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JANUARY 30TH—FEBRUARY 5TH 2016

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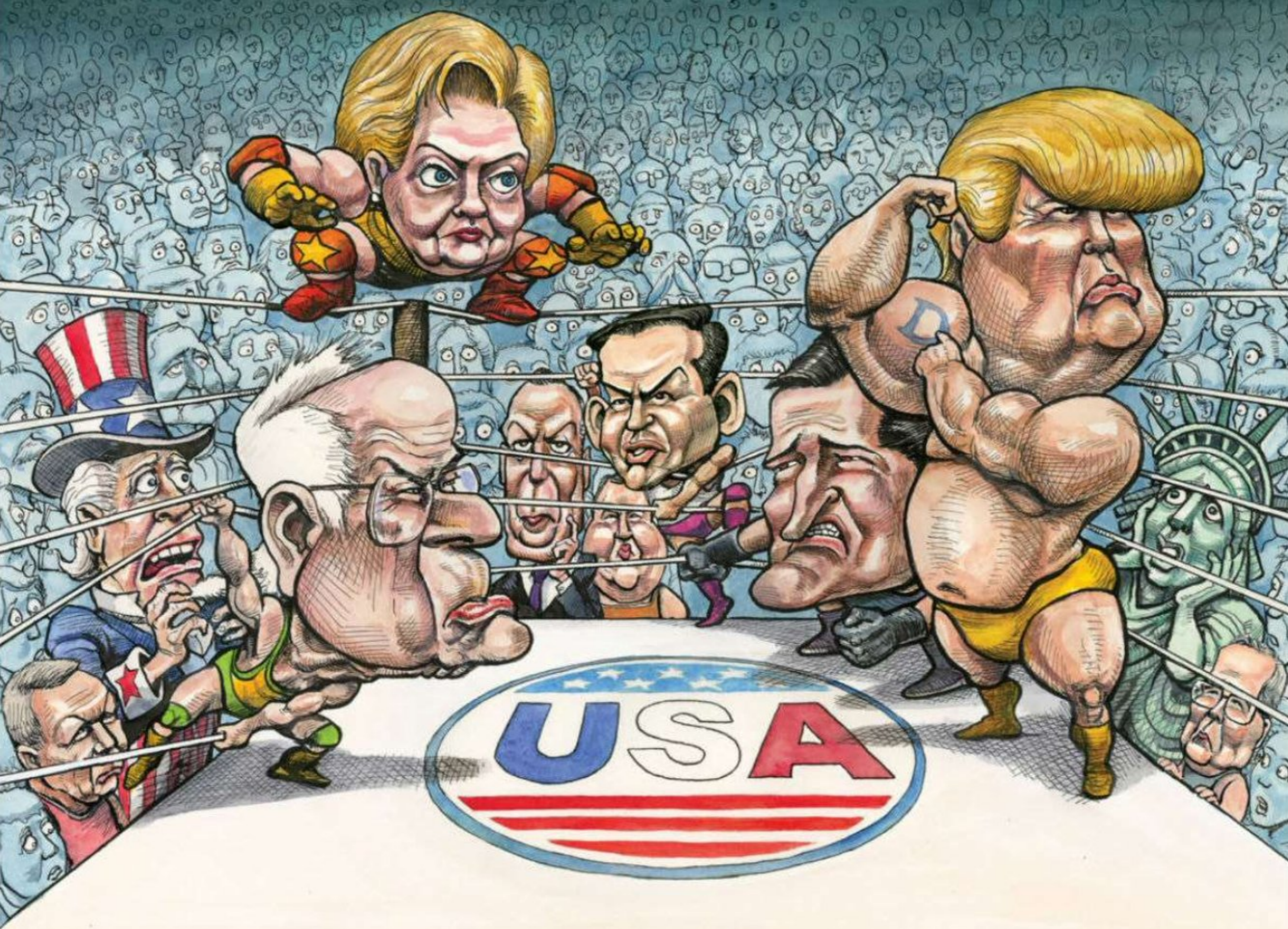
Nigeria: an oil producer on the brink

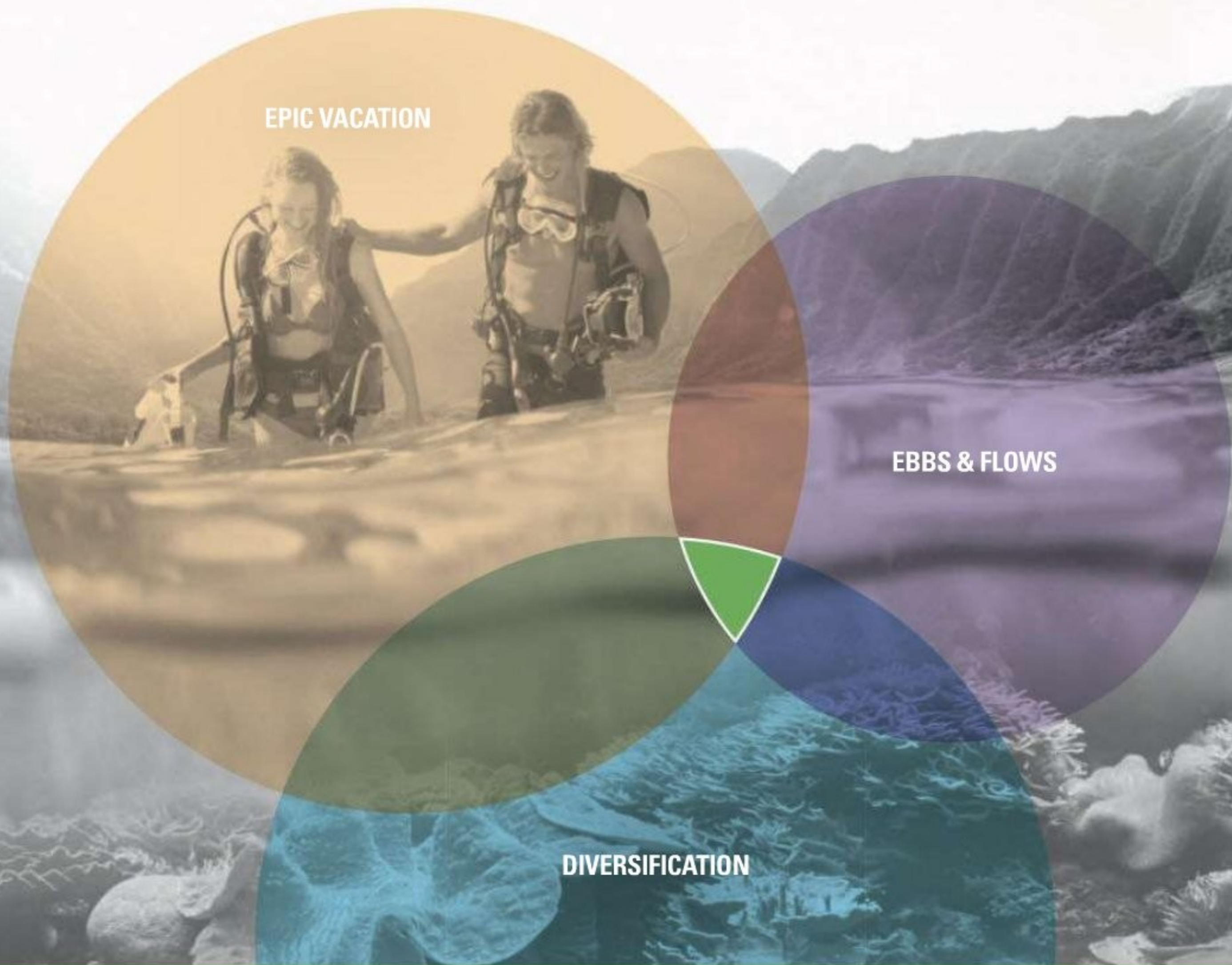
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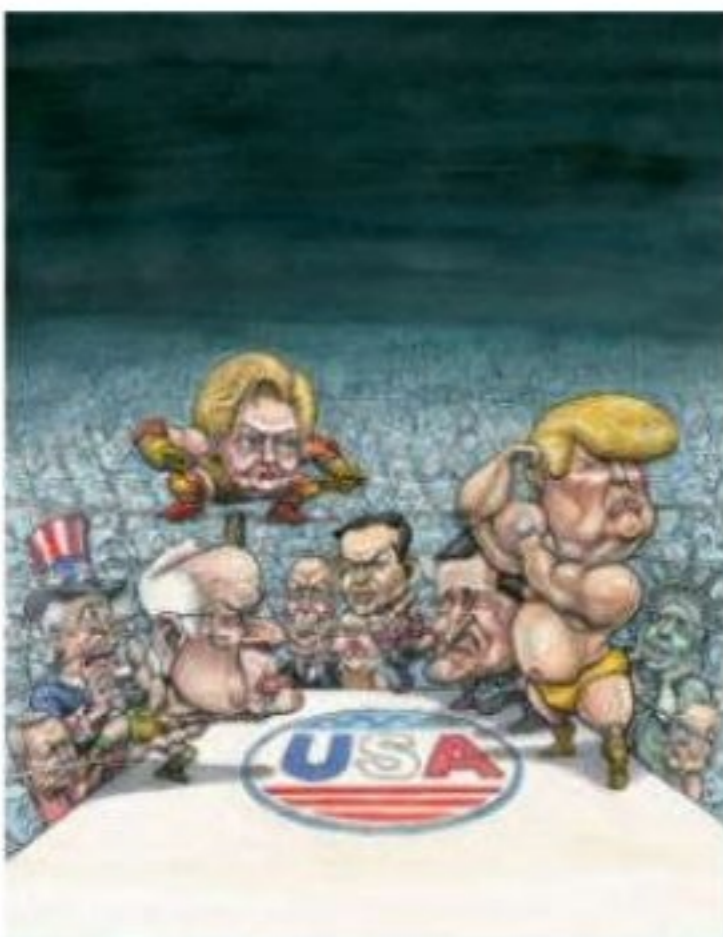
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Politics



Several governments in Latin America and the Caribbean advised women to delay getting pregnant because of an outbreak of Zika, a **mosquito-borne virus** that may cause birth defects in babies of mothers who are infected. The government of El Salvador suggested that women wait until 2018 to get pregnant. Those of Colombia, Ecuador and Jamaica recommended shorter delays. Brazil, which has more cases than any other country, will deploy 220,000 troops to help battle the epidemic.

Venezuela's National Assembly rejected a request by the president, Nicolás Maduro, for emergency powers to deal with an economic crisis caused by a combination of low oil prices and the government's populist policies. The opposition-controlled legislature said that the government already has enough powers to deal with the crisis. The IMF forecast that the economy will shrink by 8% this year and that the inflation rate will be 720%.

The United States further eased restrictions on trade to **Cuba**. The new rules allow American banks to finance exports of all products except farm goods. Sales of products to government agencies will be permitted on a case-by-case basis if they benefit ordinary Cubans.

Harvest doom

The impact of a **drought** across large parts of southern Africa became clearer when South Africa forecast a 25% fall in the harvest of maize, its staple crop. Zimbabwe is likely to be

particularly hard hit after poor crops in 2015. The 2016 harvest is expected to be even smaller and 16% of its population already gets food aid.

A panel of experts at the UN recommended that sanctions should be imposed on the leaders in both sides of **South Sudan's** bloody civil war, now in its third year.

Talks aimed at bringing an end to five years of civil war in **Syria** failed to get under way as planned in Geneva because of arguments about which factions should be invited and whether a ceasefire should precede negotiation. It was hoped that they might start on January 29th.



Iran's president, Hassan Rohani, visited Rome and Paris hoping to drum up investment in his country, newly liberated from nuclear-related sanctions. In Rome, nude statues were covered up to spare Mr Rohani's blushes.

Migration watchers

Greece was criticised by the European Commission for "seriously neglecting" its obligations during the **migration crisis** as a member of the Schengen passport-free area. As a result the commission may advise other EU member states to reintroduce temporary migration controls at their frontiers. Austria and Hungary decided to pre-empt this by tightening their borders.

The Danish government approved a bill which allows policemen to seize valuables worth more than DKr10,000 (\$1,460) from **refugees**, in order to pay for food and accommodation. The measure, which was criticised by

human-rights groups, is similar to ones already in place in the Netherlands, Switzerland and in the state of Bavaria in Germany.

In Chisinau, the capital of **Moldova**, the poorest country in Europe, 20,000 protesters took to the streets to demand the resignation of Pavel Filip, the prime minister. The protests brought together both pro-European and pro-Russian citizens, with both camps complaining of inequality and corruption in the country.

Generation no-change

The Communist Party in **Vietnam** chose not to endorse the hopes of the colourful reformist prime minister, Nguyen Tan Dung, to accede to the post of party chief. Instead, that position remained with the grey incumbent, Nguyen Phu Trong, whose backers ended Mr Dung's political career. Meanwhile, the Communist Party in next-door **Laos** replaced a 79-year-old party head with a 78-year-old. Vietnam's party wants to steer a delicate course between America and China, while that in Laos needs to balance its two biggest neighbours, China and Vietnam. Bold reform will have to wait.



Akira Amari resigned as **Japan's** economy minister, after it was claimed his constituency office had not reported cash it received from a building company seeking favours. He said he had been so busy negotiating Japan's membership of the Trans Pacific Partnership trade deal that he failed to spot wrongdoing by his aide. Mr Amari is a key architect of Shinzo Abe's reform programme; his departure is a setback for Abenomics.

In **Malaysia** the attorney-general found that no laws had been broken when hundreds of millions of dollars were transferred into bank accounts belonging to the prime minister, Najib Razak, supposedly by members of the Saudi royal family. His decision was met with disbelief.

China deported a Swedish civil-rights activist after detaining him amid a sweeping crackdown on dissent. After his arrest, the activist, Peter Dahlin, was shown on Chinese television making a "voluntary" confession to having broken the law by helping unlicensed Chinese lawyers.

During a visit to Beijing (which followed ones to the capitals of Laos and Vietnam), America's secretary of state, John Kerry, and his Chinese counterpart, Wang Yi, agreed on the need for a new UN resolution on **North Korea's** nuclear programme following its test of a nuclear device. But China has not said whether this should include new sanctions, as America wants. Mr Wang warned that a resolution should not provoke tensions.

He's got the money

Rumours swirled that **Michael Bloomberg** might enter the race for the American presidency as an independent. He is apparently worried by Donald Trump's dominance in the Republican race, and also by the rise of Bernie Sanders in the Democratic one. A "Draft Bloomberg" movement tried in 2008 and 2012 to get Mr Bloomberg to run.

Ammon Bundy, a car-fleet manager and anti-government protester who led the armed occupation of a federal wildlife reserve in **Oregon**, was arrested with four other members of his "militia" 50 miles from the reserve. One of his supporters was shot and killed during the arrest. Mr Bundy said he was following "divine" instructions. His antics have doubtless made it less likely that his complaints about federal over-regulation will be heeded. ▶▶

Business

The World Bank reduced its forecast for the average price of a **barrel of oil** this year to \$37, from the \$51 it had projected just last October. In all, price forecasts for 37 of the 46 commodities that the bank monitors were revised lower. The **Federal Reserve** cited concerns about the world economy at its latest meeting, which suggests it is hesitant about raising interest rates again at its March meeting.

The Chinese new fear

China's stockmarkets had another turbulent week, with the Shanghai Composite index falling by 6.4% over one day to its lowest point in more than a year. The central bank injected \$67 billion into the financial system to boost liquidity. It also continued to prop up the yuan, which is under pressure partly because of the large amount of capital that is flowing out of the country. Meanwhile, the government decided to reduce capacity in steelmaking, which could result in 400,000 job losses.

Italy, which has one of the highest rates of non-performing loans in Europe, struck a deal with the European Commission to help its banks sell off their bad debt. The government will provide guarantees to investors who buy the loans. The agreement comes after a dramatic fall in the share prices of **Italian banks** in recent weeks.

Andrew Bailey, who oversees financial stability for the Bank of England, was selected by the government to head Britain's **Financial Conduct Authority**, which regulates banks' behaviour and integrity. His appointment comes after a six-month search for someone to replace Martin Wheatley, who was ousted by the Treasury last summer, in part because of his uncompromising approach towards wrongdoing in the City. Senior bankers generally welcomed Mr Bailey as someone who is tough but fair.

A jury in London found five former brokers not guilty of conspiring with Tom Hayes to manipulate **LIBOR**, the benchmark inter-bank interest rate. Mr Hayes was sentenced to prison last August.

Blasts from the past

JPMorgan Chase paid \$1.4 billion to resolve a claim by Lehman Brothers' creditors that it unnecessarily siphoned liquidity from the investment bank before it collapsed in September 2008. In a separate settlement the bank agreed to pay \$1 billion to Ambac, an insurer, in a dispute over mortgage-backed securities sold by Bear Stearns, a distressed bank that was bought by JPMorgan Chase in a government-backed rescue in March 2008.

American International Group said it would return \$25 billion to shareholders, a move it hopes will rally shareholder support in the face of calls from activist investors, led by Carl Icahn, to split the insurance company in three.

Johnson Controls, a maker of car parts, agreed to merge with **Tyco**, which builds electronic security-systems. The \$20 billion merger will allow Johnson to move its headquarters to Ireland, where Tyco

has relocated its base, in order to lower its tax bill. The American Treasury had introduced rules last year to make such "inversion" deals harder after a political backlash. Tyco, which became entangled in a high-profile corporate scandal in 2002, will lose its name after the acquisition.

In Britain, where the generous tax arrangements enjoyed by multinationals has created a political kerfuffle, **Google** reached an agreement with British tax authorities in which it will pay £130m (\$186m) in back taxes. This came after a lengthy investigation into whether the internet giant had coughed up all the taxes it should have over the past decade. The inquiry found that Google had not evaded tax, but critics allege that the deal was still too generous to the tech firm.

Facebook posted a quarterly profit of over \$1 billion for the first time on the back of strong revenues from its ads on mobile devices.

DeepMind, a secretive **artificial-intelligence** company acquired by Google for \$400m in 2014, announced that it had hit an AI milestone by developing a computer that can beat

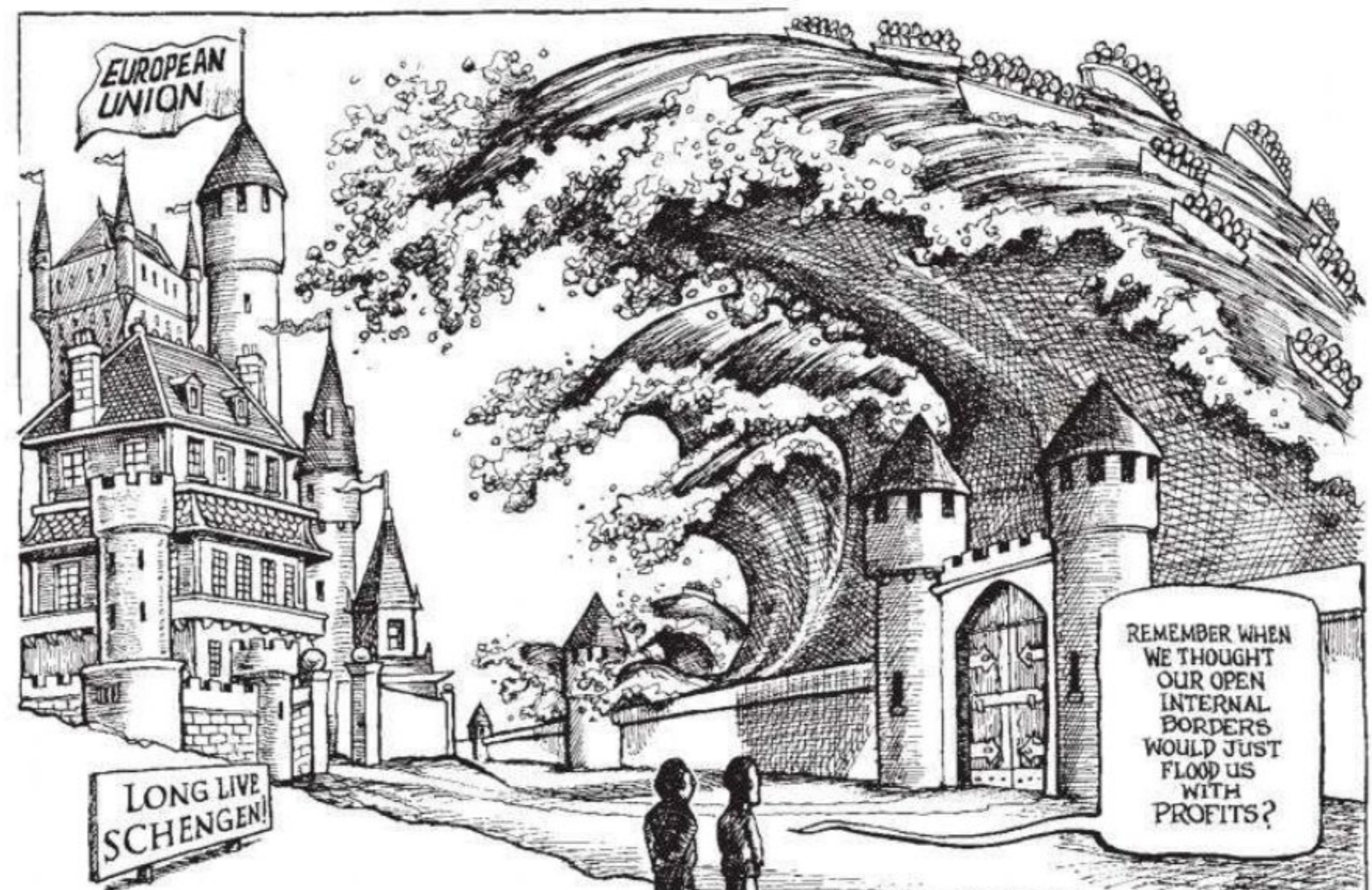
the best humans at Go, a complicated board game of East Asian origin. Such a feat had not been expected for years.

Sorry, wrong number



Apple warned that it expects sharply slower sales of the iPhone, which accounts for two-thirds of its revenues, in the current quarter. It blamed currency fluctuations, uncertainties in the global market and a sluggish China, its biggest market. Sales of iPhones were flat in the last three months of 2015 compared with the same quarter in 2014, and it shifted 25% fewer iPads. Still, its quarterly profit of \$18.4 billion was the biggest to date for any listed company. Commenting on the global outlook, Tim Cook, Apple's chief executive, said the situation is "dramatically different" from a year ago.

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



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The brawl begins

Marvel at the jaw-dropping spectacle. Then worry. American politics has taken a dangerous turn



THE muscle-bound rivals have entered the ring. The verbals are at fever pitch. On February 1st Iowans will caucus in the opening round of America's presidential tussle. Just over a week later, voters will gather in New Hampshire. From there the contest will move on towards Super Tuesday on March 1st, and beyond that to the conventions in July. It is the world's greatest electoral tournament. It is not going to plan.

Across America, political elites and moderate voters are in a state of disbelief. Hillary Clinton, as much part of the establishment as the Washington Monument, is under pressure from Bernie Sanders, a crotchety senator from Vermont who calls himself a democratic socialist. The sensible squad on the right—"Jeb!" Bush, Marco Rubio, John Kasich et al—have been impaled by the gimlet gibes of Ted Cruz and swamped by the sprawling, tumultuous diatribes of Donald Trump.

The choice was supposed to be between a Bush and a Clinton—more a coronation than an election. Instead, the race for the world's most powerful office has been more dramatically upended by outsiders than any presidential campaign in the past half-century. America, what on earth is going on?

Bigger and brasher

The United States is not the only country where the establishment is on the ropes. Britain's Labour Party is in thrall to a man well to the left of Mr Sanders. In the first round of France's recent regional elections, the far-right National Front won the largest vote. Populists are leading the polls in the Netherlands and running the government in Poland and Hungary. In politically correct Sweden, nativists are polling at 30%.

Like voters across the West, Americans are angry—often for the same reasons. For years a majority of them have been telling pollsters that the country is heading in the wrong direction. Median wages have stagnated even as incomes at the top have soared. Cultural fears compound economic ones: in 2015 a Pew poll found that white Christians had become a minority in America. And in recent months, fears of terrorism have added a menacing ingredient to the populist brew (see [pages 18-20](#)).

Though the trends are common, populism in America is especially potent. Europe has grown used to relative decline. As the sole superpower, America has smarted at the rise of China and the spread of jihadism from parts of the Middle East that it had poured blood and treasure into trying to pacify. When Mr Trump promises to "Make America great again" and Mr Cruz vows that the sand of Iraq and Syria will "glow in the dark", they are harking back to a moment, after the fall of the Soviet Union, when America enjoyed untrammelled power.

A second reason is that, in America, outsiders channel popular anger into a political duopoly. In Europe Mr Trump and Mr Sanders would have their own protest parties, which inevitably struggle to win high office. In contrast, America's two-party system sucked in Mr Sanders, who joined the Democrats last year, and Mr Trump, who rejoined the Republicans in 2009. If

they win the primaries, they will control political machines designed to catapult them into the White House.

And a third, related, explanation is that elites cannot easily manage America's raucous democracy. Populist insurgencies are written into the source code of a polity that began as a revolt against a distant, high-handed elite. The electoral college devolves power from the centre. Primaries attract the 20% of eligible voters most fired up by politics. Candidates with money behind them—his own in the case of Mr Trump, someone else's for Mr Cruz—can sneer at their party's high command.

Hence populists and anti-establishment candidates make frequent appearances in American presidential races. But as the thrilling spectacle runs its course and voters reluctantly compromise with reality, they tend to fade. That usually happens early (Pat Buchanan, a Republican firebrand who promised a "pitchfork rebellion" in 1996, won the New Hampshire primary, but was out of the race by the end of March). On the rare occasion when insurgents win the nomination, they have collapsed at the general election: Barry Goldwater lost 44 of 50 states in 1964. Those who stand as independents (as Ross Perot did in 1992) have also failed—which would not bode well for a self-financing candidate like Michael Bloomberg.

For the Democrats, history is likely to be repeated in 2016. Even if he wins Iowa and New Hampshire, it is hard to see Mr Sanders thriving as the race moves to the delegate-heavy South. Mrs Clinton has money, experience and support from black Democrats. National polls put her 15 points ahead.

But this time really could be different for Republicans. Goldwater's surge came late; Mr Trump has mesmerised crowds, and been rewarded in the polls since July. Some Republican grandees who detest Mr Cruz even more than they despise Mr Trump have fallen in behind the billionaire. Perhaps on the day people won't turn up for either man; perhaps the two of them will throw enough vitriol to destroy each other; perhaps what is left of Mr Bush's \$100m war chest will leave the elite time to mount a counter-attack. As of now, both populists have a chance of taking the fight to the convention and even, barring a backroom establishment deal, of winning the nomination.

The 50:50 nation

That prospect worries this newspaper. Neither Mr Trump nor Mr Cruz offers coherent economics or wise policy. Neither passes the test of character. Yet, merely by being on the ballot in November either would come close to the presidency.

General elections have become 50:50 affairs, determined by a few votes in a handful of states. Mrs Clinton is not a good campaigner; Mr Trump and Mr Cruz are. In so far as he has policies, Mr Trump borrows freely from right and left. He could win votes by tacking brazenly to the centre. In a close race, a terrorist attack or a scandal near polling day could be decisive.

Pessimism about America is misplaced. The economy is in better shape than that of any other big, rich country; unemployment is low; so is violent crime. But mainstream Republicans have pilloried Barack Obama with such abandon that they are struggling to answer Mr Trump and Mr Cruz. If anyone should regret the spectacle about to unfold, it is they. ■

Nigeria's economy

Hope the naira falls

President Muhammadu Buhari is repeating an economic error he made as dictator 20 years ago



“GIVE me lucky generals,” Napoleon is supposed to have said, preferring them to talented ones. Muhammadu Buhari, a former general, has not had much luck when it comes to the oil price. Between 1983 and 1985 he was Nigeria’s military

ruler. Just before he took over, oil prices began a lengthy collapse; the country’s export earnings fell by more than half. The economy went into a deep recession and Mr Buhari, unable to cope, was overthrown in a coup.

Now he is president again. (He won a fair election last year against a woeful opponent; *The Economist* endorsed him.) And once again, oil prices have slumped, from \$64 a barrel on the day he was sworn in to \$32 eight months later. Growth probably fell by half in 2015, from 6.3% to little more than 3% (see [page 39](#)). Oil accounts for 70% of the government’s revenues and 95% of export earnings. The government deficit will widen this year to about 3.5% of GDP. The currency, the naira, is under pressure. The central bank insists on an exchange rate of 197-199 naira to the dollar. On the black market, dollars sell for 300 naira or more.

Instead of letting the naira depreciate to reflect the country’s loss of purchasing power, Mr Buhari’s government is trying to keep it aloft. The central bank has restricted the supply of dollars and banned the import of a long list of goods, from shovels and rice to toothpicks. It hopes that this will maintain reserves and stimulate domestic production.

When the currency is devalued, all imports become more expensive. But under Mr Buhari’s system the restrictions on imports are by government fiat. Factory bosses complain they cannot import raw materials such as chemicals and fret that, if this continues, they may have to shut down. Many have

turned to the black market to obtain dollars, and are doubtless smuggling in some of the goods that have been banned.

Nigerians have heard this tune before. Indeed, Mr Buhari tried something similar the last time he was president. Then, as now, he resisted what he called the “bitter pill” of devaluation. When, as a result, foreign currency ran short, he rationed it and slashed imports by more than half. When Nigerians turned to the black market he sealed the country’s borders. When unemployment surged he expelled 700,000 migrants.

Barking orders at markets did not work then, and it will not work now. Mr Buhari is right that devaluation will lead to inflation—as it has in other commodity exporters. But Nigeria’s policy of limiting imports and creating scarcity will be even more inflationary. A weaker currency would spur domestic production more than import bans can and, in the long run, hurt consumers less. The country needs foreign capital to finance its deficits but, under today’s policies, it will struggle to get any. Foreign investors assume that any Nigerian asset they buy in naira now will cost less later, after the currency has devalued. So they wait.

Those who fail to learn from history...

Mr Buhari’s tenure has in some ways been impressive. He has restored a semblance of security to swathes of northern Nigeria that were overrun by schoolgirl-abducting jihadists. He has won some early battles against corruption. Some of his economic policies are sound, too. He has indicated that he will stop subsidising fuel and selling it at below-market prices. This is brave, since the subsidies are popular, even though they have been a disaster (the cheap fuel was often sold abroad and petrol stations frequently ran dry). If Mr Buhari can find the courage to let fuel cost what the market says it should, why not the currency, too? You can forgive the general for being unlucky; but not for failing to learn from past mistakes. ■

Foreign students

Train ’em up. Kick ’em out

Shrewd governments welcome foreign students. Stupid ones block and expel them



YOUNGSTERS have long crossed borders in search of an education. More than 2,000 years ago the Roman poet Horace went to Athens to join Plato’s Academy. Oxford University admitted its first known international student, Emo of Friesland, in 1190. Today more than 4.5m students are enrolled in colleges and universities outside their own countries (see [page 51](#)). Their fees subsidise local students. Their ideas broaden and enliven classroom debate. Most go home with happy memories and valuable contacts, making them more likely in

later life to do business with the country where they studied. Those who stay on use what they have learned to make themselves and their hosts wealthier, by finding work as doctors, engineers or in some other skilled career.

Immigration policy is hard: Europe is tying itself in knots over how many Syrian refugees to admit. But the question of whether to welcome foreign students ought to be much easier. They more than pay their way. They add to the host country’s collective brainpower. And they are easy to assimilate. Indeed, for ageing rich countries seeking to import young workers to plug skills gaps and prop up wobbly pension systems, they are ideal. A foreign graduate from a local university is likely to be well-qualified, fluent in the local lingo and at ease with local ►►

▶ customs. Countries should be vying to attract such people.

Places with the good fortune to speak English have a gigantic head start. Australia is the leader: a quarter of its tertiary students come from abroad, a bigger share than in any other country. Education is now its biggest export, after natural resources. For a while the influx of brainy foreigners was slowed by an overvalued currency and the reputational damage from the collapse of some badly run private colleges. But recently the Australian dollar has weakened, degree mills have been shut down, visa rules have been relaxed—and foreign students have flooded back. Last year their numbers rose by 10%.

Canada, until recently an also-ran, now emulates Oz. In 2014 it set a goal of almost doubling the number of foreign students by 2022. It has streamlined visa applications and given international students the right to stay and work for up to three years after graduating. Those who want to make Canada their home have a good chance of being granted permanent residence. Its share of the market for footloose students is growing, and numbers have more than doubled in a decade.

America, by contrast, is horribly complacent. In absolute terms, it attracts the most foreign students, thanks to its size, its outstanding universities and the lure of Silicon Valley and other brainworking hotspots. But it punches far below its weight: only 5% of the students on its campuses are foreign. Its visa rules are needlessly strict and stress keeping out terrorists rather than wooing talent. It is hard for students to work, either part-time while studying or for a year or two after graduation.

The government wants to extend a scheme that allows those with science and technology qualifications to stay for up to 29 months after graduating. But unions oppose it, claiming that foreign students undercut their members' wages. One that represents high-tech workers in Washington state has filed a court challenge, seeking to have the scheme axed.

The self-harming state

Britain is even more reckless. It, too, has the huge advantages of famous universities and the English language. But its government has pledged to reduce net immigration to 100,000 people a year, and to this end it is squeezing students. Applying for a student visa has grown slower and costlier. Working part-time to pay fees is harder. And foreign students no longer have the right to stay and work for two years after graduation. Britain's universities are losing market share: their foreign enrolments are flat even as their main rivals' are growing strongly.

Sajid Javid, Britain's business secretary, says the aim is to "break the link" between studying and immigration. This is precisely the wrong approach. For a country that wants to recruit talented, productive immigrants, it is hard to think of a better sifting process than a university education. Welcoming foreign students is a policy that costs less than nothing in the short term and brings huge rewards in the long term. Hence the bafflement of James Dyson, a billionaire inventor, who summed up Britain's policy thus: "Train 'em up. Kick 'em out. It's a bit shortsighted, isn't it?" ■

Corporate tax

Going after Google

Britain's tax men struck a poor deal. But the real problem lies with flawed international corporate-tax rules



IT WAS meant to win plaudits for clawing more money out of cunning, tax-shy multinationals. Instead, a deal between Google and the British government, in which the tech giant will pay £130m (\$185m) in back taxes covering a ten-year period, has attracted only opprobrium.

Critics at home and abroad argue that Google has got off lightly. On the European mainland, for example, suspected corporate tax-dodgers face raids and whopping demands: France wants €500m (\$550m) or more from Google. Apple could be on the hook for \$8 billion if the European Commission, which is investigating its Irish operations, concludes that it got a cushy deal from the Emerald Isle. Britain may well have been too generous to Google. But the bigger problem with the deal is what it says about international efforts to crack down on corporate-tax avoidance.

Nineteen for me, one for you

Corporate taxes are a poor way to raise revenue. Since the burden is ultimately borne by people, whether investors, workers or consumers, it would, in theory, be more efficient to tax them directly. But abolishing corporate levies would create its own problems (see [page 63](#)). In poor countries with large informal sectors, big companies are a rare source of reliable tax revenue.

In rich countries, wealthy people would doubtless turn themselves into companies to avoid income taxes. For policymakers, therefore, the priority is to make corporate taxes less distorting and less easy to avoid.

The rules governing the taxation of multinationals are a threadbare patchwork of national laws and bilateral treaties, dating back almost a century and designed for an age of manufacturing, not multimedia. They grow ever more gameable with the spread of e-commerce and companies' increasing reliance on intangible intellectual property (IP). Technology and drug firms, for instance, routinely move their IP to subsidiaries in tax havens, which can then manipulate the fees they charge other parts of the group for access to it in order to suck their profits into the lower-tax country.

These manoeuvres may be legal, but their goal is tax avoidance, often in a way that flouts the spirit of the law. In an era of austerity, that offends the public mood, which is why governments around the world are being pressed to implement dozens of anti-avoidance measures proposed last year by the OECD, a club of mainly rich countries. Many of these measures make sense. They seek to tie tax more closely to economic activity and also to limit some arcane but hugely profitable tricks, such as using internal loans to claim tax deductions. Progress at the OECD is spurring action: indeed, as part of its deal with British tax authorities, Google has agreed to pay tax in future on a chunk of its sales to British advertisers.

The problem is that the OECD approach maintains a da- ▶▶

► maging fiction which is ingrained in the current system: that a multinational can be seen as a cluster of separate companies to be treated as if they are trading with each other at arm's length. The "transfer pricing" rules that police this system are complex and flawed. Keeping this approach, but toughening up the policing, means creating yet more rules—and loopholes.

Better to think of each firm as a single entity. Then countries could either agree to share the tax on companies' worldwide profits according to a formula that takes account of their sales, employees, assets and so on; or allow the entire worldwide profits to be taxed by the home country, with a tax-credit mechanism for countries where the work actually goes on or revenue is earned—but, crucially, not brass-plate jurisdictions—in order to avoid double taxation. In both cases, the incentives and opportunities to move profits into tax havens would be greatly reduced.

Instead of this unitary approach, however, the patchwork persists, and with it the likelihood of unco-ordinated national tax policies. This is the context in which Google and the British government forged their deal. The bill presented to the company looks from the outside like a sweetheart deal, but it is impossible to be sure because you cannot know how it was calculated. This lack of transparency will do nothing to increase public confidence that tax avoidance is being curbed. Nor, in the long run, will the Google approach help multinationals. If a lot of countries go their own way, at their own pace, the result could be tax chaos, a bloody battle over countries' taxing rights in which overlapping claims cause the pendulum to swing back from under- to over-taxation.

Tax diplomacy, like politics, is the art of the possible. But failing to push harder for a radical overhaul, at a time when the planets were aligned for change, looks like a costly mistake. ■

The Zika virus

Let us spray

Don't panic. Kill mosquitoes



PANDEMICS make for good horror films. Few things are scarier than a dangerous, incurable new disease that spreads quickly. And globalisation means that plagues can travel far, wide and terrifyingly fast. Diseases such as HIV/AIDS,

SARS, West Nile virus and Ebola fever were born in places as varied as African jungles and Chinese poultry markets. Then they broke out to spread panic around the world.

The newest horror is Zika (see [page 29](#)). This mosquito-borne virus, which originated in Africa, was spotted in Brazil last year. It is now moving across Latin America and the Caribbean, with cases in more than 20 countries. Originally, it was thought to cause little worse than a rash and fever. Now, propelling the disease into the realm of nightmares, doctors suspect that when pregnant women catch it, their babies may be permanently damaged. Zika is the prime suspect for a sharp increase in the number of babies with microcephaly in Brazil. Children are born with abnormally small heads and are likely to be brain-damaged. They may suffer severe learning difficulties, seizures and other problems. Many will die young.

Scientists are trying to confirm the link between Zika and microcephaly. Some suspect that the virus may also occasionally cause serious damage to nerves and the immune system in infected adults. Though a mosquito bite is the main way to catch it, there are fears that it can also be transmitted sexually. Are the risks so high that countries lucky enough to be free of it should advise their citizens to stay away from those known to have it? Will it sweep through entire populations, creating herd immunity? And if so, should women try to avoid getting pregnant until that happens, as governments in some Latin American countries have advised?

Zika has no cure and a vaccine will not be available for at least a decade. But that is no cause for despair—nor for governments to scare women into not having babies. Two things are known for certain. The first is that the main, possibly only,

transmission route is via mosquitoes, which pick up the virus from infected people and pass it on when the pests next take a meal. The second is how to cut the number of mosquitoes—and preferably eradicate them.

The idea of fighting mosquitoes has a long history. *Aedes aegypti*, the species that carries not only Zika but dengue, chikungunya and yellow fever, was almost eliminated from much of South America by the early 1960s, after a long anti-dengue campaign. The insects were killed with frequent fumigation. Health workers visited households to urge people to mop up standing water, where mosquitoes breed. But some countries slackened their efforts too soon. After the number of cases fell, politicians' attention waned. And the mosquitoes returned in their buzzing billions.

Biting back

That campaign was led by the American regional branch of the World Health Organisation. It now needs to rally governments for a new push. Brazil is mobilising its armed forces for a nationwide door-to-door information campaign; other affected countries should do likewise. In poorer countries, donors could pay for ad campaigns, new health workers, insect repellents, insecticides and bed nets. If reservoirs of the virus are not to remain, ready to re-emerge, action is needed across the territory where Zika is at large and also in places, such as the subtropical parts of the United States on the Gulf of Mexico, where it is sure soon to arrive.

Research into novel ways to kill mosquitoes also deserves more funding. Genetic modification, which produces mosquitoes that are sterile but still attractive to other mosquitoes, shows promise. A trial in Brazil suggests that releasing swarms of modified insects can reduce the unmodified population in months.

All this will be pricey. But it would bring not one, but several, dread diseases under control. *Aedes aegypti* does not carry malaria, but the methods used to kill it will also kill *Anopheles*, which does. The moment has come again to take the fight to the mosquitoes—and this time to finish the job. ■

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Cultural dissonance

Ayaan Hirsi Ali has long and rightly complained of the West's dual standards in the way it regards the Muslim mistreatment of women. By highlighting the issue as one affecting "European women", you are reinforcing that hypocrisy ("Migrant men and European women", January 16th). The most basic research into what happens inside Muslim communities—within Europe as well as outside—reveals a pattern of discrimination, physical and sexual abuse, and general misogyny that Western women (and hopefully men) would find intolerable.

The *Economist* appears to have an *idée fixe* that immigration is a universal good, regardless of origin and consequences and holds pious hopes that work, time and education will promote integrated communities. Unfortunately, evidence is that even some second- and third-generation immigrants have not integrated successfully: the persistence of FGM; "honour-killing" and forced marriages; the support of terrorism at home and overseas; electoral fraud and malpractice in strongly immigrant areas; all suggest a significant, systemic failure.

Kipling's line that "East is East, and West is West and never the twain shall meet" may well be a good starting point for policy. Require all citizens—prospective, newly arrived or settled—to embrace the values of a modern, liberal democracy and for those who won't, show them the door.

SIMON DIGGINS

Rickmansworth, Hertfordshire

You ask where the migrants from the Middle East and Africa should go if they can't come to Europe. Surely they should be settled somewhere near their countries so that they can easily return home again one day? Turkey, Lebanon and Jordan have already taken in 4m migrants, four times more than Europe.

If there was trouble in my country, I would not want to go far away and settle among

people with an utterly different culture. Most of the 800,000 Kosovars who fled their country during the war with Serbia went home when the war was over. The Palestinians are still near their country, waiting to go home. I admire their steadfastness and hope that one day the Israelis will abandon Zionism like the South Africans abandoned apartheid, and allow the Palestinians to return home.

MIKAEL GRUT

*London, England***Family values**

The real reason that local, family-owned stores in India are thriving in the face of modern retail chains is because families do not reckon the opportunity cost of the property they occupy ("Local Heroes", January 16th). They either own the real estate or are paying a decades old, peppercorn rent protected by rent laws.

As the chairman of the board of directors of a modern retail chain, I asked many such family patriarchs if they had considered this. The majority felt they owed it to their forebears from whom they had inherited the store to keep it going. Additionally, if it were to shut, they would lose their standing in their community. So until their progeny undergo a course in economics, you will continue to see the *kiranas* beat up the newfangled, tablet-wielding entrepreneurs.

NAWSHIR MIRZA

*Mumbai, India***The Labour Party**

Bagehot is right to point out that the 230 Labour MPs in the House of Commons represent a much bigger and wider constituency than Jeremy Corbyn's self-selected non-parliamentary supporters, who are accountable to no one but themselves (January 16th).

But he is wrong to suggest that the moderate MPs should form a new "social democratic party". They have absolutely no need to: all they need do is declare that the leadership of the Labour Party is entirely in

the gift of members of the parliamentary party. They should then proceed to elect their own leader and return Mr Corbyn to the backbenches where he performed with such notable lack of distinction for more than 30 years.

This assertion of their undoubted rights as elected lawmakers will no doubt send Mr Corbyn's ragbag of political nutters even madder than they already are. It will also set off all sorts of show-trials, expulsions and deselections. In that event, the parliamentary Labour Party should simply endorse its own candidates for all constituencies. But in no circumstances should it relinquish its claim to be the real Labour Party which many millions of British voters support.

MICHAEL EGAN

Former Treasurer of New South Wales

*Surry Hills, Australia***Catalonian politics**

When the new president of Catalonia, Carles Puigdemont, quoted a Catalan journalist, Carles Rahola, who was executed under Francisco Franco's dictatorship saying "the invaders will be expelled from Catalonia", he was not referring to the Spanish government, as you incorrectly reported ("Rebel, Rebel", January 16th), but to the German and Italian fascist army that air-bombed Catalan cities during the Spanish civil war.

Mr Puigdemont explained when he was sworn in before the Catalan parliament on January 10th how his use of the quote, at a memorial service in 2013, had been distorted and he was in fact using the reference to illustrate that the

clutch of fascism doesn't loom over Catalan lives any more.

JOSEP SUÁREZ

Head of the delegation of the Catalan government to the United Kingdom and Ireland
*London***Another level**

I found your conclusion on the future of European clubbing disheartening ("Less than ecstatic", January 9th). The most demoralising part comes from the overwhelming statistical data illustrating a decline in the number of European venues. Nightlife is fundamental to the eclectic mixture of urban identity. It offers release, an ability to evade the realities of everyday existence.

The case for the possibility of festivals overtaking clubbing is compelling. The rise in the number of festival-goers each summer arguably doesn't have an inversely proportional effect on the allure of dark, grungy club scenes. No matter how financially compelling the economies of scale of big festivals are, there are DJs intent on returning to and retaining the urban scenes from which they came. This gives one hope. Councils may be able to close and regulate the buildings themselves, but the 24-hour party people are here to stay.

JOSEPH MILLARD

*London***Ageing gracefully**

As one of the octogenarians who "fiddles with my hearing aid and takes afternoon naps" ("Three wise men", January 9th), I wonder what the age limit is in order to avoid being ridiculed by your young reporters?

Wasn't it Tom Lehrer who wrote the song: "Make-fun-of-the-handicapped-week"?

HANS ROTHENBORG

Hellerup, Denmark ■

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James's Street, London SW1A 1HG
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Outsiders' chance

CLAREMONT, NEW HAMPSHIRE, AND SPIRIT LAKE, IOWA

The primary contest is about to get serious. It has rarely been so ugly, uncertain or strange

WHEN Jeb Bush announced he was running for president seven months ago the tutting newspaper commentaries almost wrote themselves. With his famous name and war chest of over \$100m, whistled up from Bush family benefactors in a matter of months, the former Florida governor was almost as strong a favourite for the Republican ticket as Hillary Clinton, who had made her inaugural campaign speech two days earlier, was for the Democratic one. Bush against Clinton? The prospect made American democracy seem stale and dynastic, rigged on behalf of a tiny political elite, whose members alone had the name recognition and deep pockets required to win its overpriced elections.

But now the primary process is about to get serious. In Iowa on February 1st perhaps 250,000 voters will brave icy roads to pick their champion in small groups, or caucuses. And the tutting has given way to real fear. On the Republican side, Mr Bush—or “Jeb!” as his campaign has cruelly styled him—is all but irrelevant. The son and brother of past presidents is clever and has a solid record of cutting taxes and privatising services. But Republican voters have dismissed him as dull and out-of-touch, an emblem of the political class

they despise. The Republican front-runner, Donald Trump, is a celebrity builder with no previous political experience. He has raised little money, was once a registered Democrat and still refers derisively to his party as “the Republicans”, as if it is some unpromising acquisition he has been arm-twisted into buying.

Mr Trump is quick-witted, charismatic and, during years as a reality television star, has built an outrageous public persona around his gargantuan ego. “I’m intelligent,” he likes to say. “Some people would say I’m very, very, very intelligent.” Uncertainty over whether this is self-parody or undiluted egomania is part of the act. Mr Trump is to public service what professional wrestling, which he loves, is to sport: entertaining and ludicrously implausible, a suspension of disbelief for escapists, a crude deception for the gullible.

The digs he makes at his rivals, often in the form of tweets offering “advice”, can be amusing. A former propagator of conspiracy theories about Barack Obama’s place of birth, Mr Trump is now dishing out the same treatment to his closest challenger, Ted Cruz. A first-term senator from Texas, Mr Cruz was born in Canada, but to an American mother, which puts his eligibil-

ity to be president beyond serious doubt. “Ted—free legal advice on how to pre-empt the Dems on citizen issue. Go to court now & seek declaratory judgment—you will win!” Mr Trump tweeted to his nearly 6m followers. Yet his front-runner status is based less on Mr Trump’s wit than on his gift for understanding and pandering to people’s fears.

The billionaire says that America has been beggared and wrecked by immigrant rapists, venal bankers and idiot politicians, is imperilled by Muslim maniacs, and mocked by the rest of the world. He rages against the Chinese, whom he accuses of inventing global warming to destroy American industry. Announcing his run at Trump Tower, his Manhattan skyscraper, he lamented: “We got \$18 trillion in debt... we need money. We’re dying. We’re dying. We need money... Sadly, the American dream is dead.”

