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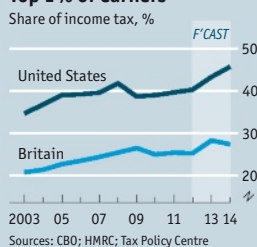
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Politics



America's House of Representatives backed Barack Obama's plan to arm and train rebels in **Syria** in their fight against **Islamic State** extremists. Mr Obama says America will not get involved in ground combat; its main contribution will be air strikes. But General Martin Dempsey, chairman of the Joint Chiefs of Staff, hinted that American troops could embed with Iraqi soldiers in their battle against **IS**. Earlier, 27 countries, including Arab states, met in Paris to pledge military assistance to defeat **IS** "by all means necessary".

David Haines, a British aid worker captured in Syria, was **beheaded** by **IS**, the third Westerner to be murdered by the group. It is threatening to do the same to another Briton, Alan Henning, a volunteer who drove aid to refugees.

Police in **Australia** carried out their biggest ever anti-terror raids arresting 15 people after **IS** called for a campaign of random public beheadings in the country. The Australian government has been one of the most vocal supporters of military action in Iraq, promising to participate.

In a busy week for the Pentagon, America also announced that it would send 3,000 military personnel to west Africa to help co-ordinate the response to an epidemic of the **Ebola** disease. The Pentagon will bring its expertise in logistics to the region, setting up dispatch centres for equipment and building makeshift medical facilities. The virus has so far affected 5,000. The **WHO** reckons a big international

effort is needed just to limit the spread of **Ebola** to tens of thousands of people.

In **Nigeria** at least 15 people were reportedly killed after gunmen attacked a teacher-training college. Elsewhere in the country a military tribunal sentenced 12 soldiers to death by firing squad for a mutiny that took place in May in which shots were fired at the commanding officer.

South Sudan did itself no favours by telling foreigners (save diplomats and government aid agencies) to leave the country within a month. It promptly retracted the policy amid criticism that it would disrupt aid programmes.

Trying to de-escalate

Ukraine's parliament agreed to give more autonomy to eastern parts of the country and offer an amnesty for rebel fighters as part of a peace deal; it also ratified a long-awaited association agreement with the **EU**, though it will not be fully implemented until next year. The former president, Viktor Yanukovich, had refused to sign an earlier version. Meanwhile, the ceasefire in eastern Ukraine was marred by sporadic fighting.



Sweden's prime minister, Fredrik Reinfeldt, resigned after his Moderate Party lost a general election to the Social Democrat party, which was returned to power after eight years in opposition. Stefan Lovfen, its leader, held coalition talks with the Greens. Like his predecessor, he is ruling out negotiations with the anti-immigrant Sweden Democrats, who came third in the election, doubling their support to 13%.

The International Organisation for Migration, an intergovernmental body, said that it feared 500 **migrants** may have drowned after the boat they were travelling in from Egypt to Malta was rammed by traffickers. In a separate incident 200 migrants were thought to have perished off the coast of Libya. The **IOM** estimates that 3,000 migrants have died trying to cross the sea to Europe so far this year.

Building on its recent success in Saxony, the Alternative for Germany party, which is against the **euro** but not the **EU**, did well in state elections in Thuringia and Brandenburg, winning just over 10% and 12% of the vote, respectively.

Coral disharmony

In a bid to pre-empt the **UN** from reclassifying it as being "in danger", Australia announced a 35-year plan to manage the **Great Barrier Reef**. The Finland-sized reef is under threat from the impact of coastal development and climate change and has lost about half its coral.

The generals who launched a coup in **Thailand** in May ordered that Thaksin Shinawatra's name be erased from school textbooks. The billionaire former prime minister, now in self-imposed exile, led political parties that have won every election that has been allowed to take place since 2001.

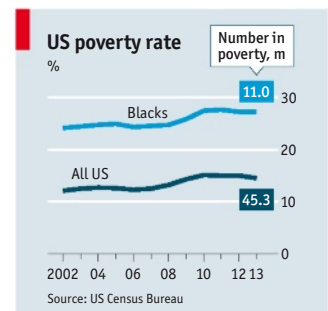
After winning May's general election in a landslide under Narendra Modi, **India's** ruling Bharatiya Janata Party faced unexpected setbacks in state by-elections in Rajasthan, Gujarat and Uttar Pradesh, the most populous state, where voters seem to have resented the Hindu-nationalist **BJP** stirring up communal divisions.

In **China** the trial began of Ilham Tohti, a prominent critic of the government's policies towards ethnic Uighurs in Xinjiang. The government has been tightening controls in the far-western region in response

to a wave of terrorist attacks by Uighurs, most of whom are Muslims.

