the chairman of Cairo-based Zamalek SC and a supporter of Abdel-Fattah al-Sisi, Egypt's president. Mr Mansour is hated by fans, who doused him with urine last year. He calls the ultras "terrorists". When 22 people were killed in a stampede outside a match in February, fans blamed aggressive police. But Mr Mansour said the ultras provoked the security forces. Pressed for an explanation, he replied: "Ask the Muslim Brotherhood."

Ties to the Brotherhood are often alleged by the government and its allies to discredit opposition. But while some of the ultras are Islamists, their groups (usually linked to clubs) are not associated with the blacklisted movement. That Muhammad Morsi, the ousted president and Muslim Brother, was sentenced to death on the same day the ultras were banned is merely an indication of Mr Sisi's broad crackdown on dissent. Hardened by their battles with

police during the protests that toppled Hosni Mubarak in 2011, some ultras are now "driving the protests against Sisi", says James Dorsey, author of a forthcoming book on football in the Middle East.

Such activism has earned the ultras, who are generally young and urban, a reputation as an organised political force. That is true of some groupings, such as the Ultras Nahdawy, which is not associated with a club and opposes Mr Sisi. But other ultras bristle at this characterisation. "Maybe after the revolution some of us chanted political slogans in the stadium," says one, "but the groups never declared official participation in any political event." Most simply oppose the security forces. "Beyond that, their political views run the gamut," says Mr Dorsey.

The government nevertheless sees them as a threat. Sixteen "ultras fans and Muslim Brotherhood members", as the prosecution refers to them, stand accused of causing the incident in February in order to sabotage a big investment conference. Several members of Nahdawy have been killed by security forces. If the ultras and the Brotherhood are as bad as the authorities say, then half of Egyptians are terrorists, notes one fan. ■

Israel's foreign relations

Contra mundum

JERUSALEM

Israel's new government is running out of friends abroad

FIVE days after Binyamin Netanyahu's government was sworn in, his defence ministry on May 19th issued a directive that had the effect of requiring Israelis and Palestinians to use separate buses when travelling from Israel to the West Bank. The ministry called it an administrative and security requirement; but its own security experts said there was no need for it. In fact, the directive is a result of pressure exerted on Moshe Yaalon, the defence minister, by Israeli settlers who say they are being "harassed" by Palestinians on the buses.

The bus plan was roundly criticised by opposition figures and even by some within the ruling party, Likud. Yitzhak Herzog, the leader of the main opposition Labour party, called it "a stain on the face of the nation and its citizens". A few hours later the prime minister capitulated and told Mr Yaalon to suspend the directive. In any event, the whole affair was a sign of the new government's thinking, which could soon make Israel's relations with the wider world pricklier than ever.

On May 15th Barack Obama admitted in an interview that his administration had ▸▸

Feeling the heat

failed in its attempts to solve the Israel-Palestine conflict. "We worked very hard," he said. "But, frankly, the politics inside of Israel and the politics among the Palestinians as well made it very difficult." Yet despite Mr Obama's apparent acceptance of defeat, he is quietly talking to European governments about their plans to squeeze Israel harder. François Hollande, France's president, wants a UN Security Council resolution to set a clear timetable for negotiations leading to the establishment of a Palestinian state. Mr Obama has asked France not to pursue its initiative until a deal is signed with Iran curbing its nuclear programme, which he hopes will be by the end of June. But he is not insisting that it be abandoned.

The American administration lacks the stomach for more than one diplomatic crisis with Israel at a time. An accord with Iran will be followed by a showdown in Congress, where Israel's many supporters will try to scupper the deal. In the meantime, the French are gathering support from Arab and European governments. The resolution is expected to call, among other things, for Jerusalem to serve as the capital of both Israel and Palestine. On May 17th Mr Netanyahu ruled that out. At an event marking the anniversary of the six-day war of 1967 and Israel's occupation of East Jerusalem and the West Bank, he said that "Jerusalem has forever been the capital of only the Jewish people and no other nation." Though America in the past has routinely vetoed such resolutions, there are fears in Israel that Mr Obama this time may be preparing to abstain.

Israeli diplomats' lament their country's diminished international standing. "They used to talk to us, now they're talking about us with others", is a typical complaint. Whereas France has discussed its UN proposal with the Americans, the Arab League and the Palestinians, Israel learnt of it only at second-hand.

Alongside the French plan, the EU is holding another threat over Mr Netanyahu's head. A feeling in Europe is growing that future Israeli announcements of further Jewish settlement-building on the West Bank should be met with retaliatory measures. For a start, the EU may insist on labelling Israeli products made in the settlements. Next, it may put limits on European finance for joint research. The EU high representative for foreign affairs, Federica Mogherini, was in Jerusalem as *The Economist* went to press, hoping to persuade Mr Netanyahu to clarify his plans. He told her that "I support the vision of two states for two peoples," a question on which he has been Delphic of late; but that is far from a commitment to anything.

The Palestinians have been piling on the pressure, too. On April 1st Palestine officially joined the International Criminal Court (ICC), opening the way to the possible indictment of some Israelis for war crimes. And Jibril Rajoub, head of the Palestinian Football Association, is calling for a vote to suspend Israel from international football tournaments, including the World Cup, over claims of harassment and violence suffered by Palestinian footballers and their clubs. Neither step is likely make much practical difference in the near future. Sepp Blatter, president of FIFA, football's governing body, was in the region this week. He was hoping to persuade the Palestinians to withdraw the vote and was keen on an Israel-Palestinian "peace match". At the ICC the wheels of justice grind slowly. But Israel feels as if it is under intensifying diplomatic siege.

Some outsiders hope that a bit of pressure will spur Mr Netanyahu to adjust his right-wing coalition, bringing Labour into the government with Mr Herzog as foreign minister. But from the tone of his government's first week, Mr Netanyahu is currently facing in the opposite direction. ■

Refugees in Lebanon

Outstaying their welcome

MASNAA

The Lebanese may be losing patience with exiled Syrians

FOR the past year Lebanese security forces have been making life increasingly hard for refugees from Syria, particularly males of military age. The state news agency has recently run articles under headlines such as "53 Syrians arrested in Zahle," "Army raids Syrian refugee camp in al-Rahma" and "Army arrests 58 Syrians in Bar Elias"—referring to places close to the border with Syria. The charges range from "belonging to a terrorist group" to letting residency papers expire. Some refugees say that those arrested are never heard from again. Since a security crackdown began last year after a succession of car-bombings in Lebanon was blamed on Syrian jihadists, around 2,000 Syrians are thought to have been detained.

For decades Syrians and Lebanese could cross the frontier with only a national identity card, sometimes needing not even that. But now Syrians must be sponsored by a Lebanese citizen or pay $200 for a six-month residency permit, requirements that many refugees arriving with virtually nothing find hard to meet.

All the same, they have flooded in. Syrians now make up a third of Lebanon's population, which was 4m before the war, making it the country with the largest proportion of refugees in the world. The UN's High Commission for Refugees has registered more than 1.1m. The true number may be almost twice as big.

On May 6th the UN agency stopped registering new refugees on orders from the Lebanese government, which has anyway never let refugee camps be officially set up, mindful of the trouble caused in the past by Palestinian ones that became hotbeds of militancy and were blamed by many for stoking the Lebanese civil war of 1975-1990. ▸▸

The authorities in dozens of Lebanese towns have imposed curfews.

At the Masnaa border crossing on the road between Beirut and Damascus, the two countries' capitals, many Syrians whose residency permits have expired are tricked into leaving, falsely assured that they can get another stamp and walk back in. In fact, they are being deported. Once in no-man's land many try to bribe their way back. Nadim Houry, Beirut director of Human Rights Watch, a monitoring outfit, says that the high residency fees and blurred guidelines confuse the refugees. "In effect, more Syrians are being pushed into losing their legal status," he says.

After Lebanese soldiers recently raided a camp outside Bar Elias, a town near the border, hundreds of Syrian men disappeared for fear of arrest. "The army always comes before dawn and kicks our doors in," says Umm Saleh, whose husband was arrested two weeks ago. He has not been heard from since. ■

The African Development Bank

Risk on

The bank that ought to say yes

BY THE standards of global banks this one is a tiddler. With total assets of just $33 billion the African Development Bank (AfDB) is little bigger than the Bank of Oklahoma, America's 38th-largest. The proposed Asian Infrastructure Bank, whose founding members met this week, will likely be larger at birth: it expects to start out with authorised capital of $50 billion. Yet the AfDB, a multilateral bank owned mainly by African countries, is the biggest financier of infrastructure on a continent that is desperately short of roads, rails and power plants. And since it is African, it has licence to criticise governments and suggest policies that may otherwise be shrugged off if they came from institutions such as the World Bank or IMF.

The AfDB has had a troubled history. Two decades ago it almost went broke because of poor management and dud loans. In 2003 it was forced temporarily to decamp from its headquarters in the Ivory Coast because of civil war there. But the past decade has treated it more kindly. Under the able leadership of Donald Kaberuka, a former finance minister of Rwanda, its finances have improved. So too has its standing. Its shareholders ponied up in 2010 to increase its capital and to support its plans rapidly to step up lending, mainly for infrastructure. And during his two terms as president Mr Kaberuka has chivvied African members to improve governance and lower barriers to trade. At its annual meeting on May 28th the bank's shareholders face a difficult task in choosing a worthy successor to him.

Unlike some other multilateral institutions such as the World Bank or the IMF, where the top jobs are jealously guarded by the biggest shareholders, the AfDB runs a remarkably open selection process, at least on the face of it. A shortlist of candidates has been produced and shareholders will whittle these down in successive rounds of voting. Three front-runners have emerged: Akinwumi Adesina, Nigeria's agriculture minister; Cristina Duarte, the finance minister of Cape Verde; and Thomas Sakala, a Zimbabwean and AfDB veteran, who has the backing of South Africa.

Of the three, the smooth-talking, bow-tie-sporting Mr Adesina has the more ambitious plans for the bank. Counting against him may be his nationality. Although Nigeria has a 9% vote, the bank's smaller members generally tend to vote against candidates from the continent's biggest economies out of fear they may be bullied by them. Nigerian candidates have lost out twice before. Mr Adesina's platform may disarm some critics. Among his proposals is to have the bank take more risk and lend to smaller and needier countries. For the moment the AfDB's focus is slanted towards financing infrastructure in big, creditworthy countries such as Nigeria and Kenya that could easily raise money in private markets. Such conservative lending may have made sense when it was trying to restore its credit rating, but the AfDB should now concentrate on filling gaps left by private investors.

One way of doing that could be to use its balance-sheet to help take on some of the risks that private markets find difficult to price. These would include the political risks of, for instance, governments expropriating privately-funded infrastructure or changing the rules over the returns they can earn. Whoever wins the race, the new boss should say yes a lot more. ■

Burundi

Good coup, bad coup

NAIROBI

One of the oldest dynamics in African politics may be changing

IS THERE such a thing as a "good coup"? For decades the sight of armed men arriving at the gates of an African presidential palace spelled disaster. But recent coups in Burundi and Burkina Faso have, if not upended, then at least complicated attitudes to coups.

In Burundi, a group of generals declared the president, Pierre Nkurunziza, dismissed while he was out of the country on May 13th. They acted in support, as far as is known, of groups protesting against an attempt by the president to ignore constitutional term limits and stand again in elections next month. Loyalist forces regained control after two days and the president returned.

But the coup attempt has further increased pressure on the president to step down. Leaders in neighbouring countries are suggesting, at the least, that the presidential election be delayed in order to sort out the mess. Blood-letting has so far been minimal. That could change. But the mutinous, if unsuccessful, plotters may have done their country a service.

A coup in Burkina Faso last October is another example of a potentially useful political intervention by armed forces—even if far from ideal in a democracy. President Blaise Compaoré was chased from power by his own guards when he too tried to ignore term limits. New elections are scheduled for October. If they go well and if Burundi returns to stable rule, African heads of state may have to countenance a new political dynamic.

A force for good?

One reason for it may be the growing professionalisation of the continent's armies. After years of American training, many have become more sophisticated and possibly less brutal. The Pentagon has invested in skills, even when African governments really just wanted arms. That approach failed in Mali, where a coup in 2012 was led by an officer who had been on four separate training courses in America. But that is beginning to look like an exception.

The Economist

SPECIAL REPORT
INDIA
May 23rd 2015

Modi's many tasks

Modi's many tasks

Narendra Modi has grand ambitions for his country, and self-confidence to match. But he has yet to show how he will deliver, says Adam Roberts

YOU WOULDN'T KNOW by looking at scruffy Vadnagar that it has a famous son. Tourists occasionally visit the walled part of the Gujarati town for its ornate wooden doors and balconies. A pair of stone gateways hints at a history stretching over two millennia. The town claims a mention in the Mahabharata, a saga of ancient India.

The railway station is single-track. Next to it, where the celebrity's father once ran a tea stall, is a motorbike-repair shop. Over the road is his modest, whitewashed former school. Only in a street nearby, beyond a Sufi shrine, do you find hints of the great man. Neighbours all introduce themselves with the same surname: Modi, Modi, Modi.

Most of them recall something of the childhood of Narendra Modi, such as when he brought home a baby crocodile from a lake. They speak with respect more than fondness. He rarely helped his father with the tea stall. Friends from the school recall that he liked theatre and insisted on taking the part of a king. From childhood his passion was politics, and he soon joined the Hindu nationalist Rashtriya Swayamsevak Sangh (RSS) movement. A fellow RSS member recounts a playground scrap with Muslim rivals. A neighbour attended his teenage wedding. An unwilling groom, he soon fled town, leaving his wife behind. He rarely goes back.

This report is about the country of which Mr Modi became prime minister a year ago, and its nearly 1.3 billion people. Vadnagar is a useful starting point for understanding India today and making sense of his plans for the next 10-15 years. Even that time scale implies ambition. Elected politicians usually look no more than five years ahead. But this 64-year-old has never lost an election, and after the landslide victory in May 2014 that propelled him into the top job he made a triumphal speech insisting that "ten years is all that is needed" to modernise India. By 2022, the 75th anniversary of India's independence, it will be clear that this is "India's century", he says. Sit with him and you come away impressed by an intensely driven outsider determined to leave his mark on national affairs. He can sound arrogant, vainglorious or hubristic. More than any Indian prime minister since Indira Gandhi, he personally embodies power. Last year's parliamentary election pitted his Bharatiya Janata Party (BJP) against the incumbent Congress Party, plus regional parties, in 543 constituencies. It became a presidential contest in which Mr Modi, an ener- ▸▸

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Missing map? Sadly, India censors maps that show the current effective border, insisting instead that only its full territorial claims be shown. It is more intolerant on this issue than either China or Pakistan. Indian readers will therefore probably be deprived of the map on the second page of this special report. Unlike their government, we think our Indian readers can face political reality. Those who want to see an accurate depiction of the various territorial claims can do so using our interactive map at **Economist.com/asianborders**

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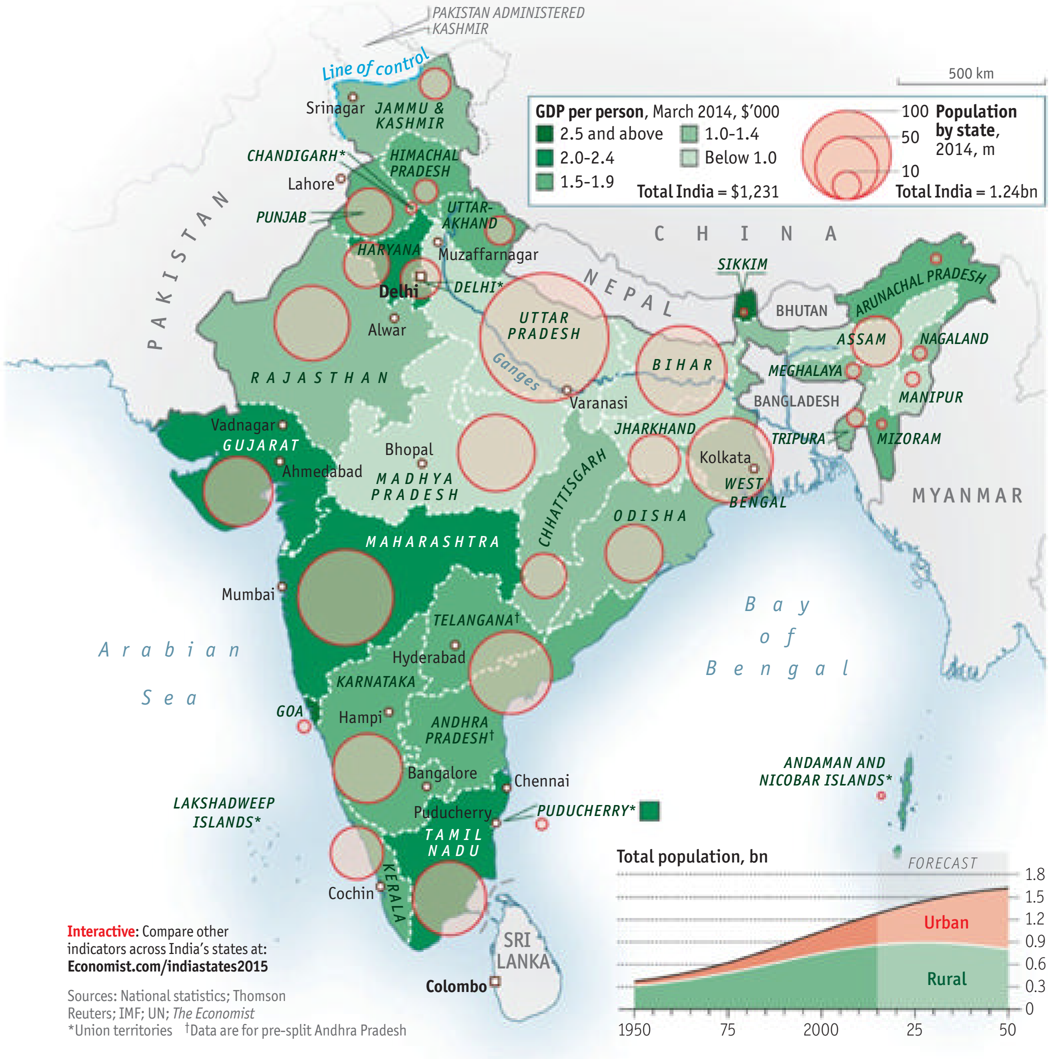
A list of sources is at **Economist.com/specialreports**

An audio interview with the author is at **Economist.com/audiovideo/specialreports**



Interactive: Compare other indicators across India's states at: **Economist.com/indiastates2015**

Sources: National statistics; Thomson Reuters; IMF; UN; *The Economist*
*Union territories †Data are for pre-split Andhra Pradesh

getic campaigner and charismatic speaker, steamrollered rivals. Congress, weakened by years of corruption scandals, poor leadership and slowing economic growth, failed to put up much of a fight. The media mostly fawned.

A Modi election delivered a Modi government. He appointed nonentities to many ministerial posts and is keeping the more impressive ones on a tight leash. It was Mr Modi, rather than Arun Jaitley, the finance minister, who crafted many details of the budget delivered in February.

During 70-odd interviews conducted for this report, including many with enthusiastic supporters, it was notable how often (and unbidden) words like "megalomaniac" and "authoritarian" were used to describe him. But Mr Modi's ego seems easily big enough to leave him untroubled by such views. For a visit in January by America's president, Barack Obama, he wore an expensive-looking navy blue suit with pinstripes made up of his name, repeated hundreds of times, stitched in gold thread.

One of the ways he has made his presence felt is by cutting bureaucrats down to size. He sacked the heads of the finance, home and foreign ministries soon after coming to office. That may have been necessary, since many civil servants have resisted reforms, but his style has spread dismay. He dominates his government but has struggled to silence members of the RSS as well as Hindu-nationalist-inclined members of his own administration who try to spread religious discord.

This report will explain how he uses the power he has accumulated, and how India is changing on his watch. It should be noted, however, that the country was already in the throes of considerable structural upheaval before he took over, including broad demographic change. Southern Indians are relatively old, urban, educated and middle-class and have ever fewer children. Similarly, Indians living on the west coast are becoming more like people in South-East Asia, both socially and economically. Largely because of those changes in the south and the west, India's total population should reach replacement levels of fertility (an average of 2.1 children per couple) before 2020. That will be a historic turning-point, though there is so much momentum elsewhere that the population will keep on growing for quite a while, peaking at about 1.64 billion in 2065.

Much of that growth will be in the north. In landlocked states like Uttar Pradesh and Bihar (which between them have over 300m people, almost as many as America) people remain mostly poor, rural and ill-educated, and have larger families. Their problems are similar to Africa's. Public hygiene is poor and many treatable diseases linger. The economy relies heavily on rain-fed farming, and electricity is in short supply. Women, girls and female fetuses are discriminated against. Add religious clashes and the menace of Maoist revolutionaries in rural pockets, and it is no wonder that southerners can sound exasperated by their northern kin.

But there are common trends too, most of them uplifting. One is a steady stream of people moving off the fields. Over the next 40 years about 11m extra people a year are expected to push into Indian towns and cities. As a consequence, demand for non-agricultural work is growing. By one estimate, India needs to create 10m additional jobs a year to employ a youthful and increasingly literate population.

The virtues of impatience

Indians everywhere are becoming more demanding. Consumers expect better phones and internet connections, a chance to own a scooter or take a holiday. They want education, hospitals and reliable power. A vocal minority worries about a toxic environment, complaining of rivers like sewers and urban air thick with deadly particles from bad fuel.

Voters are now holding politicians responsible for things they can control, such as corruption or economic prospects, and even those they can't, such as rainfall that damages crops and puts up the price of onions. Voting by religion or caste has not yet disappeared. But the young, urban and educated treat their politicians as they might a phone supplier: if the service is disappointing, they switch.

That impatience is a wonderful thing. Politicians are now pressed to deliver or get ejected, even sent to jail if found to be corrupt. Voters increasingly expect them not just to dole out a few freebies but to create conditions for their lives to become materially richer. They can see that many other countries are better off than theirs. Talk of a $2 trillion economy sounds good, but income per person in 2014 was still only $1,627, according to the IMF. (National statistics, shown on our map, use a different basis and put it at $1,364.) And inequality is rising. Credit Suisse last year counted 182,000 dollar millionaires in India. A far wider circle than that needs to prosper.

A year is time enough to ask how Mr Modi is beginning to shape the country. The first thing to note is that he is doing what he knows, applying the methods that worked for him in Gujarat, where he ruled for a dozen years. To his mind, effective political leaders are much like chief executives. He models himself on Singapore's business-minded first prime minister, the late Lee Kuan Yew. In conversation, he praises the Singaporean for his "enormous work". Like Mr Lee, he sets goals with dates attached, decides how they are to be implemented and monitors progress. At times he micromanages.

Promises, promises

Modi's main pledges

Goal	Target date	Comment
Open 75m bank accounts	*Jan 2015*	150m accounts opened by mid-April, mostly in state banks. Over 85m of these contain no funds
Unique identity number for all	*2015*	1bn people to have a unique digital identity number, linked to biometric database. 850m enrolled so far
Introduce goods and services tax	*Apr 2016*	Requires constitutional change. Chances of missing the deadline are growing
Build 30km of roads daily	*2017*	Current rate 10km a day. Unlikely to rise much without big injection of funds
Reach top 50 on "ease of doing business" ranking	*2017*	Current World Bank ranking of 142nd is so awful that a big gain is all but certain, yet even reaching the top 100 will be difficult
Build 100m toilets	*2019*	Half of all Indians defecate in the open. Reducing that will depend most on changing attitudes. Public-health spending too low at roughly 1% of GDP
Eradicate tuberculosis and measles	*2020*	Follow-on from elimination of polio in 2014. Requires big general push on public health and immunisation
Build 100 smart cities	*2020*	Insufficient first allocation of $945m for project, but welcome push on town planning
100m new manufacturing jobs	*2022*	"Make in India" plan to lift manufacturing's share of the economy from 16% to 25%. Requires labour, land and power-supply reforms
Housing and electricity for all	*2022*	Build 65m new houses, mark 75 years of independence by clearing all slums. Unlikely without rapid, sustained economic growth

Source: *The Economist*

The taskmaster

Given Mr Modi's predilection for tasks, *The Economist* has compiled a list of 30-odd official pledges announced in the past year to outline his government's ambitions. A selection appears in the table above; the full list is available online. All have deadlines attached to them. Around half the tasks are meant to be completed by the next election, in 2019. Others are for later, so it will be some time before Mr Modi's mission can be declared a success or a failure.

He occasionally praises small government, but the list contains a striking number of big tasks for the state. Half of the goals involve grand, state-heavy expansion, including a commitment for state banks to open millions of new accounts, as well as building 30km (19 miles) of new roads every day between now and 2017, 100m toilets by 2019 and 100 new "smart cities" by 2020.

Only a few tasks are about streamlining officialdom or creating conditions for private businesses to thrive. These include a plan for a national goods and services tax, meant to be introduced by next April but likely to be delayed; getting ranked in the top 50 of the World Bank's "ease of doing business" index by 2017; and relaxing the visa regime to attract 11m foreign visitors a year by 2018. A more liberalising government might have aimed to sell off dozens of state-run firms (as an earlier BJP government did) or pressed for an easing of labour laws across the country.

Mr Modi is interested in concrete things like infrastructure and defence hardware, leaving more intangible matters like education, health and the environment to others. Public spending on health suffered cuts in this year's national budget, even though the country's health-care system is vastly underfunded. On the plus side, the government has set targets for improving the skewed child sex ratio, eradicating tuberculosis and measles and immunising 90% of children against a host of diseases.

Education is not receiving enough attention. India's abundance of young workers is not automatically an advantage: what the country needs is people with better skills at every level of organised employment. Mr Modi's list includes a dizzying target to provide vocational training for 500m people by 2022, but he has said almost nothing about improving higher education. He should aim for more competition and investment in that field.

Mr Modi understands projects. "He ran a government of events in Gujarat; it was exhausting," says a man who knew him well in Ahmedabad. Setting out a list of specific tasks to be ticked off can be a good idea, but it is an operating mode more appropriate for a chief minister than for a transformative prime minister. The most successful leaders create the right conditions so that others can achieve ambitious goals. Mr Modi's government needs to push broad reform, not just individual targets. The main constraint to that is usually politics. That is the area where change under Mr Modi has been perhaps the most radical. ■

Politics

How to run a continent

Mr Modi is accumulating power at the centre, but also devolving a fair amount to the states

INDIA IS A continent masquerading as a country. Like America, it is a federation that divides power between the centre in Delhi and 31 states with their own elected assemblies and rulers (five more "union" territories are run from the centre). It has a national parliamentary system where the lower house matters more but the upper one has veto powers. And it is saddled with a bureaucracy that can stifle reformist politicians, though it also has an assertive judiciary, pushy media and lots of activists.

Until recently one institution looked chronically weak: the prime minister. The previous incumbent, Manmohan Singh, was timid and allowed his boss in the Congress Party, Sonia Gandhi, to wield power behind the scenes. "The truth is, nobody was in charge," says a former cabinet minister. Now Mr Modi dominates, drawing strength from his emphatic national election victory in May last year. His Bharatiya Janata Party (BJP) won 282 of 543 seats in the lower house, the first overall majority ever for a party other than Congress.

The "Modi wave" of electoral success had started earlier, and continued later, with strong performances in several states beginning in December 2013 and carrying on for a year. On its own, the BJP now runs eight sizeable states with one-third of India's population. Add in states governed with or by allies, and that tally rises to 13 states and 41% of the population.

Congress, long the chief national force, has been the main loser: it now controls nine (mostly small) states with only 12% of the population. It could well also lose elections in Assam and Kerala next year, leaving it to govern barely 7% of India's people. Karnataka may well go the same way in 2018, all but eliminating the party in important states. Mr Modi talks of creating a "Congress-free India".

Congress's structural decline began in the states, but was partly concealed by its successful decade at the national level that ended last year. Eventually the rot from below worked its way up: one reason for its national defeat last year was the loss of its main power base in Andhra Pradesh (AP). So far the party has recovered none of its standing.

The general election was a catastrophe, with the party getting just 44 MPs, but it is still not sure exactly what went wrong. Jyotiraditya Scindia, a young Congress leader, asks ruefully, "What didn't go wrong?" Jairam Ramesh, a more senior figure, worries that Congress is on the verge of irrelevance.

Part of the answer is poor leadership. Rahul Gandhi, scion of the Nehru-Gandhi dynasty, is poised to take over, but regularly proves himself incapable. He retreated from public life for nearly two months of this spring's important budget session of parliament, going abroad to "introspect". That would have been a sacking offence for most politicians, but his mother, Mrs Gandhi, wants him to run the family business. Ramachandra Guha, a historian in Bangalore, says that the party is "definitely finished" and that "everyone knows that Rahul is a dud." Mr Gandhi's more charismatic sister, Priyanka, is sometimes mentioned as a better bet; she is decisive and assertive, reminding many of her grandmother, Indira Gandhi. But her husband, Robert Vadra, has had to fend off allegations of corruption, which have cast a shadow on her.

For now Congress's main strength lies in retaining control of the upper house of parliament, where it can block bills sent by Mr Modi. But a third of its members are replaced every two years, with new ones appointed in proportion to the parties' strength in relevant state assemblies, so the BJP's heft in the upper house will steadily increase. Eventually Mr Modi's party should control both houses and be able to pass bolder laws, though that could take two years or more. In 2017 the prime minister will also have a say in who becomes president, a mostly ceremonial post that occasionally matters. So even if Mr Modi loses popularity, he may become more powerful.

But it is a firm law of Indian politics that if things appear to be going swimmingly, a potential disaster is already lurking. In February the BJP was thrashed in polls in Delhi, winning just three of 70 seats. An upstart movement, the Aam Aadmi (Common Man) Party, led by an anti-corruption activist, Arvind Kejri-

Hindus to the fore

Religious pluralism is looking less secure

UNDER A MANGO tree in Varanasi two dozen men parade in white shirts, black caps and khaki shorts, a uniform modelled on Baden-Powell's Scouts. They salute a flag, completing a *shakha*, a morning meeting of the Rashtriya Swayamsevak Sangh (RSS). Resurgent Hindu nationalists have perhaps 5m members nationwide, their numbers lifted by Mr Modi's success. The rank and file adore the muscular leader who was a long-term *pracharak*, an RSS preacher-monk.

The group used to talk about its cultural and social aims. Now leaders are quite frank about political motives: last year millions of RSS volunteers brought out voters for the BJP, trumpeting the nationalist slogan, "One India, great India". Among the men this morning (women are not welcome) is Indresh Kumar, in a bulging blue waistcoat. He oversees the RSS's relations with Muslims, Christians and other minorities. Data from the 2011 census, when finally released, will show that about 20% of Indians are non-Hindu, up slightly on a decade earlier.

Mr Kumar says that "society should be harmonious, above caste or religion." The big worry about Mr Modi is his history of allowing, and exploiting, disharmony. In Gujarat pogroms on his watch in 2002 killed over 1,000, two-thirds from the small Muslim population, as police stood by. After that Mr Modi campaigned for election by stirring more hostility to Muslims, saying they had too many children. Gujarat has otherwise remained calm, but is more polarised than most of India.

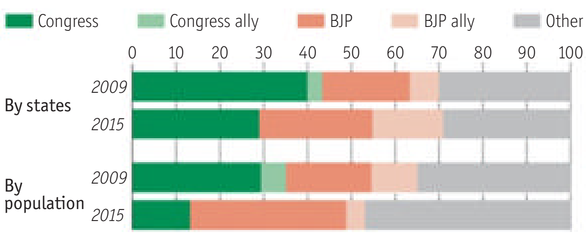
Religious violence is rarely spontaneous: politicians stir it up to exploit it. It flared in late 2013 in Muzaffarnagar, Uttar Pradesh. Jat-Hindu landowners and Muslims clashed, killing over 40 and displacing tens of thousands. Yet last year Mr Modi appointed a BJP figure who had been accused of a role in the clashes, Sanjeev Baliyan, as a junior minister. The Election Commission banned Mr Modi's closest confidant, Amit Shah, from public campaigning after he had urged Jats in Muzaffarnagar to seek "revenge" at the ballot box. Mr Shah is now the BJP's president.

Various Hindu nationalist groups, collectively known as the *Sangh Parivar*, are throwing their weight around. Mohan Bhagwat, the RSS chief, says that anyone from Hindustan must admit to being Hindu and that Christians, including Mother Teresa, who worked with Kolkata's poor, are aggressive missionaries. Hindu nationalists rant about "Love Jihad", accusing Muslim men of seducing and converting Hindu women, but that is nothing new. Leaders from the *Sangh* tell Hindu women to have at least four, ideally ten, children, to keep up the numbers. A campaign called *ghar wapsi* (homecoming) aims to convert non-Hindus to their supposedly original Hindu identity. In April Hindu extremists in Maharashtra said non-Hindus should be sterilised or denied the vote.