Trumped-up charges

Fortunately, Mr Trump has a plan to “make America great again”, a Reaganite phrase he has purloined. He wants to deport 11m illegal immigrants and their offspring, impose a 45% tariff on Chinese imports, kill the relatives of terrorist suspects and bar Muslims from entering America. To stanch the influx of “rapists” (never mind that for the past six years there has been a net outflow of people from America to Mexico), he would build a “beautiful wall” along the southern border. This is his signature policy and the subject of a much-anticipated call-and-response moment at the rallies he—descending from the sky in his mono- ▶▶

▶grammed helicopter—has held all over America. “What are we gonna build?” he asks. “A wall!” the crowds holler back. “Who’s gonna pay?” “Mexico!”

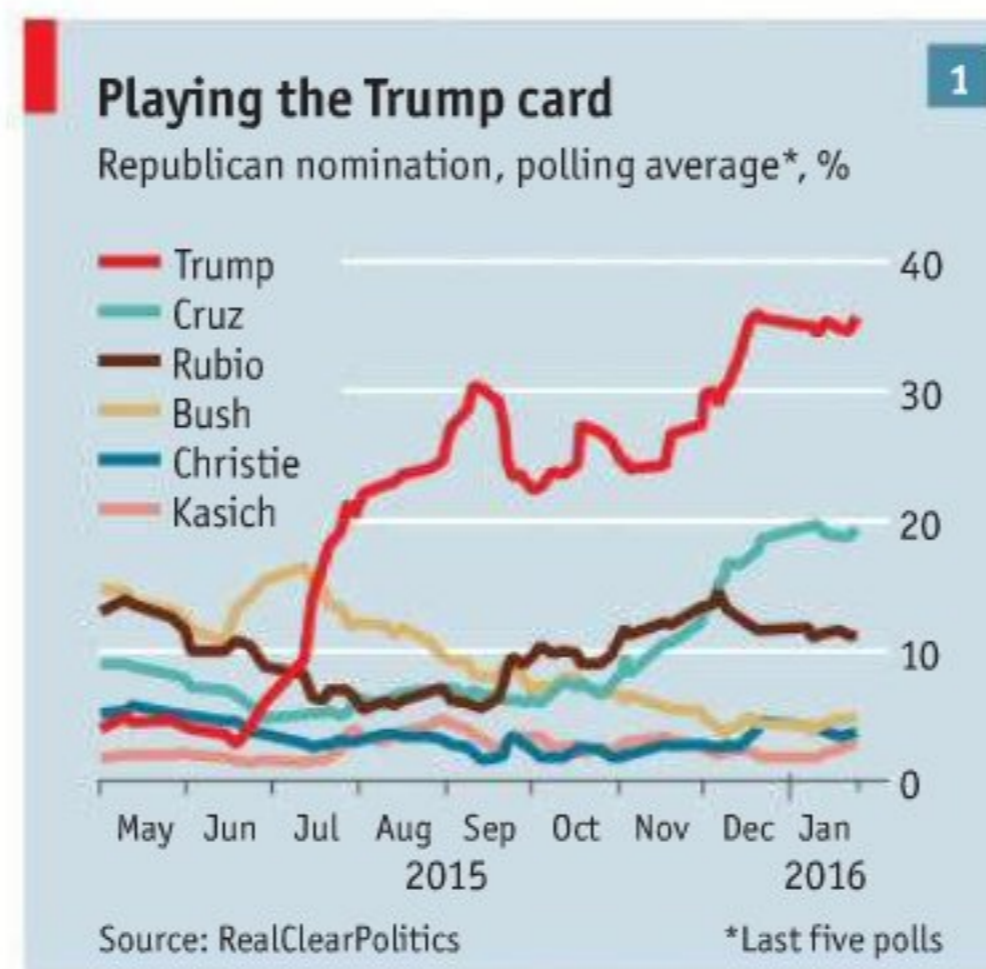
The notion of Mr Trump, who is backed by around 35% of Republican voters (see chart 1), as a presidential nominee is alarming. Yet Mr Cruz, who has 20% and is running him close in Iowa, is hardly a reassuring alternative. The self-made son of a Cuban immigrant, he came to national attention in 2013 when he tried to shut down the federal government in a vainglorious bid to defund Barack Obama’s health-care reform, an effort he compared to the resistance against Adolf Hitler. It was an example of the sort of cynical self-promotion for which Mr Cruz is loathed by his colleagues in the Senate.

He aims to unite the most fiscally conservative part of the Republican coalition with the most socially conservative, evangelical Christians. Offering himself as a no-compromise right-winger and scourge of the party’s elite, Mr Cruz has done well in televised debates, raised more money than most of his ten surviving rivals—including \$20m in the last three months of 2015—and covered the ground assiduously in pious Iowa. Hence his new preacherly style.

“In the days that follow,” Mr Cruz recently declaimed while touring the state’s ultra-devout north-west, “we will send the regulators that descend on farmers like locusts back to Washington!” Raising his nasal voice, he then beseeched his small audience of corn farmers and their wives to pray, “for just a minute every day”, that God would make him president. If He does, Mr Cruz promises to scrap the Internal Revenue Service, institute a 10% flat-tax on income and urge the Federal Reserve to readopt the gold standard.

Without divine intervention, it is hard to imagine Americans electing either of the Republican front-runners to be president. The lesson the party drew from Mitt Romney’s failure to dislodge Mr Obama in 2012 was that, in an increasingly diverse society, the Grand Old Party needed to widen its appeal. Mr Cruz’s target audience, white Christians, represent less than half the population. The obvious solution was to woo Hispanics, one of America’s fastest-growing electoral groups, who hold some conservative views, though only 27% of them voted for Mr Romney.

That was why, in 2013, a handful of Republican senators, including Marco Rubio, who is running third in the primary contest, joined a bipartisan, and ultimately fruitless, effort to legalise the status of millions of illegal immigrants. “It’s really hard to get people to listen to you...if they think you want to deport their grandmother,” declared Mr Rubio, a son of poor Cuban immigrants, at the time. It is even harder when you call them rapists. Mr Trump is easily the most disliked candidate of either



party; 60% of voters disapprove of him.

There is a consolation for the Republicans. The Democrats could nominate someone even less electable. In Mrs Clinton’s path stands Bernie Sanders, a 74-year-old “democratic socialist”, who says American capitalism is rigged against the 99% and vows to dismantle banks and build Medicare into a universal health-care system. His claim that this would save \$10 trillion over a decade has elicited scepticism. An independent senator from Vermont, Mr Sanders was until recently neither a member nor even an admirer of the Democratic Party, which he has called “ideologically bankrupt”. Yet polls suggest he has the support of 37% of its primary voters and could win in Iowa and at the New Hampshire primary on February 9th.

From William Jennings Bryan and Huey Long to Ross Perot and Pat Buchanan, populists are as much a part of the American political tradition as tirades against Washington. They have typically thrived at a time of anxiety. Bryan and Long were creatures of depressed economies; Mr Perot went to war with free-trade, which many Americans feared, just as the two big parties decided to embrace it; Mr Buchanan stoked the same nativist fires that have given Mr Trump’s candidacy much of its heat. This time the unease seems to be mainly economic, and it is widespread.

America has recovered well from the great recession of 2008-09—its unemployment rate is low, at 5%—yet wage growth remains anaemic. Real median household income in 2014 was almost \$4,000 below its peak in 2007. That has shaken the national self-esteem; so have unsuccessful wars in Iraq and Afghanistan, and their messy aftermath, including the rise of Islamic State. Asked “Are America’s best days behind us?”, in a recent survey, 49% of respondents said that they were. Black Americans, for whom that is clearly not true, are almost the only hopeful group.

The squeeze has been hardest for people feeling pre-existing pressures: blue-collar workers, hurt by globalisation, and millennials facing rising college debts and competition for jobs. Last year’s college-

leavers are, on average, \$35,000 in the red, more than twice the figure of two decades ago. One or both groups are at the forefront of Europe’s many populist insurgencies: including, on the left, Syriza in Greece and the socialist leadership of Britain’s Labour Party; and on the right the French National Front and the UK Independence Party. America is no different.

Mr Trump’s biggest fans are the most pessimistic Americans, working-class whites. “The country’s spiralling downwards, people are not getting pay rises, we’re not the superpower we think we are,” lamented Todd Winslow, an office-equipment supplier, at a Trump rally in Claremont, New Hampshire. By articulating such fears, Mr Trump has validated them. That is why his supporters love him, whether or not they believe his promises. “He tells us what we all think but are afraid to say,” Mr Winslow declared. Others in the crowd liked Mr Trump’s success in business, his tough-guy style and the fact that he was not a politician. These qualities were evident in the diatribe that followed.

Ad-libbing as usual, Mr Trump boasted of his “big beautiful brain”, suggested dumping Bowe Bergdahl, an American prisoner-of-war released in a hostage swap with the Taliban, from the air over Afghanistan, and, after inviting questions from the crowd, showed familiarity with none of the issues raised. Asked whether he supported equal pay for men and women, he said: “I love equal pay, I mean I have many women, I was very, very far advanced on women... We’re going to come up with the right answer.”

Bern brightly

Mr Sanders’s crowds are similarly fervent, but younger. They are often dominated by bearded, beaded and disgruntled 18- to 29-year-olds, to whom Mr Sanders promises free education in public universities and relief on college debts. The sheer improbability of his assault on American power—he is old, cranky and wears crumpled suits—is to this group part of his appeal. If the humour of Mr Trump’s campaign is WrestleMania burlesque, Mr Sanders’s is college rag. “Feel the Bern” is its unofficial slogan. Yet that gentler tone reflects a big difference between America’s red and blue insurgencies, which is likely to determine how far they go and how much damage they do their respective parties.

Mr Sanders’s supporters want to undo the accommodation with business that the Democrats reached under Bill Clinton. But they do not hate their party: most strongly approve of Mr Obama, who is much closer politically to Mrs Clinton than he is to the Bern. That she is not doing better is largely down to her shortcomings as a candidate. Her well-funded campaign is being run by veterans of Mr Obama’s brilliant grassroots operations and aims to emulate it in ▶▶

▶ seeding and revving up networks of autonomous volunteers; but Mrs Clinton, a continuity candidate when the mood is for change, is not doing much revving. Mr Sanders's campaign, which in 2015 netted over 2.5m donations, resembles the president's more closely.

A scandal concerning Mrs Clinton's foolish use of a private e-mail account while secretary of state has been damaging. It has highlighted her longstanding reputation for being untrustworthy; in a general election, that could hurt her badly. So could the independent run mulled by Michael Bloomberg, a moneybags former-mayor of New York. A free trader who worries about the environment, he would probably take more votes from the left than from the right.

Yet Mrs Clinton, who is at 52% in the polls, is lucky in her opponent. Had Elizabeth Warren, a senator from Massachusetts and a milder version of Mr Sanders, decided to run, she might now be in Jeb! territory. She is lucky in her party's residual discipline. And she is lucky that a series of southern states, where black voters, who tend to like her, matter more, will vote shortly after Iowa and New Hampshire (see chart 2). This will present her with an early opportunity to douse whatever fires Mr Sanders may have started.

For the Republican establishment, none of that good fortune applies. Mr Trump and Mr Cruz are more formidable and the Republican voters who like them more mutinous than their Democratic counterparts. In their shadows, a clutch of more electable candidates, of whom Mr Rubio along with two serving governors, John Kasich of Ohio and Chris Christie of New Jersey, are probably the last serious contenders, have meanwhile struggled to distinguish themselves.

Mr Bush's spluttering campaign has exacerbated the problem. Its fund-raising drew resources from other mainstreamers; Mr Rubio raised a paltry \$6m in the third quarter of 2015, a third of the amount raised by Ben Carson, a former neurosurgeon and momentary front-runner. Now it

is hurting them even more, with Mr Bush desperately splurging on attack ads against his establishment rivals, especially Mr Rubio. The result is that the Republicans' erstwhile centre ground—the “somewhat conservative” vote that constitutes about 40% of the total and usually decides the party's nomination—is hopelessly split.

The early results may fix that problem. Whichever of the three surviving mainstreamers does best in Iowa and New Hampshire, a “somewhat conservative” state, could swiftly consolidate the establishment's share of the vote and take on the front-runners. Mr Rubio, who is clever, fresh-faced, Spanish-speaking and almost the only Republican candidate to beat Mrs Clinton in head-to-head polling, has long looked most suitable for that role.

He is expected to top the establishment roster in Iowa. Mr Kasich, who has a good governing record, and Mr Christie, an articulate bruiser, have worked harder in New Hampshire and could beat Mr Rubio in that state. But it would have to be by a decent margin to impress the conservative donors and media eagerly waiting to anoint the next establishment champion. Mr Kasich seems too much of a stick-in-the-mud for this election, Mr Christie too moderate for many Republicans. And Mr Rubio—if he can only survive the early states—would probably do better in later-voting, more moderate states, especially his native Florida. In a protracted contest, that could prove decisive.

A three-horse race could even mean that no candidate wins a majority of delegates, which might also argue for Mr Rubio over his mainstream rivals. The candidates would then try to woo each other's delegates at the party's convention in July, something that last happened in 1948. And across the Republican coalition Mr Rubio is a popular second choice.

Yet it is also possible that no candidate of the establishment will do well enough in the early states to rise above the others. Its vote would then remain split. In that case, Mr Trump, if his supporters turn out, or Mr Cruz, whom the early schedule fa-

vours, by moving from evangelical Iowa to the southern Bible-belt, could wrap up the nomination while the mainstreamers are stuck squabbling among themselves.

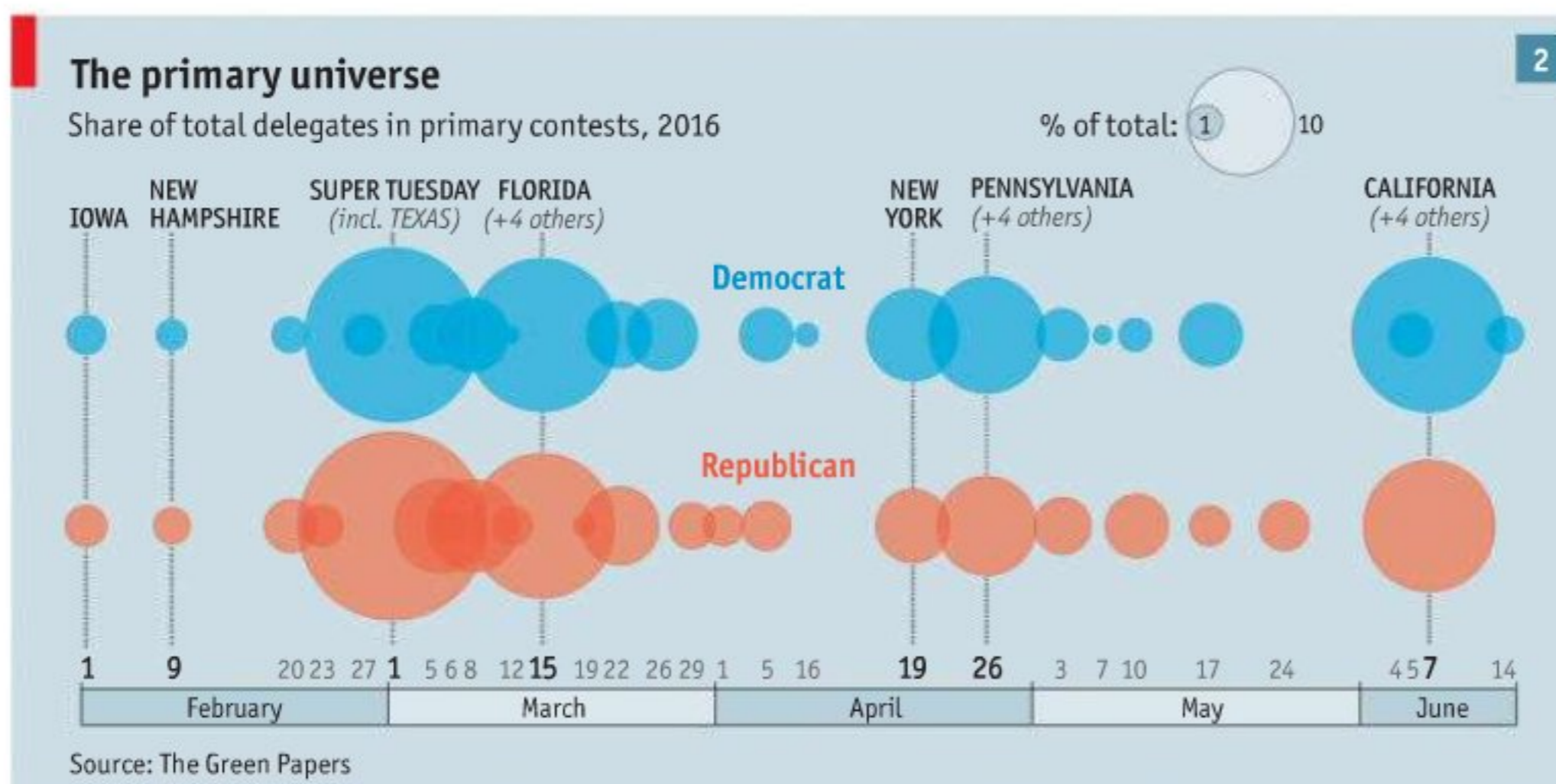
It is bad luck for Republican leaders. But they have earned it, for having long encouraged the sort of polarising invective that Mr Trump and Mr Cruz spout. Mr Obama's health-care reform is socialist; climate science is a liberal fraud; Democrats are not just wrong but anti-American: such are mainstream Republican verities. Even before Mr Trump doubled down on it, this sort of rabble-rousing had damaged the party, because its leaders never acted commensurately with their rhetoric, making them seem weak or insincere.

An uninviting establishment

Mistrusted by voters, the establishment candidates have found it increasingly hard to offer a positive alternative to Mr Trump's miserabilism. To some degree, all have emulated it. Invited to condemn Mr Trump's promised ban on Muslims, at a televised debate on January 14th, Mr Rubio instead praised his rival for having “tapped into some of that anger that's out there”. Yet if the Republican pitch is about anger, not optimism, Mr Trump should win, because he is best at that. This has probably already made it harder for the party to win a general election; before Mr Rubio could woo many Hispanics, he would have some explaining to do. Naturally, his capitulation to Mr Trump hasn't won him any favour with the front-runner, either. After Mr Rubio, who is of average height, was recently pictured wearing Cuban heels, Mr Trump commented: “I don't know, they're big heels. They're big heels. I mean those heels were really up there... I just hope it works out fine for him.”

It still might. But if Mr Trump or Mr Cruz takes Iowa and New Hampshire, the establishment will start to fear the worst. Some Republican grandees are already seeking to build bridges with Mr Trump—including Bob Dole, a former presidential candidate, in a recent article in the *New York Times*—on the basis that even a narcissistic bully is less awful than Mr Cruz. That is a startling admission of weakness, before any vote has been cast. Yet the leadership's usual means of influence—money and endorsements—have proved strikingly ineffective in this strange contest.

Mr Trump has spent less than any other leading candidate; his campaign has received more television news coverage than all his rivals combined. Neither of the front-runners has been endorsed by any serving Republican governor or senator. Their strength is from a different source. “We're Not Gonna Take It” is the shouty rock anthem that concludes Mr Trump's seething rallies. Americans, and the world, have a nail-biting few weeks ahead, wondering what that could mean. ■



United States



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Walmart and low-wage America

High expectations

WASHINGTON DC

What a big pay rise at Walmart means for the minimum-wage debate

NO FIRM in the world matches the economic imprint of Walmart. The retailer, based in Arkansas and known across America for its vast “supercentres” and low prices, is the world’s largest company by revenue. Its 2.2m worldwide workforce is about the same size as China’s army, excluding reservists. Sam Walton built his empire with a relentless focus on costs: “Control your expenses better than your competition. This is where you can always find the competitive advantage,” he said. Yet change is afoot at “Wally world”. In April 2015 Walmart abruptly raised the wages of its lowest-paid staff: all now earn at least \$9 an hour. On February 1st that will rise to \$10 an hour for trained-up workers—fully one-third higher than the federal minimum wage.

The change is curious, because in the past Walmart has paid notoriously little. In 2014 the average hourly wage of an American cashier was \$9.93. According to data from Glassdoor, a jobs website, Walmart’s cashiers then took home \$8.62. Retail salesmen made \$12.38 nationwide; at Walmart, they earned only \$8.53.

Walmart wages were low, but not pitifully so; for both cashiers and salesmen, average pay at Walmart was close to the 25th percentile nationwide. What has made Walmart look mean is the firm’s enormous size. It employs 1.4m of America’s 16m retail workers. Almost 4.5m others toil in small shops with fewer than 100 em-

ployees. Wages there are expected to be low. But, typically, big firms pay more. One study from 2014 found that high-school graduates earn 15% more at retailers with more than 1,000 workers, compared with those who have fewer than ten staff. Not so at Walmart, which paid corner store wages while making megachain profits.

This—combined with a fierce resistance to unions—made the firm a target for campaigners. One common accusation against Walmart—whose shareholders made a 17% return in the year to January 2015—is that its low wages mean it benefits from hidden government subsidies. Many low-wage workers rely on government programmes to top up their low wages, and on Medicaid

for health insurance. Without this support—the argument goes—firms relying on cheap labour would collapse. In May 2013 congressional Democrats produced a report which furiously alleged that a typical Walmart supercentre in Wisconsin, employing 300, costs the taxpayer \$900,000 a year in welfare payments to its staff.

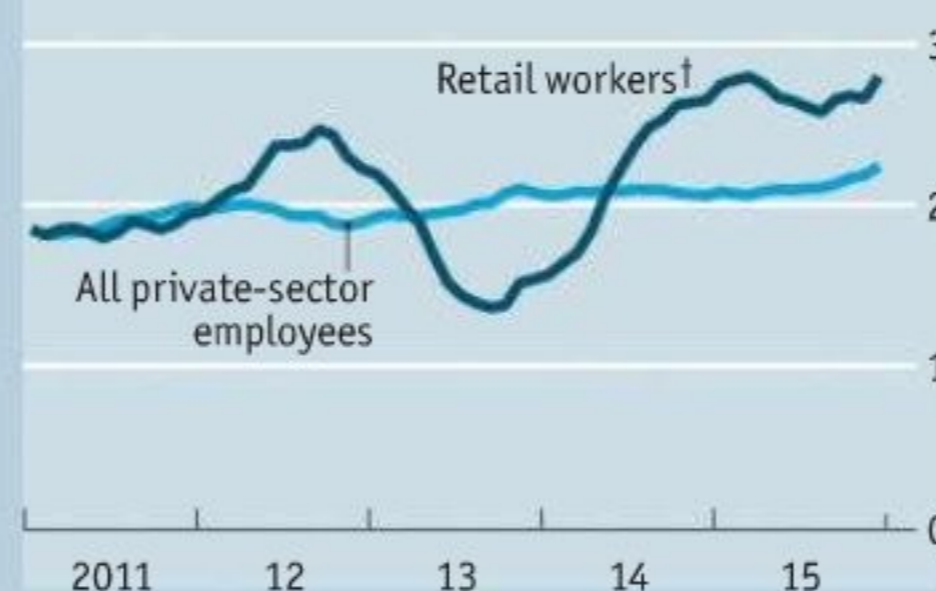
That was hyperbole; it assumes some other employer would be willing to hire Walmart’s workers at higher wages. Looks matter, though, and the benefit of today’s pay rises is partly cosmetic. Other factors are in play, too. “In some ways it demonstrated leadership, in other ways it [was] a market reaction,” Doug McMillon, Walmart’s boss, told investors in October 2015. Recently wage growth has been higher for junior retail staff than for other workers, suggesting that competition for staff may be hotting up (see chart). Walmart’s first pay rise, to \$9 an hour, was emulated by Target and TJX, which owns the retailers T.J. Maxx, Marshalls and HomeGoods.

The pay rise is also a strategic investment. Walmart wants to boost its productivity and give its workers more freedom to ▶▶

High rollers, low rollers

United States

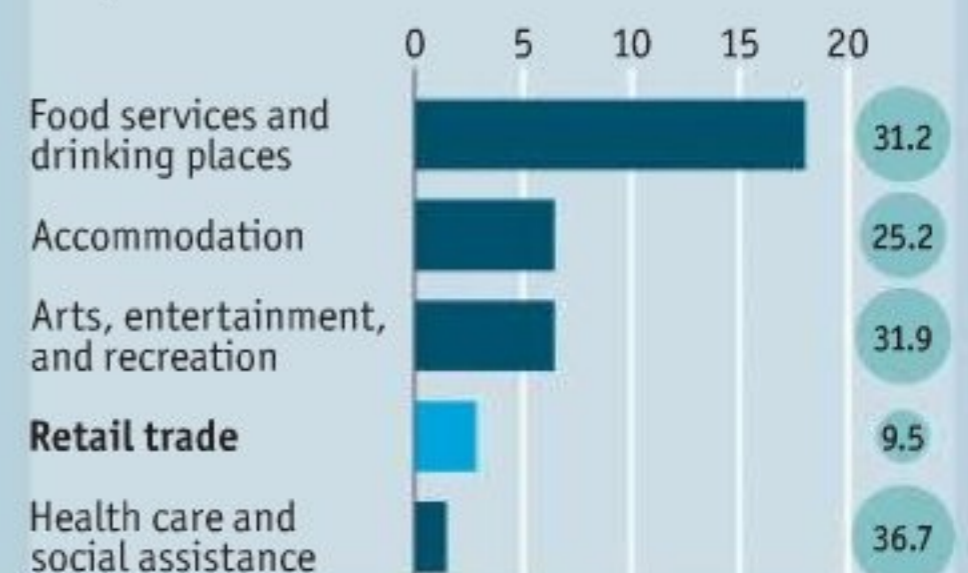
Average hourly earnings
% increase on a year earlier*



Source: US Bureau of Labour Statistics; Census Bureau

Hourly-paid workers paid at or below federal minimum wage

Wages as % of revenue, 2014



*12-month moving average †Production and nonsupervisory

▶ innovate, as it seeks to make its stores more pleasant and, perhaps, appealing to more affluent customers. That requires motivated staff. It is too soon to judge conclusively whether the rise to \$9 an hour has worked, although Walmart says that the number of stores rated as sufficiently “clean, fast, friendly” by customers has increased from 16% in February 2015 to over 70% today.

That will please advocates for higher minimum wages, who argue that better-paid workers are more productive. Economists call this the “efficiency wage” hypothesis. Opponents of higher minimum wages note that pay rises cannot be free. Some combination of Walmart’s customers, shareholders, suppliers and other employees must be paying for the increase.

Walmart’s customers are unlikely to feel the pinch soon; low prices are a cornerstone of the brand. But the firm now says that higher wages come before price cuts: “You clean up your house before you invite people over,” argues Mr McMillon.

Wage rises are certainly denting profits. Walmart’s share price barely moved when they were first announced in February last year, suggesting that investors thought them immaterial at first. But in October the firm warned that it expected profits to fall by 6-12% in 2017, with higher wages responsible for three-quarters of the shortfall. Following that announcement, the share price fell by 10%—its biggest one-day drop since 1988.

A transfer from capital to labour, though, is precisely what campaigners want to achieve. A more potent criticism of higher wages is that they cause job losses. And on January 15th Walmart announced that it would close 154 stores in America, with the possible loss of 10,000 jobs.

The firm says that wage costs are not to blame. The closures mostly reflect Walmart’s wholesale abandonment of its small “Walmart Express” stores. Elsewhere, Walmart hired 8,000 new department managers at the same time as raising pay. Adding middle-management is hardly the hallmark of a firm set on trimming its labour force (though some say hours have been cut instead).

Not every firm would find it easy to copy Walmart. Wages only cost retailers 9.5% of their revenues. In the food-and-drink industry—a prime target of the “Fight for \$15” campaign to raise the minimum wage—wages amount to 31% of revenues (see chart). A much higher fraction of workers in the food, drink and hotel industries make the minimum wage, so any rise would have a greater effect on those industries. Even within retailing, there are nearly 600,000 small firms with fewer than 20 workers. In Mississippi, half of all cashiers make less than \$8.79 an hour; a big increase there would have unpredictable effects.

Walmart has had some difficulty with the move. Long-serving staff who already

earn more than \$10 are miffed at missing out on a bumper rise. A section of Reddit, an online message board, for Walmart employees is filled with complaints. “I’m mad at the company...for invalidating 15 years of my hard work,” writes one.

Incrementally higher wages will not much reduce the welfare bill for Walmart’s workers; campaigners will go on claiming that low-wage firms are subsidised. Whether they are right depends on who bears ultimate responsibility for caring for the poor and sick. Campaigners think it is employers, which implies that government-funded health care in Britain or Canada is primarily a subsidy for businesses. And employers, unlike governments, can disappear in response to regulation.

It is usually more efficient to let market outcomes play out and leave transfers to the government. Still, minimum wages, set carefully, are beneficial—perhaps even for the firms who pay them. Another piece of Sam Walton’s advice: “High expectations are the key to everything.” ■



Transgender life

Restroom rumpus

CHICAGO

A fault line runs through the stalls

“THESE children have fewer rights than prison inmates,” says Tom Morrison, a Republican state representative in Illinois. Mr Morrison is talking about girls at a high school in his constituency, Palatine, who share a locker-room with a transgender girl. Late last year the Department of Education ruled that the school had violated anti-discrimination laws by banning a pupil, who was born male but identifies as a girl, from the girls’ locker room. Male prison inmates have success-

fully argued in court that letting female guards supervise them when they are taking a shower violates their privacy, reasons Mr Morrison, so they now have more rights than Illinois schoolchildren.

Schools in Illinois, as in many other states, have a patchwork of rules governing where transgender people can pee. Some allow them to use the locker and restrooms (or loos to Brits) of their choice; others make them use designated facilities. This is confusing for parents and children, says Mr Morrison, which is why he introduced a bill in the legislature on January 20th that would require all pupils at high schools in Illinois to use loos and changing rooms that correspond to the gender on their birth certificate. The bill would require schools to provide separate facilities for transgender pupils.

The debate in Illinois is part of a national discussion that pits those who think of gender as something a person is born with against those who argue that being male or female can be a choice. Progressives have taken the “choice” side of the argument—in April 2015 the White House added a gender-neutral toilet—prompting conservatives to take the opposing one. In South Dakota a bill similar to Mr Morrison’s is moving forward in the legislature. Last autumn voters in Houston, Texas, rejected a broad anti-discrimination ordinance because its opponents had depicted it as a “bathroom ordinance” that would enable potentially predatory men and even registered sex offenders to enter women’s loos. In Indiana Jim Tomes, a Republican state senator, introduced a bill last December which would make the use of a facility that does not correspond with a person’s birth certificate a misdemeanour, punishable with up to one year in jail and a fine of \$5,000. A spokesman for Mr Tomes says the bill will not be submitted to a vote in the legislature, but that does not mean that “similar language in a different bill couldn’t be considered”.

Given all the troubles faced by transgender people, who make up just 0.1% of the population according to the least unreliable estimate, why the focus on loos? According to Human Right Campaign, a gay lobby group, in the first ten months of 2015 at least 21 transgender people—nearly all of them black or Hispanic women—were killed, more than in any other year recorded by activists. Unemployment among transgender people is double the national rate and as much as four times that of the general population for non-whites. Fully 90% of those who have a job say they have experienced harassment at work.

The issue is more pressing than it seems, says Kim Hunt of the AIDS Foundation of Chicago. Some transgender people do not go to the loo all day because they have been harassed, assaulted or kicked out of one. This can result in dehydration, ▶▶

urinary-tract infections and kidney problems. A survey by the Williams Institute, a think-tank, found that 68% of those questioned had been subjected to slurs while using a bathroom. This month San Francisco joined Washington, New York, Philadelphia, Austin, Seattle and Santa Fe in requiring all businesses and city buildings to designate single-stall loos as all-gender.

The bigger battle, though, is over multi-stall restrooms and locker rooms, especially in schools. Title IX, an amendment tacked on to the Higher Education Act in 1972, says that “no person in the United States shall, on the basis of sex, be excluded from participation in, be denied the bene-

fits of, or be subjected to discrimination under any education programme or activity receiving federal financial assistance”. The Obama administration has interpreted this as meaning that transgender pupils must be allowed to use facilities for the gender with which they identify. In October it filed a legal brief in a federal appeals court backing the legal challenge of Gavin Grimm, a transgender boy, to the policy of his school in rural Virginia which bans him from using the boys’ toilets. On January 27th the judges will hear oral arguments in *GG v. Gloucester County School Board*. It is the first time a federal court will have to weigh up the question. ■

quickly. They may have provided as much as 65% of the water used in the state in 2014—up from 40% during average years—according to the California Water Foundation, an environmental group.

Snow, as well as rain, is needed to quench the state’s thirst; it supplies about a third of the water needed by cities and farms. It falls in the Sierra Nevada in the winter; meltwater then flows to reservoirs in the spring, and thence to users. Randall Osterhuber runs a 70-year-old weather station near Lake Tahoe for the University of California, Berkeley. This year the snow is slightly more abundant than usual, while last winter brought “the least amount of snow we’ve ever measured, by a wide margin”, he says. Yet 2011 was among the whitest years for the station.

Mr Osterhuber frets about the “ever-increasing variation” in the state’s weather. Since the 1980s average temperatures in California have been higher than they were in the 50 years before; 2014 and 2015 were among the hottest on record. A study published last year in *Geophysical Research Letters* claims that man-made warming can explain 8-27% of the anomalous drought conditions between 2012 and 2014. The rest is natural variability in precipitation levels in a drought-prone state.

Jerry Brown, California’s governor, told city-dwellers to cut water consumption by a quarter last April; in the second half of 2015 it dropped by just over 26%. Once-lush lawns now crunch underfoot; fields that formerly grew alfalfa, a thirsty crop, now lie fallow in the Central Valley. Felicia Marcus, head of California’s State Water Resources Control Board, says conservation saves money and buys time; better water-use monitoring would help still more, as could more projects to collect run-off. For any Niño rains, “we need every ounce of storage we can get,” she says. To prosper, the state’s primates will have to start living more like south LA’s turtles. ■

Dry California

All the leaves are brown

LOS ANGELES

Even torrential rain brought by El Niño may not end California’s drought

STILLNESS pervades the South Los Angeles Wetland Park. A turtle floats by, undisturbed by lunch hour at the high school opposite. Tall bulrushes bend around the pool at the centre of the nine-acre (3.6 hectare) site. The water comes from the city’s storm drains, cleaned of oil and rubbish. Completed in 2012 for \$26m, the park captures urban run-off after wet weather—vital in a state suffering from severe drought. Water from rain in recent weeks, brought largely by El Niño, the world’s largest climatic phenomenon, now flows through the park’s fountains. More will come.

El Niño sees warm water, collected over several years in the western tropical Pacific, slosh back eastwards after the weakening, or reversal, of winds that blew it there. This affects atmospheric cycles, and therefore weather patterns, around the world. The current Niño is one of the strongest on record; its rivals in 1982-83 and 1997-98 ushered in two of California’s wettest years after storms between January and March.

In the first week of this year more than 100mm of rain fell near Lake Tahoe; snow turned the Golden State’s peaks white. At Mount Waterman ski slopes have opened for the first time since 2011. The Los Angeles fire department has prepared more than 200,000 sandbags; churches and shelters have flung open their doors to the 18,000 or so living on the city’s streets. Across the state, the number of people with flood insurance has jumped by 12% in recent months, according to the Federal Emergency Management Agency.

Such foresight makes sense. El Niño caused more than \$500m-worth of damage 18 years ago. Rainfall on dry, cracked ground is likely to run across it, not soak in,

causing flooding and mudslides. And the state is truly parched: California has missed more than a year’s worth of precipitation. Three months ago, about 46% of the state was suffering “exceptional” dryness according to US drought monitor, a research tool; now just less than 43% of it is.

Snow business

Yet even if California endures ark-worthy deluges, the drought will probably persist anyway, says Noah Diffenbaugh, a professor of earth-system science at Stanford University. Studies published in recent years agree that for the past three winters a region of high atmospheric pressure off the coast has diverted seasonal storms to the north. Underground aquifers, raided mercilessly to compensate, will not recover



Safe and warm in LA



Ecology

Murre mystery

HOMER, ALASKA

Thousands of seabirds are washing up dead on Alaska's shores

AT THE end of the highway, 200 miles from Anchorage, sits a small fishing and tourism town where, in early January, thousands of dead common murrelets, or guillemots, were washed ashore. These penguin-like seabirds littered the tidal wracks so densely that beach walkers had to be careful where they stepped. And beyond Homer, tens—probably hundreds—of thousands of these birds have drifted in dead along Alaska's vast coastline or have been found far inland half-dead in the snow.

Alaska is home to about 3m common murrelets, which spend most of their lives on the open ocean but come to shore to nest in dense colonies on coastal cliffs. The female lays a pear-shaped egg so pointed at one end that it will roll in a circle, helping to keep the egg from plummeting off the bird's narrow nest. Murrelets are renowned divers, using their wings to "fly" down 600 feet (183 metres) under water in search of a meal.

Around Homer, they are a daily sight all summer. They nest in a raucous crowd on a rocky island a few miles offshore, which becomes a magnet for tour boats during the warm months. But last summer they failed to raise chicks. And they have been dying in large numbers along the Pacific coast, from California to Alaska. The birds appear to have starved.

The likely cause is warmer ocean waters. Temperatures in the North Pacific have been three to seven degrees Fahrenheit higher than average for the last two years. The "warm blob", as it has been called, is rattling the marine food chain from bottom to top. "Whole systems are out of whack," says Heather Renner of the Alaska Maritime National Wildlife Refuge, a federal agency which manages a collection of far-flung islands and re-

mote coastline in Alaska which, if laid over a map of the continental United States, would stretch right across it. The refuge contains nesting colonies for most of the state's murrelets, which are a sizeable chunk of the worldwide population.

In a town that grew up as a collection of homesteads, where people still build their own houses, split wood, tend gardens and put up a winter's-worth of fish and game, local knowledge is valuable currency. But know-how is not enough to explain what is happening to these birds.

"I think we're going to start seeing more events like this that we don't have the right data to explain," says Ms Renner. Scientists are starting to understand certain links between climate change, ocean warming and their impact on polar regions. These areas warm at twice the rate of the rest of the world on average; what's happening now may hint at what more ocean warming would bring.

Old-timers in Homer have never experienced anything like this. And they are perplexed by a host of other freakish phenomena: humpback whales lingering in local waters months after they typically head south for the winter, toxic algae populations surging, sea otters dying in large numbers, and out-of-this-world king-salmon-fishing. "Global weirding," the complex impacts of climate change, can be a mixed bag.

While the sea has taken back many of the dead birds, a robust population of bald eagles has carried other carcasses off the beach, scattering bits and pieces into back yards and parking lots. Ms Renner expects murrelets to continue to wash ashore for the rest of the winter. They will serve as a constant reminder, as the days slowly lengthen into spring, of mysteries still to be solved.

Policing and privacy

The StingRay's tale

NEW YORK

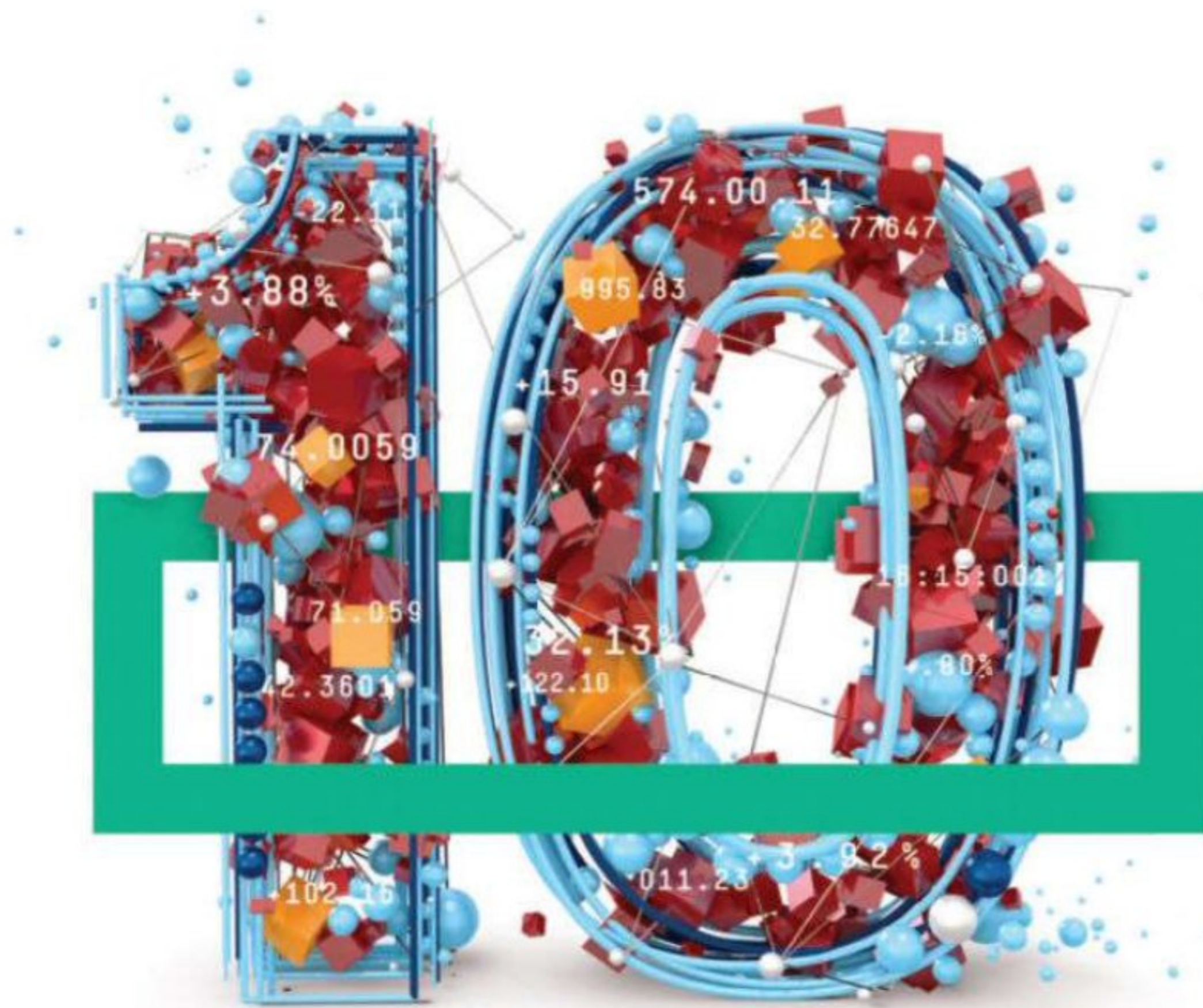
Courts take aim at a technology loved by the police

IN APRIL 2014, three men were shot when a drug deal turned sour on a tree-lined residential street in Baltimore. The city's police department quickly linked the crime to Kerron Andrews, a dreadlocked 22-year-old, but could not find him at his registered address. Agents used phone records to determine roughly where he was, but instead of going door-to-door until they found him, they opted for something far more efficient: a Hailstorm. Using this, they tracked Mr Andrews directly to an acquaintance's sofa, between the cushions of which he had stuffed the gun used in the shooting.

The Hailstorm is a more advanced version of the StingRay, a surveillance device that operates by mimicking a cellular tower, forcing all nearby mobile phones to reveal their unique identifying codes, known as IMSI numbers. By crosschecking the IMSI numbers of suspects' phones with those collected by "cell-site simulators" such as Hailstorm and StingRay, police officers can pinpoint people with astonishing precision. The tools have been used to trail suspects to specific rooms in apartment blocks and to find them on moving buses on busy city streets. Developed at first for military and intelligence services, cell-site simulators are now furtively used by federal agencies such as the Federal Bureau of Investigation (FBI) and the Drug Enforcement Administration (DEA) as well as by local police forces across the land.

Law-enforcement agencies rarely seek explicit court approval to employ cell-site simulators, and rarely admit to using them after the fact. As a condition for purchasing them, state and local police forces must sign strict non-disclosure agreements with the FBI, since the more information is made public about cell-site simulators, the more "adversaries" will adapt to them. The agreements prohibit police from disclosing any information about the technology, even to judges in the form of warrant requests; prosecutors must drop cases if they are pressured to reveal details about them. In one case in Baltimore, a judge threatened to hold a detective in contempt after he refused to testify about the use of StingRay in locating an armed-robbery suspect. Instead of instructing the detective to answer, the prosecution dropped the evidence. In another armed-robbery trial in Tallahassee, prosecutors offered the defendants a generous plea deal rather than ▶▶

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Accelerating next



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▶ demonstrate how the device worked in open court.

Given this secrecy, it is impossible to identify all the agencies using cell-site simulators. The American Civil Liberties Union (ACLU) has counted 58 agencies that possess the devices, across 23 states and the District of Columbia, but thinks the true number may be much higher. The technology has been used not only to trace murderers and armed robbers, but also to nab car thieves, phone pilferers and, in one case, a woman who made a series of abusive phone calls. The city of Baltimore alone has admitted to using the technology 4,300 times between 2007 and 2015. "I have never seen a tool that is on one hand treated in such a cloak-and-dagger fashion, but on the other used as a bread and butter tool," says Stephanie Pell of West Point's Army Cyber Institute.

The ray and the net

Civil-liberties advocates claim the secrecy around cell-site simulators is unjustified. According to Christopher Soghoian, a technologist at the ACLU, the wiliest criminals already know to use disposable "burner" phones and, short of forgoing cellular communication altogether, there is no fool-proof way for them to evade StingRays and Hailstorms. But their covert use raises worries about privacy, he says. Cell-site simulators often trace phones to pockets, purses, homes and other places protected by the Fourth Amendment's prohibition on "unreasonable searches". Moreover, they do not just gather information from the target's phone, but also from other phones nearby. Brian Owsley, a law professor at Texas Tech University School of Law who, as a judge, rejected several federal requests to use cell-site simulators without a warrant, says there should be laws requiring data inadvertently gathered in this way to be deleted.

Lawmakers are starting to address such grievances. Washington state, California, Virginia, Minnesota and Utah have passed laws requiring their police forces to seek warrants before using cell-site simulators. Congressman Jason Chaffetz of Utah hopes to pass a bill that would do the same on a federal level, though he is unlikely to prevail in such a politically charged year.

Movement in the courts may come more quickly, however. After the Baltimore police department grudgingly confessed in a court hearing last summer that it had used a Hailstorm to locate Mr Andrews, the presiding judge suppressed all evidence related to the surveillance operation—including Mr Andrews's gun. Without a warrant, she held, the police had breached his Fourth-Amendment rights. Civil-libertarians are optimistic about the precedent the case may set. The state of Maryland will appeal against the ruling on February 9th. ■

Universities and free speech

Hard to say

CHICAGO

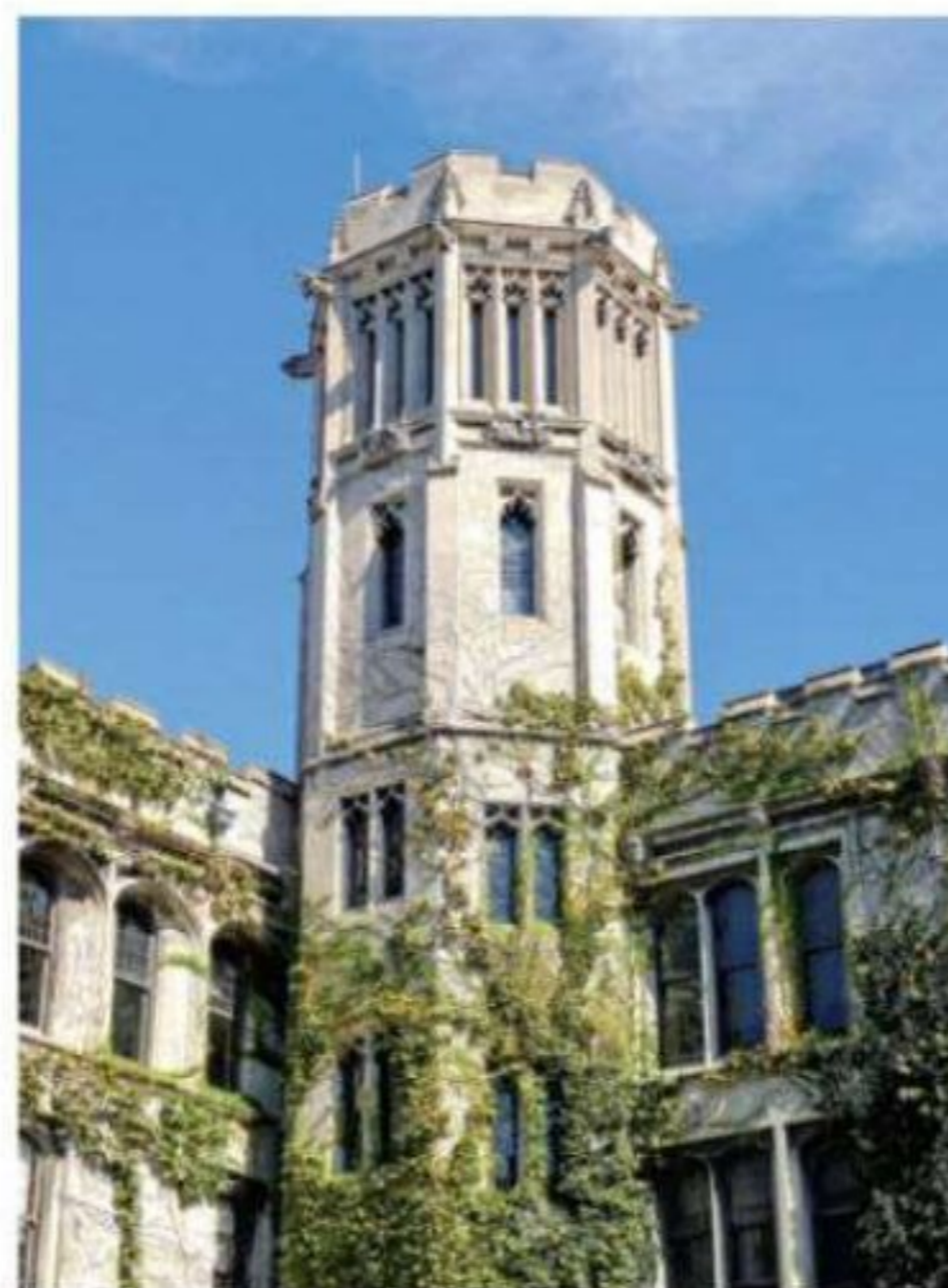
A statement at the heart of the debate over academic freedom

WHEN Louisiana State University fired a professor in June 2015 for using rude words in a class designed to prepare teachers for careers in inner-city schools, it was an early skirmish in a conflict between students (one of whom had complained) and faculties over free speech that has since spread across the land. The university's faculty is now considering something that others in the same position have done: copying the University of Chicago.

