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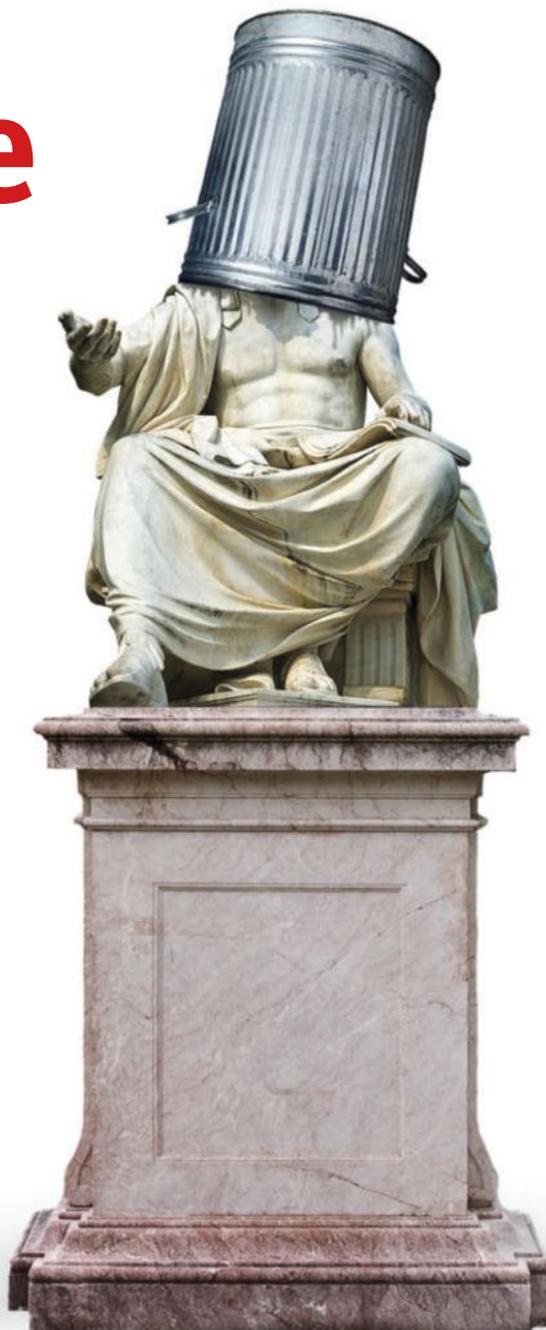
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On the cover
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Cameron woos Merkel

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America's richest 1%

Income as % of total



Source: World Top Incomes Database

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Politics



Vladimir Putin, the Russian president, put combat troops on high alert for war games after days of muscular rhetoric by senior Russian officials following the toppling of their ally, Viktor Yanukovich, as **Ukraine's** president. Tensions rose in the Crimea region, where Russians are the biggest ethnic group. Meanwhile, Ukraine's new pro-Western leadership named a cabinet, paving the way for talks with the IMF to stop it defaulting.

Recep Tayyip Erdogan, **Turkey's** prime minister, was allegedly heard telling his son to stash millions of euros out of sight of the public prosecutor in a recording of a phone conversation that was posted on YouTube. Mr Erdogan claimed the recording was a fake. Anti-government protests erupted in Istanbul after the revelation.

Matteo Renzi, **Italy's** new prime minister, received the backing of the Italian Senate for his government. In a speech before the vote, Mr Renzi outlined a reform programme that seemed ambitious but lacked detail.

Estonia's prime minister, Andrus Ansip, announced his resignation. He was the European Union's longest-serving head of government, holding office since 2005. He is leaving before the end of his term to improve his Reform Party's chances of winning the general election in March 2015.

Michael Adebolajo was sentenced to life without parole and Michael Adebowale to a minimum 45 years in prison

for last May's murder of **Lee Rigby**, an off-duty soldier. The two Islamists, who tried to decapitate Mr Rigby on a street in London in front of shocked pedestrians, were dragged screaming from the dock as they began their sentences.

Under attack

The former chief editor of a popular newspaper in **Hong Kong** remained in intensive care after being attacked with a cleaver on the street. Kevin Lau had recently been replaced at **Ming Pao** by a Malaysian editor who is viewed as leaning more towards China. Some portrayed the attack as a warning to journalists not to offend Chinese authorities, though there is no evidence of any link with the Chinese government.

Pakistan carried out more air strikes against suspected militant hideouts in tribal areas in the country's north-west. At least 30 people were killed. Talks between the Pakistani government and Taliban negotiators have broken down.

Barack Obama warned Hamid Karzai, **Afghanistan's** president, that he may pull American troops out of the country this year. American officials say this is because Mr Karzai has refused to sign a security agreement. Meanwhile, a Taliban assault on a checkpoint killed 19 Afghan soldiers.

At boiling point

The unrest in **Venezuela** worsened, as opposition protesters and government forces continued to clash in several cities. At least 13 people have died in the disturbances so far. Faced with shortages of basic goods, Nicolás Maduro, the president, agreed to make the exchange rate more flexible.

Law-enforcement officials in **Mexico** and the United States celebrated the capture of Joaquín "El Chapo" Guzmán, a drug lord who headed Mexico's Sinaloa cartel and attained near-mythical status after escaping prison in 2001. The United States requested his extradition; the Mexican authorities are keen to keep him on home soil.

Opposition candidates won control of Quito in local elections in **Ecuador**. The loss of the capital is a blow to Rafael Correa, the president.

Peru's president, Ollanta Humala, reshuffled his cabinet, appointing René Cornejo as his new prime minister, the fifth since Mr Humala took office in 2011.

Will the strong man run?

Egypt's government abruptly resigned, following strikes that have paralysed the country. The outgoing housing minister was asked to form a cabinet. There is widespread anticipation that Field-Marshal Abdel Fattah al-Sisi, the army chief, will announce that he is running for president in an election that is due within the next few months.

The UN Security Council passed a resolution calling for the **Syrian** government and opposition forces to allow access to humanitarian aid. It is the first time the divided council has agreed on a resolution on Syria. Meanwhile, Jabhat al-Nusra, an al-Qaeda affiliate, issued an ultimatum to the extremist Islamic State of Iraq and Greater Syria (ISIS) to leave the country.

Uganda was roundly criticised after it enacted a tough anti-gay law that bans the promotion of homosexuality, which is already illegal in the country, and carries life sentences. Several Western countries said they were suspending aid to Uganda, where the law has popular support, in response.

At least 29 pupils were killed in a Boko Haram attack on a school in north-east **Nigeria**.

Almost 300 people have been killed by the terror group this year, whose name means "Western education is sinful".

Seven Egyptian Christians were shot dead in eastern **Libya**. Last month a British man and a New Zealand woman were killed in a shooting near Tripoli, the capital.

Leaner, meaner

Chuck Hagel, America's defence secretary, outlined his plans to cope with cuts in **military spending** and proposed reducing the country's army to around 440,000 soldiers, taking it back to its size before the second world war. Mr Hagel's strategy assumes that America will not become embroiled in conflicts on the scale of Iraq, but will carry out nimbler operations. He therefore wants an extra 4,000 special-operations troops.



Jan Brewer, **Arizona's** governor, vetoed a bill passed by the Republican legislature that aimed to "protect" religious freedoms by allowing businesses to refuse services to customers (ie, gays), on religious grounds. The bill prompted a backlash from business leaders and senior Republicans, including Mitt Romney.

Texas became the latest conservative state to have its ban on gay marriage struck down by a judge. The decision is stayed pending an appeal.

John Dingell, who is 87 and America's **longest-ever serving congressman**, said that he would not seek re-election. Mr Dingell has represented Detroit's western suburbs since 1955, but he is anxious not to be "carried out feet first".



Business

The **yuan** fell by more than 1% against the dollar within a week, a relatively sharp swing for the Chinese currency. China-watchers reckon the People's Bank of China, which keeps a tight grip on the yuan's exchange rate, may have contrived the fall, possibly to curb speculative dealing ahead of any widening of the yuan's official trading range against the dollar.

Regulation beckons

Allegations of theft and hacking continued to swirl around **Bitcoin**, a "cryptocurrency" with a devoted following. Mt. Gox, one of the currency's biggest trading platforms, which is based in Tokyo, shut its website amid rumours that around 750,000 Bitcoins have been stolen. A joint statement to "the Bitcoin community" by several other big exchanges insisted the system was still "trustworthy", but that "there are certain bad actors that need to be weeded out".

A subcommittee in America's Senate published a report alleging that **Credit Suisse** had helped as many as 22,000 Americans evade tax in the past. The report alleged that the Swiss bank had even set up a desk at Zurich airport for the convenience of such clients. Appearing before the committee Brady Dougan, Credit Suisse's American chief executive, said the bank was committed to abiding by American law and was co-operating with the authorities as much as it could under Swiss law.

JPMorgan Chase decided to cut more staff from its mortgage unit and at its branches, while employing an extra 3,000 people to help it comply with the jungle of global banking regulations. Altogether, the bank expects its workforce to shrink by 5,000 this year.

HSBC reported a \$22.6 billion pre-tax annual profit, though this fell short of market estimates. The bank earned 36% of its profit in Hong Kong and 34%

in the rest of Asia-Pacific. Stuart Gulliver, its chief executive, remains "optimistic about the longer-term prospects of emerging markets", despite the recent sell-off.

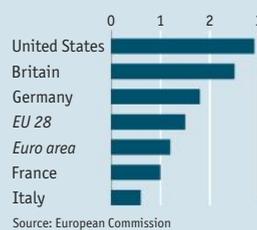
Fitch, a credit-rating agency, warned that a "disregard for the rights of bondholders" in **Detroit's** bankruptcy plan would "set a troubling precedent" in the municipal-bond market. The city proposed repaying secured bondholders in full, but unsecured creditors, which it controversially deemed to include holders of general-obligation bonds, would take an 80% haircut.

Standard Life, a pensions and savings company in Edinburgh, became the first big business based in **Scotland** to warn that it might relocate to England because of the uncertainties over seceding from Britain. Scots will vote on independence in a referendum in September.

Six years after being bailed out by taxpayers and still majority-owned by the government, **Royal Bank of Scotland** chalked up yet another big annual pre-tax operating loss, of \$8.2 billion (\$13.7 billion) for 2013. That will not deter it from dishing out £576m in bonuses.

GDP forecasts

2014, % increase on previous year



The European Commission slightly increased its forecast for **economic growth**. GDP in the euro zone is now expected to rise by 1.2% this year and 1.8% next, and in the wider European Union by 1.5% and 2%. Domestic demand, rather than exports, will be the "main thrust" of growth.

Weibo, a Twitter-like microblogging service in China, was reportedly preparing to launch an IPO and list in New York.

Driven by success

Tesla Motors' share price soared by 15%, giving it a market valuation half that of General Motors, when an analyst forecast that the growing electric-car maker would recharge the energy industry as well. Elon Musk, Tesla's founder, is planning to build a \$5 billion "gigafactory" somewhere in America's south-west to make low-cost lithium-ion

batteries, which could also help smooth fluctuations in renewable power.

Repsol, a Spanish oil company, reached a settlement with Argentina over the contentious expropriation of YPF, its Argentine subsidiary, in 2012. YPF had provided Repsol with a fifth of its profits before it was nationalised. Under the settlement Argentina is issuing Repsol with dollar-denominated bonds that guarantee a \$5 billion payout, and the Spanish firm is dropping the lawsuit it had threatened.

Truth in fiction

The man behind **@GSElevator**, a Twitter account purportedly repeating conversations heard in the lifts at Goldman Sachs, was unmasked by the *New York Times* as John Lefevre. A former banker, he never actually worked for Goldman, but said his tweets were "about the culture in general". Some of the bankers' comments he affected to relay include, "On Valentine's Day, I send my wife flowers with a card that says Congratulations" and "I just want to be rich enough to not be motivated by money".

Other economic data and news can be found on pages 96-97





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Saving Ukraine

The turmoil in Ukraine is a chance for the West to prove that it is still a force for good



AMAN goes bankrupt, Ernest Hemingway wrote, gradually, then suddenly. Autocrats lose office the same way, as the fate of Viktor Yanukovich, Ukraine's deposed president, dramatically illustrates. His authority had ebbed since popular protests against his spectacularly corrupt regime erupted last November. After the savage shooting of scores of his own people in Kiev, Ukraine's capital, once-supportive tycoons and generals abandoned him, and his power evaporated. Mr Yanukovich fled, pursued this week by a charge of mass murder.

His countrymen celebrated—some of them, at least (see page 21-23). The relief is understandable: with Mr Yanukovich gone, Ukraine has a chance at last to ditch its ersatz, post-Soviet version of democracy for the genuine kind. Equally—and terrifyingly for both Ukraine and its neighbours—this country of 46m people could implode. Averting that outcome is an urgent task for the West; for the European Union, in particular, this is a chance to show that, for all its internal fissures and foreign-policy quiescence, it is more than a busted flush.

More than money

By any historical measure, Ukraine is part of Europe. It borders four EU nations. Its great cities—Kiev, Lviv, Odessa—are ornaments of European civilisation. So its problems are Europe's problems, too. Many Ukrainians already live and work in the EU, legally and otherwise. Economic or political turmoil could drive many more to emigrate.

And the turmoil bequeathed by Mr Yanukovich (reportedly in Russia, perhaps having fled on his unfortunately named yacht, the *Bandido*), is acute. Tension is crackling between Ukrainians who welcome the revolution, and those who repudiate it: in Kiev its victims are mourned as martyrs, yet elsewhere the riot police who battled them are lionised. Even with the unadulterated goodwill of outsiders, the situation would be perilous—and goodwill is not conspicuous in the Kremlin, which propped up Mr Yanukovich's presidency and now denounces those who ousted him as terrorists. Meanwhile, this perennially mismanaged nation is almost broke.

First and foremost, Ukraine needs a legitimate, national government. The interim leaders installed by the Rada, its parliament, may be more palatable than Mr Yanukovich; but the Rada is a nest of crooks and placemen, and scarcely more legitimate than he was, as some protesters, and Russia, have pointed out. It is vital that the presidential election in May is clean, and seen to be: Western monitors must help to ensure that. And the new president should be untainted by the score-settling and nest-feathering that have blighted Ukraine's politics. That is one lesson from the Orange revolution of 2004—an event that seemed to herald a democratic future, but instead merely reshuffled an entrenched elite. Yulia Tymoshenko, the Orange veteran and two-time prime minister, who was sprung from jail as Mr Yanukovich fled, should keep out of it.

Whoever wins will need help, and not just the financial

kind. When he wasn't pillaging his country, Mr Yanukovich undermined its courts, suborned its constitution and harassed its media, institutions that are as much a part of an enduring democracy as elections (see pages 47-52). That is another warning from the Orange revolution: without a proper underpinning, emerging democracies can slip back into misrule. The West must lend its expertise and resources to restore it.

But Ukraine needs money too—lots of it, and urgently. Its finances are dire: its hard-currency reserves are dwindling, the current-account deficit is widening and around \$13 billion of debt repayments are due this year. Russia is unlikely to honour the \$15 billion bail-out it agreed with Mr Yanukovich in December. Ukraine needs around \$25 billion to stay afloat. That should come in two parts: first, several billion dollars in emergency loans to tide the country over until after its election, then a big multi-year package, financed largely through the IMF.

Of course, IMF support will come with conditions, such as a clean-up of Ukraine's Augean corruption, a depreciation of its overvalued currency and a curtailment of its lavish energy subsidies. The interim government should begin these reforms, to take some of the heat off the elected one. And the Europeans can help, too, both with technical assistance and by holding out the best inducement to reform they can offer: the prospect (however distant) of full EU membership. That idea will alarm some member states, not to mention their voters. They should see that incentivising democratic change in this pivotal country, and welcoming it to the European club if that is accomplished, is as much in their interests as Ukraine's.

Right and wrong, not west and east

The EU and its allies should do all this because it is right, rather than to rile Vladimir Putin. All the same, Mr Putin will be outraged. Russia is already destabilising—perhaps even preparing to annex—the Crimea, a peninsula transferred to Soviet Ukraine in 1954. Pro-Russian gunmen seized administrative buildings there on February 27th. Even if Mr Putin restrains himself for now, he is sure to respond eventually: he nurtures grudges for years, and the Potemkin democracy he has engineered in Russia lets him stick around long enough to avenge them. He exorcised his grievance over the Kosovo war of 1999 by invading Georgia in 2008. Ukraine is much more important to him than Georgia, for without it Russia's sphere of influence looks paltry. Even in Mr Putin's warped view of Russia's interests, a civil war there would be undesirable—but, short of fomenting one, he will doubtless do his best to stop the country becoming an independent democracy.

All the more reason for the EU and its allies to help generously now. At root the real division among Ukrainians is not between east and west, but between hope and cynicism: between those who believe a better kind of government is possible and those who understandably think that, in their troubled post-Soviet nation, corrupt paternalism is the best they can do. Creating an honest, competent government, devoted to the well-being of its people, is the best way to persuade all Ukrainians that they are better off without the kleptocrats—and, incidentally, to show that the West is still a force for good. ■

Protests in Venezuela

Stop the spiral

Dialogue, not repression, is the way for Nicolás Maduro to save his government and his country



THE echoes are striking: division, a government combining a democratic mandate with thuggery, and an opposition that is increasingly radicalised. The parallels between Venezuela and Ukraine are not exact: the fractures in Venezuela are based largely on class, and those in Ukraine partly on geography. But both are caught in a spiral of protest and violent response.

Years of mismanagement of the oil-rich economy, first by Hugo Chávez and latterly by Nicolás Maduro, his successor, have come home to roost. The country is sitting on the world's largest oil reserves, but scaring off the investment needed to exploit them. Much of its oil revenue has been sucked up by corruption, or diverted to unsustainable social programmes and subsidies to allies, especially Cuba. The private sector is treated like a hostile force. Basic goods, from cooking oil to toilet paper, are scarce. Throw in rampant crime, and no wonder the country is buckling under the biggest protests in a decade.

Mr Maduro won a (wafer-thin) majority last year, and although that result was tainted by suspicions of fraud, recent local elections suggest that half the population—mostly poorer people—still backs *chavismo*. But democracy does not end at the ballot box. Mr Maduro, a former bus driver, rose through the ranks by offering Chávez unconditional loyalty; he won the presidency by invoking the *comandante's* ghost (once claiming to have been visited by the late president in the form of a bird). Lacking his mentor's charisma, he appears unable to resist his party's hardliners, whose only answer to dissent is repression. The government's response to the protests has followed a totalitarian script: armed activists on the streets, media blackouts and the arrest of Leopoldo López, an opposition figure, on trumped-up charges. Repression will provoke more

protests and more violence, and further damage the economy.

The death toll already stands at 13. If it is not to rise dramatically, everybody must draw back. The opposition—supported by better-off and professional Venezuelans—is right to demand the freeing of Mr López and other political prisoners, an investigation into torture by the security forces and the disarmament of armed pro-government militias known as *colectivos*. But rowdy opposition leaders who have blocked city streets should take down the barricades and instead should follow Henrique Capriles, leader of the moderates, who has called for protests to remain peaceful. The opposition has a responsibility to keep the streets calm.

Latin American governments have obligations, too. Most of the region has been uncritical of Mr Maduro since the protests began in early February; Brazil, the regional heavyweight, has been characteristically mute. Leftist sympathy for *chavismo* is one thing. Allowing Venezuela to become another Cuba, without any cry of complaint, would make a mockery of the claims of Latin America to be a democratic continent.

The revolution will eat itself

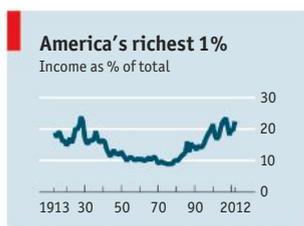
However, the man who can do most to break the spiral of violence sits in Miraflores, the presidential palace in Caracas. Mr Maduro must realise that his strategy of dividing Venezuela is only deepening its misery. If he wants to avoid chaos, he must instead seek to unify the country.

The regime will forfeit its claims to democratic legitimacy if he does not get the armed gangs off the streets, allow the media to report what is going on, release Mr López and enter into proper dialogue with Mr Capriles. He also needs to change Venezuela's economic direction. A revolution that was once fuelled by oil is running on fumes; if the shelves get any emptier, even the poor will withdraw their support. Time is running out for Mr Maduro—and for Venezuela, too. ■

Inequality in America

How to be a true progressive

If Barack Obama wants to increase economic opportunity, he should embrace ideas from Republicans



inequality has widened. He wants to narrow income gaps and build "ladders of opportunity" for those at the bottom. By and large, those are admirable aspirations. Ever more economists fret about America's skewed income distribution: the latest evidence suggests it is damaging to growth, whereas moderate re-

distribution is not (see page 80).

The problem lies with Barack Obama's solutions, which are too timid and reliant on left-wing rostrums, such as a big increase in the minimum wage and more spending. He lambasts a tax code that benefits "special interests", but has not pushed for tax reform. He wants to invest more in the poor, but has shown no appetite to overhaul America's welfare state, many elements of which—from disability insurance that discourages work to ineffective training schemes—do nothing to boost economic opportunity, and often undermine it (see page 37).

If he wants to counter America's economic stratification rather than just rail against it, Mr Obama needs to think again. He must get tougher with the Democrats in Congress, who see ►►

▶ any reform of social spending as an attack on the poor. And he must reach out to the handful of prominent Republicans who have moved beyond their party's stale mantra that tax cuts are the answer to all ills, and produced clever proposals to help the working poor and reform the tax code. This year's budget, due to be unveiled on March 4th, would be a good place to start.

Progressive but perverse

Contrary to popular perception on the left, the main problem with America's tax code is not its lack of progressivity. Because the federal government collects no value-added taxes, it relies far more on income taxes than other rich countries; these are paid disproportionately by the wealthy. But thanks to vast numbers of deductions, collectively worth more than \$1 trillion and mostly benefiting the wealthy, the tax code is far more distorting than it need be. An overhaul which scrapped these deductions and lowered marginal rates would improve its efficiency without undermining its fairness. That is what Dave Camp, the top Republican tax-writer in the House of Representatives, proposed on February 26th when he unveiled the boldest tax-reform plan in years (see page 41).

Another priority is to overhaul entitlements—the government benefits, from pension payments to disability insurance, that operate on autopilot unless politicians reform them. Thanks to the swelling ranks of pensioners and rising health-care costs, 60% of America's social spending goes to elderly households, many of which are not poor. And ever more money is spent on disability payments, as a growing number of the long-term unemployed find ways to qualify as disabled and

never work again.

Even the support schemes that are designed to encourage work perform less well than they should. The Earned Income Tax Credit (EITC), which tops up the income of the working poor, offers virtually no assistance to the childless. A bold progressive agenda would revamp it—and here, too, Republicans have some of the most intriguing ideas. Marco Rubio, a senator from Florida and presidential aspirant, has proposed replacing the EITC with a system of wage subsidies.

A third opportunity is the one Mr Obama pays most attention to: the “discretionary” social spending that Congress approves each year, from housing subsidies to training for the unemployed. Compared with other rich countries, America invests relatively little in areas that boost opportunity. Fewer children attend nursery school. The amount spent on “active labour market policies” to get the jobless back to work is one-sixth of the rich-country average. More money here would be useful—so long as the extra spending is combined with reform. America has 47 federal training schemes, many of which overlap and few of which work. Here, too, Republican ideas—such as allowing states to take the lead—make sense.

With mid-term elections in November, the idea of Mr Obama joining forces with Republican reformers may seem fanciful. Many of the president's allies will scoff at the prospect of reaching out to any members of a party mostly bent on thwarting him. Both sides will be tempted to hunker down and trade barbs. But if he wants to be remembered as a president who built ladders to the middle class instead of just talking about them, that is a temptation Mr Obama must resist. ■

Trust-busting in Mexico

Taking on the tele-garchs

Just as America bust its trusts a century ago, so Mexico needs to take on its near-monopolies in TV and telecoms



IN HIS second year in office President Enrique Peña Nieto of Mexico is admirably keen to develop a reputation as a cartel-killer. In December his reforms stripped Pemex, the state oil firm, of its 75-year monopoly. Last month he sent a bill to Congress raising the maximum jail sentence for anticompetitive behaviour to ten years. (He has even made some headway against the relentless drug cartels, as the capture on February 22nd of Joaquín “El Chapo” Guzmán, Mexico's most-wanted kingpin, attests—see page 44.)

Now Mr Peña's government has its sights set on Mexico's two most prominent businessmen, Carlos Slim (pictured left), a telecoms magnate, and Emilio Azcárraga (pictured right), a television mogul. A new telecoms regulator will shortly decide whether their companies are so powerful that they should be handicapped with tougher rules than their smaller competitors—or even broken up. The case for muscular intervention by the regulator is overwhelming, and Mr Peña must do his utmost to ensure that it takes place.

Bringing true competition to these businesses would do wonders for Mexico's economy, which in some industries resembles the United States before the Sherman Antitrust Act of

1890. Mexico's 21st-century Standard Oil is Mr Slim's América Móvil, which has 70% of mobile subscribers and controls access to 80% of fixed-line telephones. Even by Latin American standards, its services are pricey. It is so profitable that it has made Mr Slim one of the world's richest men. Mr Azcárraga's Televisa has about 70% of the terrestrial television market in Mexico, and almost half of pay-TV, driving up the prices of advertising and subscriptions. The OECD, a rich countries' club of which Mexico is one of the poorest members, reckons that the lack of competition in these “dysfunctional” markets costs Mexico about 1.8% of GDP a year. Improving the economy's sluggish growth is one of Mr Peña's top priorities.

Taming the big beasts

Both América Móvil and Televisa have dodged past attempts to rein them in, partly by exerting excessive influence over regulators and partly because competition law was full of holes that allowed them to use the courts to tie the authorities in knots. This should change with the recent creation of a new, more powerful regulator, Ifetel. By March 9th it has to declare whether both firms are “dominant”, which they clearly are, and should therefore be subject to tougher regulation. Ifetel has already stood up to Televisa, by allowing pay-TV firms to rebroadcast terrestrial channels without paying for the privilege. The regulator's next, and even more important, move ▶▶

▶ should be to force América Móvil to offer other firms access to its infrastructure, so they can set up rival services.

As it happens, the strongest source of competition to América Móvil is likely to be Televisa, and vice versa. The two firms are well placed to take each other on. In recent days documents have emerged showing that Mr Slim has secured an option to buy Dish Mexico, a satellite-TV operator, if regulators approve. Dish, a five-year-old upstart, has already helped to bring down pay-TV prices in Mexico, and could go further in Mr Slim's hands. That is why Televisa is so alarmed by Ifetel's decision to let Dish (with Mr Slim in the background) rebroadcast its terrestrial channels free of charge: it will make it much easier for Dish to sign up subscribers. By the same token, if Televisa had greater access to Mr Slim's wires it would be able to challenge América Móvil by offering its pay-TV subscribers

"bundles" that included telephone and broadband services.

Britain's experience provides a salutary example. In 2006 it forced BT, the former state telecoms monopoly, to create an arms-length subsidiary to run its network infrastructure and sell access to new entrants at fair prices. Consumers now enjoy a broad choice of competitively priced telecoms bundles. One of the biggest new entrants to the market is ВSkyВ, Rupert Murdoch's pay-TV giant. More recently, the regulator has turned its attention to ВSkyВ's stranglehold on televised sports: the new challenger which the regulator is helping break into that market is none other than BT. Orchestrating a similar battle of the titans in Mexico, while clearing a path for other contenders, is the best way to bring about the competitive revolution the country's communications industries need. It will also make for a wonderfully entertaining spectacle. ■

Nigeria's central bank

Pranged

The sacking of Lamido Sanusi has reversed Nigeria's recent progress



WHEN a space opens in the next lane of the choked streets of Lagos, the bustling commercial capital of Nigeria, even a careful driver is apt to surge forward. But the negligible advance is hardly worth the risk of a collision. The country's president, Goodluck Jonathan, hemmed in by allegations of corruption at the state oil company, has yielded to a similarly reckless gamble. The result has been a mini-crash in Nigeria's financial markets and a grave setback to the country's progress towards securing macroeconomic stability.

On February 20th Mr Jonathan suspended Lamido Sanusi (pictured), the boss of Nigeria's central bank, on the grounds that he was guilty of financial misconduct and of distracting his institution from the business of setting interest rates and regulating banks (see page 53). Mr Sanusi, who planned to step down in June after a five-year term, was admired for achieving single-digit inflation and for cleaning up the banking system in 2009 after an orgy of ill-advised lending. News of his removal led to a slide in the naira, a sharp drop in the stockmarket and a temporary halt to bond trading. The announcement that Godwin Emefiele, an experienced banker, would succeed him in June has done little to restore confidence.

A good man in Africa

The sacking of the central-bank governor would cause investors to flee from most places, but it is especially damaging in Nigeria. A fortnight before his removal, Mr Sanusi presented evidence to parliament that \$20 billion had gone missing from the state oil company. Such allegations are hardly new, but Mr Sanusi had given them the authority of his office. The timing of his suspension and its vague justification suggests that he is being punished for acting as a responsible public servant.

The consequences will be felt beyond Nigeria. In Africa it is the most populous country and, once revised estimates of GDP are published at the end of March, likely to be confirmed as the largest economy. So its fortunes are central to opinion

about Africa, which had greatly improved. The continent's GDP has grown by a healthy 5.6% a year in the past decade. Foreign-direct investment to Africa has been growing more quickly than to developing countries overall. Private-equity firms have snapped up assets from land to logistics companies. Kenya will soon join the dozen or so African countries that have sold blocks of dollar-denominated bonds to rich-world investors to finance roads, railways and power stations.

Not long ago African countries had to be relieved of the burden of past borrowing. The change in their fortunes owes much to budgetary discipline and to efforts by central banks to cap inflation. But Mr Jonathan's bid to rid himself of a turbulent central banker is a setback. Investors may doubt that Mr Sanusi's successor will keep interest rates high in the run-up to next year's election, lest he incur the president's displeasure and lose his job. And in a country where the oil industry accounts for almost 80% of government revenue, the sort of leakages alleged by Mr Sanusi undermine the maintenance of foreign-exchange reserves and fiscal buffers.

The damage to Nigeria's reputation for economic management cannot rapidly be undone. But Mr Jonathan should hurry to mitigate it. He must first ensure that Ngozi Okonjo-Iweala, Nigeria's respected finance minister, stays in office and is supported in her efforts to curb a pre-election splurge in public spending. Ms Okonjo-Iweala offers perhaps the best reassurance that the central bank's main task of controlling inflation will not be compromised. Mr Jonathan should now go out of his way to bolster the central bank's autonomy through his words and his actions.

He must also ensure that Mr Sanusi's allegations are investigated thoroughly and that a promised audit of oil finances is credible. Tellingly, although Mr Jonathan chose to suspend Mr Sanusi on obscure grounds, he has supported Diezani Alison-Madueke, the oil minister and a close ally, in the face of more serious and concrete allegations against her ministry. Replacing her would send a strong signal that he was serious about fixing Nigeria's oil industry. It might also go some way to repairing the dents Mr Jonathan has inflicted on Nigeria's economy by his ill-judged manoeuvre against the central bank. ■



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Argentina's wasted years

SIR – Although it is true that Argentina was one of the richest countries in the world at the beginning of the 20th century, it is not correct to say that it experienced “a century of decline” (“The parable of Argentina”, February 15th). Argentina's relative income with, say, the United States and Australia, remained constant until the mid-1970s and has been increasing since the early 1990s. It is the 15 years between 1975 and 1990 that explain Argentina's disaster.

During that time it had high budget deficits and inflation, exchange-rate controls, trade restrictions and a bloated state. Inefficient government interventions created a capitalism without markets and a socialism without planning. Had Argentina grown during those 15 years it would today have a similar level of income to Germany.

Unfortunately, President Cristina Fernández has a fixation with those policies, which means we are tripping over the same stone. To try to avoid the same error twice, that is the real parable of Argentina.
FEDERICO STURZENEGGER
Member of the Chamber of Deputies
National Congress
Buenos Aires

SIR – Argentina is indeed confronting some big issues, but to add some nuance to your argument, it is also receiving a record number of foreign scientists such as myself, because of the professional and social opportunities it offers. The research centre that employs me, for example, has also hired three Spanish scientists this year who were looking for better opportunities abroad.

In my own case, not only did Argentina provide my husband and me with great jobs, but our decision was also motivated by the fact that here we have more legal and social rights than in the United States. Our marriage was not only recognised, but also valued.
CHRISTOPHER ANDERSON
Ushuaia, Argentina

SIR – Jorge Luis Borges had it right. In “Our Poor Individualism” he wrote that there is little concept of “the citizen” in Argentina so that “unlike North Americans and most Europeans, Argentines do not identify with the state.” Strong institutions depend on strong norms and values—a strong cultural capital. To get out of this mess, Argentines need nothing short of a profound cultural transformation.

ROBERTO LAVER
Boston

SIR – Picturing Argentina's history as 100 years of gradual decline may be too simplistic. Measuring its development by the opening and closing of a local branch of Harrods sounds colonialist. But saying that Argentines do not add value “by taking the world's best meat and burning it”, is definitely wrong.

SIMONE CECCHINI
Santiago, Chile

SIR – Whatever problems Argentines have, at least recognise that the delicate taste of a *bife de chorizo* would not benefit from shifting to a more open economic policy.

YACOV ARNOPOLIN
New York

Howzat?

SIR – Schumpeter's column on the dominance of English as a business language (February 15th) missed the important point that native English-speakers have a large vocabulary, speak fast and often use figurative expressions. A former boss of mine was fond of using cricketing metaphors, to the bafflement of his international audience.

RONALD MOORE
Vienna

The logic of collective action

SIR – The farm bill passed Congress with the support of urban Democrats and rural Republicans by linking the bloated food-stamps programme with scandalously wasteful agricultural subsidies (“A trillion in the trough”, February 8th). The huge cost of

this exercise provides evidence for M. Stanton Evans's observation that in America there are only two parties: “One is the evil party, and the other is the stupid party... Occasionally the two parties get together to do something that's both evil and stupid. That's called bipartisanship.”

BOB FOYS
Chicago

Inventing arms and legs

SIR – Your article on the advances in creating artificial hands (“Once more, with feeling”, February 8th) raises an interesting point: out of war something good might arise. Looking at innovations in artificial limbs, the University of New Hampshire law school scrutinised the patenting trends for prosthetic technologies. We were intrigued by a series of spikes in 1919, 1946, 1973 and after 2001. This perhaps sadly illustrates the maxim that necessity is the mother of invention.

STANLEY KOWALSKI
Associate clinical professor
University of New Hampshire
School of Law
Concord, New Hampshire

Downsides to fracking

SIR – “The petrostate of America” applauded “America's example in granting mineral rights to individual landowners, so that the communities most disrupted by fracking are also enriched by it” (February 15th). In fact, the owners of millions of acres of land in America's West do not own the mineral rights beneath their land, because these rights were either reserved by the federal government or granted to the railroads in the 19th century.

Furthermore, you said nothing about the downside of fracking. Fracking sites are huge operations with construction and drilling equipment, retention ponds and storage tanks for chemicals, water and hydrocarbons. Because these drilling sites serve many well bores that often must be fracked to promote the flow of oil and gas

from tight formations they operate 24 hours a day.

Local air pollution from leaks of methane, benzene and other harmful hydrocarbons can cause serious health problems for nearby residents. Outdated state regulations allow these operations to be located only hundreds of feet from homes and schools, where residents receive no benefit or compensation for the disruption and the reduction in their property values.

SANDY BLACKSTONE
Former deputy director for energy and minerals
United States Bureau of Land Management
Parker, Colorado

The pleasure principle

SIR – Those who want to improve condoms are victim to the same fallacy that benefits the makers of erectile-dysfunction therapies (“Sheathing Cupid's arrow”, February 15th). Sex is not about what happens between the legs, but between the ears, as nicely illustrated in the film, “Her”. If the “feel of the mucosal tissue” were the only factor, many sexual “jobs” (hand, foot, or otherwise) would be unsatisfactory.

Instead of focusing on the technology of condoms it might be better to address the more difficult task of changing attitudes towards them. For instance, by convincing the porn industry to provide more cautious role models.

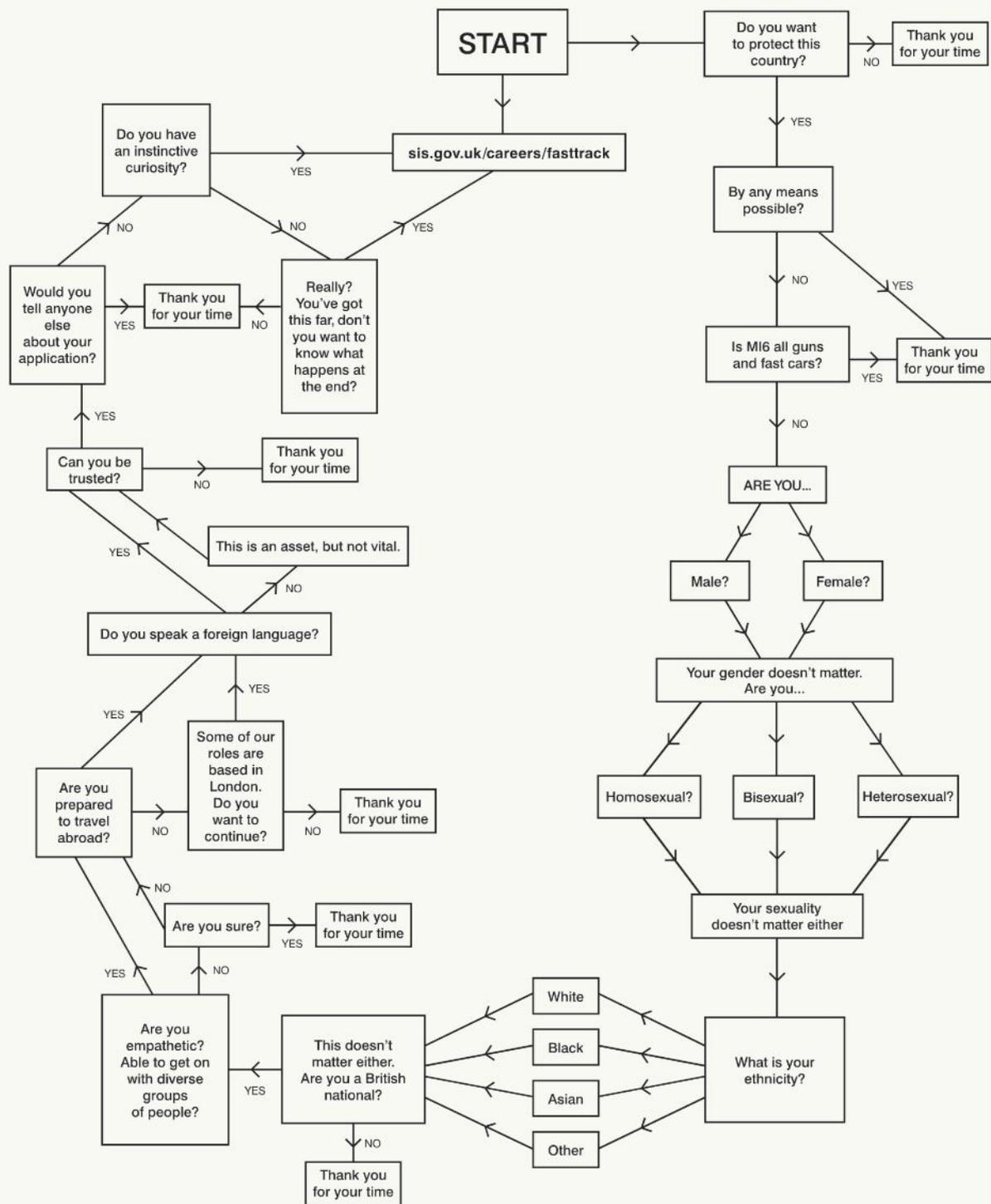
HANS BARNARD
Los Angeles

SIR – I recall reading a few years ago that someone developed a condom that played Russian patriotic tunes. It was not clear, however, at what point it did this, nor whether you were expected to stand.

JAS DERHAM-REID
Vancouver ■

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1 Head, Strategic Tax and Compliance (DGT-PCL-HSTC)

Objective: Defines the Tax planning, management and compliance processes, policies and systems, and reports on compliance to Tax regulations.

Job Duties:

- Review organisational objectives and corporate strategy to understand business priorities and the associated tax objectives / implications
- Develop a Tax Planning Strategy and approach including all compliance processes, policies and systems

Requirements:

- A Postgraduate degree in Finance, an MBA is an added advantage
- Membership of at least one of the following professional bodies is required: ICAN, ACCA, CITN, CFE
- Minimum of 15 years' experience in Finance, particularly Tax Planning and Compliance

2 Specialist, Health, Safety, Social and Environment (DGT-PCL-SHSSE)

Objective: Provides direction and leadership for our client's Health, Safety, Social and Environment initiatives.

Job Duties:

- Analyze external trends impacting business strategy, in particular the health hazards, safety concerns and social / environmental impact of conducting business
- Define and develop the Health, Safety, Social and Environmental (HSSE) standards, policies and procedures to guide and eliminate undue negative impact to our client's business strategy

Requirements:

- A first degree in Safety, Environmental Science or any related discipline
- An MSc in Occupational Health and Safety or any related discipline
- Minimum of 15 years' HSE experience. Experience across multiple industries/markets e.g. Manufacturing, Energy, Utilities Industry etcetera
- Membership of any of the following occupation health & safety professional bodies; ISPON, BCSP, ISHM is an added advantage or any other recognised HSE body

3 Head, Business Continuity Risk Management (DGT-PCL-HBCRM)

Objective: Defines the end-to-end process of effectively identifying and managing business risks in the execution of the corporate strategy.

Job Duties:

- Facilitate business impact analysis workshops
- Develop continuity strategies, documenting response and associated plans

Requirements:

- A Postgraduate degree in Risk Management, an MBA is an added advantage
- Minimum of 10 years' experience with a minimum of 5 years in Risk Management and relevant industry experience

4 Head, Operational Risk Management (DGT-PCL-HORM)

Objective: Defines the end-to-end process of effectively identifying and managing operational risks in the execution of the corporate strategy.

Job Duties:

- Define operational limit and appetite for the group (policy development)
- Ensure identification, aggregation and monitoring of operational loss events

Requirements:

- A Postgraduate degree in Risk Management, an MBA is an added advantage
- Minimum of 10 years' experience with a minimum of 5 years in Risk Management and relevant industry experience

5 Head, Credit Risk Management (DGT-PCL-HCRM)

Objective: Defines the end-to-end process of effectively identifying and managing financial market and credit risks in the execution of the corporate strategy.

Job Duties:

- Development or enhancement of the Groups' credit rating platform
- Development and implementation of the Credit Risk Management framework for the Group, and aligning it to future needs in line with Group strategy and market best practices

Requirements:

- A Postgraduate degree in Risk Management, an MBA is an added advantage
- Minimum of 10 years' experience with a minimum of 5 years in Risk Management and relevant industry experience

6 Head Risk Analytics (DGT-PCL-HRA)

Objective: The Risk Analytics team provides tools, analysis and support for the business divisions within our client's group; to identify and measure risk, optimize risk prevention and mitigate losses. The candidate will be responsible for a team whose sole responsibility is the development of all methodological aspects of risk management.

Job Duties:

- Development and management of applications and tools for capital planning, stress testing, Raroc, portfolio optimization etc.)
- Development of new scoring methodologies and extended use of sophisticated statistical methods for credit risk ;Data analysis on defaulted customers and modeling of recoveries

Requirements:

- Master's degree or higher in a strongly technical degree (e.g. Mathematics, Statistics, Physics, Computer Science, engineering).
- Minimum of 10 years' working experience, with a minimum of 5 years experience in financial mathematics, ideally in the field of statistics, probability or structured finance

7 Head Market and Liquidity Risk Management (DGT-PCL-HMLRM)

Objective: Responsible for the development and establishment of a system for liquidity risks management across the group; development and ensuring implementation of the liquidity management framework.

Job Duties:

- Establishment and oversight of the group's strategic liquidity, including setting limits for key liquidity metrics, forecasting of the client's balance sheet including key liquidity ratios as applicable.
- Development and enforcement of liquidity risk management policy

Requirements:

- Minimum undergraduate degree preferably in Finance/ Accounting/ Economics
- Minimum of 10 years' working experience with a minimum of 6 years experience in a Market and Liquidity Management risk role

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Director, UNESCO Institute for Statistics
Montreal, Canada

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Baby steps

Generous maternity benefits pay economic dividends. But America, where the federal government does not mandate paid leave, could do better by its mothers. Some places, such as California, are taking baby steps in the right direction, though



Why caste still matters in India

Narendra Modi, a former tea-seller, may become India's next prime minister. If he does, he would be the first to hail from the "other backward classes". Despite attempts to abolish discrimination, caste still matters enormously to most Indians

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The February revolution

KHARKIV, KIEV AND LVIV

Can Ukraine find any leaders who will live up to the aspirations of its battered, victorious but sceptical protesters?

SMOULDERING fires, streets covered in soot, a smell of burned tyres; young men in military rags wandering around purposelessly. A heavy atmosphere of apprehension, anger and disbelief still sits on Independence Square, the gathering place in Kiev that has lent its name, Maidan, to the political protest movement born there, and thereby to the broader popular sentiment that supports it. Despite the toppling of Ukraine's president, Viktor Yanukovich, there is no sense of triumph among the quiet tears and loud words. But there is an abiding power.

That is why the country's new cabinet presented itself for Maidan's "approval" on the evening of February 26th. A crowd of tens of thousands heckled the mainstream politicians and cheered those—about a third—who were nominated from their own activist ranks. "Shame!" they shouted when Alexander Turchinov, the speaker of the parliament (Rada) and acting president, appeared on stage.

"The only legitimate power today in Ukraine is the Rada," he told the crowd. "You can criticise it but there is no other." And he went on to assure them that whatever they thought of the government, they would not have to suffer it for long, with an election set for May. "This government is doomed. Three, four months and they

won't be able to work, because they have to make unpopular decisions." He himself, he said, would step down once things had stabilised. The crowd was just as dismissive of Arseny Yatseniuk, who has been nominated for prime minister; he too said it was a "kamikaze government".

The evening's announcements made two things clear. One is that the government is going to be controlled by Yulia Tymoshenko, Mr Yanukovich's archrival, who was in prison until February 22nd. She has no official post, but Mr Turchinov is her right-hand man and Mr Yatsenyuk is the leader of her party, Fatherland. More importantly, it demonstrated the level of Maidan's mistrust of established politicians and its refusal to delegate the power it has won.

The appointment of the interior minister, Arsen Avakov, was actually vetoed by Maidan. Vladimir Parasyuk, one of the Maidan leaders, said: "As a citizen of Ukraine I won't allow this. My conscience won't let me." He said the interim government had one night to decide, but it must present a new candidate. "Maidan will not disperse," he went on. "We will be a controlling organ and they should know that if they betray us, we will come to each one of them and demand answers on behalf of our dead comrades—the heroes of Uk-

raine." The crowd cheered.

The revolution which last week saw the overthrow of Mr Yanukovich, a corrupt, cowardly and thuggish president, has not yet been given a name. Perhaps that is fitting; it is not yet over, nor is its final destination in clear sight. Mr Yanukovich is gone and his regime broken, but the post-Soviet order which prevailed in Ukraine over the past two decades has not been uprooted. There is little by way of an elite devoted to forging a new, modern nation state; the possibility of failure, a descent into chaos, insurrection—notably in the Crimea—or even secession remains stark.

This revolution is thus more important than the Orange revolution of 2004, which was a response to Mr Yanukovich's election to the presidency through a fraudulent run-off eventually overturned by the supreme court. While the other post-Soviet revolution at around the same time—Georgia's 2003 Rose revolution—succeeded in resetting its country's direction, the Orange revolution foundered. Ukraine's revolution-yet-to-be-named was largely brought about by the failure of that previous, more peaceful but frustratingly unsuccessful uprising to change the country's dysfunctional political culture or build bridges between its regions, which have little by way of history to unite them. And what then degenerated into bitter farce may yet end up, this time round, in tragedy.