Most of this is nasty talk, not taken seriously, but worryingly it is echoed by people in government. A junior minister in

Congress conquered

Governing party of Indian states, % of total



Sources: Election Commission of India; national statistics; *The Economist*

Prepared for leadership

November told a rally in Delhi that non-Hindus were "bastards". She kept her job. Smriti Irani, the education minister, said schools should stay open on Christmas Day. The home minister, Rajnath Singh, one of many (like Mr Modi) from the RSS, wants a nationwide ban on eating beef.

The prime minister himself has said nothing offensive, but has conspicuously failed to speak out against his colleagues' hate speech. That may be because he will want the RSS's help again in future elections. "He cannot afford to be more mild than this, he will lose," says an old acquaintance. Some suspect that, in private, he agrees with the thugs. He did give one notable speech on religious tolerance and co-operation in February, but only after the BJP lost badly in Delhi and Barack Obama, who had just visited, had cautioned against society "splintering" on religious lines.

There is no sign of that, and other parties have also presided over religious clashes. As Ramachandra Guha, the historian in Bangalore, puts it: "We shouldn't be apocalyptic, we are not going the way of Pakistan. But religious pluralism is hard-won, and you can never be fully secure."

wal, won a landslide victory. The result owed something to special circumstances, but probably reflected a wider perception that Mr Modi had frittered too much time on travelling abroad and not delivered on promised economic improvements. "He lost because of arrogance," says a friend of nearly three decades. In fact the BJP's share of the vote, at 32%, hardly declined. The decisive factor was that all other voters, including former Congress ones, united behind Mr Kejriwal.

The question is whether such a defeat could be repeated in more important states. A test looms in Bihar (population 102m), with an election that will probably be held in October. The BJP had hoped it could win this, yet Bihar's chief minister, Nitish Kumar, who runs a regional party, has joined other regional party leaders in an anti-BJP front. That unity may not be easy to sustain, but if it works in Bihar, then other states could follow.

Against that, the prime minister's camp has enjoyed a fairly smooth ride in the media so far. India's press and its screechy TV stations have not been particularly hostile. Mr Modi anyway likes to bypass them. He has not appointed a press spokesman, preferring one-way communication with his 12m followers on Twitter. But he does give the occasional interview, including one to *The Economist* for this report.

Longer-term trends seem to be working in the BJP's favour. The electorate is increasingly urban, educated, connected and hungry for jobs, and therefore less interested in welfare pledges from Congress and more responsive to Mr Modi's aspirational talk (though Mr Kejriwal's populist promises of cheap power and water also ring a bell). Mr Modi's organisation on the ground looks strong, too, drawing on an army of Hindu nationalist volunteers. In April the BJP claimed its hundred-millionth member, though not everyone believes that number.

Conversely, rural voters might turn against Mr Modi, and regional figures like Bihar's Mr Kumar could pose more of a threat. Their collective popularity, unlike that of Congress, is stable. At every general election since 1996 regional parties together have won roughly half the total vote, a pattern repeated last year.

Gonna be a devolution

Intriguingly, just as Mr Modi is accumulating power nationally, he is overseeing the devolution of some of it to the states, prompted, he explains, by his recent experience as chief minister. One of his early decisions as prime minister was to scrap Delhi's Planning Commission, a relic of Soviet-style centrist policymaking. It created rigid national schemes in fields such as education, rural jobs and urban renewal which required the states that implemented them to put up significant funds. The states felt disempowered.

The commission has now been replaced with a less powerful think-tank, Niti Aayog, leaving the states with more discretion over what they spend. They will also have more money, thanks partly to a new rule that entitles them to all funds from the sale by auction of natural resources. Favoured states have been urged to experiment with liberalising their economic policies. Rajasthan, Madhya Pradesh and a few others are making a start by easing labour laws.

The process has been dubbed "competitive federalism": states are meant to compete for capital and talent (a process China has managed without the federalism). Arvind Subramanian, the government's chief economic adviser, calls it a "real watershed". Individual states, he points out, are often better run than central government. Mr Modi says that "a one-size-fits-all approach does not work in India."

Even more important, Mr Modi signed up to proposals by India's 14th Finance Commission that gives state governments 42% of central tax receipts, up from 32%. Mr Subramanian says that, taking into account all tax receipts, the states now control 62% of the total. Though they have lost some funds that used to be doled out by the old Planning Commission, they have more autonomy than before. Jayant Sinha, the junior finance minister, sees a "very big change for state-centre relations". Chandrababu Naidu, chief minister of southern AP, notices a welcome shift. Baijayant "Jay" Panda, an MP from Odisha, a small eastern state, says that "states have different needs, so the shift of discretionary spending is huge."

A well-connected businessman thinks Mr Modi has shown "a genuine instinct that India can't be run from Delhi, it's his really big idea." But Mr Modi also has a strong motive for courting state leaders just now. He plans to change the constitution to push through a nationwide tax reform, bringing in a goods and services tax (GST). That will require support from two-thirds of both houses of parliament, as well as backing from most states. Proposals for a GST, a form of sales tax, have been lingering for years. Its introduction would mark a welcome political and economic shift, removing barriers, freeing internal trade and spurring state competition. Onno Ruhl, who heads the World Bank's office in India, calls it "an excellent test of how to challenge vested interests". But it is sensitive because it will deny states their most important direct source of revenue. States currently get some funds from the centre but also raise money by taxing fuel, alcohol and other goods at their discretion. ■

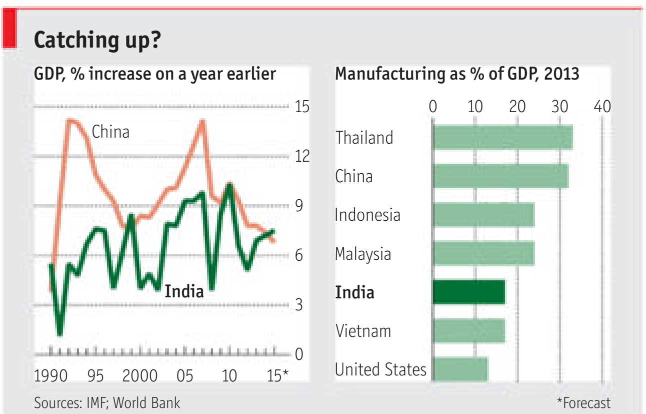
The economy

Uncurl the body

India needs to learn to trust markets more

THE SCREAMS BEGIN most mornings at 9am. Elderly men and women in a Delhi park hold their arms in the air and shriek, then laugh. After years of observing the pensioners from his office window, your correspondent one day joins them. "Open your lungs," the team leader instructs. "Laughter is good exercise for the internal organs, the lungs, the heart." A woman as old as independent India (it turns 68 in August) explains: "We are not young in age, so we get stiff and need to uncurl the body."

India needs to clear its own internal blockages. In the language of laughter, it has tended to respond with discreet giggles: a series of incremental changes. Its economy did enjoy a boom in the early years of this century, with high investment and rapid growth, in spite of decades of over-regulation, state domination of many sectors, including banks, and a lingering scepticism about markets. But now it needs to uncurl the economic body properly with much bolder reforms. Many had hoped Mr Modi would set these in motion, but so far he has done little, even though his whopping mandate would allow him to push through any measure he wants.



He has paid too little attention to the economy. The two budgets he has overseen so far have lacked an unambiguous thrust for growth, despite some welcome initiatives. Nor did he appoint a strong figure with reformist credentials as finance minister. He might have chosen Arun Shourie, a former privatisation minister who sold many state-run firms, but instead he picked a deferential loyalist lawyer, Arun Jaitley.

Mr Modi is not at heart a liberaliser. In Gujarat he proved himself as a rigorous manager who excelled at implementing projects to boost investment. He got public-sector firms to run better. He is pro-business, but not necessarily in favour of more market. He is attracted to East Asia's development model, with a powerful role for the state. Gurcharan Das, an astute and supportive observer and author of a book on reforming India's economy, calls him a moderniser more than a reformer. Another man, who worked closely with him in Gujarat, notes that "he galvanises government machinery, he doesn't reform it."

When Mr Modi was voted in, he lifted confidence merely by ejecting the previous government, which had been mired in corruption and famous for indecision. Macroeconomic conditions also started to improve around the same time, notably with a sharp fall in inflation. Austerity policies introduced under the previous government were kept going, which helped reduce the big fiscal deficit. Since 2013 monetary policy has been run by a respected central-bank governor, Raghuram Rajan. As a big oil importer, India got lucky when crude prices slumped—a "$50 billion gift" to the economy, as Mr Rajan has said.

As a result, short-term prospects look promising, certainly brighter than in most emerging markets, or in India itself a couple of years ago. The central bank is trimming rates (though banks have been slow to pass on the cuts), and India is setting up its first inflation-targeting regime. Exports have done badly, but thanks to cheaper oil and lower import costs the current-account deficit is no longer scary. The rupee is stable. In January government statisticians released a new series of GDP figures which seemed to suggest that the economy has been growing by 7.5%, up from around 5-6% in recent years and faster than China's.

Slow going

Yet other indicators do not support that rosy assessment. Industrial production is anaemic, credit and investment are barely growing, construction is slow, few jobs are being created and consumer demand is limp. On the ground, not much is moving. In April Ratan Tata, the former boss of Tata, India's biggest conglomerate, had to chide the grumblers not to be "disillusioned so fast" with Mr Modi.

It would be easier to believe talk of rapid growth if there were a stronger story of reforms to tell. Defenders of the government say other things matter more: reducing the fiscal deficit, making government more efficient, improving the business climate. Jayant Sinha, the junior finance minister, admits that the economic mood is flat, but says that restoring "the balance of the macroeconomy [is] a major accomplishment." The combined impact of many smallish steps, he predicts, will "really transform the economy".

He denies that India is emulating East Asian-style state capitalism, pointing to efforts to give the market a bigger role. State-run defence firms are notoriously incompetent, so the private sector is being invited in. A cap on foreign investment in the sector has been lifted from 26% to 49% of any joint venture (though so far foreigners have made no new big investments). Similarly, in March parliament finally agreed to raise the cap on foreign investment in the insurance industry, also to 49%. In railways, priv-

Let there be concrete

India's future is urban

INDIANS ONCE KNEW how to build great cities. Take the ruins of Hampi (pictured), a site in southern India that rivals Angkor Wat in magnificence but gets only 47,000 foreign visitors a year, compared with the 2.3m who flock to the Cambodian attraction. Built in the 15th century, Hampi was crammed with splendid temples and mosques, mighty stables for elephants, markets for diamond traders and a granite chariot. Intricate sculptures illustrating the Kama Sutra adorn the walls of many buildings. One palace even had a flush toilet. By contrast, around half of Indians today, including many city-dwellers, still defecate in the open.

Modern Indian cities are mostly ill-planned, crowded, polluted and jammed with traffic. Rural voters still outnumber urban ones by about two to one, and there are no powerful mayors. Apart from a few pampered places such as New Delhi, politicians were mostly indifferent to cities. That is changing as people like Mr Modi respond to their growing clout. He promises to build 100 smart cities by 2020, generating millions of jobs.

The first, GIFT City, is now rising on 886 acres (358 hectares) of semi-desert near Ahmedabad, in Gujarat. Two glass towers, 28 storeys high, adorn a barren landscape. From the top you see spidery roads, a modern waste-treatment plant and a half-built school. Developers broke ground three years ago, and by 2024 there should be 110 towers, a metro, 25,000 apartments, hospitals, hotels and an artificial lake. The hope is that there will also be 1m jobs, many in financial services. An area prone to earthquakes and intense heat may not be ideal, but developers point to efficient air-conditioning.

Not everyone is enthusiastic. "GIFT is humbug," proclaims Gujarat's opposition leader, Shankersinh Vaghela. A town planner calls it "ridiculous, a London Docklands-style project in the middle of nowhere." He says it is flashy, politically led and follows the Chinese model of construction (a Chinese company is in fact involved). Mr Modi enjoyed touring China in the past and visited it again this month. He is impatient to show how fast India is developing. Thanks to his personal interest, GIFT is certain to succeed: state-owned banks are filling those towers "to be in the good books of Mr Modi", says the planner.

Locations for all 100 cities have been tentatively named and states will experiment with plans for them, bidding for central funds ($945m is budgeted for this year). Not all of these will materialise, and the concept may be redefined to include improvements to existing cities. The prospects would be better if municipal corporations were stronger. Varanasi, for example, a city that has been in continuous use for over 5,000 years, today verges on dysfunction. A warren of old buildings and narrow streets on the banks of the Ganges, it needs the most basic things, such as working sewerage and transport systems.

The grandest new city is being planned by the chief minister of Andhra Pradesh, Chandrababu Naidu. He calls India a "sleeping giant, with huge untapped potential". Hyderabad flourished under his rule in the 1990s as the IT industry moved in. Last year his state split and Hyderabad was hived off. Mr Naidu, his eyes sparkling with excitement, says he "will build a city, a world-class capital, a really smart city...it is a one-chance-in-a-lifetime opportunity."

His creation, Vijayawada, one of the 100 on Mr Modi's list, will house 22m people near the eastern coast. Given a dense population with strong property rights, acquiring the necessary 50,000 acres is proving difficult. Mr Naidu will reward original owners of farmland by returning smaller plots of more valuable urban property to them. He says that central government must pay for the construction work first; private developers will follow. Perhaps the master plan should include a few Kama Sutra sculptures.

ate firms will be given a bigger role, and restrictions on foreign capital have mostly been lifted.

That just about sums up the economic story so far. The previous BJP-led government, from 1998 to 2004, was bolder, even though it had to keep coalition partners happy, and had a privatisation ministry headed by Mr Shourie (who is unlikely to be invited to join the government after saying of Mr Modi in December that "when all is said and done, more is said than done"). The present government has adopted Congress's approach of divesting only slices of massive state companies, raising revenue but not changing their ownership or management.

Now and then Mr Modi suggests that the economy should involve "minimum government", but does not spell out what he means. He could have announced plans for the outright sale of state-owned steel or oil firms or banks by now, but "basically he doesn't want to sell," says a businessman in Ahmedabad. Asked in a private conversation last year why he was not setting an example by selling Air India, the low-flying national carrier, Mr Modi said he had no wish to battle unions as he began ten years in office.

Mr Sinha argues that the state is in fact pulling back. The scrapping of subsidies on diesel, begun under the previous government, has been completed. The power ministry has auctioned off most coal-mining licences issued in the past two decades after the Supreme Court cancelled them because of corruption. That raised over two trillion rupees ($32 billion). The winning bidders, including private firms, can now dig more coal.

But note what has not happened. The government could have considered breaking up Coal India, a state firm that mines the lion's share of the country's coal. If you ask Piyush Goyal, the power minister, whether Coal India could go down that route, or even be privatised, he rolls his eyes and says there is no need to be ideological.

It is a similar tale for India's troubled banks. Many are state-run and have endured decades of political meddling. Ideally some of them should be recapitalised and made independent, and the worst of them should be closed. They are lumbered with big old loans from previous splurges by infrastructure investors, many of them with political connections, on projects that are going nowhere. The government counts 1,400 stalled projects worth $80 billion. That helps explain why there is little new investment: credit growth has been slowing since November 2013.

Adding to the pressure, in a few years banks will have to comply with new global rules, Basel 3, to hold more capital. But instead of recapitalising them or getting them ready for private buyers, the government is determined to restart those stalled projects, which may prove slow going. It is also telling state banks to promote financial inclusion. Earlier this year it ordered 75m new bank accounts to be opened, enticing customers with free insurance and overdrafts. In fact state-run banks have set up double that figure, though many of them were for people who already had accounts and lots of the new ones are dormant.

Mr Modi's government is missing a rare chance to launch some bold reforms, along with an opportunity to educate the public about why reforms are to be welcomed, not feared. Time is short because in another year or two minds will begin to turn to the 2019 election.

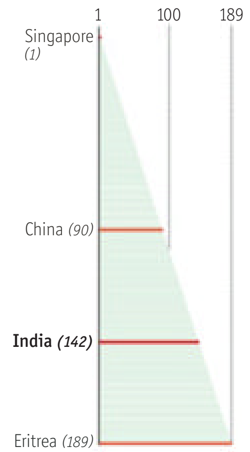
Just possibly, critics will be mollified if Mr Modi gets one big thing right. Everyone agrees that India needs a bigger manufacturing sector to create lots of new jobs. Currently manufacturing accounts for only 16% of the economy, much less than in other Asian countries. The government has set a target to lift the share to 25% by 2022, and launched a nifty website and an official slogan, "Make in India". But for that target to be achieved, at least four big reforms are needed.

One is to ease strict labour laws. Even a government official calls India's the worst in the world, both cumbersome and contradictory. "You can't apply 100% of Indian labour laws without instantaneously violating 10% of them," grumbles a businessman, noting that most new jobs in India are of the informal kind.

Mr Modi should have led from the front, explaining that overly strict regulations (for example, on firing workers) stand in the way of creating formal jobs. Instead he has subcontracted the task to willing state governments in Rajasthan, Tamil Nadu and Gujarat, which are among the main manufacturing states. But that is second-best to encouraging the whole country to reform faster.

Needing a lift

"Ease of doing business" ranking 2014, *(1=best)*



Source: World Bank

A second area is tax reform, where progress has been mostly disappointing. Indian governments have long had a bad habit of levying taxes retrospectively, and the current one has failed to demonstrate that this has been abandoned, so planning investments remains difficult. Nor has the government simplified or cut corporate or income taxes. To its credit, it is pushing a goods and services tax to replace separate levies raised by the states with just one imposed centrally. It will not be perfect, but it will create a single market that should allow manufacturers to serve the whole country from one place. Mr Jaitley says this reform could add two percentage points to India's growth.

Fixing the power supply is a third urgent need. Those coal auctions could help, though breaking Coal India's dominance would have been better. Much will depend on getting the railways to deliver the coal to power plants (see box, next page) and fulfilling a pledge greatly to expand solar, wind and hydropower generation, as well as cranking up nuclear power. But even if all that is done, there will still be distribution problems: many manufacturers continue to use generators because the grid is unreliable or absent. State-run distribution firms are often useless.

The fourth, contentious, area for reform is land. Some manufacturers fret about a lack of space for factories. Others worry that the government will not be able to get hold of land quickly enough to build lots of new roads, railways and other infrastructure. One painful legacy from the previous administration is the first new law on buying land since 1894. It enshrines a slow process and gives farmers strong rights to ward off compulsory purchases. In December Mr Modi's government came up with an ordinance (a temporary law to be confirmed by parliament later) on land, but it was badly drafted and infuriated farmers, many of whom have been ripped off by developers conniving with officials and politicians. "He is pushing a land bill that is fatally flawed," laments an expert. The government has made more changes, but for now the bill is stuck in parliament.

Let's hear it roar

Climate change

Even if all these reforms succeed, there is no guarantee that faster growth and lots of jobs will follow, because India's business climate is notoriously awful. But politicians can do a lot to change that. A senior bureaucrat in the commerce ministry, Amitabh Kant, has listed 98 tasks that state governments must complete by July to make the country a more appealing place in which to do business. The central government will then name the best- and worst-performing states to spur competition for investment.

Mr Kant tells some good stories. In a previous job he dreamt up "Incredible India", a tourism campaign that won many plaudits (though India still lures only 7m foreign visitors a year). He is the driving force behind the "Make in India" campaign. Now he is busy trying to snip red tape for investors.

As a benchmark, the government is using the World Bank's ease of doing business index, which ranks India a dire 142nd out of 189 countries, behind countries such as Yemen, Sierra Leone and Ethiopia (see chart, previous page). One of India's worst problems is getting contracts enforced: it takes an average of 1,420 days to settle a court case. Other headaches include the lack of a proper bankruptcy law and archaic rules for setting up a business, getting permits and shipping goods across borders.

Mr Kant says things are getting better. A small indication was the scrapping in April of the last foolish restrictions that allowed only small businesses to produce items like wooden furniture, locks, candles, matches, bangles and pickles. Mr Modi said late last year that India will advance to the top 50 in the rankings within two years. Even if it doesn't, at least it is now trying. In order to improve its image, it is all but gaming the World Bank system, putting intense efforts into reforms in Mumbai and Delhi,

A better lifeline

The best way to modernise the railways would be to break the state monopoly

A WHIRL OF activity fills the dimly lit carriage. Passengers jostle and rip open paper bags containing linen for their bunks. It is a relief to leave the stench of Bangalore station, where tracks double as latrines. The Hospet overnight service departs a few minutes late, trundles along for 400km (250 miles) and arrives on time at dawn.

Like all Indian trains, it is crammed. Its cabins are worn and a bit grubby, the toilets holes in the floor. It is also cheap. A nine-hour trip on the best, air-conditioned berths costs 3,200 rupees ($50) for a family of four. Ticket prices were frozen by populist politicians who long ran the network, and only recently started to rise modestly.

The railways are a huge business: each day 19,000 trains carry 23m people and 3m tonnes of freight. But the state-owned monopoly is badly run. A former cabinet minister points to overstaffing, factionalism and bureaucracy.

A comparison with China is instructive. In 1990 that country had less track than India, but since then China's rail network has grown by well over half, to 112,000km, whereas India's has remained much the same, at 65,000km. As a share of GDP, China invests three times as much in its railways as India does. Spending per person is 11 times higher.

India's politicians levied high freight charges to subsidise cheap rides for passengers. That diverted goods to less efficient, more polluting, overcrowded roads. Now rail carries just 30% of India's freight, compared with 65% in the 1970s. Delivering coal to power plants is a crucial task for railways in both countries. In India this is a third costlier than in China, and a third slower—one reason for so many power cuts.

In a test of its efforts at state-directed modernisation, the new government wants to fix this. An official estimate suggests that for every rupee that the output of the railways goes up, the economy as a whole will be lifted by 3.3 rupees as other industries benefit from improved efficiency. Suresh Prabhu, the capable railways minister, plans a capital-spending splurge of $140 billion over five years. He plans to introduce market mechanisms where possible. To stimulate competition, he is creating 20 state-run corporations and perhaps 60 special-purpose vehicles that will be given autonomy to run parts of the network. Private (including foreign) partners can take part in much of this. Eventually units that run schools and hospitals and produce bottled water could be sold off. But outright privatisation of the country's oldest government institution is not envisaged. The industry's 1.3m employees and strong unions would not wear it.

In an early experiment, beginning in Bhopal, private investors will get the chance to overhaul decrepit railway stations. Thanks to better management, punctuality, revenues, safety, catering and hygiene are also improving. Traffic is up by 15% this year, says Mr Prabhu, and will rise steeply next year.

In need of private input

Adding tracks is harder. In the long-promised Delhi-Mumbai freight corridor, which is meant to open by 2019, the previous government managed to award only 600km of a 1,500km line to contractors.

"What matters is to be market-friendly, completely transparent," says Mr Prabhu. Crucially, he needs to make it impossible for any successor to return to the old political meddling, when employment and tracks were handed out (and sold) to cronies. Some powers currently held by the minister will soon be devolved to an independent regulator. "I am rushing to give my powers away," says Mr Prabhu, "so no populist politician would again want to have this job."

the only two Indian cities surveyed for the index.

The finance minister promises to introduce a bankruptcy law, and red tape is becoming less tangled, even if it is not disappearing altogether. Instead of 14 forms for a permit to move goods across borders, would-be exporters now have to fill in only three. In Maharashtra, the state that includes Mumbai, it used to take 67 days and seven administrative steps for a firm to get an electricity connection. This is supposed to have come down to three weeks and three steps, but much depends on implementation. The manager of a factory in Rajasthan complains that getting a good electrical connection has taken him two years when officially it should have happened in months.

Onno Ruhl, the World Bank's representative in Delhi, thinks that aiming for the top 50 is "very ambitious, but not as crazy as it sounds". Mr Modi has plans for introducing far more technology in government so that all form-filling, visa-issuing and other official interactions are carried out online (see next article). Some authorities are already setting an example: a study of 17 Indian cities in 2009 suggested that if the whole country were to adopt the best practices seen in different states, the national ranking would leap by 50 places.

The World Bank's index does not capture everything that bothers investors. Particular bugbears include a poor work culture (which shows up in things like absenteeism) and skills shortages. In Rajasthan, Kajaria, the country's most successful tilemaker, complains that it took two years to get permission to put up a new $15m factory near Alwar because suitable land was so hard to find. In any case, a ranking may matter less than market conditions, consumer demand and growth prospects. Foreign direct investment at least is up: Mr Kant says that in the financial year just completed it is likely to run to $45 billion.

Yet a puzzle persists. If India had wanted to present itself as more business-friendly, it could have already notched up some easy gains by cutting corporation tax from 30% (higher than in most countries) and simplifying a tax code riddled with exemptions that allows authorities to gouge companies at will. Mr Jaitley, the finance minister, talks of both but has done neither. Mr Kant's imperatives are welcome, but they can offer no categorical guarantee that investors will respond. ■

No more dodgy cooking-gas deals

Government and technology

Playing leapfrog

The wonders of smart systems

"THE BEST THING about India is we don't have to replace anything," says Sachin Bansal. He founded Flipkart, an online marketplace, with $8,000 in 2007. When it lists later this year, India's answer to Amazon is likely to be valued at $15 billion. That is because Indians are learning to leapfrog, says Mr Bansal. Many will never see a supermarket, but will go straight from shopping in local *kirana* (neighbourhood) shops to ordering online. He expects his firm, eventually, to create jobs for 2m.

He is speaking at a dinner in Bangalore, where other guests make similar claims. Some 900m Indians have access to mobile phones. Smartphone use is likely to go up from around 200m now to 500m by 2020. Bhavish Aggarwal, who founded Ola-Cabs in 2011, says his smartphone-based taxi service has 150,000 drivers, mostly first-time entrepreneurs. It is several times bigger than the Indian branch of Uber. He believes that many Indians, like himself, will skip over having a car of their own.

Advertisers are also leapfrogging. Naveen Tewari and Abhay Singhal are two founders of InMobi, an online firm that serves ads to billions of people globally and is growing fast. They say India, and especially Bangalore, is learning how to succeed with digital startups. It has plenty of engineers, youngsters good at programming, creative types and centres of excellence in the shape of the Indian Institutes of Technology (IITs). Places like Bangalore are already IT hubs: in Karnataka, the surrounding state, perhaps 1m work in the industry.

Mr Tewari is excited by a new generation of tech businesses, many of them smartphone-based, launched by youngsters who have been through the IITs. He has invested in 19 such startups. Bangalore also benefits from close ties, through the Indian diaspora, to California's Bay Area.

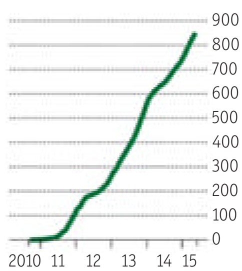
If business can thrive like this in India, why not government? Nandan Nilekani, the host of the dinner, is all in favour. He co-founded Infosys, a big IT firm, and now wants technology to deliver more public and social gains. For example, he is working on a project called "Ekstep" to spread literacy and numeracy in schools and beyond, using games on smartphones.

Karnataka's government

Iris count

Unique biometric-identity numbers issued

Cumulative total, m



Source: National statistics

wants residents eventually to interact by smartphone with hundreds of services from its 60 departments. In December it launched Mobile One, a phone application, for checking property records, birth certificates, car-registration documents and more. The state also runs intercity bus services, utilities and other services, so residents can now book tickets and pay electricity bills or taxes on the phone, or check in with doctors or dentists.

Residents are also encouraged to report local problems through the app. If you spot a pothole or a pile of rubbish in Bangalore, you can alert city officials by uploading a geo-tagged photograph. (Lahore, in Pakistan, has a similar service to get standing water removed, to discourage mosquitoes and dengue.)

Official enthusiasm for online transactions is growing fast. Mr Modi, who turned techno-obsessive when he travelled among the Indian diaspora in America, now uses electronic tablets, not paper, in cabinet meetings. "Digital India is a big programme," he says. He launched MyGov.in, a national scheme to crowdsource policy ideas from the public. He is convinced government in Gujarat became less corrupt when land records were put online and bids for official tenders went digital and thus more transparent.

"He is driven, he has tasted blood by using technology in so many ways in government," says an official. In last year's general election he used holograms to address several rallies simultaneously. A national fibre-optic network is meant to reach all 600,000 villages and their schools by 2017, though that deadline is likely to be missed.

Last July Mr Modi decided to support Aadhaar, a unique identity system launched and run by Mr Nilekani for the previous government. The world's biggest biometric database has so far created a reliable digital identity for 850m people (see chart, previous page). The target is to hit 1 billion this summer.

This framework will support many official applications, which are beginning to be launched. Jharkhand, a small northern state, is using it to deal with an old problem: skiving bureaucrats. State employees now check in and out by having their irises scanned. Their attendance is plotted, live, on a website. Ram Sewak Sharma, who set up the scheme, says habitual offenders are easy to identify and attendance is up. He oversees all technology projects for national government and has introduced the system for the 121,000 national civil servants in Delhi, too. Eventually it could cover all state employees in India, a total of some 18m people.

Here's looking at you

Back in Jharkhand the unique identity number is also used for monitoring distribution of subsidised food rations. A website lists every recipient, how much food each person has got in each transaction and from which supplier. This makes it harder for suppliers or ration shops to steal, which is how an estimated 40% of the supplies used to disappear. Such monitoring could cut waste dramatically.

State-run banks have recently opened 150m new accounts, many bearing the owners' Aadhaar numbers. They will serve as the basis for replacing subsidies in kind with cash transfers. Neeraj Mittal, an official in Delhi, is running the first project. Now that subsidies on cooking-gas canisters for 140m households have been abolished, he explains, suppliers no longer have an incentive to divert cheap gas to commercial users. Canisters are sold at market prices, and residents get cash subsidies paid to them directly. This has created the world's largest cash-transfer programme, launched in April, with over 3m transactions a day. Last year the government spent $7.5 billion on the cooking-gas subsidy. Some 10-20% of that was obtained fraudulently. Since Aadhaar helps remove "ghost" beneficiaries, it could save perhaps $1.5 billion. Revealingly, sales of commercial gas are up by 30% since last November—because restaurants can no longer buy cheap cooking gas diverted from domestic use.

Thanks to Aadhaar, these reliable "pipes" now linking government to beneficiaries' bank accounts can be used for all sorts of welfare benefits, including scholarships. The hope is that in time they will act as a conduit for much bigger payments to replace price subsidies for items like paraffin, fertiliser and food, again reducing theft.

Aadhaar could also help create a more formal financial system. Less than 3% of Indians, some 36m, pay income tax, though many more should be doing so. Aadhaar and reliable digital identification, plus new bank accounts, could lift the numbers. One day you may need to provide your unique number when buying a house or transferring large sums of money. Playing leapfrog might replace games of hide-and-seek with the taxman. ■

Aadhaar, the world's biggest biometric database, has created a digital identity for 850m people

Foreign policy

High visibility

India is reaching out to the world

"FOREIGN POLICY IS fun, to an extent it is theatre," says Shivshankar Menon, who was India's national security adviser until last year. He recalls a prime minister who so enjoyed talking about foreign policy that he let meetings on the subject run for three times their scheduled length.

Narendra Modi obviously loves it too. As Gujarat's chief minister he showed unusual interest in other countries, visiting Japan, China and Britain, and hosting investor jamborees. As prime minister he has put more energy into foreign policy than anything else.

By giving so much attention to foreign affairs, Mr Modi has sidelined his foreign minister, Sushma Swaraj. By now he has spent 52 days of his first year abroad, visiting America, Japan, Brazil and Germany, among other countries. Many trips were overdue. It had been 28 years since an Indian prime minister had last paid a bilateral call on Sri Lanka or Australia; for Canada, the gap was 42 years.

India's top diplomat, Subrahmanyam Jaishankar, says this is about more than appearances. India, he explains, now aspires to be a "leading power, not just a balancing power". That means it has become less self-effacing, abandoning talk of a "no-frills" foreign policy of non-alignment. India is also hoping to boost its share of world trade from 2% to 3.5% by 2020. Mr Modi is playing his part. He has established warm relations with Japan's Shinzo Abe and Australia's Tony Abbott. In his first year, he says, he has met 50 national leaders for direct talks.

An immediate goal, of being seen to play an important international role, has been achieved. "India is back in the news," says Tanvi Madan, of the Brookings Institution, a think-tank. Mr Menon claims his successors are mostly continuing with the country's previous policy, "but they present it more forcefully." Making a greater impact requires more manpower, including a bigger diplomatic corps. India has long been famous for having a mere 800 diplomats. The foreign ministry claims it actually has 2,500, but that figure results from a new way of counting them, not extra recruitment.