In response to a number of universities cancelling invitations to controversial speakers and challenges to academic freedom, Geoffrey Stone of Chicago's law school was appointed chair of a committee that would restate its principles on free speech. The statement was issued a year ago, shortly before the murderous attack on *Charlie Hebdo*, a French satirical publication, for its cartoons of Muhammad.

Since then the debate over permissible speech on college campuses has only become more contentious. A website, *thedemands.org*, lists speech-curbing demands from students at 72 institutions. Administrators are tying themselves in knots in an effort to balance a commitment to free expression with a desire not to offend.

One consequence of this has been to call attention to the Chicago Statement, which has been adopted by Purdue, Princeton, American University, Johns Hopkins, Chapman, Winston-Salem State and the University of Wisconsin system,



Chicago's freedom tower

according to the Foundation for Individual Rights in Education (Fire), a pro free-speech non-profit which is actively promoting it. It is brief (three pages) and emphatic.

"It is not the proper role of the university to attempt to shield individuals from ideas and opinions they find unwelcome, disagreeable, or even deeply offensive," it states. "Concerns about civility and mutual respect can never be used as justification for closing off discussion of ideas, however offensive or disagreeable." The responsibility of a university, it concludes, is not only to promote "fearless freedom of debate", but also to protect it.

The committee gave much consideration to concerns about "hate speech" and "micro-aggressions". Whatever harm such expression caused, it concluded, should be redressed by "individual members of the university...openly and vigorously contesting the ideas that they oppose," rather than by censorship.

The widening adoption of the statement came as a surprise, says Mr Stone, because it was built upon the college's own history, including a controversial invitation by students in 1932 to William Z. Foster, then the Communist Party candidate for president. The proper response to unpopular ideas, responded then-president Robert Maynard Hutchins, "lies through discussion rather than inhibition". In 1967, during protests over civil rights and the Vietnam war, and demands that the university itself should take a stand, a faculty committee chaired by Harry Kalven, one of Mr Stone's professors, concluded that would be wrong: "The university is the home and sponsor of critics; it is not itself the critic".

This approach was not universal. The most prominent committee to follow Chicago's was Yale's, in 1974. It concluded that intellectual growth requires "the right to think the unthinkable, discuss the unmentionable, and challenge the unchallengeable". When read in full, however, the report is confused, foreshadowing the current debate. Although Yale's committee was "gratified" to find that most people surveyed supported freedom of expression, a minority "held reservations of various kinds about how much freedom should be tolerated." One member dissented from the report, calling its support for free speech "too facile and simplistic".

Even the Chicago Statement has reservations. Expression that "invades substantial privacy" or "constitutes a genuine threat" can be punished. The university has the right to regulate the "time, place and manner of expression", so that ordinary activities are not unduly disrupted—though this should never be used to undermine an "open discussion of ideas". The statement is, in short, written not only to allow speech, but to facilitate protest. When it first appeared, this may have seemed a bit academic. Not any more. ■

Lexington | Superpower statues

John Kerry's visit reveals pragmatic, unfriendly relations between America and China



EVERY four years, American presidential candidates pledge to get tough and confront China. Populists promise to bring jobs home, if need be by starting trade wars. Security hawks vow to use every form of American might—from sanctions to the Seventh Fleet—to curb Chinese mischief-making. Yet, in the search for a China policy, it is hard to recall a candidate demanding America return looted Cambodian antiques.

Yet inspecting newly returned sculptures—including a splendid tenth-century statue of a monkey god, handed back in 2015 by the Cleveland Museum of Art—is how John Kerry, the secretary of state, began a visit to Cambodia on January 26th, a day before he headed to Beijing. It was a striking scene at the National Museum of Cambodia in Phnom Penh, as Mr Kerry was shown carvings looted during the civil war of the 1970s, and traced after they were shown to be perfect matches for plinths unearthed in a jungle-clad temple. Addressing the local press a few hours later, Mr Kerry cited the return of stolen treasures as an example of his country's commitment to Cambodia and other members of the ten-country Association of Southeast Asian Nations (ASEAN). Mr Kerry also touched on “painful reminders” of the Vietnam war, including unexploded American ordnance that continues to take Cambodian lives and limbs.

There is in fact a China logic to this approach—though many China-bashing politicians back home would doubtless call Mr Kerry naive and too apologetic for past deeds. To critics, President Barack Obama's “pivot to Asia”—a move to rebalance American diplomatic and military attention away from the Middle East and towards the Asia-Pacific—has generally been a flop, because it has not stopped Chinese officials from bullying American businesses, building runways on disputed rocks in the South China Sea or setting cyber-spies to steal commercial and state secrets. They would like to see China challenged to behave, or else.

Mr Obama's foreign-policy machine sees it differently. To simplify, their Asia policy is built around two ideas. The first is rather bleak: that the China led by Xi Jinping, its assertive president since 2013, has shown itself to be a mercantilist, arrogant and stubborn power, too self-interested and suspicious of American intentions to be swayed by appeals to its better nature. At best, this China can be persuaded to behave as America hopes when it

sees that policy as coinciding with its self-interest. Nonetheless, China is too large and too important to the global economy to be taken on frontally as electioneering politicians urge. The second idea is that China's overbearing behaviour in its neighbourhood is an opportunity for America to strengthen old bonds with such allies as Japan and South Korea, and to forge new ties with ASEAN nations that want an alternative to Chinese regional hegemony.

ASEAN leaders have been invited to a summit with Mr Obama in February. Mr Obama's aides have crafted a Trans-Pacific Partnership (TPP), a trade pact with Asia-Pacific countries described as a chance to anchor in place a rules-based order for global commerce, rather than let China set terms (though Congress is unlikely to allow TPP to advance before November's elections). American generals and admirals are exploring or deepening military co-operation with such countries as the Philippines, Vietnam and even Malaysia, long a critic. Mr Kerry, in an interview in Phnom Penh, calls such moves as the return of looted Cambodian sculptures more than just the “decent” thing to do. To show respect for a country and its culture can be “an important part of diplomacy”, says Mr Kerry, a courtly patrician who as a young naval officer fought in the rivers and marshes of Vietnam.

To be blunt, dealings with China are not easy. But in the corridors of American power, the case is made that it could be worse. In recent years China has tried to turn relations into a gigantic, un-savoury system of barter. Chinese leaders deliver long lectures about areas of core interest in which they expect no American interference, from policy over Tibet to the South China Sea. China makes clear that it sees the collapse of North Korea's brutal regime as a greater threat than that country's nuclear-weapons programme. In return, China dangles the possibility of help on things America wants—assistance in Afghanistan or over the Iranian nuclear deal, or commitments on climate change.

Confucius meets Brahmin

Team Obama hotly rejects the idea that the way to get along is to let China do what it wants in sensitive areas, trading Chinese good behaviour for American appeasement. Instead, America's offer is to seek areas of agreement, while holding frequent, candid talks to manage crises.

Disagreements marked Mr Kerry's meetings in Beijing on January 27th. In lengthy remarks at the Great Hall of the People, Mr Xi touted a “new model of major-country relationship” between China and America. Working together, the two powers can achieve “win-win results for both sides,” Mr Xi beamed. Alas the win-win mood was short-lived. As Mr Kerry began to reply, Lexington and the rest of the media were ejected, despite cross remonstrations from American diplomats.

Mr Kerry had earlier held tense talks in private with the Chinese foreign minister, Wang Yi. Mr Wang resisted suggestions that Chinese leaders could do much more to punish North Korea for its latest test of a nuclear bomb, citing among other things the harm that imposing sanctions might cause to Chinese companies. In the Xi era, the message went, China takes up great-power responsibilities only when it suits it.

Team Obama is more clear-eyed about China than its critics allow. Some presidential candidates think the answer is for America itself to throw off the constraints of a rules-based global order and match China for self-interested ruthlessness (Donald Trump fancies punitive trade tariffs of up to 45%). That is a competition that America should not aspire to take part in. ■



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Partying on a precipice

SÃO PAULO

The holiday provides no respite from economic and political woe

JANUARY is a languid month in Brazil. Beyond the hullabaloo at samba schools—practising for their bawdy annual face-off during Carnival, which starts on February 5th—business pauses while Brazilians go on holiday in the scorching southern summer. Fewer cars clog streets; more bodies throng the beaches.

Politicians customarily switch off along with everyone else. Congressmen return from their Christmas break on February 2nd, but will probably do little until after Mardi Gras a week later. Neither they nor the president, Dilma Rousseff, will be able to relax, though. A frightening mosquito-borne disease has put the health authorities on high alert (see [page 29](#)). Meanwhile, Brazil's political and economic crises are deepening. When politicians return to work they may regret the time they took off from attempting to solve them.

The economic slide continues. The number of jobs in the formal sector fell by 1.5m in 2015, the fastest pace of job destruction since comparable records began in 1992. Another 1m could be lost this year, analysts reckon. Sales of vehicles dropped by a fifth last year. The IMF now predicts that GDP will shrink by 3.5% in 2016, more than three times as much as it expected in October. Despite the recession, inflation has risen to nearly 11%, its highest level since 2002 (see chart).

Male breadwinners make up a higher

proportion of the newly unemployed than in previous downturns, which mainly affected female and young workers, notes Naercio Menezes of Insper, a university in São Paulo. That means that the hardship caused by the current recession will be greater. For the relatively young, joblessness is a novelty. Many entered the formal labour market during the commodity boom of 2003-13. No one knows how they will react to their misfortune, warns Fernando Henrique Cardoso, a former Brazilian president who is also a sociologist.

As misery grows, the government's capacity to tackle its causes is diminishing. Prosecutors investigating the vast bribery

scandal centred on Petrobras, the state-controlled oil-and-gas giant, are expected to file additional charges against senior figures in Ms Rousseff's Workers' Party (PT), which has already been badly tarnished by the affair. An even bigger worry for Ms Rousseff is the threat of impeachment against her on unrelated allegations that she assented to the use of accounting tricks to hide the true size of Brazil's fiscal deficit.

Her weakness makes her more dependent on the goodwill of the PT and trade unions aligned with it, which are viscerally opposed to the reforms needed to steady the economy. This month Ms Rousseff dared to acknowledge that Brazilians retire too early (at 55 for men, on average). In effect she admitted that the government cannot stabilise its finances if it continues to devote 40% of (non-interest) spending to pensions. But she backtracked in the face of resistance from her party and the unions. Raising the retirement age would be unacceptable, declared the PT this week.

This will make it much harder for Nelson Barbosa, the newly appointed finance minister, to contain the budget deficit, which is close to 10% of GDP. His main idea is to reintroduce a financial-transactions tax, which is loathed by business but popular among Ms Rousseff's left-wing allies. But this would raise just 10 billion reais (\$2.5 billion) in extra revenue, a fraction of net government borrowing, expected to be 500 billion reais this year. Ms Rousseff wants to summon back a council of wise men and women, which she disbanded during her first term, to suggest reforms. That looks like a delaying tactic.

While fiscal policy wobbles, economists are starting to fret about monetary policy, too. After weeks of hinting that it would raise interest rates to fight inflation, the Central Bank decided on January 20th ▶▶



▶ to hold them steady at 14.25%. The decision may have been justified: higher rates would weaken the economy further and make it still harder to control the fiscal deficit. But it looked like a surrender to political pressure. The Central Bank's president, Alexandre Tombini, met Ms Rousseff two days before the interest-rate decision. Then he foreshadowed the bank's U-turn by pointing to the IMF's gloomier predictions of Brazilian and global growth, which by that point should have been no surprise. Rather than shoring up Brazil's financial credibility, the Central Bank thus damaged it all the more.

There is little prospect that congressmen will take measures to repair it when they return to work. Those who are pushing for Ms Rousseff's impeachment concede privately that they are unlikely to muster the two-thirds majority needed in the lower house to send the motion to the Senate. But they plan to drag out the proceeding as long as the (vague) legal deadlines permit. That will accomplish their goal of undermining the president. It will do nothing to buck up Brazil. ■

Haiti's election

Chaos and compas

PORT-AU-PRINCE

Before choosing the next president, the country must work out how to do it

MICHEL MARTELLY, Haiti's president, had planned to mark the end of his term in office by going back to his old job as a popular singer of *compas*, a Haitian form of merengue. The idea was to perform once more as "Sweet Micky" at the Carnival in Port-au-Prince, Haiti's capital, which begins on February 7th, the day he is due to step down as president.

The problem is that there is no one to succeed him. The second round of the presidential election, scheduled for January 24th after two postponements, was called off two days before the vote. Jude Célestin, the runner-up in the first round of voting in October, had condemned the ballot as a "ridiculous farce" and refused to campaign further. Thousands of his supporters, and those of candidates who lost in the first round, took to the streets to demand that the run-off be cancelled. Haiti's electoral council said the danger of violence was too great for it to go ahead.

This leaves Haiti in limbo. Mr Martelly says he will only hand over to an elected successor, which suggests that he may govern a while longer. It is not clear how the next president will be chosen. One option would be to hold a completely new election, though Mr Martelly will fight to avoid

that. He backs the winner of the first round, Jovenel Moïse, a banana grower and businessman who, like Mr Martelly before he became president, has no prior political experience. Polls suggest that he would lose if the election started from scratch.

Such chaos is typical of politics in Haiti, where parties are weak and candidates often seem to be more interested in dispensing patronage than in implementing policies. In 1990, after 28 years of authoritarian rule by the Duvalier family and four years under transition governments, Jean-Bertrand Aristide won a free and fair election. Since then, "Haiti hasn't had an election worth calling an election," says Robert Fatton, a political scientist at the University of Virginia.

Last October's vote was typically messy. A commission appointed by Mr Martelly found evidence of widespread irregularities, though it is not clear that they were the cause of Mr Célestin's second-place finish.

Many Haitians do not share his sense of outrage. They see the protests, with their burning cars and tyres, as theatre staged by losers of a vote that was flawed but not rigged. The protesters "are not thinking about the real problems of Haiti," says a student in Pétienville, a prosperous suburb of the capital.

The most acute of these is inflation, which has risen by six percentage points since last April to 12%. Food prices have been pushed up by a drought and by a ban on 23 imports by road from the neighbouring Dominican Republic, imposed last September in response to the country's expulsion of Haitian immigrants. Haiti's currency, the gourde, has lost a quarter of its value in the past year. This adds to the misery caused by poverty, poor education and health care, weak growth and the after-effects of a devastating earthquake six years ago. Those are problems only an



Martelly's mind is on merengue

effective government can tackle.

Choosing any sort of government right now would be a feat. "There is no legal body in this country with the legitimacy to get us out of this mess," says Jacky Lumarque, the rector of Université Quisqueya in Port-au-Prince, who wanted to run for president himself but was disqualified—on spurious grounds, he says.

Legislative elections, held last year after a delay of three years, produced the beginnings of a functioning parliament, which ended a period of 12 months during which Mr Martelly ruled by decree. This might provide the basis of a solution. There is talk of installing a transitional government, perhaps led by the president of the Senate, Jocelerme Privert, which would oversee the delayed presidential run-off vote.

For that to work, Haiti would need an electoral council that the main candidates could trust. Mr Martelly would have to step aside. As a consolation, he could be invited back to hand over power formally to his successor—and perhaps to warble a bit of *compas*. ■

The Zika virus

To breed, or not to breed

BOGOTÁ AND SÃO PAULO

A fearsome outbreak has triggered a debate about birth control

THE mosquito-borne Zika virus, which has spread to 22 countries and territories in the Americas, is terrifying to pregnant women and their partners. The virus may cause birth defects in babies whose mothers were infected during pregnancy. In Brazil more than 4,000 have been born with abnormally small heads since last October, compared with fewer than 200 in a typical year. The response of several governments has triggered a debate about abortion, birth control and sex education which may outlast the outbreak itself.

It started after a handful of governments advised women to delay getting pregnant. Colombia, which has the second-highest number of infections after Brazil, advised women to wait six to eight months. Jamaica issued a similar recommendation, even though no cases of Zika have yet been reported there. El Salvador's government suggested that women should delay pregnancy until 2018. Panama warned women from indigenous communities, in which infection rates are high, not to conceive.

Some women find this advice rather bossy. Others say that governments have done little to help women control their fertility. Paula Avila-Guillen of the Centre for Reproductive Rights, a lobby group in New

► York, notes that rates of sexual violence and teenage pregnancy in Latin America are among the world's highest. The Guttmacher Institute, a think-tank, found that 56% of pregnancies in Latin America and the Caribbean are unintended.

Rates of accidental pregnancy are high because sex education is inadequate and birth control is hard to come by. Health workers are reluctant to prescribe contraceptives to teenagers or to women who have not yet given birth. If women are to avoid pregnancy, say women's-rights activists, governments must inform them better and provide more access to contra-

ception for both men and women.

Some argue that the Zika crisis should prompt countries to liberalise policies that severely restrict abortion. In El Salvador, which does not allow abortion even if a woman's life is at risk, activists are stepping up their campaign for a change in the law. An editorial in *Folha de São Paulo*, a Brazilian newspaper, argued that Brazil should end its ban on most abortions.

Rather than calling on women to delay pregnancy, Brazil is sensibly concentrating its efforts on the real culprit, the *Aedes aegypti* mosquito, which also carries dengue and yellow fever. The country had

stamped out the menace by 1958 but let down its guard and allowed it to return. This month the health minister, Marcelo Castro, announced that insect repellent will be distributed to 400,000 expectant mothers who qualify for *Bolsa Família*, a cash-transfer scheme. Some 310,000 health workers are raising awareness and teaching people how to keep mosquitoes at bay; on February 13th 220,000 soldiers will join them. Following World Health Organisation guidelines, Brazil advises women contemplating pregnancy on how to avoid getting bitten by mosquitoes. Women need facts, not fertility targets. ■

Bello | From red tape to joined-up government

Latin America's efforts to improve public policies are often undermined by politicised and obsolete civil services

FOR the past couple of years Bello has lived in Lima, Peru's capital. The other day he had to do some official paperwork. Assured by the head of the office concerned, a personal acquaintance, that it would be fine to pass by the ministry the following day, he turned up only to be told that the secretary who carries out the necessary task was "on holiday". The boss was "in a meeting". In other words, come back another day. Fortunately, after a quick e-mail, the boss appeared and affably arranged for another secretary to wield the rubber stamp.

This trivial incident is an everyday occurrence in Latin America. Unless a citizen has a contact among the higher-ups, there is normally no happy ending of the sort that Bello enjoyed. The plodding inefficiency and red tape of public bureaucracies has become an unaffordable drag on the region and a source of growing frustration. Despite the economic slowdown, more Latin Americans are middle class than in the past. They are demanding a more sophisticated, efficient and less corrupt state. Decentralisation and the digital revolution pose additional challenges.

The region's civil services suffer many vices. One is an obsession with procedures and hierarchies and a disdain for service and outcomes. Many Latin American civil servants must follow thick procedural codes but are not made accountable through performance targets. Organs of control fail to prevent corruption but instil a terror of initiative. For example, Carolina Trivelli, who set up a new social-development ministry in Peru in 2011-13, says she was subjected to an investigation because she allowed publication of a pamphlet that included data whose release required a formal ministerial resolution. That she, the minister, authorised it was not enough.

Another besetting sin is politicisation. Too often the civil service is staffed with political hangers-on, hired for loyalty rather than merit. Mauricio Macri, Argentina's new president, is sacking thousands of political hacks rewarded with government jobs by his predecessor, Cristina Fernández de Kirchner. Conversely, competent civil servants risk being fired when a new minister or president comes in. And new presidents love to create new agencies without abolishing those they duplicate.

Political cronyism may explain why public-sector salaries tend to be higher than those in the private sector for low-level jobs but lower for senior grades, according to a study by CAF, a regional development bank. Typically, civil services lack clear career structures. For populist reasons, presidents have sometimes capped the pay of senior civil servants, making it impossible to recruit good, honest people.

Governments have tended to respond to a dysfunctional bureaucracy by creating islands of excellence, such as central banks and finance ministries. More recently, countries such as Brazil and Peru have improved the management of social minis-

tries. Civil servants are far more likely to have a university degree than in the past.

Some countries have tried to go beyond such piecemeal improvements to create an integrated professional civil service. Only Chile has had a degree of success. This began with a law, approved with bipartisan support in 2003, which created an elite corps of senior public-sector managers who are chosen in open competition, subject to performance targets and well paid. Elsewhere, progress has been patchy. A study of the region's civil services by the Inter-American Development Bank found improvement over the decade to 2013 in some of the worst-performing countries, but stagnation in Brazil and Mexico.

One of the improvers was Peru. It set up a civil-service agency in 2008, which has created a Chilean-style corps of public-sector managers. Under a law passed in 2013, 560,000 civil servants in national and local government will be transferred to a new professional contract, based on merit, evaluations and rewards for performance. This replaces a muddle of different contracts. But no workers have yet transferred, and many oppose the reform. The next government, to be chosen this year, may well lack the political will and the money to implement it.

Many of the most pressing policy tasks facing Latin American governments today, from tackling violent crime or the Zika virus to boosting productivity, require different state agencies at all levels of government to act in a co-ordinated manner. The region's civil services have typically found this almost impossible. Islands of excellence are no longer enough. Creating a professional civil service is a slow business, and requires political consensus. If the region is to thrive in a harsher world, it is also essential.





The South China Sea

Making a splash

Taiwan's outgoing president further roils troubled waters

AS PARTING gestures go, it was a risky one. Taiwan's president, Ma Ying-jeou, leaves office in May, having lost an election on January 16th. But rather than slink out quietly, this week he visited Itu Aba, known in Chinese as Taiping, the biggest natural island in the Spratly archipelago in the South China Sea, garrisoned by Taiwan but also claimed by China, the Philippines and Vietnam. The Philippines and Vietnam were incensed, China much less so: it appreciates Mr Ma's adherence to the fiction that there is but "one China". From its point of view, Taiwan's territorial claims in the much-disputed sea are its own.

Besides reasserting Taiwan's claim, Mr Ma wanted to rebut arguments made by the Philippines, in a case it has brought before the Permanent Court of Arbitration in The Hague. This argues that under the UN Convention on the Law of the Sea (UNCLOS), Itu Aba is a rock that cannot sustain human life. So it is entitled to 12 nautical miles of territorial waters, but not the 200-mile exclusive economic zone accorded to habitable islands. Mr Ma also possibly hoped to advertise his own "South China Sea Peace Initiative", which he announced last May but which was largely ignored.

The risk is that the Philippines and Vietnam may retaliate in some way—perhaps even with high-profile visits to islands they occupy, though this is unlikely—and that this, in turn, provokes China. America is so alarmed that its representative in Taiwan issued an unusually forthright denunciation of Mr Ma's "extremely unhelpful"

day-trip as soon as it was announced.

Tensions over the sea have been rising in any case. China has been building frenetically, turning rocks and reefs in the Spratlys into islands, three of them already bigger than Itu Aba, with airstrips. It has recently landed civilian aircraft carrying "tourists" on one (see picture). And China has again moved a large oil rig into waters claimed by Vietnam—as it did in 2014 when it provoked fatal anti-Chinese riots.

China derides all criticism. One Chinese official compares rival claimants'



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complaints to "smashing the windows of your neighbours' house and then saying, 'We are being threatened'." China believes America is stoking alarm as part of a broader strategy to contain it. It is true that its neighbours are gradually stepping up security co-operation with each other and with America. Just this week Vietnam approved an Indian satellite-tracking centre on its soil to share imagery, including pictures of the South China Sea.

The worry is that China is steadily expanding its presence until its dominance of the sea becomes an incontestable fact. This also concerns America: the sea is a vital trade artery, and China threatens 70 years of American naval supremacy in the western Pacific. In a report published in January, commissioned by the Pentagon to look at America's strategic "rebalance" towards Asia, the Centre for Strategic and International Studies, a Washington think-tank, projected that by 2030, on current trends, "the South China Sea will be virtually a Chinese lake, as the Caribbean or Gulf of Mexico is for the United States today."

Three approaches are being tried to moderate China's behaviour—legal, diplomatic and military. The broader aim of the Philippines' case under UNCLOS is to show that China's historic claim—a "nine-dash line" on maps encompassing most of the sea—has no legal basis. In October China suffered a setback when the court in The Hague accepted that the case fell within its jurisdiction. But even if the court rules in the Philippines' favour, China has made clear that it will ignore it. South-East Asian claimants in the sea—the Philippines, Vietnam, Brunei and Malaysia—have hoped that their regional club, ASEAN, can show a united front. But China prefers to negotiate with (and bully) ASEAN members individually. And it skilfully exploits the body's internal differences.

As for military deterrence, a marked increase in defence spending across the re- ▶▶

► gion in recent years still leaves America as the only power capable of standing up to China. As a reminder of this, in November the American navy conducted a “freedom of navigation operation” in the South China Sea. These operations, conducted around the world, involve sending warships to challenge excessive maritime claims by sailing through the claimed waters. In the South China Sea, America says it takes no position on the sovereignty disputes but does want international law to apply. In this exercise, the USS *Lassen* sailed close to Subi reef, where China has built an artificial island on what was once a feature submerged at high tide.

Yet the message was muddled. In January Ashton Carter, America’s secretary of defence, explained that the operation had been conducted as “innocent passage”, ie, under a provision of UNCLOS that allows warships to enter even territorial waters so long as they do nothing that might have a military purpose. So it is not clear quite what point America was trying to make.

John Kerry, America’s secretary of state, was in China this week (see Lexington on page 27), after a trip that took in Cambodia and Laos, which holds the chairmanship of ASEAN this year. He spoke of the need to avoid a “destabilising cycle of mistrust or escalation” in the South China Sea. At a gathering on February 15th and 16th at a ranch in Sunnylands, California, Barack Obama will play host to the leaders of all ten ASEAN countries. The unprecedented summit is a symbolic demonstration of American support for ASEAN. China will probably scent another attempt to rally the region against it. But nothing suggests it will be deterred from trying to turn the sea into its own lake. ■

Politics in Vietnam

Reptilian manoeuvres

HANOI

A colourful prime minister goes, as the grey men stay

WHEN Great Grandfather, a revered turtle which had long paddled around Hanoi’s central lake, was found dead on the eve of the Communist Party’s five-yearly congress, many Vietnamese thought it a bad omen for the ruling party. The animal embodied a legend about a 15th-century Vietnamese warrior who presented his sword to a turtle after vanquishing the Chinese. Some wondered whether the party’s leaders, whose dusty Marxism-Leninism feels increasingly out of step with Vietnam’s youthful population of 93m, were also losing their edge.

As it happens, the congress, which con-



Carry on, Nguyen Phu Trong

cluded in pomp on January 28th, ended up backing an only slightly more sprightly reptile. After eight days of unusually fierce politicking, party bigwigs forced the charismatic and pro-business prime minister to leave government after his term expires in a few months. Nguyen Tan Dung had hoped to assume the top party post of general secretary. Instead Mr Dung, along with the state president, Truong Tan Sang, failed to get a seat on the party’s new Central Committee, while the septuagenarian incumbent, Nguyen Phu Trong, was asked to carry on as all-important party chief.

Given term limits and mandatory retirement ages, Mr Dung, who is 66, had every reason to be shown the door. Yet analysts thought he might win promotion to general secretary. His patronage network is extensive, and he enjoyed the support of business types backing a more open economy. Younger Vietnamese liked Mr Dung’s friendly stance towards America and his robust defence of Vietnam’s sovereignty in territorial disputes with China.

True, whiffs of corruption hung over him, and the bankruptcies of two state firms he championed were a blot. But many Vietnamese could accept these things. Despite the scandals, “he still improved Vietnam’s relations with America”, says Pham Khac Quang, a 33-year-old machine-parts distributor in Hanoi. Had he kept on doing that, all else “would have been forgiven”. In December Mr Dung defended his record in a nine-page memo to colleagues, later leaked to a political blog.

In the end an opposing party faction loosely grouped around Mr Trong gained the upper hand, in part through skilful management of voting procedures that baffle even some insiders. This group appears to have emphasised Mr Dung’s economic mishaps. His opponents almost certainly pointed out that his self-promotion and his anti-China populism were incom-

patible with the Communists’ preference for cautious, consensual rule. Some doubtless worried that his rise would undermine their own power.

As for Mr Trong, party chief since 2011, he is a colourless apparatchik in the twilight of his career. His support owes as much to Mr Dung’s divisiveness as to any personal merits; indeed, with the prime minister out of the picture Mr Trong may soon retire himself, to be replaced by a bland successor—a front-runner is the party’s propaganda chief, Dinh The Huynh. More interesting are the officials the congress appears to have chosen for other top jobs. Nguyen Thi Kim Ngan looks likely to become the first woman to chair the National Assembly; she understands economics and is broadly well-regarded. The probable new state president is Tran Dai Quang, the minister for public security. He would be a worrying choice, given the state’s tendency to lock up and occasionally torture dissidents. Human Rights Watch calls its record “dismal”.

The next prime minister is expected to be Nguyen Xuan Phuc, who is harder to read. As one of Mr Dung’s deputies he has worked to cut red tape, with the help of some American funding. A foreign businessman calls him a “straight shooter”. Yet Mr Phuc has demonstrated little of Mr Dung’s popularity or vim, and he probably cleaves closer to Mr Trong’s slightly more conservative views.

The new leaders may slow the pace of economic liberalisation, but they are unlikely to reverse it. Nor will relations with America be set back. It was Mr Trong, after all, who delighted in calling on President Barack Obama in Washington last summer—a big step in attempts to make Vietnam less vulnerable to Chinese bullying. A party plenum recently reaffirmed its support for the Trans-Pacific Partnership, an American-led trade deal which the incoming government will soon have to ratify. Meanwhile, bigwigs at the congress made encouraging noises about shrinking flabby state firms. Investors will welcome this sense of consistency, although the prime minister’s imminent departure has also dashed hopes that grander modernisations might be on the cards.

More radical changes may have to wait for the next congress, in 2021. Then a mass of Russian-speaking party members, brought up hating America, are due to retire. Their successors may well be Western-educated technocrats who understand that the party’s best hope of survival lies in making the economy more competitive, and in convincing young Vietnamese such as Mr Quang, the machine-parts distributor, that it has their interests at heart. For the moment, though, hammer-and-sickle banners cover the capital. And most people—like subjects in a 15th-century kingdom—have no say in who rules the roost. ■

Nepal's constitutional stand-off

Trouble in the basement

JANAKPUR

Amendments to a new constitution fail to appease dissenting lowlanders

EVEN without the Terai plain's winter fogs that cling to the flat borderlands between Nepal and India, the villages on either side of the frontier look much the same: dusty lanes lined with houses made of mud, bamboo and tin. But the fog has its uses. Since protesters against a new Nepali constitution began blocking roads from India in September, enterprising villagers have risen before the rooster crows, slipped on motorbikes across to India, and returned with a jerry can of fuel or a cylinder of cooking gas before the fog disperses.

In just four months the smuggling has encroached on a state monopoly to the point of supplying half the fuel for this poor, landlocked country. It is a parable of the mess Nepal is in. Despite being members of the same lowland ethnic groups, known broadly as Madhesis—who make up about a third of the country's population of 30m and whose leaders agitate for greater constitutional rights—the smugglers have done more than anything to weaken the Madhesis' hand. In the Nepali capital, Kathmandu, which nestles in the uplands and whose long domination the lowlanders resent, the price of petrol has slid from \$5 a litre at the height of the blockade in November to around \$2.50 now. The smugglers are subverting the subverters.

Yet the blockade has had an effect. On January 23rd the three main (and largely upland) parties in Nepal's ruling coalition abruptly pushed through parliament amendments to a constitution promul-

gated, over Madhesi objections, only in September. The changes go some way to meeting the lowlanders' demands for the political representation they feel they were promised. Under the new rules, the Terai region will now get around half of the parliamentary seats. The amendments promise (vaguely) to attach greater importance to population than to geography when fixing constituency boundaries. They also ensure a share of state jobs and favours to politically marginalised groups, in place of a fuzzy promise of "inclusion". A new process for delimiting electoral districts should also help Madhesis.

The UN secretary-general, Ban Ki-moon, welcomed the changes. So did India, the regional superpower and Nepal's lifeline. Its government had encouraged the border blockade, partly out of sympathy with Madhesis, many of whom have kin on the Indian side, but also out of fear that Kathmandu's obstinate elites might tip Nepal into another round of strife—the country is recovering from years of turmoil, including a long insurgency by Maoist guerrillas. Fragmented by caste, religion and language as well as by region, ethnicity, spectacularly rugged terrain and politics, Nepalese society remains fragile. So does its government: C.K. Lal, an acerbic commentator, describes the ruling alliance as a "fascistic formation consisting of malignant monarchists, malicious Maoists and malevolent Marxist-Leninists—each one masquerading as nationalists."

Previous governments have also been inept, but the death and destruction from an earthquake last April have cast the current lot in unflattering relief. Of some \$1.9 billion pledged in foreign aid for the current fiscal year, which began last July, the state has not spent even one-twentieth. A special state agency created to organise earthquake relief and reconstruction has yet to choose a logo, let alone begin work.

Crucial development projects, including roads and hydroelectric schemes, remain on hold, starved of either bureaucratic approval or supplies. Tourism is at a six-year low, and investment has shrivelled.

Small wonder that the government turns a blind eye to the smugglers who have kept Nepal afloat. Some Madhesis are not so happy with them; border protesters have on occasion set smuggled fuel on fire. Nor are the main Madhesi parties content. They say the constitutional changes fail to meet their main demand, which is to divide the region into no more than two provinces and grant them more local power. With the blockade less effective, they are looking for other ways to make their point. And with tempers still running high, Nepal's troubles are not yet over. ■

Subhas Chandra Bose

Mystery theatre

KOLKATA

A founding father of modern India continues to be a focus of speculation

IN THE West, regard for the founding fathers of independent India is usually confined to Mohandas Gandhi and Jawaharlal Nehru, the pacifist in a dhoti and the suave Cantabrigian. By contrast Subhas Chandra Bose, or "Netaji" ("revered leader"), took up arms against the British and sided with the Axis powers in the second world war, dying in a plane crash in 1945 in Japanese-occupied Taiwan. The British called him a quisling, but his martial valour still inspires Indians. In his native Bengal most public places seem to be named after him.

Yet in India the story of Bose's life remains partially classified—supposedly on grounds of national security. So it made for good drama on January 23rd, Netaji's birthday (in 1897), when the government of Narendra Modi declassified 100 of its files on Bose and promised more to come. They shed little light, but that is hardly the point. Bose is one of the few heroes of India's independence movement that the prime minister's Bharatiya Janata Party (BJP) can hope to claim—Gandhi and Nehru belong firmly to its arch-rival, the Congress party.

In West Bengal the chief minister, Mamata Banerjee, with her own party, declassified all the state's files in September. Mainly they confirmed that the government spied on Bose's family in the 1950s and 1960s. By publishing first, she pipped the BJP.

Bengalis have been clamouring for more disclosure, many with hopes of solving a mystery about Bose's death. At one point, he considered disguising himself as ▶▶



A smuggler cove



Bose made his bed with the baddies

▶ a monk in Thailand to evade the Allies. Netaji was already famous for a daring escape in 1941, when he passed as an Afghan to cut a dash from Calcutta to Berlin. He then returned to the Pacific theatre by way of two submarines meeting near Madagascar. In the days after the Japanese surrender, might he have reached China or Russia, plotting a return to India? He could have challenged Nehru for the leadership and changed the course of Indian history. Or maybe he was already in India, hiding as a holy man? Two ashrams claim him.

All nonsense, says Krishna Bose, a former MP and the widow of Netaji's favourite nephew—he drove the Bose getaway car in 1941, a German roadster that sits outside the Netaji Research Bureau she runs in Kolkata. There is no mystery, and no assassination—the plane crash was an accident.

So why have successive governments in Delhi kept the Bose files under seal? Presumably they were unflattering to Nehru and thus to Congress. Campaigning in January 2014, the BJP declared it would declassify all the files. So why only a dribble of information now? Rudrangshu Mukherjee, a historian of Bose and Nehru, says another rare hero of the BJP, Vallabhbhai "Sardar" Patel, loathed Bose. Or perhaps it pays to preserve a certain ignorance about Bose himself. One of Mr Modi's 100 files, from 1976, finds the Indian embassy in Tokyo under pressure to repatriate Bose's ashes from the Renkoji temple in Tokyo. At the time bureaucrats concluded that "due to possible adverse reactions from...certain sections of the public, who refused to believe in his death in the plane crash", it would be wiser to do nothing.

Mrs Bose has devoted much of her life to collecting and preserving the historical record. She regrets that politicians are still fiddling with the facts. Another historian suspects a third possibility: sheer ineptitude on the part of the archivists. ■

Superstition in Thailand

Dolls that bring luck—and drugs

BANGKOK

A craze for haunted dolls starts a moral panic

DOWN a buzzing lane in Bangkok's Chinatown, a child is being born. Payau, a middle-aged lady perched on a stool, has just finished assembling a plastic doll which she has dressed in silk and adorned with pink lipstick. She will take 4,000 baht (\$110) for it, she says, while brushing tangles from its hair.

Payau's doll is not a toy but a *luk thep*, or "child angel"—a factory-moulded moppet which some believe can be imbued, through a blessing, with the spirit of a child. *Luk thep* are increasingly being seen out and about in Bangkok, the capital, with their grown-up owners, who feed, water and dress them in the hope of receiving good fortune in return. The fad has not amused Prayuth Chan-ocha, the former general who leads Thailand's nanny government, which came to power in a coup in May 2014. He implied on January 25th that adults ought not to waste money on plastic kids.

Luk thep became fashionable last year, boosted by endorsements from soap stars and other minor celebrities. The trend has burst into the headlines again with Thai Smile, a budget airline, declaring that passengers who object to stewards shoving their little darlings into overhead lockers may now buy them tickets of their own. Child angels are also welcome to their own seats at a forthcoming production of "Disney on Ice", according to its organiser. A buffet

restaurant has announced that *luk thep* may dine at children's rates—though patrons must pay for any uneaten food.

A backlash is brewing, however. Aviation authorities have realised that nervous travellers may not want to sit next to another passenger's haunted mannequin. Mental-health officials suggest that Thais who seek spiritual comfort would be better off adhering to established religions. Buddhist bigwigs say they are investigating whether monks who bless dolls are breaking religious codes of conduct. And now police warn that the dolls may be being used to smuggle drugs and contraband (with miscreants betting that security guards will be too tactful—or squeamish—to prod and poke them).

Some wonder whether Thailand's falling fertility rate—at 1.5 children per woman among the lowest in South-East Asia—explains the strong demand for magic dolls. But even if the craze will soon blow over, no government has succeeded in taming rampant superstition in Thailand, where charm-peddling is a lucrative trade and even the royal

family uses soothsayers. Child angels are more palatable than necromantic amulets which were once made from bits of still-born babies and sometimes still turn up in grim emporia. Given a stumbling economy and the coup leaders' stifling rule, it is no surprise that some Thais think they deserve a little more luck.



Kazakhstan's tanking economy

Drift and dissent

ALMATY

So much for Nursultan Nazarbayev's "Kazakh dream"

NOT long ago it all looked so much better: oil prices were high, the middle classes were growing and the autocrat-father of the state, Nursultan Nazarbayev, presided over 17m grateful subjects. Yet today the situation in Kazakhstan looks more troubling than at any time since the country broke free of the Soviet Union to become, against the odds, Central Asia's most prosperous state. To many, Mr Nazar-

bayev's promise of a "Kazakh dream" now seems like a sick joke.

An overreliance on oil is what makes the Kazakh economy so fragile. Since the price crashed, export revenues have tumbled. The currency, the tenge, has fallen by half since August. That has squeezed wages and savaged household consumption. An economy that grew by over 5% in 2013 may contract this year, for the first time since 1998. It has not helped that growth is stalling in China, Kazakhstan's second largest trading partner, while Russia, its largest, is now deep in recession.

All this is hurting ordinary folk. In a rare protest in a closely controlled state, two dozen homeowners gathered outside a bank in Almaty, the commercial capital, last week. They were complaining about their mortgages, and they are unlikely to be ▶▶

Cracks in the facade

Kazakhstan



▶ the last to do so. Many mortgages are denominated in dollars, so the cost of servicing them has soared.

The government is dealing with the financial crunch with an odd mix of stimulus and austerity. On the stimulus side is a \$9-billion investment package to boost non-oil sectors such as manufacturing, as well as perks for foreign investors as a fire sale of state assets gets under way. Public-sector salaries and pensions have been raised, and schemes introduced to help savers and mortgage holders suffering from the currency's fall.

As for austerity, public spending is to be cut in other areas, though in ways supposed to protect the worst-off. Even a swords-and-stallions TV drama about Kazakh history, intended to create a nobler and more accurate image of Kazakhstan than "Borat", has lost some of its state funding. The budget deficit is likely to balloon despite some help from the sovereign wealth fund.

As grievances mount, political stability comes into question. The president keeps chanting an all-in-it-together mantra, but the calls for austerity by this head of a fabulously wealthy clan may wear thin. The question is how he might react to signs of greater dissatisfaction. Mr Nazarbayev has run Kazakhstan since before the Soviet Union collapsed, wielding a very personal sort of power even as international statesmen and highly paid public-relations firms have helped to polish a veneer of liberalism and democracy. Last year Mr Nazarbayev promised a "modern state apparatus", and in the past he has talked of creating a resilient political system. But current conditions can hardly seem to him an opportune time for political change. There has been no move towards proper reform.

Meanwhile, the regime has kept a heavy lid on dissent ever since dozens of striking oil workers were gunned down by security forces in Zhanaozen in western Kazakhstan in late 2011. An opposition leader, Vladimir Kozlov, is in jail on trumped-up charges of fomenting that turmoil, which prompted a massive crack-down on the political opposition and inde-

pendent media. Last week two dissidents were jailed on spurious charges of inciting racial hatred, following a Kafkaesque trial sparked by a discussion on Facebook about an unpublished book written two decades ago.

"Presidents come and go," one of those dissidents, Serikzhan Mambetalin, said during his spirited defence, "But the people remain." Tell that to Mr Nazarbayev. He turns 76 in July, but shows no sign of going. Not least—and this spells trouble for the future—he has signally failed to provide for his succession.

Meanwhile, though Mr Nazarbayev would probably win anyway if presidential elections were free and fair, he takes no chances. He won the last election with 98% of the vote; in the past even other presidential candidates voted for the father of the state. In late January Mr Nazarbayev set a date of March 20th for parliamentary elections. Supposedly, they are in order to provide a fresh mandate to boost growth. In practice they will produce another rubber-stamp legislature to do the president's bidding. However stage-managed the elections, they may fail to mask the cracks likely to emerge as the economy slows. ■

Suicide in Japan

Deep in the woods

AOKIGAHARA

Fewer Japanese are killing themselves

IT WORRIES the volunteer patroller at one of the entrances to Aokigahara forest that the white car with the Osaka number plates has now been there, empty, for five days. This forest of moss-clad trees covers 30 square kilometres (12 square miles) of a lava plateau near the foot of Mount Fuji. As a place to commit suicide, it is said to be second in popularity only to San Francisco's Golden Gate Bridge. The car's owner, the patroller says, is probably already dead somewhere deep inside the forest. His job is to try to spot and turn back those who may be contemplating suicide.

Folklore holds that the forest was once a site for *ubasute*, the (possibly apocryphal) practice of carrying the old or infirm to a remote place and leaving them to die, so that they would not be a burden to their families. A 1960 novel by Seicho Matsumoto popularised Aokigahara as a site for suicides, after the heroine took her own life there. When suicides in Japan rose steeply as the country's financial bubble burst after 1989, several dozen people a year were killing themselves in Aokigahara, mainly by hanging. Signs stand next to the paths, telling passers-by that their lives are

precious, a gift from their parents. The number of a suicide hotline is displayed below. Yet much internet chatter talks of the forest as a site for suicides, and its vastness is a lure to many contemplating death. Mobile-phone reception is poor. The volcanic deposits also wreak havoc with compasses; those with second thoughts might struggle to retrace their steps.

Last year over 23,000 people ended their own lives in Japan. The good news is that the number has fallen for six years in a row—a trend elsewhere, too (see chart). Part of the reason for the decline of Japanese suicides is economic: with business and personal insolvencies at a relative low, fewer people are losing their jobs or going bankrupt—a common motivation for Japanese suicides, along with worries about health. But prevention has also improved. Nearly a decade ago the government adopted policies to stop suicides. They include classes at schools, extra municipal staff trained in suicide-prevention, and better training in mental health among medical staff. Those expressing suicidal urges are now more likely to receive attention—though mental illness still has a powerful stigma attached to it in Japan.

Most preventive measures are directed at middle-aged men, who are most at risk. Yet the rate at which younger adults kill themselves has not fallen by as much as for older folk—indeed, suicide is the leading cause of death for 15- to 40-year-olds. It is harder to deal with a pervading dejection about the future that prompts many young Japanese to kill themselves than with the practical issues—eg, financial straits—that can push middle-aged people over the edge, says Yasuyuki Shimizu of Life Link, an NGO.

Meanwhile, Aokigahara continues to swallow its victims. That takes a mental toll on locals too. Recently, the same patrolman wrestled a young man to the ground to stop him vanishing inside. Such incidents haunt him, and he wants talk about them. But the police have told him not to, for fear of bringing more people looking for a stillness deeper even than the silence of the forest. ■

Coming down nearly everywhere

Suicides per 100,000 population





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Growth targets

Grossly Deceptive Plans

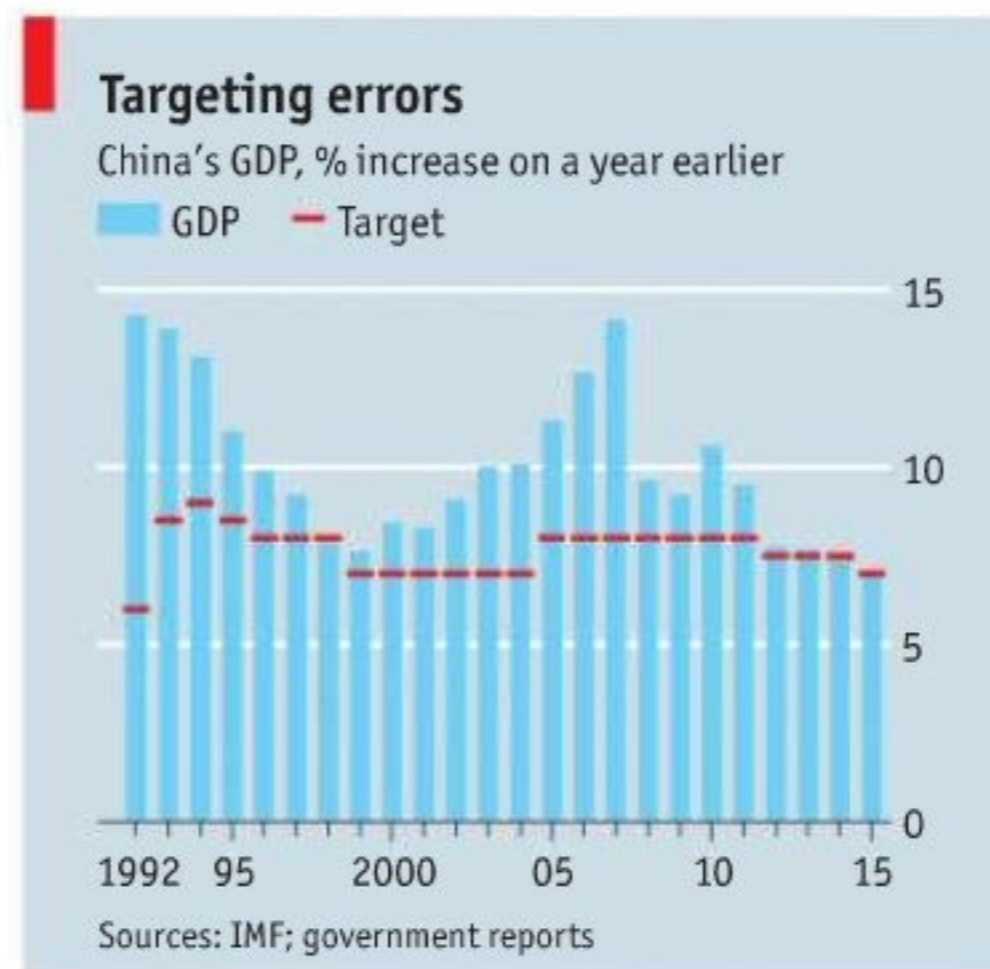
BEIJING

China's obsession with GDP targets threatens its economy

ON JANUARY 19th China declared that its gross domestic product had grown by 6.9% in 2015, accounting for inflation—the slowest rate in a quarter of a century. It was neatly within the government's target of “around 7%”, but many economists wondered whether the figure was accurate. Online chatter in China about dodgy GDP numbers was fuelled a week later by the arrest of the man who had announced the data: Wang Baoan, the head of the National Bureau of Statistics. The country's anti-graft agency accused him of “serious disciplinary violations”, a euphemism for corruption. But beyond all the (justifiable) doubts about the figures lies another important question. That is: why does China have a GDP target at all?

