ERDOGAN'S NEW SULTANATE: A SPECIAL REPORT ON TURKEY

The Economist

FEBRUARY 6TH–12TH 2016



# How to manage the migrant crisis

## and keep Europe from tearing itself apart

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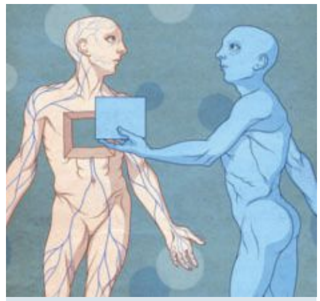

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## Politics

The long process to choose America's presidential candidates got under way, in **Iowa**. Ted Cruz won the state's Republican caucuses, upending Donald Trump, who had led recent polling. Mr Trump came second, not far ahead of Marco Rubio, considered to be the viable moderate alternative to the populist front-runners. On the Democratic side Hillary Clinton eked out a win over Bernie Sanders by 0.3 of a percentage point, the thinnest-ever margin of victory in the party's Iowa caucuses.

Ash Carter, America's defence secretary, said the **Pentagon** would ask for $583 billion in the White House's forthcoming budget. Spending on fighting Islamic State is to double, to $7.5 billion, and support for central and east European countries in response to Russia's invasion of Ukraine will quadruple to $3.4 billion.

Facebook moved to ban the private sale of **guns** through its network and Instagram, a photo-sharing site it owns.

### Recognising a risk

The World Health Organisation declared that a rise in birth defects in Brazil, thought to be caused by the mosquito-borne **Zika virus**, is a global emergency. The virus probably caused more than 4,000 cases of microcephaly among newborn children in Brazil and has been found in more than 20 countries in the Americas. The WHO thinks the virus is spreading "explosively". It is thought that a case detected in Texas was probably transmitted through sex.

**Guatemala** put on trial two former military officers charged with letting their soldiers kidnap and rape 11 Mayan women during the country's 36-year civil war. This is the first time that anyone has been tried for wartime sex-slavery charges in the country where the crimes were allegedly committed.

**Argentina** said it would repay Italian investors who had refused earlier offers of a debt restructuring after the country defaulted in 2001. If Congress approves the deal, the government will pay $1.35 billion, 150% of the face value of the bonds, to 50,000 investors. It hopes this will set a precedent for negotiations with holdout investors in bonds with a face value of $6 billion.

The **Cuban** government is to allow residents of two districts in Havana, the capital, to have broadband connections to the internet. Cafés, restaurants and bars will also be permitted this huge privilege.

### Siphoned away

The Swiss authorities said they would ask the **Malaysian** government to help them investigate claims that as much as $4 billion has gone missing from Malaysian state-owned firms. A small amount of the money had been transferred to bank accounts in Switzerland. Officials in Singapore said they had frozen "a large number" of accounts as part of investigations into transactions linked to 1MDB, a Malaysian state-investment firm.

**North Korea** declared that it would launch a satellite sometime between February 8th and 25th. Analysts believe the country's real aim is to test a long-range ballistic missile. Japan has ordered its armed forces to shoot down any missile that threatens to fall on Japanese territory.

Police in **China** arrested 21 people for their involvement in an alleged Ponzi scheme run by Ezubao, an online firm. The company has been accused of defrauding 900,000 investors of 50 billion yuan ($7.6 billion).

### Games of chance

Talks in Geneva aimed at bringing an end to the civil war in **Syria** were suspended only days after they began. Opponents of the regime of Bashar al-Assad are demanding a ceasefire, but fighting is instead intensifying, especially around the city of Aleppo. The talks may resume in three weeks. A conference on aid to the region began in London, amid warnings that Lebanon and Jordan are almost overwhelmed by the cost of housing Syrian refugees.

**South Africa's** president, Jacob Zuma, agreed to pay back some of the $23m in public money that was spent on his private residence, potentially drawing some of the sting from a scandal that may damage the African National Congress in local elections that are due to take place in May.

At least 86 people died in the most brutal attack in months by Boko Haram, a **Nigerian** jihadist outfit. The attack took place close to the regional capital of Maiduguri, which houses the army's headquarters. Boko Haram lost control of the city in 2014.

### If at first you don't succeed

King Felipe of **Spain** asked the Socialist party, headed by Pedro Sánchez, to form a government. The Socialists control only 90 seats in the 350-seat parliament, which has been deadlocked since an election in December proved inconclusive. In order to become prime minister, Mr Sánchez will have to win the support of Podemos, an anti-austerity movement, and several other parties. It will be tough.

The EU reached a provisional deal with America about **data protection**. Last year a ruling by the European Court of Justice abrogated the "Safe Harbour" agreement that let firms store individuals' private online data in America. European data-protection agencies gave a cautious welcome to the new "Privacy Shield".

Aivaras Abromavicius, **Ukraine's** economy minister, resigned, complaining that the government was doing nothing about corruption.

A general election was called in **Ireland** for February 26th. The governing party led by Enda Kenny, the prime minister, is ahead in the polls.

David Cameron presented a draft deal to "renegotiate" the terms of **Britain's** membership of the European Union. The prime minister's agitated Eurosceptic critics in his party and the press said he had failed to match the robust promises he made in the party's election manifesto last year. A former minister said that possibly a quarter of the cabinet are "certain" to campaign to leave the union in a forthcoming referendum.

Another baffling issue, almost as old as Britain's EU membership, was cleared up this week when a death certificate was issued for **Lord Lucan**. The enigmatic aristocrat disappeared in 1974 after his children's nanny was murdered in London. Decades of speculation about his guilt ensued, as did alleged sightings, but Lucan was never seen again. The court ruling means that his son, Lord Bingham, can inherit the family title and become the 8th Earl of Lucan.

## Business

In by far the largest foreign takeover bid by a Chinese company to date, **ChemChina** offered $43 billion to buy **Syngenta**, which is based in Switzerland and is one of the world's biggest providers of agricultural chemicals and seeds. It is the second big acquisition in the chemical industry in recent months, after the merger announcement of Dow Chemical and DuPont. Syngenta's board recommended shareholders accept the bid from ChemChina, which is state-controlled. The deal will be scrutinised by antitrust regulators in several countries, especially America, which accounts for a quarter of Syngenta's sales.

The decline in oil prices was reflected in a gloomy set of earnings from oil companies. **Chevron** reported its first quarterly loss since 2002. **Exxon Mobil's** annual profit fell by half, to $16.2 billion; it is slashing capital spending by 25% this year. **BP** posted an annual headline loss of $5.2 billion, its worst ever.

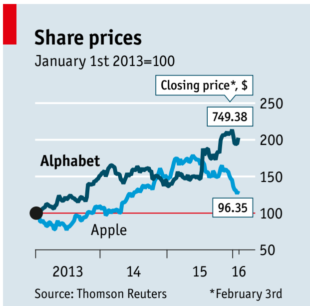
### Positive negative

The Bank of Japan cut its benchmark **interest rate** below zero, to -0.1%. Japan has joined the European Central Bank, Switzerland and others by implementing a negative rate, though its policy applies only to new reserves that banks place with the BOJ.

**Credit Suisse** reported an annual pre-tax loss of SFr2.4 billion ($2.4 billion), its first since 2008, mostly because it booked a hefty write-down in the fourth quarter related to the restructuring of its business. Pre-tax profit at the Swiss bank's investment-banking division was down by 90%.

There was more management turmoil at **Luxottica**, an Italian maker of eyewear and owner of the Ray-Ban and Oakley brands, as its third chief executive in 18 months resigned. Leonardo Del Vecchio, the company's 80-year-old founder, will again reassert control by taking the CEO's job on an interim basis.

**Sumner Redstone** stepped down as chairman of CBS, after months of pressure from investors worried about his ability to perform his duties at the American broadcaster. For years questions have been raised about the health of the 92-year-old mogul, whose position as chairman of Viacom, a big media group, has also come into question.




**Alphabet**, the holding company that Google created last year, reported a bumper set of annual earnings. Revenue at its internet and Android businesses climbed to $74.5 billion, pushing operating profit up to $23.4 billion. Its Other Bets projects, such as self-driving cars and smart thermostats, made a $3.6 billion loss, but that was not as steep as had been feared. Alphabet's share price rose, briefly nudging it past Apple to become the world's most valuable listed company.

The French finance minister, Michel Sapin, dismissed suggestions that he would reach a deal with **Google** over paying back taxes, saying that France "does not negotiate" over money it is owed. Critics contend that the agreement Google recently struck to pay £130m ($190m) in back taxes in Britain let it off the hook.

**Yahoo** announced a strategic review of its core internet business, acknowledging that it might examine the option of selling the unit. Yahoo is to shed a further 15% of its workforce to cut costs. It reported a quarterly net loss of $4.4 billion, mostly because it wrote down the value of some of its assets, including Tumblr, a blogging site.

**Sharp**, a struggling Japanese maker of electronics goods, was reportedly holding takeover talks with **Foxconn**, a Taiwanese firm that assembles the iPhone. Foxconn is one of two suitors to have emerged: a Japanese government-backed fund is also interested in Sharp, though its bid is lower.

Once lauded for its fresh ingredients, **Chipotle Mexican Grill**, a fast-food chain, said the publicity from an outbreak of E.coli at some outlets had hit sales in the last quarter of 2015, contributing to a 44% drop in profit. This week federal health authorities in America declared that the E.coli scare appears to be over.

**Ferrari's** share price slid after it issued a disappointing earnings forecast. Despite a strong order book, profits at the Italian maker of luxury cars are projected to be only slightly higher than those it made last year. Ferrari's share price has fallen by a third on the New York Stock Exchange since its IPO there last October. An announcement of a racy new convertible might turbocharge its share price.

### It's good to be the king

A venture capitalist who wrote an open letter online criticising the launch event for **Tesla Motors'** Model X said his order for the car has been cancelled by Elon Musk, Tesla's founder. Mr Musk tweeted that he was surprised at the fuss over "denying service to a super-rude customer".

**Other economic data and news can be found on pages 80-81**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# How to manage the migrant crisis

**A European problem demands a common, coherent EU policy. Let refugees in, but regulate the flow**

REFUGEES are reasonable people in desperate circumstances. Life for many of the 1m-odd asylum-seekers who have fled Syria, Iraq, Afghanistan and other war-torn countries for Europe in the past year has become intolerable. Europe is peaceful, rich and accessible. Most people would rather not abandon their homes and start again among strangers. But when the alternative is the threat of death from barrel-bombs and sabre-wielding fanatics, they make the only rational choice.

The flow of refugees would have been manageable if European Union countries had worked together, as Angela Merkel, Germany's chancellor, has always wished (and *The Economist* urged). Instead Germany and Sweden have been left to cope alone. Today their willingness to do so is exhausted. Unless Europe soon restores order, political pressure will force Mrs Merkel to clamp down unilaterally, starting a wave of border closures (see pages 19-22). More worrying, the migrant crisis is feeding xenophobia and political populism. The divisive forces of right-wing nationalism have already taken hold in parts of eastern Europe. If they spread westward into Germany, France and Italy then the EU could tear itself apart.

The situation today is a mess. Refugees have been free to sail across the Mediterranean, register and make for whichever country seems most welcoming. Many economic migrants with no claim to asylum have found a place in the queue by lying about where they came from. This free-for-all must be replaced by a system in which asylum applicants are screened when they first reach Europe's borders—or better still, before they cross the Mediterranean. Those who are ineligible for asylum should be sent back without delay; those likely to qualify should be sent on to countries willing to accept them.

**Order on the border**

Creating a well-regulated system requires three steps. The first is to curb the "push factors" that encourage people to risk the crossing, by beefing up aid to refugees, particularly to the victims of the civil wars in Syria and Iraq, including the huge number who have fled to neighbouring countries such as Turkey, Jordan and Lebanon. The second is to review asylum claims while refugees are still in centres in the Middle East or in the "hotspots" (mainly in Greece and Italy), where they go when they first arrive in the EU. The third element is to insist that asylum-seekers stay put until their applications are processed, rather than jumping on a train to Germany.

All these steps are fraught with difficulty. Consider the "push factors" first. The prospect of ending Syria's civil war is as remote as ever: peace talks in Geneva this week were suspended without progress. But the EU could do a lot more to help refugees and their host countries. Scandalously, aid for Syrians was cut in 2015 even as the war grew bloodier: aid agencies got a bit more than half of what they needed last year, according to the UN. Donors at a conference on Syria in London this week were asked for $9 billion for 2016—about as much as Germans spend on chocolate every year. Far more is needed and will be needed every year for several years.

Europe's money should be used not only to feed and house refugees but also to coax host countries into letting them work. For the first four years of the conflict Syrians were denied work permits in Turkey, Jordan and Lebanon. Recently Turkey has begun to grant them. Donors should press Jordan and Lebanon to follow. European cash could help teach the 400,000 refugee children in Turkey who have no classes.

**Sometimes the answer is no**

The next task is to require asylum-seekers to register and be sorted as close to home as possible, probably Turkey, Lebanon and Jordan. Ideally those who travelled by boat to Europe would be sent back to a camp in one of those three countries—to prove that they had just wasted their precious savings paying people-traffickers to take them on a pointless journey. But that would meet legal and political objections, partly because of Turkey's human-rights record (see our special report this week). So, there should also be processing camps in the first EU country they reach, probably Greece or Italy.

The cost of this should fall on the whole EU, since the aim is to establish control over its external borders. Dealmaking is possible. In exchange for hosting large refugee hotspots and camps on its soil, Greece should get help with its debt and budgets which it has long sought to ease its economic crisis.

Refugees will fall in with this scheme (rather than cross the EU illegally) only if they are confident that genuine applications will be accepted within a reasonable time. So the EU needs to spend what it takes to sort through their claims swiftly. And member states ought to agree to accept substantial numbers of bona fide asylum claimants. Some refugees may prefer Germany to, say, France—and there is little to stop them crossing borders once they are inside the Schengen area. But, if they are properly looked after, most will stay put.

The crisis needs a bigger resettlement programme than the one run by the UN's refugee agency, which has only 160,000 spaces. Countries outside the EU, including the Gulf states, can play their part. Priority should go to refugees who apply for asylum while still in Turkey, Jordan or Lebanon—to reduce the incentive for refugees to board leaky boats to Greece.

Ineligible migrants will have to be refused entry or deported. This will be legally difficult, and it is impossible to repatriate people to some countries, such as Syria. But if the system is not to be overwhelmed or seen as unfair and illegitimate by EU citizens, the sorting must be efficient and enforceable. EU governments should sign and implement readmission agreements allowing rejected migrants to be sent home quickly to, say, Morocco or Algeria. If such agreements are impossible (or if, as with Pakistan, governments fail to honour them), the prospect of waiting indefinitely in Greece will make economic migrants who want to reach Germany hesitate before coming.

Once these measures are in place, it will become possible to take the most controversial step: halting the uncontrolled migrant flow across Greece's northern border with Macedonia. It has become clear over the past five months that Europe cannot ▸▸

gain control over the numbers or the nature of the migrant stream while border officials wave asylum-seekers through and bid them safe travel to northern Europe.

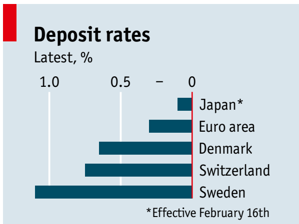
Since the start of the refugee crisis, we have argued that Europe should welcome persecuted people and carefully manage their entry into European society. Our views have not changed. Countries have a moral and legal duty to provide sanctuary to those who flee grave danger. That approach is disruptive in the short term, but in the medium term, so long as they are allowed to work, refugees assimilate and more than pay for themselves. By contrast, the chaos of recent months shows what happens when politicians fail to take a pan-European approach to what is clearly a pan-European problem. The plan we outline would require a big chunk of cash and a lot of testy negotiations. But it is in every country's interest to help—because all of them would be worse off if the EU lapses into a xenophobic free-for-all.

There is an encouraging precedent, too. When more than 1m "boat people" fled Vietnam after the communists took over in 1975, they went initially to refugee camps in Hong Kong and other parts of Asia before being sent to America, Europe, Australia and wherever else would take them. They arrived with nothing but adapted astonishingly fast: the median household income for Vietnamese-Americans, for example, is now above the national average. No one in America now frets that the boat people will not fit in. ■

Interest rates

# Negative creep

**The negative-rates club is growing. But there is a limit to how low rates can go**




IMAGINE a world in which tax offices harry people who file their returns promptly; where big supermarket chains pay their suppliers before the goods fly off the shelves and not months afterwards; and where a pre-paid annual gym membership is more costly than paying month by month. It sounds fanciful, absurd even. Yet such a world came a step closer on January 29th, when Japan's central bank cut the interest rate on bank reserves to -0.1% (see page 25).

Like its peers in Denmark, the euro area, Sweden and Switzerland, the Bank of Japan will charge commercial banks for holding deposits with it. Almost a quarter of the world's GDP now comes from countries with negative rates. Though they defy convention, they have proved a useful addition to the central-banking toolkit. The lowest deposit rate set by the central bank acts as a floor for short-term interest rates in money markets and for borrowing rates generally. Borrowing costs across Europe have tumbled, helping the fight against deflation and driving down exchange rates.

Emboldened, Haruhiko Kuroda, the governor of Japan's central bank, this week claimed there is no limit to measures to ease monetary policy. On interest rates, at least, that is wrong. The limit may no longer be zero but it does still exist.

**Tiers are not enough**

Not so long ago it was widely thought that, if interest rates went below zero, banks and their depositors would simply switch to cash, which pays no interest but doesn't charge any either. Yet deposits in Europe, where rates have been negative for well over a year, have been stable. For commercial banks, a small interest charge on electronic deposits has proved to be bearable compared with the costs of safely storing stacks of cash—and not yet onerous enough to try to pass on to individual depositors.

That has resulted in an unavoidable squeeze on profits of banks, particularly in the euro area, where an interest rate of -0.3% applies to almost all commercial-bank reserves. (As in Switzerland and Denmark, Japan's central bank has shielded banks from the full effect by setting up a system of tiered interest rates, in which the negative rate applies only to new reserves.) If interest rates go deeper into negative territory, profit margins will be squeezed harder—even in places where central banks have tried to protect banks. And if banks are not profitable, they are less able to add to the capital buffers that let them operate safely.

That would put pressure on banks to charge their own customers for deposits. Such pressure is already starting to tell. Banks in Europe have started to pass on some of the cost of negative rates to big corporate depositors. Their only ready alternative to stashing large pots of cash is safe and liquid government bonds, whose yields have also turned negative, for terms of up to ten years in Switzerland. Rich personal-account holders are next. The boss of Julius Baer, a Swiss private bank, said this week that if interest rates in Europe go further into the red, it might have to charge depositors.

Retail customers are more resistant to charges, because small stashes can easily be stored in a mattress or a home safe. Savers might stomach a modest fee for making bank deposits, but as rates go deeper into negative territory, they will find ways to avoid charges. Switching to cash is the obvious solution, which is why some have suggested getting rid of banknotes altogether, but it is not the only one. Small savers would use any available form of prepayment—gift vouchers, long-term subscriptions, urban-transport cards or mobile-phone SIM cards—to avoid the cost of having money in the bank.

That would be only the start of the topsy-turviness. Were interest rates negative enough for long enough, specialist security firms would emerge that would build vaults to store cash on behalf of big depositors and clear transfers between their customers' accounts. Firms would seek to make payments quickly and receive them slowly. Tax offices would discourage prompt settlement or overpayment of accounts: one Swiss canton has already stopped discounts for early tax payment and said it wants to receive money as late as possible. Far from being incentivised to lend more, banks worried about shrinking deposits would be warier of extending credit.

As avenues to avoid negative rates are closed off, human ingenuity will ensure that others open up. It may not be zero, but there is still a lower bound to interest rates. ■

Libya

# The third front

### It is time to take action against Islamic State in Libya


BARACK OBAMA is far from achieving his declared aim to "degrade and ultimately destroy" Islamic State (IS), the self-styled caliphate that straddles parts of Iraq and Syria. But at least it is being rolled back in some places. Ramadi in Iraq was retaken in December. Oil installations controlled by IS have been bombed, sapping the economic and the fighting power of the jihadists. In Libya, though, the picture is more alarming: the caliphate is building a sprawling new "province" on the southern shore of the Mediterranean, just a few hundred miles from Europe. This is the new front in the war against jihadism.

Unchallenged by Western forces, and exploiting the absence of a functioning state as rival national governments in Tripoli and Tobruk bicker and skirmish, IS has taken control of the city of Sirte and controls roughly 180 miles (290km) of coastline. It already counts 5,000 or so fighters, threatens not just Libya's duelling governments but also neighbours such as Tunisia, Algeria and Egypt. It has attacked Libyan oil terminals and ports, and raided towns ever closer to Tripoli. The expansion of IS could prompt another flood of refugees from Libya to Europe, with the obvious potential of terrorist infiltration. Libya has burned through most of its foreign reserves—perversely, oil exports are paying gunmen from both the Tripoli and Tobruk alliances—and one-sixth of its 6m people are suffering from malnutrition. This year Libya is predicted to have the world's fastest-shrinking economy.

It makes little sense to squeeze IS in one battlefield only to let it grow somewhere else. Belatedly, Italy, France and Britain—and, crucially, America, too—are drawing up plans for military action. If there is one lesson from the interventions of the past, it is the importance of securing a degree of political legitimacy and working with competent forces on the ground who can seize back territory from extremists and hold it. Western forces would, ideally, be invited in by a new unity government. But UN-led talks have dragged on for months, stymied by the refusal of the Islamist-influenced government in Tripoli to accept that it lost an election in June 2014 and to make peace with the winners of that poll, who fled to Tobruk. More recently they are being held up by the refusal of both parliaments to accept the UN's latest proposal for a unity government.

More intensive diplomacy is needed to push the two sides into a deal, using whatever leverage is available. As part of that process, the West will have to support the new Libya generously with money, as well as military backing, humanitarian relief and investment to get the oil flowing again. America, which has been negligently absent from Libya since the killing of its ambassador and three others in attacks in Benghazi in 2012, needs to apply its muscle, too.

### The sands of time

Many in the West still prefer to wait for a political deal. But there are growing dangers in allowing IS to expand. The jihadists must be contained, lest they gain control of Libya's oil facilities, or destroy them to hasten the break-up of the country by denying it its main source of revenue.

The West could first help train and stiffen the mostly ineffective 27,000-strong Petroleum Facilities Guard. Second, it could declare no-drive zones around key facilities, and bomb IS units from the air if they get too close. Third, Western air forces could go after IS arms dumps and command-and-control centres, as they have done in Syria. This need not involve large numbers of Western troops, and it might even be possible to gain UN support. None of this will defeat IS but it would buy more time to reach a political deal. Ultimately, that still offers the best chance of shutting down the caliphate's third front. ■

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Britain and the European Union

# The accidental Europhile

### David Cameron's weedy renegotiation makes a muscular pro-European argument


BY CONTINENTAL and even recent British standards David Cameron has long had a Eurosceptic bent. In 2013 this outlook was combined with a growing anti-EU clamour in the Conservative Party, leading him to promise a grand "new settlement" that would put Britons' Euro-cavils to rest. Three years later, on February 2nd, after an election victory and several months spent bustling about Europe, Mr Cameron sealed a draft offer with the European Council (see page 51). In a speech the next day he declared it a triumph. The press and Eurosceptic MPs, on the other hand, branded it a joke ("The great delusion!" bellowed one headline). Who is right?

Both, to some extent. The deal, it is true, was more of a throat-clearing exercise than a roar of reinvention. Mr Cameron did not fulfil his ambition to overturn Europractice on immigration limits, treaty changes and repatriated powers. His "emergency brake" on migration is a graduated restriction of newcomers' benefits; the "red card" that lets national parliaments block EU decisions will have little effect, because the threshold to do so is high. Yet the prime minister has won some valuable, if mostly symbolic, concessions to the British vision of a plural, open and liberal union. Pledges to cut bureaucracy, respect currencies other than the euro and let mem- ▸▸

bers opt out of "ever closer union" are airy but welcome. Non-euro-zone economies can assert their interests, thanks to a mechanism that delays an agreement if they fear being strong-armed by Europe's core.

At home the deal will not change any of the minds that are already made up. But it should help Mr Cameron sway a few undecided voters ahead of the in/out referendum (which is likely to take place on June 23rd if this deal clears the European Council later this month). The first, minor reason is that it makes the union work a smidgen better for Britain. The second, larger one is that the very process of renegotiating has neatly shown the force of the pro-Europeans' arguments.

It has exposed a series of anti-EU fallacies. A giant governmental audit that Mr Cameron claimed in 2013 would identify areas where powers needed to be repatriated found the balance broadly appropriate. And if, as Eurosceptic campaigners insist, the "emergency brake" will not reduce immigration, that is because EU nationals come to Britain to work, not scrounge. The brake is unlikely to be renewed in the future because Britain will struggle to show that its migrants constitute an "emergency" (far from it: they pay more into the state than they take out in services). Meanwhile the prime minister's European peregrinations have given the lie to tabloid bluster about almighty Eurocrats. The shape of his deal has been hammered out in Europe's capitals with the elected leaders of other governments—just like all the most important Eurodeals.

**A seat at the table**

This highlights the unattractive alternative, of leaving the EU. The trials of renegotiating Britain's membership would pale in comparison with those of securing a favourable Brexit. At least now the EU and most of its members are on the prime minister's side. An out vote would reverse their incentives: the harsher the terms of Britain's flounce, the lower the odds of other countries following it out of the door. Being outside the club would exclude Britain, like Norway and Switzerland, from the continental perma-churn of alliance-building and deal-cutting that forges decisions.

Only partly by design, the Eurosceptic Mr Cameron has thus vindicated what pro-Europeans have been saying for years: some of the popular hostility to Brussels is misplaced and, even where it is not, Britain sits at more tables, sells more stuff and talks more loudly thanks to its EU membership. Time to close the deal and take that conclusion to the country. ■

HSBC's domicile dilemma

# Asian dissuasion

**Despite Britain's bank-bashing mood, HSBC should stay in London**

LIKE many firms with roots in Hong Kong, HSBC has traditionally consulted a feng shui master on the design of its headquarters' buildings. The bank's dilemma today is more serious: in which country should its headquarters be? For the past year HSBC has debated moving its domicile, which in turn determines its tax base, lead regulator and lender of last resort.

One option is to stay in Britain, with its bank-bashers, latent hostility towards the City of London and ambivalence about Europe. The alternative is to move back to vibrant-but-riskier Hong Kong, where HSBC was founded 151 years ago and was based until the 1990s. It is not an easy choice, but in the end pub grub and stability trump dim sum and political uncertainty.

HSBC matters. Regulators judge it to be the world's most important bank, alongside JPMorgan Chase. A tenth of global trade passes through its systems and it has deep links with Asia. (Simon Robertson, a director of the bank, is also on the board of The Economist Group.) Its record has blemishes—most notably, weak money-laundering controls in Mexico. But it has never been bailed out; indeed, it supplied liquidity to the financial system in 2008-09. It is organised in self-reliant silos, a structure regulators now say is best practice.

For Britain, the departure of its best bank would be perverse (if only it could deport Royal Bank of Scotland instead). But HSBC is fed up with Blighty. A levy charged on its global balance-sheet cost 10% of last year's profits; rules on ring-fencing its retail arm will cost $2 billion. Both are meant to protect Britain from global banks blowing up, but they duplicate other measures aimed at the same problem—silos, capital surcharges, "bail-in" bonds and liquidity buffers. Britain says it will lower the levy. But over time Asia, which accounts for 60% of the bank's profits, will grow faster than Britain, and so HSBC will too. The tension between HSBC's ambitions and Britain's suspicion of giant banks is not going away.

Hong Kong is keen for the bank's return, which would boost confidence after a torrid time for Chinese markets. HSBC's biggest subsidiary is already based in the territory and supervised by the Hong Kong Monetary Authority (HKMA), its impressive regulator. By moving, HSBC would not ease its tax bill or capital levels by much. But it would avoid the levy, butt heads with Western regulators less and be closer to its biggest markets.

**From a dirty old river to a fragrant harbour**

Time to pack the bags? One objection is that HSBC is already thriving in greater China: it does not need to be domiciled there to succeed. Nor would moving to Hong Kong insulate HSBC from a British exit from the European Union (see page 63). But the biggest worry is that Hong Kong is small and a territory, not a country. The HKMA has $360 billion of foreign reserves but it lacks the crisis toolkit of a central bank. It cannot print an infinite amount of money without undermining its currency peg and it lacks a credit line from America's Federal Reserve to supply it with dollars, HSBC's operating currency.

With a balance-sheet nine times bigger than Hong Kong's GDP, HSBC's ultimate backstop would be mainland China's government, whose approach to finance is as transparent as Victoria Harbour. That might deter some customers. It would also annoy America, which might not be keen on HSBC playing a big role in the dollar-clearing system, a privilege that is vital for HSBC's business. For an Asia-centric bank to be based in London is an anomaly. But, for now, one worth keeping. ■


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### Science v politics

Your perceptive Free exchange on the ideological divisions in economics (January 23rd) put its finger on key factors in the unsettled status of economics today. It is hard to think of a Nobel prize in natural sciences being shared between two recipients of opposing views, as has often been the case in economics. Nor does it boost the credibility of the Nobel prize in economics if two joint econometric recipients subsequently precipitate the Long Term Capital Management collapse and its derivative consequences based on their model.

Economists are indeed fortunate to have avoided the fate that befell three Italian seismologists a few years ago, when they were jailed for having failed to forecast an earthquake in their region!

There were acrimonious debates following the financial crisis of 2008: one plausible explanation for economists' misreading was that, given the growing dominance of mathematics in economics, it became difficult to detect economic fallacies. Another is that the traditional division between positive and normative economics has been allowed to deteriorate to the point at which ideological bias has become more salient, raising the risk of error.

John Maynard Keynes still best describes the challenge facing the discipline today: "Economics is the science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world."

RAYMOND PARSONS
North West University
*Mahikeng, South Africa*

It was comforting to see your column addressing the ideological dimensions of a profession that too often takes its own "scientific" aspirations too seriously. As the story indicates, economics lies somewhere between science and politics—victim to the same shifts in language and framework that Thomas Kuhn identified, as well as to the whims and agendas of political ideology.

Economics is both a policy tool and a political weapon. Its reach is too central to political visions, and its hypotheses are too dependent on the incalculable crooked timber of humanity for it ever to be a "hard" science. But we can at least be more honest about its theoretical foundations. A "reputation for impartiality" could actually aggravate the controversy, obscuring and masking economists' biases. A thorough and transparent solution would look more interdisciplinary: presenting empirical findings alongside the economist's larger policy goals and ideas of a just polity.

CONNOR STRANGLER
*Kansas City, Missouri*

You reminded me of one my father's favourite quotes: "If all the nation's economists were laid end to end, they would point in all different directions." He also often said: "The devil can cite scripture to his purpose." For economists it is statistics they cite.

VIC ARNOLD
*Westerly, Rhode Island*

### Because because because…

Lexington missed the opportunity to mention Henry Littlefield's popular thesis that L. Frank Baum's "The Wonderful Wizard of Oz", was inspired by the 1896 Bryan v McKinley electoral face-off (January 23rd). Dorothy, or Everyman, wearing silver shoes—ruby in the 1939 film version—(Bryan's pro-silver stance) travels the yellow brick road (the gold standard), witnesses the oppressed munchkins (citizens), and discovers that the supposedly omnipotent Wizard (a president like McKinley) is nothing more than a fancy façade. Lest the author's leanings were in doubt, his main character is aided by the Cowardly Lion (Bryan) and has to evade the Wicked Witch of the East (eastern industrialists).

The way the current campaign is going we voters mostly still hope that a Sanders v Trump contest is just a figment of our imagination.

YACOV ARNOPOLIN
*New York*

### The sex discrepancy

The gender imbalance among asylum-seekers and potential migrants to Sweden is unusual in Europe, but is far from extraordinary by international comparison ("Oh, boy", January 16th). Although in the EU, there are 1.06 men for every woman, in Qatar and the United Arab Emirates men outnumber women by two to three times, largely because of immigration (and the heavy reliance of these countries on migrant labour).

The solution to Sweden's predicament may be closer to home: Ukraine, Belarus and Russia, with 0.85-0.86 man for every woman, have the lowest male/female ratios in Europe. The citizens of each of these countries would have good reasons to seek better and safer livelihoods abroad.

Is there a case for a targeted refugee-recruitment policy?

JAN FIDRMUC
Department of Economics and Finance
Brunel University
*Uxbridge, Hillingdon*

### A bicycle built for one

I read with interest your article about divorce in China becoming increasingly in vogue, with the corresponding chart showing its incidence per thousand individuals, which also highlighted the decreasing divorce rates in America and Britain ("Divorce: a love story", January 23rd). Surely a more compelling graph would show the rate per thousand people who are married? Having read your recent analysis on the decline of marriage as an institution, it is possible that Western couples loathe their partners just as much as do the Chinese but simply don't need to fill out the analogous paperwork to remedy the situation.

MATTHEW MCBRYAN
*London*

### Crude calculations

As your excellent overview on oil states, the rivalry between Saudi Arabia and Iran makes it seem unlikely that they and OPEC can agree on production cuts needed to rebalance supply and demand and raise oil prices ("Who's afraid of cheap oil?", January 23rd). As an old Texan, I suggest restoring the past pro-ration action of the Texas Railroad Commission (TRC) whose main function from the 1930s until the 1960s was to keep production constrained in Texas so that American and world oil markets were in balance and price stability was achieved.

Texas currently produces about 3.5m barrels per day. If the TRC were to force Texas producers collectively to cut this in half (as they did in the 1950s), this would just balance world markets. The net result could double the total revenue of Texas oil companies, mineral-right owners and the state's treasury—plus better employment for the strippers you mentioned—all because the world oil price might rise from $30 back to $120.

PHILLIP HAWLEY
*La Jolla, California*

### Rather you than me

I was glad to see that Parliament refused to ban Donald Trump from Britain ("Petition against Trump", January 23rd). It leaves open the possibility he might end up over there with you instead of over here with us.

STUART BEAL
*Annandale, Virginia*

Letters are welcome and should be addressed to the Editor at
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# Forming an orderly queue



BERLIN, BRUSSELS, GEVGELIJA, IZMIR AND LESBOS

**Europe desperately needs to control the wave of migrants breaking over its borders. This is how to go about it**

SYRIA'S five-year civil war has killed hundreds of thousands of people and displaced millions more. It has sucked regional powers into a geopolitical vortex. It has inspired terrorists and fanatics, and exported violence to a historically volatile region. It has also given rise to Europe's worst refugee crisis in recent times.

The numbers are, in themselves, not overwhelming: the European Union, with a population of 500m, received 1m illegal migrants last year, slightly fewer than the number of Syrian refugees accepted by Lebanon, which has only 5m people. But the chaos of the flows and the determination of migrants to reach a handful of wealthy countries has set governments against each other and opened cracks in Europe's piecemeal approach to asylum. No country can resolve the problem alone. But most have responded by unilaterally closing borders and tightening asylum rules, leaving migrants to endure dangerous journeys at the hands of criminal smuggling networks—which elude every attempt at disruption.

An ever-growing number of border controls undermines the EU's supposedly border-free Schengen area, hampering trade, commuting and tourism (see box on page 20). Political pressure at home may yet force Angela Merkel, Germany's chancellor, to close her country's doors, setting off border closures across the continent. Jean-Claude Juncker, the president of the European Commission, says the end of Schengen could cause the collapse of the euro and even the single market, one of the EU's outstanding achievements. That is an exaggeration, but it would threaten European co-operation in other areas and knock back a club already beset by crises.

More broadly, the migrant crisis is fuelling the rise of right-wing populist parties across Europe. Anti-immigrant violence is growing in countries that have shouldered the largest burden: this week a German police chief spoke of a "pogrom atmosphere" after a spate of attacks on asylum centres. The Paris killings and sexual assaults by asylum-seekers in Cologne have added terrorism and cultural neuralgia to a toxic brew. Xenophobic nationalism has already set parts of eastern Europe against Germany. The resentments that it creates are a threat to the EU, too.

While Europeans bicker, the migrant situation remains grave. The death rate in the Aegean Sea has soared in wintry conditions: 365 migrants crossing from Turkey to Greece died or went missing last month (see chart 1). Registered daily arrivals in the Greek islands fell to just under 2,000 in January compared with almost 7,000 last October. But Germany is taking in 3,000 migrants a day, suggesting that the true number reaching Europe is somewhat higher. When spring arrives the flows will surely return to their autumn peaks.

Most proposed solutions look unfeasible, repugnant or pointless. A settlement in Syria is more remote than ever. This week the latest attempt to start peace talks were suspended without making progress. Libya, the gateway to Italy, has no functioning government. Inside Europe, the fences built by politicians like Hungary's prime minister, Viktor Orban, merely displace the problem. Yet EU governments are bound by law to provide refuge to those fleeing war. They cannot push back migrant-laden boats from Greece (as a Belgian politician reportedly suggested). Ejecting Greece from Schengen, as some urge, would deter nobody, for it shares no land borders with other Schengen countries.

Plans cooked up in Brussels, meanwhile, are too ambitious, leaving governments to squabble while the migrants pour in. A quota scheme to relocate asylum-seekers across Europe has succeeded only in reviving an east-west split in the EU. Mutual recognition of positive asylum de- ▸▸

cisions across the EU, which would give refugees the freedom of movement that ordinary citizens enjoy, is years away.

Instead, the priority must be to restore a sense of order to the migrant flows. That will help overburdened countries like Germany plan for arrivals and reassure worried citizens who see no end in sight. Europe also needs to get much better at distinguishing refugees with a genuine claim for international protection from migrants fleeing hardship, a growing number of whom have started to join the highway to Europe.

These immediate measures should buy time for Europeans to provide protection for those who need it, to work out how to share the asylum burden more equitably and ultimately to accept more refugees in an orderly fashion. But for that to happen, all the pieces in the puzzle need to fall into place, and in the right order.

The work begins in Turkey, partly because it hosts 2.7m refugees, most of them Syrian, and partly because it has become a gathering ground for refugees and migrants from elsewhere. There are two parts to the European strategy. The first is a deal hastily assembled last year that rewards Turkey for reducing the migrant flows—including a pledge of €3 billion ($3.3 billion) to help refugees and visa-free access to the EU for Turks in exchange for the implementation of a plan to take back migrants.

The grand bargains envisaged in the deal are probably too ambitious in the limited time Europe has; all EU governments will have to approve the visa deal, which seems unlikely. The EU dithered before finding the cash this week—and then it is only a fraction of what is needed. The agreement has had some effect: Turkish police targeting smugglers have made 3,700 arrests. But the number of migrants landing on Greek shores has not fallen by as much as the Europeans had hoped.

Other elements of the deal might prove more fruitful. Turkey recently introduced a limited work-permit scheme for Syrian refugees. Freeing tens of thousands of them from the grip of the country's vast grey economy could help keep some in place. It has also slashed the number of Syrians arriving from Jordan and Lebanon, many of whom were travelling onwards to Europe, by imposing visa requirements.

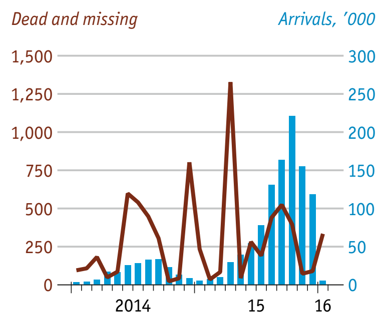
### Unburdening the poor

Much more must be done to ensure that the burden on those countries does not become intolerable. This is the second part of Europe's approach. Together, Turkey, Jordan and Lebanon host over 5m refugees, including 2m children. Most are poor. Under huge strain, governments are now doing their best to keep refugees out. Some 20,000 Syrians languish in the desert next to Jordan, which refuses to let most in. Lebanon has closed its borders.

Conditions inside these countries are bad and getting worse, making the hazardous journey to Europe seem more appealing. Half the Syrians in Jordan say they want to leave. Up to 150,000 Syrians sailed from Lebanon to Turkey last summer, seeking to join the migrant trail to Europe.

**The cruel sea** 1

Migrants crossing the Mediterranean




Sources: International Organisation of Migration; UNHCR

Schengen's economic impact

## Putting up barriers

**A permanent reintroduction of border controls would harm trade in Europe**

LONG lines of lorries once blotted the chocolate-box alpine landscape of the Brenner Pass, an important road link between southern and northern Europe. The Schengen agreement, which came into effect in 1995 and has now abolished border controls between 26 European countries, kept those lorries moving. But where trucks go, so do refugees. To stem the flow Austria, Denmark, France, Germany, Norway and Sweden have temporarily reintroduced controls. Others have increased spot checks in border regions.

Open borders ease the flow of exports as well as individuals. Every year people make 1.3 billion crossings of the EU's internal borders along with 57m trucks carrying €2.8 trillion ($3.7 trillion) of goods. As well as speeding the passage of Greek olives and German dishwashers, borderless travel allows hotels in the east of Germany to have their sheets cleaned in Poland, where wages are lower, and workers in Italy to commute to Switzerland (also in Schengen though not in the EU), where wages are higher.

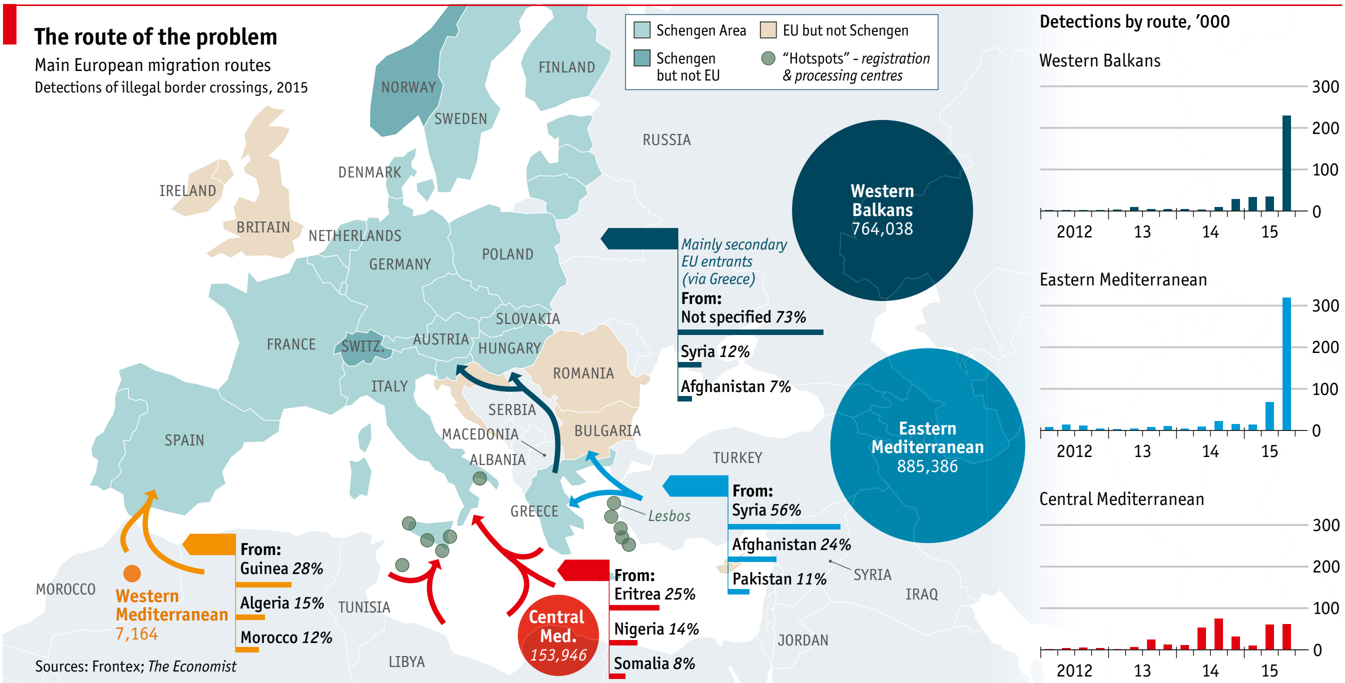
Reintroducing controls such as checking passports and searching lorries is mostly an irritation, though the costs are mounting. A strategy unit of the French government estimates that in the short term border checks within Schengen would cost France €1 billion-2 billion a year by disrupting tourism, cross-border workers and trade. If Schengen collapses the economic consequences would be more serious, it says: curtailing the free passage of goods permanently would amount to a 3% tax on trade within Schengen. The overall effect of hampering cross-border activity would reduce output in the Schengen area by 0.8%, or €110 billion, over the next decade.

Not only will money have to be found to patrol long-abandoned frontiers. Around 1.7m Europeans cross a border to get to work and in some regions as much as a third of the workforce makes this trip daily. Malmo in Sweden and Copenhagen, the Danish capital, have in effect become one big city. Border controls at the bridge that connects them add around 30 minutes each way. A nuisance could become a deterrent to cross-border employment, reducing job opportunities and the pool of labour employers can draw upon.

The greatest pain will be felt by exporters. Over a third of road-freight traffic in Schengen crosses a border. Delays are creeping up. Around Salzburg in Austria lorries now sit for up to three hours before getting into Germany. Strict EU rules dictate that such waiting times still count as hours behind the wheel for drivers, who are obliged to rest when they hit an upper limit. If waiting becomes a permanent feature DSLV, a German association of shippers, puts the direct costs at €3 billion a year for the EU as a whole, based on a one-hour delay for every lorry.

Businesses likely to suffer most include those with perishable goods, such as fruit, vegetables and fish. Others will pass on costs. Suppliers will need to store extra inventory across the continent to ensure customers get deliveries on time. The German chamber of commerce says that once indirect costs, such as renting storage and the impact on transit-trade with non-EU countries, are taken into account the extra costs for Germany alone could run to €10 billion per year.

Calculations of potential costs depend on what happens if Schengen disappears: will spot-checks merely increase or will countries reintroduce border posts with barriers and barbed wire? Many firms, particularly those used to sending goods to non-Schengen countries such as Britain, may adapt swiftly to stricter border checks. Far worse than the direct costs to trade, says Guntram Wolff from Bruegel, a Brussels-based think-tank, would be the signal that European integration can go into reverse.




A donors' conference in London on February 4th, as we went to press, aimed to secure nearly $9 billion of funding for the region. Britain this week pledged £1.2 billion ($1.75 billion) of new money. Cash is needed for schools and overburdened infrastructure, such as Lebanon's strained water supply. One idea is for donors to press Jordan and Lebanon to ease restrictions on refugees seeking jobs. European countries can help by ensuring that markets are open. If refugees have reasons to stay, fewer will risk the trek to Europe.

Stemming the flow across the Aegean saves lives and dents the smugglers' profits. But the clamour to reach Europe will continue: routes are too well established, smuggling networks too strong and demand too robust. Perhaps two-thirds of Syrians reaching Greece are fleeing the country directly rather than upping sticks from Turkey, Jordan and Lebanon.

Large numbers will therefore continue to land in Greece. In response the EU has tried to establish "hotspots" on the five islands where most migrants land. But only one of these processing and registration centres, on Lesbos, is fully functional. (Of the six in Italy, one is reportedly working well.) Here, migrants are screened, fingerprinted and interviewed. Interpreters test the claims of self-identified Syrians; many other Arabs claim to come from Syria to improve their chances of getting asylum. Identity cards are checked for fraud under ultraviolet lights. At the end, confirmed north Africans are taken to Athens, from where they are supposed to lodge an asylum claim or face deportation. Most others are given a document that allows them to move on to the Greek mainland independently. Most do so immediately.

On other Greek islands locals have held up the establishment of hotspots, fearing the impact on tourism. The army is now responsible for opening the remaining four; officials say all will be operational by mid-March. But a spring surge could still overwhelm the hotspots, and there is plenty of anecdotal evidence of migrants evading registration or gaming the system.

A bigger problem is that registering immigrants will not stop them moving on if they have no fear of being sent back. Since November officials on Greek-Macedonian border have only let through Syrians, Iraqis and Afghans, who have good grounds for asylum (see chart 2). Other countries on the route are starting to do the same. The idea is that word of stricter controls will spread, deterring some from making the journey in the first place. Sub-Saharan Africans, once a common sight in the Serbian border town of Presevo, are almost entirely gone, bar the odd Somali. North Africans are trying to get across, but must use smugglers or act alone, traipsing through woods or ripping up fences. Some are robbed or beaten. Many freely admit that they are coming to Europe for a better life.

Making borders harder to cross is one thing. But Germany and the European Commission are considering sealing Macedonia's border with Greece altogether. Nikola Poposki, Macedonia's foreign minister, says that is not feasible, and that the priority is clamping down on illegal routes. But border closures farther up the line would leave Macedonia with no choice, if it wanted to avoid a vast build-up of migrants on its own soil.

Sealing the border to asylum-seekers could create huge bottlenecks in Greece. The EU's relocation scheme, which aims to move 66,400 asylum-seekers from Greece (and 39,600 from Italy), is supposed to tackle this problem. For Brussels bureaucrats the plan holds much promise: it turns unpredictable flows of asylum-seekers into orderly distribution and shares the burden equitably across Europe. "It is not for migrants or refugees to choose where to go," says Dimitris Avramopoulos, the EU's migration commissioner.

But fewer than 500 asylum-seekers have been moved so far. EU countries have refused to play their part, smothering the process in red tape. The migrants who agree to move are often woefully ill-informed. One group of Eritreans, preparing to leave Rome for Sweden, remarked to journalists that they were looking forward to leaving Italy's cold weather behind.

The EU is sticking to its guns, but even the most optimistic projection will not cope with the short-term build-up in Greece should its northern border close. The government expects to have 40,000 reception places ready in a few months, but may need many more. The UNHCR and EU governments are preparing support. In exchange for Greek co-operation some in Berlin and Brussels have murmured about treating Greece's vast public-debt pile more leniently when the issue comes up later this year.

If there is an iron law of illegal migration, it is that border closures shift routes—even fewer people take them. Anticipating a sealing of Greece's northern border, criminals in neighbouring Albania are sniffing out smuggling opportunities. Officials have observed more flows through Bosnia via Serbia. Italy fears the re-emergence of the central Mediterranean route, which is more dangerous than the Aegean crossing.

More could cross into Norway or Finland via Russia. It is harder than ever to predict what sort of diversion will emerge, says Elizabeth Collett of the Migration Policy Institute Europe, a think-tank.

Europe's hardening mood appears to be inspiring many to move now, before it is too late. "You can feel the fear," says a UNICEF worker on the Macedonian border. "They want to get through as fast as possible." It is only that rapid flow that stopped Greece from collapsing under the weight of migrants last year. No one can be sure that this year will be better. "We may be talking about millions of people," says a Greek official. "No matter what contingency we put in place, it will overtake us."

### Too hot to handle?

One way to alleviate Greece's burden would be to hasten the return of some migrants to Turkey from Greece. "Hot returns" of migrants whose asylum bids fail, or who choose not to lodge one, are controversial. But an existing deal between Greece and Turkey to send back asylum-seekers could work if Greece declares Turkey a safe place for third-country nationals and Turkey upgrades its rules to allow them to apply for full asylum (currently only Europeans are eligible). In theory returns could take place in days; in practice it is often more complicated. The aim should be to convince nationals with little chance of protection, such as Moroccans or Pakistanis, that there is no prospect of moving on if they reach Greece. Sources say Turkey may be willing to take such people back, though not the far larger numbers of Syrians or Afghans.