Fifty leaders and counting

A more determined approach is showing up in two areas. One is the immediate neighbourhood. Mr Jaishankar says that "you cannot be a leading power if your neighbourhood is not with you, you need it to root for you." So India is promoting cross-border trade and a regional electricity grid (some of its neighbours have massive hydropower potential), creating infrastructure on its borders, relaxing visas and doling out aid. After last month's devastating earthquake in Nepal, India was quick to take a leading role in the relief effort. It wants to end the perception that it meddles and bullies, though rumours still swirled that it helped sway Sri Lanka's election in January.

Old enemies, new friends

The obvious problem is Pakistan. India has a "SAARC-minus-one" strategy of integrating South Asia's economies over the next decade, working with the South Asian Association for Regional Co-operation but isolating Pakistan. So far Mr Modi's handling of the old rival has not been coherent: he welcomed Nawaz Sharif, its prime minister, to his inauguration in May last year, then used a pretext to cancel talks between the two countries' foreign secretaries. Relations deteriorated as the bloodiest border clashes in 11 years broke out in October, but this relationship looks unlikely to shift much for better or worse.

The second new emphasis in foreign policy concerns ties with America and the West generally. In Mr Menon's day India was already drifting westwards as memories of the cold war faded, economic ties strengthened and Pakistan's relations with the West became more strained. But India hedged, keen to avoid confrontation with China.

Under Mr Modi the westward tilt has become more explicit. That was partly China's doing. During a visit to India by Xi Jinping, the Chinese leader, Chinese soldiers crossed a disputed border and camped in Himalayan territory that India considers its own, humiliating a man who had boasted he would secure the frontier. Later, China twice sent a military submarine to Colombo, Sri Lanka's capital. Mr Modi took offence.

In January Barack Obama was the chief guest at India's Republic Day celebrations. The countries issued a joint security statement on stability in Asia, calling for freedom of navigation in and over the South China Sea, where China is needling its neighbours. The same visit delivered what Mr Obama called a "breakthrough in understanding" over the liability of suppliers to any civil-nuclear power plants. Details remain fuzzy, but heavy American investment in energy would deepen ties.

Defence is another area ripe for co-operation. India is opening its defence industry to foreign, most likely Western, investors. In July 2014 a cap on foreign investment in domestic defence projects was increased to 49%, though investors may not be tempted to put money in until the government starts buying more defence kit. Bizarrely, on a trip to France in April Mr Modi announced an order for 36 Rafale fighter jets to be made in France, undercutting his own procurement strategy.

Even so, India's co-operation with the West will become closer as it buys less military hardware from Russia (and as Russia becomes friendlier with Pakistan). That co-operation extends even into space: last September India got a spacecraft to orbit around Mars, with some navigational help from NASA. India's public seems to approve. Surveys by the Pew Research Centre show that it generally favours the West. In a poll in 2014, 55% of Indians said they liked America. One reason is that many millions of them have relatives who live, study and work there. ■

The diaspora

The worldwide web

India should make more of a valuable asset abroad

PART OF THE secret of China's success in the past four decades or so has been the clever use of its diaspora. Chinese manufacturers in Hong Kong who had long supplied American partners moved to the mainland and set up factories. Chinese nationals who succeeded abroad brought home trusted contacts, networks, experience, standards, technology and capital.

India could do with more of that. Over 27m people of Indian origin, including some temporary migrants, live overseas, many of them in the Gulf. They remit $70 billion a year to their home country, more than any other group of expats. That adds up to 3.5% of India's GDP, outstripping foreign direct investment.

Although most of the diaspora are social conservatives, they typically back the Democrats

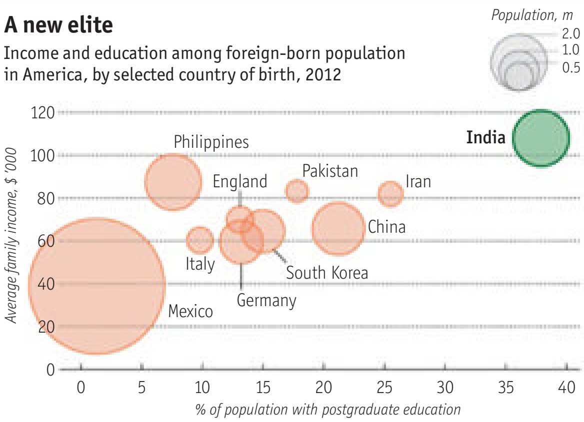
The biggest potential lies with the diaspora in the West. Mr Modi seems to be aware of that. He has been courting it on visits to America, Australia, Germany and Canada, holding big rallies. Indians abroad heavily backed him in last year's election, sending millions of dollars as well as people to help. Even in remote corners of Uttar Pradesh, your correspondent bumped into jovial volunteers with American accents.

Indians in America are the most promising. They are increasingly prominent in tech companies, on Wall Street and in government, especially in the state department. Around 1% of America's population, over 3.3m people, are "Asian Indians". Perhaps 150,000 more arrive each year, and 90% of them stay permanently. Devesh Kapur, who has studied them, talks of a "flood". He says over half of all Indian-born people in America arrived there after 2000.

On the usual measures of success they outstrip all other minorities, including Jewish-Americans. They are educated and rich. In 2012 some 42% held first or higher degrees; average family income was over $100,000, roughly double that of white Americans (see chart). Over two-thirds of them hold high-status jobs. They have done so well that many migrants from Pakistan or Bangladesh like to call themselves Indian, hoping that some of the stardust will rub off on them.

A new elite

Income and education among foreign-born population in America, by selected country of birth, 2012



Source: "The Other One Per Cent" (provisional title). By S. Chakravorty, D. Kapur and N. Singh. Forthcoming, Harvard Press.

The stereotype of Indians as keeping shops or running motels in their adopted country is thus outdated. An IT professional from Andhra Pradesh would be far more typical. Since the turn of the century America has slurped in highly skilled graduates as fast as India can produce them. America's H-1B employment visa for skilled professionals tells the story. In a forthcoming book, provisionally entitled "The Other One Per Cent", Mr Kapur and his co-authors note that between 1997 and 2013 half of those visas went to Indians. Since 2009 the share has been more than two-thirds. Some 30,000 Indians a year also arrive in America to study, and many stay to work.

Exporting all that talent could hurt India, which lacks skilled workers. Mr Kapur says that some 91,000 Indian-born people with PhDs are now living in America. This suggests that India is failing to create the right conditions to retain high-fliers. But it is also an opportunity to deepen its ties with the West.

This has proved useful before. The 1990s boom in IT created a $100 billion industry in India as staff of Indian origin working in Western companies persuaded their bosses that they had the contacts and cultural understanding to be able to set up in their home country. Indians returning from work or study in America helped found big IT companies like Wipro and Infosys. The same diaspora could act as a bridge for other entrepreneurs now. And a wealthy diaspora should be a big source of tourism and capital, notes Sanjay Puri, chairman of USINPAC, the main political lobby for Indian-Americans in Washington.

Mr Puri points to plans for an infrastructure bond to be sold to members of the diaspora. One model for this could be a bond for building Cochin airport, in Kerala, to which nearly 10,000 Indians abroad contributed. "A highly successful community is looking to engage back again," says Mr Puri.

The Indian diaspora also influences American domestic politics (Indians talk of emulating the Jewish-Israeli lobby). Its members are becoming bigger donors, and although most of them are social conservatives, they typically back the Democrats because Republican Christian evangelism makes them uncomfortable. Shivshankar Menon, the former national security adviser, credits the diaspora with lobbying America's Congress to approve a civil nuclear agreement with India a decade ago.

The diaspora will not fix India's problems, but it should help to reinforce success. An Indian who has done extremely well from making garments in China, Bangladesh and Vietnam says that for the moment he would not dream of setting up in his home country because he worries about the quality of manufacturing and the work culture there. But if things were to change, he would be ready to move quickly. ■

Modi's next steps

Now for the serious stuff

India's leader needs to offer a vision of what he wants to achieve, and let others help him

NARENDRA MODI would like to believe he has broken the mould as India's leader. He is personally powerful and keener on a big international role for his country than his predecessors were. As he says, "there are huge global expectations for India." Showing more openness than earlier leaders, he agreed to be interviewed on the eve of his first anniversary in power.

In conversation he is thoughtful, sincere and well briefed. He is driven (staff say he takes no holidays) and can be charming, though he is also intensely self-regarding. For example, he explains his many foreign trips as necessary for the "international community to get an opportunity to assess me directly".

There are several broad concerns about his record so far. Though he seeks economic growth and national strength, he has not yet shown a clear vision for bringing these about; nor has he appointed the right ministers to deliver sweeping change. He is not speaking up enough for a noisy liberal democracy and the need to protect religious minorities, and he is not showing sufficient tolerance of criticism.

Ask about his vision, and he talks of jobs: "My government is committed to the poor of the country so I need to enhance employment opportunities." He mentions a new ministry to promote skills, plans for roads and rail, and hopes to boost manufacturing. All of that is sensible but not inspiring. One way forward might be to trust markets more; another might be to invest more in human capital, public health and a world-class university system. But Mr Modi mentions none of these.

Thus he comes over as a cautious policymaker, which is surprising for a fiercely ambitious politician who got an overwhelming mandate a year ago. He seeks grand outcomes, saying India must compete with other emerging markets, secure a greater share of global trade, be "an engine of international growth". Yet he does not spell out how these goals are to be achieved.

Perhaps, deep down, he is a pro-market reformer who for political reasons dare not speak out. Ask him about his timid approach to selling state assets, for example, and he retorts that recent coal auctions constitute the "biggest divestment in India's entire history". As evidence of reform, he claims that his government has done more than any other to untangle impossible labour-market rules. But he is careful also to talk of protecting the "dignity of labour". The biggest economic reform his government is planning is the introduction of a goods and services tax, in effect an internal trade deal.

However capable Mr Modi may be, he cannot run everything, and he has not done enough to promote other talented individuals. In the course of a long conversation he never once refers to any of his ministers. He tends to say things like "I have created a ministry" or "my government is acting". When speaking about world affairs, he focuses on his personal rapport with other leaders. He seems to think he is the government.

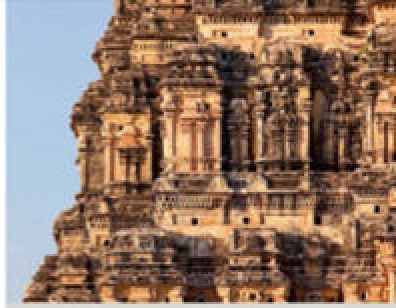
The ruling BJP is not stuffed with gifted leaders, but there are some. And Mr Modi could draw on people beyond politics. The previous government deserves credit for the creation of Aadhaar, the biometric-identity scheme, by Nandan Nilekani, a former businessman. Similar talent from the private sector could be brought in by Mr Modi.

Trust me, but why?

Yet if Mr Modi wants outsiders to join his government, they need to be able to trust his politics. He needs to speak out for moderation and tolerance and confront the "nutty underbelly" of Hindu nationalists, as one figure in government put it. Even his supporters concede that he has been too silent on religious affairs. All he will say on this is that he is "absolutely committed to the integrity and harmony of India" and that he respects "only one holy book", the constitution—a line this correspondent first heard from him in 2012. This failure to talk more convincingly about religious tolerance raises suspicions over his own beliefs. He concedes that "perhaps the kind of words that people want to listen to do not come out from my mouth."

Critics also note that his government is turning increasingly hostile to those it dislikes. In April it, in effect, suspended nearly 9,000 non-government groups. Organisations such as the Ford Foundation, which Mr Modi considers objectionable, find they have less scope for action. Greenpeace's bank accounts were frozen last month. America's ambassador to India, Richard Verma, notes that all this has "chilling effects" on democracy.

Mr Modi has made some steady, if not yet spectacular, progress in office so far, but he needs a clearer vision for economic reform, a broader range of talent within his government and a more convincing message of moderation. If he can produce them, the boy who left Vadnagar all those years ago could still become a truly transformative force. ■



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Europe's Green parties

Verdant pastures

AMSTERDAM

In northern Europe, environmental parties are claiming the radical space left vacant by moderate social democrats

WITH his tousled but cherubic looks and a voice sounding even younger than his 29 years, Jesse Klaver is the latest standard-bearer of a party that is trying to recapture its idealistic élan, and so inject new life into his country's politics. "A sense has developed in the Netherlands, in Europe, in the West, that there is nothing we can do about anything, that this is just the way the world is," exclaims the man who last week became leader of the Dutch GreenLeft party, succeeding a politician 30 years older. "It's not true. We built this world, brick by brick, and what you build yourself you can change yourself."

As a rebuilder of his own party's fortunes, he may succeed. In 2012 the Dutch Greens saw electoral disaster, dropping from ten seats in the 150-seat parliament to just four after a pointless struggle over the party leadership. Now they are staging a comeback: a poll after Mr Klaver's accession showed them winning 13 seats.

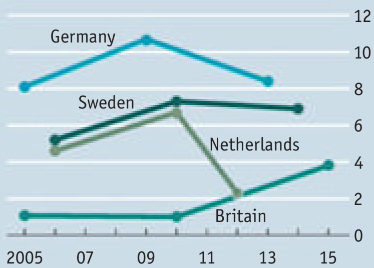
GreenLeft owes much of this bounce to the Dutch Labour party, which joined a coalition led by the centre-right Liberals and has shared responsibility for fiscal austerity. That has created room for Mr Klaver to promote a fiery anti-austerity agenda. He abhors tax evasion by multinationals. He favours a minimum income (see page 64). And he has invited the French economist Thomas Piketty to address parliament.

Across northern Europe, many Green parties are taking a similar stance: stepping into a radical space left vacant as Social Democrats move to the centre. The German landscape resembles the Dutch: a coalition between centre-left and centre-right has left voters unsure what the Social Democrats (SPD) stand for. In France the Socialists have reversed early promises and squeezed budgets, driving their erstwhile Green coalition partners to quit the government. In Britain, despite Labour's partial return to leftist roots in the election it lost on May 7th, the Greens defined themselves as the unapologetic party of the left and quadrupled their vote share, to 4%. In Austria reaction against centrist coalitions has pushed the Greens above 10%; they won 12% in parliamentary elections in 2013. In Sweden the Greens are serving in government for the first time.

It is a sweet moment for parties that began on the ideological fringes in the 1980s, but it holds risks. Europe's Green parties have come far since the 1990s when the pace-setting German Greens, and several others, saw a struggle between radical *Fundis* and pragmatic *Realos*. Across Europe, pragmatism prevailed, and most Greens acknowledged the need for markets.

Wobbly paths to power

Green parties' share of vote in general elections, %



Sources: UK Electoral Commission; Der Bundeswahlleiter; Netherlands Electoral Council; Swedish Election Authority

That in turn helped them to influence parties on the centre and right—as when Angela Merkel, Germany's Christian Democratic chancellor, adopted the long-standing Green goal of phasing out nuclear power. If the Greens shift too far left, that could deny them the option of bargaining with the centre. (As of now they share power with the centre-right in one German state; it's an open question whether this could happen at national level.)

Shaky economies and high unemployment also pose risks for parties focused on the environment. Economic pain tends to shift voters from old centrist parties to small ideological ones, but most of the winners have been Eurosceptic and anti-immigrant, such as the UK Independence Party (UKIP) and France's National Front (FN). Green parties are universally pro-immigrant and pro-European. Of course, that stance scores well with certain voters. Across Europe, Green supporters share a similar profile: educated, urban, cosmopolitan and young. Neil Carter, a political scientist at York University in Britain, terms them "left-libertarians". That marks a contrast with blue-collar voters who are moving right, especially on immigration.

Yet as a tactic, a sharp turn left is no panacea. In many countries the Green parties' embrace of radical economics faces competition from traditional far-left parties, such as Germany's Die Linke or the Dutch Socialists. France's far-left parties are one reason the French Green party (EELV) has never had much luck. Another is that other French parties also claim environmental laurels. In European elections last spring, Green candidates had to differentiate themselves from the right-wing FN, which ▸▸

also hates multinationals and GMOs.

In countries where they have joined coalitions, the Greens have sometimes struggled with the transition from opposition to government. Germany's Greens had a successful stint in government in the late 1990s and early 2000s, led by Joschka Fischer, who was popular as foreign minister. But France's EELV were relieved to quit the unpopular Socialist-led government last year in protest at its liberalising reforms. In Sweden the Greens have six portfolios in a Social Democrat-led government, but they seem bogged down in relatively narrow issues, like an effort to close an airport.

Swedish Green leaders are also prone to energy-sapping gaffes. This month the deputy prime minister, Asa Romson, had to apologise for comparing the Mediterranean refugee crisis to Auschwitz. In her apology she used the word "gypsy" instead of "Roma" and had to say sorry again. As Nicholas Aylott of Sweden's Sodertorn University notes, this is partly a problem of Green voters' own making: they like impulsive, informal leaders.

The Greens' capture of left-wing economic territory is largely a northern European phenomenon. In the south, where Green parties have always been weaker, rising left-wing populist parties such as Podemos of Spain have grabbed that space.

Yet the Greens' dilemma is not only over where to poach votes. They must also fight apathy. Voter turnout is falling across Europe, especially among the young. For Green parties, attracting new voters is vital and this clearly inspired the Dutch leadership change. When Mr Klaver says the world is "ours to change", and denounces mainstream parties for "economistic" thinking, he sounds immature. But for a party bent on projecting the optimism of youth, he presses the right buttons. ■

Germany's Eurosceptics

Rift on the right

BERLIN

After two lively years, the new Eurosceptic party may split

FOUNDED in 2013, the Alternative for Germany (AfD) has wreaked havoc in German politics with its mix of Eurosceptic views and highbrow credentials. One of its early nicknames was the "professors' party", because several founders, including Bernd Lucke, one of its three spokesmen, used to teach economics. With this academic prowess, the AfD became the first respectable party to break a post-war taboo on questioning the country's destiny at the heart of European institutions.

But in common with maverick parties on the less respectable right—the UK Independence Party has just had a leadership row, and France's National Front (FN) has expelled its founder—the German party is suffering badly from internal fissures.

Last year the party did well in elections to the European Parliament and in the three eastern states of Saxony, Brandenburg and Thuringia. This streak of success continued in Hamburg in February and in Bremen this month. Everything suggested the AfD would enter the Bundestag in 2017, pulling German politics to the right. But internal squabbles have made that less sure.

That is because the AfD's early successes coincided with some unsavoury developments. Candidates around Mr Lucke, such as Hans-Olaf Henkel, an economically liberal and socially tolerant industrialist, kept preaching a message of anti-euro conservatism. But others, including the leaders in the eastern states, fished for votes with increasingly xenophobic, homophobic and otherwise extremist rhetoric. Björn Höcke, the AfD's boss in Thuringia, recently said that not all members of the NPD, a neo-Nazi party, were extremists.

Such people must be "purged" from the party, Mr Henkel said. He and Mr Lucke demanded (in vain) that Mr Höcke be stripped of his membership of the party and the Thuringian parliament. In an internal e-mail, Mr Lucke described the AfD's right wing as "nationalistic, anti-Islamic, anti-immigrant, in parts also anti-capitalist and anti-American". With his sympathisers, he wants to drive out or silence these voices to avoid tarnishing the AfD among mainstream voters.

But resistance is fierce. Mr Lucke lacks emotional intelligence and charisma, both of which his main rival, Frauke Petry, the party leader in Saxony and the only woman in the leadership, has in buckets. She calls Mr Lucke's bid for control a naked power grab. Her allies include Konrad Adam, an arch-conservative, excitable writer aged 73, and Alexander Gauland, the populist party boss in Brandenburg.

These factions have in recent weeks hurled verbal abuse at each other through the press. This week the Petry wing even blocked Mr Lucke's access to the e-mail distribution server, which both sides need to contact supporters. Simultaneously, rumours spread that Mr Lucke will resign and found a new party.

Mr Lucke denies that such plans are imminent. But on May 18th he started a "club" called Weckruf 2015 (Wake-up Call 2015). He is urging sympathisers to join, but without yet exiting the AfD. He thus wants to show strength and unite the party behind him ahead of its party congress on June 13th. Should he fail, he could turn Weckruf 2015 into the AfD's rival. If that happens, however, both parties would fall short of the 5% needed to enter parliament, and probably wither into oblivion. ■

Ukraine's front line

Longing for silence

DONETSK

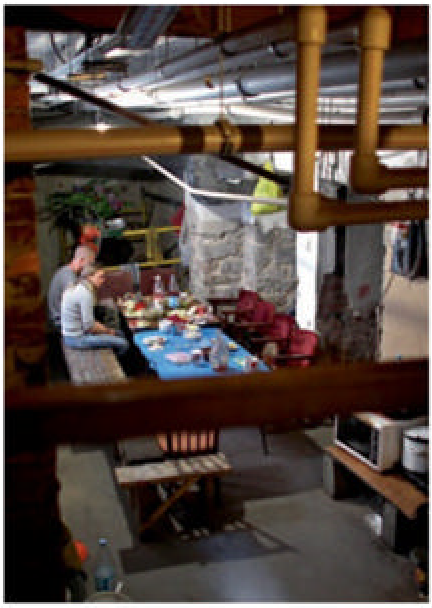
Diplomacy fails the folk on the edge

LYUBA VOEVCHIK lives underground. Her neighbourhood, the Petrovsky district of Donetsk, is close to eastern Ukraine's front line. When shells began landing on her street last summer, she moved to the dank basement of a local cultural centre, where she and her two youngest sons share a narrow bed with faded pink sheets. Frightened and exhausted, Ms Voevchik has not slept at home in nearly a year. The latest ceasefire has provided little solace. "They should hush up," Ms Voevchik says with a sigh. "They promised."

Those promises were the subject of high-level talks between Russia and America last week. John Kerry, America's secretary of state, conferred with Vladimir Putin, Russia's president. Victoria Nuland, another American envoy, shuttled between Kiev and Moscow, urging compliance with the faltering Minsk peace plan.

But as diplomats keep talking, the guns keep sputtering and civilians like Ms Voevchik keep suffering. The United Nations estimates that the war has left 5m people in need of humanitarian help. Of the more than 6,000 killed since last April, most have been civilians. Some 2m people have been displaced, and countless more reduced to lives of basic survival. Worst hit are the sick, the elderly and children.

The woes of front-line residents have mounted as the authorities who are supposed to succour them vanish. Ukraine's ▸▸



A subterranean life

government has stopped financing the separatist-held territories (including pension payments and doctors' salaries), and has offered haphazard help to the internally displaced on its side of the lines.

The separatist leadership has proved capable of little more than waging war. Russia's aid to the region has been heavy on guns and light on butter. "It turned out that nobody cares about the people," says Evgeniy Shibalov, co-founder of Responsible Citizens, a volunteer-run humanitarian aid group in Donetsk. The outside world has ignored the plight of the Donbas region, treating war as a geopolitical rather than a humanitarian problem. Of the $316m the UN requested for aid to Ukraine this year, only a quarter has been pledged.

Humanitarian organisations and volunteers have stepped in. The International Committee of the Red Cross (ICRC) opened five offices in the area. Médecins Sans Frontières (MSF), a health charity, has sent dozens of doctors. During the heaviest fighting, Responsible Citizens delivered aid to "red zone" areas which others deemed too dangerous. *Pomozhem*, a foundation started by Rinat Akhmetov, Ukraine's richest oligarch and a native of Donetsk, distributes monthly food handouts to over 800,000 people on both sides of the lines. More still sign up every month. The foundation's 12kg package of essentials like salt, sugar, pasta and flour "helps us survive in this nightmare", says one pensioner from Donetsk's Kievskiy district, which borders the city's heavily bombed airport.

When war was raging, aid workers focused on treating the wounded and evacuating civilians. Now, as fighting has ebbed (though not fully ceased), attention has turned to securing medical and food supplies and rebuilding damaged homes. Ukrainian government restrictions have exacerbated supply shortages, limited civilian access to aid and deepened resentment in separatist-held areas. Pensioners can only retrieve funds in government-controlled territory, and many are physically or economically unable to get there. To cross the lines, residents need a pass from the Kiev authorities; that can take months. The rebel authorities pay pensions sporadically.

Other problems will linger long after all fire ceases. "When the conflict stops, it doesn't mean life goes completely back to normal," says David Nash of MSF in Donetsk. Unexploded ordnance hides along country roads. Psychological trauma haunts daily life. At one school near the front, childish drawings adorn the wall. Subjects include two soldiers running through a field beside two tanks under a receding sun, an old woman and a boy huddled with their cat and dog in front of a burning home, and two children gripping their mother in candlelight, with the words, "Give us back the quiet!" ■

Mediterranean migrants

A splash of bravado

Elusive aims for an EU naval mission

WHEN the European Union's foreign and defence ministers vowed, on May 18th, to deploy their navies against north African people-smugglers, they clearly meant to sound firm and decisive. But in reality, this is a risky effort to satisfy conflicting political imperatives: voters want to banish from their screens the disturbing images of drowned migrants washing up on beaches, but without having to accept too many newcomers.

The operation is likely to be formally launched after the European Union summit on June 25th, under an Italian admiral in Rome. As a first step to stopping the smugglers' dirty work, there will be an intelligence-gathering operation, with Britain offering drones. Then naval ships deployed by EUNAVFOR Med, as the mission has been dubbed, will intercept and board what are deemed to be "hostile" vessels, preferably before they have left Libyan waters. The boats will be seized and destroyed, with passengers sent back to their point of embarkation. A further phase could include the destruction of smugglers' boats on land or in harbour by helicopter gunships. NATO has also offered its help if requested.

The precedent is the EU's anti-piracy patrol off the coast of Somalia, Operation Atalanta, which has been running since 2008. In 2012, under more expansive rules of engagement, EU naval forces attacked one of the pirates' safe havens, destroying speedboats and infrastructure. The raid had a marked impact.

However, it would be fanciful to assume that successes against the Somali pirates can be easily repeated against people-smugglers in Libya. For one thing, it will be hard to damage the smugglers' boats without harming innocent migrants. From the moment they leave port, the boats are stuffed with people. And while they are in port, it will be tricky to distinguish them from legitimate fishing vessels. Indeed, the smugglers' business model more usually involves renting boats for a few days rather than buying them. Will the EU force's helicopter pilots be able to tell the difference between boats that are sometimes used for illicit trafficking and those that are put exclusively to honest purposes?

There are diplomatic obstacles, too. At least some EU members insist on getting authorisation for the operation from the UN Security Council. They hope Russia will refrain from using its veto; but there is no love lost these days between the government of Vladimir Putin and the EU, at loggerheads over Ukraine.

EU activities off Somalia are approved by that country's authorities. But the officially recognised Libyan government in Tobruk, which is fighting an Islamist rival in Tripoli as well as militias loyal to Islamic State, has not backed the new plan. "The military option to deal with the boats inside Libyan waters or outside is not considered humane," said a government spokesman, Hatem el-Ouraybi.

Michael Diedring of the European Council on Refugees and Exiles, a lobby group, fears that migrants from Eritrea, Syria and west Africa will still risk death in their bid to reach Europe, but will simply die in more remote places, away from the cameras. In the calculus of EU governments, that might count as a partial success.

Schools in Italy

A class divided

ROME

Plans to mend Italy's schools cause strikes and contention at the top

TWO big obstacles face the reform-minded Italian government, headed by Matteo Renzi: a mistrust of competition and selection, and a fear of change that may worsen existing problems, like nepotism. Both impulses are threatening a plan to upgrade Italian education.

The country's current school results are mixed. The Programme for International Student Assessment (PISA) organised by the OECD, a rich-country club, compares the performance of 15-year-olds in maths, reading and science. In the most recent 2012 survey Italy's teenagers were below average for all three, but not drastically so. Yet in another OECD survey, Italy was lowest or second-lowest in a group of 20 countries assessed for proficiency in literacy and numeracy among its 16-24-year-olds.

Whatever the base, improvements could boost productivity and perhaps reduce Italy's youth unemployment rate of 43%. Yet a bill to reform the system has prompted three national strikes and could cause defections from Mr Renzi's troubled centre-left Democratic Party (PD).

On May 20th the proposed law survived its first big parliamentary test when it was approved in the Chamber of Deputies, the lower house. It has yet to be endorsed by the Senate. Among other things, the bill offers financial rewards for the best teachers; promotes collaboration between schools and workplaces; allocates €4 billion ($4.5 billion) to erect and fix school buildings; and gives teachers €500 a year to spend on books, software and museum visits so as to keep themselves up to speed.

More controversially, the bill in its original form gave school heads new powers to pick and reward teachers. Critics said this would allow heads to favour friends or family. The reform also angered the PD's left wing by letting parents allocate a small share of their taxes to their children's schools, and benefit from tax breaks on donations to them. Both measures, critics say, would widen differences between state schools in rich and poor areas. (About 10% of children attend private, mostly Catholic, schools whose public funding the bill would also, contentiously, increase.)

But the heart of the reform, and its most divisive part, would do away with an army of supply teachers, hired piecemeal over the years, united only by their insecurity. More than 100,000 would get permanent posts. But, to the dismay of unions, another 50,000 would be left without work.

Stefano Fassina, a left-winger who quit his job as a junior finance minister last year in protest at Mr Renzi's approach, said that unless the bill was radically altered, "my career in the PD is over". With other sensitive reforms yet to be steered through parliament, the prime minister can ill afford defections. His government has accepted several changes to the bill. It has circumscribed the school heads' new powers and dropped the plan for schools to receive funds via tax returns.

But the prime minister still insists on cutting the number of supply teachers. Refusing to change, he says, would mean treating the educational system as a "social-security net". Unless he yields, many aspirant teachers will see their hopes dashed. But that may be the price of necessary change. ■

France, globalisation and sport

Ellipsoid beats sphere

PARIS

Why foreigners mix better with rugby than with soccer

WHEN pursuing excellence, the French rarely search beyond their borders. Among the country's top firms, listed in the CAC 40, only three have foreign bosses, and one of them—Carlos Ghosn at Renault—has taken French nationality. France would not think of looking overseas for a candidate to run its monetary policy, as Britain did when it chose Mark Carney, a Canadian, to head the Bank of England. Polls show the French are even more hostile to globalisation and open markets than either the Russians or the Chinese.

But in one area of national life they have been tearing down borders—rugby. Mighty Toulon has 25 foreign players in its squad of 49. Jonny Wilkinson, an English rugby icon, played there for five years. Today it boasts stars such as Leigh Halfpenny (a Welshman), Matt Giteau (an Australian) and Bryan Habana (a South African). Toulouse is home to Luke McAllister (from New Zealand) and Toby Flood (an Englishman). Even Brive, a club in the deeply rural Corrèze region, has six Fijian players and five South Africans.

The results are great. Toulon has won the European rugby cup for the past three years. In this year's final, it faced another French club, Clermont Auvergne. France lures players with big salaries: its nominal cap of €10m ($11m) per team is nearly twice that in England. Packed stadiums, a lucrative rights deal with Canal+, a French pay-TV channel, and a passion for the sport in the country's south have turned French rugby into a slick, branded, international phenomenon. As a sop to critics, a rule obliges clubs to field a minimum of French players. But rugby's extrovert success draws little objection.

Wilkinson's Anglo-French magic

Football is different. Many top French footballers earn huge sums—abroad; rewards for playing the game in France are meagre. The glaring exception is Paris Saint-Germain (PSG); and that club's transformation into a global marketing sensation, under Qatari ownership since 2011, has not won it many friends. A massive cash injection and the hiring of lavishly paid foreigners like Zlatan Ibrahimovic (a Swede of Bosnian descent) and Thiago Silva (a Brazilian) have propelled PSG into the super-league. It is the only French club among Europe's richest 20. And it has just won the championship for the third year in a row.

Yet PSG's transformation raises hackles. At the time of the takeover, *Libération*, a left-leaning newspaper, grumbled that "bling-bling" football was on its way. A poll suggested that 36% judged that PSG's image has worsened under Qatari ownership; just 13% thought the opposite. Another telling poll found that 91% of French people consider that rugby has a better image than football, while 62% said they preferred it as a sport.

France's sport-lovers, it seems, accept the globalisation and monetisation of rugby because of the rewards it brings and the classy discretion surrounding the sport. But the mixture of flashy displays of wealth with football grates. Mr Ibrahimovic, a dazzler on the pitch, did not help when he was caught recently on camera talking about "this shitty country".

