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OCTOBER 8TH-14TH 2016



**Barack
Obama
on the
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BY INVITATION

The road to Brexit





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Britain's prime minister looks as if she is on a dangerous course: leader, page 13. Theresa May fires the starting gun for what is likely to be a hard Brexit, taking Britain out of Europe's single market, page 51. A new, illiberal direction for the country: Bagehot, page 54

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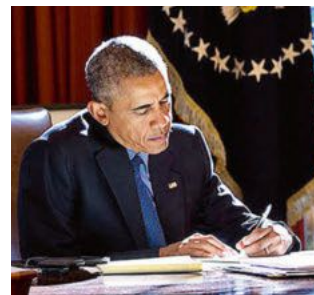
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 **PICTET**

Politics



Theresa May, **Britain's** prime minister, outlined a timetable for Brexit negotiations, saying she would trigger Article 50, the formal process for leaving the European Union, by the end of March 2017. The pound fell to a fresh 31-year low against the dollar. But the FTSE 100 share index, which is made up of many export-dependent companies, surged to its highest level in more than a year. At the Conservative Party conference Mrs May promised to fight on a new centre ground in British politics.

The **UK Independence Party**, which pushed for the Brexit referendum, continued down its spiralling path to obscurity. Diane James resigned as leader, 18 days after winning a fractious leadership contest. Nigel Farage, the former leader, is technically back in charge. UKIP's chairman said the situation was unfortunate, but he "wouldn't call it a farce".

Russia suspended an agreement with America to dispose of the two countries' excess plutonium stockpiles safely. Vladimir Putin demanded that America roll back the expansion of NATO, end sanctions and pay compensation before reinstating the deal. Relations between the countries have deteriorated over the conflicts in Ukraine and Syria.

A referendum proposal in **Hungary** to reject EU refugee quotas was supported by 98% of voters. But turnout was well below the 50% threshold required to make the vote binding. It is a blow to the populist prime minister, Viktor

Orban, who nevertheless declared the vote a resounding success.

A "women's strike" in **Poland** brought 30,000 protesters onto the streets to demonstrate against a proposed ban on abortion in the country, which already has some of Europe's toughest restrictions. It is the latest push towards cultural conservatism under the Law and Justice (PiS) government.

The International Organisation for Migration reported that 303,000 **migrants** entered Europe by sea from January 1st to October 1st. That is down by 40% from the same period last year, but the death toll is higher. Over 3,500 people have drowned or are missing.

António Guterres, a former prime minister of Portugal, was the clear favourite to become the next secretary-general of the **United Nations**, replacing Ban Ki-moon early next year. Mr Guterres used to run the UN's refugee agency.

Turkey's president, Recep Tayyip Erdogan, asked parliament to extend his emergency powers, granted to him after the failed coup in July, by 90 days.

Unfriendly fire

At least 20 pro-government Sunni tribal fighters were killed in an air strike in **Iraq** after being mistaken for Islamic State militants. The accident happened as preparations for an imminent assault on Mosul intensified. Iraq's second city has been held by IS since 2014.



Fifty-two people died at a religious festival in **Ethiopia's** Oromia region when an anti-government protest broke out.

A stampede started after police used tear gas and rubber bullets to disperse the crowd. The country has been beset by ethnic-based violence over the past 12 months.

A leading **Nigerian** actress was banned from the Hausa-language film industry because of her "immoral" behaviour. This consisted of her hugging a pop star to whom she is not married in a music video.

The Trump of the Philippines

In his latest tirade, President Rodrigo Duterte of the **Philippines** said Barack Obama could "go to hell" for criticising his bloody campaign against drugs. He warned that his country might "break up with America" and that he preferred ties with Russia and China.

The authorities in **Thailand** barred Joshua Wong, a prominent pro-democracy activist from **Hong Kong**, from entering the country. He said he was told by Thai officials that he had been "blacklisted". Mr Wong had planned to attend an event marking the 40th anniversary of a massacre of Thai students.

The Taliban launched an assault on the **Afghan** city of Kunduz and raised their flag in the centre of the city. They withdrew after Afghan forces mobilised to repel them with the help of NATO "advisers". A meeting of Afghanistan's aid-donors agreed to provide civil aid worth \$15.2 billion until 2020.

Tibet's newly appointed Communist Party chief said the region must "deepen the struggle" against the Dalai Lama's influence there. Doing so, he said, was the region's "highest priority" in its efforts to forge "ethnic unity".

They won't give peace a chance

Colombians rejected in a plebiscite an agreement negotiated by the country's president, Juan Manuel Santos, and the leftist FARC guerrilla army to end a 52-year war. Turnout was low and the difference between the number of votes

for and against the accord was less than 0.5% of the total. Mr Santos hopes to keep the peace deal alive. He extended a government ceasefire until the end of October.



Hurricane Matthew, the strongest storm in the Caribbean in a decade, struck Haiti. Its path showed it moving on to Cuba and Florida. More than 20 people in Haiti died and around 10,000 were forced into temporary shelters.

A more sedate affair

The only **debate** during the election campaign between America's vice-presidential candidates was held in rural Virginia. Mike Pence, the Republican, was widely judged to have got the better of Tim Kaine, the Democrat.

Ohio said that it intends to resume executions in January, following a three-year hiatus. Ohio has executed 53 inmates in the past 40 years, the eighth highest of any state.

Roy Moore, the controversial chief justice of **Alabama's** Supreme Court, was suspended from office for advising state judges not to recognise gay marriage, despite its legalisation in America. His legal career over, Mr Moore is considering running for governor.

Marathon man

A man who once said he couldn't run for a bus completed the equivalent of 401 **marathons** in 401 days in Britain. Ben Smith raised money for anti-bullying charities, having been targeted at school for being gay. He ran 16,900km (10,500 miles) in total, the distance from London to Sydney.

Business

Deutsche Bank's battered share price rose, amid reports that it was negotiating a much smaller settlement with the US Department of Justice than the \$14 billion it had been asked to pay for claims related to mortgage-backed securities. The German government reiterated that it had no plans to rescue the bank. Concerns about the health of the wider European banking industry were underscored by an announcement from **ING**, a Dutch bank, that it is shedding up to 7,000 jobs, a decision it in part blamed on ultra-low interest rates. Commerzbank, Germany's second-biggest bank, announced 9,600 job losses.

Delta Lloyd, one of the largest insurers in the Netherlands, received a hostile takeover bid from **NN Group**. The Dutch central bank has named insurers (and pension funds) as the greatest risks to the country's financial stability. Across Europe, insurers are vulnerable to takeovers as they struggle to cope with low interest rates and increasing capital requirements.

Janus Capital, an American asset-management company, and **Henderson Global Investors**, an Anglo-Australian one, agreed to merge. The combined firm will have \$320 billion in assets under management. Dai-ichi Life, a Japanese insurer, will hold around 9% of the combined company.

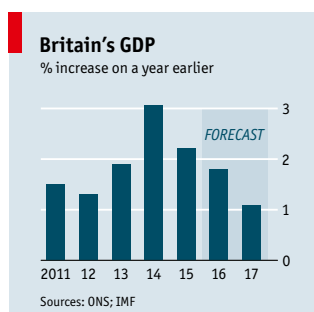
Buoyed by the strong yen, **Sompo**, a big property-insurance company in Japan, agreed to buy **Endurance**, which sells insurance in America, for \$6.3 billion.

In a surprise move, **India's** central bank cut its key interest rate by a quarter of a percentage point, to 6.25%. It was the first pronouncement on rates by the Reserve Bank of India under its new governor, Urjit Patel, and the first made by a new six-member policy committee. Previous rate decisions were ultimately made by the

bank's governor; Mr Patel gets to cast a vote only if a decision is tied. Meanwhile, India's government said that a **tax amnesty** had led to 64,000 people declaring hidden assets totalling \$9.8 billion.

Austerity lite

Britain's chancellor of the exchequer, Philip Hammond, officially abandoned the target of eliminating the government's **budget deficit** by 2019-20. That goal had been championed by Mr Hammond's predecessor, George Osborne, but it is now seen as too constraining given the economic uncertainties after Britain's vote to leave the EU.



The IMF said it thinks **Britain's economy** will grow by 1.8% this year, up from the 1.7% it forecast in July. But it shaved its expectations for growth next year to 1.1%, from the 1.3% it had projected in the summer. With

the economy proving more resilient after Brexit than many had thought—the services sector is expanding much faster than markets had expected, for example—the fund defended the doomsday predictions it had made before the vote, saying it would have been “malpractice” not to have raised concerns.

The **Chinese yuan** was officially added to the IMF's special drawing rights basket of currencies. It is the first currency to join since the euro in 1999.

Airbus announced plans to streamline management and merge its group corporate headquarters with that of its commercial-jet division. Although it has a bulging order book, Airbus is under pressure to improve profitability.

Theranos, a startup that promised to shake up the lab-testing market, closed its blood-testing laboratories and cut 40% of its workforce. The firm has been plagued by many problems, such as sending erroneous blood-test results to thousands of patients.

In a rare intrusion by an American activist investor into corporate Asia, **Elliott Management**, Paul Singer's

hedge fund, called for **Sam-sung Electronics** to split in two, arguing that its share price is undervalued. Last year Elliott tried and failed to block a restructuring in another part of the Samsung empire.

Tesla Motors reported its best quarter for sales, delivering 24,500 cars to customers. But it wasn't all good news. California, Tesla's home state, proposed that the company drop the name Autopilot as a feature following several accidents where drivers have not followed instructions to keep their hands on the wheel.

Yes, but can you make a call?

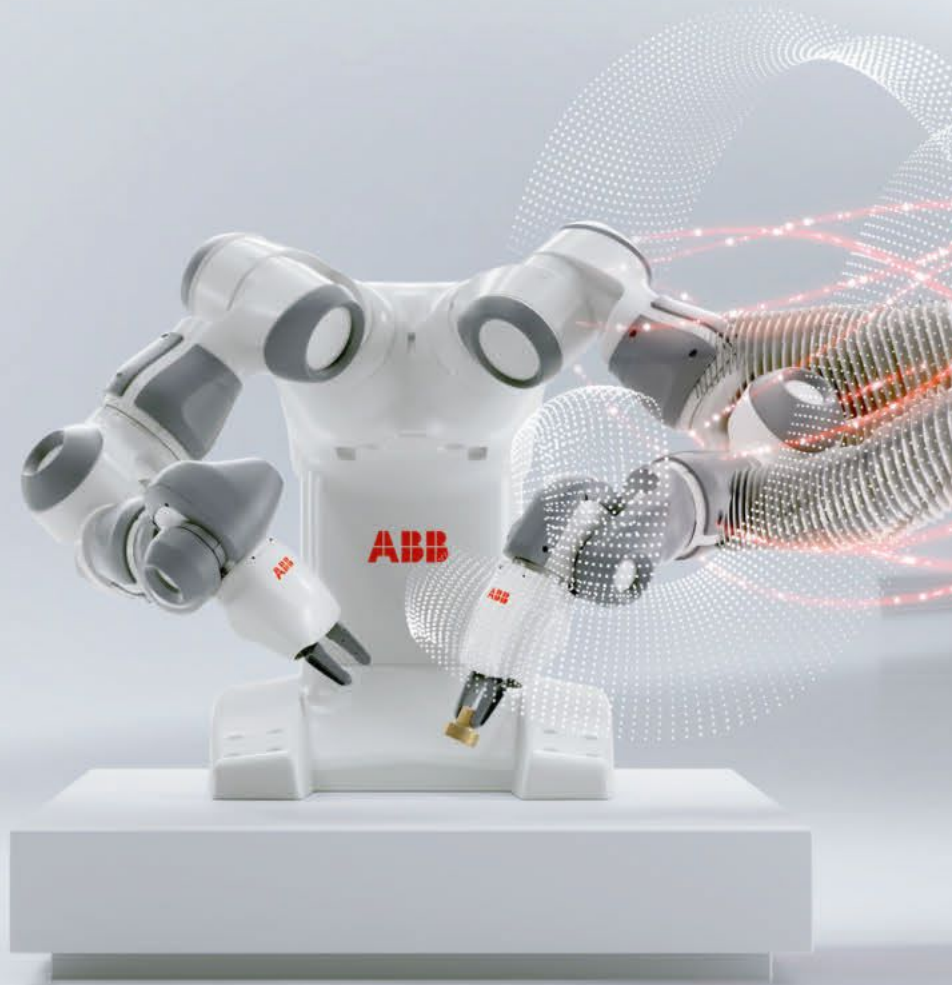
Google unveiled its new smartphone, the Pixel. It pitched the device as a rival to Apple's iPhone, but with more emphasis on artificial intelligence. The Pixel is powered by a “digital assistant” with machine-learning technology combining elements of speech recognition, language transcription and word conversion that adapts to a user's instructions. Google reckons this represents the future of searching the internet and of interacting with smart devices in the home.

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

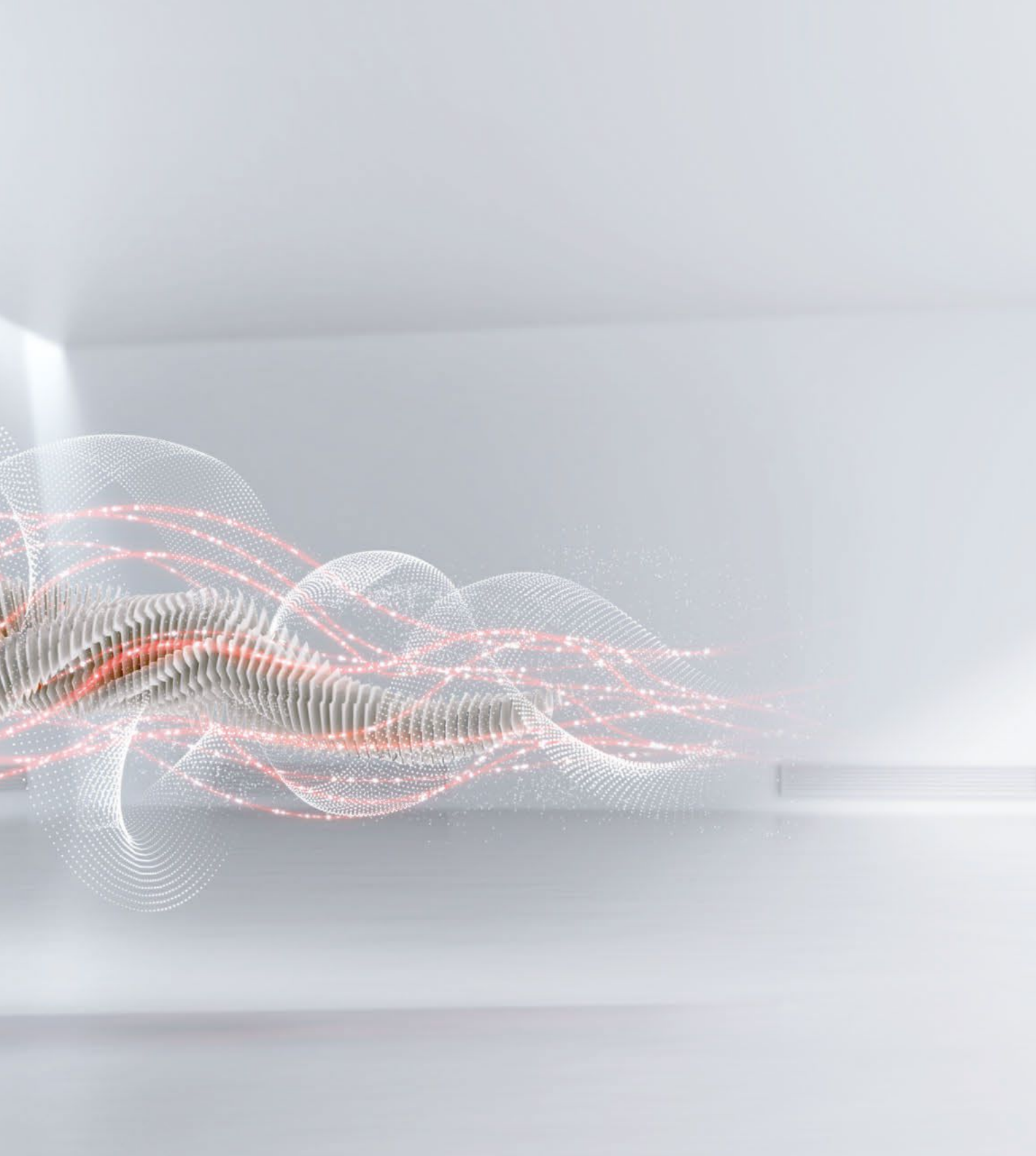


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A STAR ALLIANCE MEMBER



The road to Brexit

Britain's prime minister must resist her party's dangerous instincts



THE destination was decided in June, by simple majority: Britain is leaving the European Union. The journey, however, will be complex and perilous, beset by wrong turnings, chicanes and elephant traps.

With 64m Britons in the back seat, perhaps that is why Theresa May has avoided talking about the road ahead. But at the Conservative Party conference this week the new prime minister could delay no longer. In a speech that thrilled party activists, she declared that she will invoke Article 50 of the EU treaty by the end of March, triggering a two-year countdown that should see Britain leave the union in early 2019. She also hinted that she would be prepared to steer Britain towards a harder sort of Brexit, involving a wide separation of labour, product and financial markets.

Mrs May is at risk of putting her party before her country— with grave consequences. Brexit will determine Britain's fortunes in the decades to come. If it is to be done at all, it must be done right.

Hard, soft or half-baked?

Mrs May faces an inevitable tension. Domestically, if she is not to be overwhelmed by the politics of Europe, as so many Tory prime ministers have been before her, she needs to convince those who voted to leave that their victory will be honoured. That is why her speech conveyed urgency and, when it came to immigration, sovereignty and the jurisdiction of the European court in Luxembourg, she took a hard line.

In Europe, however, this domestic rhetoric will impede Mrs May's task of negotiating the best possible form of Brexit. To maximise her bargaining power, Mrs May needs time. To get the best deal, she needs to be flexible on immigration.

The centrepiece of the deal ought to be to secure maximum access to Europe's single market. Brexiteers say that, once outside, Britain would eventually negotiate low or no tariffs on its trade with the EU. Yet, even if it did, tariffs are less than half the problem. Without harmonised regulations, British firms will discover that their products do not meet European requirements, and vice versa. And it is unlikely that a trade deal between Britain and the EU would cover services, including the financial sort that are among Britain's biggest exports. A study by the Treasury before the referendum estimated that the hit to GDP within two years of Brexit would be nearly twice as large if Britain left the single market than if it remained a member.

Mrs May seems to want to carve out a special deal with the EU, in which Britain limits immigration and determines product standards—on, say, food-labelling—while still operating fully in the single market. Perhaps the negotiations will show that this is possible. However, the signs are that she is overestimating the EU's willingness to give ground. Each country has a veto over Britain's status (see page 51). On almost every issue, from immigration to financial services, at least one of them will be reluctant to surrender its advantages.

If that means Mrs May must give ground on immigration,

remember that such "concessions" actually benefit Britain. The supply of workers and students from the EU has helped Britain grow faster than any other member state in recent years. To avoid suffocating industry, ministers have already indicated that they may let in financial-services employees, as well as seasonal agricultural workers. There are sure to be more exceptions as bottlenecks emerge.

The second ingredient of a good Brexit is a sensible transition to the new regime—especially if Britain is about to walk away from the single market. The bureaucracy and cost of a sudden imposition of tariffs and non-tariff barriers would lead to a brutal dislocation. Separation from the EU will involve divvying up EU-owned assets, pensions and much else. Everything from fishing rights to aircraft-landing slots are agreed on at an EU level; these rules must be redrafted and re-regulated.

Amid the world's most complex divorce, Britain's diplomats also have another vital task. Through its membership of the EU, Britain is a member of the World Trade Organisation (WTO) and party to free-trade deals with 53 other countries. When it leaves, it will lose all that. So Britain must urgently prepare to rejoin the WTO as an individual country—which, again, requires the consent of every other member.

Mrs May seemed to acknowledge the benefits of a smooth transition this week. Her proposed "Great Repeal Bill", which will get rid of all existing EU law from the statute book, will in fact merely translate it into British law, to be chipped away later at leisure if desired. She should likewise negotiate an interim trade deal—through temporary membership of the European Economic Area, say, of which Norway is part. This would mean paying into the EU budget and accepting free movement but, in return, Britain could take as long as it needs to line up WTO accession and trade agreements with the EU and other countries, while still under the shelter of the single market.

Ardent Brexiteers worry that, ensconced in such a halfway house, Britain would stay put for ever. That is indeed a possibility, and there is no reason it should not be: with half the population having voted to Remain and many of those who voted to Leave reluctant to quit the single market, a majority might favour such a "soft" Brexit.

Open all hours

The final ingredient of the approach Mrs May put forward was her broad agenda to open Britain to the world beyond the EU—which she calls "Global Britain". In theory this should entail a willingness to welcome international capital and labour, which would benefit the country whatever its relations with the EU. Sadly, the reality looks less rosy. The home secretary, Amber Rudd, this week complained that some companies were employing too many foreigners and talked about "flushing out" the worst offenders. Likewise, Mrs May's conference rhetoric was strikingly interventionist, putting the state at the heart of the economy. A flirtation with industrial policy sounds worryingly as if it is designed to keep foreigners out.

A Brexit of some sort looms and Mrs May will determine its course. If Britain is not to suffer a car crash, she must ignore the back-seat drivers and fix her eyes firmly on the road ahead. ■

Latin America

Saving Colombia's peace

After voters reject the agreement, the country needs a political accord



ASK the people a question, and you may not get the answer you expected. That happened to David Cameron with the Brexit referendum, and now it has happened to Juan Manuel Santos, Colombia's president. In a plebiscite on October 2nd Colombians made fools of the opinion pollsters and voted to reject his government's peace agreement with the FARC guerrillas by the narrowest of margins—less than 0.5%.

For Mr Santos that was an embarrassment. He had lined up an array of international support for the deal. For Colombia it is dangerous. The agreement came after four years of hard talking, and almost certainly represented the best available compromise between peace and justice. FARC leaders who confessed to war crimes would not go to jail, but they would be judged and punished under a strict legal framework.

Several factors explain the voters' rejection (see page 37). The weather didn't help: Hurricane Matthew struck a glancing blow to Colombia's Yes-leaning Caribbean coast, where turnout was exceptionally low. Mr Santos, an aloof patrician presiding over a slowing economy, is unpopular. His predecessor-turned-foe, Álvaro Uribe, who inspired the No campaign, has the common touch. But the overwhelming factor was that, after decades of terrorism, extortion, kidnapping and drug-trafficking, many Colombians look upon the FARC with mistrust and hatred.

The No campaign capitalised on these emotions with a simple and partly deceptive story: the agreement granted impunity to the FARC, it said, and tougher terms can be extracted from them. In fact, the talks stalled for a year over the FARC's refusal to become the first guerrilla movement in history to agree to hand over its weapons in order to go straight to jail.

So what now? Both Mr Santos and the FARC say they will honour a ceasefire but, on the government's side, only until the end of the month. Mr Uribe has a political responsibility to back up his claim that such a complex agreement can be substantially renegotiated: he should offer a serious alternative to an early return to war. It is encouraging that he has met Mr Santos and named three representatives to talk to the government. It is helpful, too, that he has rejected calls for a constituent assembly. Rather than offering a solution, that would have been an unwarranted distraction. On the other hand, Mr Uribe's proposal for isolated measures (such as an amnesty for rank-and-file guerrillas) outside the scope of the agreement looks like an attempt to impose elements of a unilateral deal on the FARC which has scant chance of success.

The FARC should bend, too

Mr Uribe and Mr Santos, once allies, abhor each other. If Colombia is to salvage anything from this mess, the two men have to find a way to work together. But the main onus now lies with the FARC. Their commitment to peace has recently started to look genuine. They cannot ignore the verdict of the voters, however much that might suit them. They should recognise that peace without political support is a mirage.

The FARC should be pressed for at least two additional concessions. The first is to accept that their recent promise to declare ill-gotten assets and pay reparations to victims should become a binding addendum to the agreement. The second is that the "effective restrictions on liberty" to be imposed on sentenced guerrilla commanders should look more like a prison farm than a holiday camp.

Time is short: the FARC's troops cannot remain in limbo indefinitely, nor can the UN team that was to supervise their disarmament. Barring a tripartite commitment to reach a consensus, a slide back into war is all too likely. ■

The crisis of the Arab world

From Aleppo to Mosul

The liberation of Iraq's second-largest city offers a rare chance to assuage Sunni anger



SURVEY the rubble of the Fertile Crescent, and a disturbing pattern emerges: from the Mediterranean to the Gulf, those bearing the brunt of war are for the most part Sunni Arabs. Though they form the largest ethnic group and are heirs of fabled empires, many of their great cities are in the hands of others: the Jews in Jerusalem; the Christians and Shias in Beirut; the Alawites in Damascus; and, latterly, the Shias in Baghdad. Sunnis make up most of the region's refugees. Where Sunnis hold on to power, as in the Gulf states, they feel encircled by a

hostile Iran and abandoned by an indifferent America.

The malaise goes beyond sectarianism. The Arab state is in crisis almost everywhere, aggravated by decades of misrule, not least by Sunni leaders. Think only of Iraq's appalling ex-president, Saddam Hussein, the quintessential Sunni Arab strongman; or of Egypt's flawed leader, Abdel-Fattah al-Sisi. The Sunnis' sense that they are assailed from all sides helps to explain how the jihadists of Islamic State (IS), offering to restore the ancient caliphate, were able to take over vast Sunni-populated areas in Syria and Iraq. No battlefield victory against jihadists will be complete, and no diplomatic solution will be lasting, until the Sunnis' dispossession is dealt with.

Right now the future of the region is being decided in two ►►

► venerable cities: Aleppo, the last urban redoubt of the Syrian rebellion against Mr Assad; and Mosul, IS's most prized possession in Iraq. The conduct of the battles, and the political order that follows them, will determine the course of the region's barbaric wars. The best hope for peace lies in federalism and decentralisation to give Sunnis, and others, a proper voice.

A tale of two cities

Aleppo is the symbol of the worst sort of external intervention. Russia is helping Syrian troops, and their Iranian and Shia allies, pound the besieged Sunni rebels. It looks like an attempt to take the entire city before Barack Obama leaves office next year, convinced that he will do nothing to stop them. The deliberate brutality, in which hospitals are repeatedly attacked, will only feed Sunni resentment and extremism; so will Russia's insistence that Mr Assad should remain in charge of any future power-sharing government.

Mosul, by contrast, could yet become a model for defeating the jihadists and creating a saner politics that recognises Sunni Arabs' stake in Iraq (see page 41). Iraqi, Kurdish and local Sunni forces are closing on the city, with American support; the jihadists are fraying. The operation to retake Mosul is due to begin this month, and may give Mr Obama a farewell triumph. The loss of Mosul would deal a blow to IS; it was from there that Abu Bakr al-Baghdadi, the IS leader, declared his caliphate.

Much can go wrong in Mosul. Nobody knows how hard IS will fight. There are worries that the Iraqi government has not done enough to prepare for a mass exodus of civilians; or that it will be unable to prevent an armed free-for-all by Shia, Kurdish and rival Sunni militias. But for all of its violence and chaos, Iraq offers real hope. Its politics are more open than those of most Arab countries, with a feisty press and an obstreperous parliament. Cross-sectarian alliances are starting to form. Shia politicians want to shake off their image as clients of Iran,

while Sunni Arab ones are moving away from the politics of rejection and the dream of reconquering Baghdad.

After the failures of Arab nationalism, Islamism and jihadism, Iraq could yet give the Arab world a welcome new model of devolved power. This would make it harder for murderous dictators to terrorise their people, and give diverse ethnic groups the sense that they rule themselves. Would-be separatists, notably the Kurds, might be convinced to remain within existing frontiers.

Looser, more flexible forms of government could ease some of the conflicts of the Arab world, even the terrible bloodletting in Syria. The balance of power will vary but should follow a few basic principles. First, because no region is ethnically pure, sub-entities must respect minority rights. Second, all groups should have a share of power in the central government. Third, national resources, eg, oil, must benefit the whole population. And fourth, the hardest, is to find the right balance of armed force between national armies and local police forces, so that minorities feel protected and local warlords are discouraged from rebelling or breaking away.

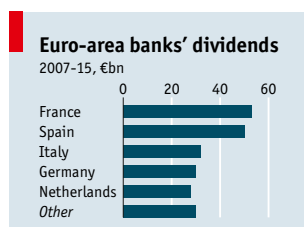
Iraq's constitution provides for much of this, on paper at least. It should be made a reality. Devolution may not end political quarrels; but if it stops the bloodshed that will be progress indeed. So Mosul must be captured judiciously, with care for civilians and political agreement on how it will be run after the defeat of IS. The city is not only a test of the maturity of Iraq's politics, but also of the responsibility of outside powers. Saudi Arabia and Iran should support reconciliation and reconstruction. Western forces should not rush out.

Mosul offers a chance to convince beleaguered Sunnis that there is a better alternative to the nihilism of *jihad*. If Iraqi politics only feeds their sense of dispossession, expect the violence to go on. What happens in Mosul matters beyond Iraq; it could even give hope to poor, benighted Aleppo. ■

Europe's banks

The chronic continent

Deutsche Bank's distress is symptomatic of a wider malaise



IT MUST have been an exquisite moment. On September 30th the central bank in Athens issued a statement reassuring investors that the Greek banking system was safe—from a crisis engulfing Germany's flagship bank. Any *Schadenfreude* felt in

Europe's periphery at Deutsche Bank's tumbling shares should be stifled, however. Deutsche is not about to fail: it can survive a harsh funding squeeze, its solvency is not in doubt and if push came to shove, the German government would surely support it. But many of its woes are symptomatic of problems that bedevil the whole continent.

Plenty would deny that. Deutsche is more leveraged than its peers; it is unusual in lacking a crown jewel around which it can base a business model; and it has a stack of derivatives whose prices are hard to observe in the market. More positively, it is light on the non-performing loans that clog the balance-sheets of banks in places like Italy. But in other ways its pro-

blems have a very familiar ring. Deutsche is struggling to make a decent return. It has taken too long to face up to its problems. And the market it operates in is overbanked. Years after American banks were forced to clean themselves up, too many European lenders are still flailing as a result (see page 64).

Europeans prefer to blame others for the turmoil. Deutsche has lashed out at "forces in the market" for its most recent bout of trouble. But its shares had already fallen by 42% this year before news broke last month of a proposed Department of Justice (DOJ) fine of \$14 billion for mortgage-related misdeeds. German politicians insinuate that the mooted fine represents revenge for Europe's recent tax case against Apple, an American champion. Yet the DOJ has slapped large fines on American banks, too. Deutsche's vulnerability to shocks is the problem, not the shocks themselves.

Fingers also point at global regulators. The boss of Credit Suisse, Tidjane Thiam, says his sector is "not really investible". It is true that the rules have got much stricter in the past few years, particularly for institutions, like Deutsche, that have big investment-banking arms. It is also true that ultra-loose mone- ►►

tary policy, and in particular the negative interest rates that now prevail in much of Europe, eat away at banks' profitability. But some banks cope better than others in this painful environment. The IMF has compared returns on equity before and after the financial crisis. Those at large European banks fell by 11.4 percentage points, whereas those at American lenders dipped by only three points. Rather than blaming speculators, Americans and regulators, Europe's bankers and policymakers need to put their own house in order.

Within institutions, that means cutting costs and raising capital. According to S&P Global Market Intelligence, the average cost-to-income ratio at an American bank in 2015 was 59%; Italy's figure stood at 67% and Germany's at 72%. Scandinavian banks already operate with much lower costs than their peers elsewhere in Europe. The axe is now swinging: Commerzbank, another struggling German lender, and ING, a Dutch bank, have announced thousands of job cuts in the past few days (see page 65).

But more can be done. Pay is one obvious lever. Deutsche's bankers trousered roughly the same amount in annual compensation between 2011 and 2015, even as the bank's share price dived. And before shareholders complain too loudly about that, recall that in 2007-15 the dividend payments by 90 euro-zone banks amounted to €223 billion (\$250 billion). Their retained earnings would have been 64% higher at the end of that period if they had not paid out dividends.

Within markets, consolidation is needed. Too much consolidation risks exacerbating the problem of overmighty banks. Too little, however, and earnings sputter. Some European markets have been clearing away excess capacity. Almost half of the decrease in euro-zone bank branches between 2008 and 2014 was accounted for by Spain alone. Again there is more to do. According to the IMF, 46% of European banks account for just 5% of deposits. Germany's massed ranks of savings and co-operative banks, for example, drive down margins for everyone. Without pruning, their returns on equity are projected to fall towards zero as a result of ultra-low rates, regulation and "fintech" rivals.

You're still dead in the end

Recovery would happen a lot faster if euro-zone policymakers grasped the simple truth that a banking calamity can unfold slowly as well as quickly. Bold solutions are needed. A deposit-guarantee scheme that stretches across the euro zone would encourage cross-border consolidation. Using public money to recapitalise the weakest banks in countries like Italy and Portugal, and requiring them to slim down in return, is the fastest way to return them to health. Proper fiscal stimulus by European governments would cut the chances that central banks have to keep interest rates so low. For questions about the survival of big European banks to be swirling almost ten years after the financial crisis started is utterly damning. ■

America's economy

A thoughtful to-do list

In his essay for this newspaper, Barack Obama raises the right questions about America's economic challenges



ONE of the many unfortunate consequences of America's presidential election turning into a reality TV show is the near-total absence of serious debate about economic policy. The vitriol on both sides of the partisan divide has made it all

but impossible to have a minimal agreement even on the facts. Mendacity and insults have left no room for any substantive discussion about what the next president's economic priorities ought to be. Whatever you think of Donald Trump, his populist, protectionist prescriptions are woefully short on policy detail; the few areas where concrete plans exist are internally inconsistent (slash taxes, increase spending and eliminate government debt). Hillary Clinton has reams of wonkish proposals, but she has trouble articulating an overall economic agenda and, amid the rhetorical mud-wrestling, her fidly ideas have received little scrutiny.

That is the background against which we publish an essay this week by Barack Obama, in which America's president lays out what he sees as the biggest economic challenges his successor will have to tackle (see pages 22-24). In a thoughtful argument pitched towards the centre ground of American politics, Mr Obama staunchly defends free trade, globalisation and American-style capitalism. He makes clear that America has gained "perhaps more than any other [nation] from immigration, trade and technological innovation" and criticises the

"crude populism" on the left of his own party as well as that of the right which has bubbled up in 2016.

The president grapples with the question of why this populism has become so popular. Some of the explanation is no doubt cultural. But to the extent that it is animated by economics, he offers a detailed to-do list designed to improve the conditions of those who feel most aggrieved, focusing on boosting productivity growth, countering rising inequality, and improving job opportunities and Americans' financial resilience. Unusually for a sitting president, Mr Obama is willing to admit that his administration's record is not spotless and that he will leave the White House with some things left undone.

A serious bid for the centre

These are his thoughts, lightly edited to be consistent with this (British) newspaper's house style. In several areas, our priorities would be different. Mr Obama, for instance, barely mentions the stifling role of regulation in deterring investment, dampening productivity growth and dulling innovation. He does not do justice to subjects of fundamental importance to America's long-term fiscal future, such as reform of the public pensions system. He makes no mention of the distortions that stem from well-meaning interventions, such as the complex mesh of means-tested welfare programmes that hinders the progress of poor workers into better jobs. But it is a serious and thoughtful attempt to assess America's economic strengths and weaknesses. In today's raucous and sometimes hate-filled campaign environment, that makes it all too rare. ■



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Company concentration

As mentioned in your special report on the dominance of “superstar” companies (September 17th), the big increase in profits and market share in America are much less pronounced in Europe. In Germany the share of the 100 largest companies in value-added terms compared with all German companies has in fact decreased slightly, to 15.8% in 2014. Nevertheless, the challenges for competition policy that you pointed out surely apply to Germany and the rest of Europe. Specific recommendations have been made by Germany’s Monopolies Commission in the context of digital markets and include, for instance, the consideration of transaction volumes as a trigger of German and European merger control.

But other sorts of entities pose an additional challenge for competition policy. Large institutional investors, which you wrote about in the “Free exchange” column in the same issue, create indirect links between rivals through their portfolio shareholdings. This may lessen competitive behaviour between these rivals. Such common ownership needs more attention. For example, when reviewing the Bayer-Monsanto merger, competition authorities should consider that powerful institutional shareholders, such as BlackRock, Vanguard and Deutsche Asset Management, not only hold shares in Bayer and Monsanto, but also in many of their rivals, thereby creating an additional source of concentration.

JOHN WECHER
Senior analyst
Monopolies Commission
Bonn, Germany

Too many parties

Several times in the past few months, most recently in “Britain’s one-party state” (September 17th), you have said that the first-past-the-post electoral system results in two dominant parties. This is not true. For more than 70 years Canada has had as many as

five significant parties in the House of Commons. In America, first-past-the-post matters not a jot compared with gerrymandering, unlimited political funding and the partisan division of spoils.

The preference for proportional representation is misguided. Would you really choose Spain or Belgium (no government), Italy (ineptitude), Greece (incompetence), or Israel (extremist intransigence) over the clarity and simplicity of Westminster? In Britain, the Liberal Democrats’ decision to join the Conservative-led coalition in 2010 was an act of self-inflicted annihilation. Do not blame first-past-the-post for the bad judgment of political leaders.

KERN DEORKSEN
Canberra, Australia

Of interest

Living in “The low-rate world” (September 24th), you say, means finding “a form of fiscal policy that can revive the economy in the bad times without entrenching government in the good”. This fiscal policy already exists. Starting in Chile in 2001, more recently in Colombia and Peru, and soon in Paraguay, a group of Latin American countries have implemented a structural fiscal rule in which government spending is determined by long-term fiscal revenue rather than current revenues.

Independent experts help estimate the growth trend and the long-term price of the main commodity that influences public revenues. Once this structural revenue is estimated, the government has to make explicit its commitment to the structural fiscal balance, a given number for deficit or surplus.

With this kind of fiscal rule a government can truly run a counter-cyclical fiscal policy, allowing moderate deficits in bad times, which are compensated by fiscal surpluses in the good. The best way to accumulate surpluses is by implementing sovereign funds which normally invest their resources abroad in order to avoid a Dutch disease (currency appre-

ciation following resource booms). Counter-cyclical fiscal policy makes the job of central bankers easier as well.

FELIPE LARRAÍN
Chile’s Minister of Finance,
2010-14
Santiago

Your briefing on persistently low interest rates included the sub-heading “Down, down, deeper and down” (“Low pressure”, September 24th). Do I detect a bias towards the Status Quo?

CHRIS WRIGHT
Lower Shiplake, Oxfordshire

Man’s brief time on Earth

As a geologist I have been following the Anthropocene debate with mild amusement (“Dawn of a new epoch?”, September 3rd). No other geological unit of time bears the name of species. To accord that honour to our own exemplifies the ego that characterises Man. Given the short time frame, the low preservation potential in terrestrial environments and the subduction of oceanic sediments, one must question just how much of our record will be preserved in 100 million years.

Regardless of the outcome of debates and votes cast by official stratigraphic commissions, we should at least enjoy an ironic chuckle that when the Anthropocene ends, we won’t know it.

ANDREW CULLEN
Vice-president of geology
Warwick Energy
Oklahoma City

M’ lords and ladies

Wulfila, who translated the Bible for the Goths, was not alone in choosing a non-military word for a leader (Johnson, September 10th). The English word “lord” comes from the Old English *hlaford* which derives from a compound *hlaf* (meaning bread, or loaf) and *weard* (meaning guardian) so that “our lord” is the keeper of the bread. The word lady means “the maker of the bread”.

RONALD MACAULAY
Claremont, California

Smiley culture



Schumpeter’s column “Against happiness” (September 24th) could have mentioned the well-accepted scientific evidence that faking happiness actually does make people happier. One study proved that clenching a pencil between your teeth and forcing the face into a smile released hormones that made the individual happier. A smile unconsciously draws positive responses from others. Like nudge theory in economics, it seems entirely appropriate that companies encourage their employees to use this technique. If those employees choose to reject this, as Schumpeter seems to, then it is not only themselves but their colleagues who will suffer.

CAROLYN GIBSON
Birmingham

There is surely nothing more British than to proclaim the right to be miserable and taciturn.

ALEX WAYGOOD
Watford, Hertfordshire

Schumpeter’s piece was fascinating. His descriptions of the heavy-handed attempts to enforce outwardly cheery behaviour reminded me of an old joke about a corporate memo to all employees informing them that, “The floggings will continue until happiness improves.”

DAVID ROWE
Saddlebrooke, Arizona ■

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James’s Street, London SW1A 1HG
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EXECUTIVE OFFICER (grade P5)
Montreal, Canada, Ref. UIS-EO-0036

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(DUTY STATION: BRUGES, BELGIUM)

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CLOSING DATE: 30 NOVEMBER 2016

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Qualifications: A PhD in Informatics, Information Systems, Public Administration, Public Policy, or a related discipline.

Experience: An established track record of effective, strong and collaborative leadership in the area of regional integration studies or global public policy.

CLOSING DATE: 15 NOVEMBER 2016



The way ahead

WASHINGTON, DC

America's president writes for us about four crucial areas of unfinished business in economic policy that his successor will have to tackle

WHEREVER I go these days, at home or abroad, people ask me the same question: what is happening in the American political system? How has a country that has benefited—perhaps more than any other—from immigration, trade and technological innovation suddenly developed a strain of anti-immigrant, anti-innovation protectionism? Why have some on the far left and even more on the far right embraced a crude populism that promises a return to a past that is not possible to restore—and that, for most Americans, never existed at all?

It's true that a certain anxiety over the forces of globalisation, immigration, technology, even change itself, has taken hold in America. It's not new, nor is it dissimilar to a discontent spreading throughout the world, often manifested in scepticism towards international institutions, trade agreements and immigration. It can be seen in Britain's recent vote to leave the European Union and the rise of populist parties around the world.

Much of this discontent is driven by fears that are not fundamentally economic. The anti-immigrant, anti-Mexican, anti-Muslim and anti-refugee sentiment expressed by some Americans today echoes nativist lurches of the past—the Alien and Sedition Acts of 1798, the Know-Nothings of the mid-1800s, the anti-Asian sentiment in the late 19th and early 20th centuries, and any number of eras in which Americans were told they could restore

past glory if they just got some group or idea that was threatening America under control. We overcame those fears and we will again.

But some of the discontent is rooted in legitimate concerns about long-term economic forces. Decades of declining productivity growth and rising inequality have resulted in slower income growth for low- and middle-income families. Globalisation and automation have weakened the position of workers and their ability to secure a decent wage. Too many potential physicists and engineers spend their careers shifting money around in the financial sector, instead of applying their talents to innovating in the real economy. And the financial crisis of 2008 only seemed to increase the isolation of corporations and elites, who often seem to live by a different set of rules to ordinary citizens.

So it's no wonder that so many are receptive to the argument that the game is rigged. But amid this understandable frustration, much of it fanned by politicians who would actually make the problem worse rather than better, it is important to remember that capitalism has been the greatest driver of prosperity and opportunity the world has ever known.

Over the past 25 years, the proportion of people living in extreme poverty has fallen from nearly 40% to under 10%. Last year, American households enjoyed the largest income gains on record and the poverty rate fell faster than at any point since

the 1960s. Wages have risen faster in real terms during this business cycle than in any since the 1970s. These gains would have been impossible without the globalisation and technological transformation that drives some of the anxiety behind our current political debate.

This is the paradox that defines our world today. The world is more prosperous than ever before and yet our societies are marked by uncertainty and unease. So we have a choice—retreat into old, closed-off economies or press forwards, acknowledging the inequality that can come with globalisation while committing ourselves to making the global economy work better for all people, not just those at the top.