It is the only large industrial country that sets one. Normally central banks declare specific goals for things like inflation or unemployment. The idea that a government should aim for a particular rate of output expansion, and steer the economy to achieve that, is unusual. In the case of China, which is trying to wean its economy off excessive reliance on GDP-boosting (but often wasteful and debt-fuelling) investment, it is risky. It is inconsistent with the government's own oft-repeated mantra that it is the quality of growth that matters, not the quantity.

In the past, setting a target may not have made much difference. For all but three of the years between 1992 and 2015, China's growth was above target, often by a big margin. A rare period when targets seemed



to affect the way officials tried to manage the economy was from 2008 to 2009, when growth fell sharply (see chart). It would be hard to argue that targets themselves have been responsible for China's overall (impressive) record of growth in recent decades.

Now, however, the economy is slowing. This is inevitable: double-digit growth is no longer achievable except at dangerous cost (total debt was nearly 250% of GDP in the third quarter of 2015). But the government is worried that the economy may slow too fast, and that this could cause a destabilising surge in unemployment. So it has been ramping up investment again, and goading local governments to do the same by setting a high growth target.

For a while there were signs that the leadership itself had doubts about the mer-

its of GDP target-setting. In 2013 Xinhua, an official news agency, decried what it called the country's “GDP obsession”. By the next year, 70 or so counties and cities had scrapped their targets. In 2015 Shanghai joined them, becoming the first big city to break with orthodoxy (each level of government sets its own GDP target, often higher than the national one). Liu Qiao of the Guanghua School of Management at Peking University says the central government ought to follow suit.

Last year there were hints that it might. The prime minister, Li Keqiang, said the government would not “defend [the target for 2015] to the death”. And in October, talking about the government's work on a new five-year economic plan (which will run from 2016 to 2020), President Xi Jinping avoided mentioning a number. That raised expectations that targets might at least be downplayed, if not abandoned.

They have not been, however. An outline of the five-year plan, unveiled in November, contained the usual emphasis on growth. And Mr Xi appeared to change his tune, saying expansion must average at least 6.5% a year until 2020. Many economists believe that will require yet more debt-inducing stimulus. A GDP target for this year is all but certain to be announced, as usual, at the annual session of the legislature in March (when the five-year plan will also be adopted). It will probably be higher than 6%. Speculation that the government might set a target range in order to give itself more policymaking flexibility (as the IMF and the World Bank have urged) has ebbed. In December some national legislators complained that local governments were busting their debt ceilings because there was “still too much emphasis on GDP”.

So why is there still a target? The reasons are political. In a country so large, central leaders are always fearful of losing their grip on far-flung bureaucrats: setting

► GDP targets is one means by which they believe they can evaluate and control those lower down. Local officials are also judged by environmental standards, social policies and what the Communist Party calls “virtue”—that is, being uncorrupt and in tune with the party’s latest interpretation of Marxist doctrine. But GDP is usually the most important criterion, having the attraction of being (roughly) measurable.

A study in 2013 by Deng Yongheng of Singapore National University and Wu Jing of Tsinghua University in Beijing looked at the careers of officials who had worked as mayors in 283 cities. It found that those who presided over higher growth rates in their cities, relative to the rates notched up by their predecessors, had got better jobs afterwards. Since the study was conducted, there has been little sign of any change in this pattern.

Depressingly, the academics found that the more the mayors had increased investment in environmental protection, the lower their likelihood of being promoted had turned out to be. The government finds environmental targets more difficult to set than growth ones. The environment ministry is trying to create a measure of “green GDP” (roughly, output minus the cost of environmental damage) that could be used to assess the performance of local officials. But it had a stab at this before, in 2004, and got nowhere: the damage proved too tricky to calculate.

At higher levels, promotion is determined in part by which faction an official belongs to. But the lower down the hierarchy a government entity is, the more it is likely to be judged by GDP. When Mr Li, the prime minister, suggested that GDP targets might not be all-important, many people complained. One academic says that without such targets, local officials would not know what they are supposed to be doing. At a time when Mr Xi’s anti-corruption campaign is causing many nervous officials to sit on their hands to avoid graft-busters’ attention, party leaders are all the more unwilling to abandon an appraisal system which—however imperfectly—holds officials to account and can goad them into action.

As Chinese leaders see it, the target has another use. It provides numerical evidence for their proclaimed efforts to make China rich. Deng Xiaoping set the trend by declaring in 1980 that China would quadruple its GDP of that year by the end of the century (it achieved that goal several years early). Andrew Batson of Gavekal Dragonomics, a research and advisory firm, points out that when Mr Xi unveiled his 6.5% target, he set it in the context of a broader (Deng-like) objective: that of doubling the level of GDP attained in 2010 by the end of the decade.

Mr Xi apparently believes that a growth target is necessary in order for China to be-

come a “moderately prosperous society” by 2021, the 100th anniversary of the party’s founding. That is one of what the party calls its two “centenary goals” (the other is for China to become “prosperous and strong” by 2049, the 100th anniversary of Communist rule).

These aims were first proclaimed by Jiang Zemin, who was then president, in 1997—inspired, it appeared, by Deng, who was the first to speak of a need to make China “moderately prosperous”. The paradox is that by fixating on growth targets China may end up badly damaging its economy, rather than fulfilling its goals. ■

Mineral water

High-altitude thirst

BEIJING

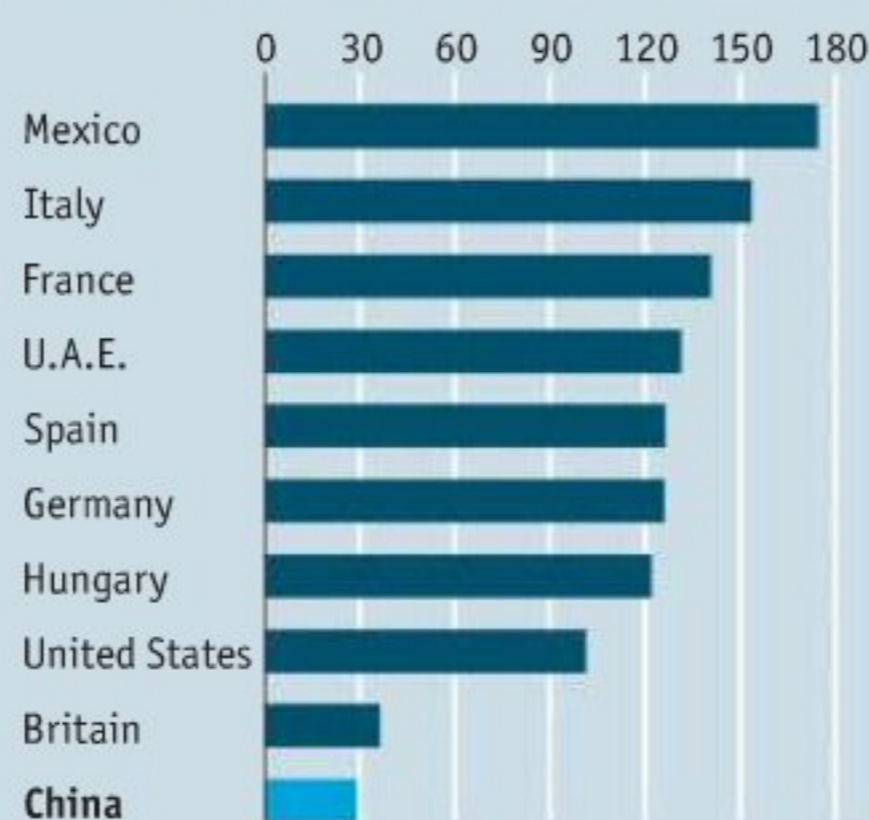
Bottling Himalayan water could be bad for the region’s environment

CHINA is so vast, it quickly becomes the largest market for almost anything it consumes. Such is the case with bottled water. Chinese drink 40 billion litres (70 billion pints) of the stuff each year, up over 13-fold since 1998. That growth has a long way to go if China ever consumes as much per person as Mexico (see chart). But finding clean supplies is difficult; rivers, lakes and even groundwater in China are often foul. Hence the huge demand for a seem-



Bottled-up potential

Consumption of bottled water
2015, litres per person



Source: Euromonitor International

ingly inexhaustible source of pristine water that is cheap to extract, sells at a premium and can now, thanks to massive investment in infrastructure, be taken to coastal cities: Tibetan glaciers.

Tibet already sells Qomolangma Glacier water, named after the Tibetan word for Mount Everest. Last year Sinopec, a state-owned energy group, put another brand on sale at its petrol stations: Tibet 5100. It is bottled 5,100 metres (16,700 feet) up in the Nyenchen Tanglha range. The Tibetan government has licensed 28 more companies to increase the province’s bottling capacity 50-fold by 2020.

Assuming companies do not mine the glacier ice itself, they will bottle only the meltwater that flows out of glaciers in summer. It is true that Himalayan glaciers on the Tibet-Qinghai plateau have retreated over the past 30 years by about 15%. But this is because of climate change. Bottling will not cause them to lose mass any quicker.

Nor will the bottled-water industry have much impact on the volume of water that flows from Tibet—a crucial source for neighbouring countries as well as China itself. About 1 billion people depend on the giant rivers—the Yellow river, the Brahmaputra, the Indus, the Ganges, the Yangzi, the Mekong and the Salween—that rise in the Himalayas, a region with the largest reserves of fresh water after the north and south poles. The manufacturing of bottled water consumes three times more water than ends up being sold. Yet even the projected expansion of Tibet’s bottled-water output would amount to only a tiny fraction of the region’s runoff.

More worrying is the possible threat that the industry will pose to the Tibetan environment. China has an atrocious record of looking after its pristine areas. Liu Hongqiao of China Water Risk, an NGO, says no water company has published any environmental-impact study in Tibet. The bottling industry may spawn other, heavy-polluting ones, on the plateau, for the production of bottles and the plastic they use.

Tibet’s government is bribing bottlers with tax cuts, tax holidays and cheap loans. It charges companies only 3 yuan (50 cents) to extract a cubic metre of water, compared with up to 50 yuan elsewhere. But the government in Beijing may have other plans. Alarmed by water scarcity, it wants to reduce groundwater extraction. It has plans for a nationwide cap in 2020 and wants all provinces—even water-rich ones like Tibet—to set quotas for water use. This may make Tibet’s policies unsustainable (which may be no bad thing). In Jilin province in the north-east, the local government had even more ambitious plans than Tibet’s for ramping up mineral-water production. But it was forced to cut them by half because of mandated quotas. Bubbles, it seems, are an integral part of China’s bottled-water business. ■

Banyan | A confession to make

What the current vogue for televised confessions and apologies says about Xi Jinping's China



LOVE, as Ali MacGraw once sobbed, means never having to say you're sorry. Working in China is the opposite: you have to say sorry quite often. A handwritten sheet of paper, ideally smudged by contrite teardrops, used to do the trick. But these days, it sometimes seems, an apology is worth anything only if it is made on national television. In recent months all sorts of people have unburdened themselves in this way: a leading financial journalist distressed at having helped create the "panic and disorder" in China's markets; a Hong Kong publisher of muckraking books about Chinese politics, who disappeared from a beach resort in Thailand; a Swede who had for seven years run a group in Beijing offering legal help to Chinese citizens.

They and many others have confessed their "crimes" to the cameras and apologised for the trouble they have caused. Westerners, even those addicted to reality tv, find these displays on prime-time news shows appalling. America's State Department expressed concern this month about the growing number who "appear to have been coerced to confess to alleged crimes on state media". It does indeed look bad—an echo of Mao's tyranny, when those accused of wronging the Great Helmsman were forced to kneel in dunce's caps before braying mobs. So it is worth pondering why the Chinese authorities do it.

Two possible answers can be quickly dismissed: these confessions have nothing to do with justice or truth. The judicial process does not require a public apology or admission of guilt. Indeed, any chance of a fair trial is jeopardised by a verdict decided in advance, delivered by the accused himself and widely broadcast.

If the concern were to inform viewers of the true facts of a controversial case, then the confessions would be more credible. Instead, however, people are told, for example, a far-fetched story about Gui Minhai, the Hong Kong bookseller who vanished in October from Pattaya in Thailand. In his televised statement Mr Gui said that he had returned to China voluntarily, to answer questions about a hit-and-run road accident in 2003 in the Chinese port of Ningbo in which a young woman had been killed.

So viewers are asked to believe that Mr Gui, who is a Swedish citizen, was smitten by remorse for an accident that happened 12 years earlier. Perhaps, when the lightning bolt struck, he was parasailing, or merely enjoying his beachfront view over a *mai*

tai. Either way, he abruptly forsook the good life to face the music, apparently smuggling himself out of Thailand without troubling the Thai border authorities. Similarly, Peter Dahlin, another apologetic Swede, this month belatedly realised that his legal-aid activities had broken the law and hurt the feelings of the Chinese people. His apology was followed by expulsion from China.

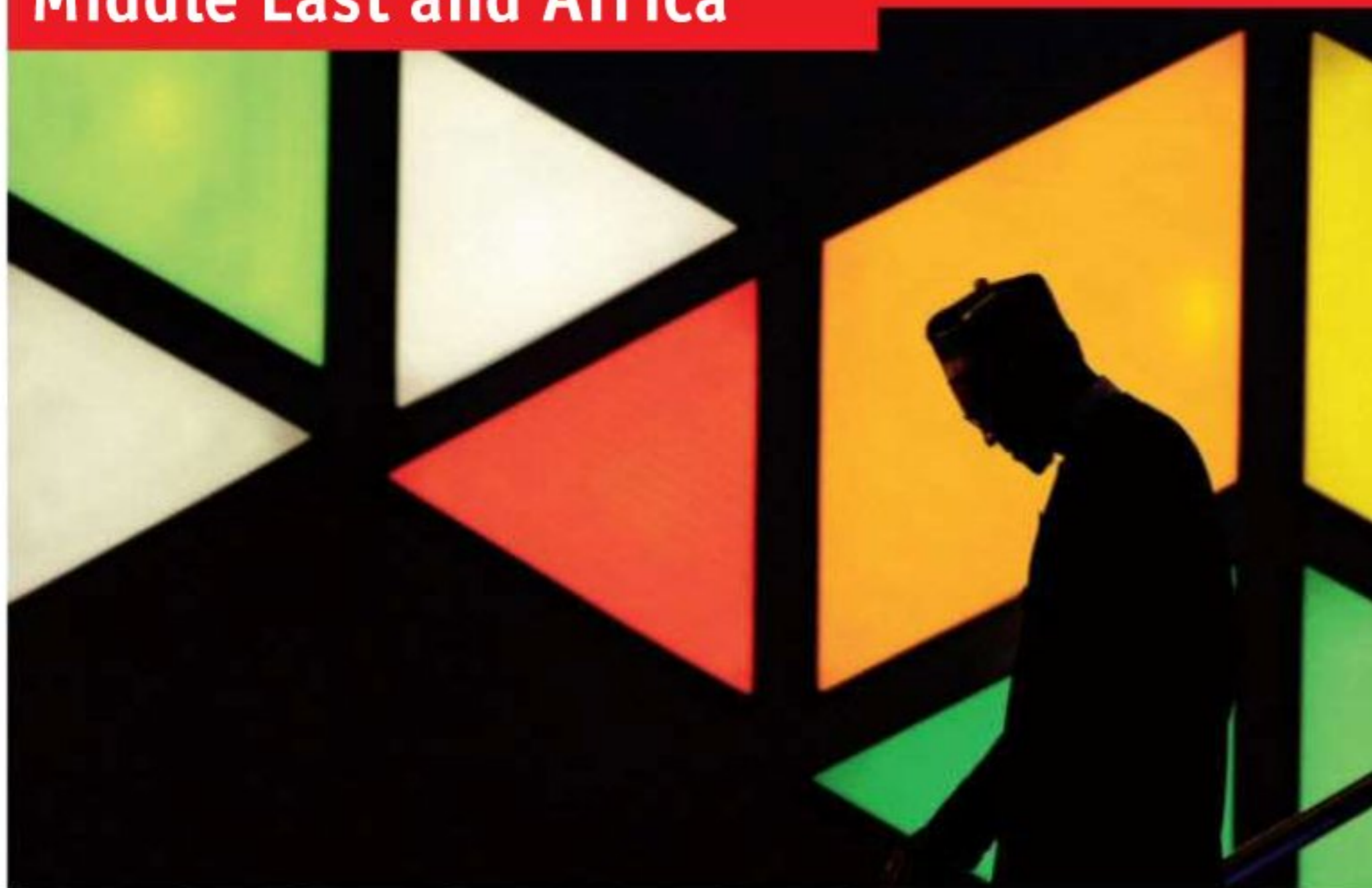
A third red herring is the notion that public confession and contrition is something that Chinese, or East Asian, culture demands. Seven decades ago, writing about Japan, Ruth Benedict, an American anthropologist, posited a distinction between "shame" cultures, where the fear of public humiliation helps regulate behaviour, and those, like America and Europe, ruled by "guilt", and so constrained by the power of individual consciences. The idea is controversial, and in many circles dismissed; but it is true that, across East Asia, public shaming seems an important part of political and even corporate life. Take a Japanese company, Takata, which makes car airbags. After these turned out last year to be defective, its executives faced the press to say sorry, and bowed deeply. Similar rules apply in South Korea: witness the way Chou Tzu-yu, a Taiwanese member of Twice, a Korean pop group, was this month hauled in front of the cameras to apologise for having waved a Taiwanese flag on Korean television—an act her managers fear may damage Twice's sales in China.

Some academics have suggested that shame works better in a system, such as China's, where maintaining harmony is seen as more important than adherence to a notionally objective idea of right and wrong. But the stocks and the pillory were used in Europe for centuries; in Britain they were abolished only in 1837. And today, in much of the West, the most successful part of the media is that specialising in the shaming of public figures. Similarly, nobody suggests East Asians are immune from guilt. It is the theme, for example, of some of the greatest Japanese films.

The main reason for the spate of confessional television in China is, in fact, political: it is a conscious policy of the regime of Xi Jinping, China's ruler for the past three years. In an illuminating essay last March, David Bandurski of the China Media Project at the University of Hong Kong pointed out that what he called "China's confessional politics of dominance" has its roots in the Communist Party's own history, and in the Soviet influences that helped shape it before it took power. Confession and self-criticism have been part of its ruling strategy since its revolutionary leaders lived in caves in Yan'an and plotted against their neighbouring cavemen. Virtually everybody in China—even Deng Xiaoping and, almost certainly during Mao's rule, Mr Xi himself—has written at least one piece of self-criticism. At the other end of the scale, even Banyan has done it, when he was a student and later reporter in China, with a few eloquent self-flagellations—now (he hopes) gathering dust in some forgotten archive.

Imagine a boot stamping on a human face—for ever

In writing self-criticism, the secret is to ponder not truth, justice or cultural norms, but what your reader wants. As Mr Bandurski put it: "As in the past, today's culture of confession is not about accountability, clean government or a rules-based system. It is about dominance and submission." Mr Xi's revival of this culture is not accidental. It is a reminder that his party's tolerance for dissent is lower now than at any time since the early 1990s. One symptom of this is its insistence that China's people—and foreigners working in the country—must accept that, even if they cannot love him, Big Brother is right. ■



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Nigeria's economy

Crude tactics

LAGOS

Cheap oil is causing a currency crisis in Nigeria. Banning imports is no solution

MORE than 30 years ago, a young general swept to power in the fifth of Nigeria's military coups since independence in 1960. The country he inherited was a mess: bled dry by pilfering politicians within and hammered by falling oil prices without. Last year that general, Muhammadu Buhari, became president again—this time in a democratic vote. The problems he has inherited are almost identical. So are many of his responses.

In the eight months since Mr Buhari arrived at Aso Rock, the presidential digs, the homicidal jihadists of Boko Haram have been pushed back into the bush along Nigeria's borders. The government has cracked down on corruption, which had flourished under the previous president, Goodluck Jonathan, an ineffectual buffoon who let politicians and their cronies fill their pockets with impunity. Lai Mohammed, a minister, reckons that just 55 people stole \$6.8 billion from the public purse over seven recent years.

Mr Buhari, who—unusually among Nigeria's political grandees—is said to have just \$150,000 and a couple of hundred cattle to his name, abhors such excess. As military ruler he jailed, fired or forced into retirement thousands of bureaucrats whose fingers had been in the till. This time, the Economic and Financial Crimes Commission (EFCC) has arrested dozens of bigwigs, including a former national security chief accused of diverting \$2.2 billion. The EFCC has a poor record of securing convictions; but a single treasury account has been in-

troduced to try to stop civil servants siphoning off cash. And agencies which may not be remitting their fair share to the state are having their books trawled by Kemi Adeosun, the finance minister.

Such measures are doubly important because the economy is swooning along with the oil price. The sticky stuff directly accounts for only 10% of GDP, but for 70% of government revenue and almost all of Nigeria's foreign earnings.

Oil's price has fallen by half, to \$32 a barrel, in the months since the new government came to power, sending its revenues plummeting. Income for the third quarter of 2015 was almost 30% lower than for the same period the year before, and foreign reserves have dwindled by \$9 billion in 18 months. Ordinarily there would be buffers to cushion against such shocks,

but Mr Jonathan's cronies have largely squandered them. Growth was about 3% in 2015, almost half the rate of the year before and barely enough to keep pace with the population. The stockmarket is down by half from its peak in 2014.

Domestic oil producers are feeling the pinch worst. Many borrowed heavily to buy oilfields when crude was worth more than \$100 a barrel, and are now struggling to pay the interest on loans, says Kola Karim, the founder of Shoreline Group, a Nigerian conglomerate. This, in turn, threatens to create a banking crisis. About 20% of Nigerian banks' loans were made to oil and gas producers (along with another 4% to underperforming power companies). Capital cushions are plumper than they were during an earlier banking crisis in 2009; but, even so, bad debts are mounting and banks that are exposed to oil producers may find themselves in trouble. "It wouldn't surprise me if one or two went down," says a senior banker in Nigeria.

The government's response to the crisis has been three-pronged. First, it is trying to stimulate the economy with a mildly expansionary budget. At the same time, it is trying to protect its dwindling hard-currency reserves by blocking imports. Third, it is trying to suppress inflation by keeping the currency, the naira, pegged at 197-199 to the dollar. Only the first of these policies seems likely to work.

The budget, which includes a plan to spend more on badly needed infrastructure, is a step in the right direction. Although government revenues are under pressure from the falling oil price, Mr Buhari hopes to offset that by plugging "leakages" (a polite term for theft) and taxing people and businesses more. That seems reasonable. At 7%, Nigeria's tax-to-GDP ratio is pitifully low. Every percentage point increase could yield \$5 billion of extra cash for the coffers, reckons Kayode Akindele of TIA Capital, an investment firm. Mr Buhari



▶ also plans to save some \$5 billion-\$7 billion a year by ending fuel subsidies—a crucial reform, if he sticks with it. Even so he will be left with a deficit of \$15 billion (3% of GDP) that will have to be filled by domestic and foreign borrowing.

Yet his policies on the currency seem likely to stymie that. The central bank has frozen the naira at its current overvalued official rate for almost a year. The various import bans (on everything from soap to ballpoint pens) are supposed to reduce demand for dollars, but have little effect. Businesses that have to import essential supplies to keep their factories running complain that they have been forced into the black market, where the naira currently trades at 300 or more to the dollar. Several local manufacturers have suspended operations. International investors, knowing that the value of their assets could tumble, have slammed on the brakes and some have pulled money out of the country just as their dollars are most needed (see chart on previous page).

Nigeria is fortunate in having low levels of public debt (less than 20% of GDP), but it is not helped by high interest rates, which mean that 35% of government revenue goes straight out of the door again to service its borrowings. It would not take much to push it into a debt crisis.

Frustratingly, this crunch is one that Nigeria has been through before—under the then youthful Mr Buhari. Then, as now, he refused to let the market set the value of the currency. Instead he shut out imports, causing the legal import trade to fall by almost 50% and killing much of Nigeria's nascent industry in the process. Between 1980 and 1990, carmaking fell by almost 90%. Today, as in the 1980s, the president is making a bad situation worse. ■

Child abuse in Kenya

Breaking the silence

MERU

Stopping the men who prey on orphans

A GROUP of girls are playing catch. They could be ordinary children; but some are cradling babies, and they are surrounded by high walls topped with barbed wire. They are in a refuge, in the city of Meru near Mount Kenya, which houses survivors of sexual abuse.

Nearly a third of girls and 18% of boys in Kenya suffer some form of sexual violence before they are 18, according to a study published in 2010 by the UN Children's Fund (Unicef). Though data barely exist in many poor countries and researchers rarely use comparable methodology, surveys in oth-



Lifting the curtain

er African countries, including Tanzania and Swaziland, have found similarly high rates. The World Health Organisation (WHO) puts the global prevalence at 20% among girls and 5-10% for boys.

Assuming the data are correct, why is the problem worse in Africa? In the wake of the HIV/AIDS epidemic that swept across the continent in the 2000s, many researchers at first thought child rape was perpetrated by men who believed the myth that sex with a virgin would cure them. But the evidence suggests otherwise.

A more chilling effect of HIV/AIDS was to leave many children orphaned and vulnerable to predatory adults, a problem exacerbated in many African societies by the strict obedience expected of children. All around the world, poor children are more likely to be physically or sexually abused, says Christopher Mikton of the WHO. Unemployed, uprooted men are also more likely to violate children. In South Africa, where more than half of young adults are jobless, a survey of 15- to 17-year-olds found that 19% of girls and 20% of boys had been sexually abused. "Periods of rapid social and economic change...appear to be at least correlated" with violence against women and children, says Cynthia Bowman of Cornell University.

As in most of the world, a huge stigma is attached to such crimes in Kenya. But even when children plucked up the courage to tell an adult or go to the police, rather than let their parents take the traditional route of resolving things behind closed doors, the crimes were never investigated properly, says Mercy Chidi, who set up the Meru shelter in 2006. "You had to give them money to even leave their desks," she says.

In 2012, helped by a Canadian NGO called the Equality Effect, Ms Chidi filed claims against police in Meru for violating the rights of more than 240 children by not investigating their allegations properly. The high court ruled in the girls' favour in 2013. Since then, more than 80% of their cases have been successfully prosecuted. Others are still in the courts, or the suspects have fled.

But in most Kenyan communities where the NGOs operate, people were "somewhat resigned" to having paedophiles in their midst, says Fiona Sampson of the Equality Effect. They wanted to protect the children, but they did not know how. So the two organisations have expanded their training of police in Kenya as part of a six-month pilot programme. During one school session 140 children danced on tables, singing "No, no, no to children rape." ■

Syrian peace talks

United only by hatred

Just getting the right people to the negotiating table is proving fraught

PITY poor Staffan de Mistura, the UN's special envoy for Syria. Talks aimed at ending the five-year civil war that has claimed more than 250,000 lives and displaced 12m people should have started on January 25th in Geneva. But disagreements over who should come and on what terms could not be resolved in time. As *The Economist* went to press, it looked as if the talks could at last get under way on January 29th. But as the veteran diplomat ruefully conceded on Monday, threats to pull out should be expected: "Don't be surprised: there will be a lot of posturing, a lot of walkouts and walk-ins...you should neither be depressed [nor] impressed...the important thing is to keep momentum."

Even that limited goal may prove dauntingly hard to achieve. Both of Mr de Mistura's predecessors gave up after peace conferences they had convened got nowhere. Hopes of some progress this time were raised after a meeting of the 17-country International Syria Support Group (ISSG) in Vienna in November, which was followed by a UN Security Council resolution calling for talks to start in January that ▶▶

► would lead to a “credible” transitional government in place by July this year. Fair elections based on a new constitution would be held by the middle of 2017.

Besides the start of the talks, it will be a miracle if any of those other milestones are met. Mr de Mistura admits that the participants are united only by mutual loathing. At the beginning of what he sees as a six-month process the groups will be kept in separate rooms, while he shuttles between them in a search for something they can agree on.

The immediate cause of the postponement of the talks was a failure to agree on which groups should be invited as representatives of the Syrian opposition. Gameily, Mr de Mistura sent out formal invitations to his diplomatic dance on January 26th. Hotel bookings have been made and a few TV camera crews have turned up in Geneva, but confusion reigns.

Under the auspices of Saudi Arabia, a High Negotiations Committee (HNC) has been established to represent the many rebel factions at the talks. But although it excludes both Islamic State and Jabhat Al-Nusra, al-Qaeda’s Syrian affiliate, it includes hard-line Salafist outfits, such as Jaish al-Islam and Ahrar al-Sham, which collaborate with Jabhat Al-Nusra and which explicitly rule out the principles of democratic pluralism outlined in the ISSG’s Vienna communiqué. The military commander of Jaish al-Islam, Zahran Al-loush, was killed by an air strike on December 25th, but the group’s political leader, Muhammad Alloush, has been chosen as the HNC’s chief negotiator in Geneva.

The Syrian government tends to regard any opposition figure who has ever carried an AK47 as a “terrorist”, but it is supported by its allies Iran and Russia in wanting Ahrar and Jaish kept out of the talks. However, Russia is demanding the inclusion of other individuals and groups, such as the Kurdish People’s Democratic Party, whose YPG

militias are fighting both the regime and Islamic State to carve out an autonomous region in the north-east of the country along the Turkish border. Turkey says it will pull out if the Kurds are at the table because they are allied with a Turkish terrorist group, the Kurdistan Workers’ Party. Bowing to pressure, Mr de Mistura did not invite the Kurds.

A further problem is that parts of the Sunni Arab coalition say they will not attend unless there is a halt to air strikes by the regime and the Russians and the lifting of sieges in rebel-held territory where civilians are starving. They point out that these are confidence-building measures required by the UN resolution. But although Mr de Mistura bemoans the squabbles

over participation as a distraction from more important issues, he is pleading for people to turn up in Geneva without preconditions.

Hopes for anything more than sporadic local ceasefires are faint, especially since Russia’s air campaign has strengthened the regime of Bashar al-Assad. Russian planes have carried out nearly 7,000 sorties in the four months since they entered the fray, killing many of Mr Assad’s enemies. Government forces last week seized control of Rabiha, the last big town in western Latakia province held by the rebels, and crucial for their supply lines from Turkey. Intransigent even when faced with imminent defeat last summer, Mr Assad now believes he is winning. ■

Africa’s gym craze

Beerbelly busters

JOHANNESBURG

Toning in the townships

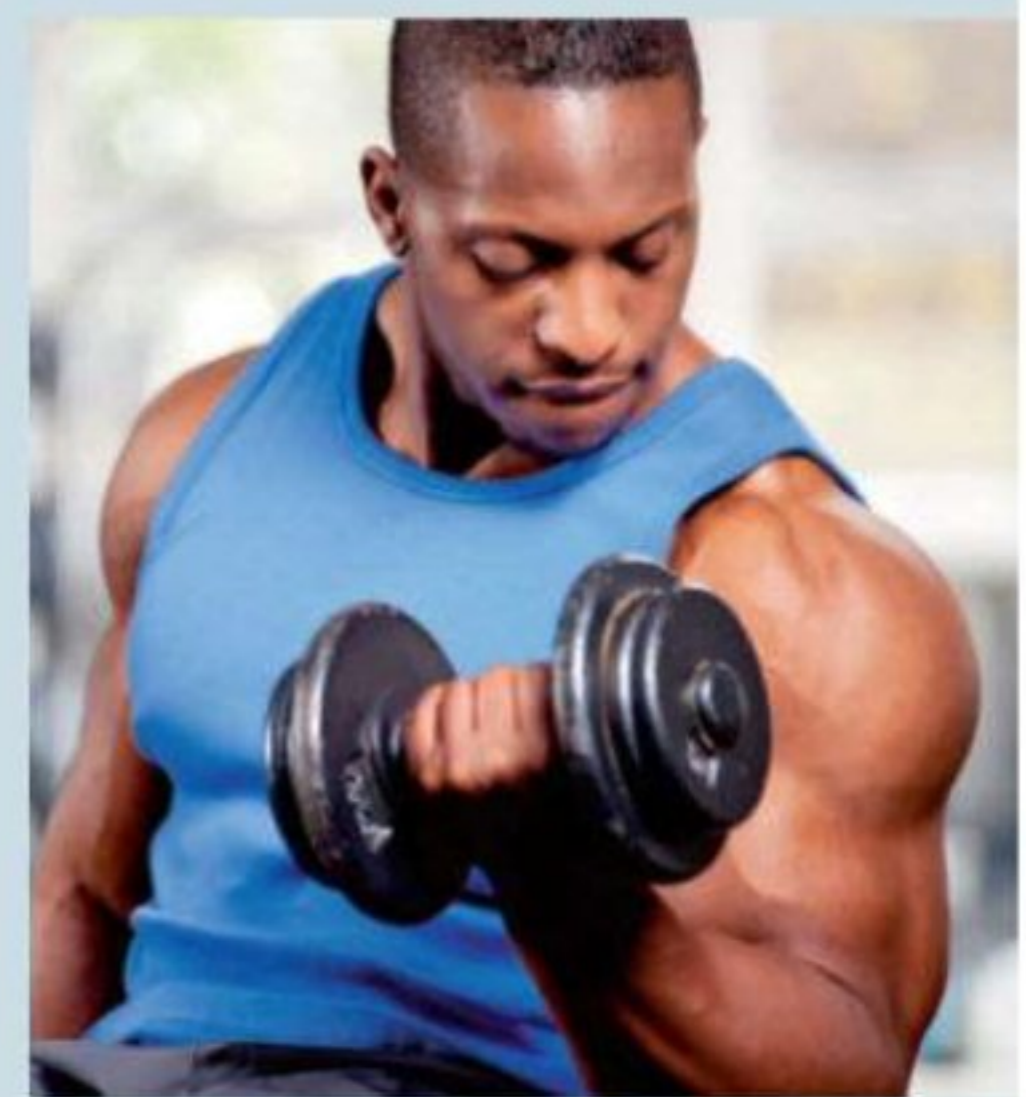
WHEN South Africa’s biggest fitness chain opened its second gym in Soweto last year, residents of the bustling black township signed up in droves. Within months the Jabulani gym had become the most successful of more than 120 Virgin Active clubs to launch in South Africa, drawing Sowetans for squats, lunges and lifts to DJ beats.

Virgin Active, a global brand mostly owned by Brait, a South African investment firm, thinks it can replicate this success elsewhere on the continent. It has two gyms in Namibia and has just opened its first in Botswana. A gym in Kenya is due to open later this year, and the firm is looking at Ghana and Zambia as possible future sites.

Africans are getting fatter, a side-effect of economic growth. The number of obese and overweight children has nearly doubled since 1990, from 5.4m to 10.3m, says the World Health Organisation. Mass migration to cities has allowed some Africans to go from malnourished to overweight in a generation, thanks to sedentary lifestyles and fatty diets. Many Africans still see a fuller figure as a sign of success, not to mention sexy.

South Africa is the plumpest country on the continent, with a whopping 61% of its people overweight or obese, says the South African Medical Research Council. Other middle-income countries such as the Seychelles and Botswana are close behind. African women are especially prone to putting on extra pounds. Diseases such as diabetes follow.

As Africa’s economic growth slows, gyms are adjusting. While Virgin Active runs swanky health clubs with fluffy towels and shoeshine services, its pop-



Sweaty in Soweto

ular Jabulani gym is a no-frills branch with lower fees. A rival chain, Planet Fitness, has found success with a similar lower-cost model. In places such as Dakar, where gyms are few and expensive, residents take to the beach for group workout sessions.

Part of the draw is aspirational: having a gym membership is a token of urban life, like a car and a smartphone. For South Africans posting gym selfies, there is even a hashtag: #MkhabaMustFall, using a slang word for a beer belly, and riffing off the “must fall” hashtags seen in campaigns calling for colonial-era statues to tumble and university tuition fees to be axed. Joy Mokoena, 38, who works in marketing, joined a gym after a friend told her she was looking too chubby. Now she brings her two children along while she takes Zumba classes, explaining: “I don’t want them to be fat like me.”



No one at home

Trouble in Tunisia

Dying to work for the government

CAIRO

Unemployment is undermining Tunisia's transition

LIKE his fellow Tunisian, Muhammad Bouazizi, who set himself ablaze to protest against harassment by local officials in 2010, Ridha Yahyaoui was acting impulsively when he died on January 16th. Having just been refused a government job, the unemployed 28-year-old scaled a utility pole in Kasserine, an impoverished town in western Tunisia. He reportedly threatened suicide. Perched in the air, consumed by his grievances, Mr Yahyaoui touched the wires and was electrocuted.

Bouazizi's death ignited protests that ended the dictatorship of Zine el-Abidine Ben Ali and inspired the Arab spring. Mr Yahyaoui's is a reminder that democracy has yet to solve many of Tunisia's problems. The government has struggled to kick-start an economy that still suffers from past abuse and persistent corruption. Islamist rebels in the west and several big terrorist attacks have added to its woes in the past year. Nidaa Tounes, the dominant political party, has recently fractured.

But a lack of jobs is the main reason that thousands of Tunisians have returned to the streets. The unemployment rate is over 15%, worse than before the revolution. Around a third of young people are out of work. In rural areas like Kasserine, jobs are extremely scarce. Much of the work available is suitable for low-skilled labourers; it takes graduates, such as Mr Yahyaoui, an average of six years to find a steady job. Half of all graduates are still unemployed at 35, according to the World Bank.

The unrest has only made things worse. Three British tour operators have cancelled all bookings to Tunisia until November. Tourism, which (directly and indirectly) accounts for about 15% of GDP and 14% of jobs, was already down due to two deadly attacks on foreign tourists last year. Dozens of hotels have closed for lack of guests.

The government has stepped in as the employer of last resort. Tens of thousands of workers have joined the public sector since 2010, raising the number employed by the government to over 600,000. Another 180,000 or so work for public companies, which have also been on a hiring spree. To placate Tunisia's powerful unions, the government has raised salaries. The public-sector wage bill almost doubled between 2010 and 2014. It now accounts for over 13% of GDP, one of the highest shares in the world.

Not only is Tunisia's public sector big, it is poorly run. A World Bank report notes

Saudi Arabia's financial hub

Castles in the air

RIYADH

If you build it, they may not come

THE skyscrapers of the King Abdullah Financial District (KAJD) rise out of Riyadh's urban sprawl like an emerald city. Pointed glass spears compete for prominence with vast staggered lean-tos, streaked black-and-white like the back of a rearing zebra. A monorail curves past a butterfly dome. Blissfully vehicle-free in a city otherwise designed for cars, not people, KAJD is built around pedestrian precincts shaded by palm trees. Even the rubbish is collected on an underground conveyor belt. After seven years, the first phase of a futuristic financial hub for the Arab world's largest economy is nearly complete. It has cost more than \$10 billion and the lives of 11 building workers.

Something is missing, however. While decorators install tropical plants in the conference hall, the legal, fiscal and cultural architecture is still on the drawing board. Waleed Aleisa, the CEO, says he is still waiting to hear whether the zone will be free of corporation tax and under what jurisdiction it will operate.

At the outset, the project managers imagined a city which would be both in Saudi Arabia and apart from it. Visas would be issued at the airport, side-stepping the kingdom's red tape. They had visions of a big gated community, largely off-limits to the religious police. Anticipating a mixed workplace in a

society where segregation is otherwise *de rigueur*, male and female toilets were installed on all floors. Brochures portrayed men and unveiled women chatting together. "You have to have different rules for KAJD," pleads Mr Aleisa.

But last year the kingdom changed rulers, and King Salman and his son, Muhammad, seem loth to upset the religious establishment while they find their feet. The Saudi central bank, its stock exchange and its sovereign-wealth fund have all assured Mr Aleisa that they are moving in; but international finance houses are proving harder to pin down without clarity on the basics, such as whether women can work with men or what jurisdiction it will operate under. "We should hear sometime in 2016," says Mr Aleisa.

Saudi Arabia's loss will be Dubai's gain. Though its economy is smaller than the Saudi one and bereft of oil, Dubai claims to have attracted 21 of the world's top 25 banks, drawn by its barely taxed, lightly regulated "free zone" for foreign firms. "It's about getting the right legal system, not the right architecture," says a Gulf investment banker, welcoming Dubai's introduction of English judges handing down English law. Riyadh's new buildings look good; investors hope they are not built on sand.

that "the link between a public employee's performance and her evaluation, compensation and promotion is weak, particularly since the revolution." The wounded and other "martyrs of the revolution" are favoured for jobs. So are the unemployed, leading some Tunisians to shun work in

the private sector. Public firms, meanwhile, are models of inefficiency. The Tunisian Chemical Group, cited in the report, increased its head count from 5,000 in 2010 to 16,000 in 2012, while production fell from 8m to 2.5m tonnes.

Despite its wage bill, the government expects the budget deficit to fall to 3.9% this year. That is optimistic. Moody's, a credit-rating agency, recently cut its growth forecast for Tunisia to 1.5%, and expects a deficit closer to 5%. International donors want Tunisia to prune the public sector and spend its money more wisely. The government is already cutting subsidies on items such as fuel. But there is also concern about the stability of this lone Arab-spring success story. France recently promised €1 billion (\$1.1 billion) in aid over the next five years.

To appease protesters, the government announced on January 20th that it would hire 5,000 young people in Kasserine, though it is actually only offering job training. "We do not have a magic wand to give a job to everyone at the same time," says Habib Essid, the prime minister. That hard truth has not gone down well in Tunisia. ■



The ultimate protest



Illiberal central Europe

Big, bad Visegrad

BUDAPEST, PRAGUE AND WARSAW

The migration crisis has given an unsettling new direction to an old alliance

WHEN Middle Eastern refugees began arriving in Europe last year, Martina Scheibova, a consultant in Prague, felt sympathy for them. Now she is less sure. They create a “clash of cultures”, she says anxiously. Such fears are shared by many Europeans. But unlike Germans or Swedes, Ms Scheibova is unlikely to encounter many refugees. Czech public opinion is solidly against taking in asylum-seekers; Milos Zeman, the Czech Republic’s populist president, calls Muslim refugees “practically impossible” to integrate. In the past year, the country has accepted just 520.

The backlash against refugees can be felt across Europe. Xenophobic parties are at record levels in polls in Sweden and the Netherlands, and even in Germany the Eurosceptic, far-right Alternative für Deutschland party is polling in double digits. But central Europe’s response has been particularly strong. Anti-migrant sentiment has unified the “Visegrad group” of Hungary, Poland, Slovakia and the Czech Republic—normally a disparate bunch who agree on some subjects (like opposing Europe’s climate policies) but are divided on others (like Russia). Rather than noisy opposition groups, it is governments in these countries who trumpet some of the most extreme views. And they are taking advantage of anti-migrant fervour to implement an illiberal agenda on other fronts, too.

Viktor Orban, Hungary’s prime minister, has been the loudest of the anti-immigrant voices. Mr Orban began inveighing against migrants early in 2015, after the *Charlie Hebdo* attacks in Paris, when the

numbers arriving in Europe were still relatively low. His government now wants to introduce anti-terror laws that worry civil libertarians, though the details are vague. Fidesz, Mr Orban’s party, pioneered Europe’s illiberal wave: when it came to power in 2010 it limited the constitutional court’s powers, packed it with cronies and introduced a new constitution. Fidesz changed the electoral system, helping it win again in 2014, says Andras Biro-Nagy of Policy Solutions, a think-tank. A new media regulator was set up, headed by a Fidesz stalwart. Public television channels were stuffed with pro-Fidesz journalists, while foreign media were taxed more heavily than domestic ones. (The tax was rescinded after criticism from the main foreign channel, RTL Klub.)

For Visegrad, the game-changer was the



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November election victory in Poland of the nationalist conservative Law and Justice party (Pis). Jaroslaw Kaczynski, the party leader, has admired Mr Orban for years. Konrad Szymanski, the deputy foreign minister for European affairs, says Poland now plans to beef up its co-operation with the Visegrad group. The government is dead against any further European deals to allocate refugees among member states. Meanwhile, since taking power in November, Pis has sacked the heads of the security and intelligence services, weakened the constitutional tribunal (and packed it with its own supporters), and passed a new media law that lets it install loyalists to head the public radio and TV channels. The European Commission is examining whether all this violates Poland’s commitments to the rule of law.

Politics in Slovakia and the Czech Republic are a bit different, but in both countries politicians have jumped on the issue of refugees. In December Robert Fico, the prime minister of Slovakia (who is seeking re-election in March), launched a legal challenge to the EU’s migration policy, which he describes as “ritual suicide”. (Hungary filed a challenge soon after.) Bohuslav Sobotka, the Czech prime minister, is less bombastic than Mr Zeman, but he too rejects refugee quotas. Conditions for those already in the country are shoddy.

These populist politics have been a hit with voters. Last spring Fidesz was falling in the polls, while support for Jobbik, a far-right party, was surging. Today Fidesz would win a majority again. Support for Mr Fico’s Smer party had stalled last year, but since the refugee crisis erupted it has been rising. Pis’s support base is among disgruntled older voters, who are particularly fearful of immigration. This week, at a meeting staged by a conservative group in Warsaw on whether Poland was threatened by a “colour revolution”, the question of what to call refugees came up. A woman in the audience suggested “invaders”. A ▶▶

► speaker opted for “Islamists”.

The newfound unity between the four countries delights populist politicians. “Probably the only good thing in the whole migration crisis is that the v4 [Visegrad group] has found a common voice and strategy,” says Marton Gyongyosi of Jobbik. The group “allows three small countries to punch above their weight”, says Gyorgy Schopflin, a Fidesz MEP.

The Visegrad group once aimed to accelerate its members’ integration into the EU. Its turn towards illiberalism presents Europe with a problem. Since new rules came into force in 2014, the group no longer has a blocking minority in the European Council. But it can cause headaches, particularly if it influences neighbours such as Romania or Bulgaria. Meanwhile, polls show trust in the EU has fallen in all four countries. In fact, Visegrad countries rely heavily on EU funding—it amounted to 6% of GDP in Hungary in 2013. Yet many are disappointed in Europe. “People thought we would have the same living standards as Austrians or Britons,” says Ferenc Gyurcsany, who served as Hungary’s prime minister from 2004 to 2009.