Three days that shook Kiev

In 1917 tsarist Russia vanished within just three days. The Soviet Union was dispatched in just as short a tumult in August 1991. The collapse of the Ukrainian regime did not take much longer. ►►

▶ The stage was set when, last November, Mr Yanukovich decided to abandon negotiations aimed at an association and free-trade agreement with the European Union (EU) in favour of easy money and political cover from Vladimir Putin's Russia. Ukrainians—particularly young ones—saw a life-line that might have winched them up to a civilised European world being cut, and the “EuroMaidan” protests began.

On February 18th, after clashes with protesters outside the Rada, the *Berkut* riot police tried to storm the Maidan encampment. By the next day 25 protesters had died, some at the hands of plain-clothes thugs and semi-criminals deployed by the government. The House of Trade Unions, which served as a revolutionary news centre and hospital, had been torched. But the opposition still held the square.

A negotiated truce soon broke down. On February 20th someone—it is still not clear exactly who—gave the order for snipers positioned on the roofs around the Maidan to open fire. Within hours the death toll rose to nearly 80 people—“Heaven's battalion”, now commemorated in the square with shrines of candles, flowers and photographs. Talks between government and opposition, mediated by the foreign ministers of Germany, Poland and France, resulted in an agreement to return to the country's 2004 constitution, increasing the power of the Rada, and to call presidential elections by December 2014. But the agreement did not satisfy the protesters who had lost comrades to the snipers. Their leaders said that if Mr Yanukovich was not gone by the morning of February 22nd, they would come and get him. Mr Yanukovich fled the capital. On February 27th he issued a statement asserting his



continued presidency and asking Russia for shelter.

The revolution was not just about getting rid of one kleptocrat. As Yulia Mostovaya, the editor of *Zerkalo Nedeli*, an influential Ukrainian weekly, puts it, it was a broader uprising against a malevolent state which failed in its basic tasks—a state in which the government robbed the public rather than served it, in which the courts covered up injustice rather than right it, in which prosecutors perpetrated crimes instead of investigating them.

Years of pillage

In part because of that broader agenda, in part because of last week's brutality, the swift overthrow of Mr Yanukovich produced no euphoria. Ksenia Kovaeva, a 27-year-old who brought flowers to commemorate the dead and to thank the living, says “I am scared to give birth in this country at the moment.”

Over the past three months of demonstrations Maidan displayed exemplary discipline

and self-organisation. Now the protesters have won, and the *Berkut* has been disbanded. But the rest of the police have vanished from the streets, too, which is worrying. So far there has been no looting, but Ms Mostovaya says the number of crimes has gone up. The house of Petro Simonenko, the leader of Ukraine's communist party, has been torched; Andrei Klyuev, who is widely believed to have been in charge of the attack on the protesters, has been shot in the leg.

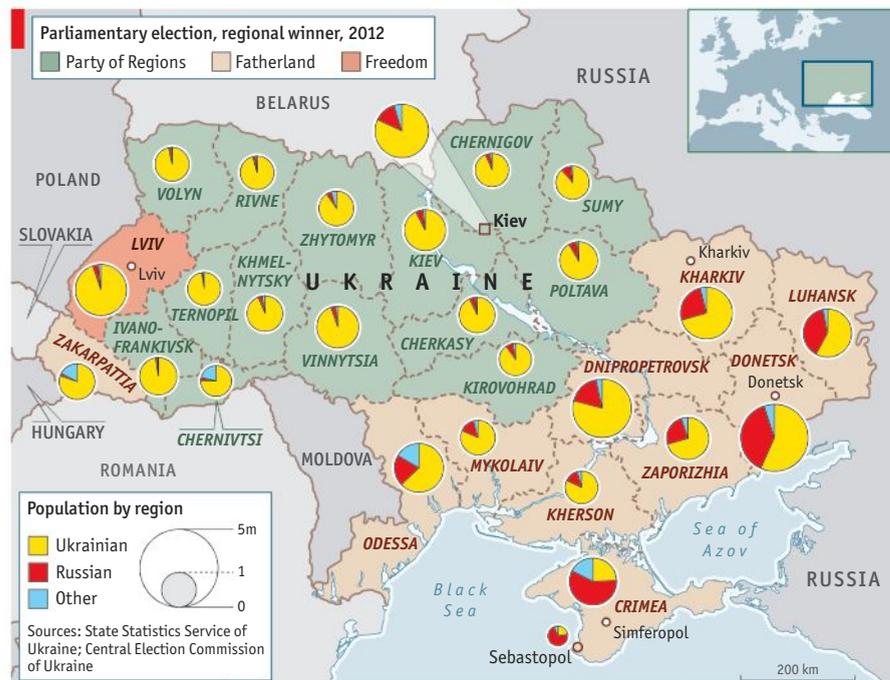
Civil order may well be maintained; but Ukraine is also staring into an economic abyss. Mr Yanukovich's government not only continued the country's poor economic performance (see chart); it was a huge drain on its resources. Anders Aslund, a Ukraine expert at the Peterson Institute in Washington, estimates that the president and his family, broadly construed, embezzled between \$8 billion and \$10 billion a year since he took power in 2010. Mr Yanukovich's 130-hectare estate in Mezhygorye, outside Kiev, featured lakes and golf courses, marble mansions, an ostrich-stocked menagerie and much more.

The government wasted much of the money it did not steal on supporting the country's currency. This is now fast depreciating, which is both inevitable and, in the broad scheme of things, necessary; but it will drive up inflation and encourage all who can to get their money out of the country's banks to do so. The government has no chance of borrowing in the international capital markets, and the country's foreign-exchange reserves are down to \$12 billion. Its current-account deficit stands at 9% of GDP. A \$15 billion credit line from Russia has been put on hold.

Ukraine is thus in dire need of some sort of rescue package from the IMF and the EU if it is not soon to run out of cash. Any such support will be conditional on the country finally committing itself to structural reforms, including cuts in its vast energy subsidies, and to curbing corruption. The first will bring prompt pain to almost all citizens, the second will be resisted by many functionaries.

For such commitments to merit credence, Ukraine needs a legitimate government that will sweep away the old political set-up—which is also what Maidan is demanding. The problem is that Maidan was not the only player in the revolution. A less visible battle has been going on between various Ukrainian oligarchs and the members of Mr Yanukovich's extended family who took their place at the trough. These oligarchs used their money, influence and political fronts to pile on pressure.

But although Mr Yanukovich provided oligarchs and Maidan with a common enemy in the run up to the revolution, the allies could well turn into adversaries in the aftermath. The oligarchs and their political place-men are creatures of the dysfunction



ditional state that Maidan rejects; some will surely seek to use the revolution to regain their lost interests and restore the pre-Yanukovich status quo.

The Rada is itself the product of this corrupt system, its seats bought and sold by the oligarchs' factions for years. The first days in the post-revolutionary Rada showed little by way of improvement, with posts being horse-traded and opaque deals being struck. Mr Parasyuk was enraged: "What is going on in the Rada today is a repeat of 2004. We will not allow this to happen. This is official—for all politicians to hear: forget it!"

None of the politicians, including the three opposition leaders Arseny Yatsenyuk, Vitaly Klitschko, a former boxer, and Oleh Tyagnibok, are trusted by Maidan. Witness the reaction to Ms Tymoshenko's appearance on Maidan after her release from prison. In the Orange revolution she was treated like a messiah. This time, while people were glad to see that she had been freed, they knew better than to put their fate in her hands—or those of any other politician for that matter.

Crimea and punishment

What complicates the picture further is that holding the country together depends in large measure on the co-operation of the oligarchs, who control industrial assets in the east of the country, as well as on the co-operation of local elites.

Ever since its independence Ukraine has been divided between the east and south, which boast large ethnically Russian populations and, until then, were home to large chunks of the Soviet military-industrial complex, and a more nationalist, pro-European west (see map on previous page). The two parts have different national heroes, different languages, different churches and different ways of life. Western Ukraine was only occupied by the Soviet Union in 1939. It never voted for Mr Yanukovich's Party of the Regions, nor submitted to his rule; it sustained Maidan both spiritually and physically.

The thing the two parts of the country had in common was Kiev, which both considered their capital. Now many people in the east feel that Kiev has been seized by the west. On February 23rd the Russian-speaking population of Kharkiv, the first capital of Soviet Ukraine, demonstrated in front of their city's giant statue of Lenin, calling for confrontation with the NATO-sponsored "fascist collaborators" in the west. Some this is the product of hysterical propaganda on the Russian television channels that are watched on that side of the country. But the Rada's decision, in its first days, to take Russian off the list of Ukraine's official languages played provocatively and irresponsibly into the hands of people trying to stir up such feelings.

Successive Ukrainian governments

failed to find a vision or narrative with which to unite the country. Encouragingly, the elites in the west and the east of the country seem to understand this problem. Andrei Sadovyi, the popular mayor of Lviv, says people have been dying on Maidan to keep the country together. Western Ukraine's ultranationalist Freedom party—the force that got Russian taken off the books as an official language—has poll ratings of only 20%, and the intelligentsia in Lviv has declared it will speak Russian for a day in solidarity with Russian speakers in the east. Some people in Donetsk—Mr Yanukovich's home city—have said they will reciprocate by speaking Ukrainian.

Neither the oligarchs nor the politicians of the east want to join Russia. Gennady Kernes, the mayor of Kharkiv and one of Mr Yanukovich's allies, has said he recognises the new government's legitimacy. Most important of all Rinat Akhmetov—Ukraine's richest man, Mr Yanukovich's longtime political partner and, in effect, the boss of Donetsk—has also turned to the side of Maidan, defending economic reforms, modernisation and accountability.

But then there is the problem of Crimea, a problem Mr Putin will exacerbate. It was part of Russia until 1954; when in that year Nikita Khrushchev transferred it to the Soviet Republic of the Ukraine he surely imagined it was a change that made no real difference. Sebastopol, Crimea's largest city, is mostly populated by Russians—not least because it is home to Russia's Black Sea fleet. On February 23rd some 20,000 people in Sebastopol overthrew the mayor, who was appointed by the central government in Kiev, and replaced him with a Russian citizen.

Mr Putin may now use the window of opportunity to seize Crimea, using co-ordinated propaganda, agents of influence on

the ground and Russia's army. Politicians in Russia are talking of distributing passports in Crimea—a ruse used to strengthen Russia's pretext for annexing the Georgian regions of South Ossetia and Abkhazia in 2008. Armed men have raised the Russian flag over Crimea's parliament, and on February 26th pro-Russian demonstrators clashed with Crimean Tartars, who make up about 13% of the peninsula's population and strongly wish to stay part of the Ukraine. While making no public comment on Mr Yanukovich's defeat, Mr Putin has ordered an urgent drill to test the combat-readiness of 150,000 soldiers in the region. A massive military exercise preceded the 2008 invasion of Georgia.

When Russian tanks rolled into South Ossetia, it had actually come under fire from Georgia, provoked by Russia's interference in the region. Crimea and Sebastopol are clearly not under threat from Ukraine. But Mr Putin lost a lot of face when Mr Yanukovich was toppled; he despised the man, but placed great store in having a compliant Ukraine. Taking back Crimea would be a blow to the new regime in Kiev, gain him the appearance of strength, and secure a lengthy Russian coastline on the Black Sea.

But restoring the peninsula to Russian rule would be costly, especially if it involved conflict in which Tartars or others resisting the action were killed. Russia would probably be isolated, which would harm the economy, antagonising the elites on whom Mr Putin depends. Even if Russia does not make a military move on Crimea, it may use it as a lever to ratchet up pressure on whoever holds power in Kiev. A democratic, European Ukraine moving out from under its influence would be a profound threat to Mr Putin's Russia. He will take it seriously. ■



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The North Sea

Running on fumes

ABERDEEN

Scottish nationalists are right to charge that Britain has mismanaged North Sea oil. Unionists are probably right to retort that the alternative would be worse

NORMALLY Britain's politicians would rather be seen peddling green schemes or bashing power firms than glad-handing oilmen. Yet on February 24th big-wigs from the British and Scottish governments travelled to Aberdeen, the country's oil capital, to hold separate cabinet meetings a few miles apart. Both camps hoped to persuade voters in this year's referendum on Scottish independence that they alone could ensure the oil industry's future. Both of them struck a dry hole.

The North Sea produces almost half of the energy Britain needs. Scottish nationalists hope the taxes it generates, which amounted to £6.5 billion (\$10.1 billion) last year, will make an independent state rich. But the oil and gas is running out. Production fell by 6% a year on average between 1999 and 2010; since then it has dived by nearly 40% (see first chart). Meanwhile costs are spurting upwards: it is nearly five times more expensive to extract a barrel of North Sea oil than it was in 2002. Investment in exploration, which once rose and fell with the oil price, is at rock bottom (see second chart) even though nine billion barrels may remain unfound. On February 25th Malcolm Webb of Oil & Gas UK, an industry body, said exploration is facing its biggest challenge in 50 years.

Some of these problems are simply signs of age. Britain's offshore fields have gushed for longer than pioneers expected; as a result, much time and cash must be

spent maintaining ageing kit. As the most profitable reserves dwindle, drillers are opening up smaller fields in more difficult locations, such as the deep, wild waters found west of the Shetland Islands.

Yet roughnecks say the British government's policies have made an ever-trickier job harder. Oilmen once thought the North Sea a safe harbour from risks run in more exotic places, but successive tax grabs have changed their minds. The Labour government increased corporation tax for oil firms in 2002 and 2006; in 2011 the coalition raised it again, crushing investment. Westminster has churned through 14 energy ministers in 17 years.

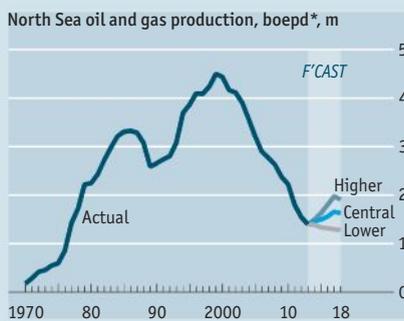
The British government also took ages to clarify how the costs of decommission-

ing rigs will be divided, discouraging new entrants from buying elderly fields. Even as web entrepreneurs are coddled in London, a shortage of skilled engineers pushes up labour costs in Aberdeen. In a report published on February 24th Sir Ian Wood, a veteran oilman, argued that politicians have let the industry regulator grow toothless. He said a beefier body would help firms extract small, hard-to-reach deposits, in part by forcing competitors to more fairly share pipelines and other infrastructure.

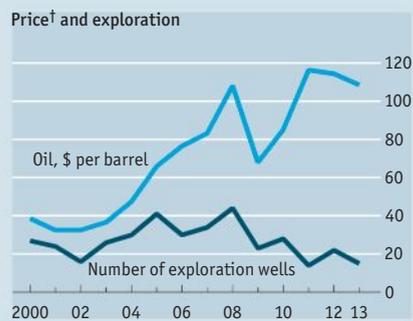
A brief turnaround in the industry's fortunes could give the authorities a chance to rethink. New tax incentives for oil firms taking on very complex projects, combined with a high oil price, has encouraged a flurry of investment into old fields and those once thought too costly to exploit. As a result, oil and gas production will probably rise this year for the first time in over a decade—though it will soon sink again unless exploration increases. Ed Davey, the energy secretary, promised to implement Sir Ian's recommendations swiftly. Nationalists followed suit.

As the North Sea begins to run dry, another industry is thriving. The revenues of ▶▶

A poor inheritance



Source: Oil and Gas UK



*Barrels of oil equivalent per day †2013 prices

▶ Britain's thousand-odd oil services firms rose by 17% between 2010 and 2011, to £27 billion, according to EY, an accountancy firm. The small oil companies now investing in the North Sea are hungry for cost-cutting tools and tricks but do not have large research and service arms of their own, so they buy expertise. But the boom also reflects demand for British skills abroad. Sub-sea UK, which represents underwater engineering companies, reckons its members account for 45% of the global market and make half their cash outside Britain.

Alex Salmond, Scotland's first minister, says his Scottish National Party would do a better job of exploiting the North Sea, should the country plump for independence in September. He pledges to pour revenues into a national fund that will smooth the impact of oil booms and busts on Scotland's economy, and give it cash to invest. Norway's thrifty governments have stashed away \$840 billion from their share of the North Sea's treasure. Gavin McCrone, an economist and former government adviser, calls Britain's failure to save its oil money "a serious mishandling of the greatest opportunity for the economy in the last half century".

A shaky platform

Up to now oil bosses have mostly avoided the independence debate. "People are all scared to express their opinions," admits Francis Neill of EY, a company that makes video cameras which work down wells. But most think a Scottish state would raise taxes further. Some fear having to deal with more bureaucracy—about half the North Sea's oil services firms are based in England, and many Scottish ones have facilities on both sides of the border. Separation might complicate their work, and perhaps even drive some abroad.

In theory the oil industry's crucial contribution to a new Scottish state ought to guarantee careful treatment from the country's leaders. But city councillors already complain that the nationalist government in Edinburgh has failed to grant Aberdeen the money it needs to thrive. The industry fears its choked-up roads and unsightly centre are making it more difficult to attract workers who could earn as much in Houston or Stavanger.

An independent Scotland would start life with a large budget deficit. That would probably make it impossible to start an oil fund for some years, at least without big cuts to public expenditure. And nationalists may well be overestimating how much of the gloopy stuff they can squeeze out. Holyrood's prediction for oil revenues in 2018 is twice Westminster's estimates. The difference is important. With a big haul, Scotland's politicians could perhaps afford to cosset oil firms. Without one, the young nation might have to milk them harder than ever. ■

Immigration

No country for poor men

If the government wants to sell visas, it should make more money from them

SHOULD the British government be in the business of selling visas? In effect it already is. For years wealthy folk who invest in the country have been given permission to live there. But according to a report released on February 25th by the Migration Advisory Committee, an independent group, Britain could do it better—and more lucratively.

At present migrants who invest substantial sums in gilts or in British registered companies can apply for permanent residence. A million pounds (\$1.7m) gets them leave to remain after five years; £5m reduces the waiting time to three years and £10m to two. They need not speak English and can bring their families. Between 2009 and 2013 Britain flogged 1,628 such visas, about half to Chinese and Russians. The market is heating up: 560 went last year.

This system is deeply flawed. The minimum investment level has not gone up since 1994. Because the value of an investment must remain above £1m until residency is granted, most applicants pile into low-risk gilts, for which buyers are already plentiful. Investors are likely to sell those gilts when they obtain settlement. Rich foreigners, who prize London's private schools and England's legal system, are benefiting more than the country that hosts them, thinks the committee.

To redress this, it recommends raising the threshold to £2m and expanding the range of qualifying investments to include venture-capital schemes and infrastructure bonds. Gilts might be excluded. The committee also suggests introducing "premium" visas, which would entail quick settlement rights and less onerous residency requirements. These could be auctioned off with a reserve price of £2.5m. Anything above the minimum investment would go

into a pot to be spent on good causes.

An auction would have two clear advantages over the current system: the number of visas could be easily controlled, and they would sell for more. A revenue-maximising government should prefer an auction based on single sealed bids, as the committee suggests. More than an "English" auction, where bids are public, this would play on applicants' fear of missing out, encouraging high rollers to bid closer to what they are willing to pay, rather than just a fraction more than their competitors, says Paul Klemperer, an auction theorist at Oxford University. To keep people guessing, and prices high, the government could keep the winning bids secret.

Auctions would also enable would-be settlers to weigh Britain against other countries. Portugal offers residency to those who buy property worth €500,000 (£412,000). Malta offers citizenship for €1.15m in return for a combination of cash, property purchases and investment.

Still, the committee's proposals could be improved upon. More than venture capital or private infrastructure investment, and much more than foreign property buyers, Britain needs cold cash. Instead of trying to determine what is and is not a useful investment, it could auction all rich-folk visas and spend the proceeds.

A government obsessed with cutting immigration is unlikely to follow the committee's advice, let alone economic theory. But mere talk of selling settlement is healthy. More than half of Britons believe immigrants have a negative economic impact. A bidding war for British visas, with the proceeds going to hospitals and schools, might disabuse them of that notion. It might even make them feel better about the country where they live. ■



Northern Ireland

The price of peace

BELFAST

A 30-year-old bombing creates yet another crisis for unionism

IN MAY last year John Downey, an oyster farmer from Northern Ireland, was arrested as he tried to catch a flight from London to Greece and charged with the murder of four British soldiers killed by an IRA bomb in 1982. But on February 25th the case against him collapsed. It emerged that he had received a letter from the Northern Ireland Office in 2007 assuring him that he was not wanted by the police. It also transpired that since the Good Friday Agreement in 1998—which paved the way for the current system of power sharing between nationalists and unionists—some 200 such letters had been issued to republicans suspected of paramilitary crimes.

The response from Northern Irish unionists was as fractious as it was furious. Peter Robinson, the leader of the Democratic Unionist Party (DUP), said he was “incandescent with rage” over the London government’s failure to inform him of the letters. He threatened to quit his job as Northern Ireland’s first minister unless a judicial inquiry is held. He also said darkly that the DUP would never have entered into the current power-sharing agreement had it known about the letters. Finally, Mr Robinson insinuated that the more moderate Ulster Unionist Party (UUP) had allowed itself to be conned over the issue during peace talks in 2001.

The story could hardly have broken at a worse time for unionism, which is beset with problems. The UUP, once the largest of Northern Ireland’s parties, is now feeble. In the European election in May it could lose one of its few remaining trophies—its seat in the European Parliament—to the DUP. Relations between the two parties are abysmal: on February 20th the leader of the UUP described Mr Robinson as having “lost the trust of his people”. The DUP is prone to infighting and increasingly detached from its loyalist base. Underlying the malaise is a suspicion, particularly among working-class unionists, that republicans have done best out of power-sharing and that their leaders have outmanoeuvred unionist politicians.

It is hard to spy a palliative for these grievances. The UUP is increasingly irrelevant. With Mr Robinson as its leader the DUP is volatile and ineffective, but few alternative candidates have the heft to challenge him for the job—or ideas about how unionism could plot a different course. Perhaps a third, rival unionist party could emerge, one with more legitimacy among



Mr Robinson might take the ball away

voters. But none is in sight. In the absence of such safety valves, the pressure within the movement will continue to build.

All this is terrible news for attempts, being led by Richard Haass, an American former diplomat, to resolve disputes between unionists and republicans over the flying of flags, sectarian marches and outstanding historical grievances. The latest round of discussions in December crashed into unionist opposition. Mr Downey’s freedom, his “letter of assurance” and the revelation that so many more have been sent will only serve to entrench that opposition. Northern Ireland has drawn many lines under its past, but it will never entirely escape it. ■

The Lib Dems

An in-trepid move

Liberal Democrats think they can win votes by being pro-European

STANDING for election as a pro-European is broadly considered career suicide in Britain. Polls bear out this hunch: a poll conducted by Eurobarometer in November 2013 showed that only 19% of Britons trust the European Union. This widespread antipathy explains why Europhiles tend to keep their views to themselves. It is also part of the reason why the anti-EU UK Independence Party (UKIP) may win more votes in the European elections due to be held in May than any other British party. But the Liberal Democrats, who are as earnestly pro-European as UKIP is raucously Eurosceptic, are boldly chal-

lenging the conventional wisdom by extolling the merits of the unloved EU.

In an election broadcast on February 5th Nick Clegg, the party’s leader, listed the advantages of Britain’s EU membership and declared the Lib Dems the only unabashed “party of in” (Labour keeps quiet about Europe, and Tories are sceptical.) On February 20th he dug in further, challenging Nigel Farage, UKIP’s leader, to a televised debate. More of the same is to come: on March 7th the party’s spring conference will open with a pro-European rally and a series of Europhile proclamations by senior figures in the party.

What is Mr Clegg playing at? The first explanation is straightforward. Governing in coalition with the Conservatives has forced painful compromises and roughly halved the Lib Dems’ support. As next year’s general election approaches the party is highlighting areas where it holds different views from its partners. In recent weeks ministers have picked fights with their Tory colleagues over education reform and the environment. Since the EU similarly divides the two parties, Mr Clegg’s pro-European gambit is another stage in the process of differentiation.

The move is also part of the Lib Dems’ defensive stance for the next election. Party strategists know it is unlikely to win new seats, so they will concentrate on shoring up support in ones they already hold. This means geeing up activists and winning back disillusioned former supporters. Internal polling by Ryan Coetzee, the Lib Dems’ strategy director, has shown that such folk are unusually pro-European. Rules applying to the British electorate as a whole thus do not apply to them.

Strangely, strategists also hope that this self-styled “party of in” could attract Eurosceptic voters as well as Europhile ones. The party’s big problem, according to this logic, is not that its policies are unpopular but that U-turning on pledges (most notably a commitment to axe university tuition fees) has made it seem spineless and phoney. But Mr Clegg is authentically, unwaveringly pro-European. He has a Spanish wife, is half-Dutch and worked in Brussels for years. Party bosses hope that seeing him talk passionately about a subject he cares about will win him respect, no matter how unpopular his position.

Mr Clegg may be on to something. Voters rarely engage with the details of parties’ policies (even on Europe, their views depend on the wording of the question). Instead, they vote for politicians who look sincere and seem to know their own minds. Being proudly anti-EU has helped UKIP create that impression. Being unambiguously pro-EU might do the same for the Lib Dems. When viewers watch Mr Clegg and Mr Farage tussle over the merits of EU membership, they will be looking at two men following a similar strategy. ■

Monetary policy

A long low note

Why interest rates can be expected to stay low for years

CENTRAL bankers have a reputation for snatching away the punch bowl just as the party gets going. So, almost as soon as Britain's economy started to recover, commentators and markets started fretting about when interest rates would rise. Mark Carney, the Bank of England's governor, has tried to soothe them with "forward guidance", in effect promising to hold off until the economy recovers. But Mr Carney also whispered something else: that rates would stay unusually low even when they do budge. The punch bowl will go, he suggested, but there will still be plenty of booze around.

Since the Bank of England was founded in 1694 its main interest rate has bounced around an average of 5%. It stood at 5.75% when the financial crisis struck in 2007; since 2009 it has been at a record low of 0.5%. But as Britain's economy recovers, Mr Carney expects rates to settle below the historical norm, and points to market expectations of 2-3%. That is only a shade higher than the bank's 2% inflation target.

The bank believes Britain's "equilibrium interest rate"—the rate needed to keep inflation and economic growth on an even keel—is being depressed by three things. One is the ongoing fiscal contraction. With the state using a shrinking share of resources, the private sector has to expand faster to take up the slack. A lower interest rate is needed to achieve that.

The second has to do with the country's convalescing banks. During the crisis the spread between the central bank's policy rate and the interest rates commercial banks charged their customers for loans jumped. Although the spread has fallen since, it remains much higher than it was before the crisis. So the Bank of England need not raise its rate so high to generate a given level of private-sector interest rates.

The final factor is the rest of the world. Britain's openness, through trade and finance, ties it to foreign economies. The euro-zone crisis has hit the country's exporters and banks. "Secular stagnation", a notion recently popularised by Larry Summers of Harvard University, might also be at play: falling investment demand in advanced economies, combined with a glut of savings in emerging markets, has pressed down on equilibrium interest rates throughout the world.

These pressures seem unlikely to abate soon. Britain's major political parties are all committed to eliminating the fiscal def-

icit over the next parliament. Credit spreads are unlikely to shrink to their pre-crisis lows, which reflected an overly sanguine attitude to financial risk. The euro zone faces a lengthy slog back to health. And if, as Mr Summers suggests, global stagnation persists, the downward pressure on Britain's equilibrium interest rate might even increase.

A persistently low bank rate would be bad for savers but a boon for borrowers. Britain's 9m or so mortgage-holders are sensitive to the bank's policy rate: the average new mortgage is fixed for just two years (compared with 27 years in America) after which it tends to track the bank's rate. Matthew Whittaker of the Resolution Foundation, a think-tank, calculates that the difference between a bank rate of 3% in 2018 and a rate of 5% is that 620,000 fewer households would be in "debt peril", defined as spending more than half their disposable income on debt payments.

The prospect of rates remaining low for years should also improve companies' behaviour. British investment is startlingly weak at present—still 20% below its pre-crisis peak, and lower than in any other G20 country as a share of GDP. The expectation of more cheap finance, together with dwindling spare capacity and rising demand, ought to entice firms to build and buy. The Bank of England predicts an extraordinary 43% rise in business investment by 2016, which would boost both demand and productivity.

But a low equilibrium interest rate should make Mr Carney nervous. Bank rates cannot easily be cut to below zero. A new normal of 2-3% would thus leave the bank with little space to cut rates when future shocks hit. Britain's emergency monetary experiments, such as quantitative easing and forward guidance, are known as "unconventional". In time they could become part of the new normal, too. ■



Britain's aerospace industry

Flight plan

BRISTOL

Can Britain remain a planemaking superpower?

THE sleek de Havilland Comet, the world's first commercial passenger jet, was designed and built in Britain 60 years ago. It is a dozen years since the last passenger jet, a small regional airliner, was assembled in the country. This would neatly illustrate a familiar tale of industrial tailspin were the industry not in such fine fettle. Britain is currently the world's second-largest aerospace manufacturer, with 17% of the global market, behind only America. But staying at that altitude will be tough.

Britain's aerospace industry has a few obvious champions: Rolls-Royce makes engines, BAE Systems makes fighter jets and AgustaWestland turns out helicopters. But much of it is hidden and unheralded. Its muscle is in unlikely places like Western Approach, an anonymous industrial estate near Bristol, where GKN crafts wing spars for Airbus. The long, slender beams that carry engines, landing gear and wing structure are made from light but tough carbon-fibre composites. GKN got the job because ►►

▶ of its mastery of the material and its ability to produce in volume. GKN also makes parts for Airbus's arch-rival, Boeing.

Rolls-Royce's engines now provide the thrust for half the world's new wide-bodied jets. Around a quarter of Boeing's 787 Dreamliner is made in Britain, including the landing gear, fuel pumps and some seats. British firms are world-beaters in avionics, the electronics that run a modern jet.

In short, Britain specialises in the complex guts of aeroplanes. Airbus completes construction of its wings in Wales before transporting them to southern France for attaching to fuselages. Bombardier, a Canadian firm, builds the wings for its new CSeries of regional jets in Belfast. Politicians in other countries crow as completed planes roll off production lines on home turf. French participation in the Airbus consortium was contingent on jets being put together there. But the British are quietly coining it: a measly 5% of the value of an aeroplane is added with final assembly.

Rising global demand for commercial jets means business will boom if Britain maintains its share of the market. Unfortunately, this is far from guaranteed. Companies are under-investing in research just as changes in the industry make it more vital.

Aerospace is a conservative business, says Glynn Bellamy of KPMG. Projects often have lifespans of 25-30 years, and reliability is paramount. As a result the industry has globalised only slowly and Western incumbents have been insulated from the cold winds of competition. But several things are changing that.

Some big commercial airline projects, such as the Airbus A330 and the original Boeing 777, are coming to an end, to be replaced by a new generation of narrow- and wide-bodied jets. That provides an opportunity for the big global manufacturers to look beyond their backyards for suppliers. Meanwhile the governments of emerging economies like China and India are eager to boost a high-tech, high-value industry.

Technology is advancing and becoming far more costly. Andrew Churchill, who runs JJChurchill, a family firm that makes turbine blades and other high-tech kit, says capital equipment is ten times more expensive than it was a decade ago. It also becomes obsolete more quickly.

The solution to all these problems is the same: plentiful research and development to keep British companies at the cutting edge. At the biggest companies, long-term investment is taken for granted. Rolls is already developing next-generation jet-engine technology. JJChurchill has ambitious plans to expand. But Mr Churchill says other small firms are failing to raise their game. If that continues, the industry will decline.

Britain is home to 30% of Europe's aerospace firms, according to Martin Wright of the Northwest Aerospace Alliance, a trade organisation. Germany has only 10% but

Urban planning

Rail ambition

BIRMINGHAM

Cities used to think modern art could save them. Now it's railway stations

IN JANUARY commuters voted Birmingham New Street one of Britain's worst railway stations. Each day nearly 150,000 people move through a structure built for half as many. But by next year it will be transformed, with 400 tonnes of undulating steel cladding and a vaguely eyeball appearance. The station will have "the wow factor", boasts Sir Albert Bore, the leader of Birmingham city council. It will also show how much attitudes to railway stations have changed.

Railway stations are the chief exception to the rule that Britain invests too little in infrastructure. Of the 17 big termini managed by Network Rail, the owner of Britain's tracks, 11 are being redeveloped or have recently been completed. Five other stations, including Reading and Northampton, are being spruced up by local councils and Network Rail.

Some simply need to be expanded: the number of train journeys has risen by 35% since 2005. But the design of New Street suggests aspirations well beyond more easeful travel. The building would not look out of place in Dubai and is striking, if slightly incongruous, in the grey West Midlands. City planners wanted something monumental, like Grand Central station in New York, says Sir Bernard Zissman, chairman of the independent design panel.

"Twenty or thirty years ago business people were more likely to arrive in a city by car," explains Jon Neale of Jones Lang LaSalle, a property specialist. Town planners duly carved out motorways and roundabouts to entice them. In 1962 a local politician claimed that a new design for Birmingham, involving an inner ring road, would make it "one of the finest city centres in Europe".

Cities now measure their appeal by their stations. Businesses cluster around them: at King's Cross, a once-grimy part of north London, a postcode has been created for all the new buildings around the station, which was redeveloped in 2013. John Lewis, an upmarket department store, will open in the mall above New Street (which is indeed called "Grand Central") along with 60 other shops. The council hopes it will pull in visitors to the city.

Such ambition recalls the stations of the 19th century. Those structures "spoke to the corporate sensibility of a city," says Tristram Hunt, an MP and historian, by combining commerce with the sheen of civic pride. The first New Street station, built in 1851, had the largest single-span roof in the country at the time. It was torn down by enthusiastic 1960s town planners. Now some of its original lustre may return.



Looking good

they are over twice as big on average and invest twice as heavily.

Britain's government has done a good job of nurturing aerospace, says Keith Hayward of the Royal Aeronautical Society. It has set aside cash for an Aerospace Technology Institute and for large and small firms to invest in new technologies. ADS, an aerospace lobby group, would like to see R&D tax credits increased from 10% to

compare more favourably with other parts of Europe, as well as accelerated tax relief on new building to help smaller firms move and grow.

That would help. But convincing small firms to grow is a tough task. The government can only do so much to reduce the powerful gravitational forces acting on a fragmented national industry. Like the Comet, nothing stays airborne forever. ■

ADVERTISEMENT

A NEW WAY TO WORK

Mobile workforces, social networking, and the rise of globalisation mean that work today is an activity – not a place. Unify explores how to engage deeply with employees, partners and customers in an increasingly virtual world.



TWO DAYS AFTER HURRICANE

Katrina swept through New Orleans – creating a disaster zone roughly the size of the United Kingdom – the interoperability architect for the CIO of the army arrived with General Russell Honoré, new Commander of the Joint Task Force Katrina, to help restore communications. They had just 72 hours to figure out how to get 54 separate agencies to communicate and collaborate with the cleanup – using partly destroyed systems that were never designed to work together. His success – Honoré is credited with 'bringing order to chaos' – provides a valuable perspective on how team collaboration should work.

THE RULES OF ENGAGEMENT

The trend to virtual teams continues unabated. But with it comes new challenges. In a survey conducted by Unify more than 80 per cent of respondents felt virtual communications technology improves employees' sense of engagement – but over half said constant streams of communication distracted more than they helped. As Honoré found, it is vital to communicate only what's relevant and avoid information overload. "How can we deliver the right content to the right people, via the right device?" he asked.

There are fundamentally different rules for successful communication and collaboration in virtual teams. OnPoint Consulting surveyed 48 such teams across a wide range of industries to understand what makes a high performing team successful. It found that decisions about team composition – the size and structure of the team as well as the skills individual members bring – are among the most important predictors of success. In our second white paper in a series that examines 'A New Way to Work' Keith Ferrazzi, founder of Ferrazzi Greenlight, a research institute and consultancy, finds that "small is beautiful... In my experience the best virtual team is a small one. Four or five members total is ideal."

Leaders that used to manage a hierarchy or a matrix are now managing relationships with a network of individuals they may never have met – so personal sharing is equally important. "Humans are intensely social beings," states Ferrazzi. "They need to feel connected. Personal sharing is one of the easiest ways to build a connection." Melanie Turk, vice president of research at

Frost and Sullivan, a business consulting firm, agrees: "the one thing that's hardest to fix is: I don't know who any of these people are. I don't see them. I don't talk to them in hallways. With social, that has changed dramatically. Now when I see them in person or get a request from them, I have a real connection."

TECHNOLOGY ISN'T ENOUGH

"One of the biggest mistakes I see," says Ferrazzi, "is business leaders thinking 'all I need for great collaboration is great collaboration software.'" The priority should be to get the virtual team onto software that helps foster collaboration, not hinder it. A Unify survey found that although 72 per cent said that video would make teamwork easier, only 34 per cent actually used video. Ferrazzi says: "To make virtual teams work well you need to need to move your team to a new set of behaviours, not just a new generation of technology."

Building a small-scale team, encouraging personal sharing, and modifying behaviours to make best use of the right technologies can have an enormous influence on a virtual team's success. But this is wasted effort without a clear purpose or objective. Mark McDonald, group vice president and head of research for Gartner Executive Programs describes the way many organisations implement social media internally as "provide and pray". According to McDonald's research with 400 organisations, simply providing a social platform and expecting good things to happen "fails about 90 per cent of the time."

The pace of globalisation is accelerating, and while business challenges may not always reach the scale of Hurricane Katrina there is nevertheless a pressure on business leaders to constantly innovate and stay ahead of the competition. By creating and maintaining virtual teams that can effectively collaborate and communicate with each other across the globe, it is possible to shelter your business from the storm.

THE NEW CIO CHALLENGE

Please join us for The Economist's 'New CIO Challenge' online discussion on March 12th. Rick Puskar, Unify's senior vice president of innovation, customer experience and engineering, will be taking part.

TEAM EFFECTIVENESS IN A VIRTUAL SETTING

Source: Greenlight Research Institute and Unify, 2013



FACE TIME IS NOT CRUCIAL

Though conventional wisdom says that regular "face time" is critical to the productivity of virtual teams, a surprising two-thirds disagree. National culture is a factor, however: in Germany just over half feel regular face-to-face meetings are needed for truly productive teams.



SEAMLESS COMBINATION OF TECHNOLOGY

Half-baked solutions don't cut it. A staggering 95% of respondents say it's important to the business that employees have access to a broad range of tools that work together seamlessly.

WHO IS UNIFY?

Born out of the engineering DNA of Siemens AG, Unify provides integrated communications and collaboration solutions for approximately 75% of the Global 500.

By synchronizing technologies, creating an engaging user experience and weaving communications seamlessly into the way businesses operate, we empower an increasingly mobile workforce to work better together.

Bagehot | Wooing Mrs Merkel

David Cameron can charm a German. But his Europe policy is a mess



A CENTURY ago Britain made a new enemy, Germany, on the back of its *entente cordiale* with an old one, France. The pre-existing order of friendship has since been resumed, however—as manifest in the contrasting receptions David Cameron, the prime minister, has given his French and German counterparts.

When François Hollande visited London a month ago he was treated to a drink in a pub followed by a grilling over his romantic life by Fleet Street hacks. It was hard to tell which one France's president, who is not a pub man, enjoyed less. Angela Merkel, who visited on February 27th as *The Economist* went to press, was rather better catered for. She was due to address both houses of Parliament—a rare honour for a visiting leader, bestowed at Mr Cameron's suggestion—then go to Buckingham Palace for tea with the queen.

The disparity is not hard to understand. The notion that France and Germany rule together in Europe lies dead in the wreckage of the euro-zone crisis. Mrs Merkel is now Europe's paramount chief. So if Mr Cameron is to get anywhere with his Europe policy—a pledge to renegotiate Britain's membership of the EU before holding an in-out referendum—he needs her help. Ever since announcing his gambit early last year, the Tory prime minister has been buttering up Mrs Merkel. She has been to stay at his country retreat, Chequers, and he at hers, Schloss Meseberg. Tory spinners miss no opportunity to spread tales of the two leaders' mutual affection; the German chancellor is said to consider the pink-cheeked Mr Cameron as her “naughty nephew”. But affection and alignment are not the same.

On a trip to Berlin ahead of Mrs Merkel's visit, your columnist garnered a sobering sense of what Germany might actually be willing to undertake to save Mr Cameron's rosy face. It will do almost everything in its power, because in one regard the wishful Tories are right: most German officials are extremely anxious that Britain should not leave the European Union.

They see it as a like-minded agitator for competitiveness and against the bureaucrats who presume to tell Europeans what receptacles olive oil should be kept in. They respect it as the only European power, other than Germany itself, to have consistently paid more in to EU coffers than it takes out. There is a sense, too, of a deeper affinity, wrought by aspects of common culture and mu-

tual regard for America. Most Germans speak English; fewer study French every year. “We are all Anglophiles here,” says a senior official in the foreign ministry.

Yet he is an ardent European federalist, which reveals Mr Cameron's problem. However much Germany wants to keep Britain in the EU, and even though it agrees with most British criticisms of the club, it cannot countenance any compromise of the basic tenets, including ever-closer union and free movement of labour, that Mr Cameron objects to.

This is the context in which Mrs Merkel's much-rehashed comment last year, that competences can travel from Brussels to national capitals as well as vice versa, should be seen. The chancellor was inviting the sort of discussion of subsidiarity that is the bratwurst and apples of Germany's federal democracy. She was not arguing that the EU's remit should be trimmed.

Britain could nonetheless secure a much lesser diminution, perhaps to gain freedom from some aspect of EU labour or social law. This is because the logic of Mr Cameron's gambit—that reform of the euro zone will require changes to the EU treaties and therefore an opportunity for Britain to crowbar in freedoms for itself—just about holds. Germany wants treaty change; some in Berlin speculate that, if the Tories win re-election next year, it could happen in late 2015 or early 2016. Yet any revision would have to be modest and is becoming less likely, for several reasons.

The euro-zone crisis has cooled, easing the pressure for reform. Euroscepticism is on the march, making it hard to win plebiscites on major treaty change in those countries, such as France and Ireland, that would require them. Aside from charming Mrs Merkel, moreover, Mr Cameron has done hardly anything to press his case for change. He has not said what powers he wants back and has offended erstwhile friends, such as Poland, by inveighing against immigration from the east. Even in Anglophile Germany, which is facing its own anti-immigration backlash, this grates. Mr Cameron is considered weak and not terribly serious. Nobody in the German capital doubts that his referendum pledge was mostly intended to buy off the Eurosceptics in his own party. The fact that this has failed—as witnessed by a recent Eurosceptic decree signed by almost 100 Tory MPs—is now obvious. “We were very naive”, an embarrassed aide of Mr Cameron's admits.

Germany won't go to the wall

All of this highlights the central nonsense of Mr Cameron's Europe strategy. A vital part of Britain's foreign policy has been made a hostage to an uncertain, ill-tempered process of multilateral negotiation, conducted at a time when most EU members—including Germany—have bigger things to think about. Whatever modest change Mr Cameron might secure would not impress Eurosceptic Tories. Given the racket they generate, it is possible that Mr Cameron's renegotiation ploy has actually made it likelier that Britons will vote to quit the union than if he had simply promised them a vote on Britain's existing membership terms.

The Germans rightly consider such things beyond their powers of divination. And, it must be said, they may end up taking a rather more equanimous view of the British question than many Tories expect. Just behind the restored Reichstag, in Berlin, are buildings still pocked with the thumb-sized scars of second-world-war machine-gun fire. Living with such architecture would encourage anyone to take a detached and overarching view of the deliriums of day-to-day politics. Britain's raving Europe debate badly needs that kind of perspective. ■



Turkish politics

Everything is possible

ANKARA

Uncertainty grips the country as another scandal engulfs Recep Tayyip Erdogan's government

THE bouquet of wilting lilies in the foyer of the Justice and Development (AK) party headquarters in Ankara is a fitting emblem for Turkey's ruling party. Recep Tayyip Erdogan, the prime minister, is fighting for his political life after a series of secretly taped conversations was posted on YouTube, a video-sharing website, on February 24th. In them he allegedly discusses with his younger son, Bilal, how to get rid of millions of euros of cash stashed in his home.

The exchanges are said to have taken place on December 17th. That was the day when police raided the homes of sons of several members of Mr Erdogan's cabinet and of some business allies as part of a corruption probe now labelled the biggest in recent history. Two of the ministers' sons and a business associate are in jail awaiting trial. Four cabinet ministers implicated in the scandal have been forced to resign.

Mr Erdogan promptly denounced the recordings as a "shameless and treacherous montage" and hinted that they were the work of a powerful Sunni Muslim cleric, Fethullah Gulen, whose followers in the police and the judiciary are thought to be behind the investigations. Their aim is to unseat Mr Erdogan, some say, perhaps before municipal elections on March 30th.

Can they succeed? It is a measure of the uncertainty that has gripped the country that even habitually cautious Western diplomats say "everything is possible". Mr Er-

dogan's claims that the corruption probe is a foreign plot with the Pennsylvania-based Mr Gulen as its executioner may have satisfied his pious core supporters. But the bombshell tapes have planted doubt in many people's minds. And they are only the latest in a series of incriminating recordings of Mr Erdogan and his family members to be posted online.

At least 2m Turks have clicked on the recordings. One woman on an Istanbul commuter ferry played one loudly to other passengers. Thousands have taken to the streets calling on the government to resign. Further demonstrations are expected amid worries of a return to the violence seen during the Gezi park protests last summer.

The country's disgruntled Kurds are threatening to demonstrate, too. Selahattin Demirtas, co-chairman of the Kurdish BDP party, has even suggested that a year-long ceasefire between the government and PKK rebels might come unstuck. "Erdogan's back is against the wall, he could do anything to remain out of jail," says Ertugrul Gunay, a former culture minister who fell foul of the prime minister.

So far, Mr Erdogan's response has been to reshuffle thousands of police officers and prosecutors thought to be Gulen operatives. More controversially, he has passed new laws to tighten censorship of the internet, give the government greater control over judges and prosecutors and expand the already considerable powers of MIT,

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the national spy agency.

Mr Erdogan says the measures are needed in order to dismantle Mr Gulen's "parallel state". But to many they are a crude attempt to cement his own grip, stop further incriminating recordings from popping up and shield himself and his family from prosecution. Few believe that the revelations will stop here. Many are bracing for video recordings of the Erdogans spiriting out their alleged millions. As Abdullah Gul, the president, recently conceded, no restrictions can completely stanch the flow of dirt.

Mr Gul has drawn his share of criticism for signing the controversial internet and judiciary laws, albeit with objections, some of which were taken into account through revisions. He was assumed to have wanted to swap jobs with Mr Erdogan when his term expires in August. But Mr Erdogan's presidential dreams seem unattainable unless AK wins heavily in March. Numan Kurtulmus, an AK deputy chairman, declares, "We shall win 55 of a total of 81 cities." It is impossible to predict: one leaked recording has an Erdogan flunky talking to a newspaper editor about doctoring an opinion poll.

Still, the conventional wisdom is that, unless voters feel the economic pinch, few will be bothered by their rulers' sleaze. Should this prove wrong (and several people now expect AK to lose Ankara), Mr Erdogan's fellow AK party members may at last decide it is time to replace him.

Mr Gul is still touted as one possible successor. Another is Ali Babacan, the deputy prime minister, who has a spotless reputation. But the bigger question is where to park Mr Erdogan. The leader of the main opposition party, Kemal Kilicdaroglu, this week told the prime minister what he should do: "Get on a helicopter and leave the country," he said. ■



Italian politics

Renzi's rosy start

ROME

Italy's new prime minister is long on promises but short on detail

WHEN a politician of populist inclinations takes office, forms a government and unveils his programme, he usually has something to please everyone. So it seemed at first with Italy's new prime minister, Matteo Renzi.

Eight of the 16 ministers he announced on February 21st were women. They included Italy's first female defence minister, Roberta Pinotti, and Federica Mogherini, who at 40 will be its youngest foreign minister since 1936. The average age of his cabinet (47) is even lower than that of his predecessor, Enrico Letta. It included choices to reassure employers and investors: Pier Carlo Padoan, formerly the OECD chief economist, as finance minister and Federica Guidi, once leader of Italy's young businesspeople, as economic-development minister. Nor was imagination lacking: he gave regional affairs to a mayor who has stood up to Calabria's mafia.