But deporting failed asylum-seekers once they have reached their chosen destination is hard. Some disappear; others exploit generous legal systems. In Germany three-quarters obtain temporary permission to stay after their asylum bids fail, often on dubious grounds like the absence of a passport or self-diagnosed post-traumatic stress disorder. Sweden's recent announcement that 80,000 of its asylum-seekers were probably eligible for deportation is more a cry of despair than a plan for action. Countries are often reluctant to accept the return of their nationals, not least because they can be a useful source of remittances. No wonder just 40% of failed asylum-seekers across the EU are returned.

So what will work? Not simply dumping people on planes, as Greece learned in December when most of the 39 Pakistanis it returned home were sent straight back by the authorities in Islamabad on spurious administrative grounds. Similarly, there has been a misguided focus on the bureaucratic fictions of readmission agreements cooked up by the EU with sending countries. Instead European governments must build partnerships with their developing-world counterparts that go far beyond migration policy. The success stories in Europe involve bilateral relationships with long and deep histories: Britain and Pakistan, Spain and Morocco, Italy and Tunisia.

The focus should thus be political, not legal. The Germans are thinking about how trade and aid may be used as diplomatic leverage and a source of jobs, particularly with countries that rely on remittances. Improved channels for legal labour migration would help. Governments might also club together to forge return deals with sending countries. The EU is working on a common list of "safe countries", to which it is assumed most asylum-seekers can be returned. Last year Germany slashed claims from Kosovars and Albanians by placing their countries on its own such list. This week it did the same for Morocco, Algeria and Tunisia.

### Let's get resettling

Rich countries should not rely on poor ones to shoulder as much of the refugee burden as they have. Once flows have started to fall, Europe could begin a much more ambitious attempt to resettle refugees directly from the region around Syria. A starting point might be 250,000 a year, with the bulk coming from Turkey. To reach this number countries may need to be less picky about who they take in. Some may want to work with Turkey directly, bypassing the UNHCR, which usually brokers resettlements. EU countries could join forces in identifying and screening candidates to save time and money. Reuniting divided families will be a priority.

Countries such as Germany and Netherlands will have to be in the vanguard of resettlement; with luck, others will follow. The failed attempt to impose relocation by diktat from Brussels shows that quotas inspire only rancour. But some of the huge unused relocation numbers (from within Europe) can be shifted to the politically easier task of resettlement (from outside). Britain and France can do much better.

A series of international refugee conferences this year, culminating with a summit in New York in September, will offer a chance to do more. European action might inspire rich countries like Canada and Australia to chip in. The Gulf states could add to their informal share of Syrians by formally resettling more. The presidential campaign may rule out any contributions from America before November, but after that, if there is international momentum, even a Republican president might help.

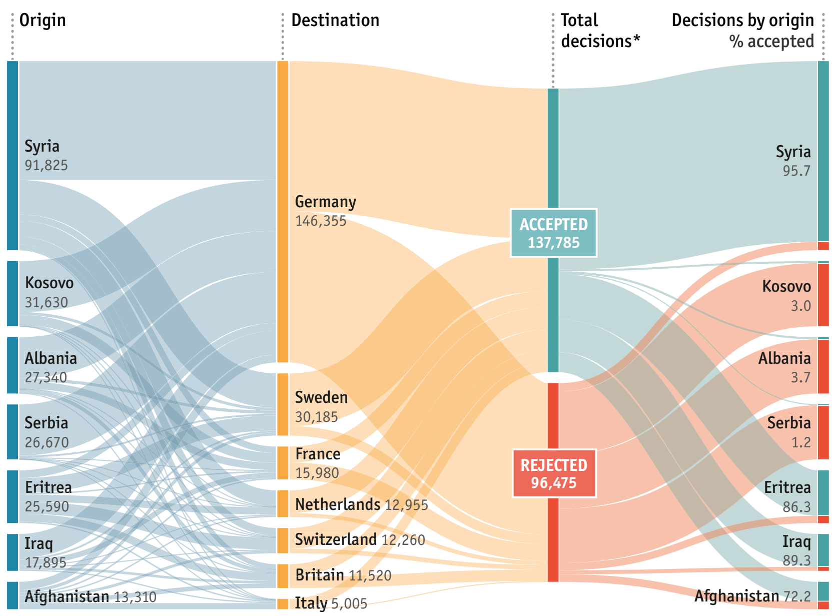
The consequences of inaction look clear: tighter borders, more people-smuggling, misery for refugees. Crucially, if the numbers do not fall Germany may lose its appetite for a European solution and follow the unilateral course charted by others. Yet there is an astonishing lack of real urgency among Europe's leaders. Only Mrs Merkel appears to think beyond the constraints of national politics.

That may not change. But even self-interest demands a more pressing approach. Otherwise governments that value Schengen may find themselves locked out of it, and countries that thought themselves immune to migration may see their territory turned into refugee marching grounds. Failure to contain the crisis would be a terrible outcome for Europe as it battles to hold itself together. It would be worse still for the refugees it has a duty to care for. ■

**From there to where?** 2

European asylum-seeker decisions

Main origin and destination countries, October 2014 - September 2015




Source: Eurostat

*First-instance decisions only

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Democracy in Myanmar

# A strange new world

NAYPYIDAW

**Myanmar awakes to new order: a parliament with a freely elected majority**

IT FELT like the first day of school. On February 1st freshly sworn-in legislators belonging to the National League for Democracy (NLD), the party led by Myanmar's Nobel peace-prize winning campaigner for democracy, Aung San Suu Kyi (pictured, in pink), walked uncertainly through the parliament's cavernous corridors in Naypyidaw, Myanmar's capital. Some looked bewildered. Others smiled and chatted with old friends, brimming with excitement. A small kiosk selling souvenirs did brisk business as new MPs bought key rings, fridge magnets and postcards depicting their unfamiliar new workplace. It is part of a sprawling complex of official buildings built by an unelected junta to withstand a popular uprising. Now, for the first time, it is about to be controlled by an elected government.

For some, getting to parliament on that opening day had involved an arduous trek. It took two of the MPs 15 days by foot, on horseback and by bus just to reach the airport nearest their village, high up in the mountains near Tibet. Others had endured greater hardship: more than 100 of the NLD's MPs served time in prison for the crime of belonging to the party. One, Bo Bo Oo, spent 20 years in jail for supplying medicine to students who had fled to a remote area after a failed uprising in 1988. While in prison, he says, he remained convinced that one day the NLD would form a government. Tin Thit, a poet, environmental activist and ex-prisoner, said the day felt "like a dream".

With its promise to transform impoverished Myanmar after more than 50 years of control by the army, the NLD won 80% of contested seats in November. That has created high expectations—unrealistic ones, some fear. "People expect that the NLD will solve all their problems," says Mr Bo Bo Oo. "But it will take at least ten years before we see real change." This view is echoed by Tin Oo, a co-founder of the NLD. The 88-year-old ex-general calls parliament's opening just "a first step" in a long struggle.

### Behind the throne, or on it

So far, procedural issues have dominated the new parliament's agenda: the swearing-in of new members and the election of speakers for the upper and lower houses. A bigger task looms: choosing the country's president. The NLD's victory gives it comfortable majorities in both houses, despite the 25% of seats reserved by law for the army. Each house selects one presidential candidate, as does the army. The winner is chosen by parliamentary vote, with the two others automatically appointed as vice-presidents. The president-elect then chooses a cabinet. The new administration will officially begin work at the end of March, when the term of the current president, Thein Sein, ends.

Given the NLD's bicameral majority, there is no doubt which party will determine who becomes president. But it is still a mystery who that person will be. It is unlikely to be Miss Suu Kyi: the constitution bars anyone with a foreign spouse or children from the job (her sons are British). But she may try to get the constitution changed in her favour. Speaking to journalists on February 3rd, she noted that parliament had until March 31st to choose a president, prompting speculation that she may even be looking for a way to get the constitution revised before then. Whoever ends up getting the job, she has been clear about who will call the shots: she will.

Miss Suu Kyi's power will be restrained, however. Despite the NLD's landslide, the army is still powerful. It controls the home, defence and border-affairs ministries, as well as the country's security forces and civil service. It can thus frustrate the NLD's attempts at reform. Revising the constitution may prove even more difficult. That would require a parliamentary supermajority exceeding 75%. The army's reserved seats give it a veto. Its newspaper said this week that the constitutional provisions regarding the presidency should remain unchanged "for the good of the mother country". In a national crisis, as defined by the generals, the army can still legally seize control again.

Many expect that Miss Suu Kyi will try to avoid confrontation with the army, and that she will even appoint ministers who worked in the outgoing administration. She is likely to focus first on ending conflicts involving ethnic minorities living in border areas. As Khin Maung Myint, an ethnic Kachin MP from northern Myanmar, puts it: "Everything that parliament will do is worthless without peace." ■

Asian nuclear weapons

# What lurks beneath

### A nuclear arms race at sea

FIGHTER jets roar overhead, spitting out decoy flares. Helicopters clatter past, bearing commandos rappelling down ropes. Warships lurk in the waters beyond. All week the crowds on the beaches of Visakhapatnam, a coastal Indian city, have been thrilled by the dress rehearsal for the Indian navy's great martial show: the International Fleet Review between February 4th and 8th. The extravaganza will draw ships from more than 50 countries.

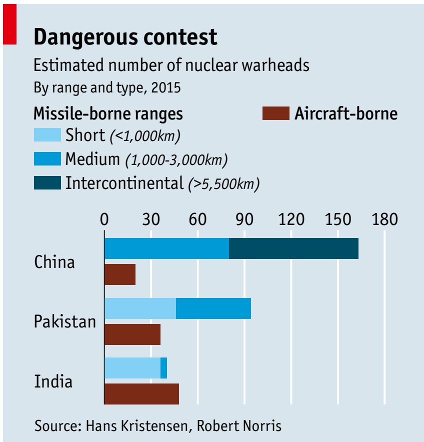
The last review took place 15 years ago in Mumbai, on the west coast. This time it is being held on the east side—a signal to another rising naval power in that direction: China. India wants to show that in the Indian Ocean, it is supreme. Still, for the sake of good-neighbourliness, China has agreed to participate in the review.

Many will be looking out for one vessel in particular: the INS *Arihant*, India's first nuclear-powered submarine armed with ballistic missiles (SSBN, in military jargon). The 6,000-tonne boat will provide India with the third leg of its nuclear "triad"—it already has land- and air-launched nukes. But in doing so, it will also risk accelerating a nuclear arms race in Asia (see chart).

*Arihant* has been undergoing sea-trials and weapons tests. Naval chiefs had hoped formally to commission it during the review. But as *The Economist* went to press, it was not clear whether this would happen. The SSBN programme has suffered delays. Indian submarines have been plagued by accidents.

India believes SSBNs are a vital part of its nuclear strategy, which forswears the first use of nuclear weapons. The Indian navy's latest statement of maritime strategy, published in October, says the country's nuclear-deterrence doctrine involves having a "credible minimum deterrent" that can deliver "massive nuclear retaliation designed to inflict unacceptable damage" in response to a nuclear strike against India. Because they can readily avoid detection, SSBNs can survive a surprise attack and thus ensure India's ability to launch a retaliatory "second strike".

Some nuclear theorists argue that submarine-based deterrents promote peace by making the other side more frightened to attack first. But the extension of the nuclear arms race to Asia's seas may still have worrying implications—all the more if North Korea gets in on the act. It appears determined to find a way of sticking nuclear warheads on the end of its erratic missiles (see box).




China is ahead of the game. It has a fleet of four second-generation Jin-class SSBNs and is testing JL-2 missiles to install in them. These weapons have a range of 7,400km (4,600 miles)—too short, for now, to reach the American mainland from the relative safety of the South China Sea. Pakistan, for its part, is in the early stages of a lower-cost approach. This involves arming diesel-powered subs with nuclear-armed cruise missiles with a range of 700km.

A report for the Lowy Institute, an Australian think-tank, predicts "a long phase of initial instability" as China and India start deploying nuclear missiles on submarines without adequate training or well-developed systems for communicating with them. It says the build-up may aggravate maritime tensions, as China and India seek to dominate local waters in an effort to turn them into havens for their SSBNs. And the submarines may not even provide the security the two countries are looking for. The institute says the Chinese and Indian submarines are noisy. This makes them easier to detect.

A more immediate worry to India is Pakistan's development and deployment of smaller "tactical" nuclear weapons for use on the battlefield. These may make it more likely that any war between India ▸▸

North Korean missiles

# Satellite of Kim

### North Korea prepares another provocation

IN ITS quest for nuclear weapons, North Korea is a master of braggadocio. On January 6th the dictatorship of Kim Jong Un declared that it had detonated its first-ever hydrogen bomb, and had thus "guaranteed the eternal future of the nation". But even its more low-key announcement this week that it now intends to launch an "earth observation satellite" some time between February 8th and 25th has caused global jitters.

It is the oldest trick in the nuclear book to pretend that the testing of intercontinental ballistic missiles (ICBMs) is nothing but a satellite launch. A rocket that can place a large satellite into orbit can just as easily propel a nuclear warhead to the other side of the world.

Japan has placed its forces on high alert. Its defence minister, Gen Nakatani, said they had orders "to shoot down any ballistic missile threat". South Korea has warned the North that it will "pay a harsh price" if it goes ahead with the launch. America is calling even more loudly for fresh UN sanctions against the North. Even China, North Korea's ally, said it was "extremely concerned".

Experts are unsure how much progress North Korea is making with its nuclear-weapons project. North Korea's boasting is certainly no guide. For example, it is highly unlikely that the detonation in January involved a hydrogen bomb, which is more powerful than the atomic sort. The seismic signature of the test, in an underground complex near the border with China where earlier ones were conducted, suggested the device was similar in size to the one used in the previous test in 2013. At most, experts say, North Korea tested a "boosted-fission" device that uses an additive to achieve a bigger bang.

There are also big doubts about the missiles. North Korea's tests of ICBM-type rockets have a patchy record—despite its claims to the contrary. In October North Korea paraded what looked like a scary ICBM: the KN-08. Some analysts believe this is designed to have a range of about 9,000km (5,600 miles), which means it could reach America's western seaboard. Whether it works is another matter. North Korea probably does not yet have the ability to fire nuclear weapons reliably at America—though every test will bring it closer to that objective.

For all the chorus of international outrage, the only country that can realistically divert Mr Kim from his ruinous nuclear quest is China: it provides North Korea with fuel and food, and is the main conduit for its financial transactions. But it is reluctant to endorse America's demands for tougher sanctions. However much China may be embarrassed by its wayward ally, it fears the collapse of the North Korean regime more than Mr Kim's headlong quest for nukes.

and Pakistan will go nuclear. They also increase the risk of Pakistan's weapons being used accidentally—or falling into the hands of extremists (such weapons are under the control of lower-level commanders whose professionalism and loyalty may be dubious). Pakistan says tactical nukes are needed because of an Indian doctrine known as "cold start". Though never formally adopted, "cold start" foresees Indian units being ready to respond to Pakistani provocation (eg, a terrorist outrage) with little or no notice, by seizing parts of Pakistani territory to use as a bargaining chip.

India says it will not develop battlefield nukes of its own. Instead, it will rely on the threat of massive retaliation against any use of nuclear weapons by Pakistan. Still, it may be another decade before India has a fully-fledged sea-based deterrent. *Arihant*'s Russian nuclear-power generator is unsuited to long patrols. Initially, the sub is due to be armed with the K-15 missile, with a range of 750km—not enough to reach big cities in northern Pakistan. Striking Chinese ones would be harder still. From the beaches of Visakhapatnam the world will witness not only India's ambition, but also the many gaps it has yet to fill in order to achieve it. ■

Politics in Japan

# Negative rates, positive polls

TOKYO

**Shinzo Abe weathers the exit of a scandal-hit minister with surprising ease**

RECENT days have witnessed unusual phenomena in Japan. On January 29th, for the first time in its history, the central bank adopted negative interest rates as a way of dealing with the threat of deflation. Then came the public's equally striking response to a bribery scandal involving Akira Amari (pictured), the economy minister, who had resigned a day before the bank's move. The government was braced for a drop in its approval ratings, but instead public support for it rose in three polls, to over 50%. Shinzo Abe, the prime minister, may be wondering at his luck.

The Democratic Party of Japan (DPJ), the biggest opposition party, had been preparing to make hay from Mr Amari's departure—the fourth such scandal in Mr Abe's cabinet. But the DPJ is still floundering following its defeat in a general election in 2012. It has yet to find a new message that appeals strongly to voters. Its campaign for an election this summer for the parliament's upper house is not inspiring. "I do not like the DPJ," one of the DPJ's posters imagines a voter musing, "but I want to protect democracy."

Mr Abe's skilful handling of the Amari affair helped to minimise the damage. After the scandal broke in the *Shukan Bunshun*, a conservative weekly magazine, Mr Amari appeared confident of the prime minister's backing. He was mistaken. Money scandals have been rife in Japanese politics due partly to vague rules on reporting political donations. But the magazine's allegations that Mr Amari's office accepted ¥12m ($100,000), including envelopes of cash, from the representative of a construction company seeking favourable treatment from a government agency, proved too much. Within a week, he announced his resignation. In his first, disastrous term as prime minister between 2006 and 2007, Mr Abe had allowed ministerial scandals to drag on with damaging effect.

Sorry

Mr Amari's exit came at an awkward time for Mr Abe as he tries to boost a stubbornly lacklustre economy (though it may get a lift thanks to the Bank of Japan's interest-rate decision). The scandal has delayed debate in the Diet (parliament) over the government's budget for the coming financial year, which starts on April 1st, though there is little doubt this will be approved eventually.

One of Mr Abe's boldest attempts to promote structural economic reform (there are not many of them), namely getting Japan into the Trans-Pacific Partnership (TPP)—an ambitious 12-country free-trade agreement that includes America—may also suffer delays. Mr Amari was Japan's chief negotiator for TPP entry. Without his guidance, it will be far harder for the government to get the terms of accession ratified by the Diet during its current session (due to end on June 1st), says Heizo Takenaka, a former economy minister. Even though farmers are to receive some ¥110 billion ($890m) to help them adapt to lower tariffs, opposition to TPP from the farm lobby is expected to be strong.

Mr Amari's successor is Nobuteru Ishihara, who leads the second-smallest faction of Mr Abe's Liberal Democratic Party (he is the son an ultranationalist former governor of Tokyo). Backers of economic reform bemoan the younger Mr Ishihara's relative lack of economic-policy experience and his proneness to gaffes.

But apart for his enthusiasm for TPP, Mr Amari was hardly a gung-ho promoter of reform himself. And Mr Abe has his eye on other goals. Such is the opposition's disarray that there is now even speculation that he may call a snap election for the Diet's lower house as early as this spring. Though the economy is weak, voters tend to blame China's slowdown rather than Mr Abe's policies, says Koichi Nakano of Sophia University in Tokyo.

Mr Abe may use his political strength not so much to push for economic reforms, but to change the constitution to make it easier for Japan to operate as a normal military power, instead of being bound by its post-war commitment to pacifism. For this he would need the support of two-thirds of legislators in both houses of the Diet (never mind that he lacks it with the public). With the help of like-minded parties, that may be thinkable if the LDP does well in both the upper-house election and a snap poll for the lower house. A strangely resilient Mr Abe may decide that now is the time to try. ■

# Banyan | Old shoes and duckweed

**Singapore's ruling party plans for its next half-century in power**

IT SEEMS odd for Lee Hsien Loong, Singapore's prime minister, to tamper with the political system. His country's style of government has many admirers. Europeans and Americans envy how efficient and clean it is. Authoritarians, not least in China, gaze in awe at the ruling People's Action Party, in power since 1959 despite facing regular, unrigged elections. The most recent, last September, returned the PAP with some 70% of the votes. One of the world's best-paid political leaders, Mr Lee is also one of its most successful. Why fix a machine that ain't broke?

Three simple reasons explain why Mr Lee, in a speech to Parliament last month, outlined a set of political reforms. First, this is a tinkering at the edges of the Singapore system, not an overhaul. He borrowed a metaphor from his father, Singapore's first prime minister, Lee Kuan Yew. Constitutions, he said, are like a fine old pair of shoes: "Stretch them, soften them, resole them, repair them." They will always be better than a brand-new pair.

Second, the PAP's landslide last September means Mr Lee is proposing change from a position of strength. He cannot be accused of panic measures to shore up PAP rule, as he might have been after the previous election in 2011, when the party recorded its worst performance since independence (a mere 60% of the popular vote). And third, Mr Lee, like his father, thinks for the long term. These, he said, are not changes for the next five or ten years but for the decades to come. What he did not say is that the reforms will help the PAP extend its rule far into that misty future.

All involve further refinement of the Westminster-style parliamentary system Singapore inherited from Britain. The first covers "non-constituency members of parliament" (NCMPs). These posts date back to 1984. As Mr Lee told it, the PAP, having faced no parliamentary opposition at all from 1965 to 1981, when it lost a by-election, decided to its surprise that it was good for government to have opposition voices represented. (This might also have surprised the late J.B. Jeyaretnam, that solo voice of dissent, who was hounded into bankruptcy, and was dismissed by the elder Mr Lee as a "dud".) So the government mandated a minimum number of opposition seats—at present nine. Since the opposition never wins enough at elections, the others go to its best-performing defeated candidates. But NCMPs have not been allowed to vote on money bills, for example, or constitutional changes, or on motions of no-confidence (not that such a heresy is on the cards).

Now Mr Lee proposes increasing the minimum number of opposition MPs to 12 (Parliament currently has 89 elected members), and to give NCMPs full voting rights. Yet the opposition's reaction has been churlish. Low Thia Khiang, of its biggest group, the Workers' Party, said NCMPs were like "duckweed" in a pond—ie, they lacked roots (in a constituency) and were merely ornamental. A greater cause for worry is that the reform may actually reduce the opposition vote. Many Singaporeans want to see the government held more fiercely to account, but are wary of the inexperienced opposition coming anywhere close to office. Indeed, the Workers' Party campaigned last year not to form a government but to be a stronger opposition. If that outcome is guaranteed, why not vote for the government?

The second proposed change is to so-called "group representation constituencies" (GRCs). These ostensibly ensure that the ethnic-Malay and -Indian minorities are represented. The public-housing estates where most Singaporeans live are subject to ethnic quotas, so everywhere probably has an ethnic-Chinese majority. Much of Singapore is now divided into four-, five- or six-member electoral constituencies, with parties compelled to include minority candidates on their slates. But these winner-take-all GRCs have had other uses: it is hard for small parties to find enough qualified candidates; weak PAP candidates can be swept into parliament on the coat-tails of a cabinet minister; and the distorting effect of Singapore's first-past-the-post system is magnified, increasing the PAP's majority. It was only in 2011 that the opposition first won a GRC. It barely clung on to it last year. Now Mr Lee wants to create more single-member constituencies and to reduce the size of GRCs; the opposition still wants them abolished.

The third proposed reform is to the largely ceremonial presidency, which since 1990 has been an elected post, with important powers of veto over government appointments and the spending of its vast financial nest-egg. The idea was to introduce a check on the government. Now, however, the worry is probably about the possibility of a rogue president. In the most recent election, in 2011, in a four-horse race, the government's favoured candidate only scraped home. The election, inevitably, had become political—a contest between the government and its critics. So Mr Lee announced the formation of a constitutional commission to review, among other things, the qualifications a presidential candidate needs—and, presumably, to tighten them.

**Checks and fine balances**

Singapore's leaders like to attribute their country's phenomenal economic success in part to the political system: one just contested enough to keep the government honest; but not so much that it risks losing power, meaning it can withstand populist temptations and plan for the future. Mr Lee's proposed reforms are in that vein—making sure that the system has checks and balances, but only ones the government can control. As opposition leaders were quick to point out, they do not even touch some of the main sources of the PAP's electoral magic: its public-housing programme; a pliant mainstream press; an election commission that is under the prime minister's office; and a political climate, even now, where dissent seems a terrible career choice. That Singapore has thrived with so little real restraint on the government is also a tribute to the incorruptibility of the Lee family and their colleagues. Whether it can continue to thrive without them, and without more far-reaching political reform, is a gamble. ■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Financial fraud

# Ponzis to punters

BEIJING

**Financial scams may pose as big a political problem for Xi Jinping as the stockmarket crash**

IN 1997 the collapse of several large Ponzi schemes in Albania precipitated mass disorder, the overthrow of the government and the deaths of 2,000 people. The failure, in another country lacking robust financial regulation, of a huge Ponzi scheme is not going to lead to the overthrow of its president, Xi Jinping. But it could cause the government political problems. And it shows that China is as vulnerable as anywhere else to the chaos that can result from financial shenanigans.

The company that failed was Ezubao, China's largest peer-to-peer (P2P) lender (one of its now sealed-up offices is pictured). P2P websites connect borrowers and lenders without a bank's intermediation. Founded in 2014 by Ding Ning, who, according to state media, had done well for himself manufacturing can-openers, Ezubao quickly became one of China's best-known new financial firms. Mr Ding spent millions on an advertising blitz, ordered employees to sport luxury brands or glitzy jewellery and was interviewed on the government's web portal about his company's contribution to Chinese growth.

But it was dodgy from the start. One executive said that "95% of investment projects on Ezubao were fake". Another called it, accurately, a Ponzi scheme: instead of paying investors out of revenues from business projects, it was paying long-standing investors with the money deposited by new ones, meaning liabilities exceeded assets and the firm was permanently insolvent. When the police arrested its bosses on January 31st Ezubao had over 900,000 investors who had lost about 50 billion yuan ($7.6 billion) between them. No known Ponzi scheme has had so many victims. To evade scrutiny, managers had buried their account books deep underground. Police took 20 hours to dig them out with excavators.

Ponzi schemes abound in China. Between 2007 and 2008 the founder of the great ant-farm scam stole $400m from investors in the supposed health benefits of the insects before he was arrested and sentenced to death. Last year in Kunming, a city in the south-west, Fanya Metals Exchange, which mostly traded rare earths, froze $6.4 billion of funds. The chairman disappeared in December (he is thought to have been arrested). Meanwhile police in Guangzhou, according to a newspaper in the southern city, are looking into what has happened to 40 billion yuan deposited with GSM, a firm that no longer exists at its registered place of business.

China is probably no more prone to financial fraud than other emerging markets (in 2012 the Reserve Bank of South Africa said it had investigated 222 suspicious schemes). But its scams are larger in absolute terms—and reflect its financial system's distortions. Chinese banking is dominated by state-owned firms that offer depositors artificially low interest rates and make most of their loans to other big state-owned enterprises. P2P lending (of the sort Ezubao pretended to offer) has rushed into the gaps, matching depositors who want higher rates of return with small firms that cannot get credit from big banks. Total P2P loans quadrupled in 2015, to 980 billion yuan, more than in America.

But the business is very poorly regulated. Realising this, the authorities in December proposed a strict set of rules, including banning P2P companies from financing their own projects or guaranteeing a rate of return. But this comes very late. About a third of the 3,600 P2P sites were classed as "problematic" by the China Banking Regulatory Commission at the end of 2015. Many are doubtless proper businesses but financial information in China is not reliable enough to help investors tell pyramid schemes from ventures that are honest.

**Foiling the phoney pharaohs**

One of the big questions is whether financial fraud will have a political impact. China's stockmarket meltdown caused ructions worldwide, but relatively few demonstrations in China itself. The opposite has been true for pyramid schemes. Investors in Fanya staged a "citizen's arrest" of the chairman at a hotel in Shanghai and drove him to the police station. Protests about Ezubao have broken out in 34 cities and the police were told to prepare for the occupation of official buildings in Beijing. Investors think financial firms are regulated by the government, even when they are not, and blame the state accordingly. "My question is simple," wrote "Mexican man" on Weibo, a microblogging site. "What on earth were the regulators doing?" Mr Xi might ponder that, too. ■

Television news

# No news is bad news

BEIJING

**How the Communist Party creates the world's most-watched TV news show**

EACH night at 7pm, many of China's television channels beam the state broadcaster's flagship news programme into Chinese homes: a remorseless half-hour diet of where Xi Jinping went today, how well the economy is doing and (for a few minutes at the end) a look at all those people in foreign countries killing each other. Despite China's transformation over the past 40 years, the evening news has changed very little. Around a tenth of the population still watch it—a remarkable number given the profusion in recent years of livelier news sources in print and online.

News Simulcast, usually known by its Chinese name, Xinwen Lianbo, has chronicled the country's extraordinary metamorphosis with almost unremitting leadenness since it was first aired in 1978. The same opening tune has been used for nearly 30 years (though the orchestra has improved). News is chosen not for its importance or human interest but for its political value in bolstering the Communist Party. It is translated into eight minority languages, just to be sure its message is understood by as many people as possible.

The fare has barely changed in decades. A typical programme in the 1980s highlighted the development of a self-opening umbrella and a contest in which happy only children (China had recently introduced a one-child-per-couple policy) performed household chores. Today the backdrop is just more high-tech. Scenes of bullet-trains and microchip makers have replaced those of dreary state-owned factories. Now, as then, reports featuring Chinese leaders—no matter how trivial their activities—nearly always take precedence over other news. A popular rhyming ditty accurately describes the format: "The leaders are always busy, the people are perfectly healthy, the world outside China is extremely chaotic."

Early newscasters—almost always one man and one woman—were chosen for their standard Mandarin pronunciation and stolid demeanour; the same few read the news for decades. These have been replaced with younger, more glamorous presenters (though they still need official permission to change their hairstyles). To make broadcasts seem more newsy, banks of TV screens flicker in what appears to be a newsroom behind. But live reports are rare; they create too big a risk of something embarrassing making it to air.

A fraction of households had TV sets when Xinwen Lianbo started broadcasting. But as China entered the age of mass consumption a few years later, TV news became the perfect vehicle for the party to try to guide public opinion. Xinwen Lianbo's ratings peaked in the mid-1990s, when 200m-250m tuned in. Now the audience is 130m-140m, though the fall is not as big a worry for the party as it might seem: in 2003 China Central Television launched a 24-hour news channel, giving viewers complete freedom to choose when to catch up with the latest propaganda. Xinwen Lianbo still has more viewers than any other TV news on Earth.

For many, the programme provides useful clues to the party's latest thinking, and a chance to see leaders who rarely appear in public. Propagandists have used the news to try to demystify President Xi, says Chang Jiang of Renmin University in Beijing. The president is shown as a man of the people, drinking tea with villagers or kicking footballs. His voice is often heard, notes Mr Chang—perhaps because, unlike his predecessors, he speaks standard Mandarin and is therefore widely understood. Ratings apparently rise when his elegant wife, Peng Liyuan, appears. But such cosmetic innovations are as far as the party will go in tinkering with a brand they consider successful. ■

Diplomatic insults

# A world of hurt

BEIJING

**Poor China: so vast and so sensitive**

"I'VE hurt the feelings of the Chinese people." So said Peter Dahlin, a Swedish citizen, in a televised "confession" after his arrest in Beijing in January. There were several disturbing aspects about the admission, including the likelihood that it was made because of pressure exerted on Mr Dahlin, who ran a Beijing-based legal-advice group (he has since been expelled). But why would the government put those particular words into his mouth?

Other countries, especially authoritarian ones, also like to express outrage about the state of their citizens' emotions. But China is a world leader in this specialised form of righteous indignation. David Bandurski of the China Media Project at the University of Hong Kong has counted 143 instances of the phrase

"hurting the feelings of the Chinese people" in the *People's Daily*, the Communist Party's mouthpiece, since 1959, when India became the first to be accused by the party of doing it—during a border dispute.

Since then, Japan has upset China most often, with 51 offences, followed by America, with 35. But you do not have to be a rival or neighbour to do it: the tiny Caribbean nation of St Lucia hurt the feelings of China's 1.3 billion people by reopening diplomatic ties with Taiwan in 2007. How many of them had heard of St Lucia is not clear.

Albanian insults aimed at Mao Zedong in the 1970s; the defection of a tennis player to America in 1982; the accidental bombing of China's embassy in Belgrade in 1999: all have caused emotional scarring. But three things are particularly offensive: being nice to Taiwan (28 occasions of bruised feelings); sympathy with the plight of Tibet (12); and failure to come to terms with the second world war (hence Japan's multiple offences). Oddly, general complaints about China's human-rights abuses are usually shrugged off—the *People's Daily* has reported only two cases of hurt feelings relating to those.

The public's supposed outrage is a useful tool: it enables the party to put aside its principle of non-interference in the internal affairs of other countries. For example, it often complains about Japanese politicians' visits to the Yasukuni shrine in Tokyo, where war criminals are among those honoured. But the party is rarely keen on letting people express their feelings for themselves. It regards spontaneous public outbursts as a potential threat to the party's control, loss of which would truly hurt.


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Ted Cruz

# The man in the ostrich-skin boots

CENTERVILLE, IOWA AND AUSTIN, TEXAS

**Who is the victor of Iowa, and what sort of president might he make?**

OF THE top two Republicans in Iowa, one is a universally recognisable type. Short on policy, long on ego and bombast, promising to redeem a nation he disparages through the force of his will, Donald Trump's strongman shtick is familiar from Buenos Aires to Rome, inflected though it is by reality TV and the property business. The other, Ted Cruz, champion of the caucuses, is the scion of a particular version of America and of a peculiar era in its history; a politician who repels or baffles many of his compatriots, even as others rally to his godly standard.

Superficially the senator from Texas is a classic overachiever, whose ability to surmount Himalayan obstacles—such as winning that office in his first-ever political race—bespeaks and fuels an adamantine self-confidence; the sort whose warp-speed ascent is powered by strenuous calculation and fearsome intelligence. Don Willett, a judge and long-term acquaintance, describes Mr Cruz as a "freakishly gifted" lawyer; watching him argue at the Supreme Court, during his stint as Texas's solicitor-general, was "like watching Michael Jackson unveil the moonwalk."

Like many modern politicians, if not Mr Trump, he is uncannily disciplined. On the trail he tells the same jokes, accompanied by the same gestures and self-satisfied chuckles, reproducing chunks of his book, "A Time for Truth", verbatim. In good lawyerly fashion, he stretches the bounds of taste and honesty rather than blatantly violating them.

Yet for all these formulaic talents, in his outlook and appeal Mr Cruz is an idiosyncratic product of the convulsions that followed the financial crisis and Barack Obama's election, and of his upbringing. Like many of his core beliefs, his evangelical faith—"To God be the glory", began his victory speech in Iowa—came from his father Rafael, a Cuban refugee who fled to Texas, turned to drink, then found God and is now a zealous preacher. By all accounts, Mr Cruz's Christianity is profound and sincere: Chip Roy, formerly his chief of staff, recalls visiting his condo to pick up his suit and spying a Bible and other devotional texts at his bedside. It is audible in his cadences and susurrations, his frequent references to scripture, disgust at the Supreme Court's defilements, and injunctions to prayer: "Father God, please", he asks supporters to murmur, "continue this spirit of revival, awaken the body of Christ."

In Iowa, some were plainly impressed. "He's a man of faith," purred a cheering woman at a restaurant that poked from the snow of Manchester into the milky sky. Mr Cruz would be the most insistently religious Republican nominee in decades.

He would also be the most ardently devoted to the constitution, a fervour itself influenced by his creed—for him, as for the Founding Fathers, Americans' rights are bestowed by God—and by his background. Before he fled Cuba, Rafael Cruz was tortured, which helps to explain why, for his son, freedom is always imperilled and government constantly on the verge of despotism. To hear him tell it, Obamacare is not just regrettable but tyrannical; gun controls are the high road to the gulag. That vigilance over liberty is widespread in Texas, where he spent most of his childhood (he was born in Canada, which Mr Trump says might disqualify him). He was among a group of teenagers who learned a mnemonic version of the constitution and regurgitated it at clubby lunches. Daniel Hodge, a former colleague and now the governor's chief of staff, reckons Mr Cruz is a Texan "from his head to his boots". His lucky pair are made of ostrich skin.

## Defying Reagan

Calling him a demagogue overlooks the authenticity of these convictions. Better to say that his beliefs, skilfully angled and promoted, have fortuitously chimed with the evolving mood of conservative voters, especially with the emergence of the Tea Party and the backlash against Mr Obama's agenda and the bail-outs that followed the crash. The fights Mr Cruz picked as solicitor-general—for religious liberty, the death penalty and states' rights, against abortion and gun control—both reflected his philosophy and set up his long-shot campaign for the Senate. (He is said to have relaxed by playing several chess games at once.) His hardline antics in Washington—most strikingly, his flamboyant effort to "defund" Obamacare, which helped to bring about a partial shutdown of the government in 2013—both served his instincts and laid the ground for a presidential run.

Critics say the Obamacare stunt tar- ▸▸

nished the Republican brand, jeopardised America's economy, and had just one beneficiary: Mr Cruz. Yet distancing himself from his fellow Republicans is as central to his pitch as excoriating Hillary Clinton. In his book Mr Cruz quotes Ronald Reagan's 11th commandment: "Thou shalt not speak ill of another Republican." Despite Reagan's status in his personal pantheon, alongside God and the constitution, he does not observe it. In 2013 he likened those who eschewed his kamikaze tactics to appeasers of Nazism; now, on the stump, he lambasts mainstream Republicans as corrupt and pusillanimous.

This push to portray himself as the lone ranger of true conservatism seems to be working. "Talk doesn't do it for me," said a man wearing an NRA jacket at Bogie's Steak House in Albia, where, positioned beneath a stuffed deer, Mr Cruz made his usual, casually thuggish attack on the mainstream media: "You've got to look at what somebody's done." Not surprisingly, however, it has incurred a cost.

Politicians often get on better with the public than with people they actually know; to label one ambitious—especially a 45-year-old junior senator running for president—is tautological. But the antipathy inspired by Mr Cruz transcends the routine gripes. It has followed him through the litany of elite institutions in which, for all his digs at the establishment, he has spent his adult life: from Princeton, to Harvard Law School, to a clerkship on the Supreme Court and his bumptious spell on the campaign for George W. Bush in 2000. (His wife, whom he met on the campaign, is a managing director at Goldman Sachs.) He went back to Texas, later to criticise Mr Bush's bloated conservatism, only after being passed over for jobs in the administration he felt he deserved. He became an outsider, at least rhetorically, after flopping as an insider. As both Bob Dole and Mr Trump recently put it, "Nobody likes him."

**Father, son and the ghost of holiness**

In fact that isn't altogether fair. David Panton, his room-mate at both Princeton and Harvard, describes him as "a loyal friend" and "extremely polite, kind and respectful". At least some of his former colleagues like as well as admire him, speaking fondly of his wit, impersonations of characters from "Scarface" and "The Princess Bride" and generosity to underlings. In Texas Mr Hodge remembers him as "the guy who came with his wife to my mother's 60th birthday party". But the damning judgment does seem to hold for one influential subset of Mr Cruz's acquaintances: his Republican colleagues in the Senate. Not one has endorsed him.

As he must, Mr Cruz strives to make a virtue of this unpopularity. His strategy rests on mobilising alienated conservatives, in particular the millions of white evangelical Christians who, his team believes, can swing elections when they are galvanised to vote. Conversely his appeal to moderates is limited. He has had little to say to or about the poor, beyond his perpetual gratitude that, when his father was washing dishes for 50 cents an hour, no one was sent by the government to help him. His flagship economic policy is a regressive flat-rate income tax of 10%. Black Americans, anyone concerned about climate change (which he denies) and non-Christians should look elsewhere. Ditto homosexuals: "This shall not stand," Mr Cruz declares of gay marriage. That grandiloquent but fuzzy pledge exemplifies his gambit: making impossible vows to disoriented voters which are all, at bottom, a promise to reverse history and revive a fairy-tale idea of America.

His game-plan may itself betray a form of cognitive dissonance—because, beyond Iowa and parts of the South, those elusive evangelical legions may not exist. If the bet comes off, though, the rest of the world is in for a period of abrasive unilateralism. Mr Cruz demonstrates little more interest in foreign alliances than he does in domestic ones; the only foreign leader he name-checks approvingly is Binyamin Netanyahu. He evinces an unholy relish for "carpet-bombing" Islamic State and making the desert glow. Indeed, the violence of his language might interest a psychoanalyst. He says he would "rip to shreds" the nuclear deal with Iran; after introducing his flat tax, he would abolish the IRS, along with numerous other agencies. His insurgent approach to government mostly involves destroying things. He denounces Mr Trump as a man others in Washington can do business with, and, compared with Mr Cruz, he may well be.

One of the scriptural aphorisms Mr Cruz likes to cite is: "You shall know them by their fruits." He deploys it to support the claim that he would conduct himself in the White House as he has in the Senate. His supporters believe that. "He'll do what he says he's going to do," said a woman holding a baby and wearing a Cruz football shirt at a campaign event in Centerville. If so, the fruits of a Cruz presidency would be confrontation and rancour. ■

Iowa and beyond

# Trump bumped

DES MOINES

**Ted Cruz may have won, but Marco Rubio came out on top**

DONALD TRUMP, flanked by his thoroughbred offspring and wife, showed admirable qualities in Des Moines on February 1st. Acknowledging his defeat by Ted Cruz in the Iowa caucuses, which polls had suggested he would win, the Republican front-runner congratulated "Ted and all the incredible candidates", thanked his activists, expressed his love for Iowans and said he was "honoured" with second place. He was gracious, touching even. But humility was not what the visibly deflated crowd wanted from Mr Trump.

Boastfulness is his schtick. Just hours before the caucuses, he delighted a crowd in Cedar Rapids with a promise that, under his presidency, Americans would get so bored of winning they would beg him to lose for a change. No wonder his supporters were downcast at his loss to Mr Cruz, by 24% to 28%—and almost to Marco Rubio, whose 23% surpassed expectations. Mr Trump's balloon has not popped. Iowa, where 60% of Republican voters are evangelical Christians, had always seemed an awkward fit for an irreligious divorcee. But he now has to win in New Hampshire on February 9th. Campaigning there this week, he was back to his old self in no time: he accused Mr Cruz of having stolen the caucuses and demanded a rerun.

The winner came third

Mr Trump lost in Iowa because the contest was more normal than anticipated, as politics usually is. The Republican turnout was high; first-time voters represented 45% of the total and, as expected, many backed Mr Trump. But that effect was mitigated by a big turnout of evangelicals for Mr Cruz. His assiduous effort to get them out on an icy evening made Mr Trump's campaign

The campaigns

## Heard on the trail

**Banana Republican**
"Ted Cruz didn't win Iowa, he stole it. That is why all of the polls were so wrong and why he got far more votes than anticipated. Bad!"
*Donald Trump's humility did not last long*

**Aw shucks**
"What the team [...] should have done was send around the follow-up statement from the Carson campaign clarifying that he was indeed staying in"
*Mr Cruz sort-of apologises for suggesting on voting day that Ben Carson was quitting*

**It's not brain surgery**
"Dr Carson needs to go home and get a fresh set of clothes."
*Ben Carson's campaign after Iowa*

**Best official campaign item**
"Make America Great Again"
*Trucker hats sold by Donald Trump's campaign became a hot item for hipsters*

**Best unofficial campaign item**
"Make America Gay Again"
*From the Human Rights Campaign, a gay-rights group endorsing Hillary Clinton*

**Burning Bush**
$2,800
*Jeb Bush's campaign expenditure in Iowa divided by the number of votes he won*

**Participation trophy**
"If I get one vote, frankly, in Iowa, I'll consider it a victory."
*Jim Gilmore got 12 votes out of the 180,000 cast in the Republican caucuses*

**They really love me**
"I have the most loyal people, did you ever see that? I could stand in the middle of 5th Avenue and shoot people and I wouldn't lose voters."
*Mr Trump on his fans.*

**Kill or cure**
"Voters are sick of me."
*Mike Huckabee ends his campaign*

**Too much information**
"I'm a Catholic, but I've used birth control, and not just the rhythm method."
*Governor Chris Christie, August 2015*

**Bad to the bone**
"You may have seen I recently launched a Snapchat account. I love it. I love it. Those messages disappear all by themselves."
*Hillary Clinton, August 2015*

**Heads it's Hillary**
"In a case where two or more preference groups are tied for the loss of a delegate, a coin shall be tossed to determine who loses the delegate."
*The Iowa Democratic caucus guide*

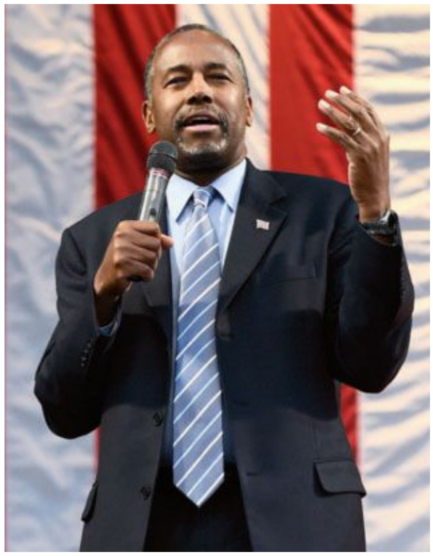
look dilettantish.

On the Democratic side, similarly, Bernie Sanders, a leftist outsider, hoovered up support from 20-somethings. Yet Hillary Clinton's superior organisation rallied enough middle-aged voters to foil him—just. Mrs Clinton was adjudged the winner by a handful of votes, which represented an indignity of sorts. Her rival is a dishevelled septuagenarian with, according to the Committee for a Responsible Federal Budget, a hole of at least $3 trillion in his health-care plans. But given that Mrs Clinton has a poor record in Iowa and little prospect of winning in New Hampshire, it was still a good result for her.

Mr Rubio's support came mainly from members of the "somewhat conservative" Republican mainstream. Many had previously vacillated between the first-term senator and several like-minded rivals—including Jeb Bush, who won only 3% of the vote. The establishment field is even more split in New Hampshire, between John Kasich and Chris Christie, governors of Ohio and New Jersey, as well as Mr Rubio and Mr Bush. But Mr Rubio is now the favourite to consolidate it and leave New Hampshire as the establishment's man.

If Mr Trump recovers, that augurs a protracted three-horse race—because Mr Cruz is unlikely to fizzle as previous Republican winners in Iowa often have. In New Hampshire he will go easier on the preaching, make the constitution his lodestar and hope for a top-three finish. That this is a realistic ambition also suggests the extent to which the contest remains far from normal. Anti-establishment sentiment is running high; Mr Cruz, Mr Trump and Ben Carson, who are all dedicated to stirring it, took over 60% of the vote in Iowa.

So there will be more rabble-rousing, perhaps especially from Mr Cruz. Before Iowa, he had launched an appeal for establishment support, arguing that he alone could stop Mr Trump. The tycoon's wobble and Mr Rubio's good result make that seem less plausible. Increasingly, then, Mr Cruz will try to appeal to Mr Trump's disaffected ranks; he will argue that he alone can foil the establishment. ■



Election spending

# Green grass roots

DES MOINES

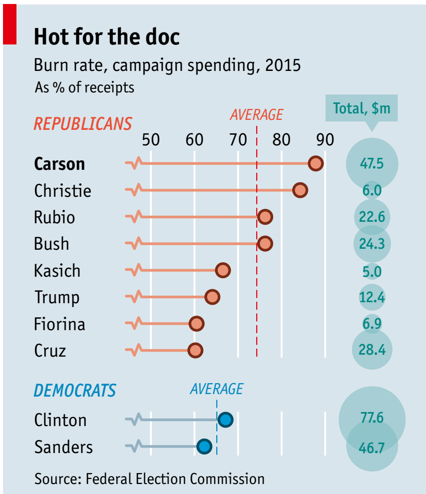
**Ben Carson's campaign is doomed and its governance tawdry**

AN INTERESTING sideshow in Iowa on February 1st was the demise of Ben Carson's campaign. In the state most susceptible to his Bible-infused right-wingery, the former neurosurgeon, who in October and November surged to a double-digit lead in Iowa and briefly led the Republican field, came fourth, with 9%. Polling in New Hampshire puts him in eighth place behind Carly Fiorina, a businesswoman with a patchy record and hypertense style of oratory. He says he is not quitting; he would save himself some bother if he did.

Iowans did not underrate Dr Carson. His surge was fuelled by a remarkable life story—brought up by a semi-literate single mother, he was a medical pioneer—and his reputation as a high-achieving outsider. He fell after both attributes lost their sheen. He was revealed to have embellished parts of his biography: he claimed to have been offered a non-existent "full scholarship" to West Point. He meanwhile revealed himself to be confused by foreign policy, which mattered after a terrorist attack, inspired by Islamic State, in California. Dr Carson's ignorance of the Middle East was so marked, someone suggested that he thought the Kurds were a variety of Wisconsin cheese.

His campaign is also notable for something else. That is the novel and opaque ways in which it has been burning through a war-chest of nearly $54m, mostly raised in small gifts from the doctor's fellow devout social-conservatives.

For much of the contest, it has had one of the highest "burn rates" of any cam-




paign—by the end of December, Dr Carson had spent 88% of what he had raised. For a political greenhorn, needing to build campaign infrastructure, that is perhaps understandable; but it was striking how little of his expenditure went on hiring staff and how much on raising more money. In the third quarter of last year over half of every dollar raised went on fund-raising, chiefly through expensive, pre-digital methods such as mailshots and telephone marketing largely eschewed by Dr Carson's rivals.

It was also striking that much of the cash went to companies linked to Dr Carson's associates. The biggest marketing contracts went to firms with ties to his senior adviser on fund-raising, Mike Murray, including contracts worth $5.6m to a company called TMA Direct of which he is chief executive. A spokesman for Dr Carson acknowledged that raising money from small contributions was expensive, but said the campaign's contracts represented good value. Others doubt that. "It's probably fair to say that the vendors that were used and the activities undertaken were not as qualified or efficient as in many other campaigns," suggests Anthony Corrado, a campaign-finance expert at Brookings Institution, a think-tank.

There is nothing illegal about that. Campaign-finance laws place tight restrictions on whom cash may be collected from, but not on how it can be spent. "You cannot make yourself rich from your campaign funds," notes Paul Ryan, of the Campaign Legal Centre. "There is no law against making your friends rich." It is harder to see what Dr Carson's 700,000 benefactors, fans of his modest demeanour and scathing attacks on evolution and homosexuality, stand to gain.

After his campaign is over, the companies that served it will likely retain access to the lists of donors they have compiled, which they may then rent to other campaigns. For their donation, in short, Dr Carson's fans may have stored up years of begging letters and nuisance calls. ■

Campaigning

# A bit MEH

### Does political advertising work?

CHANNEL-SURFING was no escape. In late January presidential campaigns bought up almost all the advertising on every television channel in Iowa, turning everything from "Sunday Night Football" to "The Big Bang Theory" into brief intermissions between rounds of political WrestleMania. On January 29th, three days before the state's caucus, 20 hours' worth of election propaganda saturated Iowa's airwaves. By January 25th campaigns had spent $53m advertising there; that number will climb once figures for the contest's final days become available.

For all the talk of data-driven outreach and micro-targeted get-out-the-vote efforts, television advertising is still the staple on campaign shopping lists. Yet proof that candidates are getting a return on this investment has long been hard to find. Study after study has shown that few voters are motivated or persuaded by advertising—a finding political scientists have repeated so often that it is now known as the "minimal-effects hypothesis" (MEH).