A force for good

The profit motive can be a powerful force for the common good, driving businesses to create products that consumers rave about or motivating banks to lend to growing businesses. But, by itself, this will not lead to broadly shared prosperity and growth. Economists have long recognised that markets, left to their own devices, can fail. This can happen through the tendency towards monopoly and rent-seeking that this newspaper has documented, the failure of businesses to take into account the impact of their decisions on others through pollution, the ways in which disparities of information can leave consumers vulnerable to dangerous products or overly expensive health insurance.

More fundamentally, a capitalism shaped by the few and unaccountable to the many is a threat to all. Economies are more successful when we close the gap between rich and poor and growth is broadly based. A world in which 1% of humanity controls as much wealth as the other 99% will never be stable. Gaps between rich and poor are not new but just as the child ►►

▶ in a slum can see the skyscraper nearby, technology allows anyone with a smartphone to see how the most privileged live. Expectations rise faster than governments can deliver and a pervasive sense of injustice undermines peoples' faith in the system. Without trust, capitalism and markets cannot continue to deliver the gains they have delivered in the past centuries.

This paradox of progress and peril has been decades in the making. While I am proud of what my administration has accomplished these past eight years, I have always acknowledged that the work of perfecting our union would take far longer. The presidency is a relay race, requiring each of us to do our part to bring the country closer to its highest aspirations. So where does my successor go from here?

Further progress requires recognising that America's economy is an enormously complicated mechanism. As appealing as some more radical reforms can sound in the abstract—breaking up all the biggest banks or erecting prohibitively steep tariffs on imports—the economy is not an abstraction. It cannot simply be redesigned wholesale and put back together again without real consequences for real people.

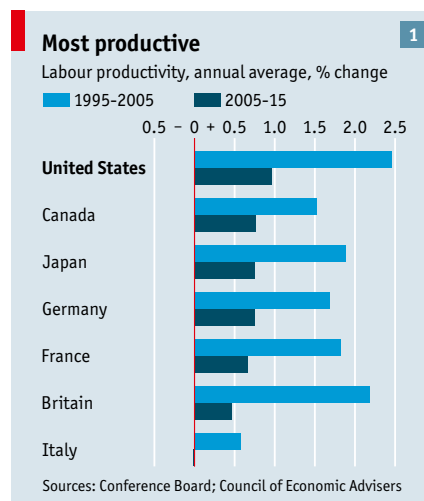
Instead, fully restoring faith in an economy where hardworking Americans can get ahead requires addressing four major structural challenges: boosting productivity growth, combating rising inequality, ensuring that everyone who wants a job can get one and building a resilient economy that's primed for future growth.

Restoring economic dynamism

First, in recent years, we have seen incredible technological advances through the internet, mobile broadband and devices, artificial intelligence, robotics, advanced materials, improvements in energy efficiency and personalised medicine. But while these innovations have changed lives, they have not yet substantially boosted measured productivity growth. Over the past decade, America has enjoyed the fastest productivity growth in the G7, but it has slowed across nearly all advanced economies (see chart 1). Without a faster-growing economy, we will not be able to generate the wage gains people want, regardless of how we divide up the pie.

A major source of the recent productivity slowdown has been a shortfall of public and private investment caused, in part, by a hangover from the financial crisis. But it has also been caused by self-imposed constraints: an anti-tax ideology that rejects virtually all sources of new public funding; a fixation on deficits at the expense of the deferred maintenance bills we are passing to our children, particularly for infrastructure; and a political system so partisan that previously bipartisan ideas like bridge and airport upgrades are nonstarters.

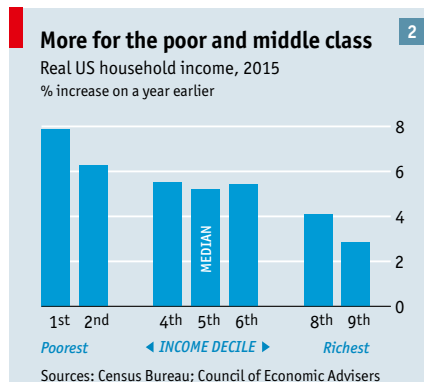
We could also help private investment



and innovation with business-tax reform that lowers statutory rates and closes loopholes, and with public investments in basic research and development. Policies focused on education are critical both for increasing economic growth and for ensuring that it is shared broadly. These include everything from boosting funding for early childhood education to improving high schools, making college more affordable and expanding high-quality job training.

Lifting productivity and wages also depends on creating a global race to the top in rules for trade. While some communities have suffered from foreign competition, trade has helped our economy much more than it has hurt. Exports helped lead us out of the recession. American firms that export pay their workers up to 18% more on average than companies that do not, according to a report by my Council of Economic Advisers. So, I will keep pushing for Congress to pass the Trans-Pacific Partnership and to conclude a Transatlantic Trade and Investment Partnership with the EU. These agreements, and stepped-up trade enforcement, will level the playing field for workers and businesses alike.

Second, alongside slowing productivity, inequality has risen in most advanced economies, with that increase most pronounced in the United States. In 1979, the top 1% of American families received 7% of



all after-tax income. By 2007, that share had more than doubled to 17%. This challenges the very essence of who Americans are as a people. We don't begrudge success, we aspire to it and admire those who achieve it. In fact, we've often accepted more inequality than many other nations because we are convinced that with hard work, we can improve our own station and watch our children do even better.

As Abraham Lincoln said, "while we do not propose any war upon capital, we do wish to allow the humblest man an equal chance to get rich with everybody else." That's the problem with increased inequality—it diminishes upward mobility. It makes the top and bottom rungs of the ladder "stickier"—harder to move up and harder to lose your place at the top.

Economists have listed many causes for the rise of inequality: technology, education, globalisation, declining unions and a falling minimum wage. There is something to all of these and we've made real progress on all these fronts. But I believe that changes in culture and values have also played a major role. In the past, differences in pay between corporate executives and their workers were constrained by a greater degree of social interaction between employees at all levels—at church, at their children's schools, in civic organisations. That's why CEOs took home about 20- to 30-times as much as their average worker. The reduction or elimination of this constraining factor is one reason why today's CEO is now paid over 250-times more.

Economies are more successful when we close the gap between rich and poor and growth is broadly based. This is not just a moral argument. Research shows that growth is more fragile and recessions more frequent in countries with greater inequality. Concentrated wealth at the top means less of the broad-based consumer spending that drives market economies.

America has shown that progress is possible. Last year, income gains were larger for households at the bottom and middle of the income distribution than for those at the top (see chart 2). Under my administration, we will have boosted incomes for families in the bottom fifth of the income distribution by 18% by 2017, while raising the average tax rates on households projected to earn over \$8m per year—the top 0.1%—by nearly 7 percentage points, based on calculations by the Department of the Treasury. While the top 1% of households now pay more of their fair share, tax changes enacted during my administration have increased the share of income received by all other families by more than the tax changes in any previous administration since at least 1960.

Even these efforts fall well short. In the future, we need to be even more aggressive in enacting measures to reverse the decades-long rise in inequality. Unions ▶▶

▶ should play a critical role. They help workers get a bigger slice of the pie but they need to be flexible enough to adapt to global competition. Raising the Federal minimum wage, expanding the Earned Income Tax Credit for workers without dependent children, limiting tax breaks for high-income households, preventing colleges from pricing out hardworking students, and ensuring men and women get equal pay for equal work would help to move us in the right direction too.

Third, a successful economy also depends on meaningful opportunities for work for everyone who wants a job. However, America has faced a long-term decline in participation among prime-age workers (see chart 3). In 1953, just 3% of men between 25 and 54 years old were out of the labour force. Today, it is 12%. In 1999, 23% of prime-age women were out of the labour force. Today, it is 26%. People joining or rejoining the workforce in a strengthening economy have offset ageing and retiring baby-boomers since the end of 2013, stabilising the participation rate but not reversing the longer-term adverse trend.

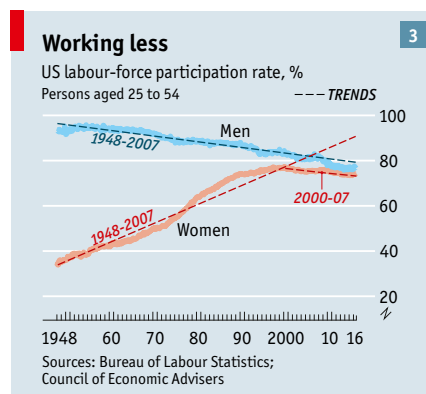
Involuntary joblessness takes a toll on life satisfaction, self-esteem, physical health and mortality. It is related to a devastating rise of opioid abuse and an associated increase in overdose deaths and suicides among non-college-educated Americans—the group where labour-force participation has fallen most precipitously.

There are many ways to keep more Americans in the labour market when they fall on hard times. These include providing wage insurance for workers who cannot get a new job that pays as much as their old one. Increasing access to high-quality community colleges, proven job-training models and help finding new jobs would assist. So would making unemployment insurance available to more workers. Paid leave and guaranteed sick days, as well as greater access to high-quality child care and early learning, would add flexibility for employees and employers. Reforms to our criminal-justice system and improvements to re-entry into the workforce that have won bipartisan support would also improve participation, if enacted.

Building a sturdier foundation

Finally, the financial crisis painfully underscored the need for a more resilient economy, one that grows sustainably without plundering the future at the service of the present. There should no longer be any doubt that a free market only thrives when there are rules to guard against systemic failure and ensure fair competition.

Post-crisis reforms to Wall Street have made our financial system more stable and supportive of long-term growth, including more capital for American banks, less reliance on short-term funding, and better oversight for a range of institutions



and markets. Big American financial institutions no longer get the type of easier funding they got before—evidence that the market increasingly understands that they are no longer “too big to fail”. And we created a first-of-its-kind watchdog—the Consumer Financial Protection Bureau—to hold financial institutions accountable, so their customers get loans they can repay with clear terms up-front.

But even with all the progress, segments of the shadow banking system still present vulnerabilities and the housing-finance system has not been reformed. That should be an argument for building on what we have already done, not undoing it. And those who should be rising in defence of further reform too often ignore the progress we have made, instead choosing to condemn the system as a whole. Americans should debate how best to build on these rules, but denying that progress leaves us more vulnerable, not less so.

America should also do more to prepare for negative shocks before they occur. With today's low interest rates, fiscal policy must play a bigger role in combating future downturns; monetary policy should not bear the full burden of stabilising our economy. Unfortunately, good economics can be overridden by bad politics. My administration secured much more fiscal expansion than many appreciated in recovering from our crisis—more than a dozen bills provided \$1.4 trillion in economic sup-

port from 2009 to 2012—but fighting Congress for each commonsense measure expended substantial energy. I did not get some of the expansions I sought and Congress forced austerity on the economy prematurely by threatening a historic debt default. My successors should not have to fight for emergency measures in a time of need. Instead, support for the hardest-hit families and the economy, like unemployment insurance, should rise automatically.

Maintaining fiscal discipline in good times to expand support for the economy when needed and to meet our long-term obligations to our citizens is vital. Curbs to entitlement growth that build on the Affordable Care Act's progress in reducing health-care costs and limiting tax breaks for the most fortunate can address long-term fiscal challenges without sacrificing investments in growth and opportunity.

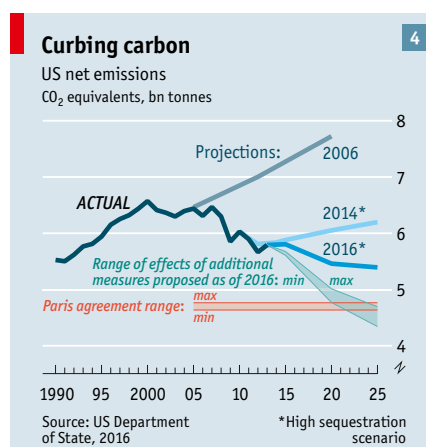
Finally, sustainable economic growth requires addressing climate change. Over the past five years, the notion of a trade-off between increasing growth and reducing emissions has been put to rest. America has cut energy-sector emissions by 6%, even as our economy has grown by 11% (see chart 4). Progress in America also helped catalyse the historic Paris climate agreement, which presents the best opportunity to save the planet for future generations.

A hope for the future

America's political system can be frustrating. Believe me, I know. But it has been the source of more than two centuries of economic and social progress. The progress of the past eight years should also give the world some measure of hope. Despite all manner of division and discord, a second Great Depression was prevented. The financial system was stabilised without costing taxpayers a dime and the auto industry rescued. I enacted a larger and more front-loaded fiscal stimulus than even President Roosevelt's New Deal and oversaw the most comprehensive rewriting of the rules of the financial system since the 1930s, as well as reforming health care and introducing new rules cutting emissions from vehicles and power plants.

The results are clear: a more durable, growing economy; 15m new private-sector jobs since early 2010; rising wages, falling poverty, and the beginnings of a reversal in inequality; 20m more Americans with health insurance, while health-care costs grow at the slowest rate in 50 years; annual deficits cut by nearly three-quarters; and declining carbon emissions.

For all the work that remains, a new foundation is laid. A new future is ours to write. It must be one of economic growth that's not only sustainable but shared. To achieve it America must stay committed to working with all nations to build stronger and more prosperous economies for all our citizens for generations to come. ■





The war in Afghanistan

Help needed

JALALABAD

Foreigners pledge more aid to Afghanistan as security worsens

THE timing could not have been worse for Afghanistan's beleaguered president, Ashraf Ghani. On the eve of a major conference of international donors in Brussels, at which the Afghan government would show off its achievements after two years in office and present its vision for the future, Taliban insurgents stormed into the northern city of Kunduz in the early hours of October 3rd. The militants occupied civilian houses and made it all the way to the city's central square, where they hoisted their group's white-coloured flag.

It was almost a year to the day since the Taliban had seized parts of the city for the first time. A shaken Mr Ghani had promised then that it would never happen again. This time, within 24 hours, the Taliban retreated—at least from the centre—after the arrival of Afghan special forces and NATO “advisers” (backed by local militias, members of which are pictured). But the embarrassment had been inflicted. At about the same time, the Taliban also launched an attack from their southern front in Helmand, capturing a district on the edge of the provincial capital, Lashkar Gah. Only two of Helmand's 13 districts are now fully under government control.

The attack on Kunduz and the continued offensive in Helmand had been expected as a climax to what has been a summer of fierce fighting. Government forces, despite outnumbering the Taliban, are stretched thin. They have difficulty fighting in different regions simultaneously. Weak-

ened by casualties and by leadership that is, at best, patchy, some units suffer poor morale. They are highly dependent on the 17,000-strong Afghan special forces rushing to the rescue whenever a Taliban attack threatens to overwhelm defenders.

Increasingly, they are being backed up by international forces. Earlier this year, Barack Obama reluctantly relaxed the rules of engagement for NATO's 13,000-strong “train, advise and assist” mission, known as Resolute Support (previously allowed only to intervene if a catastrophe was imminent). Air support has increased and NATO advisers are now more often found with Afghans at the sharp end.

Offensive operations to reclaim territory from the Taliban are rare, but the insurgency has failed to capture any important



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city. It holds sway across large tracts, particularly in the rural south and east where it has retaken territory lost during the “surge” of 2009-12, when NATO could call on 130,000 troops. Bill Roggio of the *Long War Journal* reckons that up to half of Afghanistan may be under Taliban control or influence. However, General John Nicholson, the American commander of Resolute Support, says that equates to only about 10% of the population. He believes that around 70% of Afghans live in government-held areas.

In one province, Nangarhar in the east, the Taliban has been pushed out not by government forces but by fighters claiming loyalty to Islamic State (IS). Exploiting divisions within the Taliban, IS is behaving with its customary brutality. Residents who have fled to the outskirts of Jalalabad from Achin, where IS has set up its headquarters, tell of decapitations of government workers, shrine-smashing and demands for women to don burqas.

Villagers find themselves caught between the warring sides. On September 28th an American drone targeted the house of an alleged IS operative, but the UN says he was a civilian, as were at least 15 of those killed. On October 4th an American soldier, accompanying Afghan forces in Achin, was killed by a booby trap. It is unlikely that IS, which has scant local support, will gain much ground. But with al-Qaeda loyalists returning to parts of the country, security problems are mounting.

It is against this sombre backdrop that the Afghan government sought to convince foreign aid-donors at this week's conference hosted by the European Union that in some areas, particularly in the fight against corruption, progress is being made. Mr Ghani was also able to boast of a peace deal signed on September 29th with Gulbuddin Hekmatyar, the leader of the Hezbe-Islami group who was once known as ►►

▶ the “butcher of Kabul”. Afghan officials hope that some in the Taliban may follow Mr Hekmatyar’s example. That is optimistic. But his jihadist credentials could challenge the insurgency’s legitimacy.

As expected, the conference agreed to provide civil aid to Afghanistan worth about \$3.8 billion a year until at least 2020. Many pieties were expressed about the cash being conditional on political and economic reform. Mr Ghani, a former development expert at the World Bank, knows how to come up with credible-looking plans. But implementation of them remains slow and his government factious.

The insurgency is a big handicap. Michael O’Hanlon of the Brookings Institution, an American think-tank, says it is hardly surprising that Afghan forces have struggled to contain it given the withdrawal of “125,000 of the world’s best soldiers”. Anthony Cordesman of the Centre for Strategic and International Studies, another think-tank, says the next American president must abandon Mr Obama’s obsession with finding an exit.

Both Mr Cordesman and Mr O’Hanlon want a much bigger train-and-assist mission, additional troops to help Afghan forces when in difficulty and more combat air-support. Mr Obama’s successor should heed the military advice he rejected and increase the American contribution to Resolute Support from the current 8,400 to at least 13,000, with no artificial deadline for departure. Otherwise, the commitments made in Brussels will achieve little. ■

India and Pakistan

Reversing roles

DELHI

There is still more smoke than fire in heated exchanges, but for how long?

IF IT were not that India and Pakistan have been lobbing live mortar rounds at each other for the past few days, forcing the evacuation of thousands of villagers from border zones, or for the fact that both states are nuclear-armed, the latest jump in tension between the eternal rivals might seem silly. On September 29th India launched what an army spokesman called retaliatory “surgical strikes” against “terrorist launch-pads” in Pakistani-held territory. This followed an attack by Pakistan-based fighters two weeks earlier that had left 19 Indian soldiers dead and prompted angry Indian calls for revenge.

But in a reversal of typical roles the apparent victim, Pakistan, denied that any such deadly Indian raids had taken place; it dispatched reporters to the border to check for themselves—under strict supervision,



Peering towards Pakistan

naturally. This embarrassed India’s government, which had won thundering applause from local media when it announced the revenge attacks. One animated cartoon pictured a giant prime minister Narendra Modi flicking his mosquito-borne Pakistani counterpart, Nawaz Sharif, into oblivion. But just when Indian sceptics began to wonder aloud whether their government was telling the truth, Pakistan sheepishly admitted that it had captured an Indian soldier on its side of the border, thus hinting that there had, after all, been some sort of incursion.

The eruption of tit-for-tat shelling across the line of control, as the frontier between Indian- and Pakistani-administered bits of the disputed territory of Kashmir is called, also suggested that something provocative had happened (an Indian soldier is pictured near the line of control during the recent tensions). But it was only after days of frenzied speculation that a whiff of fact could be discerned through the dense smoke. Citing eyewitnesses and anonymous officials, journalists in both Pakistan and India pieced together an account of what happened in the early morning of September 29th that made sense of the conflicting versions.

Instead of the resolute act of vengeance deep behind enemy lines described by Indian jingoists, it appears that small teams of Indian commandos had slipped across the line to strike at safe houses believed to be used by Islamist guerrillas. The number killed was estimated at a dozen or fewer, rather than the 38-50 initially claimed by India. None of those killed were Pakistani army personnel. And since the Pakistani government has no wish to inflame domestic opinion and so be forced to escalate matters, it preferred to pretend that nothing had happened.

Following the revelation that its “surgical strike” was perhaps less devastating than first advertised, India has also pre-

ferred to remain silent. But Mr Modi came to power in 2014 with promises to be tough on Pakistan. With important state elections looming in the coming months, it is useful for him to look warlike. Along highways in India’s biggest state, Uttar Pradesh, devotees have put up billboards featuring pictures of the prime minister, finger raised next to a silhouetted soldier, declaring: “We will strike with our gun, and our bullet, in our own time, but in your territory.”

The bellicose mood has prompted other kinds of posturing. Responding to calls to expel Pakistani actors who have gained big Indian audiences in recent years, an association of Bollywood producers declared they would hire no more enemy talent. An Indian satellite channel that gained top ratings by playing Pakistani serials has taken them off air. Officials of the Kabaddi World Cup, a traditional sport played on both sides of the border, have told the Pakistani team not to come.

Pakistan is not taking this lying down. Its censors have sharply restricted the showing of Indian films. Indian military pilots complain their radios are being interrupted by bursts of patriotic Pakistani songs. And in a town near the border Indian police captured and caged a pigeon, apparently dispatched from Pakistan, which carried a warning to Mr Modi taped to its leg: “Now each and every child is ready to fight.” The tenor of recent exchanges between the two countries is suggestive of playground conflict. Both may hope that it will not become more deadly. ■

Tax policies

Amnesties international

DELHI AND JAKARTA

Tax dodgers in India and Indonesia have been given a chance to come clean

INDIA and Indonesia share a problem: too little tax revenue. Of the 3.8% of India’s 1.3 billion people whose incomes are logged by the tax authorities, barely one-quarter cross the tax threshold. The share of Indians who declare annual incomes of more than 1m rupees (about \$15,000) is just 0.1%. Among Indonesia’s 255m citizens, 27m are registered taxpayers. But in 2014 only 900,000 of them filed a return.

Indonesia’s tax-to-GDP ratio is around 11.4%—better than India’s 10.8%, but well below the OECD average of more than a third. Many people are simply not paying their dues. Both countries are stepping up efforts to bring dodgers in from the cold.

India, where an amnesty on undeclared domestic income expired on September 30th, has been stricter. Penitents, many of whom received warnings that ▶▶

► they were being monitored, had to surrender 45% of their newly declared income. The government expects to rake in \$4.4 billion from the 64,275 people who turned themselves in. That will dwarf the amount taken from a similar campaign last year, which targeted overseas income. In that one, India earned \$373m from 633 individuals who owned up.

Indonesia has been trying an amnesty, too. Some 328,000 people took advantage of one launched in July during its first and most generous phase, which ended in September. They included prominent politicians and businessmen who posed for cameras as they handed over details of once-hidden wealth. They had to pay a penalty of just 2% on domestic or repatriated assets, and 4% on declared offshore assets. Penalty rates have now risen to 3% and 6%. They will rise again in January to 5% and 10% for the final three months of the amnesty. Income tax rates in Indonesia range up to 30% for individuals and 25% for firms.

A lack of credibility often hinders amnesties—scofflaws figure they can just wait

until the next one. But in Indonesia's case the Common Reporting Standard, an international agreement reached in 2014 on the sharing of tax information, seems to have helped. In late September Joko Widodo, Indonesia's president, reportedly held a dinner for tycoons, at which they were warned to come clean or else. The amnesty has boosted the government's coffers by \$7 billion, around 60% of the total target. But whether more people will come forward by the end of March, given the increase in penalty rates, is unclear.

That some of Indonesia's richest people appear to expect praise as patriots for taking part in the amnesty has angered many tax-paying Indonesians. On September 29th thousands of union members protested in Jakarta, demanding an end to the campaign. They say it rewards the tax-evading rich. Some opponents have taken their case to the constitutional court, arguing that the amnesty amounts to legalised money-laundering. But with commodity prices low and plans aplenty for big spending on infrastructure, the government believes it will help. ■

Mr Abbott had supported his party's gay marriage ban. But after wrangles within the conservative Liberal-National coalition, he had offered a plebiscite (as non-binding referendums are called in Australia) as a compromise. Mr Turnbull last month announced that such a vote would be conducted in February.

A poll last month showed that only 39% of Australians backed holding a plebiscite. Many fear that some Liberals would simply ignore an outcome that favoured gay marriage. Alan Joyce, the openly gay chief executive of Qantas, an Australian airline, says the legislature has introduced numerous important reforms without a public vote. "So why can't parliament be empowered to make this decision?" he asks. Penny Wong, Labor's shadow foreign-affairs minister, says there is "disappointing evidence" that some will use "hurtful" arguments in a plebiscite campaign.

Like Ms Wong, but unlike his own Liberal party, Mr Entsch (who is also a patron of a Vietnam war veterans' motorcycle club in his outback region) would prefer a parliamentary vote. "We don't need to vilify or persecute any minority," he says. But he believes Mr Turnbull has little choice but to proceed with the plebiscite his party promised during the recent election campaign.

Before one happens, parliament must pass an enabling bill. Mr Turnbull's government has a majority (of just one seat) in the lower house, and can count on its support. But it has a minority in the Senate, meaning Labor will play a critical role. Mr Shorten says a plebiscite would represent a "fundamental failure" of parliament.

Many take Mr Shorten's comments as a sign that he will urge Labor to vote against the enabling bill, which would kill it. If that happens, Mr Turnbull would be unlikely to call for a parliamentary vote and thereby risk a revolt in his party. Labor would have to wait for the next general election, which is due in 2019. If it wins, it could push gay-marriage legislation through parliament. For now, it can only take solace in Mr Turnbull's discomfiture. ■

Gay marriage in Australia

Waiting for a vote

SYDNEY

The prime minister's plan for a plebiscite is proving controversial

WARREN ENTSCHE is a former crocodile-catcher whose federal parliamentary seat covers a remote tropical region of Australia bigger than Bangladesh. His home state of Queensland and his party, the ruling Liberals, are both conservative. Mr Entsch calls himself "the stereotype redneck". He is also one of Australia's most unlikely and zealous advocates for making gay marriage legal. Malcolm Turnbull, the prime minister, has called a non-binding referendum on the issue early next year. Mr Entsch and fellow politicians, however, are bitterly divided over whether asking voters is the best approach. Their rancour will be evident when parliament reconvenes on October 10th after nearly a month's break.

Australia is one of the few rich countries that still bans same-sex marriage. When it was enacted 55 years ago, the federal Marriage Act never defined marriage. Pitching for votes on "family values" before an election in 2004, John Howard, a former Liberal prime minister, amended the law to say that it is "the union of a man and a woman to the exclusion of all others". A recent opinion poll, however, showed that almost two-thirds of Australians disagree. Just 6% were undecided.

During a federal election in July, Bill Shorten, the Labor opposition leader, promised to legalise gay marriage within 100 days if Labor won. Mr Turnbull, too, wants change. Last year he suggested a parliamentary vote to decide the issue "one way or another". Since then, however, he has tailored his progressive views to keep in line with the stance of Tony Abbott, whom he unseated as Liberal leader and prime minister 13 months ago.



Rainbow warriors

Banyan | Evil genius

North Korea's nuclear threat is growing fast, but pre-emptive moves are not the answer



IN A world starved of old-fashioned, plain-evil Bond villains, at least there is Kim Jong Un. Witness the cackling glee exhibited by the chain-smoking Mr Kim and his generals when they celebrated North Korea's launch of a ballistic missile from a submarine in August; or the tear-choked euphoria of one newsreader, in traditional Korean dress, as she declared success in the country's fifth and largest nuclear test last month. In a world where morality comes in many shades of grey, the nuclear ambitions of Mr Kim, running a gulag masquerading as a country, are painted in black and white.

To many American policymakers, the submarine launch and nuclear test mark a turning point. Until now, North Korea's missiles have threatened South Korea and Japan. Now its nuclear and missile programmes have improved with such speed and determination that they begin to threaten the United States itself. A nuclear attack on Los Angeles? Time to think about it. The summer's tests, says Andrew Shearer of the Centre for Strategic and International Studies in Washington, point to a possible "game-changer" for America. North Korea is rapidly climbing up to the top of the to-do list for the next American president. The question is whether America, which has long struggled to contain the North's nuclear programmes, has anything left in its playbook.

The tests at least serve one useful purpose: to bury once and for all the delusions of successive American leaders that North Korea might be persuaded to negotiate away its nuclear programmes as a prelude to normalising ties. Such was the basis of the now-defunct "six-party talks" involving America, China, Japan, Russia and the two Koreas. The diplomacy was not wrong—you should want to negotiate with your enemy unless you have good reason not to. But the talks always favoured the North—winning it more aid, an easing of sanctions or more time for nuclear development. That was the point, as North Korea saw it.

As Nicholas Eberstadt of the American Enterprise Institute puts it, Americans have approached the North as if both sides share common points in their worldview and moral compass—leading to a wholesale misunderstanding. Perhaps that is inevitable when dealing with something so alien as a hereditary despotism underwritten by Leninist police-state powers. But the consequence for America has been years of confused policies.

One misunderstanding has been over the North's hyperbolic propaganda. Of course, if you are a Hollywood screenwriter or even an American policymaker, the bombast is easy to satirise, as are Mr Kim's jelly-bean looks, or the pantsuit and elevator shoes of his late father, Kim Jong Il. The elder Kim once kidnapped a South Korean film director and his actress wife because, he told them, he thought a lot of his own propaganda films were terrible.

Yet the propaganda is deadly serious. It is the outward expression of a messianic ideology that, along with all the surveillance and repression, has kept the Kim regime in power for more years than seemed possible. As Brian Myers of Dongseo University pointed out in "The Cleanest Race", his study in 2010 of North Korea's domestic propaganda, the regime's version of Korean history is of an innocent race oppressed by child-abusers—American, Japanese and Chinese. Extreme notions of ethnic purity lie at the heart of the ideology (South Koreans have not only been corrupted by American capitalism but polluted by miscegenation, too). The North's zealous mission, on which the regime's legitimacy is built, is to reunify the Korean race and avenge it.

The road to this Elysium is where North Korea's nuclear programmes come in, Mr Eberstadt makes clear. Once, other paths offered themselves, but that was before the sudden disappearance of Soviet patronage, the North's own industrial decline and the South's stubborn refusal to be swayed either by North Korea's revolutionary message or its occasional acts of violent provocation. The nuclear option remains the only game in town. Its voluntary surrender would mean the end of the sacred mission of unification—and so the end of the regime itself. Forget it.

What to do? Diplomacy now has even less to offer. Any appeals the North may make to America for the normalisation of ties have only one aim: the withdrawal of America's 28,000 troops from South Korea. And so pre-emptive strikes against North Korea are being talked about. South Korea recently said it would hit first if it believed the North was about to throw a punch. In Washington, some think-tankers now discuss, with surprising acceptance, the merits of attacking North Korean nuclear facilities—or even taking out Mr Kim himself. It is far from clear how such out-of-the-blue strikes might succeed. And they would involve a huge risk of retaliation. With cosmopolitan Seoul just 60km (40 miles) south of the demilitarised zone, it is hard to see South Korea giving approval. Without it, an American strike would rupture the alliance. So forget pre-emption too.

Let there be light

That still leaves ways to defend against the regime's threat and blunt its capacities. A new American missile-defence system being deployed in South Korea is a big start. And what if every North Korean sub that left port never returned? America has weaponry aplenty that could make them disappear, fingerprintless. Soon, Mr Kim would have no submarine capability—without America ever having said a word.

Elsewhere, sanctions could have much more bite—the measures that until recently applied to Iran were far harsher than the ones against the world's most repugnant regime. America should go much harder after the money-laundering and trading networks that keep the North Korean regime afloat. All should demand that China agree to a safe route for refugees to get to the South. In the end, helping ordinary North Koreans to end their isolation would do more than anything to undermine the regime's myths and enervate its sinews. ■

Also in this section

30 Regulating halal

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The Hui

China's other Muslims

TONGXIN

By choosing assimilation, China's Hui have become one of the world's most successful Muslim minorities

THE faithful are returning from the *haj*. Waiting for prayers outside the Great Mosque in Tongxin, a remote town in the western province of Ningxia, Li Yuchuan calls his pilgrimage a liberation: "Our prayers are just homework for it." His 84-year-old friend (pictured, right) leaps up and twists himself with lithe agility into the shape of a pretzel. "We Muslims pray five times a day," he says. "We are flexible and tough." China's Muslims need to be.

China has a richly deserved reputation for religious intolerance. Buddhists in Tibet, Muslims in the far western region of Xinjiang and Christians in Zhejiang province on the coast have all been harassed or arrested and their places of worship vandalised. In Xinjiang the government seems to equate Islam with terrorism. Women there have been ordered not to wear veils on their faces. Muslims in official positions have been forced to break the Ramadan fast. But there is a remarkable exception to this grim picture of repression: the Hui.

China has two big Muslim groups, the Uighur of Xinjiang and the more obscure Hui. Though drops in the ocean of China's population, they each have about 10m people, the size of Tunisia. But while the Uighur suffer, the Hui are thriving.

The number of mosques in Ningxia (cradle of the Hui, as one of their number puts it) has more than doubled since 1958, from 1,900 to 4,000, says Ma Ping, a retired professor at Northern Nationalities Uni-

versity. New ones are being built across the province. The Hui are economically successful. They are rarely victims of Islamophobia. Few Muslim minorities anywhere in the world can say as much.

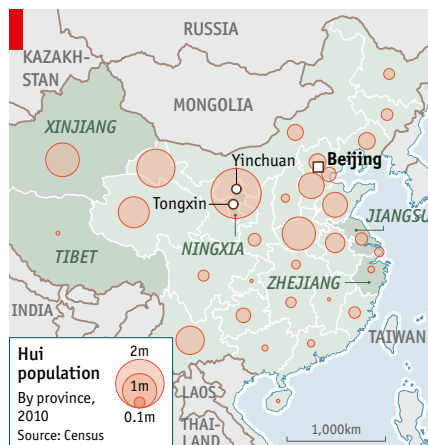
The Hui's religious practices reflect the waves of Islam that have washed over China. According to Ma Tong, a Hui scholar, just over half of them follow the Hanafi school of Sunni Islam, which was brought to China centuries ago. At the Najiahu mosque south of Yinchuan, Ningxia's capital, banners adorn the entrance saying "ancient and authentic religion" and "cleave to the original path". A fifth of the Hui follow the more austere code of Wahhabism brought to China in the 19th cen-

tury (there are also a handful of more extreme Salafist converts resulting from recent contacts through the *haj*). And a fifth follow one of three Sufi schools of Islam, an esoteric and mystical branch derided as apostate by hardline Salafists. The Hui's religious diversity makes it easier for the party to tolerate them. Divide and rule.

But the real secret of the Hui's success lies in the ways they differ from the Uighur. The Uighur, of Turkic origin, are ethnically distinct. They speak their own language, related to Turkish and Uzbek. They have a homeland: the vast majority live in Xinjiang. A wall of discrimination separates them from the Han Chinese. If they have jobs in state-owned enterprises, they are usually menial.

In contrast, the Hui are counted as an ethnic minority only because it says so on their *hukou* (household-registration) documents and because centuries ago their ancestors came as missionaries and merchants from Persia, the Mongol courts or South-East Asia. Having intermarried with the Han for generations, they look and speak Chinese. They are scattered throughout China (see map); only one-fifth live in Ningxia. Unlike the Uighur and Tibetans, they have taken the path of assimilation.

At the new Qiao Nan mosque in Tongxin, the congregation is celebrating the life of an important local figure in the mosque's history. The ceremony begins with a sermon by the *ahong* (imam). Then come prayers chanted in Arabic. At the house of the local worthy's grandson, the worshippers read from the Koran, then visit the tomb. But the afternoon ends very differently, with a reading from an 18-metre-long scroll written by the grandson, Ma Jinlong. This consists of excerpts from eighth-century classical Chinese poetry, illustrated with his own delicate water-colours. Mr Ma is both a stalwart of the



► mosque and a Chinese gentleman-scholar.

A close connection with Chinese society is characteristic of the Hui. Some of the most famous historical figures were Hui, though few Chinese are aware of it. They include Zheng He, China's equivalent of Columbus, who commanded voyages of discovery around 1400. Recently, the party chief in Jiangsu province as well as the head of the Ethnic Affairs Commission, a government body, were Hui.

Relations with the Han have not always been good. The so-called Dungan revolt by the Hui in the 1860s and 1870s was a bloodbath. But since the death of Mao in 1976, the two sides have reached an accommodation. Dru Gladney, of Pomona College in California, says a hallmark of the Hui is their skill at negotiating around the grey areas of China's political system.

Thanks to this, they have been successful economically. They dominate halal food production (see next story). They are emerging as the favoured middlemen between China's state enterprises and firms in Central Asia and the Gulf. China's largest school of Arabic is a private college, set up and partly financed by Hui, on the outskirts of Yinchuan. Most students are training to be corporate interpreters.

One sign of how far the government tolerates the Hui is that they are even able to practice Islamic (*sharia*) law to a limited extent. *Sharia* is not recognised by the Chinese legal code. Yet at the Najiahu mosque, the *ahong* and the local county court share the same mediation office. Every week or so, the *ahong* adjudicates in family disputes using *sharia*. Only if he fails do civil officials step in.

Surprisingly, the Hui have not lost their religion or identity despite centuries of assimilation. Mr Ma, the retired professor, says Hui people often form close-knit communities and pursue similar occupations; restaurants and taxis in many cities are run by Hui. But their religion is "still the most important binding factor", he says. The Hui maintain a delicate balance. They can practise their religion undisturbed thanks to assimilation. But it is their religion that makes them distinct.

This is a fine line, and it means the Hui are vulnerable to China's shifting religious attitudes. They have so far mostly escaped Islamophobia. But bigotry is becoming more common on social media. "The greens" (a significant colour in Islam) has become an online term of abuse. So far the government has tolerated the Hui's culture. But in Ningxia in July, Xi Jinping, the president, told his audience to "resolutely guard against illegal infiltration"—even though there is little sign of any. His government has become more repressive towards many religious groups. The Hui could be next.

But the lessons offered by the Hui's experience are largely positive. Islam, the Hui

show, are not the threat that party leaders sometimes imply it is. They show that you can be both Chinese and Muslim. At Yinchuan airport, a returning pilgrim is waiting for his luggage. He wears a white robe with "Chinese pilgrimage to Mecca" stitched in green Arabic letters below a Chinese flag embroidered in red, the symbol of an atheist party-state. "It was the experience of a lifetime," he says of the *hajj*—and disappears into a sea of white hats worn by hundreds of cheering fellow Muslims who fill the arrivals hall to welcome him home. ■



Halal food

Keeping pure and true

BEIJING

Regulating halal food is creating headaches for the government

CHINA'S cities abound with restaurants and food stalls catering to Muslims as well as to the many other Chinese who relish the distinctive cuisines for which the country's Muslims are renowned. So popular are kebabs cooked by Muslim Uighurs on the streets of Beijing that the city banned outdoor grills in 2014 in order to reduce smoke, which officials said was exacerbating the capital's notorious smog (the air today is hardly less noxious).

Often such food is claimed to be *qingzhen*, meaning "pure and true", or halal, prepared according to traditional Islamic regulations. But who can tell? Last year angry Muslims besieged a halal bakery in Xining, the capital of Qinghai province, after pork sausages were found in the shop's delivery van. There have been several scandals in recent years involving rat meat or pork being sold as lamb. These have spread Muslim mistrust of domestically produced halal products.

In response, some local governments

have introduced regulations requiring food purporting to be halal to be just that (though not going into detail of what halal means, such as the slaughter of animals with a knife by a Muslim). Earlier this year, however, the national legislature suspended its work on a bill that would apply such stipulations countrywide.

There is much demand for one. Local rules are often poorly enforced. Advocates of a national law say a lack of unified standards is hampering exports to Muslim countries. According to Wang Guoliang of the Islamic Association of China, the country's halal food industry makes up a negligible 0.1% of the global market.

The government began drafting a national halal law in 2002. But Muslim communities in China have varying definitions of the term. Work on the bill was slow. Each year, during the legislature's annual session in March, Muslim delegates called for faster progress. But there were opponents, too. Some scholars argued that the government should not regulate on matters relating to religious faith. Others said that by giving in to the Muslims' demands, China would encourage them to press for more concessions and ultimately form their own enclaves run by *sharia*.

Such views may have given pause to China's leaders. In April, at a high-level meeting on religious affairs, President Xi Jinping said religion should be prevented from interfering with the law. That month Wang Zhengwei, a Muslim official who had been pushing for halal legislation, was removed from his post as the head of the State Ethnic Affairs Commission.

Also in April, the Communist Party chief of Ningxia urged officials to "sharpen [their] vigilance" against the use of halal labels on products such as toilet paper, toothpaste and cosmetics. And the government of Qinghai province ordered the inspection of Muslim-only toilets and hospital rooms, as well as shops catering to Muslims, to make sure that halal symbols were being used only on food. Xinjiang, the far-western region that is home to the Uighurs, recently introduced an anti-terrorism law threatening punishment of those who "overextend" halal rules. Officials clearly worry that those who do so might be the same sort of people who embrace *jihad*.

Ismael An, a Muslim writer, says this is overreacting. "Supporters of the halal law are not the so-called extremists, because real extremists don't make demands through legislation," he says. On the internet, however, a small but vocal group of Islamophobes has been calling for a boycott of halal-certified products. They say the price of such goods factors in payments to Islamic groups that grant the certificates—they do not want to give the religion even indirect support. Ironically, it is the non-Muslim love of Muslim food that will ensure the campaign will not succeed. ■



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Third-party candidates

Mr Johnson and Dr Stein

WASHINGTON, DC

The Libertarian and Green candidates could help to make Donald Trump president

GARY JOHNSON, the presidential nominee of the Libertarians, and Jill Stein, his counterpart for the Greens, are idealists. Both believe they are fighting for a better politics, a kinder America and, in Dr Stein's case, though not the globally incurious Mr Johnson's, a safer world. So there is one question that really gets their goat: how do you feel about helping Donald Trump become president?

"I'm the spoiler? I'm the wasted vote? It just pisses me off," harrumphs Mr Johnson, a former Republican governor of New Mexico, known for his love of pot and extreme sports. "It's not my job to tell people who is the second best," grumbles Dr Stein, a Harvard-educated physician and former Democrat. "It is a unique election not only because Donald Trump is scary."

If the main purpose of a presidential election is to push unorthodox ideas and build space for new movements, their irritation is fully justified. If it is to elect a president, Mr Johnson and Dr Stein are on softer ground. For the 10% of the vote they are polling, including 7.5% for Mr Johnson, is hurting Hillary Clinton as much as it is hurting the unidealistic Mr Trump. In some important swing states, such as Colorado and Virginia, it is hurting her more.

In a normal year, that tally would be expected to collapse as the election nears; in 2012 Mr Johnson and Dr Stein, running against Barack Obama and Mitt Romney,

together won less than 1.5% of the vote. Yet America's dislike of Mr Trump and Mrs Clinton—respectively, the most unpopular and second most unpopular nominees of a major party ever—suggests this may not happen. In a tight race, which is likely, despite Mrs Clinton's recent rise to a four-point lead, the third-party nominees could help put Mr Trump in the White House.

Dr Stein was bound to cost the Democrats votes; not many "Never Trump" Republicans like her plans to close 700 military bases and make America run on

renewable energy. The Greens also have form; the 97,000 votes Ralph Nader won in Florida in 2000 probably cost Al Gore the presidency. That Mr Johnson, a social liberal but caustic fiscal conservative, who wants to slash spending on Medicare and Medicaid and take no action on global warming, is drawing as many votes from the left as the right is more surprising.

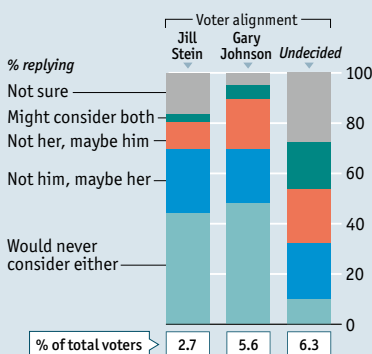
It chiefly reflects Mr Johnson's success in attracting disaffected, especially white, younger voters. Many backed Senator Bernie Sanders in the Democratic primaries—including Reese Sadler, a 20-year-old from Lynchburg, Virginia. "I was very disappointed Clinton had to steal the election from Sanders," he lamented, at a rally for Mr Johnson in Washington, D.C. (His analysis perhaps underrates the fact that Mrs Clinton beat Mr Sanders by over 3m votes.)