When it came to seeking the backing of parliament, however, the prime minister had something to worry everyone. On February 25th he sailed through a vote of confidence in the lower house where his Democratic Party has an outright majority. But the day before, in the upper house, where his grip is more tenuous, he got 169 votes against 139, which is not a secure majority in Italy's fragile system.

Many senators, including some of his own, were openly dismayed by Mr Renzi's almost insolent manner. He broke with tradition by speaking off the cuff and for some of the time with one hand in his pocket. And he told his audience bluntly

Spain and ETA

Guns, lies and videotape

BILBAO

The government sees ETA's offer to disarm as propaganda

WHEN ETA, the Basque separatist group, decided to show how it might put its arms out of harm's way, it produced only a token sample of the weapons used to kill more than 800 people. This consisted of three pistols, a Heckler and Koch G3 rifle, a handful of detonators and some half-kilo bags of explosives, which were shown in a video released on February 21st. The sample was presented by masked ETA members to unofficial mediators who subsequently announced that one of Europe's bloodiest terrorist groups was now ready for full decommissioning. But was this just ETA propaganda, aimed at forcing Spain's government to negotiate?

That is what the Popular Party (PP) of Mariano Rajoy, the prime minister, concluded after mediators unveiled what they called the first-ever example of ETA arms being put "beyond operational use". "They came here to lie to us," said Esteban González Pons, PP vice-secretary. Two days after the announcement, the mediators were called before a magistrate in Madrid to explain themselves. Among those backing them was the regional prime minister of the moderate Basque Nationalist Party. He sees disarmament as central to healing the wounds left by 40 years of bloodshed.

In 2011 ETA called a permanent, unilateral ceasefire. Mr Rajoy has offered it nothing in return, at least officially, and refuses to negotiate an arms handover. ETA has proved an unreliable negotiating partner in the past, in particular when it broke an earlier ceasefire by killing two people at Madrid's airport in 2006. No Spanish government has trusted it since. By the time it called its current ceasefire, it was operationally bust and had lost much of its support in the Basque country. It was, in effect, defeated.

Yet that defeat has to be managed. ETA is being urged to disarm unilaterally by separatist parties that have emerged successfully from its shadow since the ceasefire. But ETA has no one to hand arms to. Jorge Fernández Díaz, the Spanish interior minister, says it can tell police where its arms are stocked. ETA is unlikely to do that, because it would give police clues as they pursue its remaining members. The mediators offer a safe set of neutral hands. The trouble is that they need the government's support. The task of gathering hundreds of weapons is almost impossible unless Mr Rajoy asks the authorities in France (where the arms are mostly hidden) to turn a blind eye.

Will that happen? Not until after European Parliament elections in May in which the PP faces opposition from vociferous anti-ETA rightists. And not before ETA makes it clear that it really wants nothing in return.



A disarming approach

that he intended scrapping their jobs (he is planning to turn the Senate into a regional chamber like the German Bundesrat). When an opposition lawmaker objected to his manner, he replied that it was "perhaps because you are increasingly far away from how people speak outside".

The biggest problem, however, was the lack of detail in Mr Renzi's speech. He has promised a reform a month until June: of employment law, bureaucracy and taxation. But he put no flesh on his proposal for a new employment contract, or the extension of unemployment benefits to all. Instead he talked about a €10 billion (\$13.7

billion) cut in the direct-tax wedge (income tax plus social-security contributions), a school-building programme costing "several billion" as well as clearing the state's debts to private firms, estimated at up to €100 billion. But there was no real explanation as to how Mr Renzi intended to pay.

Troubled by Mr Renzi's earlier promises, the EU's economic-affairs commissioner, Olli Rehn, has already fired a warning shot. He will not be comforted by the prime minister's comment to the chamber that he wanted a Europe "where Italy doesn't go to take instructions to know what to do". ■

Greece's troubles

The troika is back

ATHENS

The stand-off between the government and international lenders continues

THE scene is familiar: burly Greek bodyguards hustle a trio of foreign bureaucrats into the finance ministry through a side entrance to avoid a cluster of anti-austerity protesters shouting “troika go home”. Hours later tight-lipped representatives of the troika—the European Commission, IMF and European Central Bank (ECB)—head back to their hotel while ministry officials spin their version of the talks: heroic Greek resistance to “excessive” demands made by the country’s international creditors.

After almost six months of talks the stand-off is still unresolved. Greece has implemented only about half the measures it signed up to last summer, say European Union (EU) officials. The troika returned to Athens on February 24th, intending to reach a deal that could be approved at a meeting of the euro-zone finance ministers on March 10th. That would unlock another sizeable tranche of bail-out funding, enabling Greece to repay €9.3 billion (\$12.8 billion) of bonds maturing in May, and start planning a return to international financial markets with a modest bond issue later this year.

Disputes over liberalising the market for fresh milk and allowing supermarkets to sell non-prescription drugs underline how the fragile coalition government led by Antonis Samaras, the centre-right prime minister, is held hostage by interest groups. Other disagreements grab fewer headlines but could do more harm to Greece’s chances of an economic turnaround this year. According to the central bank, stress tests on four big Greek lenders showed they will need about €6 billion in fresh capital to stay solvent. But the IMF has come up with a mind-boggling €20 billion estimate for recapitalising the banks, implying that Greece will be unable to avoid a third international bail-out. (The ECB will perform its own stress tests later this year.)

Yet the outlook is not all gloomy. The country’s recession slowed last year, with the economy shrinking by 3.7% compared with the troika’s forecast of 4%. Finance ministry officials seem confident that Eurostat, the European Commission’s statistical arm, will confirm an unprecedented primary budget surplus (before interest payments) of €1.5 billion in 2013.

Another record year for tourism is forecast, driven by a recovery in the EU and more bookings from Russian and Chinese visitors. After months of tough negotia-

tions with the Greek state gas utility, Russia’s Gazprom has agreed to cut natural-gas prices by around 15%, backdated to last July. This should result in price cuts of around 12% for hard-pressed Greek consumers.

Mr Samaras still holds a lead as “most suitable prime minister” over Alexis Tsipras, the radical opposition leader, according to opinion polls. Yet his New Democracy party consistently lags a few points behind the Syriza party under Mr Tsipras. The centre-right has lost voters to Golden Dawn, a neo-Nazi party, whose leaders are in jail accused of running a criminal gang. At the same time, Syriza is attracting a

steady stream of former supporters of the PanHellenic Socialist Movement, the junior partner in the governing coalition.

Elections in May for the European Parliament, regional governors and local mayors will show how popular Mr Tsipras is with voters. Syriza officials are already eyeing the presidential vote next March, when Mr Tsipras may have a chance to trigger a general election if parliament fails to elect a new president to replace Karolos Papoulias. With the governing coalition almost 30 votes short of the required three-fifths majority, Syriza’s moment may come at that point. ■

Germany’s Wulff scandal

Overzealous

BERLIN

An acquittal makes Germans reflect on their prosecutors

IN HIS journey from hubris to downfall and now redemption, Christian Wulff is a tragic Sophoclean character for many Germans. A former premier of Lower Saxony, Mr Wulff became Germany’s president in the summer of 2010. With his second wife, Bettina, he cut a glamorous figure. Then *Bild*, a tabloid, began hounding him. Mr Wulff reacted like a cornered animal, forfeiting the dignity of his office. When prosecutors in Lower Saxony began investigating him for corruption in February 2012, he had to resign. Germany’s press and public gloated.

Their mood has turned. In the legal cultures of Anglo-Saxon countries prosecutors are understood to be adversaries of equally partial defence attorneys, overseen by neutral judges. But in Germany’s system, prosecutors must look for the truth, not just convictions. This means that they must explore exculpatory scenarios.

Mr Wulff’s prosecutor, Clemens Eimterbäumer, and his boss, the attorney-general of Lower Saxony, Frank Lüttig, increasingly seemed to lose a sense of proportion. At the time Mr Wulff resigned, Mr Lüttig worked for Bernd Busemann, who was the state’s justice minister and a known political enemy of Mr Wulff’s. Mr Eimterbäumer’s investigation kept expanding, to reach a cost of €4m (\$5.5m). He called dozens of witnesses, rummaged through 30,000 pages of documents as well as 45 bank accounts and eight offices, houses or flats.

And yet his case kept shrivelling. Visibly irritated by the often petty evidence, Frank Rosenow, the judge, threw out the main charges. What remained was the sum of €770. This was the amount that David Groenewold, a film producer, paid for a hotel when the Wulff family visited the Oktoberfest in Munich in 2008. Mr Wulff later asked the boss of Siemens, an industrial giant, whether he might support one of Mr Groenewold’s films. To Mr Eimterbäumer, Mr Wulff was thereby “taking advantage” of his office and committing a crime.

On February 27th Mr Rosenow declared Mr Wulff not guilty of that charge as well. For Mr Wulff, this was a victory at last. His wife and many friends have abandoned him, and he is a shadow of the person he once was. But he can now rebuild his life. He will apparently join a law firm, with a brief to introduce Turkish and Arabic companies to business in Germany.

The most gratifying turn for him may be that the same public that gloated at his downfall is now celebrating with him. The consensus is that he paid more than he owed for his shortcomings. As all rose in a Hanover courtroom this week, the accused, if any, were the prosecutors.



Not crying Wulff

Charlemagne | How to be good neighbours

Ukraine is the biggest test of the EU's policy towards countries on its borderlands



WHEN the European Union expanded to take in eight former Communist countries, leaders faced a conundrum: they did not want to keep extending the club eastward, neither did they want to tell Ukraine and others that they would be shut out forever. So they devised a middle way: the EU would offer to extend large parts of its single market to countries in eastern Europe, the Caucasus and the Mediterranean rim, without making any promises of membership.

This European Neighbourhood Policy was meant to create “a ring of friends”. Ten years on, Europe's borderlands look more like a ring of fire. Libya has been in violent chaos since the overthrow of Muammar Qaddafi. In Egypt one military ruler was replaced by another after a brief interlude with an elected president. Syria is suffering an appalling civil war. Georgia has lost territory after a war with Russia. Belarus languishes under the dictatorial Alexander Lukashenko. Two small countries, Tunisia and Moldova, are the closest thing to success.

For a time it looked as if Ukraine would join the list of failures. Last November, ahead of a summit in Vilnius of the EU and ex-Soviet countries, President Viktor Yanukovich caved in to Russia and refused to sign an association agreement with the EU that included a “deep and comprehensive” free-trade deal. This was a pyrrhic victory for Russia. Pro-European protesters took to the streets of Kiev and, after weeks of confrontation that culminated with the shooting of protesters, Mr Yanukovich ran away.

Opinions around Europe are divided about the meaning of events in Kiev. A recent paper by Stefan Lehne, a former Austrian diplomat, argues that the neighbourhood policy has failed. Modelled on the enlargement process, it “does not work for countries that do not want close association with the EU, and the absence of the carrot of future membership frustrates those who do”, writes Mr Lehne in his paper for Carnegie Europe, a think-tank. The slow process of enacting European standards, on everything from the environment to food safety, was designed for a stable world, not tumultuous revolutionary change. Others, though, are convinced that the victory of Ukraine's Maidan protesters is proof that Europe's soft power can still trump Russian bullying.

Ukraine presents the EU with an opportunity to redeem itself. The foreign ministers of Poland, Germany and France were in

Kiev at the height of the shooting, and may have facilitated a controlled collapse of Mr Yanukovich's rule. The EU's foreign-policy chief, Cathy Ashton, was in Kiev this week to urge victorious anti-Yanukovich parties to create an “inclusive” government and avoid witch-hunts. The visitors come away with a strong sense that they must not let down those who risked their lives. But as Mr Lehne argues, their tools may be too limited.

The EU decided far too late to impose sanctions on Mr Yanukovich's regime. The deal it offered Ukraine involved long-term modernisation and a pledge to support an IMF-sponsored adjustment programme. It said it would not be drawn into a bidding war with Russia, which instead offered a large instant loan and cheaper gas. Now Europeans are scrambling to come up with a short-term financial package to halt an imminent default. They are still hoping that Russia might contribute. They are also planning to send technical experts to help Ukraine manage reforms and ensure the money is not stolen. Andrew Wilson of the European Council on Foreign Relations, a think-tank, has proposed a longer to-do list. It includes help to recover stolen assets stashed away in Europe, limited interim trade-agreements to help kick-start the economy, inclusion of “civil society” in political reforms and facilitating EU visas for Ukrainians.

Soon the Europeans will have to decide whether to go ahead with the accord that Mr Yanukovich rejected. Most think they should wait until Ukraine holds presidential elections, changes the constitution and then holds a ballot for the new parliament. The current crop of opposition leaders taking over power in Kiev, not least Yulia Tymoshenko, the former prime minister, are viewed with suspicion by many Maidan protesters. EU officials also worry about provoking Russia in its already resentful mood.

In fact, the timing will be decided by Ukrainians themselves. Having been prepared to deal with a man who now has much blood on his hands, and having promised Ukrainians that the accord remains on the table, the EU can hardly refuse if the interim government asks to sign it.

Back to the future

The signature ceremony would be a good time to answer the question Europeans have tried to avoid for a decade: should they offer a “membership perspective” to Ukraine? Earlier this month EU foreign ministers dropped a cryptic hint in a statement, saying that the association agreement “does not constitute the final goal in EU-Ukraine co-operation”. They should be more explicit and say that a future democratic Ukraine would be eligible to apply, even though the prospect is far off.

The Europeans should also rethink the neighbourhood policy, which lumps together disparate countries merely because they happen to be nearby. In the south it may have to devise a wider concept of its interests stretching out to the Sahel, the Horn of Africa and the Middle East. Here Europe has no real friends, lots of acquaintances and not a few enemies. To the east it needs better ways of helping those who want to move closer to the EU.

Above all, the EU needs a coherent policy to deal with Russia. Its members are divided between Russo-sceptics, particularly in the Baltic states and Sweden, and Russophiles including Cyprus, Italy and Hungary. Russia's behaviour in Ukraine should be a warning to all Europeans of the danger of embracing Vladimir Putin closely. ■

Social mobility

A memo to Obama

Want to make America less unequal? Here are some suggestions

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Memo To: Barack Obama, President of the United States

From: Your Shadow Council of Economic Advisers

Subject: Mobility

Dear Mr President,

You and John Boehner, the Republican House Speaker, don't agree on much these days. Yet for a few sentimental seconds during your state-of-the-union message, you were in harmony. That was when you described America as the country where "the son of a barkeeper is Speaker of the House" and "the son of a single mom can be President of the greatest nation on Earth." If Democrats and Republicans agree on one thing, it is that America is the land of opportunity, where the humblest child can grow up to fame and fortune.

Sadly, the numbers tell a drearier story. America is not a particularly mobile place; a child born in the poorest fifth of society has only a 9% chance of making it to the top fifth. And because incomes have become much more unequal, it is much worse now to be stuck at the bottom.

Inequality is driven by technology and globalisation. It is therefore hard to fix. Your preferred solution—taxing the rich more—is a blunt-edged response to inequality and in any case anathema to Republicans. Mobility and opportunity, on the other hand, get their hearts pounding.

In your budget next week you'll have a chance to offer concrete proposals for improving mobility. There are plenty out there; here, we highlight the best.

Caught in the safety net

Employment is essential to mobility. You know that; but while you have rightly tried to bolster the demand for labour, you've neglected the supply. The Congressional Budget Office (CBO) says that, by 2024, 2.5m fewer people will work because of the disincentives embedded in Obamacare. The fact is that all means-tested transfers, including Obamacare, discourage work, which can worsen mobility. Conversely, time spent on the job makes men and women more productive and valuable to their employers, leading to higher salaries later in life.

The solution is not to do away with means-testing or transfers, but to incentivise work in other ways. This is where the Earned Income Tax Credit (EITC) comes in. It costs \$63 billion a year, but it is one of America's most potent anti-poverty tools. Unlike most other parts of the safety net, it is contingent on work, and ample research shows that it boosts employment for those who get it.

But while a family can qualify for an EITC of up to \$6,143, a childless adult's benefits stop at a paltry \$496: a poor incentive to work. It needs expanding, as you've said yourself. Marco Rubio, a Republican senator, suggests converting the credit to a wage subsidy, so that beneficiaries get the money regularly in their pay-cheque instead of once a year as a tax refund. A universal wage subsidy would be very expensive, but proponents describe it as a reverse payroll tax that would strengthen the connection to work. Mr Rubio has also proposed rolling all safety-net programmes into a single state-administered grant, similar to Britain's "universal credit". Simpler is usually better.

The minimally invasive wage

The centrepiece of your attack on inequality is your plan to raise the federal minimum wage from \$7.25 an hour to \$10.10 in stages, and then index it to inflation. The CBO has found that this will benefit 16.5m workers earning at or near the minimum wage, and will lift some 900,000 out of poverty.

The impact of the minimum wage on employment is usually said to be tiny. But the CBO says that your proposal would cost around 500,000 jobs, especially among teenagers; and teenage joblessness can crimp mobility later in life. So take the minimum wage out of politics and entrust it to a panel of technocrats, as Britain has done. They would set the timing, size ▶▶



▶ and differentials, and thus reduce the risks.

Any negative effects of the minimum wage can be counteracted through the EITC. Isabel Sawhill and Quentin Karpilow of the Brookings Institution recommend coupling the higher minimum wage with a tripling of the childless EITC to \$1,625, while requiring recipients to work more hours to qualify. They reckon this will reduce welfare payments and raise taxes enough to pay for the expanded EITC.

Between the dole and a hard place

America has traditionally offered skimpy unemployment insurance because it was quick to put the jobless back to work. No longer. At present a third of the unemployed, 3.7m, have been without a job for six or more months. Each month a quarter of the long-term unemployed drop out of the labour force altogether.

Much more needs to be done, especially for the hard to hire. A decade ago, Britain experimented with a new scheme that offered intensive counselling and training to the long-term unemployed, plus cash bonuses for those holding steady full-time work for two years. Five years later, beneficiaries were 11% more likely to be employed than the control group. Savings on UI and other benefits exceeded the programme's cost by four to one.

To the best of their ability

Disability insurance (DI) was added to Social Security in 1954. Since then, it has become more generous and its eligibility has been relaxed. The number of beneficiaries has climbed from 1.5m in 1970 to 8.9m in 2013; the disability trust fund is scheduled to go bust in 2016.

Since people who end up on DI seldom leave, the key is to persuade them not to apply. Anyone who can work a bit should be classified as unemployed rather than disabled. In Denmark, for example, only the permanently incapacitated receive a benefit. When the Netherlands required employers to pay the first two years' benefits for disabled employees, and to pay higher premiums if they put more workers in the programme, caseloads fell.

Training and gaining

Practical, vocational training is where America is weakest. There are plenty of training programmes: 47 spread across nine agencies, many targeting the same people. The real problem, though, is not duplication but lack of money—and ineffectiveness. In 2011 America spent a paltry 0.1% of GDP on "active" labour measures designed to put the unemployed back to work; the OECD average was 0.6% (see chart 1). Federal spending per head on retraining has fallen by a third in the past 20 years (see chart 2).

We know what works: listening to what local employers want. In New York, Boston and Milwaukee non-profit organisations did this, in some cases extracting commitments to hire. A two-year evaluation found that participants were earning \$4,000 more in the second year than the control group. The labour department is now offering grants to community colleges that train students for jobs identified by local employers. You can build on this.

Moving up by moving out

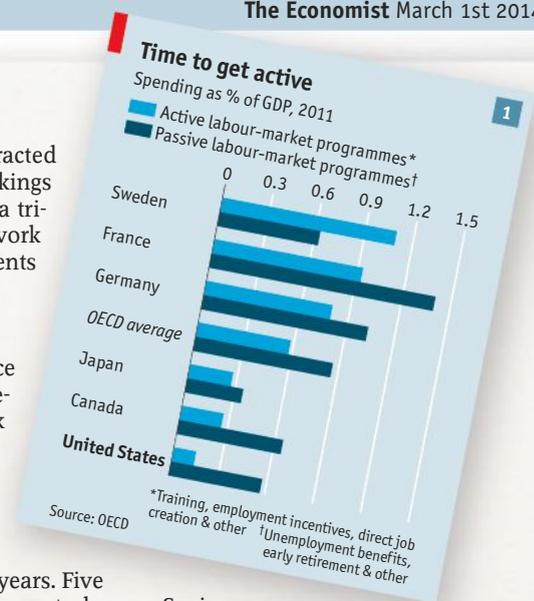
Americans are usually quick to up sticks in search of a better life. But the share of Americans who move counties each year has been declining for nearly 30 years. Blame demography (older people change jobs less often), dual-earner couples (he wants to move; she doesn't) and, recently, inability to sell a house.

But employment was 12 percentage points higher among people who moved than people who didn't, according to a Hamilton Project study covering 2005 to 2008. Michael Strain of the American Enterprise Institute recommends cash assistance for those who move if a new job is at least a two-hour drive away.

Get 'em while they're young

So far we have focused on Americans of working age; but the very young need your attention, too. Research shows that poverty can damage learning (and hence prospects) in children as young as five. This is why everyone wants to expand pre-school education. But the most successful interventions start very early; are intensive, also involving home visits, health and nutrition care; and cost a bundle. You need to rethink your proposal for universal "high-quality" pre-school for four-year-olds. Better to concentrate the money on a smaller, younger, truly disadvantaged group of children.

Coming up with ideas is easier than paying for them. But it can be done. We spend vast sums on entitlements for the rich elderly that do nothing to help mobility or narrow inequality. If you can persuade your fellow Democrats to rein in entitlements, Mr Boehner may convince Republicans to relent on taxes. America would get its grand bargain—and the promise of a more mobile society. ■



Stingy

Federal spending on training per person
\$, 2005 constant prices



Detroit's bankruptcy

Cram down

DETROIT

Bondholders choke at the city's restructuring proposals

ON THE seventh floor of the federal bankruptcy court on West Fort Street in Detroit there is a quiet sense of inevitability. At the end of a long hallway encased in deadening marble, America's largest municipal bankruptcy case is being heard. Last Friday the city filed its "plan of adjustment", the technical term for the document that says what it can pay. At the same time, Detroit outlined plans for investing more than \$1.5m in the beleaguered city. A third of this money will be spent on demolishing abandoned properties.

In order to shed much of its \$18 billion debt, Detroit proposes giving unsecured bondholders, including holders of general-obligation debt, 20 cents on each dollar. Pensions will be cut, too. General pensioners will receive only 66% of their monthly pension (74% if they agree quickly). Pensioners in the police and fire departments have been offered 90%, but swift approval will net them 96%. The fact that some groups are doing far better than others sets the stage for some to approve the deal. This, in theory, allows the judge to impose the deal on other creditors—a "cram down", as it is called. In fact, if either class of pensioners rejects the deal, even a cram down cannot force it through.

Bondholders are particularly furious that they are being offered so much less than pensioners. But no one seems to care much what happens to them. On the frozen streets of Detroit this week, it was the old folk citizens felt sorry for. But they also

knew there was nothing else to be done.

The restructuring plan rests on a grand bargain dreamed up by the state, foundations and the Detroit Institute of Arts (DIA). These groups will contribute \$820m between them to the pension fund, but on the understanding that their cash is used to bolster the amount that pensioners, rather than other creditors, receive. At the same time the DIA would become an independent non-profit, a move intended to protect the art collection, much of which is now owned by the city. Bondholders are not impressed with this idea, either.

Rick Snyder, Michigan's governor, will need to prise \$350m from state lawmakers, who happen to be flush with unexpected extra tax revenues. But if the grand bargain fails, pensioners will get less than is being offered.

The goings-on in Detroit are being watched closely elsewhere, particularly in California, where several mid-sized cities have declared bankruptcy in recent years. They too face growing pension costs and dwindling revenues. Yet Vallejo and Stockton shied away from cutting their obligations to the state's giant public-pension fund, even as they slashed spending on other things.

In Vallejo the result is, once again, a growing fiscal deficit and the unbearable prospect of a second bankruptcy, three years after it emerged from the first. Moody's, a rating agency, warned recently that pension costs in Stockton and San Bernardino would become "increasingly burdensome" if the cities failed to tackle them while in bankruptcy. Detroit's case may give San Bernardino the courage to cut its future pension liabilities. But unions in Detroit are already appealing against the decision to include pensions in the city's bankruptcy deal. The only certain outcome is that billable lawyer-hours will show sustained and healthy future growth. ■

Texas politics

Stupid season

AUSTIN

With primaries looming, Texas gets ready for new political leaders

"I'M A very staunch supporter of the Second Amendment, but why talk about it?" said J. Allen Carnes in a recent interview with a state newspaper. "It has nothing to do with this job, unless you're talking about hog eradication." Similarly, he said, he would steer clear of the state's debates about abortion and sexual ethics: "Abstinence doesn't work for cows." Mr Carnes is a farmer, the mayor of the small Texas town of Uvalde, and a candidate for state agriculture commissioner. He is also one of the few Republicans running in Texas this year who has not raced to convince voters of his far-right credentials in advance of the primary, which will be held on March 4th.

The Texas elections have drawn more national attention than usual this year, because Democrats have an unusually prominent candidate for governor in Wendy Davis, a state senator from Fort Worth who became a hero to the left last summer after filibustering a strict new abortion bill. In January her campaign announced a whopping \$12.2m fundraising haul for the previous six months. It has, however, been 20 years since the state elected a Democrat to any office of consequence, and she seems to be better at raising money than campaigning. At this point, at least, there is little to suggest that Ms Davis is the Democrat who can topple Goliath. Come 2015, Republicans will probably still hold all the top jobs.

Most of those offices, however, will change hands. Last year Rick Perry, the governor, decided not to run for re-election. The attorney-general, Greg Abbott, is hoping to replace him. The comptroller, Susan Combs, is retiring. The lieutenant-governor, David Dewhurst, is running for re-election, but he has several primary challengers, including the incumbent land commissioner, Jerry Patterson, and the incumbent agriculture commissioner, Todd Staples. Texas will have new leaders in at least five of those jobs, and possibly six, and the game of musical chairs has created a fair number of openings further down the ballot. The top Republican candidates for attorney-general, for example, are a state representative, a state senator and a member of the powerful state agency that oversees oil and gas production.

The change has been a long time coming. Mr Perry is the longest-serving governor in Texas history, having taken over the job after George W. Bush was elected presi- ▶▶



Rodin's "Bankrupt Considering his Options"

dent in 2000. Mr Abbott, Mr Dewhurst and Mr Patterson have served in their current roles nearly as long; all three were elected in 2002. Plenty of people will welcome the shake-up after more than a decade of Mr Perry's affable hegemony. The transition, however, may be more challenging than anyone expects. Mr Perry's years as governor marked a momentous time in Texas. The state has added more than 5.5m people since 2000, and by most economic-development measures it has easily outperformed the national average. Growth has also brought problems—the schools are underfunded, the roads are overcrowded—but Texas is broadly better off than it was 13 years ago. Regardless of how much credit the current leaders deserve for that, they are the ones who have been at the helm.

All too many of the candidates in this year's Republican primaries seem to have forgotten what the party has got right, and why they have maintained their power in a state where demography increasingly favours the Democrats. Few are stressing the economy which is, under the circumstances, the only thing any of them should be talking about. Instead, they are debating whether people should be allowed to carry guns openly in public, whether the state should allow abortions after the 20th week of pregnancy if the mother's health is at risk, and so on. Such fringe issues are not a priority for most Texans—though they

may be more exercised by the decision of a federal judge, on February 26th, to overturn the state's ban on gay marriage.

Texan conservatives can be a fairly pragmatic lot. As recently as 2012, the state Republican Party added a plank to its platform in favour of an expanded guest-worker programme. This year, however, one of the candidates for lieutenant-governor has been vowing to stop what he calls an "illegal invasion". That is, first of all, dubious; unauthorised migration to the United States has apparently stalled since the recession. It is also unwise rhetoric in a state where Hispanics, most of whom are American citizens, will soon be a majority of the population.

Many Republicans admit, *sotto voce*, that they are uncomfortable with the party's lurch to the petty and paranoid side of the spectrum. Last week Mr Abbott came under fire after holding several campaign events with Ted Nugent, an ageing rock musician who recently called the president, Barack Obama, a "subhuman mongrel"—a comment that elicited a rebuke from Mr Perry and a passive-aggressive apology from Mr Nugent himself. ("I apologise, though not necessarily to the president.") It is not unusual for elections to become overheated in the home stretch; political operatives refer to these last few weeks as the "silly season". This time round, "stupid" may be a better word. ■



Another bad law avoided

cope with the conundrums of modernity. Comparisons of SB 1062 to Jim Crow never seemed right, because Arizona differs from the conservative states of the south-east; it has a libertarian streak and is slowly turning leftwards, thanks in part to a growing Latino population. Gay-marriage proponents see it as a riper target than the states of the Confederacy. No other border state felt it necessary to pass SB 1070-style legislation. But Arizona's legislators ploughed on regardless. (The state legislature is one of America's most polarised.)

Yet as the gay-marriage juggernaut rolls on, the Arizona row does provide a useful reminder that social conservatism remains a potent political force. Most Americans back gay marriage, but most also say it violates their religious beliefs. The pace of such change is unprecedented; the absence of a backlash would be a surprise. The difficulty for conservatives is that their rational contentions—that gay unions are bad for children, or the institution of marriage—have, one by one, been weighed in courts and rejected. And so they have retreated to the realm of faith, where there is no obligation to provide argument, merely to demonstrate sincerity of belief.

The Arizona law, and similar bills elsewhere, appear to have been motivated by lawsuits against businesses that refused to provide services (photography, cakes) to gay couples on religious grounds. Federal law does provide for protection of religious sensibility, and states that allow gay weddings do not force places of worship to host them. It is not immediately obvious why such protections should not extend to the private sector; as defenders of Arizona's law argued, they do not shed their faith when they leave church on Sunday.

Still, that argument is probably better played out in the market than the courts. Hard cases, as the saying goes, make bad law. The irony is that none of these hard cases happened to take place in Arizona—and the state still made a bad law. ■

Anti-gay laws

What's the matter with Arizona?

LOS ANGELES

The state Americans love to hate

IN THE end, death came decisively. After days of feverish speculation, on February 26th Jan Brewer, Arizona's Republican governor, vetoed SB 1062, a bill passed by the legislature a week earlier that would have allowed private businesses to cite religious beliefs as a defence against lawsuits over discriminatory treatment. Although the law made no mention of sexuality it was widely, and correctly, interpreted as a licence for business owners or their employees to deny service to gays. Large corporations, local business groups and Republican bigwigs had fallen over themselves urging Ms Brewer to ditch the law. A group of Hispanic lawyers scrapped plans to hold a convention in Phoenix, the state capital; other boycotts, including of the Super Bowl in Glendale next year, might well have followed.

To have signed the law would thus have amounted to a huge provocation. Still, Ms Brewer, who has not made courting minor-

ity groups a signature theme of her administration, was surprisingly full-throated in her rejection of SB 1062, saying it could have divided the state in ways that "we cannot even imagine". That seems right; the law's wording was worryingly vague.

But it is becoming hard to ignore the singular ability of Arizona's legislators to bring national scorn upon themselves by passing nasty, ill-considered legislation. The row over SB 1062 comes less than four years after the passage of SB 1070, a law Ms Brewer did sign that empowered state police to enforce federal immigration law and which, say critics, encouraged racial profiling. (The Supreme Court struck down most of its provisions before it went into effect.)

Other states are considering religious-freedom laws like Arizona's, and SB 1070 inspired similar legislation elsewhere. So why does Arizona take all the heat? Partly because it tends to go farthest; and also because it displays a peculiar inability to

Reforming taxes

Here's a plan

WASHINGTON, DC

Lower rates, broaden the tax base. And pray

BUSINESSMEN REACTED swiftly when a leading Republican lawmaker unveiled a proposed tax overhaul on February 26th. Advertisers moaned that it would “stifle economic activity”. Oil companies saw “serious flaws”. Estate agents were “extremely disappointed”.

This merely served to confirm that Dave Camp, chairman of the tax-writing committee in the House of Representatives, had done what he set out to do: lower tax rates and broaden the tax base by attacking the countless preferences that leak \$1 trillion in revenue a year and make compliance a nightmare.

The plan, three years in the making, would slash the top corporate tax rate—at 35%, the highest in the OECD—to 25%, and pay for it by shrinking tax breaks. The biggest savings come from slowing the rate at which business can depreciate capital equipment, and from eliminating the special break for domestic manufacturing.

Mr Camp would shift America to a “territorial” system, meaning multinationals would no longer owe American taxes on the bulk of their foreign-owned profits. The practical impact would be small, since corporations can now avoid such taxes by leaving those profits abroad. The hope is that the lower tax rate would encourage business to keep operations and offices in America. He would also penalise too-big-to-fail banks with a 0.035% tax on assets in excess of \$500 billion.

There are now seven tax rates for individuals, which range from 10% to 39.6%. Mr Camp would reduce them to just two: 10% and 25%. This is deceptive, however: he would also impose a 10% “surtax” on families earning more than \$450,000, so their top rate drops only to 35%. He also scraps the hare-brained alternative minimum tax, a parallel tax that ensnares a large and growing chunk of the upper middle class. But state and local taxes could no longer be deducted from federal tax, and nor could interest on mortgages over \$500,000 (the present cut-off is \$1m). Both these breaks most benefit the rich.

Mr Camp would convert the Earned Income Tax Credit (EITC), which adds a dollop of cash to the pay-cheques of the working poor, to a payroll-tax rebate. This would significantly reduce the generosity of the credit, which Mr Camp justifies by asserting that the EITC is inefficient and riddled with fraud, a common conservative complaint. It is, nonetheless, a strange tar-

Congress

Dingell's bell

WASHINGTON, DC

The longest-serving member of the House announces his retirement

WHEN John Dingell was first sworn in to represent an industrial district of Michigan, Ford's newest model had white-walled tyres, sparkling chrome trim and “jet-like rear fenders”. On February 24th Mr Dingell announced that he would not seek re-election in the autumn, bringing to an end his 59-year career in Congress, the longest in American history. “I don't want people to say I stayed too long,” he explained to the *Detroit News*. Besides, working in Congress had become “very hard because of the acrimony and bitterness”.

When Mr Dingell arrived in the House in 1955 he already knew the place well. He had worked as a page in Congress, scurrying around its corridors during Franklin D. Roosevelt's administration. Mr Dingell's father, who changed his name from Dzieglewicz for the purpose of a campaign jingle (“Ring In with Dingell”), had represented the same Michigan district. The fondness for metre was inherited along with the seat: Mr Dingell liked to issue an annual Christmas poem with a political theme. He recited the



A poet, too

2005 version, which poked fun at hysterical right-wingers, in couplets, on the floor of the House.

If this gave the impression that Mr Dingell was a lightweight, it was misleading. He has been tough and, when running a committee on investigations, even feared. From that chair he thoroughly embarrassed Ronald Reagan's defence secretary by revealing that the Pentagon had somehow managed to pay \$640 for a toilet seat.

His longstanding position as chair of the House committee on energy and commerce gave him power to interrogate most corners of American business. Mr Dingell's tussle over the remit of that committee with another Democrat, Henry Waxman, lasted longer than most wars. Mr Waxman won, but Mr Dingell bested him in the battle of the retirees; Mr Waxman was the first of the two men to announce that he was leaving Congress.

What Mr Dingell did with this considerable power was defend the car industry, blocking the regulation of exhaust fumes, fighting competition from Japanese imports and championing the bailouts of GM and Chrysler in 2009. He also opposed restrictions on the right to bear arms. This made him look like a conservative Democrat, a type more often found in the South than beside the Great Lakes. On other subjects, though, he was a believer in government intervention. “I went through the Great Depression,” he noted in the speech to a Michigan chamber of commerce in which he announced that he was going. He championed universal health care long before it became Democratic policy, and has defended Obamacare while others have fled it.

To keep the seat in the family, Mr Dingell's wife has declared that she will stand in her husband's place. Her name-recognition, in a district that has had a representative with the same surname since 1933, gives her a formidable advantage. By the time she retires the Fords will probably be driving themselves.

get; Republicans generally like the EITC, since it encourages people to work.

The nonpartisan joint committee on taxation reckons Mr Camp's plan favours neither rich nor poor relative to the current system. It also thinks the plan, by boosting work incentives and take-home pay (and thus consumption), would leave the economy between 0.1% and 1.6% larger, permanently. More's the pity, then, that the bill's

political prospects are grim. Democrats have insisted that tax reform must raise money to reduce the deficit or fund their priorities; Republicans are equally insistent that tax reform must not raise new revenue. With little chance of the bill becoming law, Republicans see no point in antagonising so many vocal constituencies by putting it to a vote in an election year. ■

Lexington | Boots on the ground

Mad procurement rules help explain why defence spending is so hard to cut



AT THEIR factory in Big Rapids, Michigan, workers at Bates, a maker of military boots and shoes, can see geopolitical trends unfold before their eyes. Straight after the September 2001 terror attacks on America, the firm moved to round-the-clock shifts. The black leather boots of the cold war and its aftermath gave way to shades of beige and tan: hot-weather boots for marines, desert footwear for the infantry, mountain gear for special forces. Today the plant is evolving once more. If procurement orders are any guide, American commanders are bracing themselves for conflicts in any number of continents. Staff report much work on jungle boots and discussions of the right shades of leaf-green to use in Asia, Africa or Latin America.

Other trends may be seen in Michigan. A war-weary public likes it when politicians vow that future interventions will avoid large-scale “boots on the ground”. The line resonates differently in a place that actually makes boots for soldiers, in a hot, noisy ballet of cutting, stitching and hammering. As wars have wound down, the plant has shed half its workers since a peak in 2008-09.

On February 24th, a world away in Washington, DC, the defence secretary, Chuck Hagel, made headlines by suggesting that America’s regular army could fall to its smallest size since 1940, as he unveiled a \$496 billion draft budget for 2015 that would also add to special forces, while retiring whole classes of ageing aircraft and asking Congress to consider closing unneeded bases. Noting that personnel costs consume about half the Pentagon’s budget, Mr Hagel suggested modest tweaks to military pay, allowances and benefits, after large (and understandable) rises throughout the long years of war after 2001.

Yet harnessing austerity to reform the defence budget will be dauntingly hard. Congress will have final say over Mr Hagel’s plans and something about camouflage gear has a strange effect on politicians. Even in this era of cuts, the Pentagon’s budget is vast: America accounts for about four of every ten dollars spent on defence worldwide. The temptation is always there to play at industrial policy or simple favouritism.

The scale and the complexity of Pentagon spending make it hard to assess the real prospects for reform. Lexington headed to snowy western Michigan to ponder how defence spending works on the ground in a single industry. As a case study, military

footwear is pretty startling. Boot factories in rich countries are a rarity. Indeed Wolverine Worldwide—the Michigan-based company that owns Bates, along with such civilian brands as Merrell and Hush Puppies—makes almost all its other shoes abroad, where labour costs are 30-40% lower. The plant in Big Rapids is still more unusual: every component used there is American, from leather (a Minnesota tannery provides most hides) to shoelaces, eyelets and the yarn used for linings. This patriotism is explained not by sentiment, but the law. Military footwear is governed by the Berry amendment, passed by Congress on the eve of war in 1941 to ensure that troops would be given home-grown wool and food. Today the amendment applies to most uniforms, tents, flags and processed food bought with Pentagon funds. These must be entirely American-made or -grown, unless domestic firms simply do not make the product.

Fish nuggets, American-style

The rules are far stricter than those that apply to the federal government through the Buy American Act, which smiles on goods once they are more than half American. They are also amazingly complicated. One clause specifies that fish nuggets served to troops must contain only fish caught in American waters or by an American-flagged ship, but may use foreign breadcrumbs.

The amendment’s stated aim is to preserve the industrial base. Yet a bipartisan clutch of senators and members of Congress—notably from states with some domestic shoe production—has spent years prodding the Pentagon to start buying a product that does not exist: all-American military running shoes. Under orders from Congress, defence officials formally asked domestic shoemakers in January to report if they could make “Berry-compliant” athletic shoes. The inquiry was made through gritted teeth. Market forces do a fine job of supplying comfortable, cheap running shoes to recruits. Defence officials argue that costs may rise if trainer choices are limited, and that injuries may even follow. The signals are clear enough: the Pentagon has no desire to get into the sneaker-design business.

In contrast, bosses at the Bates plant are eager to start making all-American military trainers, citing benefits to domestic industry and national security. One Bates executive raises the spectre of conflict with China, suggesting that allowing troops to buy Chinese-made shoes carries “geopolitical” supply risks. A rival firm with plants in Massachusetts and Maine, New Balance, has already bought a machine to make mid-soles, the last running-shoe component that it was buying in from abroad.

It is hard to fault companies for trying to generate new business. Congress’s record is more alarming. In a big break with the past, a cross-party majority of members now seems willing to tolerate lower overall defence spending. But those same politicians still fight to keep Pentagon cash for pet causes, home districts and nods towards protectionism. They are also wary of unpopular reforms. With an eye on mid-term elections in November, Congress recently overturned a tiny change to military retirement benefits after ex-soldiers complained. Members are expected to block talks about base closures. Mr Hagel may even struggle with his plan to trim subsidies for military supermarkets (which at \$1.4 billion a year are larger than the defence budget of Hungary).

Europe is mocked for running “heavily armed pension funds” rather than proper armies, as shrinking defence budgets are skewed towards personnel costs and politicised investments. Congress seems bent on pushing America into the same trap. ■



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Disorder in Venezuela

Towards the brink

CARACAS

The regime's brutal response to opposition protests fuels greater radicalism

THE sound of banging pots began well before dawn. Out on the streets on February 24th the barricades were going up across the south and east of Caracas, the capital city. Tree-trunks, blocks of concrete, burning tyres and smouldering rubbish brought traffic to a halt. In some areas demonstrators slicked the road surface with oil or spread spikes to keep government forces away.

It was the same picture in other big cities across Venezuela this week (see map). With impressive co-ordination, opposition radicals were sending a message to President Nicolás Maduro: beatings, bullets and tear-gas will not deter us. "Look, this is a sacrifice [we're making]," says a barricade-builder in San Cristóbal in the south-western border state of Táchira, where the protests began three weeks ago and tensions are highest. "It doesn't matter if it takes a month, two months, three months. We have to get rid of this government."

The protests started because of anger over violent crime, inflation and shortages of food, medicines and other basic goods. But the authorities' harsh treatment of demonstrators has fuelled the rage. Over a dozen people have been killed since the regime's response turned violent on February 12th; half were shot in the head. Most of the deaths have been at the hands of security forces or civilian gunmen backing the government: on February 26th the au-

thorities announced that seven members of the intelligence services have been charged with murder. The Venezuelan Penal Forum, a human-rights group, says it has documented 18 cases of torture among the hundreds of detainees. Over 500 complaints about abuses remain to be investigated. Dozens of amateur videos show an excessive use of force on the streets.

Moderate leaders of the opposition Democratic Unity (MUD) alliance are struggling to control the radicals, whose figurehead, Leopoldo López, has been in custody since February 18th. On February 22nd Henrique Capriles, a former presidential candidate, told a mass rally in the capital that there were "millions of reasons

to protest" but that for protesters to barricade themselves in their own districts played into the government's hands. That call has fallen on deaf ears.

There are signs of fracture within government ranks, too. The official line of the ruling United Socialist Party of Venezuela (PSUV) is that the opposition is trying to mount a "fascist coup"; a "truth commission" has been proposed to investigate "violence promoted by far-right groups". But Mr Capriles's calls for the authorities to cease repression and to free political prisoners were echoed on February 24th by José Gregorio Vielma Mora, a member of the PSUV and governor of Táchira state. Mr Vielma acknowledged abuses and said the economic crisis was behind the protests.

Although he later retracted these comments (presumably under pressure from the government), his words were the first public evidence of tensions within the regime. They were all the more significant because the governor, a retired military officer, took part in the 1992 coup attempt by the late Hugo Chávez, founder and "eternal leader" of the PSUV, and is highly regarded by many former comrades.

Meanwhile, the country's economic woes worsen. In an effort to blunt the impact of the protests, Mr Maduro decreed that this Carnival weekend (which coincides with the so-called "Caracazo" of 1989, when economic hardship led to days of looting and a massacre by the army) would begin on February 27th, two days earlier than scheduled. With many offices and stores already closed because of the protests, an extended holiday will exacerbate pervasive shortages.

"You can't get anything here," says Bettsi Carolina Quintero, an inhabitant of San Cristóbal. "No milk, no flour, no rice, no cooking oil—not even detergent." Shop- ▶▶



ping in the city these days involves knocking on closed store doors, such is the fear of violence and looting. The central government has reacted to the crisis in Táchira by sending in army troops and using Russian-built Sukhoi warplanes to buzz demonstrators. "I feel as if this were a war zone," says Ms Quintero.

With limited dollar reserves to buy the imported food on which Venezuela depends, and the country over \$10 billion in debt to foreign suppliers, the government this week fiddled with its complex foreign-exchange system yet again. Firms and private individuals will now be able to buy and sell dollars through intermediaries, using either cash or government bonds. Introducing more flexibility into the exchange rate should ease the shortage of dollars, but it is also likely to drive up inflation as a falling bolívar increases the cost of imports. Extreme economic hardship is just around the corner in Venezuela, and with it the likelihood that anger against the regime will spread. ■

Mexico

Shackling Shorty

MEXICO CITY

"El Chapo" should not yet be sent to United States prison

THERE is no doubt that Joaquín "El Chapo" (Shorty) Guzmán is an escape artist. The capture of the legendary drug lord on February 22nd followed 13 years on the run after he slipped out of one of Mexico's highest-security prisons in 2001—in a laundry cart, according to the official version. He is also what Raúl Benítez, a Mexican security expert, calls "the king of tunnels and drains".

In the 1980s Mr Guzmán perfected the art of smuggling cocaine across the Mexico-United States border through a tunnel, opened hydraulically by a lever in a toilet. Such engineering skills came to his aid in the days before his recapture in a beach-side condominium in north-western Mexico. As the Mexican authorities closed in on him in the city of Culiacán, authorities say he slipped away in tunnels and sewers connected to seven safe houses. It was only a series of phone calls, traced with the help of American intelligence, that finally gave him away.

Such slipperiness, coupled with the widespread perception that the Mexican justice system is not up to the task of incarcerating him, have led some law-enforcers in the United States to call for his extradition. (Mexico says that it has received no new extradition request; on February 25th the attorney-general, Jesús Murillo Karam,

told his counterpart, Eric Holder, that for now the trafficker would stay in Mexico.)

Many Mexicans would rather wash their hands of him, too, given the expense of keeping him in a high-security prison (where he will need protection from many of his sworn enemies) and the potential for enormous embarrassment if he were ever to escape again. Experts also argue that extradition would enable Mr Guzmán to be more effectively interrogated, using the carrot of United States visas for family members if he co-operates and the stick of frozen bank accounts if he does not.

There is plenty still to find out about the Sinaloa gang whose operations he headed. His two partners, Juan José "El Azul" Esparagosa and Ismael "El Mayo" Zambada, are still at large; and Juan Carlos Hidalgo of the Cato Institute, a think-tank in Washington, DC, notes that at one point the gang was said by the Mexican government to spend \$1.2 billion a year bribing policemen.

Drug lords held in Mexican prisons also have a reputation for continuing to run their operations from behind bars. As a sign of how much they fear extradition, Mr Guzmán's jail break in 2001, seven years into a 21-year prison sentence, came shortly before he was due to be sent to the United States.

But even though the United States has legitimate reasons for bringing Mr Guzmán to trial north of the border, including the damage his drug-trafficking empire inflicted there, Mexico has three arguments for keeping him in his own country. First, it has borne the brunt of the brutality as his "cartel" waged war against traitors and rivals: the Sinaloans are held responsible for more than 20,000 murders since 2006.

Second, the United States does not have a spotless record when it comes to extradition. The information the United States



Now you see him

gleans from extradited Mexicans is often withheld from law-enforcement officials in Mexico. In the past Latin American drug lords have been let out in witness-protection programmes, irking the countries that sent them there. Even the circumstances in which the fugitive's arrest was announced point to competition, not co-operation. Speaking anonymously, officials in the United States leaked news of Mr Guzmán's arrest before his Mexican captors had fully identified him, partly, it seems, to play up the role of their own agents.