Charlemagne | And then there were four

Politics is fracturing all over Europe, but nowhere so dramatically as in Spain

SIXTEENTH-CENTURY castles and contemporary Socialists make an odd mix. But Elvira García, mayor of Alaquàs, is bursting with pride as she walks around the structure that dominates the heart of this quiet Spanish town near Valencia. In the castle's heyday, she marvels, the noblemen who inhabited its upper levels built a passage to the adjoining church to avoid mingling with the crowd below. But four years ago, when Spain's young *indignados* erupted in anger against the elites, she invited the protesters to assemble in the castle's courtyard.

Ms García is no bandwagon-jumper. On taking office in 2009 she made a point of personally meeting all 4,000 people on Alaquàs's unemployment rolls. But politicians all over Spain have lately found themselves groping for a touch like hers, for the three-decade duopoly of the Socialists and the ruling centre-right People's Party (PP) appears to be expiring fast.

The first rival to emerge was Podemos, a leftist populist party that fuses the theories of Marxists with the energy of the *indignados*. It was followed by Ciudadanos, a party formed in 2006 to oppose the independence movement in Catalonia that has suddenly found a national audience for its message of liberal reform. As voters in most of Spain's regions and municipalities prepare for elections on May 24th, polls show all four parties on around 20%. Four years ago about 75% plumped for the PP or the Socialists.

Political insurgencies are hardly news in Europe. But the Spanish case is doubly unusual. First, unlike many other countries, Spain is not meant to have fragmented politics. The voting system put in place after the restoration of democracy in the late 1970s was designed to deliver strong majorities and a two-party system. It is now showing its age. The second oddity is the nature of the shock. The rise of Podemos is easy enough to understand in a country scarred by unemployment, spending cuts and corruption scandals. But Ciudadanos is an altogether odder phenomenon: liberal ideas have not flourished in the aftermath of the financial crisis, particularly in southern Europe. The party's policy ideas, drawn up with the help of Luis Garicano, an economist, include a slimmer public administration and a single labour contract—not the sorts of things to get protesters' pulses racing.

The experience of Valencia provides a clue. The regional government has been run by the PP for 20 years; the city for 24. Many politicians were guilty of excess during Spain's pre-crisis years, when construction bubbles were inflated by the easy money that flowed into the country. But Valencia's may have been the worst. The region is littered with their follies, from a vast arts and science complex to the remains of a Formula 1 track ripped up after four years. Now Valencia has become a byword for waste and corruption. Some 150 PP officials face criminal trials, and the party's support is haemorrhaging. Ciudadanos's local candidate, Carolina Punset, rails against the clientelism and instruments of patronage she says allowed bad behaviour to flourish.

The fracturing of politics across the country may leave Podemos and Ciudadanos holding the balance of power in many regions and town halls. That will give them a dilemma. Do the parties taint themselves by propping up incumbents, or remain pure but risk looking irresponsible? Ciudadanos's answer is to set the bar high: it will not enter coalitions in regions where it does not win, and will set strict conditions even before talking to other parties. But this may be a recipe for uncertainty. Exhibit A is Andalusia, Spain's most populous region, which after two months of post-election wrangling has failed to form a government.

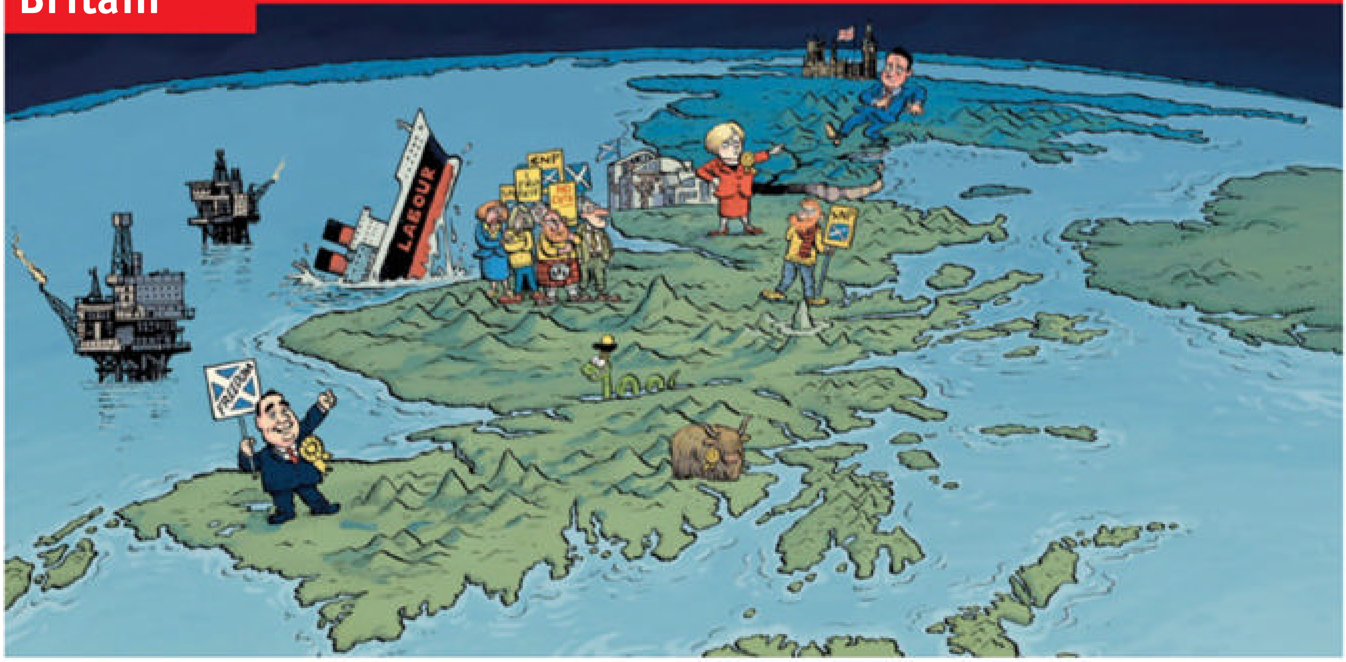
Inevitably, there have been growing pains. Last month a Podemos co-founder quit the party in protest over its scramble to the political centre to arrest a decline in the opinion polls. Last week a Ciudadanos candidate in Catalonia did the same after declaring herself shocked to find, on reading its programme, how right-wing it was. But such teething troubles should not diminish the newcomers' impact. Podemos's dismissal of the old guard as *la casta* ("the caste") resonates beyond a leftist fringe; the idea is present in Ciudadanos's appeals to jaded voters, even if the phrase is not. Feeling the heat, Mariano Rajoy, the PP prime minister, finally apologised in October for all the scandals washing over his party.

Looming over everything is a general election that is expected by January. Heartened by Spain's recent economic performance—jobs are being created at a rapid clip, thanks in part to a 2012 labour-market reform, and the government forecasts growth of 2.9% this year—the government hopes to do better than the polls suggest. But having underestimated Spaniards' anger with corruption, it risks overestimating their sense of economic security. A cocky Mr Rajoy recently posed a rhetorical question: "Who, these days, is still talking about the bail-out, the recession or unemployment?" The 5.2m Spaniards who represent one-fifth of Europe's jobless army may be one answer.

Yes Spain can

Spain's older parties have only themselves to blame for their woes. Mr Rajoy's government has not reformed enough, and it bungled the corruption issue. The Socialists have neither acknowledged their own failures in government between 2004 and 2011, nor found a way to channel the righteous anger of the *indignados*. Neither party seems to have the will to tackle the inefficiencies and injustices that mar Spain's public sector, from over-numerous municipalities to politicised bureaucracies.

By contrast the newcomers have already revitalised Spanish democracy: Podemos, by giving voice to large parts of a generation alienated by stale politics and a broken economy; and Ciudadanos, by showing that radicalism can come from the centre and avoid the stain of corruption. Either party, or both, may fade; but each has left its mark. "We are entering a new era in which new political manners will be required," says José Juan Toharia, president of Metroscopia, a pollster. Not before time. ■



Scotland

The view from the north

EDINBURGH

Riding high, Scottish nationalists ponder when next to push for independence

THE pro-independence Scottish National Party (SNP) spent Britain's general election campaign pledging to shake up Westminster. Having won 56 of Scotland's 59 seats, it is making good on the promise. In the few days since the House of Commons reconvened, its representatives there have colonised Labour MPs' favourite bar, defied a ban on taking photos in the chamber and, egalitarian to the core, refused to use a section of the Thameside terrace reserved for MPs ("Now there's no room for the rest of us!" complains one staffer). Despite losing last September's referendum on secession, the party is riding high back in Scotland, too: it runs the devolved Scottish administration and counts one in 50 adult Scots among its members.

Yet the SNP now faces a quandary. Throughout the party it is assumed that Scotland will eventually break from the United Kingdom. But members and strategists fret: when? "The worst thing that could happen would be another No vote," warns one activist, adding that for Scotland to succeed as a separate country voters must opt for that outcome resoundingly—not with 51% in favour, but 60% or 70%. Two camps are emerging: one that wants another referendum at once, and another that wants to bide its time.

On the latter side are most of the party's upper echelons (probably including Nicola Sturgeon, its leader and Scotland's first minister). They think the party should spend the next years consolidating its position before asking for a mandate for a new referendum at elections to the Scottish Parliament in 2020. Their watchword is caution, recalling that in the run-up to last year's plebiscite the "Yes" to independence campaign assured Scots that they had a "once in a generation" chance to leave the union. Scottish voters—55% of whom declined the opportunity—have not forgotten that. When Ms Sturgeon refused to rule out a new referendum in a televised debate in Glasgow last month, the audience booed.

Demographic factors also militate for patience. Younger Scots are the keenest on independence. If this is a generational phenomenon (and their views do not become more conservative as they get older), the thinking goes, the electorate will gradually tilt towards secession as the years pass.

And the SNP can edge Scotland towards independence incrementally. Already another round of devolution is planned. Following promises of further autonomy made by unionists during the campaign last year, David Cameron, the prime minister, appointed Lord Smith, a Scottish peer, to work out the details. Mr Cameron's Conservative government will now write his proposals—which include devolution of income-tax rates and bands, air-passenger duty and certain welfare benefits—into law before the end of the year, making Scotland about as self-governing as subnational units in federal states like Switzerland and Canada. Ms Sturgeon wants to go farther: she is using her party's new strength in Westminster to push for control of corporation tax and national insurance (paid by employees and employers), for example, with which to boost Scotland's finances. Her party claims this could even pave the way for full fiscal autonomy—though it concedes, vaguely, that this could take "a number of years" to implement.

Others in her party see this as a distraction, and want the SNP to seek a mandate for a new referendum at the Scottish Parliament elections next year. The impatient wing includes old-timers who have waited many years for the chance to make Scotland independent, and new joiners drawn to the party by the thrilling experience of last year's vote. Judging by his triumphalist rhetoric in the aftermath of the general election, it also includes Alex Salmond, Ms Sturgeon's predecessor.

This camp worries that further devolution could weaken the party—both undermining its claims that its hands are tied by Westminster (a get-out that enables it to combine left-wing rhetoric with a centrist ▸▸

Also in this section

record in Edinburgh) and forcing it to make unpopular spending cuts or tax increases as subsidy from London is withdrawn. "All the burdens of independence with none of the benefits," says Robin McAlpine, a leading figure on the pro-independence left.

Moreover, the SNP's leadership must keep the party's vast membership happy. "You could sense the power," says one supporter of the party's annual conference last November, adding that it seemed to rest not among the "nervous" bigwigs on the stage but in the 3,000-strong crowd. Continually meeting activists' expectations—which include an end to spending cuts and escape from the clutches of London—over several years will be a slog. Perhaps wiser to go for a new referendum straight away, harnessing their fizzing energy before it dissipates.

Finally, the SNP's superiority over Labour, the party that has dominated Scottish politics for decades, is now crushing. Not used to defending seats it had long taken for granted, the Scottish Labour machine went into meltdown in the days before the election. "We're in a bad, bad place," says one campaign chief. After only narrowly surviving a vote of confidence, on May 16th Jim Murphy, the party's leader in Scotland, tendered his resignation. The temptation for the SNP to push for independence while the main unionist party in Scotland is in the doldrums is strong.

Will Ms Sturgeon give in to it? Torn between the wait-and-see tendency and the go-for-it brigade, she will probably split the difference, pledging to hold a referendum if Britain opts to leave the EU (Mr Cameron has pledged to hold a vote on the matter by the end of 2017), but otherwise reopening the independence debate only once the following Scottish Parliament election, in 2020, draws near.

Scotland's opposition must shape up, fast. Deserted by its members and dismissed by voters as a spineless front for the London establishment, Scottish Labour urgently needs to loosen its ties to the Labour Party in Westminster and nurture its withered campaigning infrastructure. Its MPs who lost their seats in this month's election should not stand for the Scottish Parliament next year; instead the party needs new, hungrier candidates, willing and able to hold the SNP to account.

Unionists more broadly must start preparing for the next Scottish referendum. It increasingly looks as if the only sustainable future for the United Kingdom involves federalism: separate administrations for England, Scotland, Wales and Northern Ireland. The Scots are modestly more left-leaning than the English and want to rule themselves. The English resent the money they pay to Scots and the influence of Scottish MPs in Westminster. Unionists must reshape the union accordingly, or the SNP will end it altogether. ■

Death in Surrey

See no evil

A new twist in the strange case of a Russian whistleblower

WHEN a Russian exile dies suddenly after providing explosive evidence to an anti-Kremlin activist, a degree of suspicion is natural. Now it seems justified. A toxicologist told a pre-inquest hearing on May 18th into the death of Alexander Perepilichnyy, an émigré Russian banker, that his stomach contained a compound associated with the poisonous plant *gelsemium*. The coroner adjourned the hearing until September, pending further tests.

The new evidence raises questions both about Mr Perepilichnyy's death and the authorities' investigation of it. When he collapsed and died on November 10th 2012, jogging near his Surrey mansion, the police saw no signs of foul play. Two inconclusive post-mortems and a "full and detailed range of toxicology tests" found "no suspicious circumstances", police say.

But shortly before his death, Mr Perepilichnyy, a fit 44-year-old who was on a Russian gangland hit-list and had also been threatened with prosecution by the authorities in Moscow, had taken out a large life-insurance policy. Though lawyers will not comment, it is thought to be the insurers' investigation which found the *gelsemium* traces.

This vindicates Bill Browder, an American-born financier who made a fortune in Russia and now campaigns against corruption from exile in London. Mr Perepilichnyy, who had deep experience in the murkiest corners of offshore finance, had greatly helped Mr Browder's investigators trace money stolen in what they term a huge tax fraud by Russian officials. Mr Browder has lambasted the police for botching the case. He says they ignored the "French connection": three unexplained days Mr Perepilichnyy spent in Paris just before his death. Oddly, he booked two hotels and spent €1,200 ($1,340 or £860 at today's rates) at Prada. That purchase—presumably a gift—is unaccounted for; nor does anyone seem to know what he was doing, what he ate, and with whom.

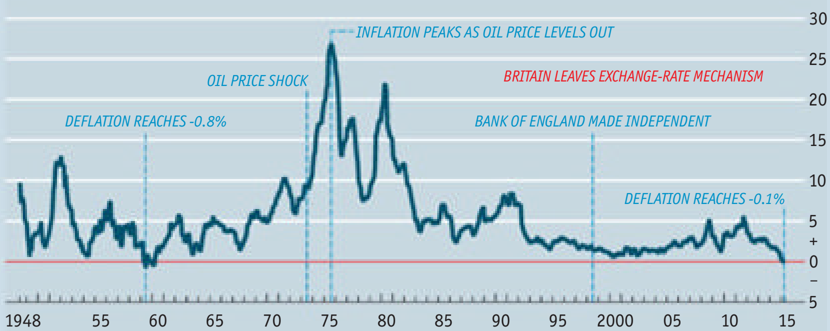
The seeming official incuriosity is all the odder given the high death rate among prominent Russian exiles in Britain. In 2006 Alexander Litvinenko, a former Russian security official, was poisoned with polonium, a rare radioactive substance. He had been working with British intelligence on an investigation of links between senior Kremlin officials and Russian organised crime in Spain. British officials believe the Russian state was involved in his murder. In June 2007 a Russian oligarch, the late Boris Berezovsky, temporarily fled Britain citing an attempt on his life. A putative assassin was arrested and deported to Russia. (Mr Berezovsky, who had become a ferocious critic of Vladimir Putin's regime, later died in an apparent suicide.) His business associate, the tycoon Arkady "Badri" Patarkatsishvili, died of a presumed heart attack in 2008.

Surrey Police declines to comment until after the inquest. There may be even more questions by then. ■

Dipping back into deflation

On May 19th official statisticians announced that Britain entered deflation in April, with consumer prices standing 0.1% lower than a year earlier. It is first time since 1960 that annual inflation has been negative. Back then, prices pepped up again quickly. The Bank of England expects a similar rebound this time, on the basis that the recent fall in the price of food and fuel will be a one-off. But for inflation to return to the bank's 2% target, sustained growth in wages is necessary. That means the bank is keeping a close eye on inflation expectations; if Britons start accepting lower pay rises on account of stagnant prices, deflation could persist.

Consumer prices*, % change on a year earlier



Source: ONS

*Retail price index before 1989

Bagehot | The trials of Nigel

The UK Independence Party and its leader could become a problem for the Eurosceptic cause

HAVE Jean-Claude Juncker and his scheming Eurocrats infiltrated the UK Independence Party? The way UKIP went to war with itself the moment its raison d'être—getting Britain out of the European Union—became achievable, tempts the thought. Or maybe quitting Europe, at the "in-out" referendum the Conservative government has promised to hold by the end of 2017, is no longer the "people's army's" priority. Nigel Farage, UKIP's charismatic leader, made more noise during the election campaign railing against immigration, in particular of people infected with HIV, than he did about the EU. Quite what UKIP, which won almost 4m votes—or roughly one in eight of those cast—now stands for, and what Mr Farage intends for its future, are unclear.

Implanting a bit of plain speaking into the Westminster snake pit, which is another of the blokeish UKIP leader's oft-stated ambitions, can at least be crossed off the list. Straightforward people do not break their promises as shamelessly as Mr Farage has just done. Having pledged to resign if he failed to get elected to parliament, he duly failed, resigned, then changed his mind. He claimed his resignation letter was thrown back at him by the party's national executive. UKIP's economics spokesman, Patrick O'Flynn, accused Mr Farage of being "snarling, thin-skinned, aggressive" and presiding over "an absolutist monarchy or personality cult".

After a week of infighting and riot, Mr Farage bit back, forcing Mr O'Flynn to resign his party role on May 19th. Yet the view Mr O'Flynn dared utter, Bagehot finds, is widely shared in UKIP's upper echelons, especially among those who consider the party primarily as a means for getting Britain out of Europe—not, as they suspect Mr Farage's coterie does, for sustaining a growing horde of UKIP MEPs, advisers and hangers-on.

Mr O'Flynn and those other high-minded Kippers had watched with growing unease as Mr Farage resorted to increasingly crude tactics on the campaign. The first time he suggested that barring people with HIV from Britain would be an important plank of UKIP's health policy, a senior Kipper took issue with him; Mr Farage claimed to have been misquoted. But he kept repeating his suggestion, including during a live television debate, confirming his status as the pantomime villain of British politics.

Mr Farage calculated that, to get UKIP's disaffected and rather old supporters to turn out, he would need to fire them up. He succeeded in that aim. But the fact that Mr Farage failed to win the Kent seat of Thanet South—where many Labour voters, appalled at the prospect of having him as their MP, switched to the Tories—also suggests the grand folly of turning off most of the electorate.

British voters do not like extremists and they do not like rudeness. That is why no hard-right party has previously gained mass support. Mr Farage's achievement hitherto was to have made UKIP's intolerant positions appear sufficiently unthreatening to overcome that nicety. The defection last year of two Europhobic Tories—including Douglas Carswell, the admired MP for Clacton, who is now UKIP's only parliamentary representative—was also important evidence of this. Greatly enthused, Mr Carswell predicted that Mr Farage's army would soon emerge as a liberal, outward-looking proponent of free trade. Plainly, he was not in it to bash foreigners with AIDS.

The dismay that he and other senior Kippers felt at Mr Farage's tactical excesses is the main reason for UKIP's post-poll meltdown. Seconding Mr O'Flynn's attack on his leader, but in a gentler tone, Mr Carswell suggested Mr Farage needed to take a break. The Clacton MP meanwhile fell out with his boss on a separate issue, concerning the amount of public money UKIP should draw to fund its meagre parliamentary operations. It is entitled to £650,000 ($1m) a year, which Mr Carswell maintains is almost twice what it needs. More fool the taxpayer, Mr Farage's aides replied, greatly irritating Mr Carswell; which in turn provoked the UKIP leader to issue him with a veiled threat, to put up or leave. But Mr Carswell, whose majority was heavily reduced in the election, has nowhere to go.

UKIP is now papering over the cracks. Mr Farage has promised to take a few weeks off, and his divisive aides have been pushed out. Conceding that "we in UKIP didn't exactly cover ourselves in glory," his deputy, Paul Nuttall, has urged the party to focus "on preparing UKIP for that referendum, which after all is why UKIP was formed in the first place." This was a reminder of how far UKIP has strayed from that mission.

True, its supporters tend to be Eurosceptic. Yet they represent less than 13% of the electorate, and the party's ability to widen its appeal is now in doubt. As a Eurosceptic pressure group—the narrower remit its academic founders intended—it has long been failing. At the height of UKIP's popularity late last year, British support for remaining in the EU was at its highest level since 1991, with a clear majority for staying put.

A good week for Europe

Recognising his party's limitations, Mr Carswell now suggests it should take a quieter role, in support of a broader-based "out" campaign. Hardcore Tory Eurosceptics, who have been watching the riot in UKIP with dismay, also want that. But there is a glum view within UKIP that Mr Farage is nonetheless planning to dominate the "out" campaign in a way that would make it even less likely to succeed.

His hope, it is feared, may be to "own the defeat", after the fashion of the Scottish National Party, which has enjoyed a regretful surge in support since last year's failed independence referendum. Given UKIP's broader agenda, that would be in its own way troubling. Still, for those who do not want to see Britain leave the EU, these developments are encouraging. Mr Farage has emerged this week as both divisive and triumphant. This puts his party on course to do harm to the cause for which it claims to exist. ■

Development aid

It's not what you spend

Also in this section

How to make aid to poor countries work better

FOR decades rich countries have sought to foster global development with aid. But all too often there is little to show for their spending, now over $135 billion a year and rising. Success depends on political will in recipient countries, says Erik Solheim of the Development Assistance Committee of the OECD, a club of mostly rich countries that includes the biggest donors. And that may well be lacking.

What donors will pay for may not be what recipients deem a priority. So poor countries' governments say what they must to get cash, and often fail to keep their side of the deal. Aid to build schools may be used to give fat contracts to allies, and the schools left empty. Ambulances bought by donors may rust on the kerb, waiting for spare parts.

Now donors are trying a new approach: handing over aid only if outcomes improve. "Cash on delivery" sees donors and recipients set targets, for example to cut child mortality rates or increase the number of girls who finish school, and agree on how much will be paid if they are met. Conventional approaches still account for the lion's share of international aid. But several countries, including Britain and Norway, and big private donors, including the Bill and Melinda Gates Foundation, are experimenting with cash-on-delivery.

At the moment, donors fearful of theft or waste usually write detailed plans for how their money is to be spent and insist that they are followed to the letter. But watchfulness may make little difference. Laying a square metre of road costs the World Bank over 50% more in countries where firms report paying bribes above 2% of the value of contracts than in ones where such payments are reported to be lower—even though its anti-fraud measures are equally stringent the world over.

Another reason donors are prescriptive is lack of faith in local bureaucrats' competence. Scepticism is sometimes warranted, says Mr Solheim, though often overdone. Meanwhile donors are stifling ingenuity and making it hard to adapt schemes to local needs, says William Savedoff of the Centre for Global Development, a think-tank in Washington, DC, that champions the cash-on-delivery approach. To immunise more children, for example, one country will need cold-boxes to stop vaccines spoiling; another to pay health workers' transport costs to visit isolated villages. A distant donor is unlikely to know what is lacking in each case.

In cash-on-delivery schemes, recipients choose their own paths towards their targets, subject only to basic rules, such as respecting human rights. (A sterilisation programme, for instance, could be a good way to reduce deaths in childbirth, but participation must be voluntary.) A government that signs up starts by using its own money and existing aid. If it succeeds, it may choose to plough the reward back into the programme, creating a virtuous circle.

Elements of the model have featured in several recent government-funded health, education and environmental aid programmes. Private investors are keen on chipping in to reward governments for producing skilled workers, says Nancy Lee of the Millennium Challenge Corporation, an American agency which is planning schemes that will pay countries that succeed in cutting youth unemployment.

Norway makes payments to several countries for preserving their forests and thus cutting carbon emissions. Since 2008 it has paid Brazil $5 for each tonne of carbon it has avoided emitting by leaving trees standing that, if the previous trend had continued, would have been felled. Satellite images are used for monitoring. Brazil decided on the measures it would take to save its trees, which included expanding national parks, making it harder to plant sugar cane in the Amazon region and improving the national land registry.

In 2012 Britain agreed to pay Ethiopia up to £100 ($157) for each extra pupil sitting its school-leaving exam, compared with numbers before then, and another £100 for each pupil who passed (payments are lower for boys and pupils in better-off regions). Two years later nearly 45,000 extra pupils have taken the exam and 42,000 extra have passed. Set against an annual education budget of $1.2 billion, the scheme is spare change. But it focuses the government's attention on results.

The red tape that comes with conventional aid ties up scarce accountants and managers, who might be better employed running public services. In cash-on-delivery programmes, by contrast, the only ▸▸

checks are on the measurement of outcomes. These are particularly important when national data are being used.

A recent scheme to raise global vaccination rates illustrates the need. Starting in 2000 GAVI, a public-private initiative, paid poor countries $20 for each additional child given all three shots of a vaccine that protects against diphtheria, tetanus and whooping cough. Research by the Centre for Global Development found that the gap between coverage as reported by officials and as found by household surveys widened during the years the programme ran. It stayed the same for the measles vaccine, which attracted no extra payments. GAVI is redesigning the scheme and will use survey data to verify country records.

By setting and measuring targets, cash-on-delivery donors hope to spur healthy competition. Salud Mesoamérica, a public-private programme run by the Inter-American Development Bank, pays a bonus to Central American countries that improve health services for their poorest citizens. The bank's officials say that the countries that participate care deeply about doing better than their neighbours.

Recipients may have more incentive to avoid failing than in a conventional aid programme, where it is easy to trumpet inputs as achievements. Perhaps the biggest gain from the new approach, says Mr Savedoff, is that it encourages politicians and officials to seek improvements that cost nothing at all, such as ensuring that government money arrives in schools and hospitals on time. They may even put the best person in charge, rather than a relative or ally, if that is what it takes to get paid. ■

Philanthropy

Doing good by doing well

Lessons from business for charities

"WHAT charity will give me the biggest bang for my buck?" asks Elie Hassenfeld. In 2007 the former hedge-fund manager co-founded GiveWell, a non-profit organisation set up to answer that question for the growing number of donors who want to know how much good their cash will do before deciding which charity to entrust it to. GiveWell researches charities active in fields where there is strong evidence that great good can be done for a modest cost, such as cutting the incidence of malaria and treating children for parasites. The most effective are published in a list of "best buys".

According to Alana Petraske, who advises charities and donors for Withers, a law firm, much of the new interest in such "impact-driven" philanthropy is from donors with business backgrounds who aim for the same efficiency in their giving as in their work. Bill Gross is a recent example. The billionaire bond investor has said that he will give his entire fortune away, and lauded GiveDirectly, a GiveWell top pick that makes no-strings cash grants to poor people in developing countries that he describes as "outperforming the market".

Venture philanthropy, modelled on venture capitalism, offers a way to invest in charities that are testing new approaches to solving old problems. Some big donors, including the Gates Foundation and USAID, the American government's aid agency, run competitions for innovative approaches, which are extended if they prove to be effective and efficient. They look for rigorous evaluation: almost half the projects USAID funds include "gold-standard" randomised controlled trials.

Small donors, too, are becoming more discerning in their giving. Together, their contributions vastly outweigh those of billionaire philanthropists and their foundations: a 2007 study estimated that American households gave at least $60 billion annually to charities focused on the needs of the poor. By comparison, the Gates Foundation made grants totalling $3.9 billion last year.

Members of Giving What We Can, an Oxford-based society, pledge to make regular donations right through their working lives to charities that alleviate poverty as efficiently as possible. Many are recent graduates on modest incomes. Using information provided by charities themselves, it calculates that the most effective health-focused charities do more than a thousand times as much good as the least effective, as measured in "quality-adjusted life-years", a standard unit that combines survival and quality of life. Choosing the right charity thus matters at least as much as deciding how much to give to it.

That donors are paying more attention to the uses their money is being put to may seem an unalloyed good. But demanding proof of impact may push charities to focus on short-term outcomes, rather than more meaningful long-term measures of success. Worthy but risky projects such as pioneering medical research may be squeezed out. Others that do good work with particularly difficult groups, such as persistent young offenders, could go the same way. "What you don't want is all charities gravitating towards the easier projects that guarantee high levels of success," says Iona Joy of New Philanthropy Capital, a think-tank that advises charities.

Another potential pitfall, says Ms Joy, is that impact-minded donors may withdraw their support if charities admit to mistakes. That can push charities to seek to justify failures rather than learn from them. Though nearly three-quarters of British charities with an annual income of more than £10,000 ($15,500) say they have been trying harder than before to measure impact, just 5% say that they do so mainly to improve their service. More than half are trying to satisfy funders.

This is a missed opportunity. SolarAid, which won Google's Global Impact Challenge in 2013, sells solar lamps that cost $10 and save families on average $70 on paraffin (kerosene) a year. In 2012 sales failed to grow as much in Malawi as elsewhere. Most potential customers, its research and impact unit found, could only afford a solar light straight after tobacco harvest, in May. Scheduling its sales visits to coincide with this period made the charity more cost-effective, says Kat Harrison, its director of research and impact, and helped it to reach more very poor people.

Donors often look for low overheads in the mistaken belief that this is a proxy for cost-effectiveness. But to solve new problems charities need discretionary cash for staff, research and infrastructure. Dasra, an Indian foundation, specifically encourages affluent donors to give charities money to be spent on administration. In 2010 it set up its first "giving circle" of three donors who collectively committed $600,000 over three years, to be used by a small charity to get better at managing its work and measuring its impact.

Educate Girls, the first charity supported by a giving circle, covers 10,000 schools in Rajasthan, India's largest state. A preliminary evaluation by researchers at Michigan University suggests that it cuts girls' drop-out rate by 5%. Smarinita Shetty, one of Dasra's senior managers, compares the approach to that of private equity, which seeks to make businesses more valuable by improving their management. As charities are learning, if you want to do good, you have to do well. ■

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Samsung

The soft succession

As he gradually takes the reins of the South Korean conglomerate, Lee Jae-yong will have an even tougher job than his father did when he took over 28 years ago

WHEN Lee Kun-hee took the helm at Samsung just two weeks after the death of his father, the firm's founder, in 1987, he set himself a seemingly unachievable goal: turning a middling South Korean conglomerate into a global giant in the mould of IBM or General Electric. He had a clear vision of how to climb that mountain: making big bets on emerging technologies and going for scale at almost any price. And he had the sort of management style that would have made Zeus proud. Every few years he hurled lightning bolts into the group's headquarters in Seoul, where he would otherwise rarely show up. In 1993, for instance, he ordered all his senior managers to drop everything and fly immediately to Frankfurt, where he gave them a speech that lasted three days.

Today, nearly 30 years later, Samsung boasts annual revenues of more than $300 billion. It is now the world's largest electronics manufacturer, with two-thirds of the group's revenues coming from smartphones, semiconductor chips and assorted other components. The rest comes from a grab-bag of lower-tech offerings, from washing machines and container ships to theme parks and life assurance.

Once again, the colossus is in the midst of a dynastic succession. Mr Lee, now 73 years old, suffered a heart attack last year. It is said that his physical condition has stabilised but that he cannot communicate, and is not expected to return to work. Gradually, his only son, Lee Jae-yong, 46 (who calls himself Jay), has been stepping towards the limelight. On May 15th it was announced that he would become chairman of two family foundations. These hold some of the various small stakes in Samsung companies that allow the Lees to control the group despite owning only a few percent of it. The foundations are also seen in South Korea as the family's public face: they support good causes, such as child-care centres for poor families, and the stunning Leeum museum in Seoul.

Taking charge at the charities will help cement the younger Mr Lee's image as a softer, more reflective leader than his father. It is also seen as one of the final steps before he ascends to the corporate throne. He is expected to take a leadership role at the group's most important division, Samsung Electronics, in the coming months.