Hillary dips her toes

Hillary Clinton took her husband, Bill, to a Democratic Party event in Iowa, where the vegan ex-president had to fry steaks for other people. Iowa holds the first-in-the-nation contest to select presidential nominees in 2016. Mrs Clinton did not reveal whether she would run, but admitted she was thinking about it.



America's Census Bureau recorded a drop in the **poverty rate** for the first time since 2006, to 14.5% of all Americans in 2013 from 15% the year before. For blacks the poverty rate stood at 27% and for Hispanics 24%.

The half-chance saloon

Standard & Poor's downgraded **Venezuela** and put the chances of a sovereign default in the coming two years at 50%. Despite its oil wealth, the country's economy is almost certainly shrinking and its inflation rate is above 60%. Nicolás Maduro, the president, insists that bondholders will keep being paid.

Peru's long-standing finance minister, Luis Miguel Castilla, resigned, ostensibly for personal reasons. His successor, Alonso Segura, has the task of pepping up an economy hit by lower commodity prices.

Rob Ford's rollercoaster ride as **Toronto's** mayor took another lurch after he was diagnosed with cancer. Mr Ford, whose battles with addiction are well known, withdrew from next month's mayoral election and was replaced on the ballot by his brother, Doug.

Business

The **Federal Reserve** indicated that it was heading towards ending its bond-buying programme with a final \$15 billion purchase in October. But it remained vague about the precise timing of an interest-rate increase, saying it would retain the near-zero rate for a “considerable time”, a phrase that markets expect to be excluded from the Fed’s statement when it decides to move firmly towards a rise.

After the release of data showing industrial production at a six-year low in August and foreign direct investment at a four-year low, **China’s central bank** provided the country’s five biggest commercial banks with 500 billion yuan (\$81 billion) in cheap financing, with the aim that they increase lending. There is speculation that the People’s Bank of China will also cut interest rates to boost growth.

An aversion to inversion

The **OECD** released its first recommendations for reforming the **international corporate-tax** system, an effort to stop companies from shifting profits abroad, which the organisation thinks is “a serious risk to tax revenues”. The proposals seek to refashion the roughly 3,000 tax treaties and rules that have been around since the 1920s. Politicians have been increasingly agitated of late by big companies paying little tax or relocating their headquarters overseas to avoid tax.

CalPERS, one of the world’s biggest pension funds, said that it would no longer invest in **hedge funds** because of their complexity and cost. Investors took notice. Once considered the lords of the financial jungle, hedge funds have underperformed in recent years compared with the returns from many portfolios of stocks and bonds.

Eike Batista, who was Brazil’s richest man until his business empire became mired in debt,

had his personal assets frozen by a federal judge in Rio de Janeiro amid an investigation into insider trading. Prosecutors also allege that Mr Batista manipulated the share price of his now-bankrupt petrol company. He denies the charges.

The saga over who controls **Vkontakte**, the biggest social-media network in the Russian-speaking world, reached a conclusion when Mail.Ru, a Russian internet group, bought the remaining shares it did not already own. Earlier this year Pavel Durov, an entrepreneur who has been described as Russia’s Mark Zuckerberg, left VKontakte, and Russia, claiming he had been ousted by allies of the Kremlin.

Hampered by insipid sales of its mobile devices (among other things), **Sony** raised its expectations for an annual loss from ¥50 billion to ¥230 billion (\$2.1 billion). Its share price swooned.

Phones 4U, a British retailer, sought bankruptcy protection after **EE** and **Vodafone**, two of Britain’s big network operators, pulled their business from its stores. Retail chains selling multiple varieties of phones and network packages blossomed along high streets

in the 1990s, but with margins squeezed and competition more fierce than ever, network operators have an incentive to cut out the middlemen and sell through their own outlets.

Crafting breweries

The **beer business** was abuzz with merger speculation. After Heineken said that it had rejected a takeover offer from **SABMiller**, the second-largest brewer in the world, rumours emerged that **AB InBev**, the biggest, was putting together the financing to bid for **SAB**. Investors cheered as share prices rose in response across the drinks industry.



A court in Frankfurt lifted a temporary nationwide ban it had imposed last month on **Uber** in Germany, allowing the app-based taxi service to continue operating. The judges ruled that the association representing the interests of

conventional taxi-drivers, which sought the injunction, had not filed its case in time, though they were sympathetic to its arguments.

The future market for technology in **driverless cars** was the motivation behind an offer by **ZF Friedrichshafen** of Germany for **TRW Automotive**, which is based in Michigan and produces video and radar systems for automated vehicles. **ZF** was created by **Ferdinand Graf von Zeppelin** in 1915 to make parts for his airships; the firm’s biggest shareholder today is the Zeppelin Foundation. **TRW** said the offer was worth \$13.5 billion.