Third, Mr Guzmán's detention offers Mexico a chance to instil confidence in its wider criminal-justice system. His capture was the result of good police work under the administration of Enrique Peña Nieto, and follows the arrest last year of several drug kingpins who remain jailed in Mexico. So far Mr Peña's anti-crime strategy, based on strong co-ordination between law-enforcement agencies, has exceeded expectations. Now he has a chance to do the same with Mexico's prison system. ■

Security in Brazil

Unarmed and dangerous

SÃO PAULO

Legislators and police ready themselves for World Cup protests

A CURB on masks is an odd thing for Brazilians to be contemplating just days before Carnival gets cracking. The justice minister, José Eduardo Cardozo, insists that the prop, as integral a part of the festival as scantily clad *sambistas*, will not vanish from Carnival parades or other "cultural, historical and folkloric events". But a bill he is about to send to Congress aims to restrict the use of masks in political protests.

Faceless protesters have been stirring up trouble sporadically since huge nationwide demonstrations, sparked by a proposed rise in bus fares, erupted last June. In February a television cameraman covering a protest in Rio de Janeiro died after being struck by a firework set off by two "Black Blocs", members of an anarchist group. One militant recently told *Estado de São Paulo*, a newspaper, that the group is ready to shower national football squads' buses and hotels with Molotov cocktails during the World Cup, which Brazil will host in June and July.

This is something President Dilma Rousseff wants desperately to avoid. Severe disruptions could spoil Brazil's big party, not to mention her chances of reelection in October. She has set aside 1.9 billion reais (\$800m) to pay for extra security during the event. The new law is another attempt to forestall violence. ►►

Besides requiring masked protesters to identify themselves to the police when asked, the law would stiffen penalties for vandalism and require organisers of demonstrations to forewarn authorities about protests. It is based on analysis of legislation in 30 countries, says the justice minister, who wants the bill fast-tracked through the legislature so it can enter into force before the World Cup.

The government proposal is more liberal than others that have been percolating in Congress since last year's unrest. But many think that Brazil already has all the legal tools it needs. Mischief-makers don't

care about such laws in any case, says Pedro Serrano, a professor of constitutional law at the Catholic University of São Paulo; the authorities like them because their vague wording offers a way to contain inconvenient social movements. Renato de Lima of the Fundação Getúlio Vargas Law School suggests that, instead of playing to public anger over Black Bloc excesses, the government ought to boost intelligence and co-ordination between dozens of disparate state and federal police forces.

Meanwhile, the police are experimenting with new tactics. An anti-World-Cup protest in São Paulo on February 22nd saw

the debut of the state's "ninja squad". Loosely modelled on outfits in Germany and New York, a special unit of roughly 100 men was recruited from among the burliest of the state's military police. The officers, who carried shields and truncheons but not firearms, used martial arts such as ju-jitsu and capoeira to immobilise demonstrators spoiling for a fight. With the backing of conventional troops they eventually rounded up 262 out of the 1,500-odd crowd. Just eight people were injured, a low toll by Brazilian standards. Mr Cardozo is talking about deploying ninja cops elsewhere. Not during Carnival, mind. ■

Bello | The going gets tougher

Sustaining recent social progress may require a squeeze on the rich

FOR Latin Americans, the past dozen years have been remarkable. The region has seen a magical combination of faster economic growth, falling poverty and declining income inequality. Is this unprecedented period of progress over?

Growth has certainly slowed, to below 3% in the past two years compared with an annual average of 5% in 2003-08. But poverty continues to fall. In a report* released this week, the World Bank reckons that in 2012 only a quarter of Latin Americans were "poor", a category defined as those living on less than \$4 a day at purchasing-power parity (see chart). The largest social group in the region is made up of those whom the bank defines as "vulnerable" to sinking back into poverty. But they are set to be surpassed in size by the middle class sometime in the next three years. That is significant, not least because the bank uses a more realistic definition of the middle class (a daily income of \$10-50) than those often banded about in the region.

As growth slows, however, so will the pace of the fall in poverty. The bank expects the annual decline in the number of poor to have dropped to only 0.8 percentage points since 2012, from 1.8 points in 2003-12. It also thinks the fall in income inequality has come to an end. The region's Gini coefficient—a standard measure where zero means that income is equally shared and one means one person takes it all—fell from 0.57 in 2000 to 0.52 in 2010, but the bank reckons it has more or less been stuck there since. This still leaves Latin America as the world's most unequal region, along with sub-Saharan Africa.

That assessment may be a bit pessimistic. The bank pools data from 17 countries in the region to come up with averages (it excludes Venezuela, whose statistics are not verifiable by outsiders).

Nora Lustig, an economist at Tulane University in New Orleans, has crunched the household-survey numbers for individual countries. She thinks the fall in income inequality is continuing in many countries, and has accelerated in Argentina, Bolivia and Ecuador—though not in Mexico, where it seems to have reversed in 2010. But she, too, thinks there is a risk of the fall in inequality petering out.

Government cash-transfer programmes to the poor, and demographic changes—a smaller proportion of dependents and more women going out to work—have played a role in reducing inequality. But the big change has been in wages: unlike in many developed countries, differentials between higher and lower earners have fallen in Latin America. The expansion in education, especially secondary schooling, has reduced the premium this previously attracted in the labour market. In some countries big rises in the minimum wage have also helped.

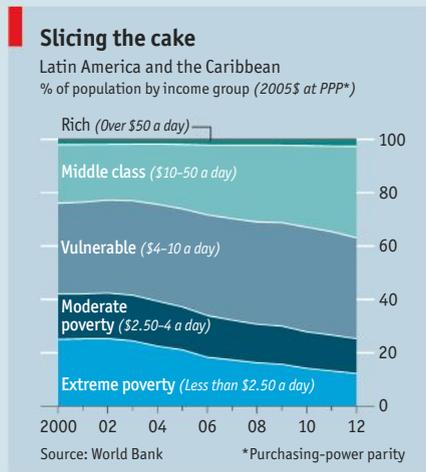
Such gains may have largely run their course. The poor quality of the region's

public schools risks holding back the expansion of higher education (together with slow economic growth, that seems to be the problem in Mexico, says Ms Lustig). Growing fiscal constraints and competitiveness problems mean the scope for rises in the minimum wage is limited.

So what can governments do to keep progress going? The most important answer is to undertake the structural reforms required to boost economic growth as the commodity boom wanes: 70% of the fall in poverty in 2003-12 was due to a rise in incomes from employment, not from social programmes, according to the bank. This message will be reinforced by a likely rise in poverty in Venezuela and Argentina, whose economies are suffering stagflation after years of handouts.

Keeping the fall in inequality going will require a crusade to improve the quality of education—which is easier said than done. Many governments need to spend more on health and education, especially for brown, black and rural Latin Americans, whose opportunities continue to lag behind. That means raising taxes (see page 80). But since most countries rely excessively on consumption taxes, this in turn risks aggravating inequality rather than reducing it.

Data on income from capital are skimpy. But because taxes on property, inheritance and capital gains are all low to non-existent, it is clear that, compared with their peers elsewhere and their salaried fellow-countrymen, rich Latin Americans pay less than their fair share of taxes. Keeping the fall in poverty and inequality going may require a squeeze on the rich—but done cleverly, so as not to deter growth-enhancing investments.



* "Social Gains in the Balance: A Fiscal Policy Challenge for Latin America and the Caribbean", February 2014



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The Economist

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What's gone wrong with democracy

Democracy was the most successful political idea of the 20th century. Why has it run into trouble, and what can be done to revive it?

THE protesters who have overturned the politics of Ukraine have many aspirations for their country. Their placards called for closer relations with the European Union (EU), an end to Russian intervention in Ukraine's politics and the establishment of a clean government to replace the kleptocracy of President Viktor Yanukovich. But their fundamental demand is one that has motivated people over many decades to take a stand against corrupt, abusive and autocratic governments. They want a rules-based democracy.

It is easy to understand why. Democracies are on average richer than non-democracies, are less likely to go to war and have a better record of fighting corruption. More fundamentally, democracy lets people speak their minds and shape their own and their children's futures. That so many people in so many different parts of the world are prepared to risk so much for this idea is testimony to its enduring appeal.

Yet these days the exhilaration generated by events like those in Kiev is mixed with anxiety, for a troubling pattern has repeated itself in capital after capital. The people mass in the main square. Regime-sanctioned thugs try to fight back but lose their nerve in the face of popular intransigence and global news coverage. The world applauds the collapse of the regime and offers to help build a democracy. But turfing out an autocrat turns out to be much easier than setting up a viable democratic government. The new regime stumbles, the economy flounders and the country finds itself in a state at least as bad as it was before. This is what happened in much of the Arab spring, and also in Ukraine's Orange revolution a decade ago. In 2004 Mr Yanukovich was ousted from office by vast street protests, only to be re-elected to the presidency (with the help of huge amounts of Russian money) in 2010, after the opposition politicians who replaced him turned out to be just as hopeless.

Democracy is going through a difficult time. Where autocrats have been driven out of office, their ►►

► opponents have mostly failed to create viable democratic regimes. Even in established democracies, flaws in the system have become worryingly visible and disillusion with politics is rife. Yet just a few years ago democracy looked as though it would dominate the world.

In the second half of the 20th century, democracies had taken root in the most difficult circumstances possible—in Germany, which had been traumatised by Nazism, in India, which had the world's largest population of poor people, and, in the 1990s, in South Africa, which had been disfigured by apartheid. Decolonisation created a host of new democracies in Africa and Asia, and autocratic regimes gave way to democracy in Greece (1974), Spain (1975), Argentina (1983), Brazil (1985) and Chile (1989). The collapse of the Soviet Union created many fledgling democracies in central Europe. By 2000 Freedom House, an American think-tank, classified 120 countries, or 63% of the world total, as democracies.



Between 1980 and 2000 democracy experienced a few setbacks, but since 2000 there have been many

Representatives of more than 100 countries gathered at the World Forum on Democracy in Warsaw that year to proclaim that “the will of the people” was “the basis of the authority of government”. A report issued by America’s State Department declared that having seen off “failed experiments” with authoritarian and totalitarian forms of government, “it seems that now, at long last, democracy is triumphant.”

Such hubris was surely understandable after such a run of successes. But stand farther back and the triumph of democracy looks rather less inevitable. After the fall of Athens,

where it was first developed, the political model had lain dormant until the Enlightenment more than 2,000 years later. In the 18th century only the American revolution produced a sustainable democracy. During the 19th century monarchists fought a prolonged rearguard action against democratic forces. In the first half of the 20th century nascent democracies collapsed in Germany, Spain and Italy. By 1941 there were only 11 democracies left, and Franklin Roosevelt worried that it might not be possible to shield “the great flame of democracy from the blackout of barbarism”.

The progress seen in the late 20th century has stalled in the 21st. Even though around 40% of the world’s population, more people than ever before, live in countries that will hold free and fair elections this year, democracy’s global advance has come to a halt, and may even have gone into reverse. Freedom House reckons that 2013 was the eighth consecutive year in which global freedom declined, and that its forward march peaked around the beginning of the century. Between 1980 and 2000 the cause of democracy experienced only a few setbacks, but since 2000 there have been many. And democracy’s problems run deeper than mere numbers suggest. Many nominal democracies have slid towards autocracy, maintaining the outward appearance of democracy through elections, but without the rights and institutions that are equally important aspects of a functioning democratic system.

Faith in democracy flares up in moments of triumph, such as the overthrow of unpopular regimes in Cairo or Kiev, only to sputter out once again. Outside the West, democracy often advances only to collapse. And within the West, democracy has too often become associated with debt and dysfunction at home and overreach abroad. Democracy has always had its critics, but now old doubts are being treated with renewed respect as the weaknesses of democracy in its Western strongholds, and the fragility of its influence elsewhere, have become increasingly apparent. Why has democracy lost its forward momentum?

The return of history

THE two main reasons are the financial crisis of 2007-08 and the rise of China. The damage the crisis did was psychological as well as financial. It revealed fundamental weaknesses in the West’s political systems, undermining the self-confidence that had been one of their great assets. Governments had steadily extended entitlements over decades, allowing dangerous levels of debt to develop, and politicians came to believe that they had abolished boom-bust cycles and tamed risk. Many people became disillusioned with the workings of their political systems—particularly when governments bailed out bankers with taxpayers’ money and then stood by impotently as financiers continued to pay themselves huge bonuses. The crisis turned the Washington consensus into a term of reproach across the emerging world.

Meanwhile, the Chinese Communist Party has broken the democratic world’s monopoly on economic progress. Larry Summers, of Harvard University, observes that when America was growing fastest, it doubled living standards roughly every 30 years. China has been doubling living standards roughly every decade for the past 30 years. The Chinese elite argue that their model—tight control by the Communist Party, coupled with a relentless effort to recruit talented people into its upper ranks—is more efficient than democracy and less susceptible to gridlock. The political leadership changes every decade or so, and there is a constant supply of fresh talent as party cadres are promoted based on their ability to hit targets.

China’s critics rightly condemn the government for controlling public opinion in all sorts of ways, from imprisoning dissidents to censoring internet discussions. Yet the regime’s obsession with control paradoxically means it pays close attention to public opinion. At the same time China’s leaders have been able to tackle some of the big problems of state-building that can take decades to deal with in a democracy. In just two years China has extended pension coverage to an extra 240m rural dwellers, for example—far more than the total number of people covered by America’s public-pension system.

Many Chinese are prepared to put up with their system if it delivers growth. The 2013 Pew Survey of Global Attitudes showed that 85% of Chinese were “very satisfied” with their country’s di- ►►



After communism, neo-Stalinism

rection, compared with 31% of Americans. Some Chinese intellectuals have become positively boastful. Zhang Weiwei of Fudan University argues that democracy is destroying the West, and particularly America, because it institutionalises gridlock, trivialises decision-making and throws up second-rate presidents like George Bush junior. Yu Keping of Beijing University argues that democracy makes simple things “overly complicated and frivolous” and allows “certain sweet-talking politicians to mislead the people”. Wang Jisi, also of Beijing University, has observed that “many developing countries that have introduced Western values and political systems are experiencing disorder and chaos” and that China offers an alternative model. Countries from Africa (Rwanda) to the Middle East (Dubai) to South-East Asia (Vietnam) are taking this advice seriously.



China says its model is more efficient than democracy and less susceptible to gridlock

China’s advance is all the more potent in the context of a series of disappointments for democrats since 2000. The first great setback was in Russia. After the fall of the Berlin Wall in 1989 the democratisation of the old Soviet Union seemed inevitable. In the 1990s Russia took a few drunken steps in that direction under Boris Yeltsin. But at the end of 1999 he resigned and handed power to Vladimir Putin, a former KGB operative who has since been both prime minister and president twice. This post-modern tsar has destroyed the substance of democracy in Russia, muzzling the press and imprisoning his opponents, while preserving the show—everyone can vote, so long as Mr Putin wins. Autocratic leaders in Venezuela, Ukraine, Argentina and elsewhere have followed suit, per-

petuating a perverted simulacrum of democracy rather than doing away with it altogether, and thus discrediting it further.

The next big setback was the Iraq war. When Saddam Hussein’s fabled weapons of mass destruction failed to materialise after the American-led invasion of 2003, Mr Bush switched instead to justifying the war as a fight for freedom and democracy. “The concerted effort of free nations to promote democracy is a prelude to our enemies’ defeat,” he argued in his second inaugural address. This was more than mere opportunism: Mr Bush sincerely believed that the Middle East would remain a breeding ground for terrorism so long as it was dominated by dictators. But it did the democratic cause great harm. Left-wingers regarded it as proof that democracy was just a figleaf for American imperialism. Foreign-policy realists took Iraq’s growing chaos as proof that American-led promotion of democratisation was a recipe for instability. And disillusioned neoconservatives such as Francis Fukuyama, an American political scientist, saw it as proof that democracy cannot put down roots in stony ground.

A third serious setback was Egypt. The collapse of Hosni Mubarak’s regime in 2011, amid giant protests, raised hopes that democracy would spread in the Middle East. But the euphoria soon turned to despair. Egypt’s ensuing elections were won not by liberal activists (who were hopelessly divided into a myriad of Pythonesque parties) but by Muhammad Morsi’s Muslim Brotherhood. Mr Morsi treated democracy as a winner-takes-all system, packing the state with Brothers, granting himself almost unlimited powers and creating an upper house with a permanent Islamic majority. In July 2013 the army stepped in, arresting Egypt’s first democratically elected president, imprisoning leading members of the Brotherhood and killing hundreds of demonstrators. Along with war in Syria and anarchy in Libya, this has dashed the hope that the Arab spring would lead to a flowering of democracy across the Middle East.

Meanwhile some recent recruits to the democratic camp have lost their lustre. Since the introduction of democracy in 1994 South Africa has been ruled by the same party, the African National Congress, which has become progressively more self-serving. Turkey, which once seemed to combine moderate Islam with prosperity and democracy, is descending into corruption and autocracy. In Bangladesh, Thailand and Cambodia, opposition parties have boycotted recent elections or refused to accept their results.

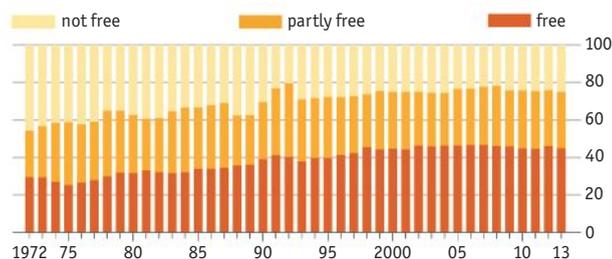
All this has demonstrated that building the institutions needed to sustain democracy is very slow work indeed, and has dispelled the once-popular notion that democracy will blossom rapidly and spontaneously once the seed is planted. Although democracy may be a “universal aspiration”, as Mr Bush and Tony Blair insisted, it is a culturally rooted practice. Western countries almost all extended the right to vote long after the establishment of sophisticated political systems, with powerful civil services and entrenched constitutional rights, in societies that cherished the notions of individual rights and independent judiciaries.

Yet in recent years the very institutions that are meant to provide models for new democracies have come to seem outdated and dysfunctional in established ones. The United States has become a byword for gridlock, so obsessed with partisan point-scoring that it has come to the verge of defaulting on its debts twice in the past two years. Its democracy is also corrupted by gerrymandering, the practice of drawing constituency boundaries to entrench the power of incumbents. This encourages extremism, because politicians have to appeal only to the party faithful, and in effect disenfranchises large numbers of voters. And money talks louder than ever in American politics. Thousands of lobbyists (more than 20 for every member of Congress) add to the length and complexity of legislation, the better to smuggle in special privileges. All this creates the impression that American democracy is for sale and that the rich have more power than the poor, even as lobbyists and donors insist that political expenditure is an exercise in free speech. The result is that America’s image—and by extension that of democracy itself—has taken a terrible battering.

Nor is the EU a paragon of democracy. The decision to introduce the euro in 1999 was taken largely by technocrats; only two countries, Denmark and Sweden, held referendums on the matter (both said no). Efforts to win popular approval for the Lisbon Treaty, which consolidated power in Brussels, were abandoned when people started voting the wrong way. During the darkest days of the euro crisis the euro-elite forced Italy and Greece to replace democratically elected leaders with technocrats. The European Parliament, an unsuccessful attempt to fix Europe’s democratic deficit, is both ignored and despised. The EU has become a breeding ground for populist parties, such as Geert Wilders’s Party for Freedom in the Netherlands and Marine Le Pen’s National Front in France, which claim to defend ordinary people against an arrogant and incompetent elite. Greece’s Golden Dawn is testing how far democracies can tolerate Nazi-style parties. A project designed to tame the beast of European populism is instead poking it back into life.

High-water mark?

Global freedom scores, % of countries defined as:



Sources: Freedom House; The Economist

The democratic distemper

EVEN in its heartland, democracy is clearly suffering from serious structural problems, rather than a few isolated ailments. Since the dawn of the modern democratic era in the late 19th century, democracy has expressed itself through nation-states and national parliaments. People elect representatives who pull the levers of national power for a fixed period. But this arrangement is now under assault from both above and below.

From above, globalisation has changed national politics profoundly. National politicians have surrendered ever more power, for example over trade and financial flows, to global markets and supranational bodies, and may thus find that they are unable to keep promises they have made to voters. International organisations such as the International Monetary Fund, the World Trade Organisation and the European Union have extended their influence. There is a compelling logic to much of this: how can a single

country deal with problems like climate change or tax evasion? National politicians have also responded to globalisation by limiting their discretion and handing power to unelected technocrats in some areas. The number of countries with independent central banks, for example, has increased from about 20 in 1980 to more than 160 today.

From below come equally powerful challenges: from would-be break-away nations, such as the Catalans and the Scots, from Indian states, from American city mayors. All are trying to reclaim power from national governments. There are also a host of what Moisés Naim, of the Carnegie Endowment for International Peace, calls “micro-powers”, such as NGOs and lobbyists, which are disrupting traditional politics and making life harder for democratic and autocratic leaders alike.

The internet makes it easier to organise and agitate; in a world where people can participate in reality-TV votes every week, or support a petition with the click of a mouse, the machinery and institutions of parliamentary democracy, where elections happen only every few years, look increasingly anachronistic. Douglas Carswell, a British member of parliament, likens traditional politics to HMV, a chain of British record shops that went bust, in a world where people are used to calling up whatever music they want whenever they want via Spotify, a popular digital music-streaming service.

The biggest challenge to democracy, however, comes neither from above nor below but from within—from the voters themselves. Plato’s great worry about democracy, that citizens would “live from day to day, indulging the pleasure of the moment”, has proved prescient. Democratic governments got into the habit of running big structural deficits as a matter of course, borrowing to give voters what they wanted in the short term, while neglecting long-term investment. France and Italy have not balanced their budgets for more than 30 years. The financial crisis starkly exposed the unsustainability of such debt-financed democracy.

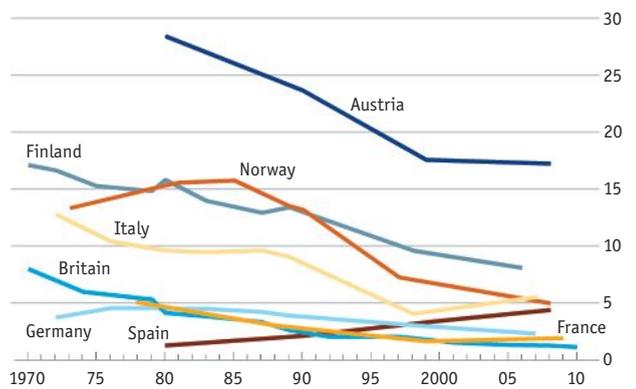
With the post-crisis stimulus winding down, politicians must now confront the difficult trade-offs they avoided during years of steady growth and easy credit. But persuading voters to adapt to a new age of austerity will not prove popular at the ballot box. Slow growth and tight budgets will provoke conflict as interest groups



The financial crisis has starkly exposed the unsustainability of debt-financed democracy

When the party’s over

Political party membership, selected European countries, %



Source: European Journal of Political Research

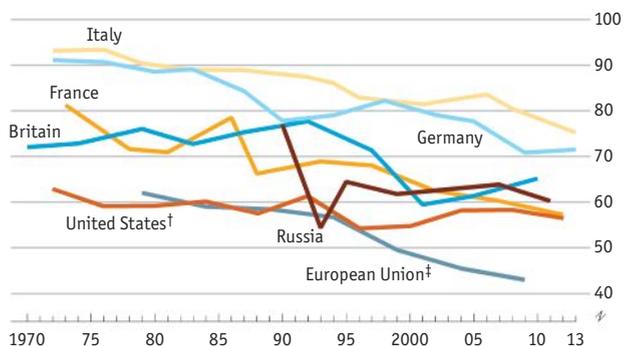
compete for limited resources. To make matters worse, this competition is taking place as Western populations are ageing. Older people have always been better at getting their voices heard than younger ones, voting in greater numbers and organising pressure groups like America’s mighty AARP. They will increasingly have absolute numbers on their side. Many democracies now face a fight between past and future, between inherited entitlements and future investment.

Adjusting to hard times will be made even more difficult by a growing cynicism towards politics. Party membership is declining across the developed world: only 1% of Britons are now members of political parties compared with 20% in 1950. Voter turnout is falling, too: a study of 49 democracies found that it had declined by 10 percentage points between 1980-84 and 2007-13. A survey of seven European countries in 2012 found that more than half of voters “had no trust in government” whatsoever. A YouGov opinion poll of British voters in the same year found that 62% of those polled agreed that “politicians tell lies all the time”.

Meanwhile the border between poking fun and launching protest campaigns is fast eroding. In 2010 Iceland’s Best Party, promising to be openly corrupt, won enough votes to co-run Reykjavik’s city council. And in 2013 a quarter of Italians voted for a party founded by Beppe Grillo, a comedian. All this popular cynicism about politics might be healthy if people demanded little from their governments, but they continue to want a great deal. The result can be a toxic and unstable mixture: dependency on government on the one hand, and disdain for it on the other. The depen- ▶▶

Democratic disillusion

Voter turnout at parliamentary elections* Selected countries, % of voting-age population



Sources: Census Bureau; parties-and-elections.eu *First round †Presidential ‡Number of member countries increases from 9 to 27 between 1979 and 2009

► dency forces government to overexpand and overburden itself, while the disdain robs it of its legitimacy. Democratic dysfunction goes hand in hand with democratic distemper.

Democracy's problems in its heartland help explain its setbacks elsewhere. Democracy did well in the 20th century in part because of American hegemony: other countries naturally wanted to emulate the world's leading power. But as China's influence has grown, America and Europe have lost their appeal as role models and their appetite for spreading democracy. The Obama administration now seems paralysed by the fear that democracy will produce rogue regimes or empower jihadists. And why should developing countries regard democracy as the ideal form of government when the American government cannot even pass a budget, let alone plan for the future? Why should autocrats listen to lectures on democracy from Europe, when the euro-elite sacks elected leaders who get in the way of fiscal orthodoxy?

At the same time, democracies in the emerging world have encountered the same problems as those in the rich world. They too have overindulged in short-term spending rather than long-term investment. Brazil allows public-sector workers to retire at 53 but has done little to create a modern airport system. India pays off

vast numbers of client groups but invests too little in infrastructure. Political systems have been captured by interest groups and undermined by anti-democratic habits. Patrick French, a British historian, notes that every member of India's lower house under the age of 30 is a member of a political dynasty. Even within the capitalist elite, support for democracy is fraying: Indian business moguls constantly complain that India's chaotic democracy produces rotten infrastructure while China's authoritarian system produces highways, gleaming airports and high-speed trains.

Democracy has been on the back foot before. In the 1920s and 1930s communism and fascism looked like the coming things: when Spain temporarily restored its parliamentary government in 1931, Benito Mussolini

likened it to returning to oil lamps in the age of electricity. In the mid-1970s Willy Brandt, a former German chancellor, pronounced that "western Europe has only 20 or 30 more years of democracy left in it; after that it will slide, engineless and rudderless, under the surrounding sea of dictatorship". Things are not that bad these days, but China poses a far more credible threat than communism ever did to the idea that democracy is inherently superior and will eventually prevail.

Yet China's stunning advances conceal deeper problems. The elite is becoming a self-perpetuating and self-serving clique. The 50 richest members of the China's National People's Congress are collectively worth \$94.7 billion—60 times as much as the 50 richest members of America's Congress. China's growth rate has slowed from 10% to below 8% and is expected to fall further—an enormous challenge for a regime whose legitimacy depends on its ability to deliver consistent growth.

At the same time, as Alexis de Tocqueville pointed out in the 19th century, democracies always look weaker than they really are: they are all confusion on the surface but have lots of hidden strengths. Being able to install alternative leaders offering alternative policies makes democracies better than autocracies at finding creative solutions to problems and rising to existential challenges, though they often take a while to zigzag to the right policies. But to succeed, both fledgling and established democracies must ensure they are built on firm foundations.

Getting democracy right

THE most striking thing about the founders of modern democracy such as James Madison and John Stuart Mill is how hard-headed they were. They regarded democracy as a powerful but imperfect mechanism: something that needed to be designed carefully, in order to harness human creativity but also to check human perversity, and then kept in good working order, constantly oiled, adjusted and worked upon.

The need for hard-headedness is particularly pressing when establishing a nascent democracy. One reason why so many democratic experiments have failed recently is that they put too much emphasis on elections and too little on the other essential features of democracy. The power of the state needs to be checked, for instance, and individual rights such as freedom of speech and freedom to organise must be guaranteed. The most successful new democracies have all worked in large part because they avoided the temptation of majoritarianism—the notion that winning an election entitles the majority to do whatever it pleases. India has survived as a democracy since 1947 (apart from a couple of years of emergency rule) and Brazil since the mid-1980s for much the same reason: both put limits on the power of the government and provided guarantees for individual rights.

Robust constitutions not only promote long-term stability, reducing the likelihood that disgruntled minorities will take against the regime. They also bolster the struggle against corruption, the bane of developing countries. Conversely, the first sign that a fledgling democracy is heading for the rocks often comes when elected rulers try to erode constraints on their power—often in the name of majority rule. Mr Morsi tried to pack Egypt's upper house with supporters of the Muslim Brotherhood. Mr Yanukovich reduced the power of Ukraine's parliament. Mr Putin has ridden roughshod over Russia's independent institutions in the name of the people. Several African leaders are engaging in crude majoritarianism—removing term limits on the presidency or expanding penalties against homosexual behaviour, as Uganda's president Yoweri Museveni did on February 24th.

Foreign leaders should be more willing to speak out when rulers engage in such illiberal behaviour, even if a majority supports it. But the people who most need to learn this lesson are the architects of new democracies: they must recognise that robust checks and balances are just as vital to the establishment of a healthy democracy as the right to vote. Paradoxically even potential dictators have a lot to learn from events in Egypt and Ukraine: Mr Morsi would not be spending his life shuttling between prison and a glass box in an Egyptian court, and Mr Yanukovich would not be fleeing for his life, if they had not enraged their compatriots by accumulating so much power.

Even those lucky enough to live in mature democracies need to pay close attention to the architecture of their political systems. The combination of globalisation and the digital revolution has made some of democracy's most cherished institutions look outdated. Established democracies need to update their own political systems both to address the problems they face at home, and to revitalise democracy's image abroad. Some countries have already embarked upon this process. America's Senate has made it harder for senators to filibuster appointments. A few states have introduced open primaries and handed redistricting to independent boundary commissions. Other obvious changes would improve matters. Reform of party financing, so that the names of all donors are made public, might reduce the influence of special interests. The European Parliament could require its MPs to present receipts with their expenses. Italy's parliament has far too many members who are paid too much, and two equally powerful chambers, which makes it difficult to get anything done. ►►



More than half of voters in seven European countries have no trust whatsoever in government



There is far more to democracy than holding elections

But reformers need to be much more ambitious. The best way to constrain the power of special interests is to limit the number of goodies that the state can hand out. And the best way to address popular disillusion towards politicians is to reduce the number of promises they can make. The key to a healthier democracy, in short, is a narrower state—an idea that dates back to the American revolution. “In framing a government which is to be administered by men over men”, Madison argued, “the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself.” The notion of limited government was also integral to the relaunch of democracy after the second world war. The United Nations Charter (1945) and the Universal Declaration of Human Rights (1948) established rights and norms that countries could not breach, even if majorities wanted to do so.

These checks and balances were motivated by fear of tyranny. But today, particularly in the West, the big dangers to democracy are harder to spot. One is the growing size of the state. The relentless expansion of government is reducing liberty and handing ever more power to special interests. The other comes from government’s habit of making promises that it cannot fulfil, either by creating entitlements it cannot pay for or by waging wars that it cannot win, such as that on drugs. Both voters and governments must be persuaded of the merits of accepting restraints on the state’s natural tendency to overreach. Giving control of monetary policy to independent central banks tamed the rampant inflation of the 1980s, for example. It is time to apply the same principle of limited government to a broader range of policies. Mature democracies, just like nascent ones, require appropriate checks and balances on the power of elected government.

Governments can exercise self-restraint in several different ways. They can put on a golden straitjacket by adopting tight fiscal rules—as the Swedes have done by pledging to balance their budget over the economic cycle. They can introduce “sunset clauses” that force politicians to renew laws every ten years, say. They can ask non-partisan commissions to propose long-term reforms. The Swedes rescued their pension system from collapse when an independent commission suggested pragmatic reforms including greater use of private pensions, and linking the retirement age to life-expectancy. Chile has been particularly successful at managing the combination of the volatility of the copper market and populist pressure to spend the surplus in good times. It has introduced strict rules to ensure that it runs a surplus over the eco-

nomical cycle, and appointed a commission of experts to determine how to cope with economic volatility.

Isn’t this a recipe for weakening democracy by handing more power to the great and the good? Not necessarily. Self-denying rules can strengthen democracy by preventing people from voting for spending policies that produce bankruptcy and social breakdown and by protecting minorities from persecution. But technocracy can certainly be taken too far. Power must be delegated sparingly, in a few big areas such as monetary policy and entitlement reform, and the process must be open and transparent.

And delegation upwards towards grandees and technocrats must be balanced by delegation downwards, handing some decisions to ordinary people. The trick is to harness the twin forces of globalism and localism, rather than trying to ignore or resist them. With the right balance of these two approaches, the same forces that threaten established democracies from above, through globalisation, and below, through the rise of micro-powers, can reinforce rather than undermine democracy.

Tocqueville argued that local democracy frequently represented democracy at its best: “Town-meetings are to liberty what primary schools are to science; they bring it within the people’s reach, they teach men how to use and enjoy it.” City mayors regularly get twice the approval ratings of national politicians. Modern technology can implement a modern version of Tocqueville’s town-hall meetings to promote civic involvement and innovation. An online hyperdemocracy where everything is put to an endless series of public votes would play to the hand of special-interest groups. But technocracy and direct democracy can keep each other in check: independent budget commissions can assess the cost and feasibility of local ballot initiatives, for example.

Several places are making progress towards getting this mixture right. The most encouraging example is California. Its system of direct democracy allowed its citizens to vote for contradictory policies, such as higher spending and lower taxes, while closed primaries and gerrymandered districts institutionalised extremism. But over the past five years California has introduced a series of reforms, thanks in part to the efforts of Nicolas Berggruen, a philanthropist and investor. The state has introduced a “Think Long” committee to counteract the short-term tendencies of ballot initiatives. It has introduced open primaries and handed power to redraw boundaries to an independent commission. And it has succeeded in balancing its budget—an achievement which Darrell Steinberg, the leader of the California Senate, described as “almost surreal”.

Similarly, the Finnish government has set up a non-partisan commission to produce proposals for the future of its pension system. At the same time it is trying to harness e-democracy: parliament is obliged to consider any citizens’ initiative that gains 50,000 signatures. But many more such experiments are needed—combining technocracy with direct democracy, and upward and downward delegation—if democracy is to zigzag its way back to health.



The most successful new democracies managed to avoid the temptation of majoritarianism

John Adams, America’s second president, once pronounced that “democracy never lasts long. It soon wastes, exhausts and murders itself. There never was a democracy yet that did not commit suicide.” He was clearly wrong. Democracy was the great victor of the ideological clashes of the 20th century. But if democracy is to remain as successful in the 21st century as it was in the 20th, it must be both assiduously nurtured when it is young—and carefully maintained when it is mature. ■



Trouble in Nigeria

Now for the fallout

ABUJA

The president's decision to get rid of the central-bank governor is bad news

WHEN President Goodluck Jonathan suspended Lamido Sanusi, the governor of Nigeria's central bank, on February 20th, he succeeded in removing an opponent. But over the past week it has become clear that this small victory has come at a steep price. Not only has Mr Jonathan signalled his unwillingness to tackle the rampant corruption that is eating away at his country—he has also scared foreign investors and presented an open goal to his political enemies.

The outspoken Mr Sanusi courted a stormy end to his tenure, due to finish in June, by accusing the state oil company, the Nigerian National Petroleum Corporation (NNPC), of failing to remit \$20 billion in revenues to government accounts. The ministry of finance puts the figure at \$10.8 billion. Mr Jonathan says he suspended Mr Sanusi because of “financial recklessness and misconduct” and “far-reaching irregularities” at the bank. But the decision came just days after Mr Sanusi presented detailed evidence to a Senate committee investigating alleged fraud and mismanagement at the NNPC. Most concluded that the suspension was politically motivated.

Investors are spooked, interpreting the decision as a sign of the authorities' lack of stomach for fighting corruption. Already, \$2 billion of the \$9 billion in foreign cash invested in Nigerian bonds has moved out; bankers predict more will follow. The naira plunged to an all-time low of 169 to the dol-

lar on February 20th. Sarah Alade, a highly regarded technocrat who will run the bank until June, has pledged to continue to support the currency. But the foreign-exchange reserves she needs to do so have fallen by almost 14% from 12 months ago.

The controversy has a strong political tinge. The Senate's investigation was prompted by a leaked letter from Mr Sanusi to the president in which he accused the NNPC of violating the law. This put him in conflict with Diezani Alison-Madueke, the petroleum minister and a close ally of Mr Jonathan's. The NNPC has repeatedly denied the allegations. Ngozi Okonjo-Iweala, Nigeria's finance minister, says an independent audit must establish the truth. Many see her outspokenness as a sign she doubts that Mr Jonathan will hold a credible inquiry. “The key question we need answered is what is the correct amount,” she says. “We need urgent action to bring this to the fore.”

Mr Sanusi's treatment undermines confidence that this will happen. It is not the first time there has been scrutiny of the NNPC, part of a rotten oil industry whose leakages undermine Nigeria's macroeconomic stability. Eighteen months ago the former anti-corruption tsar, Nuhu Ribadu, claimed tens of billions of dollars in oil-and-gas revenue had been siphoned off in 2002-12. The president ordered three reports into it, but they never saw the light of day—if they exist at all—and no one was

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prosecuted. Months later the Nigerian Extractive Industries Transparency Initiative, part of a global lobby for transparency in natural-resource revenues, revealed a leakage of more than \$9.8 billion in 1999-2008.

Mr Sanusi's suspension has also provided ammunition for Mr Jonathan's political opponents in the run-up to the elections in 2015. The All Progressives Congress, the main opposition party, described it as “the clearest indication yet that President Jonathan...is willing to silence any whistle-blower”. Although acclaimed abroad, Mr Sanusi has a mixed reputation at home. He tackled widespread financial fraud and overhauled Nigeria's banks during a banking crash in 2009. He has stabilised inflation in single digits and cracked down on money-laundering. But his staff say he has dragged the bank into politics. His blunt outbursts criticising Nigeria's governance propelled the legislature to propose a bill (which failed to pass) compromising the bank's independence. Some accuse him of having political ambitions of his own.

The Senate is due to confirm Mr Jonathan's new choice of governor, Godwin Emefiele, who heads Zenith, a private bank. He is expected to keep quiet and stick to tight monetary policy. “He is hardly seen nor heard—a typical attribute of the central banker the Nigerian establishment prefers,” says Oluseun Onigbinde, an economist at Budget, a start-up that publishes Nigerian economic data on social media.

Investors want the stability that came from Mr Sanusi's policies and which Mr Emefiele supposedly seeks. But they are losing faith in Mr Jonathan's administration. Thanks to its vast oil-and-gas reserves and the vitality of its 170m people, Nigeria remains hugely attractive. But Mr Sanusi's tumultuous exit is another instance of the country's squandered potential. ■

Conflict in South Sudan

Back with a vengeance

NAIROBI

The young country is descending into war, again

THE second chapter of South Sudan's civil war began with characteristic brutality on February 18th. The White Army, an ethnic Nuer militia, announced its return to Malakal, the capital of oil-producing Upper Nile state, with the wholesale slaughter of civilians. Shocked aid workers reported marauding gunmen raping and murdering the patients at the town's only functioning hospital.

The partial recapture of Malakal confirmed what many observers had feared: the January 23rd ceasefire was used to regroup and rearm. The forces are scrambling for territory before the rainy season in April closes nearly two-thirds of the country's roads and tracks to vehicles. Although 10,000 people have died and three-quarters of a million more have been displaced since fighting began on December 15th, no meaningful solution has been mooted.

The political power struggle between Salva Kiir, South Sudan's president, and Riek Machar, his sacked former vice-president, has degenerated into fighting that often pits their respective communities, the Dinka and Nuer, against each other. The men appear to be contemplating a long war. A report released by the UN on February 21st accused both sides of perpetrating atrocities against civilians. Government forces are accused of ethnically targeted mass killings in the capital, Juba, as well as razing Mr Machar's home town of Leer. Meanwhile, mass graves and streets littered with bodies have been discovered in the strategic town of Bor, which has changed hands four times in the conflict.

Much-heralded negotiations in neigh-

bouring Ethiopia have so far brought only a hollow ceasefire that has been flouted continually. The talks have been an exercise in distracting the outside world while the battle rages, says a diplomat. Observers from IGAD, a club of East African nations, who were meant to oversee the ceasefire, have been ineffective. Mediation efforts are hamstrung by the presence of Ugandan troops fighting on the side of Mr Kiir's forces. Mr Machar has demanded their withdrawal. The American government has rebuked Uganda and warned of the potential for regional conflict. Sudan, the rump country that remained after the 2011 north-south break-up, has so far stood on the sidelines. But with oil production,

on which both countries rely, down by almost a half since December, it may choose to intervene.

UNMISS, the UN mission in South Sudan, has been reinforced but is struggling to protect more than 75,000 civilians who are sheltering in its bases. Fighting recently broke out between different ethnic groups in the Malakal camp. At another, in Rumbek, UN trucks have been used to ring the fence and prevent locals throwing rocks at those sheltering inside. And there are desperate scenes of suffering in Unity State. Thousands of civilians have fled into remote swampland where humanitarian workers say they are surviving on water-lily roots. ■

Uganda's anti-gay law

Deadly intolerance

NAIROBI

Diplomatic pressure did not stop an absurd law

IF UGANDA'S president, Yoweri Museveni, felt any qualms about signing Africa's most draconian anti-gay legislation on February 24th, he did not show them. The law introduces a maximum penalty of life imprisonment for those convicted of homosexuality and requires Ugandans to report anyone they suspect of being gay. Days earlier he had signed the "miniskirt law" banning "indecent" dress, sparking protests.

Pleading and threats from donor countries, who finance more than half of Uganda's budget, were ignored. Instead Mr Museveni, who has been in power for 28 years, attacked "arrogant and careless Western groups", whom he accused of recruiting Ugandan schoolchildren into homosexuality.

The bill, which originally called for the death sentence for "aggravated homosexuality", has dominated Western relations with the East African country since it was proposed in 2009. Local media have made anti-gay sentiment synonymous with patriotism. David Bahati, an MP and the bill's author, has achieved national standing with his fairy tales of predatory foreign homosexuals grooming Ugandan children. While human-rights groups and gay-rights activists denounced the law, it has some popular support. Ofwono Opondo, a government spokesman, said it showed Uganda's independence "in the face of Western pressure and provocation".

Mr Museveni can appear clownish, as in a rambling speech in which he called for a campaign against the evils of oral sex. The 69-year-old signed the law in the presence of cod-scientists, drafted in to "prove" homosexuality was not genetic. But there is usually method in his eccen-



Misusing the colour pink

tricity. "He might be mad but he's not stupid," says a Western ambassador. The tussle over gay rights has drawn attention away from Mr Museveni's increasingly autocratic rule, under which dissent is often violently stifled.

Some European governments have said they are suspending aid to Uganda. But as long as Ugandan troops continue to be the mainstay of the peacekeeping mission in Somalia, anything more than a rebuke is unlikely.

In the meantime gay people in Uganda will pay the price. *Red Pepper*, a local tabloid, began a witch hunt the morning after the bill's signing. Next to praise for the new law, it published a list of Uganda's "top 200" gays. Three years ago a similar list prompted the murder of David Kato, a gay-rights activist.



Algeria's presidential elections

Standing, in one sense

CAIRO

The ageing president wants to run again

APPEARANCES count for a lot in politics. Except in Algeria, it seems. When President Abdelaziz Bouteflika rebuffed critics on February 22nd by declaring he will run for a fourth five-year term, the announcement came not from the statesman himself, but in an almost offhand comment by his prime minister, Abdelmalek Sellal.

The last time the 76-year-old president spoke in public was in May 2012. Since suffering a stroke last April, Mr Bouteflika has attended just two cabinet meetings. State television has shown him only rarely at official functions, frail and always seated.

Yet few think he will fail to win the election on April 17th. Mr Bouteflika served as foreign minister from 1963 to 1979 and retains popularity among those nostalgic for the glory years of the struggle for independence from France. As president he has won praise for steering the country out of the violence of the 1990s, following the army's bid to crush militant Islamists.

Mr Bouteflika is also backed by the machinery of the still-dominant independence-era party, the National Liberation Front (FLN). Its tentacles throughout the oil-rich country's administrative apparatus helped secure him 85% and 90% of the votes in the presidential elections of 2004 and 2009. The American embassy, in a cable revealed by WikiLeaks, estimated voter turnout at less than half of the 75% Algeria's election authorities registered for the 2009 poll. It hardly inspires confidence that the prime minister is in charge of the commission overseeing elections in April.

Several of Algeria's 40-odd mostly featherweight opposition parties have said they will boycott the poll. Despite declining violence and oil revenues that have built up \$200 billion in foreign reserves during the president's 15-year rule, Algerians struggle to find jobs. Corruption is rife.

Lately, the sense of alienation that ordinary citizens feel towards the "pouvoir", the term used for the security chiefs, senior bureaucrats and cronies, has increased. The fractious internal politics have spilled into public view. There appears to be a struggle under way between the president's inner circle, dubbed the "Bouteflika clan", and an even more closeted faction around General Toufik Mediene, the chief of Algeria's main intelligence service, the Département du Renseignement et de la Sécurité (DRS). Mr Mediene, now 75, has headed the powerful service since 1990.

Mr Bouteflika appears to have used a

hostage drama at a remote oil facility in January 2013, when at least 39 foreign oil workers died, to undermine Mr Mediene. In September several DRS subbranches were placed under control of the defence ministry. More recently, senior intelligence officers have been replaced; the agency's long-serving counterterrorism chief, known by the alias General Hassan, has been threatened with a military trial. In early February Amar Saadani, the secretary-general of the FLN, launched a scathing attack on Mr Mediene, accusing his agency of repeated bungling as well as of meddling in civilian politics.

Mr Mediene has said little in response, but media outlets suspected of having ties to the DRS have been unusually critical of Mr Bouteflika. As the vote looms, ordinary Algerians are likely to find the spectacle of shadow boxing between these ageing stalwarts more engaging than any election campaign. ■

Egyptian politics

Musical chairs

CAIRO

A change of government provokes speculation about Egypt's future

THE abrupt resignation of Prime Minister Hazem Beblawi's government on February 24th, after just seven months in office, perplexed not only ordinary citizens. Seasoned analysts scratched their heads. Several outgoing ministers also expressed bafflement about their sudden departure, which comes just months before expected elections for a new president and parliament that will necessitate the nam-

ing of yet another new cabinet.

Many assumed it was part of an elaborate manoeuvre to pave the way for the widely anticipated announcement by Field-Marshal Abdel Fattah al-Sisi, Egypt's minister of defence and the leader of last July's coup that ousted the Muslim Brotherhood, that he will run for president. Technically, the popular general must resign his military post in order to qualify as a candidate. Others saw the shift as an attempt to clean the government's slate. Grievances have accumulated, including frustration at power cuts, an unprecedented wave of strikes by government workers, and anger over the ferocity of a crackdown against dissent that has broadened from the Brothers to critics of every stripe.

Egypt's interim president, Adly Mansour, quickly tipped the outgoing minister of housing, Ibrahim Mahlab, to form a cabinet. Mr Mahlab made clear that most of the old ministers would stay. These include both Mr Sisi, prolonging speculation about his expected presidential bid, and the tough minister of interior, Muhammad Ibrahim. The departing ministers include the few faces associated with Egypt's fractious non-Islamist political opposition. So the new administration will have a harder-line complexion. Several of its members were closely associated with the pre-revolutionary regime of Hosni Mubarak.

Mr Ibrahim says that the prime minister-designate has promised "full logistical backing" for the fight against terrorism. This will please supporters of his tough approach, which has seen thousands of suspected Brotherhood sympathisers imprisoned and hundreds killed in clashes with police. Security forces have also suffered heavy losses; in the Delta province of Sharqiya, assassins have shot dead over a dozen officers in recent weeks. The minister himself survived an attempt on his life in November.