Until recently, precious little was known about the group's new boss. Articles about him, especially in Western news media, have tended to repeat the same few points: that he is more soft-spoken than his father, that he was involved in a disastrous e-commerce venture during the late-1990s dotcom bubble and that analysts regard his managerial abilities as unproved.

Indeed, when 50 fund managers, stock-market analysts and other experts were recently polled about 11 heirs to the *chaebol*, South Korea's dominant business conglomerates, Mr Lee ranked seventh on leadership ability and last on legitimacy to inherit his father's wealth. South Koreans as a whole have become less tolerant of corporate "princelings", but in Samsung's case at least it helps that the family's third generation—Lee Jae-yong and his two sisters, who already run smaller bits of the empire—are seen as having clean hands. The younger Mr Lee gained credit for pushing the company, a year ago, to apologise swiftly to employees who had apparently contracted leukaemia while working in its semiconductor plants.

Quietly passionate

Those who have met Mr Lee say he is indeed low-key and even a bit shy, but that he can also be insightful, funny and even passionate—for instance when he talks about Samsung's plans to become a big contract manufacturer for drug companies, a project he has been known to describe as his "baby". And although he does not (yet) sit on the board of Samsung Electronics and has only the rank of vice-chairman at the firm, it would be naive to assume that he had no say in the firm's recent big moves.

One example is the release earlier this year of the Galaxy S6 smartphone. It does not seem to be selling much better than its predecessor, which received poor reviews, prompting a fall in Samsung's market share (see chart 1, next page). When the S6 was launched, Korean news media called it the "Lee Jae-yong phone"—an echo of the "Lee Kun-hee phone", the SGH-T100, which the older Mr Lee launched in 2002 and which became Samsung's first big hit, selling more than 10m units.

Although he is unlikely to subject his staff to three-day speeches, the younger Mr Lee will probably emulate his father in another respect, by keeping out of day-to-day matters to concentrate on broad, strategic issues. In a number of ways, those issues raise far tougher questions than the ones his father faced from 1987. Although Mr Lee senior's path to greatness was steep, at least it was relatively clear. Now, besides having to oversee a far larger group—consisting of around 80 firms, with almost half a million employees around the world—the new boss will have to manage three simultaneous balancing acts: between competition and co-operation, between hardware and software and, most importantly, between Samsung's Korean roots and its global present and future.

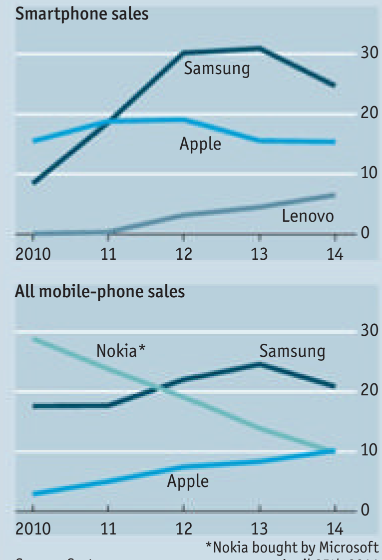
In electronics and other technology-based industries these days, one of the most important skills a boss needs is managing a complex relationship with rivals that is part competition, part co-operation (see Schumpeter). Apple is not just Samsung's biggest rival in selling smartphones, it is also the biggest customer for Samsung's semiconductors. Samsung's smartphones run on Google's Android operating system, making those two firms partners. But Samsung continues to invest heavily in Tizen, an operating system of its own, that powers its simpler handsets and other devices—a weapon that could be deployed more widely if the need arose.

As Samsung's "chief customer officer", a job created for him, the younger Mr Lee has already been in charge of such tricky relations for several years, says Shaun Cochran of CLSA, a stockbroker. Somewhere along the line Mr Lee, a graduate of both Keio University in Tokyo and Harvard Business School, seems to have acquired the knack of managing them. He got along well with Steve Jobs, Apple's abrasive former boss, and was even invited to his memorial service. His good rapport with Tim Cook, Jobs's more emollient successor, has helped the two firms repair their relationship following a bitter legal row over patents. Apple won an award of nearly $1 billion after it convinced the jury that Samsung's Galaxy smartphones copied several aspects of the iPhone.

It is less clear how well Mr Lee will handle his second big balancing act: making Samsung better fit for an age in which more and more profits are generated by software and online services, despite the fact that hardware is the firm's forte. It now employs thousands of programmers, but its culture is still dominated by hardware engineers—making it tough, for instance, to compete with Xiaomi, an upstart smartphone-maker which has taken a lot of market share from Samsung in China. Xiaomi is often likened to Apple. But a better comparison is Google: the Chinese firm's devices are essentially loss leaders; its plan is to make most of its money using them to peddle services, content and advertising.

The struggle to stay on top 1

Global market share, %



Source: Gartner

Under the elder Mr Lee, Samsung would have tried to develop the necessary software skills entirely in-house. His son seems open to acquiring expertise. In recent months Samsung has bought two startups: SmartThings, which makes software for the "internet of things" (wirelessly connected appliances), and LoopPay, a mobile-payments service.

To be more plugged into the world of startups, the group has also started to open innovation labs at important tech hubs around the world, notably in Silicon Valley, where Samsung is building fancy new facilities, complete with a clean room for chipmaking and a gym for employees. But all this may not be enough to turn it into a successful software firm. For that, Samsung may have to become more forceful in establishing its own "platform"—like Android, or Apple's iOS operating system—on top of which other firms can build a variety of services. So far, for all its investment in Tizen, Samsung has seemed hesitant to use it more widely.

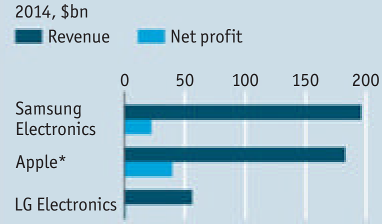
Perhaps the most difficult balancing act will be the third one: between staying true to the Korean roots that have served Samsung so well, and becoming truly global. Samsung's greatest strength has been the discipline and loyalty it instils in its workforce. Once the leader has set the goal, employees march in lockstep to achieve it. That culture was easy to maintain while Samsung was still a Korean company full of Korean engineers. But it now employs a far wider variety of people from all backgrounds. It needs to become a more open-minded organisation, and to accept that creativity carries expectations of freedom.

At least Korean corporate culture is not as conformist as Japan's, where dissent is always discouraged, says Mark Newman, an analyst at Sanford C. Bernstein, a research firm, and formerly a Samsung employee. "At certain times, before the goals are set, speaking up is actually valued," he says. In other words, giving free-spirited software coders a bit of licence to speak their minds would not be completely alien to Samsung's management. And the younger Mr Lee, with his part-Western education, should understand better than his father why a culture change is needed.

However the group's new boss manages all these tensions, he will ultimately be judged on the numbers he delivers. Samsung may not be as profitable as Apple, but at least it remains way ahead of its main domestic rival, LG (see chart 2). That said, most of Samsung's current moneymakers—displays, memory chips and even smartphones—are maturing. To ensure future growth, Samsung is having to make not just one big bet, but several—in the knowledge that it cannot predict which technology will win.

Pipped at the profit post 2

2014, $bn



Source: Company reports *Year ending September 27th

One of its bets is on next-generation batteries; another is on medical equipment. But the most interesting may be the younger Mr Lee's plan for Samsung to become a giant contract manufacturer for biotech drugs. It has figured out that growing proteins in animal cells, at massive scale in ultra-clean plants with extremely high standards of quality control, is quite similar to "growing" circuits on silicon wafers under similar conditions. By concentrating on this bit of the pharmaceutical business and leaving other firms to design and market the drugs, just as with its microchip "foundries", it could become as dominant in drugmaking as it is in the chipmaking industry.

That is a long-term project. In the short term Mr Lee may try to please investors through a further untangling of the conglomerate's Byzantine structure. Already, two of its main companies have gone public, and some non-core businesses, in defence and chemicals, have been sold. Turning Samsung from a corporate hairball into an investor-friendly group with a proper holding company is a work in progress. Some early moves on this will help convince shareholders that Samsung's leader is heading in the right direction. ■

China's solar-panel industry

Burned again

BEIJING

Shares in a high-flying firm suffer a mysterious collapse

"THE history of the development of the human society is a history of discovering and exploiting energy." With those grand words did Li Hejun (pictured), one of China's wealthiest billionaires, inaugurate a giant exhibition centre devoted to clean energy near Beijing's Olympic Forest Park on May 20th. At the event his firm showed off fancy kit that it says it is developing, including solar technologies for the cars of the future.

As Mr Li was waxing lyrical in the Chinese capital, something astonishing was happening in Hong Kong to Hanergy Thin Film Power Group, the listed subsidiary of his privately-held Hanergy Group. Possibly spooked by Mr Li's failure to attend the company's annual shareholder meeting, investors dumped its shares. The company, which the previous day had been worth about $40 billion, had lost almost half its value before regulators stepped in and halted trading. On one estimate, Mr Li saw about $14 billion of his personal fortune vanish in a few hours.

Hanergy is but the latest Chinese Icarus to fly too close to the sun. Suntech, a Chinese solar-energy pioneer, rose to become the biggest clean-energy firm in the world. Its boss, Shi Zhengrong, became the richest man in the China. But thanks to a global downturn in the industry and alleged financial improprieties at the firm, it went spectacularly bust in 2013.

Then, Hanergy shot from obscurity to capture the title of world's biggest clean-energy firm (Mr Li at one point was also reckoned to be China's richest man). From last September up until their collapse on Wednesday, its shares rose fivefold. Its market valuation eclipsed those of Tesla and Twitter. Mr Li became a celebrity in China, and political functionaries, including Xi Jinping before he became China's president, visited his firm's facilities.

On May 21st Hanergy issued a brief statement insisting the firm and its management had done nothing wrong, saying that the firm was operating normally and promising that it remained "full of confidence". The same day, shares in two units of Goldin, a Hong Kong finance and property group, fell by almost half. Hanergy recently appointed one of the Goldin units as a financial adviser, though the relevance of this link, if any, was unclear as we went to press. Making money in the fiercely competitive and fast-moving solar-panel business is hard, though that hardly explains the extent of Hanergy's share-price collapse. But a number of awkward questions have been raised about the firm; it was reported this week that regulators in Hong Kong have started studying it.

For one thing, the listed firm's murky relationship with its unlisted parent group has long raised eyebrows. The listed firm supplies manufacturing equipment used to make solar cells. It also acquires such cells and uses them in solar farms it promotes as a project developer. Most of these transactions, however, have been with its parent. Jenny Chase of Bloomberg New Energy Finance, a research outfit, estimates that nearly all of the listed firm's revenues from 2011 up to the first half of 2014—some $1.9 billion—came from its parent company, at profit margins topping 45%. In March the firm claimed that only about 60% of its revenues now came from its parent company, but questions have been raised about whether the sources of some of the remaining revenues are independent entities or if they are also related parties. The firm insists its actions have not breached any rules for related-party transactions.

Dim sun

Hanergy Thin Film, share price, HK$

Source: Thomson Reuters *To May 20th

An analysis by the *Financial Times* in March found that much of the daily increase in the listed firm's share-price rise was due to unusual activity during the final minutes of each day's trading in Hong Kong. This is of particular concern given that the free float in the firm's shares is quite small (since Mr Li controls nearly three-quarters of it).

Hanergy's future as a public entity is clearly in doubt. If regulatory action does not prove the death knell for the firm, then investor sentiment—short-sellers have had it in their sights for months—might do the trick. Mr Li's absence from his own annual meeting was explained away by one insider as the boss choosing instead to attend the event in Beijing as part of his firm's "corporate social responsibility" activities. Investors will surely be wondering who, if anyone, has been looking after the management's fiduciary responsibilities. ■

France's nuclear industry

Arevaderci

PARIS

A struggling and loss-making national champion is set to be taken over

PLANS for rescuing France's ailing nuclear engineer, Areva, became a little clearer this week when the new boss of Electricité de France (EDF), Jean-Bernard Lévy, described on May 19th the role that the utility was prepared to play. Mr Lévy made the case for an "ambitious" takeover by EDF of Areva's nuclear-reactor business, leaving Areva with uranium mining, fuel treatment and decommissioning. The price would have to be right. The government, which owns around 85% of both companies, is expected to make a final decision early next month.

Ministers are anxious to restore to health an industry in which French firms have hitherto led the world, and on which their economy depends. Nuclear power generates around three-quarters of France's electricity, more than in any other country. Resolution cannot come too soon for Areva. It has not sold a new reactor since 2007 or paid a dividend since 2009. In 2014, on revenues of €8.3 billion ($9.2 billion) it lost €4.8 billion. A new management team is trying to cut €1 billion from costs by 2017 and strengthen Areva's balance-sheet. But the problems run deeper.

Its newest product, the expensive European Pressurised Reactor (EPR), has encountered more than the teething problems common to all big industrial projects. A plant in Finland is almost ten ▸▸


Finding flaws in Flamanville

years behind schedule and almost three times over budget: Areva has had to write off billions as a result. Mr Lévy says it is a condition of any rescue that EDF not be stuck with the remaining liabilities. Two reactors in China and the only new-build in France, at Flamanville, are also running late. EDF played an important role in managing the Chinese and French projects.

Besides criticism for slack project management, Areva and EDF have been questioned over technical standards. The steel in the main reactor vessel at Flamanville is faulty, the Nuclear Safety Authority said in April. EDF disputes the finding and, with Areva, has started new tests. The news added to growing disenchantment in Britain with an agreement, not yet firm, that expensively entrusts the construction of a power station incorporating two Areva EPRs to a consortium led by EDF.

It seems unlikely that Areva will find many more foreign takers for its existing reactors. For all that the 2011 Fukushima disaster in Japan, and the plummeting price of renewables, have made nuclear power less appealing, the International Energy Agency expects installed nuclear capacity to increase by 60% by 2040. But most growth will be in emerging economies; in Europe capacity will shrink. That favours firms selling moderately priced reactors with lashings of finance.

Mr Lévy suggests designing a simpler and cheaper reactor. That would take time, however, and some of Areva's rivals are racing ahead. Rosatom, a Russian nuclear firm, has built up a fat order-book. Keen pricing, generous financing and relaxed technology transfer help, though Western sanctions do not. China's two reactor-builders, CNNC and CGN, are peddling their own new design, Hualong One; in February CNNC signed a preliminary agreement to supply a reactor to Argentina.

Areva has little reason to hope for a surge of new orders at home. France's 58 reactors are elderly but EDF, which operates them, plans to revamp rather than replace them. Would lumping Areva into EDF at least mean existing projects are better-run? "What I saw at Flamanville gives me no reason to think so," says Roland Vetter of CF Partners, a carbon-trading firm.

A new law set to come into force this summer, pledging somehow to cut France's dependence on nuclear power from 75% to 50% of its electricity needs by 2025, will make Areva's prospects even bleaker. It would seem to have little choice but to be largely absorbed into EDF—the French government would surely not let a foreign firm take more than a small stake in it, and no French firm but EDF would want more than a few morsels of it. ■

Brazilian construction firms

Knock 'em down, build 'em up

SÃO PAULO

Government cuts and a bribery scandal will prompt a shake-out in the industry

IN 2014 Brazilian builders had a bumper year. Stadiums had to be ready in a dozen cities for the football World Cup in June, airports spruced up to welcome foreign visitors, and roads built to whisk them to venues. In Rio de Janeiro work was beginning in earnest on preparations for the Olympic Games it will host in 2016. President Dilma Rousseff was seeking re-election, and boosted the federal government's infrastructure spending in the run-up to October's tightly contested poll. Construction firms' revenues had already been rising by 11% a year, in real terms, for the past ten years.

However, in September a police investigation found that some of this growth was thanks to padded contracts that at least six of Brazil's biggest construction firms, with combined domestic revenues of 19 billion reais ($8.8 billion) in 2013, had for years been signing with Petrobras, the state-controlled oil giant, in exchange for kickbacks to politicians. Around 30 construction executives are now awaiting trial on charges of corruption or money-laundering, including the boss of UTC Engenharia, Brazil's seventh-biggest builder. Credit to the industry evaporated. Several firms, including OAS and Galvão Engenharia, respectively the third- and sixth-largest, defaulted on some of their debt and have sought bankruptcy protection.

Uncertainty surrounding the police dragnet is affecting the entire industry. The assumption, right or wrong, is that everyone is embroiled, says a senior banker. Bosses of untainted companies gripe about everyone being tarred with the same brush. Marco Rabello, the chief financial officer of Norberto Odebrecht, Brazil's industry leader, which has not suffered any accusations, admits that "image" is currently the industry's biggest problem.

Making things worse, Ms Rousseff, having scraped by in the election, is now having to make drastic cuts to close a yawning budget deficit. Her flagship "Growth Acceleration Programme" of infrastructure improvements has been slashed. Brazilian companies of all kinds are bracing for a recession: investing in new buildings is the last thing on their bosses' minds. Odebrecht's domestic order book will be thin this year, Mr Rabello admits.

It is not all doom and gloom, however. For one thing, many big construction firms have been reducing their dependence on government contracts—and indeed on Brazil. Just 6% of Odebrecht's revenue now comes from the Brazilian public sector; nearly three-quarters is generated abroad. It is part of a consortium which, earlier this month, won a $1.9 billion contract to build Panama City's second metro line. Geographic diversification, together with low debt and net cash of 1.5 billion reais, helps explain why Standard & Poor's has maintained Odebrecht's credit rating one notch above the Brazilian government's.

At home, too, there is promise. Companies that weather the Petrobras storm will be well-placed to snap up market share from battered rivals. In particular, points out Frederico Estrella of Tendências, a consulting firm, well-run, midsized companies may pounce on a chance to join the big league. This week it emerged that C.R. Almeida, a second-tier construction firm, is eyeing stakes in airport projects, including some still under construction, owned by UTC Engenharia and OAS.

So far, foreign construction giants are not rushing in to fill the void left by collapsing domestic ones. They first want to see how the Petrobras probe plays out, says the local boss of one such firm. Some, like OHL of Spain, have quit Brazil in recent years, exasperated by its impenetrable tax system, suffocating bureaucracy and onerous local-content requirements. After its name was mentioned in reports of the police investigation, Skanska of Sweden accelerated its plans to quit (it denies wrongdoing). Other foreign firms have been scaling back. Bechtel, an American giant, used to have about half a dozen big projects on the go at any one time in Brazil. Now it is down to just one: an extension of Rio's metro.

Brazil still needs plenty of roads, railways and other public works. The World Economic Forum ranks it 107th out of 144 countries on the quality of its infrastructure. And although the government and its agencies, such as the BNDES, the national development bank, have tightened their purse-strings, investment banks and private-equity firms are setting up funds to back public works.

Chinese money is on the way, too. On a visit to Brazil this week, Li Keqiang, China's prime minister, signed commercial agreements worth $53 billion, including a number linked to infrastructure. On top of that, ICBC, a Chinese state bank, pledged to funnel $50 billion to Brazilian roads, railways, power grids and the like. Chinese lenders are keen to invest in these, even though China's ambitious construction firms, like other foreign builders, have in the past had their fingers burned trying to break into Brazil's heavily regulated market. Those Brazilian firms which survive the current shake-out can look forward to a recovery in orders, with little foreign competition to trouble them. ■

Hard hats, hard times for Dilma

Gambling in Macau

Doubling down

SHANGHAI

The territory's casinos are betting that a sharp downturn will not last

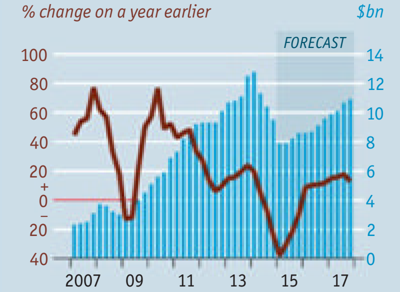
AFTER years of spectacular growth that propelled Macau past Las Vegas to become the gambling capital of the world, the territory has hit a rough patch. So you might expect that the gathering of the casino industry's leaders that took place there this week would be dominated by talk of retrenchment. Instead, the tycoons boasted of their grand plans for expansion.

Fat-cats from the Chinese mainland, where gambling remains illegal, used to be Macau's mainstay. But as the Communist Party's leaders have cracked down on corruption over the past two years, and as rival casinos in Australia, the Philippines and elsewhere have begun to draw big-spending gamblers away, the flood of high-rollers into Macau has slowed to a trickle. Its gambling revenues have plunged from nearly $13 billion in the first quarter of 2014 to under $8 billion in the first three months of 2015 (see chart). Shares in its gambling firms have fallen by half since the start of 2014, wiping more than $90 billion off their combined market value.

Undeterred, they intend to open new casinos and hotels in Macau costing more than $20 billion over the next few years. This would double their invested capital base, calculates Aaron Fischer of CLSA, a stockbroker. The casino chiefs are not taking as reckless a gamble as it may seem. To attract high-spending VIPs, they have had to rely on the help of "junket" operators—shadowy, independent middlemen who typically take a 30% cut of any revenues. The pampering such VIPs expect—being ferried around in private jets and limos, and attending lavish banquets—also eats into the casinos' profits. As a result, the casinos' margins on VIPs are a mere 10% of revenues; on mass-market customers, they are 40%.

So the reason to think Macau still has a bright future lies in the insatiable desire among ordinary Chinese people to emulate the country's elite, and go on gambling trips; and on the rising numbers with the wherewithal to do so. The expansion now under way has been undertaken at the insistence of Macau's government, which is keen to turn it into a bigger and more family-friendly destination for China's expanding "mass affluent". The government is engaging in various public works to help attract more tourists, including a bridge linking Macau to Hong Kong airport. CLSA thinks that in 2017 the Macau casinos' revenues from VIPs will have fallen to $22 billion, from the peak of $30 billion they hit in 2013, whereas revenues from the mass market will have risen to $17 billion, up from $14 billion. The low-rollers will provide an ever-greater share of the takings thereafter.

Still betting on black
Macau's gross gambling revenue



Source: CLSA

Mr Fischer thinks the casino firms will have a few more relatively lean years before they complete the switch from pampering the Chinese elite to serving the middle-class masses. But only relatively: Macau's casino operators still raked in $1.5 billion of combined EBITDA (earnings before interest, tax, depreciation and amortisation) in the first quarter of this year. That is down from $2.6 billion in the first quarter last year but still a 20% EBITDA margin. Meanwhile, construction work on new leisure facilities and infrastructure continues apace. "Build it and they will come" seems to be the Macanese motto. ■

Bombardier

Turbulence

The Canadian firm is struggling to make its bet on a big new plane pay off

ALTHOUGH it started life making snowmobiles, Bombardier's main businesses these days are building corporate jets, smallish "regional" jets for airlines, and trains. The Canadian firm has long dreamed, however, of breaking the stranglehold that Boeing and Airbus enjoy in full-sized commercial airliners. For 11 years it has been spending heavily on developing the CSeries, a 100- to 149-seater to compete with the slightly larger Boeing 737 and Airbus A320.

However, like so many new aircraft, the CSeries has slipped behind schedule and gone over budget. Orders are weak. And the family-controlled firm's other businesses, which have been footing the bill for the work on the new plane, are struggling. There are worries that the CSeries will never be a commercial success—and that Bom- ▶▶

Private jets are so last year

bardier might even run out of cash before the plane turns a profit.

On May 14th Bombardier said it would cut production of the Global 5000 and 6000, its largest and most profitable corporate jets, with the loss of 1,750 jobs. Russian and Chinese tycoons are feeling the pinch, or are shopping with rivals such as Gulfstream and Dassault. In January Bombardier said it would suspend work on the Learjet 85, a smaller private plane. The market for this type of aircraft slumped after the financial crisis and has not recovered.

The company's regional jets, seating 50-100, are also struggling. Even as Bombardier seeks to break the Boeing-Airbus duopoly on planes of the next size up, the duopoly it has itself enjoyed with Embraer of Brazil on regional jets is being challenged by rivals from Japan, Russia and China.

As for Bombardier's rail division, the source of around half its annual revenues of $20 billion in 2014, attempts to improve profitability have not got far. A renewed expansion by Hitachi, a Japanese rival, and the increasing global success of several Chinese trainmakers have intensified competition. A flotation of part of the rail business, announced on May 7th, will raise some money while keeping Bombardier in control of the division's cashflow.

After several setbacks, including an engine failure last May, the CSeries should go into service next year, two years late and $5.4 billion, or 50%, over budget—assuming no further problems, that is. In the meantime, Boeing and Airbus have revamped the 737 and A320 with new engines, which they say can match the 20% fuel savings (compared with current models) that were the CSeries' main advantage. The 737 and A320 have versions that can take 200 passengers or more, and the two incumbents are said to have offered airlines discounts to persuade them to go for larger planes. Having given its rivals plenty of time to prepare for its challenge, it is unclear what Bombardier can do to win customers over. As Robert Spingarn of Credit Suisse, a bank, puts it, "if you poke a bear you had better show up with the right sort of stick".

So far the CSeries has attracted just 243 orders, some of which could yet fall through, whereas it probably needs to sell 400 just to break even. Boeing and Airbus have 2,700 and 3,600 orders, respectively, for their new planes. Bombardier is burning $1.5 billion a year in cash on the CSeries, and analysts worry that if it slashes its prices to try to win more customers, the group's cash may be drained in the next two years or so.

The company insists it has the finances to see the project through. However, if things began to look that serious, Alain Bellemare, the new boss Bombardier hired in February, might conceivably put the commercial-aircraft division, which makes regional jets as well as the CSeries, up for sale. Canada's government would not relish seeing a national champion fall into foreign hands, such as those of COMAC, China's state planemaker. Canadian taxpayers might just be called upon to dip in their pockets and keep the CSeries in the air. ■

Technology in New Zealand

Kiwis as guinea pigs

SAN FRANCISCO

A small, technophile country is a great place to test digital products

IN MEDICINE, trials are conducted on guinea pigs, rats, mice and rabbits. In digital businesses, tests are performed on New Zealanders. Their country is proving the perfect location for software firms, social networks and app developers discreetly to try out and refine their products. Take Microsoft, which last year made New Zealand its first test market for Sway, a new app that helps users create websites, and which has since been released into other markets. Other big technology firms, including Facebook and Yahoo, also use New Zealand as a development lab, as do games companies and small startups.

Firms preparing to launch new products need to discover and fix any bugs before releasing them, and to see whether their servers can support lots of users at the same time. It could prove fatal to a young firm if problems emerge only after the products are up for sale on the Apple and Google app stores. Developers could concentrate their testing on, say, one American state or city, but customers for digital products are so prone to sharing things among their social-media contacts that it would be hard to keep the trial under wraps for long, says Ivan Kirigin, a software entrepreneur.

New Zealand's relative isolation means that if a product needs to be modified significantly to fix faults or make it more appealing to consumers, word of its teething troubles is less likely to spread, thereby discouraging customers elsewhere from trying the improved version. If a firm finds that a particular product, or a new feature added to an existing one, is a resounding flop in New Zealand, it can quietly be dropped without having much effect on the company's overall reputation. Facebook tried offering Kiwis disappearing messages (in the vein of Snapchat) and a tool that let users pay a small fee to promote their status updates to friends. It abandoned plans to roll these out elsewhere after New Zealanders nixed them. "If you mess up and burn that market, it's not that big of a deal," says David Stewart of Fade, a photo-sharing firm.

Apart from being technophiles, and always up for a challenge, New Zealanders speak English and enjoy similar levels of affluence, and similar tastes, to Westerners in larger markets. The population of 4.5m is also large enough to provide decent enough sample sizes for product trials, says Mr Stewart.

Digital firms have other preferred locations for discreet trials. Chile is a popular test market for apps in Latin America: it is small and relatively affluent, and speaks Spanish, another world language. But few tech firms like having their test markets publicised. It is in no scientist's interest for the guinea pigs to realise they are being experimented on.

Schumpeter | Managing partners

The pressure on companies to form alliances with rivals is growing inexorably

IN THE run-up to the British election this month, it was taken for granted that politics was entering an age of alliances. No party would win a majority; that much seemed certain. The question was whether the Conservatives or Labour could put together a winning coalition. David Cameron's surprise victory on May 7th put paid to this talk. But in many industries it is still May 6th: companies are casting around for alliances that can complement their strengths, make up for their defects, hedge their bets, add to their store of knowledge or extend their reach.

There is nothing new about businesses forming either joint ventures (in which they establish jointly owned subsidiaries) or looser alliances. There are ample studies to show how often they have been tried—and how often they have ended in tears. However, despite the difficulties of making partnerships work, firms are under a number of pressures to keep trying.

The first is that, in some industries, the cost of new technologies is so crippling that even the largest companies cannot bear it alone. Carmakers, for example, are having to spend fortunes developing electric, hybrid, hydrogen fuel-cell and other forms of propulsion, while also investing heavily in their petrol and diesel engines as they struggle to meet regulators' ever-stricter targets for carbon-dioxide emissions. Even Toyota, the world's largest carmaker, is having to swallow its pride and work with rivals such as BMW on fuel-cell technology. Ford is collaborating with its Detroit arch-rival, GM, on high-efficiency gearboxes. Daimler is increasingly co-operating with a long-standing alliance between Renault and Nissan, into which AvtoVAZ of Russia has also been incorporated.

Among makers of aircraft and mobile phones, uneasy alliances are ever more common, not just with direct competitors but between manufacturer and supplier. One big lesson from Boeing's struggles to get its 787 Dreamliner in the air was that it needed a collaborative, rather than an adversarial, relationship with the firms that provided its advanced components. Apple's main supplier of microchips for its iPhones is none other than Samsung, its main rival in the smartphone business. The two have to manage a complex relationship in which they compete furiously in the market—and in the courts, where they are locked in battle over patents—while collaborating closely on the design of the semiconductors Samsung sells to Apple. Lee Jae-yong, Samsung's genial incoming boss, is said to be better than his autocratic father, Lee Kun-hee, at navigating this neologistic world of "frenemies" and "co-opetition".

A second source of momentum behind partnerships is new technology that brings firms from different industries together. Allianz, a German insurer, has teamed up with Google to create an "accelerator" centre in Munich, to foster startups that are seeking to use data analysis to improve the insurance market. Mobile-telecoms operators and financial institutions are collaborating to offer mobile payments.

Cross-border ties are also on the rise. Western companies have long sought out partners in developing countries to help them cut costs and enter markets. Now, however, it is as likely to be an emerging-market firm seeking a Western partner to help it go global. Dr Reddy's Laboratories, an Indian pharmaceutical company, and Merck KGaA, a German one, are working together on cheaper versions of cancer therapies that are losing their patent protection. In a reversal of the normal arrangements, Dr Reddy's will take the lead in early product development and testing; and Merck will handle manufacturing and late-stage trials.

The fourth pressure to get together stems from the consumer. As online shopping gains in popularity, owners of physical shops are having to find new ways to get customers to visit them. Uniqlo, a Japanese clothing retailer, has improved the pulling-power of its 90,000-square-feet flagship store in New York by striking deals with Starbucks, to install a coffee shop on the premises, and with the nearby Museum of Modern Art, to feature reproductions of work by Andy Warhol and Jackson Pollock. H&M, another fashion firm, has begun a scheme in which consumers can free space in their wardrobes by bringing their old clothes to its shops, also receiving a discount on new ones. To do this it works with I:CO, a logistics firm, which sends some of the used clothing to the second-hand market and the rest to be recycled.

A fatal embrace

There is no shortage, then, of good reasons why companies should seek to join hands with even their eternal foes. However, the drubbing that the Liberal Democrats—the Conservatives' former coalition partners—received at the polls this month is a reminder of how easily alliances can go wrong. Sometimes even the best-intentioned partner can squeeze the lifeblood out of another. Companies entering an alliance must learn how to trust each other—but also guard against being taken for a ride.

Businesspeople have much to learn from politicians and diplomats in this. Politicians have always lived in a world where the boundaries between friends and enemies are blurred. They recognise that your closest ally can soon become your bitterest adversary. (Mr Cameron may soon be looking back at how much easier it was to work with his "enemies" from the Liberal Democrats than with his "friends" on the right wing of his own party). Diplomats understand the importance of maintaining relations through thick and thin: whatever their underlying rivalries and occasional spats, America and China have a mutual interest in remaining on tolerably good terms and co-operating on global problems. And both politicians and diplomats realise that all alliances are marriages of convenience. Lord Palmerston, a British prime minister, once said that Britain has no permanent allies or enemies, only permanent interests. That is the view business leaders should take as they enter partnerships. ■

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Ukraine's economy

War-torn reform

KIEV

Ukraine's government is making some progress. But much more needs to be done

EVEN before the Russian invasion of the east of the country last year, the task of reforming Ukraine's economy was daunting. Its people are poorer than they were when the Soviet Union ended (see chart 1). Corruption pervades Ukrainian life. The traffic police demand bribes at random and newspapers carry advertisements for companies that will forge exam papers for you. To this set of chronic problems, the war has added acute ones: the destruction of much of the country's industrial base, spooked investors and a balance-of-payments crisis. If Ukraine is to build a stable economy, it must fix the public finances, shake up the all-important gas sector and stamp down on corruption against the backdrop of an unresolved conflict.