In national polls, Mr Johnson is running second to Mrs Clinton with voters aged under 30, and in some states he is pushing her pretty hard. A recent poll in Virginia suggests he has the support of 27% of millennials there, compared to 34% for Mrs Clinton and 23% for Mr Trump. This is unlikely to cost Mrs Clinton Virginia. In a straight race with Mr Trump, she leads there by ten points. Include Mr Johnson, Dr Stein and also Evan McMullin, a Never Trumper running as an independent, who is on the ballot in 11 states, and Mrs Clinton's lead drops to a still-solid six points. Moreover, a perception that Mrs Clinton has Virginia in the bag is probably inflating Mr Johnson's vote there; if the race were to tighten, many youngsters would probably abandon their protest and vote blue.

But the same effect could cost Mrs Clinton Maine, where her lead drops from five points in a straight race with Mr Trump to four in a four-way contest; or Colorado, where her lead is 3.5 points in a two-can-

Thou shall not be swayed

Would you consider voting for either Hillary Clinton or Donald Trump in the 2016 presidential election?*



*Asked of 661 registered third-party and undecided voters, surveyed 10th Sep to 1st Oct 2016
Sources: YouGov; The Economist

didate race, and less with the third parties included. It could even cost her New Mexico, a bluer state, where Mr Johnson, whose two terms as governor are fondly remembered, takes a three-point bite out of her 11-point lead against Mr Trump alone.

It is also possible Mr Johnson could hurt Mr Trump more—just as Ross Perot an independent who won 19% of the vote in 1992, damaged George H.W. Bush more than Bill Clinton in at least some states. He has picked up the endorsements of several conservative newspapers, including the *Detroit News*, which had hardly ever before failed to endorse a Republican in its 143-year history. Yet it is notable that Mr Johnson has been making a louder pitch for Sandernistas, by pushing himself more as an anti-establishment figure than a deficit hawk. It also seems likely that moderate Republicans offended by Mr Trump will be more concerned than the youngsters by Mr Johnson's ignorance of foreign affairs.

In a recent television interview, Mr Johnson confessed he was unfamiliar with the word "Aleppo"; in another, he was unable to name a single foreign leader he ad-

mired. He described that failure as another "Aleppo moment"—but now claims, implausibly, that it reflected the poor state of global leadership, not the state of his brain: "It's been five days since the interview and I still can't come up with a name. Maybe I think too much." It is hard to imagine Jeb Bush, another former Republican governor, who is believed to be considering voting for Mr Johnson, enjoying that.

For both campaigns, clawing back third-party votes is now the second biggest priority after maximising turnout. Swaying undecided voters, a pool that has shrivelled to around 6% of the total, is a lesser task. To this end, Mrs Clinton is now mobilising her most millennial-friendly surrogates, including Mr Obama.

"If you vote for a third-party candidate who's got no chance to win, that's a vote for Trump," the president recently warned, and history suggest a lot of voters will heed him. But the disillusionment with establishment politics that Mr Johnson and Dr Stein are tapping is here to stay. This is a promise of more and bigger flies in the two-party ointment to come. ■

Donald Trump's finances

Taxing patience

WASHINGTON, DC

The candidate either made a huge loss or concocted one

MITT ROMNEY, at least, knew it was coming. "I think we have good reason to believe that there's a bombshell in Donald Trump's taxes," the 2012 Republican nominee warned in February. On October 1st the *New York Times* revealed Mr Trump's 1995 state tax returns, which had been sent to the newspaper anonymously. They show a \$916m loss—entered part-manually, because, his accountant said while confirming the leak's authenticity, the figure was too big for his software to process. Set against later income, the loss could have allowed Mr Trump not to pay federal income taxes for many years.

Unlike any other major-party nominee since 1976, Mr Trump has kept his returns under wraps. His fondness for so-called "pass-through" businesses explains this. These shunt profits and losses directly onto their owners' tax returns (in contrast to corporations, which file their own papers). Pass-throughs have become curiously common in America. According to one recent study, such firms now account for over half of all business income.

Pass-through firms, like any other, can offset taxable profits in one year with losses from another. In general, this rule makes sense economically. Without it, firms might be loth to sell in volatile markets. Making \$50m profit one year and losing \$49m the next would incur more tax, over both years, than earning \$20m for two years running. For that reason, offset- ▶▶



Man contemplating \$1 billion loss

The campaigns

Heard on the trail



Insomnia

"Did Crooked Hillary help disgusting (check out sex tape and past) Alicia M become a U.S. citizen so she could use her in the debate?"

Donald Trump's early morning tweet

Minority outreach continues

"I think it's so important Donald Trump went to that black church and spoke to the black people directly. And if they can be educated they certainly will come over to the side of Donald Trump and the Republicans."

Actor Jon Voight has been campaigning for Mr Trump. Sean Hannity Show

The flopsy bunnies

"Republicans are a bunch of frightened rabbits. Unfortunately, we have a party made up of a bunch of people who get frightened very easily, and their hands start to shake whenever something happens that they don't like."

Trump fan Rudy Giuliani berates his fellow Republicans. Washington Post

Surgical attack

"It would have been a joke if it had been said, but I don't recall that."

Hillary Clinton denied a claim from WikiLeaks that she suggested a drone strike on Julian Assange. Washington Examiner

Respect yourself

"I have the issues on my side, and I have Trump, which I'll take."

Mr Trump, quoted in the New York Times

Gap year

"And my husband has got to get a job—somebody has got to hire that man."

Michelle Obama doesn't want POTUS hanging about the house next year.

Be prepared

"I'm not taking any chance and leaving it 'til the election. When you're 103, you make every minute count."

Ruline Steininger, 103 years old, voted early in Iowa. CNN

No regrets

"Think about whether you made the right decision. Because it could be a long day in that office over there if you don't agree with the president."

Vice-President Joe Biden advises the two men hoping to replace him. White House Pool Report. Via Tara McKelvey, BBC

Fortune-telling

"The consensus was clear after the dust settled, Mike Pence was the clear winner of the debate."

The Republican Party gave its verdict on the debate 90 minutes before it started. Vox

ting is common. Of the 35 countries in the OECD, 21 allow corporations to use losses from at least 20 years earlier to offset profits, according to Kyle Pomerleau of the Tax Foundation, a think-tank.

Individuals, however, can face stricter laws. In Britain, for instance, corporations can roll forward losses indefinitely, but individuals can do so only for four years. America makes no such distinction. When Mr Trump filed his mammoth loss, losses could be rolled forward 15 years or rolled back three, meaning that if he earned on average less than \$51m a year in regular income, Mr Trump might not have paid income-tax for nearly two decades.

Mr Trump may also have benefited from another peculiarly American generosity: towards property moguls. Since 1986 most taxpayers have been unable to deduct losses which exceed their investment in a business, says Steve Rosenthal of the Tax Policy Centre, another think-tank. Real-estate investors are exempt.

That matters because buildings are par-

ticularly good at generating paper losses. Investors can generally claim that non-residential property is depreciating over 39 years, even if its market value in fact rises. In theory, any capital gain is taxed later, when the property changes hands. But investors can avoid such a charge by replacing any building they sell with another of a "like-kind". When the investor eventually dies and passes on his portfolio, the capital gains are forgotten.

Mr Trump's returns account for fully 1.9% of all similar losses filed in 1995. Without further revelations it will be impossible to say for sure which was more exceptional: his struggles, or his tax-planning. Meanwhile, he must battle another scandal. On September 30th New York's attorney-general, who backs Hillary Clinton for president, ordered the Trump Foundation to cease fund-raising immediately, because it had not registered with or filed accounts to the charities regulator. When it does, perhaps Mr Trump will recommend his personal accountant. ■

Battleground states

Carolina crossfire

CHARLOTTE, FAYETTEVILLE AND LUMBERTON

Donald Trump's chances may hinge on the messy politics of a changing state

"I LOOOOOVE Michelle," proclaimed an African-American woman at a rally for Hillary Clinton in Charlotte on October 4th—stipulating those extra vowels as testament to her passion for the current first lady, the event's star turn. The terms the attendees used to describe their feelings for the Democratic candidate herself were cooler: "like" and "support" cropped up more often than "love". One man frankly admitted to voting for Mrs Clinton out of duty rather than devotion. Her biggest asset in crowds such as this, besides the backing of Michelle Obama and her husband, is fear of Donald Trump. "Let's turn this mother out," urged Alma Adams, a congresswoman, to a whoop.

Roughly a quarter of North Carolina's electorate is black. In 2012 they voted at a higher rate than whites—a showing that could not prevent Mitt Romney narrowly winning back the state for the Republicans, after Barack Obama scraped it, even more narrowly, in 2008 (by a handful of votes per precinct, as Mrs Obama reminded her acolytes in Charlotte). This time, unless Mr Trump can emulate Mr Romney's performance here, he will likely match his overall defeat. For Mrs Clinton, therefore, the state offers the chance of a knockout blow; her campaign has mounted an energetic voter-registration drive in the hope of delivering



Purple haze

it. To an unusual degree, though, the predictably tight contest has been coloured by lively down-ballot races and bubbling local controversies.

Begin with the Senate. If Deborah Ross, a polished but hitherto little-known state representative, manages to unseat Richard Burr, the low-key Republican incumbent,

she could help the Democrats retake control of the chamber. On a tour of a printing plant in Lumberton this week, wearing a safety-regulated hairnet but no socks ("it's a Southern thing"), Mr Burr dispensed backslaps and fist-bumps with seasoned folksiness. Defending his support for Mr Trump, advertised by a bumper sticker, he was less assured. Waterboarding, said Mr Burr, who is chairman of the Senate Intelligence Committee, was "not coming back", whatever his party's nominee said. He maintains that Ms Ross, a former state director of the ACLU, is too left-wing for North Carolina. Yet he and his fellow Republicans have found themselves squirming over social issues, too.

Especially Pat McCrory, the incumbent governor. In March he signed a bill that, among other regressive measures, required transgender people to use public restrooms aligned with the sex on their birth certificates—part of a reactionary tear on which Republicans in the state legislature embarked after winning supermajorities in 2012. Cue lost convention revenue, cancelled concerts and, most painfully for North Carolinians, the relocation of beloved basketball tournaments in protest. Mr Burr wants the governor to reach "a truce" with his adversaries; Roy Cooper, the attorney-general and Mr McCrory's Democratic challenger, refused to defend the law against a federal suit. "Part of being a good lawyer," he says, "is telling your clients when to stop." His opponent has sullied the state's reputation, Mr Cooper complains, deriding the "Trump-McCrory team". The governor's line is that the farago is an intentional distraction from the state's economic recovery.

These attacks are pressed home in a dizzying crossfire of TV ads. Besides the discrimination row, two other furores have convulsed North Carolina's politics. The site of the fatal police shooting of Keith Scott in Charlotte last month is now a calm shrine, but in the fiery aftermath the National Guard was called out and a state of emergency declared. A Republican congressman opined that the black protesters "hate white people, because white people are successful"; he later apologised. Then there was the state's cynical voting law, which imposed an ID requirement and other restrictions that—said a federal court that squashed it—targeted black voters with "almost surgical precision".

These upheavals may galvanise voters, black and white, in unpredictable ways. Yet, demographically and politically, the state was already mixed-up. Mr Burr says it is growing rather than changing: that seems wishful thinking, even if the evolution has been slower than in neighbouring Virginia, which, in presidential contests, seems in short order to have become safely Democratic. Around a third of North Carolinians now come from beyond the South, ►►

▶ many drawn by its tech and finance industries, a swelling counterbalance to the conservative suburbs and countryside.

For all these wrinkles, and despite a burgeoning list of alleged anti-Trump conspiracies—media bias, skewed opinion polls, the earpiece Mrs Clinton apocryphally wore during the tv debate—the mood among Trump supporters at a get-together in Fayetteville was bullish. Their profane candidate can be sure of the godly vote in this devout region, one said, because if the Democrats are “on the side of any religion, it’s the Muslims”. An enthusiast in a cap emblazoned with “Deplorables” insisted it was they who “pay the taxes in this country”; Mr Trump’s own shiftiness on that score did not trouble him. From his canvassing, Jerry Reinoehl, a genial veteran and campaign volunteer, reckoned his man would do better than expected among minorities. But he needed to focus: by taking Mrs Clinton’s bait, his tweeting and outbursts had “squandered five days”, worried Mr Reinoehl.

If, in fact, the polls are credible, Mr McCrory’s prospects look bleak. The fate of the sockless senator, meanwhile, may be tied to Mr Trump’s. And, in what may turn out to be the decisive swing state, that race is perilously close. ■

Slavery on film

Blood on the leaves

ATLANTA

A new release raises questions about the past’s grip on the present

THE road from Hattie McDaniel’s turn as Mammy in “Gone with The Wind”, which earned her an Oscar in 1940, to “12 Years a Slave”, which won Best Picture in 2014, was long and steep. Mammy is the epitome of Hollywood’s old, morally purblind plantation mythology; Steve McQueen’s film strove to capture slavery’s incessant terrors. “The Birth of a Nation”, which is released this week, asks audiences to make another interpretive leap: to see that, since slavery was evil, it was legitimate, even righteous, for slaves to rise up against their tormentors. It raises questions about the past’s grip on the present, about injustice and redemption, but in more than the intended way.

“The Birth of a Nation” retells the story of Nat Turner, leader of a slave rebellion in Virginia in 1831. That title, appropriated from D.W. Griffith’s racist classic of 1915, signals its historiographical ambition. An in-cinema voter-registration drive underscores the implicit link with today’s combustible racial politics, in which black Americans are renewing the fight against



The unquenchable fire

discrimination even as many whites believe it no longer exists—and as Donald Trump dogwhistles about urban crime. As Dexter Gabriel of the University of Connecticut says, cinematic slavery tends to reveal more about the filmmakers’ era than the antebellum one. He notes that today’s interest in rebel slaves, also manifest in the tv drama “Underground” and a slew of novels and plays, echoes that of the late 1960s and early 1970s, another period of black activism.

Like many African-American leaders, during slavery and since, Turner was a preacher: his Bible is displayed in the new National Museum of African-American History and Culture in Washington. In the film his owner hires him out to help neighbours pacify their own slaves, a task that becomes a Dante-esque descent into slavery’s hell. Turner incrementally realises both his own complicity and that the notion of a benevolent master is illusory. The bloodiness of the revolt is frank (an endnote acknowledges that its targets included children), as are the awful reprisals inflicted as panic spreads across the South, here set to Nina Simone’s piercing version of “Strange Fruit”. “They killin’ people everywhere for no reason at all but bein’ black,” says Turner’s wife Cherry, a line that, at a preview in Atlanta, elicited sighs of assent.

The camera flinches only once, panning away when Cherry is savagely raped by a white gang. Unfortunately, sexual violence has come into focus through a related story of ugliness and its aftermath. Turner is played by Nate Parker, who also co-wrote, directed and produced the film. In 1999, when he was a wrestler at Penn State, Mr Parker and his roommate—and now writing partner—Jean Celestin were accused of raping a fellow student. Mr Celestin was convicted of sexual assault, though the ver-

dict was later overturned. Mr Parker was acquitted, though in a recent comment on the episode, which to some seemed insufficiently contrite, he conceded that “there are things more important than the law”. Details of the incident disclosed in court records are nauseating. Their accuser later killed herself.

To a few, such as Al Sharpton, the re-emergence of this 17-year-old case in the run-up to the film’s release suggests a bid to blunt its impact; others whisper about commercial machinations meant to derail its Oscar prospects, which, in the faddish, ingratiating world of Hollywood, seemed strong after this year’s #OscarsSoWhite outcry. Conversely some prominent black women have called for a boycott, seeing Mr Parker’s past as a disqualifying stain. Discussion has threatened to devolve into a competition between the moral claims of different kinds of victims.

A better question may concern the relevance of an artist’s biography to assessments of his work. After all, plenty of celebrated writers, composers and indeed directors have led indefensible private lives: Sir Thomas Malory may have scribbled parts of “Le Morte d’Arthur”, the greatest depiction of Arthurian romance, in prison, possibly for rape. How long ago such offences occurred, and how grave they were, are bound to affect estimations of their relevance. So, in even more complex fashion, does the importance and quality of the art itself.

In the case of “The Birth of a Nation”, the answer is: mixed. Mr Parker’s performance is admirable, as are his efforts to humanise both slaves and masters and his portrayal of the uses and abuses of faith. Occasionally, though, it lapses into corniness or cliché. Probably the only way to judge whether its merits outweigh his shortcomings is to see it for yourself. ■

Election brief: student loans

More present than correct

WASHINGTON, DC

Hillary Clinton's college-funding plan is better politics than policy



TO BELIEVE some young voters—especially those who showed up at Bernie Sanders rallies earlier this year—America is in the midst of a student debt crisis. In 2010 student loans overtook credit cards to become the biggest source of American household debt other than mortgages. Today, they total about 7% of GDP. Of those who have borrowed from the federal government and began repayments in 2011, 10% defaulted within two years, up from 4.5% in 2003. The problem animates the left: whereas Donald Trump has talked about the subject only fleetingly, Hillary Clinton has detailed policies for helping penniless scholars. Who could oppose such a worthy aim?

Defaults on student debt are highest among so-called “non-traditional” students. They attend community colleges, which provide short, typically two-year courses, or profitmaking universities, which offer heavily marketed and pricey degrees which are sometimes of dubious merit. According to number-crunching by Adam Looney of the Treasury Department and Constantine Yannelis of New York University, non-traditional students made up more than half of all new borrowers from the federal government between 2004 and 2014. They accounted for fully 70% of those who defaulted within two years of starting repayments in 2011.

The problem non-traditional students face on graduation is more often low incomes than high debts. In 2014 the median graduating borrower from a community college owed \$11,700, compared with \$26,500 among those who had attended a selective, four-year course. Yet while 25- to 34-year-olds with bachelor's degrees or more earned an average of \$59,000 in 2015, those with two-year degrees made only \$38,500. Just as those with large mortgages typically have big houses, those with huge student debts usually have a graduate degree in, say, business or medicine, and can expect a bumper salary as a result. The average aspiring medic borrows \$138,000 for her graduate education; lawyers-to-be, \$107,000. Yet the three-year default rate among graduate students is only 3%.

At first, during the primaries, Mrs Clinton promised to make community college free. She also said she would make public colleges “debt-free”—ie, cheap—for low- and middle-income students who study in their home states. This makes some sense.

But a need to appeal to Mr Sanders's fans led her to expand her plan in July. Mrs Clinton now pledges that by 2021 no American from a household earning less than \$125,000 will need to pay any tuition fees at all to instate public universities.

Mrs Clinton's refreshed plan will cost anywhere between \$350 billion and \$800 billion over a decade, according to the Committee for a Responsible Federal Budget, a think-tank. Much of that cash will flow to students who will go on to be affluent. The returns to college education have never been higher (a fact which helps to explain Mr Trump's success with voters who have spent less time studying). Over a career college graduates can expect to earn twice what high-school graduates make, according to one estimate.

Reforms during Barack Obama's presidency have already made student debt much more manageable. Congress and the Obama administration have expanded income-linked repayment programmes for those with federal loans. Today, any student who faces repayments exceeding 10% of her income can cap her repayments at that fraction of her earnings. After 20 years, the government will write off any remaining balance. This makes student debt resemble a tax more than conventional borrowing. In 2015 the education department started offering a similar deal to those with loans predating 2007. One-in-five borrowers, together owing fully 37% of all student

debt, are now enrolled in income-linked repayment.

There are problems with these schemes, notes Susan Dynarski of the University of Michigan. Students must opt in to them, which requires knowing that they exist, and must then renew their paperwork every year. Perhaps as a result, fewer than half those eligible have enrolled. And the income used to calculate repayments is based on the preceding year. So someone whose income tanks can still struggle to service his debts. To her credit, Mrs Clinton wants to improve income-linked repayment, in part by making enrolment automatic. (Another attractive idea is to collect student-loan repayments through employer payrolls, as happens in Britain).

If such reforms happen, means-tested free tuition would offer few extra benefits. Such a policy would also redistribute arbitrarily. A student from a poor family who becomes rich will have no debts, whereas students from families earning above the \$125,000 cut-off may still need to borrow and hence repay 10% of their income for years, even if they end up poor. The withdrawal of tuition subsidies as income rises could sharply increase implicit marginal tax rates. And subsidising only instate tuition creates a pointless incentive for students to avoid venturing further afield.

An existing programme illustrates the dangers of careless subsidies. Since 2012 those enrolled in income-based repayment who also work for the government, or a not-for-profit organisation, can have their debts written-off after only a decade. This includes borrowing for pricey and lucrative graduate degrees. So far, 432,000 borrowers have signed up to the scheme, nearly 30% of whom have loan balances exceeding \$100,000, according to Jason Delisle of the American Enterprise Institute, a think-tank. This gives a windfall to those who aim to work for the government anyway, and who expect to spend at least ten years repaying their undergraduate debts that greatly exceeds the maximum support the government provides to low-income undergraduates.

The Obama administration now wants to rein in this programme. Worryingly, Mrs Clinton makes no mention of curtailing the largesse. Instead, she calls for still more ways for students to be able to discharge debts via public service.

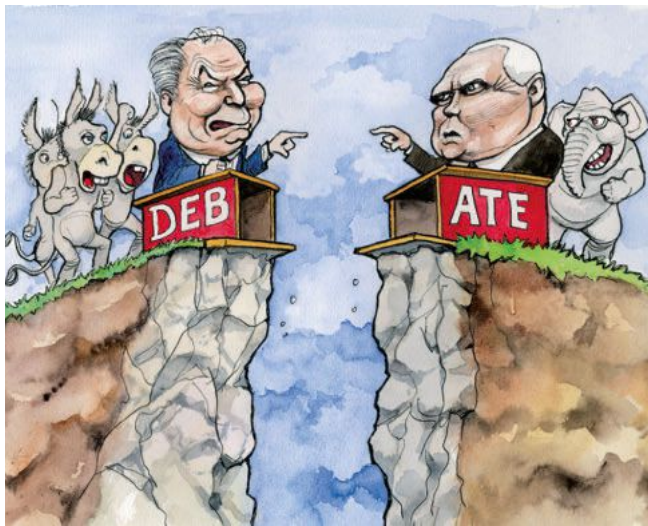
Padding the pockets of well-off graduates should be a low priority for the federal government. Mrs Clinton should concentrate on funding community colleges, regulating for-profit universities and improving income-linked repayment. But whatever she does, it is not hard for her ideas to beat Mr Trump's, which amount to doing “something with extensions, and lower interest-rates, and a lot of good things”. Here, as on so many other issues, Mrs Clinton wins by default. ■



Many happy repayments

Lexington | Mainstream opposites

More evidence from the running-mates that America's divisions run deep



KEEP Donald Trump off the stage and wash this presidential campaign's mouth out with soap, and American politics is still broken. That is the result that emerged from a controlled experiment in political science conducted on October 4th—more formally known as the only vice-presidential debate of 2016.

The debate pitted Hillary Clinton's running-mate, Senator Tim Kaine of Virginia, against Mr Trump's sidekick, Governor Mike Pence of Indiana. The two men, both sons of the Midwest with a neat line in folksy, aw-shucks modesty, spent quite a lot of their 90-minute clash stressing how much they respected each other's faith and essential decency, even as they sparred about tax rates, how to fight terrorism and other questions of policy. As the pair bragged, competitively, about their middle-American credentials, Mr Pence took an early start by announcing: "I grew up with a cornfield in my backyard." Mr Kaine countered that he had worked with Jesuit missionaries in Honduras as a young man. Neither man swanked about the size of his genitals, called anyone fat or declared himself a genius. With Mr Trump and his almost-as-disliked rival Hillary Clinton absent from the debating hall, whole minutes at a time sounded pretty reasonable.

The vice-presidential debate was a test of the question: what happens when a centrist Democrat with minimal political baggage is pitted against a fairly conventional, Reagan-quoting Republican from the Christian conservative wing of the party? Many conditions for a successful experiment were met. It seems safe to assume that the encounter, hosted by Longwood University in rural Virginia, will have had millions of watching Democrats and Republicans nodding along as their party's nominee spoke. That is because the two hewed closely to positions that, polls show, are seen as no more than sound common sense by each party's respective partisans.

Mr Pence repeated his stern views on abortion, predicted that tax cuts would cause the economy to take off like a rocket and said that American "strength" should be used to counter bullying by Russia's president, Vladimir Putin (most recently displayed by Mr Putin's repudiation of a plutonium-reduction deal in response to unfriendly American policies). In each instance these were pillars of Republican orthodoxy—and, in the case of Russia, Mr Pence was in disagreement with Mr Trump, who has praised

Mr Putin's "very strong control" of his country. Mr Pence defended his attempt, as governor of Indiana, to halt all resettlement of Syrian refugees in his state on grounds of public safety—a policy which a federal court this week called unconstitutional discrimination, but which makes ample sense in the light of polling by the Pew Research Centre, showing that 74% of Republicans (and a non-negligible 40% of Democrats) call refugees from the Middle East a "major threat" to America's well-being.

In his opening statement Mr Kaine noted that the debate site, the small town of Farmville, was the scene of an early civil-rights protest by black school pupils, led by a 16-year-old student, Barbara Johns. The tribute was doubtless sincere: his own father-in-law, a Republican governor of Virginia, had an unusually progressive record on racial segregation. As a young man Mr Kaine worked as a civil-rights lawyer. But the political advantages were not hard to spot: black Americans, the young and women are all voter blocs that must turn out in large numbers if the Clinton-Kaine ticket is to win. Not for nothing did Mr Kaine hail Miss Johns for believing that the nation is "stronger together"—a phrase which just happens to be Mrs Clinton's campaign slogan.

On issue after issue Mr Kaine and Mr Pence represented the mainstream views of their parties, while avoiding the deeply personal attacks that so blight the Clinton-Trump contest. And yet the results from this experiment should give Americans pause. For the debate revealed vanishingly little common ground between the two men—to the point that it is hard to see that divided government between their two parties would work. And if Mrs Clinton wins the White House in November, she will face divided government: Republicans will keep control of the House of Representatives, and could well hold the Senate too.

Press headlines after the debate focused on Mr Pence's greater fluency and air of authority, on Mr Kaine's nervousness, and on the theory that Democrats could console themselves that at least the Republican on stage spent much of his time being invited to defend Mr Trump's nastiest insults. Certainly it was striking to see Mr Pence variously deny that he had heard Mr Trump make such remarks, or simply dismiss them. Asked about Mr Trump's claim that Mexico sends "rapists" across the border, the Indiana governor scoffed: "You've whipped out that Mexican thing again," before insisting that "criminal aliens" are committing violence and "taking American lives".

Through different lenses

But the debate also revealed something that will matter long after this election: America's two parties struggle to agree even on a common set of facts about the state of the nation. Squabbling about whether the economy under Mr Obama has been a disaster or a stirring success, Mr Pence told his rival that what counted was that voters in mostly white, working-class rustbelt cities are flocking to Mr Trump's populist banner: "Honestly, senator, you can roll out the numbers and the sunny side, but I got to tell you, people in Scranton know different. People in Fort Wayne, Indiana, know different."

For sure, Mr Trump's demagoguery and Mrs Clinton's unpopularity go a long way towards explaining this horrible election. But to extend a laboratory analogy rather far, Mr Trump is like a powerful electrical charge, catalysing and speeding up a reaction already under way. Take Mrs Clinton off the stage, and even a generic Democrat as amiable as Mr Kaine struggles to defend the status quo in a time of voter rage. This crisis is structural. ■



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Colombia's peace process

What now?

BOGOTÁ

No one wants a return to war. But voters have blocked the path to peace

ON SEPTEMBER 26th Colombia's president, Juan Manuel Santos, gleaming in a white shirt, appeared before more than a dozen heads of government and other dignitaries to sign, with a pen fashioned from a bullet casing, an accord to end the country's 52-year-long war with the FARC rebel army. The FARC's top commander, Rodrigo "Timochenko" Londoño, equally resplendent, added his name. Less than a week later, on October 2nd, Colombian voters rejected the peace deal in a plebiscite. Mr Santos appeared on television, dark-suited as if in mourning. "I will not give up" on peace, he vowed.

The grim prospect is that, although no one wants it, Colombia could return to war. Mr Santos extended the ceasefire declared by the government in August, but initially only until the end of October. The message is double-sided. The government is still working for peace, but if necessary is prepared to resume hostilities. The short extension is partly designed to put pressure on the FARC. They read the ceasefire decision as an "ultimatum" and ordered their troops, which had begun to move toward demobilisation zones, to "secure positions". Whether low-level combat erupts again now depends on a complicated three-way dialogue among the government, the FARC and the foes of the peace deal, led by Álvaro Uribe, a former presi-

dent who is now a senator.

No one foresaw this result—certainly not Mr Santos and the FARC leaders, who celebrated the deal with premature pomp, nor Mr Uribe, who campaigned unremittingly against it. Pollsters predicted a comfortable victory for Yes. The win for No was in many ways accidental. The margin was tiny: 50.2% to 49.8%. Just 13m of Colombia's 35m voters turned up at polling stations. If Hurricane Matthew had not drenched the Caribbean coast, where support for the peace deal is high, the vote might have gone the other way. Ordinary Colombians, huddled in anxious conversations in cafés and corner stores, seem stunned by what they have brought about.

The roots of rejection are multiple and entangled. Some voted against the deal to register their dislike of Mr Santos, an awkward and unpopular politician who seemed too confident about winning support for it. Some devout Christians objected to the accord because it recognises the rights of gay people. Mr Santos met church leaders on October 4th, a gesture that would have made more sense before the vote. People who live in areas where the FARC has recently been active mostly backed the deal. "We are the ones who've had to live with bullets flying around us," says Freddy Rendón, a cattle rancher in Uribe, a town in Meta, in central Colombia,

where Yes won 93.5% of the vote. Those who live in more peaceful parts, including cities, voted No.

Two intertwined reasons for that pattern stand out. The first is that many Colombians have not forgiven the FARC for the terror they inflicted across much of the country for decades. Although the group preaches social and economic equality, it has practised kidnapping, extortion and forced recruitment while earning billions of dollars from drug-trafficking and illegal mining. Some 220,000 people died and perhaps 7m were displaced during the FARC's long war against the state.

Parliament or prison

The peace deal, Mr Uribe argued, would reward the criminals. Under its provisions for "transitional justice" FARC leaders who confessed to war crimes would have been sentenced by a special tribunal to up to eight years of "restricted liberty" but would not be sent to prison. The deal would have eased the FARC's transformation into a normal political party by reserving for it ten seats in the 268-seat congress in two elections, starting in 2018.

The second main motive for voting No was Mr Uribe's seductive argument that these flaws in the deal could be corrected without a return to war. Rather than sacrifice justice for peace, Colombians could have both, he suggested. Colombia's fate now depends on whether he is right.

The "correctives" Mr Uribe seeks will be fiendishly difficult to achieve. It took four years of formal negotiations in Havana (and nearly two years of talks about talks before that) to arrive at the 297-page accord. It deals with issues ranging from rural development and the drug trade to demobilisation, disarmament and punish- ►

ment for perpetrators of war crimes. The changes Mr Uribe demands are to points on which agreement was hardest to reach. Government negotiators tried for a year to get the FARC to consent to jail time for war criminals; they flatly refused.

The rebels are now reluctant to tinker. "Having a will for peace doesn't mean that the agreement can be modified," tweeted Carlos Antonio Lozada, a FARC negotiator, during meetings with government representatives in Havana. Colombia's foreign minister, María Ángela Holguín, who is also a member of the negotiating team, warned that the scope for renegotiation is small. "Just as the government has its deal-breakers, so does the FARC. So we have to see if they are willing to reopen the accord," she said.

Mr Uribe has now thrust himself into the centre of the conversation. His opening gambit has been to propose legislation granting a blanket amnesty to rank-and-file FARC guerrillas who are not wanted for serious crimes. That is not a contradiction of his no-impunity line. It is rather an inducement to fighters to desert the FARC,

undermining the group's plan to keep together and to reorganise as a political party. On October 5th Mr Santos and Mr Uribe, who have come to loathe each other, met for the first time in almost six years to begin a search for common ground. They agreed that a commission will propose revisions to the accord, which will be forwarded to the FARC.

A new understanding may be possible. The FARC seem genuinely committed to peace. In the final days of the campaign—far too late—they apologised publicly for their crimes and promised to declare their assets and use them to make reparations to victims. Mr Londoño reacted to the No vote like a politician rather than a guerrilla: "We know that our challenge as a political movement is even bigger," he said.

Perhaps, faced with the prospect of going back to war, the FARC's leaders will accept stiffer punishments. Perhaps Mr Santos and Mr Uribe will then go jointly to congress with a modified peace proposal. For that to happen, however, Colombia's political leaders will have to end their war with each other. ■

Brazil's local elections

Mayor none-of-the-above

SÃO PAULO

Voters show their disdain for politicians

BRAZILIANS find local elections dull. But the first round of voting in this year's contests, on October 2nd, was anything but. It showed, first of all, just how fed up voters are with conventional politicians. Even though voting is obligatory, nearly a fifth of the electorate did not show up, a record high for a local poll.

The second lesson is that the Workers' Party (PT) of Dilma Rousseff, who was ousted from the presidency by congress in August, will struggle to regain anything like its former influence. It lost nearly two-thirds of the mayoral races that it had won in 2012, including in São Paulo, the biggest city (see chart next page). Though its rivals are hardly beloved by voters, that will make it harder for the PT to put up a fight in the next presidential election, in 2018.

In many places the sum of no-shows plus blank and spoiled ballots outstripped votes for the winner. In Belo Horizonte, Brazil's fourth-largest city, a former chairman of a local football club will face the team's former goalkeeper in a run-off on October 30th.

The anti-political mood owes much to recession and to the Petrobras scandal, which almost weekly exposes a new case of wrongdoing by one of the country's most prominent politicians or businessmen. The PT's standard-bearer, Luiz Inácio Lula da Silva, a once-popular former president, has been charged with corruption. He proclaims his innocence.

New electoral rules put a damper on campaign hoopla. Last year the supreme court banned political donations by companies, so parties had less to spend on posters and flyers, and on people to stuff them through windows of cars stopped at red lights. The electoral tribunal cut campaigning time from 90 days to 45.

Against this glum background, some candidates look like stars. João Doria, a businessman and political novice, is the first person to win the mayorship of São Paulo with a first-round majority (though none-of-the-above topped the ballot). He defeated the incumbent, Fernando Haddad, who governed relatively competently but had the misfortune to belong to the PT. Mr Doria's victory boosts his centre-right Party of Brazilian Social Democracy (PSDB) and the presidential hopes of the governor of São Paulo state, Geraldo Alckmin, who championed Mr Doria against opposition from other party grandees.

The results are also good news for Bra- ►►



Haiti's hurricane

Hurricane Matthew, the strongest storm in the Caribbean in nearly ten years, struck Haiti and then moved on to Cuba. It is expected to reach Florida, Georgia and South Carolina. In disaster-prone Haiti, the poorest country in the Americas, winds of up to 230kph (145mph) and heavy rain forced some 10,000 people to take refuge in temporary shelters; more than 20 people have died. The storm destroyed crops and cut off southern regions from the capital, Port-au-Prince. Aid agencies fear that the flooding will worsen a cholera epidemic, which followed a massive earthquake in 2010. After the latest storm passed, the electoral council postponed the first round of a long-delayed presidential election, which had been scheduled for October 9th. The vote is a rerun of an election held in October 2015. Its disputed results provoked widespread protests. A caretaker president has governed the country since the last duly elected president, Michel Martelly, stepped down in February this year.

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► zil's new but unpopular president, Michel Temer. The rout of the PT undercuts its claim that Ms Rousseff was the victim of a "coup" and that Mr Temer's presidency is therefore illegitimate. This gives him a window of opportunity to push through congress painful spending cuts, which are needed to reduce a massive budget deficit of 10% of GDP. Mr Temer's centrist Party of the Brazilian Democratic Movement (PMDB) remained the biggest force in local politics, although it is as tainted by the Petróbras scandal as is the PT.

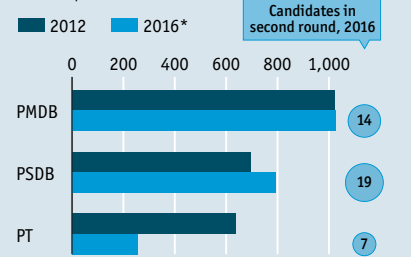
After the ban on corporate donations such successes will matter more. Control

of city halls and councils helps parties mobilise campaign workers, which will be an advantage in the presidential election.

It is hard to see the PT making a comeback. In the first round it held on to just one of the four state capitals it governed, Rio Branco in the Amazonian state of Acre. Lula, who hopes to run again for president despite his indictment and his age (70), has become toxic for many of his fellow *petistas*. Mr Haddad declined to appear with him in television adverts. The PT was wiped out on Lula's home turf, the industrial towns around São Paulo. In a contest of losers, he was the biggest loser of all. ■

Municipal bomb

Brazil's mayoral elections, municipalities won
Selected parties



Source: *O Estado de S. Paulo*

*First-round results

Bello | The once and future bully

Anti-yanqui feeling is in remission in Latin America. Could Donald Trump revive it?

“YOU are the United States, you are the future invader of the guileless America of Indian blood, which still prays to Jesus Christ and still speaks Spanish.” So goes the ode “To Roosevelt” of 1904 by Rubén Darío, a Nicaraguan writer. His poem was occasioned by the seizure of Cuba and Puerto Rico by the United States in the Spanish-American war of 1898, in which Theodore Roosevelt played a minor role that helped him win the presidency, and by his subsequent grabbing of Panama, a province of Colombia.

Darío was prescient: in the next three decades there would be more than 30 military interventions by the United States in the Caribbean basin, in the name of what Roosevelt called “the exercise of an international police power”. These events, and the asymmetry of power and wealth that underlay them, gave rise to an enduring tradition of anti-Americanism (or “anti-yanquismo”, since “América” to Spanish-speakers means the entire land mass). In recent times this has been identified with the left—with Fidel Castro of Cuba, the late Hugo Chávez of Venezuela and Evo Morales of Bolivia. But there is a conservative, Hispanicist strain of anti-Americanism, too, expressed by Darío and others, which claims a superiority of culture and values for Latin America in the face of the bullying and vulgar materialism of the United States.

One of the main aims of Barack Obama's policy towards Latin America has been to dispel anti-Americanism. From the outset of his presidency he said he wanted “an equal partnership” in the Americas. His boldest stroke was the diplomatic opening to Cuba, which was applauded by both left and right across Latin America. And on issues such as Venezuela's crushing of democracy, the United States has sought to work through part-

ners in the region, though without conspicuous success.

Mr Obama has had an impact in regional opinion. When he was elected in 2008 only 58% of respondents to Latinobarómetro, a region-wide poll, had a positive view of the United States. This year that figure was 74%. Governments' attitudes have changed, too. Chávez and Argentina's Cristina Fernández de Kirchner have departed. Brazil's new government does not place the hopes that its predecessor did in “south-south” ties. Across Latin America, many governments are now seeking to draw closer to the United States.

That means Latin Americans are especially alarmed by the prospect of Donald Trump occupying the White House. Along with Canada, as neighbours of the United States they have more to lose than anyone else from Mr Trump's protectionist nationalism. Many Latin Americans see him as a racist who derides “the guileless America of Indian blood”, in Darío's words. Latin American commentators see in Mr Trump a likeness to the region's own populist leaders, such as Chávez. Some fear that his advent would prompt a revival of anti-

Americanism in the region just when it was going into remission.

In fact, responses are likely to be more considered. Take Mexico. Polls suggest that some 85% of Mexicans abhor Mr Trump. But they also suggest that Andrés Manuel López Obrador, a populist leftist hopeful for the 2018 election, who is in some ways a mirror image of Mr Trump, is not profiting from this anger. A poll by *Reforma*, a newspaper, found support for Mr López Obrador stable at around 28% in August. It is Margarita Zavala, a pro-American conservative, who has received a bounce. “If you have the biggest bully in the world across the border perhaps you don't want your own bully” but rather a “softer style of leadership”, says Juan Pardinas of the Mexican Institute for Competitiveness, a think-tank.

Mr Trump's effect on Cuba, if he carries out his threat to annul Mr Obama's diplomatic opening, might be different. That could remove any hope that the transition to a post-Castro leadership, which is due to start in 2018, will involve a loosening of political control. And it is hard to know what will guide Mr Trump's approach to Latin America. His name is on businesses in Brazil, Panama and Uruguay, and has been linked to other ventures in the region.

Although a President Trump's blustering and protectionism would prompt anger and disappointment, they are more likely to be met in today's Latin America with calm rationality than to be copied. Both Mexico and Brazil have experience of responding successfully to American violations of trade rules, for example on cotton, with sanctions targeted for maximum political effect in the United States. Latin American governments are anti-Trump, but that won't necessarily make them anti-American.





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The war against Islamic State

The battle for Mosul

BAGHDAD

An imminent offensive hopes to end the jihadists' reign of terror in Iraq's second city. But the future is fraught with dangers

AS IRAQ'S army, backed by America and its allies, mobilises at Mosul's gates, Islamic State's rigid hold over Iraq's second city shows signs of slipping. In August an Iraqi ground offensive pushed IS from the Qayyara area, some 65km (40 miles) south of Mosul, and its adjacent oil wells, costing the self-styled caliphate much of its revenue, and allowing a big forward base to be built. Jihadists' salaries, once higher than those of Iraqi soldiers, have plummeted. Its hope of retaining an industrial base is but a dream. When it left Qayyara IS set the oil wells aflame. An orderly tax regime is degenerating into extortion of the 1.5m people left under its rule. For the right price, anyone can leave the city. Even the "caliph", Abu Bakr al-Baghdadi, is said to have fled to take refuge in a village.

His military capabilities seem as shrunk as his financial ones. Mr Baghdadi has emulated the Prophet Muhammad's defences of Medina from pagans, digging a trench around Mosul. But so severe has been the American-led bombardment by jets and drones that IS is now said to be deploying children instead of foreigners as suicide-bombers. All but two of IS's 44 founding fathers are believed to have been killed, and Mr Baghdadi is struggling to find replacements. Inside the city his men grapple with a low-level insurgency.

As under Saddam Hussein, the leader's underlings see spies everywhere. They chop off the ears of men evading conscription. Mobile phones are banned, so people hide SIM cards in loaves of bread. So common are IS's pre-dawn house raids that women wear veils in bed, says an exiled Mosul MP.

As IS contracts, the coalition's generals seem ever more confident. Iraq's army, which crumbled in the face of IS's advance to the outskirts of Baghdad in 2014, has recovered its strength, thanks to American retraining and arms supplies, including drones and F-16s for its rebuilt and retrained air force. Despite falling oil prices, rapidly expanding production has helped meet the cost. Iraq's prime minister, Haider al-Abadi, from the Shia majority, has embraced Sunni Arabs, rebuilding their force of irregulars that his predecessor largely disbanded. And, crucially, he has quietly brought back the Americans, including parts of the 101st Airborne Division, which occupied Mosul in 2003. A third contingent in six months arrived last month, quietly pushing the total of American troops in Iraq to over 5,000.

Reinvigorated, Iraq's army has won every battle it has fought against IS since March 2015. IS has been pushed out of 17 cities and all but small pockets in Anbar, Diyala and Salahaddin, three of the four

main Sunni Arab provinces of Iraq. This month, say coalition sources, the battle for the fourth, Nineveh, which surrounds Mosul, will begin. Officials in Baghdad predict that IS's fighters will shave their beards, shed their uniforms and melt away, just as Saddam's army did when America invaded in 2003. "It will be a military walk in the park," says an Iraqi security official. "The jihadists will not risk 4,000 fighters for a battle they can never win."