Critics of Mr Ibrahim, however, contend that his toughness is not bearing fruit. A suicide-bomber killed three South Korean tourists and their Egyptian bus driver on February 16th, yards from the heavily secured border between Egypt's Sinai peninsula and Israel. The killings marked a disturbing change to a civilian target by the group that claimed responsibility, an al-Qaeda affiliate based in the Sinai's lawless north-east, where the Egyptian army is mounting a brutal counter-insurgency.

The inner core of Egypt's state appears confident that its security clampdown, still backed by a large segment of the public and Egypt's mostly co-opted media, will carry the day. It helps that wealthy Arab neighbours continue to pump in money to prop up Egypt's foundering economy. Yet the hesitancy of Mr Sisi to commit himself to a presidential bid suggests that Egypt's army remains wary of taking ownership of the country's myriad problems. ■



Keeping us waiting

Holy places in Israel

Constant competition

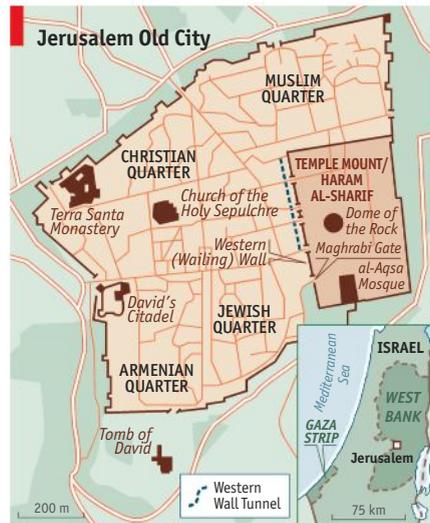
JERUSALEM

Israel is doing too little to protect Muslim heritage sites

THE tomb of David, a king for Christians and Jews and a prophet for Muslims, on Mount Zion, is one of Jerusalem's architectural gems. But the site has become an example of how some believers in the disputed Holy Land hope that their faith can dominate. In 2012 the turquoise tiles designed by Muslims in the Ottoman era were removed. "We cleaned it," says the curator at the National Centre for the Development of Holy Places, a body under Israel's ministry of tourism.

First some ultra-Orthodox enthusiasts used hammers to scrape away what they considered to be the shrine's 17th-century muck. Then some archaeologists from Israel's antiquities authority used a grant from a Jewish-Mexican benefactor to erect pews and shelves of prayer books to turn it into a synagogue. The police have abandoned their investigation into the desecration.

A struggle over holy sites is as old as the land itself and today mirrors the divides between the predominantly Jewish Israelis and the mainly Muslim Palestinians as well as Israel's 1.4m Muslim citizens. It has intensified of late. On February 25th Israeli police clashed with Palestinians on Temple Mount, a site in Jerusalem revered by all faiths. At the same time, the parliament debated—but did not vote on—a bill to recognise Israeli sovereignty over the site. The bill defies a tradition, dating to the 13th



century, that says Jews should not tread on the hallowed ground. Although some Jews do not observe the tradition, the authorities ban them from praying there.

Israel captured the Temple Mount esplanade housing the al-Aqsa mosque in Jerusalem in the 1967 war, but for decades it let the Muslim authorities exercise day-to-day rule of what they regard as their third-holiest site, after Mecca and Medina. Jewish groups are now lobbying the government to end the Muslim monopoly, arguing that it discriminates against Jews. Some propose dividing the esplanade, as the Israeli authorities have done in Hebron, in the south of the West Bank, at the tomb of the Patriarchs, known to Muslims as the Ibrahimi mosque. Others advocate building a synagogue nearby. A few Jews have already begun praying beside the al-Aqsa mosque, pretending they are talking into their mobile telephones.

Israel pays for the upkeep of most mosques and pays their imams' salaries through the interior ministry, which looks after sites holy to religions other than Judaism. But Jerusalem's municipal authority is overseeing the construction of a "museum for tolerance" in the grounds of an old Muslim cemetery. The southern city of Beersheba in recent years has staged a wine festival at the gates of the Ottoman mosque, which Israel confiscated in 1948 and has subsequently used as a jail, courthouse and currently as a history museum filled with statues. When Muslims began to pray on the grass next to the mosque, the city's mayor, Ruvik Danilovich, put up a

fence. If the mosque were restored, many Jews fear it would become a magnet for thousands of Bedouin nearby, jeopardising the city's Jewish status. The threat to non-Jewish shrines fuels Muslim fears of what would happen if a peace deal recognised Israel as a Jewish state, as the prime minister, Binyamin Netanyahu seeks.

"Each new ruler tries to monopolise the holy places of the other," explains Yiska Harani, an expert on Mount Zion's turbulent history. Often possession is more important than fact. The Crusaders first established the myth that David's remains lie there, installing a sarcophagus to attract pilgrims from Europe, say Jewish experts. Ignoring the Bible, which says that David was buried elsewhere "with his forefathers", Jews and Muslims later embraced the Crusaders' tale to press their own claims to the hill. Ottoman Turks wrested the shrine from the Franciscans in the 16th century and gave it to Sufi mystics. Israel, which conquered it 65 years ago, handed it to a yeshiva, a Jewish religious seminary.

Israelis point out that Arabs have been bad at looking after Jewish holy places. When Jordan ruled over Jerusalem's holy places for 19 years after the birth of Israel in 1948, synagogues in the Old City were destroyed and a road was ploughed through Jewish tombs on the nearby Mount of Olives. And at the outset of the second intifada in 2000, Palestinian militants torched Joseph's tomb in the West Bank town of Nablus and painted its dome green, for Islam. Some Palestinian leaders still deny that Jews have any connection to the esplanade where the temple once stood.

Some efforts have been made to improve matters, as Israeli Jews fear for their country's reputation. "How can we demand the world respect our synagogues and cemeteries, if we don't do the same to their holy sites?" asks Yitzhak Reiter, a former Arab-affairs adviser to the prime minister and the author of a book about Beersheba's mosque. "Preserving the heritage of other faiths is a Zionist mission." He suggests that 20 mosques, like Beersheba's, which fell into Israeli hands in the 1948 war, should be restored to their communities and plaques put up in honour of 33 more that lie in ruins. Officials say they have quietly begun to do so. But only two—one in Acre and another in Lod—have gone up.

Muslim, Jewish, Christian and Druze religious leaders recently gathered at Israel's foreign ministry to endorse a code of conduct drafted by Search for Common Ground, an organisation based in Washington, DC. Governments, it declared, should ensure access to all religious shrines under their rule and protect them. Israel's chief rabbi, David Lau, called on the ministry of religion to recognise and look after all faiths' holy places. Interfaith advocates reckon restoring David's Tomb would be a good start. ■



Tug-of-war



India's election and the economy

A useful campaign

DELHI

Electioneering that focuses on the economy suggests a welcome realisation that growth matters

IS THE ghost of Margaret Thatcher lurking in Indian politics? Rahul Gandhi, a leader of Congress party, which is best known for promoting welfare, has taken to saying that “poverty cannot be fought without growth” and praising markets for creating wealth. Last week Arvind Kejriwal, head of AAP, a left-leaning party of urban, anti-corruption types, told business leaders he now likes capitalism, just not cronyism. He says an end to the “inspector raj and licence raj” would cut graft and free business to create jobs.

That was perhaps mostly posturing. More outspoken is the front-runner to be prime minister, Narendra Modi of the Bharatiya Janata Party (BJP). In Delhi on February 27th he and Arun Jaitley, a potential finance minister, hosted liberal-leaning economists, business leaders, bankers and investors for a daylong seminar on raising growth. That marked the start of the BJP spelling out its economic policies. Mr Modi (some of whose supporters are pictured above) has long talked up his pro-business record as Gujarat's chief minister.

Such rhetoric suggests a welcome shift in Indian politics—notable given a general election due by May. For years Congress dominated nationally by ignoring how growth is sustained, but promising hand-outs, especially to villagers, through make-work schemes, subsidies on food, fuel and fertiliser and cash transfers. That approach now brings shrinking electoral returns, ironically, as rural voters get less poor. After

a decade in power, Congress has a rotten reputation at economic management: debts, high inflation and joblessness, combined with dire performances by manufacturers, leave many gloomy.

Voters crave a change. Polls (even if you set aside chronically corrupt Indian ones) point to a BJP victory, perhaps a big one. Few now seem bothered by Mr Modi's controversial past, presiding over communal riots in Gujarat, in 2002, when over 1,000 people died. A national survey released on February 26th by the Pew Research Center, an American body, suggests voters favour a government run by the BJP over Congress by a startling 63% to 19%. For the first time, the BJP could win more votes (and more seats) than Congress, a powerful national mandate.

Indians are fed up: 70% say they are dissatisfied, says Pew. Alarming for Congress, rural voters are as surly as town dwellers, despite successive gushing monsoons and bumper government prices for their rice and wheat. Respondents everywhere (by a ratio of at least two to one) say the BJP would do better than Congress at cutting inflation and corruption, helping the poor and creating jobs.

“I've rarely before seen this profound yearning for change”, says Ravi Shankar Prasad, the BJP's deputy leader in the upper house of parliament, arguing that poor leadership is behind India's current economic “disaster”, as growth has weakened from 8.5% a decade ago to less than 5%. At

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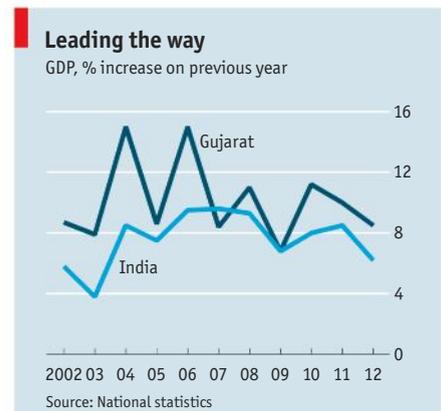
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rallies Mr Modi sneers that a feeble “economist prime minister”, Manmohan Singh, is to blame. By implication: a strong, decisive leader—himself—would turn everything for the better.

Congress's Harvard-educated finance minister, Palaniappan Chidambaram, who presented his interim budget last week, says derisively that what Mr Modi knows about economics “can be written on the back of a postage stamp”. Such sniping sets a tone for what may be a bitter campaign. But the criticism may not matter. Mr Modi lacks formal economic education, but points instead to Gujarat's rapid economic growth in his dozen years of rule (see chart), implying he could pull off something similar for all of India.

Could he? So far, he is short on detail. BJP leaders, and a growing army of gushing commentators and economists, say there would be an immediate boost in confidence if Mr Modi wins. Better administration alone, they say, would see investors enthused and animal spirits racing. A powerful prime minister's office would have the authority to get bureaucrats to take decisions quickly. That could end a big reason for today's painful delays: civil servants ▶▶



▶ who dread later corruption investigations, blocking investors' projects. In theory, such fears will disappear under new political masters.

Far more useful would be details of how Mr Modi would slash regulation, taking opaque, discretionary powers from civil servants and politicians. For example: to boost job creation, a BJP government could return to earlier plans to ease industrial-dispute rules. These require any firm with 100 or more workers to get government permission to close. No wonder investors prefer to build factories anywhere but India. So far Mr Modi has been vague on the topic, though he talks of devolving labour laws to individual states which in theory could see them eased.

Liberal-minded BJP supporters now predict other reforms. In office, the party is likely to take up pro-business policies it has resisted while in opposition. Among the first is a plan to replace existing state levies on goods and services with a standard, national tax, to create a single Indian market for the first time. That alone could give a big boost to the economy. The BJP's hostility to foreigners investing in Indian shops is likelier to persist but it should grow readier to see outsiders involved in insurance and other financial services.

Sameer Kochhar, author of "Modinomics", one of many new books claiming insight into Mr Modi's economic plans, fore-

sees a big increase in spending on infrastructure, just as Gujarat has seen better roads, power and ports. The desire is certainly there. The BJP leader himself talks grandly, but with few convincing details, of building 100 "smart" cities, a national network of Japanese-style bullet trains, and irrigation works to link up large rivers. It is unclear, however, how he would pay for this.

Mr Modi also says his government would be better at doing less. During the BJP's last spell in office, from 1999 to 2004, it set up a privatisation ministry and oversaw the boom in private investment in telecoms. Observers talk next of selling off the ailing state carrier, Air India, or reducing government holdings in various banks.

So far, sadly, the BJP offers far too few details to judge how comprehensive a reform programme it would follow. Still, it is encouraging that politicians of various parties talk of creating conditions for restoring high economic growth, not just spending the proceeds of it. "India has recognised that we have to be a market-based economy", argues Gurcharan Das, a writer and former local head of Procter and Gamble, calling Mr Modi "the best chance we have of getting back to high growth". In India, it was long said, the left has no viable economics, but the right has no viable route to power. Mr Modi may be changing that, too. ■



war" in the region.

Last month Mr Sharif appointed four go-betweens to act as negotiators with three extremist clerics invited to represent the TTP. The two sides held some meetings but stumbled, as critics had predicted, from the very beginning. The TTP, a movement committed to turning Pakistan into a strict Islamic state, balked at government demands that they negotiate within the framework of a constitution they regard as insufficiently divine. And on February 17th a faction of the TTP announced in a grisly video that it had executed 23 kidnapped Frontier Corps soldiers. Mr Sharif was unable to restrain the military in the face of such savagery (and the killing soon after of a senior officer in Peshawar), giving the generals permission to unleash air strikes. He may be tempted to continue indefinitely with the compromise, while shying away from the ground operation that would be required to obliterate the TTP's safe havens. But the mood is shifting.

Hasan Askari Rizvi, an analyst, expects a full ground invasion of North Waziristan by April. He says Pakistani military leaders fear the TTP will be greatly strengthened in the wake of the NATO withdrawal from Afghanistan, which they predict will give the group's Afghan Taliban allies greater control of the east of the country. It is a prophecy even more likely to be realised if there were a complete American withdrawal this year. On February 25th Barack Obama warned his Afghan counterpart, Hamid Karzai, that is exactly what could happen if Mr Karzai still refuses to sign a long-term security agreement. Mr Rizvi says that Pakistan's civilian government will not be able to stand in the way of an army determined to seize back North Waziristan. "They know better than to be on the wrong side of the army," he says. ■

Pakistan and the Taliban

To fight or not to fight

ISLAMABAD

Nawaz Sharif still wants to give peace a chance while bombing Taliban strongholds

PAKISTAN'S prime minister, Nawaz Sharif, has long been caught between hawks demanding a decisive military confrontation with the Pakistani Taliban and doves adamant the militants can be talked into abandoning their bloody campaign against the government. Four weeks after Mr Sharif announced that he wanted to give peace talks another chance, he appears to have settled for a little of each.

The country's army, and many civilian critics, say that, with almost 500 people killed since September, Pakistan's domestic terrorism is out of hand, and that he must take a hard line. The prime minister's hopes of reviving the economy with the help of foreign investment will also be jeopardised by continued violence, they warn. And yet Mr Sharif and many members of his party fear confrontation will trigger horrific retaliation in their political heartland of Punjab, the rich, populous province so far relatively unscathed by

militant attacks. They may be right.

Since February 20th the Pakistani Army has been bombing from the air what it claims are militant "hideouts" in the tribal areas of the country's restive north-west. On February 25th alone they claimed to have killed 30 terrorists in North and South Waziristan. At the same time the government clings to the forlorn hope that stalled negotiations with Taliban intermediaries could yet spark into life. On Monday the interior minister even suggested the Tehreek-e-Taliban Pakistan (TTP), as the country's largest terrorist group calls itself, might like to participate in a cricket match to foster peace. (A TTP spokesman demurred, saying they did not approve of the game.)

Making matters trickier, Mr Sharif's main political threat in Punjab, Imran Khan, a popular former cricketer, is an unbending opponent of military action, claiming peace can be found simply by Pakistan distancing itself from the "US

South Korean politics

Spying trouble

SEOUL

Success abroad but scandal at home for the president

AS PARK GEUN-HYE marked her first year in office on February 25th, her approval rating, at around 56%, was higher than when she came to power: a first for a South Korean president. Polls show that the public is chiefly impressed with her policy towards North Korea. She ended her first year on a high with reunions of families separated for decades. She was also boosted by the reopening last September of the Kaesong industrial complex, where South Korean companies employ North Koreans. For Ms Park and her supporters this is all vindication of her signature approach towards the North: “trustpolitik”, a fuzzy term that doles out carrots and wields sticks according to behaviour.

Ms Park has enjoyed other foreign-policy kudos. She held successful summits in America in May and China in June. And talking tough at Japan, as its prime minister, Shinzo Abe, tacks to the right on history, has earned her points, too.

But her trust-building has worked less well at home, where she has allowed political scandal to fester. Her biggest setback took place before South Koreans even went to the polls in December 2012: in the year before the election, agents of the National Intelligence Service (NIS) were alleged to have posted 1.2m tweets and thousands of political messages on blogs, smearing left-wing candidates as North Korean sympathisers in order to manipulate the presidential election.

Three days before the election, police said they had found no evidence of wrongdoing. But a few months later, under pressure from the opposition, they reversed their findings. It was not until last November that the scale of the meddling became clear. It breached the political neutrality of the NIS and a law prohibiting officials from using their influence to sway voters.

Though Ms Park won by only three percentage points, few think she benefited from the illegal electioneering; even fewer believe she was involved (she has denied receiving any such help). But the saga has prompted awkward questions about South Korea’s powerful government agencies. A former police chief, charged with soft-peddalling the inquiry, was acquitted on February 6th. An activist group of lawyers accuses the government of pressuring the state prosecutor. The NIS has argued that its actions were “routine” psychological operations against North Korea. But the arrest of a leftist MP on conspiracy char-

Japan’s right wing

Mission accomplished?

TOKYO

A film about kamikaze pilots gives a worrying boost to nationalists

ONE young filmgoer in Tokyo was clear about why he was queuing up for a third viewing of “Eien no Zero”, or “The Eternal Zero”. The message for him in the film, which is about a group of kamikaze pilots attacking American ships at the end of the second world war, was that young men in those times were manly and purposeful in contrast to today’s “herbivorous” youth. The *tokkotai*, or “special attack force”, as the pilots are known, have long been controversial but never has their story been so popular at home. “The Eternal Zero” (named after the type of plane flown by the kamikaze) is likely to become one of the most watched Japanese films ever.

Another viewer, Shinzo Abe, the prime minister, declared himself “moved” by the film. Naoki Hyakuta, the author of the best-selling novel on which it is based, is close to Mr Abe. Last year Mr Abe chose Mr Hyakuta as a governor of NHK, the public broadcaster. Mr Hyakuta’s beliefs are right-wing even for a conservative and, while campaigning for another right-winger, Toshio Tamogami, in the race for the governorship of Tokyo this month, he declared that the massacre of Chinese civilians by Japanese soldiers

in Nanjing in 1937 “never happened”.

As “The Eternal Zero” has packed cinemas, Minamikyushu, a city in southern Japan, has also been doing its bit to rile the neighbours. It has submitted documents from kamikaze pilots to UNESCO for inclusion in its “Memory of the World” register of important papers and manuscripts, which includes Magna Carta and the Declaration of the Rights of Man. Among the artefacts are pilots’ farewell letters, diaries and poems from the city’s Chiran peace museum, a memorial at a former airbase from which hundreds of kamikaze sorties departed.

Both the film and the collection of documents misrepresent the pilots. The right wing seeks to present them as willing fighters who died heroically for their country. In “The Eternal Zero”, the message is at first subtle, as the protagonist, an elite pilot, tries to subvert the military by trying to survive. Yet he becomes a true hero only when he accepts his mission and dies in a blaze of supposed glory. The museum and its collection of documents also broadly support this interpretation. But Emiko Ohnuki-Tierney, a historian, says most recruits were in fact forced to volunteer. She wonders whether the pilots’ letters in Minamikyushu’s submission were censored by their superiors at the time of writing, or written under duress.

South Korea has objected to the move and China has reacted with predictable fury. The authorities in Nanjing say they will again send documents which prove the massacre of 1937 to the same UNESCO register. And there is good reason for China to pay attention to Mr Hyakuta’s view of history: it is succeeding beyond the box office. With Mr Hyakuta’s backing, Mr Tamogami, who has also denied Japan’s historic aggression, did surprisingly well in the Tokyo election, winning nearly a third as many votes as the winner. *Asahi Shimbun*, a newspaper, reported that about one in four 20-somethings, especially young men, voted for him.



Dulce et decorum est

ges has led some to suspect the renewed vigour in catching “pro-North leftists” is to mask the election-meddling.

The stand-off has blocked the passage of bills, including those for creating jobs and expanding welfare programmes, both campaign pledges. In November Ms Park made a rare direct appeal to parliament to pass a string of bills aimed at revitalising the economy. That imperative has replaced

another election promise: “economic democratisation”, to encourage start-ups by reigning in the power of the country’s powerful corporations, or *chaebol*. She has done little of this, passing only mild corporate-governance measures. Ms Park has also scaled back promises to halve tuition fees and boost pensions, riling young and old alike. If she is to maintain her popularity, she will need to do more at home. ■

Banyan | The year of killing with impunity

Massacres nearly half a century ago still haunt Indonesia



AMONG those watching nervously as Tinseltown celebrates its Academy Awards on March 2nd will be Indonesia's leaders. They will be hoping that, when it comes to the best documentary category, the Oscar does not go to "The Act of Killing", a brilliant if deeply disturbing film about the slaughter in 1965-66 that accompanied the birth of the 32-year Suharto dictatorship. Of course, 16 years after the fall of Suharto, no one is suggesting the present government was complicit in the atrocities. But they cast Indonesia in a bad light at a time when it hopes to be cheered as a model emerging democracy. A spokesman for President Susilo Bambang Yudhoyono accused the film of "simplifying a dark, complicated period of history" and of being one-sided. More pertinently, perhaps, it highlights Indonesia's own failure even now fully to confront events still shrouded in mystery, ignorance and fear.

The film, directed by an American, Joshua Oppenheimer, follows the now elderly members of 1960s death squads as they recall, re-enact and boast about the killing. Nobody knows how many died. Half a million is a common estimate. Some say many more. Of Asia's modern killing fields, only Bangladesh and Cambodia compare in the scale of the carnage. In both those places flawed judicial processes at least raise questions about the horrors. Even in China the show-trial of the Gang of Four served to hold a few responsible for the many crimes committed in the Cultural Revolution. In Indonesia no one has been held to account.

The slaughter was a purge of the Indonesian Communist Party (PKI), accused of attempting a coup, providing the pretext for Suharto's power-grab. At the time it was the third-largest communist party in the world. It and its ideology were eradicated. The West, watching Asian "dominoes" fall to communism, was largely silent as hundreds of thousands were killed or detained, and welcomed Suharto as an ally. Under Suharto the killings were taboo within Indonesia. History lessons in school skated over them; foreign books on them were banned; the families of victims and political detainees became, says Katherine McGregor of Melbourne University, Indonesia's "untouchables". People lived in what Mr Oppenheimer calls a "precarious coexistence" with their families' murderers.

Any thirst for revenge was tempered by fear and a culture of silence. Take one of Mr Oppenheimer's Indonesian collaborators

(all of whom have remained anonymous for fear of reprisals). He was himself unaware until getting involved with the film of how the terror had affected his own family. The boyfriend of a mysteriously unmarried aunt had disappeared for ever in 1965. A great-uncle had been a PKI member as a student. In 1965 he burned his student card and anything that linked him to this subversive past, including half his books. The man's own father, a journalist, was tormented by guilt that he did not do enough to protect his leftist friends and in the 1970s sought redemption, helping launch a newspaper that exposed later mass killings.

Amid the turmoil surrounding Suharto's downfall in 1998, many assumed that the veil of secrecy over the massacres would be lifted. At the time the late Pramoedya Ananta Toer, Indonesia's greatest 20th-century novelist and a leftist prison-camp veteran, enjoyed a rare moment of optimism. Now that Suharto had gone, there was no reason the truth had to lie buried with the many dead. But Pramoedya would have been disappointed.

He himself headed a foundation that investigated the killings, exhuming some mass graves, for example. In 2000, a few months into his brief, chaotic presidency, Abdurrahman Wahid (who died in 2009) offered an apology to the victims of the violence, recognising the involvement of members of the huge Muslim social organisation he headed.

It was 12 years, however, before another apology came and it was a local one—from the mayor of the town of Palu on the island of Sulawesi, who had led the local wing of Pemuda Pancasila (PP), a loutish right-wing youth organisation that played a big role in 1965. Also in 2012 Indonesia's human-rights commission published its own investigation into 1965. It concluded that the campaign, led by the army, amounted to a gross violation of human rights. It urged the government to prosecute perpetrators and compensate survivors, and the president to issue a formal apology. The report was largely ignored. The government rejected it, and hints that Mr Yudhoyono would make an apology for past abuses by the state came to nothing after the very suggestion prompted outraged protests from groups such as PP.

It was around that time that "The Act of Killing" began to be shown at festivals and, online or in small screenings, in Indonesia itself. In October 2012 *Tempo*, a current-affairs magazine, produced a special issue devoted to a nationwide investigation of the killings. It sold out. A number of books since have tackled the period, including "Pulang" ("Homecoming"), a prize-winning novel by Leila Chudori, a *Tempo* journalist. But none of this amounts to a national coming-to-terms with the past.

Still buried

That failure to confront the past is not just because it is too terrible. It is also because, for all the transformation of Indonesian politics, some aspects of 1965 still seem too close for comfort. President Yudhoyono, a former general, is the son-in-law of Sarwo Edhie Wibowo who, as head of the army's special forces, was deeply implicated in the slaughter. The president's party wants him to be awarded posthumous "national hero" status. The army has neither faced up to its past crimes nor lost influence; PP and other groups still engage in tuggish vigilantism.

Moreover, as "The Act of Killing" shows, the perpetrators of the massacres, though in some cases privately racked by guilt, still present themselves as heroes; and some of the families of the victims still live in fear. As one former killer in the film puts it: "War crimes are defined by the winners. And I am a winner." ■



The tobacco industry

Government coughers

SHANGHAI

Smoking is on course to kill 100m Chinese people this century. Will the latest anti-smoking policies curb it?

THE air in China can be deadly and not just because of the smog. Some 300m Chinese adults are smokers and, with over 700m people exposed to second-hand smoke, the country is paying a high price for its addiction. The prevalence of smoking is greater in countries like Austria and Russia since, although more than half of Chinese men smoke, barely 2% of women do. But China is still the world's largest cigarette market and, on present trends, 100m people stand to die from tobacco-related illnesses this century. The resultant economic burden—estimated in the tens of billions of dollars—will soar as the economy and the cost of health care grow.

China is starting to take notice of the problem. Mao Zedong smoked like a chimney but it is rare to see a senior leader smoking in public now. Peng Liyuan, China's first lady, is even an official anti-smoking ambassador. China has also taken a number of policy measures. It ratified the World Health Organisation's Framework Convention on Tobacco Control (FCTC) in 2005. The central government promoted a partial ban on smoking in public places at health-care facilities and in schools. Some large cities have announced restrictions on smoking in indoor public places.

Although these proclamations look impressive on paper, they have not amounted to much in practice. Smoking is less common than it was in urban offices and restaurants but China has hardly kicked the habit. In fact, the revenues of the Chi-

nese cigarette-manufacturing industry shot up from 285 billion yuan (\$47 billion) in 2005, when the FCTC was ratified, to 757 billion yuan in 2012 (see chart). Medical studies add to the sense that the damage done by tobacco is set to rise. Hence talk of beefing up efforts to curb smoking. At the end of 2013 the State Council, China's cabinet, banned officials from smoking in hospitals, schools and on public transport. And the National Health and Family Planning Commission says it is working with the State Council on a nationwide ban on smoking in indoor public places.

But even then the impact may be limited, for two reasons. The bans are half-measures that fall far short of the proven mix of policies advocated by experts. And the tobacco business is so entwined with gov-

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ernment that it is likely to thwart any effective anti-smoking effort.

According to the WHO's studies of what has worked around the world, anti-tobacco campaigns need six planks. The first is reliable data on tobacco use and prevention, which is lacking in China. The second is the sweeping imposition of smoking bans, not the partial bans still being mooted in Beijing. Third, countries must help smokers quit with well-funded, accessible schemes.

Another plank is to educate smokers on the harms of tobacco. A study published in *Tobacco Control*, a journal, in 2010 found that only two-fifths of Chinese believed smoking causes coronary heart disease and only a fifth knew that it leads to strokes. The WHO also advocates a complete ban on marketing. But China's cigarette brands have found many ways to circumvent official prohibitions, for example by setting up charities that fund schools and sporting events in their name (though officials say they will now crack down on this practice).

The final prescription from the WHO is also the most important: heavy taxation. Many studies show that tobacco taxes are highly effective in reducing consumption. This approach has worked in poor countries like South Africa as well as in rich ones like France. But Chinese cigarettes are taxed so lightly by international standards that the cheapest packs in rural areas sell for just two yuan (35 cents); in cities, a cheap pack costs just five yuan.

A study published on February 18th in the *British Medical Journal* used a computer model to calculate what would happen if China properly implemented the WHO's policy recommendations. By 2050, it found nearly 13m smoking-related deaths would be averted, and more than 154m "life years" regained. It also predicts a 40% reduction in the prevalence of smoking. ▶▶

Full of puff

China's tobacco industry, yuan bn



Source: WIND

▶ Will China listen to the experts? Perhaps, but the second great obstacle is the influence of the tobacco lobby. China National Tobacco Corporation has a near-monopoly on tobacco sales in China. It is overseen by the State Tobacco Monopoly Administration. This is supposedly an independent entity, but the two share managers and a website and have intertwined organisational structures. Li Keming, brother of Li Keqiang, China's prime minister, holds a senior post in both. Cheng Li of the Brookings Institution, an American think-tank, calls this the "last bastion of China's planned economy".

Planners have consolidated the once-fragmented industry. In the decade to 2010, 185 cigarette firms and 1,800 brands have shrunk to just 30 firms and 133 brands. Foreign brands are relegated to a niche market in China but the ciggy bigwigs now have

their eyes on global expansion. They want to create big brands to go up against the Marlboro man overseas.

China's government is hooked on cigarette revenues. In 2012 the tobacco industry turned over 717 billion yuan in profits and taxes to government coffers, which made up 6% of official revenue. Not surprisingly, tobacco is as big in Beijing politics as petroleum and property. And in provinces, like Yunnan, where they grow tobacco, that influence is even greater.

In theory, the central government could drive up the cost of smoking without losing income. Since it controls the monopoly, any lost profits can be made up as tax revenues. But costlier cigarettes would not be popular on the street and leaders may not want to risk it. And since the industry regulates itself, it is unlikely to suppress the source of such handsome profits. ■

Journalism in Hong Kong

Beat the press

HONG KONG

An attack on an outspoken editor shocks journalists and public alike

AS HE got out of his car on the morning of February 26th Kevin Lau Chun-to was approached by a man who stabbed him in the back and legs, before fleeing with an accomplice on a motorcycle. Mr Lau was rushed to hospital critically wounded. His condition later stabilised.

It is the latest in a string of attacks on targets in Hong Kong perceived to be hostile to mainland China. In June last year three masked men threatened workers with knives at Next Media group and burned 26,000 copies of *Apple Daily*, a famously anti-Communist Party newspaper. The same month, Chen Ping, publisher of *iSun Affairs*, a weekly known for covering sensitive mainland issues, was beaten by a group of baton-wielding men. Other recent incidents included the dismissal this month of Li Wei-ling, a prominent talk-show host, who was critical of China.

Mr Lau had, until last month, been editor-in-chief of *Ming Pao*, a Chinese-language newspaper known for aggressive investigative reporting. He was replaced by an editor widely seen as a pro-establishment figure. This prompted the editorial staff to stage repeated protests and to sign a petition demanding that managers explain Mr Lau's removal, to no avail.

Three days before the attack on Mr Lau, thousands had taken to the streets of Hong Kong in support of press freedom. A *Ming Pao* staff group said he had led them in "resisting pressure from the invisible hands who try to meddle in the newsroom". Under him, the newspaper took part in a report by the International Consortium of Investigative Journalists that revealed the offshore holdings of some of China's elite, including stakes in companies owned by relatives of President Xi Jinping and former premier, Wen Jiabao, that were registered with offshore tax havens.

Shirley Yam, vice-chairman of the Hong Kong Journalists Association, called the attack a "provocation to Hong Kong press and freedom of expression". There is no evidence of mainland involvement in the attack on Mr Lau but Claudia Mo, a former journalist who is now a local politician, said it felt like "a warning sign for the local press that if you are not obedient enough you just may get hurt."

Reporters Without Borders, a Paris-based pressure group, ranked Hong Kong 61st for press freedom worldwide in 2013—far below its 18th place when the rankings were first conducted in 2002. ■

Army entertainers

That's show-biz

BEIJING

A time-honoured military institution is on the way out

SONG-and-dance troupes have played a prominent role in Chinese military life since the Communist army's founding days as a guerrilla force in the 1920s. As one of the army's earliest generals put it: "We have two forces: one consists of hundreds of thousands of fighting troops, and the other is a 500-strong band of performing artists." The role of the entertainers was to boost soldiers' morale and spread party propaganda. President Xi Jinping's wife, Peng Liyuan, launched her career as one of them, even singing to the martial-law troops who crushed the Tiananmen Square protests in 1989.

These days, however, the performers' usefulness is being questioned. Some are still among the nation's most popular—the star of a song-and-dance group run by China's nuclear-missile corps topped the folk-song charts for weeks last year with her ballad "Chinese Dream"—but some argue that all that show-biz has become a liability, dragging the military's name into the quagmire of commercialism. A party plenum in November called for the army's non-fighting personnel to be cut. On social media, many Chinese agreed.

It has indeed been a bad few years for the image of the "cultural-worker troupes", whose ranks have been swollen by the hiring of stars to boost their fame. In 2006 a senior naval commander was given a suspended death-sentence for corruption. He was alleged to have had five mistresses, all of them military entertainers. In September the son of two prominent performers was sentenced to ten years in jail for rape.



Don't call me general

Questions have been asked about why several singers, including the rapist's father, were referred to as "general" even though they were army-employed civilians. (Ms Peng, the first lady, was a "general" in her singing days.) *Global Times*, a Beijing newspaper, said military morale was being undermined by a perception that singers could achieve high rank more easily than soldiers. In August the army banned calling performers "general".

Laying off entertainers may be relatively easy but changing the army's predilection for syrupy songs sung by comely stars could prove more difficult. *Southern Weekend*, a newspaper, said the army would still hire talent to entertain the troops but on temporary contracts. This, it said, could become a new "hidden burden" on military resources.



The future of Wikipedia WikiPeaks?

SAN FRANCISCO

The popular online encyclopedia must work out what is next

IN 2012, after 244 years in print, Encyclopedia Britannica became online-only. Now a group of German fans of Wikipedia, an online, user-generated encyclopedia, are raising money for a move in the opposite direction. A print version of the English Wikipedia—1,000 bulky volumes and 1,193,014 pages—will be on show at a gathering of Wikipedians later this year. A world tour will probably follow: a global victory lap for the internet's most impressive crowd-sourced creation.

The books will be instantly out of date; several times a second an article is amended online. But that is not the point. Wikipedia, which was founded in 2001 by Jimmy Wales and Larry Sanger, has a right to show off. With articles on subjects as diverse as Spaghetti code (“a pejorative term for source code”) and SpaghettiOs (“an American brand of canned spaghetti”), it has 1,600 times as many articles as the Encyclopedia Britannica. It is the world's fifth most popular website, with editions in 287 languages. (The English one is the biggest, with 4.4m articles.) On any given day 15% of all internet users visit it, amounting to 495m readers a month.

Visitors to Wikipedia's headquarters in downtown San Francisco, not far from the buzzing offices of giant internet firms like Twitter, will find an eerily silent workplace. The not-for-profit Wikimedia Foundation, which oversees it, has around 170 employees. But its life blood is the “com-

munity” of over 76,000 volunteers who create and update entries remotely.

“Our job is to provide the sum of all knowledge,” says Erik Möller, the foundation's deputy director. But like an entry in a fast-changing field, Wikipedia itself is due an update. After a year-long search, the foundation is expected to name a new boss in March. The requirements are stiff: the search committee recently admitted it had been looking for a “unicorn”. He or she must ensure the non-profit's financial future, rebalance its content—and work out how to attract not only enough contributors, but the right sort.

The current boss, Sue Gardner, transformed Wikipedia's once-feeble finances. When she started in 2007 the foundation

Edited out

Active* editors on Wikipedia, '000†



Source: Wikipedia
* Five or more contributions per month
† Six-month moving average

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had funds of just \$7.3m, a staff of 12 and headquarters in a dingy shopping centre in St Petersburg, Florida. Last year it raised \$50m from donations and grants. The average reader donated 11 cents. Her replacement will have to decide whether to establish an endowment to help ensure future financial stability. And what about selling ads? “I would never say never, but no,” says Lisa Seitz Gruwell, the foundation's chief revenue officer.

Wikipedia's most pressing difficulty is finding and keeping contributors, says Phoebe Ayers, who sits on the foundation's board. The number of editors for the English-language version has fallen by a third in seven years (see chart). When Wikipedia was launched, one attraction was being able to see updates straight away; now any teenager on Facebook can experience that thrill. It also faces more competition for volunteers' time online.

Wanted: Wikipedians

Wikipedia is “starting to show the limits of the volunteer-only model”, says William Beutler, the author of “The Wikipedian”, a blog. The fabled grumpiness of established editors is one reason: “Please do not bite the newcomers” runs a reminder on its noticeboard, presumably frequently ignored. Last year it added a “thanks” feature, so editors can be complimented for their work, rather than just harangued for errors on message boards. But it still needs to do more, thinks Mr Beutler, perhaps including paying contributors—though that would be resisted by many Wikipedians, who fear creeping commercialisation. A decade ago, the mere discussion of taking advertising caused a schism, with a purist Spanish version splitting off.

A greater diversity of writers would be welcome, too. Today's bunch are 90% male and mostly from rich countries. One con- ▶▶

▶ sequence is coverage that is comprehensive on science and technology, but patchy on poorer regions and social issues. A recent analysis found that only 2.6% of its “geo-tagged” articles are about Africa, which accounts for 14% of the world’s population. Various groups are trying to make its coverage less skewed, in different ways. On March 4th the Royal Society in London will hold an event to update articles on women scientists, which tend to be incomplete or even non-existent.

Wikipedia wants more readers, too, especially in places where information is in short supply. In some languages—for example Malagasy, Madagascar’s national language—it is almost the only reference work and a valuable “cultural repository”, says Ethan Zuckerman of MIT’s Media Lab. Through a project called Wikipedia Zero, mobile operators in 25 countries, including Cameroon, Malaysia and South Africa, supply Wikipedia free to smartphone users. A pilot programme in Kenya lets owners of phones that are too basic for internet browsing receive entries by text message.

As if all that were not enough, Wikipedia’s new boss will also need to work out how the transmission of knowledge should keep pace with changing patterns of consumption. It is trying to follow the shift from personal computers, for example, by making it easier to edit articles on mobile devices. But only the most devoted will spend their commutes editing entries instead of playing Angry Birds. And what will Wikipedia be, when information can be supplied by voice or wearable devices like Google Glass, asks Jeff Jarvis of the City University of New York’s journalism department? If it is as popular then as it is now, another victory lap will be in order. ■

Cancer in the developing world

Worse than AIDS

The burden of cancer is falling increasingly heavily on the poor

SARA STULAC is a paediatrician, but doctors in Rwanda must be adaptable. One of her first patients after arriving from America in 2005 was a young girl with a tumour the size of a cauliflower on her face. The girl’s father, a subsistence farmer, had tried traditional healers and local doctors, but the tumour had grown, along with his expenses. An oncologist was needed. If only the country had one. Eventually Dr Stulac called one in America who talked her through the treatment that would save the girl’s life.

What makes this story unusual is its happy ending. According to the Interna-

tional Agency for Research on Cancer (IARC), part of the World Health Organisation (WHO), low- and middle-income countries accounted for 57% of the 14m people diagnosed with cancer worldwide in 2012—but 65% of the deaths. Cancer kills more people in poor countries than AIDS, malaria and tuberculosis combined.

Residents of poor countries have long suffered from cancers, such as those of the liver and cervix, that are associated with infections. But as they have grown richer, drinking, smoking and fatty foods have led to more breast, colorectal and lung cancer. Women who used to die in childbirth now live long enough to develop breast cancer. HIV patients on antiretroviral drugs are dying of other causes.

Glass-half-full types view this as a success. But resources have not shifted with the burden of disease. Many developing countries have no trained oncologists, let alone a treatment centre. Even where care is available, the sick often delay because they are poor or do not know that treatment is urgent. Some languages have no word for cancer.

Poor cancer sufferers are not only more likely to die, but more likely to suffer pain and financial distress. When researchers asked Kenyan and Scottish patients with terminal cancer about their experiences, the Scots spoke of emotional angst while the Kenyans reported severe physical pain and financial worries. Though morphine is cheap, it is scarce in many poor countries, whose governments fear it will cause addiction or be used to make heroin.

Although cancer claims more victims, it receives a tiny fraction of the aid that goes to fighting HIV, malaria and tuberculosis. Three of the Millennium Development Goals dealt with health, but none mentioned cancer. Few of the most modern cancer drugs are considered “essential” by the WHO. Julio Frenk, the dean of the Harvard School of Public Health, says attitudes are similar to those towards AIDS in the 1980s, when treatment for the poor was deemed impractical or unaffordable.

Anti-cancer efforts are in fact very good value for money, says Christopher Wild, the director of IARC. The world spends some \$320 billion on cancer treatment and prevention each year, but his group estimates that up to half of cancer deaths could be avoided if the money were spent more wisely. Four-fifths of these avoidable deaths are in low- and middle-income countries.

Lung cancer, which killed 1.6m people around the world in 2012, offers the biggest opportunity. Anti-smoking campaigns already account for most of the aid directed to cancer. But many developing countries have resisted tighter regulation and higher tobacco taxes. Over half of the men in China, Indonesia and Russia smoke. Chinese officials are finally waking up to the stag-

gering public-health costs (see page 61).

Smaller gains could come from tackling cancers that mostly afflict the poor. Doctors reckon that roughly 80% of liver cancers and 70% of cervical cancers could be prevented by immunising against hepatitis B and human papillomavirus (HPV), which predispose sufferers to the two diseases. Costs are low: just 54 cents for a full course of Hepatitis B vaccine, and \$13.50 for HPV. There is no vaccine for Burkitt’s lymphoma, the most common cancer of children in equatorial Africa. But the drugs used to treat it are cheap, effective and relatively easy to administer.

Spotting cancer cases earlier would help, too. About 90% of the patients at the Uganda Cancer Institute were first seen with illnesses so advanced that they would have been hard to treat anywhere, says Corey Casper, an American oncologist who works with the clinic. Earlier treatment could cut mortality by half, he thinks. Low-tech approaches to screening can help. Some countries, including India and Thailand, are testing for cervical cancer using vinegar instead of doing Pap smears, and removing precancerous lesions with liquid nitrogen instead of pricier options. Such successes have an unexpected benefit, too: the more that cancer is seen as survivable, the more readily sufferers will seek timely treatment.

A big worry is whether health-care systems designed to treat acute illnesses would be able to handle the increased caseload. Rwanda provides a model. It now treats several chronic illnesses, including cancer, based on the system it used for HIV, now itself a chronic disease. Community health workers offer decentralised care, which keeps costs down. Young girls receive the HPV vaccine, data on cancer cases are stored and doctors can consult oncologists in America as needed. In 2012 the country opened its first modern cancer centre. More young girls with tumours are surviving as a result. ■



An injection of hope



Banana diseases

Yes, we have no bananas

BOGOTÁ

A huge export industry is battling for survival on two fronts

WHEN bananas started to be widely exported in the 1870s, they were an exotic treat. But by the 1950s the fruit (botanically, a herb, but never mind) was a favourite of millions far from the tropics. Then Panama disease struck. The soil fungus swept through Central and South America, killing banana plants in its path. By the 1960s Gros Michel (Big Mike), the variety accounting for virtually all exports, was close to extinction. The export industry approached collapse.

But in the nick of time growers identified a resistant commercial variety, called Cavendish. Compared with Gros Michel, it was small and bland. Gros Michels could be flung into train carriages and ships' holds; Cavendishes had to be packed in cardboard and shipped in pricey refrigerated containers. But there was no other alternative. Soon Cavendish replaced Gros Michel as the world's top banana: the variety now accounts for 95% of all exports.

Bananas are now the world's most valuable fruit. Exports rose from 11.9m tonnes in 2001 to 16.5m in 2012. Americans eat more bananas than apples and oranges together. But once more the export industry is fighting to survive—and this time, on two fronts.

First, Black Sigatoka, a disease which blackens leaves and can halve yields, is showing resistance to the fungicide used to combat it. It is normally controlled by spraying almost weekly, which increases growers' costs considerably. Now growers in some places are having to increase dos-

Climate

Law on Mother Earth

Domestic climate legislation is booming

WHEN Tony Abbott became Australia's prime minister in 2013, almost his first acts were to abolish the country's Climate Commission and to promise the repeal of a carbon tax. Soon after, Japan scrapped plans to cut carbon emissions by 25% by 2020, citing its post-tsunami shutdown of nuclear-power plants. Such actions in large countries—Japan is the fifth biggest carbon emitter; Australia the 17th—give the impression that the world as a whole is stepping away from environmental rules and laws.

But according to lawmakers themselves, that impression is false. In a review published on February 27th of national climate legislation in 66 countries, accounting for 88% of carbon emissions, they calculated that almost half of their parliaments passed climate-change or energy-efficiency acts in 2013. Only Japan and Australia went the other way.

The new laws varied hugely. Some were sweeping—take Bolivia's whimsically named Law on Mother Earth and Integral Development to Live Well. Others were narrowly targeted but could have a big impact: Canada introduced rules on exhaust from heavy lorries. Still others, including an environmental-protection law in the poor and violent Democratic Republic of Congo, may have all too little effect. The review considered only the quantity of legislation, not its quality. It says nothing about whether laws are implemented or effective.

age substantially, suggesting that spraying could soon become not just pricey, but ineffective. Second, Foc Tropical Race 4, a strain of Panama disease that attacks the Cavendish, has struck in several countries. Central and South America, which produce four-fifths of exports, have so far escaped. But "it's not a question of whether it will occur there," says Gert Kema, a plant pathologist at Wageningen University in the Netherlands. "It's a question of when."

The race is now on to find a banana that is both resistant to the two diseases and commercially viable. Consumers might turn their noses up at pungent varieties. Thin-skinned ones would not survive weeks in a ship's hold. A candidate may be hidden in the Laboratory of Tropical Crop Improvement in Leuven, Belgium, which houses a big collection of specimens of bananas and plantains (close relatives that must be cooked before eating).

Modifying the Cavendish is another, perhaps quicker, approach. Scientists at

All the same, the patient accumulation of domestic decisions is striking. The survey by GLOBE International, a group of lawmakers, and the Grantham Research Institute of the London School of Economics, shows that the world's stock of climate laws has risen steeply, from fewer than 50 in 2000 to almost 500 in 2013. The most active period was in 2008-09, in the run-up to an international climate conference in Copenhagen, at which the signing of a treaty restricting carbon emissions was widely expected. Those hopes were dashed, but have since been rekindled, this time focused on a meeting to be held in Paris in 2015. Countries like to have new climate laws to show off at such gatherings, which may partly explain why the pace of legislation did not slacken much in 2013.

The nature of the laws, though, is changing. During the busy years countries put broad framework legislation on the books. All but five of the 66 passed laws to promote low-carbon energy, for instance. Now, many laws are fleshing out details of that framework legislation.

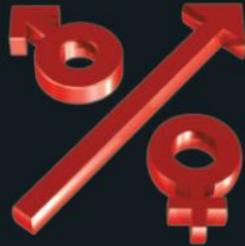
GLOBE started as a talking shop for a few parliamentarians. It has now set up a formal arrangement, helped by the World Bank, to provide policy advice and swap ideas about good practice among lawmakers. They need help. As the review says, there may be a lot of laws. But this does not necessarily make for better policies—let alone a more stable climate.

the UN and the International Atomic Energy Agency have bombarded plants with gamma rays; three of the resulting mutants have shown resistance in the laboratory to Black Sigatoka. And *Musa acuminata malaccensis*, a wild Asian fruit that is the precursor of edible bananas, is thought to be resistant to Panama disease. A hybrid Cavendish containing some of its genes has grown well in infected ground. But in both cases, field tests are needed.