Few take off in France

A strike by pilots at **Air France** caused severe disruption to flights in France and abroad, stranding thousands of passengers. The pilots don’t like the airline’s plan to expand **Transavia**, its low-cost carrier, which, they claim, will lead to jobs being relocated to other countries. The strike came in the week that the **French government** won a vote of confidence in parliament over its programme of cuts to business taxes and social spending.

Other economic data and news can be found on pages 84-85





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LET'S GO.

Xi who must be obeyed

The most powerful and popular leader China has had for decades must use these assets wisely



THE madness unleashed by the rule of a charismatic despot, Mao Zedong, left China so traumatised that the late chairman's successors vowed never to let a single person hold such sway again. Deng Xiaoping, who rose to power in the late 1970s, extolled the notion of "collective leadership". Responsibilities would be shared out among leaders by the Communist Party's general secretary; big decisions would be made by consensus. This has sometimes been ignored: Deng himself acted the despot in times of crisis. But the collective approach helped restore stability to China after Mao's turbulent dictatorship.

Xi Jinping, China's current leader, is now dismantling it. He has become the most powerful Chinese ruler certainly since Deng, and possibly since Mao. Whether this is good or bad for China depends on how Mr Xi uses his power. Mao pushed China to the brink of social and economic collapse, and Deng steered it on the right economic path but squandered a chance to reform it politically. If Mr Xi used his power to reform the way power works in China, he could do his country great good. So far, the signs are mixed.

Taking on the party

It may well be that the decision to promote Mr Xi as a single personality at the expense of the group was itself a collective one. Some in China have been hankering for a strongman; a politician who would stamp out corruption, reverse growing inequalities and make the country stand tall abroad (a task Mr Xi has been taking up with relish—see page 55). So have many foreign businessfolk, who want a leader who would smash the monopolies of a bloated state sector and end years of dithering over economic reforms.

However the decision came about, Mr Xi has grabbed it and run with it. He has taken charge of secretive committees responsible for reforming government, overhauling the armed forces, finance and cyber-security. His campaign against corruption is the most sweeping in decades. It has snared the former second-in-command of the People's Liberation Army and targeted the retired chief of China's massive security apparatus—the highest-ranking official to be investigated for corruption since Mao came to power. The generals, wisely, bow to him: earlier this year state newspapers published pages of expressions of loyalty to him by military commanders.

He is the first leader to employ a big team to build his public profile. But he also has a flair for it—thanks to his stature (in a height-obsessed country he would tower over all his predecessors except Mao), his toughness and his common touch. One moment he is dumpling-eating with the masses, the next riding in a minibus instead of the presidential limousine. He is now more popular than any leader since Mao (see page 57).

All of this helps Mr Xi in his twofold mission. His first aim is to keep the economy growing fast enough to stave off unrest, while weaning it off an over-dependence on investment in property and infrastructure that threatens to mire it in debt. Mr

Xi made a promising start last November, when he declared that market forces would play a decisive role (not even Deng had the courage to say that). There have since been encouraging moves, such as giving private companies bigger stakes in sectors that were once the exclusive preserve of state-owned enterprises, and selling shares in firms owned by local governments to private investors. Mr Xi has also started to overhaul the household-registration system, a legacy of the Mao era that makes it difficult for migrants from the countryside to settle permanently in cities. He has relaxed the one-child-per-couple policy, a Deng-era legacy that has led to widespread abuses.

More muscle needed

It is still far from clear whether Mr Xi's economic policies will succeed in preventing a sharp slowdown in growth. The latest data suggest the economy is cooling more rapidly than the government had hoped (see page 69). Much will depend on how far he gets with the second, harder, part of his mission: establishing the rule of law. This will be a central theme of the annual meeting next month of the Communist Party's Central Committee. The question is whether Mr Xi is prepared for the law to apply to everyone, without fear or favour.

His drive against corruption suggests that the answer is a qualified no. The campaign is characterised by a Maoist neglect of institutions. It has succeeded in instilling fear among officials, but has done little to deal with the causes of graft: an investigative mechanism that is controlled entirely by the party itself, a secret system of appointments to official positions in which loyalty often trumps honesty and controls on free speech that allow the crooked to silence their critics.

Mr Xi needs to set up an independent body to fight corruption, instead of leaving the job to party investigators and the feuding factions they serve. He should also require officials to declare all sources of income, property and other assets. Instead, he has been rounding up activists calling for such changes almost as vigorously as he has been confronting corruption. In the absence of legal reform, he risks becoming a leader of the old stripe, who pursues vendettas in the name of fighting wrongdoers. That will have two consequences: there will be a new wave of corruption, and resentments among the party elite will, at some point, erupt.