Whether it will be quite such a push-over remains to be seen. In recent encounters IS has chosen to fall back rather than fight, perhaps giving Iraq's forces a false sense of superiority. Some hope that IS fighters might accept an offer of a safe passage out to Syria. But the jihadists may think twice before trusting any such promises, particularly if Shia militias first take the town of Tel Afar, through which an escape route would pass. And having largely kept their powder dry, they may also reason that it is worth making a last stand for their biggest territorial asset.

When IS fought to hold on to Tikrit two years ago, their 400-odd fighters resisted an enemy 25,000-strong for over a month. IS, says the coalition, has ten times that number dug down in Mosul, and has had over two years to prepare. By contrast, army forces seem significantly smaller this time. Some 7,000 soldiers are deployed around Mosul, says one source, though others estimate two or even three times that number, in addition to perhaps another 10,000 Sunni irregulars, with American special forces in support. More soldiers are said to be nearly trained. But most of the troops are still positioned over 40km away, and the road into Mosul will presumably be heavily mined. Despite Mr Abadi's as- ►

surances that he is in charge of the timetable, critics say that Iraq's army is marching to America's electoral beat, looking for progress before election day on November 8th, in order to boost the Democrats.

Even the most cautious expect the east bank of Mosul to fall quickly. Most of its well-to-do residents have long since escaped. But the 400,000 residents of the old city on the west side of the river are poorer and have fewer means to flee. Together with a profusion of classical Islamic monuments, they could become human and heritage shields should IS decide to make a last stand in the city. Artillery might take out the city's infrastructure, still remarkably intact, just as it did in Khalidiya, a town of 30,000 in Anbar province, where only four buildings survived after IS chose to fight. The UN worries not only about how and where it might house up to 1m people displaced from Mosul, but about how many would be caught in the crossfire. On the eve of America's election, if things went badly, Democrats could face uncomfortable comparisons with Russia's siege of Aleppo.

Fear of a free-for-all

Iraq has a plethora of other armed groups, able to draft in well over 100,000 men, who might improve the coalition's odds substantially. But an influx of Kurdish or Shia militias risks not only alienating Mosul's large Sunni Arab population but increasing the prospect that they might fight each other to determine the city's post-IS order. Mr Abadi seems sensibly intent on restricting the Kurds' Peshmerga ("those who confront death") and the Shias' Hashd al-Shaabi ("popular mobilisation forces") to laying a siege on the city's outskirts. That would bring them financial benefits, since checkpoints are lucrative. And lest that prove insufficient, the government is also hoping to divert the Shia militias by having them launch an assault on two nearby towns under IS control, Hawijah and Tel Afar.

The Iraqi army's preferred backups are two Sunni irregular forces. Sadly, both are fierce rivals. The first is led by Atheel al-Nujaifi, Mosul's former governor, whose family has held sway in the city since Ottoman times. Based in Kurdistan, his 5,000 armed men work closely with the Peshmerga and are trained by the Turks. The second group comes from south of Mosul and is drawn largely from the Jabouri tribe. It works closely with Mr Abadi's lot and has contrived to replace Mr Nujaifi as Mosul's governor and his brother as parliament's speaker with their own people, both Jabouris. Should outside forces pile in, a free-for-all could ensue, pitting Shias against Sunnis, Arabs against Kurds, and Iraqis against Turks.

Signs of just such a punch-up already loom. Some parliamentarians represent-



ing Mosul have appealed to Shia militias to help them regain the Arab lands that Kurdish forces took when they pushed IS south with American help. Peshmerga leaders, for their part, have responded by pledging to prevent any non-Kurdish forces, the Iraqi army included, from entering areas currently under their control.

Turkey, which has a detachment of troops and tanks near Mosul, has offered support, warning that Shia militias might reap revenge on IS and so push Iran's influence north. Shia militiamen are threaten-

ing a forceful response. "If Turkey sends in its tanks to carve out another enclave in Iraq as it has done in Syria, we will turn Mosul into a Turkish graveyard," says Hadi al-Amari, who commands the Badr force, Iraq's largest Shia militia.

Backed by the Americans, Mr Abadi, a civilian, is struggling to find a compromise. Late last month he persuaded Masoud Barzani, president of Iraq's Kurdish enclave, to visit Baghdad for the first time in three years. The offer of salary payments and an oil deal, he hoped, might persuade cash-strapped Kurdish rulers to accept the authority of the governor he has appointed for Nineveh province, which includes Mosul. Others are unconvinced. "The governor doesn't have the means to rule either Mosul city or the province," says Mr Nujaifi, the deposed governor, suggesting his followers could mount a coup. He proposes instead that the province be divided into six cantons, including one each for the Yazidis, Christians, Shabaks and Kurds—all under Kurdish protection. That sounds like a recipe for conflict as well.

Suspecting a plot to partition Iraq, Shia commanders have vowed to send in their troops "not just to Mosul but to Kurdistan", says one. Should Turkish forces intervene in Mosul, warns parliament's new speaker, "they'd be hit by the Iraqi army." IS's removal from the city will no doubt bring cheers. But without a deal securing agreement from the many parties with an interest in Mosul's future, the danger is that the conclusion of one battle will merely sound the bugle for the next. ■

Iraq's Sunni minority

The day after

SAMARRA

Once Islamic State is defeated, what will Iraq's angry Sunnis do next?

A PROMINENT Sunni preacher is describing how the demise of Islamic State could herald a new era of Sunni-Shia reconciliation, when a Shia soldier at the checkpoint outside his home town of Samarra interrupts his musings. "Your people blew up our shrines," he says, ordering the sheikh, Salah al-Taha, out of the car. Left to wait in the sun for a couple of hours while a commanding officer is roused from his rest, the sheikh's resentment returns. Samarra, 125km (80 miles) north of Baghdad, is no longer his own, he says. Shia militias have taken over the old city, and chased out its Sunni inhabitants.

In place of Samarra's past easy symbiosis—where Sunnis thrived from running hotels and restaurants for Shia pilgrims—the city is now divided in two. A seething

outer new town of displaced Sunnis surrounds an inner pockmarked ghost-town manned by a conglomerate of Shia militias. Its centrepiece is the gold-plated dome over the shrine of the 10th and 11th Shia imams (rulers), which jihadists blew up in 2006. The shrine has been restored with even more glitter. The rare Sunni crossing its threshold still offers a prayer, but the Sunnis who once tended the shrine have been dismissed. Sunni couples no longer make the routine stop at its ornate inlaid doors on their wedding day. "We want freedom from military occupation," says a Sunni local councillor.

Under militia protection, Shia pilgrims celebrate their liberation from 1,400 years of Sunni oppression and tyrants who killed their founding imams. Samarra's ►►

► Sunnis clamber up the helter-skelter of their *malwiya*, the towering minaret with which the Abbasid caliphs adorned their capital 1,200 years ago when they ruled the Islamic world from this little bend in the Tigris. Even that is now topped by a militia flag and would, if the soldier at the checkpoint had his way, be out of bounds. “Our saints are buried underneath,” he explains. “Don’t walk on their graves.”

The long decline

Over the past century Sunnis have lost most of the capitals from where the caliphs once ruled their vast empire. From the ruins of Palestine’s Ramla to Baghdad, colonial powers took the Fertile Crescent from the Ottomans, and divided it into what would become Israel, Lebanon, Syria, Iraq, and Jordan, each bar the last now under non-Sunni rule. Though Sunnis still make up a majority in Islam’s heartland, they live in many places as subject populations. Of the Middle East’s 26m refugees and displaced, over 85% are Sunni. Wars raging in Syria, Iraq, Libya, Yemen mean the process of dispossession has not yet run its course.

Nowhere is the loss felt more keenly than in Iraq. Since the 16th century, Sunnis have looked to it as the bulwark against the westward push of Shia Iran. But America’s invasion in 2003 upturned the old order in favour of Iraq’s Shia majority. In the name of extirpating Saddam Hussein’s tyranny, their new leaders replaced the old army and its Sunni officer class with a new Shia-based one, and through de-Baathification purged the ruling party’s Sunni officials from government. Across the country, from the plinths where Saddam Hussein once smiled down, ayatollahs now beam. Not a Sunni face is to be seen. “The state of Hussein” (the third Shia imam) reads the ensign on an advancing army jeep.

The past ten years have been hard. In the name of fighting terror, Kurdish and Shia vigilantes chased former Sunni landlords off their lands, first in southern and northern Iraq and then in its centre. Checkpoints put Sunnis under a Shia siege, and in large parts prevent a mass Sunni return. “They displace Arabs from villages by calling them *Daesh*,” says a Kurdish intelligence officer, using the pejorative name for Islamic State (IS). The region’s former masters now inhabit tent camps. The numbers are uncertain, but of Iraq’s perhaps 7m Sunni Arabs, some 2.5m are displaced, many of them now in Iraqi Kurdistan where they have to renew permits every four months, as if in a foreign land. Some 1.5m have left Iraq altogether. A drive through the length of Iraq is like visiting the dead cities ancient Rome left behind in Syria. “I can’t go home,” complains Saleem Jabouri, who as speaker of parliament is Iraq’s most senior Sunni Arab official. The Shia militias ruling his home town in Diyala province, he says, won’t give him a

permit. Relatives languish in secret prisons. His local Sunni mosque has become a Shia one.

Population displacement is nothing new. Saddam Hussein, the Sunni ex-president, practiced it avidly against Shias and Kurds. But because they have fallen so far, Sunnis have found it harder to bear. Lieutenant-General Raad Hamdani, the last commander of Saddam Hussein’s Republican Corps, now exiled in Jordan’s capital Amman, entitled his published diary “Before History Forgot Us”. In their cafés in Erbil, lecturers from Anbar pass the days watching videos of wives and daughters in dusty deserts without latrines recounting the massacre of their kinsmen by Shia militias after the recapture of Falluja from IS. “Americans raised the Kurds, Iran raised the Shias, but we, Sunnis, are like abused children,” says a Sunni politician in Baghdad. “We’re the orphans of Iraq.”

Typically, Sunnis’ response has been violent. Force, as Ibn Khaldoun, a great Islamic historian, notes in his classical treatise “*al-Muqadamma*”, is one of four legitimate ways Sunnis gain power. In multiple manifestations—from al-Qaeda to IS—they have fought to get Iraq back. At least at the outset, Abu Bakr al-Baghdadi’s caliphate won widespread Sunni support for retaking the lands from which the Kurds and Shias had pushed them. While IS purged its conquests of non-Sunnis, it largely avoided battling for Shia territory. One by one, recalls General Hamdani, his officers in Mosul called him to bid farewell before signing up. Ever since Rashid Ridha, an early 20th-century Islamic reformer, Mosul had been identified as the seat of a potential modern caliphate. Perhaps Sunnis

could regain their honour and grandeur again, he says.

The jihadists’ rule, however, has been a rude awakening. “We discovered too late that Sunnis were the first victims of the caliphate,” says a Sunni exile from Mosul. For two years, the city’s children have attended public executions and learnt to count by enumerating apostates killed by suicide-bombers. Universities have shut. The industrial base has been destroyed. Towns have been devastated by coalition bombing, militia artillery and the booby-traps of retreating jihadists. But once IS loses Mosul, its biggest holding, where will angry, dispossessed Sunnis turn?

Many might yet cling to IS, fearful of revenge attacks at the hands of Shia or Yazidi militias. Indeed, based on precedent, some will opt for more violent nihilism. Each stage of the erosion of Sunni territory has unleashed a fresh bout of jihadism, condemning the region (and much of the world beyond) to decades of mayhem. IS is already preparing for the day after Mosul falls. Anticipating its transition from territorial to metaphysical caliphate, Mr Baghdadi has designated a successor. Drawing on financial investments, expertise and diehards in sleeping cells, loyalists chatter on social media about resurrecting al-Qaeda’s strategy of *tawahush*, the unleashing of wildness and chaos.

A new hope

More pragmatic jihadists speak of reverting to membership of al-Qaeda, or rather its offshoots which in Syria have evolved into less vicious movements. Cheeringly, a far larger number now question the utility of *jihad* altogether. Jihadist projects to win ►



Samarra’s dome rebuilt

▶ back Sunni heartlands with barbaric levels of violence have consistently ended in failure, precipitating more retreats. Among many Sunni tribal and religious figures, grandiose plans for a comeback are losing their lure. “They thought they could contain Iran, and it’s backfired,” says a Kurdish intelligence officer. “Sunnis are displaced all over the world.”

Out of such grievances, militant movements were repeatedly born in the past. This time, Sunnis are pausing for thought. Mr Jabouri insists Sunnis have “learned the hard way the costs of extremism.” Like others, he speaks of the limitations imposed by Sunnis’ weakness and the need for greater pragmatism. Recent changes inside Iraq encourage those who previously damned the post-2003 government to ask whether it might be possible to find accommodation with it. Some diehards insist the system is too corrupt, too Iranian and too broken to fix, but fewer are listening.

Haider al-Abadi, Iraq’s prime minister, seems more even-handed than his predecessors. He has promised to constrain the Shia militias. Other Shia leaders, too, seem to recognise the danger of leaving the conditions that spawn jihadism untreated. In 2008 the American and Iraqi forces booted al-Qaeda out of Mosul, only for it to morph into something worse. Parliament in Baghdad has signalled willingness, recently tinkering with new laws on de-Baathification. “If you end punitive de-Baathification as the Kurds have done in the north, the majority would go back,” says a sheikh whose council claims to represent 70,000 tribesmen exiled in Amman.

Indicative of a post-IS hope, Sunni communities buzz with a host of proposals for ways forward. Most revolve around some form of devolution and self-rule, which might offer a haven for millions of displaced Sunnis. “We were always the most ardent proponents of a united Iraq,” says Ali Samir, the sheikh of Falluja’s Mhammada tribe. “Now we just want our own *iqlim* [region].” His relocation to Erbil, the capital of Kurdistan’s autonomous regional government, appears to have provided him with a model. Independent-minded Kurdish officials, anxious to win support for their vision of a United States of Iraq, talk up the advantages of a Sunni state, linked to Saudi Arabia and Jordan.

That notion has many detractors. Nationalists denounce it as a slippery slope to partition, and a recipe for intensified battles between Sunnis and Shias grappling over boundaries. Other critics view it as economically unworkable. Kurdistan’s descent into insolvency is a lesson in how unviable little states are, even with oil (which the Sunni Arab areas lack). Above all, Sunnis lack any semblance of collective leadership. “If you put Mosul, Tikrit and Falluja together, they would fight each other for pre-eminence,” says a tribal leader from



Can Abadi keep it together?

Anbar. A more popular model is to devolve more power to smaller units (ie, existing provinces). Local elections scheduled for next spring might yet encourage Sunnis to take part more fully in the political system.

Such a reconstitution of Iraq is fraught with difficulties. While Shia politicians accept devolution of services, like health and electricity, they bridle at provincial governors being allowed to raise their own security forces which might challenge the militias’ presence. “It will spur another sectarian civil war until Iraq falls apart,” says a militia leader. Still, led by Italy’s Ca-

rabinieri, the coalition is training 900 policemen every three months. After a local police force took shape in Tikrit, 95% of the population has returned. A tribal sheikh in Anbar is negotiating deployment of a force which could reopen the Baghdad highway to Jordan, part-funded by tolls.

But ultimately, for the periphery to function, Sunnis will need to find faith in the centre. Yahya Kubeisi, who runs an Iraqi think-tank in Amman, advocates a distribution of senior posts by sect, as was done in Lebanon at the end of its long civil war. Gulf states, led by Saudi Arabia, will also need to work with Iraq and treat it as a fellow Arab state, not an Iranian satellite, supporting reconstruction of shattered Sunni provinces. “Since Salman became king we’ve had not a penny from the Saudis,” complains a senior UN official. Critical to all of the above will be an enduring American presence. “The West handed Iraq to Iran,” says the Falluja sheikh. “We want those who brought this tragedy on us—the Americans and Britain—to come back. To save Anbar from becoming an Iranian bridge to the Mediterranean we need an *iqlim* under US protection.”

Attempts at reconciliation feel tortured, but at least the sects are again talking, not boycotting. “In the past each sect used to sit in separate corners of the parliamentary canteen,” says a Sunni MP from Mosul. “Now we argue at the same tables.” Quenching the schismatic flames depends on countries beyond Iraq’s control, like Iran and Saudi Arabia. But restoring Sunnis’ place in a post-IS Iraq would be a good place to start reducing the heat. ■

Zanzibar

Trouble in paradise

ZANZIBAR TOWN

Tanzania’s two component parts are not getting on well

THE young woman’s voice is flat, as she describes a group of masked men breaking down the door while she slept in March this year. She says she was then forced into a car, beaten and gang-raped. Afterwards a passer-by found her abandoned on the roadside, unable to walk unsupported. “It was so painful,” she says, staring into the middle distance. “When I remember it, it’s a trial.” The woman is one of dozens of people on the archipelago of Zanzibar who claim to have been attacked by plain-clothes militiamen, known as “zombies”, since March 2015. Their crime: supporting the main opposition party.

In the West, Zanzibar conjures up images of sugary white sands, warm breezes and turquoise waters. But Tanzania’s is-

lands have a darker side. From the 18th century an Arab elite grew rich there trading ivory, spices and slaves. The mainly Muslim archipelago gained independence from Britain in December 1963, though only very briefly: the sultan was overthrown a month later and the island was merged with Tanganyika on the mainland in April 1964.

The country has been ruled since 1977 by the Chama cha Mapinduzi (CCM), the Party of Revolution, now the longest-surviving ruling party in Africa. But allegations of vote-rigging and demands for a change in Zanzibar’s relationship with the dominant mainland have followed every election since the advent of multi-party voting in 1995. ▶▶



Not as nice as it looks

▶ The most recent contest, in October 2015, was particularly outrageous. During the campaign, the CCM claimed the sultan might return from exile in the British town of Portsmouth if the opposition was victorious. The head of Tanzania's electoral commission annulled the Zanzibari presidential vote, claiming irregularities, when it became clear the candidate of the opposition Civic United Front (CUF) was likely to win. The CUF then boycotted the election re-run in March, handing victory to the incumbent, Ali Mohamed Shein.

Tanzania has been lauded for its stability since independence. But this is partly because the CCM's hold on the mainland has been relatively unchallenged, at least until now. Its response to the political challenge on Zanzibar, however, is typical of ruling parties in the region: tilt the playing field and allow extra-legal violence during election campaigns; then rig the vote and keep a lid on the ensuing discontent.

After the re-run election in March the "zombie" attacks died down. But in the past couple of weeks the militia has again been harassing people and burning down houses in Zanzibar town, says Ismail Jussa Ladhu, a CUF politician. Meanwhile in the past few months dozens of opposition party officials and supporters in the northern island of Pemba have been arrested.

The CUF claims to want only to return to the government of national unity that allowed it to rule Zanzibar with the CCM between 2010 and 2015. That would be sensible given the islands' political divide: the CUF's claimed victory in last October's annulled election, with 52% of the vote, was a narrow one. But it has not mounted any real protest, despite having initially said it would lead a campaign of civil disobedience. America did suspend \$472m of aid to

Nigeria's self-publishers

Fifty Shades, Sahel-style

KANO

Northern Nigeria's subversive love literature

A FEW minutes into Kantin Kwari market, sandwiched between the stalls selling grain and those hawking second-hand shirts, is a little alleyway where girls flock for advice. It is in short supply in Nigeria's mostly Muslim north, where women are poorly schooled and married off at their fathers' behest, often as children. Those with wedding woes or family dramas could do worse than consult the *littattafan soyayya*, or "love literature", flogged by booksellers there.

Written in Hausa, these romantic novels are the work of mostly female authors, who have been printing their own works in Kano since Nigeria's publishing industry fell apart in the 1980s. They are not exactly "Fifty Shades of Grey", the West's self-published sex sensation of recent times: many are classic Cinderella stories or pious parables about housewifery. But there are also blistering tales of child marriage, polygamy and philandering; subversive stuff for a conservative region.

This is sadly familiar to many of the authors. Balaraba Yakubu, a pioneer of the industry, recounts how she was removed from school to be married at 13. Another writer, Sa'adatu Baba Ahmed, had to marry her late husband's polygamous brother. They say their books can

teach lessons about equality that girls do not learn in school—if they go there at all. In some parts of northern Nigeria there are three boys in class for every girl. "A lot of women in our culture do not have a voice," Ms Yakubu explains.

As with Charles Dickens in Victorian England, *soyayya* books are often serialised. The poor can snap them up for as little as 50 naira (\$0.15) in open markets, where the most popular authors sell tens, or even hundreds, of thousands of copies. Abdulkadir Dangambo, a local professor, says that more books are now printed in Hausa than in any other African language. Some are made into local movies; and self-publishers turn into agony aunts as they field calls from fans.

That does not mean their stories go down well with the Muslim morality police in Kano, where a governor once incinerated a collection of their "pornographic" pages. State officials accused Ms Ahmed of being bribed by foreigners after she wrote about an HIV-positive character with a taste for prostitutes. The censorship board often removes writers' steamier scenes. No surprise that many prefer to bypass the formalities and publish what they want from roadside stands. "Someone has to tell people about these things," shrugs Ms Ahmed.



Tanzania over the election re-run, deeming it "neither inclusive nor representative". But the government shrugged off the rebuke, and the opposition's plea for more international help went unanswered. "Zanzibar doesn't feature highly on the agenda of the international community, particularly because there hasn't been widespread violence," says Adjoa Anyimadu of Chatham House, a London-based think-tank.

Zanzibar has most of the ingredients for unrest: a population of mostly young, often unemployed Muslims that "view the mainland as a colonial master", as a local journalist puts it, and could be tempted by Islamist extremism. Elsewhere that has been a recipe for disaster. But with the instruments of state power at its command, the CCM, like so many other ruling parties on the continent, is for now successfully tightening its grip over a divided society. ■

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Italy's referendum

A great big reform package

Seregno

Matteo Renzi faces a tough battle to fix Italian governance

AT SIX o'clock on a Sunday evening, Ettore Rosato is addressing an audience of fewer than 100 people in Seregno, a picturesque commuter town north of Milan. His brief: to persuade them to back the government's constitutional reform in a referendum eight weeks hence. Earlier that day Mr Rosato, who leads the governing Democratic Party (PD) in the Chamber of Deputies, was in Switzerland canvassing expatriate voters; the day before, in Sardinia. He will not stop zigzagging through Italy until the vote is held on December 4th.

That his party should deploy a politician of Mr Rosato's stature to a place like Seregno (population: 45,000) attests to the fear that has seized the PD as poll after poll finds majorities ready to reject the reform. Matteo Renzi, the prime minister, has said he will resign if he loses. That has turned the referendum into a personal vote of confidence, at a time when his popularity is waning and the economy slowing.

The gamble is understandable. Mr Renzi and his advisers are convinced Italy's woes are institutional, that under the current system structural reforms will be thwarted by vested interests, and that only a government with wider powers can modernise the country. Yet for Italians, this evokes deep misgivings. Similar talk was used to justify the fascist dictatorship in the 1930s. After the second world war the authors of Italy's republican constitution dis-

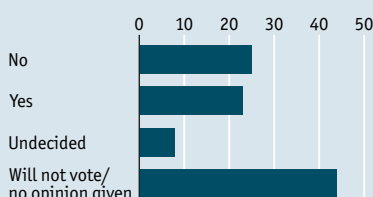
persed power so it could not be wielded by any one person or institution, giving the two houses of parliament equal powers.

That creates problems, Mr Rosato explains. Bills go back and forth between the chambers until they can be passed in identical form. One recently approved measure was first tabled 30 years earlier. The constitutional reform would drastically reduce the powers of the senate, turning it into an assembly of regional worthies who for the most part could suggest, but not enforce, changes to legislation. Another inefficiency is that Italy has four levels of government. The reform would abolish provincial administrations and remove many of the overlaps between regional and central authorities.

Were that all, Mr Rosato and other PD notables might not be slogging around Ita-

Getting to "Sì"

Planned vote in the Italian constitutional referendum, % polled*



Source: Ipsos/Corriere Della Sera

*October 2016

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ly. For many opponents, the reform only becomes toxic when combined with an electoral law introduced last year that makes future governments virtually indestructible for the five years of their mandate. It gives them a guaranteed majority in the lower house. And since the chamber's deputies will be elected on slates drawn up by their party leaders, those in government will be unlikely to rebel against their prime minister.

Many see this as a potentially hazardous mix in today's volatile European politics. In a televised debate with Mr Renzi, Gustavo Zagrebelsky, a former head of the supreme court who serves as honorary president of the No campaign, said: "I'm not thinking of you and your government, but of what could come tomorrow. I am thinking of the populist movements." Italy's populists, the Five Star Movement (M5S), are hard on the heels of the PD in the polls. Many rejectionists fear that Mr Renzi could win the referendum but lose the next election, ushering in five years of government by M5S's leader, the ranting ex-comedian Beppe Grillo.

M5S is nevertheless campaigning against the proposal, as are Italy's other opposition groups and a dissident PD minority. Their motives are mixed. The referendum offers a chance to get rid of Mr Renzi and stymie a reform that threatens to reduce his opponents to irrelevance. Italian power-brokers worry that abolishing provincial governments would rob them of a handy source of patronage. And Silvio Berlusconi, the leader of the Forza Italia party, backed the reform at first, but changed his mind after Mr Renzi outwitted him in negotiations leading to the election of Italy's president, Sergio Mattarella.

The prime minister's chances might be enhanced if he could proffer a few sweet- ▶▶

eners to voters. But the lack of economic growth, and Italy's euro-zone obligation to keep its budget deficit to 3% of GDP, limit his options. In a move smacking of desperation, he has revived a hoary pledge, made by many a government before, to build a bridge linking Sicily to the mainland.

Much may depend on whether voters examine the merits of the reform, not those of the government. "The big weapon in the government's armoury is that the reasons for a 'yes' are easier to get across than those for a 'no'," says Antonio Noto of IPR Marketing, a polling firm. He and other pollsters see evidence the government is picking up support on the right, particularly from Forza Italia supporters. Mr Renzi's chances may not be as slim as they seem. But if the economy dips again before December 4th, all bets are off. ■

Spain's Socialists

The battle for a party's soul

MADRID

The ousting of Pedro Sánchez may give the country a government

IF ANY political party can claim to have invented modern Spain, it is the Socialists. They have ruled for 21 of the 39 years of Spain's restored democracy. Under Felipe González, the Spanish Socialist Workers' Party (PSOE), to give it its full name, took the country into the EU and NATO and modernised its economy. And under José Luis Rodríguez Zapatero it modernised cultural attitudes, loosening restrictions on abortion and approving gay rights.

Now the PSOE threatens to tear itself apart. Amid extraordinary scenes at its headquarters in the placid Madrid *barrio* of Argüelles, the party's general secretary, Pedro Sánchez (pictured), clung to his post for three days after more than half his executive resigned. Following a 12-hour meeting of the party's nearly 300-strong federal committee on October 1st, which featured shouts, tears and what looked like an attempt to rig a secret ballot, Mr Sánchez resigned, defeated by 132 votes to 107. He has been replaced by a caretaker committee.

One cause of this internal warfare was the party's string of electoral defeats. It faces new rivals, in Podemos on the far-left and in Ciudadanos, a centrist liberal party. After four years of an unpopular conservative government under Mariano Rajoy, in an election last December Mr Sánchez still lost almost half the PSOE's seats compared with its recent peak of 2008. It did no better at a second election in June.

Spain's fragmented parliament left the the Socialists with a uniquely uncomfortable dilemma. They could try to form a

government with Podemos and Catalan separatists, which would be repudiated by their more moderate voters, or abstain to let Mr Rajoy govern, even though they are infuriated by his austerity measures and instances of corruption in his People's Party (PP). Worried about letting Podemos claim the mantle of opposition, Mr Sánchez took the first course. "No means no," he said of his refusal to end the deadlock.

That stance would have meant a third election in December, at which the Socialists were likely to lose more ground. This alarmed most of the PSOE's powerful regional barons and all of its previous leaders. After the party was trounced in regional elections in Galicia and the Basque country on September 25th, they acted.

Mr Rajoy will probably have a second go at winning a parliamentary mandate later this month. At least some Socialists are likely to abstain. After ten months without a government, Spain would have one at last, in the form of a minority PP administration backed by Ciudadanos.

This buys time for PSOE to renew itself. Mr Sánchez is a symptom rather than the cause of PSOE's difficulties. As the first Socialist leader chosen in a primary of the membership, he claimed the backing of the grass-roots, ignoring the regional barons. "The PSOE does not just belong to its activists, but also to the citizens who voted for it," replied Susana Díaz, the leader of the regional government in Andalusia and Mr Sánchez's most powerful foe. The battle for the leadership may be rejoined at a party congress next year.

The party is divided geographically. In eastern Spain it has cut deals with Podemos and nationalist parties. In the poorer south it practises clientelism. Spain's two main parties wield enormous powers of patronage. "They are machines which have become disconnected from the citizens," says José María de Areilza, a professor of constitutional law. Both Mr Sánchez and Ms Díaz have made their careers entirely within the party.

The underlying problem is that the PSOE's electoral base has shrunk to a core, mainly of the rural working class. It has lost the urban middle class: in most cities it came no better than third at the last election, points out Ignacio Urquiza, a Socialist deputy, writing in *El País*, a newspaper.

The PSOE's problems are those of all European social-democratic parties, writ large. It has lost more ground than any of the others apart from Greece's PASOK, according to Kiko Llaneras, a political analyst. The party paid a price for being in office when the financial crisis broke in 2008. Any Socialist leader would have found it hard to respond to the rise of Podemos, which took 21% of the vote at the last two elections by voicing young Spaniards' rage at a self-serving political establishment.

All is not lost for the PSOE. The 22% vote



He said no, the party said go

share it won in June is relatively high. And Podemos has its own problems as it tries to go beyond a protest movement. It is visibly split three ways between Pablo Iglesias, its Leninist leader; Iñigo Errejón, his more moderate deputy; and its big-city mayors, who take little notice of either. As for Mr Rajoy, he will probably be rewarded for his strategic patience. But to get much done, he may need the votes of the Socialists in parliament. That gives the PSOE a chance to take the initiative again, if only it can find leaders imaginative enough to seize it. ■

German conservatives

Politisch inkorrekt

BERLIN

A right-wing German media brand builds a following

DIETER STEIN, the editor of *Junge Freiheit* ("Young Freedom"), a newspaper, represents the German right wing's thoughtful side, rather than its demagogues. In his office, a poster of Frederick the Great, a Prussian monarch beloved by conservatives, hangs on one wall. Another has a picture of Dresden's Church of Our Lady—destroyed by the Allied firebombing of 1945, fully rebuilt only in 2005, and today iconic for German nationalists. Above his desk hangs a portrait of Count Claus von Stauffenberg, an army officer executed after trying to assassinate Adolf Hitler in 1944. Mr Stein considers him a conservative patriot, part of a "positive tradition" that Germans can be proud of. He thereby draws a hard line between his newspaper and the neo-Nazi right.

Yet for most of the three decades since ►

► Mr Stein founded *Junge Freiheit*—first as a student newspaper and, since 1994, as a general weekly—the label “right” condemned him to the margins of Germany’s media landscape. In German usage, the term does not include the centre-right. For instance *Bild*, the largest tabloid, opposes tax rises, eurozone bail-outs and uncontrolled immigration. But its pro-American and pro-Israeli stances keep it well within the postwar political consensus. “Right”, by contrast, implies a step outside the mainstream and, given Germany’s Nazi history, into the danger zone. The constitutional protection office, founded after the second world war to stifle totalitarian tendencies, placed *Junge Freiheit* “under observation” until Mr Stein won a court case against it in 2005. Advertisers and interview partners used to shun the paper.

That began to change in 2013, when a populist party, the Alternative for Germany (AfD), was founded. Newspaper and party are officially unaffiliated, but they overlap much as Fox News does with America’s Republicans. Like the AfD, *Junge Freiheit* extols the traditional family and disdains feminism and sexual adventurism. It yearns for law and order, and is remarkably empathetic towards Russia. And, of course, it is aghast at the alleged threat to German culture posed by Muslim immigrants. Readership soared after September 4, 2015, when Chancellor Angela Merkel opened Germany’s borders to refugees in what the newspaper sardonically calls a “welcome putsch”. Circulation was 28,246 in the second quarter of 2016, up 18% over that period in 2013.

That is modest compared with right-wing media in the Netherlands or France. But for Germany it represents the first counterweight to the mass media’s leftist tilt. A study in 2005 found that 62% of German journalists sympathise with centre-left parties. Accusations that political correctness prevails on public television and radio have a kernel of truth. Supporters of the AfD are rebelling against this mainstream fare at least as much as they oppose immigrants or euro-zone bail-outs. *Lügenpresse* (“liars’ press”), a loaded term once used by the Nazis, is a common chant at party rallies. According to a poll in 2015, 44% of all Germans share the sentiment behind the word.

Mr Stein does not use the word *Lügenpresse*, nor does he term himself a man of the “right”. He considers both words contaminated by German history. Instead he criticises what he calls “nanny journalism”. He knows that his will always be a minority view in Germany; even in his own family, his four siblings are all leftists. One new poll gives the AfD 15% of the vote. Whether that share grows or shrinks, the presence of a right-wing voice in Germany’s media landscape is part of the country’s path to political normality. ■

Russia v America

Going nuclear

MOSCOW

Angry over sanctions, Russia suspends an arms-control deal

THE list reads like a hostage-taker’s demands. Russia wants America to roll back the expansion of NATO, repeal the Magnitsky Act, end sanctions and pay compensation for Russia’s losses. Until it does, Vladimir Putin declared this week, Russia will stop abiding by an agreement regulating the disposal of plutonium. Russia was forced to act, Mr Putin claimed, because of “the threat to strategic stability posed by America’s hostile actions” (and its failure to deliver on its end of the deal). The move is a reminder that, unlike America, Russia is happy to throw nuclear arguments into the mix when it does not get its way.

The suspension of the Plutonium Management and Disposal Agreement (PMDA) is a message intended not so much for Barack Obama as for his successor. “Russia does not plan to work seriously with America” until a new administration arrives in 2017, says Andrey Kortunov, head of the Russian International Affairs Council. Mr Putin’s demands serve as a “wish list” should the next American president seek to restore the relationship.

Tensions between Russia and America have been building over Syria, where ceasefire efforts have failed and Russian jets continue to pound rebels in Aleppo. On October 3rd, the day Mr Putin issued his decree, American officials announced they were pulling out of talks with Russia over Syria. “Russia failed to live up to its own commitments,” the State Department declared. Since the war in Ukraine, according to Samuel Charap of the International Institute for Strategic Studies, a think-tank based in London, Russia and America have managed to protect some islands of co-operation, such as over

Iran’s nuclear programme. Now, he says, the tensions have “begun to sweep over those islands”.

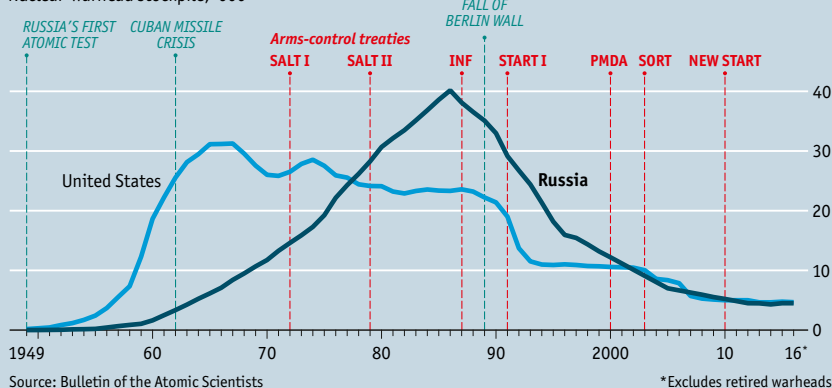
Russia’s willingness to invoke its nuclear might for political aims is alarming. A year after annexing Crimea in 2014, the Kremlin announced it could deploy nuclear weapons there. Even before suspending the PMDA, Russia had eroded the spirit of nuclear co-operation that prevailed after the end of the cold war. For the past three years, America has alleged that Russia is in breach of the 1987 Intermediate-range Nuclear Forces treaty (INF) because it has tested a ground-launched cruise missile with prohibited range. Russia has also refused to discuss limits on tactical nuclear weapons, the anticipated follow-up to the New START strategic weapons treaty of 2010. Mr Putin snubbed Mr Obama’s final Nuclear Security Summit earlier this year.

Russia’s complaint that it has observed the PMDA more diligently than America does have some substance. Dogged by delays and rising costs in building a special facility to dispose of its plutonium, Mr Obama has opted for a cheaper method of treatment than the one specified in the agreement. Russia has declined to consent to this, putting America in technical breach of the deal.

To keep the spirit of the agreement, America could press ahead with getting rid of its excess plutonium. Russia says it has no intention of using its stockpile for new warheads. Ridding the world of some of the stuff would make it marginally safer. The danger of suspending the PMDA is not so much in leaving more plutonium about, but in demonstrating that the Kremlin considers nuclear security just another bargaining chip.

Nuclear fallout

Nuclear-warhead stockpile, '000





Jean-Marie Le Pen

Un prophète

PARIS

The National Front's founder thinks he, not his daughter, deserves credit for populism's success

FROM his ridge-top mansion in Saint-Cloud, a suburb west of Paris, Jean-Marie Le Pen commands a sweeping view of the French capital. The 88-year-old founder of the far-right National Front (FN) keeps an antique telescope mounted on a tripod by the window, as if to watch for the hordes of migrants he fears are on their way to "submerge" Europe. Mr Le Pen believes himself to be equally far-sighted when it comes to politics. Donald Trump, he suggests, is benefiting today from his prescience in sensing the nationalist mood decades ago. "Public opinion that once thought we were extremists," he declares, "now realises that Le Pen was right."

Today, the FN's founder surveys the rise of populist nationalism in the West with a mix of self-satisfaction and regret. His brand of xenophobic outrage has toxic anti-Semitic roots, and last year he repeated an old claim that the gas chambers were a mere "detail" of the second world war. In response Marine Le Pen, his daughter and the current FN leader, evicted the former paratrooper from his own movement and stripped him of the title of honorary president—a decision that on October 5th Le Pen père challenged in court.

Yet 60 years after Mr Le Pen was first elected to the French parliament, his anti-immigrant, anti-establishment discourse has moved from the margins to the mainstream in liberal democracies from America and Britain to Poland and Hungary. This is cause for much self-congratulation in the mansion in Saint-Cloud. With a laugh that

has lost its former throatiness, he compares his role to that of a military advance scout, who "lights the way" and clears a path for others. In a tweet earlier this year, he announced that he backed Mr Trump for the American presidency; he predicts that he will win. Indeed, in a single breath, the FN founder applauds Mr Trump, the Russian president, Vladimir Putin, and Brexit.

If history, in his telling, has finally shifted his way, however, any sense of triumphalism is tempered by the dynastic fall-out with his daughter. At a time when many of his ideas have taken hold, Mr Le Pen himself is out in the cold. This is because Ms Le Pen has wholly different ambitions, and judged that her father was obstructing them. Whereas Mr Le Pen revelled in provocation and flirted with the law on racism, periodically ending up in court, Ms Le Pen is bent on securing respectability and power. To this end, she has distanced herself from her father's tuggish cronies, built a team of number-crunching policy wonks and a network of local offices, and shed much of the imagery linked to her father. Her most recent campaign poster does not even mention the FN or display its logo.

This strategy of *dédiabolisation* ("de-demonisation") seems to be working. Polls of voting intentions for the presidential elections next spring show Ms Le Pen reaching the second-round run-off, whoever the Socialists or centre-right Republicans field. If Nicolas Sarkozy, a former president, wins

the Republicans' primary next month, she would win the first-round vote, with 27% to his 23%. This far exceeds the 17% her father achieved when he shocked France by securing a second-round place in 2002. Ms Le Pen has turned the FN from a national embarrassment into a fixture of the French party political set-up. More voters want an "important role" for the party (see chart). And she has established it—remarkably—as the top choice for both working-class voters and the young. At regional elections in December 2015, fully 51% of workers and 28% of under-25s voted for the FN, according to Ifop, a polling group.

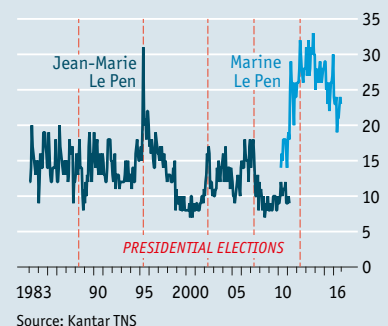
The drama of the Le Pen family fall-out periodically captivates French media. Mr Le Pen still grumbles that his daughter's rejection of him is "scandalous" and calls her Bruta. ("Rather than Brutus," he adds, in case the reference is lost, and laughs thunderously at his own joke.) He also thinks it a strategic error. Ms Le Pen has become "too moderate", he argues. By "evacuating" the ground on the nationalist right, she has opened the way for Mr Sarkozy, the most right-wing contender, to outflank her.

Mr Sarkozy recently called, for example, for the detention of those suspected of jihadism by the intelligence services, regardless of whether charges have been brought against them. By contrast Ms Le Pen, with improbable restraint, has dismissed such calls and urged respect for the law. This week Mr Sarkozy promised an outright ban on the Muslim veil in France; Ms Le Pen has been careful to cloak her disapproval in secular rules that in theory target all religions, not only Islam.

Identity politics is fast becoming France's new campaign ground. The summer has been occupied with a frivolous argument over banning the "burkini" on beaches. But serious concerns persist about terrorist networks and the appeal of jihadism. The risk is that these will lead to widespread fear and the targeting of Muslims. Mr Le Pen may be banished from his daughter's campaign in 2017. But, when it comes to the battle for ideas, his legacy will be lasting. ■

Père et fille

France, belief that National Front leader should have an "important role", % polled



Charlemagne | The wizard of Budapest

Viktor Orban succeeds only because Europe cannot hold together



THE moment Hungary is no longer European,” wrote Milan Kundera, a Czech-born novelist, “it loses the essence of its identity.” In his own way Viktor Orban, Hungary’s prime minister, would not disagree. Having bent the Hungarian state to his will, crushed his domestic foes and spun political gold from Europe’s migrant crisis, Mr Orban now has his sights trained on the immigration-friendly elites he claims seek to destroy Europe’s nations from within. Together with Jaroslaw Kaczynski, the de facto leader of Poland, he promises a “cultural counter-revolution” in Europe, based on a defence of nation, family and Christianity.

Charismatic, bombastic and unembarrassable, Mr Orban squats toad-like astride the Hungarian political landscape. His Fidesz party dominates parliament. Setbacks are skated over. On October 2nd only 40% of Hungary’s electorate cast valid votes in a referendum on the European Union’s refugee-relocation plan, well below the 50% threshold needed to give the result force. No matter: Mr Orban saluted the “excellent result” (98% of voters rejected the EU scheme) and promised to insert it into Hungary’s constitution. The formidable Fidesz spin machine manufactured sophistries to explain how an illegitimate outcome represented the inviolable democratic will of the Hungarian people.

To many outside Hungary, the government’s brutal treatment of asylum-seekers, its atavistic rejection of outsiders and its elimination of domestic checks and balances place it outside the European mainstream. Fidesz’s steady assault on Hungary’s independent institutions has earned it the wrath—and exposed the impotence—of the European Commission. (Mr Kaczynski is now undergoing a similar experience.) Last month a minister from Luxembourg called for Hungary to be expelled from the EU.

Mr Orban welcomes their hatred. Surveying Europe’s liberal leaders, he sees a complacent elite ignorant of a quickly changing world. “Europe”, Mr Orban once declared, “is staggering towards its own moonstruck ruin.” If its leaders fail to acknowledge that voters do not share their taste for mass migration and Euro-integration, they will be squashed by the populists rising all around them. After all, Mr Orban has stolen the thunder of Jobbik, a thugish nationalist party that constitutes the most organised opposition in Hungary, by tacking hard-right on migration.