Cavendish, like other cultivated banana varieties, is seedless and propagated by cuttings. That produces clones, which is efficient for exporters, since the fruit are all similar in shape and size. But it also means a single disease can threaten the entire crop—and the non-tropical world's banana supply. If the export industry is to have a long-term future, it needs to diversify. ■

Correction: In the chart accompanying our article on oceans on February 22nd, we swapped the "over-exploited" and "fully exploited" labels. The correct version is available at <http://econ.st/1jrQLIL>.

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Telecoms in Mexico

Slim's chances

MEXICO CITY

Carlos Slim faces the biggest challenge yet to his dominance in telecoms, and a golden opportunity to break into television

THERE is nothing that better illustrates Carlos Slim's ambition to muscle into Mexican television than football. In December the boss of América Móvil, the country's biggest telecoms firm, watched his new investment, León, march to victory in Mexico's national league, defeating América, owned by Emilio Azcárraga, a broadcasting mogul. Mr Slim was lucky to see the first leg of the final. Most Mexicans couldn't. Mr Slim had sold the transmission rights to Fox Sports, not to Mr Azcárraga's Televisa, Mexico's biggest broadcaster. For the first time one leg of the two-match final was not shown on nationwide free-to-view television.

A few months later, Dish, a satellite-TV company recently revealed to have close ties to Mr Slim, has found a new way of dishing it to Televisa. "Football belongs to everyone," it says, in a schmaltzy advertisement ahead of the World Cup. "Thanks to [Mexico's] telecommunications reform, you can watch the matches from Brazil on Dish with free-to-air TV channels." Those matches will come courtesy of Televisa, even though the broadcaster has fought tooth and nail to stop Dish being allowed to retransmit its channels without paying. On February 21st Mexico's new telecoms regulator, Ifetel, confirmed that it would let Dish and others rebroadcast four national channels belonging to Televisa and TV Azteca, the terrestrial television duopoly, ignoring the broadcasters' complaints that

Dish is merely a stalking horse for Mr Slim.

Mr Slim's ambitions in television are controversial for two reasons. First, the 1990 telephone concession that helped make him one of the world's richest men forbade him from broadcasting TV, either directly or indirectly. As a result of last year's telecoms reform, he may in future be able to, as long as the regulator approves.

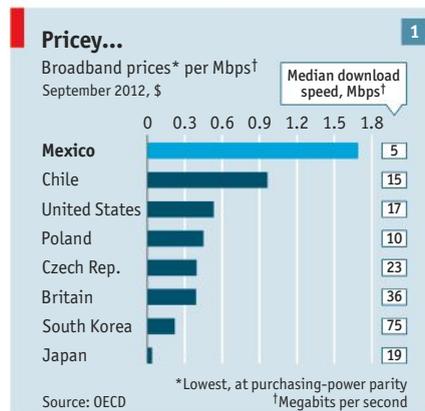
Second, he has enormous presence in Mexico's telecoms markets. América Móvil controls 80% of fixed-line and 70% of mobile subscriptions, giving it a massive advantage when it comes to selling internet access. Although his businesses are exceptionally profitable by global standards, the services are slow and expensive, and their uptake low, even by Latin American

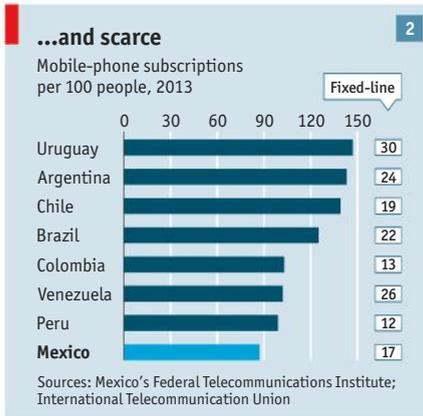
standards (see charts on this and the next page). Broadcasting, in contrast, is struggling as advertising revenues fall. Televisa and TV Azteca fear that Mr Slim, if allowed to invade their market, will use his massive financial firepower to wipe them out.

Nonsense, say Mr Slim's aides. Televisa, too, is a behemoth, with a 70% share of terrestrial broadcasting, and almost 50% of the pay-TV market, including through its majority stakes in Sky Mexico and Cablevision. Mr Slim's people say Dish has almost halved the cost of pay-TV since its launch five years ago, showing the benefits of competition; consumers will benefit further from Dish and others being free to include Televisa in the bundles of channels it offers them. Televisa says this will cost it 1.4 billion pesos (\$106m) in revenues this year.

Ifetel has put both América Móvil and Televisa on notice that by March 9th it may declare each dominant in its market, meaning that both would be subject to stricter regulation than smaller rivals. Televisa and Azteca hope that the leaking on February 19th of a document revealing Mr Slim's relations with Dish will move the regulator to be harder on him than it is on them. The document shows that since 2008 Mr Slim has had an option to buy control of Dish's Mexican operations for \$325m, and powers to place people on its executive board. The broadcasters argue that this is a violation of Mr Slim's 1990 phone concession. At their urging, the regulator has launched an inquiry.

Ernesto Estrada, an Ifetel commissioner, says there are two prongs to the inquiry: has the concession been violated? And should the relationship preclude Dish from airing Televisa and Azteca's content without paying? Arturo Elías Ayub, who represents Mr Slim, says the terms of the arrangement with Dish have been public for years and have been investigated by ▶▶





▶ previous regulators. However, Mr Estrada says Ifetel has no record of the \$325m share-purchase option on its files. There is enough at stake that Telmex, Mr Slim's fixed-line phone company, has launched newspaper advertisements disputing what it calls "partial, misinterpreted and magnified information".

Whatever the inquiry concludes, América Móvil is likely to face new regulatory curbs. Under last year's constitutional reforms, Mexico will implement "local-loop unbundling" in telecoms. Currently, Mexico is one of only a few countries in the OECD that do not force dominant fixed-line operators to share the final stretch of wire, connecting the local exchange to a home, with rivals.

The aim of such a move is to give new competitors access to customers without having to build their own networks. It has worked well in Britain, among other countries. However, the risk is that the incumbents may scrimp on upgrading their networks, out of a reluctance to help their competitors. Luca Schiavoni of Ovum, a research firm, says this is a particular worry in Mexico, where internet usage is low. He thinks a quicker way to get more competition for broadband would be for the regulator to encourage cable firms to invest more. It could do both, of course.

Another challenge for América Móvil is likely to come in its mobile-phone business. Here, analysts say, the authorities could foster competition by auctioning high-speed radio spectrum only to its rivals, by making América Móvil pay more to networks that receive its calls or by forcing it to share its antennas.

However, Aitor Ortiz, a regulation specialist at Cidac, a Mexican think-tank, believes that such moves could leave América Móvil still dominant, mostly because it has such a stronghold as an internet-service provider. With traditional broadcasting losing ground to internet channels like Netflix, América Móvil may eventually gain the upper hand in the content business too, if the regulator fails to keep a close eye on it. That may be another reason Televisa is so keen to stop it in its tracks. ■

Electric cars

Fully charged

Tesla gains new admirers as it heads towards the mass market

IF COMFORTABLY outpacing your rivals is the main measure of automotive achievement, Tesla's electric car is a resounding success. The Model s last year outsold its nearest luxury rival, Mercedes's petrol-engined s-class, by 30% in America. And in its top specification the Tesla will also beat the German car in the race from 0-60mph. As a battery-maker Tesla is also moving fast. This week it announced plans to build a "gigafactory" in America to make lithium-ion power-packs, that it hopes will propel its vehicles to the mainstream.

Tesla's acceleration has been rapid. Launched a decade ago by Elon Musk (pictured), a founder of PayPal and serial tech entrepreneur, last year it sold around 22,000 cars and by the end of 2014 hopes to be making 1,000 a week. In early 2015 Tesla will add the Model x, a medium-sized SUV, to its range. However, Tesla's impressive growth has not yet translated into significant profits. A series of battery fires also briefly dented sales growth last year.

Nevertheless, Tesla's shares surged on February 25th, to value the company at over \$30 billion (GM is worth only twice as much) after Morgan Stanley, a bank, joined its adoring fans. It reckons that the battery factory will not only propel it along the road to mass manufacturing but also make it a leading competitor in low-cost energy storage, the key to making renewable energy more practical. The bank is also confident that Tesla's Silicon Valley location will put it in the driverless front seat of autonomous motoring. A recent meeting with Apple, and the iPad-like control panel of the Model s, have convinced some observers that a takeover and an iCar are around the corner, although Mr Musk insists that his firm is not for sale.

Tesla has defied its doubters (especially among petrolheads) with the success of the Model s, a smartly styled luxury saloon. It may not share the outrageous looks of a supercar like the Lamborghini Aventador, but it has the performance without the \$400,000-plus price tag. The most basic Model s costs \$64,000 in America (after subsidies). This has won it rave reviews in the motoring press, often sniffy about other electric cars with limited ranges and duff looks. By designing a large car with a big battery pack, Tesla has diminished "range anxiety"—one version can do 310 miles (500km) between charges.

But Tesla is so far in a niche, albeit with an incredibly loyal base of wealthy buyers.

A Tesla is a more stylish way of displaying environmentalist credentials than a lumpy Toyota Prius and more practical than a Ferrari—putting two child seats in the back boosts the capacity to seven passengers. Mr Musk is a convincing salesman, at least to rich Californians.

The prospects for electric cars have taken a turn for the better. China, a market that Tesla is eyeing for a third of its sales, last month announced strict new fuel-efficiency standards that may make life hard, if not impossible, for importers of big petrol-engined cars. The European Union this week confirmed new curbs on tailpipe emissions, to be imposed from 2021.

Even so, becoming a mass-market "General Electric Motors" will not be easy. In about three years Tesla will launch the Model e, a small saloon with a range of perhaps 400 miles, costing just \$35,000 or so—if its new factory can make batteries that are good and cheap enough. It will have to, because its buyers will be using it as an everyday set of wheels, not an indulgence. And it will have rivals: BMW's i3, launched last year, is aimed at the same market. Other carmakers will follow suit.

For buyers who just want the cheapest means of getting from A to B, regardless of the vehicle's looks or performance, the lowest-cost petrol cars will be hard to beat for some time to come. Traditional carmakers talk of one day serving such customers with "mobility as a service"—fleets of self-driving taxis. Tesla, which is also investing in autonomous driving technology, could be a strong contender in such a new market: unlike its older rivals, it would have no legacy business, of factories churning out petrol models, to be disrupted. ■



Watch out, Detroit

Snacks and drinks

Let my Fritos go

The Pepsi challenge: keep the company in one piece

COMPARED with most documents bearing a corporate letterhead, Nelson Peltz's 37-page argument for the break-up of PepsiCo, published on February 20th, is a good read. The drinks and snacks firm has "lost its entrepreneurial spirit" and is "shifting to a plodding, 'big company' mentality", it claims. Its managers "may fundamentally misunderstand the business". The answer is to spin off PepsiCo's successful snacks division, Frito-Lay, from its battered beverages business. Each would recapture its competitive zeal and gain the freedom to act on it. It is a refreshing change from PepsiCo's blather about driving choice in the "macro-snack universe".

Mr Peltz's fusillade is also a broader claim about how companies with lots of consumer brands should be structured. Whatever synergies there may be from packaging pretzels and bottling cola under the same corporate roof are undone by bureaucracy and extra cost. The share prices of focused companies like Hershey's (sweets) and L'Oréal (cosmetics), not to mention Coca-Cola, which concentrates on drinks, are a higher multiple of earnings than those of diversified PepsiCo and Procter & Gamble. Triant Partners, Mr Peltz's investment vehicle, used similar arguments to push for the separation of another drinks firm, Schweppes (now Dr Pepper Snapple), from Cadbury, a British confectioner, in 2008, and for the 2012 split between Kraft's North American and international food businesses.

A few weeks ago it looked like Pepsi's boss, Indra Nooyi (pictured), had seen off the challenge from Mr Peltz. But his fresh onslaught will oblige her to work harder to show that the two product lines are "better together". Mr Peltz says that since 2006, when Mrs Nooyi took over, PepsiCo has delivered total shareholder returns of 47%, compared with an average of 103% for shares in the S&P consumer-staples index.

Not only have Americans been guzzling fewer fizzy drinks in recent years, but Pepsi's share of those falling sales has slipped. Coca-Cola's diet version overtook regular Pepsi as the number two soft drink in 2010. Pepsi has failed to match Coca-Cola's prices and was slow responding to Coke's "Freestyle" soda fountain, which lets people pick their own flavours. Frito-Lay's fat American profit margins unhelpfully spare the beverage businesses from pressure to trim costs, says Ali Dibadj of Sanford C. Bernstein, a research firm. If it



Preparing them for sale?

were a separate company it could invest more in fast-growing emerging markets.

All this does not mean that diversification is doomed, or that focus is inherently good. There is no "black and white" case for separating snacks from drinks, says Richard Webster of Bain & Company, a consulting firm. The focus championed by Mr Peltz works best in big developed markets, where each category can be bewilderingly complex (think of shampoos, conditioners and hair dye) but the number of retailers which sell the stuff is relatively small. In less developed countries, with fragmented retailing, it makes more sense to have a broad product range and a big sales force. That argues against breaking up global companies, says Mr Webster.

Doritos with Mountain Dew

Among the blessings of togetherness, Mrs Nooyi claims \$800m-1 billion of annual costs saved because of synergies (though she gives few details) and extra clout with retailers. The clinching argument comes from the way Pepsi views its market: two-thirds of the time people consume snacks and drinks together. Pepsi thinks its sales will increasingly come from exploiting such "demand spaces". One recent promotion aimed at videogamers paired a "limited edition gamer pack" of Doritos with Mountain Dew "game fuel".

Mrs Nooyi hired "the best bankers and consultants" to consider the case for breaking up this happy union. In February she told Mr Peltz that he was wrong. He now promises to create a "groundswell of support" for divorce among shareholders. Mrs Nooyi must convince them that the snacks and drinks teams, which are headquartered in separate states, can work together without cramping each other's style. If she can do that, she may save the marriage. ■

Jerónimo Martins

A Portuguese explorer

LISBON

The successes of a globe-trotting grocer from a struggling small country

THE Pingo Doce supermarket in Rua Tomás Ribeiro is hard to spot, tucked among white-and-blue tiled houses and crumbling stucco facades. But inside trade is brisk as shoppers move from mounds of produce to man-sized slabs of *bacalhau* (dried cod).

Portugal is emerging from recession and food sales inched up by less than 1% in 2013, according to early figures from the local retail association. At Pingo Doce stores they rose 3.9%, thanks mainly to extensive price-cutting. Jerónimo Martins, which owns half of the supermarket chain, all of a cash-and-carry group and other bits and pieces, is Portugal's biggest food-distribution group. It is also Poland's.

The family-controlled firm, founded in 1792, realised in the 1990s that little Portugal was a good place to be from but not a great place to rely on. It made two sorties. One, to Brazil, a former Portuguese colony, flopped: the country was too big, the company too small, and despite speaking the right language, Brazilians proved too different. The other—to Poland, just opening to foreign investment—was a master stroke, or maybe a stroke of luck.

In 1995 the company picked up a cash-and-carry chain there, and got to know the market. It decided that frill-free discounting was the way to go. In 1997 it bought Biedronka, with 243 discount stores, adding outlets in small towns at first and seeking the kind of customers who run out of cash before the end of the month.

Many bigger rivals—Tesco, Carrefour, Metro, Ahold (Jerónimo Martins's partner in Pingo Doce, as it happens)—bet on hypermarkets instead. Neither the Poles, who like to shop often and locally, nor their government, which worries about the health of the high street and has to approve new hypermarket sites, shared their enthusiasm. Biedronka now has 2,393 stores and around 14% of the market, thinks Andrew Gwynn of Exane BNP Paribas, an investment bank, making it Poland's biggest food retailer. (Other discounters like Lidl, Netto and Aldi are doing well too.)

Though Poland's economic growth has slowed, Biedronka now accounts for 65% of the group's €11.8 billion (\$15.7 billion) turnover and 77% of its €777m in earnings before interest, taxes, depreciation and amortisation. Biedronka has softened its approach, making stores cosier and adding the odd bakery, but low prices for decent grub is still the name of the game. ►►

► If the goal in the 1990s was to diversify away from Portugal, today it is to hedge exposure to Europe. In March 2013 Jerónimo Martins started up in Colombia, a fast-growing country with underestimated institutions where food retailing is aimed mostly at the well-heeled. Once the group has figured out how to make money there, says Pedro Soares dos Santos, its chairman and chief executive, the operation may serve as a platform for nearby markets.

At the moment Jerónimo Martins is sitting pretty. Its 2013 results, announced on February 25th, showed only a small sacrifice in operating margins to achieve a 10.7% increase in sales. The secret, says its boss, is to cut prices and launch promotions quickly when customers start drifting away; to look after your suppliers and to go into each market as if you were local.

The going may well get tougher now. The company's share price has fallen by a third since April. That is partly because an investor halved its 10% stake in May but also because competition in Poland is growing. Hypermarket rivals have been cutting prices and many are branching out into smaller stores. Mom-and-pop shops are getting organised into chains.

Mr Gwynn thinks investors are waiting to see whether Jerónimo Martins can maintain its momentum. He is bullish. Organic sales growth in Poland is still over 4%. The firm should meet its target of 600 new stores by 2016, as around half of the grocery market is still in the hands of smaller retailers, according to PMR, a market-research firm focusing on central Europe. And if not? The Portuguese have been discovering new lands for centuries. Jerónimo Martins will be no exception. ■

Corporate alumni

Gone but not forgotten

More firms are seeking to stay in touch with former staff

COMPANIES do not like to be abandoned any more than lovers do. Workers who quit are sometimes escorted out by security guards, their smartphones confiscated and their e-mail accounts deactivated. But in the professional services, former employees are increasingly treated as assets, not turncoats. Borrowing the concept of "alumni relations" from universities, such firms are trying to stay in touch with departed workers, hoping to turn them into brand ambassadors, recruiters and salespeople.

The notion was pioneered by McKinsey, a management consultant. Its up-or-out promotion system generates a steady



stream of staff leaving on relatively friendly terms, many of whom go to work for potential clients rather than rival consulting firms. McKinsey has an online database of 27,000 former consultants. They are given access to a website which posts alluring job vacancies and regular presentations on business trends from the firm's analysts.

McKinsey's closest competitors have embraced this model. The Boston Consulting Group (BCG), for example, refers to its leavers as "graduates". It helps them to find new jobs, and even to negotiate a good contract with their new bosses. Once they have left, they continue getting free strategic advice from the firm's partners. In return BCG asks alumni to help it recruit new graduates, and to brief them on the state of the industries they are now working in. And of course, it hopes they may send a bit of work in its direction.

An obvious risk is that this makes businesses reluctant to hire ex-consultants, fearing that they will be double agents whose loyalty lies with the old firm. The consulting firms argue that there is little danger of this: few businesses hire, or buy advice, from just one firm, so it would be hard for one firm's alumni to get away with unjustifiably favouring their old employers. "I wouldn't say I'm blindly loyal," says Jim Whitehurst, a former BCG partner who runs Red Hat, a big software company. "But I do use BCG more than any other firm."

Among the biggest accounting firms, Deloitte helps departing employees update their curricula vitae in the hope this will encourage them to stay in touch and PwC has launched a recruitment campaign for former staff who want to come back and work part-time or do one-off projects. Linklaters, part of Britain's "Magic Circle" of prestigious solicitors, maintains relations with ex-staff by giving them a card that provides discounts on, or preferential access to, tickets for cultural events. Among the banks, Citigroup has held more

than 150 alumni gatherings since its programme started in 2011, including golf tournaments and wine tastings. Goldman Sachs has long touted its alumni's public service as a branding tool—its five most recent ex-bosses include two treasury secretaries and a senator.

Such close ties can be a double-edged sword. Goldman's brand as Wall Street's leading financial wizard suffered following the collapse of MF Global, a broker led by Jon Corzine, one of its illustrious ex-bosses; McKinsey's reputation for integrity was sullied when Rajat Gupta, a former managing director of the firm, was convicted of insider trading.

The main drawback of running an alumni network used to be its cost. But thanks to online social media, companies now need just one programme manager for roughly every 3,500 ex-employees. As a result, the trend is continuing to spread. Alumni at Procter & Gamble and Microsoft have set up their own networks, which they administer and fund themselves. The founder of the Microsoft site, Tony Audino, has started a business, Conenza, that runs other firms' alumni websites.

It is hard to quantify the return that alumni networks earn on their costs, but businesses of all kinds are now being urged to set them up—not least by management consultants. Paul Meehan, an executive at Bain & Company, says he advises clients that haven't done so that they should regard their former staff as "an untapped, hidden asset that isn't fully exploited". ■

Green energy

Still short of puff

BRUSSELS

Europe's wind-turbine makers are pleading for more political support

EUROPEAN climate policy has spent vast amounts of public money, sent power utilities to the brink and done little to reduce emissions of carbon dioxide, an impressive display of multi-pronged incompetence. But might all that money at least have built a robust, world-beating European renewables industry?

Not yet. European makers of solar panels have been largely wiped out by a combination of the financial crisis and competition from cheaper Chinese rivals. Q-Cells of Germany, once the world's largest solar manufacturer, went bust in 2012. SolarWorld, Germany's largest remaining maker, begged successfully for investors' patience to avoid bankruptcy late last year. The EU, like America, is bringing anti-dumping complaints against Chinese firms, but even if these were to succeed it is ►►

► clear that the future of solar-panel manufacturing lies beyond Europe.

Besides barely-green biomass, geographically limited hydropower and unproven tidal power, that leaves wind turbines as the best hope for European green energy. The picture is brighter than for solar. But Prokon, a German wind-park developer that offered generous profit-shares to small investors, filed for bankruptcy in January. And Europe's makers of wind turbines have gone through a dark few years, shedding jobs and racking up losses.

Vestas, of Denmark, was once the pin-up of the wind-turbine industry. But it overinvested just as others piled into the market. As its balance-sheet deteriorated, investors took fright, forcing the management to announce huge cost-cuts and layoffs, culminating in the sacking last year of Ditlev Engel, its boss. His successor, Anders Runevad, announced last month that the restructuring was paying off, producing €211m (\$288m) in operating profit before special charges.

Kristian Tornoe Johansen, an analyst at Danske Bank, thinks that Vestas's new "asset-light" model, with many of its production processes outsourced, puts it in a strong position to compete in Europe, America and emerging markets. HSBC's wind-sector analysts are also bullish on Vestas, as they are on two European competitors, Nordex of Germany and Gamesa of Spain, saying that the industry is ready for a turnaround, as it were.

Perhaps it is appropriate that Mr Runevad came from Ericsson, a Swedish telecoms-equipment maker. Tom Brookes of the European Climate Foundation compares the renewables firms' boom and bust to Nokia and Ericsson, which lost their early lead in mobile telephony when Apple and Google entered the market and became "killers". The two killers the wind-turbine makers should fear are not the Chinese but GE and Siemens, two huge Western conglomerates. GE has overtaken Vestas to become the world's biggest wind-turbine maker. Siemens outsells Vestas in the small but growing market for offshore windpower installations. Both conglomerates boast that they can offer their customers a complete package of transmission, storage and other capacities, in contrast to Vestas's focus on generation only.

Free as the wind

In some countries, such as Brazil, windpower is already competitive without subsidies, and as the technology continues to develop there will be more such markets. But in Europe that point is still far off: Siemens is aiming to cut the cost of electricity from offshore turbines to ten euro cents a kilowatt-hour by 2020, from around 14 cents now, but this is still well above the current cost of fossil-fuel generation.

So Europe's specialist renewables firms

Energy efficiency

Negawatt hour

The energy-conservation business is booming

AMORY LOVINS was right. In 1989, the American physicist noticed a misprint in a report of the Colorado Public Utilities Commission: negawatt for megawatt (MW). He borrowed the word to describe power saved through conservation or efficiency measures, and argued that these were the best way to meet rising demand for power, both for businesses and the environment. The first global study of such measures shows how far they have come.

The report, by the International Energy Agency (IEA), says that investment in energy efficiency is large and growing: \$300 billion in 2011 by companies and governments in 11 countries. That is the same as total investment in electricity generation from oil, gas and coal, though less than investment in renewable electricity plus renewable-energy subsidies. But it saves more in emissions of carbon dioxide than all the spending on renewables, and pays for itself.

As a result, says the agency, "avoided energy"—the difference between the amount actually used each year and the amount that would have been used had there been no conservation since 1974—is now equivalent to two-thirds of annual consumption. That is almost as much as the world's output of oil, gas and coal combined. The result has been a bonanza for energy-service companies, which advise other firms how to cut fuel costs. In America, these firms' revenues grew

by 20% a year in the decade to 2011, to \$7 billion; in China, they rose from almost zero in 2005 to \$12 billion in 2010.

Companies are responding to high oil prices, which stimulate energy savings everywhere, although energy subsidies dull this effect in some countries. But Robert Tromop, head of the IEA's energy-efficiency unit, says that regulation and technological innovation matter just as much. China, for example, is tightening its vehicle-emissions standards, boosting sales of fuel-efficient cars. It also requires that all new coal-fired plants with a capacity of over 600MW be "supercritical" ones that are about a third more efficient than traditional designs.

Fridges used to consume more energy than televisions. Now, TV sets consume more because they have got larger, whereas fridges have got more efficient, partly in response to government energy-saving targets. The market for "smart" appliances, which save energy by switching themselves off when not needed, is almost doubling every year.

Regulations impose costs as well as save them. But when the IEA examined the impact of efficiency targets on Japanese consumer goods, it found the benefits—lower running costs, more innovation—outweighed the extra burden. Efficiencies spurred by regulation will not create a low-carbon energy industry by themselves. But they do more to meet the goal than is usually recognised.

are pleading for help. A group of the firms' bosses, including Mr Runevad, has gone to Brussels to call on the EU to impose a further round of binding renewable-energy targets on each member, for the decade to 2030. The EU's initial proposals for energy policy during this period, announced in January, did not include these.

Mr Runevad and his fellow windpower bosses argue that compulsory targets would encourage power utilities to buy lots of wind turbines, helping their makers achieve economies of scale. Maybe, but there is a more sensible way for Europe to accelerate the switch to renewable energy and boost its wind-turbine makers. It should reform its crippled market in emissions permits, in particular by scrapping the exemptions from having to buy permits that many polluting industries enjoy. If the turbine-makers were to lobby for this, rather than pleading for a guaranteed market share, it would be a sign of an industry confident of its future. ■



Pretty, but coal is still cheaper

South Korea's internet giant

Now or Naver

SEONGNAM

At home, South Korea's biggest web portal has thrashed Yahoo and kept Google at bay. Now its owner plans to conquer the world with its messaging service

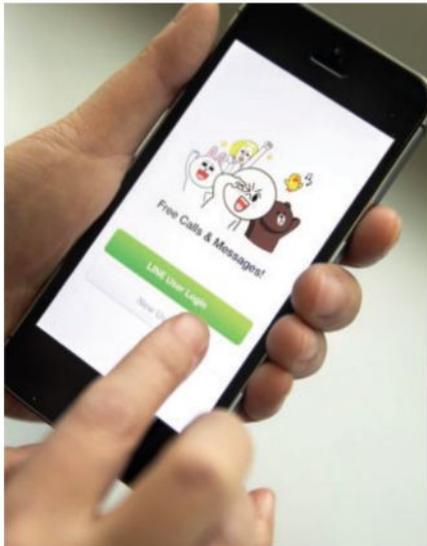
DOWN jackets are typically stuffed with duck, not chicken, feathers. Why? "Ask Naver". So ran an ad in 2003 for a South Korean web portal of that name featuring an innovative, crowdsourced question-and-answer service. In spite of such features, Naver's chances looked slim as it was launched into a crowded market dominated by Yahoo of America and Daum, another South Korean company.

Last year Naver indexed its 100-millionth question: a user asking for the title of a particular song, that begins with a giggle. An answer took just 14 minutes to arrive: "Blow," by Kesha, an American singer. Every day around 18m people visit its homepage. It has almost 80% of the South Korean search market, making the country one of just three where Google is not top (the other two are Russia and China). Google accounts for just 4% of searches; Yahoo, now trailing behind as the tenth most-visited portal, stopped producing specialist content for the South Korean market in 2012.

When Naver was set up, there were not many web pages written in Korean. So the Q&A service was a masterstroke—the users who answered others' questions provided lots of free content. Naver handed out grades, from "commoner" to "superman", to encourage them to keep writing. "Everyone wanted to be God in cyberspace", says Lim Wonki, the author of "The Secret of Naver's Success", published in 2007.

Some Western web portals are suffering declining ad revenues, but Naver's are still rising. Jay Park of Samsung Securities, a stockbroker, says the portal's online-advertising sales, which provide three-quarters of Naver's revenues, grew by 7.7% last year. He expects it to keep growing at this sort of rate. As the money rolls in, it no longer has to rely on free material from users, and can buy up lots of exclusive content, from encyclopedias to videos, which it blocks rival search engines from accessing. Unsurprisingly, this annoys them. In 2012 Kim In-sung, who built up Empas, a (now defunct) search engine, published a critical book, "Naver's Two Faces". He says it is "heaven" for users but a "black hole" for content providers. News organisations grumble that Naver pays them a pittance for licensing their stories.

Naver started out as an in-house venture by the IT division of Samsung, the country's largest industrial conglomerate (*chaebol*). But Samsung had sold the last of its shares in the company by 2004 and



Cutesy characters cost extra

Naver is now the sixth-largest of the companies in the local KOSPI share index. Mr Kim says it has begun to exhibit some of the least attractive traits of the *chaebol*, in particular by buying up smaller potential rivals and by using its market power to stop other portals getting access to content. In 2013 the country's Fair Trade Commission threatened the firm with a big fine, for allegedly unfair business practices. Naver persuaded it to drop this in return for it spending 100 billion won (\$94m) on helping smaller internet firms and on educating consumers about their rights.

Naver responds to all this by arguing that users still have a choice of portals: when a nude video of a Korean singer went online last November, visits to Google spiked because Naver had blocked it. Naver also says it is itself suffering "unfair conditions" in the mobile market, because 90% of South Korean smartphones run on Google's Android operating system, which offers Google as the default search engine. Despite this, Google has only 15% of the mobile search market.

Go abroad, go mobile

A bigger threat is KakaoTalk, a mobile platform and messaging app that, like Naver, offers games, e-books, photo storage and other services, launched in 2010 by a founder of Naver who left the firm. South Koreans now spend more time on it than they do on Naver.

KakaoTalk's domestic success spurred

Naver to go abroad and go mobile. When a tsunami hit Japan in 2011, Naver's employees there huddled at the office and, in one-and-a-half months, created Line, a free mobile messaging and call service that is now being promoted as the "Facebook of Asia". Within 18 months it hit the 100m-user mark, which took Facebook and Twitter around four years; in November 2013 it surpassed 300m downloads, making it a serious rival for WhatsApp, an American messaging service Facebook is paying \$19 billion for. If, as Mr Park predicts, Naver owes half of its revenue to Line in five years, it will have become "one of Korea's few global players" among internet firms.

However, Naver's shares fell sharply on February 20th, after Facebook announced its takeover of WhatsApp—on the assumption that the social network's backing would make WhatsApp impossible to beat. Naver's shares recovered this week on rumours, which it denied, that a big Japanese tech firm, Softbank, was offering to buy a stake in Line.

Naver's early attempts to get into big foreign markets went badly. Plans aired in 2009 for a "Naver California" and a "Naver Korean-American" never took off. Another big rival to Line, WeChat, is the most popular messaging app in China and, like KakaoTalk, is backed by Tencent, Asia's biggest internet firm. So Naver is concentrating on two smaller countries where Line already has a foothold, Thailand and Taiwan, and on places where smartphone use is low but set to boom, such as India and Mexico. In the past year it has spent around 250 billion won on marketing its messaging app in these and other countries.

But Naver's real strength abroad, says Mr Park, is its decade of experience in the portal business, "doing everything" from games to shopping to online newspapers. Line can do all these too, whereas WhatsApp is, until Facebook gets its hands on it, mainly a messaging service. Facebook still relies heavily on advertising, but Line makes 70% of its money from games and electronic "stickers"—oversize and elaborate emoticons, with names such as Cony the Rabbit and Brown the Bear, which users can insert into picture messages. Coca-Cola and Barcelona football club have paid Line to design special stickers for them.

It is unclear if smartphone users in Europe and America will warm to such cutesy characters, but Naver hopes to draw those wary of Facebook's open network to Line Band, a closed social-networking service. Though Mr Park expects Line's valuation to converge with that of Facebook "in the long term", for now it is tiny by comparison—about 9% the size. Nevertheless, in 2010 Naver's founder, Lee Hae-jin, chided employees for slacking and reminded them of their company's master plan: a first decade struggling; a second decade, marching to number one. ■

Schumpeter | The enemy within

Fraud within companies is a risk that can never be eliminated, just managed



BUSINESS has always been plagued by fraud: witness the South Sea Company in the 1710s (which enveloped the British economy in a giant bubble) or Charles Ponzi's Securities Exchange Company in 1920 (which gave the world the Ponzi scheme) or the Enron and WorldCom scandals in the early 2000s. Ambitious fraudsters are attracted to businesses for the same reason that Willie Sutton, a contemporary of Ponzi, reportedly said he robbed banks: "Because that's where the money is."

Some frauds are committed by people at the top such as Bernard Madoff or Allen Stanford. Others are committed by hired-hands lower down the organisation. But all frauds involve abusing people's trust and diverting corporate resources for personal ends. Fraud by wayward employees, be they high or low, can never be eliminated. Directors and executives can, however, treat it like any other unavoidable risk, and manage it professionally.

The risk is particularly acute at the moment. Companies are straining the bonds of loyalty. They are making ever more use of contractors and temporary workers. They are putting more pressure on employees to hit targets; they are also holding down the wages of the majority of workers while increasing the boss's pay. This is all happening at a time when economic activity is shifting to the emerging world (where corporate fraud is rife) and to the internet (where fraudsters are having a field day). Kroll, a security consultant, found that 70% of the companies that it studied were affected by fraud in 2013, up from 61% in the previous year.

At the same time the punishment is harsher than ever. Companies nowadays run the risk of being held liable for their employees' misbehaviour unless they can show they had done their best to prevent it. Directors who play even the smallest role in frauds can now go to prison. America's Foreign Corrupt Practices Act and its European imitators have made a serious crime of something once seen as normal business practice: bribing foreigners. Companies infected by fraud can incur all sorts of other costs. Their licences to trade may be withdrawn, they may be barred from bidding for government work and they may be subjected to online campaigns urging customers to boycott them.

What can companies do to uncover internal scams? A new book, "Corporate Fraud: the Human Factor", by Maryam Husain, an investigator at EY, an accounting firm, provides a timely

guide. One answer is to look for the telltale signs. Some of the biggest corporate tricksters were people whose flamboyant personalities often raised suspicions: think of Robert Maxwell, or Augustus Melmotte in Anthony Trollope's "The Way We Live Now", perhaps the best novel about corporate fraud. Boards have a duty to pluck up the courage to challenge such larger-than-life bosses.

However, most corporate fraudsters do not have swishing republican tails as a giveaway sign. In many instances they are not borderline psychopaths, just ordinary people gone wrong. Frequently, they start with small crimes and then engage in ever bigger misdemeanours to conceal their wrongdoing. Nick Leeson, who destroyed Barings Bank by losing £862m in bad bets on derivatives, said, "It all started when I tried to cover for a junior colleague who had lost £20,000." Ramalinga Raju, the chairman of Satyam, who admitted to inflating the computer-services company's revenues by \$1 billion, said, "It was like riding a tiger, not knowing how to get off without being eaten."

A second answer is to put procedures in place to detect frauds. The Sarbanes-Oxley law passed in America after the Enron and WorldCom frauds requires the boards of public companies to commission independent audits of their internal financial controls. But rigorous procedures can easily lure companies into a false sense of security. The employees most affected by those rules may be precisely the ones most capable of finding ways around them, as was the case with Mr Leeson and Jérôme Kerviel, a renegade trader at Société Générale.

Many companies seek reassurance that all is well by installing cyber-security tools to monitor employees' e-mails and internal accounting systems for suspicious activity. But fraudsters are often quicker at harnessing technology to disguise what they are up to (for instance, using instant messaging on their smartphones as a back-channel to communicate with accomplices) than companies are at using it to spot them. Those running scams may also be skilled at tricking colleagues into giving them passwords—a technique Edward Snowden may have exploited to devastating effect.

Praising the bearers of bad news

The most powerful weapon against fraud is not an algorithm or a checklist but a whistleblower. The Association of Certified Fraud Examiners calculates that three times as many frauds are discovered by tip-offs than by any other method. It also notes that firms with fraud hotlines, which staff can call anonymously, suffer smaller losses from fraud, and cut by seven months the "exposure gap" between the start of an illicit scheme and its discovery. Governments are increasingly providing whistleblowers with legal protection and financial incentives: America's Securities and Exchange Commission has created a \$450m fund to reward them.

Companies that dither, blather or launch half-hearted inquiries when presented with evidence of employee misconduct often end up regretting it. JPMorgan Chase lost billions in its "London Whale" rogue-trader scandal, initially dismissed by the bank's boss, Jamie Dimon, as a "tempest in a teapot". Besides doing more to encourage whistleblowers, businesses must take decisive action to close the exposure gap. A botched investigation can tip off a fraudster and make it easy for him to cover his tracks. A suspicion of deliberate foot-dragging can render an entire company vulnerable. The damage done by corporate fraud can last long after the culprits have been identified. ■



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Peer-to-peer lending

Banking without banks

By offering both borrowers and lenders a better deal, websites that put the two together are challenging retail banks

SAVERS have never had a worse deal but for most borrowers, credit is scarce and costly. That seeming paradox attracts new businesses free of the bad balance sheets, high costs and dreadful reputations which burden most conventional banks.

Foremost among the newcomers are peer-to-peer (P2P) lending platforms, which match borrowers and lenders directly, usually via online auctions. The loans issued often comprise many tiny slivers from different lenders. Some P2P platforms slice, dice and package the loans; others allow lenders to pick them. Either way, the result is a strikingly better deal for both sides. Zopa, a British P2P platform, offers 4.9% to lenders (most bank accounts pay nothing) and typically charges 5.6% on a personal loan (which is competitive with the rates most banks charge).

Elsewhere, returns (and risks) are higher. IsePankur, which lends to more than 60,000 people in four euro-zone countries, pays its lenders (who include your correspondent) a stonking 21.45% average net return (after a 3% default rate). Its typical borrowers do not flinch at rates of up to 28%: they are refinancing far costlier credit-card debt and doorstep loans.

Peer-to-peer lending is growing fast in many countries. In Britain, loan volumes are doubling every six months. They have just passed the £1 billion mark (\$1.7 billion), though this is tiny against the country's £1.2 trillion in retail deposits. In America, the

two largest P2P lenders, Lending Club and Prosper, have 98% of the market. They issued \$2.4 billion in loans in 2013, up from \$871m in 2012. The minnows are doing even better, though they are growing from a much lower base.

Neil Bindoff of PwC, a professional-services firm, speaks of a "perfect storm" supporting P2P's growth. Interest rates are close to zero, the public is fed up with banks, costs are low (one third of a typical bank's, according to Renaud Laplanche of Lending Club), and e-commerce is becoming part of daily life. People use the internet for peer-to-peer telephony (Skype) and shopping (eBay), so why not loans?

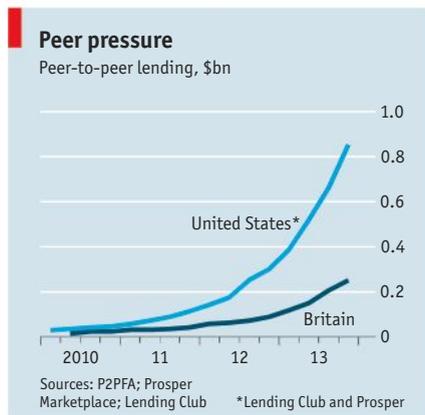
Awareness is still low—a survey by PwC found only 15% of Britons claimed to

have heard of the big P2P firms such as Zopa, Funding Circle and RateSetter; 98% had heard of the main banks. Another hurdle in Britain is that P2P is not fully regulated; that will change on April 1st. The Financial Conduct Authority will issue the new rules imminently. In America, people saving for retirement can apply tax breaks to their loans, and offset their losses against profits. Britain's P2P industry is awaiting a decision to extend tax-free savings schemes to its lenders.

Regulation to the rescue

Regulation should help forestall a big worry: that an ill-run platform might collapse, taking investors' money with it. At a conference organised by the P2P Finance Association, a trade body, this week, executives were worried about the risks of a "Bitcoin-style bust" that could rattle confidence in the nascent industry. New rules are likely to insist that P2P businesses ringfence unlent funds gathered from savers and arrange for third parties to manage outstanding loans if they cease trading.

Other big questions abound. One is insurance. Funds placed with P2P lenders are not covered by the state-backed guarantees that protect retail deposits in banks. Some platforms offer something of a substitute. Zopa and most other British companies have started "provision funds", which aim (but do not promise) to make good on loans that sour. These smooth the risk for lenders, but blunt the original P2P concept. So too does insurance: Ron Suber of Prosper, America's second-biggest lender, says "deep actuarial conversations" are going on with outsiders who would like to help lenders provide for the risk that their borrower defaults, dies, or loses his job. Purists fear such arrangements could recreate the moral hazard that has plagued conventional banking.



▶ The boom in cross-border P2P raises tricky legal questions. The European Commission has yet to get to grips with the industry. National rules often determine how credit is issued and debts are collected. But they offer little help when the money comes from hundreds of lenders in dozens of countries. Yield-chasing foreigners, private and institutional, are investing heavily in the American market.

Only a third of the money coming to Lending Club is now from retail investors: the rest (the fastest-growing slice) comes from rich people and institutions. Should

such big investors get a better deal—such as getting their pick of the best loans on offer? In Britain, Giles Andrew of Zopa regards the idea as anathema: all savers should be treated equally. Some others think big lenders will eventually dominate P2P.

P2P also ends the dangerous mismatch between short-term deposits and long-term loans inherent in conventional banking—but generally by locking lenders in for the loan's duration. A secondary market in P2P loans is developing fast. This allows investors to get their money back if they need it, usually by selling the loans at a discount.

But rules vary: some platforms will buy back the loans; others just hold an auction.

P2P is not complicated: success largely depends on marketing oomph, the quality of the algorithms used to screen borrowers and ease of use (P2P platforms are scrambling to develop apps for smartphones and tablets). P2P may attract big outsiders, such as banks, or internet companies which already have lots of data about their customers and (like Facebook) are good at connecting them. Google last year led a \$125m investment in Lending Club, valuing it at \$1.55 billion. It might well want more. ■

Debt and growth

Breaking the threshold

New research suggests debt's trajectory affects growth more than its level

CAN countries imperil their growth prospects by having too much debt? In 2010 Carmen Reinhart and Kenneth Rogoff of Harvard University argued that countries experience a sharp slowdown in growth when their public debt-to-GDP ratios hit 90%. Not everyone was convinced. Then in 2013 three economists at University of Massachusetts Amherst found that spreadsheet errors had skewed their results.

A new IMF paper now poses a more substantial challenge to Ms Reinhart and Mr Rogoff's thesis. Using data for debt and growth from 1821 to 2012, the authors found that growth in GDP per head is slower in countries with a debt-to-GDP ratio above 90% when looking at the data year-by-year (see left-hand chart). But many of these slowdowns were produced by factors unrelated to debt levels. For instance, the growth figures for countries with debts of more than 135% of GDP are depressed mainly because the debt-laden Japanese and German economies collapsed in 1945.

If one looks at average debt levels over 15-year periods instead, there is no evi-

dence that countries with debt of above 80% of GDP grow more slowly (see right-hand chart). Even countries with debt ratios of more than 200%, such as post-war Britain, experienced solid medium-term growth. More important than absolute levels of debt may be their trajectory. Countries with rising public-debt ratios suffer slower growth than those where it is falling—even if their accrued borrowings are already very high. This may be because budget deficits make them more vulnerable to economic instability.

Recent research indicates that rising private-debt levels also endanger growth. A paper by Moritz Schularick, now at the University of Bonn, and Alan Taylor, at the University of Virginia, has found that rapid total credit growth was the best predictor of financial crisis from 1870 to 2008. That should provide reassurance in the embattled euro area, where public and private-sector debt levels stabilised in 2013. China, however, has seen its total credit-to-GDP ratio leap 95 percentage points since 2007. Be warned: debt splurges, of either sort, can easily cause a bad hangover.

Virtual banking

Simple but uncertain

A Spanish bank's purchase of an American start-up raises big questions

FRANCISCO GONZALEZ, the chairman of Spain's second-largest bank, BBVA, loves to talk about technology. Even as the financial crisis raged, the former computer programmer has talked up the importance of upgrading the bank's systems. On February 20th, BBVA bought Simple, an American online-banking platform, for \$117m, in a deal that hints at the potential for innovators to shake up retail banking.

BBVA, with €607 billion in assets and 50m customers, believes that traditional banks will soon lose their monopoly on banking. In an opinion piece in the *Financial Times* last year, Mr Gonzalez warned that banks faced certain death unless they took on the likes of Amazon or Google. New entrants will not have the legacy costs of banks and can tempt clients with convenient mobile apps. He predicts mobile services could even triple the number of bank customers worldwide in the next decade.

Internet banking has had false starts before and thus far big tech companies have not really ventured into the low-margin, highly regulated and capital-intensive world of retail banking. True, non-banks have had some success in places like Kenya, which lacks an adequate banking network. And niche players like PayPal are thriving in payments. But their impact has been limited. "I am dying to fund a disruptive bank," Marc Andreessen, a venture capitalist, recently tweeted.

Banks have several lines of defence, says Jason Napier, an analyst at Deutsche Bank. They have millions of customers who tend to stay put. What is more, barriers to replicating technology are relatively low: cool new apps developed in Silicon Valley can be quickly copied by banks.

Still, he says a revolution is afoot, if not perceptible. As consumers do more bank- ▶▶

A not so heavy burden

IMF countries, 1821-2012, GDP per person, average annual % change



Source: Pescatori, Sandri and Simon, "Debt and Growth: Is There a Magic Threshold?", February 2014

Buttonwood | The battle of Detroit

Pensioners and bondholders fight over a city's diminished coffers

IT WAS inevitable that the rights of creditors and pensioners would come into conflict, especially in places that suffer from high debts, sluggish growth and an ageing population. Admittedly Detroit, where a bankruptcy plan proposes deep cuts to the wealth of both bondholders and retirees, is an extreme example. But it does point to where future battle lines will be drawn.

The city, which filed for bankruptcy last year, has an estimated \$18 billion of debt and has seen its population fall by more than half since 1950. There are no easy solutions. Retired workers will face an immediate 34% cut in their income, although police and firemen will only suffer a 10% hit; these reductions will be trimmed if they agree to a quick deal. (The same reductions apply to the accrued benefits of existing workers, although the final-salary pension scheme will stay open.) On the creditor side, secured bondholders will be repaid in full but unsecured creditors (deemed to include, controversially, holders of general-obligation bonds) will get only 20 cents on the dollar.

It does not seem unreasonable that retired workers should be treated more generously in bankruptcy than unsecured bondholders (although that may drive up borrowing costs for other cities). An occupational pension will probably be the main source of income for a retiree and the average benefit received by a retired worker in Detroit is around \$19,000 a year, according to AFSCME, a public sector union. Some, but not all, of the city's workers will also qualify for Social Security, the national pension scheme. But it pays around \$15,000 a year on average, so the cut to total income might still be 20%.

Once a worker has retired, it is very hard to replace lost income. Pensioners may have started working for Detroit in

the 1970s; they cannot reasonably have anticipated the city's current problems.

In contrast, most municipal bonds are held as part of a diversified portfolio; any loss resulting from a writedown will cause only a small dent in the investor's wealth. Most bonds will also have been bought in recent years when the city's problems had become well-known and were reflected in its credit rating; the city's bonds were first classed as junk in 1992. Thus investors were making a conscious decision to grab a higher yield in the face of higher risks.