Ukraine's public debt is around 100% of GDP, much of it denominated in foreign currency. Already unsustainable, its debt burden is on an upward path: in the first quarter of 2015, Ukrainian GDP fell by almost 18% year on year. With nearly $6 billion of foreign debt falling due in the next year, but foreign-exchange reserves of around $10 billion, Ukraine has little room for manoeuvre. Despite the central bank offering interest rates of 30%—the world's highest—the hryvnia, Ukraine's currency, is shaky. If it falls, servicing foreign debt will become even trickier.

The IMF, with which Ukraine agreed a bail-out deal in March, has been clear about what is needed to make the country's debts sustainable. It assumes that the government in Kiev will write off $15.3 billion of debt and interest by 2018, and that it will have reduced its public-debt-to-GDP ratio to about 70% of GDP by 2020. The goal is to reduce debt repayments in any given year to no more than 10% of GDP.

To achieve this, Ukraine must cut a deal with the holders of its debt. Negotiations are going badly. The creditors are trying to get the government to agree only to maturity extensions. Ukraine wants to reduce the total amount of debt it owes, as well as pushing back repayment dates. It looks increasingly likely that Ukraine will fail to reach an agreement by June, which could delay the disbursement of a badly needed $2.5 billion loan from the IMF.

Even in the face of obstinate creditors, says the IMF, all is not lost. It hopes that tax rises and spending cuts will help make Ukraine's debt sustainable. As much as half of the economy operates out of the reach of the taxman: tackling this would boost revenues. Ukraine's big shadow economy is partly down to its high payroll taxes (ie, those that are levied on workers). Low "tax morale" plays a role, too. People see little point in paying their share, since public services are poor and corruption pervasive. VAT evasion is rampant.

The government is acting. It has introduced an electronic VAT system, for instance, which will make evasion more difficult. Payroll-tax breaks should also help to bring more firms out of the shadows. The State Fiscal Service reported in April that it had received about 3,000 applications to take advantage of a tax amnesty—whereby people make an honest tax declaration in exchange for a waiver from penalties—though that boosted revenues by just $12m. Some taxes have risen. The maximum rate of personal-income tax has moved from 17% to 20%. This seems to be paying off: overall tax revenues are rising.

The government is also making tough decisions on spending. Anders Aslund of the Atlantic Council, a think-tank, says that the government has cut the cost of Ukraine's pension system from 18% to 14% of GDP, mainly by changing the way that ▸▸

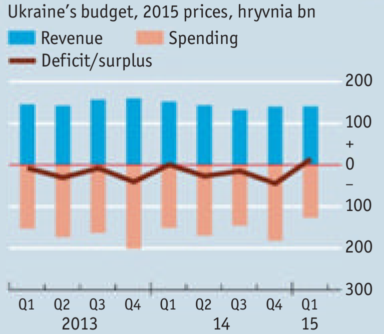
Falling further behind 1

GDP per person*, $'000

Source: World Bank *At purchasing-power parity

A ray of hope 2

Ukraine's budget, 2015 prices, hryvnia bn



Sources: Ministry of Finance; *The Economist* payouts rise and removing perks enjoyed by the old Soviet elite. (The biggest reform to pensions, raising the retirement age, has been kicked into the long grass.) Spending on education and health care has seen big drops, and a fifth of civil servants are being fired. In the first quarter of this year, state spending in real terms was 17% lower than the year before, leading to a budget surplus (see chart 2 on previous page).

The government can also save money by reforming the gas sector, the second of its big tasks. It is a huge fiscal hole: in 2014 the state monopoly, Naftogaz, ran a deficit worth 5.7% of Ukraine's GDP. An opaque system of subsidies is to blame. For years, it ensured that Ukrainian households received gas at one-fifth of its cost. That boosted disposable incomes for many (though not for the very poorest, who are cut off altogether from the gas network), but it was also an avenue for graft. Many grew rich by buying gas at the household rate, then selling it on at industrial prices.

The current government, in contrast to predecessors, is making a serious effort to shake things up. On April 9th the parliament passed EU-inspired legislation to "unbundle" Naftogaz—splitting it up into separate production, transit, storage and supply firms. Once implemented, consumers will be able to choose their gas supplier, a radical change.

To close Naftogaz's deficit, the government is increasing the household price of gas fourfold. Ukrainians will not really feel the pain until November, when they see the first bill of the winter. To offset the hardship, the government and the IMF say that spending on social programmes will see "an increase of 30% compared to 2014". These figures are in nominal terms, however; with inflation running at 60%, social spending is probably falling in real (ie, inflation-adjusted) terms.

Buttonwood | Reversal of fortune

Investors are caught between weak growth and central-bank policy

FOR a while, it seemed that two market trends were inexorable. The euro was falling towards parity with the dollar and yields on German ten-year government bonds were on their way to zero. Both reversed in April (see chart).

The shift was so dramatic that it seems likely investors were caught napping. Dhaval Joshi of BCA, a research group, says that the European Central Bank's bond-buying created a degree of "group-think" among investors, with everyone convinced that yields were headed lower. When the trend changed, there was a stampede for the exits.

In the currency markets, investors were bullish on the dollar at the start of the year in the belief that the American economy was strengthening and that the Federal Reserve would push up interest rates, perhaps as soon as June. But the economic data have been disappointing: revisions may show that GDP declined in the first quarter and the Atlanta Fed's GDPNow model suggests the second quarter is only on target for annualised growth of 0.7%. Meanwhile, economic data in the euro zone were generally better than expected—hence a pattern of selling the dollar and buying euros.

Now the markets may have reversed themselves again. On May 19th the ECB indicated that it would step up its bond purchases; both the euro and German bond yields fell sharply. This volatility is hardly surprising. Investors are hugely dependent on the decisions of central banks; in turn, the central bankers react to the vicissitudes of the market. They do not want to see their currency, or their country's bond yields, rise too far because of adverse effects on economic activity.

In addition, both investors and central banks are trying to interpret some weak recent economic data. JPMorgan Chase, a big American bank, estimates that global growth was just an annualised 1.2% in the first quarter. Global trade, which fuelled economic expansion in the first few years of the century, has stubbornly failed to pick up. Volumes grew by just 2.8% in 2014 and the World Trade Organisation expects only a modest acceleration to 3.3% this year, a forecast that has already been revised down twice. An indicator from UniCredit, an Italian bank, is more pessimistic still: it suggests global trade is stagnating.

About turn

Source: Thomson Reuters

Analysts at JPMorgan Chase also estimate that global employment grew at an annualised rate of 1.5% in the first quarter, faster than GDP. That implies a worrying decline in global productivity. Profits have also been squeezed. The earnings of companies in the MSCI World Index fell by 3.7% in the year to April 30th, according to Andrew Lapthorne of Société Générale, a French bank. A stronger dollar (which reduces the value of profits in other currencies) and the weak oil price (which hits the earnings of energy companies) played a big part in the fall.

These developments imply a couple of bearish possibilities. The first is that the world economy has simply run out of momentum and may slip into recession. The alternative is that the world economy is close to capacity and that tightness in the labour markets will start to show up in faster wage increases, and thus inflation, prompting central banks to withdraw their monetary stimulus.

But such fears are not the consensus view. Most investors think the first quarter was a soft patch, linked to poor weather in America. A poll by Bank of America found that 70% of fund managers expect the global economy to strengthen over the next 12 months; only 11% think it will weaken. The poll found that a net 47% of managers were overweight equities—that is, they had a higher allocation than normal to the stockmarket.

Fund managers may also feel they have little choice but to buy shares. Citigroup reckons that the weighted average of global short-term interest rates is just 0.7%, the lowest in 40 years (the weighting is on the basis of stockmarket capitalisation, reflecting investors' choice between holding cash and buying shares). With bond yields also very low, even after recent rises, investors have to take risks if they are going to make decent returns—either by buying equities or by speculating with borrowed money.

In addition, central banks are still gobbling up government bonds and companies are buying back shares with their spare cash. Allowing for these factors, net global security issuance is zero, according to Citigroup. So the natural tendency is for the money flowing into mutual funds and pension funds to push equity and bond prices higher. And the higher prices get, the more vulnerable markets are to the bouts of volatility seen in recent weeks.

Economist.com/blogs/buttonwood

In other areas, reform is more sluggish. The stations used by Naftogaz to measure imports are inside Russia, meaning that no one is sure how much gas really enters Ukraine. Although the Ukrainian authorities insist that the flow is closely monitored, others fear there is huge scope for malpractice. A senior EU official dealing with energy believes that each year up to €200m ($222m) worth of gas may go astray. Ukraine's foreign allies have repeatedly urged it to install meters on the border, so far to no avail.

Graft is everywhere. A list of the world's most corrupt states, compiled by Transparency International, a pressure group, puts the country at 142nd—little better than the Central African Republic. The government has made much progress in one hotbed of corruption, public procurement, by closing loopholes and making it more transparent. But another flagship policy, an anti-corruption bureau, worries some. A 190-country study by Alina Mungiu-Pippidi and colleagues at the Hertie School of Governance, in Germany, shows that dedicated anti-corruption institutions typically fail. That is usually because the bureau itself ends up becoming a target for corruption and political influence.

Corruption also festers in Ukraine's legal system. The courts use a mixture of a modern Western civil code and a Soviet-inspired economic code. This creates problems, says Daniel Bilak of CMS Cameron McKenna, a law firm, since civil law in general, and commercial law in particular, require certainty and predictability in their application. Judges can choose which code to apply in business disputes, which makes the law confusing and opens the door to bribes. Some reform has begun, however, including making land-registry records available online, and judges are being more closely scrutinised.

This government has the most ambitious economic programme in Ukraine's short history. But one area beyond its control is the situation in the east of the country. Vladimir Putin, the Russian president, has the power to heighten the conflict there at any time, doing further damage to the economy. That is not a comfortable position for any country to be in. ■

Rigging the stockmarket

A cosmetic approach

NEW YORK

A fictitious bid for Avon sends its shares soaring

IN THEORY, all 5,400 listed firms on America's equity markets are always for sale. In reality, bids rarely come out of the blue. That may explain why a notice posted on May 14th on the website of America's main stockmarket regulator, the Securities and Exchange Commission (SEC), of a ludicrously high bid for Avon Products, a beleaguered door-to-door cosmetics company, prompted investors to buy first and ask questions later.

By the time the soaring share price had forced three trading halts on the New York Stock Exchange, those who had bothered to read the relevant filings closely were ready for Avon's shares to plunge, as they duly did. The bidder, whose announcement the SEC posted automatically, claimed to be incorporated in the British Indian Ocean Territory, home to more long-range bombers than corporate raiders. Its name, PTG, was a play on TPG, a big private-equity firm.

Eventually, Avon announced that it had not heard from any would-be buyer, and that it was not even sure PTG existed. (Curiously, after the hoax was exposed, Avon's share price came to rest above its starting-point. The thought that even a fictitious investor was interested seems to have encouraged investors.)

The FBI is on the hunt for those responsible, who are assumed to have instigated the deception to profit from the subsequent gyrations in Avon's share price. The episode inflicted genuine losses on any entity that bought Avon's stock as it bubbled. High-speed traders, for whom checking information is inevitably an after-thought, if a thought at all, presumably suffered most. The hoax "undermines confidence in the accuracy of trading prices which everyone relies upon," says Joseph Frumkin of Sullivan & Cromwell, a law firm.

Something smells fishy

Yet the SEC is blasé. "Filers are responsible for the truthfulness of their filings," it explained. That need not be so, of course: access to the SEC's website could be limited to those who prove their identity. Bankers, brokers and lawyers, after all, are required to know their customers.

But if the SEC were to adopt an elaborate system to screen filers, it would be adding to the cost and hassle of participating in the capital markets. A radical alternative would be to remove safety nets instead of adding them. If the circuit-breakers limiting price movements were scrapped, all investors would have to be more wary. And if the SEC stopped distributing information altogether, a private firm could emerge whose fortunes depended on the quality of its wares.

Asia and the world economy

A faulty gauge

SHANGHAI

A tumble in exports from Asia need not spell gloom for the world

EXPORTS from north-east Asia have long been a good gauge of the health of the world economy. The region, which knits together Japan's high-tech wizardry, Korean and Taiwanese expertise in electronics, and China's prowess in assembly, produces nearly a quarter of all goods shipped around the world. This juggernaut now appears to be slowing. South Korean exports fell by 8.1% in April from the same month a year earlier, the worst figure in two years. China's were down by 6.4% year on year. Taiwanese and Japanese exports are limping along as well. The weak figures seem to point to a renewed funk for the world economy. In fact, Asian exports are simply not the reliable barometer of global demand they once were.

First, there is the problem of currency swings. The bad showing for Asia is made worse by the convention of reporting data in dollar terms. America buys only about 15% of Asian exports, but when the dollar is as strong as it has been, the value of exports to other countries appears to shrink. In other currencies, or in volume terms, shipments have been more robust. Frederic Neumann of HSBC, a bank, notes that Europe's imports from Asia, expressed in euros, have been climbing steadily.

Yet even before the dollar's rally began in mid-2014, the link between north-east Asian exports and growth in developed economies had started to break down. Over the past three years, for instance, north-east Asian exports have grown much more slowly than the American economy (see chart on next page).

Why the divergence? One possible explanation is that other regions are now outcompeting north-east Asia as Chinese labour costs rise. But this does not hold up to scrutiny: over the past year exports from emerging economies in Asia excluding China have followed the same arc as those from north-east Asia. Exports from Latin America and central and eastern Europe have fared worse. North-east Asia's share of global exports actually crept up from 22% in 2011 to 23% last year.

A better theory is that the structure of north-east Asian trade has itself changed. After China entered the World Trade Organisation in 2001, global companies rushed to extend their supply chains from their previous Asian footholds into China. That sparked a boom in the trade of intermediate goods around the region—a network often referred to as "Factory Asia"—with Japan and South Korea making many of the most sophisticated parts and China putting them together as finished products.

That process has slowed markedly as China has started to climb up the value chain. Louis Kuijs of the Royal Bank of Scotland calculates that the share of intermediate parts in China's total imports fell by nearly 11 percentage points from 2007 to the start of this year. As a result, less intra-Asian trade is required to produce the same final goods as in the past. Supporting this theory, Chinese exports, though volatile, have been more resilient than those of the other countries in Factory Asia. Over the past two years, China's exports have grown by 6% a year on average in dollar terms. Exports from South Korea and Taiwan have grown by only 2%, while Japan's have fallen by 6%.

With more of the regional supply chain contained within China itself, Chinese exports alone may now form the better gauge of the world economy. Once the exchange-rate effect is stripped out, they offer a glimmer of good news. Despite the strength of the yuan, Chinese exports have increased by 5.9% so far this year in volume terms, an improvement over their 4.6% rise during the same period a year earlier. Looked at this way, global demand growth still seems weak, but at least it is edging up. ■

Out of step

% change on a year earlier

Source: Wind Info *Three-month average

Financial crime

Unsettling settlements

NEW YORK

More wrongdoing at banks, more swingeing fines, no prosecutions

THE scene was familiar: regulators meting out vast penalties to banks, scathing statements about gross misconduct, yet no individuals charged with any crimes and some confusion as to what exactly the banks were admitting to and what effect that would have. On May 20th a consortium of American and British government agencies announced settlements with six international banks regarding claims that they had manipulated currency markets. The six—Bank of America, Barclays, Citigroup, JPMorgan Chase, Royal Bank of Scotland (RBS) and UBS—agreed to pay $5.6 billion in penalties. All but Bank of America also admitted to crimes, although the significance of that is unclear.

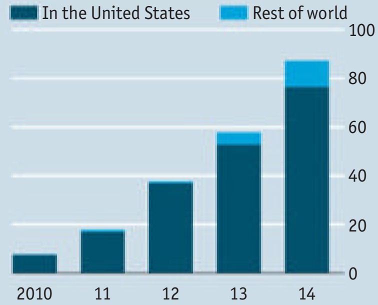
The settlement is the culmination of a long investigation into perhaps 20 employees of the banks, who referred to themselves as the "cartel". Between 2007 and 2013 they used coded communication in an online chat room to help one another make money, especially by rigging the two daily "fixes" of the exchange rate between the dollar and the euro, violating rules on market manipulation and collusion. As one of them wrote in a chat session, "If you aint [sic] cheating, you aint trying."

UBS was spared a guilty plea in the currency scandal because it was the first bank to report the suspicious conduct to the authorities. But this is its second "non-prosecution agreement": three years ago it paid $1.2 billion to American authorities looking into claims that it had manipulated LIBOR, a benchmark interest rate. That deal was dependent on UBS not doing anything else wrong. Its conduct in the currency case has prompted the Department of Justice to tear up the LIBOR deal. The main consequence is yet another fine, of $203m—small beer compared to the $87 billion in similar penalties big banks paid last year (see chart). UBS is also admitting to a crime tied to LIBOR, but that is apparently meaningless: it says the deal "will have no financial impact" on its results.

Admitting to criminal behaviour in America was once a guarantee of bankruptcy. That, at any rate, was the fate of big names such as Drexel Burnham Lambert, an investment bank, and Arthur Andersen, an accountancy firm, which had to shut up shop after losing both operating licences and clients that were restricted from doing business with felons. Yet the Department of Justice and other regulators seem to have magicked this consequence away.

Fixed costs

Banks' legal penalties, $bn



Source: James S. Henry

Credit Suisse, another multinational bank, admitted to criminal charges related to its clients' tax evasion last year, but received waivers from various regulators that allowed it to stay in business. Loretta Lynch, the attorney general, claimed it was up to those regulators to decide whether to do the same this time. "It is thought that the required waivers have been obtained but this is not certain," wrote Richard Bove of Rafferty Capital Markets, a brokerage, reflecting the confusion.

Private lawsuits will follow. Currency trading is a vast business, with $500 billion exchanged daily in the dollar-euro market. The manipulation may have been transient, but the number of people affected is huge. A group of investors has already struck a $394m deal with Citigroup. There are many more settlements to come. ■

Energy subsidies

Waste not, harm not

Energy subsidies gobble money. They also kill people and cook the planet

BLUNDERS in economic policymaking abound, but among the worst are energy subsidies. They stoke waste, squeeze other spending, enrich middlemen and help the comfortably-off more than the poor, who use little energy.

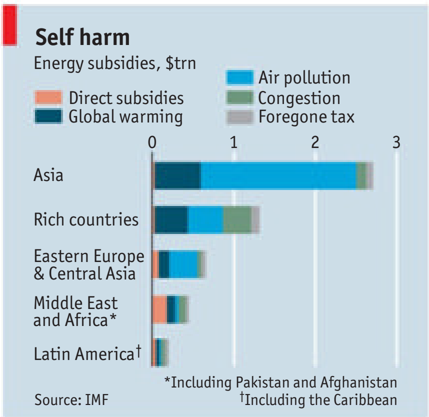
Include the cost of pollution and the bill is even higher. A new IMF working paper puts it at a stonking $5.3 trillion, or 6% of global GDP—more than all government spending on health care. The biggest subsidies are in the poorest countries (where they can reach 18% of GDP) and the lion's share goes to coal, the dirtiest fuel, which no country taxes properly. By contrast, renewable energy subsidies (mostly in the rich world and not covered in the IMF paper) amount to a mere $120 billion, and would vanish if fossil fuels were taxed fully. The biggest subsidiser of fossil fuels is

China at \$2.3 trillion, followed by America (\$700 billion), Russia (\$335 billion), India (\$277 billion) and Japan (\$157 billion).

Big numbers bring big headlines. In this case, they also introduce much greater margins for error. The common and strict definition of subsidies is "pre-tax": directly intervening to keep a price artificially low. On that basis, the cost of fuel subsidies is an order of magnitude lower, at \$333 billion. Moreover, it is down from \$492 billion in 2011. The falling oil price has helped; some of the worst offenders such as India are now hacking away subsidies.

The IMF authors, however, use a broader "post-tax" definition, including tax exemptions (fuel is often untaxed) and wider costs such as pollution. Three-quarters of the damage pollution does, they say, is to the local environment (thereby hurting human health); the remainder is the cost of global warming (see chart). By the same token, the benefits that would come from ending subsidies include a halving of the death toll caused by outdoor air pollution and a cut of CO_2 emissions by a fifth.

A previous study in 2013 reckoned the overall cost of fuel subsidies, including environmental harm, was \$2 trillion. The new figure reflects gloomier assumptions about the damage to health from subsidised fossil fuels, particularly coal: recalculating the life-shortening effect of sulphur-dioxide emissions accounts for 45% of the extra \$3 trillion. Including previously ignored emissions of nitrogen dioxide and fine particulates accounts for another 24%; other externalities such as congestion, 23%.



As the IMF authors accept, this is an area in which imponderables abound. Scientists disagree about the link between emissions and bad weather, and how to split the bill for climate change between future (presumably richer) generations and the current population. But even the most quantifiable drawbacks of fuel subsidies are dire enough. ■

Tackling tax evasion

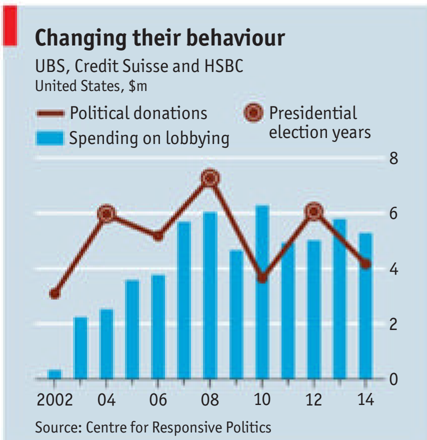
America the not so brave

America has led the global assault on tax dodgers and their enablers. But the reality still lags the rhetoric

CRACKING down on tax evasion "has been a core piece of President Obama's agenda" since before he took office, according to a spokesman. His administration's campaign to that end has been a "groundbreaking" success, according to the Department of Justice, the agency that has led it. Indeed, the DOJ considers it nothing short of "historic".

There is some truth in all this. In 2010 Congress knocked a hole in the once-impregnable secrecy of Swiss banks by passing the Foreign Account Tax Compliance Act (FATCA). It forces financial firms around the world to disclose their American clients or face penalties. Swiss banks have paid billions in fines for helping Americans evade tax; Wegelin, the country's oldest private bank, had to close its doors in 2013 after pleading guilty to conspiracy to evade taxes. A dozen big Swiss banks are still under investigation, and 100-odd smaller ones have joined a programme that will let them avoid indictment by coming clean and paying fines.

But the American government has been nowhere near as energetic and effective as it claims. It has been slow to chase tax evaders exposed by data leakers; it has failed to follow promising leads on some of the biggest fish; it has pulled punches with the biggest banks, for fear of destabilising markets; it botched the most prominent prosecution of a Swiss banker to date; and it has treated whistleblowers shoddily.



Start with the information on tax evaders leaked by Hervé Falciani, a former IT engineer in the Geneva office of HSBC, a big international bank. This became known as the Lagarde List, as it was first leaked to Christine Lagarde, France's former finance minister. America has brought a few prosecutions against clients of the bank, but apparently none based on those files, and no tax case has been brought against HSBC itself—which raises the question of what the government has been doing with data it has had since 2010.

The tax-dodging exposed by Mr Falciani was not factored in when America negotiated a \$1.9 billion settlement with HSBC over allegations of facilitating money-laundering. Loretta Lynch, the chief prosecutor on the case and now the attorney-general, has said she was not aware of the tax files at the time, even though the government had been in possession of them for two years. At best this looks like a regrettable lack of co-ordination.

The absence of visible progress in bringing cases related to the files looks all the more glaring when set against the alacrity with which some European countries exploited them. In April a former client of HSBC revealed by the Falciani leak, the heir to the Nina Ricci perfume dynasty, received a three-year prison sentence in France. French magistrates have put the bank under criminal investigation and ordered it to post €1 billion (\$1.1 billion) bail.

When the American administration has acted, it has not always been severe. It makes much of the \$780m that UBS, the biggest Swiss bank, agreed to pay to end the DOJ's investigation into its aiding of tax evaders. Yet before the crackdown, UBS held an estimated \$20 billion offshore for 19,000 Americans. Even if only half of that was undeclared (experts think it was more), the settlement amounted to just 8% of dodgy client funds. In France, UBS faces potential fines of several times that.

By the same token, Credit Suisse, the second-biggest Swiss bank, told investors that the \$2.6 billion in fines it paid when admitting it had abetted tax dodgers was not "material". Although it pleaded guilty to conspiracy to aid tax evasion (unlike UBS), it did not have any licences withdrawn, a step that should technically follow. The bank is also set to receive a waiver from a rule stipulating that firms with criminal convictions cannot manage or advise American retirement funds.

Credit Suisse had up to 22,000 tax-dodging American clients. In 2011 prosecutors obtained subpoenas to force it to reveal their names. But these weren't enforced, in part because officials worried that would set off a chain of events that could seriously harm the bank: doing so ▸▸

might have caused the Swiss government to order the bank not to comply, and American courts might then have found it in contempt and levied hefty daily fines. Ultimately, the bank gave up only 238 names.

The government denies having gone soft, pointing out that since 2009 it has brought criminal cases against more than 100 account-holders and "dozens" of facilitators, at least ten of whom are fugitives. Last year the DOJ boasted of achieving "favourable outcomes in over 95 percent of all civil and criminal [tax] cases".

But that number is misleading because prosecutors only tend to bring cases when the odds of winning are high. Some of their victories have been questionable, such as the case of a 79-year-old who inherited her husband's Swiss account. She faced six years in jail despite having come forward to confess to $670,000 of unpaid tax. Bemoaning prosecutors' heavy-handedness, the judge gave her a few seconds of probation and urged her to seek a pardon.

The biggest case of all—against Raoul Weil, UBS's global head of private banking—was an embarrassing failure. Mr Weil was extradited to America in 2013 after being arrested in Italy. The main prosecution witness at his trial last November was Martin Liechti, UBS's former private-banking head in the Americas, who testified that his erstwhile boss was aware as far back as 2002 that thousands of the bank's accounts did not comply with American tax laws. Defence lawyers accused Mr Liechti, whom the government had promised not to prosecute if he helped in other cases, of lying to save his skin. The prosecution was widely criticised; the jury acquitted Mr Weil after barely an hour of deliberations.

Meanwhile, whistleblowers complain that American officials have made life strangely hard for them. One who worked at HSBC, John Cruz, claims to have been stonewalled. Bradley Birkenfeld, a whistleblower from UBS, helped to instigate the crackdown on Swiss banks in 2007 when he came forward with lurid tales of moneymen smuggling diamonds in toothpaste tubes on behalf of clients. He eventually received a $104m award from the IRS, reflecting his central role in uncovering mass tax evasion—but only after suffering for his good deeds. He is the only employee of a Swiss bank to have spent time in an American jail for helping tax evaders. And he has served more time—over two years—than any of his former clients.

Mr Birkenfeld ended up behind bars (he is now on supervised release) because prosecutors said he did not provide information on one of his biggest clients, Igor Olenicoff, a property developer, and thus had not co-operated fully enough to be treated as a whistleblower. Mr Birkenfeld insists he was keen to provide the data, if only the DOJ would demand it in a subpoena. This was to cover his back: he lived in Switzerland and feared arrest there for breaking secrecy laws if he handed over data that had not formally been requested. Prosecutors refused, obliging the Senate to step in with a subpoena request instead.

The government's treatment of Mr Birkenfeld was much harsher than its treatment of the tax-shy Mr Olenicoff. Despite the seriousness of his offence (he held $200m in unreported accounts), Mr Olenicoff got two years' probation after cutting a plea deal in which he agreed to pay $52m in back-taxes, interest and penalties.

The government was no less forgiving of Mr Liechti. Described by Mr Birkenfeld as the chief architect of the UBS tax fraud, he got away with a rare, highly coveted non-prosecution deal after agreeing to co-operate—a fact that the DOJ did not reveal

Weil walked

for years. He refused to answer questions put to him by a Senate committee in spite of the deal requiring him to co-operate with all government inquiries.

Mr Birkenfeld also claims that America has failed to act on data he provided or help he offered. In a court filing, his lawyers asserted that on the first day of his co-operation with the DOJ in 2007, Mr Birkenfeld provided detailed information about the largest UBS account-holder living in America, with offshore assets in excess of $400m. However, he "was told that the government was not interested in pursuing a tax-fraud investigation regarding this individual, despite being advised that this UBS account holder had made profits from illegal oil sales with Saddam Hussein".

Mr Birkenfeld says prosecutors spurned his offer to wear a wire to entrap colleagues. He also says he told them in 2007 about the use of bearer bonds (unregistered, anonymously owned securities) to hide untaxed money, yet only in the past couple of years has the government probed this method of concealment. European investigators, by contrast, are more responsive: "I have to go 4,000 miles away to be taken seriously," he sighs.

Some wonder if America's punch-pulling might have had something to do with the long tentacles of Swiss banks. They have certainly spent large sums raising their profile in Washington, DC. Credit Suisse, HSBC and UBS have spent $91m since 2002 on lobbying and political contributions in America, according to the Centre for Responsive Politics (see chart on previous page).

Moreover, numerous officials and political figures have close past or present ties to the banks—including the president himself. Mr Obama has a well-publicised friendship with Robert Wolf, who ran UBS's American operations until 2012. The IRS's chief counsel, William Wilkins, is a former lobbyist for the Swiss Bankers Association. Eric Holder, the recently departed attorney-general, represented UBS when he worked in a private legal practice; for that reason, he avoided any involvement in the DOJ's probe of the bank. (The revolving door spins the other way, too: prosecutors often move into private practice on leaving government, working with tax-challenged banks and companies.)

Officials dismiss any suggestion that such links have affected the government's response. The DOJ "makes its decisions based on law-enforcement considerations and nothing else," says Kathryn Keneally, the former head of its tax division.

Another former official argues that America's efforts to curb tax evasion have been effective, if you consider that the aim is not necessarily to maximise convictions but to scare those hiding money to come forward. The IRS's voluntary-compliance programme is deemed a success, having brought in $7 billion in back-taxes and penalties from 50,000 individuals. But it is controversial because it allows for anonymous payment and no admission of guilt.

America's tax investigators continue to focus mainly on Switzerland, even as the returns on their efforts diminish. The 100-bank programme is bogged down, with only three banks having settled with the DOJ when most were expected to have done so by now. One obvious way to make the crackdown more effective would be to broaden it to tax havens that have so far been given an easy ride. Law firms in Panama, for instance, are giant incorporators of shell entities used by tax evaders, and the country has been slow to sign bilateral deals to exchange information on taxes. If federal prosecutors do eventually train their sights on such places, their experience with Switzerland has provided plenty of mistakes from which to learn. ■

Free exchange | Basically unaffordable

Replacing welfare payments with a "basic income" for all is alluring, but expensive

WITH cash-strapped governments around the world looking for ways to cut welfare bills and reduce deficits, it might seem an odd time to consider a generous new universal benefit. Yet the basic income—a guaranteed government payment to all citizens, whatever their private wealth—is creeping onto the policy agenda. The Swiss will soon vote on a proposal for a basic income of 2,500 francs ($2,700) per month, following the success of a national petition. Amid turmoil in Greece, Yanis Varoufakis, its finance minister, has hinted that he is a fan. Britain's Green Party has adopted a version of the policy. Turning it into a substitute for all welfare payments would be prohibitively expensive. But it might work as one element of the safety net.

The idea has a long intellectual heritage. In 1797 Thomas Paine, one of America's founders, penned a pamphlet arguing that every person is entitled to share in the returns on the common property of humanity: the earth's land and natural resources (today, you might include radio spectrum or the profits of central banks).* Paine suggested paying citizens the equivalent of around $2,000 in today's money—which was then over half the annual income of a labourer—on their 21st birthday, in lieu of their share of the planet. The benefit would be granted to all, to avoid creating "invidious distinctions" between rich and poor. Since Paine's proposal, the idea of universal payouts—whether one-off or recurring—has periodically attracted support from both sides of the political aisle.

The left has usually viewed such policies as a way of beefing up the social safety net and fighting inequality. That is particularly appealing in a world where technology creates unimaginable riches for some, but threatens the jobs of others. As early as 1964 James Meade, an economist, argued that technological progress could reduce the demand for labour so much that wages would fall to intolerable lows. In a world where a computer can suddenly make a profession redundant, those who have worked hard cannot be certain of a decent standard of living. That may justify more generous state support.