Mr Orban presents a unique danger, argues Gerald Knaus of

the European Stability Initiative, a think-tank, because he injects a far-right virus into the bloodstream of Europe’s political centre. Fidesz’s membership of the European People’s Party, a centre-right pan-EU political group, gives Mr Orban the ear of Angela Merkel, Germany’s chancellor, and other mainstream conservatives. Yet while he may spurn hard-right outfits like France’s National Front or the Austrian Freedom Party, he borrows from their playbook. He lays charges of treason against those who seek to import “hundreds of thousands of people” from “groups outside European culture”. Migrants have turned parts of cities like Berlin and Stockholm into “no-go zones”, his government argues.

Mr Orban is hardly alone among central European leaders in his hostility to refugee-redistribution schemes. But he started rehearsing his lines before others did. The crisis, when it hit, slotted neatly into a national-conservative shtick that Mr Orban had honed for years, including in a notorious speech in 2014 celebrating the virtues of “illiberal democracy”. When Hungary found itself, for a time, squarely in the middle of the migratory route between Greece and Germany, Mr Orban fleshed out his creed with action, building border fences to keep migrants out.

But it was Europe’s failings that enabled Mr Orban’s success. As Mrs Merkel struggled to maintain support for her refugee policy, in Germany and abroad, some of her supposed allies, such as Horst Seehofer, the premier of Bavaria, began to align themselves with Mr Orban instead. Apparent failures of integration, from sexual assaults in Cologne to terrorist attacks in France, seemed to vindicate Mr Orban’s clash-of-civilisation warnings. Europe’s leaders began to tighten asylum policy and to talk seriously about border protection, just as Mr Orban had said they should.

The spoils of Viktor

One should not exaggerate Mr Orban’s influence. Despite his tub-thumping, he is no ideologue. He saves his fiercest attacks for relatively powerless “Brusselians”; leaders like Mrs Merkel, who is most responsible for the refugee policies Mr Orban detests, are largely spared. His small, landlocked country cannot afford to alienate its neighbours, including rich EU countries that channel structural funds to Hungary and employ its workers. Comparisons of Mr Orban’s Brussels-bashing to Brexiting Britain miss the mark: polls show Hungarians to be among the EU’s biggest fans.

Second, Mr Orban’s rabble-rousing offers little to policymakers grappling with mass migration. True, he saw earlier than others that borders had to be controlled before grand resettlement schemes could be countenanced. His scepticism about the EU’s relocation plan has been borne out by its failure to move more than a few thousand migrants, even to willing countries. But his acolytes have no answer to the problem of refugees already in Europe. His ideas on African migrants (build a giant camp in Libya) or Europe’s demographic problems (encourage natives to have babies) expose a fundamental unseriousness. Pull aside the screen, argues Mr Knaus, and the scary Mr Orban will be revealed as a shrivelled demagogue with nothing to say.

So why the fuss? From Hungary’s feeble opposition to Europe’s faltering leaders, Mr Orban has been lucky in his adversaries. Restlessly seeking the fresh enemies he needs to sustain his support, Mr Orban immediately grasped the opportunity presented by Europe’s incoherent response to the refugee crisis. Soon he will need something else to bash; the post-Brexit EU looks promising, particularly if Brussels seeks to centralise more powers. Next time, Europe should be better prepared. ■

Also in this section

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The Tories and Brexit

Mind your step

BIRMINGHAM, BRUSSELS AND PARIS

Theresa May fires the starting gun for what looks likely to be a hard Brexit, taking Britain out of Europe's single market

GIVEN that Britons voted on June 23rd by 52% to 48% to leave the European Union, Theresa May had to say something about Brexit at her first Conservative Party conference as prime minister. By choosing, unusually, to open proceedings on October 2nd, she hoped to park the subject for the rest of the week, letting her big speech on October 5th dwell on the broader theme of “a country that works for everyone”. No such luck. In practice she just advertised the fact that Brexit will be the issue that makes or breaks her government.

The essential problem that Brexit poses for her is clear. On the one hand, she wants to keep the economic benefits of facing no barriers to trade in the world's largest single market, the EU. But on the other, her 27 EU partners are not willing to agree to this unless she also accepts the single market's obligations, including free movement of workers and a plethora of EU regulations. The dilemma has come to be known as “soft” or “hard” Brexit. Soft Brexit means giving priority to the single market at the price of accepting some limitations on control over borders and laws, as well as contributing to the EU budget. Hard Brexit puts the emphasis on taking back such controls even if that means walking away from the single market.

Mrs May, who had previously kept silent about her plans, offered the mostly Eurosceptic party faithful two juicy titbits

which were interpreted as leaning towards a harder Brexit. The splashier but less significant one was a plan to include a “Great Repeal Bill” in next year's Queen's Speech. Contrary to its portentous title, this would actually be more of an unrepeal measure, since it would incorporate into British law the whole gamut of current EU legislation. It would also pave the way for scrapping the 1972 European Communities Act, which gives effect to EU law, as soon as Britain leaves, but this is little more than a statement of the obvious.

More important was Mrs May's promise to invoke Article 50 of the EU treaty, the legal route to Brexit, before the end of March 2017. Some advisers favoured postponement until the French presidential election next spring, or even the German election in September, partly because Britain will lose bargaining clout as soon as it kicks off the negotiations. Yet Mrs May suggested that those who wanted to put off Article 50 were in reality closet Remainers seeking to subvert the democratic choice of June 23rd. Since Article 50 sets a two-year deadline for a deal, after which a country departs unless all 27 other members agree to extend the time limit (which is unlikely), her decision means that Britain should leave by the end of March 2019.

Mrs May presented these two promises as necessary to give business the certainty it needs in the period up to and beyond

Brexit. Yet she ducked the key question of what future relationship Britain will have with the EU, which takes 44% of Britain's exports. And in her remarks to the conference in Birmingham, Mrs May only increased businesses' worries. She talked of Britain becoming a “fully independent, sovereign country” that once again had the freedom to make its own decisions, from how to label its food to the way it controls immigration, adding that it was not about to leave the EU only to return to the jurisdiction of the European Court of Justice.

What matters about these statements is that they sound incompatible with remaining in the EU's customs union and single market, pointing to a hard Brexit under which Britain leaves both.

Because it eliminates not just tariffs but non-tariff barriers, the single market is hugely valuable. Most economists say a hard Brexit would be far costlier than a soft one that put Britain closer to the situation of a country like Norway, which is not in the EU but in the European Economic Area. EEA members accept free movement of labour and observe single-market rules in which they have no say—implicitly accepting the European court's jurisdiction. Switzerland, which is in neither the EEA nor the single market, still has to accept free movement, as well as most EU regulations. Both countries also pay into the EU budget, which would be unpopular with Brexiters, although Mrs May has not ruled out some British contribution post-Brexit.

Dismissing these existing models, Mrs May talked of securing a bespoke agreement with the EU. She said she wanted to keep free trade in goods and services, and promised British companies maximum freedom to trade with and operate in the single market. Yet these objectives may prove impossible to square with the Brexi- ►►

► teers' goal of "taking back control" of Britain's borders, laws and the money it pays the EU. That is why the odds of a hard Brexit are rising.

There are other reasons. One is the feisty mood in Birmingham of Tory Brexiters, who were ecstatic over Mrs May's speech. Many insisted that, even if a bilateral free-trade deal were desirable, Britain had nothing to fear from trading with the EU under normal World Trade Organisation (WTO) rules, just as America, China and other countries do. Remainers lay low at the party conference (even though the prime minister was herself one). And although Mrs May praised her predecessor, David Cameron, the name of George Osborne, his former chancellor, who has said that Britons voted for Brexit but not for hard Brexit, was barely mentioned.

Another is that, contrary to the prognosis of Mr Osborne, the economy has performed tolerably well since the referendum. The index of manufacturing activity rose in September to a two-year high, and the stockmarket is close to its all-time record. Brexiters crow that doomsters were wrong about the short-term risks of a vote to leave the EU, and they now say economists are just as incorrect to warn of large output losses after a hard Brexit. Many welcome the fall in sterling since June as a boost to exporters—and one that more than outweighs any tariffs if Britain reverted to trading on WTO terms.

Divorce is seldom happy

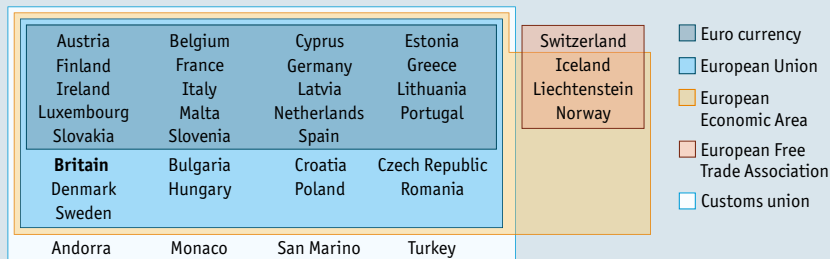
Yet there have been some warning shots. The pound fell to a 31-year low against the dollar after Mrs May's speech, reminding investors that Britain still has a huge current account deficit (see chart). Philip Hammond, her chancellor, talked of a "roller-coaster ride" ahead, adding that Britons did not vote for Brexit to make themselves poorer. Although consumption has held up strongly since June, growth forecasts for next year have been reduced, and many investment plans are on hold.

A striking example came when Carlos Ghosn, the boss of Renault-Nissan, a car-maker, said he could not commit himself to expanding Nissan's plant in Sunderland, the biggest in Britain, unless the government guarantees compensation if it faces tariffs of 10% on exports to the EU, which takes two-thirds of the factory's output. Lobbies from the food industry to the City of London are increasingly vociferous in warning about the dangers of a hard Brexit. Leaving the single market could cost 35,000 jobs in finance, according to Oliver Wyman, a consultancy.

One other reason why a hard Brexit has become more likely is the stiffening attitude of other EU leaders, each of whom has a veto over any subsequent trade deal with Britain. Many thought Mr Cameron was unwise to promise an in/out referen-

Multi-tier, multi-speed

Relationship of European countries to European organisations, October 2016



Source: HM Government

dum. But they understood the politics that drove him to it; many have Eurosceptics of their own to reckon with and several have experience of losing referendums. Although immediately after June 23rd some hoped British voters might be induced by the economic fallout or deeper reflection to think again, most now accept Mrs May's dictum that "Brexit means Brexit".

Yet many on the continent are irritated by the naive attitude of some of Mrs May's Brexiteer ministers, and especially by their assumption that, as her foreign secretary, Boris Johnson, likes to say, Britain can both have its cake and eat it. Mr Johnson may be right to argue that free movement of labour is not economically necessary to a single market, and Britain has long complained that the single market in services is incomplete. But other EU countries still see the "four freedoms" of goods, services, people and capital as the cornerstone of the entire European project. That is why they insist on EEA countries accepting all four, with minor derogations. There is also a big difference between a generous offer to countries that might one day join the club and the less generous one suitable for a country that has voted to leave.

Such thinking has led Britain's European partners to two firm conclusions. First, they cannot allow cherry-picking, by which they mean letting Britain have membership of the single market while rejecting free migration and budget payments. And second, an exiting country

cannot be allowed to end up in a better position than it was as a member. Evidence of how strongly EU countries feel came in their condemnation of a proposal for a "continental partnership" by analysts from France, Germany, Britain and Belgium that suggested a new multi-tier model that would give Britain privileged status in the single market, and some influence over its rules (the diagram above shows how Europe is structured now).

The fear is that if the EU gives way on its principles, other countries might follow Britain's example. In fact, although some Brexiteers once gleefully suggested that Brexit could lead to the collapse of the EU, this looks unlikely. Other countries have too much political capital tied up in the project and too much to lose economically to risk walking out. Yet populist parties in France, Italy, Sweden and eastern Europe are watching Brexit closely, and some are calling for referendums of their own. There is some concern over the Dutch, who have elections in March and seem deeply disillusioned with the EU.

Some Brexiteers claim that other countries secretly share their aversion to Brussels, its excessive red tape and unlimited EU migration. They cite Nicolas Sarkozy, who is running to be France's next president and has talked of a new treaty to repatriate powers and limit free movement. Yet the appetite for a new treaty is tiny. Many countries are hostile to any concessions for Britain that would seem to be giving in to blackmail. And the concern in other countries over immigration is not about EU migrants, but about those from the Middle East and Africa.

The other countries also dismiss claims by Brexiteers that, because the EU sells more to Britain than the other way round, Britain has the whip hand in negotiations. EU exports to Britain make up 3% of the EU's GDP, whereas British exports to the EU are worth some 12% of British GDP. In financial services, in particular, other countries are keen to poach back the lucrative business of euro clearing and settlement, and none sees why a country outside the single market should have "passporting rights" that allow financial firms to trade ►►

Into the red



freely out of London. British suggestions that a system of “regulatory equivalence” should qualify meet hollow laughs: the moment that British regulation deviates from the EU’s, equivalence will be lost. As for the claim that, because German car-makers want tariff-free access to the British market they will argue for the same deal for British firms, this would be strongly opposed by carmakers in Spain and France that would welcome an edge over their British rivals.

Unbalanced bargaining power

One big problem for Mrs May is the unequal bargaining power between Britain and the EU. She and her officials had hoped to negotiate informally before Article 50 was triggered. Liam Fox, the international-trade secretary, has been scoping out free-trade deals with third countries. Yet the first has proved all but impossible, partly because the others know that the Article 50 process suits them better than Britain. As for free-trade deals, Brussels notes that Britain cannot legally embark on any until after Brexit; indeed, there is talk of suing if Mr Fox goes too far in seeking deals with what one official dismisses as “planet Earth and other planets”.

The complexity and size of the new deals Mrs May must strike to make Brexit a success is daunting. Charles Grant of the Centre for European Reform, a London think-tank, says the prime minister needs to plan for six broad sets of treaty arrangements. The first is the Article 50 negotiation, meant to be completed within two years, which will cover such matters as pensions for British Eurocrats and MEPs, dividing up EU assets and working out what to do with the European Medicines Agency in London. This deal needs approval from a qualified majority of EU members, minus Britain, and a majority in the European Parliament.

Second is a new trading arrangement with the EU. If it is not based on membership of the single market, this must be a special deal, similar to Canada’s (still unratified) free-trade agreement. Brexiteers say a deal with Britain should be easier, as the two sides start as part of the same market. Yet the Canadian agreement does not include all goods, and it excludes financial services. A free-trade deal with the EU is likely to require unanimous approval by all EU members and ratification by national and regional parliaments, which may be especially hard in countries such as Romania or Poland that have to accept limits on the free movement of citizens to Britain.

Third are replacements for the EU’s existing free-trade pacts with some 53 countries. This is not straightforward: South Korea says its deal with the EU was based on Britain being in the single market, so it will not wish to grandfather any concessions into a bilateral agreement with Britain

alone. Mr Fox also wants to negotiate deals with countries like America, China, India and Australia that have none with the EU. But these countries will want to know what trade arrangement Britain has with the EU first. And they will not wish to jeopardise their planned deals with the EU.

Judging by experience, both a trade arrangement with the EU and free-trade deals with third countries will take far longer than two years to negotiate. In some cases talks cannot even begin until after Brexit. So the fourth and perhaps most pressing requirement for Mrs May will be an interim, time-limited measure to fill the gap between Britain’s exit under Article 50 and the entry into force of new trade arrangements. Prolongation of the present relationship could be one option; tempo-



rary membership of the EEA another. Without such a deal, Britain would revert immediately to trading under WTO rules, implying tariffs. But interim deals can be as hard to negotiate as final ones, partly because some fear that they can become near-permanent.

In any event a fifth requirement is for Britain to resume full membership of the WTO, to which it now belongs merely via the EU. That is less simple than it sounds. In many areas, it can be achieved by simply inheriting the EU’s tariff schedule, at least initially. But Britain will have to divide up import quotas and other trade preferences with its EU partners, which may not be straightforward. The WTO always proceeds slowly and by consensus among its 163 other members, any one of which could obstruct the British.

Finally, Britain must find a way to replicate its commitments to co-operate with EU partners in intelligence, policing, counter-terrorism and foreign policy. These matters ought to be uncontroversial, as

even Brexiteers see good arguments for them. In her previous job as home secretary Mrs May put security co-operation at the heart of her case for staying in the EU. Yet some measures, such as the European Arrest Warrant, still attract opposition in her party. And although efforts can be made to keep working together, the vital institutional sharing of information and analysis is likely to be lost post-Brexit.

This intimidating list of requirements leads to two conclusions. The first is that negotiating Brexit and its consequences could take several years. That is why some analysts put such emphasis on the need for an interim solution that avoids the risk of Britain falling off a cliff at the end of the Article 50 process. Mrs May and her team will have to focus on this issue soon after invoking the article. They may need to keep paying into the EU budget to win better terms.

The second is that neither side is ready for the challenge of such complex negotiations. David Davis’s Department for Exiting the EU is brand new, though it has grown fast. Mr Fox is short of experienced trade negotiators. Mr Johnson’s Foreign Office has been pared to the bone recently. The civil service is now expanding again, at considerable cost to the taxpayer. There will be turf wars among these three Brexiteers and between them and the chancellor of the exchequer. One diplomat says gloomily that for 30 years Britain’s EU policy was run by Foreign Office officials and then for 15 years by Treasury mandarins. Now it is run by Home Office people who know a lot about immigration and security but nothing about economics.

There will also be differences in Brussels, however. The European Commission has picked a former French foreign minister and commissioner, Michel Barnier, to take charge of the negotiations. The European Council has a former Belgian diplomat, Didier Seeuws. And the European Parliament has chosen a former Belgian prime minister and keen EU federalist, Guy Verhofstadt. These three can be expected to have disagreements over the best way to handle Brexit.

It is evident from this that Brexit will be a process, not a single event. And that is why it will haunt Mrs May’s government. The cabinet battle over the concessions needed to secure barrier-free access to the EU’s single market may well pitch the Treasury against the three Brexit ministers. Mrs May will then discover what many predecessors have: that, despite the vote on June 23rd, the issue of Europe still divides her party and her government. Tories at this week’s conference might have contemplated the scene outside, as swathes of central Birmingham are being demolished. Birmingham has more than once torn down its city centre, only to find the replacement unsatisfactory. There is a risk of something similar happening with Brexit. ■

Bagehot | May's revolutionary conservatism

Britain's new prime minister signals a new, illiberal direction for the country



MAINSTREAM politicians in Britain have long held these truths to be self evident. The left won the social battles of the past decades. The right won the economic ones. The resulting consensus combines free-market liberalism with broadly permissive cultural instincts. But on October 5th Theresa May strode up to the podium at the Conservative Party conference, awkwardly waved at the crowd, cleared her throat and unceremoniously drove a bulldozer through those assumptions.

Mrs May began with a short tribute to David Cameron. Her predecessor had presided over rising employment, improving schools and falling crime, she noted, before adding: "But now we need to change again." And then came the tornado. Britain's vote to leave the EU in June was about much more than Brexit. It was a "quiet revolution", a "turning point", a "once in a generation" revolt by millions of ignored citizens sick of immigration, sick of footloose elites, sick of the laissez-faire consensus. "A change has got to come," she said, four times.

The nation state is back: "Time to reject the ideological templates provided by the socialist left and the libertarian right and to embrace a new centre ground in which government steps up," Mrs May declared. So borders will be strengthened, foreign workers kept out, patriotism respected, order and discipline imposed, belonging and rootedness enshrined. "If you believe you're a citizen of the world, you're a citizen of nowhere. You don't understand what the very word citizenship means," she said.

On the economy, the Conservatives are moving left. Parts of Mrs May's speech recalled Ed Miliband, Labour's previous leader, whose market interventionism earned him an anti-business reputation. She went on about bosses who do not look after their staff, companies that do not pay enough tax and utility firms that rip off consumers (even hinting at the sort of meddling in energy markets that won Mr Miliband particular barbs). Her government, she said, would identify the industries that are of "strategic value to our economy" and boost them "through policies on trade, tax, infrastructure, skills, training, and research and development." At one point she even questioned the independent Bank of England's low interest rates.

Socially, meanwhile, Mrs May is taking her party rightward and at moments sounded more like Nigel Farage, the doyen of the

populist UK Independence Party. She took aim at liberal politicians and commentators who "find your patriotism distasteful, your concerns about immigration parochial, your views about crime illiberal" and "left wing, activist human-rights lawyers". Companies will be made to declare how many of their staff are foreigners, to shame those who do not hire natives.

It remains to be seen precisely what will come of all this. The almost comically small-bore policies announced so far—including cadet forces in two-dozen state schools and a review into labour conditions—hardly correspond to the daring rhetoric. Every new prime minister since Thatcher has arrived in office promising to revive manufacturing, lubricate social mobility and do more for hacked-off, hard-pressed strivers. Still, the sheer intellectual swagger of its authoritarianism sets Mrs May's speech apart. It is worrying: a systematic rejection of the way the country has been governed, for worse and mostly better, for decades. Like it or not, Britain's strengths are its open, flexible, mostly urban service economy and its uncommonly mobile and international workforce. That fact cannot simply be wished or legislated away.

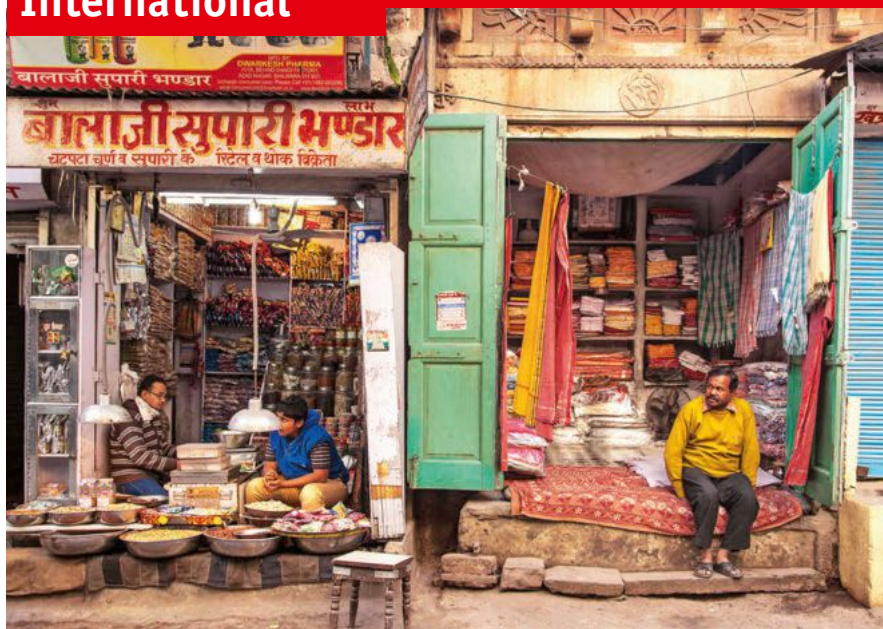
Mrs May makes it clear that liberal London should not take precedence over post-industrial areas. Yet the citizens of that great deracinated, metrosexual Babylon pay more in work taxes than do those of the next 36 cities combined. Brexit, it is true, was partly a vote against the aloofness of the capital and its arrogant captains of finance. But it was not a vote for a poorer country, higher unemployment or shabbier public services. The prime minister's speech does not fill Bagehot with confidence about her ability, or even willingness, to find the right balance as she sets the country's post-Brexit course.

Au revoir, laissez-faire

Yet it will resonate with the public and may propel the Tories to a landslide at the next election. Its premise—that the vote for Brexit was a revolt against globalisation—was sound. Touring pro-Leave events during the referendum campaign, Bagehot heard again and again that the cards were stacked in favour of fat cats and foreigners. One can disapprove of Mrs May's prospectus without denying that it speaks to these concerns, and to the pathology that has emerged with each recent tale of elite complacency, corporate malfeasance and political corruption; from the MPs' expenses scandal of 2009 to the shoddy treatment of workers at BHS, a collapsed retail giant, this spring.

So it is not enough for liberals to shake their heads at Mrs May's populism. They have to grapple with the reasons for its appeal. Areas with fast-rising migrant populations do not receive corresponding resources fast enough. The country's infrastructure is patchy, the health service is at breaking point and jobs are plentiful but low-paying. It is not illiberal to recognise that London and the rest of Britain can feel like different countries.

Those who resent the prime minister's protectionist, authoritarian gloom must, then, do more than hyperventilate and pearl-clutch. They should cheer Mrs May when she gets things right; perhaps on house-building, where her government has declared war on NIMBYS who oppose new construction projects. And when they disagree, they should come up with better solutions: better ways to reform corporate governance, increase competition, improve public services and adapt the workforce to change. No one can accuse the prime minister of being vague about the course she wants Britain to take. At the very least, opponents must rise to the same standard—and offer an alternative. ■



Finance for the poor

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Microfunding is booming once again. If it is to help people out of poverty, though, it needs to work much better

ON A shelf in Buland Iqbal's tiny roadside shop, cassette tapes are slowly turning pale in the sun. Nobody wants them these days, even in a dusty suburb in one of India's poorest states. So Mr Iqbal has branched out. First he moved into renting DVDs, then, more boldly, into pay-television. A loan of 31,000 rupees (\$465) from Sonata, a microfinance firm, helped him acquire a few satellite dishes and decoder boxes. It seems like a clear-cut success for microlending. In fact, Mr Iqbal's loan illustrates why microlending does not work all that well, and how it needs to change.

The idea of springing people from poverty by advancing them small amounts of money is old: in the 1720s the author Jonathan Swift was lending to "honest, sober and industrious" men in Dublin. But the modern template was created in the 1970s. Grameen, a Bangladeshi outfit, encouraged poor women who lacked collateral to form small groups in which each borrower was liable for all the others' debts. Groups met weekly and handed their payments to a loan officer. Astonishingly few defaulted. By transferring tasks normally done by well-paid bankers to poor people, Grameen had brought costs down so much that it could afford to lend tiny amounts.

Grameen Bank and Muhammad Yunus, its founder, were jointly awarded the Nobel peace prize in 2006. Almost immediately, microlending ran into trouble. The poor women in the borrowing groups

proved as ruthless as any bailiff: researchers turned up stories of delinquents forced to sell livestock and cooking pots to make weekly payments. Soon came over-indebtedness and mass defaults in the Indian state of Andhra Pradesh, in Pakistan and in Nicaragua, where the president, Daniel Ortega, sided with the "no pago" movement.

Then the "randomistas" put the boot in. In 2015, after examining the results of randomised controlled trials in Bosnia, Ethiopia, India, Mexico, Morocco and Mongolia, American researchers questioned whether

er microlending worked at all. As expected, offering small loans increased business investment. But it had a negligible effect on poor people's fortunes. Borrowers seemed to cut back on wage work in order to spend more time bent over their sewing machines or running their small, not terribly profitable shops.

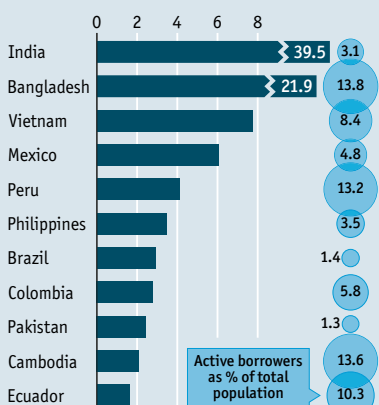
These days international donors and charities are much more excited about other approaches, including mobile money and "graduation" programmes, which give livestock to indigent people and teach them how to take care of them. As the development caravan rolls away, though, microlending is booming. MIX, which collects data on the industry, estimates that the number of borrowers worldwide grew by 16% between 2014 and 2015, to 130m. The total loan portfolio is now worth about \$96 billion. In India, which has more micro-borrowers than any other country, lending was 64% higher in the second quarter of this year than a year earlier, according to MFIN, a national industry body.

In Latin America (the biggest market for microloans by value, though not by number of borrowers) and Africa, much microlending is funded by deposits. That slows its growth, as raising deposits from people quickly is hard. But Indian microloans are funded largely by bank debt. Microlenders borrow at an average cost of just under 15% and usually charge interest of 20-25%. By law, the large ones may not lend at more than 10% above their cost of funds.

Succeeding in such a constrained market means becoming big and efficient. The large lenders increasingly sign up clients using tablet computers and allow repayments through terminals in local shops. They can reach more remote districts that way, and need not open so many branches. They still have plenty of room to grow. Only 6% of Indians borrowed from a for- ▶▶

Big in Asia

Largest number of active microfinance borrowers 2014, m



Sources: MIX Market; United Nations

► mal lender in 2014, according to the World Bank, whereas 14% went to a loan shark.

If capturing new clients is essential to success in microlending, creating new loan products is not. "There is zero innovation," says Ratna Vishwanathan, the head of MFIN. "It's a vanilla product". That is a shame because, although small loans are plainly popular and do no economic harm to the average borrower, they could equally plainly do a much better job of helping people become less poor.

Like many tiny businesses, Mr Iqbal's shop swings up and down. He can be extremely busy around Hindu festivals, when people like to shop, but is idle at other times (when your correspondent arrives at his shop, he is napping). In the slowest months, he cuts back spending on himself and his family until he can scrape together enough for the monthly payment. And he knows to take on only as much debt as he can service in the lean season. At this rate, he is no more likely to prosper than he is to default on his loan.

Mr Iqbal enjoys more freedom than most. He repays monthly rather than weekly and has borrowed not in a group but individually, with two friends as guarantors. His loan might be unusually large as a result. Anup Kumar Singh, Sonata's managing director, says that peer pressure in groups tends to shrink loans: many people doubt their acquaintances will repay large debts. Individual microloans have long been common in Latin America, and seem to be spreading in South Asia. But assessing individual borrowers is expensive. Lenders cannot afford to do much of it until technology brings the cost down (see box).

An excess of caution

What tiny entrepreneurs like Mr Iqbal really need are microloans that can be repaid when their businesses start bringing in more money. An experiment in Kolkata by two American researchers, Erica Field and Rohini Pande, found that offering borrowers a grace period of just two months at the beginning of a microloan doubled the rate at which new businesses were created. Borrowers were able to take bigger risks, which brought bigger rewards on average. After three years business profits were 41% higher and household incomes were up by 19.5%. If microlending could routinely deliver results like that, it would still be the height of fashion.

IFMR Lead, a research organisation based in India, is now testing an even more flexible loan. In conjunction with Sonata, it is offering a few hundred people microloans with two three-month "holidays". Borrowers will still have to pay something each month, but much less than usual. So far, about a third of borrowers offered these loans have taken them up, even though they carry a slightly higher interest rate. Encouragingly, the more competent

Microfinance by phone

Cash call

Microlending might work better if it were more impersonal

GETTING a microloan is far easier than getting a bank loan. But in east Africa many people have access to an even easier source of credit. It takes just a few taps on a phone to obtain a short-term loan, which will arrive in a mobile-money account almost immediately. It is an exciting, scary development, says Dean Karlan, a development economist at Yale University.

Mobile wallets such as M-PESA and Tigo Cash have already transformed microfinance. In the African countries where they are widespread, microlenders no longer need to distribute and collect piles of bank notes—always a cumbersome task and often a dangerous one. VisionFund, which is part of World

Vision International, a Christian charity, channels 95% of its Kenyan loan payments and 98% of its Tanzanian ones through mobile wallets.

Now mobile-network operators and their financial partners are rushing into lending. GSMA, an industry group, says that 45 mobile-credit services were operating in December 2015, four-fifths of them in sub-Saharan Africa. Some are growing fast: M-PAWA, a mobile savings-and-loan service in Tanzania, acquired 1m customers in just five months.

The mobile networks seldom compete directly with microlenders. Most of their loans are tiny—more nano than micro—and must be repaid in a month or two. They are strongest in Africa, where microlenders have always been scarce. But some are now offering bigger, longer-term loans. And mobile money is spreading: it has taken off even in Bangladesh, where microlending was born.

Mike Gama-Lobo of FINCA, a micro-finance pioneer, is particularly excited by the possibility of fusing mobile money with traditional microlending. Mobile-network operators know a good deal about their customers from the phone calls they make and receive, and the records of money passing through their mobile wallets. FINCA and others are now trying to use those data to filter potential borrowers.

Microlending shows that villagers and slum-dwellers are pretty good judges of each others' finances. But their phones often know more about them than their neighbours do. And nobody spreads malign rumours about phones.



Micro-managing

entrepreneurs seem keenest on them.

Lenders will want to know one thing above all: does more freedom cause more loans to go bad? In Kolkata, default rates for borrowers who were given two months' grace went up from 2%—fairly standard for a microloan—to 9%. If further research confirms that flexible loans are risky, microlenders will struggle to offer them: they cannot cover their increased costs by raising interest rates because these are often capped. The loan officers will probably keep turning up in new villages with their tablet computers, hawking the same old products.

One hint that microlending can get out of its rut comes from the fields of Africa. One Acre Fund, a charity, offers small farmers a bundle of seeds, fertiliser, crop insurance and training, all on credit. Its loans are

extremely flexible. Although the charity expects some repayment before it hands out seeds and fertiliser, farmers can pay off the balance at any point in the year. With no weekly or monthly payments looming, they might play the market, holding back crops from sale until prices rise. One Acre Fund boasts a low default rate, and calculates that it boosted its clients' farm incomes by 55% in 2015. But the parallel is not perfect. One Acre Fund offers more than just loans—and it depends on donations.

In many countries, lifting restrictions on interest rates would encourage lenders to create better products. A calibration of expectations would help, too. Microlending has gone from being the silver bullet to end poverty, to the poor man's snare, to largely ignored. It would be better to think of it as a vital work in progress. ■



The global casino business

Putting it all on grey

LAS VEGAS AND MACAU

The casino industry may be too risk-averse to lure in younger customers

SHORTLY after Mark Frissora took over as chief executive of Caesars Entertainment last year, he paced the floors of his American casinos, with their rows and rows of idle slot machines, and grasped the scale of the existential threat that faces his industry. Casino customers are ageing, and younger people have little interest in taking their place. Mr Frissora called on his company to brainstorm a new “casino within a casino” to draw in millennials who grew up playing video and mobile-phone games.

Next door on the Las Vegas Strip, Jim Murren, CEO of MGM Resorts International, the city’s largest gaming operator, is making similar moves. Mr Murren has convened a committee of millennial employees to work out how to keep the business relevant to future generations. Both firms will soon open experimental spaces for young people, including new types of slot-machine games that test players’ skills as much as their wallets.

These offer a glimpse of a casino of the future that looks very different indeed. There are gravity-free rooms where you can literally climb the walls; LED screens that continuously change interior backgrounds; and combinations of gambling machines and virtual-reality shoot-em-ups that allow you to bet on how many monsters you (and your friends) can blast away. Instead of individuals standing solo at one-armed bandits, groups of players might compete against each other over

wireless-enabled consoles offering a menu of wagering games. Instead of magic acts and yesterday’s pop stars, electronic-sports tournaments and the latest in live music will draw in spectators.

Hip, high-tech casinos sound like a lot of fun. But they may not come into being. Building and maintaining them would be expensive, and in the end they still might not appeal to younger people. More to the point, gambling executives may not have the stamina to see the projects through. Most of them today are curiously short of two things: free cashflow and, above all, the readiness to gamble big.

“The industry is not filled with creative geniuses,” says Mr Frissora, who came to Caesars from Hertz, a car-rental company. Casinos used to make a lot of money and didn’t need to innovate. That has changed. Smartphones and consoles make traditional slots and table games look stodgy. The list of new competitors for their customers’ attention—daily fantasy sports contests, legal and unregulated internet gambling, video lottery terminals, online social casino games (played with virtual currency)—goes on and on. Some people worry that casino firms will become like Blockbuster, a film-rental business annihilated by the internet. Alex Bumazhny of Fitch Ratings suggests they might become like Xerox machines, used less frequently but not entirely obsolete.

The signs of stagnation are clearly visible. Gaming revenues on the Las Vegas

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Strip peaked at \$6.5 billion in 2007, fell in 2010 to \$5.2 billion and then rose modestly (see chart on next page). In Atlantic City revenues have halved since 2006. Nationally, state-regulated casino-gaming revenues (including from Las Vegas and Atlantic City) have grown by just 7% since 2007, to \$40 billion last year, despite greatly expanded offerings. The states of Pennsylvania and Maryland, which had no casinos until a decade ago, now account for more than \$4 billion in gaming income (in part, by taking away customers from Atlantic City). Revenue from operations on Native American territory has risen by only 12% since 2008, to \$29.9 billion last year.

Wheel of fortune

The world’s biggest publicly owned casino companies would now be in worse straits if not for a couple of things. One was a change in how Las Vegas made its money. Two magnates, Sheldon Adelson and Steve Wynn, led its transformation in the late 1980s from Sin City to a convention and entertainment destination. Mr Adelson built the Sands Expo and Convention Centre, the first private convention venue in the city, and Mr Wynn built The Mirage, a casino resort with 3,000 rooms—and white tigers—that opened in 1989. Everything built on the Strip since has been an attempt to build bigger, better Mirages. The strategy has worked there—non-gaming revenue now accounts for almost two-thirds of all money that comes in, much of it from hotel rooms. Outside Las Vegas, however, casinos still depend on gaming revenues. The lack of fresh thinking to attract new dollars is painfully apparent.

The second boost came from the rise of Macau as a gambling destination for Asians, especially Chinese. Starting in 2003, the year before Mr Adelson opened Sands Macao, the territory’s first big casino backed by foreign money, gaming rev- ►

venues there rose by 12 times in a decade. In 2013 they reached \$45 billion, which is equivalent to nearly eight Las Vegas Strips. Macau's ascent cushioned the blow of the 2007-08 financial crisis at home.

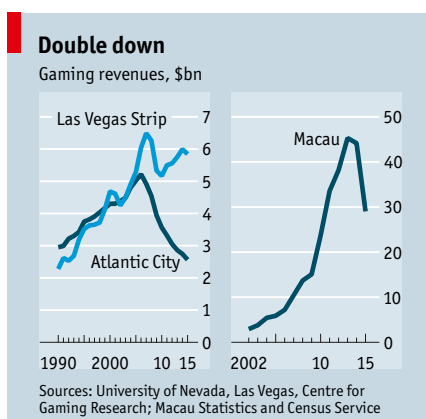
In recent years China's president, Xi Jinping, has dealt the territory an extremely poor hand. His anti-corruption campaign, and tighter government supervision of the flow of money in and out of Macau, have decimated the territory's VIP baccarat business. Revenues fell by 34% in 2015 to \$29 billion and were down another 11% in the first half of this year. Yet Macau may still benefit from the emergence of the Chinese upper middle-class, despite Mr Xi's crackdown, and it remains the closest thing there is to a growth story in casinos.

Mr Adelson and Mr Wynn, along with Mr Murren at MGM, have invested heavily in expanding further there. In August Mr Wynn opened the \$4.2 billion Wynn Palace, a luxury destination for high-end gamblers. To coincide with the opening, Macau had its first small monthly uptick in gaming revenues (1%) in more than two years. On September 13th Mr Adelson opened the Parisian Macao, a 3,000-room resort on the Cotai Strip (costing \$2.9 billion) complete with a half-scale Eiffel Tower. (MGM Cotai, a \$3.1 billion casino, will open next year.) Mr Adelson, now 83, appeared at the opening, one hand on a man's shoulder and the other gripping a walking stick as he took the stage to announce: "I'm still around".

But Macau's rise has only delayed the industry's reckoning with the problem of its ageing customer base at home. Slot machines, for example, account for only 5% of Macau's gaming revenues (baccarat makes up most of the rest) but the majority of American casino earnings. The Las Vegas Strip, for its part, can continue to expect modest increases in non-gaming revenues. Casinos everywhere else are badly stuck. As Mr Murren notes, many have become commodities. That's a bad business, he says. The typical casino floor today welcomes visitors with loud carpeting, cavernous rooms and an ocean of slot machines. Even on the Strip, young nightclub-goers pass by the gaming areas.

The industry is not best-placed to do much about its lack of appeal to the young. Casino companies and slot-machine makers are heavily indebted, an overhang from the financial crisis and a series of debt-financed projects and consolidations. Wynn Resorts, for example, has \$9.5 billion in debt, partly from building in Macau, compared with \$1.1 billion in annual earnings before tax, interest and depreciation. Caesars is only now emerging from bankruptcy. High interest payments have kept Las Vegas Strip operators in the red for much of the past decade.

Even so, it would not be impossible for them to invest. But they would have to answer questions from shareholders. A strat-



egy that takes away traditional slot machines or gaming tables that older people are known to like, to take a chance on something new for the young, is hard to buy into. Even though Mr Frissora and Mr Murren, among others, have made it clear that they want new types of games to attract younger customers, established makers of slot machines, themselves heavily indebted, have evinced little interest in undermining their existing business with costly, experimental new games.

Mr Frissora, for instance, wants to open up their gaming platforms to allow young players to choose their games and compete against each other on the casino floor. Instead, slot-machine companies have innovated on the margins, says Melissa Price, an executive at Caesars. They are now

housing traditional slots in sleek new cabinets with "skins" from hit television shows such as "Game of Thrones". These make money but they are not game-changers, she says.

Startups have been readier to invent. At the Global Gaming Expo in Las Vegas in September, crowds lined up at the booth of Gamblit Gaming, a California startup, to try out its wager-ready version of The Brookhaven Experiment, a virtual-reality first-person shooter game. Players can bet on such outcomes as their accuracy in shooting down monsters. The game should be ready for casinos in a year's time. GameCo, a New York startup, is expected to be the first to market with such a "skill-based" game this month, when Caesars installs a small number of so-called "Danger Arena" slots at its three casinos in Atlantic City. The video-game gambling machine, as GameCo calls it, is another first-person shooter (with no VR headset), in which the enemies are vicious robots.

Inside the industry, some executives look askance at what Caesars and MGM are planning. Video-arcade-style games might appeal to the young, they say, but not in large enough numbers to keep casino revenues high. One argument that traditionalists make is that once millennials have some money in their pocket, a bit later on, they will come and gamble at a conventional casino just like their parents did. Mr Frissora says he'll be taking the other side of that bet. ■

Airbus

In formation

Europe's big planemaker takes another short hop towards being a "normal" firm

TEN years ago this September Airbus's first A380 superjumbo, laden with passengers, took to the skies over Toulouse. Airbus's bosses hoped that the world's largest jetliner, the first with two full decks, would help the European planemaker get even with its American rival, Boeing. But problems quickly mounted. In October 2006 Airbus revealed the third delay to the A380 programme. Development costs spiralled out of control, to \$15 billion; three chief executives lost their jobs in succession that year.

The trauma prompted a sweeping modernisation effort that went further on September 30th with a restructuring announcement by Tom Enders, Airbus Group's chief executive. The company began as a jumble of the national aerospace firms of France, Germany, Britain and Spain, jointly known as EADS, in 1967. Mr

Enders has laboured, with much success, to reduce state influence on the group and to create a profit-driven firm like any other. But the roots of the past run deep. Airbus Group sits at the top of three divisions—jetliners, defence and space, and helicopters. The jetliner division, for example, still thinks of itself as French in character, and the defence and space unit keeps some sense of its former German identity.

Now the top entity, Airbus Group, headed by Mr Enders, will be merged into the most important division, which builds civil aircraft including the A380, and will be called just "Airbus". The other two divisions are to become that entity's subsidiaries, so that in theory, there will be less scope for national loyalties. Another aim of the restructuring is to focus the group more on the market for jetliners—which is booming, thanks largely to rising demand ►►

► for air travel from the expanding middle classes in emerging economies.

Mr Enders's principal goal is to close the long-standing profitability gap with Boeing. The European firm's average pre-tax profit margin was 2.2% in the decade to 2015, compared with 6.8% for Boeing. That was before a fresh list of problems hit Airbus, wiping nearly a fifth off the firm's market valuation since December.

The bad news began in April, when the group's defence and space division, which produces a fifth of group revenues, revealed new engine problems on its A400M military transporter, which had already accumulated more than €5 billion (\$5.6 billion) in write-downs. The jetliner business, which makes 70% of group sales, also hit turbulence. Expensive defects on its new A320neo and A350 planes led to a halving of profits, year on year, in the first quarter. Airbus Helicopters, meanwhile, suffered as demand fell for choppers in the offshore oil and gas industry.