To measure the impact of advertising so far in the 2016 campaign, *The Economist* divided the Republican field into pairs of candidates in Iowa and New Hampshire. For each of the days in which both politicians scored above 10% in either the state or national polling averages published at RealClearPolitics (RCP), we counted how many ads, both positive and negative, had been aired in that state about each candidate during the previous week. We then compared this ratio with the two contenders' relative positions in the state's RCP polling average. If there were any pay-off to media spending, then candidates who appeared in lots of positive ads and few negative ones should have gained ground when compared with their rivals.

Polls can be influenced by too many factors to identify the causes of their fluctuations with precision. We tried to control for the impact of news events—such as the revelation of Ted Cruz's failure to disclose loans he received from Goldman Sachs, or Sarah Palin's endorsement of Donald Trump—by conducting the study on the difference between each candidate's national polling average and their polling in Iowa or New Hampshire (where the adverts aired). Even after this, however, the numbers are still affected by campaign rallies, local media coverage and a healthy dose of random variation.

We found that paid TV airtime did matter, accounting for a modest 13% of the week-to-week changes in polling. In some cases it was more significant: from January 24th to 30th, TV viewers in New Hampshire saw 866 more positive spots and 220 fewer attack ads about Mr Rubio than they did about Mr Trump. After adjusting for their standing in national polls, the front-runner's advantage over the Florida senator duly shrank by 5.1 percentage points. Overall, holding nationwide polls constant, we found that candidates could expect to gain a one-point edge over their rivals in the next week's early-state polling for roughly every 200 net positive ads about them, or every 500 net negative ones about their opponents.

So do these results vindicate the ad men after all? Not entirely. First, the effects ▸▸


And would you like ribs with your propaganda?

of paid media tend to be short-lived: during the current Republican campaign, the impact of positive ads on polling has been 4.4 times greater during the week they aired than in the subsequent week. This suggests that candidates may do well to imitate Mr Trump and skimp on their media purchases until shortly before the election. Moreover, just because adverts seem to have some persuasive power doesn't make them the best bang for a campaign's buck. Political scientists have generally found that "ground game" investments, like knocking on doors and get-out-the-vote efforts, deliver a superior payoff. The victory in Iowa of Mr Cruz, who was heavily out-advertised there but was widely considered to have the best caucus-day operation in the state, shows that ruling the airwaves is not the only way to win. ■

School choice

# A lottery to lose

**An enlightened scheme to benefit poor children seems to do the opposite**

IN THEORY it works perfectly. Rather than oblige parents to send their children to the nearest state-run or -funded school, give them a voucher to be spent at a private school of their choice. "The adoption of such arrangements", argued Milton Friedman in 1955, "would make for more effective competition among various types of schools and for a more efficient utilisation of their resources." As part of its recovery from Hurricane Katrina, which destroyed many schools in New Orleans, Louisiana undertook one of America's largest school-choice schemes. According to a new paper by Atila Abdulkadiroglu of Duke University, Parag Pathak of MIT and Christopher Walters of Berkeley, it has not gone well.*

Increasing school choice is a favourite policy of Republican governors and state legislatures. Since the party's bumper election year in 2010 the number of voucher schemes has increased from 25 to 59, according to the Friedman Foundation for Educational Choice. The thinking behind this is sound: the well-off already exercise school choice by moving into neighbourhoods with better schools. Why not allow poorer families to do the same? Yet the evidence from the voucher programmes that have been evaluated has been underwhelming: parents like them, but they often do little for their children's test scores.

Louisiana's scheme, brought in by a conservative governor, added a feature that ought to delight progressives: a lottery to assign the vouchers. In 2014 12,000 students from low-income families applied for more than 6,000 vouchers to attend 126 private schools. Lotteries are loved by social scientists because the winners and losers, distinguished by chance alone, are statistically identical. That means differences in outcomes can reasonably be attributed to the programme rather than, say, differences in family circumstances.

It turned out that this was a lottery to lose. The three economists found that those who received vouchers and moved to private schools had worse test scores in maths, reading, science and social studies than those who missed out. Hunting for an explanation, they wondered whether the weakest private schools had mopped up voucher pupils to fill their seats. But this hypothesis did not stand up.

Schools in New Orleans have improved dramatically since Hurricane Katrina: high-school-graduation rates have risen from 55% to 73% and drop-out rates have fallen by half. But this has been a victory for central control rather than the market: bureaucrats at the state's powerful Recovery School District have closed many schools and presided over the opening of many more. More parental school choice seems to have had little to do with it. ■

"School vouchers and student achievement: first-year evidence from the Louisiana Scholarship Programme" by Atila Abdulkadiroglu, Parag A. Pathak and Christopher R. Walters, *NBER*.

Confederate monuments

# Recast in stone

ATLANTA

**A middle way between complacency and destruction**

A STATUE'S fate might seem a binary issue: it is either up, like that of Cecil Rhodes, a British imperialist, at Oxford University, or down, like those of Lenin recently toppled across Ukraine, or the Confederate leaders soon to be ousted from their perches in New Orleans. The Atlanta History Centre, however, thinks there is a middle way between iconoclasm and inaction—an approach that might help to salve historiographical rows raging across the South and beyond.

Since Sheffield Hale, a thoughtful former lawyer, took charge in 2012, the museum has become a lively propagator of regional history. Mr Hale himself comes from on old southern family—many of his ancestors fought for the Confederacy—and says that, in the past, he didn't appreciate how painful tributes to slavery's defenders could be for black Americans. He still believes the likenesses of Robert E. Lee and the rest should stay on their plinths, but not quite as they are: educational panels should be added to explain their backgrounds, with scannable codes that link to more information, such as encyclopedia entries, in the ether.

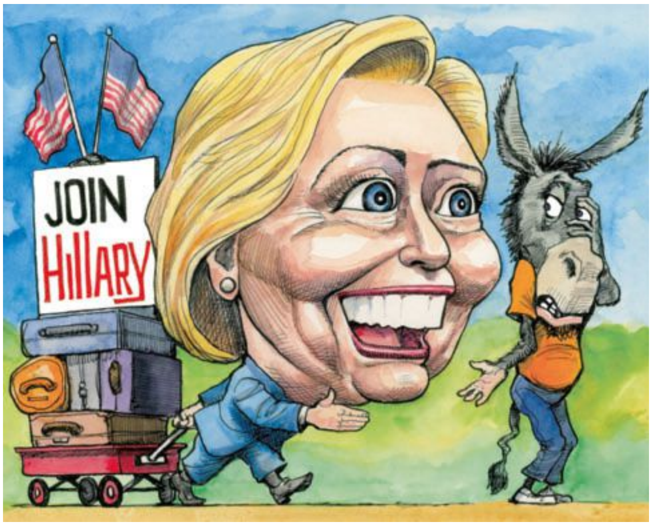
Wisely, Mr Hale thinks these blurbs should focus as much on the memorials' origins—many were demonstratively set up 100-odd years ago, serving to buttress segregation—as on their subjects, detailing when, why and by whom they were erected. Thus they would become "artefacts, not monuments"; instruments of education rather than objects of veneration, and more striking in town squares than they would be "in safe places" like museums. Mr Hale points out that relics of the segregation era have mostly disappeared; in time the indomitable generals scattered across the South could commemorate that injustice, instead of their supposed gallantry.

Some historians endorse this additive approach, already used in Colorado to clarify that a legendary battle against native Americans was actually a massacre. The obvious question, though, is who writes the text? Lots of exposition accompanies the giant Confederate carving at Stone Mountain, for example: it demonises Abraham Lincoln and ignores slavery. (A plan to place a memorial to Martin Luther King on the mountaintop, another sort of compromise, has foundered.) Mr Hale says communities should negotiate their own panels, though the centre offers a template, internet links and an even-handed commentary on the war's legacy. "The more you take out of the landscape," he reckons, "the more you diminish it."

Ben Tillman, lyncher on a plinth

# Lexington | Falling towards Hillary

**Even among her supporters, there was no great enthusiasm in Iowa for Mrs Clinton**




OF THE checks on executive power in the constitution, perhaps the least needed is the amendment limiting presidents to two terms. Americans often invest sky-high hopes in those they send to the White House, choosing someone they believe will correct the flaws of a now-despised predecessor. After their first terms, presidents seeking re-election are frequently helped by the trappings of office. But after eight years the mood sours: Americans then long for change, and for someone younger, more competent or less mired in scandal.

The rules of presidential politics have never been applied to someone quite like Hillary Clinton. In the public eye for decades as a First Lady, senator, unsuccessful presidential candidate and then secretary of state, she is neither a serving world leader nor a fresh face. Mrs Clinton risks finding herself an unhappy hybrid: a candidate weighed down by all the disadvantages of incumbency, while enjoying rather few of the benefits.

The Iowa caucuses on February 1st—the first electoral contest of the 2016 presidential cycle—saw Mrs Clinton held to a virtual tie by her populist rival for the Democratic nomination, Senator Bernie Sanders of Vermont. Iowa is a state that holds horrid memories for Mrs Clinton: it is where Barack Obama beat her in 2008, halting what had seemed her almost regal progress to the Democratic nomination. This year, addressing supporters in Des Moines on caucus night, Mrs Clinton voiced "a big sigh of relief" after her razor-thin win, before rushing to catch a plane for New Hampshire, scene of the next nominating contest.

Iowa is not very like most of America. It is 90% white. Many of its Democrats are deep-dyed lefties huddled in college towns surrounded by conservative, God-and-guns farm country. Yet Iowa's caucuses still offer lessons that will last, starting with the double-edged nature of Mrs Clinton's strongest suit: her experience.

In 2008 Mrs Clinton was thumped by Mr Obama in the eastern county of Poweshiek, notably in the handsome Victorian college town of Grinnell. This time Poweshiek gave her almost half its votes. That improvement was hard won. Mrs Clinton and her husband both visited. Caucus day saw volunteers fanning out from a field office to knock on supporters' doors. A poster in the office asked volunteers why they backed their heroine. At the top, someone had neatly written: "Because she is the best qualified non-incumbent to run since George Washington."

David Leitson is the head of "Grinnellians for Hillary", a campaign group at Grinnell College, a campus gripped by Bernie-mania. Ahead of the caucus he made three main arguments to classmates. First, that Mrs Clinton is ready to serve as president "on day one". Second, that her plans to make college more affordable or regulate big banks overlap with the Sanders agenda but are more feasible. Lastly, that she has been "battle-tested" by years of ferocious conservative attacks—a trial that Mr Sanders would surely face as a nominee, as a self-described democratic socialist who wants to raise taxes, hugely expand the government and break up big banks. Unbidden, many Iowa Democrats describe a tussle between their heads, which tell them that pragmatic, centrist Mrs Clinton offers their best shot at beating the Republicans, and their hearts, which sing when Mr Sanders growls that America is a corrupt oligarchy. Mr Leitson sees no reason why electability cannot co-exist with excitement. Explaining his passion for the Clinton campaign, the undergraduate said: "My heart is in it because my head is in it." He is a rarity, though: across Iowa, pollsters estimate, Mr Sanders won eight in ten caucus-goers under the age of 30. Mrs Clinton's salvation was her support among older Iowans, who turned out in larger numbers than the young.

Not all Poweshiek Democrats found striking the balance between excitement and electability so easy. Rebecca Petig, a mother of four and an elected prosecutor, was surprised to find herself undecided hours before welcoming fellow party members to her own home, which was to serve as an official caucus precinct (unsure about the etiquette of feeding voters, she thought she might offer banana bread and coffee). Ms Petig sighed that Mr Sanders describes politics "as I'd like it to be, but realistically it's not going to be that way". She admires Mrs Clinton's achievements, and expects her to become the Democratic nominee. But unexpectedly, she finds that she cannot hold Mrs Clinton up as a role model for her teenage daughter. The problem is Mrs Clinton's "baggage", involving years of alleged scandals and charges of dishonesty.

**There isn't anyone else, alas**

Talk of baggage was rife at the Democratic caucus in Poweshiek's 8th precinct, held in a Grinnell elementary school. Iowa Democrats caucus in public, showing their preferences by standing in corners of the room assigned to each candidate. Seeking to lure undecided voters to their corner, Sanders supporters did not cite the specific misdeeds of which Republicans accuse Mrs Clinton (most recently involving her alleged mishandling of top-secret government e-mails). Instead Sanders backers called Mrs Clinton part of a sleazy and unequal status quo, especially as the recipient of donations and speaking fees from billionaires and "banks that bankrupted the middle class".

Mrs Clinton has "been around so long, you sort of get fatigued", conceded Catherine Rod, a wavering voter at the caucus. She listened as a fellow Democrat urged her to cross to the Sanders corner so that "his ideas can get momentum". But Ms Rod, a retired librarian, worried about the harm that defeat in Iowa might do to Mrs Clinton, fretting: "I don't want to trash Hillary."

Lots of Democrats feel similarly trapped. They have only one plausible general-election candidate, Mrs Clinton, and understand why lots of Americans are unexcited by her. Assuming that she survives her latest legal woes involving classified e-mails, Mrs Clinton will be the nominee. But Iowa was an early warning. A long, grinding slog awaits. ■

Also in this section



Mining in Latin America

# From conflict to co-operation

COCACHACRA, PERU

**Big miners have a better record than their critics claim. But it is up to governments to balance the interests of diggers, locals and the nation**

A COUPLE of hours drive south of Arequipa, Peru's second city, the Pan-American highway drops down from the high desert of the La Joya plain and threads its way through tight defiles patrolled by turkey vultures before reaching the green braid of the valley of the river Tambo. The river burbles past fields of rice, potatoes and sugar cane. It is a tranquil, bucolic scene. The only hint of anything untoward is the five armed policemen guarding the bridge at the town of Cocachacra.

Last April the valley was the scene of a month-long "strike" that saw pitched battles between the police and hooded protesters hurling stones from catapults (see picture). Two protesters and a policeman were killed; 150 police and 54 civilians were hurt. The protest was over a plan by Southern Peru Copper Corporation, a Mexican-owned company, for a $1.4 billion copper and gold mine, called Tía María, on the desert bluffs overlooking the valley. Southern, as Peruvians know the firm, says the mine would generate 3,000 construction jobs and 650 well-paid permanent posts and would add more than $500m a year to Peru's exports. Local farmers insist it would kill their livelihoods by polluting the river. The company denies this: after a previous round of protests in 2011 in which three people died, it redesigned the project to include a $95m desalination plant as a way to avoid drawing water from the river.

So far the farmers are winning. Because of the protests, Southern suspended the project. Although his government approved Tía María, Ollanta Humala, Peru's president, gave it only lukewarm support. Southern is waiting for a new government to take office in July. Even then it will be difficult to win local consent. "The conditions will never exist for the company to operate," declares Jesús Cornejo, the president of the water-users' committee in Cocachacra. Nearly all the houses in the valley are adorned with flags saying "Farming Yes, No to the Mine".

Tía María is just one of many conflicts in Peru between mining, hydrocarbons and infrastructure companies and communities. In September three people were killed in a protest over last-minute changes to the design of Las Bambas, a giant copper mine bought in 2014 for $7 billion by MMG, a Chinese group, from Glencore, a Swiss commodities company, and which began production last month. In February 2015 in Pichanaki, in the eastern Andean foothills, one person was killed and 32 were injured when police opened fire on a mob opposed to natural-gas exploration by Pluspetrol, an Argentine firm. In 2012 protests halted Conga, a copper and gold mine in which an American-Peruvian consortium had invested $1.5 billion.

In all 53 people have been killed and almost 1,500 injured in social conflicts in Peru, mostly related to extractive industries, since Mr Humala took office in 2011. Peru has foregone investment of $8.5 billion in mining projects blocked by such conflict over the past 15 years, according to *Semana Economica*, a magazine.

Battles over the exploitation of natural resources have become common throughout Latin America. The Observatory of Mining Conflicts in Latin America, a coalition of NGOs, logged 215 of them in 19 countries in 2014, led by Mexico, Peru and Chile (see map, next page). In 2013 Chile's Supreme Court suspended Pascua-Lama, a gold mine straddling the border with Argentina, over fears that it would pollute rivers; Barrick Gold, its Canadian developer, had already spent $5 billion on the mine. Colombia's Constitutional Court has blocked exploration of a copper and gold deposit at Mandé Norte, north of Medellín, at the request of Embera Indians and Afro-Colombians in the area.

Oil drilling, too, has sparked protests in Ecuador and Peru; so have big infrastructure projects such as hydroelectric dams in Brazil and a proposed road through a nature reserve in Bolivia. But it is mining that has become the biggest source of strife.

### Slicing off the mountain tops

In the 1990s Andean countries opened their economies to private investment. The result was a boom, featuring vast open-cast mines. These often involve slicing the tops off mountains or drying up lakes. In the past people in the Andes tended to welcome mining; disputes were over labour relations. Modern projects have met growing resistance, partly because democracy has taken root in the region. People are more conscious of the projects' impact on their environment, of the big money that is at stake and of their rights.

Opponents of mining often claim it brings no benefit to Latin America, just "poverty…serious environmental harm and…human-rights violations", as a report by a group of Canadian NGOs put it. Some left-wingers argue that Latin America should abandon large-scale extractive industries altogether, saying they are inimical to development.

Modern mining is capital-intensive and generates relatively few jobs (though these tend to be skilled and well-paid). Yet the reality is much more nuanced than critics allow. By providing foreign exchange, tax revenues and investment, mining has helped to speed economic growth and poverty reduction in several South American countries over the past 15 years. In Peru, for example, where poverty fell from 49% in 2005 to 23% in 2014, mining exports amounted to $27.4 billion at their peak in 2011, or 59% of the total. In Chile and (to a lesser extent) in Peru, industries have sprung up to supply mines with equipment, spare parts, software and other services. Tellingly, left-wing governments in Bolivia and Ecuador have backed mining and hydrocarbons projects, in the latter case riding roughshod over opposition.

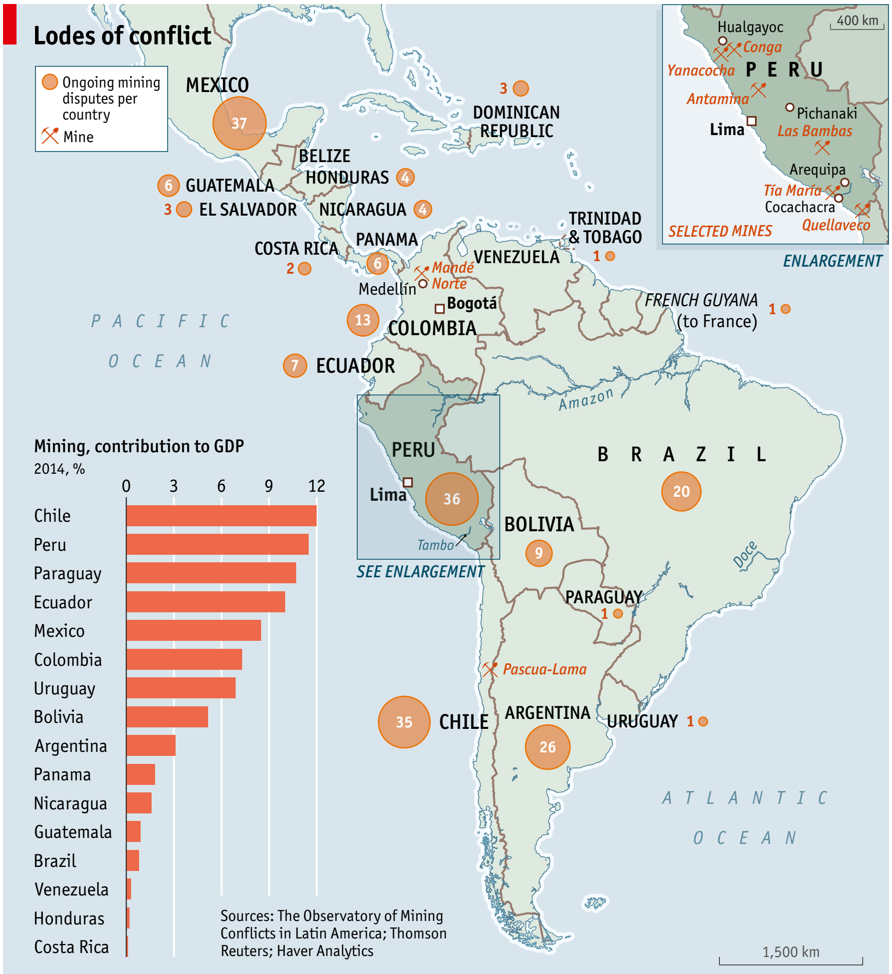
The latest conflicts come as the mining boom has turned to bust. Faced with plunging prices and profits, miners are slashing investment and suspending projects. That in turn has contributed to an economic slowdown in the region.

Despite the slump, it remains vital for Latin American countries to find ways of reconciling the interests of diggers, local people and the nation as a whole. This is not easy. Unlike in the United States, minerals in Latin America belong to the state, rather than the private owners of the land under which they lie buried. The state grants mining concessions to companies, which must then reach agreement with the communities whose lives will be disrupted. Most of the benefits accrue to the nation; many of the costs, such as pollution, are borne locally.

There is a huge asymmetry of power, resources and information between big miners and peasant farmers and herders high in the Andes. Expectations, which may be unrealistic, are aroused. Modern mines often operate as near-enclaves: local people lack the skills to work there and the scale to supply food and other provisions.

Disputes can arise over land purchases, relocation of the population and compensation payments. Water is increasingly a flashpoint. Mines insist that they clean up waste water—and this is usually true. But sometimes things can go badly wrong. In Brazil in November 17 people were killed and thousands of tonnes of mud released into the river Doce when a tailings dam burst at an iron-ore mine that is a joint venture between Vale and BHP Billiton. In Mexico in 2014, 40m litres of copper sulphate from a mine owned by Southern's parent company leaked into a river.

In remote areas of the Andes, companies have come under pressure to supply basic services that the state fails to, such as electricity, schools and clinics. Outside actors, such as political movements and NGOs, may fan conflicts—or help to resolve them.



Lodes of conflict

Over the past two decades the balance of power has shifted in favour of local populations. Fourteen Latin American countries are among only 22 to have signed the International Labour Organisation's Convention 169 on the rights of indigenous and tribal peoples. This requires governments to ensure that these groups are consulted about projects or laws that may affect them. Many governments did not foresee the impact the convention would have, says Carlos Andrés Baquero of Dejusticia, a think-tank in Bogotá. Several countries, including Chile, Colombia and Peru, have written the requirement of prior consultation into law.

There is debate as to whether this gives locals a right of veto. In Colombia mining bosses complain that prior consultation has become a means to extort money from companies. Peru has decided that it doesn't confer a veto, and has applied the law only to Amazonian tribes and not to Quechua-speaking people in the Andes. There the new system has worked to prevent conflicts in most, though not all, of the oil and gas projects over which it has been invoked. The convention has encouraged people to self-identity as indigenous. But many conflicts involve *mestizos*.

The second big change is in regulation. In Peru and Chile all projects are required to submit an environmental impact assessment (EIA). In Peru, this was supervised by the Ministry of Energy and Mines, whose main job is promote investment. "People don't believe in the rigour of EIAs," says José de Echave of CooperAcción, an NGO that works with communities affected by mining. Only this year has an autonomous environmental certification agency begun work. Peru devolves half a mine's corporate income tax to regional and local governments in the area. This has showered some mining districts with more money than they can spend, often fostering corruption.

Third, spurred by activists in their home countries as well as by changes in host-country laws and politics, some multinational miners nowadays take environmental and social responsibilities much more seriously than in the past. In many cases mutually beneficial agreements can be struck between miners and communities, provided there is trust and goodwill. Communities "are not necessarily against mining but they are very concerned that their decision-making capacity about their land not be taken away from them," says Tim Beale of Revelo Resources, a Vancouver-based exploration company. If the mining firm understands that, "it will have a much bigger chance of success."

One example is Gold Fields, a South African company, which developed a medium-sized gold mine in Hualgayoc in northern Peru. The circumstances seemed unpropitious: the project began in 2004, just when mass protests stalled an expansion by Yanacocha, a big gold mine nearby. Gold Fields began by holding many meetings with local people, at which managers explained the project and listened to concerns. The company promised to employ some locals and train others to use the money they received from the sale of their land to set up service businesses. It brought in an NGO to work with herders to improve pastures, dairy cattle and cheese production. It worked with local mayors to install electricity and drinking water.

**Shut up and listen**

People protest "because they want things rapidly, they fear missing a golden opportunity," says Miguel Incháustegui, a Gold Fields manager. He says the keys to achieving social consent were to listen more than talk and to ensure that living standards improve for people in the surrounding area.

Mitigating social and environmental risks is not expensive: it typically adds about 1% to a company's total costs, estimates Janine Ferretti, head of the Inter-American Development Bank's environment division. But that is not always true. At the Quellaveco copper project in Peru, Anglo American, a British firm, made an expensive offer to pay upfront to restore a river to its original course after the mine closed. The project is now in limbo.

Some miners find it hard to change. They see their strengths as understanding geology and managing projects, not engaging in grassroots politics. Others apply best practice in some countries but not in others, notes Mr Beale.

Southern seems to be in that group. Pinned to the wall of Mr Cornejo's office in Cocachacra is a decree issued by Peru's government in 1967 that gave Southern six months to halt emissions of sulphur dioxide from its nearby smelter and compensate local residents for air pollution. Only in 2007 did it stop the emissions. Tía María is not a stereotypical conflict: Cocachacra is one of the 300 least poor of Peru's nearly 2,000 districts; it has basic services; and its people are *mestizo* commercial farmers, not indigenous peasants. Guillermo Fajardo, Southern's manager for the project, blames outsiders for the violence. Nobody in the area agrees. Certainly, the community is divided, and those who support the mine have faced intimidation; the opponents have the support of a far-left party.

The underlying problem is a lack of trust. "The company might be right but the population feels unprotected," says Helar Valencia, the mayor of Cocachacra. Tía María only has a chance of going ahead if local peoples' concerns are addressed "with concrete confidence-building measures" such as the government building a reservoir to ease water shortages, says Yamila Osorio, the regional governor.

Despite the headlines, more mines go ahead than don't in Peru, points out Anthony Bebbington, a geography professor at Clark University in Massachusetts. Mainly because it has cheap energy and high-grade ores, many of Peru's mines are competitive even at today's prices. Thanks to Las Bambas and other new mines, the country's copper output is forecast to rise from 1.7m tonnes in 2015 to 2.5m tonnes this year, second only to Chile's.

Ironically, the end of the boom may increase both government and public support for mining. In Arequipa, for example, the regional government's revenue from mining will fall this year to a tenth of its peak, says Ms Osorio. Although low prices have halted some projects, they potentially offer more time for consultations.

Reconciling the national benefits and local costs of mining is ultimately a problem of democracy. The days when big mines could simply be imposed are over. In that regard, something has been learned from the conflicts of the past two decades. Complaints about pollution are "a means of demanding a better state presence", argues Vladimir Gil, a Peruvian anthropologist, in a study of Antamina, a big copper mine developed in the 1990s. The opposition such projects arouse can be seen "as a petition to achieve greater participation in national affairs". In some areas governments might reasonably decide that big mining should not be allowed because of its impact on the environment or on farming. That is what Costa Rica has decided; El Salvador is close to doing so.

When a project does serve the national interest, it is important that the government backs it. That does not always happen. Carlos Gálvez, the president of SNMPE, a mining-industry lobby in Peru, points out that after this year's new copper mines and one other project, the pipeline is now empty. To remedy that, he says the next president should defend mining more robustly.

Mining is a long-term business. Exploration can take ten years, development of a project another five and construction from three to five, says Mr Galvéz. The minerals bust is a reminder that governments should invest the windfall gains from extractive industries in areas such as infrastructure and education to try to develop less cyclical economic activities. But it is not a reason to put off the institutional changes needed to give mining a sustainable future in Latin America. ■

Miners and aboriginals in Canada

## I'll see you in court

OTTAWA

**Indigenous groups are suing loggers, miners and pipeline-builders**

"YOU want certainty? Knock at our door and ask our permission." Dean Sayers, chief of the Batchewana First Nation of Ojibways, a Canadian indigenous group, delivered this blunt advice to a room packed with mining executives last year. He came to the industry's annual convention because he was tired of "the hillbilly attitudes" of developers "who want to do business in our neck of the woods", on the north-eastern corner of Lake Superior. In 1849 Ojibways fired a cannon into a copper mine that had gone ahead without their approval.

These days Canada's aboriginal groups use public pressure, backed by legal action, to protect their lands against exploitation by outsiders. This month the government of British Columbia reached agreement with forest companies, environmental groups and 26 First Nations communities to protect from logging an area on the Pacific coast larger than Belgium—newly dubbed the Great Bear Rainforest. The deal, which allows logging and mining in areas aboriginals have agreed to, is the culmination of a long public-relations campaign (choosing the Kermode bear as its mascot was a masterstroke). It would have got nowhere without centuries of treaty-making and decades of case law to back it up.

Aboriginals' rights were outlined in a royal proclamation of 1763, when European settlers needed their help to survive, and restated in Canada's 1982 constitution. ▸▸

**Don't mess with my rainforest**

As they became savvier, and resource companies grew more ambitious, litigation increased. The federal aboriginal affairs agency is party to 554 proceedings involving such rights (not all of which concern resource firms). That does not include disputes between aboriginal groups and firms. Projects as diverse as seismic testing for mineral deposits in Arctic waters and fracking in the west face challenges. Until 1951 such lawsuits were barred.

They are expensive and can drag on for years; the outcome is never assured. The Tsilhqot'in, who filed suit in 1998 against logging on their ancestral lands in British Columbia, finally won in 2014 and now have title to 1,750 square km (1,100 square miles). But the Innu of Ekuanitshit in Quebec last year lost their bid to stop the Muskrat Falls hydropower project, which they say will affect caribou herds.

Some big projects are caught in legal limbo. The Northern Gateway pipeline, which is to bring crude oil from Alberta to Canada's west coast, has been stalled for more than a decade, largely because of opposition from First Nations groups along its route, some of them parties to the Great Bear agreement. The Pacific Northwest liquefied natural gas project, backed by Petronas, a Malaysian state-owned firm, has offered C$1 billion ($726m) in benefits over 40 years to the Lax Kw'alaams nation of northern British Columbia. That has not allayed fears that the project would destroy salmon fisheries.

When such disputes are unresolved, the price can be high. The Northern Gateway pipeline would add C$300 billion to Canada's GDP over 30 years. Aboriginals are finding ways to share gains from such projects while minimising the damage they cause. The courts "are getting closer to what we want", says Mr Sayers. "But they are not there yet." ■

## Bello | The endgame in Venezuela

**The country is on the brink of a social explosion that only a negotiated transition can prevent**

At 9.30am on a Thursday six Venezuelans wait for a guided tour of the former military museum that is now the mausoleum of Hugo Chávez, the country's populist president of 1999-2013. Across the road around 120 people are queuing for food at government-controlled prices from a state-run supermarket. The food queue starts at 3am. "Sometimes there's food and sometimes there isn't," one would-be shopper says.

In this district of Caracas, once a Chávez stronghold, his aura is fading amid the struggle for daily survival. Long gone are the days when he used a massive oil windfall triumphantly to impose his "Bolivarian revolution", a mishmash of indiscriminate subsidies, price and exchange controls, social programmes, expropriations and grand larceny by officials. The collapse in the oil price has exposed the revolution as a monumental swindle.

The government has admitted that in the 12 months to September 2015 the economy contracted by 7.1% and inflation was 141.5%. Even Nicolás Maduro, Chávez's hapless heir and successor, called these numbers "catastrophic". The IMF thinks worse is in store: it reckons inflation will surge to 720% this year and that the economy will shrink by 8%, after contracting by 10% in 2015. The Central Bank is printing money to cover much of a fiscal deficit of around 20% of GDP.

The government has run out of dollars—liquid international reserves have fallen to just $1.5 billion, thinks José Manuel Puente, an economist at IESA, a business school in Caracas. While all oil-producing countries are suffering, Venezuela is almost alone in having made no provision for lower prices.

This spells misery for all but a handful of privileged officials and hangers-on. Real wages fell by 35% last year, calculates

Asdrúbal Oliveros, a consultant. According to a survey by a group of universities, 76% of Venezuelans are now poor, up from 55% in 1998. Drugmakers warn that supplies of medicines have fallen to a fifth of their normal level. Many pills are unavailable; patients die as a result. In Caracas food queues at government stores grow longer by the week. Shortages will get even worse in March, worries a food-industry manager. Violent crime is out of control.

Rising discontent brought the opposition victory in an election for the National Assembly in December. Stalemate has followed. Chávez turned the institutions of state—including the Supreme Court and the electoral authority—into appendices of the presidency. The court, packed by the legally dubious naming of 13 new justices by the outgoing assembly, threw out four legislators, depriving the opposition of the two-thirds majority needed to change the constitution. Mr Maduro shows no sign of changing course. Last month he issued an "economic emergency" decree, rejected by the new assembly, that mainly offered more controls. His government seems paralysed by indecision and infighting.

Henry Ramos, the speaker of the assembly, has given the president six months to solve the economic crisis or face removal by constitutional means. On paper these include a recall referendum, an amendment to shorten his six-year term or a constituent assembly, which could rewrite the constitution. In practice, the rigged court and the *chavista* electoral authority can block or stall all of these. So the first step, says Mr Ramos, is for the new assembly to replace the 13 justices. That, too, would be vetoed by the court.

Stalemate is costly. Violent scuffles in food queues and localised looting are everyday occurrences. "We are seconds away from situations that the government can't control. It's a very thin line," says Henrique Capriles, a moderate opposition leader who narrowly lost to Mr Maduro in the 2013 presidential election.

Most in the opposition and some *chavistas* believe a negotiated transition is the only way to prevent a descent into bloodshed. The outlines of such a deal are clear. The regime would concede an amnesty for political prisoners and agree to restore the independence of the judiciary, the electoral authority and other powers. In return the opposition would support essential, but doubtless unpopular, measures to stabilise the economy.

Mr Ramos says that there are "some conversations" but no formal dialogue. On the street, time is running out. Many in the opposition want Mr Maduro's resignation as the price for such a deal, and either a fresh election or his replacement by Aristóbulo Istúriz, his new and moderate vice-president. But would Mr Maduro go along? He seems transfixed by the thought that resignation would be a betrayal of Chávez's legacy. In fact, what remains of *chavismo* would be better off without him.

The Economist

SPECIAL REPORT

# TURKEY

February 6th 2016

# Erdogan's new sultanate

# Erdogan's new sultanate

**Under Recep Tayyip Erdogan and his AK party, Turkey has become richer and more confident. But the party's iron grip is becoming counterproductive, says Max Rodenbeck**

SEEN IN SILHOUETTE from a commuter ferry bustling across the Bosporus, parts of Istanbul seem to have changed little from centuries past. Looking to the west, towards Europe, the old walled city is still capped by multiple domes and spiky minarets. But turn to the east, towards Asia, and a different picture unfolds.

Standing as sentries to the narrow strait, giant gantry cranes heave containers onto waiting ships. Beyond them, along the low-slung Marmara shore, march soaring ranks of high-rise buildings. To the north, the hills on the Asian side of the Bosporus prickle with a metallic forest of communications towers. And on the highest of those hills rises a startling mirror to the old Istanbul: the giant bulbous dome and six rocket-like minarets of a colossal new mosque (pictured). When finished later this year, this will be Turkey's biggest-ever house of prayer.

The scale and symbolism of the mosque, like so much of the frenzied construction that is reshaping this city, reflect the will and vision of one man: Recep Tayyip Erdogan. After over two decades in power, from 1994 as mayor of Istanbul, from 2003 as Turkey's prime minister and since August 2014 as president, Mr Erdogan towers over his country's political landscape. To detractors he is a would-be sultan, implacable, cunning and reckless in his ambition. To admirers he is the embodiment of a revived national spirit, a man of the people elevated to worldly glory, a pugnacious righter of wrongs and a bold defender of the faith.

Mr Erdogan has presided over some startling transformations. In two short decades his country, and most dramatically its long-neglected Anatolian hinterland, has moved from relative poverty and provincialism to relative wealth and sophistication. An inward-looking nation that exported little except labour has become a regional economic powerhouse, a tourist magnet as well as a haven for refugees, and an increasingly important global hub for energy, trade and transport.

In many ways Turkey's 78m people have never had it so good. Since the 1990s the proportion of those living below the official poverty line ▸▸

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

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has declined from the teens to low single digits, and the share of the middle class has doubled to over 40%. By every measure of living standards, the gap between Turkey and fellow members of the OECD, a club of mostly rich countries, has shrunk markedly.

Under the subtle but relentless Islamising influence of the Justice and Development (AK) party, co-founded and led by Mr Erdogan until he became the nation's (theoretically non-partisan) president, the Sunni Muslim component of Turkey's complex national identity has strengthened. The long shadow of Kemal Ataturk, the ruthless moderniser who 90 years ago built a secular republic on the ashes of the Ottoman Empire, has faded. The AK party has marched the army, long given to ejecting elected governments from power, back to its barracks. Turkey has resumed its role as turntable between east and west.

When the AK party stumbled badly in parliamentary elections in June 2015, pundits were quick to herald an end to Mr Erdogan's long winning streak. Whiffs of corruption and abuse of power had tainted his party, and terrorist acts by Islamic State (IS) and the influx of more than 2m Syrian refugees into the country had made Turks question his judgment.

### Who dares, wins

Shorn of a parliamentary majority for the first time since 2002, the AK party should have sought a coalition partner, but instead Mr Erdogan boldly gambled on a new election on November 1st. To everyone's astonishment his party surged back, trouncing a trio of rival parties. With 317 seats in the Grand National Assembly, Turkey's unicameral 550-seat parliament, the party can now again legislate at will.

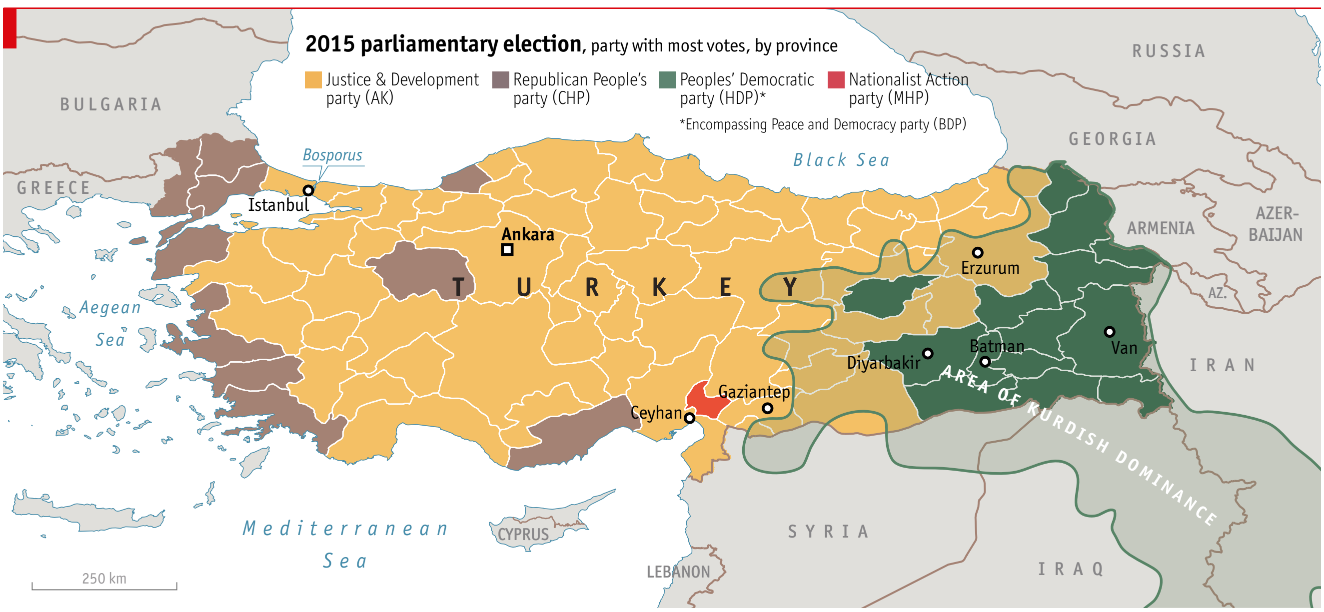
However, its majority is insufficient to allow it to revise Turkey's 1982 constitution on its own. That was what Mr Erdogan had been trying to achieve in the June election, in the hope of creating a presidential system that would greatly widen his ostensibly limited (but in fact extensive) powers as president. In the absence of a two-thirds majority, he must work in tandem with his hand-picked prime minister, Ahmet Davutoglu, who is a less divisive figure.

Ahead of the November election Mr Erdogan wisely toned down rhetoric about expanding his own powers but quietly strengthened his control over the party. At a party meeting last September he engineered the replacement of 31 members (out of 50) of the party's politburo with people personally loyal to him. One of these, his son-in law, is now also a cabinet minister; and one of the party's new members of parliament is Mr Erdogan's former chauffeur.

Today there is no doubt about who is boss. Bureaucrats in Ankara, the capital, respond to the merest whisper from the *saray* (palace), the grandiose 1,000-room presidential complex, built atop a hill on the city's outskirts at a reported cost of $615m and opened in 2014. The famously short-fused Mr Erdogan will almost certainly continue to dominate Turkish politics until the end of his term in 2019, and very possibly beyond: some say he has set his sights on 2023, the 100th anniversary of the Turkish republic. By then he would have served at the helm of the Turkish state for far longer than Ataturk himself.

To his party's pious core constituency, that is something to rejoice in. Much of the country's urban working class, as well as those living in the stretch of central Anatolia sometimes known as Turkey's Koran belt, share this cult-like devotion to the former food vendor and semi-professional footballer turned statesman. Other AK voters, such as small businessmen and property developers, may be warier of Mr Erdogan. They support the party mainly because of its record of economic growth and relative stability after decades of turbulence. The AK's swift comeback between the June and November polls reflected fear of a return to political volatility as much as enthusiasm for its policies.

The collapse last summer of peace talks between the government and the Kurdistan Workers' party (PKK), an armed rebel group, raises the spectre of more bloodshed. The talks had made little progress but did much to calm the restless south-east, a region dominated by ethnic Kurds, who make up 15-20% of Turkey's population nationwide. Fighting in the region in the 1980s and 1990s had left some 40,000 soldiers, rebels and civilians dead and displaced perhaps 1m Kurds from their homes. Soon after the June election, clashes between security forces and Kurdish activists, which had been suspended for two years, resumed. In the months since, heavily armed police have clamped curfews on Kurdish towns. The clashes have left well over a hundred civilians dead, in addition to scores of Turkish security men and, says the Turkish army, more than 400 alleged PKK guerrillas.



At the same time Mr Erdogan faces rising economic headwinds. Between 2002 and 2007 Turkey's GDP grew at an annual average of 6.8% and its exports tripled, but since then GDP growth has settled at around 3.5% a year and exports have remained virtually flat. Income per person, which the AK party four years ago rashly promised would rise to $25,000 a year within a decade, is stuck at around $10,000.

None of this is disastrous, and Turkey's economy is far more robust than it used to be. The trouble is that Mr Erdogan's government has continued to behave as if the good times had kept rolling. Although the country's chronic current-account deficit has narrowed lately, thanks to falling energy prices, Turkey relies heavily on foreign capital and is finding it increasingly difficult to attract money from abroad. Yet in recent years its government has shied away from reforms to boost the meagre domestic savings rate or promote industry, even as a consumer credit binge and heavy infrastructure spending have crowded out private investment. Rigid labour and tax rules remain a burden. Mr Erdogan himself has shaken confidence further by bullying his central bank to keep money cheap and by hitting the business interests of political rivals. Without a serious policy shift, including an effort to deal with concerns about institutional independence and the rule of law, Turkey's economy will continue to underperform.

Darker scenarios have less to do with the country's domestic market than with geopolitics. Because of the way it straddles cultures and continents, Turkey has always held a complicated hand. In recent years the mayhem on its southern borders, coupled with renewed tension pitting its NATO and European allies against an expansionist Russia, have made its position all the more delicate. Yet Mr Erdogan's government has failed to show much diplomatic finesse.

Everyone agrees that Turkey has been immensely generous in accommodating well over 2m refugees from Syria's civil war. It has also worked hard to resolve long-standing squabbles with neighbours such as Greece, Bulgaria, Cyprus and Armenia. But it has often appeared aloof and suspicious, failing to communicate effectively or to work with allies.

The most important of these, and Turkey's dominant trading partner, is the European Union. Fear of a continuing tidal wave of migrants has lately prompted Europe to proffer aid and a resumption of stalled talks on Turkish membership in exchange for tighter border controls. But there is little warmth in the relationship. Most European governments still see Turkey as a buffer more than a partner. And Mr Erdogan's government has appeared more concerned to extract concessions than to adopt European norms as a good thing in their own right.

The danger of isolation was sharply underlined in November when Turkish jets shot down a Russian fighter over Syria that had briefly entered its air space. The Russian president, Vladimir Putin, swiftly responded with a broadside of sanctions. The Russian measures could trim up to 0.7% from Turkish GDP growth this year, according to the European Bank for Reconstruction and Development.

With lukewarm support from its allies, Turkey has tried to calm the excitement. But given its support for militias fighting against Syria's president, Bashar al-Assad, and Russia's growing military commitment to his survival, there could well be more clashes. Turkey seems in danger of stumbling into an unplanned but potentially costly fight. It imports most of its gas from Russia, and Turkish construction firms have well over $10 billion-worth of Russian contracts on their books.

Now Turkey faces a new threat. A double suicide-bombing in Ankara on October 10th last year aimed at a march by leftist trade unions and Kurdish activists killed more than 100 people. In January suicide-bombers struck again, this time in the heart of Istanbul, killing ten tourists. Both attacks were attributed to Islamic State. In a country that has long seen itself as insulated from Middle Eastern turmoil, the intrusion of violent radical Islam came as a particular shock. Worse, it partly reflected Mr Erdogan's slowness to recognise the danger of blow-back from his own policies in Syria, where Turkey for too long indulged radical Islamists so long as they opposed the Assad regime.

*Worried voters in November rallied behind Mr Erdogan, backing a strong, tested government*

Rather than blame the party in power for such setbacks, worried voters in November rallied behind Mr Erdogan, backing a strong, tested government rather than risk rule by a possibly weaker coalition. It helped that the ruling party, in effect, controls Turkey's mainstream media, which pumped up nationalism in the face of danger. Mr Erdogan had carried the 2014 presidential election with a slim majority of 52%, and his AK party, for all its success, enjoys the support of just half the Turkish public. Many of the rest remain sceptical or even bitterly opposed to him.

This special report will argue that Turkey's leaders, with their ambitions still set on mastery, are not doing nearly enough to heal such internal rifts. The Kurdish issue looms as one big danger, and so does the Turkish economy's growing vulnerability to external shocks. Mr Erdogan's blustering, bulldozing style, together with his party's growing intolerance for dissent, portends trouble. ■

Politics

# Getting off the train

### Mr Erdogan's commitment to democracy seems to be fading

FOR 400 YEARS, says a founding myth common to Turkic peoples from China to the Aegean sea, forebears of the Turks were trapped in the rocky valley of Ergenekon. But one day an ingenious blacksmith learned to melt stone, and a grey she-wolf appeared to lead the tribe from its mountain fastness into the rich plains. Similarly, Kemal Ataturk has for generations been depicted in Turkish schools as a hero who after the first world war rallied a beaten people, repulsed a swarm of invaders and forged a strong new nation. In some ways the story of the rise of the Justice and Development party echoes those tales, with Recep Tayyip Erdogan presented as leading Turkey from a dark era of Kemalist faithlessness into a bright Islamic future.

But now that the party has risen, the story is getting darker. Early in his career Mr Erdogan made a telling remark he was later

# Softly, softly

## How the AK party gained power by stealth

WHEN THE AK party was founded in 2001, few would have predicted its success. Just four years earlier the army had intervened, for the fourth time since 1960, to depose an elected government, on this occasion an Islamist-led coalition. The Islamists were then banned, but the squabbling secularists that succeeded them proved ineffective and corrupt. The economy was in tatters.

At its birth the AK party represented a mixed bag of interests. Its supporters ranged from hard-core Islamists to members of more traditional religious fraternities, Islamist modernisers, socially conservative businessmen and even secular reformists and Kurds. Some of its founders had made their name in local politics; in 1994 Mr Erdogan was elected mayor of Istanbul, where he was seen as energetic and effective. He gained extra glory among Islamists in 1998 by being briefly imprisoned for "inciting hatred based on religious differences", having publicly recited a nationalist poem.

The party's surprise triumph in national elections in 2002 owed much to Mr Erdogan's formidable powers of oratory and organisation, but also something to luck. Its 34.3% share of the vote translated into a whopping two-thirds of all parliamentary seats, ironically because Turkey's generals, intent on keeping Islamists and Kurds out of the legislature, had set the threshold for any party to enter parliament at a steep 10% of the national vote. Of 16 quarrelling secular parties, only one, the Republican People's party (CHP), founded by Ataturk himself, won any seats, leaving the AK party with little opposition. It also benefited from economic reforms introduced in 2001, which caused short-term pain but produced long-term gains for which it took the credit.

With both the economy and politics stable for the first time in years, Mr Erdogan seized the opportunity to push Turkey's bid to join the European Union. His overture to the West assuaged fears that the AK party harboured an unstated Islamising agenda. The 2001 terrorist attacks on America also helped persuade the West that the democratically elected, mild-mannered and pro-business AK party was worth supporting.

Leftists in Turkey were seduced by Mr Erdogan's populist rhetoric and his ambitious social agenda that quickly produced better housing, health care and education. Conservatives liked the AK party's economic policy, which promoted growth but kept taxes low. Traditionalist Turks were pleased that women could now wear headscarves.

Voters of many political stripes also cheered as the party took on the country's "deep state", the matrix of military, security, judicial and even criminal bodies that had for decades exerted control behind a veneer of democracy. Through a series of massive trials, the influence of these unaccountable agents was slowly punctured.

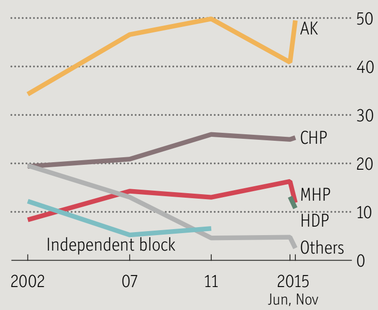
"We all honestly wished them well," says a Turkish professor of the AK party's early years. "It was a quietly revolutionary movement, a corrective to so many years of bullying." Many of his secular friends were soon voting for and even joining the party.

Over the past decade the AK party has notched up some remarkable electoral victories. In the 2007 general election its share of the vote rose to 47% and in 2011 to 49%. In 2007 the party's candidate, Abdullah Gul, won a parliamentary vote to become president. Following two referendums to approve constitutional changes, Mr Erdogan succeeded him as directly elected president in 2014. And after the brief hiccup of the parliamentary election last June, the AK party surged back in November with 49.5% of the vote.

Political analysts put the party's core constituency of pious Muslims and Islamist ideologues at 20-30% of the electorate. A similar-sized but less committed group is made up of conservative nationalists and businesspeople. The AK party has shown great skill at keeping both groups happy. Yet as it becomes more powerful, it is relying less on charm and persuasion and more on threats and rewards. That is making even some party stalwarts uncomfortable.

**Back on form**

Elections, % of vote




Source: Supreme Electoral Council of Turkey

to regret. Democracy is like a train, he said; you get off once you have reached your destination. Now many of his party's critics fear that Turkey's president may be getting close to that goal.