For their part, right-wing advocates of the citizen's income view it as a streamlined replacement for complicated means-tested welfare payments. A system where everyone receives the same amount requires fewer bureaucrats to administer. Existing schemes withdraw benefits from low earners as they earn more, discouraging work and so trapping some in poverty. For this reason, Milton Friedman, an economist known for his laissez-faire beliefs, wanted to replace all welfare with a simpler system that combined a guaranteed minimum income with a flat tax.

Although the basic income has so far failed to take off, it does have a commonplace cousin: the tax-free allowance. In Britain, for example, workers can earn £10,600 ($16,500) before income tax is levied on subsequent earnings (starting at 20%). The exemption is worth just over £2,000 a year to the 92% of taxpayers who earn more than the threshold. For them, there would be no difference if the government replaced the allowance with a payment of similar magnitude. Making the payment universal would be costlier, but could be paid for by paring other welfare payments.

Yet £2,000 does not provide much of a safety net, and more generous schemes are enormously expensive. In 1970 James Tobin, an economist, produced a simple formula for calculating their cost. Suppose the government needs to levy tax of 25% of national income to fund public services such as education, policing and infrastructure. Paying for a basic income worth 10% of the average income requires average taxes to rise by ten percentage points, to 35%. A basic income worth 20% of the average income requires average taxes to be 20 percentage points higher, at 45%, and so on. Eradicating relative poverty, defined as income beneath 60% of the median, would require tax rates approaching 85%. The Swiss proposal is absurdly expensive: a rough calculation suggests it would cost about SFr197 billion ($210 billion), or 30% of GDP. A generous basic income funded by very high taxes would be self-defeating, as it would reintroduce the sort of distortions that many of its advocates hope to banish from the welfare system. Loafers could live comfortably without lifting a finger.

To prevent that, eligibility could be restricted. Tony Atkinson, another economist, advocates a "participation income", paid only to those who contribute to society, whether by working, looking for work or volunteering. That reintroduces some administrative burden, but avoids supporting the idle.

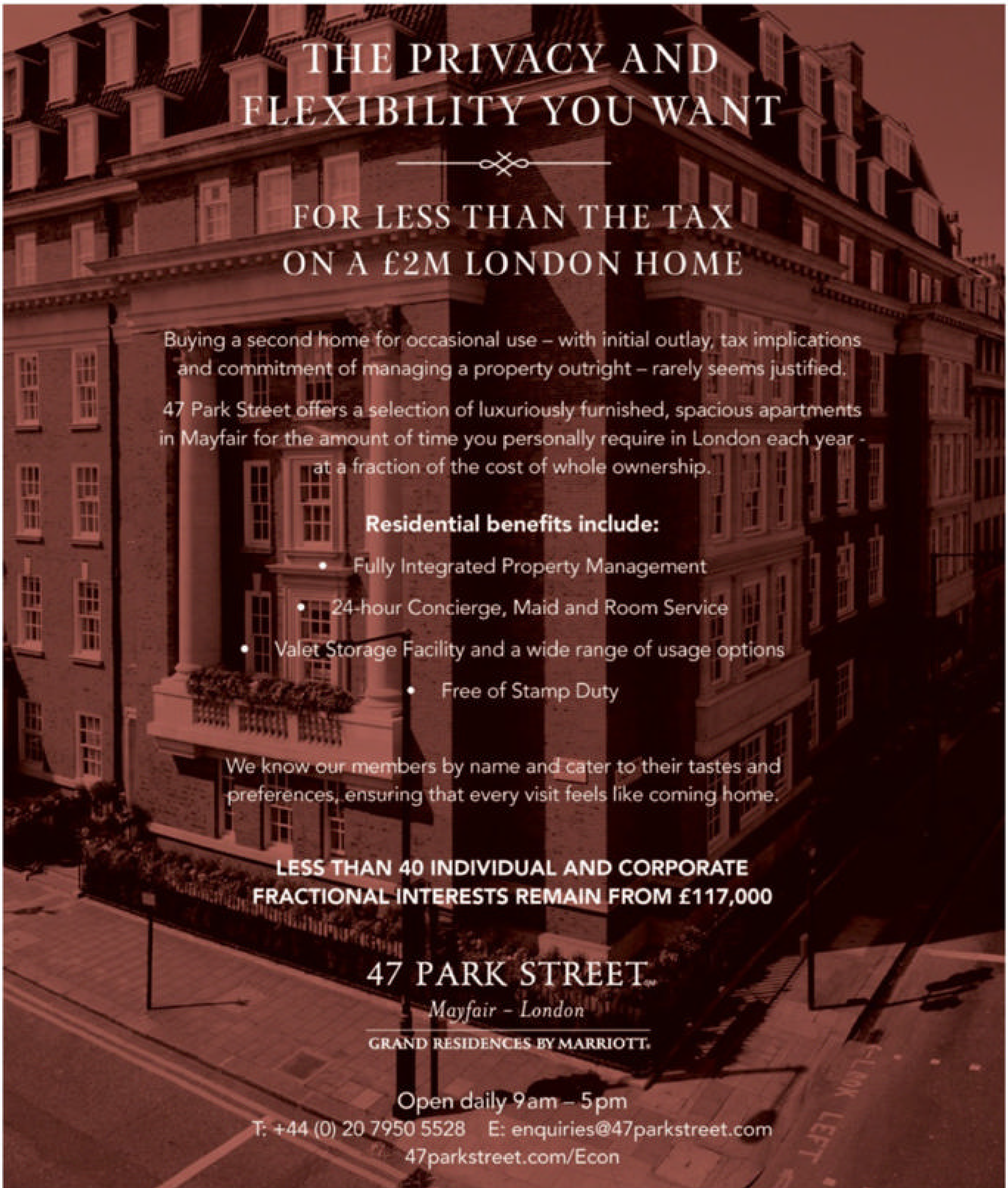
A better system might also be financed by a return on assets, rather than by taxes. Alaska pays its residents an annual dividend—$1,900 in 2014—from the returns on its oil fund. An asset-financed basic income would remove welfare distortions without introducing new ones through higher taxes. Unfortunately, few governments have wealth funds. On the contrary, they are mired in debt (though some think they could monetise public assets, including land, more effectively). In any case, many would worry that widespread government ownership of financial assets would lead to bureaucrats meddling in the private sector.

Small is beautiful

Fans of the basic income make plenty of good arguments. A welfare system riddled with complicated means-testing distorts incentives and is a headache to run. Paine's intellectual case for all citizens to be entitled to a return on the bounties of the earth is compelling. But a basic income is too costly and inefficient to act as a wholesale replacement for welfare. It is feasible only if it is small, and complemented by more targeted anti-poverty measures. Basic income: the clue is in the name. ■

* Studies cited in this article can be found at www.economist.com/basicincome15

Economist.com/blogs/freeexchange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Synthetic biology

Only connect

Home-brewed heroin may soon be in the works

SHORTENING an industry's supply chain is bound to affect the activities of its suppliers. That is as true of the recreational-drugs business as it is of any other. Some street pharmaceuticals, such as methamphetamine and cannabis, are already produced near their main consumer markets—whether cooked up in laboratories or grown under cover. But others, particularly cocaine and heroin, still have to be imported from far-flung places where the plants which produce them flourish in the open (think of poppies in Afghanistan).

If these internationally traded commodities could be produced locally, the cartels that now smuggle them might find themselves out of business. Astute drug barons will therefore be reading their copies of *Nature Chemical Biology* with particular interest—for the current edition of the journal contains a paper describing a technology that could completely disrupt their business.

It may, to be fair, also change the businesses of legitimate drug firms, because the authors of this paper, John Dueber of the University of California, Berkeley and his colleagues, have found the last pieces of a jigsaw puzzle that will permit opiates to be made from glucose through the agency of yeast. They have still to fit them with the other pieces, to form a single picture. But when they do so, which is likely to be soon, instead of fermenting sugar into alcohol, you will be able to ferment it into morphine—and into many other pharmacologically active molecules as well.

The path from glucose, biochemistry's common currency, to morphine is a long one. The poppies that produce the stuff naturally go to the trouble because it confuses the nervous systems of potential pests. The synthesis has 15 steps, each requiring a particular enzyme. Several groups of researchers have replicated its later stages in yeast, by borrowing appropriate enzymes (or, rather, the genetic material that encodes them) from poppies, and also from bacteria. These investigators have not, however, been able to backtrack in yeast beyond a molecule called S-reticuline, which is the hub of the process, in that it can act as the precursor for many morphine-like substances. They have managed to do this backtracking in *E. coli*—but that is a bacterium and thus works very differently from yeast, which is a fungus.

Strange brew

Dr Dueber and his team found the missing part of the puzzle in the genome of sugar beet. The crucial step leading to S-reticuline that previous workers had been unable to engineer into yeast is the transformation of a molecule called tyrosine into one called L-DOPA (itself a useful drug for the treatment of Parkinson's disease). They needed a way to follow this reaction, in order to see if candidate enzymes they were testing actually worked. They found the answer in a substance that turns L-DOPA into a fluorescent yellow molecule. With this marker to hand, they were able to stick candidate enzyme after candidate enzyme into yeast DNA until they found one which made L-DOPA in reasonable quantities.

Having identified their target, the researchers set about improving it by a process of mutation and selection that mimics natural evolution. The upshot is a strain of yeast which makes S-reticuline from tyrosine, to go with the existing one that makes S-reticuline into morphine—and, since tyrosine is one of the 20 amino acids used to make proteins, yeast cells turn it out naturally from glucose. Once the two halves of the pathway, from tyrosine to S-reticuline, and from S-reticuline to morphine, are connected together in an appropriately engineered yeast cell, that cell will be able to make morphine from sugar.

Whether this will be better, from the point of view of legitimate drug companies, than extracting it from poppy sap, remains to be seen. But it looks promising. Moreover, it should be easy to attach the S-reticuline pathway to others than that leading to morphine, to make codeine, hydrocodone, hydromorphone and oxycodone, all of which are valuable painkillers; sanguinarine and berberine, which are antibiotics; and tubocurarine and papaverine, which are muscle relaxants.

Drug-smuggling syndicates, though, should be quaking in their boots. If strains of yeast that can turn out opiates are liberated from laboratories and pass into general circulation, brewing morphine-containing liquor for recreational use will be easy. It will be illegal, of course. And the authorities will, no doubt, try to crack down on it. But those who smuggle the stuff from places like Afghanistan may find themselves driven out of business by home-brew opium clubs based in garages. ■

Democratising medicine

The crowd will see you now

Many hands make diagnosis work

THAT people scour the pages of the world wide web searching for answers to medical problems is well known. Indeed, doctors label the most diligent seekers of online medical information "cyberchondriacs". Some frustrated individuals have even set up their own websites, replete with data about their conditions or those of family members, to encourage strangers to help solve "mum's medical mystery", or offer a cure for a particular brain cancer.

But to create a lone website in the hope that a knowledgeable passer-by may shed light on a mysterious illness is the cyber-equivalent of crying in the wilderness. To create one on which anyone and everyone can post a problem, so that anybody who might, for whatever reason, want to help knows where to go, is more like setting up a stall in a market at which buyers and sellers know where to meet. And such a stall, called CrowdMed, now exists.

The need for a "crowdsourced" service like this comes from the number of rare diseases around. The National Institutes of Health, America's medical agency, recognises 7,000—defined as those that each affect fewer than 200,000 people. A general practitioner cannot possibly recognise all of these. Moreover, it may not be clear to him, even when he knows he cannot help, what sort of specialist the patient should be referred to. Research published in 2013, in the *Journal of Rare Disorders*, says about 8% of Americans—some 25m people—are affected by rare diseases, and that it takes an average of 7½ years to get a diagnosis. Even in Britain, with all the resources of the country's National Health Service at a GP's disposal, rare-disease diagnosis takes an average of 5½ years. Also, doctors often get it wrong. A survey of eight rare diseases in Europe found that around 40% of patients received an erroneous diagnosis at first. This is something that can lead to life-threatening complications.

CrowdMed, though, brings numerous pairs of eyeballs, each with different knowledge behind them, to every problem. Patients submit their cases and may offer a reward of a few hundred dollars to lubricate the process. The volunteer diagnosticians are students, retired doctors, nurses and even laymen and women who enjoy pitting their wits against a good medical mystery. Besides the cash, successful volunteers also get the kudos of rising in the website's ranking system—and that ranking system is, in turn, used to filter the feedback given to patients, to try to avoid mistakes.

It works. One woman, for example, had been burping as many as 150 times a day. Two endoscopies, a laryngoscopy and an abdominal ultrasonic scan all failed to identify her problem, and eliminating wine, chocolate and gluten from her diet failed to solve it. Crowdsourcing offered a diagnosis of "supragastric belching". That suggested treatment by a specialist called a speech pathologist, which cured her. In another case a 78-year-old man who was himself a doctor had had muscle pains in his face, upper body and extremities for decades. Over two months, 50 medical detectives reached a diagnosis of fibromyalgia. In a review that CrowdMed carried out of several hundred cases posted on the site, around 80% of patients said the suggestions proferred to them were accurate. Intriguingly, many of the best-performing cyber-diagnosticians were not those with the best formal medical credentials.

Diagnostic crowdsourcing will not have the field to itself for long, however. It faces competition from machine-based systems such as Watson, a computer built by IBM that digests large bodies of data and draws inferences from them. It will be interesting to see whether the collective wisdom of practitioners and enthusiastic amateurs prevails over an algorithmic synthesis of the world's medical literature. Whichever emerges victorious, though, it will be better than just entering symptoms into a search engine—and it will not just be cyber-chondriacs who benefit. ■

The oldest tool in the world

This blade, together with almost 150 other stone artefacts unearthed recently in Kenya, to the west of Lake Turkana, pushes the age at which early humans are known to have made such tools back 700,000 years, for dating of the strata they were found in suggests they are 3.3m years old. Sonia Harmand of the West Turkana Archaeological Project, in Nairobi, and her colleagues, report the finds in this week's *Nature*. Who made these tools is not known, but they are contemporary with a species called either *Kenyanthropus platyops* or *Australopithecus platyops*, depending the palaeontologist doing the naming, so it is likely that members of this group were the craftsmen. Stone cores found with the blades show they were made, as was common subsequently, by striking flakes off a large rock.

Graphene supercapacitors

Sheet lightning

Electric cars need better batteries. Graphene may help

SEARCHING for a way to make an electric car that is truly competitive with its petrol and diesel equivalents is frustrating. The lithium-ion batteries used to store the juice which powers such cars are almost cheap enough and almost long-lasting enough to do so, but not quite. And unless they are fitted with petrol-driven generators known as range extenders, electric cars cannot go far without topping up the batteries. Even with the best modern technology, such top-ups take at least 20 minutes. What is needed is a better battery.

Many have tried. Many have failed. Hope, though, springs eternal. The latest attempt involves graphene, the wonder material *de nos jours*. The work's progenitor, Lu Wu of Gwangju Institute of Science and Technology, in South Korea, thinks that if his process can be commercialised it might just solve the problem.

Strictly speaking, what Dr Lu and his colleagues are working on is not a battery but a supercapacitor—a device that combines a battery-like electrolyte with the physics of a normal electrical capacitor. In a supercapacitor, as in a normal capacitor, energy is stored on the surfaces of materials in the form of static electricity. But, unlike in a normal capacitor, that static relies, in part, on ions from the electrolyte that are attracted to these surfaces when the supercapacitor is charged up. This reliance on static electricity, rather than on changes in the chemical states of the ions (which is how a battery works), makes the process of storage more rapid. Supercapacitors can thus be charged faster than batteries.

Supercapacitors are not a new idea. But graphene, which is a form of carbon composed of sheets a single atom thick, is especially suitable for making them. Graphene has an area of 2,675 square metres per gram. All of this surface is available for the storage of static electricity. Graphene could therefore be used to make supercapacitors that hold more energy per kilogram than lithium-ion batteries.

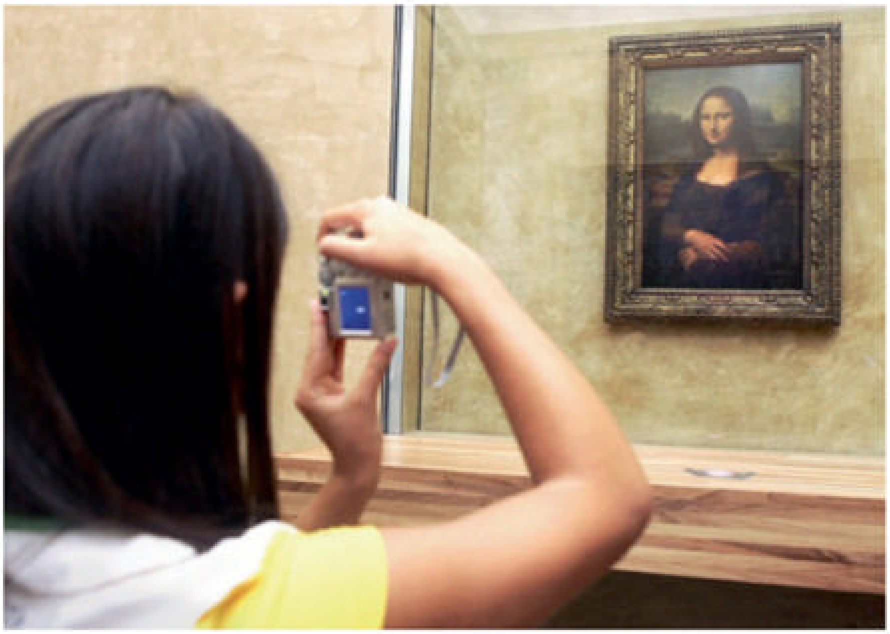
Dr Lu's problem was making graphene in a form that he could use in a supercapacitor—and doing so in a way that might plausibly be industrialised. His solution is, in effect, to blow up pieces of graphite in controlled explosions.

Graphene is to graphite what a single playing card is to a full pack. Strong chemical bonds keep the graphene layers intact, but the individual layers are held to each other only weakly, which is why graphite can be used to make the "lead" in pencils. To make small amounts of graphene, you can peel the layers from the surface of a graphite crystal one at a time, as a dealer might when distributing cards (there are various ways of doing this). To make a lot of it, though, you have to pull the whole crystal apart, as one might scatter a pack across a table.

Dr Lu did this in two stages. First, he exposed powdered graphite to oxygen in a controlled manner to produce a substance called graphite oxide. This is not a true oxide, with a fixed chemical formula. Rather, it is a graphite-like substance that has oxygen-rich clusters of atoms between the graphene layers. This done, he then heated the graphite oxide to 160°C in a vessel which had an internal pressure of a tenth of an atmosphere. The heat caused chemical reactions inside the graphite oxide, and these produced carbon dioxide and steam. The increased internal pressure these gases created, pushing against the reduced external pressure in the vessel, blew the graphite apart into its constituent sheets. Those, after a bit of further treatment to remove surplus oxygen, were then suitable for incorporation into a supercapacitor—which Dr Lu did.

The result, though small, worked well. It stored as much energy per kilogram as a lithium-ion battery and could be recharged in under four minutes. Scaled up to the size needed for a car, the current required to recharge it that quickly would require a pretty robust delivery system. But, though such a system would probably be unsuitable for home use, it could be installed in roadside service stations.

That would get rid of the range problem that electric cars now suffer from. And, if a crude first attempt such as this can match a lithium-ion battery's energy-storage ability, a refined version would surely exceed it markedly. How long such a supercapacitor would function for remains to be seen. But if it proves as durable as a battery—and if it can be made reliably and cheaply—then it may turn out to be the breakthrough that changes the future of motoring. ■



Exorcising photographic ghosts

Double take

A flaw that affects many photos can now be remedied

THOSE who visit the Louvre, in Paris, hoping to get a good picture of Leonardo da Vinci's masterpiece, "Mona Lisa", are destined for disappointment. Their photos will almost certainly be ruined by reflections from the bulletproof glass that protects the work from vandals. Indeed, any snap taken through glass risks bearing a ghostly image of the scene behind the photographer, or of the photographer himself. A polarising filter or a lens shield can ameliorate the problem, but YiChang Shih of the Massachusetts Institute of Technology (MIT) and his colleagues think they have found a way to abolish it altogether.

Instead of preventing superimposed images forming when a picture is taken, Dr Shih thinks he can edit out the unwanted ghost-image after the fact. Something similar can already be done for things like the red-eye that once marred portraits taken with the assistance of a flash. But removing reflections is trickier than removing red-eye. Scanning an image for small, matched red circles, and then deleting them, is easy. A photo spoiled by reflections provides no such obvious short cuts.

There is, however, one thing which Dr Shih realised that a piece of image-editing software could get hold of. This is that what a camera sees reflected from a piece of glass is not one image but two: one from the front of the pane and one from the back. If a pane is of uniform thickness, these reflections will be identical, but offset from one another by a fixed angle and distance. The photograph therefore consists of three superposed images, not two—but this makes the problem easier rather than harder to solve, for if the replicated elements of the two ghost-images can be identified, they can be subtracted from the photograph to leave the image the photographer is interested in.

This is still no simple task, but some assumptions about probability, together with a bit of computing power, can help. The probability part comes from letting the computer sift through a "learning set" of many photographs, building up a statistical view of the world based on tiny patches of each picture (in this case, squares eight pixels a side). The result is a bucket of likelihoods that a particular patch of the picture under scrutiny corresponds to shapes, edges or textures found in the learning set, and thus in the real world.

The computer then creates combinations of thousands of patches that form trial images, which it attempts to combine in threes (with the crucial clue that two of the images must be offset repeats) to form something which matches the original photo. If it succeeds, the non-repeated member of the trio should be what the photographer was attempting to capture.

As the team describe in a paper they will present next month at the Computer

Vision and Pattern Recognition conference, held just across the river from MIT, in Boston, their software can indeed separate the desired image from the reflected one. That should improve the quality of many a holiday snap. Occasionally, though, it may be the reflected image that is the desired one. Forensic-science types, the team say, are showing an interest in the technology for just this reason. Reflections might, unbeknown to the photographer, cast light on malfeasant activity.

The technique is not yet perfect. In wide-angle shots, for example, the degree to which the reflections are offset may vary across a picture's width in a way that the team's mathematics do not yet account for. But it looks as though it is just a matter of time before Louvre-goers can, at the tap of a button, get the photograph of Lisa Gherardini that they want. ■

Epidemics and artificial intelligence

Reservoir rats

AI may predict which animal species carry diseases dangerous to people

BETWEEN 1346 and 1353 the Black Death killed over a third of Europe's population. It took 150 years for the continent to recover. The disease was so devastating that it changed the social order, as a scarcity of labour led to higher wages for the survivors, hastening the demise of feudalism.

The plague was caused by *Yersinia pestis*, a bacterium that lives in fleas. In Europe, those fleas lived mostly on black rats (pictured). In Asia, where the disease came from, they lived on gerbils. It was thus a zoonotic illness: one usually carried by animals, but which infects people when given the chance. Since human beings have little evolutionary experience with such illnesses, and therefore little resistance to them, they can be particularly dangerous. Ebola fever is a zoonosis. So, as their names suggest, are the swine- and bird-flu strains that keep epidemiologists awake at night.

Trying to work out which animals are reservoirs of disease that might infect humans is therefore an important job. It is also a tricky one. There are lots of animal species, a lot of unpleasant viruses and bacteria, and not enough zoologists and doctors to sort through them all. But Barbara Han of the Cary Institute of Ecosystem Studies, in New York, and her colleagues think they have a way to help with this labour shortage. They propose to apply artificial intelligence (AI) to the problem.

As they describe in a paper in the *Proceedings of the National Academy of Sciences*, they have used a form of AI called machine learning in the search for reservoir species. Machine learning lets computers study large sets of data and identify patterns and organising principles. It is a hot topic among the world's big technology firms, such as Google and Amazon, who have plenty of data to make sense of. Dr Han and her colleagues set their computers the task of looking at rodents, and searching for rules that describe which ones are likely to harbour and transmit potentially zoonotic diseases.

Zoologists recognise more than 2,200 species of rodent. Of these, 217 are known reservoirs of pathogens (ranging from viruses and bacteria to protozoa and worms) that have an appetite for humans. At least 79 carry more than one such pathogen.

The team used 86 criteria to characterise rodent species, including how fast they breed, the types of habitat they live in and the specifics of their physiology. (Those data, she points out, were painstakingly collected, by hand, by generations of zoologists on field trips—a retort to the question of why scientists should spend taxpayers' money investigating the reproductive history of some obscure animal or other.) They also classified rodent-borne bugs in a similar way. They then fed this smorgasbord of data, far more than any human being could hope to process, into their computers, and told the machines to look for combinations of traits that predict whether a particular species is likely to harbour something that can cause human disease.

They duly found some. Reservoir species, the machines said, tend to have speedy lives, short gestation periods, big litters and early sexual maturity. They also have large ranges, inhabit areas with few other rodent species as neighbours, and (not surprisingly) live near big human populations. Once trained, the computers could predict known reservoir rodents with better than 90% accuracy.

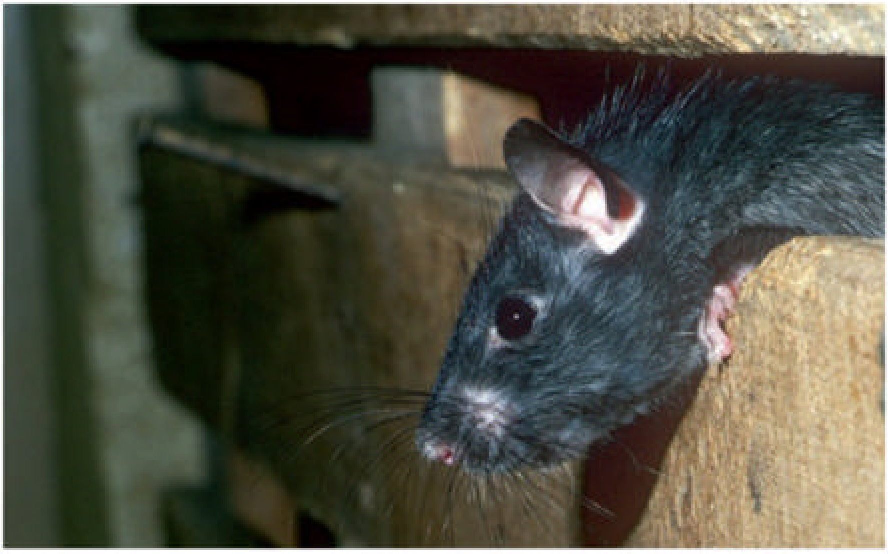
The researchers' next step was to use the model the computers had come up with to make a list of species not known as reservoirs, but which might be. When they did this, they found 150 that fitted the bill. Top of the list in North America, for example, were the montane vole and the northern grasshopper mouse. The model also suggested that about 50 species already known to spread at least one human disease were likely to spread others, too.

These conclusions are statistical rather than definitive. They cannot say for sure that any particular species is a reservoir of diseases which could be transmitted to people. But they do imply that these species would be worth looking at. And Dr Han says that the computers' conclusions fit with fieldwork and evolutionary theory.

Species that live fast and breed rapidly, she says, devote fewer resources to fighting diseases than their more sedate relatives. Their evolutionary strategy is to deal with illnesses by outbreeding them, accepting that a large proportion of individuals will be infected at any given time. This boosts her confidence that the computer models are indeed onto something.

She and her colleagues were also able to pinpoint areas at particular risk of harbouring reservoir rodents. Large swathes of the world probably have at least one such species. But the researchers found hotspots, too, where as many as eight or nine potential threats may be lurking. One was Central Asia, in modern-day Kazakhstan and northern China, which has already been fingered by historians as a likely source of the Black Death.

The other, though, was a surprise. It was the American states of Kansas and Nebraska. Zoologists looking to make a name for themselves—and to help stave off future epidemics—may therefore want to make the prairies the destination of their own obscure-rodent-studying field trips. ■



Little breeder

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The battle of Waterloo

A near-run thing

Appallingly bloody, yet decisive, the battle of Waterloo in June 1815 deserves the attention it is getting 200 years later

WITH the bicentenary of the battle of Waterloo fast approaching, the publishing industry has already fired volley after volley of weighty ordnance at what is indeed one of the defining events of European history. About that, there can be no argument. Waterloo not only brought to an end the extraordinary career of Napoleon Bonaparte, whose ambitions had led directly to the deaths of up to 6m people. It also redrew the map of Europe and was the climax of what has become known as the second Hundred Years War, a bitter commercial and colonial rivalry between Britain and France that had begun during the reign of Louis XIV. Through its dogged resistance to France's hegemonic ambitions in the preceding 20 years, Britain helped create the conditions for the security system known as the Concert of Europe, established in 1815. The peace dividend Britain enjoyed for the next 40 years allowed it to emerge as the dominant global power of the 19th century.

If the consequences of the battle were both profound and mostly benign, certainly for Britain, the scale of the slaughter and suffering that took place in fields 10 miles (16km) south of Brussels on that long June day in 1815 remains shocking. The Duke of Wellington never uttered the epigram attributed to him: "Next to a battle lost, the greatest misery is a battle gained." What he did say in the small hours after the battle

Waterloo: The History of Four Days, Three Armies and Three Battles. By Bernard Cornwell. *William Collins; 352 pages; £25*

Waterloo: Four Days that Changed Europe's Destiny. By Tim Clayton. *Little, Brown; 588 pages; £25*

Waterloo: The Aftermath. By Paul O'Keefe. *Overlook; 392 pages; $37.50. Bodley Head; £25*

was: "Thank God, I don't know what it is like to lose a battle; but certainly nothing can be more painful than to gain one with the loss of so many of one's friends." Nearly all his staff had been killed or wounded. Around 200,000 men had fought each other, compressed into an area of five square miles (13 square kilometres).

When darkness finally fell, up to 50,000 men were lying dead or seriously wounded—it is impossible to say how many exactly, because the French losses were only estimates—and 10,000 horses were dead or dying. Johnny Kincaid, an officer of the 95th Rifles who survived the onslaught by the French on Wellington's centre near La Haie Sainte farm, coolly declared: "I had never yet heard of a battle in which everybody was killed; but this seemed likely to be an exception, as all were going by turns."

Although frequently told, the story of the battle, or rather three battles—the engagement between Wellington's Anglo-Dutch forces and the French at Quatre Bras on June 16th, the much bigger battle of Ligny on the same day, which saw the defeat of Prussia's army, and finally Waterloo itself on the 18th—remains tense and gripping. Wellington himself thought such retellings futile, observing some years later: "The history of a battle is not unlike the history of a ball. Some individuals may recollect all the little events of which the great result is the battle won or lost; but no individual can recollect the order in which, or the exact moment at which, they occurred, which makes all the difference as to their value or importance."

However, for straightforward narrative accounts of what happened, combined with convincing analysis of the decisions and actions upon which the outcome of the struggle turned, it is hard to beat Bernard Cornwell, who is better known as the author of the fictional Sharpe novels set during the Peninsular War, and Tim Clayton, an academic historian who co-wrote a widely praised book about Trafalgar.

They are helped by the massive archive of letters and diaries written by the men who were there. It was an age in which literacy was not just the preserve of the officer class. There was also a competitive newspaper industry eager for graphic descriptions of what everybody at the time realised was an event of huge historical importance. Memoirs, too, were much in demand for decades after the battle. Doubtless some of the reports and anecdotes were embroidered, and memory can lie, but they convey in extraordinary detail and colour the horror, the heroism, the terror and the sometimes dark humour of fighting men in extremis.

In all probability, Napoleon could not ▸▸

ultimately have won the war, because of the size and determination of the forces ranged against him across Europe. But what gives the story its enduring power is the fact that the outcome of this battle was far from certain. As Wellington said later, it was "the nearest-run thing you ever saw in your life".

Returning from his nine-month exile on Elba, Napoleon had quickly mobilised an army of nearly 200,000 men to take on the coalition forces regathering to apprehend him. As Mr Clayton argues, the conception of this final campaign was brilliant. The plan was to split the forces commanded by Wellington from the Prussian army led by the redoubtable Gebhard von Blücher and then defeat each separately. However, its execution depended on a speed and decisiveness that was beyond Napoleon's immediate subordinates, Marshals Ney and Grouchy, and perhaps, by this stage, even the great man himself.

Four errors, partly the result of poor staff work, helped doom Napoleon. The first, entirely self-inflicted, was to deprive himself of his two most effective generals: Marshal Davout, left behind to guard Paris, and Marshal Suchet, put in charge of defending the eastern border against possible attack by the Austrians. The second was Ney's almost inexplicable hesitation in taking the strategic crossroads of Quatre Bras, the key to dividing the coalition armies. The third was the aimless wandering in the pouring rain of the Compte d'Erlon and his 20,000 troops between the battle at Quatre Bras against the Anglo-Dutch and the battle at Ligny that the Prussians were losing. Had he intervened in either, the impact could have been decisive. The fourth was the failure of initiative by Grouchy that allowed the regrouped Prussians to outflank him and arrive at the critical moment to save Wellington at Waterloo.