Rising Euroscepticism could backfire on the group. Informal talks on the next multi-year EU budget have begun, and Germany has hinted that it will favour countries that share the burden of refugees. Already many European officials are growing impatient with the group. Milan Nic of the Central European Policy Institute recalls the days when Austrian politicians, for example, used to talk about the Visegrad group with respect. “Nowadays”, he says, “Visegrad is like a bad word.” ■

Putin’s popularity

Vladimir unbound

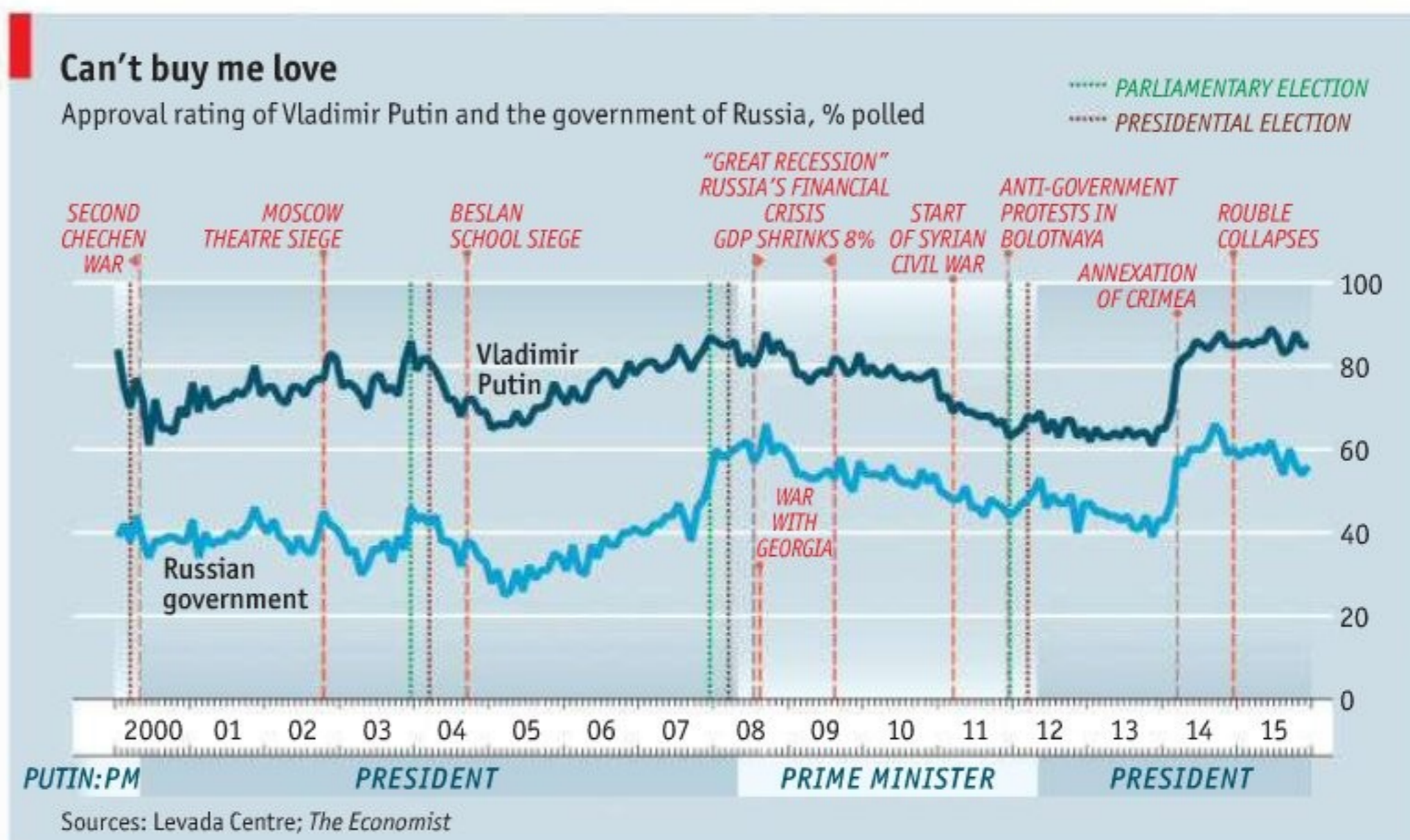
MOSCOW

Russia’s president is impervious to the woes that afflict normal leaders

CHANTS of “Russia without Putin!” echoed through Moscow four years ago. Vladimir Putin’s choreographed return to the presidency and vote tampering in parliamentary elections brought thousands to the streets; his approval ratings fell to 63%. But after the annexation of Crimea in 2014, those ratings soared to nearly 90% and have not come back to earth since. Mr Putin became “a charismatic leader of the Promethean type: a demigod, a Titan, who brought the people fire,” says Valery Fedorov, head of the state-financed Russian Public Opinion Research Centre (VCIOM). Even a recession, falling real wages and rampant inflation have barely dented Mr Putin’s numbers.

Can’t buy me love

Approval rating of Vladimir Putin and the government of Russia, % polled



For Mr Putin’s fans, his untouchable ratings serve as proof of his righteousness. To some Russian liberals and Western observers, they are evidence that something is wrong with the polling. The practices of state-backed sociologists have been questioned. A fear of sharing political opinions, a legacy of Russia’s totalitarian past, may taint results. But the independent Levada Centre records approval levels for Mr Putin similar to those of state pollsters; so does the in-house sociological service of Alexei Navalny, an opposition leader.

In fact, the issue is more complicated. In today’s Russia, where the Kremlin controls most media and politics offers no alternative, polls are more ambiguous than in countries where they measure the support of competing politicians. Instead of offering an assessment of Mr Putin’s actions, ratings reflect “the condition of a complex of collective expectations, hopes, and illusions connected with him”, as the late sociologist Yuri Levada said in 2005.

In the long shadow of the Soviet collapse, the desire of Russians for self-respect is just as powerful as their desire to live well, says Lev Gudkov, the Levada Centre’s director. Mr Putin’s overseas adventurism has satisfied this desire. The president has come to embody Russia (as his deputy chief of staff put it, “No Putin—no Russia”); disapproving of him verges on repudiating the country. His approval ratings measure “the respect, trust and pride Russians have in themselves and their country”, says Mr Fedorov. “Putin is just a symbol.”

Nonetheless, discontent is starting to well up. This month protests forced the Krasnodar region to roll back cuts in travel benefits for pensioners. In Moscow, foreign-currency loan holders have stormed bank branches demanding refinancing in roubles. So far, such protests remain diffuse and apolitical. Russians are more likely to blame the prime minister or local officials than Mr Putin, in keeping with the age-old Russian political myth of the good

tsar betrayed by evil boyars. Yet as parliamentary elections loom this autumn, Mr Putin has been quietly distancing himself from his party, United Russia, which enjoys considerably less support than he does. Eventually, the frustration may begin to catch up with Mr Putin too. Mr Fedorov forecasts a 10% dip in his ratings this year: “Everything in this life is finite.” Even Prometheus got tied down eventually. ■

Crisis in Moldova

A republic, if you can steal it

CHISINAU

A year after a \$1 billion theft, a country is tottering

IN 1918 the then three-month-old Moldovan republic gave up the struggle for survival and united with neighbouring Romania. It is a sign of how dire things are today, says Iulian Fota, a Romanian analyst, that people are talking about doing so again. Ever since 2014, when the embezzlement of about \$1 billion from three banks forced a taxpayer bail-out that has crippled the economy, the country has been lurching towards collapse. Opposition supporters are permanently encamped in front of the government building. Maia Sandu, a former education minister who is rushing to build a new party, says the situation could lead to violence. No one seems to disagree.

On January 20th Pavel Filip, a close associate of Vlad Plahotniuc, the most powerful of the businessman-politicians who dominate Moldova, was voted in as prime minister. His administration is the eighth since 2013. Mr Plahotniuc had wanted the job; the president rejected him, saying there were doubts about his integrity. Mr Plahotniuc’s arch-rival in business and politics, meanwhile, was arrested in Octo- ►►

ber after accusations that he had received \$260m in bribes. He denies wrongdoing.

As Mr Filip was voted in, protesters stormed into parliament, trying to block him from taking office. They failed. On January 24th tens of thousands demonstrated against the new government. Opposition leaders have demanded a new vote. Western leaders, however, fear that elections would be won by pro-Russian parties and return the country, which has an association agreement with the European Union, to the Russian sphere of influence.

Many Moldovans are incensed by reports in the Western press that the current struggle is one between pro-Russian and pro-European parties. For most protesters, the conflict has nothing to do with geopolitics. As Victoria Bucataru of the Foreign Policy Association of Moldova puts it, they are fed up with elites fighting for power while they grow poorer.

Still, if a poll were held today, the two parties generally seen as pro-Russian would together get the biggest share. The Socialists' election posters feature pictures of Russia's president, Vladimir Putin. Renato Usatii, the leader of the other opposition party, owns a business in Russia. But he says calling him pro-Russian is a slur. "I am pro-Moldovan," he insists, adding that if he led the country he would not rescind its agreement with the EU.

One source close to Mr Plahotniuc says he wants to retire from politics. Others say they have heard this before; they believe he wants to succeed the current president when his term expires in March.

Meanwhile Moldova is cut off from the external financing that it needs. Since the theft of the \$1 billion, diagnostic audits are supposed to have been done on the country's three largest remaining banks. Alex Kremer, the World Bank's representative in Moldova, says he is concerned about delays in the completion of the reports. If it turns out that yet more money has been stolen from the banks, the anger of Moldova's 3m exasperated citizens may at last boil over. ■



If I had a hammer

France's missing refugees

Non, merci

CERGY-PONTOISE

Migrants are streaming into Germany, but few are interested in France

ON A quiet bend of the River Oise, beside a wooded lake, the Ile de Loisirs activity centre usually runs sailing schools and high-wire tree-climbing adventures. Last autumn its dormitories were briefly turned into an emergency welcome centre for 98 Syrian and Iraqi refugees. Today, however, the gardens outside the residential block are empty again, the wooden picnic benches deserted. The refugee families are already gone. Their speedy resettlement shows that France has plenty of capacity to absorb migrants. It also raises the question of why it is that while Germany is coping with a vast flood of Syrian refugees, France is attracting only a trickle.

The refugees who turned up in this new town, some 40km (25 miles) north-west of Paris, travelled in specially chartered coaches from Munich last September. Officials from the French Office for the Protection of Refugees and Stateless Persons (OFPRA) had gone to Munich in a gesture of solidarity to persuade refugees to settle in France, to help relieve the pressure on the Germans. Less than 48 hours after Cergy offered to take them in, the first coach pulled up outside the activity centre.

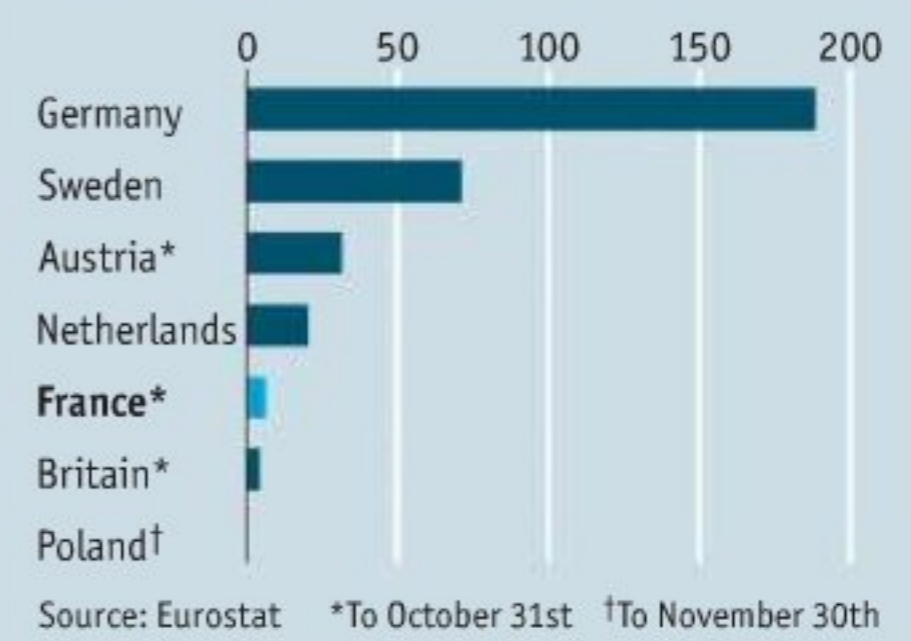
"The welcome in Cergy was really great," says Ali Tarabein, a former seed trader, who fled Syria via Turkey and the Greek island of Lesbos before making a four-day journey overland to Germany. Dozens of locals brought clothes and toys. "Cergy has always been very welcoming to people who come from elsewhere," says Jean-Paul Jeandon, the Socialist mayor of the town, which is informally twinned with a village in Palestine and another in Senegal. Within two weeks, all primary-aged refugee children were in a local school. Adults, none of whom spoke French, were given language classes while they awaited official papers. By mid-December all the original refugees had been offered housing, five of them in Cergy and others elsewhere in France.

Asylum applications in France take an average of two years to process, but officials in Cergy cut through the bureaucratic thicket and speeded things up. It helped that the town is no stranger to new arrivals, with a mix of 130 nationalities. Many refugees were skilled, among them a dentist and an engineering student, and the numbers were manageable. "If we'd had hundreds or even thousands it would have been more complex," says Mr Jeandon.

Yet it is precisely those low numbers

Give them Berlin

People who have completed an asylum application From Iraq and Syria, 2015, '000



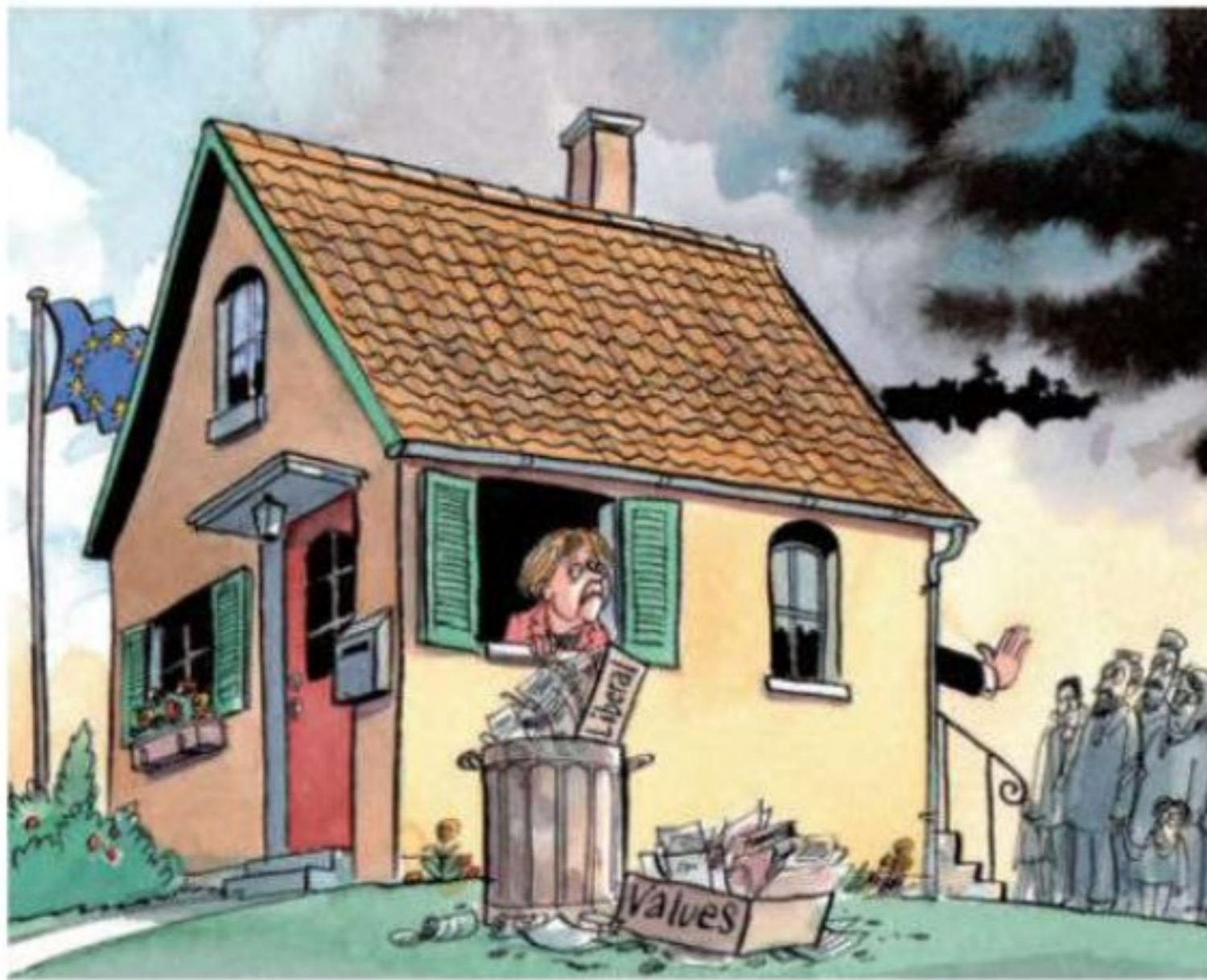
that are puzzling, not just in Cergy but in France as a whole. Overall asylum applications rose last year by 22%, but to just 79,000—nothing remotely close to the million-plus who registered in Germany. In 2015, 158,657 Syrians completed asylum applications in Germany, compared with only 3,553 in France. Last year the European Union agreed on a relocation programme to share 160,000 refugees from Italy and Greece. By mid-January France had taken in only 19; another 43 arrived this week.

The explanation seems to be a mix of migrants' relatively weak ties to France, and the limited opportunities in a country with 10% unemployment. "I wanted to go to Sweden, then Germany or England," says Mr Tarabein, who had friends in those countries and spoke English but not French. He ruled out Britain after friends warned him on Facebook and WhatsApp about the perils of trying to cross from the French port of Calais: "It was too dangerous, I don't want to die." As for France, he says he had heard it took months to get papers (France does not allow refugees to work for nine months) and that Syrian refugees there "live on the streets". It was only when the OFPRA officials promised fast-track settlement that he agreed to take his seat on the coach. Now, relocated to Narbonne, he is trying to bring his wife and three small children from Syria.

"It's Germany that is in an extraordinary situation, not France," says Pascal Brice, director of OFPRA. If the EU redistribution scheme is not yet working, he says, this is simply because refugees prefer to go to Germany. Yet there is no French political appetite to speed matters up. The xenophobic National Front continues to shape the debate. In a recent poll, 60% of French said they do not want more refugees, and terrorism has hardened sentiment. (Two of those behind the November 13th attacks in Paris posed as asylum-seekers.) Manuel Valls, the prime minister, put it bluntly last week: "The first message we need to send now, with the greatest of firmness, is to say that we will not welcome all the refugees in Europe." Cergy may turn out to be the exception, not the makings of a solution to ease Europe's migrant crisis. ■

Charlemagne | Value shoppers

Europe promised a principled foreign policy. Now it is desperate for quick deals



NOTHING excites the febrile intellects of Brussels more than analysing the theoretical underpinnings of European foreign policy. Entire tracts are devoted to the security strategy of the European Union, its neighbourhood policy, the countless “tools”, “instruments” and “levers” it has designed to help it advance its global concerns. A keen student can lose himself for hours in strategy papers and advisory memos to the policymakers supposedly shaping Europe’s place in the world.

When the EU signed a German-inspired deal with Turkey to help stem the flow of refugees late last year, none of this mattered a jot. Presented by European officials as a hard-nosed piece of statecraft, the “action plan” offers Turkey money, the prospect of visa-free travel inside the EU and an acceleration of its membership bid so long as the Turks keep the migrants away. It was one of the most important European foreign-policy initiatives in years, but there was not a sniff of strategy to it. It reeked of desperation.

Turkey-watchers in Europe and liberals inside Turkey were united in outrage. The Europeans were averting their gaze as Recep Tayyip Erdogan, Turkey’s president, was locking up journalists, harassing the opposition and prosecuting a bloody war against unruly Kurds—in an official EU candidate country, no less. The European Commission even postponed publication of its highly critical annual report on Turkey’s membership bid while Mr Erdogan’s party campaigned in national elections.

The deal seemed emblematic of a “realist” turn in European foreign policy. Ideas such as slashing aid to countries that refuse to accept the return of failed asylum-seekers are doing the rounds. Officials in international-development agencies tear their hair out as carefully nurtured relationships in Africa are tossed aside to make way for quick-and-dirty deals to ship back rejected migrants. Southern European countries fret that a plan to open EU markets to Middle Eastern exports (to create jobs for refugees) will crowd out their manufacturers.

This is not the *Weltinnenpolitik* (global domestic policy) that grand thinkers like Jürgen Habermas thought regional clubs such as the EU were well placed to cultivate. Instead, to borrow from the late American neoconservative Irving Kristol, Europeans have started to resemble liberals mugged by reality. It is easy to bleat about human rights when you are living in a peaceful, post-

modern paradise; less so when you have millions of illegal migrants barging through your back door.

Europeans are hardly new to *Realpolitik* (the clue is in the word). There has long been a division of foreign-policy labour within the EU, says Michael Leigh of the German Marshall Fund, a think-tank. Larger countries delegated values-based policy to Brussels while they got on with the hard stuff, such as security or access to oil. For every pious expression of support for international justice or condemnation of capital punishment, there was a shabby energy deal or quiet support for a useful dictator. Some feel this category includes the Nord Stream 2 gas pipeline, which would run directly from Russia to Germany under the Baltic Sea and could undermine the EU’s energy policy, but which has the support of Angela Merkel, Germany’s chancellor.

Tougher than they look

Even in its soft and fuzzy days, the EU was not toothless. Its strongest tool—the attraction of membership—combined European interests and values in one package. Enlargement to the east brought stability to the region while strengthening the rule of law and democratic institutions inside candidate countries. (Maintaining them once countries have joined has proved harder, as the recent examples of Hungary and Poland demonstrate.) Globally, Europeans have, in their gentle way, sought to bolster a rules-based order that has enabled their exporters to flourish.

That looked like the future, once. But today’s threats lead down a different path. Europe’s power no longer extends outward; instead, the surrounding countries have turned their pathologies on Europe. Enlargement is off the table—even in the Balkans the EU’s main interest is in keeping order, as millions of migrants tramp through a historically unstable region. Russia’s bloody intervention in Ukraine tore up the European belief that borders may not be changed by force—and Europe initially struggled to respond. It dithered again last year as the stream of migrants coming through Greece swelled, eventually leaving Mrs Merkel with little choice but to shower gifts upon Mr Erdogan in the hope of an agreement to stanch the flow.

The Turkey deal may yet work (although Charlemagne is struggling to find anyone who believes that it will). If it cuts the number of refugees and the borderless Schengen area survives, a European ideal will have been saved. Optimists think that, even if it flops, the EU’s relations with an important neighbour will have emerged from the deep freeze. Denouncing Mr Erdogan’s power grabs through bloodless progress reports had little effect; now EU politicians can slip their concerns into exchanges on refugees, as some visiting commissioners did this week in Ankara. The crisis may also force the EU to look outward again. Tunisia, notes Jan Techau of Carnegie Europe, another think-tank, is crawling with European diplomats and money, testament to the EU’s desperation to preserve a rare success from the Arab spring.

But these are slim hopes. Europe’s vulnerabilities are on full display. Some future Qaddafi will be alert to the concessions he might win by threatening to unleash hordes of migrants upon European shores. Finland and Norway fear that Vladimir Putin may decide to do precisely that by waving through a host of Syrians and Afghans. As for Turkey, had the Europeans woken up to the coming danger last spring, they might not have found themselves compromising their values so grubbily in the autumn. That would have been the strategic thing to do. Time to dust off some of those far-sighted think-tank reports. ■



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Black Britons

The next generation

A mainly Caribbean community has become a mainly African one—and is poised to become more successful

BLACK British history did not begin in the 20th century. In 1578 George Best, a travelling diarist, wrote of meeting “an Ethiopian as blacke as a cole brought into England”. But it was after the 1940s that Britain’s black population really began to grow, with two waves of immigration. The first, from the 1940s to the 1960s, carried poor Caribbeans to British shores. The second, beginning in the late 1980s, came from Africa, as wealthy Nigerians and Ghanians arrived alongside rural migrants and refugees from Somalia and Zimbabwe.

Britain’s black population is now about 2m, or just over 3% of the total. The census divides it into two main categories: “black African” and “black Caribbean”. Until the turn of the century, Caribbeans were in the majority. But in the ten years to 2011, the African population doubled. And that is not the end of the changes: although Caribbean Britons are substantially better off than their African neighbours, demographic and educational trends suggest that the tables may soon be turned.

Thamesmead, an east-London suburb that is home to Britain’s most-concentrated African population, illustrates the group’s struggles. Its bleak residential towers, where Stanley Kubrick shot “A Clockwork Orange”, are overcrowded, says Mabel Ogundayo, a 24-year-old local councillor. Most of its crammed-in residents are tenants; nationwide, less than one-quarter of Africans are owner-occupiers, compared with nearly one-half of Caribbeans. That is

partly why Caribbean households are, on average, much better off: in 2009 the Office for National Statistics (ONS) found that the average one had £76,000 (\$109,000) in assets, against £15,000 among Africans.

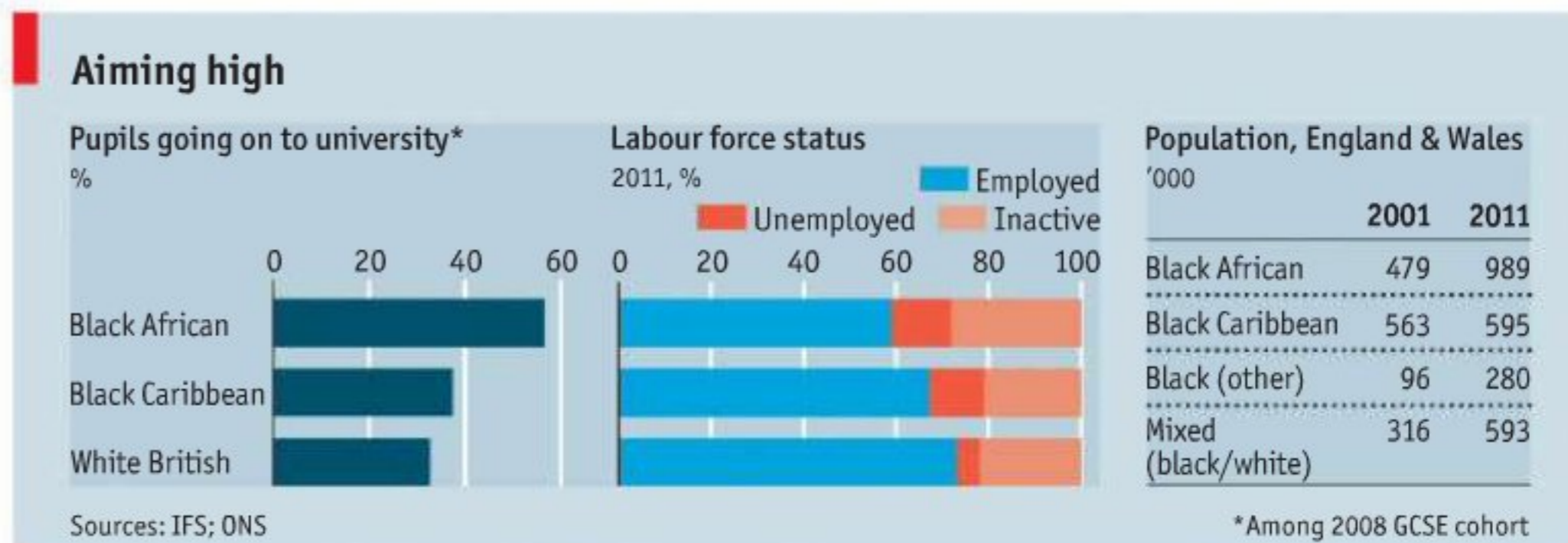
Caribbeans also fare better at work. Africans are less likely to be employed, and more likely to toil in low-skilled occupations. Much of this is down to their more recent arrival: although four out of ten have degrees—more than any ethnic group other than Chinese and Indians—many studied at unrecognised foreign universities, and some speak little English. As a result, 41% of African graduates work in non-graduate jobs, compared with 28% of Caribbeans. Their employment rate is dragged down by some groups that have particularly struggled: few from the mainly refugee Congolese or Somali communities are in work, for example.

Yet the fact that much of their disadvantage is owing to their recentness suggests

that, with time, it will be overcome. Many are richer than the first wave of Caribbeans. New Nigerian immigrants are less likely to be employed than new Jamaicans, but this stops being the case after five years in the country, according to the ONS. And although Africans are more likely than whites to be in low-paid work, the gap disappears once factors such as age, occupation and language have been controlled for. As new generations are minted and old ones learn English, earnings can be expected to rise.

There is already progress in schools and universities. In 2014, 68% of Africans got five good grades in their GCSEs, the exams taken at 16, compared with 65% of whites and 59% of Caribbeans. They are far more likely to continue their education—indeed, the poorest Africans are as likely to go to university as the wealthiest Caribbeans. Although there is little difference in performance at primary school, Caribbean children “lack the support that’s needed to deal with the choppy waters of secondary school,” says Tony Sewell, the founder of Generating Genius, a charity. Africans, as newer arrivals, “have the mindset that there’s always something worse [than schoolwork] out there,” he adds.

And although discrimination remains real, it is less pervasive than when Caribbeans first arrived in Britain. Archived gov- ▶▶



ernment papers released last month showed that in 1985 Margaret Thatcher was warned by advisers that grants to black entrepreneurs would end up in the “disco and drug trade”. Back then, 50% of Britons admitted to NatCen, a research organisation, that they would mind if a close relative married a black person. Now, the figure is 22%. (Prejudice has found new targets: 44% say they would be bothered by a relation marrying a Muslim.)

Africans remain less integrated than Caribbeans. Eight out of ten Africans choose an African partner, whereas by comparison less than half of Caribbeans settle down with a fellow Caribbean. A child under ten who has a Caribbean parent is more than twice as likely as not to have a white parent.

Some believe that Africans’ delay in integrating may actually help to explain their success. West Africans, in particular, have a “separateness and social distance” in areas such as language, dress and religious worship “which seems to carry a protective effect”, says Trevor Phillips, a former head of the statutory Equality and Human Rights Commission. Caribbeans, by contrast, resemble whites in their performance at school—that is, both do pretty badly, after controlling for income.

Others dispute the value of “separateness”, arguing that minorities benefit more from mixing. That is where official efforts focus. With second-generation Africans already starting to integrate more quickly, the theory will soon be put to the test. ■

Brexit war games

A rocky rehearsal

A mock-up suggests it may be hard for David Cameron to do a deal in Brussels

THE recent messages from Downing Street have been optimistic. Careful diplomacy is paving the way for David Cameron to renegotiate Britain’s European Union membership at a summit in Brussels on February 18th-19th. That should enable the prime minister to call (and win) his EU referendum in late June. Yet the outcome of mock “war games” staged on January 25th by Open Europe, a London-based Euro-sceptic think-tank, was less reassuring.

The games brought together former EU leaders to test what deal Britain might secure. Sir Malcolm Rifkind, a former Tory foreign secretary representing the British side, noted that nobody wanted Brexit. Yet even reforms that had seemed uncontroversial proved less so in debate. Responding to Sir Malcolm’s demand for legal safeguards for countries not in the euro, several ministers said it would be absurd to give Britain a veto over euro-zone countries’ policies. Others called such concerns hypothetical: Aart Jan de Geus, a former Dutch employment minister, said Sir Malcolm was seeking an umbrella when there was no rain. Even Britain’s desire for an ex-

emption from the EU’s goal of “ever closer union” caused some resentment.

Yet this was mild compared with the response to Sir Malcolm’s demand, echoing Mr Cameron’s, for the right to block in-work welfare benefits for EU migrants for four years. Such discrimination was contrary to the treaty principle of free movement of labour, fumed Karel de Gucht, a former trade commissioner who represented the EU institutions. It would require treaty change that France was not ready for, said Noelle Lenoir, a former French EU minister. There was little hint of compromise, even though Sir Malcolm suggested that as many as 9% of British voters would switch from In to Out without a deal limiting migrants’ benefits.

The audience’s conclusion was that it may be harder to complete the negotiations in Brussels than Mr Cameron hopes. Many thought his prospective deal could therefore slip beyond February, with the referendum taking place in September or later. Enrico Letta, a former prime minister representing Italy, warned that holding a referendum during the summer, when Europe’s migration crisis will be at its most acute, would help the Out side.

If this was bad enough, the second part of the war games, a mock-up of how the EU would respond to a vote for Brexit, was worse. Lord Lamont, a former Tory chancellor of the exchequer representing Britain, argued that an “amicable divorce” was in everybody’s interests. Britain could negotiate a trade deal similar to Canada’s, liberating it from EU rules, including free movement of people. He even volunteered to pay something into the EU budget.

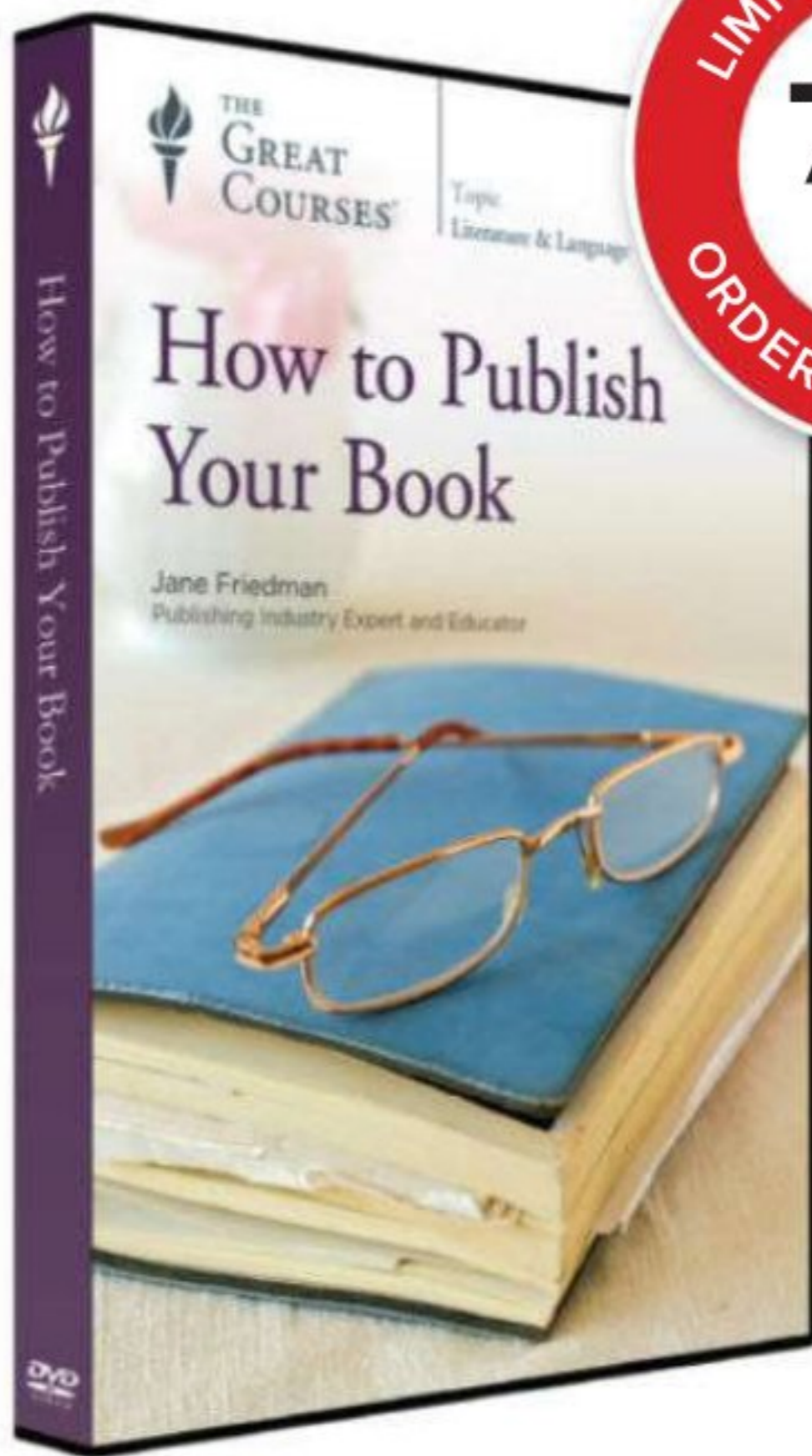
Yet other countries were unimpressed. John Bruton, a former prime minister representing Ireland, said Brexit would be seen as an “unfriendly act” and would threaten the peace process in Northern Ireland (Enda Kenny, Ireland’s real prime minister, made a similar point after meeting Mr Cameron on the same day). Steffen Kampeter, a former deputy finance minister representing Germany, said Britain would not be allowed to cherry-pick the benefits of membership without the costs. Mr de Gucht noted that a new trade deal would be negotiated by the European Commission and national governments with minimal British input. He and others added that they would try to shift Europe’s financial centre from London.

The starkest warning came from Leszek Balcerowicz, a former deputy prime minister representing Poland. He said the priority would be to deter populists in other countries who wanted to copy Brexit. For this reason Britain would be punished by its partners even if that seemed to be against their interests. Mr Cameron’s negotiations may be hard, but they are a picnic compared with what he would face were he to lose his referendum. ■



Punk reaches middle age

The 40-year journey from anarchy to tourist attraction is almost complete. The place of punk rock’s birth in 1976, the King’s Road in London, is now filled with designer shoe shops; its principal ambassador, John Lydon (aka Johnny Rotten), fronts advertisements for Country Life butter. Nonetheless its “attitude and spirit” survive untouched, insists the mayor of London’s office, which is helping to co-ordinate a year-long punk festival in conjunction with such anti-establishment institutions as the British Library and the Museum of London. God save the queen.



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Bagehot | Death of a Londoner

Appeasing Russia's kleptocrats harms both Britain's moral integrity and its hard-nosed interests



ON NOVEMBER 1st 2006 Marina Litvinenko cooked a special dinner for her husband, Alexander, to mark the sixth anniversary of their arrival in Britain from Russia (and their first since becoming citizens). In the early hours of November 2nd the spy-turned-dissident started vomiting. In hospital his condition deteriorated: his hair fell out, his skin turned yellow and he threw up parts of his stomach. After 20 days of agony he composed a statement blaming his poisoning on Vladimir Putin. He died of heart failure shortly afterwards.

Almost a decade later, on January 21st, a judge-led inquiry concluded that two Russian agents had most likely spiked Litvinenko's tea with polonium-210, a radioactive isotope, at a meeting in London. They were "probably" acting on Mr Putin's orders. Sir Robert Owen's report also indicates that the murder was about more than bumping off an enemy. Its particulars—from the use of a slow-working poison to the trail of radiation through London and the decoration awarded to one of the suspects last year—amounted to an ostentatious sneer at the British state. They sent a message to other opponents: don't think that Moscow's jurisdiction is limited to Russia's borders, or its citizenry.

In a statement following the report's publication, Theresa May, the home secretary, told MPs that she had suspended both men's assets. Ministers are now deliberating over further asset freezes, visa refusals and diplomatic expulsions. Naming those affected is "very much on the table", says one senior source. Others, including Mrs Litvinenko, call for more: a comprehensive travel ban on Mr Putin's coterie of politicians, spooks and oligarchs; a boycott of Russia's football World Cup in 2018; a public inquiry into the mysterious death of Alexander Perepilichny, a Russian whistleblower who collapsed near his home in Surrey in 2012.

If the decision were just about doing right by the Litvinenko family, the government would do the lot. But the wider national interest is a rival consideration. The Foreign Office is cautious about jeopardising relations with the Kremlin on the cusp of Syrian talks in Geneva, whose outcome will affect both the refugee crisis and the threat from Islamic State terrorism, and which may turn on Russia's influence over its vassal in Damascus. Meanwhile, as of 2014 rich Russians had some £27 billion (\$39 billion) invested in London, where they come to bank, shop, educate

their children and sue each other. Such interests are well-represented in Conservative circles; at a pre-election fundraising ball Lubov Chernukhin, the wife of Mr Putin's ex-finance minister, successfully bid £160,000 for a tennis match with David Cameron (in a moment of exuberance the auctioneer threw in the party chairman as a ball boy).

Politics is politics. The hard truth is that voters put jobs, investment and counter-terrorist co-operation before the welfare of Russian dissidents. So arguments for a self-interested realpolitik have often prevailed. The government has repeatedly rejected calls by MPs for Britain to emulate America's "Magnitsky Act", a public travel ban on Moscow officials connected with the violent death in custody of an anti-corruption lawyer. In 2013 Ms May initially refused a public inquiry into the Litvinenko case, citing "international relations". The Ukraine crisis, it is true, put some lead in Mr Cameron's pencil—he was relatively hawkish on the matter of sanctions—but even in 2014 an adviser in Downing Street was snapped holding notes fretting about their effect on the City. Today murky, Kremlin-linked money still sloshes through London's housing, financial and energy markets, all with the connivance of British bankers, lawyers and estate agents (a government report published in October highlighted "significant" gaps in the country's offensive against money laundering).

Yet the trade-off between principle and realism is more illusory than the government's actions or words allow. Take the fight against Islamic State. Russia has an entirely different agenda in Syria from that of Britain—indeed, it has allegedly been aggravating the fallout in Europe by sponsoring hard-right, anti-refugee parties—and its intelligence agencies are not in the habit of sharing information with foreign counterparts. Where they perceive a shared interest (over security at the World Cup, for example) they will co-operate with Britain regardless of the health of the diplomatic relationship. And even if none of this were the case, tiptoeing around Litvinenko's murder would not be the answer; as one minister points out, Mr Putin routinely defies international norms not because he is offended by the West's assertiveness, but because he thinks it weak.

London or Londongrad?

The hard-nosed case for tough sanctions is even stronger when it comes to the economy. London's status as a leading financial hub is not reliant on Russian dosh, which according to a study in 2014 by Open Europe, a think-tank, represents 0.5% of international investments there. Moreover, a cynical failure to respond adequately to the killing would damage that status, which depends on Britain's reputation for straight dealing and rule of law. For this reason the proliferation of obscure holdings and stolen money in London so concerns the government that it has launched an anti-corruption drive (including a new company-ownership register), boosted the budget of the Serious Fraud Office and is considering making "failure to prevent economic crime" an offence.

Whether Britain now does something to dent the Kremlin's sense of impunity is thus a measure of whether it believes its own schtick. Panjandrums in Westminster are forever asserting that the country's role as a global entrepôt gives it hard geopolitical influence; that its "soft power" and knack for fair play are among its greatest assets; that trade and the rule of law go hand in hand. How it responds to Sir Robert's finding—that a thuggish foreign state seemingly murdered a British citizen on the streets of the capital—is a fine test of how much any of this really means. ■



International students

Brains without borders

MIAMI

As Australia and Canada seek to attract more foreign students, America and Britain could lose out

MONTANA HIRSCHOWITZ remembers exactly when she decided she would seek her higher education abroad: one night when she was ten, and armed robbers broke in and terrorised her family in Johannesburg. Quang Nguyen dates his decision to no particular moment: he simply did not want to spend a big chunk of his classroom time on communist ideology, as is standard in his native Vietnam. Jehanne Aghzadi, from Morocco, had attended American schools all through her childhood; she wanted to continue her studies in English. Joy Lin was looking for a better course than she could find in China, with more social activities on campus and the chance to gain foreign work experience after graduating.

All four students ended up at the University of Miami in Florida, for reasons that varied as much as those that pushed them to leave home in the first place: good weather, highly regarded courses in subjects they liked, student aid and in one case a scholarship. But beyond the specifics, they are part of a mass trend. More university and college students than ever are studying outside their home countries. Foreigners now make up a sizeable share of students in some countries and courses—a quarter of all those in Australia, for example, and around a million of those on American campuses.

There are 4.5m international students globally, up from 2m in 2000, and that is expected to swell to 7m-8m by 2025, driven by population and income growth in developing countries where local provision is poor. Some places that have not traditionally hosted many foreign students are trying to grab market share. Japan has a goal of 300,000 foreign students by 2020, 60% more than now; Malaysia, of almost doubling numbers to 250,000 by 2025.

Foreign study took off in the 1980s, when several rich countries started to offer large numbers of scholarships as part of their aid programmes. Rising incomes in

poorer countries added a financial motive. Universities in rich countries are often constrained by their governments in how many locals they can recruit and how much they can charge them. Foreigners, who can be charged more, help pad out budgets and subsidise local students. But not every country lucky enough to have lots of foreign students is doing what is needed to keep them coming.

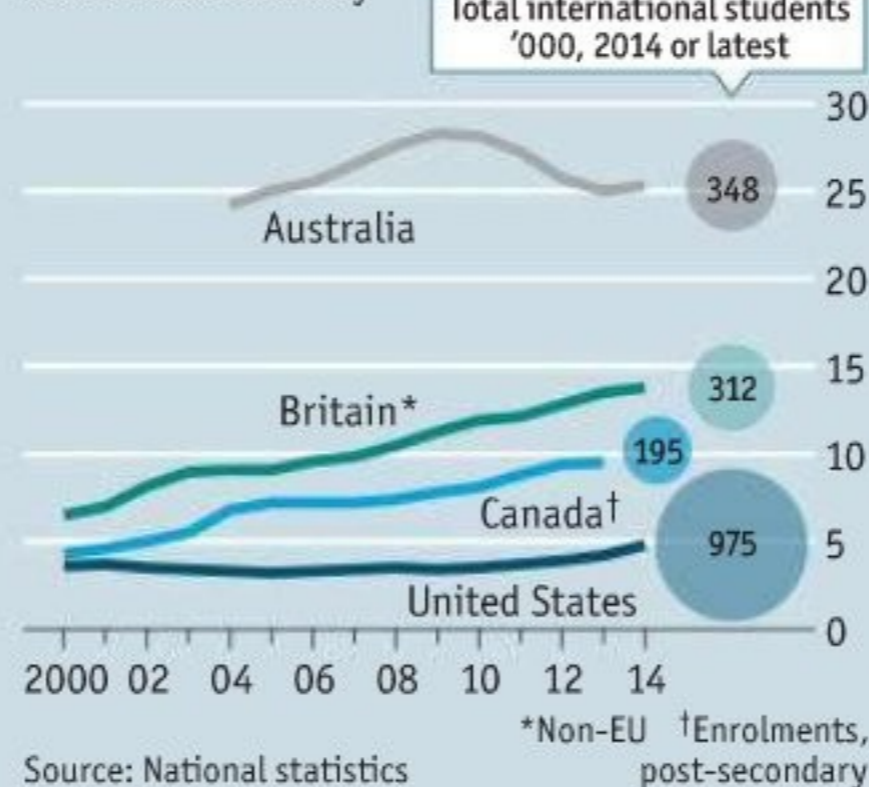
Today Anglophone countries take the biggest share, since English is quite a useful language to acquire. France is popular with bits of its former empire and pupils from the French-language schools around the world that France's government subsidises. Germany, which has started to offer postgraduate courses in English and has abolished all tuition fees, even for foreigners, also takes large numbers.

America leads in absolute terms, with 975,000 foreign students in 2014-15. Its best universities have long attracted the very brightest foreign minds, especially in the sciences, often luring them with generous scholarships. But for its size its performance is less impressive: just 5% of all students on its campuses are from abroad.

One reason is tighter visa rules imposed after the terrorist attacks of 2001; another is that students must seek special permission to work off-campus while studying, and it is hard to stay and work for long after graduating. Longer-term employment visas are also hard to get, so many students without deep pockets choose to go elsewhere so they can defray some of the cost. And most American institutes refuse to pay education agents—consultants who help youngsters, particularly in Asia, to choose institutions and apply to them. According to i-graduate, a consultancy, agents rank America as the most attrac-

Weighing their options

Tertiary education, international students
As % of total in country



► tive destination, but are less likely to recommend American institutions, as they mostly work on commission.

Students usually choose their target country first and then decide which college to apply to. That means national advertising strategies matter, says Mark Reid of the University of Miami. But America has none, leaving individual institutions to promote themselves overseas. Mr Reid and his staff give presentations at international schools and attend trade fairs in around 65 countries each year. This has paid off: the proportion of Miami's students who are foreign is three times the national average. Latin Americans like living in a Hispanic-majority city. Chinese students became interested in 2009, when Miami broke into the top 50 of the ranking of American universities produced by *US News and World Report*.

Higher learning, down under

Australia, by contrast, has long seen international students—and their fees—as a national priority. Education is the country's second-biggest export industry, behind only mining, worth A\$18 billion (\$15 billion) in 2015. A quarter of all its students—and in business and management courses, close to half—are from abroad. At a couple of particularly enterprising institutions, Australian-born students are a minority.

Australia's allure faded between 2009 and 2012, partly because of a strong currency but also because racist attacks against Indian students in Melbourne, and the collapse of some poorly run private colleges, tarnished its image overseas. A government crackdown on visa scams and low-quality courses drew attention to uneven provision and slowed visa-processing times for all students, even those applying to elite institutions. As the currency has fallen and visa rules have been relaxed again, applications have rebounded. The tale offers two morals, says David Hetherington of Per Capita, a think-tank in Sydney. First, foreign students need clear visa rules and the right to work while they study. Second, the national brand matters.

Canada, where universities until recently had few foreign students, has learned from Australia's experience. About a decade ago its government decided that universities could bolster their finances by admitting more foreign students paying higher fees, and that after graduation those students would be a valuable source of well-qualified young workers. Immigration rules were always quite favourable, says Paul Brennan of Colleges and Institutes Canada, an industry organisation, but until recently there was no clear path from study to work and then permanent residence. Now, if new graduates can find a job they can automatically stay in Canada for up to three years, depending on the length of their courses. That work

experience is then taken into account if they apply for permanent residency.

A collaboration between colleges, universities and Canada's immigration office has brought down visa-rejection rates for Indian students, a target market. A quarter of all foreign students—and half of those from India and China—end up being granted permanent residence. Recent growth in international-student numbers has largely come in shorter college and polytechnic courses, says Mr Brennan. These are popular with Indians who already have degrees but cannot find work—and with youngsters from unemployment-plagued Italy and Spain. The number of Indian students arriving for such courses rose from 1,200 in 2008 to 14,000 last year.

Britain, too, sees policy on international students as intertwined with immigration policy, but has taken the opposite tack. Its universities have a cachet among foreigners. Overall, 14% of students on its campuses come from outside the European Union. Another 5% come from other EU countries (under EU rules they are admitted on the same basis as locals, and pay the same fees). In 2013-14 English universities took in £3.3 billion of non-EU student fees, which are not capped by the government, 13% of revenue. Half of those studying full-time for work-focused master's degrees are from outside the EU, and research by the British Council shows that in some scientific fields, such as electronic engineering and biosciences, the share is over 80%.

But in recent years this success story has been threatened by a populist pledge made in 2010 by the Conservative Party, then in opposition, to cut net immigration to 100,000 people a year. With many immigrants entering Britain from bits of its former empire under family-reunion laws, and free movement within the EU, most immigration is outside the government's power to stop. Non-EU students are the main exception. In power the Conserva-



They have choices, you know

tives have sought to keep them out by tightening visa rules, raising application costs, restricting students' right to work part-time during their courses and making it far harder to stay after graduation.