It is not just that Mr Erdogan wants to rewrite the constitution to award himself executive presidential powers. The trouble is that he hardly needs them. Sometimes overtly, but often by stealth and dissimulation, the AK party has spread its tentacles across Turkish society. The courts, the police, the intelligence services, the mosques, the public education and health systems and the media are all, in one way or another, subject to the party's overweening influence.

The judiciary makes an instructive example. Turkish courts and state prosecutors have never enjoyed a sparkling reputation for neutrality. Mr Erdogan's own spell in jail in the 1990s, for the "crime" of reciting a poem, represents one of the milder perversions of justice that prevailed before the AK party's rise. Most Turks cheered as the party undertook a series of reforms, billed as raising Turkish justice to European standards. These changes concerned both the shape and the size of judicial bodies.

In the name of democratising a board that oversees judicial appointments, the AK party expanded its membership, and in the fine print also increased its own powers to select those members. A subsequent move to expand the number of state prosecutors, with the ostensibly laudable aim of speeding up the creaky justice system, enabled the party to appoint thousands more loyalists. The result is a judicial apparatus that, except for the highest courts, increasingly dances to the AK party's tune.

One example is the use of legislation that penalises insults to the head of state. Turkey's criminal code has contained such a law since 1926, but it was rarely applied before Mr Erdogan was elected president in August 2014. Opposition MPs say that since then state prosecutors have investigated more than 1,500 people for insulting the president, a crime that can carry a sentence of more than four years. In the first ten months of 2015 nearly 100 people were held in custody on such charges, including cartoonists and journalists, but also teenage boys who had defaced campaign posters or posted Facebook messages. A woman in Izmir was recently sentenced to 11 months in prison for a rude hand gesture directed at Mr Erdogan.

An illuminating case of a different kind is that of Sevan Nisanyan, a 59-year-old linguist and author of an etymology of modern Turkish. Mr Nisanyan is also known for his work to restore a semi-derelict village near Turkey's Aegean coast, a rare example of careful conservation in a region better known for rampant tourist development. Since January 2014 he has been in prison, sentenced to an astonishing 16 years for various minor infractions of building codes, in a country where illegal construction is commonplace; even Mr Erdogan's new presidential palace violates zoning laws. Mr Nisanyan is of Armenian extraction, as well as being an outspoken atheist and a critic of the AK party.

Education is another field in which the party's ideological bent is increasingly evident. As mayor of Istanbul, Mr Erdogan once said he would like every state school to become an *imam hatip*, a vocational high school with an emphasis on religious training. When such schools first opened in the 1950s, the idea was to supply mosques with preachers. When the AK party took power, they accounted for barely 2% of Turkey's students. Following a series of reforms, that proportion has risen fivefold, to more than 1m students. Some 1,500 non-religious schools have been converted to *imam hatips*. Thanks to a well-endowed charity run by Mr Erdogan's son, these schools are often better equipped than ordinary state ones. Some parents now find they have no choice.

### Keep your mouth shut

The most glaring example of the AK party's creeping annexation of the public sphere, however, are Turkey's media. By putting pressure on private owners and making vigorous use of laws against incitement, defamation and the spread of "terrorist propaganda", the party has come to exercise control over all but a handful of broadcasters and news publishers. "I don't remember any time when it was like this," says Erol Onderoglu of Reporters Without Borders, a watchdog group. "Hundreds of journalists have been fired or arrested in the past five years, and we expect more every day."

In recent months the assault on press freedom has involved not just threats and spurious judicial procedures but outright violence. In September mobs attacked the offices of *Hurriyet*, one of Turkey's few remaining independent newspapers, after Mr Erdogan criticised its editors on national television. Soon afterwards thugs, several of whom were later found to be AK party members, beat up a popular television presenter, Ahmet Hakan, in front of his Istanbul home, breaking his nose and several ribs. In December Mr Hakan found himself threatened with an investigation for "propagating terrorism" after a guest on his programme said it was a mistake to dismiss the PKK as a terrorist organisation.

A particularly dramatic case of state interference in the press involved the takeover by the government, days before the November election, of Koza Ipek Holding, an industrial group. One of Koza Ipek's television stations, already confined to the internet after Turkish satellite carriers were asked to drop its broadcasts, showed live footage of law enforcers invading its Istanbul headquarters before abruptly going off air. So far 74 of Koza Ipek's employees have lost their jobs. Since the takeover the group's flagship newspaper has typically featured a large picture of Mr Erdogan above the fold.

Figures released by an opposition representative on the board that monitors the state broadcasting service show that the AK party enjoyed overwhelming dominance of air time during the election campaign. Mr Erdogan personally got 29 hours of coverage in the first 25 days of October and the AK party 30 hours. By contrast, the Peoples' Democratic party, or HDP, was given a grand total of just 18 minutes on air. Even so, it attracted 5.1m votes.

Turkey's private channels are little better. As the biggest street protests in Turkey's history erupted in Istanbul in the summer of 2013, the country's most popular news channel, CNN Turk, ran a documentary on penguins. Like the parent companies of other media outlets, its owner, Dogan Holding, feared government retribution.

According to one media expert in Istanbul, the takeover of Koza Ipek has left just three news channels out of Turkey's top 40 that are critical of the AK party. Reporters Without Borders now ranks Turkey 149th out of 180 countries on its World Freedom Index, just three places above Russia and 51 down on 2005.

Turkey's increasingly beleaguered liberals debate among themselves just when the AK party reached a turning point. Some point to 2007, when the army ineptly tried to stop the party from installing its own man (then Abdullah Gul) as president, prompting the AK party to adopt a harder line. Others say the Arab Spring of 2011, which saw the emergence of powerful like-minded Islamist movements in Tunisia and Egypt, may have emboldened the party. And some suggest May 2013, when the violent police response to a campaign against plans for a shopping mall in Istanbul's Gezi park sparked drawn-out protests across the country. This coincided with the overthrow in Egypt of Muhammad Morsi, whose Muslim Brotherhood government the AK party had loudly cheered.

Mr Erdogan's furious response to the Gezi protests, say crit-


What Koza Ipek supporters thought of the state takeover ics, reflected paranoia about a plot to undermine Islamist regimes. He repeatedly blamed the protests on a nebulous "interest-rate lobby," supposedly bent on weakening the Turkish economy. Other AK party officials hinted at a global Jewish conspiracy. The Gezi protests petered out by the end of that summer, but prosecutions of troublemakers continued. In October last year 244 people received jail sentences of up to 14 months for their part in the protest movement. They included four doctors accused of "polluting" a mosque. The court ignored testimony that they had entered the mosque at the invitation of its *imam*, using the sanctuary to treat injured people.

The most commonly cited tipping point in both the AK party's and Mr Erdogan's stance, however, is December 2013, when financial police arrested 47 members of an alleged corruption ring, including businessmen, state officials and the sons of several AK party cabinet ministers. Recordings of embarrassing personal calls, including some apparently with Mr Erdogan—who has denied their authenticity—soon appeared on the internet. They painted a picture of nepotism and influence-peddling, much of it involving lucrative construction contracts handed to party favourites. Dozens of officials were forced to resign.

The motive for the arrests and the leaks was not hard to find. For several years trouble had been brewing between the AK party and Hizmet, a shadowy religious-nationalist movement founded by Fethullah Gulen. a charismatic prayer leader who preaches a mild, Sufism-inspired and public-service-oriented form of Islam. Mr Gulen has lived in self-imposed exile in America since the 1990s, but his influence in Turkey, created over decades, has remained strong.

In the AK party's early years Hizmet was a powerful ally. Its media outlets boosted the Islamist cause, and graduates from its universities provided a useful pool of white-collar talent for the AK party. Not unlike the Freemasons, the movement had followers throughout Turkey's government, but particularly in the police and the judiciary. After the AK party's election victory in 2002 they were seen as key to the dismantling of Turkey's "deep state", and particularly to the show trials of military officers. The leaking of tapes that damaged the reputation of secular rivals to the AK party was also linked to Hizmet.

The Gulenists may have been prompted to air the AK party's dirty laundry by Mr Erdogan's decision in late 2013 to close hundreds of Gulen-affiliated schools. Whatever the reason, the AK party's response has been ferocious, amounting to a witch hunt against Hizmet supporters and sympathisers. Since January 2014 some 6,000 police officers have been transferred or fired on suspicion of ties to the group. Waves of arrests have targeted journalists, lawyers and academics, among others.

### The enemy within

In December 2014 Mr Gulen, who is 74, was officially declared the head of a terrorist organisation bent on establishing a "parallel state". That has allowed prosecutors to charge alleged associates, including newspaper editors, with terrorism offences. The government also reversed earlier convictions that had been secured with the Gulenists' help. Nearly all military officers who had been subjected to show trials were released.

Some of the charges of attempted Gulenist infiltration may well be justified. Yet most Turks other than core supporters of the AK also feel that the allegations of corruption against the ruling party cannot be dismissed out of hand. To many, Mr Erdogan's furious persecution of this "enemy within" is a way of deflecting attention from the AK party's own plans for capturing the state. "They are not just crushing what exists," says Mr Onderoglu of Reporters Without Borders. "They are building new media, a new civil society and a new deep state." ■


The economy

## Erdoganomics

### Turkey is performing well below its potential

"THE PEOPLE HAVE voted for stability," proclaimed President Erdogan after his party's electoral landslide in November. The markets applauded, too. Istanbul's stock index jumped and the Turkish lira rose against the dollar, both reversing long slides. Year-end indicators showed an upward trend in GDP growth, from a rate of around 3% to nearer 4%. But business euphoria quickly faded. Stability certainly beats chaos or months of coalition haggling, the markets seemed to say, but if stability means "more of the same", we are not so sure.

That may seem a churlish reaction. Turkey has made great economic strides in the past 15 years. It has become a trusted supplier of high-quality consumer goods and is now Europe's biggest manufacturer of television sets and light commercial vehicles. Its capital goods pass muster in Germany for their precision. Turkey is also the world's eighth-biggest food producer and sixth-most-popular tourist destination. Forty-three of the top 250 international construction firms are Turkish.

Moreover, Turkish business has often proved nimble. Ten years ago the country's textile industry was foundering, priced out by East Asia, but it has since discovered a lucrative niche supplying higher-quality goods to Europe on shorter time scales. As prospects in the Middle East have dimmed, Turkish contractors have switched to markets such as Russia and Africa.

The AK party is justly proud of having presided over plunging inflation, shrinking sovereign debt and a jump in exports (by a whopping 325% in the ten years to 2012). However, most of those things were achieved a while back. Between 2002 and 2007 Turkey's economy expanded by an average of 6.8% a year, but since then it has been more volatile. Over the past decade, annual average growth has been a modest 3.5%. Income per person has barely been rising for the past four years. The same is true for exports. Average inflation has been above the central bank's target in all but one of the past ten years.

Much of the slowdown is due to the vagaries of the global business cycle. Around 60% of Turkey's trade is with Europe, which also accounts for three-quarters of foreign direct investment in the country. The continent's recent economic troubles are not Turkey's fault. Nor is the mayhem in the Middle East, which a decade ago was Turkey's fastest-growing export market. A deep recession in Russia, a big supplier of energy and tourists and a market for farm exports, has also hit growth prospects. Turkey's recent political spat with Russia has made things worse.

Other external events have been more helpful. Thanks to a sharp fall in the oil price, Turkey's current-account deficit narrowed to around $35 billion in the 12 months to November, the lowest in over five years. Even so, the loans piled up to fund the big external deficits of the past have left the economy vulnerable. Much of Turkey's foreign debt, notably to its companies, is in dollars, which have become more expensive to service as the lira has steadily weakened.

### From know-who to know-how

The economy also suffers from a range of home-grown troubles. Onerous regulations make it hard for small businesses to grow bigger and more efficient. The World Economic Forum, a think-tank, ranks Turkey 131st out of 144 countries by labour-market efficiency. Most economists agree that without substantial structural reform, weak growth is here to stay. "Our new normal seems to be 3-3.5%," says Emre Deliveli, a columnist on economic affairs. "For America or the EU that would be fine, but with our demographics we need 3.5% as a minimum just to keep unemployment flat."

Turkey is a classic case of what economists call the "middle-income trap": the difficulty encountered when countries that have recently emerged from poverty try to move up into the club of rich countries. They may, like Turkey, have learned how to assemble cars or washing machines, boost agricultural productivity or mobilise capital and labour, but they find it harder to add value through research, design, branding and marketing. According to World Bank data, the share of high-tech goods in Turkish manufactured exports has been stuck at 2% since 2002.

Martin Raiser, until recently Turkey director for the World Bank, has described the kind of shift required as a move from the "know-who" to the "know-how" economy. The key, he believes, is to develop institutions that are resilient to changing regimes and can sustain long-term growth. This is where Turkey has fallen short. Connections all too often still outweigh competence. Big privately held holding companies dominate many sectors, squeezing out smaller, more innovative firms.

"We are not in a middle-income trap, we are in a reform trap," says Zumrut Imamoglu, chief economist of TUSIAD, a think-tank funded by Turkey's biggest private firms. She sees the AK government drifting away from a pro-growth agenda towards a programme that more narrowly serves the party's own interests. Consumer and business confidence have taken a knock.

When the Turkish economy crashed in 2001, an IMF-enforced remedial programme provided useful discipline, reinforced by hopes of EU membership. Turkey's subsequent boom owed much to stringent controls on state spending, increased budget transparency, more independence for the central bank and moves towards more open and better-regulated markets. But once the IMF's cure had worked and the EU became cooler about Turkish accession, the impetus for reform waned.

In a recent paper two Turkish economists, Daron Acemoglu of MIT and Murat Ucer of Koc University in Istanbul, point out that although AK governments have maintained laudable fiscal discipline, in other respects their economic management has been less impressive. "The AK government that had supported the economic opening made an about-face once it became sufficiently powerful," they write. "Gradually, the de jure and de facto control of the ruling cadre intensified, amplifying corruption and arbitrary, unpredictable decision-making."

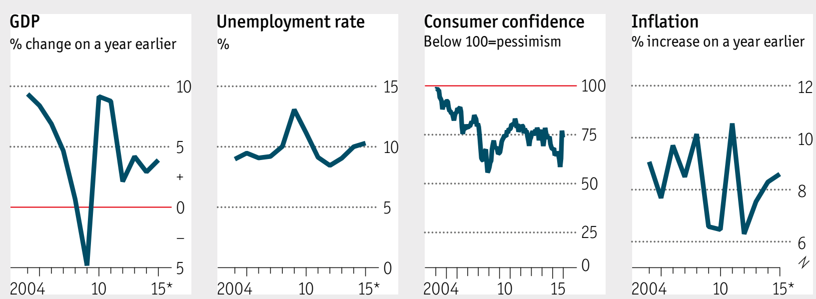
A paper by two other economists, Esra Gurakar of Okan University and Umut Gunduz of Istanbul Technical University, illustrates the point. The adoption of a law in 2001 to regulate government procurement at first improved transparency, it says. With time, however, the number of exceptions to the law grew and the share of public contracts awarded via open auction shrank. By 2011 some 44% of government contracts were being awarded by unaccountable bureaucrats.

Businesses without friends in government have suffered. One of Turkey's most successful construction conglomerates, with a fat international order book and an annual turnover of close to $6 billion, has not won a big Turkish government contract since the AK party took power. Some say this is because it is seen as too close to Western governments that have been critical of the party. Similarly, companies that own media outlets have been cut out of business in other fields if they fail to toe the line. The share price of Dogan Holding, which owns some of the few remaining independent newspapers and TV channels, fell by 16% on news of November's election results.

Firms with the right contacts, say critics of the government, have done well, winning not just direct state contracts but privileged access to deals involving state-owned land and getting early warning of regulatory and zoning changes. One example is TOKI, the state agency for affordable housing, which the AK has turned into a partner for private developers. "There is a cycle," says Mustafa Sonmez, an economist: "I give you public land, you build, we share—it's a great way to reward friends."

Slippage is also in evidence over the independence of Turkey's central bank, or TCMB. The bank is generally held in high regard, but in recent years it has failed either to rein back inflation, currently around 9%, or to prevent a steady decline in the value of the Turkish lira, which has fallen by half against the dollar since 2010. Many economists and businessmen pin the blame on Mr Erdogan, who has publicly badgered the bank to keep interest rates down. On one occasion he accused its governor, Erdem

**So-so**

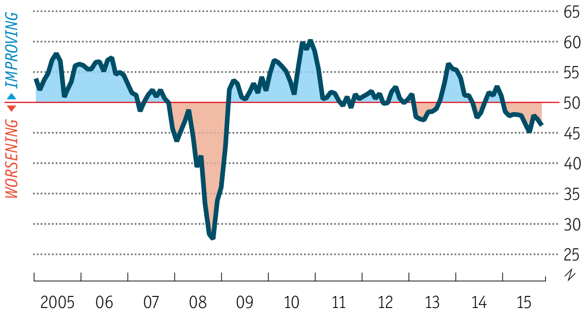



Sources: Economist Intelligence Unit; Turkish Statistical Institute

*Estimate

**Outlook: dreary**

Manufacturing index of business conditions
50=no change on previous month




Sources: Istanbul Chamber of Industry; Markit

Basci, of being a traitor to the nation for championing a higher rate. A recent analysis of TCMB policies by economists at the Centre for Financial Studies at the Goethe University in Frankfurt reckons that between 2010 and 2014 Turkey's central bank on average set the official interest rate about 7 percentage points too low, judging by its own policy responses in the previous decade.

It is not clear why Mr Erdogan is so concerned about interest rates. Speculation about possible motives ranges from trying to woo voters with cheaper money to religious concerns about usury. His economic advisers have often hinted at a shadowy global "interest-rate lobby" seeking to damage Turkey's economy.

Mr Basci is due to leave his job in April, perhaps with some relief. Turkish businessmen want his successor to be given more leeway to set credible policies. They reckon that the country's politically determined loose monetary policy has been partly responsible for a surge in consumer debt, which grew from an average of about 5% of household income in 2002 to 55% in 2013. The credit binge made Turkish consumers feel rich: nominal household wealth has tripled in the past decade. But the cheap money has also steadily eroded Turkey's savings rate. At just 12.6% of GDP in 2014, it was the lowest in any big emerging market.

Artificially low interest rates have also directed investment away from industry into sectors with quicker returns, such as consumer imports and property speculation. According to the IMF, between mid-2012 and mid-2014 the proportion of bank credit earmarked for construction rose from less than 50% to over 70% of all loans. Across the country, fancy new housing estates, office complexes and shopping malls are far more in evidence than new factories. Since 2012 property prices have risen smartly, helped in part by looser rules on foreign ownership. In July 2015 the average price of a house in booming Istanbul was 20% up in real terms on a year earlier.

The fall in domestic saving has also made Turkey even more dependent on foreign finance. Its foreign debt is approaching $400 billion, or about 50% of GDP. Much of this is short-term, and the vast bulk of it is private. Last July Fitch, a ratings agency, singled out Turkey as the large emerging market most vulnerable to the effects of a long-expected rise in American interest rates. The Fed's initial move, in December, was smaller than expected, but Turkey still gets poor marks from ratings agencies. Moody's and Fitch both put its sovereign debt at the lowest investment grade, and Standard & Poor's rates it as junk.

Foreign direct investment, which reached a peak of about $22 billion in 2007, has been on a downward trend ever since, sliding to around $12.5 billion in 2014 and probably staying at the same level last year. Foreign firms have made no major acquisitions in Turkey in recent years and have launched no big greenfield projects, notes Mr Sonmez, the economist. This is due partly to a general wariness of emerging markets, but partly also to Turkey's perceived political volatility, a weak currency, relatively high inflation, proximity to a turbulent Middle East and questions about the rule of law. "This is a government that has a habit of changing rules after the match has started," says a prominent economic columnist. "If a foreign company fears it cannot defend itself in court, why should it invest?"

Since the AK party's success at the polls, the signs from the new government have been only partly reassuring. It is already committed to costly election promises such as a higher minimum wage, bigger pensions and more social spending, and ministers have also spoken of boosting infrastructure investment to promote growth. A senior adviser to Mr Erdogan hints that in future the party might be less fiscally prudent than in the past, aiming to create more jobs and increase competitiveness.

Outsiders such as the EU, the IMF, the World Bank and the OECD, along with Turkish economists and businesses, suggest different priorities. A tighter monetary policy would strengthen savings and reduce inflation, which would have a useful knock-on effect across the economy. Labour markets need to become more flexible and education must be geared more closely to their needs. Most importantly, sustained growth will require a change of attitude, beginning at the top. A sophisticated market economy cannot be run by offering favours for loyalty. "They used to be giving, sacrificing for the public good," says an Istanbul news editor. "Now they are taking, using all the redistributive power of the state." ■

Identity

# Proud to be a Turk

### But what does it mean?

"I AM A Turk, honest and hard-working." So began the oath of allegiance to their country chanted by generations of schoolchildren before the practice was scrapped three years ago. This proud, flag-waving nation takes it as read that Turkishness goes beyond nationality. But what does it mean to be a Turk? Labels of ethnicity, language, religion and social class overlap in complex patterns. As a result, some citizens consider themselves more Turkish than others.

The modern Turkish republic emerged from a crucible of war, as the waning Ottoman empire between 1908 and 1922 fought in succession against Bulgarian nationalists and Italian colonisers in Libya, then against the British Empire, Russia and Arab nationalists during the first world war, and lastly against Greece. Genocide or not, awful things happened to Anatolia's Armenians in 1915-17. There were many, and now there are few; nearly all of Turkey's remaining 50,000 ethnic Armenians live in Istanbul. After the Greco-Turkish war of 1921-22 Turkey lost some 1.5m Greeks too, in a population exchange that brought half a million ethnic Turks "home" from Greece. More ethnically Turkish or Muslim refugees poured into the new nation, fleeing from Russian revolution or from persecution in the Balkans, the Crimea and the Caucasus.

Most of those incomers were quickly assimilated, but not the Kurds, indigenous Muslims whose presence in Anatolia far predates the Turks (who arrived from Central Asia a mere millennium ago). In the 1920s and 1930s the new Turkish republic crushed successive rebellions in the country's south-east, where Kurds predominate not only within Turkey's own borders but in adjacent parts of Syria, Iraq and Iran. Repeated counter-insurgencies, accompanied by aerial bombing and widespread pillage, left the region impoverished and depopulated. Yet even though hundreds of thousands were killed, ethnic Kurds still make up 15-20% of Turkey's people.

The young republic was mostly Turkish-speaking and overwhelmingly Sunni Muslim. Assimilation and urbanisation have made it even more so. Yet Turkey retains more of the ethnic and religious diversity of the Ottoman empire than is generally realised. Some 10m-15m of its citizens are Alevis, adherents to a syncretic offshoot of Shia Islam that is unique to Turkey. Other religious minorities include Jaafari Shia Muslims, Jews, Christians and Yazidis. Among the ethnic minorities, apart from Kurds and Armenians, are large numbers of Arabs, Albanians, Azeris, Bosniaks, Circassians, Georgians, Laz and Roma. Turkey is now also home to well over 2m refugees, mostly from Syria but also from Iraq, Iran, Afghanistan, Egypt and elsewhere.

To Kemal Ataturk and his immediate successors, whose formative experience was Ottoman implosion and foreign invasion, the paramount need was to forge a strong nation from these disparate parts. For long periods and until quite recently, the public use of Kurdish languages was strictly banned. The government encouraged religious uniformity by creating a powerful agency, Diyanet, to oversee the mosques, which preached a single version of Sunni Islam. Other versions and other faiths got no support from the state; indeed, it outlawed the mystical Sufi orders that had heavily inflected Ottoman-era Islam.

In their determined push for modernisation, Ataturk's followers imposed customs and ways of thought that came easily to sophisticates in Istanbul or Izmir but were resented further east. The superior airs of secular, cosmopolitan Kemalists have rankled ever since, particularly with country folk and with immigrants to the big cities. Some speak half-jokingly of a lingering divide between "white" Turks and "black", marking the gap between those who cherish Ataturk's legacy and those who resent it as an imposition.

Mr Erdogan has capitalised brilliantly on the deep grudge felt by "black" Turks. His credentials include his origins as the son of rural immigrants to a tough, working-class part of Istanbul, having worked as a pushcart vendor of *simit*, Turkey's sesame-sprinkled progenitor of the bagel, and a pithy, populist style of delivery. On Republic Day last year, which handily fell just before November's election, he made a speech evoking times when some people celebrated the holiday "with frocks, waltzes and champagne" while others gazed at this scene "half-starved, with no shoes and no jackets to wear". Now, he concluded, Turkey is united. Even after two decades of such rhetoric, it goes down well with many voters.

### Not quite united

Yet a look at Turkey's political map suggests a less than complete picture of unity. The half of the electorate that votes for Mr Erdogan does include some minority groups, but mostly represents the narrower, ethnically Turkish and Sunni Muslim mainstream. Of the three rival parties that make up the parliamentary opposition, the Nationalist Movement, or MHP, is also "properly" Turkish but represents the extreme right. Its most distinctive trait is reflexive hostility to all non-Turks, especially Kurds. "We don't call it a peace process, we call it a terror process," says Zuhal Topcu, a party vice-chairman, of the government's on-off talks with Kurdish rebels. "You cannot sit at a table with them, they have to surrender and be tried."

The largest opposition party, the CHP, sees itself as the direct heir to Ataturk. Pro-Western and centre-left, it embraces secularists of all stripes and has sought to focus on issues rather than identity politics. Yet to the dismay of its own leadership the CHP's core constituency, as well as most of its MPs, are Alevis. Many in this headscarf-shunning, alcohol-tolerant minority remain strident Kemalists, seeking refuge from what they see as the uncomfortable encroachment of Islamism.


**Another day, another Kurdish funeral in Diyarbakir**

The third component of the opposition, the People's Democratic party, or HDP, is outwardly an alliance of small parties and leftist groups that recently joined forces to cross the 10% threshold for entering parliament. But for all its inclusiveness, most of the HDP's supporters and candidates are Kurds. The party gets the bulk of its votes in the chronically troubled south-east and few in the rest of Turkey. "It's a problem," admits Ayse Erdem, an HDP party leader in Istanbul who is herself an ethnic Turk. "A lot of people can't bring themselves to vote for a Kurd, they just don't see them as equal."

Yet to many the problem with the HDP lies not with its ethnic profile but with what they see as its too-cosy relationship with the PKK, a Kurdish guerrilla group that has fought a sporadic insurgency against the state since the 1980s and is officially deemed a terrorist organisation. Plenty of Kurds are also wary of the PKK, both because of its vaguely Maoist ideology and its violent intolerance of rival Kurdish groups. Yet the brutality of Turkish security forces, which in the 1990s destroyed hundreds of villages to flush out rebels, has repeatedly recharged Kurdish nationalism.

The PKK's stated aims have changed over time, and particularly since the capture, trial and imprisonment in 1999 of its charismatic founder, Abdullah Ocalan. PKK leaders now say they seek not an independent Kurdistan but a form of autonomy that Mr Ocalan has described as democratic confederalism. To its credit the AK party has eased away from the Kemalists' uncompromising rejection of Kurdish claims, loosening official strictures on Kurdish languages, opening a dialogue with Mr Ocalan and agreeing to indirect peace talks with the PKK.

A ceasefire during the most recent round, from 2013 until last spring, prompted a construction and investment mini-boom in the still-poor south-east. Hopes rose further last February, when leaders of the AK party and the HDP—which the PKK had tacitly appointed as its interlocutor—announced a ten-point road map for peace. In essence, this required the PKK to lay down its arms and affirm respect for Turkish sovereignty, in return for an amnesty, formal recognition of the Kurds as a distinct people and mutual commitments to resolve issues democratically.

There is much finger-pointing about what happened next. AK party supporters maintain that the agreement was merely an informal understanding. Their critics contend that Mr Erdogan, sensing resistance from the army and from diehard nationalists and with elections looming in June of last year, made a calculated decision to scupper the deal.

Events in neighbouring Syria, with 2m Kurds scattered thinly along the open plain abutting the Turkish border, also played a part. Five years of appalling civil war provided a chance seized by the PKK's Syrian affiliate, which ruthlessly crushed rival Kurdish groups and took control of Kurdish areas. Its success at fighting Islamic State impressed Western powers, which provided support last year to relieve the besieged Kurdish city of Kobane.

But as the PKK's Syrian branch carved out an autonomous canton, Turkish officials grew fearful of its growing power. As tens of thousands of Kurdish civilians poured into Turkey to escape IS's assault on Kobane, the government in Ankara dithered for weeks before allowing in aid. Turkish Kurds were outraged. "We found that Ankara is still so blinkered that it could not see it faced a simple choice: would you rather have Kurds as neighbours or Islamic State?", laments a Kurdish intellectual.

From the government's perspective the success of Syria's Kurds is a worrying precedent. The fear is that the PKK, by virtue of its tacit alliance with the West in Syria, will have gained international legitimacy.

### Back to battle stations

For now, talk of peace between Turks and Kurds is over. In June the Turkish air force resumed bombing raids on PKK targets in Iraq. Paramilitary police have clamped curfews on restive Kurdish towns and arrested hundreds of alleged PKK supporters; guerrillas have struck back with roadside bombs and shootings. Well over 600 people have died so far in this round of violence.

In electoral terms Mr Erdogan's switch in tactics has paid off. With pro-AK party television relentlessly showing funerals of slain policemen, patriotic Turks voted for his party in droves in November. Even many conservative Kurds abandoned the HDP. They had seen it as a democratic alternative to the PKK, but felt the party was not distancing itself enough from the guerrillas.

Many Kurds, as well as Turkey's allies, still cling to hopes that the two sides will resume talks. But attitudes among ordinary Turks, which had softened towards the idea of some kind of expanded Kurdish autonomy, are now hardening under the government's barrage of bellicose rhetoric. With Mr Erdogan's men apparently convinced that they can win by force, the Kurdish issue seems to be moving into another cycle of despair. ■

Urban development

## The lure of the city

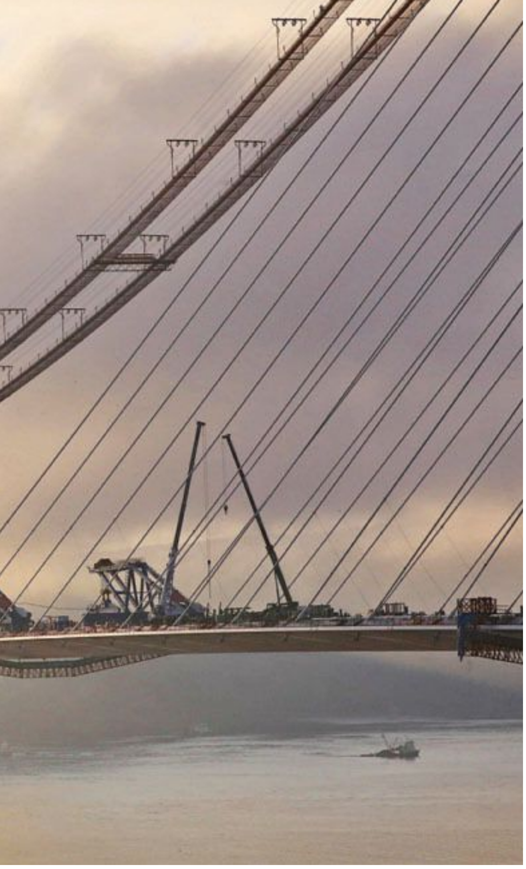
### Turkey's urban centres are modernising at the double

NAPOLEON WAS IMPRESSED with Istanbul. If all the world were a single state, he said, this city should be its capital. A generation ago, when it looked musty and neglected, that would have seemed far-fetched, but now this great metropolis at the confluence of Europe and Asia pulses with trans-global traffic. Some 50,000 ships a year traverse the narrow waterway that bisects the city. A colourful mix of Polish package tourists, Indonesian pilgrims, Ghanaian textile traders, Kazakh students and honeymooning Saudis passes through its snaking airport immigration queues, and a polyglot crowd ceaselessly throngs Istiklal Street, attesting to Istanbul's growing magnetism.

In 2010, the city's Ataturk International airport ranked as the world's 37th-busiest by number of passengers. By 2014 it had vaulted to 13th place. Istanbul already has a second airport and is furiously building a third, scheduled to open in 2018. When fully operational, it will be the world's largest, ready to handle 150m passengers a year.

The project, worth around $30 billion, has caused plenty of controversy. It is rising amid protected wetlands and faces charges of cronyism in awarding construction contracts. But few Istanbullus doubt the need for a giant new air hub. Measured by "international connectivity"—the frequency of flights to foreign destinations—the city comes fifth in the world, but it is advancing faster than its rivals. London, the leader, became 4% more "connected" between 2009 and 2015, according to Mastercard; over the same period Istanbul's connectivity grew by a roaring 111%.

The city is racing ahead in other ways, too. It already has about 16m people, compared with barely 2m in 1975, and be-



*A new motorway will cut through forests to link to a new, third bridge across the Bosporus*

tween now and 2018 it will overtake both London and Moscow as the most populous urban area in Europe. According to Euromonitor, a research firm, six of Europe's ten fastest-growing cities are in Turkey (see chart, next page).

Countries such as India and China have witnessed similar urban explosions, but Turkish cities stand out for also offering an impressive quality of life. The proportion of Turks living in cities has swollen from about half the population 30 years ago to 75% today. Between 2000 and 2015 its major urban areas absorbed 15m new residents. Yet despite their rapid growth, Turkish cities are by and large admirably free of squalor and crime. Middle-class parts of Istanbul, Ankara or Izmir, in Turkey's relatively prosperous west, are indistinguishable from their far wealthier West European counterparts. Yet even the slums in big eastern cities such as Gaziantep and Diyarbakir have proper sanitation, tidy paved streets, parks and well-maintained schools.

It was not always thus. Thirty years ago the hills around Turkish cities looked much like Brazil's, stacked higgledy piggledy with unlicensed shantytowns appropriately known as *gecekondu* (built overnight). Istanbul had worse public transport, worse water quality and worse pollution than shambolic Cairo; the cheap lignite used for home heating clouded its winter skies in a perpetual acrid fug, and the soupy waters of the Golden Horn, a sea inlet that bisects the European side of the city, were too polluted to sustain fish.

### A better place to live

Istanbul's skies are now notably clear, and the fishermen who crowd the railings of the Galata Bridge into the wee hours hoist up sardines by the bucketful. The radical change is not just a result of better sewerage and cleaner heating fuel in the form of natural gas piped from Russia. Starting in the 1980s, Turkey made a series of important legislative changes. Various amnesties granted legal title to *gecekondu* dwellers, making them stronger stakeholders and allowing them to leverage property assets. A sweeping reform in 1984 consolidated big urban areas into powerful municipalities with elected mayors. Further reforms in the 2000s did the same thing at district level. Cities now generate their own revenues, make their own deals with private firms and start their own businesses, though the central government keeps enough of a hold on the purse strings to ensure fiscal discipline.

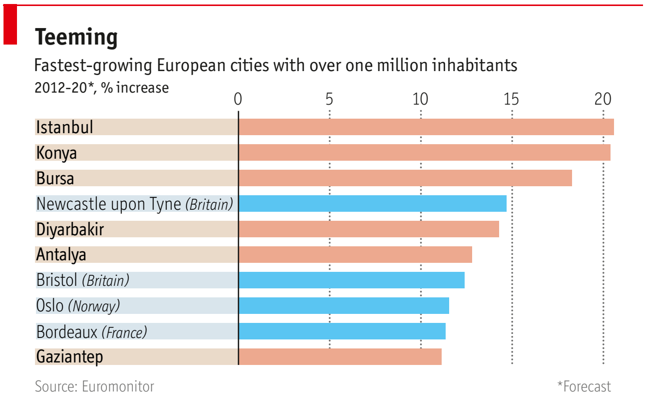
Cumulatively, these undramatic changes have had a remarkable effect. "Local democracy really seems to have worked in this sense," says Yasar Adanali, an urban planner in Istanbul. "To climb up the ladder in their party or be seen at the national level, municipal managers have to shine." Mr Erdogan himself rose out of local Istanbul politics, and many of his closest associates came to prominence in the same way. The city's 39 districts are showcases for their mayors, who compete to provide better services. In most of the city, streets are swept and rubbish collected at least once a day.

The Greater Istanbul Municipality, for its part, has the resources to build or sponsor big investments in infrastructure, with notable results. The first underground line of its metro system opened only in 2000, but progress has been rapid, with an underground linking the Asian side of the city to the European one completed in 2013.

Yet the picture is not all rosy. Despite all the investment, only 15% of journeys in Istanbul are made by public transport; the city has more congested roads than any other in Europe. Increasingly, too, the growth of Turkish cities has been driven less by careful planning than by business interests, often backed by powerful politicians.

Istanbul's new airport is a case in point. The municipality's own 2009 master plan provided for it to be built to the west of the city, in flatter lands already connected to Istanbul's main traffic axis. Ministers in Ankara intervened to move it to the north, amid forested hills that were meant to be preserved for recreation and as the main catchment for Istanbul's water supply. The giant site was largely public land, but to attract private builders much of it will be turned over to commercial use for hotels, shops and airport services. Connecting the airport to the city will require millions more trees to be felled: as part of the project a new motorway will cut through forests to link to a new, third bridge across the Bosporus.

Environmentalists and urban planners argue that the purpose of the motorway is not so much to relieve traffic as to open new areas to property development. Already, Istanbul's once-green northern reaches are being covered over by gated luxury communities and shopping centres. "With the current planning structure we know there is no way to stop the building," says Akif Burak Atlar of the Turkish Union of Urban Planners. "The in-




centives for business and government are too strong."

The consortium of Turkish developers that won the build-own-operate lease for the new airport includes firms thought to be close to the AK party. Foreign financiers, not least the World Bank, have kept away, partly because of a corruption investigation involving several of the firms' senior executives, launched in 2013 but suspended after the government intervened.

Across the country vast areas of state lands, and in some cases city parks, have been handed to private developers. The one that caught the most public attention was Istanbul's Gezi Park, a rare patch of green in the heart of the city. A century ago this had been the site of an army barracks where Ottoman soldiers protested against encroaching secularism. For symbolic reasons Mr Erdogan strongly backed a project to recreate the long-demolished structure as a faux-Ottoman shopping centre. But the green space held equally strong symbolism for many Istanbullus. The scheme was blocked by a massive urban protest, an eruption of the cumulative anguish felt by many locals about runaway development in which dozens of skyscrapers rose and more than 90 other shopping malls sprouted between looping motorways. "Gezi was just one too many of the crimes that have been committed against Istanbul," says Mr Adanali. ■

### Foreign policy

# Alone in the world

### The consequences of not talking to the neighbours

FEW COUNTRIES OCCUPY a geopolitical space of such sensitivity as Turkey, or have played such a range of critical and overlapping international roles. It has been a gateway and a bridge to Europe, most dramatically in recent months for hundreds of thousands of Syrian refugees, as well as a conduit for energy supplies. It has been a buffer to revolutionary Iran, and a barrier to Russia's southward ambitions since long before it joined NATO in 1952 (and even more so since Vladimir Putin decided to leap into Syria's maelstrom). It has been an anchor to the ever-turbulent Middle East, and in some ways also a model to other Muslim countries of a relatively tolerant, relatively democratic and economically quite successful government.

Yet the country has all too often failed to show both strength and responsibility at the same time. For decades after the second world war Turkey stuck to its own business and remained a staunch ally of the West, both in NATO and as a founding member of the OECD, yet it was not strong. Its economy was doing badly, and under the generals it mostly avoided putting much effort into foreign affairs—with rare exceptions, such as when it invaded and partitioned Cyprus in 1974. Troubles with neighbours such as Greece, Bulgaria and Armenia were allowed to fester, and ties with Europe and America remained formal and cool. With Israel, it maintained a tacit, businesslike alliance. As for its Muslim backyard, Turkey shunned it altogether.

This aloofness, mirroring a national penchant for mistrusting outsiders, came to an abrupt and welcome end when the AK party took power. Under the guidance of Ahmet Davutoglu, who served as a foreign-policy adviser and then foreign minister before becoming prime minister, the country proclaimed a policy of "zero problems with neighbours". The sudden wave of warmth from Ankara produced immediate results. Old quarrels, even with such once bitter foes as Armenia or the Kurds of northern Iraq, were set aside. Europe seemed ready to open its doors to Turkey, if only by a crack. Russia became an important trading partner. Turkey's Arab neighbours welcomed back their former Ottoman master with enthusiasm. Exports to the Middle East boomed. For a time the forthright Mr Erdogan was the most popular leader in the region. Turkey looked strong.

#### Don't mention the EU

As for being responsible, in many ways it has performed less well. That is not entirely Turkey's fault. Part of the reason its accession to the EU has got nowhere has been the EU's muddled, many-headed set of policies. In the wake of the recession and the debacle over Greece, Europe also looks less attractive now than when talks began in 2005. Yet the AK party's leadership has been irresponsibly quick to take offence. Even if the EU did unilaterally freeze negotiations on about half the 33 "chapters" that have to be completed before accession, Turkey need not have relaxed its efforts to comply with what the EU calls its *acquis* (its common set of rules). By doing so, the AK government signalled that it sees things like freedom of the press, judicial independence and fighting corruption as part of the price of membership rather than as valuable goals in their own right.

Such legacies have lately put Mr Erdogan and his European counterparts in an uncomfortable spot. Faced with the deluge of refugees passing through Turkey on their way to western Europe, they have horse-traded stronger Turkish border controls and security measures for European cash, travel concessions for Turks and promises to revive Turkey's stalled plans for EU entry. Neither side has come out looking good. Turkish officials have indicated that they regard Europe's €3 billion aid package for the refugees as merely a first instalment. The EU, for its part, has voiced growing concern over issues of civic freedoms and human rights, and in particular Turkey's renewed suppression of the Kurds.

There are bright spots: the accession process is moving again, and growing pragmatism from all parties to the Cyprus conflict, including Turkey, bodes well for a peace deal. Still, Mr Erdogan's hope to take Turkey into the EU by 2023, when it will celebrate 100 years as a republic, looks as forlorn as ever.

But it is in the Middle East, and in particular over the civil war in Syria, that responsibility comes most into question. Instead of being a wise friend and mentor to troubled neighbours, Turkey has been in turn overly naive, overly indulgent and overly stubborn. Above all, it has shown that it does not have much of a grasp of the region's combustible complexity. "Frankly, I don't know what they are trying to achieve," says an exasperated UN official closely involved with Turkey and Syria.

That may be partly because of its aloofness. Between the

A haven for Syrian refugees

Ottoman defeat in the Middle East in 1918 and Mr Erdogan's arrival in office, Turks had scarcely glanced at the place. As the Arab Spring erupted in 2011, the government chose to view events through the prism of Turkey's own story: the true people, which is to say the pious Sunni Muslim working class, were at last casting out their Westernised military elites. The AK party warmly embraced the region's newly emerging Islamists and suddenly turned a cold shoulder to the autocrats it had only recently wooed as customers for Turkish goods.

In Iraq, Turkey voiced support for Sunni parties as protests mounted against discrimination by the Shia-majority government, only to be blindsided when Islamic State exploited Sunni grievances to carve out a caliphate. In Egypt, say well-informed Turks, Mr Erdogan's people advised the Muslim Brotherhood during its brief stint in office to replicate such AK party tactics as flooding the supreme court with their own loyalists. The military junta now in power is furiously hostile to Turkey.

In Syria Mr Erdogan, who had only recently spent time on the beach with the Assad family at a Turkish resort, lent full support to the uprising against the Syrian dictator. Like many Western intelligence agencies, his own was convinced that the country's 70% Sunni majority would quickly prevail. It seriously underestimated the tenacity and viciousness of a minority regime with its back to the wall. "What were we thinking? We are not a *mukhabarat* country," says a critical columnist, using the Arabic word for secret police. "And here we were marching into a place with the meanest *mukhabarat* on the planet, backed by two *mukhabarat* superpowers, Iran and Russia."

### Thanks two million

To its immense credit, Turkey has offered a haven from the fighting to refugees from the Syrian civil war. "In Europe we've had no concept of just how generous the Turks have been," says a diplomat in Ankara. Well over 2m Syrians have sought shelter in Turkey. Its government has spent perhaps $10 billion building spotless camps and providing free schools, health care and food. The vast majority of Syrian refugees live outside the camps but receive the same benefits and are free to move inside Turkey.

Yet Turkey has been prickly about guarding its sovereignty. Foreign agencies say their money is welcome, but their programmes and supervision are not. The UN has not been allowed to register or process refugees, and refugee camps are strictly off-limits to visitors, including members of Turkey's own parliament. Although Syrians are grateful for Turkey's help, few want to live on handouts. As "guests" of the country, they have not been allowed to work, though under new rules introduced in January they can now apply for work permits after six months.

Most worrying is Turkey's role in the war itself. Having excommunicated the brutal Assad regime, it has found itself sucked ever deeper into the Syrian swamp. Together with Western and Arab allies it has aided rebel factions. It has also—sadly to deaf ears in the West—repeatedly called for the creation of a zone to protect civilians inside Syria. But its secretive military aid, say Western observers, was for too long handed out with little discrimination, and its volume was never enough to turn the tide.

Nor did Turkey back up its diplomatic pleas with firm offers or action. Despite being a NATO member, and despite the evident nastiness of Islamic State, it did not let the American-led coalition fighting IS use its air bases, or even its air space, until about nine months after air strikes against IS began in September 2014. Since then its role in the coalition has mostly involved bombing not IS but the Kurdish rebels of the PKK.

The Turkish security establishment's wings may have been clipped at home, but its obsessive view of the Kurdish issue as the country's pre-eminent threat has been allowed to prevail abroad. This has increasingly entangled the country in both Iraq and now Syria, whose Kurdish minority has carved out an enclave along Turkey's border. To Turkey's horror, the West has praised it as the most effective force on the ground against IS.

Perversely, when suicide-bombers ripped apart a peaceful anti-government protest by mostly Kurdish groups in Ankara in October, killing over 100 people, AK party spokesmen pointed fingers at the PKK. Yet it quickly became clear that the perpetrators of Turkey's worst-ever terrorist atrocity in modern times were members of a Turkish IS cell.

Until stricter controls were imposed last year, Turkey allowed virtually unhindered transit to anyone heading to or from the war in Syria. Within Turkey hundreds of suspected Islamist radicals were released from police custody after cursory investigation. At the same time the government has slapped charges of terrorism on police and journalists exposing the supply of weapons to Syrian rebel groups by Turkey itself. And until recently Turkey had suspended security co-operation with France, out of pique over French statements on Armenian genocide.

Since the Ankara bombing, and even more since an IS suicide-bomber killed ten tourists in Istanbul on January 12th, Turkey's government has begun to take the internal threat from IS radicals far more seriously. Shocked by Russia's forceful intervention in Syria, Turkey has also begun to reassess its relationship with that country. At the end of November Turkish jets shot down a Russian warplane which they claimed had strayed into Turkey's airspace, causing a storm of Russian indignation. Despite threats of sanctions and a spike in Russian air strikes against Turkish-backed rebels in Syria, Turkey held its ground.

Further afield, Turkey has quietly eased strains with Israel, edging away from its aggressive reaction to an Israeli attack on a Turkish aid ship destined for Gaza in 2010. Mr Erdogan's government also appears to be sincere about wanting to get its EU agenda back on track. Rather than throwing its weight behind Saudi Arabia, a fellow Sunni power, in its struggle against Shia Iran, Turkey has kept doors open to both sides. Perhaps in foreign affairs at least, it has begun to balance power with responsibility. ■

Looking ahead

# A melancholy mood

### To regain momentum, Turkey needs more freedom

"WE HAVE A saying that raki is different in the glass," says Fatih Okumus, noting that Turkey's colourless national spirit turns milky white when you add water. It is a surprising way for a top adviser to Diyanet, the government's overseer of mosques, to illustrate the difference between Turkish and what he calls "Arab" Islam. He goes on to explain: "We believe that the Koran is not the same in life as in the book; it needs mediation. In small doses religion is beneficial, but in big doses it's a hazard."

Mr Okumus says this explains why so few Turks have embraced radical jihadism. Yet his advice should also be taken to heart by Turkey's current leaders. The rule of the AK party is an example of how you can have too much of a good thing.

The repressed voice of Turkey's conservative working class needed to be heard. The overweening influence of its military had to be contained. The entrepreneurial energy of its businessmen had to be unleashed. And the Kemalists' obsessive preoccupation with the West, once described by the writer Nuri Pakdil as a national "pain in the neck" caused by looking in only one direction, needed to be redressed. "The Turkish state used to have two phobias, Islam and the Kurds," says Mr Okumus. "The main thing we owe to the AK party is having normalised Islam."

#### Overcorrecting the course

Alas, under the guidance of Mr Erdogan, Turkey now risks leaning too far in the opposite direction. By propagating a culture of grudge and grievance, Turkey's president has widened the many cleavages of an unusually complex society. By relentlessly pursuing suspected enemies, he has undermined the rule of law. And by whipping up ethnic Turkish nationalism, he is dashing the hopes of Turkey's 20m Kurds.

On the economic front, the AK party failed to shift strategy when leaner times arrived. It has also grown addicted to kickbacks from cronies that feed the party machine. And Mr Erdogan's own ambition and disdain for the law are draining confidence. "Big Turkish firms are quietly investing abroad to get their money out," says a Western consultant who has long been resident in Turkey. "Rich people all have their escape plans."

Turkey's foreign relations, too, are a story of serial overreach followed by remorse. The AK party allowed wishful thinking about Islamic brotherhood, pan-Turkic ties and cocking a snook at the West to outweigh pragmatism. It turned to the east too suddenly and too hard. It got mired in Syria and entangled with a Russian bear. When it needed friends, there were few to be found.

The country's malaise is partly cultural. Orhan Pamuk, Turkey's best-known writer, has written eloquently on the national predilection for hüzün, or melancholy. Even the current triumphalism of Mr Erdogan's hard-core followers is tinged with wary mistrust.

Yet not so long ago Turkey was a far more ebullient place, with a purring economy and plenty of friends. There is a reason for the darkening mood. "People are too quick to use the F-word, but honestly I think we can now speak of creeping fascism," says Mustafa Akyol, a Turkish writer whose early enthusiasm for the AK party has increasingly soured. "We have the cult of a demigod, the labelling of dissidents as traitors and saboteurs, and the mobilisation of the party base against everyone else." The Western consultant agrees. "I am more worried now than in the 26 years I have lived here," he says. "There is much more latent violence here than many people realise, the rule of law is breaking down, and it's getting scary."

In early January, police in Izmir raided a sweatshop where they found Syrian child labourers making fake life jackets. Stuffed with packaging rather than flotation material, the cheap copies were more likely to kill than save anyone. Yet Turkey's prime minister, Ahmet Davutoglu, jarringly blamed the UN Security Council for the migrants' deaths.

Turkey is a nation of enviable potential, packed with cultural treasures, natural beauty, energy and talent. If only Mr Erdogan and his cohorts could see that strength comes from diversity, and from the freedom to express it, that potential might be realised. ■

Time to lighten up

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Jihadists in Libya

# The next front against Islamic State

CAIRO

**Libya's civil war has given the "caliphate" fresh opportunities. Western military intervention will be needed sooner rather than later**

FIVE years after Western air power helped remove Muammar Qaddafi, the chances of another intervention in Libya are steadily increasing. Islamic State may be retreating in Iraq and under pressure in Syria, but in Libya it is a growing menace. At a meeting in Rome on February 2nd of the international coalition against Islamic State (IS), Libya was high on the agenda. That followed talks in Paris on January 22nd in which General Joe Dunford, the chairman of America's Joint Chiefs of Staff, agreed with his French opposite number that they were "looking to take decisive military action" against IS in Libya. It has since been confirmed that American and British special forces are already on the ground there in small numbers, making contact with local militias.