It is often said that public-sector workers get better pensions than those in the private sector. In this case, Detroit workers will be worse off than private-sector workers in final-salary schemes. The latter are covered by the Pension Benefit Guaranty Corporation (PBGC), an insurance scheme which protects benefits, subject to a cap of around \$59,000 a year. No such scheme exists in the public sector and it is highly unlikely that any plan will be agreed.

By the standards of other states and cities, Detroit's scheme was not particularly underfunded or expensive. Figures from the Centre for Retirement Research (CRR)



at Boston College show that the city's pension costs comprised 77% of its revenues, much less than New York or Philadelphia; its ratio was tied at 65th highest out of 173 cities surveyed. In 2012 the funding ratio for the general retirement scheme was 77%, compared with an average of 73%. Admittedly, that ratio was calculated on absurdly generous assumptions about long-term investment returns, but such assumptions are commonplace in America. As it happens, the stockmarket did extremely well in 2013 so the funding ratio has probably risen.

That said, Alicia Munnell of Boston College notes that some city employees also belonged to a supplementary defined-contribution plan called the Annuity Savings Fund, which appeared to offer returns to its members that exceeded the fund's investment returns. She rightly says that "if benefits have to be cut, it would seem desirable to claw back these unjustified gains before slashing the benefits of the average worker".

More broadly, Detroit shows the importance of correctly accounting for pensions. Final-salary pension promises are expensive to make, but states and cities have been too willing to assume that the markets will bail them out. They stint on contributions for fear of alarming taxpayers. Even on the current accounting assumptions, American public employers have been paying just four-fifths of the required contributions. The problem will not be solved by pretending it does not exist; reform should happen now.

The bill for past complacency has come due. In most cases, it will fall on taxpayers but at the extreme, the burden will fall on elderly people who can ill afford to see any cut in their income.

Economist.com/blogs/buttonwood

ing on their mobile phones, visits to branches are falling. Simple says its clients login 2.4 times a day, on average. That compares with the mere handful of interactions most customers have with bank branches in a year. Its app allows users to work out how much it is "safe to spend" instead of simply providing a current balance. And it allows them to extract complex information easily by asking, for instance, how much they had spent on coffee and taxis in New York over the past month. Simple's base of young customers has grown by 330% in a year to 100,000.

If technology barriers are low, why

didn't BBVA simply develop its own app? Time may be one factor. Another may be culture. Carlos Torres, head of BBVA's strategy and corporate development, says it is hard for a large organisation to replicate the entrepreneurial talent of an upstart. The Simple deal also suggests new entrants might still need banks. Simple itself is not regulated as a bank. Instead it places customers' funds with the Bancorp, which provides banking services to other firms. BBVA plans to move these funds to Compass, its American subsidiary.

The challenge for BBVA is to make Simple profitable. It plans to roll out new prod-

ucts, such as mortgages, in addition to the checking account that Simple currently offers. BBVA's focus will be on America where its retail business is still sub-scale. In time it hopes to introduce Simple in BBVA's core markets, including Spain and Mexico. It is not clear whether BBVA will eventually adopt Simple's technology for its own clients, or keep it independent.

For other lenders, upgrading creaky infrastructure to allow zippy functions along the lines of Simple's may be costly, but savings will come from fewer branches. And they still have the heft to buy pesky upstarts that threaten to disrupt them. ■

Swiss banks

Thrown to the dogs

NEW YORK

Credit Suisse takes a congressional mauling for aiding tax evasion

PRIZING discretion as they do, Swiss bankers prefer to avoid the limelight. Especially uncomfortable is the attention of the United States Senate, where a subcommittee headed by Carl Levin has gone after American tax dodgers and their accomplices like a starving hound chasing a fox. A hearing on UBS in 2008 led to a \$780m fine for the largest Swiss bank and, in an unprecedented breach of bank secrecy, the handover of names linked to 4,700 accounts. This week it was the turn of Credit Suisse, the Alpine country's other banking giant, to answer questions stemming from a scathing 175-page report.

The subcommittee found much evidence of subterfuge in 2001-08, some of it provided by former Credit Suisse clients who had joined a voluntary-disclosure programme. Private bankers went out of their way to avoid paper trails. Some snuck into America on tourist visas. Others told clients not to send faxes with American area codes. Transactions were split into amounts that would not trigger reporting requirements for cash transfers. Clients were helped to disguise account ownership using shell companies.

The bank did not always follow its own policies on such accounts. All were supposed to be booked through an office whose bankers were trained in American regulatory requirements. Instead, up to 10,000 were run from a branch at Zurich airport, known cryptically as "SIOA5".

Investigators also found possible book-keeping discrepancies. A common measure of private banks' performance is "net new assets" (NNAs) flowing in. The report concludes that in 2012 the bank reclassified (publicly but not internally) its NNAs so that some previously allocated to the Americas now counted as Swiss. The suspicion is that this was done to bolster the flagship domestic business as tax probes began to bite. The bank says it is investigating, but that differences between internal and external numbers are not unusual.

The committee does not accuse Credit Suisse of trying to sign up clients who fled UBS when that bank was targeted. It does, however, say it was slow to close accounts held by Americans, at least 85% of which were untaxed, according to estimates.

At the hearing, an American who is presumably fully tax-compliant—Brady Dougan, Credit Suisse's chief executive—expressed deep regret for the bank's past violations but insisted these were down to



Dougan expresses regret

a "small group" of rogues who skirted the bank's controls and hid this from senior management. In 2008 some 1,800 Credit Suisse employees were involved in opening or servicing accounts for Americans, suggesting wrongdoing was "systematic", said John McCain, the subcommittee's senior Republican.

The bank was not the only target. America's Department of Justice (DOJ) was faulted for taking its foot off Swiss throats after the humbling of UBS. In that case it used creative legal tools, including grand-jury subpoenas and "John Doe" summonses (which allowed it to go after unnamed miscreants). These have since been set aside in favour of a softer approach that relies on the co-operation of Swiss courts and officials through requests under treaties on tax and "mutual legal assistance".

This process is bogged down, with just 238 names handed over in the past five years. Banks say their hands are tied by Swiss privacy laws. (Some blockages are in America: the Senate has yet to ratify an amended tax treaty with Switzerland that would ease disclosure.) An American law with unprecedented extraterritorial reach, the Foreign Account Tax Compliance Act, should flush out many of those still hiding when it takes effect on July 1st.

The publicity generated by the hearing might well spur the DOJ to take a harder line in ongoing negotiations with Credit Suisse and a dozen other Swiss banks on settlements regarding their past involvement in tax evasion. (Credit Suisse could be on the hook for fines of \$800m or more.) Pressure could also grow for more prosecutions of individuals, including seven Credit Suisse bankers indicted in 2011. The Swiss must be hoping that the subcommittee's attack dogs are put on a shorter leash once Mr Levin retires next January. ■

Fraud on the market

Pay on say

NEW YORK

The legal theory behind huge pay-outs to aggrieved shareholders goes on trial

OF THE numerous controversial theories about the workings of stockmarkets, few have had a bigger pecuniary impact than a marriage between the notion of efficient markets and a legal principle known as "fraud-on-the-market". This pairing has provided grounds for sweeping claims for damages whenever a company's share price moves abruptly. After decades of wrangling the tactic will come before America's Supreme Court on March 5th in the case of *Halliburton v Erica P John Fund*.

Reflecting the stakes, 11 briefs have been filed with the court on behalf of Halliburton. A dozen have also been filed on behalf of the plaintiff. Former and current congressmen may be found on each side of the issue, as are former members of the Securities and Exchange Commission, America's foremost financial regulator. Both sides feel an adverse decision will undermine the appeal of participating in America's stockmarkets.

The factual underpinnings of the case are mundane. A charity, known at the time the case was filed as the Archdiocese of Milwaukee Supporting Fund, maintains that Halliburton, which provides services to oil companies, was insufficiently forthcoming in its public statements in 2002 about the impact on its earnings of a merger, asbestos litigation and various troubled contracts. As a result of Halliburton's reticence, the charity claims, it suffered a loss on its holding.

That is the essence of the principle of "fraud-on-the-market": that by its communication (or lack of it), a firm's management can, in effect, defraud all its shareholders. The idea was enshrined after a 1988 ruling in which the Supreme Court sided with an investor who lost money when he sold shares in a company called Basic Inc because a pending merger was being publicly denied by the firm. In its decision, the Supreme Court endorsed three ideas: that share prices are a reflection of all relevant public information (the so-called "efficient-market hypothesis"); that all investors can reasonably be presumed to have relied on information of this sort, so lawsuits can be brought on their collective behalf, and that if a company's share price moves, it may be the result of previous misinformation, making shareholders the victims of fraud.

After 1988 if the price of a company's shares moved abruptly by various mea- ▶▶

►sures, lawsuits would be filed on behalf of all shareholders who may have either seen their holdings decline in value, or sold too soon and thus suffered an opportunity cost. If a court granted preliminary approval for a case to proceed, lawyers representing this “class” would be able to demand vast amounts of internal information to see whether managers had ever spoken misleadingly about the factors affecting the share price. That demand alone would often be enough to prompt a settlement. Studies cited in the amicus briefs suggest the big winners are the attorneys bringing the cases.

A report presented at the US Chamber of Commerce reckons that the suits have cost shareholders a total of \$700 billion in lost wealth since 1996. And one of the briefs in support of Halliburton calculates that 40% of all corporations listed on big American stock exchanges were the target of class action over the same period. The cost, in terms of settlements, legal fees and management time, is not the only problem, the brief argues. It also punishes the shareholders at the time of the settlement and discourages stockmarket listings.

Lawyers for the plaintiffs, supported by the Department of Justice, assert that the threat of fraud-on-the-market lawsuits keeps managers honest. Far from dimming the appeal of America’s securities markets, it provides a strong deterrent that bolsters their integrity and consequently enhances their appeal, the principle’s supporters say.

There has been no shortage of debate about whether financial markets are efficient, or at least efficient enough to form the foundation of such lawsuits. For companies that have long complained that the practice is unreasonable, there is hope. In a dissent to a ruling in a similar case last year, three justices explicitly invited a re-exami-

nation of the precedent set in 1988; a fourth suggested much the same in the oral argument that preceded the ruling. If this sceptical foursome wins over another justice, that will give them a majority on the nine-member court. Under John Roberts, the chief justice since 2005, the court has become more sympathetic to corporate concerns, broadly speaking. A curtailment of fraud-on-the-market is therefore quite possible. Sadly, however, no market exists to predict court decisions, whether efficiently or otherwise. ■

The Balkanisation of banking

The island defence

The Bank of England gets stricter

THE retreat from global banking took another step on February 26th when the Bank of England unveiled proposals to offer greater protection to the economy and public finances from foreign banks operating in Britain. Its tightening of the rules came just a week after the Federal Reserve had announced tough new measures to ensure that big foreign banks active in America have sufficient capital there to absorb losses on their American operations.

The British move matters because of London’s role as the world’s main international banking hub. That pre-eminence has helped boost the British economy, but also poses risks that were revealed in the financial crisis of 2007-09. Foreign banks have assets of £3.4 trillion (\$5.6 trillion) in Britain, representing 44% of all bank assets in the country.

The Bank of England has outlined a new approach for what it, as the “host” supervisor, requires of foreign banks regulated by their “home” supervisors in their countries of origin. The rules are aimed at banks currently operating through branches instead of formal subsidiaries. This distinction is a crucial one. Subsidiaries are normally supervised by their hosts and must hold local capital to safeguard against local losses, whereas branches are typically supported by the capital of the banking group as a whole and are subject to supervision at home.

The distinction is particularly worrisome for the Bank of England. Of the total assets held in Britain by foreign banks, the bigger share—two-thirds—is kept in lightly-overseen branches rather than subsidiaries. The share of such foreign-branch assets to all banking assets in Britain is especially high by international standards.

The main target of the central bank’s strategy is banks from outside Europe,

which account for two-thirds of foreign-branch assets. One vital question for its supervising arm, the Prudential Regulation Authority (PRA), will be whether their activities impinge upon what it calls “critical economic functions”. If for example they have a presence in British retail banking, they will generally have to operate as subsidiaries, putting them on the same footing as banks that are run from Britain.

For banks carrying out “wholesale” business, there will be two tests. The first is whether the home supervisor sufficiently matches the Bank of England in the quality of its oversight. If it does not, the branch in question will not be authorised. The second is about banks’ resolution plans—what happens if they get into trouble. The PRA wants these to set out “adequate provision” for their British branches and will be looking for assurance about this from their home supervisors.

The Bank of England exercises less authority over banks based in the European Economic Area (EEA), which encompasses not just the 28-strong EU but also countries such as Iceland and Norway. European treaties mean that it cannot stop a bank from the EEA setting up a branch in Britain. But the PRA spells out how it will make the most of a weak hand, for example by designating the branch as “significant”, which requires the home supervisor to provide more information and to consult with it on emergency plans.

This lack of control over European banks is troubling, even though they make up only a third of foreign-branch assets in Britain. During the financial crisis, the Treasury had to bail out British depositors in Icesave, which collected deposits online and was run as a branch by an Icelandic bank thanks to Iceland’s membership of the EEA. But steps to create a banking union in the 18-country euro zone should help to mitigate a good deal of the risk. The European Central Bank (ECB), which will act as the single supervisor in the euro area, is carrying out a root-and-branch examination of banking assets. Once it is fully in charge late this year the ECB will err on the side of stringency out of concern about the damage to its reputation from bank failures on its watch.

Overall, the Bank of England’s strategy represents a tightening of the previous regime. Essentially the PRA has sought to steer a middle course between frightening away lucrative international financial activities and exposing Britain to undue risks by giving foreign banks a free pass. British officials hope London will become a centre for yuan-based activities; the new rules should suit Chinese banks wanting to do wholesale business. But for less favoured countries there is a less friendly message. The door is no longer wide open and guests must be on their best behaviour to avoid being shown to it. ■



Slippery principle

China's currency

One way no more

HONG KONG

Why China's central bank is weakening its currency

CHINA'S currency has long been a source of controversy, especially among American politicians outraged by its cheapness. But it is rarely a source of uncertainty. Critics have argued fiercely about what it should be worth. But as to what it would be worth, China's authorities have left little room for disagreement. For much of its history it has been pegged tightly to the dollar. More recently it has floated within a narrow band (now 1% either side of a benchmark fixed each morning by the central bank). Most people have assumed it would float upwards.

In recent days, however, China's authorities have tested that assumption. At a two-day meeting ending on February 18th, the central bank decided to weaken the yuan, according to the *Wall Street Journal*. It has lowered its benchmark by a smidgen at a time for several days. The currency has also fallen from the strong side of its band to the weak side. In the space of a few days, it lost about 1% of its value. On February 26th China's foreign-exchange regulator said that China's ongoing exchange-rate reforms meant that "two-way fluctuations... will become the norm".

For the past year, a different norm has applied: the fluctuations have been mostly one way. China enjoys a sizeable current-account surplus and it still attracts more foreign-direct investment than it provides. Other kinds of capital flows are more volatile. But in the last quarter of 2013, a net \$22 billion of "hot money" flowed inwards. Much of this qualifies as a "carry trade": speculators have borrowed cheaply in dollars, then lent in yuan, eluding China's capital controls in the hope of benefiting both from higher Chinese interest rates and the yuan's appreciation.

All of this has put upward pressure on the currency, fulfilling the carry-traders' designs and inspiring others to emulate them. Despite the central bank's heavy purchases of foreign exchange, the yuan rose by 2.8% against the dollar in the year to January, even as the currencies of other emerging markets plummeted. The resulting loss of competitiveness is best illustrated by an index calculated by the Hong Kong Monetary Authority, which compares China's currency with those of other emerging economies that compete with it in third markets (the countries China trades "against", not necessarily the countries it trades "with"). This index shows the yuan rising by over 13% in the year to Janu-

Carried away

Yuan exchange rates, January 2013=100



Sources: Hong Kong Monetary Authority; Thomson Reuters

ary and by almost 2.6% in January alone (see chart).

China's authorities did not say they had stepped in to sap the yuan. But their intervention left fingerprints all over the money markets. In buying dollars to weaken the currency, the monetary authorities (and their accomplices, the state-owned banks) put additional yuan into circulation. The central bank withdrew a fraction of this extra money by selling securities to the banks. But the banks were still left with extra yuan, which they tried to lend to each

other. This pushed down interbank interest rates, despite the central bank's withdrawals. As Yao Wei of Société Générale points out, "No factors other than foreign-exchange intervention seems able to explain that."

Will the yuan's slide persist? In its statement, the foreign-exchange regulator pointed out that export earnings and foreign-direct investment remain strong. These fundamentals both suggest the yuan should rise again. But by wrongfooting the speculators, the authorities hope that the expectation of appreciation will not remain a cause of that appreciation.

At the meeting in which it decided to cheapen its currency, the central bank also decided to enlarge the yuan's trading band later this year, according to a statement cited by the *Journal*. A more flexible yuan would give the central bank a freer hand in setting monetary policy, even as it gradually permits larger cross-border flows of capital. Despite its cruelty to carry traders, the central bank seems to be keen to open the door to foreign capital a little wider, as long as foreigners do not try to barge their way in. That will make China's currency a source of less controversy but a good deal more uncertainty. ■

Internet finance in China

Foe or frenemy?

SHANGHAI

China's giant banks are under attack

COULD internet-finance entrepreneurs upend China's banking sector? The notion seems preposterous. After all, China is home to the world's biggest banks. Its financial sector is heavily regulated, making life difficult for disruptive innovators. Yet these same goliaths are now under attack from online funds that are offering returns that are 15 times higher than those allowed on conventional deposit accounts at regulated banks.

China's cap on deposit rates at banks is causing money to flood into shadow-banking products such as those offered by "trust" companies in search of higher yields. Offerings by internet firms, with their large existing customer bases, have opened the spigots wider.

Alibaba, an e-commerce firm, led the charge with Yu'e Bao ("remnant treasure"), which allows customers to invest money parked in their accounts at Alipay, its online-payment service. Though launched only last June, it has already attracted some 400 billion yuan (\$65 billion). Baidu, an online search firm, and Tencent, which makes online games, have also since entered the fray.

Some see these online firms as a serious long-term threat to banks and the

government's ability to control the financial sector, prompting noisy demands (mostly by banks) to regulate the upstarts. Regulators have not yet expressed a clear view, but some observers see signals of a looming regulatory crackdown in attacks by the official media; a financial editor on the state-run television network recently branded online financial firms vampires and parasites.

Online funds are indeed hurting the banks. For one thing, they are sucking away money: banking deposits fell by one trillion yuan in January. May Yan of Barclays observes that the internet firms use their deposits mostly to lend money at high rates to banks that are facing a squeeze on deposits.

So will this lead to massive disruption of the sector? Possibly, but Ms Yan thinks not. Though growing fast, as a share of total banking deposits the internet firms' are minnows today. UBS, an investment bank, calculates that even if a tenth of bank deposits flee to online products (a heroic assumption), it might cut the net interest margin at banks by just 0.1%. China's conservative regulators may well clamp down if the upstarts become big enough to pose systemic risks.

Free exchange | Inequality v growth

Up to a point, redistributing income to fight inequality can lift growth

ON THE campaign trail in 2008 Barack Obama stumbled into a memorable encounter with Joe “the Plumber” Wurzelbacher. Explaining the logic of a proposal to raise taxes on the rich, Mr Obama mused that “when you spread the wealth around, it’s good for everybody”. The soundbite, soon an attack-ad mainstay, failed to derail the Obama campaign. But the disagreement between Joe the Plumber and Barack the Senator still trips up governments around the world: is there a trade-off between economic growth and redistribution?

Some inequality is needed to propel growth, economists reckon. Without the carrot of large financial rewards, risky entrepreneurship and innovation would grind to a halt. In 1975 Arthur Okun, an American economist, argued that societies cannot have both perfect equality and perfect efficiency and must choose how much of one to sacrifice for the other.

While most economists continue to hold that view, the recent rise in inequality has prompted a new look at its economic costs. Inequality could impair growth if those with low incomes suffer poor health and low productivity as a result. It could threaten public confidence in growth-boosting policies like free trade, reckons Dani Rodrik, of Princeton University. Or it could sow the seeds of crisis. In a 2010 book Raghuram Rajan, now governor of the Reserve Bank of India, argued that governments often respond to inequality by easing the flow of credit to poorer households. When the borrowing binge ends everyone suffers.

Pinning down the precise relationship between growth and inequality is a challenge. Some studies reckon inequality is mildly bad for growth. Others suggest the relationship changes as poor countries grow rich, while still others reckon it is the trend in inequality rather than its level that matters.

Research by economists at the International Monetary Fund aims to add clarity to the debate. In a 2011 paper Andrew Berg and Jonathan Ostry argued that it is the duration of spells of growth that is most important for long-run economic performance: getting an economy growing in the first place is much easier than keeping the growth spell rolling. They reckon that when growth falters, inequality is often a culprit. Latin America’s Gini index is about 50, well above that in emerging Asia, which has a Gini of about 40. (A Gini index is a measure of income concentration that

ranges from 0, representing perfect equality to 100, where all income flows to a single person.) Were Latin America to close half of that gap in inequality, its typical growth spurt might last twice as long, on average.

Others reckon that it may not be inequality itself that harms growth but rather governments that tax and spend to try to reduce it. In a new paper Messrs Berg and Ostry and Charalambos Tsangarides tease out the separate effects of inequality and redistribution. They turn to a data set put together by Frederick Solt, a political scientist at the University of Iowa, containing Gini indices for 173 economies spanning a period of five decades. Mr Solt provides Ginis for both market income and net income (after taxes and transfers). The difference between the two gives the authors a measure of redistribution (see chart). In America, which does relatively little of it, redistribution trims the Gini index by roughly ten points. In Sweden, in contrast, it cuts the Gini by 23 points—more than half. Using these figures, the economists can separate out the different effects of redistribution and inequality on growth.

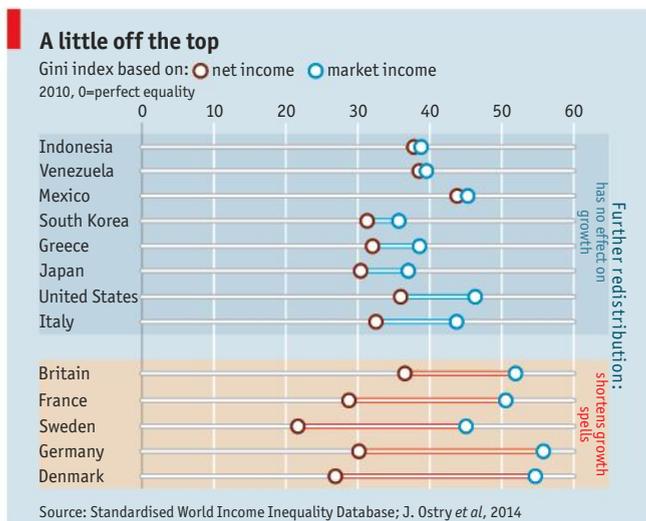
Redistributing prejudice

The authors find that governments in more unequal countries redistribute more, and rich economies do more than poor ones. As a result, differences in inequality across rich countries are mostly down to the generosity of redistribution; Germany is more unequal than Britain before redistribution but much less so after.

Up to a point, spreading the wealth around carries no growth penalty: growth in income per person is not meaningfully lower in countries with more redistribution. But economies that redistribute a lot may enjoy shorter growth spells, the authors reckon. When the gap between the market and net Ginis is 13 points or more (as in much of western Europe) further redistribution shrinks the typical expansion. The authors caution against drawing hasty conclusions. Details surely matter; nationalising firms and doling out profits would presumably be worse for growth than taxing property to fund education.

Inequality is more closely correlated with low growth. A high Gini for net income, after redistribution, corresponds to slower growth in income per person. A rise of 5 Gini points (moving from the level in America to that in Gabon, for instance) knocks half a percentage point off average annual growth. And holding redistribution constant, a one-point rise in the Gini raises the risk an expansion ends in a given year by six percentage points. Redistribution that reduces inequality might therefore boost growth.

If redistribution is benign, that could be because it substitutes for shaky borrowing. In their 2011 paper Messrs Berg and Ostry note that more unequal societies do poorly on social indicators such as educational attainment, even after controlling for income levels. This suggests that households with lower incomes struggle to finance investments in education. In a recent paper Barry Cynamon of the Federal Reserve Bank of St Louis and Steven Fazzari of Washington University in St Louis reckon most Americans borrowed heavily before 2008 to prop up their consumption. That kept the economy growing—until crisis struck. Sensible redistribution could mean the difference between a healthy growth rate and one that is decidedly subprime. ■



Studies cited in this article can be found at www.economist.com/redistribution14

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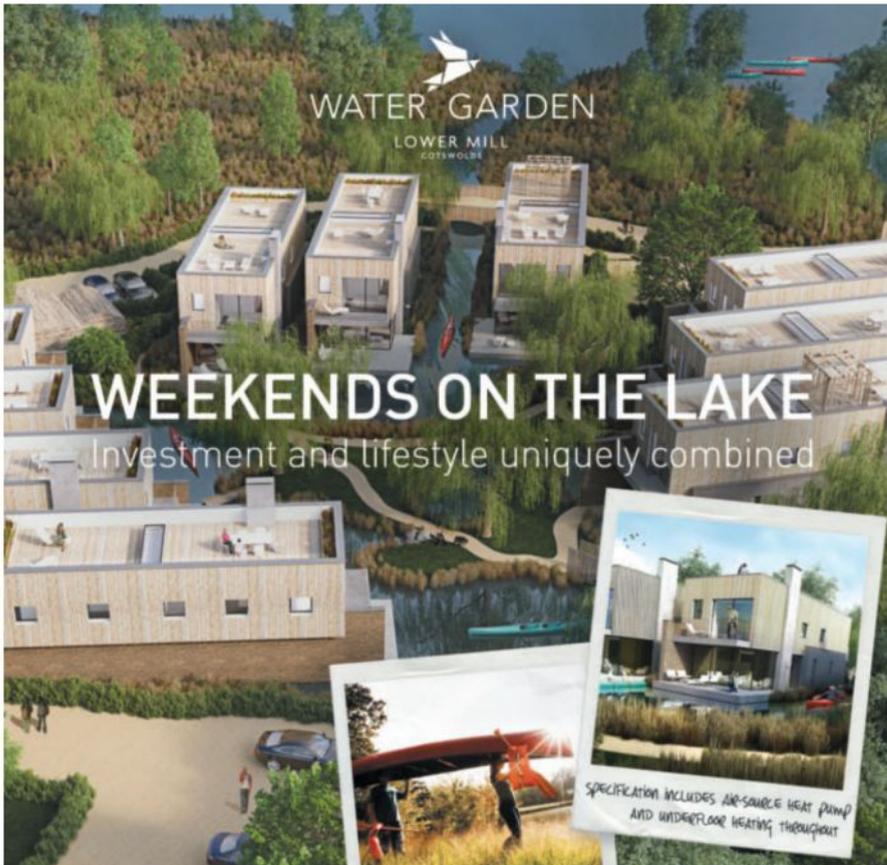
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Autism**Why it's not "Rain Woman"**

Women have fewer cognitive disorders than men do because their bodies are better at ignoring the mutations which cause them

AUTISM is a strange condition. Sometimes its symptoms of "social blindness" (an inability to read or comprehend the emotions of others) occur alone. This is dubbed high-functioning autism, or Asperger's syndrome. Though their fellow men and women may regard them as a bit odd, high-functioning autists are often successful (sometimes very successful) members of society. On other occasions, though, autism manifests as part of a range of cognitive problems. Then, the condition is debilitating. What is common to those on all parts of the so-called autistic spectrum is that they are more often men than women—so much more often that one school of thought suggests autism is an extreme manifestation of what it means, mentally, to be male. Boys are four times more likely to be diagnosed with autism than girls are. For high-functioning autism, the ratio is seven to one.

Moreover, what is true of autism is true, to a lesser extent, of a lot of other neurological and cognitive disorders. Attention deficit hyperactivity disorder (ADHD) is diagnosed around three times more often in boys than in girls. "Intellectual disability", a catch-all term for congenital low IQ, is 30-50% more common in boys, as is epilepsy. In fact, these disorders frequently show up in combination. For instance, children diagnosed with an autistic-spectrum disorder often also receive a diagnosis of ADHD.

Autism's precise causes are unclear, but genes are important. Though no mutation which, by itself, causes autism has yet been

discovered, well over 100 are known that make someone with them more vulnerable to the condition.

Most of these mutations are as common in women as in men, so one explanation for the divergent incidence is that male brains are more vulnerable than female ones to equivalent levels of genetic disruption. This is called the female-protective model. The other broad explanation, social-bias theory, is that the difference is illusory. Girls are being under-diagnosed because of differences either in the ways they are assessed, or in the ways they cope with the condition, rather than because they actually have it less. Some researchers claim, for example, that girls are better able to hide their symptoms.

The weaker sex

To investigate this question, Sebastien Jacquemont of the University Hospital of Lausanne and his colleagues analysed genetic data from two groups of children with cognitive abnormalities. Those in one group, 800 strong, were specifically autistic. Those in the other, 16,000 strong, had a range of problems.

Dr Jacquemont has just published his results in the *American Journal of Human Genetics*. His crucial finding was that girls in both groups more often had mutations of the sort associated with abnormal neural development than boys did. This was true both for copy-number variants (CNVs, which are variations in the number of copies in a chromosome of particular sec-

tions of DNA), and single-nucleotide variants (SNVs, which are alterations to single genetic letters in the DNA message).

On the face of it, this seems compelling evidence for the female-protective model. Since all the children whose data Dr Jacquemont examined had been diagnosed with problems, if the girls had more serious mutations than the boys did, that suggests other aspects of their physiology were covering up the consequences. Females are thus, if this interpretation is correct, better protected from developing symptoms than males are. And, as further confirmation, Dr Jacquemont's findings tally with a study published three years ago, which found that CNVs in autistic girls spanned more genes (and were thus, presumably, more damaging), than those in autistic boys.

The counter-argument is that if girls are better at hiding their symptoms, only the more extreme female cases might turn up in the diagnosed groups. If that were true, a greater degree of mutation might be expected in symptomatic girls as a consequence. However, Dr Jacquemont and his colleagues also found that damaging CNVs were more likely to be inherited from a child's mother than from his or her father. They interpret this as further evidence of female-protectedness. Autistic symptoms make people of either sex less likely to become parents. If mothers are the source of the majority of autism-inducing genes in children, it suggests they are less affected by them.

None of this, though, explains the exact mechanism that makes boys more susceptible than girls. On this question, too, there are two predominant theories. The first is that males are more sensitive because they have only one x-chromosome. This makes them vulnerable to mutations on that chromosome, because any damaged genes have no twin to cover for them. One cognitive disorder, fragile-x syndrome, is ►►

▶ indeed much more common in men for this reason. Dr Jacquemont's study, however, found only a limited role for x-chromosome mutations. That suggests the genetic basis of the difference is distributed across the whole genome.

The other kind of explanation is anatomical. It is based on brain-imaging studies which suggest differences between the patterns of internal connection in male and female brains. Male brains have stronger local connections, and weaker long-range ones, than do female brains. That is similar to a difference seen between the brains of autistic people and of those who are not. The suggestion here is that the male-type connection pattern is somehow more vulnerable to disruption by the factors which trigger autism and other cognitive problems. Why that should be, however, remains opaque. ■

Human evolution

The skinny on skin colour

Homo sapiens became black to beat cancer

SHAVE a chimpanzee and you will find that beneath its hairy coat its skin is white. Human skin, though, was almost always black—at least it was until a few thousand years ago when the species began settling in parts of the world so far north that the sunshine was too weak to allow dark skin to synthesise enough vitamin D. This means that, sometime after chimps and people parted ways, the colour of human skin changed. And that, in turn, must have required an evolutionary pressure.

One suggestion often proffered is that the melanin in black skin, by absorbing ultraviolet light which might otherwise damage DNA and cause mutations, protects against skin cancer. Certainly, white-skinned people who move to the tropics are more at risk of such cancers than they would have been had they stayed at home. But critics of this hypothesis point out that most types of skin cancer, specifically the basal-cell and squamous-cell carcinomas that are the commonest varieties of the disease, tend to affect older people (who have already reproduced and are thus, in Darwinian terms, expendable) and are often not lethal anyway. Malignant melanoma, the one variety which is both lethal and affects all age groups, is rare.

However, a study by Mel Greaves, of the Institute of Cancer Research, in Britain, just published in the *Proceedings of the Royal Society*, settles the question in favour of cancer being the driving force. Dr Greaves does so by reviewing the clinical data

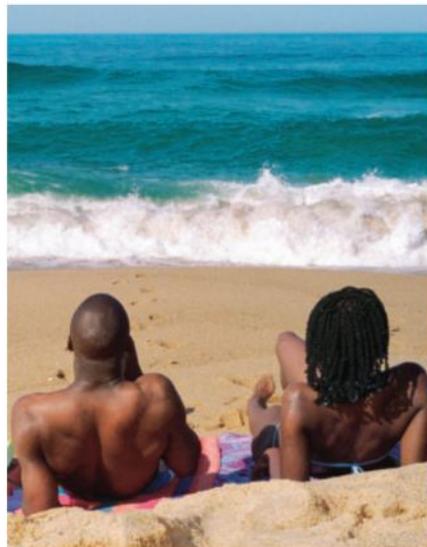
about those Africans who do not have black skin because they are albino.

Albinism has a variety of genetic causes, but they all have the same consequence—a restricted or non-existent ability to synthesise melanin. The phenomenon is not well studied in Africa, not least because of widespread prejudice against albinos, who are ostracised in many parts of the continent. Dr Greaves nevertheless managed to assemble 25 relevant studies, and they do not make pretty reading.

One, conducted in Nigeria and published in 1980, found that half of the 512 albinos whom the researchers followed had developed skin cancer of some sort by the time they were 26. Another, carried out a few years later in Tanzania, showed that half of 125 participants were afflicted by the age of 20. A third, from Soweto in South Africa, suggested that that an albino African has a thousandfold greater risk of developing skin cancer than does his normally pigmented neighbour. And a fourth estimated that fewer than 10% of albinos in equatorial Africa survive into their thirties—with the strong inference that what is killing them is skin cancer.

Nor is the cancer in question always malignant melanoma. Basal-cell and squamous-cell carcinomas are not, for African albinos, the relatively harmless diseases of old age which data collected in the rich world suggest. In Africa, they kill—quickly. Presumably they would have done the same to any human forebear who had had the evolutionary temerity to shed his hairy coat without replacing it with a suitably dark undercoat of melanin-laden skin.

Why humans became naked apes is still a mystery. Explanations range from ease of heat loss to the selection of mates by the quality of their (now visible) skin. Dr Greaves's study, though, removes any doubt about why, having done so, a change of skin colour was essential. ■



Protect and survive

High-tech shipping containers

Boxing clever

CHICAGO

Engineers are trying to upgrade the humble shipping container

ASK somebody to name the most important inventions of the second half of the 20th century, and you may hear of the silicon chip, the contraceptive pill or the hydrogen bomb. Few would plump for the shipping container. Yet those humble, standard-sized steel boxes, invented in 1956 by Malcolm McLean, have changed the world. Some economists reckon the shipping container has done more for global trade than every trade agreement signed in the past 50 years.

Even revolutionary products can be improved, though, particularly after half a century of service. And, at a meeting of the American Association for the Advancement of Science held in Chicago earlier this month Stephan Lechner, of the European Commission's Joint Research Centre in Ispra, Italy, explained how.

One idea Dr Lechner proposed is to make containers out of carbon-fibre composites. Such containers would be easier to use, because they would be lighter and also—if designed appropriately—might be folded flat when empty, saving space. Dr Lechner reckons a carbon-fibre container would need to travel only 120,000km (three times around the Earth) to prove cheaper than its steel equivalent. It would also be more secure, because it would be easier to scan without being opened.

That is an important consideration. In 2006 America's Congress passed a law requiring all containers arriving from abroad into American ports to be scanned to make sure they do not contain anything nasty (drugs, illegal immigrants or—a particular worry—fissile material). Doing this has proved hard, though, and the deadline for compliance is constantly being pushed back. Scanning steel needs high-power x-rays, or even gamma rays. These are expensive and dangerous. Carbon-fibre could be scanned with "soft" x-rays, which are easier to generate and use.

Scanning containers to look at their contents is, though, only one aspect of security. Another is monitoring what is happening inside them. Many are already fitted with sensors that do this, but these need power and satellite- or mobile-phone connections to work. A nifty bit of physics called the piezoelectric effect, by which certain materials generate an electric current when stressed, offers a way around that. Vibration sensors (which might help spot stowaways or shifting cargo) could be powered by the very vibrations they were ▶▶

▶ designed to detect. Low-powered wireless networks, supplied with electricity in a similar manner, would then relay the bad vibes to the port authorities. In a mock port built in the car park of their institute, Dr Lechner's team have already proved the idea works in principle.

Another way to improve containers' security is to track them properly. At the moment, according to Dr Lechner, the authorities in a given port are usually told only about a container's most recent movements. Better to give each container a comprehensive history, recording every port it has visited and every ship that has carried it. Such data could be crunched to detect suspicious patterns: for example, a container making several apparently pointless loops to and from the same place.

Experiments on these lines are happening in seven European countries. Dr Lechner says inspections do indeed uncover something untoward in about a fifth of the containers flagged as suspicious. The system also saves on shoe leather, since most of the work is done from an office. Containerisation put many longshoremen out of a job. Carbon-fibre containers, fitted with sensors, a travel history and the ability to talk to the authorities may one day do the same for many customs officials. ■

Hurricane protection

The windmills of your mind

A madcap idea to protect America's coasts from storms

HOMELAND security is a strange beast. Governments will happily spend billions of dollars fighting foreign wars and making the lives of travellers miserable with layer upon layer of security at airports. Yet, as Britain's farmers have recently discovered, those same governments will also happily skimp on basic flood defence. What, it is worth considering, might be done if military-sized budgets were to be deployed against natural, as well as human threats?

If an odd couple of trillion dollars were hanging around in some Treasury official's back pocket, Mark Jacobson of Stanford University has a suggestion about how to spend them. He would use them to build a specially designed wind farm off the coast of Louisiana, to protect New Orleans and its neighbours from hurricanes. Katrina, after all, killed 1,833 people. That is more than 60% of the number who died in the attacks of September 11th 2001. More trillions would bring more defence; all along the Gulf and Atlantic coasts, if required.

Dr Jacobson's calculations, which he



Entomology

Buzz, feed

There is music in the humming of bees

BIRDS sing, bees buzz. To the human ear, though, there is an important distinction. Someone who knows birds can identify a species from its song. Few could pull off a similar trick for bees.

Paul De Luca, of Ithaca College in New York, comes pretty close. He has proved that different bee species do buzz in different, characteristic ways. As he and his colleague Mario Vallejo-Marín of Stirling University in Britain describe in *Naturwissenschaften*, bumblebees each have two different sorts of buzzes, which they use for different purposes—and both of these buzzes differ, too, even between closely related species.

Dr De Luca did not listen to the bees himself. He had a machine do that for him. It recorded the frequency and duration of 1,289 buzzes from several common British bumblebees provided by Dr Vallejo-Marín. He looked at the differences between aggressive buzzing (“buzz off, buster, or get a mouthful of sting”), and the more artful sort bees employ to

dislodge pollen from the stamens of the flowers they are visiting, so that they can collect it for return to the hive.

Provoke *Bombus pratorum* (the early bumblebee) and it will buzz back at 151Hz (just below D sharp) for four seconds. *Bombus pascuorum* (the common carder bee), similarly annoyed, buzzes at 254Hz (between B and C in the octave above *Bombus pratorum*) for about 2.4 seconds. *Bombus lapidarius* (the red-tailed bumblebee) buzzes for longest (more than seven seconds) at 200Hz (between a G and a G sharp) and *Bombus terrestris* (the buff-tailed bumblebee) buzzes angrily at 248Hz (a solid B) for four seconds. When buzzing for pollen, though, *Bombus pascuorum* lowers its frequency to 214 Hz (an A) and decreases the buzz's duration to a second, while *Bombus terrestris* changes its buzzes to 289 Hz (a D) for a mere three-quarters of a second.

Between them, then, Dr De Luca's bees could manage a simple tune. “Sumer is icumen in”, perhaps?

describes in *Nature Climate Change*, depend on a clear understanding of how hurricanes work. Turbines would steal energy from them, of course, which would make them somewhat less destructive. But that would not be enough to have a big effect. However, by extracting this energy from the winds in a storm's leading edge, serrated rows of turbines hundreds of kilometres long would also calm the water over which the hurricane's eye—its driving force—subsequently passed.

This turns out to be crucial. Rough water feeds a hurricane, paradoxically, by creating friction between air and sea which slows down the winds circulating around

the storm's eye. This lets the air in those winds ascend the eyewall more easily, rather than just going around in circles. It is this ascent, which sucks yet more air into the cyclone, that powers the storm.

Calming the waters before a hurricane with windmills could thus, according to Dr Jacobson's calculations, lower its maximum wind speed by 50-80%. It would also reduce the amount of water surging onto the land, which is the principal cause of destruction, by as much as 80%. A beast so tamed would do far less harm. And, as a bonus, when the turbines were not calming hurricanes, they could pay part of their way by generating electricity. ■

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Post-colonial France

A chronicle of years of fire

France's relationship with its Arab population is defined by hatred and hurt

FAR from the smart salons of historic Paris, France's *banlieues* form the front line of an "unacknowledged civil war". The heavily immigrant housing estates that ring French cities were built to house factory workers and their families in the 1960s and 1970s. Today they are home to the "foot-soldiers in the French *intifada*". This is not a war between Islam and secular France, nor preparation for a foreign *jihad*. It is a post-imperial rage, stirred by violent history, anti-Semitism and unresolved political tension: "France itself is still under attack from the angry and dispossessed heirs to the French colonial project."

This is the provocative thesis of "The French Intifada", an important new book by Andrew Hussey, dean of the University of London Institute in Paris and a veteran France-watcher. Mr Hussey boards planes and suburban trains, travelling to the medinas and mosques of Algeria, Morocco and Tunisia, as well as the *banlieues* of Paris and Lyon. He delves into the history of French imperialism, from the flotilla that set sail from Toulon in 1830 to wrest Algeria from Ottoman control, to France's blood-soaked colonial retreat. And he marshals culture high and low, from Albert Camus to *banlieue* rappers, to his cause.

Without understanding all these factors, Mr Hussey argues, it is impossible to make sense of the incendiary events that periodically take place in France itself. One example was the murder in 2012 of Jona-

The French Intifada: The Long War Between France and Its Arabs.

By Andrew Hussey. *Granta*; 441 pages; £25. To be published in America by Faber and Faber in April; \$35

than Sandler, a young rabbi, together with his two small children and a young Jewish girl, who were shot one morning at a Jewish school in Toulouse. The gunman, Mohamed Merah, of Algerian descent, was later killed in a shoot-out with police. Initial reports focused on his fragile psyche, his unstable family background and the fact that, with a record for petty crime, he was a "lone wolf".

It also later emerged that Merah had been tracked by French intelligence, alerted by his trips to Pakistan and Afghanistan. Yet it is not only Islam, but specifically Algeria, Mr Hussey says, that is crucial to understanding Merah's vulnerability to recruitment to terrorism, his anti-Semitism, and his family's angry reactions to his death at the hands of the police. After Merah's killing spree, Mr Hussey heads to Barbès, in northern Paris, where he finds "packs of Arab lads flogging *trabendo*—Algerian slang for contraband goods, mainly cigarettes but also wristwatches, dope and cheap alcohol". Outside a mosque the author comes across indifference rather than shock. "He was just a guy who wanted to fight the enemy," says one young man.

That enemy is not just France, but Jews.

There is nothing new, of course, about the assertion that the Algerian war is still being played out in the French *banlieues*. The savagery of both the French forces and the Algerian nationalists during the eight-year conflict that ended in 1962 left deep scars of hate, humiliation and hurt. If there is a central insight in this book, however, it is the link between the anti-Semitism of French-born Muslims and that of the French *colons*, the white settlers and their descendants who considered Algeria home until they were brutally chased out after independence.

That connection has deep roots. As early as the 1890s, the deputy for Algiers was Edouard Drumont, the leading anti-Semitic French writer during the Dreyfus affair. In the social hierarchy of French Algeria, the *colons* sat on top but still treated Jews (who got French citizenship) better than Arabs (who remained colonial subjects). "For this reason," writes the author, "Algerian Muslims saw Jews as traitors who had taken their country by stealth."

Mr Hussey points to the disturbing legacy of this in France today. In 2006 Ilan Halimi, a 22-year-old French Jew, was kidnapped, tortured and left naked and for dead by a gang led by Youssef Fofana, now serving a life sentence for his murder. Mr Hussey has nothing to say about anti-Semitism in other European countries, but he knows a lot about what goes on in France. He spends time in the *banlieue* where Halimi was held, for example, and makes lists of the anti-Semitic urban slang he hears there: *sale juif*, *sale yid*, *sale feuj*, *youpin*, *youtre*. Few of his interviewees have ever met a Jewish person. "We don't need to," one told him. "We know what they're like."

There is some terrific and chilling reporting in "The French Intifada", and Mr Hussey is at his best when on the streets, ►►

▶ hanging out in cafés and souks. Yet there are two problems with this book. One is what it does not say. The author creates the impression of unqualified French-Muslim wrath. Yet north about those French people of modest north African origins—Rachida Dati, Najat Vallaud-Belkacem, to name but two politicians—who are not visibly simmering with post-colonial rage? It might have strengthened his case to examine what distinguishes the angry from the rest.

The other is the book's structure. Much of it—too much, even for the interested reader—is devoted to Algerian, Moroccan and Tunisian political history. Even more awkward is a short but engrossing chapter on radical Islam in French prisons that is dropped in at the end in lieu of a conclusion. This could have been the subject of a fascinating book in itself; in fact Farhad Khosrokhavar, a Franco-Iranian sociologist, has already written it. Instead, it becomes an unsatisfactory device to bring the reader back from the Maghreb to France to meet the “rioters, wreckers, even the killers of the *banlieues*” seeking not “reform or revolution” but revenge. ■

Asceticism

Carry on spending

Austerity: The Great Failure. By Florian Schui. *Yale University Press; 219 pages; \$26 and £16.99*

WHEN economists debate austerity, they use arcane phrases like “fiscal multipliers” and “marginal propensity to consume”. But the issue of whether people should spend lavishly, or save cannily, has never been purely economic. It dates back to ancient arguments about how humans should live their lives.

As Florian Schui, an economic historian at the University of St Gallen in Switzerland, points out in his elegantly written polemic, the word austerity derives from an ancient Greek term for “dryness of tongue”. Ever since Aristotle first warned about the perils of overindulgence, there has been a strain of thought that the moral life is the ascetic one. A focus on the consumption of physical pleasures—food, wine, sex—would lead individuals to neglect their spiritual side. Christians still venerate St Francis of Assisi for the simplicity of his lifestyle.

Even now, there are echoes of this philosophy in the arguments of greens who believe that people should refrain from consumption to save the planet. In the famous “Limits to Growth” report, commissioned by the Club of Rome and published in 1972, which prophesied catastro-

phe if population growth was not checked, each chapter was introduced with a quote drawn almost exclusively from ancient philosophers and the Bible.

Hypocrisy abounds on this issue. It was a running medieval joke that monks, while publicly preaching asceticism, were indulging themselves behind the monastery walls. Aristotle seemed relaxed when aristocrats spent money; he was more concerned that everyone in society should know their place. Even today, there is much snootiness about the way that the poor enjoy themselves, whether they are smoking, drinking lager, buying expensive trainers or going on package holidays.

Mr Schui believes that moral argument of this kind infects the modern debate about austerity; in an echo of John Maynard Keynes, many politicians are slaves to some defunct philosopher. When governments cut back, the poor usually suffer. And the result can be politically disastrous: the austerity policies of the German government in the early 1930s led to the rise of Hitler. The author also takes the standard Keynesian line that austerity is self-defeating; one man's expenditure is another man's income. “There are no convincing arguments for austerity in its current form,” he argues.