The result is visible in the figures. In 2014-15 the number of new students from outside the EU fell by 3%, even as the number of foreign students worldwide rose strongly. Britain's three big English-speaking competitors all saw strong growth. Chinese students, who are often leaving to escape the *gaokao*, China's vicious university-entrance exam, rather than because they want to earn money in a richer country or emigrate, are still coming. But applications from Indians and Pakistanis, who typically need to work while studying and for a year or two afterwards to afford the fees, have fallen by half.

Britain is dangerously exposed to a slackening of demand from China, says Will Archer of i-graduate. He also notes that education agents have become less likely to regard Britain as an attractive destination—even though more of its international students rate their education highly, and more say they are satisfied with their experience and would recommend Britain to other students, than anywhere else.

Learning's allure

The quality of education in some countries that have long sent many students abroad is improving. Local hubs such as Singapore and Hong Kong are growing more popular: of Asians who study abroad, the proportion who do so in Asia rose from 36% in 1999 to 42% in 2007. And more students are plumping for "transnational" rather than international study, says Michael Peak of the British Council: mixing and matching local and foreign provision, for example by starting degrees at home and taking just a final year abroad.

The trend is most evident in executive education, which is less about the chance to work in a rich country and more about gaining international experience, says Andrew Crisp of CarringtonCrisp, an education-marketing firm. A growing share of MBAs and executive master's courses are now offered by partnerships or groups of institutions, with students expected to spend time in several different locations. Online education, too, could cut demand for pricey overseas study, if not by replacing it then by allowing students to do part of a foreign institution's courses more cheaply from home.

English-speaking countries have benefited hugely from international students. Those students have subsidised locals, kept courses in the hard sciences viable, acted as informal ambassadors on their return—and eased skills shortages when they have stayed. Some countries have seized the opportunity; others have taken it for granted. More fool them. ■



Auction houses

House pride

The art world is changing faster than Sotheby's and Christie's are adapting their business model

BETWEEN them Sotheby's and Christie's, the Western world's two largest auction houses, have been in business for 522 years. They display many of the characteristics of old men: a gouty gait that makes them slow to adapt; and a fixation on ancient rivalries that leads them to butt heads repeatedly rather than focus on reinvigorating their businesses for the rapidly changing world around them.

Striving to stay on top is hard work. Christie's, a private company owned by a French luxury-goods billionaire, François Pinault, gives little away. But in a brief overview of its 2015 results, released on January 26th, it admitted that sales were down by 5% compared with 2014, to £4.8 billion (\$7.4 billion). "This is a blip," its deputy chief executive, Stephen Brooks, insists. More worrying was the news that the slump was not just in Old Master paintings, in which buyers have for some time been losing interest. Sales also slipped in the areas that have been the engines of recent growth: watches, wine, even post-war and contemporary art, which has captured the imagination of the global new rich but which fell by 14% in sterling terms and 20% in dollars.

Four days earlier, Sotheby's new chief executive, Tad Smith, told analysts in New York that its sales were flat compared with 2014's, that the firm would post fourth-quarter losses of up to \$19m and that it was scrapping its dividend. Sotheby's shares have fallen by more than half in the past

six months.

In part the weakness of the big two's sales is because of the world's wealthy, Russians especially, drawing in their horns. But in part it is because their business model is looking outdated, leaving them vulnerable to sprightlier rivals.

Although Christie's clocked up more auction sales than Sotheby's, \$6.5 billion against \$6 billion (the rest comes from private sales they brokered), the two firms have broadly similar overheads. Each employs between 1,600 and 2,000 people. Between them they hold nearly 750 auctions a year in more than 80 categories—some significantly less profitable than others. Together they run more than 140 offices in 40 countries, and have 22 salerooms.

Under pressure from activist shareholders who want to see a better return on capital, Sotheby's has made a high-profile (if costly) effort to reduce its head count by 5% over the past few months. Christie's, too, has been quietly shedding staff for over a year. But neither feels it can afford to cut back too far for fear of weakening itself compared with the other.

Expensive promises

The high cost of protecting this duopoly is most visible in guarantees that the auction houses make to sellers about the price they can expect if they sell their treasures. In deciding where to consign their works, rich collectors play off one auction house

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against the other to force up the guarantee. Often they also demand a slice of the buyer's premium (the fee charged to buyers on top of the hammer price) and a reduction in the commission that sellers have to pay, thereby cutting the auctioneer's margin.

Sotheby's has had its manicured fingers burned by a generous guarantee it gave to the heirs of its late chairman, Alfred Taubman, on the sale of his collection. Christie's says it pushed up its offer to the Taubman family to well over \$400m. So as not to lose face, Sotheby's, which had estimated the collection's worth at \$500m, offered a guarantee of nearly \$515m. On the items sold by the end of 2015, Sotheby's reckons, it was \$12m out of pocket including its marketing expenses.

On January 27th it auctioned off a batch of the Taubman collection's Old Masters, reducing its overall loss to \$9m, though 17 of the 67 lots on offer, including Ligozzi's "The Abduction of the Sabine Women" (pictured), did not sell. More than 200 other works will be sold in the spring.

Sotheby's is not alone in making foolhardy decisions to win or keep business. Last year Christie's offered a guarantee of about \$45m on a silk-screen by Andy Warhol called "Four Marilyns", from 1962. The offer caused surprise, as the picture had been knocked down at auction, just two years earlier, at \$34m. The deal was complicated. The seller was Kemal Has Cingilloglu, a scion of a prominent Turkish banking family who sits on Christie's European advisory board. He owed the auction house money for a work by Cy Twombly that he had contracted to buy privately.

The market was less than impressed. The Warhol picture, it judged, was being "flipped"—returned for sale too quickly—and the auction estimate of \$40m-60m was viewed as over-optimistic. In the event its hammer price was \$32m, resulting

▶ in a considerable loss for Christie's.

This is not the only source of pressure on the auction houses. In the past decade the contemporary-art world has ballooned, with new fairs, biennials and exhibition spaces opening everywhere. According to a recent report by Clare McAndrew, a respected art-market analyst, \$33.1 billion-worth of art and antiques were sold at auction in 2014, half of all sales. An increasing amount is being traded in undisclosed private deals arranged by brokers.

Information is power

Time was when the big auction houses had a near-monopoly on information about the art market, which gave them an edge over customers as well as potential rivals. But now buyers, sellers and dealers are much better informed, and the mystique of the auction room has faded. Many collectors regard their contemporary art as an alternative asset class, which has prompted the launch of new businesses offering market data, tax advice and analysis of the investment potential of art.

Sotheby's and Christie's have been trying to grab a larger slice of this pie. Earlier this month Sotheby's paid \$85m for Art Agency Partners (AAP), which was set up less than two years ago by a former Christie's specialist, Amy Cappellazzo, and two other founders. Left out of the deal was a \$125m art-investment fund AAP had set up with seven of its clients. ("It was clear we could have raised much, much more," says one partner, Adam Chinn.)

The fund, now the second-largest in the world, has spent only half of the money it had raised, but has already managed to return an impressive \$15m to investors. Such funds, like the burgeoning art-advice business, are a promising area that the big two auction houses have been slow to move into.

The two houses realise there is much that they must do to protect their dominance. They need to consolidate their expansion into growing markets in Asia and elsewhere. They must draw new buyers

into the art market by first enticing them to buy watches, wine and other luxuries. They need to improve their online-auction platforms, in the face of rising competition (see box). And they must expand their share of the middle market—lots with a value of up to \$2m—where there is no need to offer guarantees or discounts to attract sellers, thus making it more profitable than selling more valuable works. Most important, the auction houses must do more to please buyers, expanding what they call "demand-led curation" by creating more imaginative, well-timed sales, and by collating and digitising the information they hold on sellers, to help buyers find what they want.

If they do not do all this, others will. Phillips, a smaller auction house, may have been founded in 1796 but it has recently showed the ambitions of a startup. Just over 18 months ago its two owners, Leonid Fridlyand and Leonid Strunin, the founders of Mercury Group, a Russian retailer

of luxury goods and cars, appointed a former boss of Christie's, Edward Dolman, to start snapping at the heels of the big two.

Phillips's elegant new headquarters, with its carefully curated contemporary-art exhibitions, in Berkeley Square in London, mask a lean operation: two offices and a staff of just 225 compared with seven or eight times as many at each of the other two houses. The focus is on getting the new rich hooked on buying, first, watches and then contemporary art; and on finding out what such clients want and providing it.

The strategy is working. From a standing start, Phillips sold \$80.3m-worth of watches in 2015. Total auction sales, at \$523m (mostly of contemporary art), were 34% higher than in 2014. Mr Dolman expects Phillips to reach \$1 billion within three years. Although the bosses of Sotheby's and Christie's are telling investors that last year's weak figures were just a temporary setback, the market is changing fast. The big two need to sharpen up. ■

Art auctions

Going once, going twice, going online

NEW YORK

Online auctions are changing the art market but not yet upending it

EVERYONE seems to agree that online auctions are important to the art world's future. In 2013 Daniel Loeb, an activist investor, seethed over Sotheby's "inability to even develop a coherent plan for an internet-sales strategy, much less implement one." Sotheby's has worked to remedy that, for example by joining forces with eBay and holding five online-only auctions last year. Christie's holds its own online sales. Add a swarm of startups, and there seem to be ever more web auctioneers selling ever more art. But the ways in which online auctions are not changing art sales are as interesting as the ways in which they are.

Sales of art online reached €3.3 billion (\$3.6 billion) in 2014, about 6% of all worldwide sales, according to the European Fine Art Foundation (TEFAF). Sceptics used to predict that collectors would be highly reluctant to buy online because they would want to inspect prospective purchases in person. However, David Goodman, Sotheby's digital and marketing chief, argues that online sales will keep growing, with buyers "comfortable buying more and more things at more and more price points online".

Influential investors agree. Peter Thiel and Jack Dorsey, the respective founders of PayPal and Twitter, are among the backers of a startup called Artsy. It has an extensive online art catalogue and last year it launched a platform for online auctions. Top gallerists such as David

Zwirner of New York and Jay Jopling of London are backing Paddle8, another online auctioneer, which says its sales doubled last year. Auctionata, yet another, reports even faster growth.

The main effect is to open up the cliquish art world. Any collector who has provided credit-card details in advance can bid in an online Sotheby's or Christie's sale. Paddle8 boasts that 39% of visitors to its site are aged 18-34.

Though online auctions can lure new collectors, they are not yet stealing much business from conventional art firms. Indeed, says Sebastian Cwilich of Artsy, his firm wants to join forces with galleries and auction houses, not compete with them. In October, for example, it held an auction with Sotheby's. Paddle8 seeks to complement Sotheby's and Christie's, by offering mainly works valued at \$1,000-100,000. The greatest threat is to smaller, local auction houses. But Anders Peterson of ArtTactic, a research firm, argues that even these may be saved, if they adapt to the online age. Barnebys, launched in 2011, aggregates items for auction, helping smaller auction houses reach a wider audience.

Overall, online firms are doing little so far to disrupt the art market, says Clare McAndrew, who wrote TEFAF's report. Indeed, some may be making the market even more opaque than before. Paddle8, for example, does not publish final prices after auctions have ended.

Snapping at their heels

Art-auction sales, \$bn



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Toshiba and Sharp

Coming clean?

TOKYO

A reckoning looms for two troubled corporate giants

FEW tasks are more urgent for Japan than the clean-up of the stricken Fukushima Dai-ichi nuclear plant. Extracting spent fuel-rods from its toxic reactor buildings calls for a new generation of remote-controlled robots. One gadget broke down last spring after just a few hours' operating amid intense radiation. This month Toshiba, a conglomerate ranging from semiconductors to nuclear engineering, unveiled a scorpion-shaped robot equipped with multiple live-feed cameras that will go into action at the plant next year.

That is a reminder of how important the company remains at home, where it is a pillar of the engineering establishment. But its financial plight has deepened following an accounting scandal that began early last year and that obliged Toshiba to restate its profits to the tune of ¥152 billion (\$1.3 billion). An investigation ordered by the firm concluded that, under the guidance of Atsutoshi Nishida, its boss from 2005 to 2009, employees began doctoring losses into paper profits and continued doing so under two subsequent bosses.

Its crisis deepened in December, when Toshiba forecast a ¥500 billion loss for the year to March, due to ill-performing businesses and restructuring costs. Its shares promptly fell by one-fifth and Moody's, a credit-rating agency, downgraded its debt to junk. Its cash flow has collapsed. Analysts worry that its equity could be wiped out if it is obliged to write down goodwill resulting from its acquisition in 2006 of Westinghouse Electric Company, an American nuclear-industry supplier.

Investors are watching to see if the authorities' handling of Toshiba's fall from grace is consistent with Japan's of-late more shareholder-friendly climate. Last year Shinzo Abe, the prime minister, brought in a corporate-governance code which mandates firms to listen to outside board directors and requires hitherto supine institutional investors to keep a close eye on firms they invest in. This week the overseer of Mr Abe's reforms, Akira Amari, the economy minister, resigned over bribery allegations, denying any wrongdoing.

The government's professed zeal for corporate reform ought to mean that, in dealing with Toshiba, it departs from old-style industrial policies, says Hidemi Moue of Japan Industrial Partners, a private-equity firm which hopes to snap up some of the stricken firm's businesses. But it will be hard for the Ministry of Economy,



Sharp screens, fuzzy future

Trade and Industry to resist pressure to lend a helping hand to the group and its 200,000 or so employees. Toshiba was allowed to miss several financial-reporting deadlines and remain listed last year as its accounts were being investigated (though its shares remain "on alert", which could lead to delisting). Lesser firms would surely have faced tougher sanctions.

In parallel, Mr Abe's bid to make Japan more open to foreign investment is being tested by an offer from Foxconn, the Taiwanese assembler of Apple's iPhones, for Sharp, a once-great but now near-bankrupt electronics firm. It emerged that Foxconn had bid more than \$5 billion for Sharp (though some details, including whether the offer includes the firm's vast debts, have yet to be revealed).

Shareholder advocates fear that, under official pressure, Sharp's two Japanese creditor banks will spurn Foxconn and sell the firm to a government-backed fund, the Innovation Network Corporation of Japan (INCJ), for a lower price. One reason for this would be bureaucrats' fears that Sharp's liquid-crystal display (LCD) know-how could benefit foreign rivals.

After its scandal, Toshiba urgently needs to shore up its balance-sheet ahead of bank loans coming due. It must sell some businesses, from perennially loss-making ones, like the manufacture of televisions, to jewels such as its medical-equipment division. Some of those businesses may attract foreign bids. But Toshiba may also turn to the INCJ, which may buy its electrical-appliances operations, then perhaps seek to meld them with Sharp's white-goods businesses and those of Hitachi, another conglomerate that has revived itself through disposals.

The INCJ's goal is to consolidate industries that have too many competitors and little profit to go round (five Japanese companies, for example, make fridges). Three years ago the fund cobbled together Japan

Display out of the small and mid-size LCD-panel divisions of Sony, Toshiba and Hitachi. It is now thriving as a supplier to Apple. This suggests that the INCJ could succeed in overhauling other industries, says Atul Goyal of Jefferies, a stockbroker.

Even if the INCJ does a good job in rationalising the troubled businesses of Toshiba and Sharp, shareholders may lose out if this means turning down higher offers for them. And some serious worries about Toshiba's scandal would linger. The firm already obeyed, on paper, the new governance code's requirements on outside board directors, which suggests that those at other firms may prove just as toothless.

Toshiba's auditor, Ernst & Young Shin-Nihon, has been fined and suspended from taking new audits for three months, but many Japanese businesspeople agree with Toshiba's description of its profit-padding as merely "inappropriate" accounting, since executives were not out for personal gain. It was fraud, insists Jamie Allen of the Asian Corporate Governance Association in Hong Kong; and those involved should face prosecution, as they would in any other developed market. It is unclear whether they will. ■

Apple

iPhone, therefore I am

SAN FRANCISCO

Among the firm's biggest difficulties is its past success

STEVE JOBS once visited an apple orchard while on a fruitarian diet, and it gave him the idea for the name of the company that he, Steve Wozniak and Ronald Wayne went on to found. Jobs thought the name would make the company seem quirky, approachable and fun. Its popular, highly profitable products have helped make it the world's most valuable company for nearly five years. However, questions are growing about its shelf life.

On January 26th Apple announced profits for its most recent quarter of \$18.4 billion, more than any listed firm worldwide has yet made in a three-month period. However, the good news was overshadowed by Apple's warning of a sharp fall in revenues in the current quarter. In the past six months its shares have fallen by over 20%, more than double the decline in the S&P 500 index, on fears that sales of the iPhone, which provides most of the firm's revenues and profits, have peaked. Is it only a matter of time before Apple (worth around \$550 billion) is overtaken by Alphabet, Google's parent (\$500 billion)?

In its rise to greatness, Apple has repeatedly shrugged off bouts of panic among in- ▶▶

investors, who have suddenly convinced themselves that its glory days are over. The most recent was three years ago, amid fears of rising competition from other smartphone and tablet makers. But each time Apple has bounced back and gone on to greater highs, the job of topping its most recent achievement has become harder.

Beating the 231m iPhones that Apple sold in the fiscal year to the end of September will be a formidable task. The smartphone market is ever more saturated. Worldwide sales of phones costing more than \$190 will grow by just 3% this year, reckons Strategy Analytics, compared with 64% in 2011. (The average selling price for the iPhone is \$691, although carriers usually help subsidise the cost.)

Meanwhile, the global economy—and China in particular, upon which Apple depends for a growing share of its sales—is looking more fragile. Recently several Asian suppliers have been sharing stark warnings that orders for iPhone parts, such as chips and cameras, are down. Currency fluctuations have made iPhones significantly more expensive in some markets, like Japan and Australia, which could put them out of reach for new buyers.

Sales of iPhones are likely to decline by around 10% this year, according to analysts. But then what? Loyalty among its users is high; perhaps 90% go on to buy another one. According to an analysis by Sanford C. Bernstein, another research outfit, if such users upgrade to a new iPhone every two years, in 2017 Apple will sell them another 185m, not including sales to new users. The installed base of iPhone owners (and thus users of iTunes and Apple's other revenue-earning services) could easily grow to 534m in 2017, up by 13% from 2015.

The iPhone's future will depend a great deal on how compelling its next incarnation, expected in September, will be. Cheaper versions can also help boost sales. The lower-priced iPhone 5c, which Apple launched in 2013, enhanced the firm's appeal in China. Tim Bjarin of Creative Strategies, a research firm, thinks that Apple may offer an even more affordable iPhone for the Indian market. There is cur-

rently much excitement in India about Apple's plans to open shops there. But finding suitable locations, and dealing with the red tape involved in opening them, will not be easy. And only a small fraction of India's population has the means to buy even a cheap iPhone.

So, Apple is under pressure to produce another hit product. Sales of iPads have wilted, and Apple's watch, released last year, has not sold as well as optimists had predicted. Its answer to disrupting television, Apple TV, has proved merely a discretionary plaything for wealthy consumers who want a slicker interface and do not mind spending more on films and TV episodes à la carte. Apple faces plenty of roadblocks in making a success of its long-rumoured electric car, which it is reportedly hoping to complete by 2020. Recently the

head of that project, Steve Zadesky, left.

As an investment, Apple is surprisingly inexpensive. Its shares trade at about 10.4 times forecast earnings, excluding cash, compared with Alphabet and Facebook, which trade at 21.4 and 33 times respectively. That is because many perceive it as a hardware company—vulnerable, like Hollywood studios, to product hits and flops. Apple is trying to change that image and become perceived more as a services company, with stable recurring revenue. Its services division, which includes its app store and music offering, has huge sales, of around \$20 billion a year. That business will only increase as the number of users expands and spends more in the Apple ecosystem. So long as it stays fresh in the eyes of consumers, Apple will be able to prove the sceptics wrong—again. ■

Car-hailing apps in China

More than mobility

SHANGHAI

The ambitions of Didi Kuaidi, Uber's Chinese rival, go far beyond taxi-hailing

FOREIGN internet giants often struggle in China. Facebook, Twitter and Google are largely irrelevant on the mainland. Uber, an American car-hailing app that is conquering markets everywhere else, is also finding China hard to crack. But unlike those other tech titans, the taxi disrupter is not being frozen out by unfair Chinese regulations favouring local firms. Uber's biggest problem is that it has encountered a world-class local upstart.

Didi Kuaidi was forged last year by the merger of rival taxi-hailing apps controlled by Alibaba and Tencent, two Chinese internet giants. It now dominates China's online market for personal transport. Last year it arranged 1.4 billion rides in China, more than Uber has done worldwide in its history. It has perhaps two-thirds of the market for private-car rides (the source of most of its revenues) and provides a taxi-hailing service in several hundred cities. Uber, with a third of the market for private-car service, this week announced plans to expand to cover 55 Chinese cities. Both have spent heavily on subsidies to lure drivers to sign up.

Unlike Uber, which in China focuses on private-car services, Didi lets users select a taxi, private car, shared car, shuttle van or bus to pick them up. During next month's Chinese New Year mass migration, when millions of travellers will encounter sold-out flights and trains, Didi will help users share intercity rides at prices comparable to train fares.

It has also forged alliances with, and invested in, Uber's rivals elsewhere: GrabTaxi in South-East Asia, Ola in India

and Lyft in America. Jean Liu, Didi's president and a former Goldman Sachs dealmaker, helped Didi raise \$3 billion to take on Uber. Soon half of the global market will be on her alliance's technology platform, Ms Liu says, which will help both Chinese people travelling abroad and foreigners visiting China.

But getting people from A to B is just the start of Didi's ambitions. It plans to offer a variety of other services that make the most of its huge base of users and the trove of data it holds on them. On January 26th the firm announced an agreement with China Merchants Bank (CMB). A growing number of Didi's drivers want to buy a new car, and many have a steady income thanks to the app, but often lack formal credit. Didi and CMB will start offering car loans—first to drivers, but in future perhaps to passengers as well.

Didi's app already lets passengers book test drives of new cars on behalf of several carmakers, including Mercedes and Audi. Some 1.4m customers have taken one of 92 models for a spin since this service was launched in October.

Perhaps Didi's quirkiest new sideline is that of matchmaker. Hitch, its ride-sharing service, will soon allow drivers and passengers to select each other based on their shared interests. It already has a deal with LinkedIn, to let people join up their accounts on the two networks. The intention of such initiatives is that white-collar workers, who often endure daily commutes of an hour or two, will have more fruitful journeys during which business, friendship and maybe even romance will develop.

A seasonal crop

iPhone unit sales, m



Steelmaking in rich countries

A corrosive climate

SCUNTHORPE

Overcapacity has worsened the woes of an already unprofitable industry

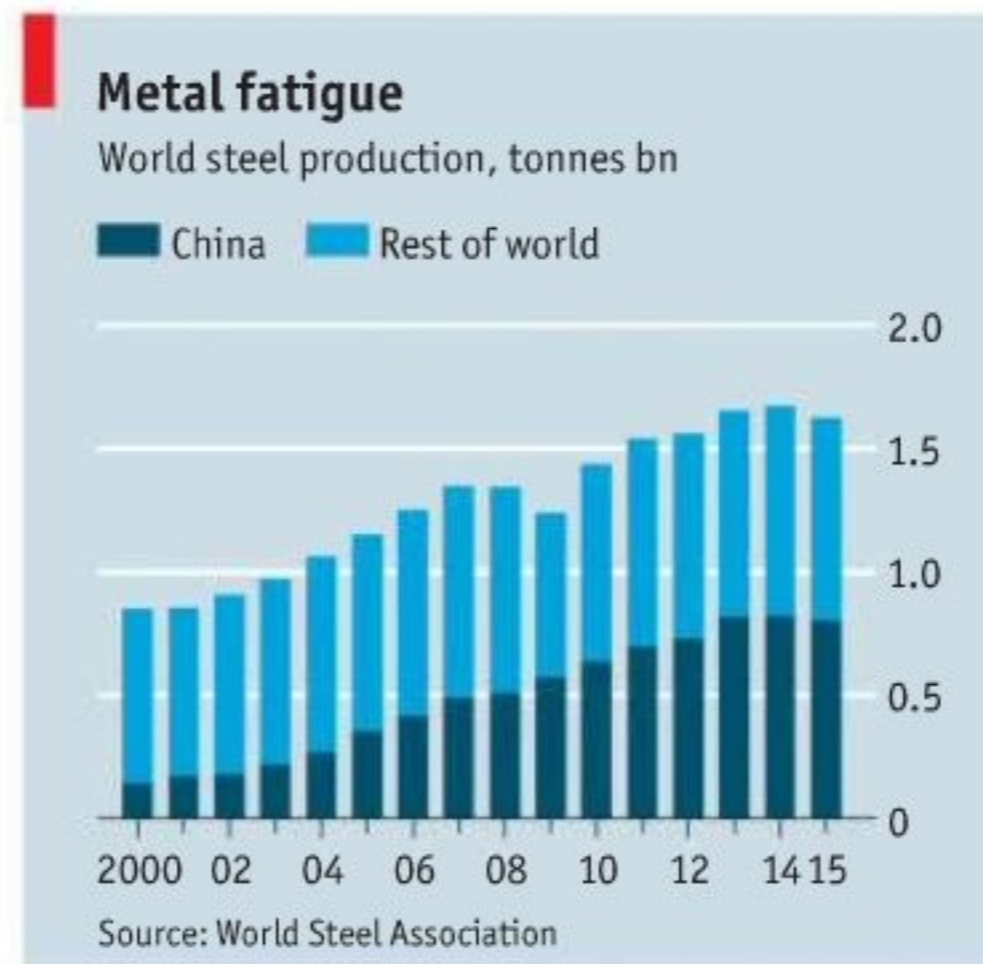
FOR 151 years blast furnaces in Scunthorpe, a town in northern England, have been churning out pig iron and steel. In spite of rounds of consolidation, in which employment in the industry in Britain has fallen from more than 200,000 in the 1970s to around 24,000 now, Scunthorpe's rust-streaked steelworks has survived, specialising in producing steel plates, wire rods and rails.

Now, though, a global crisis of overcapacity is putting the rich world's remaining producers of low-value bulk steels, and even some specialist producers such as Scunthorpe's, at risk. Over the past year bulk steel prices have fallen by more than half. This week the World Steel Association (WSA), an industry body, said that global production in 2015 had fallen by 2.8% (see chart). It declined in every large country except India—though even its steelmakers are suffering, and pressing the government for tariffs on Chinese imports. US Steel, America's biggest producer, said this week that it lost \$1.5 billion last year. This month it laid off 1,300 workers. British steelworkers have fared even worse: one in six lost their jobs last year, and Tata Steel announced a further 1,050 job cuts this month.

The collapse in the steel price is mainly the result of falling demand and, until recently, rising production in China, says Edwin Basson of the WSA. Between 2000 and 2014, global production doubled to around 1.6 billion tonnes a year, mainly driven by rising output in China. But as its construction boom came to an end, demand sagged, prompting the country's state-owned steelmakers to sell their growing surpluses on foreign markets.

Chinese exports rose from 45m tonnes in 2014 to 97m tonnes last year—an increase significantly bigger than Germany's entire output of 43m tonnes. This has triggered demands from rival firms for protection from what they see as dumping.

American producers have been helped by their government's willingness to impose anti-dumping duties—of as much as 236% on some forms of corrosion-resistant steel. Although the strong dollar has hurt their competitiveness, cheap gas has kept their costs low. In the euro area, although the European Commission has been slower to increase anti-dumping levies, steel mills have benefited from the euro's depreciation over the past year. But producers in Britain have faced a perfect storm, suffering from Europe's high energy costs as well



as from a strong pound. Hence the severity of their job cuts.

Some commentators have predicted that, without government assistance, low prices will soon wipe out almost the entire steel industry in high-cost countries such as Britain. Certainly, for simpler, commoditised steels, production in Europe and America is drawing to a close, says Vladimir Sergievskiy, an industry analyst. In Britain, SSI has closed its Redcar plant, which made cheap steel slabs. Tata Steel and ArcelorMittal, two Indian-owned giants which loaded up on debt to buy much of Europe's slab capacity when steel prices were high, look vulnerable.

Not all production can be moved to developing countries, claims Gareth Stace at

UK Steel, another industry association. Sophisticated steel products, such as the components that Sheffield Forgemasters makes for the nuclear, oil and gas industries, are harder to shift. And some customers who need costly precision-cut or cast steel want a close-by supplier in case they have to return a part for adjustments. Among high-end producers such as Novolipetsk Steel of Russia and Voestalpine of Austria, demand for what they make is rising. For its part, Tata is hoping that there will be sufficient demand for the specialist products made at its Scunthorpe mill to allow it to sell the plant as a going concern.

There are even signs that the prices of sophisticated steels are bottoming out in Europe. The price of high-grade steel sheeting in Germany may have already stabilised; French and Italian producers attempted to push through price rises this month. The global picture is also likely to improve later this year, says John Kovacs, a commodities economist at Capital Economics, a consulting firm. Some steel mills in China have started to close, including one, in November, that had previously produced 5m tonnes a year. On January 24th, the Chinese authorities announced plans to cut capacity by a further 150m tonnes, although they did not say when. Low prices are also starting to stimulate demand in some places, such as in India's booming construction industry and in America, where steel stocks are now unusually low.

Yet even with a trough for prices in sight, a return to profitability in steelmaking will take time. In 2014 EY, another consultant, said that the global industry's capacity utilisation would need to rise from below 80% to 85% for it to become sustainably profitable. Instead, that figure has now slid to just 65%. For many plants, survival is going to be hard enough; profitability still seems a distant dream. ■



Clouds over Scunthorpe's future

Schumpeter | Flexible figures

A growing number of companies are using “dynamic” pricing



IF A cynic is someone who knows the price of everything and the value of nothing, as Lord Darlington observes in Oscar Wilde’s “Lady Windermere’s Fan”, then it is getting progressively harder to be a cynic. A growing number of companies keep their prices in a constant state of flux—moving them up or down in response to an ever-shifting multitude of variables.

Businesses have always offered different prices to different groups of customers. They offer “matinée specials” for afternoon cinema-goers or “happy hours” for early-evening drinkers. They offer steep discounts to students or pensioners. Some put the same product into more than one type of packaging, each marketed to a different income group.

Dynamic pricing takes all this to a new level—changing prices by the minute and sometimes tailoring them to whatever is known about the income, location and spending history of individual buyers. The practice goes back to the early 1980s when American Airlines began to vary the price of tickets to fight competition from discounters such as People’s Express. It spread to other airlines, and thence to hotels, railways and car-rental firms. But it only became the rage with the arrival of e-commerce.

The price of goods and services sold online can be varied constantly and effortlessly, in accordance with the numbers and characteristics of those making purchases, and factors such as the weather. Competitors can be monitored constantly, and their prices matched. Amazon updates its price list every ten minutes on average, based on data it is constantly collecting, according to Econsultancy, a research and consulting firm.

The practice is spreading to physical retailers, which are installing electronic price displays and borrowing pricing models from e-retailers. Kohl’s, with nearly 1,200 stores in America, now holds sales that last for hours rather than days, pinpointing the brief periods when discounts are most needed. Cintra, a Spanish infrastructure firm, has opened several toll roads in Texas that change prices every five minutes, to try to keep traffic moving at more than 50mph (80kph). Sports teams, concert organisers and even zookeepers have embraced dynamic pricing to exploit demand for hot tickets and stimulate appetite for unwanted ones.

The dynamic-pricing revolution provides plenty of benefits for businesses. Besides helping them smooth demand (which

can spare them the cost of maintaining extra capacity for peak times), it makes it easier for them to squeeze more out of richer customers. Travel websites have experimented with steering users of Apple computers—assumed to be better-off than Windows PC users—towards more expensive options. Airlines have been caught charging loyal travellers more for a ticket than infrequent travellers, on the assumption that they are more likely to be on a work trip, so their employer will probably be paying. The technology is far from perfect: ever since buying a coffee machine online your columnist (who is not good at newfangled tasks such as clearing browser cookies) has been inundated with offers for coffee machines, as if the purchase was proof not of a need that had been satisfied but of an insatiable desire.

Even if the technology becomes more sophisticated, there are two risks for businesses with dynamic pricing. The first is psychological resistance: companies’ reputations can suffer if they offend customers’ sense of fairness. Uber encountered a backlash when it increased its prices eightfold during storms in New York in 2013. Such “surge” pricing makes perfect economic sense: drivers are more likely to go out in hostile conditions if they get paid more; and many customers would prefer a high-priced ride to no ride at all. But these arguments cut little ice when prices run counter to people’s sense of equity. So, in this week’s snowstorms in New York, Uber capped its surge prices for its regular taxis at just 3.5 times the normal fare.

Psychological resistance can be fierce when companies use data collected from their customers to charge them more. That is why, in 2000, Amazon quickly dropped a scheme to charge some customers more for DVDs based on their personal profiles, and why it has trodden carefully since. Customers are learning to play the game. Some are searching for flights from an internet café instead of their living-rooms, to get lower fares. Others are piling goods into their online baskets and then failing to click “buy”, hoping this will prompt the seller to offer a better deal.

Price-fixation

The second risk with dynamic pricing is that it ends in a race to the bottom. Companies that sell online have long been caught up in a war for the top slot on price-comparison sites: even being cheaper by a penny can make all the difference. Physical retailers are being caught in the same logic: those adopting dynamic pricing are mostly doing so to avoid being turned into mere showrooms by customers who inspect the goods but then buy online. The Nebraska Furniture Mart constantly watches what competitors such as Amazon and Best Buy are charging, and updates its in-store electronic displays each morning to meet its guarantee of offering the lowest price. This is obviously good for customers. But getting fixated on prices can distract businesses from seeking ways to make their products and services so attractive that customers will be less fussy about their cost, as the most successful purveyors of luxury items, from Ferraris to Hermès scarves, do.

The oldest form of dynamic pricing was practised in ancient bazaars, where merchants would size up their customers before the haggling began. Those retailers might not have been able to compute as many different variables as today’s algorithms. But they still have something to teach today’s dynamic pricers about the importance of establishing trust and playing on desire. Cynical as it sounds, to understand a customer’s underlying willingness to part with their money you need to pay a good deal of attention to values. ■

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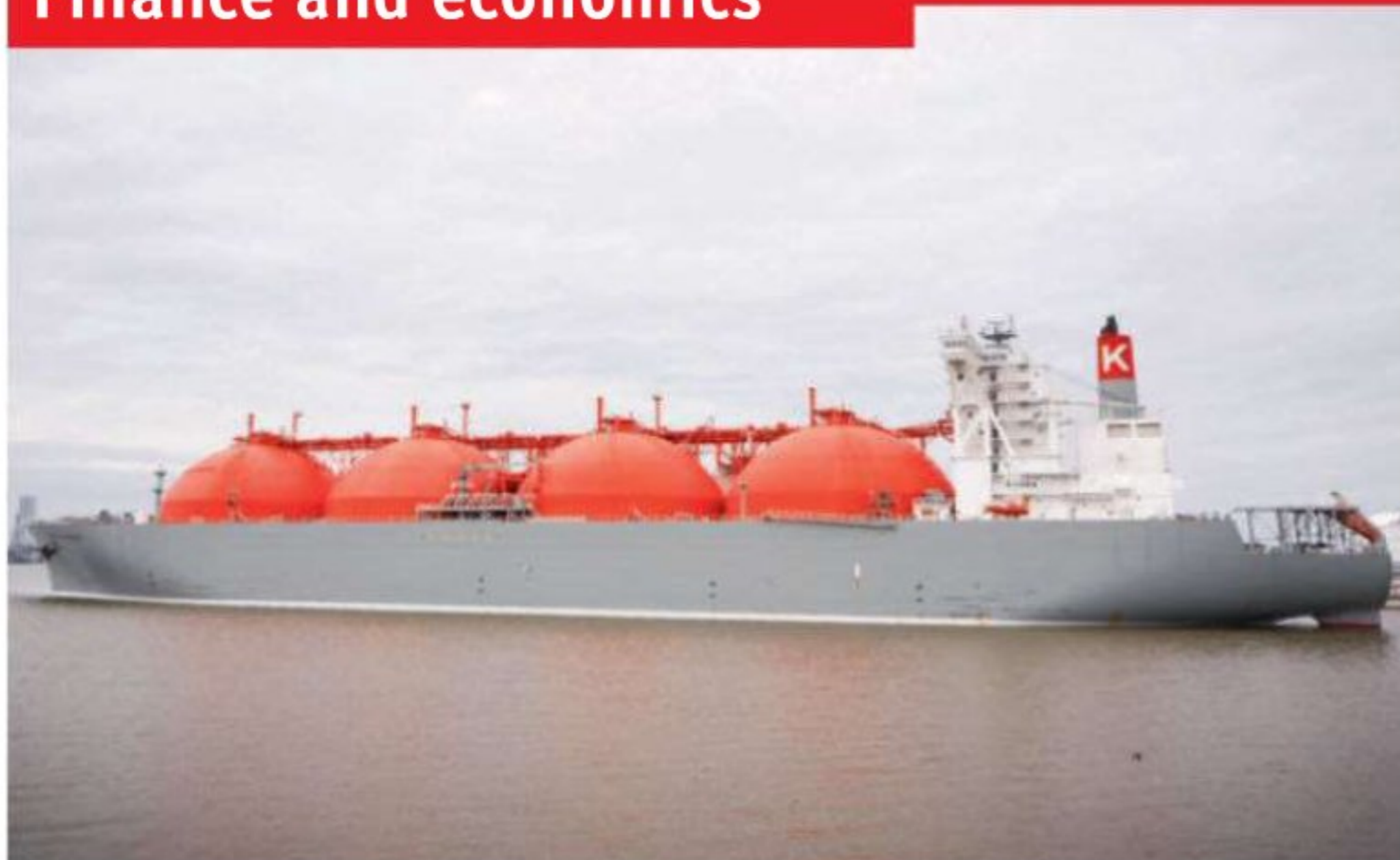
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Natural gas

Step on it

It will take time, but a fragmented market is on the verge of going global

THE Singapore Sling is a cocktail with such a variety of ingredients that few ever taste exactly alike. So it may seem an odd name to apply to a contract to help standardise the global trade in gas. That has not deterred the Singapore Exchange, a market for stocks, bonds and derivatives. Last year, as part of the city-state's push to become a global trading hub for liquefied natural gas (LNG), it developed the slightly laboured SLING, a spot-price index for Asian LNG. On January 25th it complemented this with a derivatives contract. There is a long way to go though. As yet the spot market accounts for only about 5% of volumes traded in Asia, executives say.

Instead, the international gas market is dominated by long-term contracts linked to the price of oil, both for gas delivered via pipeline and as LNG. This is an anomaly that dates back to the 1960s, when European suppliers developing their first gasfields had no price on which to base long-term contracts, so used oil instead. Since then, supply and demand for these commodities have diverged; oil indexation increasingly fails to reflect the disparities.

Analysts believe that, as a result, the pricing mechanism for natural gas is on the verge of change, and that a real global market will start to emerge, adding Asian trading hubs to those in America and Europe. This should spur the spread of natural gas, the cleanest fossil fuel and one that should be in the vanguard of the battle against global warming. But producers, who fear any change will lead to a drop in prices, are set to resist. They say long-term oil-linked con-

tracts are still needed to offset the risk of their huge investments in LNG. (Gazprom, a Russian producer, has made the same argument in Europe about pipelines.)

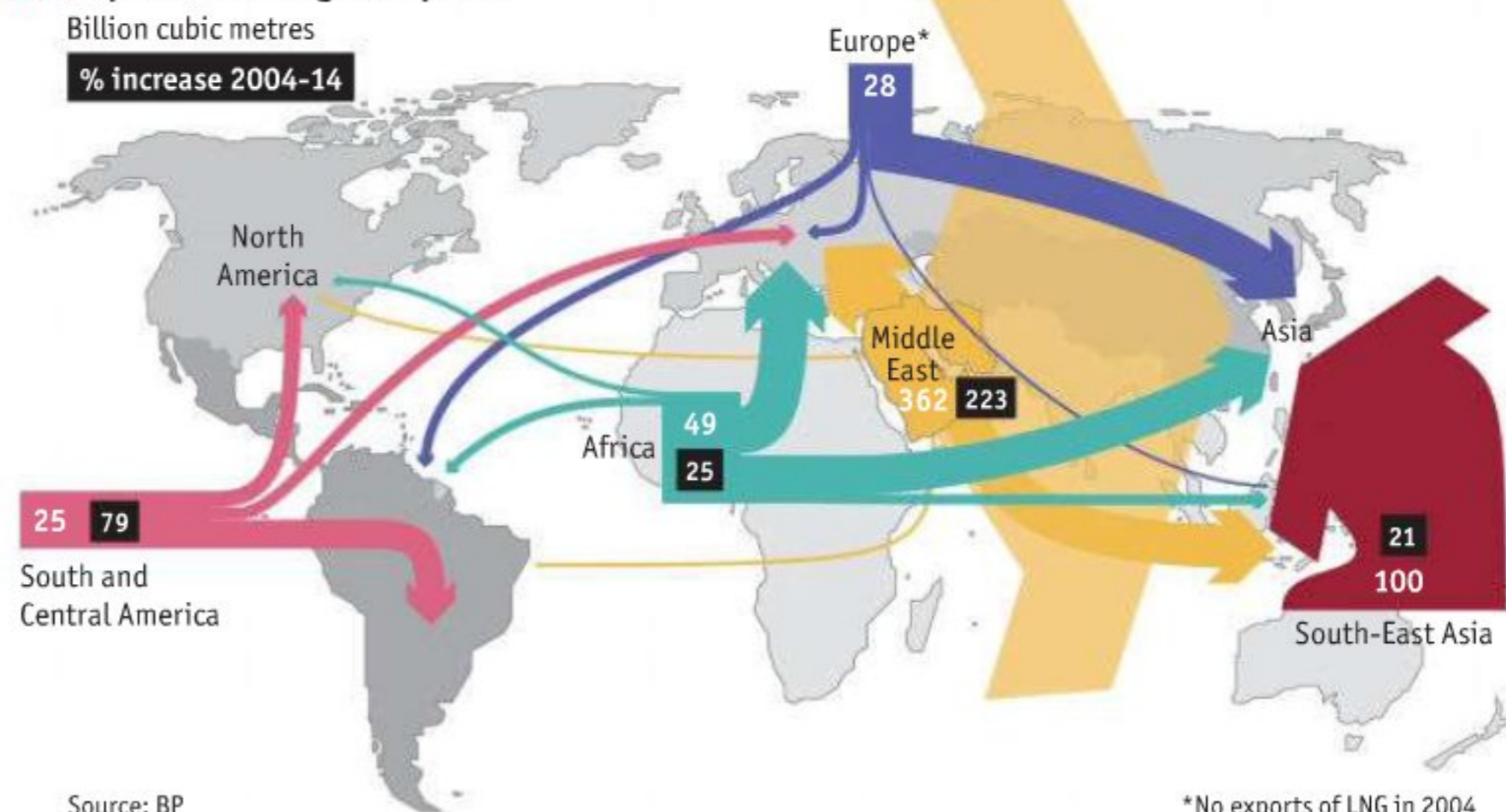
Long-term and cyclical shifts explain why the gap between the two fossil fuels has widened. The LNG trade has grown massively in the past decade (see map). Daniel Lunt of the Singapore Exchange says LNG now rivals iron ore as the world's second-biggest traded commodity, after oil. In the past 40 years natural gas's share of the energy mix has grown from 16% to more than 21%. Oil's has shrunk. Gas generates 22% of the world's electricity; oil only 4%. It might make more sense to tie the price of natural gas to coal, against which it

competes as a power source.

Moreover, during the current decade, the outlook for gas prices has become even more bearish than for oil. Sanford C. Bernstein, a research firm, reckons global LNG supply will increase by about a third over the next three years, pushing overcapacity to about 10%. (There is far less spare capacity in the oil market.) At least \$130 billion of this investment in supply is in Australia, which within a few years will overtake Qatar as the world's largest LNG producer. America will also add to the surplus. Its first, much-delayed LNG exports are due to be shipped from the Gulf Coast in weeks.

Investment in the liquefaction trains, tankers, regasification terminals and other paraphernalia needed to ship natural gas was boosted by a surge in demand from Asia. Japan and South Korea scrambled for LNG after Japan's Fukushima disaster in 2011 forced them to shut down nuclear reactors. China saw LNG as a way to diversify its energy sources and curb pollution from coal. Last year, however, those countries, which account for more than half of global LNG consumption, unexpectedly ▶▶

Liquid natural gas exports



▶ slammed on the brakes.

The subsequent supply glut means that the spot price of gas in Asia has plunged. Those buyers who took out long-term oil-indexed contracts when crude was much higher are suffering. Mel Ydreos of the International Gas Union, an industry body, says that Chinese firms saddled with such contracts are urging suppliers to renegotiate them. He notes that a Qatari company recently agreed to renegotiate a long-term contract with an Indian buyer, cutting the price by half.

The drop in Asian prices has brought the cost of natural gas traded in different

parts of the world closer to each other. America is an outlier. Thanks to the vast supplies unleashed by the shale revolution, its Henry Hub benchmark is by far the world's cheapest, at just over \$2 per million British thermal units (MBTU). But add liquefaction and transport costs, and American LNG prices rise above \$4 per MBTU. In Europe and Asia they are a dollar or two higher. A few years ago the range would have been much wider, from \$5 at Henry Hub to \$19 in Asia. More homogeneous prices are an important step towards a globalised market, says Trevor Sikorski of Energy Aspects, a consultancy.

But to get there several more hurdles must be overcome. First, traded markets must become deeper, with a mix of piped gas and LNG, to provide more reliable prices. Asia, in particular, lacks infrastructure and international interconnections. Second, derivatives markets are needed to allow producers to hedge against price swings when investing in expensive new capacity. Third, end-users need deregulated energy markets to encourage competition for the best sources of supply. These, too, are scarce in Asia. Japan is only just starting to free its electricity and gas markets. (In the meantime the likely flood of ▶▶

Buttonwood | The crazy world of credit

Where negative yields and worries about default coincide

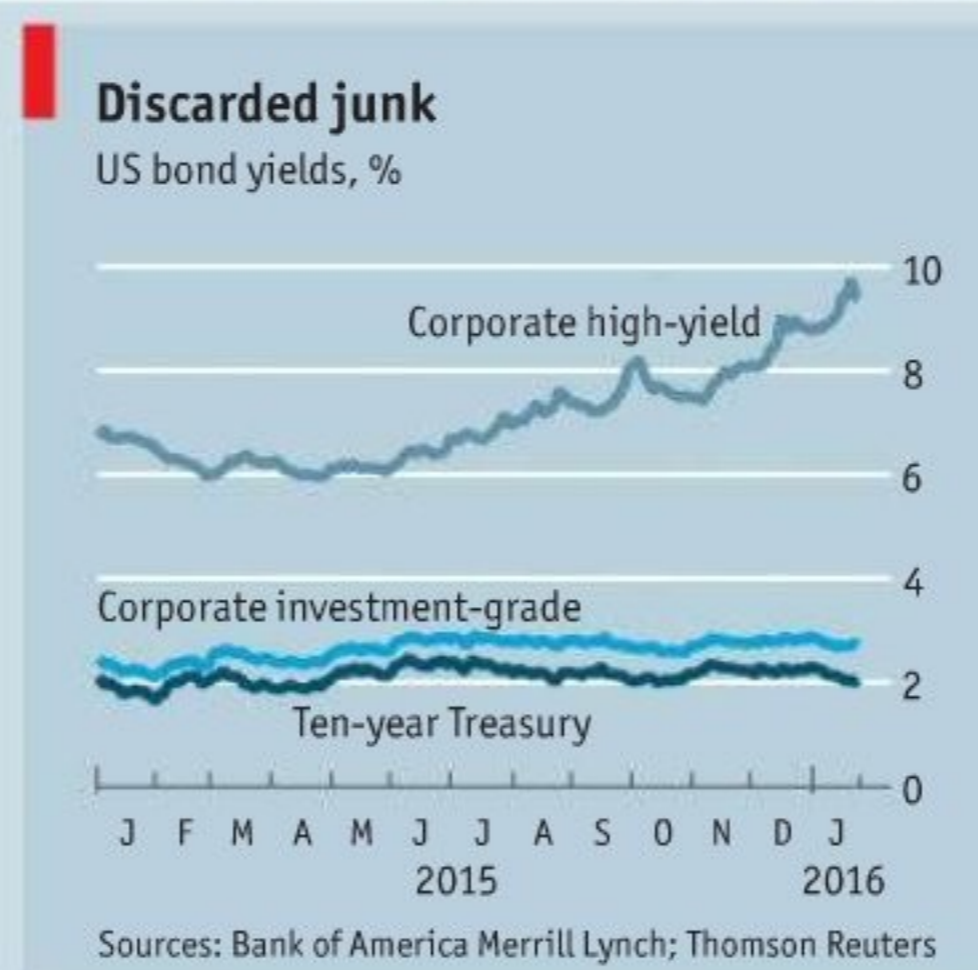
THERE was much talk at Davos, the global elite's annual get-together in Switzerland, of wealth inequality: the gap between the haves and the have-nots. The corporate-bond market is currently displaying a similar divide—between the have-yields and the yield-nots.