Unsurprisingly, the same conditions that have made Libya such fertile territory for IS are also making it hard to plan an intervention that would have a good chance of success. The spread of IS has been helped by a 20-month-long civil war in which it has been happy to attack both sides. In the west it faces Operation Dawn, a cobbled-together alliance of Misratan, Berber, Islamist, and other militias that back the so-called National Salvation Government in Tripoli. In the east it faces Operation Dignity, an equally loose-knit coalition of militias and regular military forces that includes some former regime supporters. Operation Dignity is led by General Khalifa Haftar, who backs a rival parliament, the internationally recognised House of Representatives, which is based in the eastern city of Tobruk.

It has not all been plain sailing for IS. It suffered a setback in mid-2015 when its attempt to take over the eastern town of Derna met resistance from local tribes, repelled by its brutality, and rival Islamist militias. But since absorbing the most militant members of a powerful local jihadist group, Ansar al-Sharia, it has succeeded in establishing an area of control spreading out about 100 miles (160 km) on either side of Sirte, Qaddafi's old coastal stronghold, which sits between Tripoli and Benghazi.

From Sirte, now described as the new Raqqa (IS's capital in Syria), IS is expanding east and attacking oil installations at Sidra and Ras Lanuf. The militia-based Petroleum Facilities Guard, although hugely outnumbering the 5,000 or so IS fighters in the area (the UN estimates 3,000, which may be on the low side), appears unable or unwilling to prevent IS from doing further damage to an industry that has seen output fall to less than a quarter of the 1.6m barrels a day being pumped in 2011.

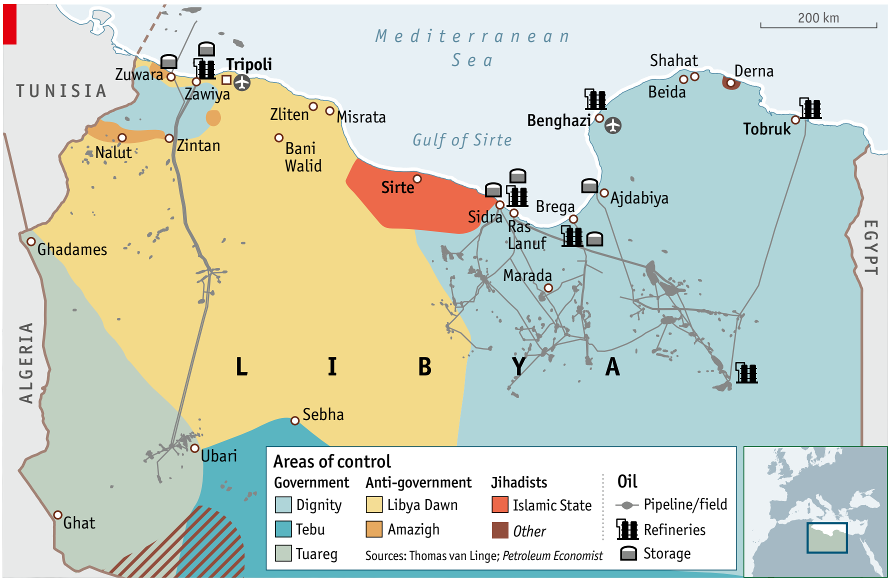
The mounting concerns about IS in Libya have spurred diplomatic efforts to end the civil war through the creation of a government of "national accord". Hopes were raised by a peace deal brokered by the UN that was signed in Morocco on December 17th by delegates from the rival parliaments. Lacking broad support, the agreement was premature. Both assemblies insisted that the signatories represented only themselves. Nevertheless, the UN appointed a presidential council, which in turn named a new government under prime minister Fayez Sarraj, a member of the Tripoli-based parliament, that is now waiting in a hotel in Tunis.

On January 25th the parliament in Tobruk rejected the proposed government, while affirming the peace plan, if changes were made. The most important demand is for the removal of Article 8 of the agreement, a provision that would give the presidential council the right to appoint the heads of the armed forces and the security services. That would threaten the position of General Haftar, who harbours ambitions to be Libya's next strongman. Supported by outside powers, including Egypt, General Haftar still holds much sway in the east, where his forces have cracked down on dissent. But he has a growing number of critics.

## Deal or no deal

The UN has said that it will not reopen the deal. The parliament in Tripoli has not voted, but its prime minister, Khalifa al-Ghawi, has threatened to arrest the new government's guards if they enter western territory. It does not help that Tripoli is also the location of the Libyan state's only functioning institutions: the national bank, the state oil firm and the sovereign wealth fund. "The entire plan is looking pretty forlorn and anaemic," says Frederic Wehrey of the Carnegie Endowment for International Peace, a think-tank.

Divisions within the army may ultimately undermine General Haftar in the ▸▸




east. He is already despised in the west, where he is seen as a scourge of the Islamists. But for now Libya is no closer to a unified command that could bring together its various combatants and ally with Western powers to fight IS. Much of the public distrusts the UN, not least because its former envoy to Libya, Bernardino León, took a job with an official think-tank in the United Arab Emirates, which supports Mr Haftar, after stepping down last year. But they have also grown tired of the fighting. Nearly half the population needs humanitarian assistance, says the UN. Over 1m Libyans are thought to be suffering from malnutrition, and 500,000 have been forced from their homes.

Where does this leave the plans for a Western intervention against IS? In Rome John Kerry, America's secretary of state, suggested that once the unity government is formed outside powers will respond to any request for military help, not least because they want to defeat IS. That assumes, however, that the international pressure on the two parliaments in Tobruk and Tripoli is close to yielding a deal that sticks. But as Claudia Grazzini of the International Crisis Group says, Article 8 is the "cornerstone" of the agreement. Tobruk's opposition to it, she says, means that all the other guarantees contained within it, such as consensual government based on a separation of powers, "just crumble".

Meanwhile, by targeting oil and petroleum infrastructure, the jihadists of IS are trying to destroy any chance that anyone will be able to put the Libyan state back together. The central bank has burned through much of its foreign reserves paying salaries and subsidies to both sides, while the Libyan Investment Authority's funds remain frozen. If oil production falls even further, the humanitarian disaster will only get worse.

Nobody has any illusions that, on their own, Western air strikes can do more than contain IS. But Ms Grazzini says putting large foreign forces on the ground would be "unwise and risky", and efforts to pick militias deemed worthy partners might just mean strengthening them in their battles against other local groups. Mr Wehrey agrees on the need to proceed carefully, but says that "we can't wait" for a unity government to be "pushed over the line". He is more hopeful that special forces on the ground can work with local militias, such as the Misratans, who have repeatedly asked for military assistance from America as "co-ordinator, broker and referee". Air strikes, he believes, can play an enabling role and disrupt IS operations. In a situation where there are no good options, doing nothing may be the worst. ■

Jordan

# At boiling point

AMMAN

**The country is stable, but it will not be easy to keep it that way**

IT IS sometimes dubbed "the Hashemite Kingdom of Boredom". That may not be very flattering. But while Jordan will never be an economic or political powerhouse, you can do a lot worse than be boring in the Middle East these days.

Jordan, after all, shares frontiers with both Syria and Iraq. From its foothold there, Islamic State (IS) has ambitions to expand the borders of its "caliphate". Jordan itself has bred many a jihadist. Some have climbed to the top ranks of al-Qaeda or inspired it; 2,000 or so have joined IS; others are biding their time at home. Jordan is already home to roughly 1.3m Syrian refugees, not to mention hundreds of thousands of Iraqis and long-term Palestinian residents, many of whom are keen to head to Europe.

Moreover, the Hashemite Kingdom is no stranger to the problems that sparked turmoil in other Arab states. People took to the streets in 2011 demanding that the royal court relinquish some of its powers, calling for corruption to be stamped out and protesting about the dire state of the economy. Little has improved since then. But Jordan's King Abdullah has so far managed to ward off disaster through a combination of skill and good fortune.

Abroad, he has managed to keep friends in a divided region. He has resisted pressure from Saudi Arabia, his bulky neighbour and regular grant-giver, which wanted Jordan to let weapons flow across its border to Syria. Instead, he is trying to create a sort of buffer zone to stop the refugee flow from southern Syria by quietly arming some of the rebels there, but not forcefully enough to incur Bashar al-Assad's wrath. He manages to have relations with Iran, Saudi's nemesis, too.

At home, Jordan has gained from a fear that set in across the region as countries fell apart. The criticisms remain, but "now people just want a safe haven in Amman, a weekend retreat at the Dead Sea and tourists to come to Petra," says a foreign resident. To be fair, Jordan is doing more than most countries to meet some of its citizens' demands. For one, its security forces do not shoot at protesters. There is more lip service than real reform, but a new election law has made some people keener on polls, which must take place by the end of next January, says Jumana Ghneimat, the editor of *Al Ghad*, a local paper.

This uneasy peace will not be easy to keep. The king is warning that his country is at "boiling point". Jordan is refusing to take any more refugees unless foreign donors, gathering in London on February 4th, give more. Angst towards (and despair among) refugees is growing. Jordanians, like the Lebanese and Turkish, have become more and more annoyed at the presence of so many Syrians. They are blamed for a host of ills, from a rising rate of child marriage (for which there is some evidence) to increased crime rates (for which there is none) and unemployment.

Though Jordan's Azraq camp is only a third full, some 20,000 Syrians are stranded at the north-eastern border of the country near Iraq, waiting to cross. Jordan is letting in only a few dozen every day. The government is in a bind, but could help itself. Until very recently it had not allowed any Syrian refugees to work for fear they would stay for good. Rather than see them as a burden, Jordan could look at how they could contribute to economic growth, says Andrew Harper, who heads the UN's refugee agency in Amman, Jordan's capital. ▸▸

Improving the economy would ease Jordanians' gripes. The regional crises have, unsurprisingly, deterred tourists and investors. Only half the number of people visit Petra today as in 2010. The economy depends on charity from the Gulf rather than what it produces itself: unemployment is around 30%. The debt-to-GDP ratio reached 91% last year from 67% in 2010. As prices go up, people are feeling the pinch.

Youngsters, who are a majority of the country's people, are almost absent from politics. The prime minister, Abdullah Ensour, is 77. "The politicians come from a museum," says Amer Sabailah, a local analyst. "Jordan has taken for granted the people's fear of the regional situation to keep business as usual."

Muslim Brotherhood types are sidelined too, despite making up the bulk of the opposition. "Elections are a decoration," says Nimr al-Assaf, a Brother, who says the king has met party members only once since taking power in 1999. The parliament is still fairly toothless.

Jordan's biggest worry is an attack by IS or its sympathisers. But Ms Ghneimat thinks the focus on security alone is misguided. She regularly runs articles criticising the state's inattention to ideology and radicalisation. The government has only recently started to overhaul religiously intolerant schoolbooks; too many preachers in mosques whip up hatred. Even though 2% of Jordan's 6.5m people are Christian, around Christmas many imams declared the festival *haram* (forbidden). "The problem is IS has offered a vision to our young, disenfranchised people," says Ms Ghneimat. "Jordan will not survive unless our leaders offer the same." ■

Barely coping

Algeria

# Who is in charge?

CAIRO

**Rumours swirl around an ailing president**

IT SOUNDS like a missing-person notice: 78-year-old man, wheelchair-bound, not seen in public for over two years. But this is a description of Algeria's president, Abdelaziz Bouteflika, whose ill health, including two strokes in recent years, has led to rumours of a palace coup.

Mr Bouteflika can hardly speak and is said to communicate by letter with his ministers, who nevertheless insist that the old man is *compos mentis* and in charge. But several close associates of the president aren't buying it. Having not seen Mr Bouteflika for over a year, they have demanded a meeting with him—so far to no avail. Missing person is right, they say.

Algerian politics is nothing if not murky. For decades a cabal of unelected power brokers has run the show. Known as *le pouvoir* (the power), the shadowy clique is composed of members of the economic, political and military elite. But with Mr Bouteflika's health in decline, there appears to be a struggle within the group over who will succeed him.

The divide has manifested itself in changes to the security services ostensibly enacted by Mr Bouteflika since his re-election in 2014. Several top figures have either been pushed out or arrested, most notably General Muhammad "Toufik" Medìène, who was sidelined after leading Algeria's intelligence service, known as the DRS, for 25 years. With a file on nearly everyone, Mr Medìène was a political kingmaker (and a brutal foe of Islamist rebels).

In January the DRS was dissolved and replaced by three new directorates under the president. The moves seem aimed at clearing out independent figures, such as Mr Medìène, from *le pouvoir*. More power now rests with Ahmed Gaid Saleh, the army chief of staff, who is a close ally of Mr Bouteflika, and with the president's younger brother, Said, who some say is calling the shots. But experts say Said does not have the support of the army, or the public.

Algerians have grown accustomed to mystery. Few knew that Houari Boumédiène, Algeria's second president, was even ill until he died in 1978. At the time, Mr Bouteflika was seen as a potential successor, only to be passed over by the army. Two decades later the generals finally tapped him for the job.

But today's uncertainty comes at a bad time for Algeria, which largely avoided the tumult of the Arab spring. The government has been able to buy peace at home with subsidies, social housing and big pay rises for state employees. But collapsing oil revenues make this system unsustainable. Protests over rising prices and stagnant incomes are now common. Unrest in neighbouring Libya and Tunisia, and the spectre of jihadism, have added to the anxiety.

Anyone seen this man?

Revisions to the constitution, promised during the Arab spring and handed to parliament only last month, are meant to appease the public. They would limit presidents to two terms, reversing a move by Mr Bouteflika who, if alive, is currently serving his fourth term, and make the Berber language official. Otherwise, they mostly maintain the status quo. There was some debate over creating a post of vice-president to grease the succession process. This was rejected. By whom is unknown. ■

The International Criminal Court

# Africa's leaders protect each other

**As a former president faces trial, his incumbent colleagues vilify the court**

ON JANUARY 28th the Ivory Coast's Laurent Gbagbo became the first former head of state to go on trial before the International Criminal Court (ICC) at The Hague. Three days later the African Union (AU) resolved, among other rude comments about the court, to support Sudan's President Omar al-Bashir in his determination to ignore the warrant for his arrest on charges of genocide in Darfur. It also expressed "deep concern regarding…the wisdom of the continued prosecution" of African leaders including Kenya's deputy president, William Ruto, who faces charges of orchestrating violence after an election eight years ago. Kenya's President Uhuru Kenyatta, who faced similar charges which the ICC dropped in 2014, is urging African members of the ICC to withdraw from it.

That may not happen soon, if at all, and

The plague in The Hague

it is unclear how many African countries may wish to bunk out of the court's jurisdiction: not, presumably, the Ivory Coast, whose current president delivered Mr Gbagbo to The Hague. But the episode stirs yet more bad blood between the continent's rulers and governments of the rich world, most of which back the court, and makes it harder to promote the notion that no leader who commits atrocities should enjoy impunity anywhere.

Unlike the elusive Mr Bashir, Mr Gbagbo, now 70, was unable to prevent his enemies from landing him in the ICC's dock. Having lost a presidential election in 2010 after a decade in office, he refused to step down—and is now accused of egging on his militias and security forces to commit a string of atrocities in a bloodily vain effort to stay in power. In April 2011 he was captured, and seven months later sent to The Hague, where he has been accused of prompting his henchmen to commit murder, rape and other heinous crimes.

The court is vulnerable to the charge of exercising victors' justice, because militiamen who backed the Ivory Coast's current president, Alassane Ouattara, against Mr Gbagbo also committed atrocities—but none of them has been indicted. The court's doughty chief prosecutor, Fatou Bensouda, a Gambian, says she will investigate all sides. But Mr Ouattara seems loth to co-operate with her over crimes committed by his friends.

In any event, the court must still refute the more damaging charge of bias against Africa. When it began to operate, in 2002, African leaders were among its keenest backers, mindful of recent horrors in such places as Rwanda, Congo and South Africa under apartheid. Most African governments signed the statute that led to the court's creation. And though it is true that the first nine "situations" (as the court calls its sets of cases) to be put before the court have all been African, six were brought to it by the relevant African governments themselves; two were referred to it by the UN Security Council; and the cases to do with Kenya were taken to it with the co-operation of Kenya's then government, after Kofi Annan, a Ghanaian former head of the UN, had mediated an end to the dreadful post-election violence and endorsed the ICC's involvement. The latest situation to be investigated by the ICC prosecutor concerns atrocities committed in Georgia during its war with Russia in 2008.

Moreover, the African leaders who castigate the court for tackling their peers sound less protective of smaller African fry who fall into the ICC's net. Niger's government was happy to send a Malian jihadist to The Hague last year. The Democratic Republic of Congo has allowed the ICC to send back a warlord, Germain Katanga, to face further charges at home after serving a sentence handed down at The Hague. And Uganda's President Yoweri Museveni, a vehement critic of the ICC, was no doubt content when Dominic Ongwen, a leader of the murderous Lord's Resistance Army that has blighted northern Uganda, stood before the court in The Hague at the end of last month. But unlike Mr Gbagbo he plainly wasn't "one of us". ■

Kenya's flower trade

## Leaving on a jet plane

NAIVASHA

**The long journey of those special stems**

IF YOU come home to a vase full of roses on Valentine's Day in Europe there will be a good chance they were picked a few days earlier on the shores of Lake Naivasha in Kenya. The fertile Rift Valley soil, warm days and cool nights make for perfect flower-growing conditions.

The Netherlands still dominates the global horticulture industry, but Kenya is digging itself a growing niche. Its cut-flower exports increased 12-fold to 137,000 tonnes between 1988 and 2014 as buyers realised it was cheaper, and counter-intuitively greener, to fly blooms thousands of miles than to heat Dutch greenhouses. More than 30% of the European Union's cut-flower imports now come from Kenya. Most are roses.

After being cut from inside the pale, plastic greenhouses crouched by the lakeside, the thorny stems are stripped of excess leaves and packaged to customers' specifications. The bunches are then shepherded into 5°C cold rooms by workers in quilted boiler suits before being driven to Nairobi airport, landing at Amsterdam's auction or with in-country agents around 48 hours after being plucked.

For many farms this is the busiest time of year—Britain's Mother's Day and Women's Day in Russia come just three weeks after Valentine's. Maridadi Flowers in Naivasha, for instance, will sell around 10.5m roses over the period, 15% of its annual harvest. Others opt to keep production steady. Cultivating plants for such a short spurt of demand is "a dangerous game", says a farmer: a cold snap could mean flowers take longer to bloom and miss the bouquet-giving season.

The industry is one of Kenya's biggest foreign-exchange earners, alongside tea, tourism and remittances. After a series of exposés of poor conditions, most farms now abide by health-and-safety standards and pay for workers' medical care. Wages have fallen in real terms over the past decade, thanks to rampant inflation, but the jobs are still sought after: around 150 men and women recently queued up to apply for 20 posts at Nini, a 44-hectare farm employing over 500 people.

Flower farms are also managing and recycling water better after being accused of draining and polluting Lake Naivasha. It makes sense for overseas buyers to demand high standards: there's nothing romantic about environmentally unfriendly roses harvested by miserable workers.

Roses are green

Also in this section



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France's Socialists

# Beardless youth

PARIS

**Manuel Valls was the iconoclast of the left. Then came Emmanuel Macron**

SELDOM has facial hair become an object of such frenzied political debate. When France's popular young economy minister, Emmanuel Macron, returned from his Christmas break sporting a hip beard, it set off political chatter. Was it an attention-grabbing gimmick? A visual symbol of the outspoken minister's defiance? An appeal to the metrosexual high-tech crowd? Mr Macron, feigning surprise at the fuss, insisted that he had just wanted a break from shaving, and soon after dropped the beard. But the impact lasted: at a time of disillusion with most politicians, there is one dynamic nonconformist leader whom the French find fascinating.

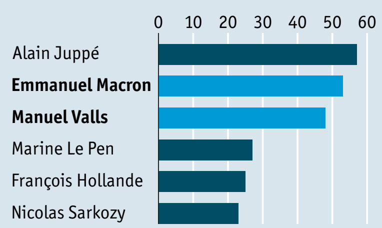
The 38-year-old Mr Macron has become the most popular politician on the left, and the second-most popular of any stripe. Yet 18 months ago he was unknown outside the corridors of government. A one-time investment banker and product of the elite civil-service college, the Ecole Nationale d'Administration, Mr Macron became economic adviser to François Hollande after the Socialist's election as president in 2012. His efforts to coax the president away from his dafter ideas did not always succeed. Mr Macron once called Mr Hollande's promised 75% top income-tax rate "Cuba without the sun!"; it was implemented, for two years, all the same.

It was only after being propelled into government, in 2014, that Mr Macron began to capture the French imagination. His predecessor, Arnaud Montebourg, specialised in irking foreign investors by declaring that France had no need for them. Mr Macron turned on the charm. At ease in Davos or Silicon Valley, and a champion of French high-tech start-ups, he can claim a fair share of the credit for France's improved image among foreign investors.

The great mystery, however, is not that Mr Macron appeals abroad. It is that he has won over the French. Many of Mr Macron's ideas rub against everything that the French left and its union friends have traditionally stood for. They defend the 35-hour working week; he urges flexibility for firms to negotiate longer hours. They consider Sunday trading an assault on workers' right to rest; he wants employees to choose. They want to protect incumbents, such as taxi drivers; he knows that consumers like Uber. They are suspicious of wealth (Mr Hollande once said he didn't like rich people); he urges young French to aspire to become billionaires. "We need to move beyond the conservative left that is afraid of change," says Mr Macron.

**Enfants terribles**

Positive opinions of French politicians
January 2016, % polled




Source: Odoxa

This line may offend the orthodox left, but it appeals to France's broad middle. Mr Macron, who is no longer a member of the Socialist Party and has never been elected, draws as many, if not more, admirers outside his camp. One poll finds that he is the second-most popular politician on the centre-right, ahead of Nicolas Sarkozy, leader of Les Républicains, the centre-right opposition party (see chart).

In contrast to the grey heads who populate parliament, Mr Macron also understands his generation: those who use Uber, hold business meetings on Skype in co-working cafés, and shun hotels in favour of Airbnb. "He is in sync with society, not political parties," says one French tech boss. Mr Macron's can-do political energy stands out in morose France, home to 10% unemployment and growth last year of just 1.1%. Since the double terrorist attacks of 2015, Mr Hollande now wears a calcified frown. Manuel Valls, the prime minister, declares that "history is fundamentally tragic." Mr Macron smiles, a lot.

This insolent popularity is not to everybody's liking, especially within government. "He oversteps the mark, because he lacks a political sense," says one source. Most awkwardly, Mr Macron's rebelliousness is showing up Mr Valls, who before becoming prime minister in 2014 was himself an insubordinate Socialist moderate. Like Mr Macron, Mr Valls has used his popularity to legitimise charges against Socialist orthodoxy, calling the party "backward- ▶▶

German youth

# Girl, not abducted

BERLIN

**An adolescent's fib blows up into an international incident**

LISA F. is a 13-year-old Russian-German girl who lives in Berlin. On January 11th she disappeared for about 30 hours. When she resurfaced, she claimed to have been abducted and raped by a group of migrants. Russian media pounced on the story, whipping their audiences into a frenzy. Even the Kremlin got in on it. On January 26th Sergei Lavrov, Russia's foreign minister, accused Germany of hushing up the case in order "to paint over reality with political correctness". The charge was that Germany, a victim of Western decadence and the naive refugee policy of its chancellor, could not or would not protect "our Lisa".

In the current political climate, many people in Russia and Germany are eager to believe such a message. Among them are many "Russian-Germans": ethnic Germans who lived for centuries in Russia but in recent decades have moved back to Germany, where they number about 2m. Many watch Russian television. Thousands of them took to German streets to protest for Lisa. They were joined by German nationalists and some supporters of the NPD, a neo-Nazi party eager to spread any negative rumour about refugees.

The wisdom of crowds

Berlin's police, ever conscientious about upholding the law and exercising discretion, kept their initial statements matter-of-fact. They had no evidence of any abduction, but were investigating the possibility that Lisa had engaged in consensual sex earlier on (which might constitute statutory rape). Of two suspects, neither was a migrant.

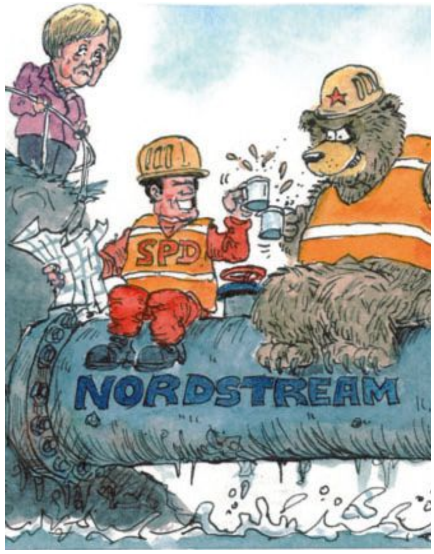
Undaunted, the Russian media continued to peddle conspiracy theories. Germans gradually became outraged by their failure to respect due process. Even Germany's foreign minister, Frank-Walter Steinmeier, who usually displays an embarrassing eagerness to accommodate Russian vanity, called Moscow's statements "political propaganda". Mr Lavrov replied that he interpreted that as an admission of guilt.

On January 29th the police explained what had actually taken place. Lisa F. spent the night of January 11th with her 19-year-old boyfriend. She had had problems at school, the prosecutor's office says, and didn't dare to go home. Crises of trust wherever one looks.

looking" and "haunted by a Marxist super-ego". As prime minister, Mr Valls has made economic policy more business-friendly, forcing a deregulation bill drafted by Mr Macron through parliament last year (against Socialist rebels). Yet high office has tempered his iconoclasm.

For now, it is more useful for Mr Hollande, whose post-terrorism poll bounce has vanished, to have the popular duo inside government. But with presidential elections coming up next year, it also suits him to maintain some tension between them. Mr Hollande is France's least popular modern president, but still hopes to run for re-election. Managing his would-be rivals will feed into the calculation for an upcoming government reshuffle, when Laurent Fabius, the foreign minister, is expected to move to the constitutional council.

The Macron phenomenon suggests something more important too: that there may be a far broader centre ground in France than is usually visible under its polarising two-round presidential system. Last year, for example, Socialist deputies resisted the government's deregulation bill. Yet 54% of the public now want reforms to accelerate, and one poll says 69% want to loosen the 35-hour working week rules. Hard-line unions are still blocking Sunday opening for some shops. Yet many employees, promised generous overtime pay on Sundays, are in favour. Mr Valls and Mr Macron have helped nudge French public opinion towards the centre. The question is how, politically, to harness the energy of this quiet but emerging French consensus. ■




German Russophiles

# Bear-backers

BERLIN

**Nostalgia for "Ostpolitik" is fouling up German diplomacy**

THIS week Horst Seehofer, the premier of Bavaria and an unruly ally of Chancellor Angela Merkel, ruffled German diplomatic feathers by visiting Vladimir Putin, Russia's president. Mr Seehofer's trip carried no official weight. But hugging a leader whom Mrs Merkel treats warily further confused Germany's muddled "eastern policy", or *Ostpolitik*.

The term dates back to the rapprochement with the communist bloc begun in 1969 by Willy Brandt, West Germany's first Social Democratic chancellor. It set in motion the normalisation of relations with East Germany and other Warsaw Pact nations, as well as easing tensions with the Soviet Union. Today Social Democrats still credit *Ostpolitik* for the eventual fall of the Berlin Wall. After German reunification, which required Soviet blessing, the conciliatory spirit spread to the centre-right Christian Democrats, led today by Mrs Merkel. It has also spawned the notion of *Russlandversteher* ("Russia-understanders"), Germans who mix sympathy for Russia with antipathy for America.

The chancellor suspended her belief in *Ostpolitik*'s underlying principle of "change through rapprochement" after Mr Putin seized Crimea and sent Russian troops to back separatists in Ukraine. She has orchestrated a firm European response that combines tough economic sanctions with dialogue to avoid further escalation.

But a ten-minute taxi ride away from Mrs Merkel's office, in Germany's foreign ministry, the old *Ostpolitik* lives on. Frank-

Walter Steinmeier, the foreign minister, is a Social Democrat. He was also chief of staff for Gerhard Schröder, the Social Democrats' last chancellor. After losing to Mrs Merkel in 2005 Mr Schröder, a friend of Mr Putin, became chairman of the board of Nord Stream, a German-Russian pipeline that carries Russian gas under the Baltic Sea to Germany. Today Mr Steinmeier reliably plays dove to Mrs Merkel's hawk.

Social Democratic fingerprints are all over plans for a second Baltic pipeline, Nord Stream 2, which is to be built even though the existing one is operating at only half capacity. A deal between Russia and Germany was announced in Moscow last autumn by Sigmar Gabriel, the economics minister and the Social Democrats' boss.

Nord Stream 2 has few friends outside Russia and the Social Democrats. Poland, Slovakia and the Baltic countries are aghast at what they see as a sinister pact to boost German business at the expense of their energy security. Russia could junk its pipelines that run through Poland and Ukraine, leaving them gas-strapped and at the mercy of powerful (and historically unfriendly) neighbours. The European Commission sees it similarly. In 2014 it blocked another pipeline project, under which Russian gas was to run through the Black Sea and central Europe. America, worried that Nord Stream 2 would deprive Ukraine of transit fees, is also opposed.

So are many Germans. Norbert Röttgen, a Christian Democrat who leads parliament's foreign-policy committee, finds the government's line that Nord Stream 2 is a commercial, not a geopolitical, matter "indefensible". No doubt this formulation has been forced on Mrs Merkel to keep the peace with her Social Democratic coalition partners. But Mr Röttgen says that Germany's interests—be it energy independence from Russia or solidarity with the EU—would be better served by opposing Nord Stream 2. Germany's relations with Poland and Hungary are already troubled by nationalist governments there. By clinging to an *Ostpolitik* focused on Russia, the Social Democrats are rendering relations with the wider east increasingly fraught. ■

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Russia and Chechnya

# Putin's Chechen enforcer

**The alarming world of Ramzan Kadyrov**

RAMZAN KADYROV has few inhibitions. Last week, just before the first anniversary of the murder of Boris Nemtsov, a liberal Russian opposition leader, by a member of Mr Kadyrov's security services, the Chechen strongman posted a video on his Instagram page. It depicted Mikhail Kasyanov, a former prime minister, in the crosshairs of a sniper rifle. "Kasyanov is in Strasbourg to get money for the opposition," Mr Kadyrov commented under the video, in a clear warning to opposition politicians. "Whoever still doesn't get it, will."

Mr Kadyrov has been ratcheting up the invective for a while. Last month he called liberals "vile jackals" who should be treated as "enemies of the people". In an article in the pro-Kremlin newspaper *Izvestia*, Mr Kadyrov offered psychiatric treatment to opponents of President Vladimir Putin. He also staged a large rally in Grozny, Chechnya's capital, lest anyone doubt his popular support.

For many Russians, and not only opposition figures, Mr Kadyrov's latest antics went too far. Ella Panfilova, a human-rights ombudsman in the Kremlin, said his statements should be examined for signs of "extremism". The Levada Centre, an independent pollster, found 60% of Russians thought Mr Kadyrov's threats unacceptable. Konstantin Senchenko, an independent politician from Krasnoyarsk, called Mr Kadyrov "a disgrace to Russia" on his Facebook page. The next day, after threatening calls from Chechnya, Mr Senchenko was forced to apologise profusely.

Kirill Rogov, a Russian political analyst, says Mr Kadyrov's threats epitomise a transformation of Russia's regime in the face of a shrinking economy. "This is a new type of repression. In the past the regime dealt with its opponents by charging them with economic crimes. Now the stakes have been raised," he says.

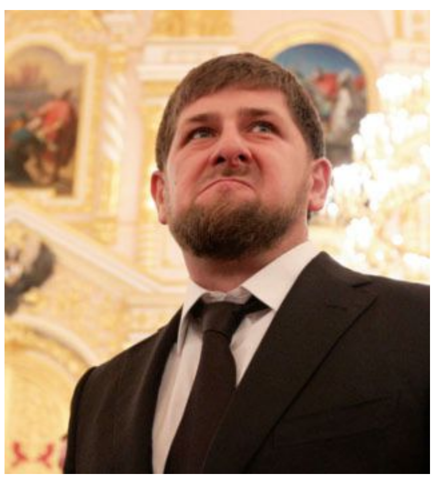
Russian repression is unlike that of the Soviet regime, which had a monopoly on violence. Mr Putin outsources his terror to thugs like Mr Kadyrov, who ensures that Mr Putin routinely draws over 99% of the vote in elections in Chechnya. In December 2014 Mr Kadyrov paraded some 20,000 of his own well-armed troops through Grozny, Chechnya's capital. "Kadyrov can do the dirty work for [the Kremlin] and say things which they cannot yet afford to utter," says Ekaterina Sokiryanskaya of the International Crisis Group, a think-tank.

Mr Kadyrov's threats arrived just as the Russian government completed its investigation into Nemtsov's murder. Once groomed for the job of Russia's president, Nemtsov was assassinated near Red Square in February 2015 by Zaur Dadaev, the former deputy head of a battalion controlled by Mr Kadyrov. The investigation sheds little light on who ordered the killing, or why. The investigator ignored requests from Nemtsov's lawyers to question Mr Kadyrov or his entourage. The Chechen leader defends Mr Dadaev as a Russian patriot.

Rank-and-file security officers resent Mr Kadyrov, seeing him as one of the rebels they fought during the first Chechen war. But Mr Kadyrov enjoys protection from Mr Putin, who responded to his protégé's latest provocations by calling him an effective worker. The Kremlin awarded Mr Kadyrov a medal the day after Nemtsov's murder, and he continues to receive ample funding from Moscow. Last year, while overall budget transfers to Russia's regions declined by 3%, funding for Chechnya rose by 8%. Mr Putin has ordered his cabinet to transfer ownership of a large oil and gas company in Chechnya from federal control to that of Mr Kadyrov's government.

Ever since the Soviet collapse, Chechnya has divided Russian society. Ironically, in the early 1990s when Mr Kadyrov was fighting against Moscow, Russian liberals—including Nemtsov—campaigned against Russia's Chechen war. Nemtsov collected a million signatures in support of stopping it. Conversely, the rabid nationalists who once cheered Russia's brutal campaign against the Chechens now see Mr Kadyrov as their hero in a battle against liberals and Westernisers.

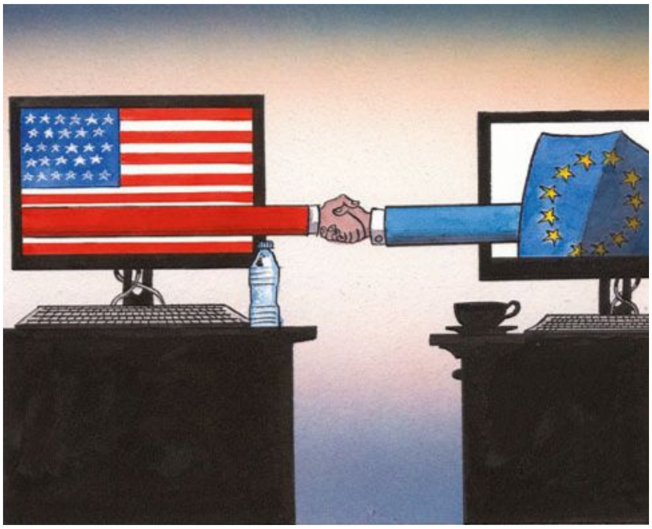
Mr Kadyrov has turned Chechnya into a caricature of Russian authoritarianism, with his own personality cult and system of extortion, torture and killings to keep the population in line. As Alexander Baunov of the Moscow Carnegie Centre argues, Mr Kadyrov appeals to Russians who consider the current regime too soft. They see in Chechnya a model for Russia's future. Mr Kadyrov's impunity brings that one step closer. ■



**99% of voters can't be wrong**

# Charlemagne | Swords and shields

**America and the European Union have reached a deal on data protection**



NAIVETY and paranoia mark the European Union's attitude to espionage. The EU does not have a spy agency, nor does it have access to the intelligence collected by its members and their allies. That has advantages: EU decision-makers need not worry about keeping secrets (because they do not know any); nor must they grapple with the legal and political practicalities of intelligence oversight—such as what access spooks have to private data. The downside is that they do not see the benefits of espionage, and have a lurid fear (mixed perhaps with envy) of what spy services, particularly American ones, get up to.

Yet it is the European Parliament which votes on data-protection rules, the European Commission which negotiates agreements with other countries, and the judges of the European Court of Justice (ECJ) who have the final say on whether those deals meet the right standards. And in October 2015 the ECJ, on the advice of the Commission and to the applause of many parliamentarians, upended the "Safe Harbour" agreement which for the past 15 years had allowed foreign companies to store Europeans' personal data on American computers.

The arrangement had been extremely useful, both for the giants of the internet economy, which could market their services seamlessly on both sides of the Atlantic, and for much smaller businesses—for example those which outsource payroll and other services to American contractors. But it rested on the idea that America protected privacy to European standards. After the revelations of Edward Snowden, an American intelligence contractor who has fled to Moscow, many found that hard to believe: "mass surveillance"—to use the Orwellian term favoured by Mr Snowden's supporters—of all data held in America seemed a fundamental breach of Europeans' right to privacy.

From an American point of view, that looked like self-indulgent posturing. The Snowden material was grossly misinterpreted. All foreign-intelligence outfits spy on foreigners: the clue is in the name. "Bulk collection" (to use the spooks' preferred term) is a necessary part of modern intelligence work: all spy agencies that can collect and sieve information from the internet will do so. But America's spies operate under a level of legislative and judicial oversight that no European country can match. Indeed, since a presidential directive in January 2014, America, uniquely, puts foreign and domestic personal data on the same footing as far as bulk collection is concerned.

Moreover, European countries' spy agencies benefit hugely from intelligence-sharing with America about terrorism, organised crime and the activities of countries such as Russia and China. That politicians fail to acknowledge this to their own voters smacks of timidity and ingratitude. There may be disguised protectionism involved too: European privacy worries mask a degree of envy of America's digital dominance. Europe has signally failed to develop rivals to Amazon, Apple, Facebook or Google.

Against that difficult background, this week's outline deal on a new agreement to replace Safe Harbour looked like something of a triumph. Under heavy pressure from internet and technology companies on both sides of the Atlantic, and with the prospect of a transatlantic trade war on data looming, both sides have moved. In the new "Privacy Shield", America has offered to institute safeguards and limits on its surveillance programmes. Europeans will be able to complain individually or at an institutional level about breaches, including to a new ombudsman in the State Department. The new deal will be reviewed annually.

Many obstacles lie ahead. Europe's national data-protection agencies welcomed the deal but said they wanted more details—to be provided by the end of the month. If any one of these regulators is unhappy, it can ban its country's companies from sending data to America. That would prompt another long legal battle, probably ending in the ECJ.

Even if the bureaucrats give grudging approval, privacy campaigners find the Privacy Shield farcical. Given that intelligence agencies operate in secret, how will anyone know—unless another Snowden blows the whistle—that their data are being snooped on unlawfully? The next administration may change the rules. And in any case, why should anyone believe what American spymasters say? A legal challenge to the new deal looms. But once the Commission has issued a beefed-up "adequacy decision", it will be harder for the ECJ to strike it down. In the meantime, the transatlantic data economy can keep humming.

**Control all, delete**

For all its real and imagined flaws, the new deal shows that transatlantic negotiations still work. It gives hope for the ailing Transatlantic Trade and Investment Partnership (TTIP), a counterpart to the Trans-Pacific Partnership which America and 11 Pacific-rim countries signed on February 4th. It also shows a realistic grasp on both sides of the importance of transatlantic ties. European neuroses madden America just as American swagger intimidates and annoys Europeans. But each side needs the other. Europe is America's biggest trade partner. America is the keystone of European security. (That was highlighted this week by America's announcement that it will quadruple defence spending on deterring Russia in NATO's eastern frontline states.)

Perhaps even more important, the Privacy Shield may stop the slide towards the fragmentation of cyberspace along national lines. Since its inception, the internet has struggled to stay a borderless space for ideas and commerce. Countries such as China have established what they see as sovereignty over their computers and networks, protecting themselves from threats such as "information weapons" (also known as "news"). Others are itching to follow. If America and the EU, with their shared history, interests and values, could not reach agreement over safeguarding their citizens' data, there would be little hope for anyone else. ■

Also in this section



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Britain and the EU

# Slings and arrows

**The renegotiation of Britain's EU membership is mainly theatre, but it may be enough for David Cameron's domestic audience**

"TO BE, or not to be together, that is the question," tweeted the president of the European Council, Donald Tusk, on February 2nd as he published a draft plan offering Britain new terms of membership of the European Union. David Cameron, who had hammered out the bargain with Mr Tusk, was clearly feeling less lyrical. Rather than face questions in the House of Commons, the prime minister jumped on a train to visit a German-owned factory in Wiltshire, while his Europe minister took the parliamentary brickbats. Newspaper headlines the following day were hardly poetic. "Who do EU think you are kidding, Mr Cameron?" demanded the *Sun*.

Liam Fox, a Eurosceptic former defence minister, said none of the changes in Mr Tusk's plan "even come close to the fundamental changes promised to the public". Mr Cameron, however, claimed that he had got the concessions he promised in 2013 when he sought to close down Britain's never-ending debate about EU membership by offering an in/out referendum.

The proposed deal has four main features. Most prized by Mr Cameron is an "emergency brake" that would allow Britain (with other EU governments' permission) to restrict EU migrants' in-work benefits, such as wage-boosting tax credits and housing benefit, for their first four years in the country. Mr Cameron insisted this would "make a difference" to net immigration from the EU, which currently stands at around 180,000 a year and is many voters' main reason for wanting to leave.

Second, a "red card" mechanism would allow national governments to block some EU legislation if 15 or more joined forces. Eurosceptic Tories had wanted a straight veto for Britain, a deliberately implausible demand. In practice, the red card is a red herring: it is hard to imagine circumstances in which 15 countries could be rallied against a plan that had not already been voted down.

Britain and other non-euro countries will be allowed to slow some European legislation, as a safeguard against their steamrollering by single-currency members. Finally, Mr Cameron secured a commitment to limit the legal force of the phrase "ever closer union", a goal enshrined in EU treaties which many Britons do not share. Under the new plan, Britain would be recognised as "not committed to further political integration". Again, this was in effect already assured by earlier declarations to the same effect.

The changes are insubstantial, but the negotiation's importance is symbolic. Mr Cameron, who has said he would vote to leave an unreformed EU, needed to secure concessions of some sort to justify campaigning to stay in; the deal also aimed to show swing-voters that he could influence Brussels (though some may share the *Sun*'s take). The European Commission has played along, agreeing that Britain's migration situation constitutes an "emergency", though it is no such thing.

Together with Mr Tusk, the prime minister must now convince the other 27 EU countries to approve the deal at a summit in Brussels on February 18th-19th, before persuading Britons to vote to stay in the union, in a referendum now likely to be held in late June. Mr Cameron's chances of victory improve the sooner he holds it. He does not want another terror attack or more refugee chaos to turn the referendum into a vote on immigration.

His job will be easier if he can win the backing of his cabinet. Theresa May, his Eurosceptic home secretary and one of several would-be successors, indicated her support for the In camp following the deal. Boris Johnson, London's mayor and her rival, harrumphed that the prime minister was "making the best of a bad job" and was promptly promised a juicy cabinet post. Mr Cameron is also expected to pass a law to state the primacy of Britain's Parliament over European institutions. These concessions will not stop a few mainly junior cabinet members joining the Outs.

But the campaign to leave the EU is divided, and in danger of being hijacked by the right-populist UK Independence Party, which most voters consider faintly loony. The economy is improving (hence all the immigration). Polls suggest Mr Cameron is narrowly on course to win.

Poles could prove more troublesome. Though they fear Brexit, eastern European governments do not want a precedent of their people being treated as second-class citizens in western Europe. Mr Cameron booked a ticket to Warsaw on February 5th for a diplomatic push. Now he must avoid a renegotiation of his renegotiation. ■

The elderly

# Shades of grey

**Pensioners' incomes are now higher than those of working households. But some are doing much better than others**

BRITAIN has a long and undistinguished history of treating its elderly badly. In the 1960s about 40% of pensioners were living in poverty, compared with less than 10% of working-age folk. In an influential study published in 1979 Peter Townsend, a sociologist, argued that pensioners were systematically ignored by politicians and the public, with "barbarous effects" on their standard of living.

These days, the elderly are living it up. In 2000-14 spending by the over-75s on dining in restaurants rose twice as fast as similar spending by the under-30s; on cinema and theatre tickets, it rose five times as fast. Over-65s currently account for less than one-fifth of overall consumer spending; this will rise to one-quarter within two decades, says Vicky Redwood of Capital Economics, a consultancy. Businesspeople smell opportunities. A complex billed as London's first luxury retirement community will open in the spring, with a swimming pool and views over Battersea park from penthouses that are on the market for up to £3m ($4.3m).

At first glance it is difficult to see how Britain's 12m pensioners can afford all this high living. The country's replacement rate—what public pensions pay compared with pre-retirement earnings—is near the bottom of a 34-country ranking calculated by the OECD, a rich-country club. The basic state pension is just £116 a week, compared with the median full-time salary of £530. Relative to what those of working age earn, it was on a sharp downward trend in 1980-2009 (though it is now rising).

State pensions may look measly but oldies have other sources of income. In the past 30 years other welfare benefits, such as those related to housing and disability, have increased by 14% in real terms for the average retired household, against 7% for the non-retired. Private pensions have also done well, since for much of the 20th century stockmarket returns were high. For a retiree in the top income quintile, a private pension now pays out 2.5 times as much as one from the state, up from less than 1.5 times in the early 1980s. After accounting for private pensions, Britain sits at the OECD average for incomes in retirement.

Yet even this underestimates the prosperity of the elderly. When measuring incomes, economists often subtract the cost of rent or mortgage payments, to give a better idea of the person's disposable resources. In a country where housing is par-

**Into extra time**

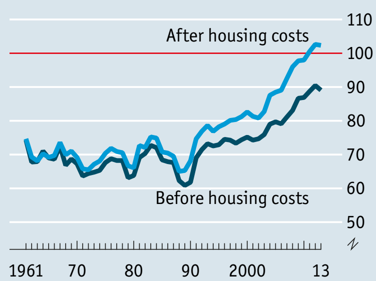
ticularly expensive—by one estimate only Monaco is pricier—owning a home amounts to a big implicit income boost. Over-65s own 60% of the houses in Britain whose mortgage has been paid off.

After subtracting housing costs, pensioners' incomes surpassed those of the non-retired in 2011, finds the Institute for Fiscal Studies (IFS), a think-tank (see chart). Poverty among pensioners is now below that of working-age people without children (and far below those with them).

The rise of swanky retirement homes hints at another trend: that the wealthiest pensioners' incomes are soaring away from those of others. The modern labour market favours workers with brains, not brawn. Across the world pay has risen for the highly educated, who continue to reap rich rewards into old age. Today's educated elderly are more productive than their predecessors. The skills that complement computers, like creativity and management, do not necessarily decline with age.

**Slow and steady**

Pensioners' income as % of non-pensioners'
Britain




Source: IFS

This is particularly evident in Britain, which relies on the service sector more heavily than almost any other country. With plenty of jobs in finance, the media and the like, 27% of 65- to 69-year-olds with degrees are employed, compared with 14% of those in that age group with only secondary-school education or below. Indeed, retirees are now putting in longer hours than many youngsters: in Britain someone over the state-pension age but under 70 who has a degree is now more likely to be in the labour force than a 16- to 24-year-old with no qualifications.

With the growth of the post-retirement labour market, oldsters' incomes have diverged. Between 1984 and 2014 the gap in disposable income between the richest and poorest retired households grew by one-third, a similar increase to that seen in working households. Pensioners in the top income quintile have seen their earnings from salaries and self-employment rise in real terms by 60% in the past 30 years. The strong performance of private pensions has topped up these earnings.

The brainy will continue to benefit. Businesses' complaints about finding labour are growing, according to surveys by the Bank of England, especially when it comes to skilled workers. Demand for the educated—of whatever age—will keep rising. And so inequality will widen. The IFS forecasts that in 2010-22 the income gap between a pensioner in the 90th percentile and the median one will double.

Inequality between older pensioners and new retirees may also be rising. Ian Tonks of the University of Bath reckons that, with low equity returns in recent years (and, with the current market turmoil, no sign of that improving soon), people retiring today will have more meagre pensions than those who hung up their boots at the turn of the millennium. The number of private-sector "defined benefit" pension schemes—in which the worker receives a juicy payout based on his earnings—that are open to new members has fallen by 90% in the past two decades. Wages are still below their pre-crisis peak; as workers struggle to save, pension pots will not grow much.

Small wonder then that nearly half of working-age Britons doubt they will save enough money for a "comfortable" retirement; three-quarters believe they will be worse off than their parents. Today's pensioners are living in a golden age, but the spending spree may not last for long. ■

# Bagehot | Sadiq Khan's road to power

**A cosmopolitan Muslim is set to become London's next mayor**


ASK Sadiq Khan for a case study and he gives you seven. Having casually inquired of London's would-be mayor whether he draws on any particular international example, Bagehot was bombarded with the municipal merits of Detroit, New York, Chicago, Houston, Paris, Berlin and Los Angeles ("The previous mayor wanted to green LA and expand the port, but Barack Obama couldn't get it through Congress or the Senate...so he jumped in a plane and went to China to get the funding."). For such is Mr Khan: frenetic, keen to show that he is on top of his brief and—every bit the politician—even keener to say what he thinks his interlocutor wants to hear.

His selection last September as Labour's candidate for the mayoralty and his subsequent success in the opinion polls have defied expectations. Tessa Jowell, a doyenne of the party's liberal right (and a member of The Economist Group's board) had appeared better equipped to win over the centrist suburbs of Britain's left-wing capital in its election on May 5th, but fell short. Mr Khan's campaign has since proven too thin-skinned; howling that (admittedly unfair) Conservative accusations that he is a "radical" and a "lab rat" for Labour's leadership were respectively anti-Islam and anti-London. His bid has been weakened by Jeremy Corbyn, the party's hard-left leader who in his victory speech last September—horror flitting across Mr Khan's face—proclaimed: "Sadiq, we're going to be campaigning together."

Nonetheless, it seems the MP for Tooting is comfortably ahead of Zac Goldsmith, his thoughtful but posh Tory rival—by 45% to 35%, according to a recent poll by YouGov. It helps that the hard-left Mr Corbyn is driving moderate Labour activists towards Mr Khan, even though he is on the party's soft-left. And Labour's candidate has worked hard to distance himself from his leader, pledging to be London's most pro-business mayor ever and decrying Mr Corbyn's policies on tax and finance.