Regulatory setbacks have piled up, too. At the start of August Britain's Serious Fraud Office (SFO) opened a full criminal investigation into allegations of bribery by the firm that have already cost it access to cheap export financing. And in September the WTO ruled that the EU had failed to cut illegal state aid to Airbus, which Boeing alleges is worth \$22 billion over decades. The ruling opens the door to America imposing tariffs on Airbus's planes, although an appeal could delay any such action for years.

Airbus's management is moving to contain the technical troubles on its new planes. Few sales have been lost at Rolls-Royce, an enginemaker, since a similar SFO investigation began there in December 2013. More of a concern is Airbus's flagship superjumbo. Although passengers love the A380, few airlines do because they find it too big to fill profitably. Early on, Airbus hoped to sell up to 1,200 supersonic planes over two decades; it has produced only 194 so far. Just 125 orders remain, and half of those are likely to be cancelled. Airbus's executives are keen to prop up production in the hope that demand will rebound, but it

Online surveillance

They're watching Yahoo

More trouble for a former internet star

A FAILED turnaround and then, last month, the biggest data breach from a single site in history. Yahoo, an online firm, has had a bad run of news. On October 4th came a fresh blow when Reuters, a newswire, reported that the company had written customised software to scan all incoming e-mail for certain keywords, complying with a request either from America's National Security Agency or the FBI.

The company's first response was to say that it is a law-abiding company. It later issued a statement saying that the Reuters article was "misleading" and that the "mail scanning" the article described "does not exist on our systems". But that is only a partial denial, and does not rule out the possibility that Yahoo did some kind of scanning. According to Reuters, Yahoo's chief information-security officer, Alex Stamos, left Yahoo in 2015 because of a decision by Marissa Mayer, its chief executive, to obey an order from a government agency. (He now does the same job at Facebook.)

Even the possibility of a real-time wiretap raises important questions. If the government has demanded such bulk scanning it may represent an expansion of surveillance. If so, it would run counter to efforts by Congress to rein in such programmes, following revelations in 2013 by Edward Snowden, a former NSA contractor, of online spying (on October

5th it emerged that another NSA contractor was arrested in August for stealing classified information). Other tech firms, including Apple and Google, said this week that they had never received such a directive, nor would they accept it without challenging it in court.

Second, the alleged wiretap reinforces concerns about how Yahoo treats all of its user data. Last month it emerged that hackers, probably state-sponsored, had in 2014 stolen account details of more than 500m users, including phone numbers, birth dates and encrypted passwords. Critics found it galling that Ms Mayer is reported to have been aware of the theft since July but said nothing.

A third question is what all this means for the sale of Yahoo's core business to Verizon, a telecoms operator, for \$4.8 billion, a deal announced in late July. If Yahoo's management did not disclose the data breach in the negotiations, Verizon could have the right either to walk away or to ask for a lower price. The allegations about e-mail scanning, if they are substantiated, would probably also be reason for further negotiations.

Verizon declined to comment this week. The news is another blow to Yahoo's brand, which has sunk in recent years as a series of chief executives tried and failed to revive its fortunes. Many more of its users may now type in: "How do I delete my Yahoo account?"

will cost them. In July the firm said it would cut production from 27 a year, which is the number at which the plane can be made profitably, to just 12 by 2018. At that rate, Airbus would lose as much as €250m a year on making the planes, says Sandy Morris, an aerospace analyst at Jef-

feries, a bank.

Each of Airbus's problems is manageable by itself because of the firm's sheer size: this year the group is forecast to generate €65 billion in revenues. Airbus now has around half of the global jetliner market, up from 19% in 1995, and its share is expanding. It has received a tenth more orders across its range than its American rival over the past decade.

Mr Enders's next challenge will be margins. The firm's run of problems pose a threat to slim profits of around €2 billion a year. In the 2000s Airbus's government shareholders often saw propping up local plants as more important than profits. It now returns the cost of capital invested in it; but there is still a way to go. "They now not only need to deliver their planes on time—but their profits too," chides one adviser to Airbus's management. Mr Enders has weakened the influence of state investors in his efforts to make Airbus a more normal company. Private shareholders are likely to be harder to please. ■



The A380 rarely flies economy



Corporate campaigning

Techno parties

For technology giants, it's not just about the next big thing

CAMPAIGNING is no longer the preserve of big organisations like political parties and trade unions. Online platforms have given voice to individuals around the world and increasingly, the firms behind those platforms are taking activist positions of their own. Facebook's founder, Mark Zuckerberg, is on a mission "to connect the world". Apple's boss, Tim Cook, has vigorously defended customers' privacy rights. This week the campaigning side of two other technology giants was on display.

On October 3rd Microsoft published a book that could easily be mistaken for a manifesto. Entitled "A Cloud for Global Good", the 200-page volume offers no fewer than 78 "public-policy recommendations" in 15 "categories", ranging from protecting privacy to preventing cybercrime. Most intriguing, Microsoft wants the computing clouds to be inclusive. They shouldn't just benefit the rich and the able, says the firm. As income inequality widens, the book notes, "there are very real concerns about who will benefit."

The next day 170,000 people descended on San Francisco to attend Dreamforce, a shindig organised by Salesforce, a big provider of online business services. It is mainly a gathering for customers and developers but also has the air of a music festival cum party congress: it featured U2, a rock band, numerous Buddhist monks and a socially minded speech by the firm's chief executive, Marc Benioff. He has long been one of Silicon Valley's most generous philanthropists, but more recently has become a vocal advocate of various causes, including gay and transgender rights.

Some of this is a product of personality. Mr Benioff always wanted his firm to be more than a mere moneymaker (perhaps a reaction to his time at Oracle, a hyper-focused, no-fun software giant). Satya Nadella, Microsoft's boss (pictured), is a particularly avid reader. Brad Smith, the firm's chief legal officer, is of an activist bent.

But tech firms' power means they also need to confront political issues. Some, such as Facebook, have more monthly users than the populations of the world's biggest countries. Their products are penetrating—and "disrupting", in the lingo—every nook and cranny not just of business, but society as a whole. They need to win people's trust if they don't want to become the target of a backlash. "We really need to think about public policy that connects technology with inclusive growth," says Mr Smith.

He was the force behind the book, as well as a recent case Microsoft won against the American government. It wanted the firm to turn over the e-mails of a suspect in a drug investigation, which were housed in a data centre in Ireland. If allowed, Microsoft says, such extraterritorial data grabs would make it difficult to resist orders from non-democratic governments.

Big tech's political awakening only goes so far. Mr Benioff's real goal is annual revenues of \$20 billion. A full-price Dreamforce ticket costs no less than \$1,799. As for Microsoft, at its book launch in Dublin Mr Nadella first gave a full rundown of the firm's main commercial offers. Still, tech giants seem to have realised that they must think about more than just churning out their next hit products. ■

Discount retailing

A yen for cheapness

HIROSHIMA

Can Japan's biggest ¥100 chain continue its winning streak?

IT HAS become a staple story in the local American press: a Daiso store opening near you. Last month it was the turn of Plano, Texas, to get a branch of the Japanese chain of shops where everything costs ¥100. (In America it actually charges \$1.50 per item, giving it a premium over the current exchange rate of 97 cents per ¥100.) The Plano store is the second of 44 shops planned for the state. To date California has 49 branches.

America is far from alone. As well as its 3,000-odd stores in Japan, Daiso has 1,500-plus outlets abroad. Its bargain range of products, from value-for-money bags to Japanese "kawaii" or "cute" figures, are sold around the world, from countries in Latin America to the Gulf states and throughout the rest of Asia. (As yet there are no ¥100 stores in Europe.)

This roll-out is orchestrated from a headquarters in the eastern suburbs of Hiroshima. The building looks bland from the outside. But its interior is decked out in Daiso's trademark pink. One floor is abuzz with buyers examining packs of wet wipes and plastic toys; tables are scattered with everything from children's stickers to fancy-dress outfits. By the standards of disciplined Japanese business, Hirotake Yano, who started the company in 1977, is unusually open to experimentation. He says he is not a "cool" or "modern" manager; his gut feeling guides most decisions. "I don't have any clear vision or strategy," he says. "I just like to try things out."

So far that has worked. Daiso dominates what analysts reckon is a ¥600-800 billion (\$5.8 billion-7.7 billion) market in Japan, and is the only ¥100 chain to have expanded abroad. Company revenue was ¥396 billion in 2015; this year Kantar Retail, a consulting firm, projects that will grow by over 6%. Daiso's signature flat price is reliably attractive to Japanese consumers worried about their country's economic woes. The most popular items are batteries and small household goods. Japan's convenience stores, such as Lawson, a giant with over 12,500 stores at home, are trying to edge into the market with low-price ranges.

Similarly, Daiso's initial expansion in America coincided with the 2007-08 financial crisis and subsequent recession. But affordability is not the only ingredient in Daiso's success. "Daiso's store experience is unique at a time when shoppers are becoming bored with constant price wars," ►



Best-sellers from Tokyo to Texas

► says Sara Altukhaim, an analyst with Kantar Retail.

At home Daiso has far outstripped its Japanese competitors, including Seria, Watts and Can Do. Initial success has allowed it to build superior scale—it sells 50,000 items compared with Seria's 20,000, and its network of stores and warehouses is far larger. Not that rivals have given up. Kosuke Narikiyo, an analyst with Nomura, a Japanese securities company, says Seria has eaten some of Daiso's market share by making its stores cleaner in design and more spotless, and by using cal-

mer colours such as light green. Takahiro Kazahaya, an analyst with Deutsche Bank in Tokyo, says Seria's profit margin is now higher than Daiso's.

Seria's boss, Eiji Kawai, says Seria's use of data on purchases explains the difference in margins as well as ranges. It eliminates 600 items that sell badly every month, and replaces them with new ones. Daiso, by contrast, holds no truck with big data and rarely looks at figures. "We don't like to take focus away from the basics of more stores and products," says Mr Yano. For him just one number—¥100—counts. ■

streaming services, they are the ones shaping the future. If Spotify acquires SoundCloud, a mostly free service that claims to have 175m monthly listeners, its position would be stronger still. Last month Daniel Ek, the co-founder and chief executive of Spotify, tweeted that his company had surpassed 40m subscribers—adding 20m since June 2015, as many as it had acquired in its first seven years in operation. Spotify reached this milestone despite intense competition from Apple Music, which has won 17m subscribers since its start in 2015. The smaller firm hands over close to 70% of its revenues to the music business in royalties, says an industry executive.

Hogging the mic

Indeed, peel back the figures and the industry's reliance on Spotify and Apple's paid services becomes even clearer. The number of subscribers to all others combined shrank slightly—from 31m to 30.5m—in the year after Apple launched its service, notes MIDIA Research, a London-based consulting firm. Artist-backed services such as Tidal, which is co-owned by Jay Z and other performers, and which claims 4.2m subscribers, aren't getting anywhere.

As a result, music companies are keenly watching what Apple Music and Spotify might do next. The industry remains nervous of Apple, since its size and multiple lines of activity may at some point allow it to force down royalty payments. In other words, the music industry knows that it needs Apple more than the other way around. Spotify, on the other hand, is a loss-making firm with only one string to its bow. Record labels have their niggles about Spotify but are eager for it to succeed.

The change in attitude is striking. Once the *bête noir* of the industry for not paying recording labels enough in royalties, Spotify is fast becoming their most reliable moneymaker. The firm recently disclosed that it has paid \$5 billion to the music industry to date. Apple, once vilified for decimating album sales with iTunes, is the second-biggest earner. If the music industry is singing a new and catchier tune, it has some erstwhile enemies to thank. ■

The music business

Change of tune

NEW YORK

Once enemies of record labels, Spotify and Apple are now spinning profits for them

IT WAS an eventful summer in the business of streaming music. Taylor Swift and other artists attacked YouTube over rampant free streaming. Frank Ocean and Katy Perry cut exclusive deals with Apple Music, to the dismay of executives at Spotify, a Swedish rival. Behind the scenes, Pandora, a radio-like service, and Amazon, an e-commerce giant, stepped up their efforts to take on Spotify and Apple. Then last month Spotify began talks to buy SoundCloud, another streaming firm.

All this drama obscures two emerging realities. The first is that subscription streaming is now the future of the music business. The industry suffered a catastrophic collapse in sales from 1999 onwards before beginning to recover last year. Selling music to own, whether via iTunes downloads or CDs, is still a declining business globally.

But American record labels and music

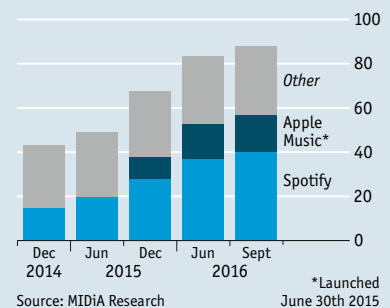
publishers are now on track for a second consecutive year of growth. Recent reports on sales of music from Europe, where some countries are experiencing double-digit increases in revenues, suggest that the recovery will also continue in other parts of the world.

Most of that rebound is due to growth in subscription-streaming revenues. In the first half of 2016 subscription streaming in America reached a retail value of \$1 billion, up by over \$500m in just one year, putting it on a par with digital downloads. Retail revenues from radio-like services such as Pandora, and from ad-supported on-demand streaming such as YouTube and Spotify's free service are faring much less well—they grew in America by less than a tenth, to \$600m.

The second reality is that since Spotify and Apple have close to two-thirds of the world's nearly 90m paying subscribers to

Hitting the right notes

Paid music-streaming subscriptions
Worldwide, m



Management horizons

Quick and dirty

NEW YORK

Are companies too short-termist?

THERE are 68,000 firms listed around the world, most of which have little in common. Yet one thing unites bosses from Shanghai to San Francisco—the sense that capitalism has become too hyperactive, forcing them to take ever shorter-term decisions at the expense of their owners and of society. It's as close to received wisdom as you can get in business. On September 28th a body called Focusing Capital on the Long Term (FCLT) announced its board of directors, now devoted to fighting myopia among investors and managers. Some mighty names have signed up, including BlackRock, the largest fund manager, and Unilever, a consumer-products firm.

The new body's biggest challenge is proving that short-termism is a problem. Of the two main bits of evidence, one is circumstantial. It seems horribly frenetic that the average holding period for a share in America is only 200 days, mainly because of computerised trading. The other is subjective—managers' perception that they are harried. In a study commissioned by FCLT of 1,000 executives around the world, 51% felt under most pressure to deliver financial results within a year or less. Rather than take the long view, they feel obliged to cut costs, massage quarterly profits and buy back shares.

A clear-cut case? Not really. Corporate investment in America has been sluggish in the last year, but at 13% of GDP, its level is in line with its post-1945 average. Firms are buying back shares because profits are so high rather than because investment is so low. It is healthy for investors to force mature firms to penny-pinch—however much their bosses grumble—and redirect funds to growing companies. The same American system that is accused of short-termism has poured capital into Tesla and Uber, two highly valued firms that are years from breaking even.

Nor is short-termism a particularly helpful lens through which to view the world. The country with the most hyperactive capital markets, America, has the rich world's best-performing big economy and its firms are more dominant than ever. Places with lower-tempo corporate cultures, such as Japan and much of Europe are performing less well. Trying to classify companies based on whether they take the long view can also throw up unexpected results. A newish index created by Standard & Poor's, a rating agency, that claims to track firms with a particularly long-term

Martial arts in Asia

Bloodsport, hold the blood

SINGAPORE

The rapid rise of ONE Championship, an Asian sports league

CONOR MCGREGOR, an Irishman who is perhaps the world's most famous mixed-martial arts (MMA) fighter, is as famous for his mouth as for his quick feet and hands. He boasts about how much more money he makes than his opponents. He has referred to other fighters as “twerp” and “snake”.

The co-founder of ONE Championship—an MMA league stealing a march in Asia on Mr McGregor's American-based league, Ultimate Fighting Championship (UFC)—is disdainful of such behaviour. Martial arts, insists its founder, Chatri Sityodtong, who is Thai-American, is about discipline and humility, not brashness. Most of a fighter's work, after all, takes place outside the ring. Promotional videos for ONE's fighters tend to depict them training rather than fighting. The point, says Mr Sityodtong, is to inspire viewers to achieve their dreams in their own lives, rather than just getting them to cheer the biggest bully on

the block.

ONE has pursued a policy that might be described as “hyperlocalism”. Western sports properties, such as the English Premier League (EPL), a football championship, seek to sell their brands transnationally in Asia. ONE builds up local fighters in each market. In May Angela Lee, a 19-year-old Canadian-American of Singaporean descent (pictured, upside down) won the atomweight championship in Singapore. In December the men's heavyweight champion, Brandon Vera, a tattooed Filipino-American with a gentle manner and dangerously quick leg work, will defend his title in Manila.

Asian viewers clearly like the approach. Since its launch only five years ago, ONE has grown rapidly, with events held in 11 countries and televised in at least 100 more. The footprint in Asia of UFC, which was bought by an American talent agency, WME-IMG, in July for a whopping \$4 billion, meanwhile, has shrunk. In 2014 UFC held four events in Asia; this year just one.

Victor Cui, ONE's other founder, who is Canadian-Filipino-Chinese, believes the league's success stems from its fealty to “Asian values”. “We're different in Asia,” he says. “Western sports seem to encourage disrespect, breaking of the rules, arrogance [and] finding the most undisciplined, fastest route to fame.” Some will roll their eyes at such clichés, and point to another explanation. The main reason why no pan-Asian sports league has flourished is that sport is fragmented: South Asians play cricket but East Asians do not, while the reverse is true of basketball. That is why local talent in these sports dreams of heading for the likes of the EPL and their deeper pockets, not being stars at home. But ONE may be able to keep hometown fighting talent from heading West. As Mr Sityodtong points out, Asia has been the home of martial arts for a mere 5,000 years.



Oh so gentle

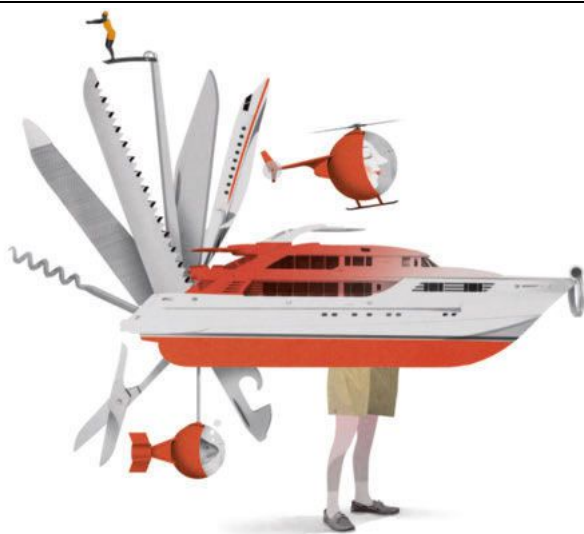
focus has three of its ten largest holdings in cigarette firms, which may outlive their customers for all the wrong reasons.

The risk for FCLT is that it ends up entrenching the power of incumbent executives. Better to focus on a different goal, which is prodding passive asset managers to communicate more with companies. Such managers have grown quickly and now own 10-20% of most big listed companies in the West. Because they buy and hold every share in an index they are stable

owners, but so far they have tended to keep schtum on how firms are run, risking a vacuum in governance. Larry Fink, the boss of BlackRock (which runs mostly passive funds), is a commendable exception. More should follow his lead. Trying to stipulate the optimal period over which decisions are made is a waste of time. Instead it is the continual tension between the short term and the long term, and between engaged owners and talented managers, that makes capitalism tick. ■

Schumpeter | Peacocks of the sea

A glimpse inside the world of the superyacht owner



THE Monaco Yacht Show, which ran from September 28th to October 1st, is arguably the world's most extravagant game of one-upmanship. This year more visitors than ever—34,500—came to gawp at 125 superyachts with a collective value of \$2.7 billion, tied up in the principality's Port Hercules. But the yachts were only the beginning. Monaco is essentially a bazaar for the 0.1%: everywhere you look there are hawkers in pop-up tents trying to sell things that you never knew you needed. There were submersibles that can take six people to the bottom of the ocean; armour-plated Land Rovers; jet-skis and 3D goggles; military-style helicopters and flying boats. Among the variety of servants for hire were armed guards and on-board DJs.

In this world, size counts for a lot. The bit of the yacht industry that has recovered most strongly since the financial crisis is the "monster yacht" segment. The Superyacht Intelligence Agency says 62 yachts of 70 metres plus were delivered in 2011-16. Another 59 are under construction, despite the fact that some of the usual big spenders have pulled in their horns a bit. The decline in the oil price has hit both Middle Easterners and Russians; the latter have also been hit by economic sanctions. The biggest spenders now are the Americans, who account for a third of the market, and the British, who account for a tenth.

Extravagant toys are the other obvious signifier of status at sea. Now that helicopters and on-board swimming pools are taken for granted, the battle has moved onto new ground. The hottest fashion is for "support vessels". Why load down your 150 metre yacht with toys when you can put them on a smaller support ship and have them provided to you on demand? One ancillary vessel in Monaco displayed a typical collection of must-haves: a Vespa scooter, a speedboat, diving equipment, water- and jet-skis. They are particularly useful for transporting your very own submersible. (Nothing, it turns out, splits the superyacht world like the debate over the merits of round submarines that are shaped like pods versus long submarines that resemble cigars.)

Getting the most out of your yacht doesn't just mean adding more deck space. Boat owners are learning how to squeeze more out of existing resources. They convert their helipads into squash courts by day and into cinemas by night. They are also investing heavily in the virtual world. The idea of getting away from it all

doesn't encompass getting away from broadband: even sailing boats come with ugly-looking radar dishes. JStar, an American startup, offers a voice-command system so you can bark orders at your smart yacht just as you command your smarthome.

Such conspicuous consumption makes sense of a sort. Many ultra-rich people want to display their wealth in a way that even the most ignorant oaf can understand. But they also want to be able to retreat into their private empires. You can display your yacht in a way that you can't show off your house or hotel suite, because there is always the option of weighing anchor and taking it into the middle of the ocean where you don't have to socialise with anybody except the glitterati. Superyacht owners are always dropping in on each other as they criss-cross the seas, to compare not just their vessels but also their guest lists.

But there are plenty of more subtle ways to outdo fellow yachts. The sailing crowd (who tend to be old European or New England money) look down on the motorised lot. Some boat makers emphasise simplicity rather than bling: one says you want your yacht to be a floating beach house rather than a floating Versailles palace. There is also a pronounced fashion for old-style adventure rather than just playing with the jet-skis. A new generation of superyacht-owners want to make passage for far-flung places such as the northernmost Norwegian fjords or even to Antarctica. Young tech entrepreneurs, in particular, are more interested in chalking up experiences than piling up possessions.

Whatever the buyers' motivations, a thriving business has resulted. When the Monaco Yacht Show started in 1991 there were just 1,147 superyachts (that is, yachts longer than 30 metres) in the global superyacht fleet. Today there are 4,473, with another 473 under construction. Warsash Superyacht Academy, which trains people to work on boats, calculates that the industry has an annual turnover of €24 billion (\$26.9 billion) and employs around 150,000 people. The industry not only includes those who make the boats, outfit them, staff them and insure them. One company, DYT Yacht Transport, even boasts the world's first purpose-built yacht motor vessel to carry yachts to the Caribbean and other typical hangouts round the world.

Not your average gin palace

A few of the more reflective superyachties worry about whether the industry can continue to prosper in the rising tide of populism. It doesn't help, for example, that Sir Philip Green, a vilified former owner of British Home Stores, a bankrupt retailer, possesses one of the world's biggest yachts, the 90-metre *Lionheart* (his third). The working super-rich do allow yachting prestige to trickle down a bit. Boats need to be kept shipshape all year round and the running costs are high. When they are not using them, they are happy to sell time on their yachts to the slightly down-market rental crowd. But it's not exactly redistribution.

The industry easily recovered from the financial crisis. Owners are always trading up to something better (the average length of ownership is three years). By constantly displaying their boats and looking at other peoples', they ensure that the market remains dynamic. Yachtbrokers resell boats; interior designers adjust them to new owners; and glossy magazines sell their virtues to potential new owners and renters. For pristine yachts, there are still underexploited markets such as Asia. The first generation of Asian billionaires have been too busy making money to hear the call of the ocean. But it cannot be long before their Western-educated heirs start adding yacht shows to their social calendars. ■



Banking in Europe

Autumn blues

Worried about Deutsche Bank? Alas, there's little to cheer elsewhere

QUEASY calm is unpleasant, but it beats sickening panic. Late on September 29th Deutsche Bank's share price lurched downwards again, to a 34-year low, after Bloomberg reported that "about ten" hedge funds had switched some business away from the troubled German lender. That capped a stomach-churning fortnight, after America's Department of Justice (DOJ) requested \$14 billion to settle claims that Deutsche mis-sold residential mortgage-backed securities (RMBSs) before the financial crisis. Hopes that it might settle with the DOJ for \$5 billion-odd, though so far unfulfilled, have since brought uneasy respite. On October 5th Deutsche's shares were some 20% above their nadir.

A swift, affordable agreement would end uncertainty about the bill and quieten chatter, pooh-poohed by government and bank, that the German state might have to prop up the country's biggest lender. It would also buy breathing space. Despite the recent rally, Deutsche's shares are down by more than half this year. Deutsche has a thinner capital cushion than other leading European banks (see chart). It may yet have to ask investors for money, although it says not: it plans to sell assets and has begun an overdue restructuring. But the last thing it wants (apart from the shame of a bail-out) is to go begging now. The DOJ might merely pocket the proceeds.

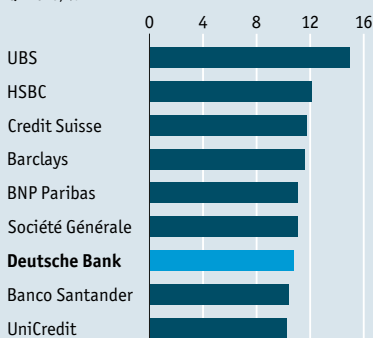
Simply put, Deutsche's basic problem is that it is hard to see where profits will come

from. Investment banking is subdued worldwide, and once-buccaneering Deutsche is losing out to American banks. Worse, unlike the Americans, it lacks a domestic stronghold. It is only a bit-part player in German retail banking (and intends to sell Postbank, which it bought in 2008-10). In a land of 1,750 lenders, mostly local public-sector banks or co-operatives, pickings are slim. Commerzbank, its biggest local rival, is shedding 9,600 jobs (see next page).

Some of Deutsche's difficulties are its own, or shared only with a few other big European banks. The DOJ is also chasing Barclays, Credit Suisse, HSBC, the Royal Bank of Scotland and UBS over RMBSs. But

An adequate sufficiency?

Common equity tier-1 capital ratio
Q2 2016, %



Source: Company reports

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in its struggle for profitability, Deutsche is far from alone. Especially in the euro area, lenders large and small are suffering.

A prime reason is the currency zone's slow growth, coupled with ultra-low interest rates—the product of desperate efforts to goose inflation by the European Central Bank (ECB)—and a flat yield curve. That has squeezed the margin between borrowing and lending rates: although the ECB has pushed its deposit rates below zero, few banks have dared do likewise. ECB officials argue that their policy has aided banks, because rising bond prices and improved credit quality have offset the crush on margins and cheap money has stimulated lending. Bankers beg to differ.

So far, says Stuart Graham of Autonomus, a research firm, the effects of negative interest rates on banks' already sagging profitability are hard to pinpoint. But lenders are in for a lot more pain. The degree of tenderness varies from country to country. Simpler retail banks, relying on deposits for funds and on loans for revenue, notably in Germany and Italy, are most vulnerable (regional banks in Japan, where rates are also negative, are in a similar boat). Mr Graham reckons that the return on equity of German savings banks will fade from 6.5% to just 2% by 2021. Italian and Spanish banks' hefty bad debts mean they cannot benefit from the low loan-loss provisions implied by ultra-low rates.

Nevertheless, if blessed by stronger growth and equipped with better business models, banks can withstand negative rates. Swedish banks, notes Mr Graham, returned 11% last year and Swiss cantonal banks managed 9.9%; in some euro-zone countries returns were below 2%. The Swedes and Swiss depend less on net interest income or deposit funding than do German or Japanese local lenders. According to S&P Global Market Intelligence, Swedish ►►

► banks boast a cost-income ratio of 46%, against Germany's 72% and Italy's 67%.

Some countries have made extensive post-crisis repairs to tattered banking systems. In Spain, where savings banks were bailed out in 2012 and lenders have set aside billions to cover bad debts, non-performing loans have fallen from 13.6% of the total in 2013 to 9.4%. The number of bank branches has been cut by one-third since 2008. A pickup of GDP growth to 3.2% last year also helped. But profitability remains a worry, in part because Spain's biggest banks rely more on interest margins and less on fees than the euro-zone average.

Elsewhere, restoration has further to go. In Italy, bankers led by J.P. Morgan are trying to save Monte dei Paschi di Siena, the country's third-biggest bank and the

world's oldest. The plan involves hiving off €27.7 billion-worth (\$31 billion) of bad loans (gross) into a separate entity, and injecting new equity into the cleaned-out bank. UniCredit, the biggest bank, is reviewing its strategy under a new boss. Atlante, a private fund financed by banks, insurers and others, has taken over two small ailing banks and will also buy bad loans.

Bankers grumble about regulation as well as low interest rates. Italian complaints may be loudest of all. First, whereas Germany, Spain and others gave banks oodles of state money after the crisis, Italy supplied just a drop. But the economy stagnated and the bad-loan burden grew; meanwhile, European Union rules on state aid were tightened, obliging Italy to rely on private rescues. Second, Italian bankers

reckon that a reform of co-operative banks, turning them into joint-stock companies, should have sparked a merger wave. But they say the ECB's tardiness in approving the union of Banco Popolare and Banca Popolare di Milano, to which it eventually gave the nod last month, has deterred other potential deals. And the takeover of four small, troubled banks salvaged by the state last year is reportedly being held up as the ECB insists that the buyer of three of them, UBI Banca, raise €600m in extra capital.

Continuing demands for capital are another general gripe. Few dispute that banks were too thinly capitalised before the crisis. Had today's definitions been used in 2007, reckons Mr Graham, Deutsche Bank's ratio of common equity to risk-weighted assets (an important gauge of resilience) would have been just 1.8%. Now it is 10.8%; regulators want 12.25% by 2019; Deutsche's own target is 12.5% by 2018. But more changes are coming, which some European banks think too burdensome.

Yet banks protest too much. Between 2007 and 2015, calculates Hyun Song Shin of the Bank for International Settlements, 90 euro-zone banks paid dividends of €223 billion, retaining earnings of just €348 billion. Had they kept that money, their capital cushions could in theory have been bolstered by 64%. And since stronger banks tend to lend more, Mr Shin adds, profits, earnings and capital would have been even higher. Doubtless these are hard times for Europe's banks. But many might have made life easier for themselves. ■

The yuan in the SDR

From base to gold

SHANGHAI

The IMF gives its blessing to China's controlled currency

WHEN Marco Polo travelled to China in the 13th century, he found that among its wonders was "the secret of the alchemists". Its imperial court could turn mulberry bark into money. It simply printed paper notes, decreed that people must accept them and killed counterfeiters. For a Venetian used to gold coins, the world's first fiat currency was a marvel. Its value derived not from precious metal but from the credibility of the regime issuing it. This month China achieved another kind of monetary alchemy: to fashion a global reserve currency out of one that, by a range of criteria, does not yet merit such status.

On October 1st the yuan became the fifth entrant in the basket of currencies that forms the Special Drawing Right, a reserve asset created by the IMF. Immediate implications are limited. SDRs are a unit of ac- ►►

European banking jobs

Career breaks

A grim new world, one with fewer bankers

FRANK LLOYD WRIGHT quipped that "the modern city is a place for banking and prostitution and very little else." Little did the early 20th-century architect know how banks would flourish, hoovering up much of the world's talent by the early 2000s. But this golden age is ending: bankers' jobs are at risk from the digital revolution on the one hand, and falling profits on the other.

Nowhere have bankers fallen from grace with such a bump as in Europe. This week ING, the Netherlands' largest bank, announced that up to 7,000 jobs would be cut in the next five years. Commerzbank, Germany's second-largest bank, had already reported it would cut its workforce by 9,600, nearly a fifth.

Across Europe, bankers are packing up. In Britain more than 10% of bank jobs

were cut between 2011 and 2015; in Germany the workforce has shrunk by around 20% since 2001. Since the start of the year Credit Suisse has got rid of nearly 5,000 jobs and Barclays has shed 13,000. In Spain Banco Popular is cutting about one-fifth of jobs. "Desperate times call for desperate measures," notes Naeem Aslam, of Thinkmarkets, a broker. With today's low interest rates, slow growth and rising regulatory costs, it is much harder for banks to be profitable.

In such a choppy environment, costs are one of the few things a bank can control and these come primarily from the workforce. By cutting headcount and branches, frugal Scandinavian banks have brought their cost-to-income ratio, a measure of efficiency, down to the mid-40s. The European average is around 60%. But at Commerzbank the ratio is 79% and at Deutsche Bank 89%.

Brexit complicates matters further. A report this week by Oliver Wyman, a consultancy, estimated Britain might lose 35,000 jobs in financial services. Thorsten Beck of Cass Business School in London thinks some jobs will move to the euro zone. But others might be gone for good because of rigid labour laws and because some might be less worthwhile inside the euro area than in London.

Young people have heard enough: whereas in 2007 around 28% of MBA graduates from INSEAD, a European business school, chose a career in finance, last year only 15% did. Within that group fewer are opting for investment banking. That is good news for talent scouts at tech companies; bad news for tailors of bespoke pinstripe suits.



count, not a real currency; inclusion in the basket does not force anyone to acquire the yuan. Symbolically, though, it is a big deal: the IMF's seal of approval for China's monetary system. It has deemed it safe for central banks around the world to add the yuan to their reserves. Dozens of central banks in fact already do so, with about 1% of global reserves now held in yuan. SDR status should add momentum.

This is a remarkable achievement for China. Typically, reserve currencies are issued by countries that have large economies, flexible exchange rates, open capital accounts and deep financial markets. Chi-

na certainly meets the first requirement of size, but the others are works in progress. Nevertheless, the IMF judged that China had done enough to make the yuan usable, notably by opening its bond market to foreign institutions and shifting to a slightly more market-oriented exchange rate.

In "Gaining Currency", a book about the yuan's rise, Eswar Prasad of Cornell University looks at China's tactics. A series of careful initiatives—trade invoicing, overseas loans and swaps with other countries—have nudged the yuan into global markets. It now accounts for about 2% of global cross-border payments, up from vir-

tually zero five years ago, making it the fifth-most used currency.

Unquestionably, politics also played a part in the decision. China had lobbied for SDR inclusion. It was a way for the IMF to acknowledge its real, if gradual, progress in financial reforms. There was also an element of anticipation: should China continue on its development path, the yuan's global importance is sure to increase.

The irony of the yuan's ascendancy in the IMF's books is that it comes after a year when, for the market, the Chinese currency was on the decline. A small devaluation of the yuan in August 2015, partly to make it

Buttonwood | An emerging threat

Investors are buying emerging-market bonds as the fundamentals are deteriorating

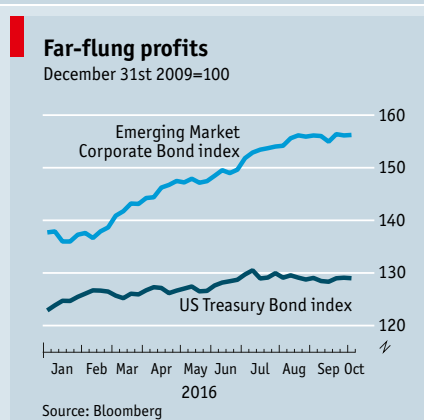
WHEN the returns on cash and government bonds in the developed world are zero, or even negative, it is hardly surprising that investors are casting their nets more widely. In the process the "search for yield", as it has been called, has inevitably turned its attention to emerging markets.

One or two decades ago, emerging-market sovereign debt might have been the only beneficiary of these flows. But government bonds do not offer such a juicy return these days; the yields on ten-year bonds issued by Malaysia and the Philippines, for example, are around 3.6%.

As a result, investors are taking a big extra risk and piling into emerging-market corporate debt. So far this year bond funds in that sector have received inflows of \$11.5 billion, according to HSBC. Their enthusiasm has been rewarded. Bloomberg's emerging-market corporate-bond index has returned 13.4% since January 1st, compared with a return of just 4.4% from American Treasury bonds (see chart). This rally has occurred despite early-year wobbles about the strength of the Chinese economy and the impact of higher American interest rates.

The improved performance of emerging-market bonds reflects, in part, greater economic optimism. Commodity prices have rebounded since the start of the year—good news for raw-materials producers. The IMF has just revised its forecast for emerging-economy growth this year to 4.2%, the first acceleration in growth in six years; it expects even-faster growth of 4.6% next year. It is not just emerging-market corporate bonds that have rallied as a result; so have equities and currencies.

But investors need to be careful. Just as they are piling into this asset class, its credit fundamentals are deteriorating. In 2015,



26 emerging-market issuers defaulted, compared with 15 in 2014. That took the default rate on speculative debt up to 3.1%, the highest rate since 2009, according to Standard & Poor's (S&P), a rating agency. Already this year another 18 emerging corporates have defaulted, taking the trailing 12-month default rate up to 3.7%.

Although the downturn is gathering pace, that default rate has moved only just over the historic mean of 3.5%. However, that backward-looking number was boosted by a high level of failures around the turn of the century. The highest-ever default rate (17.6%) was recorded back in 2002.

More defaults are probably on the way. More than half of all emerging-market issuers are speculative grade (or "junk" as less polite investors tend to call their bonds). Last year S&P downgraded 290 emerging-market issuers and increased the rating of just 80; another 152 issuers were ranked as having the potential to be downgraded, compared with just 19 that might be upgraded.

When things do go wrong for emerging-market borrowers, it seems to happen faster. On average, the gap between the issue

of a soured bond and its default is 3.6 years in emerging markets, compared with a global mean of 5.8 years.

What might happen to make the fundamentals for emerging-market economies deteriorate even further? The OECD recently warned that "continued weak trade growth, and the sharp slowdown [in trade] in 2015 and 2016, underlines concerns about the robustness of global growth." Citigroup reckons that not since the 1930s has world trade growth been so weak relative to global GDP growth.

Explaining the sluggishness of trade, the OECD points to a "slowdown and reversal of trade liberalisation", along with the "weakening of global value chains"—the relationships between multinational companies in the West and their suppliers in developing economies. Both trends are bad news for the kind of emerging-market companies that have issued bonds.

The rise of populist politicians in the developed world—including the possible election of Donald Trump as America's president next month—could pose an even greater threat to trade growth. A trade war between America and China, as threatened by Mr Trump, would cause a lot of collateral damage.

So eventually investors might find themselves trying to find an exit from an asset class with rapidly deteriorating fundamentals. Unlike holders of bonds in the markets in Europe and Japan, they won't be able to rely on central banks and their quantitative-easing programmes to soak up their unwanted assets. And regulations mean that investment banks are no longer willing to act as marketmakers on the scale that they were before 2008; liquidity will be hard to find. The contours of a future market crisis are already clear.

▶ more flexible, set off a storm of speculation that China wanted a much bigger devaluation to support its slowing economy. Companies and investors bet against the yuan in large numbers. To defend it, China's central bank has tightened capital controls and burnt through nearly \$500 billion of its reserves over the past year.

The gap between the fears and hopes surrounding the yuan can sometimes seem like a chasm. To optimists, it will soon rival the dollar. To pessimists, it is only a matter of time before it resumes its descent. In truth the two are not necessarily contradictory; the dollar is the world's leading currency but it still goes through regular bouts of depreciation.

Yet there is also a big difference between being a reserve currency and being the world's pre-eminent currency. As Mr Prasad argues, China's controlled approach could soon reach its limits. Ultimately, for the yuan really to challenge the dollar, China must win trust as a safe haven for assets. It will not only need deeper, more open financial markets; it will also need an open political system, governed by rule of law. That transition would be alchemy of a different kind. ■

The Green Climate Fund

The green light

GASHORA, RWANDA

A UN climate fund seeks a role

WHEN Vestine Mukeshimana bought electric lights last month from BBOXX, an off-grid solar company, it helped her spot snakes in her garden and stopped thieves making off with her cow. In her Rwandan village she and her neighbours now cook after dark and their children study in the evenings. They have never heard of the Green Climate Fund (GCF), a UN initiative to bring climate finance to developing countries. But last month such household solar schemes became its first disbursed investment.

Understaffed and buffeted by politics, the GCF is struggling to define itself. It started operations last year after coaxing \$10.3 billion from governments. Raising money was hard; spending it is proving even harder. Its board meets on October 12th in Songdo, South Korea, to weigh up proposals. It will also have to mull appointing a new boss. Hélé Cheikhrouhou, the old one, has left, warning that the wrong projects are being financed.

The debate goes to the very purpose of the GCF. It was set up in 2010, part of a pledge to transfer \$100 billion of climate cash a year by 2020. Developing countries



Vestine sees the light

had long lamented that they bear the brunt of climate change, having done little to cause it; the GCF gave them equal board representation and promised that half the money would be used to deal with the impacts of climate change (not just reducing emissions). Rich countries, which pay, wanted a role for the private sector, too.

The talk is of "paradigm shifts". But of the 17 projects approved so far, few are transformational. In June, for instance, the board approved \$49m to plonk more solar panels in a Chilean desert so baked in solar energy that some suppliers had been giving it away. Over 90% of the money is being funnelled through the usual suspects, such as multilateral development banks and UN agencies. Many of them, says one observer, have been pulling old proposals out of drawers. National authorities are puffing to keep up.

Part of the problem is politics. With one eye on future fund-raising, the board has set an ambitious target of approving \$2.5 billion of investment by the end of the year (the total now stands at \$257m). So far it has waved through every proposal put to it, from wastewater management in Fiji to weather-warning systems in Malawi.

A deeper issue is who leads the management of the projects. Rather than running its own, the GCF channels money through "accredited entities". A decision to accredit big commercial banks, Deutsche Bank and HSBC, has stirred controversy. Yet the process stretches the capacity of smaller institutions. The GCF should do more to understand local contexts, says Alex Mulisa, who heads Rwanda's own climate fund. Another developing-country technocrat grumbles "we'll be under water" by the time his project is considered.

But good ideas are out there—like Ms Mukeshimana's solar panels. The GCF is putting \$25m into a fund raised by Acumen, an impact investor, to be invested in

off-grid solar firms in east Africa (it bought equity in BBOXX in August). Private co-financing will magnify the impact and money is put aside for consumer protection, like keeping the lights on if the firm servicing the system goes bust.

Or take a scheme in El Salvador, which will give small businesses greater certainty about investing in energy efficiency, by insuring against the risk that the cost savings are less than promised. By being bolder itself—through offering insurance or partial guarantees—the GCF can reassure private firms nervous of new technologies and unpredictable markets.

If it is to have any point, the GCF must go where the World Bank or private money dare not. It must also sort out its own processes. Beefing up the secretariat is one step; devolving some smaller decisions from board level would help too. The GCF (which turned down *The Economist's* requests for an interview) still has a lot going for it. It is young. It has rare political legitimacy. It has moved further, faster, than other climate funds (like the Adaptation Fund) had at a similar stage.