According to Bank of America Merrill Lynch (BAML), around €65 billion (\$71 billion) of European corporate bonds are trading on negative yields; in other words, investors lose money by holding them. Yet the rates paid by issuers of low-quality or junk bonds have been soaring.

The spread (the interest premium over government borrowing rates) paid by junk-bond issuers has risen by nearly three-and-a-half percentage points since March last year (see chart). The gap is now nearly as great as it was during the euro crisis of 2011, although it is less than half as wide as it was after Lehman Brothers collapsed in 2008.

Odd though it may seem, these market movements are part of the same trend. As January's stockmarket wobbles have shown, investors are very nervous and are looking for safety. Certain corporate-bond issuers, such as Nestlé, a Swiss foods group, are perceived to be very safe. Since the yields on Swiss government bonds (even those with a ten-year maturity) are also negative, it is no great surprise that Nestlé bonds fall into the same camp.

Similarly, investors are willing to accept negative yields on German and Dutch government bonds with maturities of two and five years. Better to suffer a small loss from owning them than risk a big loss by buying a junk bond, which might default. Historically, the average recovery rate on unsecured bonds that default has been just 40 cents on the dollar. Given that risk, investors are demanding a much higher yield from junk bonds.



The proportion of junk bonds deemed “distressed” (defined as having a yield ten percentage points higher than Treasury bonds) is 29.6%, up from 13.5% a year ago. That is the highest ratio since 2009, according to S&P. Unsurprisingly, given the fall in energy prices, the oil and gas sector accounts for the biggest share of issuers in distress, at 30% of the total. The default rate, at 2.77%, has virtually doubled from the low of 2014 (although it is still below the historical average of 4.3%).

Matt King, a credit strategist at Citigroup, thinks the reason for the turmoil is the reduced support that central banks are offering financial markets. For several years the Federal Reserve and the Bank of England used quantitative easing (or QE, the creation of money to buy assets) to drive down yields on government bonds and thus encourage investors to buy riskier assets, both equities and corporate bonds. Both have now stopped using QE (although they have yet to sell their piles of acquired assets); the Fed has also raised interest rates.

Although the European Central Bank and the Bank of Japan are still buying

bonds, their efforts are being offset at the global level by sales by emerging-market central banks, including China. Net asset purchases by global central banks dipped last summer (coinciding with another market downturn) and recent data show they have done so again.

Given this backdrop, investors are sensitive to bad news. The fall in commodity prices and the slowdown in emerging markets are two adverse developments; those sectors were “where the growth was”, as Mr King points out. Corporate-bond investors have also noticed that profit forecasts have been revised lower in recent months in every industry in America. In short, Mr King concludes: “When monetary stimulus’s effect on markets fails to be matched by a corresponding improvement in the real economy, we are inevitably vulnerable to a correction.”

The big issue for the corporate-bond markets is whether the sell-off is self-perpetuating. According to BAML, investors in high-yield bonds globally have withdrawn \$4.9 billion in the past seven weeks, equivalent to 5% of their assets under management. Those withdrawals force fund managers to sell bonds, creating bigger losses for the remaining investors and encouraging more withdrawals. The impact is exacerbated by the poor liquidity of corporate-bond markets. Banks have reduced their market-making activities in the wake of regulations imposed after the financial crisis of 2007-08.

The sell-off will be stopped if yields rise to a level where long-term investors (pension funds and insurance companies, for example) think the bonds are a bargain. But those investors probably need a dose of good news to persuade them to open their wallets.

▶ American LNG into Asia may make Henry Hub a useful reference price.)

The strongest impetus for reform may be the fear of what happens without it. Few expect the overcapacity in oil markets to last much more than a year or two, after which prices of crude may spike. Yet the glut in the LNG market could last into the 2020s, in which case the disparity between spot and oil-indexed prices could balloon and buyers would rebel.

Other commodities have gone through similar upheavals when spot prices diverged from long-term contracts. The system of “posted prices” for oil fell apart in the 1970s. The spot iron-ore market got a boost as a result of the collapse in demand during the 2008-09 financial crisis.

Producers and consumers appear to be lining up for battle. On January 27th shareholders of Royal Dutch Shell, an Anglo-Dutch oil major, gave their approval to the \$35 billion purchase of BG (formerly British Gas). The deal will create the undisputed world leader in LNG. On the other side, TEPCO and Chubu Electric, two Japanese utilities, have teamed up to create the world’s biggest LNG buyer, to demand better terms from suppliers, including spot contracts. It will be a long, hard fight. But the days of oil-linked contracts seem to be numbered. ■

Fintech and insurance

Against the odds

NEW YORK

Going where few startups have gone before

INVESTORS have poured billions of dollars into “fintech” startups, creating hundreds of new firms determined to shake up lending, payments, broking and data, among other financial niches. Insurance, however, has not yet been subject to the same melee. That may be changing.

Insurance is tricky to break into, for two reasons. The most important is regulation. Health insurance—or its American version, at least—may be the most heavily regulated industry in the world. Before a company can even offer a policy, it must have multiple approvals from state and often city agencies and then negotiate agreements with local hospitals.

Running the gauntlet of these regulations is a costly and time-consuming process. A company that set up shop today could not issue any policies before 2018 at the very earliest, says Mario Schlosser, chief executive of Oscar, a company founded in 2012 to provide health insurance to individuals online. It has attracted attention not least because it has managed to secure

all the necessary paperwork.

The second obstacle is capital. Fintech firms typically receive backing from venture capitalists to pay for salaries, systems, bright and airy offices and an eternal smorgasbord for employees, but not to support a big balance-sheet. Many tend to structure their operations to avoid holding risky assets for any length of time, acting more as intermediaries between creditors and borrowers, investors and investments, or the sender of some money and the recipient.

This sort of arrangement does not work as well for insurance. Unless a firm serves purely as a broker, it will end up carrying some risk, and the weighty capital requirements that come with it. What is more, customers will not take out policies unless they are confident that the issuer will be around to honour them when a claim is made. But a startup, by definition, does not have the record or reputation that would help bolster that confidence.

Lemonade, an American startup, plans to offer insurance via a peer-to-peer platform—in effect, acting as a middleman. Others, such as Guevara in Britain and Friendsurance in Germany, try to get groups of friends to pool risks, on the assumption that they know better than the actuaries how accident-prone their nearest and dearest are. This also helps get around the problem of confidence.

Metromile, a startup car insurer based in San Francisco, takes a different tack. Its policies are underwritten by another insurer, National General, which was spun out of GM after the carmaker’s near-collapse during the financial crisis. For now, that allows it to hone its technology and increase its customer base. But in time retained earnings, reinsurance and debt could enable it to retain more risk, as more mature insurance firms do.

Like many insurers, Metromile seeks to cherry-pick the least risky customers. For car insurance, that involves working out which are least likely to have an accident. Several big insurance companies, most no-



The perfect customer

tably Progressive in America and Aviva in Britain, have begun to use tracking devices or voluntary apps on cars to monitor how safely their customers drive. How fast they go and how hard they brake are just a couple of the factors that can be used to sort the cautious from the reckless.

Metromile, in contrast, tracks mileage. Customers pay a fee of \$45-50 a month and then \$0.05 to \$0.06 cents a mile. There is a clear correlation, Metromile contends, between miles driven and the likelihood of an accident. It reckons there are 75m vehicles in America that are driven only rarely, but insured at a cost of \$73 billion a year. Offering a metered option may not only save their owners some money, but also go some way to disproving the view that insurance and fintech do not mix. ■

Corporate tax

A digital dust-up

The fight against tax avoidance advances, in fits and starts

FEW subjects are as bloodless as the ins and outs of corporate tax—until they provide an opportunity to accuse a politician of coddling big business. George Osborne, the chancellor of the exchequer (Britain’s finance minister), got his critics’ blood up this week by hailing as a “major success” a deal in which Google agreed to cough up £130m (\$185m) in back payments for 2005-15, in addition to the roughly £120m it had already paid. Almost everyone else, including bigwigs from his own Conservative Party, was scathing.

Tax authorities, particularly in Europe, have been stepping up efforts to claw back lost tax amid growing public anger over companies’ energetic tax avoidance. The main targets are technology giants, which have become masters at cutting their tax bills by shuffling intellectual property and profits to tax havens. In addition, governments around the world are implementing a raft of anti-avoidance measures proposed last year by the OECD. But as the Google kerfuffle shows, trying to look tough can backfire.

A ten-year bill of £250m looks light for a company whose revenue from British advertisers was \$6.5 billion in 2014 alone. There may be a good explanation, but if so the taxman has not made it public. Google’s announcement that from now on it will be taxed differently, on a portion of its local advertising revenues, has done little to quell the uproar. This week a parliamentary committee announced an inquiry into corporate taxation, which, its chairman lamented, had become “a piece of elastic”. ▶▶

In the line of ire

EU corporate-tax investigations

Company (Country)	Description
 Apple (Ireland)	Alleged preferential deal for two of the firm's subsidiaries. Decision expected in Feb/Mar. \$8bn to be paid if Apple loses, according to reports.
 Starbucks (Netherlands)	The government "endorsed artificial and complex methods to establish taxable profits", according to the European Commission. Decision last year: €20m-30m to be paid. The Netherlands is appealing.
 Fiat Finance* (Luxembourg)	Similar to the scheme offered to Starbucks. Decision last year: €20m-30m to be paid. Luxembourg is appealing.
 Amazon (Luxembourg)	Questionable tax arrangement for local subsidiary that records most of Amazon's European profits. Ongoing.
 McDonald's (Luxembourg)	European Commission scrutinising deal that allowed no tax to be paid on European royalties. Ongoing.
Thirty-five firms (Belgium)	Companies received tax breaks linked to "excess profits" that come from being part of a multinational. Ruling earlier this month: €700m to be paid.

*John Elkann, chairman of Fiat Chrysler, is a director of *The Economist*

Source: *The Economist*

▶ Google won't be the last firm targeted. Facebook is said to be resisting efforts to recoup back tax from 2010-14. The social-media firm paid just £4,000 in British corporation tax in 2014. The companies argue that they comply with all relevant laws. Maybe so, but only because the laws have failed to keep up with the globalisation of business. The mishmash of national laws and bilateral treaties covering corporate taxation dates back to when manufacturers ruled.

One question hanging over hard-to-tether digital groups is whether they should be forced to register a "permanent establishment", tax parlance for a taxable presence, in countries where they make sales. Mr Osborne may not really be up for the fight. He talks tough and has introduced a "diverted-profits" tax, aimed at the most egregious offshore schemes. But Britain remains one of Europe's most alluring countries in tax terms, offering numerous benefits to multinationals that others view as beggar-thy-neighbour policies.

The European Commission is trying to get EU members to pull together. It rolled out its latest anti-avoidance proposals this week. These include limits on the use of brass-plate subsidiaries and on tax deductions linked to intra-group loans, an esoteric but lucrative ruse. EU countries have already agreed to be more open about their tax rulings, which in the past often gave large companies an easy ride. The new proposals would be binding, but they have been watered down to increase their chances of becoming law. (EU tax measures require unanimous approval.)

Robots v humans

Machine earning

Jobs in poor countries may be especially vulnerable to automation

BILL BURR, an American entertainer, was dismayed when he first came across an automated checkout. "I thought I was a comedian; evidently I also work in a grocery store," he complained. "I can't believe I forgot my apron." Those whose jobs are at risk of being displaced by machines are no less grumpy. A study published in 2013 by Carl Benedikt Frey and Michael Osborne of Oxford University stoked anxieties when it found that 47% of jobs in America were vulnerable to automation. Machines are mastering ever more intricate tasks, such as translating texts or diagnosing illnesses. Robots are also becoming capable of manual labour that hitherto could be carried out only by dexterous humans.

Yet America is the high ground when it comes to automation, according to a new report* from the same pair along with other authors. The proportion of threatened jobs is much greater in poorer countries: 69% in India, 77% in China and as high as 85% in Ethiopia. There are two reasons. First, jobs in such places are generally less skilled. Second, there is less capital tied up in old ways of doing things. Driverless taxis might take off more quickly in a new city in China, for instance, than in an old one in Europe.

Attracting investment in labour-intensive manufacturing has been a route to riches for many developing countries, including China. But having a surplus of cheap labour is becoming less of a lure to manufacturers. An investment in industrial robots can be repaid in less than two years. This is a particular worry for the poor and underemployed in Africa and India, where industrialisation has stalled at low levels of income—a phenomenon dubbed "premature deindustrialisation" by Dani Rodrik of Harvard University.

* "Technology At Work v2.0: The Future is Not What It Used to Be", by the Oxford Martin School and Citigroup

The commission will unveil more proposals later this year, including a "common consolidated corporate tax base", which would offer a single set of rules that multinationals could use to calculate their taxable profits in the EU. More investigations into iffy tax arrangements are likely, too. Having already targeted several of these (see chart), the commission plans to scrutinise another 300 tax rulings.

Governments in low-tax countries are responding to this assault. Luxembourg is moving towards ditching some multina-

Rich countries have more of the sorts of jobs that are harder for machines to replicate—those that require original ideas (creating advertising), or complex social interactions (arguing a case in court), or a blend of analysis and dexterity (open-heart surgery). But poorer countries are not powerless. Just because a job is deemed at risk from automation, it does not necessarily mean it will be replaced soon, notes Mr Frey.

The cheapness of labour in relation to capital affects the rate of automation. Passing laws that make it less costly to hire and fire workers is likely to slow its advance. Scale also matters: farms in many poor countries are often too small to benefit from machines that have been around for decades. Consumer preferences are a third barrier. Mr Burr is hardly alone in hating automated checkouts, which explains why 3m cashiers are still employed in America.



They're everywhere

tional-friendly exemptions, while lowering its headline corporate-tax rate. Ireland is banning the notorious "Double Irish", a structure that has helped Google and others shave billions off their tax bills.

How all these national and regional efforts will fit in with the OECD's global initiative remains to be seen. In the meantime the triumphant Mr Osborne has been invited to appear before a committee of the European Parliament to discuss how, as its vice-chairman put it, Britain is becoming "a kind of tax haven". ■

The economics of corruption

The wages of sin

In theory, higher pay cuts corruption. In practice, the opposite happens

WHETHER the miscreants are African policemen, European politicians or American university basketball players, the same remedy for corrupt behaviour is offered: pay people more money. It sounds intuitive. But does legitimate lucre really drive out the filthy kind? New research involving a natural experiment in West Africa suggests that it does not—and that conventional economic theories of corruption are wrong.

In 2010 Ghana began to move public officials to a new salary structure. The earliest and biggest beneficiaries were police officers, whose pay abruptly doubled. It was hoped that they would start behaving better as a result—and especially that they would stop extorting money from drivers at roadblocks. There was certainly much room for improvement: surveys around that time by Transparency International, a watchdog, found that 91% of Ghanaians believed their police were corrupt, an even higher proportion than thought the same of politicians.

As it happened, a large survey was already under way of lorry drivers plying the roads of Ghana and its neighbour, Burkina Faso. Drivers with their papers in order were asked to record how many times they were stopped and how much money they paid to police and customs officials along the route.

Two American economists, Jeremy Foltz and Kweku Opoku-Agyemang, have examined the data on 2,100 long-haul journeys. Oddly, they find that Ghana's police became more corrupt after their salaries increased, both absolutely and relative to Burkina Faso's police and Ghanaian customs officers. The cops erected more roadblocks, detained lorries for longer (the average driver was stopped 16 times as he drove through Ghana, for eight minutes each time) and extracted more money.

Economic theory suggests the opposite should have happened, for two reasons. First, corruption is risky. You might lose your job if you do it, and the more you are paid, the bigger that loss would be. Second, officials are thought to have an income target. If they are underpaid, they will behave corruptly in order to make up the difference. The fact that some British MPs cheated on their expenses a decade ago was put down to the fact that they earned less than similarly qualified people. Ghana's president, John Mahama, said last year that there was "no justification" for corruption

now that salaries were higher.

Employees in the rich world who suddenly receive more money per hour—when their taxes are cut, for example—tend not to work less, as they might do if they had a fixed income target in mind. They work more. But given that the rewards from corruption had not gone up, this does not explain why Ghanaian police officers engaged in more graft. Mr Foltz and Mr Opoku-Agyemang, whose research was funded by the International Growth Centre at the London School of Economics, suggest that corrupt superiors or greedy relatives might have demanded more money from the officers. Another possibility is that the cops' expectations went

up. The pay rise may have boosted their sense of their own worth, leading them to demand more money.

It might be that the risk of being caught in Ghana is so low that normal calculations of risk and reward do not apply. Perhaps a combination of higher pay, political leadership and stiff punishments would have stopped corruption: it did in Singapore, for example. But money alone is not enough. In Ghana, some are astonished that anybody could have believed that higher pay would have made cops less greedy. That is just not human nature. As Ransford Van Gyampo, a political scientist at the University of Ghana, puts it: "In spite of how big the sea is, it still receives rain." ■

Big banks

Chop chop

Why haven't banking giants got a lot smaller?

BOSSES at big banks would once have cringed at releasing the kind of results they have been serving up to investors in recent days. This week, for instance, Deutsche Bank posted a loss of €6.8 billion (\$7.4 billion) for 2015. In the third quarter of last year the average return on equity at the biggest banks, those with more than \$1 trillion in assets, was a wan 7.9%—far below the returns of 15-20% they were earning before the financial crisis. Exclude Chinese banks from the list, and the figure drops to a miserable 5.7%. Returns have been languishing at that level for several years.

In response, the banks' top brass are following a similar template: retreats from certain countries or business lines, along with a stiff dose of job cuts. Barclays, which earlier this month said it would eliminate 1,000 jobs at its investment bank and shut up shop altogether in Asia, is typical. More radical measures, such as breaking up their firms into smaller, more fo-

cused and less heavily regulated units, do not seem to be on the cards.

In fact, in spite of investors' frustration at dismal returns and regulators' insistence that banks that are "too big to fail" will be cut down to size, the world's mightiest banks have scarcely shrunk at all since Lehman Brothers collapsed. The 11 behemoths considered the most pivotal by the Financial Stability Board (FSB), a global grouping of regulators, had \$22 trillion in assets at the end of 2008; they now have \$20 trillion. The assets of the wider group of 30 institutions the FSB describes as "global, systemically important banks" have grown, not shrunk, in recent years.

On the face of it, this is a puzzle. To forestall future crises, regulators have piled on new rules intended explicitly to make life harder for the banks that are thought to present the greatest risks to the stability of the global financial system. All banks must meet higher capital ratios these days, funding a greater share of their activities with money put up by shareholders rather than by borrowing. This crimps returns but ensures a stouter buffer if they run into trouble. But the extra capital requirements are especially severe for the biggest banks.

Whereas a smaller bank might be required to hold capital equivalent to 7% of its risk-weighted assets, HSBC and JPMorgan Chase, the two institutions the FSB judges to be most systemic, have to hold 2.5 percentage points more. American regulators have imposed a further surcharge on JPMorgan Chase which will push its minimum ratio to 11.5% by 2019. The intention is not just to make sure that big banks are safer, given the expense of bailing them out, ▶▶

Middling is beautiful

Global banks' average return on equity*
By asset size†, %



Source: Bloomberg

*Excl. Chinese banks †Q3 2015

▶ but to discourage banks from getting too big in the first place.

Other bits of regulation also hamper big banks in particular. America has banned “proprietary trading” (a bank making investments with its own money, rather than on behalf of clients); Britain is “ring-fencing” the retail units of big banks to protect their assets in case of disaster in other parts of the business. And whereas regulators used not to make much fuss if the subsidiary of a multinational bank in their country was not brimming with capital, as long as the bank as a whole was, most now require local units to be able to withstand shocks on their own. These rules have little impact on smaller banks, which tend not to sprawl across so many countries or to combine retail and investment banking.

By the same token, small banks have not been fined quite so heavily by prosecutors in America and elsewhere. The penalties—some \$260 billion and counting for big American and European banks—have fallen mainly on commercial and investment bankers who have fiddled markets. Some banks have regulatory staff sitting in on most meetings, even at board level. “For every maker there are four checkers these days,” grumbles one investment banker.

Such changes have had some impact. Although the 11 banks that most perturb the FSB have not really shrunk, they have at least stopped growing. There has been a marked change since the pre-crisis period. In 1990 the world’s ten biggest banks had just \$3.6 trillion of assets (\$6.6 trillion in today’s prices)—equivalent to 16% of global GDP. By 2008 they had assets of \$25 trillion (40% of global GDP). They now have assets of \$26 trillion, or 35% of global GDP.

The geographical spread of the two “global” banks, HSBC and Citi, has shrunk markedly as they have left many countries. Many investment banks, particularly in Europe, have retrenched to areas of particular strength: UBS has largely abandoned the trading of bonds, currencies and commodities, for example. In general, banks are shifting away from risky and so capital-intensive activities, such as trading financial instruments, towards safer areas such as helping firms raise capital and managing the money of wealthy investors.

Some of the titans have been more radical. Once the largest bank in the world by assets, Royal Bank of Scotland (RBS) has shrunk by more than half under its new majority owner, the British government. General Electric, once a bank-within-a-firm, shed most of its financial assets over the course of the past year. Credit Suisse is mulling spinning off its domestic retail bank; Deutsche Bank is selling Postbank, a big retail-banking unit in Germany.

Yet big banks could still go much further. Many of them currently trade below book value, suggesting that they would be more valuable broken up. Richard Rams-



den, an analyst at Goldman Sachs, suggested last year that JPMorgan Chase should be split into four units. MetLife, a big American insurer, is splitting itself up in part to reduce its capital requirements and thus boost profits. There is a “gravitational pull” towards being smaller, says the boss of one bank high up the FSB’s list. Competing with non-systemic banks, which have a lower capital ratio, is hard. “If you have a unit competing head-on against a bank that isn’t [systemically important]...that unit is worth more outside than inside.”

Jamie Dimon, JPMorgan Chase’s boss, claims that having all its units under one roof brings \$18 billion a year in synergies. Such claims are basically unverifiable, but researchers have long struggled to find much in the way of economies of scale in finance. Costs tend to rise roughly at the same clip as revenues. Some studies posit that savings peter out above \$50 billion in assets—a tiny fraction of the trillions held by really big banks. Others see benefits continuing further up the scale, though these are relatively small. But heft could also carry costs. The creaking IT systems of big banks, some of which run code adapt-



ed from the 1950s, certainly suggest that. Smaller banks, let alone “fintech” upstarts, can adapt faster.

Big banks can borrow more cheaply than smaller ones. In part, that is because they are typically more diversified than smaller banks. But investors have also lent more cheaply to big banks on the assumption that they will get bailed out in case of trouble. New rules should make it easier to force banks’ creditors, rather than taxpayers, to foot the bill if a bank fails. This has undoubtedly shrunk the subsidy—but not eliminated it. An IMF study from 2014, for instance, found that it still amounted to a discount of a quarter of a percentage point on their borrowing in quiet times, and potentially more during times of crisis.

Even so, there is no correlation between size and returns. The most profitable banks appear to be the middling ones, with assets of between \$50 billion and \$1 trillion. Bigger and smaller ones are markedly less profitable (see chart 1 on previous page).

So if regulators want them to shrink and decent returns are hard to come by, what is holding the big banks together? The risks and costs of breaking up a large bank are one consideration in favour of the status quo. As the boss of another systemic bank puts it: “Breaking up would be a gamble, and we are not paid to gamble.” Byzantine behind-the-scenes plumbing would prove a nightmare to disentangle. That gives regulators pause as well as bankers.

In all industries, not just banking, few bosses enjoy the prospect of slimming the empires they have built. Banks are both very complex and highly regulated: that puts off activist shareholders. Bondholders, who put up much of the money big banks use to buy assets, may also be reluctant, having contracted a debt against a diversified set of banking businesses rather than just one fragment of it. Tax can be a factor: banks that made large losses in the downturn can still write them off against today’s profits, in a way that might be compromised by a break-up. This argument once blunted calls for Citi to be dismembered. The clearing mechanisms that exist in other markets are jammed in banking: small banks are put off making big acquisitions by capital charges.

All the same, shareholders are growing impatient. Bosses seen as too timid are being sent packing. Anshu Jain, who built up Deutsche Bank’s investment bank over 20 years, was removed as co-chief executive in June after moving too slowly to overhaul his creation. His successor, John Cryan, an avowed cost-cutter, has warned staff of the need for “a fair balance between staff and shareholder interests”. That means less for staff and more for shareholders, reversing a decades-long trend (see chart 2). The big banks may not have changed shape radically since the crisis. But that doesn’t mean life is fun. ■



WORLD OCEAN

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Free exchange | The Italian job

ROME

Reviving Italy's economy will require sacrifices not just from Italians, but also from Europe

TO LOSE Greece or Portugal may be regarded as a misfortune; to lose Italy looks like carelessness. It is hard to imagine the single currency surviving a showdown with Italy, the currency club's third-biggest economy (and the world's eighth-biggest, just ahead of Brazil). Perhaps that explains the recent pugnacity of Matteo Renzi, Italy's prime minister, regarding European fiscal rules. In an article published in the *Guardian* newspaper in mid-January, he sounded positively Greek, complaining that the European Union's "fixation on austerity is actually destroying growth". His finance minister, Pier Carlo Padoan, has been tangling with the European Commission over how to deal with the €350 billion (\$382 billion) of bad loans clogging up the Italian banking system. Mr Renzi is demanding the Eurocrats' forbearance as he tries to restart Italy's long-stalled economy.

Italy's experience within the euro zone has been miserable. It has been in recession for five of the past eight years. Real (ie, adjusted for inflation) GDP per person is lower than in 1999. Sovereign debt has risen above 130% of GDP. Worse, Italy's economy is woefully uncompetitive. Since 1998 productivity has fallen steadily. Labour costs, however, have not (see chart). Since Italy joined the euro, exports have ceased to be a driver of growth, which has consequently slowed. A slowdown is not something a country with such daunting debts can afford.

Mr Renzi came into office at a propitious moment, in early 2014. The tight fiscal and monetary policy that had contributed to the euro zone's poor performance in the years after the financial crisis was becoming less of a drag. Soon afterwards the ECB began to use quantitative easing to pep up domestic demand, with salutary effects on Italian interest rates.

But the problem of competitiveness remains. There is no shortage of explanations for Italy's slump in productivity. Thanks to punitive regulation of labour and product markets, it is one of the most expensive places in the rich world to start a new business. Taxes and red tape strongly discourage productive firms from growing very large. Nearly 70% of Italian workers labour in firms with fewer than 50 employees, compared with about a third in America. The government taxes income from labour far more heavily than consumption, discouraging work (and encouraging evasion). Perhaps most worrying, the share of young Italian workers with a university degree is among the lowest in the rich world. At just under 10%, the share of highly educated Italians living abroad is also among the highest in the rich world.

The slowdown in productivity occurred just as Italy joined the single currency. Some economists see this as coincidental. The euro was born just as the global economy was undergoing a rapid bout of globalisation. Italy's small firms did not scale up to capitalise on emerging-market demand, as Germany's did. By the same token, its under-skilled population could not take advantage of the rising return to trade in professional services, as firms in America and Britain did.

But such problems were predictable. Whereas many euro-area governments prepared for a world in which they could not depreciate by adopting structural reforms, Italy was a laggard. Once the euro was in place, Italian wages rose as capital flowed in from northern Europe. Exporters grew ever less competitive, and workers and capital shifted from manufacturing to services, where productivity was even lower.

Rome is where the Hartz is

Mr Renzi wants to alter this dynamic. He has in mind something truly ambitious—an overhaul of the labour market not unlike Germany's sweeping Hartz reforms, which are often credited with the rejuvenation of its economy a decade ago. He has taken steps in this direction—adopting rules to make it easier to sack workers, for instance. But even Mr Renzi's advisers acknowledge that progress has been frustratingly slow.

The IMF reckons that Italy's economy will manage growth of just over 1% a year over the next three years. A recent analysis by economists at the European Commission found that a truly ambitious reform plan could boost GDP substantially—by nearly 24% relative to their baseline forecast. But that gain would materialise over the course of half a century, with very little of the benefit coming during the first decade.

Rather than waiting for productivity to rise, a quicker route to faster growth is to drive down wages. The Hartz reforms succeeded in part because they prompted a decline in real wages in Germany. Real GDP per person has soared in Germany since the introduction of the euro, but workers' pay has not. Reforms that decentralised collective bargaining in Italy, and that therefore helped to contain wages in less productive regions and firms, would be a step in the right direction, reckons Pietro Reichlin of LUISS, a university in Rome. Indeed, Mr Renzi's advisers suggest that the government may seek to impose a decentralised wage-setting process if negotiations between trade unions and industry do not yield one.

Yet even the benefits of wage restraint could be disappointing. Germany's competitiveness drive occurred during an era of relatively strong global growth and relatively buoyant inflation, which made the suppression of real wages both less painful and less noticeable. Italy will enjoy no such help. Any growth scheme that rests on falling wages is unlikely to endear Italians to Mr Renzi. For his reforms to work, he will need time that voters are unlikely to grant him. Keeping Italy happy enough to stay in the euro zone will, in the short term, take much faster growth across the euro area as a whole, fostered by continued dovishness from the ECB and less finickiness from the European Commission. The deal that Mr Padoan and the commission struck this week to allow a state guarantee for sales of Italian banks' bad debts is a step in the right direction. If the euro area is to keep Italy on board, it will need to become a bit less austere and a bit more Italian. ■



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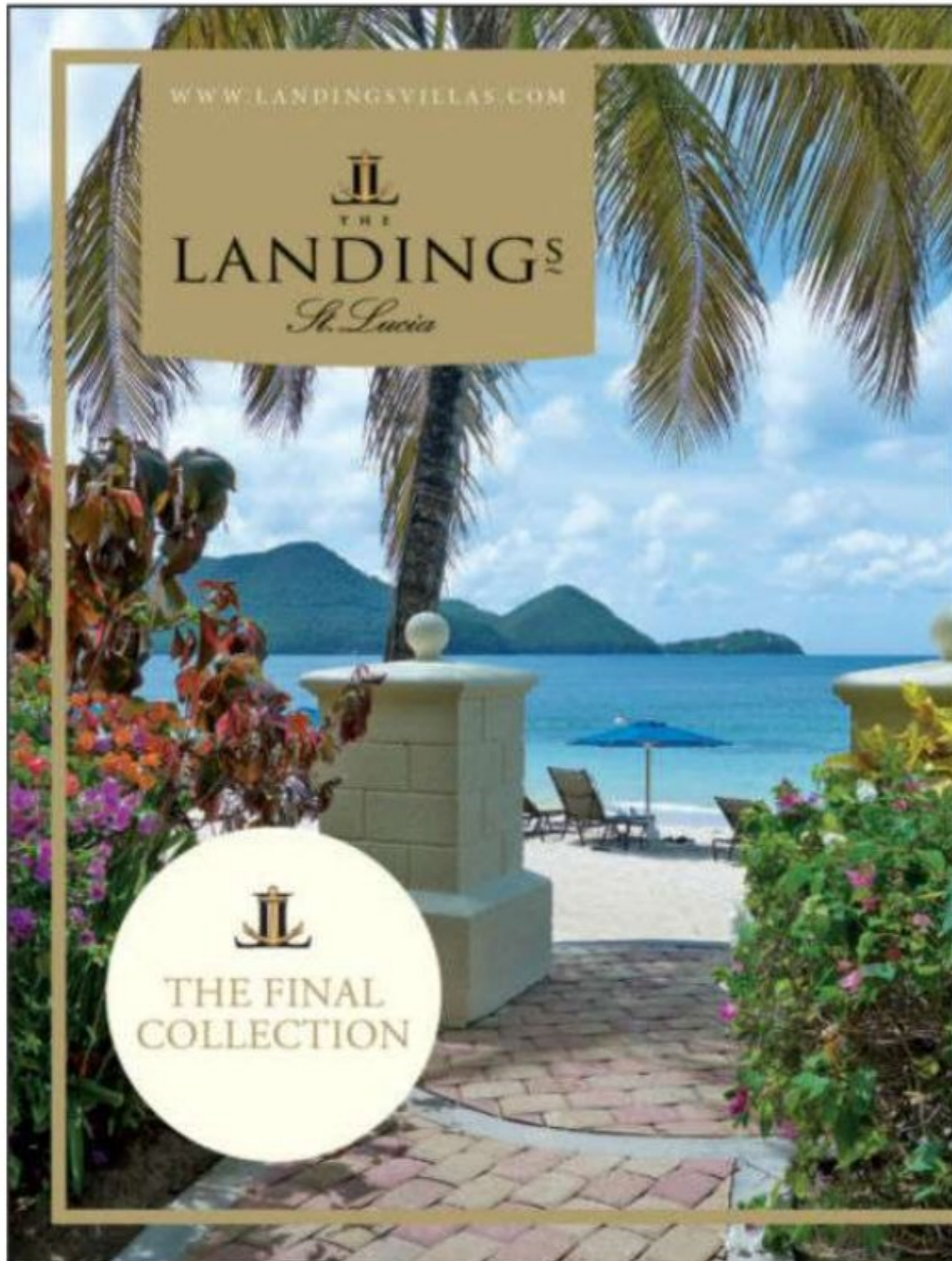
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Touchscreens

The moving finger moves on

Researchers find new ways to make touchscreens more responsive

THE only way to operate an increasing number of modern devices, from smartphones to cash machines and cars, is the deft use of a finger on a touchscreen, with a tap for this and a swipe for that. But sometimes such actions do not work all that well. It is easy to miss the required key on a tiny virtual keyboard and produce spelling errors. Sometimes the screen fails to respond at all. And it can be downright dangerous to take your eyes off the road to flip through myriad air-conditioning options on a vehicle's control panel. Now help, as it were, is at hand. As touchscreens become ubiquitous on devices, new ways to make and use them are emerging.

Robert Bosch, a German producer of car parts, among other things, recently displayed a touchscreen with "haptic feedback". Visual effects, sounds and vibrations are already used with touchscreens to confirm when icons or keys are selected. What the Bosch system does is to add different surface textures to the mix.

The textures on the screen can be rough, smooth or patterned in various ways to represent the location of different buttons with different uses. The idea is that a driver would be able to feel for the right button without having to look at the screen. To avoid accidentally activating buttons as he feels his way across the screen, the driver needs to press a particular surface more firmly to turn the required function on or

off, much like pushing on a mechanical switch. By applying variable pressure, a user can scroll faster or slower through, say, different music tracks or radio stations.

Because neoSense, as Bosch calls the system, is still under development the company will not say how it works other than that it uses a conventional touch sensor coupled with a sensor that measures the amount of pressure from fingers. That gives little away. Bosch is probably doing something similar to other groups working on such systems: placing under the screen a thin device that generates specially tuned vibrations in the area of the virtual buttons. The pattern of these vibrations would create textured effects that could be felt by the user's fingers as if they were physical elements on the screen.

All charged up

Although research into touchscreens dates back to the 1960s, they did not appear on consumer gadgets until the 1980s. Many of these early screens were the "resistive" type, which in its simplest form relies on a finger pushing against a ductile screen to press two underlying conductive sheets together to complete an electric circuit. The point of contact is measured to provide the co-ordinates of the finger.

Resistive screens are cheap to make and tough: lots are still used in restaurants to take orders and in factories to control ma-

chines. But many devices, particularly smartphones and tablets, now use a system that relies on capacitance. (Capacitance is a measure of an object's capacity to store an electric charge. The charge builds up if there is no circuit through which the electrons can flow and is dissipated when a circuit is completed—in extreme cases as a jolt when static electricity builds up in the body and is discharged when touching something metallic.)

There are a number of ways in which capacitive touchscreens can be made. The current favourite uses a grid of tiny wires made from a transparent, conducting material, usually indium tin oxide, just below the surface of the screen. When a finger touches the screen, or is very close to it, an electrostatic field created in the grid is disturbed by a small change in capacitance at the point at which the charge transfers to the finger. The software in a chip which controls the screen detects the position of the change in capacitance and uses it to determine the finger's location. Capacitive touchscreens are smooth to operate and require only a light touch. They also allow the use of more than one finger, making "pinch and zoom" movements possible.

Most research now is going into improving capacitive devices and integrating the conducting layers into the screen to make thinner displays, says Jeff Han, a pioneer of multi-touch systems. His company, Perceptive Pixel, developed giant touchscreens used by some news organisations for election coverage and was sold to Microsoft in 2012. Mr Han says users should expect to see more ways to use fingers and gestures to operate touchscreens, along with additional haptic effects.

More capacitive screens will become pressure-sensitive. Apple's latest iPhone 6s responds to finger pressure with a process ▶▶

▶ the company calls 3D Touch. The phone has another sensor below the screen which can detect a minute deformation in the glass when a finger is pushed against it. This allows additional actions by the user, such as pressing to preview a message or e-mail before opening it. Apple has also added haptic effects with something it calls a “taptic engine”, in effect a refined tiny vibrator which provides subtle taps in response to certain finger movements.

To boost the responsiveness of touchscreens, alternatives to indium tin oxide are starting to be used. Although the material is transparent it is only moderately conductive, which can restrict just how responsive a screen is to touch. Metals, particularly gold and silver, are much better conductors, but not being transparent, they can interfere with the displayed image unless deposited in minute quantities—which reduces conductivity. One way around that problem has been developed by Dimos Poulikakos and his colleagues at ETH Zurich, a Swiss technical university. This involves building gold and silver capacitive grids as “nanowalls”, just 80-500 nanometres (billionths of a metre) wide. As the walls are perpendicular to the screen and two to four times taller than their width, the grid is highly conductive but almost invisible.

Printing walls

Dr Poulikakos’s nanowalls are made with a new form of 3D printing. The process begins with gold or silver nanoparticles suspended in a solvent. This “ink” is drawn out of a tiny glass capillary tube by an electric field to form a drop which remains hanging onto the tip of the tube. By carefully balancing the composition of the ink and the electric field, the researchers have been able to get an even smaller droplet to form at the base of the attached drop. It is these secondary droplets which are used to print the nano walls.

Using nanoparticles means the cost of printing grids with precious metals, such as gold or silver, is not a concern, says Dr Poulikakos. Indeed, he reckons the “nanodrip” process would be a lot cheaper than current methods used to produce capacitive grids for touchscreens as these rely on costly clean rooms and vapour-deposition equipment, similar to that used to make computer chips. Nanodrip is now being scaled up for commercial use by a spin-off company called Scrona.

Other conductive materials that might be used to build touchscreens include graphene, a lattice of carbon atoms which, being only one atom thick, is essentially transparent. Researchers at the University

Correction: In “Curing multiple sclerosis” (January 23rd) we said that in graft-versus-host disease the immune system rejects transplanted tissue. This is the wrong way around. The immune system in the transplanted tissue attacks the host. Sorry.

Artificial intelligence

Computer says Go

Beating a Go champion with machine learning

IN 1996 IBM challenged Garry Kasparov to a game of chess against one of its computers, Deep Blue. Mr Kasparov, regarded as one of the best-ever players, won—but Deep Blue won the rematch. Two decades on, computers are much better than humans at chess but remain amateurs when it comes to the much tougher, ancient game of Go. Or at least, they did. Now a computer has managed to thrash a top-drawer human player.

The computer used a program, called AlphaGo, developed by DeepMind, a London-based artificial intelligence (AI) company bought by Google in 2014 for \$400m. It took on Fan Hui, European Go champion, beating him 5-0, according to a report in *Nature*. Beating a champion at Go has long been considered a “grand challenge” in AI research, for the game is

far harder for computers than chess. Go players alternately place black or white stones on a grid of 19x19 squares with the aim of occupying the most territory. The size of the board, and the number and complexity of potential moves, make the game impossible to play via brute-force calculation. Demis Hassabis, DeepMind’s founder and one of the paper’s authors, reckons that a typical Go turn offers around 200 legal moves, compared with just 20 or so in chess.

Whereas a chess-playing computer like Big Blue was programmed directly by humans, AlphaGo used AI to teach itself about how to play Go and then make its own decisions. This was done with a technique called machine learning, which allows computers to figure out for themselves how to do things, such as to recognise faces, respond to speech and even translate between languages.

AlphaGo works in two parts. When it is the computer’s turn, the program first suggests moves based on the sorts of general tactics that human players have used in the past—much as Deep Blue would. Then the second part of the system sifts those moves for those that look like they might lead to a win, again based on patterns it has picked up through memorising zillions of previous games.

The ultimate test of AlphaGo’s capabilities, though, will come in March. DeepMind has persuaded Lee Sedol, a Korean player widely regarded—like Mr Kasparov in his day—as one of the best-ever players, to take on their machine in a series of games in Seoul. If AlphaGo wins—and given its performance against Mr Hui, that seems like a distinct possibility—then human brains, and their possessors, will have to cede another defeat to the machines.



Did you learn that from AlphaGo?

of Manchester in Britain, where graphene was discovered, reckon the material can be used to make touchscreens which are flexible enough to roll up like a newspaper. This is because, unlike indium tin oxide, graphene is not brittle.

It will also become possible to operate touchscreens without actually touching them. Samsung has already employed tiny infra-red sensors just above the screen on some of its phones to detect hand gestures. Google is developing a miniature radar chip that could be embedded behind the screen itself to do much the same thing. The chip is supposed to be sensitive enough to pick up complex gestures, such

as twirling a finger in a clockwise circle to increase the volume on a virtual dial or anticlockwise to reduce it.

Such technology could work on touchscreens in cars, too, without distracting drivers. BMW has developed a touchscreen that uses a camera in the roof of the car to recognise hand gestures. If the phone rings, say, you can simply point towards the screen to take the call; if it’s the office, swiping your hand to the side will reject it. Add in fast-improving speech-recognition systems, such as Apple’s Siri and Microsoft’s Cortana, and the amount of time people spend jabbing, gesticulating and talking to their devices will only rise. ■



Winemaking

The perfect pinot problem

When to harvest grapes for a yummy aroma

AS GRAPE varieties go, pinot noir is famously finicky. Got right, the thin-skinned grapes can produce some of the world's finest wines. Central to that is plucking the grapes from the vine at the right time. Winemakers typically depend upon testing the level of sugar to determine if their berries are ready, but that is not terribly accurate. As pinot noir grapes reach late stages of maturity, the rate at which they gain sugars slows down just as the rate at which they accumulate the aromatic compounds that can grant wine a good "nose" goes up. And in wine, the aroma is a fundamental part of its appeal. Varying rainfall, temperatures and soil conditions all affect the rate at which aromatic compounds enter grapes, making it difficult for wineries to know whether they should harvest their grapes a few days or weeks after the increase in sugar tails off.

Michael Qian and Fang Yuan of Oregon State University had a local interest in the problem. The prime crop of the vineyards in Oregon's Willamette Valley is pinot noir. And Oregon's cool climate, short growing season and periodic heavy rains make determining whether grapes are ready for harvest particularly challenging. Curious to see if they could monitor directly the presence of aromatic compounds, the biochemists set up an experiment.

They collected ten bunches of grapes from the Stoller Family Vineyard in Willamette Valley on two separate dates, one early season and one late, during 2012 and 2013. The first date from each year was just two weeks after the berries had started to

change colour from green to red, while the second was between five and six weeks after this milestone. Aside from monitoring the sugar levels, Dr Qian and Mr Fang also made use of a technique called aroma-extract dilution analysis to study aromatic compounds in the grapes. This was done using a gas chromatograph, in which compounds are separated out from a sample based upon their boiling points and chemical properties. The kit was also fitted with a sniffing port for researchers to smell the compounds as they were released.

Oh, the damascenone!

The researchers report in the *Journal of Agricultural and Food Chemistry* that they detected 49 aromatic compounds in the grapes from the two years during both the early and the late sampling periods. Most of these compounds remained at low levels throughout the growing period. However, four of them (β -damascenone, which carries a floral and tea-like smell; vanillin, the key compound in vanilla; 4-vinylguaiaicol, which smells like cloves, and 4-vinylphenol, which is reminiscent of spicy almonds) were found in much higher concentrations in the mature grapes than in the early-season ones.

Dr Qian and Mr Fang suggest these four aromatic compounds are commonly associated with a good pinot noir and therefore could provide another way to determine the optimum time to harvest. For their part, wine buffs will keep settling the argument the old-fashioned way, with a sniff straight from the glass. ■

Schizophrenia

Brain gains

Genetics throws open a window on a perplexing disorder

FOR decades scientists have been trying to understand schizophrenia, a distressing disorder that afflicts one in a hundred people. Its destructive symptoms include hallucinations, delusions, muddled thoughts and changes in behaviour. The best drugs offer little more than the ability to target symptoms. There is presently no hope of a cure because its ultimate cause has long been a mystery.

Schizophrenia is known to run in families, so it has always been thought that genes might shed light on the origins of the disease. But the genetics have proved harder to unpick than anyone imagined. It is only now, 16 years after the human genome was first sequenced, that scientists have homed in on the relevant genes.

For more than five years researchers led by a group at the Broad Institute in Cambridge, Massachusetts, collected more than 100,000 DNA samples from around the world. They were looking for regions of the human genome that might be harbouring variants that increased the risk of schizophrenia. What they found implicated more than a hundred genes and provided a strong pointer towards a portion of the genome associated with infectious diseases. Many of these genes did not operate independently of each other, and further detective work revealed that the most important source of variation lay within a particular gene known as C4.

Steven McCarroll, of Harvard Medical School, and his colleagues involved in the study, report in *Nature* this week that particular forms of the C4 gene led to a greater risk of developing schizophrenia. What makes C4 hard to identify is that it comes in many different forms and has an intriguing function. The gene produces a protein known as a complement factor, which helps to tag pathogens for removal by the body's immune system. In the brain, however, it appears to be tied to a developmental process known as "synaptic pruning", in which neurons are continuously eliminated throughout childhood and into early adulthood.

In other words schizophrenics may be producing too much of a protein that creates a signal that synaptic connections should be removed. During late adolescence the brain undergoes widespread synaptic pruning, particularly in the cerebral cortex. This is also the age at which schizophrenia symptoms tend to begin.

David Goldstein, director of the Insti- ▶▶

► tute for Genomic Medicine at Columbia University, says he is persuaded by the research, but reckons it is important for the medical community to examine the study carefully because the region of the genome under discussion is hard to work on and is “stuffed full of genetic variation”. That makes it difficult to point to a single gene and say “it’s this”, he adds.

As to whether those with a family history of schizophrenia ought to have their genome sequenced to assess their susceptibility, Dr Goldstein is keen to point out that more work needs to be done on the risks that different forms of the genes bring. Moreover, other factors can be implicated in developing schizophrenia, ranging from taking psychoactive drugs to being ex-

posed to viruses while in the womb.

Synaptic pruning is so crucial in brain development researchers wonder what other mental disorders might be tied to its aberrant activation or regulation. This study is bound to initiate a flurry of similar work. Alzheimer’s disease, for one, has been tied to, among other things, excessive destruction of synapses. And it is already believed that autistic individuals have a surplus of synapses in the brain, due to a slowdown in normal brain pruning. Indeed, the onset of autism often follows a period when there is a burst of synapse formation. One big step forward in schizophrenia research could have an enormous impact on the way other neurological disorders are viewed and treated. ■

Controlling miniature satellites

Cubism

How to keep small satellites in orbit for longer

LITTLE more than ten centimetres across, so-called CubeSats are cheap-to-launch satellites that are able to carry out many scientific and commercial tasks at a fraction of the cost of conventional orbiters. This miniaturisation is mainly thanks to electronics developed for smartphones.

CubeSats can be launched as additional payload alongside bigger satellites, sent up during deliveries to the International Space Station or put aloft on small, purpose-built rockets like NASA’s new Venture Class. Being cheap means that once their orbits decay and they burn up on re-entering the atmosphere, CubeSats can simply be replaced with newer versions. But it can pay to reposition them, both to operate more effectively and prolong their service life. That, however, is a challenge because for reasons of safety a CubeSat cannot carry conventional rocket fuel. They typically rely for manoeuvrability on heating an inert liquid and ejecting small jets of the resulting vapour, which is a poor substitute for the energetic burning of rocket fuel. So better means of motion are required—and at least two are on offer.

One, developed by Paulo Lozano and his colleagues at the Massachusetts Institute of Technology, is a miniature version of the ion drives used on larger satellites. An ion drive accelerates charged particles derived from a liquid propellant to very high speeds. This creates thrust more efficiently than ejecting heated vapour, but without the explosive chemical reactions of a conventional rocket.

At the moment, ion drives are not used on CubeSats because both space and

weight are at a premium in such small devices and an ion drive needs pumps to move the propellant around. Dr Lozano, however, has been able to dispense with these large and heavy components. He and his team have developed a porous glass emitter that has hundreds of tiny channels running through it. These suck the propellant up by capillary action, obviating the need for pumps. The propellant itself is a substance known as an ionic liquid, that consists of positive and negative ions which can be separated by passing a current through the liquid and then, because they are electrically charged, accelerated by an electric field. (Both current and field are supplied by a battery on board the satellite.) The ions are then fired from separate thrusters, one for the positive ions and one for the negative ones.

Individual modules, containing emitter, thrusters and enough propellant for an hour of thrust, are about the size of a sugar cube and weigh less than four grams. Dr Lozano’s team has shown in the laboratory that eight can produce enough impulse to shift a typical CubeSat sufficiently to extend its life in orbit from months to years. Three are now in the hands of NASA, awaiting flight-testing later this year.