"Is that the way to St Helena?"

That said, nothing should be taken away from Napoleon's conquerors. Both commanders were talented professionals—Wellington was unmatched in the art of defence—who had experienced and competent subordinates and staffs. The British infantry and the King's German Legion (a British army unit) were hardened veterans of the highest quality. Above all, both commanders trusted each other and never wavered in their mutual support, a factor that Napoleon almost certainly underestimated in his strategic calculus.

Mr Cornwell will appeal most to those who are not Waterloo scholars, but who want a great and terrible story told with energy and clarity by a writer who has a deep understanding of men in combat and why they do what they do. Mr Clayton provides a cooler, less Anglocentric approach and a mass of narrative detail that at times can be overwhelming. But his style is lucid and his judgments scrupulously fair.

For an enthralling account of the hours, days and weeks after the battle, read Paul O'Keefe's "Waterloo: The Aftermath". It starts with an almost ghoulish description of the slaughter ground after night fell, a "landscape of carnage, observed through the silvered filter of moonlight". Amid the cries of dying men and horses, the clinking of hammer against chisel beside the burial pits could be heard—the sound of teeth being removed from dead men by entrepreneurial camp followers intending to supply denture-makers in London.

Remarkably quickly, the battlefield became a destination for English tourists, who also flocked to enjoy the charms of Paris they had for so long been denied. To their disappointment, however, some of the great works of European art on display in the Louvre that had been looted by Napoleon's armies were soon being bundled up to be returned to their original owners. Mr O'Keefe paints a vivid picture of a France that had grown weary of Napoleon and, with the exception of a few old loyalists and anti-monarchists, was quite happy to consign *la gloire* to the past.

Napoleon threw himself on the mercy of the British. His second and final exile was handled politely but firmly by officers of the Royal Navy. They had orders to disabuse the former emperor of his idea that he might live out his days as a country gentleman in England, and to transport him to St Helena, an island that was sufficiently remote to prevent him from causing any more trouble. Napoleon and his remaining followers thought this a great betrayal by a civilised and liberal nation. The Prussians, had they caught him, would have been still less considerate of the great man's dignity. They wanted simply to capture and kill the former emperor, a fate that most of Europe would surely have applauded. ■

Man Booker International prize 2015

Transcendental meditation

Seiobo There Below. By Laszlo Krasznahorkai. Translated by Ottilie Mulzet. *New Directions; 451 pages; $17.95. Tuskar Rock; £16.99*

BACK in 2007 Colm Toibin, a prizewinning Irish author, told a press conference that the most interesting writer he had come across in two years of reading contemporary fiction as a judge of that year's Man Booker International prize was Laszlo Krasznahorkai, a reclusive Hungarian with a reputation for sentences so long and convoluted that some of them went on for an entire chapter.

So impressed was Mr Toibin by the Hungarian's fabulist confections that he founded a small publishing imprint, Tuskar Rock Press, to bring just such fiction to a wider audience. Eight years on, Mr Toibin's faith in Mr Krasznahorkai's talent has been vindicated. Just after Tuskar brought out his latest book, "Seiobo There Below", in Britain, the Hungarian novelist was named the winner of the Man Booker International prize for 2015 on May 19th. Now ten years old, the award differs from the annual Man Booker prize for fiction in that it is presented every two years, and for a body of work rather than a single book.

This novel of 17 stories brings together a series of artists—for example, the Italian Renaissance painter Perugino in his workshop, a Japanese Noh actor rehearsing—and ordinary people who are trying to grasp what sacred means or to understand what beauty, art and transcendence might look like. Mr Krasznahorkai's writing worries at these eternal questions, picking and ▸▸

unpicking tiny details, actions and reactions, in a relentless attempt both to pin down and to describe the complexities of contemporary life.

The Hungarian is not the first modernist to manhandle prose and use the sentence as instrument. But even more than, say, Thomas Bernhard or W.G. Sebald, he winds and unwinds and rewinds, creating what one translator described as “a slow lava-flow of narrative, a vast black river of type”, which along the way acquires a transcendent quality of its own. The stories in “Seiobo There Below” are arranged according to the Fibonacci mathematical sequence, with each one as long as the two previous ones combined, which adds to the reader’s sense of being on a journey. As always with Mr Krasznahorkai, real understanding remains beyond grasp, though a sense of illumination is pervasive. As a novelist he is a one-off, even if his work—as this book so finely shows—is universal. ■

Self-regard

You are not special

The Road to Character. By David Brooks. *Random House; 300 pages; $28. Allen Lane; £17.99*

PEOPLE are too full of themselves, says David Brooks, a columnist for the *New York Times*. Joe Namath, a star quarterback of the 1960s, once shouted to his bathroom mirror: “Joe! Joe! You’re the most beautiful thing in the world!”—with a reporter watching. But it is not just celebrities who puff themselves up, and the evidence is not just anecdotal. The proportion of American teenagers who believe themselves to be “very important” jumped from 12% in 1950 to 80% in 2005. On a test that asks subjects to agree or disagree with statements such as “I like to look at my body” and “Somebody should write a biography about me”, 93% of young Americans emerge as being more narcissistic than the average of 20 years ago.

With the rise in self-regard has come an unprecedented yearning for fame. In a survey in 1976, people ranked being famous 15th out of 16 possible life goals. By 2007, 51% of young people said it was one of their principal ambitions. On a recent multiple-choice quiz, nearly twice as many middle-school girls said they would rather be a celebrity’s personal assistant than the president of Harvard University.

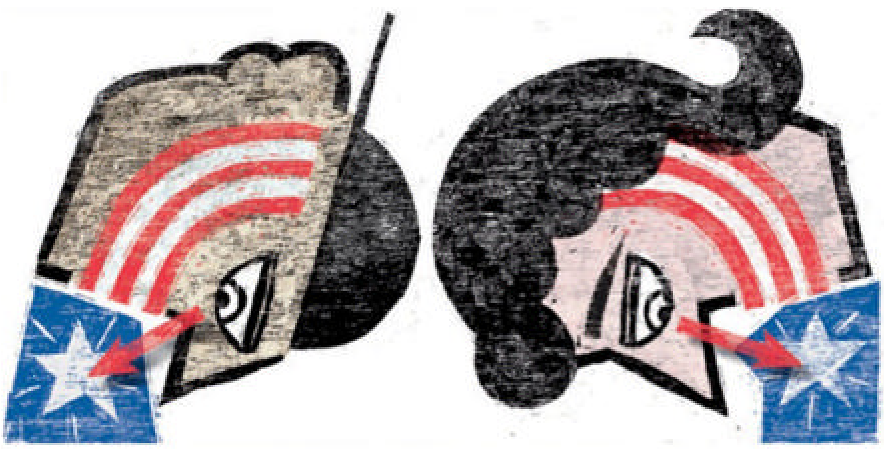
In “The Road to Character” Mr Brooks charts the change in popular culture that made this possible. This involves digesting troughs full of tripe such as Elizabeth Gilbert’s “Eat, Pray, Love”, a bestseller that tells women that “God dwells within you as yourself, exactly the way you are.” (Mr Brooks claims to be “the only man ever to finish this book”.)

Not everyone these days is a self-loving birdbrain, he admits. Some are meritocratic materialists who have “streamlined [their] inner humanity to make [their] ascent more aerodynamic”. Mr Brooks offers an alternative—and more austere—set of values to live by. People need to rediscover that “the ultimate joys are moral joys”, he says. He offers a series of chapter-length biographies to illustrate this idea.

He tells the story of Frances Perkins, who rather than looking inside herself to find a purpose in life asked what the world was calling her to do. After she saw workers hurling themselves from windows to their deaths to avoid the great fire at the Triangle Shirtwaist factory in 1911, she devoted herself to campaigning for better working conditions. She rose to become Franklin D. Roosevelt’s secretary of labour, and was instrumental in the creation of Social Security (public pensions) in America.

The ultimate sin, for the Oprah generation, is to be repressed. Nonsense, says Mr Brooks. Dwight Eisenhower spent his life repressing his inner self, and it helped the Allies win the second world war. He “spent the nights staring at the ceiling, racked by insomnia and anxiety, drinking and smoking”. Yet “he put on a false front of confident ease and farm-boy garrulousness” to raise the troops’ morale. He was splendidly inauthentic. Later on, as president, he was willing to appear tongue-tied if it would help conceal his designs. Indeed, he was happy to let people think him stupid, which “is how we know he was not a New Yorker”.

This is not a reactionary book. Mr Brooks acknowledges that earlier generations pointlessly abstained from certain pleasures and cruelly disregarded the rights of women, non-whites and sexual minorities. His heroes are both ancient (St Augustine) and modern (Bayard Rustin). He stresses that all were flawed (Eisenhower took a mistress, whom he treated icily, for example) and some were often miserable (Samuel Johnson, author of the first English dictionary, lived in terror of hellfire). If you want to be reassured that you are special, you will hate this book. But if you like thoughtful polemics, it is worth logging off Facebook to read it. ■



Eastern Mediterranean history

Coasts and coalitions

Agents of Empire: Knights, Corsairs, Jesuits and Spies in the Late Sixteenth-Century Mediterranean World. By Noel Malcolm. *Allen Lane; 604 pages; £30*

IN THE 1990s, when the Balkans were at war, Noel Malcolm was best known as a journalist and polemicist, though he was already a promising academic. As a sharp critic of Serb nationalism, he published histories of Bosnia and Kosovo that won praise for deconstructing Serb national myths, even if some critics found him too sparing of the myths told by other nations, such as the Albanians.

That makes it all the more welcome that Sir Noel (now an eminent British scholar who was knighted last year) has written a book that will serve as an antidote to all crude nationalism, and to many historical stereotypes. It brings the reader back to an era long before the nation-state, when personal loyalties and religious coalitions were perpetually shifting.

“Agents of Empire” traces the fortunes in the final decades of the 16th century of one extended family whose members struggled to survive at the interface between two empires, Venetian and Ottoman. They bore the surnames of Bruni and Bruti, and their roots were in a small Albanian-speaking port on the Adriatic, Ulcinj, now part of Montenegro.

The book ingeniously reconstructs the changing balance of forces in the eastern Mediterranean, at a time when maritime powers were competing hard for control of islands, ports and their hinterlands. Venice, for its part, belonged to a loose and fractious Christian alliance that included the papacy, whereas the Ottomans roamed the sea under the banner of Islam.

On the ground, at the nodal points between empires and religions, things were intriguing as well as messy. Some Christians lived more or less contentedly under Ottoman control, and some Christian leaders held local sway in the sultan's name. The Ottomans were pragmatic rather than zealous in the handling of their Christian subjects. Individuals and clans had to dodge between competing powers, looking to take advantage of imperial rivalry where possible (by working, for example, as spies) and avoiding getting caught in the middle. The price of being on the wrong side at the wrong time was terrible.

One of Sir Noel's characters, Giovanni Bruni, was a distinguished archbishop in Serbia, with followers who straddled Christendom and the realm of Islam. This made him useful as an adviser to the Venetians on Ottoman affairs. But he was captured and made a galley slave in the Ottoman navy. During the sea battle of Lepanto in 1571, in which the Ottomans were defeated by a Christian coalition, the hapless prelate probably found himself less than a hundred yards from his brother, Gasparo, who was a commander on the other side.

Although he shouted "I am a bishop!" Giovanni was killed by Spanish soldiers. But Gasparo restored the family fortunes by winning favour at the Vatican and getting a prestigious Jesuit education for his son, Antonio, who later wrote about the Ottoman lands in Europe. One of Sir Noel's most intriguing passages describes Antonio's Italian schooling, showing how it bred sophistication among potential clerics.

Yet the book is more than a gossipy tale of family fortunes. Sir Noel uses the dynastic saga to make clever points about the functioning of empires, the Ottoman one in particular. In his analysis, the story of Lepanto shows not the vulnerability of the Ottomans, but their extraordinary powers of recovery from defeat.

In one respect, this book links to Sir Noel's earlier works: the central figures are, among many other characteristics, Albanian. Back then, as now, people whose heartland is a poor, remote corner of Europe needed to make difficult and sometimes devious manoeuvres. Being Albanian has always been compatible with other identities, and in the 16th-century world of competing empires, members of a small, idiosyncratic ethnicity always had to make careful choices as to which wider loyalty, or combination of loyalties, to proclaim. Whether they live in Kosovo, Montenegro or Albania, a country which in modern times has swung from Maoist self-isolation to loyal membership of NATO, today's Albanians could surely relate to that. ■

"The Sound and the Fury" on stage

Signifying something

NEW YORK

An avant-garde troupe finds the drama in Faulkner's notoriously complex novel

WILLIAM FAULKNER called the book "a real son of a bitch". Readers can empathise. "The Sound and the Fury", published in 1929 when the then 32-year-old author was poor and unknown, uses a kaleidoscope of narrators to chronicle the decline of a genteel Mississippi family. The novel starts from the perspective of Benjy Compson, the youngest son, whose view of events is a mess of memories, jumbled without order or insight. A young man with the "idiot" mind of a child, his stream-of-consciousness account bounces between the decades as it drops from one sentence to the next. The effect is disorienting. Performing it on stage seems like an act of hubris.

"The novel is a complete train wreck," says John Collins, the artistic director of Elevator Repair Service (ERS), a theatre group. But turning unwieldy prose into living, breathing works of theatre is the kind of problem that has animated ERS for nearly 25 years. The company is best known for "Gatz", an audacious, eight-hour production of the entire text of "The Great Gatsby", which became a surprise hit in theatres around the world. Now armed with a broader audience, the company is resuscitating its 2008 adaptation of the first chapter of "The Sound and the Fury", with a new production opening at the Public Theatre in New York on May 21st.

Faulkner's novel is a tougher sell than F. Scott Fitzgerald's, which had a more conventional dramatic arc. In a recent rehearsal the actors themselves seemed to trip over the densely layered text, which they parsed and kneaded in scholarly fashion. "It's kind of a puzzle," Mr Collins admits. But this spirit of collective inquiry is part of what makes this show worth watching. Unlike most adaptations of knotty novels, which shrink the text and smooth it over into a serviceable proxy, this production is guided by the rhythms and oddities of the original. By performing Faulkner's dialogue verbatim, the company not only honours the novel, but also highlights some of its unexpected humour.

Three generations of Compsons and their various black servants are played by an ensemble cast of 12 actors, who clutter the stage like any noisy family during the holidays. Emphasising the frailties of memory and the peculiarities of Benjy's perspective, the performers switch roles in intriguing ways. The long-suffering mother, for example, is played primarily by Lucy Taylor, an amusingly brittle actress who haunts the stage in a droopy nightgown, but also by a couple of men. No fewer than three actors (two men, one woman, black and white) inhabit the role of Dilsey, the black cook. Race ends up seeming both slippery and essential. Each character contains multitudes.

All of this might seem to complicate further an already convoluted story, but somehow it works. The drama may not be quite as compelling as a trip to West Egg, Fitzgerald's fictional town, but the result is a fitting tribute to the book that Faulkner claimed caused him "the most grief and anguish" to write, but which ended up being his favourite. ■

Economic and financial indicators

Economic data
% change on year ago

	Gross domestic product latest	qtr*	2015†	Industrial production latest	Consumer prices latest	2015†	Unemployment rate, %	Current-account balance latest 12 months, $bn	% of GDP 2015†	Budget balance % of GDP 2015†	Interest rates, % 10-year gov't bonds, latest	Currency units, per $ May 20th	year ago
United States	+3.0 Q1	+0.2	+2.6	+1.9 Apr	-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	3.11§§	6.20	6.24
Japan	-1.4 Q1	+2.4	+0.8	-1.7 Mar	+2.3 Mar	+0.7	3.4 Mar	+68.5 Mar	+1.9	-6.9	0.38	121	101
Britain	+2.4 Q1	+1.2	+2.5	+0.6 Mar	-0.1 Apr	+0.3	5.5 Feb††	-161.3 Q4	-4.3	-4.4	2.04	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	1.80	1.22	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	0.62	0.90	0.73
Austria	+0.4 Q1	+0.7	+1.0	-0.2 Feb	+1.0 Apr	+0.9	5.6 Mar	+3.2 Q4	+1.5	-2.1	0.72	0.90	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	0.88	0.90	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	0.89	0.90	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	0.62	0.90	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	-3.6	11.14	0.90	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	1.85	0.90	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	0.78	0.90	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	1.78	0.90	0.73
Czech Republic	+1.2 Q4	+11.7	+2.9	+6.2 Mar	+0.5 Apr	+0.2	6.7 Apr§	+1.4 Q4	-0.5	-1.7	0.81	24.6	20.1
Denmark	+1.5 Q4	+2.1	+1.7	+4.9 Mar	+0.5 Apr	+0.7	4.9 Feb	+22.4 Mar	+5.7	-2.9	0.83	6.72	5.45
Norway	+1.5 Q1	+1.0	+0.9	+1.5 Mar	+2.0 Apr	+1.5	4.1 Feb‡‡	+42.5 Q4	+11.5	+6.7	1.68	7.57	5.95
Poland	+3.1 Q4	+4.1	+3.3	+2.3 Apr	-1.1 Apr	+0.2	11.3 Apr§	-3.5 Mar	-1.7	-1.5	2.82	3.67	3.06
Russia	-1.9 Q1	na	-4.0	-4.3 Apr	+16.4 Apr	+15.4	5.9 Mar§	+57.1 Q1	+4.3	-2.6	10.42	49.9	34.5
Sweden	+2.6 Q4	+4.6	+2.8	+0.3 Mar	-0.2 Apr	+0.2	8.3 Apr§	+35.7 Q4	+5.7	-1.3	0.76	8.35	6.59
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	nil	0.94	0.89
Turkey	+2.6 Q4	na	+3.2	+4.9 Mar	+7.9 Apr	+6.7	11.2 Feb§	-45.5 Mar	-4.6	-1.7	9.04	2.58	2.11
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	2.97	1.27	1.08
Hong Kong	+2.1 Q1	+1.5	+2.4	-3.6 Q4	+4.6 Mar	+3.3	3.2 Apr‡‡	+5.4 Q4	+2.3	-0.2	1.77	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	7.86	63.6	58.6
Indonesia	+4.7 Q1	na	+5.1	+6.7 Mar	+6.8 Apr	+5.9	5.8 Q1§	-25.2 Q1	-3.1	-1.9	8.04	13,093	11,490
Malaysia	+5.6 Q1	na	+5.5	+6.9 Mar	+0.9 Mar	+2.9	3.2 Feb§	+11.3 Q1	+3.4	-4.4	3.88	3.60	3.22
Pakistan	+4.7 2014**	na	+5.7	+4.6 Mar	+2.1 Apr	+4.2	6.2 2013	-2.0 Q1	-0.6	-5.1	8.85†††	102	98.8
Philippines	+6.9 Q4	+10.4	+6.6	+13.6 Mar	+2.2 Apr	+2.9	6.6 Q1§	+12.7 Dec	+3.9	-1.9	4.35	44.6	43.7
Singapore	+2.1 Q1	+1.1	+3.1	-5.5 Mar	-0.3 Mar	+0.4	1.8 Q1	+58.8 Q4	+21.8	-0.7	2.33	1.34	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	2.49	1,096	1,025
Taiwan	+3.5 Q1	+4.8	+3.9	+6.5 Mar	-0.8 Apr	+0.6	3.8 Mar	+72.4 Q1	+12.6	-1.2	1.57	30.5	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	2.68	33.6	32.5
Argentina	+0.4 Q4	+0.1	-0.7	-1.6 Mar	— ***	—	7.1 Q1§	-5.1 Q4	-1.5	-3.1	na	8.97	8.06
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	12.42	3.00	2.21
Chile	+2.4 Q1	+4.2	+3.0	-3.2 Mar	+4.1 Apr	+3.7	6.1 Mar§‡‡	-1.3 Q1	-1.5	-2.0	4.58	604	551
Colombia	+3.5 Q4	+2.9	+3.6	-0.1 Mar	+4.6 Apr	+4.1	8.9 Mar§	-19.8 Q4	-6.4	-2.1	6.91	2,492	1,921
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	5.81	15.2	12.9
Venezuela	-2.3 Q3	+10.0	-3.7	na	+68.5 Dec	+69.5	7.9 Jan§	+10.3 Q3	-1.8	-16.3	11.03	6.30	6.35
Egypt	+4.3 Q4	na	+4.2	-0.1 Mar	+11.0 Apr	+9.8	12.8 Q1§	-5.8 Q4	-1.3	-10.7	na	7.63	7.16
Israel	+2.4 Q1	+2.5	+3.5	+11.6 Mar	-0.5 Apr	-0.3	5.3 Mar	+9.0 Q4	+4.8	-3.0	1.88	3.88	3.48
Saudi Arabia	+3.6 2014	na	+2.6	na	+2.0 Apr	+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	+4.5 Apr	+4.6	24.3 Q4§	-19.1 Q4	-5.4	-3.7	7.98	11.8	10.4

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.

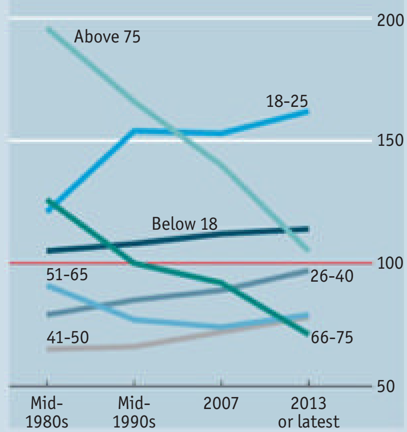
Markets

	Index May 20th	% change on one week	Dec 31st 2014 in local currency	Dec 31st 2014 in $ terms
United States (DJIA)	18,285.4	+1.2	+2.6	+2.6
China (SSEA)	4,655.6	+1.6	+37.4	+37.4
Japan (Nikkei 225)	20,196.6	+2.2	+15.7	+14.5
Britain (FTSE 100)	7,007.3	+0.8	+6.7	+6.5
Canada (S&P TSX)	15,072.8	+0.6	+3.0	-2.4
Euro area (FTSE Euro 100)	1,223.3	+3.7	+18.0	+8.2
Euro area (EURO STOXX 50)	3,683.5	+3.7	+17.1	+7.4
Austria (ATX)	2,652.4	-0.3	+22.8	+12.7
Belgium (Bel 20)	3,752.1	+2.6	+14.2	+4.8
France (CAC 40)	5,133.3	+3.5	+20.1	+10.2
Germany (DAX)*	11,848.5	+4.4	+20.8	+10.9
Greece (Athex Comp)	840.4	+1.4	+1.7	-6.7
Italy (FTSE/MIB)	23,772.6	+2.4	+25.0	+14.7
Netherlands (AEX)	501.9	+3.1	+18.2	+8.5
Spain (Madrid SE)	1,172.5	+2.1	+12.5	+3.2
Czech Republic (PX)	1,031.5	-0.3	+9.0	+1.3
Denmark (OMXCB)	878.9	+2.7	+30.1	+19.2
Hungary (BUX)	22,231.3	-0.7	+33.6	+26.1
Norway (OSEAX)	701.0	-1.4	+13.1	+12.0
Poland (WIG)	56,925.9	-0.6	+10.7	+7.0
Russia (RTS, $ terms)	1,032.0	-4.6	+8.5	+30.5
Sweden (OMXS30)	1,637.5	+1.0	+11.8	+4.7
Switzerland (SMI)	9,319.9	+3.0	+3.7	+9.8
Turkey (BIST)	87,791.0	+1.6	+2.4	-7.2
Australia (All Ord.)	5,614.0	-1.7	+4.2	+0.4
Hong Kong (Hang Seng)	27,585.1	+1.2	+16.9	+16.9
India (BSE)	27,837.2	+2.2	+1.2	+0.1
Indonesia (JSX)	5,292.8	+0.9	+1.3	-4.8
Malaysia (KLSE)	1,810.1	+0.4	+2.8	-0.6
Pakistan (KSE)	32,599.0	-1.0	+1.5	+0.1
Singapore (STI)	3,439.7	-0.4	+2.2	+1.3
South Korea (KOSPI)	2,139.5	+1.2	+11.7	+12.0
Taiwan (TWI)	9,685.3	-0.4	+4.1	+7.8
Thailand (SET)	1,520.1	+1.6	+1.5	-0.6
Argentina (MERV)	11,728.2	-3.8	+36.7	+29.1
Brazil (BVSP)	54,901.0	-2.6	+9.8	-3.9
Chile (IGPA)	19,699.9	-0.9	+4.4	+4.6
Colombia (IGBC)	10,614.6	+0.3	-8.8	-13.3
Mexico (IPC)	45,283.5	+0.5	+5.0	+1.6
Venezuela (IBC)	6,283.1	+11.4	+62.8	na
Egypt (Case 30)	8,826.5	+3.5	-1.1	-7.3
Israel (TA-100)	1,476.5	+2.6	+14.6	+15.1
Saudi Arabia (Tadawul)	9,731.3	nil	+16.8	+16.9
South Africa (JSE AS)	54,192.1	+0.3	+8.9	+6.2

Poverty rates

A report by the OECD, a club of rich countries, produced further evidence on the widening gap between rich and poor. In the 1980s the richest 10% of the population of OECD countries earned seven times more than the poorest decile. Today they earn ten times more. The poor are also more likely to be young. Poverty rates are now highest among 18- to 25-year-olds, having dropped drastically among those aged over 65. This shift reflects both the financial support offered by pension systems in the developed world and the disproportionate effect of the recession on young people. Wealth is far more concentrated than income, with the poorest 40% of people in OECD countries holding just 3% of the wealth.

Relative rate of poverty by age group, OECD
100=average



Source: OECD

Other markets

	Index May 20th	% change on one week	Dec 31st 2014 in local currency	Dec 31st 2014 in $ terms
United States (S&P 500)	2,125.9	+1.3	+3.3	+3.3
United States (NAScomp)	5,071.7	+1.8	+7.1	+7.1
China (SSEB, $ terms)	484.7	+14.4	+66.7	+66.7
Japan (Topix)	1,643.4	+2.4	+16.8	+15.5
Europe (FTSEurofirst 300)	1,613.6	+2.8	+17.9	+8.2
World, dev'd (MSCI)	1,804.0	+0.8	+5.5	+5.5
Emerging markets (MSCI)	1,036.1	+0.2	+8.3	+8.3
World, all (MSCI)	441.4	+0.7	+5.8	+5.8
World bonds (Citigroup)	873.9	-1.0	-3.1	-3.1
EMBI+ (JPMorgan)	712.0	+0.1	+2.9	+2.9
Hedge funds (HFRX)	1,249.5§	+0.5	+2.6	+2.6
Volatility, US (VIX)	12.9	+13.8	+19.2	(levels)
CDSs, Eur (iTRAXX)†	59.9	-2.7	-2.2	-10.3
CDSs, N Am (CDX)†	64.2	-2.0	-0.9	-0.9
Carbon trading (EU ETS) €	7.4	-3.8	+1.2	-7.1

Sources: Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. §May 19th.

Indicators for more countries and additional series, go to: **Economist.com/indicators**

The Economist commodity-price index

2005=100

	May 12th	May 19th*	% change on one month	% change on one year
Dollar Index				
All Items	145.0	143.8	+1.3	-17.1
Food	157.6	158.7	+0.5	-21.0
Industrials				
All	131.9	128.4	+2.5	-11.3
Nfa†	123.1	124.0	+5.1	-16.3
Metals	135.6	130.3	+1.4	-9.1
Sterling Index				
All items	168.3	168.8	-2.4	-9.8
Euro Index				
All items	160.3	160.7	-2.2	+2.1
Gold				
$ per oz	1,191.4	1,208.5	+0.8	-6.6
West Texas Intermediate				
$ per barrel	60.5	57.5	+3.2	-44.0

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.

Who Sloanes Wins

Ann Barr, identifier of one of Britain's most distinctive social groups, died on May 4th, aged 85

MEMBERS of the tribe had been seen around for a while. Indeed, with their raucous cries ("OK Yah!" "AbsolOOTli!"), they were hard to ignore. Individuals would be spotted in the Fulham Road, in navy Husky and Hermès scarf knotted *on* the chin, greeting each other with air-kisses on either cheek; or lying blotto on some college lawn the morning after a May Ball, black tie just about together. At sales time at Harvey Nicks or on race days at Ascot they would descend in squawking flocks. Yet the secret rules of this tribe, its rituals and codes, were unanatomised until Ann Barr, as features editor at *Harpers & Queen*, turned her beady gaze upon them.

From 1975 onwards Miss Barr commissioned and collected in multiple manila envelopes snippets, stories and features relating to Sloanes, and wove them into "The Official Sloane Ranger Handbook", co-authored with Peter York, in 1982. The typical pair, she surmised, were probably a Henry (Hooray in his wild youth) and a Caroline. He would have a not-too-demanding job in the City to which he commuted daily, wearing his father's suit, striped shirt (Jermyn Street) and brogues. She—no work once engaged, of course—would look after house and children in Wiltshire, knee-deep in pony club, walking the dogs, feeding the freezer, etc. Before this toil, or whenever released from it, she would migrate to Knightsbridge and the King's Road.

Sloanes, Miss Barr concluded, were really shy country creatures, and their habitat the hunting field or the grouse moor rather than London. As such, they were in touch with the *pulse* of the seasons: never eating strawberries except in June or July (when they gorged), moving en masse to Klosters in January (skiing and Glühwein) and to Henley in July (rowing, not much watched, and Pimm's, much drunk). Even their mating was exactly timed. "The Official Sloane Ranger Diary", following swift upon the Handbook, provided best dates for "Covering (Human)" as well as the mating of beasts: August to November, to make sure the offspring were the ideal age to start in Michaelmas term at their public school.

North of the Park

These observations were exact for a v.g. reason: Miss Barr was a Sloane herself. You couldn't miss it when you heard her, with her cut-glass vowels and shrieks of laughter. Her garb in the office—Thea Porter jackets with black velvet knickerbockers teamed with naff old flat shoes, were just the right Sloane blend of Oxfam and designer. An old Barbour often topped the lot, again pure Sloane. Her family was well-connected but not aristocratic, for Sloanes merely adored from below the titled few, just as they scorned from above all yobbos, oiks and noovos. Her education had been at minor public schools (*never* university for gels, in her day). She too was caught up in the seasonal whirl of regattas and hunting and the perpetual risk of getting compleETli pissed at all-night parties (a fate she staved off with gallons of coffee); so plugged in, that her "Barometer" column in *H&Q* told Sloanes what they were going to think and do before they had even thought of doing it.

There were wrinkles in this picture, to be sure. After a bit of farm life in girlhood she settled in London, in a messy little flat North of the Park (*oh God!*) in Notting Hill. Being unmarried she had to work for a living, whizzing from secretary at the *Times* Bookshop via *House & Garden* (pretty Sloane) to, eventually, *Harpers & Queen*, where she ruled at Features from 1970 to 1984. She read widely and deeply, where Sloanes skimmed little except the *Tatler*, and she could be seriously serious, which produced later (for the *Observer*) sombre articles on cocaine and child abuse.

The essential Sloane would out, however. She had no garden, and therefore wasn't to be found pruning the roses or manuring the asparagus; instead she nurtured journalists, and many famous names were first commissioned and edited by her with a biro snippy as secateurs. She had no brace of labradors or spaniels, with large smelly basket obstructing the kitchen, but indulged the Sloane dottiness for (domestic) animals by keeping a green parrot, Turkey, which flapped about her flat and ravaged her papers. In 1984, with Paul Levy, she co-wrote a book on another new tribe, foodies; much of the scorn poured on consumers of cold-pressed olive oil and sashimi stemmed, no doubt, from her impeccable Sloane taste for sausage rolls and stodgy Dundee cake in a biting wind on a tartan rug at Glyndebourne/Cheltenham/wherever else.

She also felt, beneath her merciless sniping, great affection for her tribe. When Mr York seemed, to her, to take too much credit for discovering the species, she said he didn't understand them—naturally not, when he came from *North London* and had been to a *progressive* (ie, left-wing) school. She defended Sloanes not only for their charity work—all that relentless attending of balls, baking for church fetes, etc—but as the bedrock of England, the noble commandants and subalterns who obeyed their superiors, upheld tradition in all its forms and generally *kept everything going*. And going, and going. For once they took up a task (as she took up hers, of wise scrutiny) it became a duty they could never put down; until, like any good thing—cheese, wine, hung pheasant—decay inevitably but benevolently set in. ■


WFP/Marco Frattini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