But now is the moment when precedents are set. "The GCF is under pressure to be everthing to everyone," says Niranjali Amerasinghe of the World Resources Institute, a research organisation. Bankers want to lure investment from pension funds; the World Bank is promoting dam projects; civil-society groups demand "locally driven" development. The GCF cannot give them all a green light. ■

GE quits financial services

Capital punishment

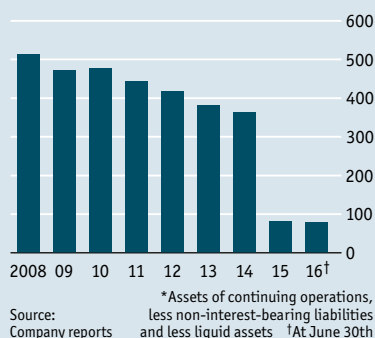
The conglomerate's race to shrink its finance business is not cost free

AMONG the proud titans humiliated in the financial crisis of 2007-08 was GE, forced to take a government bail-out in 2008. In response it swiftly slimmed down its lending arm, GE Capital. But the regulators were still not happy. In 2013 they labelled it a "systemically important financial institution" (SIFI), ie, one big enough to pose a global risk. That imposed costly regulatory burdens and encouraged GE's boss, Jeffrey Immelt, to announce in April 2015 the closure of GE's finance division within three years.

In a remarkable corporate transformation, he is ahead of schedule. The disposal to Wells Fargo this week of GE's global inventory-financing business means that GE has sold \$193 billion of "ending net investment", or ENI (an adjusted asset figure), in the past 18 months, covering more than 25 ▶

Decapitalisation

General Electric's adjusted financial assets*
\$bn



► lending units.

It has taken almost a decade. But GE is, almost, an ex-bank. As Mr Immelt promised last year, it is also much simpler. It shed its SIFI status in June. Lending, in ENI terms, is down by 85% from its peak in 2008 (see chart) and now focuses on its core industrial businesses. Its reliance on short-term funding has fallen by 86%.

GE was clearly right to get out of financial services, which were a drag on the rest of the group. Since the announcement last year, GE's share price has beaten the Dow Jones Industrial Average by about 12 percentage points, largely thanks to the hope it would return "more than \$90 billion" to shareholders during the three-year winding-down period, of which up to \$50 billion will be in the form of share buybacks—one of the most aggressive such programmes in American business.

But this represents a return of capital, not a return on capital. And the price GE has received appears mediocre. It notes that buyers have paid 1.1 times tangible book value for the financial assets that they have acquired. But any resulting gain for GE appears to have been entirely offset by restructuring, tax and other one-off charges incurred in 2015 and this year.

Refocusing on industrial businesses, which account for over 80% of profits, up from 60% in 2008, is expected to raise GE's return on equity. But the main immediate beneficiaries of GE's asset sales seem to be its old financial competitors, which have seen a chance to bulk up. Large banks joined buyers' consortia in roughly three-quarters of the deals. The acquisition of GE's railcar-leasing business by Wells Fargo and Marmon, a Berkshire Hathaway company, almost doubled Wells's fleet, making it the industry leader.

A quarter of the assets sold were nudged out of regulatory reach into the hands of non-bank lenders and private-equity firms. This reduces the concentration of assets in SIFIs but will do little to enhance competition. Blackstone, the world's largest private-equity firm—and, says its boss, its largest owner of property—

Asset management

Active defence

A merger reflects how the fund-management industry is changing

WHEN firms merge, their bosses gush Panglossian jargon. So it was with the tie-up announced this week of Henderson Global Investors, an Anglo-Australian asset manager, and Janus Capital, an American one. Janus Henderson, as the combined business will be known, will become a "truly global" asset manager that will deliver "compelling value creation", boasted its American half. Yet behind the boosterism lie the real fears of active fund managers: of losing business to passive ones—ie, those offering funds that simply track a market index. It is hard not to see the merger as, more than anything, a defensive move.

To be fair, the companies do have a strong business case for merging. Janus is deeply established in America and Japan. It is famous for having in 2014 hired Bill Gross, the "bond king", when he abruptly left Pacific Investment Management Co, PIMCO, the firm he co-founded and turned into a giant. Henderson's sales network is centred on Europe. The firms stand to gain more from selling each other's products in new markets than they will lose from stepping on each other's toes.

Moreover, the combined firm will have around \$320 billion in assets under management. This is enough to propel it into the ranks of the world's 60 largest asset managers, up from 90th place for Janus and 116th for Henderson, according to Willis Towers Watson, a consultancy. The increased size should create economies of scale: they have the ambitious aim of cutting \$110m a year in costs. They also hope the much greater choice the combined firm can offer will help broaden their customer base.

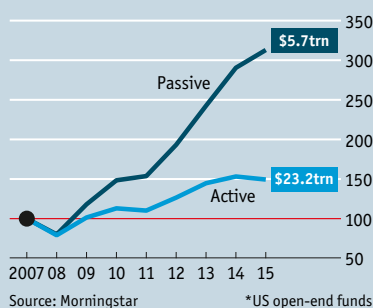
Yet in the background to the merger is the onslaught on active fund managers from research showing they tend not to outperform benchmarks. For example, a recent study by Standard & Poor's, a credit-rating agency, showed that nearly 99% of active managers in American equities underperformed the S&P 500 index over ten years while in Europe, 86% lagged behind their benchmark over the same period.

According to Morningstar, a data provider, since December 2007 passive assets under management have tripled to \$5.7 trillion, while assets in active funds have increased by only 54%, to \$23.2 trillion (see chart). In the first eight months of this year, investors drew down \$166.2 billion from actively managed funds specialising in American equities alone. In contrast, passive funds attracted almost \$110 billion in new investment. Henderson and Janus have not been spared, with both experiencing net outflows in the first half of 2016.

The shareholders of both Janus and Henderson have reacted positively to the deal, with share prices of Janus jumping by 12.2% and Henderson by 16.7% on the day it was announced. If the switch to passive investing continues at such a breakneck pace, other asset managers will surely follow their lead.

Passive aggression

Assets under management*
December 2007=100



acquired global real estate and debt worth about \$25 billion.

Antares Capital, a lender to medium-sized corporate acquirers, dominated its market before it was bought in 2015 by Canada Pension Plan Investment Board (CPPIB) for \$12 billion. Under GE's ownership, Antares was barred for a decade from financing health-care deals, lest it compete with a fellow subsidiary. In CPPIB's portfolio, it expects to expand into health care.

So dismembering a SIFI has unintended consequences. In some cases competition may be sharpened. Goldman Sachs,

an investment bank, recently unveiled Marcus, an online-lending platform, on the back of \$16 billion in deposits purchased from GE. But many lending markets now have one fewer big competitor.

GE's sprawling and once-profitable finance arm was, in the 1980s, a lure to investors. It became a disaster, and Mr Immelt, who took over in 2001, deserves some credit for grappling head-on with the consequences. His new promise—to turn GE into "the world's premier digital industrial company"—is at least unlikely to be such a rollercoaster ride. ■

Free exchange | How the other tenth lives

The world should be both encouraged and embarrassed by the latest global poverty figures

WHAT is the most important number in global economics? Judging by the volume of commentary it excites, America's monthly payrolls report (released on October 7th) might qualify. Other contenders include the oil price or the dollar's exchange rate against the euro, yen or yuan. These numbers all reflect, and affect, the pace of economic activity, with immediate consequences for bond yields, share prices and global prosperity—which is what economics is ultimately all about.

But if global prosperity is the ruling concern of economics, then perhaps a more significant number was released on October 2nd by the World Bank. It reported that 767m people live in extreme poverty, subsisting on less than \$1.90 a day, calculated at purchasing-power parity and 2011 prices. The figure is not up-to-the-minute: such is the difficulty in gathering the data that it is already over two years out of date. Nor did the announcement move any markets. But the number nonetheless matters. It represents the best attempt to measure gains in prosperity among the people most in need of them.

The latest figures should arouse mixed feelings. They are simultaneously a cause for celebration, pity, scepticism and shame. The poverty headcount is worth cheering because it is so much lower than it was. Over the 20 years from 1993 to 2013, the number of poor people fell by over 1 billion, from roughly one in three to about one in ten. Even the global financial crisis did not interrupt this progress (see left-hand chart).

The biggest declines took place, unsurprisingly, in the world's two biggest countries. In India, the number of poor people fell by 218m from 2004 to 2013, according to the World Bank. In China, it fell by more than 320m from 2002 to 2012. These grand human achievements are often taken for granted. The governments in power during these periods (led by Hu Jintao and Wen Jiabao in China and by Sonia Gandhi and Manmohan Singh in India) are commonly described as disappointments, even though half a billion people escaped poverty on their watch. If only the rest of the world's governments could disappoint in a similar fashion.

Yet the World Bank's report is cause for pity as well as celebration. After all, 767m is still a lot of people and \$1.90 is not a lot of money. It is hard to imagine how anyone could subsist on so little. The World Bank's yardstick is based on the poverty lines for 15 dirt-poor countries. Their lines typically calculate an amount of money that would allow a person to eat enough calories, given the national diet and other pressures on their budgets. In Zambia,

for example, a person on the poverty line can afford a daily diet of two-three plates of *nshima* (a maize staple known as mealie meal), a sweet potato, a few spoonfuls of oil, a couple of tea-spoons of sugar, a handful of peanuts and twice a week, a banana or mango and a small serving of meat. Such a person would have just 28% of his budget left over for other things.

As well as pity, the World Bank's global poverty tally should also invite some scepticism. Counting the poor is laborious and treacherous, as the bank freely admits. Fewer than 40 countries actually carried out a new survey of households in 2013, leaving the bank to fill in the gaps with projections. India's last survey was in 2012. China, which replaced separate rural and urban surveys with an integrated survey in 2013, also started including as income the implicit household rent owner-occupiers pay themselves. That switch lowered its poverty count by over 30m.

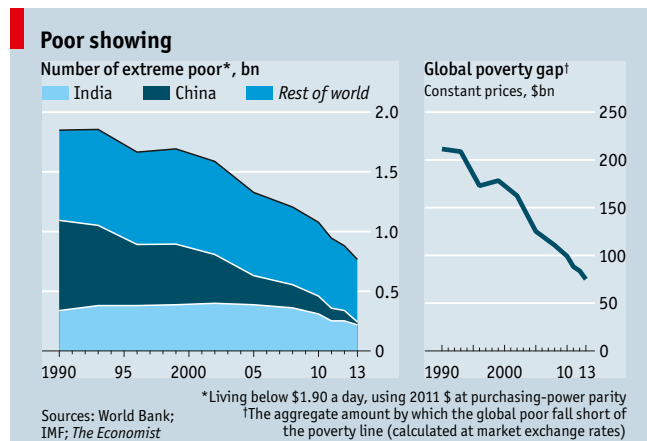
Even innocuous tweaks in survey questions can make a big difference. An experiment in El Salvador, cited by the World Bank's researchers, managed to cut measured poverty by over 30% simply by asking more specific questions. Instead of asking how much was spent on fruit, vegetables and legumes, it asked about plantains, mangoes, green chilies, and so on. Owing to a printing error, a Ugandan survey failed to mention public-transport fares as an example of travel expenses. The error seems to have reduced reported transport spending by over 70%.

One-thousandth for the tenth

The global poverty count should also elicit a kind of embarrassment. As the world economy grows ever more prosperous and sophisticated, the problem of extreme poverty looks less like a tragic inevitability and more like a peculiar anachronism. The average person in extreme poverty lives on \$1.33 per day. It would therefore take just \$0.57 per day to rescue them from this plight. That observation invites a thought experiment. If it were somehow possible to transfer without cost the right amount of money into the right hands, how much would it take to end extreme poverty altogether? The answer is just \$159 billion a year, according to the World Bank, or less than 0.2% of global GDP.

That estimate is calculated at purchasing-power parity. If an actual dollar were transferred to a poor country from America, it would stretch much further, because prices in poor countries tend to be lower (a point made years ago by Surjit Bhalla, an Indian economist, now of Observatory Group, a macroeconomic advisory firm). Taking these lower prices into account, the amount needed to bring all the world's poor up to the poverty line drops to \$78 billion a year, or just 0.1% of global GDP (see right-hand chart). In reality, of course, money cannot be directed so precisely to the poor, nor transferred cost-free. In some countries, the infusion of money might also push up prices and currencies, making the endeavour more expensive. Nonetheless, this thought experiment illuminates the diminishing size of the problem. The world can afford to end poverty. Indeed, it might end poverty before it figures out how to measure it accurately.

If the World Bank's dream of a world free of poverty is ever fulfilled, will the bank then sit back and rest on its laurels? No chance. It has adopted another dream: "shared prosperity", which obliges it to care about the poorest 40% in each country, however rich they may be. Even if extreme poverty is eventually eradicated, the bottom 40% will always be with us. ■





The 2016 Nobel science prizes

Seven tickets to Stockholm

This year's awards go to work on nanotechnology, cellular refuse-recycling mechanisms and the applications of topology

BIGGER is not always better. Anyone who doubts that has only to look at the explosion of computing power which has marked the past half-century. This was made possible by continual shrinkage of the components computers are made from. That success has, in turn, inspired a search for other areas where shrinkage might also yield dividends.

One such, which has been poised delicately between hype and hope since the 1990s, is nanotechnology. What people mean by this term has varied over the years—to the extent that cynics might be forgiven for wondering if it is more than just a fancy rebranding of the word “chemistry”—but nanotechnology did originally have a fairly clear definition. It was the idea that machines with moving parts could be made on a molecular scale. And in recognition of this goal Sweden's Royal Academy of Science this week decided to award this year's Nobel prize for chemistry to three researchers, Jean-Pierre Sauvage, Sir Fraser Stoddart and Bernard Feringa, who have never lost sight of nanotechnology's original objective.

Dr Sauvage's contribution, for which he won a third of the SKr8m (\$930,000) prize money, was to link atoms together in a new and potentially useful way. Conventional molecules are held together by bonds in which electrons from neighbouring atoms

pair up. Sometimes (as in the case of benzene) the result is an atomic ring. Dr Sauvage realised that rings of this sort might then be joined with each other in the way that the links of a metal chain are, to create a “supermolecule” that is held together mechanically rather than by conventional chemical bonds. In 1983 his research group at Strasbourg University, in France, managed to make a supermolecule of this sort and, 11 years later, they demonstrated an arrangement, consisting of two such links, that had special properties. Applying energy to it caused one of the links to rotate around the other, creating a species of molecular motor.

Small is beautiful

Sir Fraser won his third of the prize for work on a similar miniature machine. In 1991 he and his colleagues at Northwestern University in Illinois managed to thread a tiny molecular axle through a ring-shaped molecule. Heating the result caused the ring to slide between the ends of the axle. That produced a molecular shuttle. Since then his group has diversified into other machines, including an atomic-scale lift, artificial muscles and even a simple mechanical computer made of molecule-sized components.

The most desired goal of nanotechnology research, however, has always been a

motor that rotates around an axle, rather than just sliding up and down it. And it was for creating such a device, in 1999, that Dr Feringa will receive his share of the prize. His insight was to work out how to make the ring spin reliably in a single direction—because a motor that might, at random, turn either way when you start it up is not much use. By 2011 his team at Groningen University, in the Netherlands, had grown sufficiently dexterous to make a “nanocar”. This consists of a molecular chassis connected to four wheels which move the car (very slowly) across a surface.

How long it will take to turn any of these inventions into products remains to be seen. Optimists talk of manufacturing molecule-sized machines ranging from drug-delivery devices to miniature computers. Pessimists recall that nanotechnology is a field that has been puffed up repeatedly by both researchers and investors, only to deflate in the face of practical difficulties.

There is, though, reason to hope it will work in the end. This is because, as is often the case with human inventions, Mother Nature has got there first. One way to think of living cells is as assemblies of nanotechnological machines. For example, the enzyme that produces adenosine triphosphate (ATP)—a molecule used in almost all living cells to fuel biochemical reactions—▶

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includes a spinning molecular machine rather like Dr Feringa's invention. This works well. The ATP generators in a human body turn out so much of the stuff that over the course of a day they create almost a body-weight's-worth of it. Do something equivalent commercially, and the hype around nanotechnology might prove itself justified.

How cells eat themselves

Another example of natural nanotechnology is "autophagy" (from the Greek for "self-eating"). This is the system which breaks up and recycles worn-out cellular components. And the Nobel prize for physiology or medicine, awarded by the Karolinska Institute, went to one of the researchers most involved in discovering how autophagy works: Yoshinori Ohsumi of the Tokyo Institute of Technology.

When Dr Ohsumi began his studies biologists did know that autophagy was a two-step process. First, the cellular components to be recycled are enclosed in a fatty membrane, to create a bubblelike vesicle called an autophagosome. Then the autophagosome merges with a second vesicle known as a lysosome. This is filled with digestive enzymes that break up the autophagosome's contents. They did not, though, know the details. In particular, how autophagosomes formed was a mystery. It is for supplying those details that Dr Ohsumi has been awarded his prize.

He began working on the problem in 1988, looking at autophagy in yeast. This is a well-studied organism, often used by biologists to examine fundamental cellular processes. Unfortunately, yeast cells are small. This meant that, to start with, Dr Ohsumi could not easily distinguish the autophagosomes within them under a microscope. He dealt with this difficulty by disabling the manufacture of the lysosomal digestive enzymes. That meant autophagosomes were no longer destroyed, and accumulated to the point where they could be seen and studied.

This work, published in 1992, was the key to the rest—the identification of the genes involved in autophagosome assembly, which in turn led to an understanding of how those vesicles come into being. Here, Dr Ohsumi's choice of yeast paid off. The yeast genome was already well studied when he started his work, and then became one of the first to be elucidated in its entirety as part of the Human Genome Project. By knocking out genes so that they stopped working, and then examining the consequences of their absence, he was able to build up a complete picture of the process by which autophagosomes are assembled. And, though yeast and humans are not closely related, autophagy is such a fundamental cellular process that its course in the two species is more or less the same, so yeast autophagy is a good model

of its human equivalent.

That is important, because Dr Ohsumi's work has wider ramifications than merely illuminating an important piece of cellular housekeeping. It also helps explain how invading pathogens bacteria and viruses are dealt with (such unwelcome guests are gobbled up by autophagosomes), and shines light on diseases, including Parkinson's and some sorts of diabetes, caused when autophagy goes wrong and cellular rubbish accumulates.

Understanding autophagy, then, has important practical consequences. The opposite seems true of the subject of the physics prize, as the panel which announced the winners were the first to admit. The panellists emphasised the beauty of the mathematics underlying the prize-winning work and de-emphasised the practical applications—of which, at the moment, there are none.

The maths in question is topology, a branch of geometry which deals in "invariants", such as holes, that can exist in geometric shapes only in discrete, integer numbers (nothing can have half a hole in it). The prizewinners—David Thouless of the University of Washington, in Seattle, Duncan Haldane of Princeton University, in New Jersey, and Michael Kosterlitz of Brown University, in Providence, Rhode Island—have applied topology to materials science and come up with theoretical explanations about the behaviour of unusual states of matter as a result.

The all-consuming vortex

Intriguingly, all three prizewinners are products of the 20th-century "brain drain" that saw British-born researchers head west to the larger salaries and better laboratories of America. Dr Thouless, who takes home half the prize money, collaborated with Dr Kosterlitz, who shares the other half with Dr Haldane, in the 1970s, when both were still in the old country. The fruit of their collaboration was to overthrow the idea that superconductivity (a phenomenon in which the resistance of an electrical conductor vanishes, usually when it has been cooled to a temperature near absolute zero) could not occur in thin layers of material. It could, according to their calculations, because of the effects of paired vortices within such a layer.

Vortices, a type of hole, are topological invariants. It is the liberation of these vortices to move around as a material warms up which destroys superconductivity. Such liberation is, in effect, a phase change from one state of matter to another, just as the liberation by heat of atoms from a crystal lattice causes a phase change from solid to liquid.

Dr Thouless then went on, after he had moved to America in the early 1980s, to show that stepwise transitions to and from full superconductivity in the presence of a

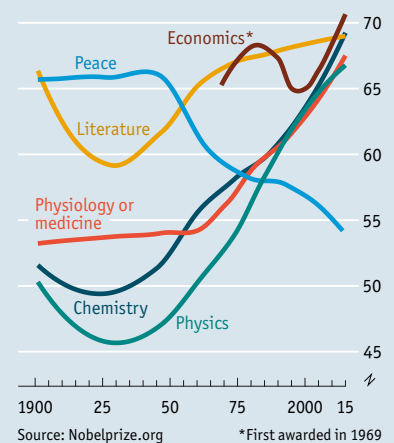
magnetic field (a phenomenon known as the quantum Hall effect) are also a type of topological invariant. And in the late 1980s, after his own transatlantic migration, Dr Haldane showed that magnetic fields need not be involved in the process at all.

Choosing to honour such esoteric stuff this year, in particular, was a surprise to many observers, who had thought the discovery in 2015 of gravitational waves, by an experiment called LIGO, might win. That would have been in the spirit of Alfred Nobel's will, which refers (see box) to his posthumous awards as being for work from the previous year. For whatever reason, however, the great and good of the Royal Academy of Science, who choose the winners of the physics prize as well as that for chemistry, decided to keep ignoring this part of the prizes' founding document. ■

Senescence

Alfred Nobel's fortune should, according to his will, endow "prizes to those who, during the preceding year, shall have conferred the greatest benefit to mankind". But the committees that select the recipients of Nobel prizes often pick discoveries made, or books written, decades earlier. Partly as a result of that, winners' ages have been inching steadily upwards. Since 2000 only 8% of those winning prizes in chemistry, physics and medicine have been under 50. This compares with 36% of those who received awards in those subjects in the 20th century. As of 2015 (the 2016 award had not been made when *The Economist* went to press) no one under 50 has yet won the economics prize—though this is not a real Nobel prize, and is therefore not covered by the will's prescriptions. The peace prize is the lone exception to the trend. Its recipient in 2014, 17-year-old Malala Yousafzai, is the youngest Nobel laureate ever.

Age of Nobel laureates, at date of award
Smooth fitted curve



Cyber-security

The internet of stings

An electronic tsunami crashes down on a solitary journalist

TO A layman, the phrase “Internet of Things” (IoT) probably conjures up a half-fantastic future in which refrigerators monitor their own contents and send orders direct to the grocer when the butter is running out, while tired commuters order baths to be drawn automatically using their smartphones as they approach their houses in their self-driving cars. Actually, though, a version of the IoT is already here. Wi-Fi hubs, smart televisions, digital video-recorders and the like are all part of a network of devices run by microprocessors that, just as much as desktop, laptop and tablet computers, form part of the internet—but with one crucial distinction.



Mr Krebs contemplates life

Unlike things immediately recognisable as computers, these devices are often designed with poor security, or even none at all. They are wide open to malicious hackers who might wish to misuse them. And there are already around 5 billion of them,

according to Cisco, the world's largest computer-networking company, with billions more to come in the years ahead.

One favourite trick of such hackers is the distributed denial of service attack, or DDoS. This temporarily enslaves a number of internet-enabled devices into an arrangement known as a botnet, and then directs this net to send simultaneous requests for attention to a single machine or cluster of machines, thus overwhelming it and making it unusable. Such attacks may be carried out by organised criminals, to hold a firm to ransom; by cyber-savvy countries, as a tool of low-level warfare—or, as in the case of one of the latest attacks, for revenge.

The victim is Brian Krebs (pictured above), an American journalist who often reports on internet criminals, including those who run DDoS-for-hire services, and also those involved in the “dark” markets that trade in stolen identities and credit-card details. In the past, some of the people he has annoyed have sent heroin to his home while alerting the police to the fact they might find the drug there. This time, the very internet itself was turned against him. On September 20th Mr Krebs's web server became the target of one of the largest DDoS attacks ever recorded—between 600 billion and 700 billion bits per second, or almost half a percent of the internet's entire capacity, for hours at a time.

At first, his “network mitigation provider”, a firm called Akamai that was supplying its services to him free, for the general good of the field, was able to ward off these attacks. Eventually, though, it had to surrender. On September 23rd, with his agreement, it cut him loose and he had to shut down until he could make alternative arrangements.

Though Mr Krebs's case is extreme by current standards, there is a risk it will soon become typical. Matthew Prince, the boss of CloudFlare, a firm that helps websites manage heavy traffic and deal with assaults of this sort, says his firm has already ►►

Medical linguistics

Sounds like trouble

How to spot children's speaking and listening problems early

LINGUISTIC disorders of speech or of comprehension are awkward for anyone who suffers from them. For children, who are just beginning to make their way in society, they can be disastrous. Teasing, bullying, lack of friends and poor school performance may all follow from an inability to talk or listen normally. Early intervention and therapy, though, can make a big difference—if diagnosis comes quickly enough.

Often it does not. In America, 60% of such disorders go undiagnosed until a child goes to school. But Jen Gong and John Guttag of the Massachusetts Institute of Technology hope to change that. As they outlined at the Interspeech Conference in San Francisco in September, they have devised a method that, when refined, may yield an automated test which can spot the subtle clues, such as pauses during speech, that indicate a disorder to a professional ear but may not be obvious to parents.

Ms Gong and Dr Guttag, both computer scientists, wondered whether they could teach their machines to distinguish the speech of children with disorders from that of children without them. To this end, they first wrote an algorithm they hoped might do so, and then collaborated with two speech pathologists, Tiffany Hogan and Jordan Green of the MGH Institute of Health Professions, to

test it. Together, the researchers recorded 231 children between the ages of four and 17 retelling a story in their own words while being shown visual prompts. Dr Hogan and Dr Green had previously identified 192 of these children as developing normally in matters linguistic, while 39 had, in the two experts' opinion, a speech or language disorder.

Ms Gong and Dr Guttag then let their algorithm loose on the audio samples. After chewing on the files in question, it noted that many characteristics—including the number of pauses, variations in pause durations, and the ratio between pauses and distinct segments of speech—were useful for detecting the presence of language and speech disorders. Ms Gong reported to the conference that the system was able to detect 72% of the children diagnosed by Ms Hogan and Dr Green as having an impairment. It also had a fairly low false-positive rate, suggesting impairments in only 18% of children not so diagnosed by the two human experts.

Neither of those numbers is good enough for a clinical system, but they provide a starting-point for one. And if such a system were developed, it would easily be translatable into the sort of app parents might routinely use to test their children—and thus receive early warning if something is wrong.

seen a sustained ten-day trillion-bits-per-second DDOS attack—though that was launched by a country (he declined to say which) rather than by a private criminal organisation. Other firms, such as OVH, a French web-hosting service, have also reported attacks of this magnitude.

On September 17th analysts at Flashpoint, Intel's business-security division, announced that they had found a botnet composed of 1m devices, mostly digital video-recorders. And on October 1st the source code for "Mirai", the botnet that attacked Mr Krebs's computer, was released to an internet hackers' forum by a pseudonymous individual. Mirai scans the internet for devices protected by factory-default usernames and passwords (which is often the case for machines that are part of the internet of things, since their owners rarely bother to change these defaults). It then recruits them into the network.

For the perpetrators, DDOS attacks are a perfect example of asymmetrical warfare—cheap to carry out and expensive to prevent. The cost to Mr Krebs's attackers, whoever they were (he has his suspicions, but no proof), would have been negligible even before Mirai's source code was released; a few thousand dollars at most. Now, it is, in effect, zero. Defending against such attacks, though, is by no means cheap. Mr Krebs says he has been quoted rates of \$150,000 to \$200,000 a year for full-time protection. That is a lot of money for a freelance to fork out.

One way around this is to sign up for Project Shield, a programme (free to those accepted for enrolment into it) run by Google and designed to keep independent news organisations online. Google says Project Shield already protects both individual journalists and editorial organisations, including Rafael Marques de Morais, who reports on corruption and politics in Angola, and *El Ciudadano*, a Chilean periodical that promotes social and political reform. Since September 25th it has been protecting Mr Krebs, too—though attacks on his web server continue. CloudFlare offers a similar service, Project Galileo, which protects the American Civil Liberties Union, the Committee to Protect Journalists and others.

Ultimately, however, the answer to DDOS attacks like that perpetrated by Mirai is to build better security into both devices and the networks they are attached to. Edith Ramirez, chairwoman of America's Federal Trade Commission, said as much in January 2015 when she delivered a polite but blistering speech about privacy and security practices at one of the electronic industry's main trade meetings, the Consumer Electronics Show, in Las Vegas. Equally politely, deaf ears were turned. Andy Ellis, Akamai's chief security officer, says network operators could introduce filters that would prevent common illegitimate

traffic from reaching its destination, but the costs and complexities involved mean they do not want to—particularly if their competitors are not forced to bear similar costs.

One answer might be government action, in the form of required security standards, to level the playing-field by making all firms bear the same burden. There is no immediate sign of that happening, but if DDOS attacks in the trillions of bits per second range proliferate, that may change. In the meantime, though, people like Mr Krebs will continue to suffer from what Bruce Schneier, an internet-security guru at IBM, aptly describes as "the democratisation of censorship". ■

Botany

Summoned by screams

The ways plants attract pollinators can be strange indeed

THE botanical kingdom is rife with deceivers. Carrion flowers mimic the smell of rotten meat in order to attract scavenging beetles and flies and then cover them in pollen. Passion vines, beloved by some butterflies as food for their caterpillars, have yellow spots on their leaves that make them look as if they have already had an egg-laying visit from a gravid female. And numerous carnivorous plants lure insects with sweet odours, only to devour them. Now Stefan Dötterl and Anne-



Come into my parlour

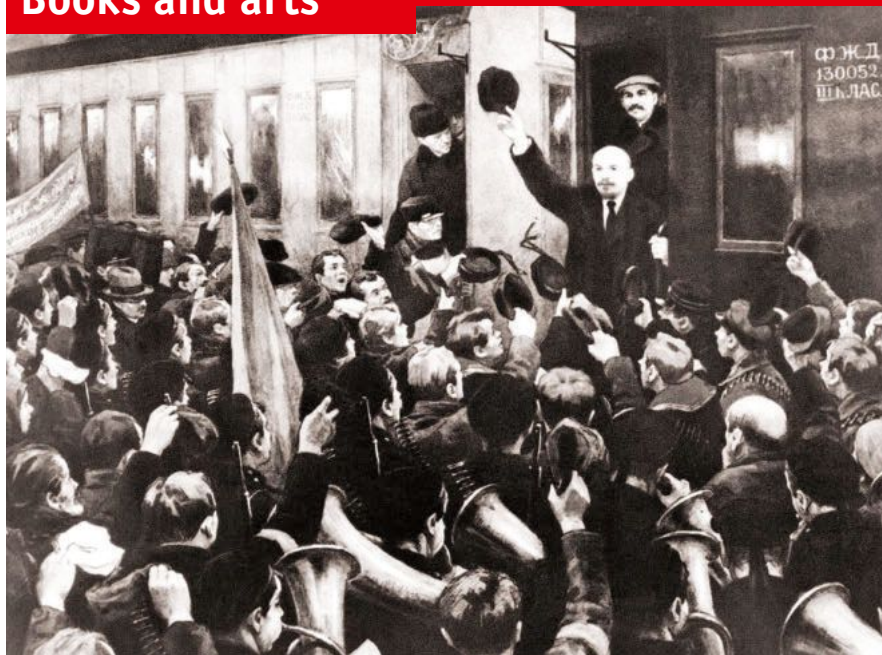
marie Heiduk, of the Universities of Salzburg and Bayreuth respectively, think they have uncovered yet another form of deception. As they describe in *Current Biology*, a vegetable called the parachute plant uses chemical signals to trick carnivorous flies into believing the insects those flies prey on are lying wounded inside it.

At first sight parachute plants, which have cone-shaped flowers (see picture) decorated inside with needlelike inward-pointing hairs, look as though they might be carnivorous themselves. They are not, though they come close to it. Insects that enter a parachute-plant flower fall into a pit of pollen and cannot escape past the needle-hairs until the flower begins to wilt—by which time they are thoroughly covered in the stuff.

That raises the question of why those insects go inside in the first place, for parachute-plant flowers do not smell of any of the conventional odours, sweet or rank, that plants employ to attract attention. To answer that, the two researchers asked themselves two other questions: exactly which insects do parachute flowers attract and what volatile chemicals, if any, do those flowers produce?

By collecting the victims of many wild parachute plants Dr Dötterl and Ms Heiduk discovered that most of the trapped insects were flies of the genus *Desmometopa*, a group with a predilection for sucking up vital fluids that leak out of honey bees as their bodies are pierced by the fangs of spiders. Meanwhile, collecting chemicals given off by the flowers and running them through a gas chromatograph showed a combination of four molecules—2-heptanone, geraniol, 2-nonanol and (E)-2-octenyl acetate—previously unknown in plants. When Dr Dötterl and Ms Heiduk caught some foraging bees, stuck them in test tubes and poked them with the tip of a glass pipette to mimic a spider attack, the bees produced exactly these four compounds. And when the two researchers set traps containing the four chemicals out in the wild, they instantly attracted a goodly haul of *Desmometopa*.

An examination of past apiological research showed that the compounds in question are already known to students of bees. The insects' mandible glands produce 2-heptanone when they are attempting to bite predators, and this chemical has a debilitating effect on such threats to the hive as predatory moth larvae and mites. The other three compounds, meanwhile, are signal molecules released by bees fighting for their lives, to notify colony members of the danger. Together, then, these four substances are a good indication of a honey bee in the sort of trouble that is a dinner gong to *Desmometopa*. That parachute plants have evolved to mimic this gong is yet another example of the deceptive power of plants. ■



The Russian revolution

Missed connection

Vladimir Lenin's railway journey from Switzerland to Russia changed history

A BRITISH intelligence officer dismissed Vladimir Lenin and his fellow revolutionaries as “fanatical and narrow-minded”. That was an understatement. But by early 1917 power in Russia was there for the taking. That February, 300 years of Romanov autocracy had been ended in a few dizzying days, while nothing had been put in its place. Russia, exhausted and desperate from three years of disastrous war with Germany and its allies, was being run by ineffectual and well-meaning moderates. Lenin knew exactly what he wanted, and he would deploy extraordinary energy and ruthlessness to achieve it.

But first he had to get there. The future Soviet leader had spent the war in Switzerland, marooned on a neutral island in a sea of belligerents. As the news broke of the upheaval at home, he became increasingly desperate. He even considered trying to reach Russia on a false passport, as a Swedish deaf mute. His ever-practical wife reminded him that this was bound to fail because of his habit of talking—in Russian, angrily, about politics—in his sleep.

Catherine Merridale is one of the foremost foreign historians of Russia, combining wry insights with deep sympathy for the human beings suffering the tragedies she writes about. She made her name in 2000 with “Night of Stone”, a book about victims of Soviet violence. In the first of what will be many offerings pegged to

Lenin on the Train. By Catherine Merridale. Allen Lane; 353 pages; £25. To be published in America by Metropolitan in March

next year's centenary of the Bolshevik revolution, she now tells the story of the world's most fateful railway journey.

It combines diplomatic intrigue, spy-craft, towering personalities, bureaucratic bungling, military history and ideology. Ms Merridale neatly unites background and foreground, and deftly evokes the atmosphere of the time, with references to John Buchan's madcap wartime thriller, “Greenmantle”, whose plot neatly matches Lenin's adventures. Details abound: Lenin's sectarianism, for example, meant that he would not share the anti-war cause with others. He lambasted an anti-war article in *The Economist*—dismissing it caustically as “a journal which speaks for British millionaires”—on the ground that the authors wanted peace only because they were “afraid of revolution”. The central thread of the book is the journey itself, which took eight days and stretched over more than 2,000 miles (3,200km). Ms Merridale is no railway buff, which will be a relief to most readers if a disappointment to some. But she expertly pieces together the personal and the political.

A mischievous Estonian called Alex-

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ander Keskula was the first to suggest to Germany's spy service that bringing Lenin home could serve a vital strategic goal. Strengthening the anti-war camp there would raise the chances that Russia would stop fighting, giving Germany time to beat Britain and France before America entered the war. Germany was soon convinced. The deal took just two weeks to negotiate: Lenin insisted that the train should be designated an extraterritorial entity. It was not to stop, and its passengers (a motley 32 in all) were not to be checked.

It was not a jolly journey. The Swiss authorities had confiscated their provisions on departure. The workaholic Lenin imposed strict Bolshevik discipline, including a sleep rota and two classes of tickets for the only lavatory. This was accompanied by much wrangling about the relative importance of smoking and using the toilet, which Ms Merridale primly terms “the two different types of physical imperative”. The trickiest part was crossing from Sweden to Russia. Ms Merridale unpicks the contradictory accounts of what happened on the border. Lenin and his party insisted that they were journalists heading home. A British spy, who had been posted to the crossing as a passport-control officer, tried gamely to delay them. But the authorities in Petrograd (soon to be Leningrad and now once again St Petersburg) believed that a democratic country should not ban its own citizens from entry. For that mistake, millions died.

Unfazed by the showy and unexpected reception that his Bolshevik colleagues had laid on for him at Petrograd's Finland Station, Lenin jumped onto an armoured car and gave a fiery impromptu speech. The revolutionary message was hopeful and seductive: peace, bread, power to the masses and not to the plutocrats, radical re- ▶▶

► distribution of wealth, the transformation of social relations. It was achievable, as a less hungry and desperate people might have realised, only through extreme violence, including mass murder, colossal economic dislocation, the extinction of political freedoms and the eventual creation of a privileged, bureaucratic boss caste.

The most thought-provoking pages are on modern Russia's undigested history. The political calendar celebrates both victims and perpetrators of communist terror. Everything is sacred but signifies nothing, such as Lenin's embalmed corpse, still creepily lodged in its mausoleum in Red Square. Ms Merridale's excellent book finishes with a reflection on the clock in the dictator's Petrograd apartment (still reverently preserved as a museum): too precious to be moved, too costly to repair. ■

Authorial anonymity

Unmasked?

ROME

A journalist claims to have revealed the real Elena Ferrante—to readers' fury

THESE are tough times for champions of transparency. Julian Assange languishes at the Ecuadorean embassy in London; Edward Snowden in an undisclosed place in Russia. Rudolf Elmer, a Swiss banking whistle-blower, is contesting a 14-month suspended jail sentence. And if Claudio Gatti, an Italian investigative journalist, expected plaudits for a story he published on October 2nd claiming to identify Elena Ferrante, the world's most famously pseudonymous novelist, he was spectacularly wrong.

Since "My Brilliant Friend", the first of her four "Neapolitan novels", was published to international acclaim in 2011, speculation about Ms Ferrante's identity has become a literary pastime. More than a dozen names have been suggested, including those of male writers such as a Strega-prizewinning novelist, Domenico Starnone. Using data leaked from Edizioni E/O, Ms Ferrante's publishing house, Mr Gatti made a persuasive case that Mr Starnone's wife Anita Raja, a translator, is the real Elena. The data showed her earnings soaring after the Ferrante novels' international success, reaching €7.6m (\$8.5m) in 2015.

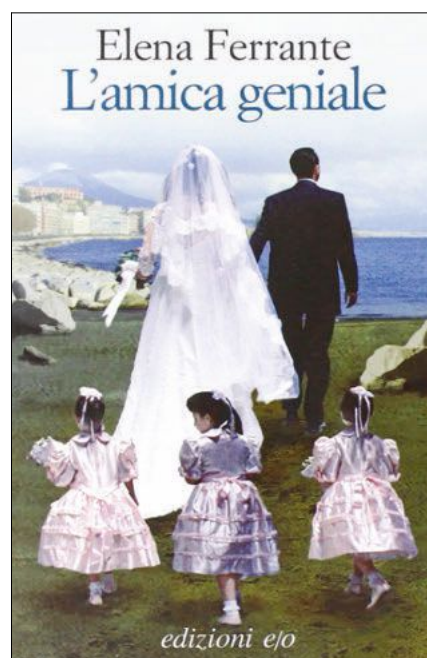
The reaction has been a storm of criticism and an angry debate over the right to literary anonymity. As the *New Yorker* succinctly put it, "People are pissed." None more so than the magazine's own commentator, Alexandra Schwartz, who laid into Mr Gatti, an award-winning foreign correspondent, calling him "a puffed-up pedant straight out of Nabokov".

Many are doubtless disappointed that the guessing game is over. By describing Mr Gatti's story as "disgusting", Edizioni E/O's Sandro Ferri all but acknowledged it was true. Few have seen the mystery surrounding the author, and the growing number of interviews she gave by e-mail in recent years, as a marketing ploy. Readers and critics have tended to accept Ms Ferrante's explanation to *Vanity Fair* that anonymity had given her "a space of my own, a space that is free, where I feel active and present". The evidence from social media and published commentaries is that women feel particularly outraged by its violation.

Pen-names are almost as old as literature, variously employed to escape persecution, deceive creditors and separate authors' literary identities from their private lives. But for women, pseudonymity has had a special role: as a means of achieving credibility by posing as men, as George Sand, George Eliot and the Brontë sisters did in the 19th century. Even today, many female authors have used initials that mask their sex, most notably J.K. Rowling.

If correct, Mr Gatti's story will be of value to future literary critics. It would show the novels are not, as was widely assumed, autobiographical (Ms Raja's mother was born in Germany, and Ms Raja herself grew up in Rome). It would show too that the author used her e-mail interviews to lay false trails, while hinting as much with Italo Calvino's quip: "Ask me what you want to know, but I won't tell you the truth." Perhaps most important, though, Mr Gatti will have dispelled the suspicion that this outstanding novelist was a man.

The concern now is whether, if she has lost her precious, private space, "Elena Ferrante" will ever write again. ■



She preferred her back to the cameras

Friendship and competition

Creative tensions

The Art of Rivalry: Four Friendships, Betrayals, and Breakthroughs in Modern Art. By Sebastian Smee. Random House; 390

pages; \$28. Profile; £16.99

ART history is sometimes written like an account of a game of chess, each move met by a counter-move in a cerebral process removed from human passions. Alternatively, it is a soap opera in which everything is reduced to petty spite and furtive liaisons. "The Art of Rivalry" by Sebastian Smee—a Pulitzer-prizewinning art critic for the *Boston Globe*—is one of those rare books that manages to show, convincingly, the exalted stuff of genius emerging from the low chaos of life. "There is an intimacy in art history that the textbooks ignore," explains Mr Smee.

He organises his book around four tempestuous friendships that shaped the course of modern art: between Lucian Freud and Francis Bacon; Edouard Manet and Edgar Degas; Pablo Picasso and Henri Matisse; and Jackson Pollock and Willem de Kooning. In each case, the forces that drew these talented men together were matched by forces pulling them apart. Admiration and affection vied with ambition and jealousy to forge relationships with more than their share of explosive outbursts and maudlin reconciliations. As Mr Smee makes clear, the strain of creativity imposed almost unbearable pressures on those involved. Dysfunction was the norm, with drunken brawls, sexual entanglements and physical assaults, not to mention subtle betrayals that are no less appalling for involving no actual violence.

Mr Smee begins the chapter on Manet and Degas with Manet taking a knife to Degas's double portrait of him and his wife, cutting off the portion depicting Madame Manet. Upon seeing his ruined canvas, Degas removed it from Manet's home. Deeply hurt, he sent back the still-life his mentor had given him, along with a curt note: "Monsieur, I am returning your Plums." The falling out between Pollock and de Kooning occurred in 1953, when Pollock was suffering from a creative block just as de Kooning was reaching the apogee of his career. Appearing at his friend's opening, Pollock, drunk as usual, shouted: "Bill, you've betrayed it. You're doing the figure, you're still doing the same goddamn thing." To which de Kooning replied coolly: "Well, what are you doing, Jackson?" Three years later Pollock was dead, having driven his car into a tree.

For all the drama of these personal stories, Mr Smee never neglects the work that ►►

fed off these stormy encounters. He is eloquent about the art, capturing the essence of a painting in a few deft strokes. He describes Pollock's breakthrough drip paintings as "slashed by thin flicks, like streaking comets or wind-whipped rain", and a group of de Kooning's as filled with "marks suggesting speed and blur, or animal fur"—phrases that evoke the works, and the differences between them, without relying on description. He is equally deft at capturing the essential differences between artists. "For Manet, truth was slippery and manifold," he writes, while "[Degas] had developed a determination to pierce the festive veil; to skewer the truth."