Mr Khan's main strength is that he exemplifies the city he wants to run. His parents moved there from Karachi, in Pakistan. The son of a bus driver, he grew up in a council flat in south London and lived out of a bunk-bed there until he was 24. He trained as a lawyer and subsequently ended up in Gordon Brown's cabinet (by contrast, Mr Goldsmith was gifted the editorship of the *Ecologist*, an environmental magazine, by his uncle). "London gave me and my family the chance to fulfil our potential," argues Mr Khan convincingly. Firmly pro-European, comfortable with immigration and a model of liberal Islam (he backed gay marriage and fought to keep a local pub open), he encapsulates the city's contradictions: internationalist and parochial, swaggering and insecure, original and clichéd, socialist and capitalist.

Would he make a good mayor? His programme, which he launched on February 2nd, is mixed. He has promising plans to improve Londoners' skills and to accelerate the construction of Crossrail 2, a new subterranean railway that will run from London's south-west to its north-east. Most excitingly, he wants to expand the debilitatingly meagre scope of the city's mayoralty, pledging to lobby for new tax-raising abilities and local health powers to rival those which Manchester will acquire, ahead of the capital, in April.

On the other hand, his "pro-business" programme seems to be more about what firms can do for the mayor (building infrastructure and houses, raising wages, advising on policies) than what the mayor can do for firms (beyond vague talk of the "jobs of tomorrow" and "engines of growth"). Meanwhile his housing policy—introducing rent controls, bolstering tenants' protections and mandating a larger proportion of "affordable" homes while refusing to countenance building on the often ugly and mostly pointless green belt—does not match the scale of the task (40% of Londoners experience damp and the average house price could reach £1m, or $1.5m, in 2030). His stance on airport expansion is similarly disappointing: London's probable next mayor opposes new runways at Heathrow, its only hub airport.

**London's turning**

The good news is that Mr Khan will probably abandon these commitments if he wins office. When pushed, he struggles to justify his views on either Heathrow or the green belt. Mr Goldsmith may have had a point when he called his rival's stance on the former "as authentic as Donald Trump's hair". That need not be a bad thing: if this, as is often asserted, is the age of mayors, it is thus also the age of pragmatism and ideological flexibility. Youthfully energetic despite his grey streaks, punchily ambitious (he boxes to keep fit) and hyperactive, Mr Khan—who even talks too fast, slamming one word into another—may just be the real deal. "I have heard him speak a number of times and he gets better and better," says a senior Labourite close to Ms Jowell.

The best argument for him is that, by all accounts, he is a good and likeable manager, aware of his weaknesses and (as his monologue about London's rival cities suggests) open to external ideas. Unlike Boris Johnson and Ken Livingstone, London's previous mayors, he is a team player. Unlike Ed Miliband, the former Labour leader whose campaign to run the party he led in 2010, he can take criticism. "If there's a good idea I'll replicate it; I'm not precious if it's a Labour idea, a British idea, or not," he insists. There is one caveat. If—as seems likely—Mr Khan wins on May 5th he will need to build a team that can anchor his mayoralty and give it public-policy ballast. Andrew Adonis, the Labour peer obsessed with detail and currently leading the government's infrastructure commission, would be an excellent choice of policy chief. With someone like that on board, Mr Khan could prove a fine mayor indeed. ■

Read a transcript of Bagehot's interview with Sadiq Khan:
www.economist.com/blogs/bagehot

Also in this section



Call centres

# The end of the line

MANILA

**Call centres have created millions of good jobs in the emerging world. Technology threatens to take those jobs away again**

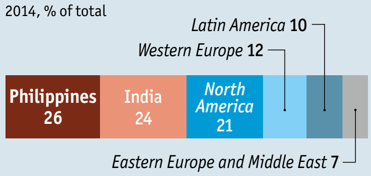
WHETHER in Nairobi or Albuquerque, a shopping centre is not really a shopping centre unless it has at least two anchor tenants. These can be department stores, cinemas or bookshops—anything that will fill a large space and lure customers past smaller boutiques. The idea is that a cinema-goer might pause to buy a leather jacket; and, in a lovely symbiosis, the monied youngsters who shop for clothes and sunglasses might decide to catch a film.

Take a lift to the top floor of the new SM Aura shopping centre in Manila, and you will find not a cinema or a Neiman Marcus but an enormous call centre. In the Philippines, the arrangement makes perfect sense. Like shops, call centres need young, middle-class people—but as workers, not customers. This one, run by Teleperformance, a multinational based in France, expects to get about 100 walk-in job applicants a day. Yet Manila's call centres do not just need monied youngsters. They also produce them, in huge quantities. Were there no call centres in the Philippines, there would be many fewer middle-class people, and hence fewer shopping centres.

Seldom has any country been so transformed by one industry as the Philippines has by call centres. The first "business-process outsourcing" jobs appeared in the 1990s: the term covers tasks from answering phones to processing invoices and animating TV shows, mostly for rich-world firms and governments. This loosely defined industry now employs some 1.2m people and accounts for about 8% of the Philippines' GDP. The country is especially strong in call centres: it has already overtaken India, even though India has about 12 times as many people (see chart).

Yet the Philippines is also, probably, the end of the line. New technologies are poised to abolish many call-centre jobs and transform others. At best, jobs will be created more slowly in the Philippines and India; at worst they will vanish. And it is likely that nowhere else will be able to talk its way out of poverty as they have done. There might never be another Manila.

Companies put call centres in the Philippines for three reasons, says Alfredo Ayala of the Ayala Corporation, a conglomerate, who set up one of the first ones. The country's telecoms market had been deregulated, holding costs down. The government designated call centres, or "contact centres", as they are formally known,




Hanging on the telephone

Full-time contact-centre jobs by location

2014, % of total

Source: Everest Group Research

an export industry and cut their taxes. And firms wanted to diversify beyond India. A fourth reason, which Filipino businessfolk discuss rather delicately, is their customers' prejudice. Americans, in particular, simply prefer talking to Filipinos than to Indians.

Filipinos often describe their accents as "neutral" or deny that they have one. This is mostly the charming human delusion that everybody except oneself talks funny; yet there is something to it, says David Rizzo of Teleperformance. When American callers hear Indian accents, they know they are talking to a call centre in India. But they cannot quite place the Filipino accent. To add to the confusion, Filipinos are experts on American culture, a legacy of military occupation in the early 20th century. American football and basketball fill the sports pages of Manila newspapers.

The relative preference for Filipino accents has become so strong that large Indian outsourcing firms such as Infosys and Tata Consultancy Services have moved some of their "voice work" to Manila. Yet it creates a problem. Late morning in New York is midnight in the Philippines. So a Filipino serving the American market—as about 70% do, in business-process outsourcing as a whole—will probably have to work through the night. The night shift has become so common that some karaoke bars in Manila stay open around the clock. Jobs with more civilised hours tout the fact as though it were a novelty. "Wake up when the sun rises and sleep after it sets!" promises one advertisement.

Night work is tough, say a dozen call-centre workers who have come off their shift at 7.30am, and are sipping coffee in Manila. They find it hard to sleep by day (see box on next page) and see too little of their families. And the job makes those who do it "toxic", says one woman. For all that Americans prefer Filipino accents to ▸▸

Indian ones—which these Filipinos can impersonate, amusingly if not accurately—they still suspect they are talking to foreigners, and may be angry and rude. What do Americans say? “Fuck you,” chime these polite young people, in unison.

Some officials and politicians claim that call-centre workers are behind a rise in HIV infections (albeit from a low base). Workers often cram into shared flats, and their odd hours unmoor them from ordinary life. A report by the University of the Philippines in 2009 found that call-centre workers in Manila were slightly more likely than other young people to take drugs, and were much more sexually active. More than half of the men reported having had casual sex—a quarter of those with other men. Only 44% said they had used condoms on the last occasion. Women said the share was even lower.

Overall, though, the call-centre explosion has been a colossal boon for Filipinos who speak good English. With so many employers to choose from, they can demand gyms, cafés and computer-games rooms, as well as higher pay. Experienced workers can often find managerial jobs. And though the night shift is hard, it is far better than being a maid in Saudi Arabia. The Philippines has long exported workers: remittances are worth around 10% of GDP. But business-process outsourcing is catching up fast. Many of the 1.2m people who found jobs in outsourcing in recent years would otherwise have gone abroad, reckons Mr Ayala.

So it is no surprise that other places would like to repeat Manila’s trick. Outsourcing firms are already building call centres in provincial cities in the Philippines, where employees are less picky. And other countries, some of them in better time zones, are trying to grab a share of the business. South Africa is especially keen. But they are likely to be disappointed, because the call-centre industry is on the verge of profound change.

### Operator, what’s wrong?

Much of the call-handling and data-processing work sent overseas is basic and repetitive, says Pat Geary of Blue Prism, a British technology firm. When somebody challenges a gas-meter reading or asks to move an old phone number to a new SIM card, many databases must be updated, often by tediously cutting and pasting from one to another. Such routine tasks can often be done better by a machine. Blue Prism makes software “robots” that carry out such repetitive tasks just as a person would do them, without requiring a change to underlying IT systems—but much faster and more cheaply. The firm has contracts with more than 100 outfits.

Increasingly, Western companies prod customers to get in touch via e-mail or online chat. Software robots can often handle these inquiries. The cleverest systems, such as the one Celaton, another British firm, has built for Virgin Trains, refer the most complex questions to human operators and learn from the responses. The longer they run, the better they get. Software is also making call-centre workers more efficient. It can quickly retrieve and display customer data on their screens, reducing the need to transfer callers to other departments (where, irksomely, they will have to prove their identity yet again) or log on to a creaky IT system (“I’m sorry, our computers are down at the moment”).

Software robots are only going to become faster, cleverer and cheaper. Sarah Burnett of Everest, a research firm, predicts that the most basic jobs will vanish as a result. Call-centre workers will still be needed, not for repetitive tasks, but to coax customers into buying other products and services. That is a harder job, demanding better language skills. So automation might mean fewer jobs, or at least less growth, in India and the Philippines, but more jobs in America and Europe.

This might already be happening. Between 2013 and 2014 America’s share of global contact-centre employment rose slightly, from 19% to 21%, according to Everest. Outsourcing contracts that move work overseas have become rarer. Western banks are especially keen on repatriating work, says Arie Lewin of Duke University, an expert on outsourcing. That is partly because of America’s stringent but vague Dodd-Frank Act, which has made them paranoid about their suppliers’ activities.

This might work well or badly for the Philippines. Perhaps software robots will wipe out the dullest jobs, freeing Filipinos for more interesting conversations. Lately, for example, qualified nurses have been in demand to advise American patients on whether their sneezes and rashes might be serious—one result of cost-cutting inspired by Obamacare. Or it is possible that computers will learn to handle almost all simple inquiries, leaving humans to deal with the most incoherent, irate customers. If that happens, Filipinos will widen their repertoire of Anglo-Saxon insults. ■

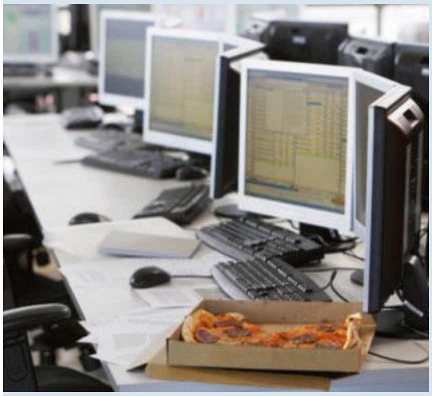
Night shifts and health

## I’ll sleep when I’m dead

**Working through the night probably shortens your life**

WORKING all night to answer American phone calls does not sound healthy. “You’re seated much of the time, and then you binge on junk food,” says Jose Mari Mercado, head of the main outsourcing association in the Philippines. Call-centre workers try to catch up on lost sleep during the day, but often fail, and then flop at the end of the week.

New research suggests that night work is very unhealthy indeed. One study found that the longer nurses in South Korea had worked the night shift, the more likely they were to be obese. Another study, of retired car workers in China, found that shift work was associated with high blood pressure and diabetes. A French study in 2014 found that ten years of shift work was associated with cognitive decline equivalent to an extra six-and-a-half years of ageing.

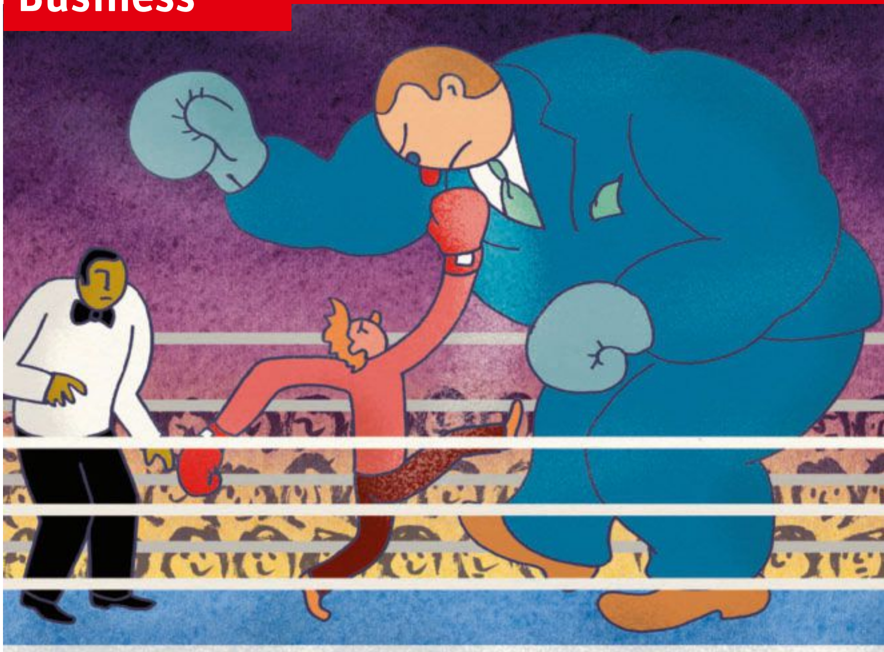


It’s been a hard day’s night

People who work at night suffer in two ways, says Derk-Jan Dijk of the University of Surrey. First, a new schedule throws the body’s “circadian clock”—the inbuilt mechanism that regulates waking and sleeping—out of alignment. Night workers eat when their bodies are not ready for food and try to sleep when they are not tired. That leads to the second problem: night-shift workers simply do not sleep enough.

It is hard to know whether sleep disruption or exhaustion causes ill-health—or both together. A link between night work and type 2 diabetes, for example, might be because eating at the wrong times leads to more free fatty acids or because exhausted people eat more, or even because it can be hard to get wholesome food in the middle of the night.

In theory, night workers could avoid health problems by completely switching to a night-time schedule. But weekends, social obligations and sunlight make that impossible for most. Mr Dijk says the only people who seem to manage it are shift workers on offshore oil rigs, who labour in windowless rooms and do not take weekends off. But they suffer from jet lag when they return home.



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The consumer v the corporation

# The big fight

**The handling of disputes between companies and their customers is done better in Europe than in America**

T-MOBILE touts itself as America's mobile-phone "Uncarrier", having vowed to shake up its industry with customer-friendly ideas like ditching annual service contracts. In January, though, a complaint was lodged with regulators alleging that the firm generated unauthorised fees by placing customers on services they hadn't requested, such as handset-insurance plans. In Britain, broadband providers stand accused of hitting customers with whopping cancellation fees, even when they move to an address outside the area of service. One study found the average early-termination fee to be £190 ($317).

Small-value disputes between consumers and companies over contract terms are a fact of life. Ofcom, a British regulator, handles 70,000 telecoms complaints a year; how many are fought over or resolved without recourse to the regulator is anyone's guess. Colin Rule of Modria, a dispute-resolution technology firm, reckons that 1-3% of e-commerce transactions worldwide generate a dispute (though many of those are between private buyers and sellers on online marketplaces).

How bust-ups are handled is evolving. Small-claims courts are ubiquitous, but, as the saying goes, you have to be "a lunatic or fanatic" to use them for a $100 claim. Recent years have seen the rise of the industry ombudsman, particularly in heavily regulated sectors like finance; and the growth of "alternative dispute-resolution" (ADR) bodies, which offer mediation, often online, in an effort to avoid disputes reaching court. "The emphasis is moving from judicial protection to building out-of-court structures that provide effective redress," says Pablo Cortés of Leicester University.

Mr Rule reckons there are 130 outfits hawking dispute-resolution technology and related services. Resolver, a free-to-use website, provides details of thousands of companies' dispute-handling systems and helps channel complaints to them. Other services batch identical customer claims, for instance over airline delays, and negotiate on their behalf as an informal class.

### Class action or concealed clauses

There remain differences in approach, however. Consumer rights in Europe have grown steadily stronger, and ADR enjoys official support. America offers less encouragement of new approaches, and there the legal pendulum has swung away from the consumer towards business.

America is the home of the class-action lawsuit. Though this is a useful way to batch together lots of small, similar claims, businesses have long moaned that class actions are driven by fee-hungry lawyers rather than harmed consumers (who typically get only a small share of any settlement). Firms started to push back by adding into contracts, often deep in the small print, clauses that block participation in a class suit and make private arbitration binding in the event of a dispute. The Supreme Court has sided with this rearguard action. Today such clauses are the norm.

The corporate lawyers behind this shift argue that arbitration is cheaper, quicker and more flexible than court action, and that those who prevail get bigger payouts ($5,000 on average). But there are problems with it. It is done behind closed doors; it sometimes costs a lot more than the basic filing fee ($200 and up); and arbitrators have an in-built bias towards corporate defendants, because they bring repeat business. Perhaps not surprisingly, then, arbitration is little-used. A *New York Times* investigation found that in 2010-14 only 505 consumers went to arbitration over a dispute of $2,500 or less (it's not known how many saw it resolved to their satisfaction before reaching that stage). The leader in the field, the American Arbitration Association, handles just 2,000-3,000 consumer cases a year, compared with over 10,000 business-to-business cases.

Regulators are now pushing back. Having studied the issue, as required by the Dodd Frank act of 2010, the Consumer Financial Protection Bureau is likely to propose a rule which would ban class-action-blocking arbitration clauses in businesses the agency oversees, such as credit cards and payday loans. Business would challenge any such rule in court, says Alan Kaplinsky of Ballard Spahr, the lawyer who came up with the idea of arbitration clauses. They are "not a conspiracy", as plaintiff lawyers contend, but "a way to level the playing field", he argues. The problem is education, he says: consumers shy away from arbitration because they don't understand the benefits.

Europe, where class actions are rare, has ▸▸

taken a different tack. Consumer-protection laws are generally stronger: arbitration clauses are not banned but courts have greatly restricted their use, and the customer can always sue as a last resort. A reasonableness test is applied to the fine print in contracts. Under Britain's Consumer Rights Act, for instance, key terms, including price, can be subjected to a "fairness test" unless they are both written in plain language and displayed prominently. (Clarity alone used to be sufficient ground to claim exemption from the test.)

This more consumer-friendly stance did not just evolve in the courts but was to a large degree the result of a decision by the European Commission more than 20 years ago to make all small print subject to being examined and potentially overturned by the courts. This was set in stone in an EU directive of 1993. More directives have followed. The most recent, approved last year, gives a shot in the arm to ADR, by for instance forcing businesses to inform complaining customers of their dispute-resolution options, such as ombudsmen and private ADR services, and setting minimum standards for how these operate. Firms won't be forced to sign up to an ADR scheme, but the hope is that most will feel obliged to do so as the directive takes hold. Consumer surveys point to much greater satisfaction with ADR than with courts.

Europe also leads the way in developing online mechanisms for mediating the millions of cross-border e-commerce disputes that arise each year. (One estimate puts their number at 750m.) Your Europe, an EU portal, will be launched in each of the bloc's official languages later this month. This will serve as a hub to receive complaints. Firms operating in the EU will have to provide a link to it on their websites. "The aim is to hold your hand through the process, like TurboTax [a tax-return-filing software]," says Amy Schmitz of the University of Colorado.

For all these efforts, some cases will inevitably end up in court. Here, too, new thinking is percolating. In Britain there is growing political and judicial support for replacing the clunky small-claims courts with a new type of quasi-court, dubbed Her Majesty's Online Court (HMOC). Each case would move through as many as three stages. Only at the third stage, if it could not be resolved by mediation and case officers, would it go before a judge.

This triage-before-trial approach would be easier and less costly than the current set-up: documents could be posted electronically, and cases brought without having to hire a lawyer. HMOC is already being touted as a model for other countries. As one lawyer (who may soon have less work) puts it, most consumers would rather be faced with a clearer and cheaper process, and lose quickly, than a victory that is painful, protracted and pyrrhic. ■

**Oil companies**

# In the dark ages

FLORENCE

**Supermajors suffer from self-inflicted wounds as well as falling oil prices**

FLORENCE is a city more associated with oil on paintings and salads than the stuff that comes out of the ground. Yet every February GE, an engineering conglomerate that makes machinery in the city, gathers oil executives there to discuss the industry. This year there was more than a touch of *mea culpa* in the air. "The oil and gas industry is in need of its own renaissance," admitted Harry Brekelmans, head of technology at Royal Dutch Shell, an Anglo-Dutch oil major.

A spate of gloomy year-end earnings reports underscored how bad things already were in the final quarter of 2015, in the good old days when oil prices averaged $44 a barrel (on February 2nd they hovered around $30 a barrel). Britain's BP reported an unexpected loss of $6.5 billion in 2015, one of its worst on record. That followed news of a fourth-quarter loss by Chevron, an American counterpart. Exxon Mobil, America's biggest oil major, made a relatively healthy $16.2 billion in 2015, but that was still half the prior year's profit (like Chevron it is losing money drilling for oil in America). Shell's profits also dived. In Florence an executive quipped that the industry had turned into "a giant non-profit".

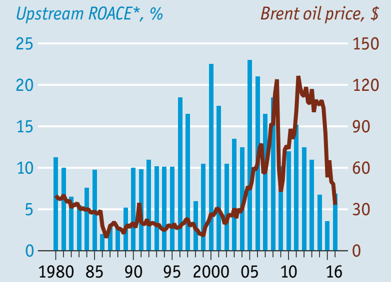
Companies are slashing jobs, costs and capital spending to maintain promised dividend payouts. But the lower prices go, the more they borrow to honour those pledges. Exxon Mobil and Chevron piled on $9.6 billion and $10.8 billion of debt respectively during 2015, and BP added $4.6 billion. Standard & Poor's, a rating agency, downgraded Chevron and Shell this week and is reviewing BP and Exxon Mobil, partly because of their rising debts. A downgrade of the latter would be significant: Exxon Mobil is one of only three American companies whose AAA rating is higher than the government's.

Falling oil prices may have upended the industry but it also has itself to blame for its troubles. Returns of private global oil companies peaked a decade ago, well before crude hit record highs, indicating that they squandered the boom on vanity projects aimed at increasing production, with little thought for profitability (see chart).

In Florence the engineers and geologists who run the rigs, wells and pipelines admitted that costs soared uncontrollably as high prices led them to search for increasingly hard-to-access oil. Shell's Mr Brekelmans says that between 1996 and 2014 capital costs per barrel quadrupled,

**Reservoir dogs**

Global oil industry




Sources: Bernstein; Thomson Reuters

*Return on average capital employed, 2014-16 estimate

clobbering productivity. Partly this was because equipment costs mounted as prices of steel and other commodities rose. But Thierry Pilenko, chief executive of Technip, a French engineering firm, says it was also due to "pure inefficiency". He says the number of man-hours to operate a piece of equipment doubled in a decade despite computerisation, and even simple valves come with documents 80 pages long.

Energy firms have failed to embrace digital systems to improve performance along the supply chain. The industry is riddled with unplanned shutdowns that raise costs. Standards vary so much that one firm ended up with 127 different colours for subsea equipment that only fish would ever see. Tech advocates like GE naturally hope that the latest crisis will spur a "technological revolution". For now, though, survival is the priority. ■

**The chemicals industry**

# Bad romance

**Big mergers may give only temporary relief in an industry under pressure**

SHAREHOLDERS cheered in December when Dow Chemical and DuPont, the world's fourth- and fifth-most-valuable chemicals companies, worth a combined $130 billion, announced plans to merge. Their share prices each shot up by nearly 12% in one day. In the hope of persuading competition regulators not to block the merger, Dow and DuPont said that within two years they would split their combined operations into three listed firms, concerned with agriculture, materials science and "specialty" products. But doubts have since grown as to how much this rationalisation will help the resulting firms cope with the pressures the industry is under.

Since markets first got wind of the deal, the shares of Dow have dropped by 18%, and DuPont's by 21%. The S&P 500 fell by

7% over the same period. Deteriorating performance at DuPont, which on January 26th revealed a $253m loss in the fourth quarter of 2015, has shaken Dow's shareholders. They now fear the tie-up could be too generous to the other company's investors: on February 2nd Dow said that its profits had increased fivefold, to $3.5 billion, in the same quarter.

Hammered out under pressure from activist investors, most notably Trian Partners, a New York hedge fund, the merger is designed to boost investors' returns by combining the competing businesses of the two, cutting costs in the process. The deal is, in part, a response to the sharp falls in the prices of many chemicals over the past few years (see chart). Although raw materials, such as those derived from crude oil, have also got cheaper, the chemicals firms' margins have been squeezed. Those on polyethylene have fallen by a third since 2014, with another 25% tumble forecast for 2016.

The market for agricultural chemicals is also shrinking, in dollar terms, mainly due to low crop prices and weak currencies in big markets such as Brazil and Russia, says John Kovacs at Capital Economics, a consulting firm. DuPont's agricultural-science division, which is a big draw for Dow, suffered an 11% drop in sales last quarter.

Jeffrey Zekauskas, an analyst at J.P. Morgan, an investment bank, thinks Dow and DuPont may be too optimistic in forecasting $3 billion in cost savings by 2018, particularly given the restructuring costs they will incur. And if the resulting three specialist companies do not continue to shift into higher-value-added products, there is a risk that any increased profits from economies of scale will be competed away, as rivals also strengthen through mergers, says Dave Witte, head of IHS Chemical, a research firm.

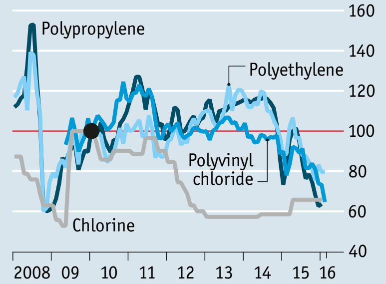
Another cost to cut?

Indeed, there are already signs that this is happening. The Dow-DuPont tie-up was in part a reaction to merger talks between Monsanto, an American agrichemicals giant, and Syngenta, a Swiss rival. They got nowhere but on February 3rd ChemChina offered $43 billion to buy Syngenta, forming the world's largest maker of pesticides and fertilisers, a formidable competitor to even the merged agrichemicals businesses of Dow and DuPont (see box).

Under this pressure, the most sustainable way to boost margins is to focus on higher-tech niches where competition is more limited. Other firms in the industry have already undergone this transition over the past decade. For instance, AkzoNobel, a Dutch group, has concentrated on highly specialised paints and coatings; and Bayer, a German firm that used to be a broad chemicals conglomerate, has specialised in pharmaceuticals. Dow and DuPont were heading in this direction before their proposed tie-up. DuPont has, for instance, sold divisions making relatively low-end stuff like titanium dioxide and Teflon; and last year Dow spun off its chlorine operations in a deal worth $5 billion with Olin.

**Chemical imbalance**

Prices, $ terms, January 2010=100




Source: Bloomberg

The high-end markets with the best growth prospects are for specialty chemicals used in industries that are doing relatively well, such as health care and aerospace, according to analysts at UBS, a bank. Yet ChemChina's hunger for more deals will make life tougher for Western firms in these areas, too: China's latest five-year plan instructs its chemicals industry to focus its expansion efforts on specialty products. Dow, DuPont and others need to focus on climbing up the value chain to deal with this threat. ■

Agribusiness

# Feeding the dragon

SHANGHAI

**ChemChina, an acquisitive state enterprise, buys Switzerland's Syngenta**

WITH roughly a fifth of the world's population but less than a tenth of its arable land, China has had to look outside its borders to feed itself. In the past, clumsy and sometimes corrupt state enterprises foraged in Africa and Latin America for farmland and commodities. Now, savvier Chinese firms are looking abroad for advanced technologies that can boost yields and efficiency at home.

This week, China National Chemical Corp pulled off a coup that advances China's national goal of "food security". ChemChina, as the state group is known, has already made a string of acquisitions in Europe, including Pirelli, an Italian tyremaker. On February 3rd it persuaded the board of Switzerland's Syngenta, a big maker of pesticides and seeds, to accept its takeover bid. When completed, the $43 billion deal will be the biggest Chinese foreign takeover ever.

In accepting its Chinese suitor, Syngenta spurned a rival offer from Monsanto, an agribusiness giant. Syngenta was reluctant to fall into the arms of the American firm, whose aggressive attempts to promote genetically modified foods have caused a backlash in Europe. The combination of two of the industry's giants would also have met with harsh regulatory scrutiny.

The Sino-Swiss deal should see smoother sailing. ChemChina has a much smaller presence in agribusiness than Monsanto. Because Syngenta has operations in America, officials there will probably review the deal for national-security implications. Last month the Committee on Foreign Investment in the United States blocked the sale by Philips, a Dutch group, of part of its lighting business to a consortium that included Chinese firms. Even so, it may approve this deal, as it did the controversial acquisition in 2013 of Smithfield, a pork producer, by Shuanghui Group.

Ren Jianxin, the politically connected boss of ChemChina, said the right things this week. He vowed that the running of Syngenta would remain in Swiss hands, with Michel Demaré, Syngenta's chairman (who will be vice-chairman of the new group) cooing that the deal would "minimise operational disruption". Mr Ren also promised the "highest corporate governance standards" and even hinted that a public flotation of the unlisted ChemChina may be in the offing "in the years to come".

Alphabet

# Of profits and prophesies

SAN FRANCISCO

**Google's parent company is riding high**

A GOOGLY is a ball bowled in cricket with unexpected spin. For years, Google was similarly hard to read, sharing only basic figures about its business. Alphabet, Google's newly formed parent company, is bowling a bit straighter. When it reported earnings on February 1st, Alphabet disclosed for the first time how much it was spending on its "moonshot" projects, including self-driving cars, fibre internet and space exploration. In 2015 Alphabet lost around $3.6 billion on these ambitious initiatives—a large sum, but less than some had feared. Meanwhile Google, its core business, saw revenues and profits rise.

As a result, Alphabet's shares surged this week, helping it, albeit briefly, overtake Apple to become the world's largest listed company by market value (see box). Today Alphabet is a giant advertising company with the potential to become a giant in other sectors as well—although exactly which ones, no one is yet sure. Almost all of the $75 billion in revenue it made last year came from advertising, most of it search advertising, where Google places ads relevant to what someone is looking for online. The firm has around 70% of the global search market.

Google has profited handsomely from foreseeing two important trends: the rise of mobile phones and online video. It now has seven products that claim a billion or more users each, including search, maps, Gmail, YouTube, the Google Play store, the Android operating system and the Chrome browser. That is more than any other internet company. As users spend more time with Google's services, the company learns more about them and sells more ads. Other firms have struggled to profit as much from users' engagement. On February 2nd Yahoo, a struggling rival, announced it was cutting 15% of its workforce and suggested it would consider selling its core internet business, which could put its boss, Marissa Mayer, out of a job.

Alphabet fans argue that it is set to go from strength to strength. The firm has started to look like a conglomerate, with interests in areas such as cars, health care, finance and space, as it tries to find the next big thing. Although most of its projects outside its advertising business do not make any money, some are showing tentative signs of promise.

Last year its moonshots claimed some $450m in revenue. Although Alphabet did not spell out the source, it probably comes from Google Fibre, a high-speed internet business in several American cities, and Nest, a maker of smart household devices that Google bought in 2014 for $3.2 billion. But most of Alphabet's investments are likely to take years to pay for themselves, and some almost certainly never will. Like the high-altitude balloons that Alphabet is using to blanket the world with internet access as part of an initiative called Project Loon, its startup projects will either fly high or crash.

For the time being, Alphabet can do as it pleases. Investors and analysts do not seem overly concerned about how much the firm is spending. Last year Alphabet set aside a whopping $5.2 billion for stock-based compensation, and expanded its headcount to nearly 62,000, an increase of more than 15% on the year before. Mark Mahaney, an analyst at RBC Capital, an investment bank, thinks that many internet companies, such as AOL and Yahoo, faltered in the past by skimping on investments to shore up their businesses while they were still thriving, and therefore does not mind seeing Alphabet invest with its future in mind. Such tolerance is common during winning streaks, but it can quickly disappear. ■

## Corporate hegemony

When Cisco was crowned as the world's biggest company by market value in April 2000, its boss hoped it would go on to become the first firm worth over $1 trillion. But its reign was to prove short-lived: deposed by Microsoft two days later, it never regained top spot. It is now in 53rd place.

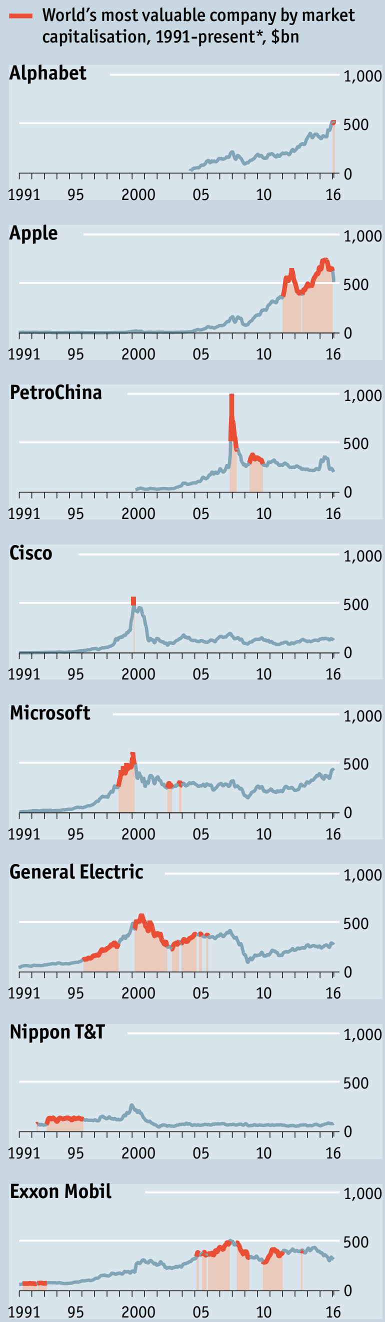
Cisco may be a cautionary tale for Alphabet, Google's parent, which on February 2nd usurped Apple to become the world's most valuable listed company, only to slip back behind the Cupertino-based firm the next day. Come what may, however, Alphabet is now a member of a select club of firms that have led the league over the past quarter-century (see chart).

What do these companies have in common? Age doesn't appear to be a significant factor in determining dominance. Among the dozen are the old and established (like Exxon Mobil, founded as Standard Oil in 1870), and the new and innovative. Apple was 35 years old when it reached the summit in 2011. Google turned 17 in September.

Just two non-American firms have claimed the title. Nippon Telegraph and Telephone, a Japanese utility, was the world's most valuable quoted firm between 1992 and 1996. The other, PetroChina, beat Cisco to that $1 trillion valuation in 2007.

Some companies claim their crowns thanks to irrational exuberance: Cisco's share price was 230 times earnings at its peak. Alphabet currently trades at 34. Apple, meanwhile, has a price-earnings ratio of just 10, which suggests that investors doubt its remarkable run of profits will last. Were it to trade in line with the S&P 500 p/e ratio, it would be worth $900 billion.

Tech-boosters would doubtless love to see a prolonged bout of jostling for top spot between Alphabet and Apple (which before this week had held on to its crown for 653 consecutive days). But an obvious threat to both comes from a company that isn't even listed yet: Aramco, Saudi Arabia's state-owned oil giant, which is almost certainly the world's most valuable firm and is toying with an initial public offering.




Sources: Bloomberg; *The Economist* *To February 2nd


Pilot Flying J

# If the game goes against you

CHICAGO

**A giant, reclusive private firm recovers from a scandal**

IT IS one of America's biggest family firms, with revenues last year of more than $30 billion. Yet unlike peers such as Mars, a maker of confectionery, Pilot Flying J is all but unknown overseas. And it is more reclusive than other private family groups such as, say, Koch Industries, a conglomerate headed by Charles and David Koch.

Pilot Flying J's business, operating filling stations on America's highways, focuses mainly on a narrow group of customers: lorry drivers. It has little need to make itself known except among those knights of the road. Furthermore, the company has been recovering from the biggest scandal in its history, making it more taciturn than ever.

In 2013 the FBI raided its headquarters in Knoxville, Tennessee. An affidavit unsealed by a federal judge accused individuals at the firm of running a scheme for at least five years to swindle small haulage firms out of millions of dollars in rebates on purchases of fuel. (For small firms, discounts were calculated manually, which facilitated the cheating.) According to the affidavit, an informant told the FBI that Jimmy Haslam, Pilot Flying J's chief executive, knew about the scheme. Mr Haslam has steadfastly denied any knowledge of fraudulent practices. The company did not respond to our repeated requests for an interview or to e-mailed questions.

The accusations shook the Haslam family. Until then it had been a textbook example of the American dream come true. Its patriarch, "Big Jim" Haslam, the father of Jimmy, founded Pilot in 1958 when he paid $6,000 for a filling station in Virginia. The firm grew rapidly over the years, mainly through acquisitions of smaller truck-stop chains and independent operators. Its biggest deal was the takeover in 2010 of the bankrupt Flying J chain, for $1.8 billion.

Today Pilot Flying J is the biggest in an industry dominated by three firms that together have around two-thirds of the market: the others are Travel Centers of America, a public company based in Ohio, and Love's, another family firm, from Oklahoma. Jimmy Haslam and his brother Bill, who is the governor of Tennessee, appear regularly on lists of America's richest. Thanks to their philanthropy the clan has made many friends, especially in Tennessee, where even the lion cubs at the Knoxville zoo were named after Haslams.

In the 1970s the company realised that its roadside sites could lucratively double up as convenience stores. Today a typical Pilot stop in Michigan, for instance, still in retro brownish decor, sells anything from sweets and toys to DVDs and mugs. More than 400 of the firm's 678 stops also house a fast-food franchise, such as Subway or Arby's. The margins of the non-fuel businesses are higher than those from selling diesel and petrol, but it's the pumps that pull in the punters. Around 90% of Pilot's revenue comes from fuel, but close to half of its gross profit is generated by non-fuel sales. Pilot is also meticulous about the cleanliness of the stops' showers, which encourages truckers to stay loyal.

On the rare occasions when the Haslams speak about their business, American-football metaphors tend to come up. Big Jim, once an avid football player at the University of Tennessee, has said that he used his university coach's maxims to beat his business rivals. One of them is that "The team that makes the fewest mistakes will win." Another is "If the game goes against you…put on more steam." Jimmy is even more football-obsessed. In 2012 he spent a chunk of his fortune to buy the Cleveland Browns, a successful team.

When the game went against him in 2013 he needed his father's maxims more than ever. After the FBI raid, the firm's lenders and suppliers were nervous about the potential for gargantuan penalties, compensation payments and an exodus of clients. However, Pilot put on more steam, and cleaned up its mess relatively quickly. In November 2013 it paid $85m to settle a class-action lawsuit launched by more than 5,500 hauliers who had been shortchanged on their rebates. A few companies continued to pursue separate lawsuits, of which one is still pending. In July 2014 Pilot accepted responsibility for the criminal conduct of its employees and paid the Justice Department a fine of $92m.

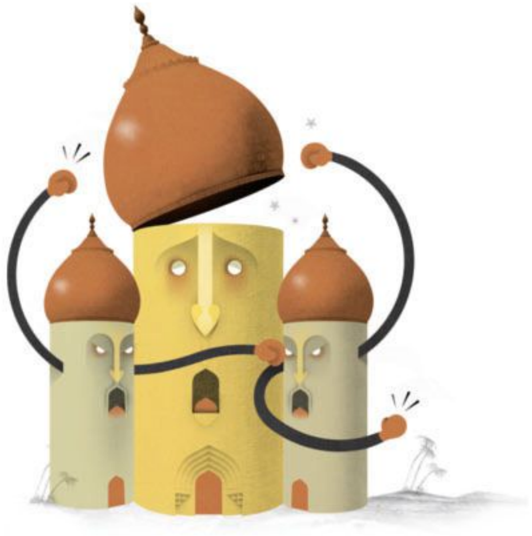
Its prompt actions to put things right meant that most of Pilot's users stayed loyal to the company, says Ben Bienvenu, an analyst at Stephens, a financial-services firm. The same was true for most of its suppliers and lenders. "They are on a stable financial footing now," says Manoj Chadha of Moody's, a credit-rating agency. The company also made lots of changes to prevent a repeat of the rebate scandal. According to Samantha Stone at Standard & Poor's, another rating agency, the sales team at head office was largely replaced, all transactions have been automated and customers can now demand that an independent auditor review their rebates.

As it has cleaned up after the scandal, Pilot has also benefited in the past couple of years from the slowly recovering economy and the slump in oil prices, both of which have lifted demand for fuel. The firm will remain on the lookout for smaller rivals that it can swallow. It costs on average $9m to take over and renovate an existing filling station at a good location, but between $14m and $20m to build one from scratch, explains Bryan Maher of FBR, an investment bank in Virginia. Greenfield developments are slow and tricky because of environmental and safety regulations.

Pilot Flying J was lucky that the rebate scandal did not erupt during the recession, when fewer lorries were on the road and the company, like its main rivals, was suffering losses. Its efforts to rebuild its reputation coincided with a boom in its business. The firm seems to have turned the page. Today the headlines about Jimmy Haslam are mostly related to the changing fortunes of the Cleveland Browns. ■

# Schumpeter | Succession failure

**Family businesses in the Arabian Gulf need to address the problem of succession planning**



THE grand mufti of Saudi Arabia recently added a surprising new item to the familiar list of worries plaguing his region. Chess, he pronounced, is "a waste of time and money and a cause for hatred and enmity between players." Without disputing the mufti's judgment, Schumpeter would like to add a different worry: succession in family businesses. Like chess, poorly planned succession is a "waste of time and money and a cause for hatred and enmity"; unlike chess, it has the potential to undermine some of the country's foremost economic institutions.

Succession is a problem for family businesses the world over. The Family Business Institute calculates that only 30% of such businesses survive into the second generation, only 12% into the third generation and only 3% into the fourth. But the problem may be bigger in the Gulf than anywhere else. Around 80% of the companies in the region, producing more than 90% of its non-oil wealth, are family-owned or controlled. The number of relatives clamouring for a job in these firms is surging, partly because the population is so young (the average age of citizens in the Middle East and north Africa is well below the global average) and partly because governments are desperate to shift workers from the public to the private sector (in the United Arab Emirates 90% of employed citizens work for the state).

These family firms are mostly fairly recent creations—the products of the oil and property booms of the 1970s and 1980s that turned people who were lucky or well-connected enough to own prime bits of land into moguls. Over the next decade up to half the region's business families, controlling assets worth perhaps a trillion dollars, will hand the reins to the next generation.

That is a worrying prospect. A proper succession requires good governance. Yet too many of the region's businesses blur the line between what belongs to the firm and what belongs to the family: they spend company money as if it were their own and employ family members without subjecting them to proper vetting. And if disputes occur, the region's courts are not equipped to cope. The World Bank reports that they take an average of 575 days to resolve a commercial dispute. An estimated 70% of Saudi families have at least one succession problem tied up in court.

The two most obvious results of a botched succession are incompetent leaders and feuds. Family tradition often conspires against merit: families routinely favour the eldest son regardless of his ability. Locals say there are examples of incompetents "all around", though they are reluctant to name names. The scope for feuds is increased by the complexity of family structures, thanks to high fertility rates and occasional polygamy. Abdulaziz Al Ghurair, chairman of the Family Business Network, a regional body, predicts that more than half the businesses will split over succession. A less obvious consequence is what might be called "functioning dysfunction": companies get around incompetent heads by creating parallel structures so that the real power is held by people with minor titles, or by avoiding naming a CEO at all.

One of the most famous family disputes was reportedly solved by royal intervention. Two relatives, Abdullah and Majid, inherited joint control of Al-Futtaim Group, a Dubai-based empire, part of which now operates the Mall of the Emirates with its famous ski slope. The dispute proved so damaging that Sheikh Mohammed bin Rashid al-Maktoum, then crown prince and now emir, stepped in, locking them in a room and refusing to let them out until they had divided up the empire. But even the most enlightened royal intervention is no substitute for reliable rules.

Badr Jafar, the 36-year-old head of Crescent Enterprises, a conglomerate, is leading a campaign to provide just such rules. He argues that regulators should compel companies to make a clearer distinction between corporate property and family property. But he adds that companies need to change from within. They should borrow mechanisms that are popular with family companies around the world—such as family constitutions, family meetings and family offices—and adapt them to local traditions.

Mr Jafar is the perfect man to make this pitch: his company is based in Sharjah, one of the most conservative emirates, but he was educated at Eton and Cambridge. He has helped establish a pressure group, the Pearl Initiative, to support the case for better corporate governance. He has secured the support of global organisations, including the World Economic Forum.

### Capitalism with Gulf characteristics

Mr Jafar can also point to several notable advances in the region, some of which predate his activities. W.J. Towell, an Omani company that employs 150 family members, has introduced regular family gatherings to promote family cohesion. The Zamil Group, a Saudi conglomerate with more than 100 family members on the payroll, demands that both family and non-family executives go through a "future leaders programme", which uses psychometric tests to assess their abilities. The Abdullatif Alissa Group, another Saudi conglomerate, has gone even further, replacing all family members with professional managers and limiting the family's role to board membership. A growing number of companies are creating family offices to help make the distinction between family and corporate resources. Ten years ago almost nobody was talking about this subject, says Mr Jafar. Today 50% of business families "have it on their minds, 30% in their mouths and 20% on paper."

With luck, even more companies will put it on paper soon. Corporate governance might sound like an ineffective way to take on serious problems such as Islamist extremism and state breakdown. But the region has no chance of escaping from these conflagrations without improving its economy and creating jobs for the young. The last thing it needs is for companies to be ruined by incompetent heirs or torn apart by pointless disputes. ■

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HSBC: London v Hong Kong

# East is Eden

**Banking's longest, and most successful, identity crisis**

HSBC—one of the two most pivotal banks in the global financial system, according to regulators, alongside JPMorgan Chase—exudes permanence. Its buildings are guarded by lions cast in bronze which passers-by touch for luck. HSBC has never been bailed out, nationalised or bought, a claim no other mega-bank can make. It has not made a yearly loss since its foundation in 1865. While its peers took emergency loans from central banks in the crisis of 2008-10, HSBC, long on cash, supplied liquidity to the financial system.

Yet behind that invincible aura lurks an insecurity: where is home? When Western and Indian merchants founded the bank in Asia in 1865, they considered basing it in Shanghai before settling on Hong Kong. Faced with wars, revolutions and the threat of nationalisation, the bank has chosen or been compelled to move its headquarters, or debated it, in 1941, 1946, 1981, 1986, 1990, 1993, 2008 and 2009.

HSBC believes its itinerance explains its survival. Countries and regimes come and go. The bank endures. Now it's decision time again. The results of a ten-month review of its domicile are likely to be announced on February 22nd. The main choice is between staying in London—where HSBC shifted its holding company in 1990-93, in anticipation of the return of Hong Kong to Chinese sovereignty in 1997—or going back to its place of birth.

The decision is partly about technicalities: tax, regulation and other costs. But it also reflects big themes: London's status as a financial centre, the dominance of the dollar and Hong Kong's financial, legal and political autonomy from mainland China, which is supposedly protected until 2047 under the pledge of "one country, two systems". HSBC's most recent move, from Hong Kong, was announced on the radio by China's premier of the day, Li Peng. Its return would be news too, a coup for China when its economic credibility is low. For Britain, the departure of its largest firm would be an embarrassment.

That HSBC is considering moving at this moment may seem astonishing; it is knee-deep in a restructuring. Since taking the helm in 2011 Stuart Gulliver has reversed the empire-building that took place in the 2000s to refocus the bank on financing trade. He has sold 78 businesses and almost halved the bank's exposure to America. Vast sums have been spent on compliance systems after the bank was fined for money-laundering in Mexico.

The group's return on equity hovers at 8-11%—poor by its standards but on a par with JPMorgan Chase. Outside Asia, returns are about 5%. To raise them, Mr Gulliver is inflicting a new dose of austerity, with big cuts at its investment bank. Retreat from the Western hemisphere has freed resources for Asia, where risk-weighted assets have soared by half since 2010.

HSBC's seesawing skew towards Asia is one of four factors that explain its 151-year quandary over where it should be based. The others are the ethnicity of its managers, Britain's love-hate relationship with finance and the status of Hong Kong.

In the 1980s all four pointed to London. The bank was diversifying into America and Europe (by 2004 Asia yielded just a third of profits). London felt natural to the cadre of expatriate Brits that ran it. Britain was welcoming, particularly after HSBC bought Midland, a local lender. And HSBC was cushioned from the danger that China would rip up the agreement over Hong Kong. "As night follows day...we would become a Chinese bank," the bank's chairman at the time said about keeping its domicile in the territory after 1997.

Three of the four factors now point back towards Asia. Asia yields 60% of profits. This could rise to 75%. Mr Gulliver plans a big push in the Cantonese-speaking Pearl River delta. Rising interest rates would boost lending margins most in Asia, which has a surplus of deposits, which need not be repriced as quickly as debt. HSBC is far more Asian than its Western rivals (see chart on later page). Not even a hard landing in China, a banking crisis there or a devaluation of the yuan would alter that.

HSBC's management is now multi-national, although its board has too few Asians on it. (Simon Robertson, its deputy chairman, is also a director of The Economist Group.) AIA, an insurance firm, moved to Hong Kong after it was spun out of American International Group in 2010. It shows it is possible to domicile a big finance firm there that is not Chinese-run.

And Britain has got hostile. Briefly after the crisis public and elite opinion distinguished between the British banks that ▸▸

blew up and those that did not. Having a bank so plugged into emerging markets was seen as strategically helpful. But now HSBC (cumulative profits of $101 billion since 2007) is often lumped in with the likes of Royal Bank of Scotland (cumulative losses of $80 billion), a target of attacks from foaming parliamentary committees and a hatchet-wielding media.

Critics worry that British depositors and taxpayers subsidise the bank by funding its foreign operations and implicitly guaranteeing its liabilities. This is the rationale behind Britain's levy on banks' global balance-sheets, which costs HSBC $1.5 billion a year, or about a tenth of profits. It also underpins the requirement that banks ring-fence their British retail arms, which will cost HSBC $2 billion.

Yet these policies duplicate others designed to tackle the same problem, including capital surcharges, stress tests, living wills and a push to "bail in" bondholders when disaster strikes. And they ignore HSBC's safety-first structure. It has more cash than it owes in debt (bonds and loans from other banks). It is already run in self-reliant geographic silos. And 68% of its deposits are raised outside Britain. Arguably the subsidy flows in the other direction, from Asian savers who are providing cheap funds to Britain's financial system.

George Osborne, Britain's chancellor, has belatedly turned on the charm. In July he tweaked the levy and the tax regime—although not by enough to make much difference to HSBC over the next five years. The financial watchdog has been shaken up, and Mark Carney, the boss of the Bank of England, which has ultimate responsibility for the banks, has hinted that they have enough capital.