Here Mr Schui's argument becomes much more sketchy. The book has virtually nothing on the EU debt crisis, nor does he attempt to distinguish between countries that voluntarily enter into austerity programmes (like Britain) and those which have austerity forced upon them because they cannot get access to the markets (such as Greece). One reason not to spend beyond your means, whether you are an individual or a country, is that you eventually cede power to your creditors.

He grapples with Friedrich Hayek's argument that deficit spending leads to a bigger government and thus to a loss of liberty, arguing that most people are more free than they were 100 years ago, despite the expansion of the state. But Mr Schui never really deals with the question of whether an enlarged state eventually crushes economic growth, as it did under Soviet communism. He includes plenty of discussion of Britain under Thatcherism, but nothing about Sweden's success in reducing the state's role in the last two decades, and the subsequent rebound in the country's economic growth. Nor is there any mention of states, like Argentina and Greece, where unrestrained government spending has led to problems.

Mr Schui's book is a timely reminder of the moral confusion that swirls around the austerity debate, but it does not really answer the most pressing question about the future: does a Europe with 7% of the world's population, 25% of its GDP and 50% of its social costs, have the right balance between the state and the private sector? ■

Delhi

Fat and fatter

Capital: A Portrait of Twenty-First Century Delhi. By Rana Dasgupta. *Canongate Books; 455 pages; £25. To be published in America by Penguin Press in May; \$27.95*

DELHI's uppity youth wield their influence with one bullying question: “Do you know who my father is?” Every low-level bureaucrat knows that the only acceptable response is meek surrender. Indeed, power by association is written into the law. The long list of people exempt from airport-security screening in India includes, by name, the son-in-law of the current chief of the ruling Congress party.

It is this world of sons and sons-in-law (women rarely get a look in) that Rana Dasgupta, a novelist, explores in his first book of non-fiction, “Capital”. Like John Lanchester's London novel of the same name, the title refers both to the political status of the city it chronicles and to the torrents of money changing its character. It is crammed with the boasts and insecurities of the children of some of Delhi's richest and best-connected business families.

A British national of Bengali origin, Mr Dasgupta moved from New York to Delhi in 2000. Delhi was a different place then, with few bars or malls and a middle class that was “frugal and suspicious of the out- ▶



Indian sons: greedy then, greedy now

side". By the end of the decade, Delhiites could "scarcely move in the city on weekend evenings for the traffic jams of fervent bar-goers". Many of those bars and malls were built through political connections and run by the second or third generations of already rich Delhi business families.

"Capital" is formed largely of interviews with these twenty-something young men. They invite Mr Dasgupta in to their inner sanctums—their deliberately inconspicuous city homes, their mansions on the outskirts of Delhi that are politely called "farmhouses"—and they tell him their secrets. These prematurely balding and paunchy men talk of their years party-

ing in London before family duty brought them back. They boast of wanting to double the size of their companies, or just to do something to prove that they are not coasting on their parents' success. As one mall-builder explains: "You can't sit in beach resorts for 365 days a year."

Mr Dasgupta also meets some of those around them: a young divorcee who talks of her rich but feckless former husband, as well as a drug-dealer to the wealthy and a small-time, big-talking pretender who hopes to facilitate \$300 billion deals. He lets them all talk; half of nearly every chapter is made up of conversation. Asked how the world would be different if it were run

by Indians, one young mogul with a dislike of Westerners, declares that it would be "more spiritual." A moment later he reconsiders: "No. It will be exactly the same."

"Capital" is just the latest book to examine the effects of globalisation on South Asia. Like those before it, it takes a dim view of Western capitalism's seductive appeal. But the book should have been taken more firmly in hand by its editor. "Capital" shouts rather than persuades. The discerning reader would do better to read two slimmer, but more substantial works: "Behind the Beautiful Forevers" by Katherine Boo or "How to get Filthy Rich in Rising Asia" by Mohsin Hamid. ■

Online privacy

Watching the watchers

Dragnet Nation: A Quest for Privacy, Security and Freedom in a World of Relentless Surveillance. By Julia Angwin. *Times Books*; 209 pages; \$28

IF THE online service is free then you are the product, techies say. Google and Facebook make a fortune collecting personal information to help them target their advertisements more accurately. Free smartphone apps typically suck in all the data they can, such as the person's location or their entire address book. At the same time, governments collect oodles of information about everyone, not only through mass surveillance, as the disclosures by Edward Snowden have made clear, but also by gathering mundane things, such as voter registration and driving-licence records that are then sold on to commercial firms.

More than ever, individual privacy is under threat. Julia Angwin, who oversaw a pioneering series of *Wall Street Journal* articles called "What They Know", starting in 2010, exposes many of the questionable activities that erode privacy—activities that most people know nothing about. Hundreds of unregulated data-brokers exist in America, for example, selling dossiers on people to marketing companies. Individuals have little recourse if they want to examine their files or correct mistakes. One company runs a fleet of camera-equipped cars that scan the number plates of 1m vehicles a month, mostly to find those wanted for repossession—but it sells the data to insurers or private investigators as well.

Ms Angwin decries this shadowy business. Her book tracks her attempts to wrest free from it. She gets a credit card using an alias; she uses an anonymous search engine and encrypts her e-mail



and texts; she leaves LinkedIn. When she turns off basic web-browsing functions that enable tracking (using so-called cookies) she becomes digitally paralysed. Amazon items appear to be out of stock and she is unable to set up an appointment at an Apple store. "My daughter would stand next to me and laugh while I tried to load a page and navigate through all the permissions," she writes.

Yet "Dragnet Nation" has its faults. It ignores how exciting the legitimate uses of personal data can be to companies, governments and NGOs. It mixes state surveillance and privacy-eroding business practices, weakening the study of both. Ms Angwin's analysis of the problems and potential regulatory remedies is shallow, and her attempts to escape the dragnet eventually become wearisome. Her contribution is to have made herself a guinea pig in an experiment to avoid ubiquitous surveillance. But the real story about the economy of personal information and protecting privacy in an age of big data has yet to be written.

E.M. Forster in India

Only connect

Arctic Summer. By Damon Galgut. *Atlantic Books*; 356 pages; £17.99. To be published in America by Europa Editions in September; \$17

THERE have been several biographies of E.M. Forster, one of the most delicate British novelists of the 20th century. He was a middle-class intellectual, a peripheral member of the Bloomsbury group, an honorary Cambridge fellow and a spinsterish bachelor. He was awarded the prestigious Order of Merit (there are only 24 at any one time), but his public life shrouded his secret homosexuality and, with it, a longing for the exotic East. In "Arctic Summer" Damon Galgut, an openly gay South African novelist, has fictionalised Forster's most fruitful period as a writer and his years of sexual discovery.

Mr Galgut's Forster tells the story of his own life, tracing the arc of a journey that began with a first visit to India when he was an impressionable 33-year-old in 1912 and ended when he finished his masterpiece, "A Passage to India", just over a decade later. "It was an ongoing vexation that his true subject was buried somewhere out of reach, and could perhaps never be spoken aloud," Forster says of himself. With wisdom and sentience Mr Galgut has managed to craft a version of Forster that penetrates his inner life better than any conventional biography ever has.

"Arctic Summer", which is framed around the men Forster encounters, places his homosexuality front and centre. There are memorable cameos of liberal "minorities" in England, as Forster himself called gay men (a tempestuous D.H. Lawrence was one), and lingering portraits of friendships with younger, beautiful men abroad. During the first world war Forster (not built for soldiering) was posted to Alexandria as a researcher for the Red Cross. There he

▶ had his first physical romance—with a young Muslim tram conductor, Mohammed el Adl. Mr Galgut (pictured) delicately weaves into his account of this relationship Forster's belief in humanism—why did the social mores of the time mean he should not love a lowly Egyptian Muslim?

But it is the Indian sections of this novel that really dazzle. Syed Ross Masood, a debonair Indian Muslim to whom Forster had taught Latin in England, was the object of his unrequited love and became central to his Indian experience. In the book Masood tells Forster that he sees in him an “Oriental sensibility”. Forster, meanwhile, is clearly rapt by Masood's elaborate and overwrought style, which he feels speaks to his true self.

Forster's affection for India was coupled with a quiet distaste for colonial Britons. These feelings pervade “A Passage to India”, a novel about racial divides which turns on an accusation by an English woman that her Indian guide attacked her in a cave. Forster liked to sketch his novels from life, his characters being made up of aspects of different people he met. The incident in “A Passage to India”, based on a visit to the famous Barabar caves, is recast with the same mood by Mr Galgut.

Forster managed to finish the novel only after he left India, following a second sojourn there. Like others before and since, shedding the clarity and order of his English life enabled him to embrace India's



Lines of beauty

mysticism more fully. In India, Mr Galgut has Forster say: “Things were not rounded off and resolved; rather, they expanded outwards, perhaps for ever.”

Forster turned to writing to help solve his personal problems, yet he came to see that not everything in life had to make sense. He was an intriguing and complex man. With insight and seemingly effortless fluidity, Mr Galgut has written a beautiful, and at times funny, novel that movingly captures the duality of one of Britain's most thoughtful authors. ■

New thriller

Crimes and misdemeanours

The Counterfeit Agent. By Alex Berenson.
Putnam; 338 pages; \$27.95. *Headline*; £19.99

ALEX BERENSON has already written seven thrillers featuring his hero, John Wells. But “The Counterfeit Agent”, the eighth in the series, is a step up both in plotting and the fluidity of its prose.

Wells works undercover for the American government and is the only American to have penetrated al-Qaeda. Physically and mentally scarred, at the start of the book he is trying to rebuild his life and settle down with his girlfriend. Domesticity pulls hard; he even takes her on a cruise and proposes. She answers with an ultimatum: be a spy or be mine.

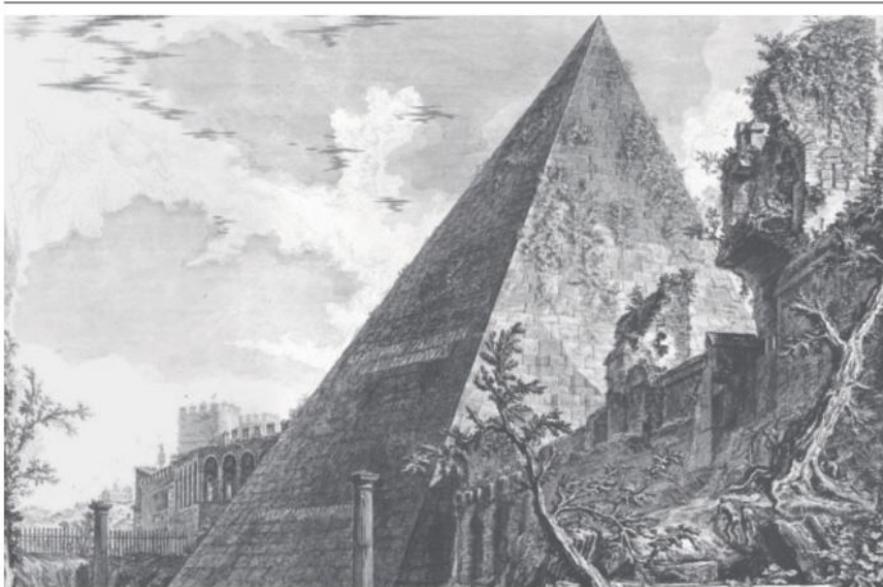
Wells's choice is never in doubt, especially when the summons comes. America is inching towards war with Iran, though not as a result of any policy decision. Rather, it seems that someone is manoeuvring the world's superpower into a new Middle Eastern conflict. A quantity of deadly uranium is being moved. A CIA station chief is murdered. War edges closer. Israel is one suspect, although the CIA knows that even Mossad would balk at killing a station chief for a political gambit.

Mr Berenson is a former reporter for the *New York Times*. He covered the war in Iraq in 2003 and 2004, and he knows the world of shadows. His plotting here is seamless; his descriptions of the murky world of intelligence, its moral compromises, its backstabbing and careerism, are authoritative. The narrative switches smoothly between Langley, the headquarters of the CIA, as well as South Africa, Manila, Panama City and Istanbul. And the scenes he sets are vivid and evocative.

Yet the human factor is always to the fore. Wells is a killing machine, but one who takes life only in the call of duty and gets no joy from the act. Reza, the Americans' Iranian mole (really a Revolutionary Guard stationed in Istanbul), is especially well drawn and the reasons why he betrays his homeland seem entirely credible.

The book's female villain is both terrifying and convincing. The only shaky note is Wells's attachment to Islam. He converted while he was trying to infiltrate al-Qaeda, but by now his faith and sporadic prayers feel tacked-on, rather than a genuine belief in the religion. Better to embrace Allah, or abandon the attempt altogether.

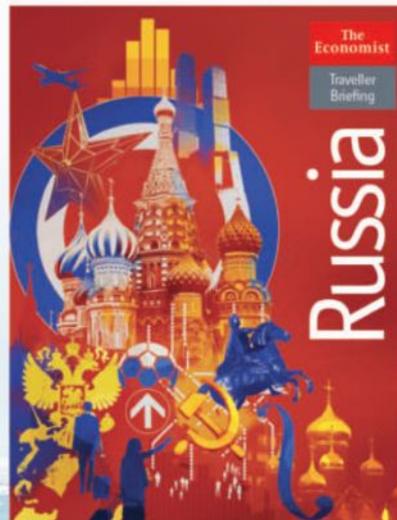
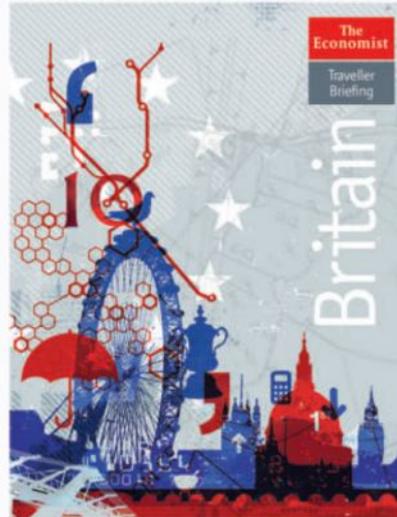
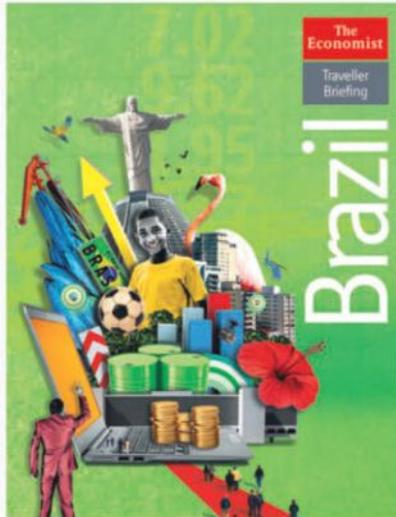
That is a small gripe. “The Counterfeit Agent” is a rollercoaster read and the violent denouement in Istanbul leaves enough loose ends for a sequel. Bring on volume nine. ■



Piranesi down under

Giovanni Battista Piranesi was born in the Veneto, but it is with 18th-century Rome that his name will forever be associated. Who'd have thought, then, that his dizzying landscapes, his writhing serpents, gnarled trees and rampant pyramids would also have found such a following in Australia? Thanks to two great collections in Melbourne, Australian artists have long been exposed to Piranesi's genius. A dazzling new show that opened at the State Library of Victoria on February 22nd shows just how big his influence has been: Jessie Trill, Russell Drysdale, Rick Amor, Angela Cavalieri and Ron McBurnie's “Temptation of St Antony” all owe a debt to the Italian master printmaker.

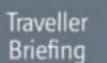
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from 22-06-2011 to 21-06-2017

PHD in Finance

Our client, the Libyan Investment Authority (LIA) is Libya's Sovereign Wealth Fund and manages c. US\$60 billion. LIA has defined a new strategy to promote economic stability, and to protect and grow the wealth of the Libyan people for future generations. LIA is seeking an executive team to assist in this endeavour. These executives will be based in London and report directly to the CEO, with the successful candidates also spending time in Tripoli to build, coach and develop the organisation in Libya.

المؤسسة
الليبية
للإستثمار
Libyan
Investment
Authority

Senior IT & Operations Adviser

The Senior IT & Operations Adviser will focus on 4 verticals; IT, Operations, Admin and Procurement. Responsibilities include:

- Advise on the IT strategy and associated initiatives and policies of LIA and its subsidiaries;
- Create a strategic IT enterprise architecture plan and implement it with approval from the Board of Directors;
- Work with the LIA team to manage and coordinate all IT related services, including IT infrastructure, systems and application development;
- Manage, monitor and supervise all buildings, office facilities, security and other administrative tasks to support LIA and its subsidiaries;
- Work with the team, Senior Management and the Board to put in place robust contingency and business continuity planning; and
- Manage all administrative activities including centralised procurement process for LIA and subsidiaries.

Head of Internal Audit

- Develop, lead and manage the Internal Audit team;
- Develop and implement audit strategies and annual/long-term audit plans with approval from the Board of Directors;
- Interact with the Board of Directors and senior management in designing and implementing the scope of the Internal Audit function;
- Support senior management in the identification, assessment and management of key operational risks in collaboration with Head of Risk Management;
- Review all internally generated financial reports and ensure all reporting adheres to the appropriate international standards;
- Advise and share best practices on control processes, including developing appropriate methodologies and facilitating workshops; and
- Ensure all internal compliance policies and procedures adhere to regulatory requirements and are up-to-date with industry best practices.

Head of Risk Management

- Establish, lead and manage LIA's Risk Management department, encompassing all aspects of Risk Management, including investment and non-investment related risks;
- Reports to the CEO and the Board Audit and Risk Committees;
- Work with the CEO, Senior Management and the Board to establish a Risk sensitive culture and effectively integrate risk considerations into decision making processes across LIA;
- Ensure the establishment of appropriate risk related policies, procedures, controls, reporting tools, and systems in LIA and its subsidiaries; and
- Supervise Risk reporting and recommendations to the Board and external regulators.

Senior Legal & Compliance Adviser

- Develop and maintain LIA's legal framework;
- Provide legal counsel in the structuring and execution of transactions;
- Coordinate the involvement of external legal counsel, ensuring cost-effective and timely delivery of quality services and assistance;
- Implement controls to monitor and prevent fraud or compliance breaches; and
- Educate and communicate compliance standards with the rest of LIA.

The Candidates

- Proven track record in the relevant disciplines; gained with well-regarded organisations;
- Appropriate technical and educational qualifications;
- Excellent team working and leadership capabilities and an ability to build strong business and team relationships;
- Strong strategic/analytical thinking, including excellent project management and planning skills;
- Willingness to spend significant time in Tripoli;
- Experience in emerging markets/MENA region helpful, but not essential;
- Knowledge of Arabic helpful, but not required. Fluency in English is a must, and
- In the event of equally qualified applicants, priority will be given to Libyan nationals.

Please visit www.rraresponses.com for more information and how to apply by **Monday 24th March 2014**.

ISLAMIC DEVELOPMENT BANK Vacancy announcement



The Islamic Development Bank (IDB) is a multilateral development institution established in 1975, to foster economic development and social progress in its 56 member countries and among Muslim communities in non-member countries, in compliance with Sharia (Islamic Law) principles. The IDB has its headquarters in Jeddah, Saudi Arabia.

The IDB is looking for candidates to fill vacant positions in the following areas:

- Project financing and investments
- Agriculture and rural development
- Economics
- Islamic financial services
- Capacity building (including gender and NGO development)
- Engineering (electrical, transport, energy, mechanical, civil)
- Project procurement
- Law
- Risk management and internal audit
- Strategy
- Human resources management
- Accounting and finance

Candidates should have the required professional qualifications, leadership qualities and wide experience in public or private sector development. They should also have proven communication skills, be fluent in English and have a good knowledge of Arabic or French.

The IDB offers a competitive compensation and benefits package.

More information is available on IDB's career portal at www.isdbcareers.com and www.isdb.jobs. For IDB activities, visit www.isdb.org.



barcelona gse
graduate school of economics



Obra Social
Fundació 'la Caixa'

La Caixa-Severo Ochoa International Doctoral Fellowships

The Barcelona Graduate School of Economics is accepting applications for four La Caixa-Severo Ochoa International Doctoral Fellowships. The fellowships are financed by "La Caixa" Savings Bank Foundation and will provide outstanding doctoral students with funding over a 4-year period.

For the duration of the fellowship, recipients must enroll in one of the two PhD programs in Economics within Barcelona GSE:

- Graduate Program in Economics, Finance and Management (GPEFM) organized by Universitat Pompeu Fabra jointly with Barcelona GSE
- International Doctorate in Economic Analysis (IDEA) organized by Universitat Autònoma de Barcelona jointly with Barcelona GSE

More information can be found at www.barcelonagse.eu/ScholarshipsLaCaixa

The Barcelona GSE is one of the leading clusters of economics research in Europe and worldwide. The School offers professionally and academically oriented degrees in economics and finance to graduate students committed to understanding the complex economic and financial processes of an increasingly global society.



NTPC Limited

(A Govt. of India Enterprise)

Expression of Interest (EOI)
From State Electricity Boards/Power Generation Companies,
Independent Power Producers (IPP),
Power Plant Developers, Captive Power Producers, or their authorised
representatives for "Offering their coal based thermal power projects for
possible acquisition by NTPC"

EOI No.: BD/M&A/01

Dated: 21.02.2014

1.0 Introduction:
India's largest power company, NTPC has an installed capacity of 42464 MW comprising of 22 coal based and 8 gas based projects. NTPC has massive ongoing capacity addition plans with around 20000 MW projects under construction. The company is also contemplating increasing its generation assets by means of acquisition of coal based power projects in India and abroad.

2.0 Expression of Interest:
Expression of Interest is invited from State Electricity Boards/Power Generation Companies, Independent Power Producers, Power Plant Developers, Captive Power Producers, or their Authorised Representatives for offering their Operational/Commissioned/Synchronised/Under Construction/under Planning Coal Based Thermal Power Projects (based on domestic, imported as well as mix of domestic and imported coal) in India and abroad having requisite land, firm fuel and water linkages, statutory clearances and Power Purchase Agreement (PPA) in place for acquisition by NTPC.

3.0 Purpose of Inviting EOI:
Through this EOI, NTPC intends to identify the suitable Power Projects, as specified in Clause 2.0 above, to carry out preliminary due diligence and shortlist these projects which qualify for carrying out detailed due diligence for a possible acquisition.

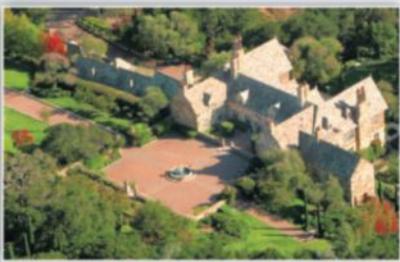
4.0 Last date of Submission:
Last date of submission of EOI is 7th April, 2014
Interested parties may refer to the detailed NIT conditions available on our website www.ntpc tender.com or may contact AGM (BD) on Phone No. +91-11-24369551.

Power of India

Property

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**OPEN INTERNATIONAL COMPETITIVE BIDDING
REQUEST FOR EXPRESSIONS OF INTEREST (EOI)**

TENDER TITLE: INTEGRATED CUSTOMS MANAGEMENT SYSTEM MODERNISATION - DESIGN AND CONSTRUCTION OF A DATA CENTER AT KENYA REVENUE AUTHORITY (KRA)

TENDER NUMBER: PO/20130854

The Kenya Revenue Authority (KRA), with support from TradeMark East Africa (TMEA) is to construct a new data center facility that will host the Information Communication Technology (ICT) infrastructure for the next ten (10) years. On behalf of KRA, TMEA therefore wishes to invite interested vendors capable of designing and constructing such a facility to submit Expressions of Interest (EOIs).

Terms of Reference, Expressions of Interest document and the application form can be obtained at TMEA's website www.trademarkea.com/work-with-us. Interested and qualified consultancy firms must apply as per the EOI instructions. All queries must be directed to procurement@trademarkea.com. Any query email attachments must be 5 MB or less.

The closing date for submissions is **7 April 2014** (at 10.00 a.m. Kenya time).

TMEA cannot answer any query relating to this tender seven (7) days or less prior to the submission deadline.



Growing Prosperity Through Trade



REQUEST FOR PROPOSALS (RFP)

TENDER TITLE: CONSULTANCY SERVICES FOR THE DESIGN AND SUPERVISION OF THE CONSTRUCTION OF ONE STOP INSPECTION STATIONS (OSIS) AT MANYONI AND NYAKANAZI, TANZANIA

TENDER NO: PO/20130083

The United Republic of Tanzania represented by Tanzania National Roads Agency (TANROADS), with support from TradeMark East Africa (TMEA) seeks proposals from qualified consultancy firms to provide consultancy services for Design and Supervision of the Construction of One Stop Inspection Stations (OSIS) at Manyoni and Nyakanazi, Tanzania.

The RFP document for this consultancy assignment can be obtained from TMEA's website www.trademarkea.com and any query quoting the above Tender Title and Number should be directed to procurement@trademarkea.com ONLY. Any email query with attachments must be no more than 5MB. Submission deadline is **2nd April 2014**. TMEA cannot answer any query relating to this tender 7 days or less prior to the submission deadline.



Growing Prosperity Through Trade

Economic data

% change on year ago

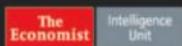
	Gross domestic product			Industrial production latest	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP 2013†	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$	
	latest	qtr* 2013‡	2013‡		latest	2013‡		latest 12 months, \$bn	% of GDP 2013‡			Feb 26th	year ago
United States	+2.7 Q4	+3.2	+1.9	+2.9 Jan	+1.6 Jan	+1.4	6.6 Jan	-398.7 Q3	-2.4	-4.1	2.67	-	-
China	+7.7 Q4	+7.4	+7.7	+9.7 Dec	+2.5 Jan	+2.6	4.1 Q4§	+188.6 Q4	+2.0	-1.8	4.18§§	6.12	6.23
Japan	+2.7 Q4	+1.0	+1.7	+7.1 Dec	+1.6 Dec	+0.3	3.7 Dec	+34.4 Dec	+0.9	-8.2	0.59	102	91.7
Britain	+2.7 Q4	+2.9	+1.8	+1.8 Dec	+1.9 Jan	+2.6	7.2 Nov††	-94.9 Q3	-3.6	-6.7	2.99	0.60	0.66
Canada	+1.9 Q3	+2.7	+1.7	+2.6 Nov	+1.5 Jan	+1.0	7.0 Jan	-59.9 Q3	-3.1	-3.3	2.44	1.11	1.03
Euro area	+0.5 Q4	+1.1	-0.4	+0.5 Dec	+0.8 Jan	+1.4	12.0 Dec	+288.7 Dec	+2.0	-2.9	1.62	0.73	0.76
Austria	+0.9 Q4	+2.1	+0.4	-0.6 Dec	+1.5 Jan	+2.1	4.9 Dec	+8.6 Q3	+2.5	-2.9	1.91	0.73	0.76
Belgium	+0.9 Q4	+1.7	+0.2	-0.4 Dec	+1.1 Jan	+1.2	8.4 Dec	-12.6 Sep	-1.3	-3.0	2.33	0.73	0.76
France	+0.8 Q4	+1.2	+0.2	+0.5 Dec	+0.7 Jan	+1.0	10.8 Dec	-42.0 Dec	-1.9	-4.0	2.20	0.73	0.76
Germany	+1.4 Q4	+1.5	+0.5	+2.9 Dec	+1.3 Jan	+1.6	6.8 Jan	+267.6 Dec	+6.8	+0.1	1.62	0.73	0.76
Greece	-2.6 Q4	na	-3.6	+0.4 Dec	-1.5 Jan	-0.9	28.0 Nov	+1.6 Dec	+0.6	-2.2	7.23	0.73	0.76
Italy	-0.8 Q4	+0.5	-1.8	-0.7 Dec	+0.7 Jan	+1.3	12.7 Dec	+16.2 Dec	+0.5	-3.3	3.54	0.73	0.76
Netherlands	+0.7 Q4	+2.8	-1.0	+1.8 Dec	+1.4 Jan	+2.6	8.6 Jan	+83.6 Q3	+9.8	-3.5	1.89	0.73	0.76
Spain	-0.1 Q4	+1.2	-1.2	+3.5 Dec	+0.2 Jan	+1.5	25.8 Dec	+10.3 Nov	+0.8	-7.2	3.49	0.73	0.76
Czech Republic	-0.3 Q3	+6.6	-1.1	+0.3 Dec	+0.2 Jan	+1.4	8.6 Jan§	-3.4 Q3	-0.9	-2.9	2.31	20.0	19.6
Denmark	+0.5 Q3	+1.5	+0.4	-0.7 Dec	+1.0 Jan	+0.8	5.6 Dec	+23.9 Dec	+5.8	-0.3	1.65	5.46	5.70
Hungary	+2.7 Q4	+2.4	+0.8	+4.6 Dec	nil Jan	+1.7	8.9 Jan§††	+3.1 Q3	+2.0	-3.0	5.98	227	226
Norway	+1.1 Q4	-0.7	+1.3	+1.3 Dec	+2.3 Jan	+2.1	3.6 Dec††	+61.0 Q3	+12.8	+13.0	2.93	6.07	5.71
Poland	+2.7 Q4	na	+1.6	+4.1 Jan	+0.7 Jan	+1.1	14.0 Jan§	-7.9 Dec	-1.5	-4.0	4.44	3.05	3.19
Russia	+1.2 Q3	na	+1.5	-0.2 Jan	+6.0 Jan	+6.8	5.6 Jan§	+33.0 Q4	+2.3	-0.5	8.37	36.0	30.6
Sweden	+0.3 Q3	+0.3	+0.8	+0.1 Dec	-0.2 Jan	+0.1	8.6 Jan§	+34.3 Q3	+6.1	-1.4	2.22	6.52	6.47
Switzerland	+1.7 Q4	+0.6	+1.9	+0.7 Q3	+0.1 Jan	-0.2	3.2 Jan	+79.9 Q3	+11.8	+0.2	1.00	0.89	0.93
Turkey	+4.4 Q3	na	+3.9	+6.9 Dec	+7.8 Jan	+7.5	9.9 Nov§	-65.0 Dec	-7.5	-1.2	10.58	2.23	1.81
Australia	+2.3 Q3	+2.3	+2.4	+2.7 Q3	+2.7 Q4	+2.4	6.0 Jan	-51.3 Q3	-3.0	-3.3	4.13	1.12	0.98
Hong Kong	+3.0 Q4	+4.4	+3.1	-0.9 Q3	+4.6 Jan	+4.3	3.1 Jan††	+5.4 Q3	+1.9	+1.8	2.30	7.76	7.76
India	+4.8 Q3	+16.5	+4.9	-0.6 Dec	+8.8 Jan	+10.1	9.9 2012	-76.9 Q3	-3.1	-5.0	8.92	62.0	54.2
Indonesia	+5.7 Q4	na	+5.6	+0.6 Dec	+8.2 Jan	+7.0	6.3 Q3§	-28.5 Q4	-3.9	-3.3	na	11,640	9,707
Malaysia	+5.1 Q4	na	+4.8	+4.8 Dec	+3.4 Jan	+2.1	3.0 Dec§	+11.7 Q4	+4.9	-4.2	4.13	3.27	3.10
Pakistan	+6.1 2013**	na	+6.1	+13.2 Dec	+7.9 Jan	+7.7	6.2 2013	-4.0 Q4	-1.4	-8.0	12.88†††	105	98.2
Singapore	+5.5 Q4	+6.1	+3.7	+3.9 Jan	+1.4 Jan	+2.4	1.8 Q4	+54.4 Q4	+20.4	+2.1	2.50	1.27	1.24
South Korea	+4.0 Q4	+3.7	+2.8	+2.6 Dec	+1.1 Jan	+1.3	3.5 Jan§	+72.0 Jan	+5.5	+0.5	3.51	1,065	1,088
Taiwan	+2.9 Q4	+7.3	+2.2	-1.8 Jan	+0.8 Jan	+0.8	4.1 Jan	+57.4 Q4	+10.8	-2.3	1.58	30.3	29.7
Thailand	+0.4 Q4	+2.4	+3.0	-6.1 Dec	+1.9 Jan	+2.2	0.7 Nov§	-2.8 Q4	-1.9	-3.1	3.61	32.5	29.8
Argentina	+5.5 Q3	-0.7	+4.9	-5.4 Dec	— ***	—	6.4 Q4§	-3.5 Q3	-1.0	-2.4	na	7.88	5.04
Brazil	+2.2 Q3	-1.9	+2.2	-2.3 Dec	+5.6 Jan	+6.2	4.8 Jan§	-81.6 Jan	-3.7	-3.3	12.54	2.35	1.99
Chile	+4.7 Q3	+5.4	+4.2	+2.3 Dec	+2.8 Jan	+1.8	5.7 Dec§††	-9.5 Q3	-3.7	-0.6	4.98	560	473
Colombia	+5.1 Q3	+4.5	+4.3	+2.0 Dec	+2.1 Jan	+2.0	8.4 Dec§	-12.6 Q3	-3.4	-0.7	7.31	2,054	1,818
Mexico	+0.7 Q4	+0.7	+1.2	-0.3 Dec	+4.5 Jan	+3.8	4.8 Jan	-22.3 Q4	-1.6	-2.5	7.75	13.3	12.9
Venezuela	+1.1 Q3	-0.8	+1.6	+0.8 Sep	+56.2 Jan	+40.6	5.6 Dec§	+6.9 Q3	+3.2	-10.4	12.77	6.29	6.29
Egypt	+1.0 Q3	na	+2.3	-18.1 Dec	+11.3 Jan	+9.5	13.4 Q4§	-4.5 Q3	-2.6	-13.8	na	6.96	6.74
Israel	+3.5 Q4	+2.3	+3.3	+7.4 Dec	+1.4 Jan	+1.5	5.9 Jan	+3.3 Q3	+1.5	-2.7	3.49	3.52	3.74
Saudi Arabia	+3.8 2013	na	+2.9	na	+2.9 Jan	+3.5	5.6 2013	+139.3 Q3	+17.9	+6.6	na	3.75	3.75
South Africa	+2.0 Q4	+3.8	+1.9	+2.6 Dec	+5.8 Jan	+5.8	24.1 Q4§	-22.1 Q3	-6.6	-4.8	8.45	10.8	8.84

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ¶New series. **Year ending June. ††Latest 3 months. †††3-month moving average. §§5-year yield ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, December 23.38%; year ago 25.98% †††Dollar-denominated bonds.

ENERGY
REALITIES

We asked you for ideas on how to solve the world's energy challenges.

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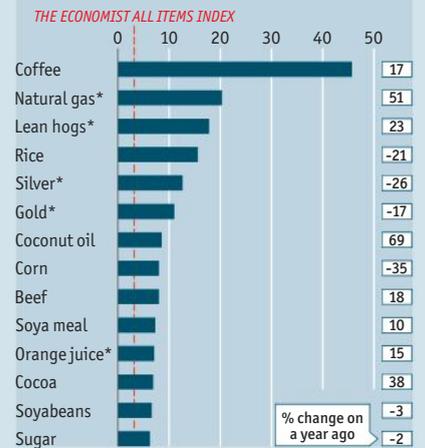
Markets

	Index Feb 26th	% change on		
		one week	Dec 31st 2012 in local in \$ currency terms	
United States (DJIA)	16,198.4	+1.0	+23.6	+23.6
China (SSEA)	2,137.0	-4.7	-10.1	-8.5
Japan (Nikkei 225)	14,971.0	+1.4	+44.0	+21.7
Britain (FTSE 100)	6,799.2	nil	+15.3	+18.0
Canada (S&PTX)	14,188.6	+0.5	+14.1	+2.3
Euro area (FTSE Euro 100)	1,033.1	+0.6	+20.6	+25.0
Euro area (EURO STOXX 50)	3,148.2	+0.9	+19.4	+23.8
Austria (ATX)	2,677.0	+1.5	+11.5	+15.6
Belgium (Bel 20)	3,055.8	+1.7	+23.4	+27.9
France (CAC 40)	4,396.9	+1.3	+20.8	+25.2
Germany (DAX)*	9,661.7	nil	+26.9	+31.6
Greece (Athex Comp)	1,303.4	+3.7	+43.6	+48.8
Italy (FTSE/MIB)	20,398.1	-0.2	+25.3	+29.9
Netherlands (AEX)	398.6	-0.7	+16.3	+20.6
Spain (Madrid SE)	1,044.6	+1.7	+26.7	+31.3
Czech Republic (PX)	1,019.8	-1.8	-1.8	-6.6
Denmark (OMXCXB)	657.1	+3.9	+45.2	+50.5
Hungary (BUX)	17,794.9	-2.6	-2.1	-4.6
Norway (OSEAX)	609.2	+0.3	+24.2	+13.9
Poland (WIG)	52,984.0	-0.9	+11.6	+13.3
Russia (RTS, \$ terms)	1,286.1	-1.5	-0.8	-15.8
Sweden (OMXS30)	1,373.4	+2.6	+24.3	+24.0
Switzerland (SMI)	8,533.0	+1.5	+25.1	+28.4
Turkey (BIST)	61,503.0	-3.0	-21.4	-37.1
Australia (All Ord.)	5,447.0	+0.6	+16.8	+0.7
Hong Kong (Hang Seng)	22,437.4	-1.0	-1.0	-1.1
India (BSE)	20,987.0	+1.3	+8.0	-4.6
Indonesia (JSX)	4,532.7	-1.3	+5.0	-13.1
Malaysia (KLSE)	1,822.6	-0.4	+7.9	+0.9
Pakistan (KSE)	25,500.5	-0.7	+50.8	+39.7
Singapore (STI)	3,088.3	nil	-2.5	-5.9
South Korea (KOSPI)	1,970.8	+1.4	-1.3	-0.8
Taiwan (TWI)	8,600.9	+0.3	+11.7	+7.1
Thailand (SET)	1,304.6	-1.2	-6.3	-11.9
Argentina (MERV)	5,826.6	-2.2	+104	+27.3
Brazil (BVSP)	46,599.2	-1.2	-23.5	-33.3
Chile (IGPA)	18,142.0	+0.9	-13.9	-26.4
Colombia (IGBC)	12,162.2	-3.6	-17.4	-28.9
Mexico (IPC)	38,605.6	-3.5	-11.7	-13.7
Venezuela (IBC)	2,768.3	+0.3	+487	na
Egypt (Case 30)	7,998.3	+2.0	+46.4	+33.9
Israel (TA-100)	1,253.4	+2.4	+19.5	+26.8
Saudi Arabia (Tadawul)	9,058.5	+1.0	+33.2	+33.2
South Africa (JSE AS)	47,017.2	-0.9	+19.8	-6.0

Commodity prices

Coffee prices have risen by over 45% so far this year, as severe drought in Brazil combined with leaf rust across Central America has damaged crops. Analysts reckon this year's crop will be some 10% smaller than last year's. The scarce rain and heatwave have also driven sugar prices to a three-month high. Brazil is the world's largest producer of both commodities, as well as soybeans, which are also getting more expensive. Precious metals—a popular haven amid economic uncertainty—are rallying too in reaction to the weaker-than-expected economic performance of America and concerns over growth in China. The price of gold has risen by 11% so far this year, after falling 27% last year.

Feb 25th 2014, % increase since Dec 31st 2013, \$ terms



Sources: The Economist; Bloomberg *Not in The Economist index

Other markets

	Index Feb 26th	% change on		
		one week	Dec 31st 2012 in local in \$ currency terms	
United States (S&P 500)	1,845.2	+0.9	+29.4	+29.4
United States (NAScomp)	4,292.1	+1.3	+42.1	+42.1
China (SSEB, \$ terms)	228.3	-5.7	-8.4	-6.8
Japan (Topix)	1,225.4	+0.6	+42.5	+20.5
Europe (FTSEurofirst 300)	1,348.8	+0.8	+18.9	+23.3
World, dev'd (MSCI)	1,664.8	+0.6	+24.4	+24.4
Emerging markets (MSCI)	956.3	-0.3	-9.4	-9.4
World, all (MSCI)	407.4	+0.5	+19.9	+19.9
World bonds (Citigroup)	926.5	nil	-1.9	-1.9
EMBI+ (JPMorgan)	659.2	+1.6	-7.2	-7.2
Hedge funds (HFRX)	1,237.0 [§]	+0.3	+7.7	+7.7
Volatility, US (VIX)	14.4	+15.5	+18.0 (levels)	
CDSs, Eur (iTRAXX) [†]	72.6	+0.1	-38.2	-35.9
CDSs, N Am (CDX) [†]	65.2	-1.2	-30.8	-30.8
Carbon trading (EU ETS) €	6.6	-6.1	-2.1	+1.5

Sources: Markit; Thomson Reuters. [§]Total return index. [†]Credit-default-swap spreads, basis points. [§]Feb 25th

Indicators for more countries and additional series, go to: Economist.com/indicators

The Economist commodity-price index

2005=100

	Feb 2014		% change on	
	Feb 18th	Feb 25th*	one month	one year
Dollar Index				
All Items	168.7	170.4	+5.0	-6.4
Food	190.6	195.5	+8.6	-4.7
Industrials				
All	145.9	144.3	+0.3	-8.7
Nfa [†]	156.4	152.7	+0.5	-7.1
Metals	141.4	140.7	+0.2	-9.5

Sterling Index

All items	183.8	185.8	+4.4	-15.1
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Euro Index

All items	152.5	154.3	+4.5	-10.9
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Gold

\$ per oz	1,322.3	1,341.0	+7.0	-16.6
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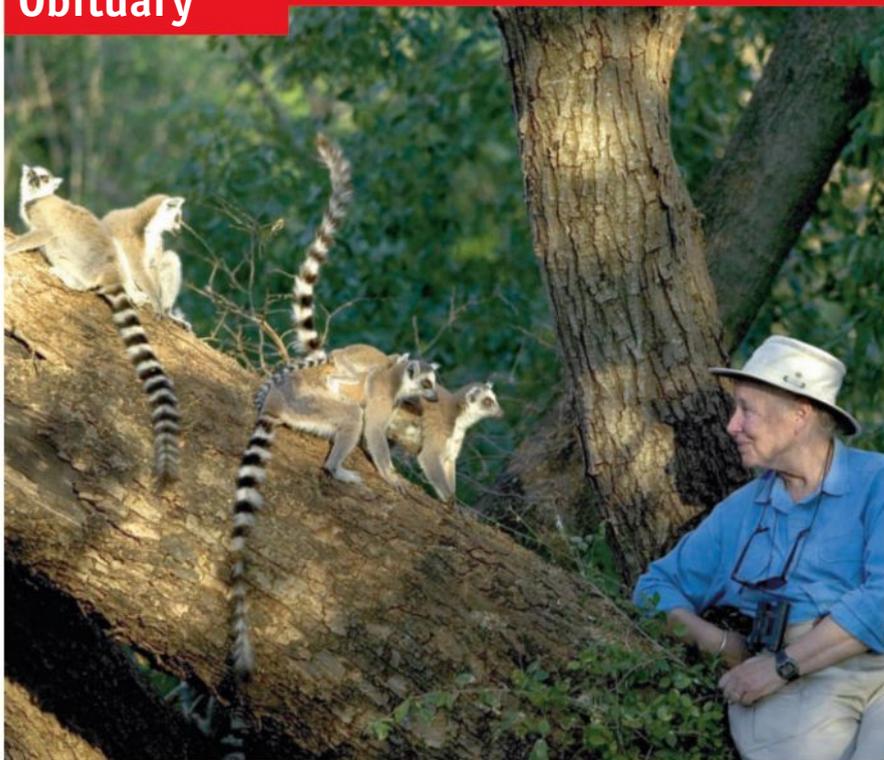
West Texas Intermediate

\$ per barrel	102.6	102.0	+4.8	+10.2
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Sources: Bloomberg; CME Group; Cotlook; Darmann & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional [†]Non-food agricultural.

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Alison Jolly

Alison Jolly, primatologist, died on February 6th, aged 76

WHEN the big male appeared, Alison Jolly wanted to run and hide. He was obviously alpha, from the granite forehead to the cleft chin. His soft, precise sounds were instantly obeyed, as law, by the other males in the troop. She observed a strange gentleness, almost courtesy, about him. But as a primatologist, with a doctorate from Yale, she could tell he was dominant by the way the subordinates feared him.

Nor was it the most frightening display she saw that day in 1963: her first at the nature reserve at Berenty, in the extreme south of Madagascar, where she was to study lemurs for a large part of her life. More worrying still was her encounter with the dominant female of the troop, whose perfect tenure and grooming made her feel, at 25, in khakis and just tumbled out of a Land Rover, like something the cat had brought in. As they confronted each other, she felt her field boots grow to the size of dugout canoes.

These creatures, however, were the human owners of Berenty. They were French aristocrats who had missed the revolution and remained, eating *oeufs à la neige* and drinking good wine, in a patch of fairytale green forest in the middle of a huge expanse of sisal plants and thorns. Like any odd species, they were worth her scrutiny. But it was the lemurs skipping and bicker-

ing outside, or taking a siesta with all four limbs adangle from a creeper, that provided even stronger evidence for her most arresting discovery. In some primate societies, she found, it is females who dominate, and not the males.

A cuff on the nose

Until then, she had studied lemurs in captivity. She had fallen in love with them, transferring her affections from sea sponges, when she had to babysit a few in the lab at Yale. Lemurs intrigued her because they were the most distant living ancestors of humans, isolated in Madagascar for 40m, 52m or 63m years (no one really knew). By studying them in the wild, which had not been done systematically before, she might discern the beginnings of human co-operation and, especially, the development of higher intelligence.

Lemur life, she soon discovered, was one long soap opera. They might look sugar-sweet, with their soft, soft fur and huge amber eyes. They were even beautiful, especially when the white sifakas sailed between the trees like ballet-dancers, or when the ringtailed lemurs, her favourites, held up their tails like shining question-marks before the sun. But they had a bad side. Their long upper canines could slash horribly, leaving their rivals' fur bloody

after fights. They practised social ostracism and deliberate infanticide. And it was usually females, especially ringtailed ones, who were at the dark heart of things. The theme of lemur life, she concluded, was "Which bitch will keep the inheritance?"

The males, by contrast, were almost effete. They sat around, stroking their tails with their wrist-glands, and let the females eat first. A female would sometimes knock a tamarind fruit from the hand of a male, and cuff him on the nose. He would run away squeaking. Even alpha males fled.

There were sound biological reasons, she thought, for this feeding order. Females had to be well nourished in order to bear their precious single infant every year. But there was also a wider principle involved, one that greatly annoyed the male scientific establishment when she proposed it in "The Evolution of Primate Behaviour" in 1972. It seemed that, *pace* Darwin, evolution was not all about competition, tools and weapons, led by males; but also about integration and co-operation, led by females. Intelligence had evolved from both.

She did not say this as a feminist. She was never one, though she admitted that her interest in co-operation was probably a female thing. Her approach to her work was as gentle as the lilting voice in which she chatted to the lemurs, a smiling human in a Tilley hat. Most unusually, she never competed for tenure at a university, and wrote her books while bringing up her four children. The works themselves, six of them, were often as vivid as novels in which the lemurs (Aunt Agatha, Caffeine, Diva and the rest) were the stars. She also wrote books for Malagasy children about the hazards of young lemur life.

That was done to encourage conservation, her other great cause. Between 1960 and 2000 Madagascar lost half its forests. Near Berenty, the Tandroy people were forever chopping down trees. But she felt for them too: poor, mostly naked, spear-carrying cattle-herders who were treated as exotics, like the lemurs, by the tourists. Typically she did not oppose, but tried to smooth, the arrival of a giant titanium mine nearby which would bring the Tandroy jobs. On a national level, she lobbied the government of Madagascar to preserve the little wild Nature it still had.

For 40 years, however, her home base was Lewes in Sussex, where her marriage to Richard Jolly, a development economist, had taken her from New York state. There, in the steep ancient streets, she was fairly exotic herself, in bright jackets and big necklaces, presiding over berry-and-meringue parties and supporting the opera at Glyndebourne. She wrote story books in which see-through people appeared in the town and led a little girl into the past. Not half as far into the past, though, as the frisking lemurs had taken her. ■

The
Economist

intelligent life

THE TRI-X FACTOR

This picture, by Anton Corbijn, was shot on Tri-X film. He, Don McCullin and Sebastião Salgado talk about its special qualities

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