The other approach, that of Young Bae of Advanced Space and Energy Technologies in Tustin, California, is to use light. Dr Bae’s device, which he dubs a photonic laser thruster, was developed with NASA funding. His thruster works because light exerts pressure when it hits something. In theory, it is possible to move an object like a CubeSat by nudging it with a laser beam. In practice, however, the pressure which light exerts is so small that a device able to do a useful amount of nudging would require a laser of unfeasibly large power.

Dr Bae has overcome this limitation by bouncing light repeatedly between the source laser and the satellite, to multiply the thrust. In his latest experiments, Dr Bae has managed to amplify the thrust imparted by a single nudge of the laser by a factor of 1,500, which is big enough to manoeuvre a CubeSat as well as a conventional thruster would. This brings two advantages. First, since no on-board propellant is required, there is more room for instruments. Second, there being no fuel to run out, a CubeSat’s orbit can be boosted as many times as is desired, and its working life prolonged indefinitely.

The flip side of these advantages is that a suitable laser is required to provide the thrust. Dr Bae thinks it could be in orbit as well. The laser would be powered by solar cells and shepherd a veritable flock of CubeSats, providing the propulsion needed to move and arrange them as required. That is still some years away so, unlike Dr Lozano’s system, Dr Bae’s is not yet ready to fly. But his vision of an orbiting Bo Peep, cajoling and directing her charges by flashing lights at them, is a pleasing one. ■



A square idea goes farther in space



Political influence in America

The avengers

A network of wealthy donors has a mission to push politics to the right

IN 1972 W. Clement Stone, a wealthy businessman, gave \$2m to Richard Nixon's presidential campaign. The cheque, worth \$11.4m today, provoked outrage and led to calls for campaign-finance reform. How quaint history seems when compared with the momentous present. In 2016 a group of rich conservative donors will spend nearly \$900m to influence the presidential and congressional elections. They avoid public scrutiny by funnelling money into a labyrinthine collection of foundations and anonymous political groups.

This secret system is the subject of "Dark Money", an ambitious new book by Jane Mayer of the *New Yorker*. David and Charles Koch (pronounced "coke"), who inherited an industrial conglomerate based in Wichita, Kansas, which is the second-largest private company in America, are at the heart of the book. Although the company is diverse, with interests in energy, chemicals, commodities and consumer goods, its owners focus on advancing their conservative political agenda. The Kochs deny climate change and oppose government regulation, welfare and taxes. They view the rise of the Democrats and Barack Obama's election in 2008 in apocalyptic terms, and the counterinsurgency they have funded has changed the face of politics in America. They have exerted their strongest influence at state level, where a

Dark Money: The Hidden History of the Billionaires Behind the Rise of the Radical Right. By Jane Mayer. *Doubleday*; 449 pages; \$29.95

lot of business regulation is written.

Ms Mayer, whose sympathies are with the left and who is a critic of Republican values and motives, does not go so far as to call the source of the Kochs' fortune "blood money", but she does claim that it is tainted. This is not the first book to look at their business interests ("Sons of Wichita", by Daniel Schulman, came out in 2014), but it is the first to allege that the patriarch Fred Koch made part of his early wealth by helping build oil refineries in Soviet Russia and Nazi Germany. The company has faced plenty of public controversy in America, including environmental fines and lawsuits. There have also been family conflicts. There are four Koch brothers, not just Charles and David who are well known. Along with their brother Bill, they allegedly tried in the 1960s to blackmail a fourth sibling, Frederick, to sell his shares in the company. The brothers had concluded that he was gay (which he has denied) and, Ms Mayer suggests, they threatened to expose him to their father, which caused a permanent rift.

It is the political panorama beyond the

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Kochs, however, that makes Ms Mayer's book more than just another feisty corporate critique. Rich conservatives, Ms Mayer argues, set up private foundations, which allow them quietly to divert money to their favourite political causes free of tax. These foundations—including those set up by the Kochs, Richard Mellon Scaife and Harry Bradley—are not subject to much disclosure or oversight. Since foundations were first used by the robber barons as a way to avoid taxes while appearing philanthropic, they have ballooned. In 2013 there were over 100,000 of them, with assets of around \$800 billion. Some of these do good for the world's poor, but their structure also enables them to push money secretly into partisan think-tanks like the Cato Institute, the Heritage Foundation, the American Enterprise Institute and the Hoover Institution. In other words, the wealthy have always used charitable foundations to influence politics at the expense of taxpayers.

"Dark Money" tracks other attempts to alter public discourse without leaving a trace. The Kochs and other conservatives support academic research that is allied to their political ideologies. They want to take "the liberal out of liberal arts", as Ms Mayer puts it. For example, the John M. Olin Foundation backed a professor at the University of Chicago, John Lott, to write a book, "More Guns, Less Crime", calling for concealed weapons to be legalised. The Kochs have regularly held summits to share their free-market, anti-taxation views. Among those invited are federal judges, 185 of whom have attended seminars sponsored by conservative interests, including the Koch Foundation.

Ms Mayer's book seethes with distaste for her subjects. The Koch brothers de- ▶▶

clined to be interviewed for “Dark Money”, and purportedly tried to smear Ms Mayer’s reputation by accusing her of plagiarism after she published a critical article about them in the *New Yorker* in 2010.

An author can dislike her subjects. However, the book would have been stronger had Ms Mayer expanded the scope of her scorn. She acknowledges in passing that Democratic donors, including two hedge-fund billionaires, George Soros and Tom Steyer, have funnelled money into their own political causes. But she never dissects whether the left has embraced the deceptive funding mechanisms that she so assiduously has traced for the right. The fact that she does not cast a critical eye across the whole system prevents “Dark Money” from being a comprehensive analysis of how America’s campaign finances are distorted. But it offers a valuable contribution to a subject that requires far greater scrutiny in this election year. ■

Fiction

Music and memory

The Noise of Time. By Julian Barnes. Jonathan Cape; 180 pages; £14.99. To be published in America by Knopf in May

ON THE surface, Julian Barnes seems an unlikely author of historical novels, a genre which often offers a fixed interpretation of a period in history, or characters within that period, albeit one conjured by the writer’s imagination. Yet he returns to them again and again. “Talking It Over”, which came out in 1991, sets its characters’ memories against each other, showing how they overlap and contradict. “Arthur & George”—his recreation of a real-life mystery taken on by Arthur Conan Doyle that

was published in 2005—is as much an excavation of biography and identity as it is a detective yarn. “The Sense of an Ending”, which won the Man Booker prize for fiction in 2011, offers a dramatic reassessment of one man’s past.

The epigraph of “Talking It Over”, “He lies like an eyewitness”, is described simply as a “Russian saying”. It reappears in “The Noise of Time”, Mr Barnes’s brief, compelling inhabiting of the life of Dmitri Shostakovich. For a novelist fascinated by the slipperiness of truth, what richer ground than the Soviet Union under Stalin, where a memory might save your life, or cost another his? Here every action, every thought must be called into question almost as it happens; as when the composer finds himself trying to recall whether he really did, as a ten-year-old schoolboy, see Lenin arrive at the Finland Station.

This paragraph-long episode of recollection begins in certainty and moves with breathtaking swiftness to incredulity. “These days, he no longer knew which version to trust. Had he really, truly been at the Finland Station? Well, he lies like an eyewitness, as the saying goes.”

“The Noise of Time” is not narrated by Shostakovich, but in a restricted third-person voice that sits on the composer’s shoulder. Art belongs to the people, is the dictate of the Soviet state, but the narrative voice offers a rebuttal. “Art belongs to everybody and nobody. Art belongs to all time and no time. Art belongs to those who create it and those who savour it.” One could argue that these are platitudes. But in the context of the terrifying control exerted by the party and the state on artists such as Shostakovich, they are radical ideas. “Art is the whisper of history, heard above the noise of time.”

Just as the music of Shostakovich can be listened to with no knowledge of the historical circumstances out of which it arose, so Mr Barnes’s novel does not depend on a detailed knowledge of history

or biography. In any case, doubts that linger over the events of Shostakovich’s life are “highly frustrating to any biographer, but most welcome to any novelist”. Mr Barnes’s imagining of the composer’s life does not stretch to many pages, which makes it a welcome anomaly in an era of 900-page doorstoppers. The skilled novelist here brings alive not just the political turmoil that surrounded Shostakovich, but his love for his wives, his love for his children, a vivid counterpoint of artistic freedom and political oppression—the eloquent conjuring of one glass of vodka clinking against another. ■

Communists in Britain

Reds under the bed

Party Animals: My Family and Other Communists. By David Aaronovitch. Jonathan Cape; 309 pages; £17.99

WERE those post-war Britons who kept faith in communism, despite the horrors of Stalinism, simply “useful idiots”? In this engaging, witty and beautifully written book, the epithet, usually attributed to Lenin, never occurs. Yet David Aaronovitch must surely have been tempted to apply it to his parents, Sam and Lavender, and their friends, almost all of them fellow-members of the Communist Party.

Mr Aaronovitch, who ditched the gospel of Marxism years ago and is now a columnist for the *Times*, obviously has first-hand experience of the cultlike loyalty of the “party animals” in the 1950s and 1960s: “The facts of existence, the assumptions about how the globe turned that we imbibed were not the same as—and often the opposite of—what everyone else deemed normal... There were things that other people did that we didn’t do. We didn’t believe in God, pray, go to church, stand up for the queen in the cinema when they played the national anthem (which in any case, wasn’t our anthem, our anthem being the ‘Internationale’).” Is there a parallel today? “Perhaps there are children of very devout Muslims or evangelicals who will read this and nod along.”

But Mr Aaronovitch’s memoir is no glib rant against the delusions of sincere party members. Instead, he acknowledges the power of the message from Moscow (the Molotov-Ribbentrop pact was explained away as a delaying tactic to allow Russia to prepare for its heroic role in defeating Hitler). For the true believers, almost anything could be justified, even the evils of Stalinism, the repression of the Hungarian uprising in 1956 and the invasion of Czechoslovakia in 1968. As with any cult, some



The temptations of hindsight

▶ devotees will never break away.

Yet most of all, Mr Aaronovitch's book is a sensitive analysis of his own family—the Jewish Sam, an autodidact from London's impoverished East End, and the genteel Lavender, rebelling against her middle-class roots in the countryside. Sam's passion for learning takes him in middle age to Balliol College, Oxford (he later became an economics lecturer at a London polytechnic); Lavender's passion for the party leads her to overlook not just the flaws—so evident to any outsider—in Soviet behaviour, but also Sam's energetic womanising. Meanwhile, the young David joins in the party entertainment: marching and demonstrating against any perceived capitalist ill—but willing by 1987 to abandon his parents' faith in order to work for the BBC.

As the Soviet Union disintegrated in the early 1990s, Roger Scruton, a conservative British philosopher, called for Westerners who had “promoted and apologised for Soviet communism” to face “their day of reckoning” in the court of public opinion. Mr Aaronovitch's riposte to “the Scrutons, as a class” that had benefited from the British empire, should hit home: “If it was criminal to have been a believer in communism and an apologist for Russia, then why was it less criminal to have been a believer in colonialism and an apologist for racism?” As for Lavender and Sam, “She was a party member through thick and thin because it was a kind of family. He was a party member despite everything because it was his bigger world.” ■

Life in London

Beyond the glitter

This Is London: Life and Death in the World City. By Ben Judah. Picador; 426 pages; £18.99

LONDON, a city famous for Hyde Park, Harrods and giddy house prices, has undergone a quiet revolution. So says Ben Judah, a young foreign correspondent now turning his eyes towards his home town. He begins his new book with a confession: “I was born in London but I no longer recognise this city...I don't know if I love the new London or if it frightens me: a city where at least 55% of people are not white British, nearly 40% were born abroad and 5% are living illegally in the shadows.” “This Is London” is Mr Judah's journey to rediscover his city.

The author throws himself in at the deep end, spending anxious nights huddled in an underpass not far from the unimaginable wealth of Mayfair, in the company of homeless Roma beggars. Many of

these men, and they are almost all men, are indentured slaves. Having lost their jobs at home, they borrowed money to travel to London and are now forced to beg to pay off their debts.

From here, Mr Judah grabs hold of London and shakes out its secrets. He has a gift for ingratiating himself into very foreign surroundings and teasing out stories. He meets a bored Middle Eastern princess, who passes her days in a haze of skunk, an Afghan shopkeeper who entered Britain hidden in a lorry, and a Punjabi minicab driver who exhausts himself washing bodies by night at his local mosque. These Londoners achieve varying degrees of success at making a life in the metropolis.

Most of London's immigrant population shares the same obsession: the city's economic hierarchy. Mr Judah meets a Nigerian who had escaped work in a sweaty hotel laundry room to join the police, a rare example of upward mobility. But he still sees race as destiny: “In London you've always had the Africans at the bottom of the pile along with the West Indians... Then you get some Afghans. Then the eastern Europeans coming up... Then you get the Asians. Then you get the Irish. Then you get the whites... And at the very top you get the rich... Where there is no race.”

The perceived failure of London's many ethnicities to mix has geographical consequences, which add to Mr Judah's disorientation. He visits Neasden, an area in the north-west of the city that used to be a picture of white suburban contentment. But the English have departed: “They want to be central, they want to cycle—they want the city.” London's oldest inhabitants are pouring back into the centre, so that former inner-city terraced slums now offer craft beer and organic food, whereas the suburbs with their net curtains have become overpopulated tenements for the city's migrant labourers. Standing in front of the demolition of a landmark housing estate, Mr Judah realises this migration may also have a political dimension: “Thirty times all over south London I have written down in street interviews that someone thinks the government wants to push poor black people out of the centre.”

For those without sufficient means to enjoy London's wealthy and rejuvenated centre—most of the men and women Mr Judah meets—the city is frequently as disappointing as it is difficult. He observes: “They come to London inspired not by a dream of how great things could be, but by the knowledge of how much worse they can be.”

“This Is London” is not prescriptive; there is nothing here about how to lessen the grinding poverty or improve the rights of low-wage workers. But Mr Judah has done an important service in capturing the voices of those swept to the margins by economic forces beyond their control. ■



Banning alcohol

Stocking filler

The War on Alcohol: Prohibition and the Rise of the American State. By Lisa McGirr. W.W. Norton; 330 pages; \$27.95 and £18.99

NEARLY a century after America fleetingly banned alcohol, Prohibition seems like a charming absurdity. The rise of moonshine and speakeasies before the Great Depression seems more like Hollywood than history. But Prohibition was no joke for the working classes, writes Lisa McGirr in “The War on Alcohol”, a focused and thought-provoking book.

When the 18th Amendment banning the sale of alcohol was passed in 1919, it was targeted at the saloons where men gathered after work for beer and conversation. “I believe that alcoholism threatens the destruction of the white race,” said Charles Eliot, the president of Harvard University. Such sentiments were common among the reformers.

Thus began what Ms McGirr, a professor at Harvard, describes as the “boldest effort to remake private behaviour in the nation's history”. Neighbourhood saloons closed, home distilleries opened and drinking moved underground, to homes and speakeasies and even athletic clubs. The protests of the working classes—“no beer, no work”—went unheard amid the paternalistic zeal of high-minded (and often wealthy) Protestants. An enormous new federal bureaucracy emerged to enforce the ban, often targeting small family operations rather than the large, politically greased criminal rings like Al Capone's.

After the shock wore off, anger ensued. The result, Ms McGirr argues, was political upheaval. Many thirsty working-class Americans, from the Poles to the Germans (whose breweries were targeted), swung behind Al Smith, the Democratic presiden- ▶▶

► tial candidate in 1928. African-Americans, long loyal to the Republicans as the “party of Lincoln”, also moved towards the Democrats, not least because the Ku Klux Klan, whose numbers proliferated in the 1920s, had taken on Prohibition-enforcement duties. Smith, the first Catholic presidential nominee, did not win in 1928, but the anger was palpable.

“The War on Alcohol” is not as dense as Daniel Okrent’s “Last Call”, which came out in 2010. Instead, Ms McGirr’s interest lies in Prohibition’s lasting effects on society. Despite its reputation as a historical oddity, Prohibition was another develop-

ment in the growing power of the American state in the early 20th century, she argues. Woodrow Wilson’s Progressivism and Franklin Roosevelt’s New Deal also emerged during that period. Prohibition required enforcement, and the prison-staffing apparatus of the 1920s soon became larger than the Bureau of Investigation, the forerunner to the FBI. As one disgruntled newspaper editor put it: “A man’s home used to be his castle. Now, it is the United States government’s castle.”

Prohibition ended in 1933, during the first year of Roosevelt’s presidency. “It’s time the country did something about

beer,” the new president declared. But, as Ms McGirr points out, the lessons of America’s 13-year misadventure with Prohibition have yet to be learned: “Despite a wide consensus that Prohibition of the liquor traffic was a fundamentally flawed crusade with devastating consequences, its spiritual and policy twin—the war on drugs—has gone largely unchallenged.” Much like the war on alcohol, the war on drugs has “far overshoot the ills” that it is trying to fix, all the while showing little success in reducing supply or demand for drugs. A little dram of history might do wonders for America’s politicians. ■

Johnson | What would the doctor prescribe?

The Johnson column on language

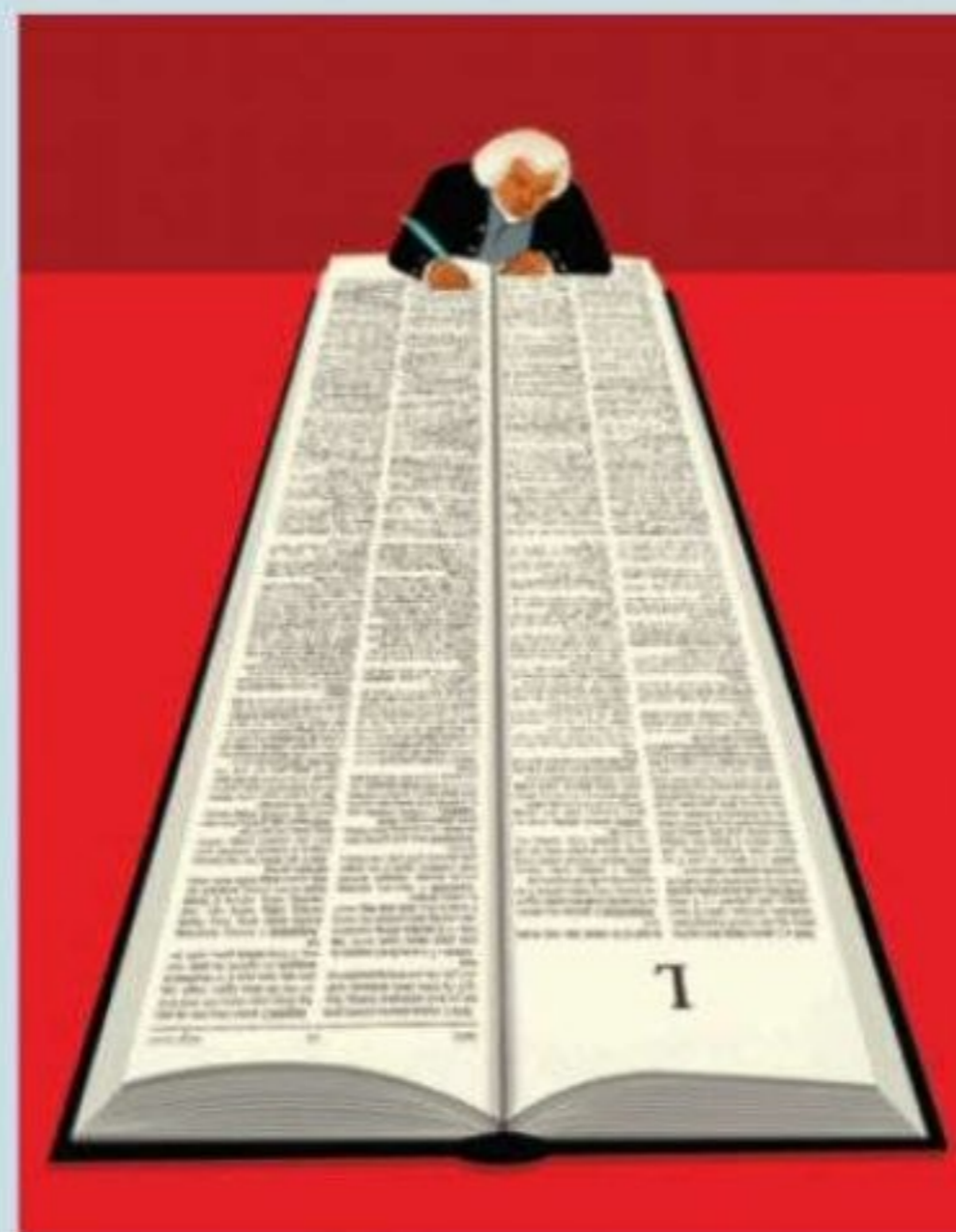
“**A**HARMLESS drudge.” Of the definitions in Samuel Johnson’s great English dictionary of 1755, that of “lexicographer”, his own calling, is the most famous, an example of the same wit that led him to define “oats” as “a grain, which in England is generally given to horses, but in Scotland supports the people.”

Why name a language column after a harmless drudge? Because Johnson, despite the drudgery, knew that language was not harmless. Its power to inform and to lead astray, to entertain and to annoy, to build co-operation or destroy a reputation, makes language serious stuff. *The Economist*’s “Johnson” column began in 1992 and was later revived online. This week it returns to the print edition, and henceforth will appear fortnightly.

Many of the topics tackled are fun: swearing and slang, preferences and peeves. Some are more fundamental. Language reveals a lot about human nature: how people reason differently in a foreign language, or to what extent different languages encode a world view, are some of the most exciting and controversial topics in linguistic research.

People care intensely about their language, and so languages in the wider world sometimes come into conflict. The perceived arrogance of Castilians to Catalan threatens to sunder Spain; “language police” in Quebec tell restaurant owners to change “pasta” and “grilled cheese” to *pâtes* and *fromage fondant*. At the extreme, the passage of a law downgrading Russian in Ukraine helped spark war in that country; Vladimir Putin has used it as evidence that Ukrainian nationalists are bent on wiping out Russian culture there. The war has rumbled on since, with language the most obvious symbol of wider identity and sympathy.

So the Johnson column treats topics



light and heavy as well as language both English and international. How does the spirit of Johnson himself come into it? The best way to answer is to see how he would fit into today’s “usage wars” over authority and correctness. A language column is expected to tackle questions of right and wrong. There are roughly two views of how to do this: one top-down, based on authority, prestige, writing and stability; one bottom-up, resting on how most people actually use the language, and open to change.

The two schools of thought, known as “prescriptivism” (which sets down how the language should be) and “descriptivism” (which tells how it is), have often been at daggers drawn: English teachers and some usage-book writers on one side, and academic linguists, lexicographers and other usage-book writers on the other. In the caricature, prescriptivists are authoritarians with their heads in the sand,

insisting on Victorian-era non-rules. The descriptivists are mocked as “anything-is-correct”, embracing every fad, even that Shakespeare should be taught in text-message-speak. To take one example, some prescriptivists say “like” cannot be a conjunction (“tastes good, like a cigarette should”, in a 1950s advert.) Descriptivists point to continuous use since Chaucer.

Recruiting-sergeants from both sides can bang on Samuel Johnson’s door. An intellectual writing for an elite audience, he did not shy away from “right” and “wrong”, even “barbarity”, “depravity” and “corruption”, in matters of language. But he declared his task was not to “form” but to “register” (that is, describe) the language; trying to stop change was like trying to “lash the wind”. Above all, his years of drudging at the dictionary had taught him humility: he knew he was sure to commit “a few wild blunders, and risible absurdities, from which no work of such multiplicity was ever free”.

Prescribing is not really the opposite of describing. Lexicographers from Johnson’s day on must describe the language, grounding their definitions in real living English. But that is in order to give stronger roots to a book they know people will use for firm guidance. Academic linguists, the arch-descriptivists, are perfectly willing to call some usages wrong and others plain ugly.

One can prescribe and preach a high-quality English while accepting variety and change. Stability is not the same as rigidity. And judgment should be empirical, not dogmatic, open to real usage and willing to change when the facts change. Getting things right is worth the effort, just as it is in politics. As Johnson wrote, “We have long preserved our constitution, let us make some struggles for our language.”

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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>.

Tenders



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Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP 2015†	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$	
	latest	qtr* 2015†	2015†		latest	2015†		latest 12 months, \$bn	% of GDP 2015†			% of GDP 2015†	Jan 27th
United States	+2.1 Q3	+2.0	+2.5	-1.8 Dec	+0.7 Dec	+0.2	5.0 Dec	-456.6 Q3	-2.5	-2.6	2.01	-	-
China	+6.8 Q4	+6.6	+6.9	+5.9 Dec	+1.6 Dec	+1.5	4.1 Q3 [§]	+275.9 Q3	+3.0	-2.7	2.78 ^{§§}	6.58	6.24
Japan	+1.6 Q3	+1.0	+0.6	+1.7 Nov	+0.3 Nov	+0.7	3.3 Nov	+131.5 Nov	+3.3	-6.8	0.22	119	118
Britain	+2.1 Q3	+1.8	+2.4	+1.0 Nov	+0.2 Dec	+0.1	5.1 Oct ^{††}	-134.2 Q3	-4.4	-4.4	1.75	0.70	0.66
Canada	+1.2 Q3	+2.3	+1.1	-4.0 Oct	+1.6 Dec	+1.2	7.1 Dec	-54.1 Q3	-3.3	-1.8	1.25	1.41	1.24
Euro area	+1.6 Q3	+1.2	+1.5	+1.1 Nov	+0.2 Dec	+0.1	10.5 Nov	+346.9 Nov	+3.0	-2.1	0.45	0.92	0.88
Austria	+1.0 Q3	+1.9	+0.8	+2.6 Nov	+1.0 Dec	+0.9	5.8 Nov	+10.7 Q3	+2.0	-2.1	0.68	0.92	0.88
Belgium	+1.3 Q3	+0.9	+1.3	+1.4 Nov	+1.5 Dec	+0.6	7.8 Nov	+1.1 Sep	+0.4	-2.6	0.82	0.92	0.88
France	+1.1 Q3	+1.0	+1.1	+2.8 Nov	+0.2 Dec	+0.1	10.1 Nov	+3.5 Nov [†]	-0.3	-4.1	0.75	0.92	0.88
Germany	+1.7 Q3	+1.3	+1.5	nil Nov	+0.3 Dec	+0.2	6.3 Dec	+279.0 Nov	+8.1	+0.7	0.45	0.92	0.88
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	9.90	0.92	0.88
Italy	+0.8 Q3	+0.8	+0.7	+0.9 Nov	+0.1 Dec	+0.1	11.3 Nov	+39.3 Nov	+1.9	-2.9	1.50	0.92	0.88
Netherlands	+1.9 Q3	+0.6	+2.0	+2.2 Nov	+0.7 Dec	+0.4	8.2 Dec	+74.8 Q3	+10.6	-1.8	0.56	0.92	0.88
Spain	+3.4 Q3	+3.2	+3.1	+5.8 Nov	nil Dec	-0.6	21.4 Nov	+19.7 Oct	+1.0	-4.4	1.74	0.92	0.88
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	0.68	24.9	24.4
Denmark	+0.6 Q3	-1.8	+1.5	+0.2 Nov	+0.5 Dec	+0.5	4.5 Nov	+21.3 Nov	+7.1	-2.9	0.73	6.86	6.53
Norway	+3.0 Q3	+7.3	+0.7	-0.3 Nov	+2.3 Dec	+1.7	4.6 Oct ^{††}	+37.3 Q3	+9.3	+5.9	1.49	8.68	7.73
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	3.21	4.12	3.72
Russia	-4.1 Q3	na	-3.8	-4.4 Dec	+12.9 Dec	+15.3	5.8 Dec [§]	+65.8 Q4	+5.2	-2.8	10.24	78.3	67.2
Sweden	+3.9 Q3	+3.4	+3.2	+6.2 Nov	+0.1 Dec	nil	6.2 Nov [§]	+31.8 Q3	+6.3	-1.2	0.69	8.52	8.17
Switzerland	+0.8 Q3	-0.1	+0.9	-2.8 Q3	-1.3 Dec	-1.0	3.4 Dec	+84.1 Q3	+8.6	+0.2	-0.27	1.02	0.90
Turkey	+4.0 Q3	na	+3.3	+3.6 Nov	+8.8 Dec	+7.6	10.5 Oct [§]	-34.7 Nov	-4.9	-1.6	11.09	2.99	2.36
Australia	+2.5 Q3	+3.8	+2.3	+1.9 Q3	+1.7 Q4	+1.6	5.8 Dec	-49.5 Q3	-4.3	-2.4	2.68	1.42	1.26
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	1.65	7.79	7.75
India	+7.4 Q3	+11.9	+7.2	-3.2 Nov	+5.6 Dec	+5.0	4.9 2013	-22.7 Q3	-1.1	-3.8	7.79	68.0	61.4
Indonesia	+4.7 Q3	na	+4.7	+6.5 Nov	+3.4 Dec	+6.2	6.2 Q3 [§]	-18.4 Q3	-2.0	-2.0	8.34	13,878	12,477
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	3.86	4.26	3.60
Pakistan	+5.5 2015**	na	+5.7	+4.7 Nov	+3.2 Dec	+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	4.30	47.8	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	2.37	1.43	1.34
South Korea	+3.0 Q4	+2.3	+2.6	-0.3 Nov	+1.3 Dec	+0.7	3.2 Dec [§]	+104.9 Nov	+8.0	+0.3	2.01	1,203	1,080
Taiwan	-0.6 Q3	-1.2	+3.2	-6.2 Dec	+0.1 Dec	+0.1	3.9 Dec	+77.2 Q3	+12.8	-1.0	0.99	33.6	31.3
Thailand	+2.9 Q3	+4.0	+3.4	+0.1 Nov	-0.9 Dec	+0.8	0.9 Nov [§]	+32.1 Q3	+2.4	-2.0	2.50	35.8	32.5
Argentina	+2.3 Q2	+2.0	+1.3	-2.5 Oct	— ***	—	5.9 Q3 [§]	-8.3 Q2	-1.8	-3.6	na	13.9	8.63
Brazil	-4.5 Q3	-6.7	-3.4	-12.4 Nov	+10.7 Dec	+9.6	7.5 Nov [§]	-58.9 Dec	-3.7	-6.0	16.52	4.07	2.57
Chile	+2.2 Q3	+1.8	+2.8	+0.5 Nov	+4.4 Dec	+3.9	6.1 Nov ^{§††}	-2.7 Q3	-1.2	-2.2	4.53	716	623
Colombia	+3.2 Q3	+5.1	+3.3	+4.8 Nov	+6.8 Dec	+4.2	7.3 Nov [§]	-20.8 Q3	-6.7	-2.1	8.65	3,382	2,384
Mexico	+2.6 Q3	+3.0	+2.5	+0.1 Nov	+2.1 Dec	+2.7	4.4 Dec	-29.9 Q3	-2.6	-3.4	6.13	18.5	14.6
Venezuela	-7.1 Q3~	-4.9	-4.5	na	na	+84.1	6.1 Nov [§]	-17.8 Q3~	-1.8	-16.5	10.98	6.31	6.30
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	7.44
Israel	+2.4 Q3	+2.1	+3.3	+2.7 Nov	-1.0 Dec	-0.2	5.4 Nov	+12.5 Q3	+4.9	-2.8	1.96	3.97	3.94
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	3.76
South Africa	+1.0 Q3	+0.7	+1.4	-1.8 Nov	+5.2 Dec	+4.7	25.5 Q3 [§]	-14.0 Q3	-4.1	-3.8	9.63	16.4	11.5

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. ††Lates 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.



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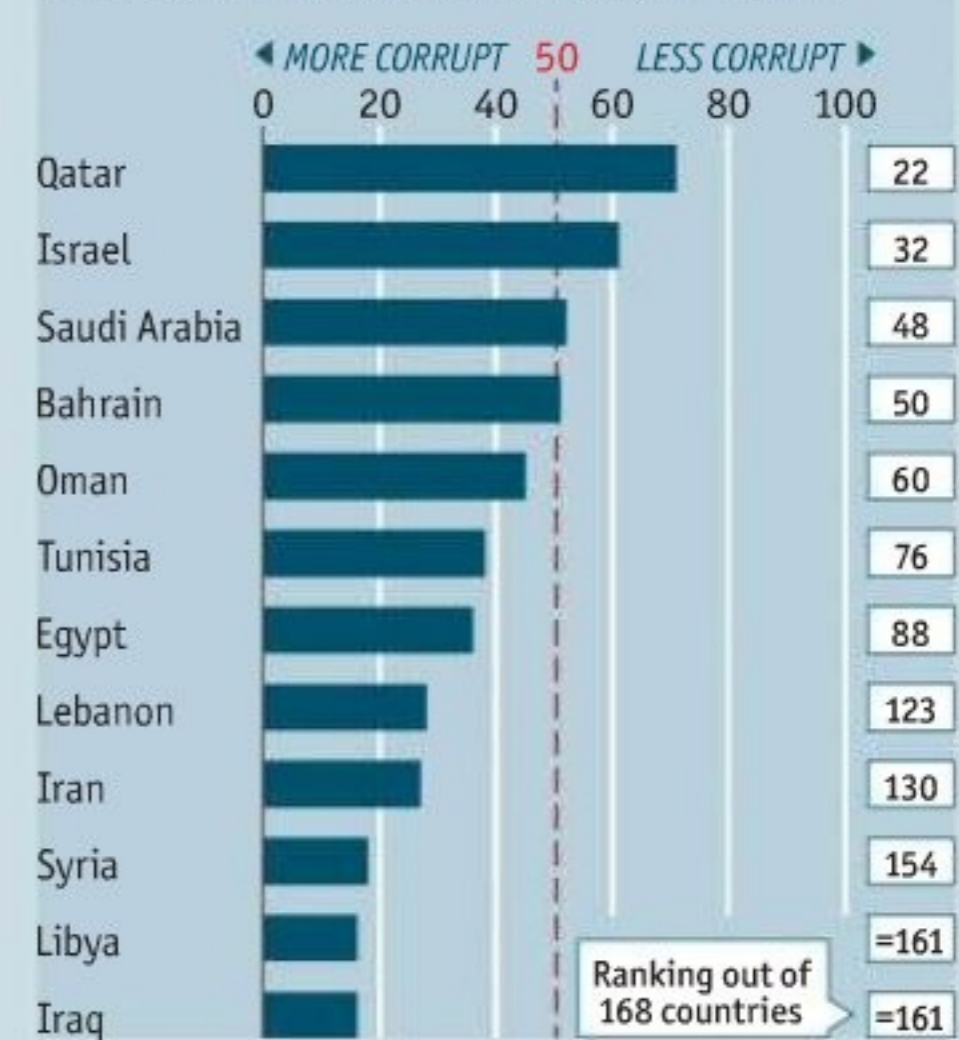
Markets

	Index Jan 27th	one week	% change on	
			Dec 31st 2014 in local currency	in \$ terms
United States (DJIA)	15,944.5	+1.1	-10.5	-10.5
China (SSEA)	2,862.8	-8.1	-15.5	-20.3
Japan (Nikkei 225)	17,163.9	+4.6	-1.6	-0.7
Britain (FTSE 100)	5,990.4	+5.6	-8.8	-16.6
Canada (S&P TSX)	12,377.8	+4.5	-15.4	-30.5
Euro area (FTSE Euro 100)	1,022.9	+5.7	-1.4	-11.4
Euro area (EURO STOXX 50)	3,043.5	+5.6	-3.3	-13.1
Austria (ATX)	2,138.0	+4.6	-1.0	-11.1
Belgium (Bel 20)	3,461.1	+5.4	+5.4	-5.4
France (CAC 40)	4,380.4	+6.2	+2.5	-7.9
Germany (DAX)*	9,880.8	+5.2	+0.8	-9.5
Greece (Athex Comp)	545.3	+3.6	-34.0	-40.7
Italy (FTSE/MIB)	18,848.0	+4.9	-0.9	-10.9
Netherlands (AEX)	424.4	+7.3	nil	-10.2
Spain (Madrid SE)	882.3	+5.4	-15.4	-24.0
Czech Republic (PX)	902.6	+5.4	-4.7	-12.2
Denmark (OMXCB)	865.7	+7.5	+28.2	+14.9
Hungary (BUX)	23,769.5	+4.5	+42.9	+29.3
Norway (OSEAX)	585.0	+5.9	-5.6	-18.4
Poland (WIG)	43,236.5	+2.6	-15.9	-27.5
Russia (RTS, \$ terms)	704.9	+12.2	+16.3	-10.9
Sweden (OMXS30)	1,365.6	+5.8	-6.8	-14.3
Switzerland (SMI)	8,322.7	+4.5	-7.4	-9.5
Turkey (BIST)	72,052.8	+3.5	-15.9	-34.3
Australia (All Ord.)	5,000.8	+2.1	-7.2	-20.2
Hong Kong (Hang Seng)	19,052.5	+0.9	-19.3	-19.7
India (BSE)	24,492.4	+1.8	-10.9	-17.4
Indonesia (JSX)	4,583.6	+3.5	-12.3	-21.7
Malaysia (KLSE)	1,631.5	+0.8	-7.4	-23.9
Pakistan (KSE)	31,101.4	+1.1	-3.2	-7.2
Singapore (STI)	2,546.2	-0.5	-24.3	-29.9
South Korea (KOSPI)	1,897.9	+2.8	-0.9	-9.4
Taiwan (TWI)	7,849.8	+2.0	-15.7	-20.7
Thailand (SET)	1,278.3	+2.3	-14.6	-21.6
Argentina (MERV)	10,786.6	+14.7	+25.7	-23.5
Brazil (BVSP)	38,376.4	+1.9	-23.3	-49.8
Chile (IGPA)	17,547.6	+2.3	-7.0	-21.2
Colombia (IGBC)	8,430.7	+4.3	-27.5	-49.1
Mexico (IPC)	42,109.9	+3.1	-2.4	-22.1
Venezuela (IBC)	14,302.0	-1.2	+271	na
Egypt (Case 30)	5,960.6	+3.2	-33.2	-39.0
Israel (TA-100)	1,248.9	+1.5	-3.1	-5.0
Saudi Arabia (Tadawul)	5,698.6	+4.4	-31.6	-31.6
South Africa (JSE AS)	47,923.9	+3.4	-3.7	-32.0

Perceptions of corruption

Corruption continues to be a serious issue in the Middle East and North Africa. Transparency International uses surveys of experts and business people to measure perceived levels of public-sector corruption. Only six out of the 18 countries reported on in the region have a score above 50 (anything below, and corruption is deemed to be a serious problem); nine have seen their ratings fall since 2012. The rise of Islamic State has played a part, giving governments across the region a reason to beef up both their powers and the scope for abuse. But Saudi Arabia's score has risen for the third year in a row, helped by a growing recognition that transparency makes it easier to attract foreign investment.

Selected countries, 2015, 100=maximum score



Source: Transparency International

Other markets

	Index Jan 27th	one week	% change on	
			Dec 31st 2014 in local currency	in \$ terms
United States (S&P 500)	1,883.0	+1.3	-8.5	-8.5
United States (NASComp)	4,468.2	-0.1	-5.7	-5.7
China (SSEB, \$ terms)	341.1	-6.5	+24.4	+17.3
Japan (Topix)	1,400.7	+4.6	-0.5	+0.5
Europe (FTSEurofirst 300)	1,340.8	+5.8	-2.0	-12.0
World, dev'd (MSCI)	1,531.4	+2.7	-10.4	-10.4
Emerging markets (MSCI)	716.0	+3.4	-25.1	-25.1
World, all (MSCI)	367.1	+2.7	-12.0	-12.0
World bonds (Citigroup)	881.2	+0.2	-2.3	-2.3
EMBI+ (JPMorgan)	704.2	+1.7	+1.8	+1.8
Hedge funds (HFRX)	1,141.4 [§]	+0.4	-6.3	-6.3
Volatility, US (VIX)	23.1	+27.6	+19.2 (levels)	
CDSs, Eur (iTRAXX) [†]	92.0	-6.9	+46.2	+31.3
CDSs, N Am (CDX) [†]	105.0	-5.4	+58.8	+58.8
Carbon trading (EU ETS) €	5.9	-4.7	-20.4	-28.5

Sources: Markit; Thomson Reuters. *Total return index. [†]Credit-default-swap spreads, basis points. [§]Jan 26th.

Indicators for more countries and additional series, go to: Economist.com/indicators

The Economist commodity-price index

2005=100

	Jan 19th	Jan 26th*	% change on	
			one month	one year
Dollar Index				
All Items	123.7	123.0	-2.8	-15.1
Food	145.5	144.7	-1.8	-12.2
Industrials				
All	101.0	100.4	-4.3	-19.1
Nfa [†]	106.6	103.2	-6.1	-13.1
Metals	98.6	99.2	-3.5	-21.5
Sterling Index				
All items	159.0	156.1	+0.4	-9.9
Euro Index				
All items	141.1	141.0	-2.3	-10.8
Gold				
\$ per oz	1,086.2	1,117.4	+4.5	-13.6
West Texas Intermediate				
\$ per barrel	28.4	31.3	-17.5	-31.9

Sources: Bloomberg; CME Group; Cotlook; Darmann & Curt; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional [†]Non-food agricultural.



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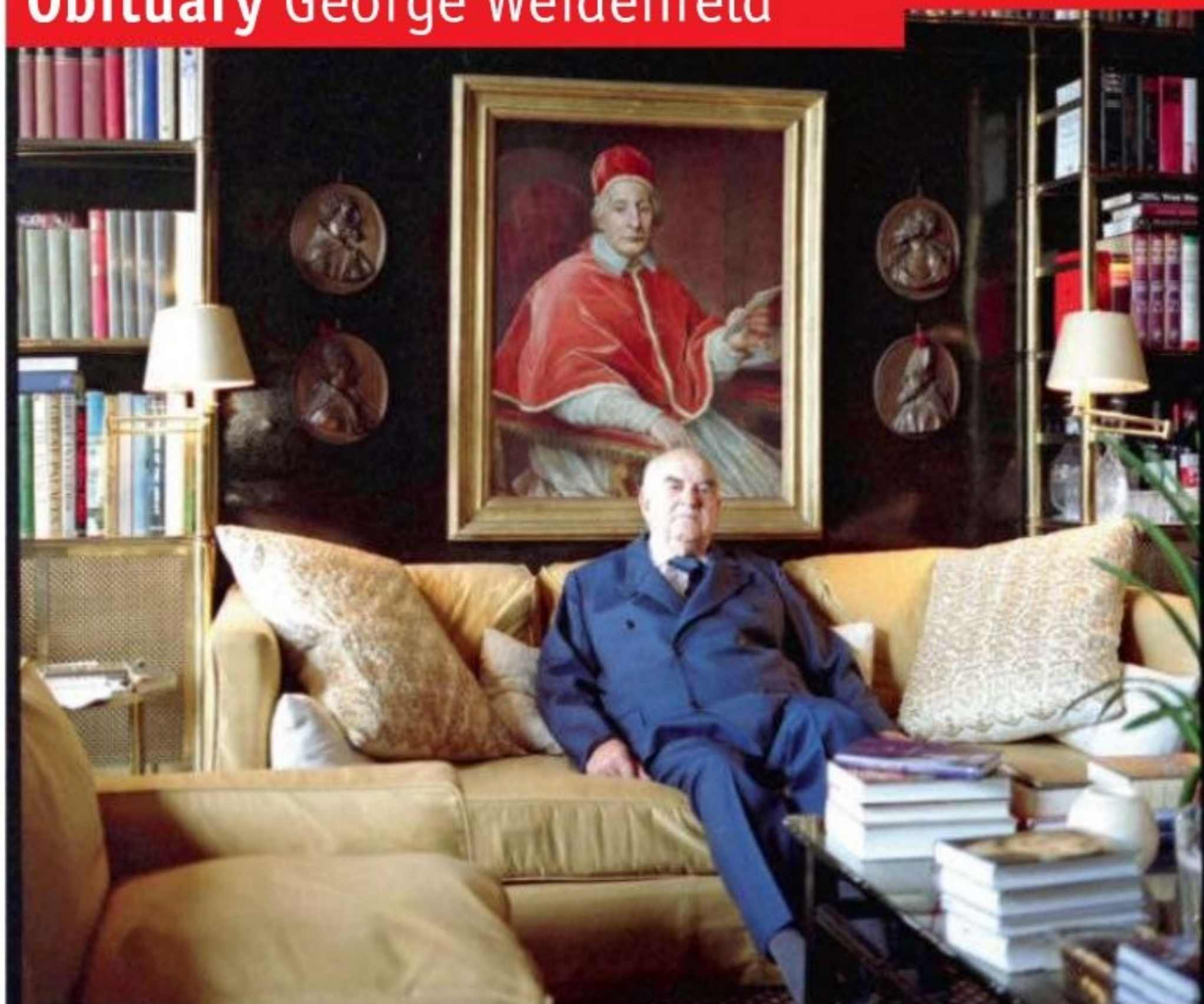
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A world of friends

George, Baron Weidenfeld, publisher and philanthropist, died on January 20th, aged 96

THE glittering, hooded eyes captured guests even before they sat down. His apartment high above the Thames was full of paintings of famous men—he had a penchant for popes—but they struggled to compete with George. (He was rarely, after first acquaintance, “Lord Weidenfeld”.) Somewhere in the room would be the guest of honour: Angela Merkel, perhaps, whom he had befriended when she was still a middling Christian Democrat politician, or an Israeli general. He would invite them to take the floor, with an elegant introduction and a couple of probing questions to stimulate discussion. But it was the rotund, courtly son of an Austrian classics teacher who was the dazzler-in-chief, inexhaustibly unearthing facts, analogies, literary allusions and personal connections from his elephantine memory.

English diffidence tended to elude him; assiduity was more his thing. Yet the conversational flow was not ponderous or one-way; he was just as interested in new people and ideas as in old ones. And, as he had learned when the Nazis turned his comfortable childhood upside down, you could never have enough friends.

The breadth and depth of his acquaintance were the foundation of his success as a publisher. The ties could be intellectual, cultural or romantic, and sometimes all

three. He cultivated them from pre-war Vienna to the heights of the British establishment—and at the best parties in London. They produced publishing coups, donations, diplomatic reconciliations and sometimes, where his many paramours were concerned, scandal.

Personal loyalty, in his view, trumped narrower or more abstract fealties. Though an adamant Zionist, he defended his schoolmate Kurt Waldheim, who was embroiled in a war-crimes scandal when he became president of Austria. Waldheim had bravely helped young George evade Nazi curbs on higher education for Jews; that debt had to be repaid.

Cosmopolitan to his bones, he was patriotically and thankfully British, though for years he did not feel wholly part of the country to which he had come as a penniless teenager. A peerage helped: it was awarded in 1976 by Harold Wilson, the Labour prime minister whose talent he had spotted 30 years before in a dog-eared manuscript about the coal industry.

Once he was an insider, he revelled in it. He loved intrigue (too much, some said) and excitement. The flair and showmanship of publishing—conceiving a book with mischievous, relentless persuasion of anyone with writerly potential, and showily promoting it—appealed greatly. The dull

stuff in the middle appealed a lot less. Business partners sometimes found that tiresome, especially when vagueness about their interests was matched with ruthlessness about his.

Though not short of enemies, he did not bear grudges. In the ruins of post-war Vienna he tracked down a Nazi student with whom he had duelled and invited him to breakfast. The towering young thug had become an emaciated cripple, and gratefully wolfed down huge sausage sandwiches at the British Officers’ Club.

His greatest triumph, Lord Weidenfeld reckoned, was outfacing the censors and publishing Vladimir Nabokov’s “Lolita”. Other celebrated authors in his stable included Isaiah Berlin (“The Hedgehog and the Fox”) and James Watson (“The Double Helix”). Among his fiction writers were Edna O’Brien and Saul Bellow. His forte, however, was personal reminiscence. (His own autobiography, a true gossipfest, was called “Remembering my Good Friends”.) He published memoirs and biographies of De Gaulle (whom he met while working in the wartime BBC), Adenauer, Kissinger, Mussolini and even Albert Speer. The fact that his own family had barely escaped the Holocaust made it all the more important to explain how the Nazi empire worked.

Provincialism and narrow-mindedness were his greatest foes; he had seen the damage they had done to his cherished continent. In the same vein, reconciliation was his paramount cause: chiefly between Germans and their victims and between Jews and Christians. Charm and personal contact could bridge most differences, given a chance. When the Iron Curtain fell he raised money to bring students from the former communist countries to his beloved Oxford. His travels across the Atlantic and the Channel were indefatigable; his hospitality, vigour and erotic energy were legendary to the end of his life.

Tablets of stone

Only on Israel was he unbendable. Its return to statehood he saw as the greatest achievement of the modern age (and one in which, when he briefly worked as an adviser to Chaim Weizmann, he had played a direct part). Nothing must jeopardise its security. Though his heart remained with the Israeli left, he said in later life that his head was with Likud. He was buried on the Mount of Olives, the Jewish state’s highest honour for its dead.

Britons sometimes mistakenly thought him old-fashioned. It was true that he had the manners and polish of a Habsburg literary aristocrat: he was fluent in four languages and could read for pleasure in another three. But that was civilisation, not anachronism. The future enthralled him just as much as the past—especially if there might be a book in it. ■

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