But unless the government concedes that the size of HSBC's global balance-sheet is not a gauge of its risk to Britain, HSBC will

## Buttonwood | False comfort

### Low bond yields don't always help equity returns

MANY a gloomy pundit, Buttonwood included, has been tut-tutting about equity valuations in America for the past year or two. After all, by historical standards, they are high. Yet there is no shortage of cheerleaders to explain why equities are not such a bad deal after all. A notable one now is Olivier Blanchard, until recently the chief economist of the IMF. He and Joseph Gagnon, a colleague at the Peterson Institute for International Economics, a think-tank, have published a blog post* arguing that American equities are not overvalued, in particular compared with the values seen ten years ago.

Alas, there is reason to quibble with the data underpinning the post. It refers to the cyclically adjusted price-earnings ratio compiled by Robert Shiller of Yale University, which averages profits over ten years. Mr Shiller has calculated the ratio back to 1881. The average since then is 16.7, so the current ratio, 24, suggests shares are 44% overvalued by historical standards. But the Peterson post compares current valuations with the 60-year average of 20, arguing that accounting and tax changes and the impact of the Depression make earlier numbers a poor guide. This makes equities look only 20% overvalued.

Then there is the way that the post estimates future returns. One approach is based on dividends; the authors assume future dividend growth of 2.2%, matching real GDP. But why assume that real dividends keep up with GDP? The London Business School keeps a database on the actual growth rate of dividends over time. Since 1900 American dividends have grown at 1.67%, well below real GDP growth (of around 3% a year). And America is an outlier: the dividend growth rate for all the countries covered is just 0.57%.

Why the shortfall? Economic growth does not arise entirely from quoted companies; many fast-growing firms have yet to list. And then there is new share issuance. Research shows that earnings have long been diluted by around 2% a year before existing shareholders get their hands on them. Despite the rise of buy-backs this is still happening, thanks to the use of share awards as incentives for managers. Assume the dilution effect is only three-quarters of what it was (ie, 1.5 points off the assumed GDP growth rate). That still brings future dividend growth down to 0.7%, making equities less alluring than Messrs Blanchard and Gagnon think.

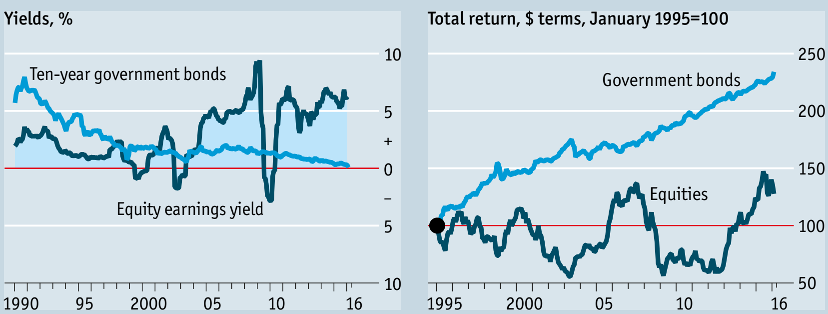
The authors also use a valuation approach based on the relationship between the earnings yield (the inverse of the price-earnings ratio) and the real bond yield. Cliff Asness of AQR, a fund-management group, examined this issue in a paper about the "Fed model", a similar method which bulls used during the internet bubble to argue that equities were cheap. Mr Asness found the model was a poor guide to the subsequent performance of equities. What really matters is the p/e ratio. "Long-term expected real stock returns are low when starting p/es are high and vice versa, regardless of starting nominal interest rates," he wrote.

Worries about growth have prompted central banks to keep rates near zero since 2009. If future growth prospects are poor, then estimates of future profits and dividends need to be revised lower. Equity valuations, in other words, do not have to rise just because rates are low.

Japan provides a good illustration of all this. Its government-bond yields have been low for two decades. Has this made Japanese equities a great investment, as the reasoning of Messrs Blanchard and Gagnon would imply? Not a bit of it. By the mid-1990s, there had been a big shift in the relative valuation of equities and bonds (see left-hand chart). But over the past 20 years, the return on Japanese bonds has easily outstripped returns on equities (see right-hand chart). America is not Japan, but its foundering stocks and falling bond yields look eerily familiar.

**The Fed model didn't work**

Japan




Source: Thomson Reuters

* Studies cited in this article can be found at www.economist.com/pe16

Economist.com/blogs/buttonwood

worry that its size is capped. Asia will grow faster than Britain, and thus so will the bank's assets. If the bank is too big for Britain today, with assets equivalent to 89% of GDP, what will it look like in 2030? A British exit from the European Union would complicate things further, requiring HSBC to beef up operations in France or Germany (although it would have to do this whether based in London or Hong Kong).

What about the fourth factor, Hong Kong? It has changed a lot since Mr Gulliver first lived there in the 1980s. The skyscrapers of China's opaque lenders, Bank of China and ICBC, now loom over HSBC's building, beneath which pro-democracy protesters camped during the Occupy Central movement in 2012.

Hong Kong's government would welcome the bank back, as would its regulator, the Hong Kong Monetary Authority (HKMA). Moving to Hong Kong would probably cut HSBC's tax bill and capital requirements a bit and the degree of regulatory and political friction a lot. It might also help HSBC's ambitions on the mainland, although it already has a privileged spot there—the largest presence of any foreign bank. Like Hong Kong, HSBC wants to be close to China but not integrated with it. Head-to-head competition with the coddled mainland banks would be suicidal.

The logistics of a move would be less daunting than you might think. Half of HSBC's business already sits in a subsidiary in Hong Kong that the HKMA regulates. HSBC's shares are listed in Hong Kong as well as London.

But how could the territory safely host a bank nine times as big as its GDP? Hong Kong officials say there are three lines of defence. First, they set more store than Britain on HSBC's innate strength: its culture, capital and vast pot of surplus cash. Second, they believe that in a crisis its geographical silos would get assistance from the local central bank: the Bank of England would help the British arm, the Federal Reserve the American one, and so on.

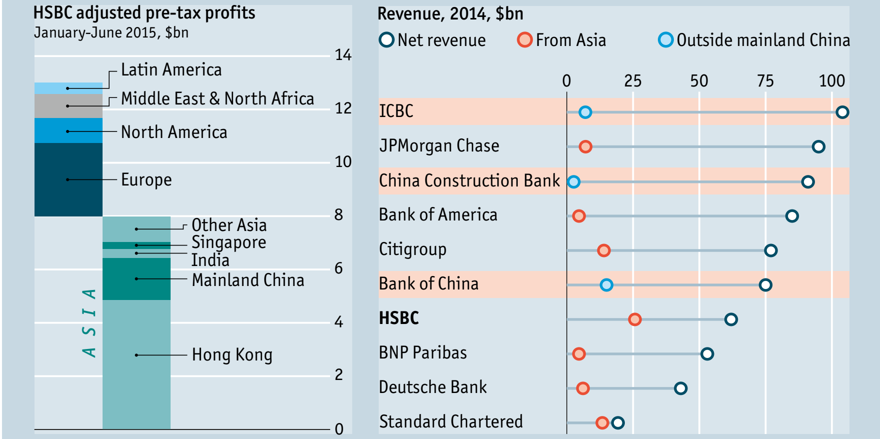
Last, there are the HKMA's foreign reserves of $360 billion. They exist to protect the currency peg with the American dollar and "the stability and integrity" of its financial system. Were HSBC ever to cock up as badly as, say, Citigroup has, it might take $50 billion to re-capitalise it—within Hong Kong's capacity. A liquidity run so bad that it drained even HSBC's cash pile could be harder for the HKMA to manage. It runs a currency board so cannot print Hong Kong dollars in unlimited quantities. HSBC largely operates in American dollars, which the HKMA cannot create, and unlike the Bank of England, the HKMA does not have a dollar swap line from the Fed.

Wrinkles like this mean that HSBC would ultimately rely on the unspoken backing of mainland China, with its vast financial resources. Speaking anonymously in August, a mainland official formerly in charge of financial matters said Chinese regulators would expect to have a say over HSBC. China desperately wants a global bank to represent its interests. Mainland officials might be tempted to meddle.

That might annoy American officials, who have become chauvinistic about access to their financial system since the 9/11 attacks and the 2007-08 crisis. HSBC manages about 10% of the world's cross-border dollar payments. Its ability to do so is essential to the bank's operations. In the event, say, of a military skirmish between America and China, it is not impossible there would be a backlash from Congress and New York's populist regulator against a "Chinese" bank having such a privileged role in the dollar system. In 2014 regulators briefly prevented BNP Paribas, a French bank, from clearing dollar transactions.

A move to Hong Kong is thus a risk for HSBC. It is a bet that China will grow, but that its legal and financial systems will remain backward enough that Hong Kong will still have a vital role as the mainland's first-world entrepot. It is a bet that even as they meddle in Hong Kong's politics and on occasion break its laws, mainland officials will ultimately respect the principle of "one country, two systems". It is a gamble that America will resist its worst urges. In Hong Kong HSBC would be a catastrophic mistake away from losing its independence—but then the bank has never made a catastrophic mistake. Viewed from an insular Britain, Hong Kong is dangerous and alluring, just as it was 151 years ago. ■

**A foot in each hemisphere**




Sources: Company reports

## Argentina's disputed debts

# Feeding the vultures

BUENOS AIRES

**The government has struck one deal with holdout creditors. Others will be harder**

IT MAY have taken 14 years, but the holders of $900m of bonds on which Argentina defaulted in 2001 should soon be repaid. On February 2nd Alfonso Prat-Gay, Argentina's new finance minister, announced a deal with Italian bondholders worth $1.35 billion, or 150% of the principal. The "pre-agreement" (it still has to be approved by Argentina's Congress) is fairly small: it covers only 15% of the "holdouts" who rejected restructurings in 2005 and 2010. But it sets an important precedent. The creditors had been seeking $2.5 billion, including outstanding interest payments, and Argentina hopes to persuade the remaining 85% to accept a similar write-down. The omens for a wider deal, however, are not promising.

Argentina's $82 billion sovereign default in 2001 was the largest-ever at the time. Some 93% of bondholders subsequently agreed to exchange their defaulted debt for new securities, accepting a write-down of 65%. But the original bonds had not included "collective-action clauses", under which a restructuring could be forced on all bondholders if a certain proportion of them agreed. The remaining creditors rejected the offer, with some pursuing full payment through the courts instead. A group of them, led by Elliott Management, a hedge fund, has secured a number of victories in courts in New York, under whose law the original bonds were ▸▸


**One man's vulture is another man's victim**

written. One of those rulings barred Argentina from paying interest on the restructured debt unless it also paid the holdouts in full. The court also forbade banks with operations in America from facilitating such payments.

As a result, Argentina defaulted on the restructured bonds in 2014. (An attempt to get around the ruling by making payments to the restructured bondholders in Argentina, beyond the reach of New York's courts, fizzled.) The defaults upon defaults have restricted Argentina's access to international credit markets and hampered efforts to resuscitate its ailing economy. In December Mauricio Macri, Argentina's new president, took office promising to strike a deal with the holdouts and return the country to economic health. It helps that a clause in the restructuring deals obliging Argentina to extend any improved deal it strikes with the holdouts to all the original bondholders has expired.

After preliminary meetings in December and January, Argentine officials opened formal negotiations with Daniel Pollack, a court-appointed mediator, and a number of the holdout bondholders in New York on February 1st. The first day of meetings lasted only four hours; Argentina conceded that it was "still working" on a new offer.

Mr Pollack estimates that the holdouts' claim, including accrued interest, now amounts to 400% of the principal, a figure which equates to $9 billion. The holdouts have disdained discounted offers from Argentina in the past, and would presumably turn their noses up at 150%.

But Argentina has worked hard in recent weeks to strengthen its negotiating hand. After meeting Mr Prat-Gay on January 21st in Davos, Jack Lew, America's treasury secretary, pledged that the United States would no longer oppose lending to Argentina at the World Bank and Inter-American Development Bank. Argentina has also persuaded private banks to lend it money. On January 29th Argentina's central bank announced that it had secured a $5 billion bridging loan from a group of international banks, including HSBC, JPMorgan Chase and Santander.

That eases the immediate pressure on Argentina. But Mr Macri's political programme still hinges on a return to international capital markets. Argentina's fiscal deficit is an estimated 7% of GDP. The government will need $30 billion in financing this year, according to Miguel Kiguel, director of EconViews, a local consultancy. The central bank, for its part, has only $30 billion of foreign-exchange reserves. "Argentina is in a race against time," he says. "It would be very difficult to raise that kind of money in Argentina."

Any deal with holdout creditors will have to be approved by Congress, where Mr Macri's party is in a minority. It will take skill to sell an accord to opposition politicians who have spent years resisting a compromise with "vulture funds" like Elliott Management, which bought the debt in question at a hefty discount.

During the first round of restructuring in 2005 Argentina introduced the "Ley Cerrojo" (Padlock Law) which was intended to prevent negotiations from being reopened at a later date. It was suspended for a year to enable a second restructuring in 2010, but remains on the books. The law under which Argentina attempted to steer money to the holders of the restructured bonds could also impede the ratification of any new deal. "Congress will have to repeal them," says Mr Kiguel.

Many Argentines dislike the idea of rewarding the holdouts for their obstinacy. But Mr Macri may like the idea of a distracting feud with them even less. ■

Klarna

# Getting more ambitious

STOCKHOLM

**A payments unicorn seeks to become a dray-horse bank**

THERE is a through-the-looking-glass quality to the blue-lit tunnel that leads into the headquarters of Klarna, a Swedish online-payments firm. And there is something back-to-front about the company itself. It is a startup firm that grew up in Europe, and is now seeking to expand into America—the reverse of the usual pattern. Unlike most tech unicorns galloping to expand their market share, it already makes a profit. Even more strikingly, it plans to move from an area of financial ferment—mobile payments—into the sterile old business of retail banking. Investors are giddy about its plans, however unusual: a funding round last year valued the firm, whose name is Swedish for "getting clearer", at $2.25 billion, up by almost a billion on the year before.

Klarna's business "is quite basic", says Sebastian Siemiatkowski, its founder and boss. Some 65,000 online merchants have so far hired it to run their checkouts. Its main appeal, for both retailers and their customers, is the simplicity of its system. Shoppers do not have to dole out credit-card details or remember a new password. Instead, they can simply give an e-mail and a delivery address, and leave the payment to be sorted out later. (Klarna pays the retailer in the meantime, and bears the risk that shoppers will not stump up in the end—something few other payment firms do.) Customers who have previously used one Klarna-run checkout are recognised when they visit another, further reducing the need to fill out online forms. All this hugely increases the "conversion" rate—the proportion of customers who actually make a purchase after putting an item into their online "basket".

Like many fintech firms, Klarna believes that its algorithms do a better job of identifying creditworthy customers than the arthritic systems used by conventional financial firms. It relies on the e-mail and delivery addresses supplied, as well as the size and type of purchase, the device used, time of day and other variables. This not only allows it to bear the risk that customers fail to pay when Klarna bills them, but also to offer them extended payment plans, for a fee. These loans have higher margins than the cut-throat online-payment business—although the giants of the industry, such as PayPal, are experimenting with similar offerings.

Klarna handled sales of roughly $10 billion in 2014 (compared with PayPal's $235 ▸▸

billion), generating $300m in revenue, all in Europe. (It has not yet made public figures for last year.) It handles 40% of online payments in Sweden. In 2014 it bought a German firm, Sofort, expanding its presence there. It thinks it can continue to grow in Europe, but its main focus now is America, where it launched in September.

Klarna has not been signing up American retailers as quickly as it had anticipated. But it hopes two global trends will speed its expansion. The more that online shopping moves to phones, the more pressing it is for all online traders to make their checkouts quick and easy to use, but still safe. Customers particularly detest typing in credit card numbers on their phones, especially if asked to do so in public—while riding a busy bus, say. Klarna reckons over 60% of its business today involves mobile shopping, compared with less than 10% two years ago. Some retailers, such as sellers of shoes and clothes, report an especially rapid shift to mobile.

The other broad trend is for shopping across national borders. Online markets, such as Wish.com, connect bargain-hungry consumers in rich countries to producers of clothes, watches, toys or jewellery in, for example, China. Klarna works with Wish on European sales, letting customers pay for goods ordered cross-border only after getting them, which can take weeks. That reassures shoppers not ready to trust an anonymous Chinese T-shirt firm to deliver. Many sellers are appalled by the prospect of having to comply with different countries' financial laws, say on extending credit, so they readily outsource payments.

Klarna, in contrast, is a glutton for regulatory punishment. In fact, it is entering the most regulated bit of finance: retail banking. It is licensed as a bank in Sweden, which allows it to collect deposits from all over Europe. Mr Siemiatkowski sees this as a cheap source of financing, but also as a big opportunity. Just like online shoppers, he argues, bank customers are desperate for a safe-but-simple mobile interface like the one Klarna offers in payments. The firm's 45m users provide it with a big and growing pool of potential banking customers who already have an inkling of the sort of service it can provide. "In the longer term we need to reimagine what banks really are," he says, sounding like a typical fintech boss at last. ■

Caution: reimagining under way

The American economy

# Still kicking

WASHINGTON, DC

**Reports of the death of the American consumer are greatly exaggerated**

WHAT are America's consumers up to? When the plunging oil price made petrol (gasoline) cheap, economists expected them to head to the shops and spend more. But growth failed to pick up, causing a rethink. Data released on January 29th showed that the economy grew by just 0.7% (annualised) in the final quarter of 2015, with slowing consumption partly to blame.

Now many analysts are claiming that consumers have saved the fuel-price windfall. The reality, though, is more nuanced. Americans—though more cautious since the financial crisis—have spent most of their recent income gains. And consumer spending continues to drive growth.

In 2014 consumers spent an average of $2,500, or 4.2% of their income after tax, on petrol. A year later refilling the tank had become almost a third cheaper. That gave households a windfall of about $650, or 1.1% of their 2014 income. Rising employment and modest wage growth chipped in to boost their real (ie, inflation-adjusted) income by 2.7%.

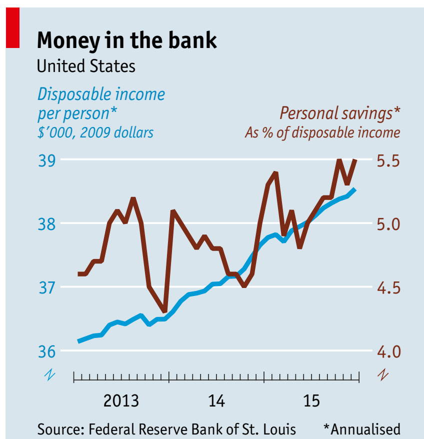
Consumers did put some of those gains in their piggy-banks. The savings rate rose from 4.8% in 2014 to 5.2% in 2015. In December it was 5.5%, the highest level in three years (see chart). But most of the 2.7% rise in real incomes was spent. In October the JPMorgan Chase Institute, a think-tank attached to the bank, compared the accounts of customers in gas-guzzling areas with those of customers in places where people drive less. They found that for every dollar consumers saved on petrol, they spent up to 89 cents elsewhere.

That means they saved 11 cents—enough to push up the savings rate, but not enough to undermine the dictum that cheap petrol boosts consumption. Overall GDP growth—which clocked in at 2.4% for the year—has disappointed because of two other factors. The first is sluggish investment, thanks to the sickly oil industry. The second is the strong dollar, which has dragged down exports. Consumption contributed 1.5 percentage points to growth in the final quarter of 2015; but investment and trade knocked off 0.9 percentage points. If consumers had not spent most of their savings from petrol, in other words, growth would have been lower still.

In general, Americans do save more than before the financial crisis. From 2005-07 the savings rate hovered around 3%, which pushed debt to unsustainable heights. Thanks in part to their newfound prudence, Americans now have much healthier finances. Household net worth stands at 630% of income—only just shy of its high point in 2007. But unlike then, household debt has been falling. Lower debt and lower interest rates have reduced households' debt-service costs from 13% of income on the eve of the crisis to 10% of income today, close to an all-time low.

Consumers remain optimistic about the economy. The University of Michigan's consumer-confidence index remained largely unchanged in January, despite the turmoil in financial markets. It helps that Americans are not much exposed to shares: only 14% of household wealth is invested in the stockmarket and 45% of Americans do not own shares at all. Spending might fall if consumers are spooked by gloomy headlines from Wall Street, but the bigger threat is if wages and job growth stall at the same time as the one-off gain from cheaper oil dries up.

As for the slight slowdown in consumption at the end of 2015, December was both the warmest and the wettest on record. The warmth reduced spending on heating; the wet may have kept people indoors. Spending at restaurants fell by 1.7%, notes Paul Ashworth of Capital Economics, a consultancy. Now that the heavens have closed, wallets should reopen. ■



Finland's economic winter

# Permafrost

HELSINKI

**The euro zone's only Nordic member struggles to thaw its economy**

THE harbour may be frozen, but that does not stop a ferry with a few intrepid tourists on board from making its way through the ice to Suomenlinna, a former fortress and popular sightseeing spot near Helsinki. Finns, whose country stretches from the Baltic Sea to the Arctic, are inured to hostile conditions, but their economy seems less hardy. It is stuck in an unrelenting freeze. A centre-right coalition government formed last spring is trying to break the ice, but has not yet got far.

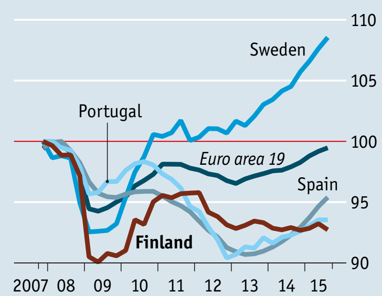
After thriving for several years both before and after joining the euro in 1999, Finland ran into trouble after the financial crisis of 2007-08. Output plunged by 8.3% in 2009. Although GDP grew in 2010 and 2011, it then declined for the following three years—and may have contracted again in 2015. Short-term data suggest that the economy will be flat in early 2016, says Jussi Mustonen, chief economist at the Confederation of Finnish Industries.

Erkki Liikanen, governor of the central bank, explains that Finland has suffered an extraordinary combination of adverse shocks. The most important of these was the decline of Nokia, once Finland's biggest company and the world's biggest maker of mobile phones. Just as the rise of Nokia did much to propel the Finnish economy in the decade before the financial crisis—accounting for nearly a quarter of growth—so its fall in the smartphone era has contributed to subsequent weakness. Another problem was that wages carried on rising despite sagging productivity: unit labour costs are 10-15% higher than those of Finland's trading partners.

Meanwhile the workforce is shrinking as an especially pronounced post-war baby boom and subsequent bust takes its toll. The number of Finns aged 15-64 is falling by almost 0.5% a year. Markku Kotilainen of ETLA, an economic think-tank, reckons that potential growth has halved from around 3% a year before the financial crisis to less than 1.5% now. On top of all of this, exports to Russia have plunged by a third in the past year, owing to an economic slump there as well as trade sanctions. Russia now buys just 5.8% of Finland's exports, down from 10% in 2012. The Finnish economic and social model is being challenged, says the OECD in a new survey.

**Nordic laggard**

Quarterly GDP, pre-crisis peak=100




Source: Eurostat

### Faith in Finn tech

Finland is well-placed to find new sources of growth. According to a report on competitiveness from the World Economic Forum, it ranks second globally for innovation. Startups are an ideology among young Finns, says Mr Kotilainen. Encouraging them is a priority of the government. Much of a €1.6 billion ($1.8 billion) initiative to promote growth over the next three years will foster the use of new technology.

Overall, however, the government, which has been running a deficit of around 3% of GDP, is administering the same medicine of austerity and structural reforms that countries in southern Europe have had to swallow. The austerity programme, only partially offset by the temporary growth package, will eventually realise savings of €4 billion—around 2% of GDP—in 2019, mainly through spending cuts. Even then, further parsimony will lie ahead for a country whose public expenditure is 58% of GDP, the highest in the European Union (the average is 47%).

The most important reform is an overhaul of the labour market, says Olli Rehn, the economy minister, who as a former European commissioner used to prescribe similar treatment elsewhere in the euro area. Finland's system of national collective bargaining was once a strength, enabling wage agreements to take into account overall economic constraints, but it is now keeping wages too high. The government advocates a more flexible system, in which firms will have greater freedom to reach their own deals with workers.

This should help to restore Finland's lost competitiveness by ensuring that wage increases stay below those in the rest of the euro area and through higher productivity at individual firms. A more immediate boost should come from reforms that bring down costs by increasing working time—for example, by scrapping two national holidays and curbing public-sector leave. The government wants employers and unions to agree upon such a package, but they have failed four times. If they cannot reach a deal, the government will impose measures in the spring, warns Alexander Stubb, the finance minister.

One obstacle to Finland's revival goes largely unmentioned. Had the country retained its own currency, the long, hard adjustment that it is now seeking to achieve by lowering domestic costs could have been attained much more easily by allowing the markka to depreciate. Finland's economic woes stand in contrast with the robust performance of its neighbour, Sweden, which kept the krona. Finland's output is now 7.3% lower than at its previous peak—worse than in Spain or Portugal (see chart). Sweden's, in contrast, is 8.6% higher.

But there is more to the outperformance of Sweden, whose economy is twice as large and more diversified, than keeping its own currency. And lamenting the constraints of the euro is not much help to the Finnish government. If one thing has been learnt during the euro crisis, it is that leaving the single currency would be hazardous and costly. The only path for Finland is to regain lost ground within the monetary union, however painful that may be. ■

# Free exchange | Trade in the balance

**Globalisation can make everyone better off. That does not mean it will**

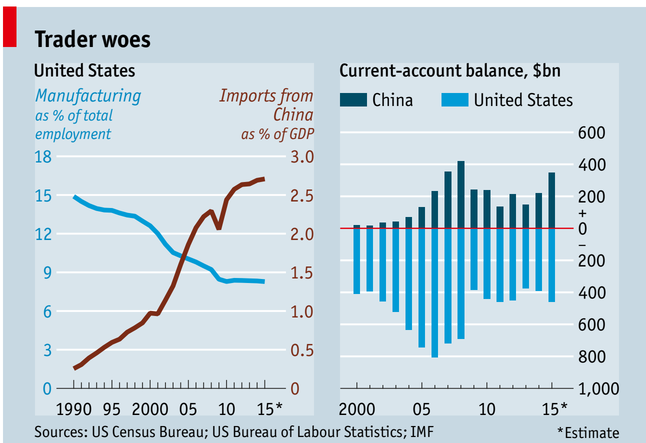
THE past two decades have left working-class voters in many countries leery of globalisation. Donald Trump, the billionaire television star who promises to slap a 45% tariff on Chinese goods if elected president of America, has partly based his candidacy on this angst. Economists tend to scoff at such brash protectionism; they argue, rightly, that trade does far more good than harm. Yet new research reveals that for many, the short-term costs and benefits are more finely balanced than textbooks assume.

David Autor of MIT, David Dorn of the University of Zurich and Gordon Hanson of the University of California, San Diego, provide convincing evidence that workers in the rich world suffered much more from the rise of China than economists thought was possible. In their most recent paper*, published in January, they write that sudden exposure to foreign competition can depress wages and employment for at least a decade.

Trade is beneficial in all sorts of ways. It provides consumers with goods they could not otherwise enjoy: without it only Scots would sip lovely Islay single malts. It boosts variety: Americans can shop for Volvos and Subarus in addition to Fords. Yet its biggest boon, economists since Adam Smith have argued, is that it makes countries richer. Trade creates larger markets, which allows for greater specialisation, lower costs and higher incomes.

Economists have long accepted that this overall boost to prosperity might not be evenly spread. A paper published by Wolfgang Stolper and Paul Samuelson in 1941 pointed out that trade between an economy in which labour was relatively scarce (like America) and one in which labour was relatively abundant (like China) could cause wages to fall in the place that was short of workers. Yet many were sceptical that such losses would crop up much in practice. Workers in industries affected by trade, they assumed, would find new jobs in other fields.

For a long time, they appeared to be right. In the decades following the second world war, rich countries mostly traded with each other, and workers prospered. Even after emerging economies began playing a larger role in global trade, in the 1980s, most research concluded that trade's effects on workers were benign. But China's subsequent incorporation into the global economy was of a different magnitude. From 1991 to 2013 its share of global exports of manufactured goods rocketed from 2.3% to 18.8%. For some categories of goods in America, Chinese import penetration—the share of domestic consumption met through Chinese imports—was near total.




The gain to China from this opening up has been enormous. Average real income rose from 4% of the American level in 1990 to 25% today. Hundreds of millions of Chinese have moved out of poverty thanks to trade. A recent NBER working paper suggests Americans will benefit too: over the long run trade with China is projected to raise American incomes. In parts of the economy less susceptible to competition from cheap Chinese imports, the authors argue, firms profit from a larger global market and reduced supply costs, and should also gain—eventually—from the reallocation of labour away from shrinking manufacturing to more productive industries.

But those benefits are only visible after decades. In the short run, the same study found, America's gains from trade with China are minuscule. The heavy costs to those dependent on industries exposed to Chinese imports offset most of the benefits to consumers and to firms in less vulnerable industries. Economists' assumption that workers would easily adjust to the upheaval of trade seems to have been misplaced. Manufacturing activity tends to be geographically concentrated. So the disruption caused by Chinese imports was similarly concentrated, in hubs such as America's Midwest. The competitive blow to manufacturers rippled through regional economies, write Messrs Autor, Dorn and Hanson, battering suppliers and local service industries. Such places lacked growing industries to absorb displaced workers, and the unemployed proved reluctant (or unable) to move to more prosperous regions. Labour-market adjustment to Chinese trade was thus slower and less complete than expected.

As a result, the authors found in a 2013 paper, competition from Chinese imports explains 44% of the decline in employment in manufacturing in America between 1990 and 2007. For any given industry, an increase in Chinese imports of $1,000 per worker per year led to a total reduction in annual income of about $500 per worker in the places where that industry was concentrated. The offsetting rise in government benefits was only $58 per worker. In a paper from 2014, co-written with Daron Acemoglu, of MIT, and focusing on America's "employment sag" in the 2000s, the authors calculate that Chinese import competition reduced employment across the American economy as a whole by 2.4m jobs relative to the level it otherwise would have enjoyed.

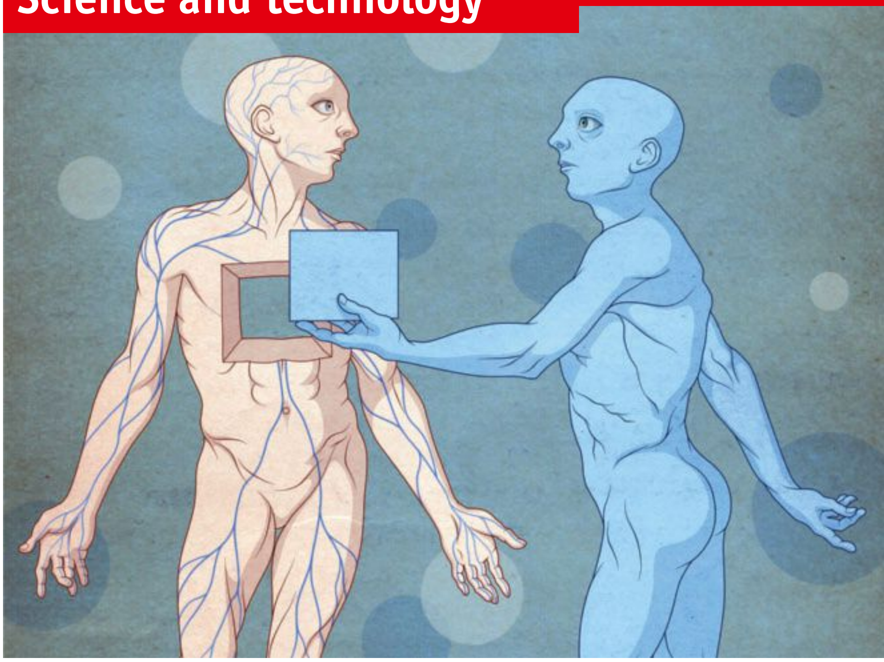
The costs of Chinese trade seem to have been exacerbated by China's large current-account surpluses: China's imports from other countries did not grow by nearly as much as its exports to other countries. China's trade with America was especially unbalanced. Between 1992 and 2008, trade with China accounted for 20-40% of America's massive current-account deficit; China imported many fewer goods from America than vice versa.

### Sub-Pareto

Trade generates enormous global gains in welfare. Generous trade-adjustment assistance, job retraining and other public spending that helps to build political support for trade are therefore sound investments. To make any of these policies work, however, economists and politicians must stop thinking of them as political goodies designed to buy off interest groups opposed to trade. They are essential to fulfilling trade's promise to make everyone better off. ■

* Studies cited in this article can be found at www.economist.com/Chinatrade16

Economist.com/blogs/freeexchange



Also in this section





Organ preservation

# Wait not in vain

**After decades of piecemeal progress, the science of cryogenically storing human organs is warming up**

OVER the course of an average winter North American wood frogs, *Rana sylvatica*, may freeze solid several times. They are able to get away with this by replacing most of the water in their bodies with glucose mobilised from stores in their livers. That stops ice forming in their tissues as temperatures drop. When things warm up again, the frogsicles thaw out, with no evident ill effects.

What frogs do without thinking, human researchers are trying, with a great deal of thinking, to replicate. The prize is not the freezing and reanimation of entire people—that idea is somewhere between a fantasy and a fraud—but the long-term preservation of organs for transplant. According to the World Health Organisation, less than 10% of humanity's need for transplantable organs is being met. The supply has fallen as cars have become safer and intensive-care procedures more effective, and part of what supply there is is lost for want of an instantly available recipient. Cooled, but not frozen, a donated kidney might last 12 hours. A donated heart cannot manage even that span. If organs could be frozen and then thawed without damage, all this would change. Proper organ banks could be established. No organs would be wasted. And transplants that matched a patient's requirements precisely could be picked off the shelf as needed.

The problem is that water expands when it freezes. If that water is in living tissue, it does all sorts of damage in the process. But an alliance of experts, ranging from surgeons and biochemists to mechanical engineers and food scientists, is attempting to overcome this inconvenient fact. And, after years of labour, many of them think they are on the threshold of success, and that cryopreservation will soon become a valuable technology.

## In from the cold

Some human tissue is already cryopreserved. The trick was managed with sperm and red blood cells six decades ago and three decades ago with early-stage embryos. But these are special cases. Spermatozoa and blood corpuscles are single cells, and also have little water in them. Frozen embryos have a couple of hundred cells, but are still tiny structures. Freezing full-sized organs has proved more problematic.

Mehmet Toner of Harvard Medical School is following the wood frogs' approach. Surprising as it sounds, these amphibians survive the winter by turning their insides into glass, not ice. Though a layman may not realise it, glasses are technically liquids, not solids. The crucial difference is that when a glass cools it does not form crystals, with the sudden, tissue-damaging change in volume this entails.

Wood-frog "glass" is a concentrated glucose solution. Dr Toner uses a different sugar, trehalose, as the vitrifying "cryoprotectant". The advantage of trehalose over glucose is that it is less reactive, and thus less likely to damage tissue in high concentrations. Its disadvantage is that it is not so readily absorbed into cells. Dr Toner has overcome that, though, by decorating it with molecular titbits called acetyl groups. These act as chemical keys, granting entrance to otherwise inaccessible places. This seems to work. In June 2015 he and his colleagues showed that their acetylated trehalose could allow frozen rat cells to be revivified, just as they had hoped.

Revivification brings its own dangers, though. Warming cryopreserved tissue must be done rapidly—otherwise, paradoxically, it can cause ice to form where once there was only glass. This is because the non-aqueous part of the glass melts into a proper liquid before the water does, and thus separates out. The now-pure water then crystallises, with all the destructive consequences that follow.

This rapid warming must, though, be done uniformly—lest, in the words of John Bischof of the University of Minnesota, "the organ crack like an ice cube dropped into water". Dr Bischof has hit on a novel solution to the problem. He and his colleagues propose adding tiny particles of magnetite, a form of iron oxide, to the cryoprotectant. Put the organ in a rapidly fluctuating magnetic field and the magnetite will heat up fast. If the particles are scattered uniformly though the tissue, this heating should also be uniform. And recent experiments Dr Bischof has conducted on heart valves and arteries suggest it is.

Ido Braslavsky, of the Hebrew University in Jerusalem, is taking a different tack. Many species of cold-resistant fish, insects and plants employ proteins that actively inhibit the formation of ice crystals, even ▶▶

though they do not lower water's freezing point. Dr Braslavsky has spent a long time studying such proteins, and he has built a special microscope to do so. By attaching fluorescent tags to individual protein molecules, he can see exactly where they go and how they stymie the growth of ice crystals by attaching themselves to incipient crystals in ways that stop them extending themselves. (He applies this knowledge too, to the way ice formation influences the texture of ice-cream.)

Researchers have also devoted much effort to avoiding the deep freeze altogether, by perfusing organs with a cooled cocktail of preservatives, oxygen, antioxidants and the like. In a sense this is tantamount to keeping an organ on its own dedicated life-support system. Last year Korkut Uygun of Harvard Medical School, in collaboration with Dr Toner, demonstrated that a combination of cooling and perfusion could preserve a rat liver for four days.

All of these approaches, though, are quite intrusive. Kenneth Storey, of Carleton University in Canada, thinks a better tack is to try to understand and emulate the underlying molecular biology of cold-resistant creatures. He has studied in detail the changes to cell proteins and genes that go on in such organisms, including the actions of "micro-RNAs"—small molecules that can interrupt a cell's gene-expression or protein-making machinery.

In December he published a catalogue of 53 micro-RNA changes that occur in wood frogs as they freeze. Hibernating mammals, insects and even nematode worms all seem to turn off their cells in similar ways to frogs. He therefore thinks there may be an overarching molecular signal which, if it could be found, would prepare organs for the freezer.

**Leapfrog**

There are, then, many cryopreservationist ideas around—so many that some think a little co-ordination is in order. That is the purpose behind the Organ Preservation Alliance (OPA), an American charity which was set up in 2014. It has enjoyed some success. A year ago it held a hackathon—a kind of DIY-tinkering party to find novel solutions. The winner, Peter Kilbride of University College, London, devised an ingenious vitrification method that uses tiny particles of silicon dioxide—sand, in essence—in lieu of the usual, potentially toxic cryoprotectants. It is a potentially transformative idea that has already been submitted for patent.

The OPA is also good at lobbying. Last year it persuaded America's defence department, an organisation with an obvious interest in transplants, to seed seven cryopreservation-research teams with money. In January the department expanded the project with three new streams of money. The National Institutes of Health, the American government's medical-research arm, is also paying for work on cryopreservation.

Venture capitalists, charities and individual philanthropists are queuing up to add to the rising pile of cash. The XPRIZE Foundation, for example, is considering offering an award to any team that can transplant into five animals organs that have been cryopreserved for a week. The research-funding arm of the Thiel Foundation, started by Peter Thiel, who helped launch PayPal, has given a grant to Arigos Biomedical, a firm working on high-pressure vitrification. New firms abound: Tissue Testing Technologies is working on ways of warming organs uniformly; Sylvatica Biotech is perfecting recipes for cryoprotectants; X-therma is attempting to mimic cryoprotective proteins. The cryopreservation race is on, then. And the winning post is the organ bank. ■

Guinea-worm disease

# Going, going...

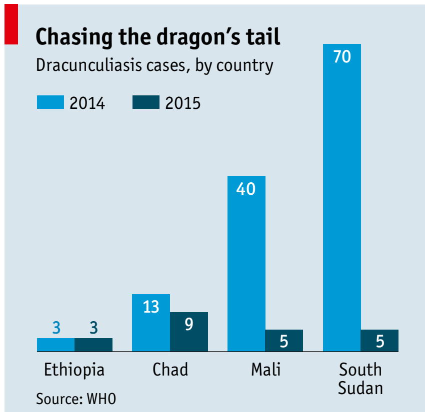
**An awful infestation has nearly been wiped out**

IT LOOKS like something out of a Gothic movie: a metre-long monster that emerges slowly through blistered human skin, its victim writhing in agony. No one is spared. It can creep out from between the toes of a child or from the belly of a pregnant woman. In the mid-1980s *Dracunculus medinensis*, the Guinea worm, as this horror is called, afflicted 3.5m people a year in 20 countries in Africa and Asia. But last year that number was down to just 22, all of them in Chad, Ethiopia, Mali and South Sudan. Dracunculiasis is thus poised to become the second human disease to be eradicated, after smallpox.

This blessed state of affairs is thanks to a 30-year campaign led by the Carter Centre, a charity set up by Jimmy Carter, a former president of America. Mr Carter picked his target well. Most Guinea worms grow in human beings, and their only other host is the domestic dog. Both humans and dogs can be monitored closely, in ways wild animals cannot. This means, in principle, that every case of dracunculiasis can be tracked and the worm involved prevented from reproducing. The task the Carter Centre set itself was to turn this principle into reality.

The worm releases its larvae as it emerges, a process that takes about ten weeks. These larvae normally become infectious only if swallowed by copepods, tiny crustaceans which live in stagnant water. If someone drinks such water, the larvae then migrate to his skin to grow, emerging about a year later. About 90% of worms emerge from the lower part of the leg. Sufferers spread the larvae when they dip their feet in water to relieve the pain.

Breaking this cycle of transmission means doing two things: stopping the larvae reaching copepod-inhabited water, and stopping people ingesting infested copepods. To do so, local volunteers trained by the Carter Centre and its partners spread the message and tend the wounds of those with worms hanging out of them. They also distribute filters of cloth-like mesh for households' drinking-water buckets, and straw-like filters equipped with a string, so that they can be worn around the neck for people to use when drinking away from home. These filters strain copepods from the water. They, as well as larvicide used for treating water sources suspected of contamination, are all donated by their manufacturers.




These measures—and meticulous surveillance—have brought the Guinea worm close to extinction. Mr Carter's star power has helped, too. He and his wife, Rosalynn, have travelled to dozens of affected villages, bringing the attention of health ministers and wealthy benefactors to an otherwise neglected disease. In 1995 Mr Carter negotiated the longest humanitarian ceasefire in history: the six-month "Guinea worm ceasefire" in Sudan, which was used to distribute filters, and also medicines and vaccines for other diseases.

Mr Carter says he hopes to outlive the last Guinea worm. Though he is now 91, that is a plausible ambition. All 22 of the worms that were recorded last year have now emerged, and are dead. It is therefore likely that Mali, Ethiopia and South Sudan are now rid of the awful creature, though there needs to be a worm-free period of three years to be sure.

That leaves only Chad, where an unusual development is keeping eradicators on their toes. There, disease detectives found that the worm's nine human victims last year had ingested the larvae by eating raw fish, rather than by drinking unfiltered water. Worryingly, hundreds of dogs were infested this way, too. Measures to prevent new cases were swiftly deployed. Eradication teams have been urging people to make sure the fish they eat is fully cooked, to bury raw fish entrails (to prevent dogs from eating them) and to tether infested canines.

The Carter Centre's field workers reckon people are 70-80% compliant with the second and third measures on this list. Compliance with the first is harder to estimate, since it would mean a mass invasion of people's kitchens. Whether these measures will be enough to break the chain of transmission remains to be seen. But those workers' vigilance is such that any new cases, whether human or canine, are likely to be noticed quickly. With luck, it will not be long before the world's last Guinea worm becomes a celebrity—preserved for posterity in a formalin-filled jar at the Carter Centre's headquarters, in Atlanta. ■

Voice-powered medical devices

# Good vibrations

**A generator that runs off the vocal cords may improve the efficacy of implants**

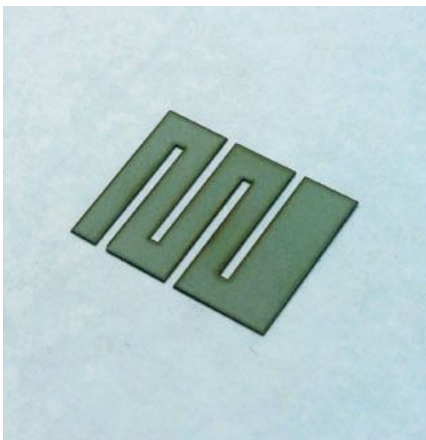
IMPLANTED devices, such as heart pacemakers, are a valuable part of modern medicine's armamentarium. Their use, however, is limited by the need to renew their batteries—and this is a particular problem for those, such as cochlear implants (which improve hearing), that are inside the wearer's head.

For obvious reasons, surgeons do not like opening heads up unless it is strictly necessary. Sometimes, therefore, the battery packs that power head implants are put in the wearer's chest. But this means running a wire up through the patient's neck, from the one to the other, which is scarcely satisfactory either. A way to power such implants without replacing their batteries at all would thus be welcome. And Hyuck Choo of the California Institute of Technology and his colleagues think they have one. They plan to scavenge the necessary energy from the vibrations of the vocal cords that occur when someone is talking.

Dr Choo's power plants are small sheets of lead zirconate titanate, a substance that is piezoelectric—meaning it generates electricity when it vibrates. He knew from past work that sheets of the size he chose (just under 1cm$^2$) resonate at around 690Hz. This is close to the F in the octave above middle C, and thus well above the normal range of the human voice. Using larger sheets would lower the resonant frequency, just as long organ pipes produce lower notes than short ones. Larger sheets, though, would be less deployable inside the body. So, instead, he sought to lower a sheet's resonant frequency without increasing its area by carving a sinusoidal shape out of it (see picture). Such a shape must inevitably be longer than its parent rectangle's longest sides, albeit that its length is now zigzagged. A sinusoidal sheet should thus have a lower resonant frequence than its rectangular parent.

It worked. When Dr Choo and his colleagues tested the carved sheets by exposing them to a range of frequencies and monitoring the amount of electricity generated, they found that the voltage spiked at between 100Hz and 120Hz (approximately the dominant frequencies of adult male voices), and also between 200Hz and 250Hz (the female voice's dominant frequencies). And, although the amount of power produced is not huge, it seems adequate for the task proposed.

As Dr Choo reported on January 26th, to the International Conference on Micro Electro Mechanical Systems in Shanghai, he and his team were able to harvest a tenth of a milliwatt per square centimetre of lead zirconate titanate from the voice of a man talking at 70 decibels, which is normal speaking volume, and three-tenths from someone shouting at 100 decibels. Implants usually require a tenth of a milliwatt or less to function, so this prototype's performance suggests a practical device might be within reach—especially as the vibrations produced by the voice travel efficiently up through the skull, meaning the generator could be integrated into an implant, rather than having to be separate from it.



Ring my chimes

Since most people are not chatterboxes, talking all the time, a practical system will still need batteries to build up charge so that the surplus can be used when needed. Intriguingly, this might even be possible when someone is asleep. Part of the sound of snoring is in the experimental device's sweet spot. That may not be much consolation for the partners of snorers. But at least their bedmates will no longer be able to turn a deaf ear to their complaints. ■

Doping

# No more horsing around

**A way to tell if geldings are having their testosterone boosted**

THE murky world of sports doping has been in the news recently, as accusations fly concerning the use, on a scale previously unacknowledged, of performance-enhancing drugs in athletics. But human beings are not the only animals doped to enhance their performance. Racehorses are similarly afflicted. Catching cheats in the world of horse-racing has, however, proved hard. Human and equestrian biology are different, and techniques developed for the one do not necessarily transfer to the other. Terence See Ming Wan, of the Hong Kong Jockey Club's Racing Laboratory, hopes to change that. As he explains in a paper in *Analytical Chemistry*, he has developed a technique for spotting doped horses that should make it easier to catch cheats.

These days, artificial anabolic steroids are easily detected, so athletes (male ones, anyway) are turning instead to compounds like luteinising hormone to bulk up their muscles. This hormone does not act directly. Rather, it stimulates a man's testes to produce natural testosterone, which then does the muscle-bulking. For those doping male racehorses, though, this option is often not available, because many such horses are geldings. Instead, gelding-dopers tinker with another source of testosterone, the adrenal glands—their weapons of choice being drugs that enhance the effect of this more meagre testosterone supply.

In the natural course of events, testosterone levels are regulated by an enzyme called aromatise, which converts the hormone into oestrogens. There are, however, two drugs—androstanediol and androstadienedione—that block aromatase's action, increasing testosterone levels, and therefore muscle mass. Using androstanediol and androstadienedione is particularly desirable from the doper's point of view because their levels become undetectable two to four days after administration.

Dr Wan suspected, however, that these aromatise inhibitors might not affect just testosterone levels; they might also alter concentrations of other steroids, such as androstane, androstadien and androsterone. That would be a sign that a horse had been dosed with them.

To test this, he and his colleagues ran a study that monitored 31 naturally produced steroids in the urine of 32 thoroughbred geldings over the course of nine days. Before the study started, four of the animals were deliberately doped with the two aromatise inhibitors. Dr Wan, however, did not know which four.

As he and his colleagues had hoped, they were able to pick the doped horses from the others on the basis of the creatures' steroid profiles. Seven steroids differed significantly in concentration between doped and control animals. Most important, these differences were detectable for between four and nine days after the horses had been given the inhibitors. Even though the drugs themselves were no longer present, the impressions they had left behind were—which is good news for those who believe that racecourses should also be level playing fields. ■

The scientific method

# Let's just try that again

**Reproducibility should be at science's heart. It isn't. But that may soon change**

THE *Journal of Irreproducible Results* is a long-running satirical magazine, designed for the amusement of scientists. If the title were not already taken, though, it would be a good one for another, more serious publication that is being launched on February 4th. The *Preclinical Reproducibility and Robustness Channel*, an electronic rather than a paper journal, is dedicated to the task, found tedious by most academic researchers, of replicating and testing the experiments of others. Professional egos, the exigencies of career-building and the restricted sizes of grants and budgets all conspire against the rerunning, in universities, of old studies instead of the conducting of new ones.

Commercial researchers cannot afford to be so choosy. If they pick an idea up from academia, they have to be sure that it works. Often, it doesn't. For example, when staff at Amgen, a Californian drug company, attempted to reproduce the results of 53 high-profile cancer-research papers they found that only six lived up to their original claims.

This figure is probably typical. What was not typical was that Amgen actually offered it for publication, and it was, indeed, published (in 2012, by *Nature*). Mostly, journal editors, like academic scientists, are more interested in new work than in the refutation of old stuff. Amgen's submission was spectacular, because so many papers were involved at one go. This may have been what got it over the bar. If each refutation had been written up and submitted separately, the outcome would probably have been different. As for the six successful replications it included, why would anyone bother to publish work confirming what was already known?

Yet knowing which previous research is and is not correct is crucial to the progress of science, and a repository of such information would be useful. Hence the *Preclinical Reproducibility and Robustness Channel*. Its publishers, Faculty of 1000, based in London, hope to provide an outlet for the accumulated replications gathering dust in commercial laboratories (Amgen has promised its trove to the venture), and also to stimulate academic scientists to follow suit and provide more.

The problem, though, is not restricted to medicine. An analysis of 98 psychology papers, published in 2015 by 90 teams of researchers co-ordinated by Brian Nosek of the University of Virginia, managed to replicate satisfactorily the results of only 39% of the studies investigated. Again, it was the very size of this project that got it into print, as smaller studies languished.

Things may now be changing. Both reproducibility and the whole openness of the scientific process are discussed much more than once they were. An entire institute dedicated to the matter, the Meta-Research Innovation Centre at Stanford, in California, opened for business in 2014.