One drawback to Mr Smee's approach is that he sometimes resorts to speculation, filling out unknowable details with phrases like "It's possible that Matisse may have noticed, with some unease, how Picasso now looked at [his daughter] Marguerite"; or "What may have irked [Manet] about Degas's portrait of his marriage..." This kind of hedging is unsatisfying, forcing readers to question the author's version of events. But when Mr Smee is able to fill in the details, weaving the art into stories of these combustible friendships, both come alive in ways that neither could have done alone. ■

Messiness

Autopilot is the enemy

Messy: The Power of Disorder to Transform Our Lives. By Tim Harford. *Riverhead*; 327 pages; \$28. Little, Brown; £20

SELF-HELP books offer ways for readers to whip their lives into shape. A new book by Tim Harford, an economist and columnist at the *Financial Times*, argues that we need to whip our lives out of shape. According to his new book "Messy", the order that we crave is our own worst enemy, and disorder sets us free.

Mr Harford's book strays well beyond mess of the physical sort (though he devotes a whole section to railing against oppressive tidy-desk policies, which he argues disempower workers and make them unproductive). Most of the book is about other types of mess: randomness, experimentation and human autonomy.

Intellectual mess, such as flitting between projects, breeds insight and helps make connections. Paul Erdos, a nomadic mathematician, leapt between collaborators, cross-fertilising projects with abandon. The chaos he brought with him was tiresome for some (if he felt peckish in the middle of the night, he was known to bash saucepans until his host gave him food).



Creativity's brewing there, somewhere

But it also meant that he produced a peer-reviewed paper with a stranger on average every six weeks for 60 years.

Mr Harford argues that we should resist our instincts when faced with a disorderly world. Too often policymakers try to tame complicated systems using simple targets, and inadvertently create nasty unintended consequences. When the British government set waiting-time targets for doctors' appointments, for example, doctors responded by making the appointments difficult to book in advance.

More detailed targets are no solution—they can be gamed too, and risk tidying smaller problems out of sight while more catastrophic ones brew. In the mid-2000s, banks faced sophisticated capital requirements, which regulators thought would act as a buffer when a shock hit. But the fiddly requirements simply lulled regulators into a false sense of security and allowed bigger, systemic, risks to build. The meticulously calculated buffers were then no match for the massive financial crisis.

Mr Harford warns against a creeping force for neatness: automation. It makes lives simpler to delegate complex, wearying tasks to robots. But convenience breeds complacency. In 2012 some Japanese students visiting Australia were told to drive into the Pacific Ocean because of a glitch in their GPS system. Rather than question their technology, they ploughed on. (They were fine; their car was not.) While readers may worry that the robots are coming for our jobs, Mr Harford thinks we should be just as worried about them taking our judgment.

"Messy" masterfully weaves together anecdote and academic work. But Mr Harford's call may ring hollow for some. He is rewarded for his messy creativity with money. The person packing his book in an Amazon warehouse is not. ■

Semyon Bychkov

From refugee to maestro

The rise of a passionate and charismatic conductor

WHEN Semyon Bychkov raises his baton at the start of his Tchaikovsky series at London's Barbican on October 19th, the hall will be packed, as will New York's Lincoln Centre when he arrives in January. Few conductors fill large auditoriums through their own charisma. Mr Bychkov is one of them.

Yet no personality cult has ever surrounded this great Russian bear (whose physical presence that cliché fits perfectly). He much prefers talking about music to talking about himself. Born in Leningrad in 1952, he studied piano and conducting at the conservatory, where music was pursued with a do-or-die intensity unimaginable to students in the West. Mr Bychkov recalls climbing over the concert-hall roof to sneak in on the other side to hear the visiting Berlin Philharmonic, and long nocturnal discussions about the transition from page to stage of Tchaikovsky's "Eugene Onegin". That later became the first opera he conducted, and his recording of it from 1993 remains a benchmark today.

Increasingly penalised for his open contempt for Soviet officialdom, he applied to emigrate in 1974, at a time when the Soviet Union was relaxing emigration rules for Jews in exchange for technology from the West. He jokes that he was traded for a computer. But the KGB ensured that the process was sadistic and expensive, leaving him and his first wife with no money when the plane dumped them in Vienna.

Mr Bychkov recalls with bemused gratitude how the Hebrew Immigrant Aid Society (HIAS) gave them money to rent a room and eat. He also recalls a bitter moment, finding himself outside Vienna's opera house where a new production of "Lohengrin" was advertised, with tickets he could not afford. One of his life's triumphant symmetries is that, 30 years later to the day, he conducted that opera there.

HIAS shepherded them on, first to Rome and finally to New York, where their passports were stamped "Refugee Conditional Entrance". He gave private music lessons to make ends meet, cut his teeth as conductor of the Mannes College of Music's orchestra in New York, and moved on to the Grand Rapids Symphony in Michigan and the Buffalo Philharmonic, building a reputation that won him a ten-year recording contract. He began by conducting the Berlin Philharmonic—with Herbert von Karajan's enthusiastic blessing—in Shostakovich's Fifth Symphony. ▶

▶ He then moved to Europe, taking top conducting jobs in Paris, Dresden and Cologne. Praised for the beauty and integrity of his interpretations, he is now a globe-trotting guest conductor (his wife, Marielle Labèque, is often the piano soloist). He is widely tipped as successor-in-waiting to Sir Antonio Pappano as music director of London's Royal Opera House, where Mr Bychkov is currently conducting "Cosi fan tutte". His metaphor for conducting—building a house to an architect's plans—reflects his finely calibrated approach to Mozart's intentions.

The upcoming Tchaikovsky project is

called "Beloved Friend"—not only the way the composer and his patron Nadezhda von Meck referred to each other, but the way Mr Bychkov feels about Tchaikovsky himself. "Tchaikovsky knew how to twist the knife in the hearts of the audience—that's one of the miracles of his music," he said recently. For his forthcoming Tchaikovsky recordings he chose the Czech Philharmonic, which for him combines a Western mindset with a Slavic soul. At the core of the concert series will be Tchaikovsky's piano concertos and his "Manfred" and "Pathétique" symphonies.

In the perennial debate as to what the

latter work means—if music can ever "mean" anything beyond itself—Mr Bychkov takes up the cudgels against those who say it means a meek acceptance of death by a man about to commit suicide. For a start, he says, the composer was only 53, relatively young and in his successful prime. Then Mr Bychkov produces a facsimile of Tchaikovsky's annotated score, and, jabbing excitedly with his forefinger at the composer's stress-markings, shows how physically tortured the finale is. The simulated expiring heartbeats at the close suggest, he says, not acceptance, but a furious protest against the idea of extinction. ■

Johnson | Weapons of crass construction

Most swearing is perfectly harmless

AMERICA'S Supreme Court allows them to be banned from public spaces, and permits heavy fines for their improper handling, making rare exceptions to the protections of the constitution's Bill of Rights. Guns? Only in a saner world. The weapons in question are swear-words, and readers who agree that they are objectively dangerous will want to stop reading at this point, as Johnson does not share the court's view.

The Federal Communications Commission may warn or even impose six-figure penalties on a broadcaster that allows even a "fleeting" expletive on air, as when Bono, a singer, told an awards-show audience that winning was "fucking brilliant". A mother in South Carolina was arrested for shouting "Stop squishing the fucking bread!" at her family. (Witnesses said she shouted at her children; she said it was at her husband.) A North Augusta city ordinance includes in its definition of disorderly conduct "any bawdy, lewd or obscene words...while in a state of anger, in the presence of another".

As with guns, attitudes towards swearing vary widely. Big majorities of New Zealanders rate words like *shit* and *balls* as "acceptable". The French are blasé about their "c-word", *con*. Japanese has insults, and of course words for genitalia and excretion. It even has special polite registers that must be mastered to avoid offence. But it has no real taboo words.

This and more is the focus of a delightful new book, "What the F?", by Benjamin Bergen, a cognitive scientist at the University of California, San Diego. Despite the regional variation, there are four near-universal sources of swear-words: religion, sex, bodily wastes and slurs. As benefits Mr Bergen's discipline, the core of the book is about swearing in the mind itself. On hearing the bluest of blue words, peo-



ple's heart rates speed up, and their palms begin to sweat. Their concentration on tricky tasks can be severely disrupted. Merely being told to free-associate with the word *faggot* (*frocio* in Italian) made experimental subjects less willing to allocate funds for an HIV centre in a subsequent simulation. But Mr Bergen criticises bans or fines, arguing that education about the harm slurs can do is more effective.

Some swearing is hard to stop. Automatic swearing—the kind that happens when your hammer meets your thumb—seems to have its own brain circuitry: Mr Bergen tells the tale of the French priest who lost all language ability but the words *je* (I) and *foutre* (fuck). Reflexive swearing seems to be routed through a part of the brain that is evolutionarily older, and may be analogous to the circuitry that causes calls of fear or surprise in other animals. Swearing can increase pain tolerance.

Though taboos are everywhere, they

change over time. English law forbade swearing by the deity in plays in 1606; this means that Shakespeare's later plays see the drop-off of "zounds" ("by His wounds") and the like. The Victorian era was notorious for sexual prudery. Today, it is slurs that pack by far the biggest punch. A survey in 2000 found that British respondents rated *wanker* as more unacceptable than *nigger*, but a 2016 study found the reverse. And words like *cripple* and *retarded*, formerly unimpeachable medical terms, have become unusable in polite company.

Swear-words in English tend to be short with hard-sounding consonants, especially *k* and *g*. But there is nothing strictly taboo about curse-words' sounds; *truck* and *punt* are not taboo. Nor do the referents alone make a word taboo: *copulate* and *vulva* aren't unmentionable to little ears. But when children see their parents cringe at the use of their swear synonyms, they quickly pick up how powerful they are. Taboo words, ultimately, are those that people treat as taboo, the treatment itself giving them their force.

It would be better to take a more light-hearted view. Cuss-words can no more be wished or censored out of existence than colour-terms or animal words. A widely reported article in 2011 in *Pediatrics*, a medical journal, claimed that merely hearing swear-words made children aggressive, but this conclusion was based on a long string of debatable assumptions that Mr Bergen unpicks with gusto. Studying swearing is a way of studying human nature itself. "Strong Language", a group blog by language experts, "Holy Sh*t", Melissa Mohr's book on the history of profanity, "In Praise of Profanity" by Michael Adams of Indiana University, or Mr Bergen's own fine book would all be good places to start.



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Tenders



International Competitive Bidding (ICB – 2)

Invitation for Bids

COUNTRY: Nigeria

Name of Project: Construction/Equipping of 300-Bed Specialist Hospital Project in Kaduna State

Loan No: UNI-0035

CONTRACT TITLE: PROCUREMENT/INSTALLATION OF MEDICAL & NON-MEDICAL EQUIPMENT FOR THE 300-BED SPECIALIST HOSPITAL PROJECT IN KADUNA STATE.
REFERENCE NO. IFB: KDS/ISDB/ME/02/16



- The Kaduna State Government has received financing from the Islamic Development Bank toward the cost of the Procurement/Installation and Turnkey Solutions for Medical & Non-Medical Equipment, and intends to apply part of the proceeds toward payments under the contract for Procurement/Installation of Medical & Non-Medical Equipment for the 300-Bed Specialist Hospital Project in Kaduna State.

- (a) The Ministry of Health & Human Services now invites sealed bids from eligible bidders for the following lots:

LOT No.	DESCRIPTION	QTY
1	Operating Theatres & CSSD	Turnkey Solution (i.e design, built and commission)
2	Instrument Sets	Various Items
3	Imaging and Radiotherapy	Turnkey Solution (i.e design, built and commission)
4	Laboratory	Various Items

- (b) Bidders to submit two sealed envelopes simultaneously, one containing the Technical Proposal and the other the Price Proposal, enclosed together in an outer single envelope.
- Bidding will be conducted through the International Competitive Bidding (ICB) procedures as specified in the Islamic Development Bank's *Guidelines*; 'Procurement of Goods and Works under Islamic Development Bank Financing' whereas article 1.13 of the *Guidelines on Fraud and Corruption as part of the Procurement Guidelines*, has been amended in February, 2012. The Bidding is open to all eligible bidders as defined in the Procurement Guidelines. In addition, please take extra notification of paragraphs 1.6 and 1.7, setting forth the Bank's policy on conflict of interest.
- Interested eligible bidders can inspect the bidding documents during office hours between 9.00am-4.00pm everyday with the exception of Saturday and Sunday at the address given below:
Further information can be obtained from the Project Management Unit of the Kaduna State Ministry of Health & Human Services. Please do address your questions to the Project manager either via:
Mail: Construction/Equipping of 300-Bed Specialist Hospital Project, Independence Way, P.M.B 1014, Kaduna – Kaduna State – Nigeria.
Email: musahayatuiddini@yahoo.com, byuseef@yahoo.com or **Telephone:** +2348037001891, +2348028919812
- A complete set of bidding documents is available only in English Language and can be purchased by interested eligible bidders. Therefore a written application to the address below must be submitted and upon payment of a non-refundable fee of US\$450.00 or its equivalent in Naira per lot at the following address:
Project Management Unit, Ministry of Health & Human Services, Independence Way, Kaduna State – Nigeria.
- Bids must be delivered to the address below not later than 60 days after the first day the bidding documents become available but not later than 12pm (noon) local time on or before 6th December, 2016. Electronic bidding is not permitted. Late bids will not be considered. Bids will be publicly opened in the presence of bidders or their representatives who choose to attend. The opening will take place at:
The Conference Hall of Ministry of Health and Human Services, Independence Way, Kaduna – Kaduna State at 12.30pm Local time, on Tuesday 6th December, 2016.
- All bids must be accompanied by a "Bid Security" of Fifty Thousand Dollars for each lot.


International Competitive Bidding (ICB – 1)
Invitation for Bids
COUNTRY: Nigeria
**Name of Project: Construction/Equipping of
300-Bed Specialist Hospital Project in Kaduna State
Loan No: UNI-0035**

CONTRACT TITLE: PROCUREMENT/INSTALLATION OF MEDICAL & NON-MEDICAL EQUIPMENT FOR THE 300-BED SPECIALIST HOSPITAL PROJECT IN KADUNA STATE.
REFERENCE NO. IFB: KDS/ISDB/ME/01/16

1. The Kaduna State Government *has received* financing from the Islamic Development Bank toward the cost of the Procurement/Installation and Turnkey Solutions for Medical & Non-Medical Equipment, and intends to apply part of the proceeds toward payments under the contract for Procurement/Installation of Medical & Non-Medical Equipment for the 300-Bed Specialist Hospital Project in Kaduna State.

2.(a) The Ministry of Health & Human Services now invites sealed bids from eligible bidders for the following lots:

LOT No.	DESCRIPTION	QTY
1	Medical Equipment and Medical Furniture	Various Items
2	Non-Medical Equipment and Non-Medical Furniture	Various Items
3	Patients Rooms	Various Items

2.(b) Bidders to submit two sealed envelopes simultaneously, one containing the Technical Proposal and the other the Price Proposal, enclosed together in an outer single envelope.

3. Bidding will be conducted through the International Competitive Bidding (ICB) procedures as specified in the Islamic Development Bank's *Guidelines; 'Procurement of Goods and Works under Islamic Development Bank Financing'* whereas article 1.13 of the *Guidelines on Fraud and Corruption as part of the Procurement Guidelines, has been amended in February, 2012*. The Bidding is open to all eligible bidders as defined in the Procurement Guidelines. In addition, please take extra notification of paragraphs 1.6 and 1.7, setting forth the Bank's policy on conflict of interest.

4. Interested eligible bidders can inspect the bidding documents during office hours between 9.00am-4.00pm everyday with the exception of Saturday and Sunday at the address given below:

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Mail: Construction/Equipping of 300-Bed Specialist Hospital Project,
Independence Way, P.M.B 2014, Kaduna – Kaduna State – Nigeria.

Email: musahayatuddini@yahoo.com, byuseef@yahoo.com

Telephone: +2348037001891, +2348028919812

5. A complete set of bidding documents is available only in English Language and can be purchased by interested eligible bidders. Therefore a written application to the address below must be submitted and upon payment of a non-refundable fee of US\$450:00 or its equivalent in Naira per lot at the following address:
Project Management Unit, Ministry of Health & Human Services, Independence Way, Kaduna State – Nigeria.

6. Bids must be delivered to the address below not later than 60 days after the first day the bidding documents become available but not later than 12pm (noon) local time on or before 6th December, 2016. Electronic bidding is not permitted. Late bids will not be considered. Bids will be publicly opened in the presence of bidders or their representatives who choose to attend. The opening will take place at: The Conference Hall of Ministry of Health and Human Services, Independence Way, Kaduna – Kaduna State at 12.30pm Local time, on Tuesday 6th December, 2016.

7. All bids must be accompanied by a "Bid Security" of Fifty Thousand Dollars for each lot.



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REQUEST FOR QUALIFICATION
For

**Setting up of a factory to manufacture Traction Alternator and Overhaul of AC Traction Motors of High Horse Power Diesel Locomotive at Vidisha, Madhya Pradesh
Global RFQ No. 2016/M(W)964/86**

- The Ministry of Railways ("MoR"), Government of India plans to enable setting up of a Factory to manufacture Traction Alternator and Overhaul of AC Traction Motors of High Horse Power Diesel Locomotive at Vidisha, Madhya Pradesh (India).
- The Supplier shall be selected through open competitive bidding to undertake the work of setting up of a Factory to manufacture Traction Alternator and Overhaul of AC Traction Motors of High Horse Power Diesel Locomotive at Vidisha, Madhya Pradesh to manufacture and supply 700 numbers of Traction Alternator of High Horse Power Diesel Locomotives and to undertake Overhauling of 4200 AC Traction Motors over a duration of 7 (seven) years under and in accordance with the provisions of the Agreement. MoR intends to pre-qualify and short-list suitable Applicants in accordance with the procedure set out in the Request for Qualification (RFQ) document.
- The President of India, acting through Director, Mechanical Engineering (Works), Railway Board invites applications for this purpose from interested parties.
- The RFQ will be available for download on the website (www.indianrailways.gov.in) from 16.09.2016. The RFQ document may also be obtained from Room No. 309, Rail Bhawan, New Delhi on all working days on payment of Rs. 1,00,000 (Rupees one lakh only) in the form of a Demand Draft drawn on any Scheduled Bank in India, and payable at Delhi, in favour of Pay & Accounts Officer, Railway Board.
- Bidders may please note that in case of any dispute about the content of the bid document, the hard copy of RFQ document issued by 'MoR' shall prevail.
- The Applications on prescribed form of RFQ should be submitted at the place described in the RFQ document on or before 1100 hrs of 04.11.2016. Applications will be opened at 1130 hrs on 04.11.2016.
- For any query or request for additional information concerning this RFQ, please contact:

Name : Jayant Kumar
Designation : Director Mechanical Engineering (Works)
Address : Room No. 309, Rail Bhawan, New Delhi-110001
Tele. No. : 011-23097064
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Economic data

% change on year ago

	Gross domestic product			Industrial production	Consumer prices		Unemployment	Current-account balance		Budget balance	Interest rates, %	Currency units, per \$	
	latest	qtr*	2016 ⁱ	latest	latest	2016 ⁱ	rate, %	latest 12 months, \$bn	% of GDP 2016 ⁱ	% of GDP 2016 ⁱ	10-year gov't bonds, latest	Oct 5th	year ago
United States	+1.3 Q2	+1.4	+1.5	-1.1 Aug	+1.1 Aug	+1.3	4.9 Aug	-488.2 Q2	-2.6	-3.2	1.66	-	-
China	+6.7 Q2	+7.4	+6.6	+6.3 Aug	+1.3 Aug	+2.0	4.1 Q2 [§]	+260.9 Q2	+2.6	-3.8	2.57 ^{§§}	6.67	6.36
Japan	+0.8 Q2	+0.7	+0.6	+4.6 Aug	-0.5 Aug	-0.2	3.1 Aug	+167.6 Jul	+3.6	-5.1	-0.07	104	120
Britain	+2.1 Q2	+2.7	+1.8	+2.1 Jul	+0.6 Aug	+0.7	4.9 Jun ^{††}	-161.2 Q2	-5.6	-3.9	0.84	0.78	0.66
Canada	+0.9 Q2	-1.6	+1.3	-0.7 Jul	+1.1 Aug	+1.6	7.0 Aug	-51.1 Q2	-3.3	-2.6	1.09	1.32	1.31
Euro area	+1.6 Q2	+1.2	+1.5	-0.5 Jul	+0.4 Sep	+0.2	10.1 Aug	+384.5 Jul	+3.2	-1.9	-0.01	0.89	0.89
Austria	+1.2 Q2	-0.9	+1.3	-0.3 Jul	+0.6 Aug	+1.0	6.2 Aug	+8.2 Q2	+2.4	-1.3	0.18	0.89	0.89
Belgium	+1.4 Q2	+2.2	+1.3	+5.3 Jul	+1.9 Sep	+1.8	8.2 Aug	+4.8 Jun	+1.2	-2.8	0.28	0.89	0.89
France	+1.3 Q2	-0.4	+1.3	-0.1 Jul	+0.4 Sep	+0.3	10.5 Aug	-22.0 Jul [‡]	-0.4	-3.3	0.23	0.89	0.89
Germany	+1.7 Q2	+1.7	+1.7	-1.2 Jul	+0.7 Sep	+0.4	6.1 Sep	+300.2 Jul	+8.4	+0.4	-0.01	0.89	0.89
Greece	-0.4 Q2	+0.7	-0.6	+4.1 Jul	-0.9 Aug	nil	23.4 Jun	+0.1 Jul	-1.1	-4.5	8.30	0.89	0.89
Italy	+0.7 Q2	+0.1	+0.8	-0.3 Jul	+0.1 Sep	nil	11.4 Aug	+43.9 Jul	+2.5	-2.6	1.36	0.89	0.89
Netherlands	+2.3 Q2	+2.6	+1.6	+2.4 Jul	+0.2 Aug	+0.3	7.2 Aug	+59.7 Q2	+9.2	-1.2	0.04	0.89	0.89
Spain	+3.2 Q2	+3.4	+3.0	-5.2 Jul	+0.3 Sep	-0.4	19.5 Aug	+22.0 Jul	+1.4	-4.3	1.01	0.89	0.89
Czech Republic	+3.6 Q2	+3.7	+2.4	-14.0 Jul	+0.6 Aug	+0.7	5.3 Aug [§]	+3.7 Q2	+1.2	-0.5	0.34	24.1	24.2
Denmark	+0.8 Q2	+1.5	+1.0	+2.2 Jul	+0.2 Aug	+0.4	4.3 Aug	+18.1 Jul	+6.4	-1.0	0.11	6.64	6.65
Norway	+2.5 Q2	+0.1	+1.0	-1.4 Jul	+4.0 Aug	+3.5	5.0 Jul ^{††}	+23.6 Q2	+5.3	+3.0	1.25	8.03	8.40
Poland	+3.0 Q2	+3.6	+3.1	+7.4 Aug	-0.5 Sep	-0.8	8.5 Aug [§]	-2.5 Jul	-0.8	-2.9	3.00	3.84	3.78
Russia	-0.6 Q2	na	-0.7	+0.7 Aug	+6.4 Sep	+7.3	5.2 Aug [§]	+36.2 Q2	+3.1	-3.7	8.14	62.5	64.7
Sweden	+3.4 Q2	+2.0	+3.1	-4.8 Aug	+1.1 Aug	+1.0	6.6 Aug [§]	+25.4 Q2	+5.1	-0.4	0.20	8.60	8.32
Switzerland	+2.0 Q2	+2.5	+1.4	-1.2 Q2	-0.1 Aug	-0.5	3.4 Aug	+66.1 Q2	+9.3	+0.2	-0.49	0.98	0.97
Turkey	+3.1 Q2	na	+3.2	-8.4 Jul	+7.3 Sep	+7.8	10.2 Jun [§]	-28.9 Jul	-4.7	-2.0	9.69	3.06	2.99
Australia	+3.3 Q2	+2.1	+2.8	+3.7 Q2	+1.0 Q2	+1.2	5.6 Aug	-52.8 Q2	-4.2	-2.1	2.08	1.32	1.41
Hong Kong	+1.7 Q2	+6.5	+1.5	-0.6 Q2	+4.3 Aug	+2.5	3.4 Aug ^{††}	+13.6 Q2	+2.7	nil	1.05	7.76	7.75
India	+7.1 Q2	+5.5	+7.6	-2.4 Jul	+5.0 Aug	+5.2	5.0 2015	-16.2 Q2	-1.0	-3.8	6.80	66.5	65.3
Indonesia	+5.2 Q2	na	+5.0	+7.1 Jul	+3.1 Sep	+3.6	5.5 Q1 [§]	-18.7 Q2	-2.2	-2.4	6.99	12,998	14,495
Malaysia	+4.0 Q2	na	+4.3	+4.1 Jul	+1.5 Aug	+1.9	3.5 Jul [§]	+5.3 Q2	+1.2	-3.4	3.57	4.14	4.38
Pakistan	+5.7 2016**	na	+5.7	+2.9 Jul	+3.9 Sep	+3.9	5.9 2015	-3.3 Q2	-0.7	-4.6	8.03 ^{††}	104	105
Philippines	+7.0 Q2	+7.4	+6.3	+10.1 Jul	+2.3 Sep	+1.7	5.4 Q3 [§]	+3.2 Jun	+2.5	-1.3	3.66	48.3	46.5
Singapore	+2.1 Q2	+0.3	+1.8	+0.1 Aug	-0.3 Aug	-0.7	2.1 Q2	+58.4 Q2	+19.4	+0.7	1.88	1.37	1.42
South Korea	+3.2 Q2	+3.2	+2.6	+2.3 Aug	+1.2 Sep	+0.9	3.6 Aug [§]	+101.3 Aug	+7.2	-1.3	1.51	1,114	1,172
Taiwan	+0.7 Q2	+0.2	+0.6	+7.7 Aug	+0.3 Sep	+1.3	4.0 Aug	+75.7 Q2	+13.5	-0.6	0.76	31.4	32.8
Thailand	+3.5 Q2	+3.2	+3.0	+3.1 Aug	+0.4 Sep	+0.3	0.9 Aug [§]	+42.4 Q2	+8.0	-2.5	2.21	34.8	36.4
Argentina	-3.4 Q2	-8.0	-1.5	-2.5 Oct	— ***	—	9.3 Q2 [§]	-15.4 Q2	-2.4	-5.1	na	15.2	9.44
Brazil	-3.8 Q2	-2.3	-3.2	-5.2 Aug	+9.0 Aug	+8.3	11.8 Aug [§]	-25.8 Aug	-1.1	-6.4	11.29	3.23	3.91
Chile	+1.5 Q2	-1.4	+1.7	+2.8 Aug	+3.4 Aug	+3.9	6.9 Aug ^{§††}	-5.1 Q2	-1.9	-2.5	4.20	665	684
Colombia	+2.0 Q2	+0.8	+2.0	-6.2 Jul	+7.3 Sep	+7.7	9.0 Aug [§]	-15.7 Q2	-5.4	-3.7	7.21	2,980	2,969
Mexico	+2.5 Q2	-0.7	+2.1	-1.0 Jul	+2.7 Aug	+2.9	3.7 Aug	-30.9 Q2	-2.9	-3.0	6.14	19.3	16.7
Venezuela	-8.8 Q4~	-6.2	-14.8	na	na	+532	7.3 Apr [§]	-17.8 Q3~	-2.8	-24.2	10.58	9.99	6.30
Egypt	+6.7 Q1	na	+3.0	-8.6 Jul	+15.4 Aug	+11.6	12.5 Q2 [§]	-18.7 Q2	-6.8	-11.4	na	8.88	7.83
Israel	+2.7 Q2	+4.0	+3.0	+1.7 Jul	-0.7 Aug	-0.4	4.6 Aug	+12.1 Q2	+3.3	-2.4	1.78	3.78	3.87
Saudi Arabia	+3.5 2015	na	+1.1	na	+3.3 Aug	+4.2	5.6 2015	-61.5 Q2	-6.5	-12.0	na	3.75	3.75
South Africa	+0.6 Q2	+3.3	+0.4	+2.5 Jul	+5.9 Aug	+6.4	26.6 Q2 [§]	-12.9 Q2	-4.1	-3.4	8.65	13.8	13.6

Source: Haver Analytics. *% change on previous quarter, annual rate. [†]The Economist poll or Economist Intelligence Unit estimate/forecast. [§]Not seasonally adjusted. [‡]New series. ~2014 **Year ending June. ^{††}Latest 3 months. ^{†††}3-month moving average. ^{§§§}5-year yield. ***Official number not yet proved to be reliable; The State Street PriceStats Inflation Index, Sept 35.92%; year ago 26.47% ^{†††}Dollar-denominated bonds.

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Markets

	Index Oct 5th	% change on		
		one week	Dec 31st 2015	
			in local currency	in \$ terms
United States (DJIA)	18,281.0	-0.3	+4.9	+4.9
China (SSEA)	3,145.2	+0.6	-15.1	-17.3
Japan (Nikkei 225)	16,819.2	+2.1	-11.6	+2.7
Britain (FTSE 100)	7,033.3	+2.7	+12.7	-2.6
Canada (S&P/TSX)	14,610.6	-0.8	+12.3	+18.2
Euro area (FTSE Euro 100)	1,033.6	+0.9	-5.6	-2.6
Euro area (EURO STOXX 50)	3,026.3	+1.2	-7.4	-4.5
Austria (ATX)	2,416.9	+1.3	+0.8	+4.0
Belgium (Bel 20)	3,562.3	-0.2	-3.7	-0.7
France (CAC 40)	4,490.0	+1.3	-3.2	-0.2
Germany (DAX)*	10,585.8	+1.4	-1.5	+1.6
Greece (Athex Comp)	575.4	+2.2	-8.9	-6.0
Italy (FTSE/MIB)	16,476.6	+1.6	-23.1	-20.7
Netherlands (AEX)	456.1	+1.3	+3.2	+6.4
Spain (Madrid SE)	885.1	+0.5	-8.3	-5.4
Czech Republic (PX)	881.1	+1.7	-7.9	-5.0
Denmark (OMXCX)	818.4	-0.9	-9.7	-6.7
Hungary (BUX)	28,487.1	+3.7	+19.1	+27.1
Norway (OSEAX)	694.3	+4.2	+7.0	+17.9
Poland (WIG)	48,017.7	+1.5	+3.3	+6.4
Russia (RTS, \$ terms)	997.1	+2.2	+12.6	+31.7
Sweden (OMXS30)	1,452.5	+1.9	+0.4	-1.6
Switzerland (SMI)	8,195.2	-0.3	-7.1	-4.8
Turkey (BIST)	77,853.6	+0.2	+8.5	+3.6
Australia (All Ord.)	5,537.0	+0.7	+3.6	+8.5
Hong Kong (Hang Seng)	23,788.3	+0.7	+8.6	+8.4
India (BSE)	28,221.0	-0.3	+8.1	+7.4
Indonesia (JSX)	5,420.6	-0.1	+18.0	+25.2
Malaysia (KLSE)	1,662.9	-0.1	-1.7	+1.9
Pakistan (KSE)	41,253.5	+2.2	+25.7	+26.0
Singapore (STI)	2,881.8	+0.8	nil	+3.4
South Korea (KOSPI)	2,053.0	nil	+4.7	+10.2
Taiwan (TWI)	9,272.3	+0.8	+11.2	+16.4
Thailand (SET)	1,509.9	+2.1	+17.2	+21.2
Argentina (MERV)	17,070.7	+1.9	+46.2	+24.7
Brazil (BVSP)	60,254.2	+1.5	+39.0	+70.1
Chile (IGPA)	20,355.0	+0.5	+12.1	+19.4
Colombia (IGBC)	9,901.5	-0.4	+15.8	+23.4
Mexico (IPC)	48,141.4	+0.2	+12.0	+0.3
Venezuela (IBC)	13,532.2	+5.8	-7.2	na
Egypt (Case 30)	8,368.5	+5.8	+19.4	+5.3
Israel (TA-100)	1,260.5	-0.8	-4.1	-1.2
Saudi Arabia (Tadawul)	5,585.1	+0.9	-19.2	-19.1
South Africa (JSE AS)	51,868.5	+0.2	+2.3	+15.3

The Economist poll of forecasters, October averages (previous month's, if changed)

	Real GDP, % change				Consumer prices		Current account		
	Low/high range		average		% change		% of GDP		
	2016	2017	2016	2017	2016	2017	2016	2017	2017
Australia	1.9/3.1	2.1/3.2	2.8	2.8	1.2 (1.3)	2.2	-4.2 (-4.4)	-3.7 (-3.9)	
Brazil	-3.8/-2.1	0.3/2.0	-3.2 (-3.3)	1.2 (1.1)	8.3 (8.2)	5.5	-1.1 (-1.0)	-1.3 (-1.1)	
Britain	1.2/2.1	-0.5/1.3	1.8 (1.6)	0.7 (0.5)	0.7	2.3 (2.4)	-5.6 (-5.4)	-4.5 (-4.2)	
Canada	1.0/2.0	1.2/2.5	1.3 (1.2)	1.9	1.6 (1.7)	1.9 (2.0)	-3.3 (-3.2)	-2.9 (-2.7)	
China	6.3/6.8	6.0/6.7	6.6	6.3	2.0	1.9	2.6 (2.7)	2.5	
France	1.2/1.4	0.7/1.5	1.3	1.2 (1.1)	0.3	1.1	-0.4 (-0.5)	-0.5	
Germany	1.4/2.0	1.0/1.7	1.7 (1.6)	1.3 (1.2)	0.4	1.4 (1.5)	8.4	7.8 (7.9)	
India	7.3/7.8	7.1/8.3	7.6	7.7 (7.6)	5.2	5.2 (5.1)	-1.0 (-1.2)	-1.3 (-1.6)	
Italy	0.6/0.9	0.3/1.3	0.8	0.7	nil	0.9	2.5 (2.3)	2.0 (2.1)	
Japan	0.2/0.7	0.3/1.4	0.6 (0.5)	0.9 (0.8)	-0.2 (-0.1)	0.6 (0.7)	3.6 (3.4)	3.2 (3.0)	
Russia	-2.1/nil	0.4/2.6	-0.7 (-0.5)	1.4	7.3 (7.1)	5.5 (5.4)	3.1 (3.3)	3.5	
Spain	2.7/3.2	1.5/2.9	3.0 (2.9)	2.1 (2.0)	-0.4	1.2	1.4 (1.3)	1.1 (0.9)	
United States	1.3/1.7	1.3/2.5	1.5	2.1 (2.0)	1.3	2.1	-2.6	-2.7 (-2.8)	
Euro area	1.5/1.6	1.0/1.5	1.5	1.3 (1.2)	0.2 (0.3)	1.3	3.2	2.9	

Sources: Bank of America, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Decision Economics, Deutsche Bank, EIU, Goldman Sachs, HSBC Securities, ING, Itaú BBA, JPMorgan, Morgan Stanley, Nomura, RBS, Royal Bank of Canada, Schroders, Scotiabank, Société Générale, Standard Chartered, UBS. For more countries, go to: Economist.com/markets

Other markets

	% change on			
	Index Oct 5th	one week	Dec 31st 2015	
			in local currency	in \$ terms
United States (S&P 500)	2,159.7	-0.5	+5.7	+5.7
United States (NAScomp)	5,316.0	nil	+6.2	+6.2
China (SSEA, \$ terms)	354.1	+1.0	-14.7	-16.9
Japan (Topix)	1,347.8	+1.3	-12.9	+1.2
Europe (FTSEurofirst 300)	1,356.3	+0.6	-5.6	-2.7
World, dev'd (MSCI)	1,717.8	-0.5	+3.3	+3.3
Emerging markets (MSCI)	915.6	+0.4	+15.3	+15.3
World, all (MSCI)	417.4	-0.4	+4.5	+4.5
World bonds (Citigroup)	957.2	-1.1	+10.0	+10.0
EMBI+ (JPMorgan)	816.5	+0.2	+15.9	+15.9
Hedge funds (HFRX)	1,190.6 ¹	+0.1	+1.4	+1.4
Volatility, US (VIX)	13.0	+12.4	+18.2 (levels)	
CDSs, Eur (iTRAXX) ¹	73.6	+0.4	-4.6	-1.7
CDSs, N Am (CDX) ¹	74.8	-0.7	-15.3	-15.3
Carbon trading (EU ETS) €	5.5	+10.5	-33.9	-31.8

Sources: Markit; Thomson Reuters. ¹Total return index.

¹Credit-default-swap spreads, basis points. ²Oct 3rd.

Indicators for more countries and additional series, go to: Economist.com/indicators

The Economist commodity-price index

2005=100

			% change on	
	Sep 27th	Oct 4th*	one month	one year
Dollar Index				
All Items	138.5	136.6	+1.5	+3.9
Food	158.3	154.2	+0.2	+1.0
Industrials				
All	117.9	118.3	+3.3	+8.2
Nfa ¹	126.3	125.3	+1.4	+14.2
Metals	114.2	115.3	+4.2	+5.6
Sterling Index				
All items	194.0	194.8	+6.9	+24.0
Euro Index				
All items	153.8	152.2	+2.2	+4.9
Gold				
\$ per oz	1,327.2	1,283.5	-4.3	+11.6
West Texas Intermediate				
\$ per barrel	44.7	48.7	+8.6	+0.1

Sources: Bloomberg; CME Group; Cotlook; Darmann & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional

¹Non-food agriculturals.

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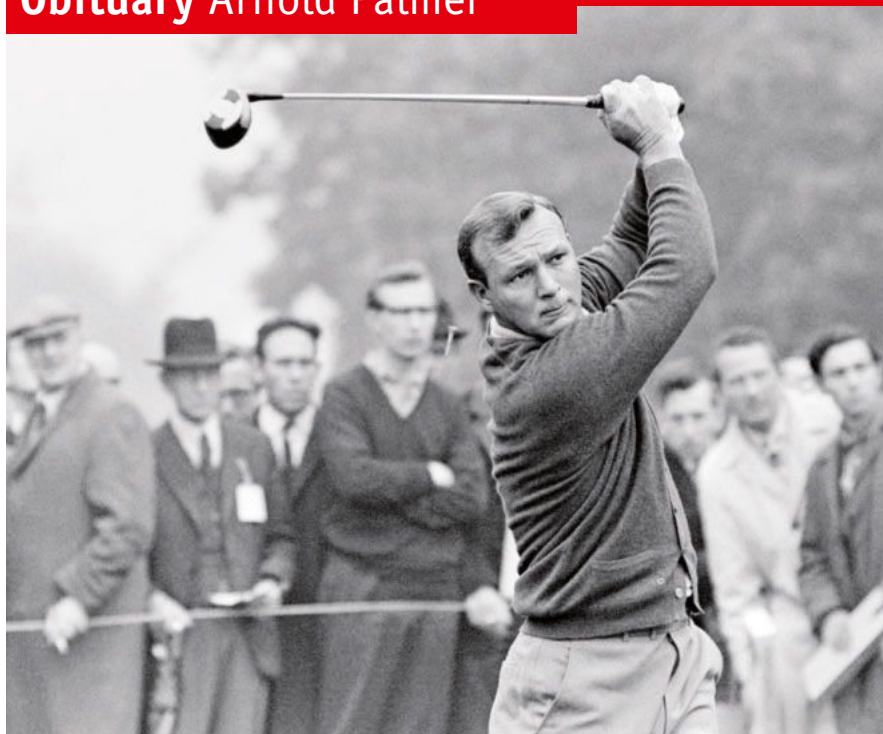
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King of the green

Arnold Palmer, golfer, died on September 25th, aged 87

GOLF clubs abounded in Arnie Palmer's life. By the end he had roughly 10,000, divided between his warehouse at the Latrobe Country Club in Pennsylvania, where it had all begun, and his workshop behind his house, also in Latrobe. If you asked, he could root out the driver with which he had whacked the ball 346 yards from the first tee to the green, 22 feet from the hole, at the US Open at Cherry Hills in 1960; the five-iron with which, in 1986, he holed in one at the same hole at Avenal Farm in Maryland on two successive days; even, from somewhere, the four-iron he had used around 1950, when he was still in college, to get out of the rough, cut through the trees and hook onto the green in a single shot, one putt away from a birdie.

These were the tools with which he had won seven majors (the US Open, the British Open twice, the Masters four times) in seven seasons, and 92 professional tournaments worldwide. They made him the most celebrated player in America and his sport, once the preserve of snobs in plus-fours, a popular sensation. He did not play like other people: he was muscular, dramatic, with his flopping hair and working man's hands, sharp-creased trousers and shirt-tail ever pulling out, hitting the ball with apparent abandon as his gallery of fans roared him on. Thanks to him, golf be-

came a TV fixture and a maker of millions. He was the first.

His style was not subtle. His father, a professional and greenskeeper at Latrobe who had set him up with a cut-down three-iron when he was four, told him to hit the ball hard, and he obeyed. Even his putts, delivered pigeon-toed and slightly knock-kneed, packed a punch. To play any other way, he said, would be to deny his feelings. His swing was so forceful that, stuck in a bush once, he uprooted it on his way out. (The ball ended up on the green.) "Go for broke" was his motto, and his speciality was the "Palmer charge", where he would roar in from behind to clinch a title: most famously at the 1960 Open again, with seven birdies in the final round.

It seemed risky, and often was. Double bogeys might be followed directly by eagles, and vice versa. It all made great television as elation and dejection chased across his handsome face. (Between holes, in his prime in the early 1960s, a cigarette added to the glamour.) But the risk seemed less to him. First, he found golf pure joy, despite the exasperation; as a boy he had even played in deep snow, towards cups frozen solid on iced-over greens. Risk added sweetness. Second, though he didn't relish booming shots into trees and sandtraps, he found the getting-out fun. And third, he

never tried a shot he couldn't make. "Powerhouse Palmer" always believed he could pull it off. And he generally did.

This made him sound cocky, but there wasn't an ounce of arrogance in him. He had come into golf the hardscrabble way, allowed to play the course at Latrobe only on non-member days, and getting his upper-body strength from manhandling the heavy mower over the greens. He doubted that the explosion in golf's popularity had much to do with his talent, but revelled in his raucous gallery of ordinary folk. The high-level perks of the job, such as playing rounds with golf-mad President Eisenhower, meant less to him than spreading his enjoyment to Japan, Europe, New Zealand, or wherever asked him along. He relished especially the British Open, once disdained by Americans, because it gave him the chance to play, and win, in the rain-and-windswept cradle of the game.

His heart was simple; a man for steak, beer and Westerns, a conservative and unashamed provincial who spent most of his time in Latrobe, looking out at the woods where he had practised escapes to an audience of trees. His champions' medals were set in an old walnut table in the games room—with a few holes left ready to take the ones he felt sure he could win in future.

His wealth, though, meant he also had to become a businessman, which he found harder. To him, money was safe only in his hands or in the bank. From 1959, though, his business manager Mark McCormack taught him the ropes of borrowing, investing, sponsorship and endorsements, and two years later Arnold Palmer Enterprises Inc. marked the first transformation of golfing prowess into a business empire. Eventually his name was attached not only to golf clothing, clubs and course-building but also to tractors, deodorants, dry-cleaning, shaving cream, power tools and aircraft (he was a keen, skilled aviator). He ran his own tournament at Bay Hill in Florida, and his personal blend of iced tea and lemonade was on every supermarket shelf.

Back in the workshop

To see his name on things was satisfying. But anyone who thought they were playing with an Arnold Palmer club, the same model that had worked such aggressive magic at Augusta and Troon, was likely to be disappointed. The workshop tinkering was never done. Obsessively he trimmed the shafts, rewrapped the grips and altered the lofts with a hammer, seeking that right feel in his hands and that flight of a good drive which moved him as much as any poetry: perfect golf. Once or twice, he thought he'd come close; but in his typically self-effacing way, as gentle off the course as he was bold on it, he admitted he hadn't quite got perfection nailed. His search was compulsive viewing. ■

The Presidential Debates
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