If this institute flourishes—and even more so if it is emulated—it may even become possible to make a career out of being a buster of others' questionable efforts: a forensic scientist of science, as it were. That is by no means certain, and there will probably be few Nobel prizes in it. But mopping up messes is an honourable activity, and this week's launch of a new outlet for the publication of duplication is part of the clean-up. ■

**Winging it**

**The fossil on the right-hand side of this picture is not, as comparison with the modern insect on the left might suggest, a butterfly. It is a lacewing called *Oregramma illecebrosa*. It and its relatives, the kalligrammatids, flew in the forests of the Jurassic and Cretaceous periods between 165m and 125m years ago, dying out 69m years before the first-known butterfly fossil. They are thus, as Conrad Labandeira of the Smithsonian Institution in Washington, DC, and his colleagues describe in the *Proceedings of the Royal Society*, examples of convergent evolution: the emergence in unrelated groups of similar bodies, to permit the pursuit of similar ways of life. Just as ichthyosaurs (marine reptiles contemporary with the kalligrammatids) and dolphins evolved basically the same shapes, in order to hunt fish and other sea creatures, so kalligrammatids seem to have evolved "butterfly-ness", complete with large, scale-covered wings, eye spots to distract predators and mouth parts formed into a proboscis. They acted, Dr Labandeira thinks, as pollinators for the gymnosperm trees that preceded modern angiosperms, now the food plants of real butterflies.**

Also in this section



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Chamber music

# Four into one does go

**A life spent at the summit of chamber music—playing Beethoven's string quartets**

**Beethoven for a Later Age: The Journey of a String Quartet.** By Edward Dusinberre. *Faber & Faber; 262 pages; £18.99. To be published in America by University of Chicago Press in May; $30*

THE string quartet is an invention of the classical age, brought to perfection by Mozart and Haydn. Goethe once defined it as "four rational people conversing with each other", which suggests that a book on the subject might not be very exciting. But that would do an injustice to Edward Dusinberre's memoir "Beethoven for a Later Age: The Journey of a String Quartet". Mr Dusinberre is the lead violinist of the Takacs Quartet, one of the world's most highly regarded string ensembles, and he has written a fascinating book about the musical life of this group of players. Interwoven with that is the story of Beethoven's 16 string quartets, works of extraordinary power written over a quarter-century that moved the genre on from the earlier masters and are now regarded as the apogee of the chamber-music repertoire.

In Beethoven's day many of them met with incomprehension and dismay, which the short-tempered composer had to learn to accommodate. When his now famous "Grosse Fuge", originally the last movement of one of his late quartets, was shredded by critics, Beethoven grudgingly wrote a new ending. At a performance of another quartet he got his musicians to play the whole thing twice over, hoping that the audience might gain a better insight into the music the second time. And when a player complained in the composer's hearing that the quartets were "not music" at all, he replied: "Oh, they are not for you; they are for a later age."

A century later, Igor Stravinsky still judged the quartets "contemporary", and thought they always would be. Another century on, Mr Dusinberre clearly feels the same way. He links each chapter in his memoir to a particular quartet, moving back and forth between the story of the composition (and the personal, social and political context it was written in) and the life of his quartet.

Founded in 1975, the Takacs Quartet still retains two of its original members. Mr Dusinberre joined more than 20 years ago to replace the founding first violinist, Gabor Takacs-Nagy. Even the most recent arrivals have been around for more than ten years, so all four musicians know each other very well, both musically and personally. The book is admirably kind about every one of the players, but at times the constant enforced proximity must become claustrophobic. When the four are on tour together they generally try to keep away from each other as much as possible.

When Mr Dusinberre auditioned for the part in 1993 he was only 23, almost a generation younger than the rest. He was English, everyone else was Hungarian, and he soon realised that he was being put to the test not so much for his prowess on the violin—given his training, that was taken for granted—but for his musical ideas, his personal qualities and his ability and willingness to work with colleagues. He felt green and rather nervous about playing with such a cohesive and experienced group, and also conscious that the others came from a different and somewhat more laid-back culture. But they offered him the job, or so he thought; it was only later that one of them told him that what he was taking on was not a job but a family and a life.

A lot of the time the work is just hard grind. The Takacs Quartet plays about 100 concerts annually, does a lot of recording and tours for around half the year. This is hard on spouses and children (who barely get a mention). When not touring, the players practise on their own and then rehearse together for hours every day. They endlessly debate their different approaches to the music, often argue, and try out each other's ideas even if they don't think they are very good. Every time they play they try to do something new, which may help explain why they have been so successful.

Anyone who has ever watched a good string quartet in concert will be familiar with the subtly effective way the players communicate—here a raised eyebrow, there a glance or a nearly imperceptible nod. It is almost as though they were a single instrument, not four working in harmony. And at its best, the experience of playing in a quartet can be sublime. In a performance of Beethoven's quartet in A minor, Mr Dusinberre explains: "We were taken far out of ourselves, liberated from the confines of individual personalities as we surrendered to the music, a blissful state." An achievement that makes all the grind worthwhile. ■

Egypt's uprising

# Reading Piketty on the Nile

**The Egyptians: A Radical Story.** By Jack Shenker. *Allen Lane; 528 pages; £15.99*

AFTER nearly three decades in power and 18 days of unrest, it seemed as if Hosni Mubarak was finally ready to relinquish his grip on Egypt. But as the old dictator took to the microphone on the night of February 10th 2011, it became clear that he was not willing to go quite yet. "I am addressing you all from the heart, a father's dialogue with his sons and daughters," he said, before offering a few worthless concessions. Mr Mubarak was merely the latest Egyptian ruler to claim the mantle of national patriarch. For once, the people refused to play the role of deferential children. He resigned the next day.

Jack Shenker, a reporter for the *Guardian*, was in Tahrir Square, the heart of the uprising, as Mr Mubarak lost control of Egypt. What distinguishes his account from others is his presence in the slums, factories and homes where Egyptians first began to question their relationship with rulers who, under the pretence of economic reform, enriched only themselves and a small elite. To many in the West, the hip, young liberals who made up a portion of the protesters in Tahrir are the embodiment of Egypt's uprising. But it was seasoned labourers in obscure cities who struck the first and biggest blows against authoritarian rule.

That is fitting. Over 3,000 years ago the craftsmen of Ramses III, while building the tombs of pharaohs in the Valley of the Kings, laid down their hammers and demanded more food. Labour unrest was so common by the end of Mr Mubarak's reign that it is difficult to mark a turning-point. But Mr Shenker highlights disputes over compensation at the enormous textile plant in Mahalla, a "cauldron of rebellion", in 2006. Nothing exposed the state-labour relationship more than the seating arrangement during talks between the parties. On one side of the table sat the head of the company and local politicians. Next to them was the appointed president of Egypt's official trade-union federation, facing the elected leaders of the striking workers, whom he ostensibly represented.

Most of Egypt's problems can be traced back to the market reforms of its leaders, claims Mr Shenker, who often sounds as if he is quoting passages from Thomas Piketty's "Capital in the Twenty-First Century". Egypt, he laments, suffers from the "deep-rooted international patterns of privileged accumulation and mass dispossession" that are a direct result of neoliberal capitalism. You can hardly blame Mr Shenker for thinking as he does. Facing economic crisis in the early 1990s, Egypt signed on to the standard IMF stabilisation plan that called for cutting budgets, slashing subsidies and privatising public enterprises. Mr Mubarak moved at a breakneck pace, with little regard for average Egyptians, who depended on government handouts. International financial institutions, impressed by the country's strong GDP growth, lauded the president.

But the benefits did not trickle down, and the public became disillusioned. Mr Shenker uses Egypt's woes to discredit neoliberalism, yet he describes vividly how Mr Mubarak's reforms were a fraud, creating only the "façade of competition and pluralism". Egypt replaced public monopolies with private ones, and the story is better understood as an indictment of abusive rent-seeking than of free markets.

Mr Shenker's despair at the economic zeitgeist is matched at least by his hope for the future. "A significant proportion of the Egyptian population no longer think about themselves and about politics in the same way, and are no longer prepared to put up with the old crap," says one of the tired young revolutionaries who fill his book. Western journalists have tried hard to take something—anything—positive away from the failed uprising. In this regard, Mr Shenker is more convincing than most. But for now Abdel-Fattah al-Sisi, the current strongman, has "rebooted" the patriarchy—and been embraced by a large number of Egyptians. "I love Egypt's youth and consider them my children," he says. On the surface, Egypt looks and sounds much as it did before the uprising in 2011. ■

They've had enough of patriarchs and patronising

Classical literature

# Once upon a time

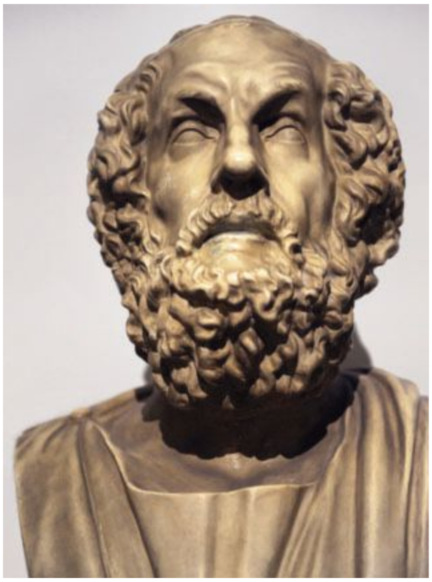
**Beyond Greek: The Beginnings of Latin Literature.** By Denis Feeney. *Harvard University Press; 377 pages; $35 and £25*

IN RECENT years there has been a revival of interest in the classics. Still, things are not what they were. In the 1930s Latin might consume almost half of a 12-year-old boy's lessons at a British private school. Today, university classics courses accept students with little Latin and no Greek.

It takes "a good classics undergraduate" to tell you what every child used to know, that the Minotaur was "the half-brother of Ariadne, and that he was killed by Theseus". With over 120 pages of notes and references, Denis Feeney's study of the beginnings of Latin literature is not designed to attract more first-year students. It is written by the professor of Latin at Princeton University for other academics. However, his bold theme and vigorous writing render "Beyond Greek" of interest to anyone intrigued by the history and literature of the classical world.

With hindsight—since the Romans followed the Greeks, as even today's schoolchildren know—it can seem obvious that the Latin works of Cicero, Virgil and Horace would succeed those of Homer, Sophocles and Aeschylus. Not so, says Mr Feeney. It was "one of the strangest…events in Mediterranean history" that the Romans began producing Greek-style tragedies, comedies and epics before developing a fresh vernacular literature of their own. After all, other powers such as Persia and Egypt, also in contact and conflict with Greece, did nothing of the sort.

It probably started in 240BC when the Ludi Romani, the great annual festival, allowed a Greek play to be staged in Latin ▸▸



Homer, a father of Latin literature

translation. The Romans were no strangers to other cultures. With their defeat of Carthage and emergence as the dominant power, they were confident and suffered no "cultural cringe". But it was the translations, in a Latin metre, of Homer and Attic drama by Livius Andronicus, "not a natural or inevitable thing to happen", that paved the way for later literature. They were helped by Greeks accommodating the rising power. Whereas translators today mostly convert texts into their first language, Livius was a Greek, a native speaker of the source language, and Naevius, who followed him, though born in Italy, had Greek as a childhood language. Only later did it become the norm for a Roman such as Cicero to translate into Latin.

A colonising power tends to impose its language on a subject land. However, for several generations, the relative status of Greek and Latin was in flux: to Romans, "Greek" was both the vernacular of slaves and the classical Attic standard of revered literature. But by the time Ennius, considered the father of Latin poetry, died in 169BC, Latin literature "had achieved escape velocity". Self-assured Roman elites had become happily bilingual and biliterate, and in time this helped them rule a widespread and polyglot empire.

Mr Feeney contrasts the Romans with the Etruscans and the Carthaginians, neither of whom appear to have possessed a literature; and he provides interesting comparisons, for example with Japan's borrowing of Chinese characters, first to write in Chinese and only later adapted to write Japanese. What was astonishing about Ennius's "Annales" is that he superimposed Roman history upon that of the Greeks, "in a Homeric epic written in a language that was not Homer's". By now the growth of Latin literature was as certain as the expansion of Roman power. ■

A neurosurgeon examines his life

## As he lay dying

**When Breath Becomes Air.** By Paul Kalanithi. *Random House; 238 pages; $25. Bodley Head; £12.99*

MANY people avoid discussing death. Doctors face it daily, reading scans blotted by tumours the way others scour market data. But years of training cannot dull the pang when, glancing at a scan and seeing a patient's dim chances, those prospects happen to be his own. Paul Kalanithi died at 37. He had spent years training to be a neurosurgeon; his doctor first ascribed his sharp pains and dwindling frame to the demands of residency. But instead it was cancer, which had spread from his lungs to his spine and liver. Faced with such news, Kalanithi said, a person's understanding of time changes. In his last months of life he chose to become a father. He also chose to write. His essays were published by Stanford University, where he worked, and by the *New York Times*. "When Breath Becomes Air" is a deeper exploration of the themes he raised, less a memoir than a reflection on life and purpose. It is an unusual little book, written by an unusual man.

Kalanithi was a doctor by training and a philosopher by temperament, the type of person who, inspired by Aldous Huxley, used his university-admissions essay to argue that happiness was not the point of life. As a 20-year-old camp counsellor, he read a book called "Death and Philosophy" while using his inert body in a children's game. At university he studied literature, "the richest material for moral reflection", and human biology, for laying out "the most elegant rules of the brain". This was a person obsessed by the way people find meaning.

Kalanithi writes about the small events that are the meat of human experience: his wanderings through the Arizona desert as a boy, his joy at reading Thoreau and Camus, conversations with his wife and the strange sense of normality felt while dissecting a cadaver. At work he faced not intimations of mortality but the constant reality of it. He describes his mild shame when, having abandoned an ice-cream sandwich to treat a dying patient, unsuccessfully, he gingerly reclaims the melting dessert. He writes about what science can explain and "its inability to grasp the most central aspects of human life: hope, fear, love, hate, beauty, envy, honour, weakness, striving, suffering, virtue".

Most interestingly, he writes about language, about the parts of the brain that control it and its centrality to what makes us human. This is an urgent missive, the power of words revered by a man whose words were leaving him. He describes the birth of his daughter movingly—frail, he lay swaddled as his wife laboured beside him—and the soul-filling love for his new baby. This vital book is dedicated to her.

A memoir of the 20th century

## England, my England

**Their Promised Land: My Grandparents in Love and War.** By Ian Buruma. *Penguin Press; 320 pages; $26.95. To be published in Britain by Atlantic Books in March; £18.99*

IAN BURUMA begins his biography of his grandparents Win and Bernard with a recollection of picture-book Christmases in the English countryside. As a child he, his parents and various aunts and uncles would descend upon their Berkshire vicarage to indulge in "a day-long feast of Edwardian gluttony". Later the reader is told that Mr Buruma's grandparents, and almost everyone else present, were Jewish.

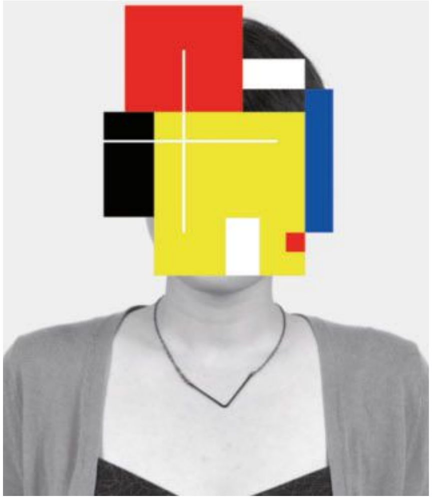
This tension between an Englishness embraced with an immigrant's touching fervour, but also with the immigrant's anxiety, is at the heart of this affectionate, well-told memoir. It is a tension most acutely felt at moments of crisis, when dual loyalties can be hard to maintain. At the end of the first world war, Win wrote to her future fiancé how pleased she was that "the two countries to which we both owe all that we have, are no longer enemies."

A distinguished historian, Mr Buruma approaches his subject with the loving eye of a grandchild and an awareness of the larger forces that shaped their lives. His sensitive portrayal of the immigrant's divided loyalties and divided identity is timely in light of Europe's current struggle with colliding national, religious and ethnic identities. While the Schlesingers' story does not directly parallel today's refugee crisis, it does shed light on the fault-lines that remain even in the most successful of cultural mergings. As Mr Buruma puts it, "a Jew in a society of mostly Gentiles, a Muslim in Europe, a black in a predominantly white country, or a homosexual, especially in places where love of your own sex is unaccepted, is forced to consider his or her place more deeply, to make up his or her own story."

The ability of these Jews to thrive in their adopted land represents something of a storybook ideal. Grandpa Bernard was the rugby-playing, Cambridge-educated son of a prosperous London stockbroker who had emigrated from Germany. Despite battles with persistent anti-Semitism—described euphemistically in letters as "the old, old story"—Bernard became a successful doctor, taking time off from a busy career to serve king and country in two world wars. After marrying his childhood sweetheart, Winifred Regensburg—from an almost identical background—the two embarked on a long, happy life together, filled with more joy than loss, united in love of family and country. Win spells out her creed in a letter written to Bernard in 1940 while he was serving in the Norway campaign. "Next to you," she declared, "I love England more than anything else in the world."

For all their fervent Britishness, they admirably refused to deny their heritage, often at great personal cost. Marking Yom Kippur, Judaism's holiest day, Bernard told Win, "is only a matter of policy on my part in which 'I tell the world', as the Yank would say, that I am by birth a Jew, a Jew still and proud of it too." He maintained this stance even in the face of prejudice that shut him out of many of London's best hospitals. And in 1938, shortly after Kristallnacht, they rescued 12 German-Jewish children, whom Win cared for while Bernard went off to war.

"Their Promised Land" is about love and loyalty, to family and to country, even when that country fails to reward that devotion as fully as it should. As Mr Buruma concludes, "For many Jews, Israel is the ultimate safe haven...This was not true for Bernard and Win...England was their safe haven, England and the Family." ■



Art and the internet

## When new grows old

**Artists working with technology struggle to stay current**

IN 1968 the Institute of Contemporary Arts in London held an exhibition called "Cybernetic Serendipity", Britain's first show exploring connections between art and new technology. It was hugely popular and in hindsight, well timed. It coincided with two crucial developments in the relationship between art and technology: the pop-art movement, which was demolishing boundaries between high art and everyday life, and ARPANET, the computer-to-computer network which would become the internet.

The internet has continued to erode established notions of what qualifies as art, and who can claim to be an artist. New categories flourish: net.art, new media art, the New Aesthetic, internet art, post-internet art. Online-only sales and exhibitions are increasingly common, as is art existing solely in digital form, bought and sold through websites such as Electric Objects (on a mission "to put digital art on a wall in every home"). Successful careers and expensive collections are built using social media, such as Instagram, the image- and video-sharing app that has users posting 80m photographs a day.

"Electronic Superhighway (2016-1966)", a new show at the Whitechapel Gallery in London, looks at how artists have responded to technology and change. The exhibition, which takes its name from a phrase coined in 1974 by Nam June Paik, a video artist, to describe the potential of telecommunication systems, is arranged in reverse chronological order. This calls particular attention to how quickly technologies become obsolete, and how art tied to those forms ages with it.

The first room, which looks at the period from 2000 to 2016, is a cacophony of art made using the technologies and visual language of social media, gaming, 3D printing, computer-generated imaging, browser interfaces and smartphones. In subsequent rooms the technology becomes, like the bulky wall of analogue TV monitors that comprise Paik's "Internet Dream" (1994), nostalgic for older visitors, and a mere historical curiosity for younger ones.

Artists working with technology today are acutely aware that their work is ageing. To reflect—or deflect—the inevitable outdating of their material, some, such as Cory Arcangel or Petra Cortright, use low-tech graphics, outmoded software and retro hardware as an ironic aesthetic. Others take the internet's visual vocabulary to extremes. They include Ryan Trecartin, who populates video and installation work with hyper-real, extravagantly costumed characters; or Camille Henrot, whose film "Grosse Fatigue" layers video clips, photographs and internet screen-grabs over one another as proliferating browser windows.

Harun Farocki, a German film-maker who made "Parallel I-IV" just before he died in 2014, predicted of online culture that "Reality will soon cease to be the standard by which to judge the imperfect image. Instead, the virtual image will become the standard by which to measure the imperfections of reality." Amalia Ulman recently provided a literal illustration of this in a social-media performance piece called "Excellences & Perfections", using her Instagram and Facebook profiles to create a fake approval-seeking persona, and to stage her body having hoax plastic surgery. Douglas Coupland's portraits (of which one is shown above) respond to the automatic face-recognition technology used by security services and Facebook. Geometric shapes in primary colours over their features highlight how, to a computer, a face is just a series of abstractable properties.

"Every large online corporation (Facebook, Twitter, Amazon, eBay) is optimising you," Jonas Lund, an artist, has said. "So why shouldn't an artist also use the same techniques?" His work incorporates analysis of viewer behaviour itself. "VIP (Viewer Improved Painting) 2014" contains an algorithm that creates a fluctuating, abstract composition based on where the viewer looks. In effect handing over the creative prerogative, Mr Lund sardonically gives the same impression as Instagram seeks to give: everyone is an artist. Indeed, it is a problem that plagues the Whitechapel show: it is often difficult to find any sense of individual identities or even real human feeling. Breaking down barriers between technology and art can raise technology to the level of art, but it also risks working the other way round, reducing art to the banality of an algorithm. ■

## Tenders

REPUBLIKA E SHQIPËRISË
MINISTRIA E ENERGJISË DHE INDUSTRISË

**REPUBLIC OF ALBANIA**
**MINISTRY OF ENERGY AND INDUSTRY**

**DEPARTMENT OF CONCESSIONS, PROCUREMENT, EXPROPRIATION AND PRIVATIZATION**

No ._______ Prot., Tirana on ___ / ___ / 2016

### NOTIFICATION OF THE CONTRACT

**Name and address of the contracting authority:** Ministry of Energy and Industry, Boulevard "Dëshmorët e Kombit ", tel. +355 4 2222245.

**Name and address of the person responsible:** Etleva Kondi, Ministry of Energy and Industry, (e-mail: etleva.kondi@energjia.gov.al)

**Type of contracting authority:** Central Institution

**The scope and type of contract:** Granting the concession of hydropower "Poçem" and the type of contract "Work"

**Contract duration:** 35 years

**The location of the contract:** Construction of the hydropower plant with the dam Poçem, on Vjosa tail water (downstream) up to 70 m.a.s.l operation quota (downstream of Kalivac HPP).

**Legal, economic, financial and technical:** In accordance with Appendix 9 of ToR

**Criteria for the selection of the winner:** In accordance with Appendix 10 of ToR

**Deadline for submission of bids:** Within and not later than: Date 17/03/2016, 12:00

**Deadline for opening of bids:** Within and not later than: Date 17/03/2016, 12:00

**Period of validity of bids:** 150 days

**HEAD OF CONTRACTING AUTHORITY**
**DAMIAN GJIKNURI**

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**MANAGING DIRECTOR**

## Appointments

IPSASB®

**Call for Nominations for the IPSASB Consultative Advisory Group**

The International Public Sector Accounting Standards Board® (IPSASB) is seeking individuals, or representatives from organizations, interested in serving as a member of the IPSASB Consultative Advisory Group (CAG). The CAG provides a forum for the IPSASB to consult those interested in, or affected by, the development and maintenance of high-quality International Public Sector Accounting Standards™ (IPSAS™).

The IPSASB is particularly interested in individuals with a background dealing with public sector matters, on behalf of the public-at-large, from a government accountability and decision making perspective, such as a current or former Member of Parliament. The IPSASB also is interested in nominations of users of public sector financial reports and government representatives. Nominations from Africa, Middle East, Asia, and Latin America are encouraged. Individuals nominated should be knowledgeable about IPSASs.

**NOMINATIONS ARE DUE BY FEBRUARY 19, 2016**

CAG members will serve an initial term of three years. The CAG will meet twice a year, for one day prior to the meetings of the IPSASB. The call for nominations is available on the IPSASB website: https://www.ifac.org/publications-resources/call-nominations-ipsasb-consultative-advisory-group.

## Courses

Cambridge Judge Business School

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## Business & Personal

# Economic and financial indicators

## 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* | 2015† | latest | latest | 2015† | rate, % | latest 12 months, $bn | % of GDP 2015† | % of GDP 2015† | 10-year gov't bonds, latest | Feb 3rd | year ago |
| United States | +1.8 Q4 | +0.7 | +2.4 | -1.8 Dec | +0.7 Dec | +0.1 | 5.0 Dec | -456.6 Q3 | -2.5 | -2.6 | 1.87 | - | - |
| China | +6.8 Q4 | +6.6 | +6.9 | +5.9 Dec | +1.6 Dec | +1.5 | 4.1 Q4§ | +275.9 Q3 | +3.0 | -2.7 | 2.75§§ | 6.58 | 6.26 |
| Japan | +1.6 Q3 | +1.0 | +0.6 | -1.6 Dec | +0.2 Dec | +0.7 | 3.3 Dec | +131.5 Nov | +2.8 | -6.8 | 0.08 | 118 | 118 |
| Britain | +1.9 Q4 | +2.0 | +2.2 | +1.0 Nov | +0.2 Dec | nil | 5.1 Oct†† | -134.2 Q3 | -4.3 | -4.4 | 1.69 | 0.69 | 0.66 |
| Canada | +1.2 Q3 | +2.3 | +1.2 | -3.3 Nov | +1.6 Dec | +1.2 | 7.1 Dec | -54.1 Q3 | -3.2 | -1.8 | 1.16 | 1.38 | 1.25 |
| Euro area | +1.6 Q3 | +1.2 | +1.5 | +1.1 Nov | +0.4 Jan | nil | 10.4 Dec | +346.9 Nov | +3.0 | -2.1 | 0.28 | 0.91 | 0.87 |
| Austria | +1.0 Q3 | +1.9 | +0.8 | +2.6 Nov | +1.0 Dec | +0.9 | 5.8 Dec | +10.7 Q3 | +2.2 | -2.1 | 0.60 | 0.91 | 0.87 |
| Belgium | +1.3 Q4 | +1.2 | +1.3 | +1.4 Nov | +1.7 Jan | +0.6 | 7.9 Dec | +1.1 Sep | +0.2 | -2.6 | 0.72 | 0.91 | 0.87 |
| France | +1.3 Q4 | +1.0 | +1.1 | +2.8 Nov | +0.2 Jan | +0.1 | 10.2 Dec | +3.5 Nov‡ | -0.2 | -4.1 | 0.65 | 0.91 | 0.87 |
| Germany | +1.7 Q3 | +1.3 | +1.5 | nil Nov | +0.5 Jan | +0.1 | 6.2 Jan | +279.0 Nov | +8.0 | +0.7 | 0.28 | 0.91 | 0.87 |
| Greece | -0.9 Q3 | -3.5 | +0.5 | +1.9 Nov | -0.2 Dec | -1.1 | 24.5 Oct | -1.1 Nov | +2.5 | -4.1 | 9.46 | 0.91 | 0.87 |
| Italy | +0.8 Q3 | +0.8 | +0.7 | +0.9 Nov | +0.3 Jan | +0.1 | 11.4 Dec | +39.3 Nov | +1.9 | -2.9 | 1.44 | 0.91 | 0.87 |
| Netherlands | +1.9 Q3 | +0.6 | +2.0 | +2.2 Nov | +0.7 Dec | +0.3 | 8.2 Dec | +74.8 Q3 | +10.4 | -1.8 | 0.44 | 0.91 | 0.87 |
| Spain | +3.5 Q4 | +3.2 | +3.2 | +5.8 Nov | -0.3 Jan | -0.6 | 20.8 Dec | +18.6 Nov | +1.1 | -4.4 | 1.69 | 0.91 | 0.87 |
| Czech Republic | +4.1 Q3 | +3.0 | +3.4 | +5.7 Nov | +0.1 Dec | +0.3 | 6.2 Dec§ | +2.0 Q3 | -0.1 | -1.8 | 0.59 | 24.5 | 24.2 |
| Denmark | +0.6 Q3 | -1.8 | +1.4 | +0.2 Nov | +0.5 Dec | +0.5 | 4.5 Dec | +21.3 Nov | +7.1 | -2.9 | 0.58 | 6.75 | 6.50 |
| Norway | +3.0 Q3 | +7.3 | +0.7 | -0.3 Nov | +2.3 Dec | +1.7 | 4.6 Nov‡‡ | +37.3 Q3 | +9.3 | +5.9 | 1.40 | 8.63 | 7.56 |
| Poland | +3.5 Q3 | +3.6 | +3.4 | +6.7 Dec | -0.5 Dec | nil | 9.8 Dec§ | -1.6 Nov | -1.4 | -1.5 | 3.16 | 4.00 | 3.64 |
| Russia | -4.1 Q3 | na | -3.8 | -4.4 Dec | +12.9 Dec | +15.4 | 5.8 Dec§ | +65.8 Q4 | +4.4 | -2.8 | 10.30 | 78.5 | 66.3 |
| Sweden | +3.9 Q3 | +3.4 | +3.3 | +6.2 Nov | +0.1 Dec | nil | 6.7 Dec§ | +31.8 Q3 | +6.3 | -1.2 | 0.59 | 8.47 | 8.24 |
| Switzerland | +0.8 Q3 | -0.1 | +0.8 | -2.8 Q3 | -1.3 Dec | -1.1 | 3.4 Dec | +84.1 Q3 | +9.2 | +0.2 | -0.32 | 1.01 | 0.92 |
| Turkey | +4.0 Q3 | na | +3.4 | +3.6 Nov | +9.6 Jan | +7.3 | 10.5 Oct§ | -34.7 Nov | -4.7 | -1.6 | 10.75 | 2.93 | 2.40 |
| Australia | +2.5 Q3 | +3.8 | +2.3 | +1.9 Q3 | +1.7 Q4 | +1.5 | 5.8 Dec | -49.5 Q3 | -4.3 | -2.4 | 2.52 | 1.41 | 1.30 |
| Hong Kong | +2.3 Q3 | +3.5 | +2.4 | -2.0 Q3 | +2.4 Dec | +3.1 | 3.3 Dec‡‡ | +9.3 Q3 | +2.8 | nil | 1.73 | 7.80 | 7.75 |
| India | +7.4 Q3 | +11.9 | +7.2 | -3.2 Nov | +5.6 Dec | +4.9 | 4.9 2013 | -22.7 Q3 | -1.1 | -3.8 | 7.85 | 68.1 | 61.7 |
| Indonesia | +4.7 Q3 | na | +4.7 | +6.5 Nov | +4.1 Jan | +6.4 | 6.2 Q3§ | -18.4 Q3 | -2.5 | -2.0 | 8.16 | 13,770 | 12,654 |
| Malaysia | +4.7 Q3 | na | +5.4 | +1.9 Nov | +2.7 Dec | +2.5 | 3.2 Nov§ | +7.8 Q3 | +2.5 | -4.0 | 3.95 | 4.22 | 3.63 |
| Pakistan | +5.5 2015** | na | +5.7 | +4.7 Nov | +3.3 Jan | +3.9 | 5.9 2015 | -1.4 Q4 | -0.7 | -5.1 | 9.56††† | 105 | 101 |
| Philippines | +6.3 Q4 | +8.2 | +6.4 | +7.5 Nov | +1.5 Dec | +2.4 | 5.6 Q4§ | +9.6 Sep | +4.1 | -1.9 | 4.17 | 47.9 | 44.1 |
| Singapore | +2.0 Q4 | +5.7 | +2.9 | -7.9 Dec | -0.6 Dec | +0.2 | 1.9 Q4 | +68.6 Q3 | +21.2 | -0.7 | 2.18 | 1.42 | 1.35 |
| South Korea | +3.0 Q4 | +2.3 | +2.6 | -1.9 Dec | +0.8 Jan | +0.7 | 3.2 Dec§ | +106.0 Dec | +7.1 | +0.3 | 1.87 | 1,219 | 1,097 |
| Taiwan | -0.3 Q4 | +3.2 | +3.2 | -6.2 Dec | +0.1 Dec | +0.1 | 3.9 Dec | +77.2 Q3 | +12.8 | -1.0 | 0.89 | 33.6 | 31.5 |
| Thailand | +2.9 Q3 | +4.0 | +3.4 | +1.3 Dec | -0.5 Jan | +0.8 | 0.7 Dec§ | +32.1 Q3 | +2.4 | -2.0 | 2.25 | 35.8 | 32.6 |
| Argentina | +2.3 Q2 | +2.0 | +1.0 | -2.5 Oct | — *** | — | 5.9 Q3§ | -8.3 Q2 | -2.2 | -3.6 | na | 14.1 | 8.65 |
| Brazil | -4.5 Q3 | -6.7 | -3.7 | -11.9 Dec | +10.7 Dec | +9.5 | 6.9 Dec§ | -58.9 Dec | -3.6 | -6.0 | 15.85 | 3.94 | 2.70 |
| Chile | +2.2 Q3 | +1.8 | +2.8 | -3.3 Dec | +4.4 Dec | +3.9 | 5.8 Dec§‡‡ | -2.7 Q3 | -1.2 | -2.2 | 4.47 | 708 | 628 |
| Colombia | +3.2 Q3 | +5.1 | +3.3 | +4.8 Nov | +6.8 Dec | +4.2 | 8.6 Dec§ | -20.8 Q3 | -6.7 | -2.1 | 8.66 | 3,373 | 2,374 |
| Mexico | +2.6 Q3 | +3.0 | +2.4 | +0.1 Nov | +2.1 Dec | +2.7 | 4.4 Dec | -29.9 Q3 | -2.6 | -3.4 | 5.97 | 18.5 | 14.8 |
| Venezuela | -7.1 Q3~ | -4.9 | -4.5 | na | na | +84.1 | 6.0 Dec§ | -17.8 Q3~ | -1.8 | -16.5 | 10.98 | 6.31 | 6.29 |
| Egypt | +4.5 Q2 | na | +4.2 | -10.2 Nov | +11.1 Dec | +10.0 | 12.8 Q3§ | -14.7 Q3 | -1.4 | -11.0 | na | 7.83 | 7.63 |
| Israel | +2.4 Q3 | +2.1 | +3.3 | +2.7 Nov | -1.0 Dec | -0.2 | 5.2 Dec | +12.5 Q3 | +4.9 | -2.8 | 1.83 | 3.95 | 3.89 |
| Saudi Arabia | +3.4 2015 | na | +2.7 | na | +2.3 Dec | +2.7 | 5.7 2014 | -32.6 Q3 | -2.7 | -12.7 | na | 3.75 | 3.75 |
| South Africa | +1.0 Q3 | +0.7 | +1.3 | -1.8 Nov | +5.2 Dec | +4.6 | 25.5 Q3§ | -14.0 Q3 | -4.2 | -3.8 | 9.30 | 16.2 | 11.4 |

Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. ~2014 **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, December 26.85%; year ago 38.48% †††Dollar-denominated bonds.

## Markets

| | Index Feb 3rd | % change on one week | Dec 31st 2014 in local currency | Dec 31st 2014 in $ terms |
|---|---|---|---|---|
| United States (DJIA) | 16,336.7 | +2.5 | -8.3 | -8.3 |
| China (SSEA) | 2,866.4 | +0.1 | -15.4 | -20.3 |
| Japan (Nikkei 225) | 17,191.3 | +0.2 | -1.5 | +0.1 |
| Britain (FTSE 100) | 5,837.1 | -2.6 | -11.1 | -16.8 |
| Canada (S&P TSX) | 12,593.0 | +1.7 | -13.9 | -28.0 |
| Euro area (FTSE Euro 100) | 979.2 | -4.3 | -5.6 | -13.8 |
| Euro area (EURO STOXX 50) | 2,896.6 | -4.8 | -7.9 | -15.9 |
| Austria (ATX) | 2,092.1 | -2.1 | -3.1 | -11.6 |
| Belgium (Bel 20) | 3,375.4 | -2.5 | +2.7 | -6.2 |
| France (CAC 40) | 4,227.0 | -3.5 | -1.1 | -9.7 |
| Germany (DAX)* | 9,434.8 | -4.5 | -3.8 | -12.1 |
| Greece (Athex Comp) | 529.7 | -2.8 | -35.9 | -41.5 |
| Italy (FTSE/MIB) | 17,412.0 | -7.6 | -8.4 | -16.4 |
| Netherlands (AEX) | 416.2 | -1.9 | -1.9 | -10.5 |
| Spain (Madrid SE) | 838.3 | -5.0 | -19.6 | -26.6 |
| Czech Republic (PX) | 886.7 | -1.8 | -6.3 | -12.3 |
| Denmark (OMXCB) | 825.4 | -4.7 | +22.2 | +11.4 |
| Hungary (BUX) | 23,395.7 | -1.6 | +40.7 | +30.3 |
| Norway (OSEAX) | 579.6 | -0.9 | -6.5 | -18.8 |
| Poland (WIG) | 43,630.6 | +0.9 | -15.1 | -24.6 |
| Russia (RTS, $ terms) | 697.0 | -1.1 | +15.4 | -11.9 |
| Sweden (OMXS30) | 1,305.5 | -4.4 | -10.9 | -17.6 |
| Switzerland (SMI) | 8,123.7 | -2.4 | -9.6 | -10.9 |
| Turkey (BIST) | 73,267.4 | +1.7 | -14.5 | -31.8 |
| Australia (All Ord.) | 4,930.8 | -1.4 | -8.5 | -19.7 |
| Hong Kong (Hang Seng) | 18,991.6 | -0.3 | -19.5 | -20.0 |
| India (BSE) | 24,223.3 | -1.1 | -11.9 | -18.4 |
| Indonesia (JSX) | 4,596.1 | +0.3 | -12.1 | -20.9 |
| Malaysia (KLSE) | 1,633.3 | +0.1 | -7.3 | -23.2 |
| Pakistan (KSE) | 32,084.1 | +3.2 | -0.1 | -4.2 |
| Singapore (STI) | 2,550.7 | +0.2 | -24.2 | -29.5 |
| South Korea (KOSPI) | 1,890.7 | -0.4 | -1.3 | -11.0 |
| Taiwan (TWI) | 8,063.0 | +2.7 | -13.4 | -18.5 |
| Thailand (SET) | 1,291.8 | +1.1 | -13.7 | -20.8 |
| Argentina (MERV) | 11,121.4 | +3.1 | +29.6 | -22.4 |
| Brazil (BVSP) | 39,588.8 | +3.2 | -20.8 | -46.6 |
| Chile (IGPA) | 17,700.6 | +0.9 | -6.2 | -19.6 |
| Colombia (IGBC) | 8,610.7 | +2.1 | -26.0 | -47.8 |
| Mexico (IPC) | 43,257.5 | +2.7 | +0.3 | -20.0 |
| Venezuela (IBC) | 14,694.4 | +2.7 | +281 | na |
| Egypt (Case 30) | 6,066.5 | +1.8 | -32.0 | -37.9 |
| Israel (TA-100) | 1,244.2 | -0.4 | -3.5 | -4.9 |
| Saudi Arabia (Tadawul) | 5,927.4 | +4.0 | -28.9 | -28.8 |
| South Africa (JSE AS) | 48,535.5 | +1.3 | -2.5 | -30.4 |

## *The Economist* poll of forecasters, February averages (previous month's, if changed)

| | Real GDP, % change Low/high range 2015 | Low/high range 2016 | average 2015 | average 2016 | Consumer prices % change 2015 | 2016 | Current account % of GDP 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| Australia | 1.9/2.5 | 1.9/3.0 | 2.3 | 2.5 | 1.5 (1.6) | 2.2 (2.4) | -4.3 | -3.9 (-4.0) |
| Brazil | -3.9/-3.2 | -4.2/-2.0 | -3.7 (-3.4) | -2.9 (-2.6) | 9.5 (9.6) | 7.7 (7.4) | -3.6 (-3.7) | -2.7 (-2.9) |
| Britain | 2.1/2.4 | 1.7/2.6 | 2.2 (2.4) | 2.1 (2.2) | nil (0.1) | 0.9 (1.1) | -4.3 (-4.4) | -4.0 |
| Canada | 1.0/1.3 | 1.2/2.3 | 1.2 (1.1) | 1.8 (1.9) | 1.2 | 1.8 | -3.2 (-3.3) | -2.1 (-2.6) |
| China | 6.8/7.0 | 5.8/6.8 | 6.9 | 6.4 | 1.5 | 1.7 | 3.0 | 3.1 (2.9) |
| France | 1.0/1.2 | 1.0/1.6 | 1.1 | 1.3 (1.4) | 0.1 | 0.6 (0.8) | -0.2 (-0.3) | -0.3 |
| Germany | 1.4/1.7 | 1.3/2.0 | 1.5 | 1.7 | 0.1 (0.2) | 0.7 (1.1) | 8.0 (8.1) | 7.6 (7.5) |
| India | 6.0/7.5 | 5.9/7.9 | 7.2 | 7.5 | 4.9 (5.0) | 5.1 (5.2) | -1.1 | -1.2 (-1.3) |
| Italy | 0.6/0.8 | 0.9/1.6 | 0.7 | 1.3 | 0.1 | 0.5 (0.8) | 1.9 | 1.7 |
| Japan | 0.5/0.7 | 0.5/1.7 | 0.6 | 1.1 | 0.7 | 0.6 (0.9) | 2.8 (3.3) | 3.2 (3.4) |
| Russia | -4.3/-3.5 | -2.5/nil | -3.8 | -0.9 (-0.3) | 15.4 (15.3) | 8.2 (8.0) | 4.4 (5.2) | 3.5 (4.9) |
| Spain | 3.1/3.2 | 2.3/3.1 | 3.2 (3.1) | 2.7 | -0.6 | 0.2 (0.7) | 1.1 (1.0) | 1.0 (0.9) |
| United States | 2.4/2.5 | 1.6/2.8 | 2.4 (2.5) | 2.3 (2.4) | 0.1 (0.2) | 1.4 (1.6) | -2.5 | -2.6 |
| Euro area | 1.5/1.6 | 1.3/2.0 | 1.5 | 1.6 (1.7) | nil (0.1) | 0.5 (0.9) | 3.0 | 2.7 |

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

| | Index Feb 3rd | % change on one week | Dec 31st 2014 in local currency | Dec 31st 2014 in $ terms |
|---|---|---|---|---|
| United States (S&P 500) | 1,912.5 | +1.6 | -7.1 | -7.1 |
| United States (NAScomp) | 4,504.2 | +0.8 | -4.9 | -4.9 |
| China (SSEB, $ terms) | 348.5 | +2.1 | +27.1 | +19.8 |
| Japan (Topix) | 1,406.3 | +0.4 | -0.1 | +1.5 |
| Europe (FTSEurofirst 300) | 1,295.7 | -3.4 | -5.3 | -13.5 |
| World, dev'd (MSCI) | 1,540.9 | +0.6 | -9.9 | -9.9 |
| Emerging markets (MSCI) | 721.6 | +0.8 | -24.5 | -24.5 |
| World, all (MSCI) | 369.4 | +0.6 | -11.4 | -11.4 |
| World bonds (Citigroup) | 896.9 | +1.7 | -0.6 | -0.6 |
| EMBI+ (JPMorgan) | 707.3 | +0.4 | +2.2 | +2.2 |
| Hedge funds (HFRX) | 1,138.9§ | +0.1 | -6.5 | -6.5 |
| Volatility, US (VIX) | 21.7 | +23.1 | +19.2 | (levels) |
| CDSs, Eur (iTRAXX)† | 104.5 | +13.5 | +65.9 | +51.5 |
| CDSs, N Am (CDX)† | 107.8 | +2.7 | +63.1 | +63.1 |
| Carbon trading (EU ETS) € | 5.6 | -7.4 | -24.3 | -30.9 |

Sources: Markit; Thomson Reuters. *Total return index. †Credit-default-swap spreads, basis points. §Feb 2nd.

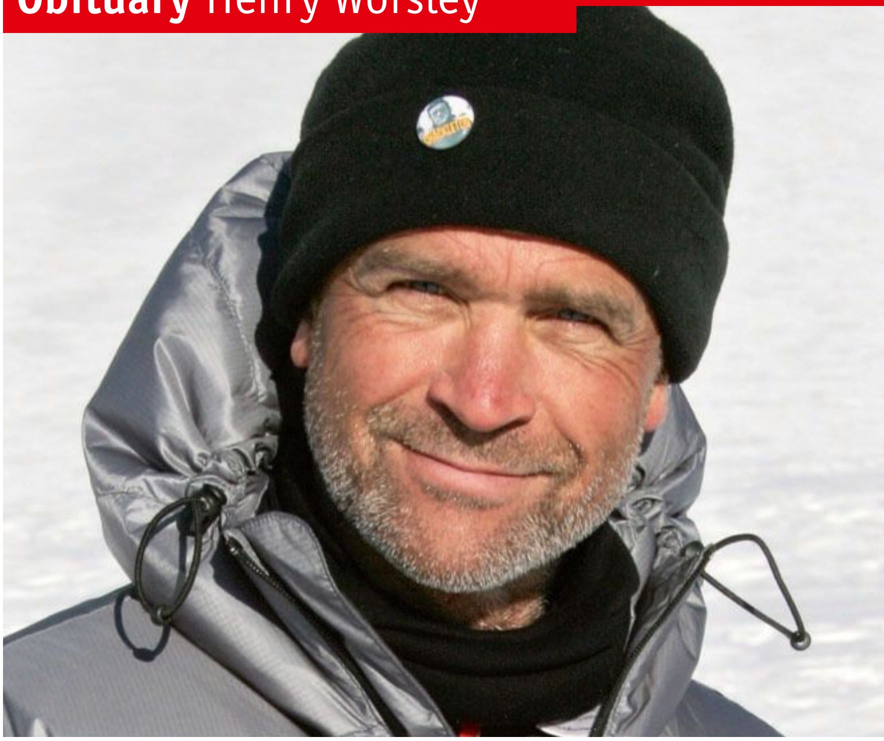
**Indicators** for more countries and additional series, go to: **Economist.com/indicators**

## *The Economist* commodity-price index

2005=100

| | Jan 26th | Feb 2nd* | % change on one month | % change on one year |
|---|---|---|---|---|
| **Dollar Index** | | | | |
| All Items | 123.8 | 125.3 | +0.5 | -13.9 |
| Food | 145.5 | 146.0 | +0.3 | -10.9 |
| Industrials | | | | |
| All | 101.3 | 103.8 | +0.8 | -17.9 |
| Nfa† | 106.4 | 107.0 | -0.9 | -10.2 |
| Metals | 99.2 | 102.4 | +1.6 | -21.0 |
| **Sterling Index** | | | | |
| All items | 157.2 | 158.6 | +2.5 | -9.4 |
| **Euro Index** | | | | |
| All items | 141.9 | 142.9 | -1.1 | -9.5 |
| **Gold** | | | | |
| $ per oz | 1,117.4 | 1,127.0 | +4.6 | -10.4 |
| **West Texas Intermediate** | | | | |
| $ per barrel | 31.3 | 30.0 | -16.4 | -43.1 |

Sources: Bloomberg; CME Group; Cotlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional †Non-food agriculturals.



# In Shackleton's shadow

**Henry Worsley, soldier and Antarctic adventurer, died on January 24th, aged 55**

THE compass did not belong to him. But when he felt it in his trouser pocket—and with every stride of his skis over the Antarctic ice, he felt it—it powered him on. When the light was flat, crevasses lurking and nothing before him but "white darkness", he remained aware of it, his silent companion. If team morale was low in the tent in the evenings, with socks drying at head-height and the winds hurling outside, he would pass it round. It was not much bigger than an old penny, but alive, spinning and jittering, as excited as he was to be so close to the South Pole. For it had been there before, a century earlier. Inside the lid the owner had scratched his initials: EHS, for Ernest Henry Shackleton.

On his three expeditions to Antarctica, in 2008-09, 2011-12 and 2015-16, Henry Worsley went equipped with GPS, video cameras, satellite phones, solar panels, energy bars. No item was more important than the compass. It accompanied him physically only on his first trip, a centenary recreation of Shackleton's march towards the Pole in 1908-09 which, at 88.23°S, he had been forced to abandon for weakness and lack of food. On that journey Colonel Worsley took the compass into Shackleton's hut, from which the trek had started, placing it back among the blankets, boots and golden-syrup tins all perfectly preserved by the dry polar air; and he later also placed it ceremonially at the South Pole, completing what Shackleton had always hoped to do.

Yet there was a Shackleton compass in his head in any case. He collected anything to do with him: books, autographs, cigarette cards. At Grytviken whaling station, in South Georgia, he slept beside his grave. His family gamely encouraged him, accepting that the white continent held him fast. Other loves, such as cricket, paled beside it; even his unusual liking for sewing, which he taught to inmates of Wandsworth prison, seemed part-inspired by the "ditty bags" of needles, buttons and thread that were vital gear on polar expeditions.

**Stirrup of patience**

It was easy to pinpoint when the obsession had started: at prep school, in the library, as he read of the great explorers and stared, with amazement, at Frank Hurley's photographs of Shackleton's ship *Endurance* listing, like the ghost ship in "The Ancient Mariner", among towering pack-ice in the Weddell Sea. That third attempt on the Pole had been abandoned, in 1916, almost before it had begun; a distant relative, Frank Worsley, had been the ship's captain. There lay another reason for the haunting.

For decades, though, he doubted that he was bold enough for the Antarctic. How could he be as decisive as Shackleton, as intrepid and optimistic? Could he, to quote his hero, "Put footstep of courage into stirrup of patience"? Throughout his long and distinguished army career, including commands in Bosnia, "special duties" in Northern Ireland and tours with the SAS in Afghanistan, he would keep comparing himself. Trapped in a café by a violent mob in Bosnia, he psyched himself up for a breakout by asking "What would Shacks do?" Meeting, unarmed, with tribal elders in Helmand to lay the trail for the British army in 2005, he would start by making them laugh at his lamentable Pushtu; Shacks had always believed in the power of laughter. In Afghanistan, camping out in wadis in desert camouflage, he was reading "The Heart of the Antarctic".

As an army officer, he was deeply impressed by Shackleton's leading of his men. Nothing, even reaching the Pole, had meant more to him than their welfare; in return, they had trusted "the Boss" completely. It was in Shackleton's footsteps that "General" Worsley, as his teams called him, insisted on regular hot meals on polar treks and berated himself, as well as them, for idle slips. And the same loyalty to comrades impelled him on his third journey, starting last November, to raise money for "my wounded mates": the soldiers who had not, like him, returned whole from active duty.

That journey he made alone, intending to be the first to pull a 148kg sledge for 1,100 miles right across the continent, unaccompanied and unassisted, in honour of Shackleton's abortive bid a century before. He did not mind being solitary. On his two previous expeditions, both heading for the Pole, he had made a point of wandering off each evening to commune with the land and with ghosts. For he did see ghosts, in that extraordinary, mesmerising panorama of blue ice and white peaks: a pair of snow petrels, which he thought might be Shackleton and Scott, and a solar parhelion that might, perhaps, contain their safeguarding spirits. He imagined his hero murmuring advice beside him.

The Antarctic, though, turned on him as fiercely as it had ever turned on them. Whiteouts blinded him. Storms kept him pinned in his tent. The sheer scale of the challenge began to daunt him. Day by day, his audio diary for his website stayed chirpy; but the selfies showed a face increasingly exhausted. Eventually, like Shackleton with his "astonishing decision" at 88.23°S, he had to admit he had "shot his bolt" and, 30 miles from success, could not go on. Unlike his hero, he left it too late, and died in a Chilean hospital.

In a whiteout, he radioed on Day 24, "one's head is always bent downwards in reverence to the compass." It might have been his epitaph. ■

The Economist Events

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