Mr Xi is making some of the right noises. He says he wants courts to help him "lock power in a cage". Reforms are being tinkered with to make local courts less beholden to local governments. But he needs to go further by abolishing the party's shadowy "political-legal committees", which decide sensitive cases. The party should stop meddling in the appointment of judges (and, indeed, of legislators).

The effect of such reforms would be huge. They would signal a willingness by the party to begin loosening its monopoly of power and accepting checks and balances. Deng once said that economic reform would fail without political reform. Mr Xi last month urged foot-dragging officials to "dare to break through and try" reform. China's leader should heed his own words and those of Deng. He should use his enormous power for the greatest good, and change the system. ■

Health care in America

How to fix Obamacare

America's health-care system remains dysfunctional, but it could be made better



IT IS now nearly a year since the roll-out of Obamacare. The launch was a shambles, and Obamacare is a totem for every American who hates big government. Republicans will deride it, yet again, in the mid-term elections.

Obamacare is indeed costly and overcomplicated. Yet it is not to blame for America's health mess, and it could just contain the beginnings of a partial solution to it. But that will only happen if politicians treat health care like a patient: first, diagnose the disease, then examine whether Barack Obama's treatment helped, and then ask what will make the patient better.

A quick check-up

Begin with the disease. At the core of America's problems with health care is a great delusion: it likes to think it has a vibrant private marketplace. In fact the country has long had a subsidy-laden system that is the most expensive and complicated in the world, with much of the government cash going to the rich, millions of people left out and little individual responsibility.

America devotes 17% of GDP to health care, compared with 9% in Britain, yet nearly 50m Americans were uninsured in 2012 and life expectancy is slightly below average for a rich country. And the taxpayer foots much of the bill: government health spending per head in 2012, before Obamacare's main provisions took effect, was 50% higher than in Britain, which has a nationalised health system. Some spending, such as the huge Medicare programme for the elderly and Medicaid for the hard-up, is obvious. But much is opaque.

Employer-sponsored coverage is tax exempt, costing the government at least \$200 billion a year. These subsidies fuel health-care inflation and favour rich employees, who would pay higher taxes if they were compensated with wages alone. Just as bad, roughly half the population finds that their health insurance is tied to a job; this makes it harder for them to switch employers. Rising premiums come out of wages; health-care inflation is one of the main reasons why pay for the average American has stagnated. Meanwhile many of the uninsured are free-riders: young people who do not buy insurance but rely on costly emergency rooms if something awful happens.

The system seems designed to encourage waste. Doctors are often paid for every test or invasive procedure, rather than for keeping patients well. Patients don't know what anything costs, and the bill will in any case be settled by a third party, so they don't haggle. Prices can be sky-high and vary wildly. A mammogram in New York may be less than \$100 or more than \$1,700. No matter what the Republicans say, this is not a free market in any normal sense. But what about the treatment?

Ironically the "socialist" Mr Obama did not do the one thing that might have cut taxpayers' costs dramatically: introduce a European "single payer" health-care system (with ideally some small treatment user fees to deter overuse). Instead he tried to tweak America's system in two ways—to expand coverage and to reduce costs. So Medicaid now covers the not-

very-well-off as well as the truly poor (at least, in Democratic states), and Obamacare bans insurers from charging sick people higher premiums. To expand insurers' pool of patients and keep costs down, it required Americans to buy insurance or pay a penalty. To make insurance-buying easier, Mr Obama introduced online exchanges where people can shop for a health plan, and offered subsidies to those who cannot afford one.

The results are mixed. Practically every competent health-industry lobbyist managed to insert a line protecting the services his paymasters provide—so Obamacare is too costly and too complicated, but it is doing a little better than it is given credit for (see page 41). The share of uninsured 18-64-year-olds has fallen from 18.5% in the second quarter of 2013 to 13.9% in the second quarter of 2014 according to a survey. This is probably due mostly to the expansion of publicly funded Medicaid, rather than people flocking to the Obamacare exchanges, on which people buy their own insurance. Encouragingly, health-care inflation has also fallen back, though that may largely be because of a weak economy.

So what would make American health care better now? Since its failings lie more within the system than with the president's attempt to reform it, health reformers should concentrate on three areas that could make its flawed market work better: directing handouts towards the poor rather than the affluent, nudging individuals to take charge of their own health care, and making sure that prices are transparent.

Injecting the right people

For a start, Congress should move towards scrapping both the tax break for employer-provided health insurance and the requirement that firms offer it. Those savings could be used to help cover subsidies for the poor. Without the tax distortion, employers would pay higher wages instead of benefits and workers would shop around for the best value health plans.

That is already beginning to happen. Flawed though they are, Obamacare's exchanges could be the foundation of a new model. Employers are already making employees pay more of their own individual health costs upfront. A worker who has to pay the first \$1,000 of his annual bills out of his own pocket is far more likely to shop around. And as patients become more like consumers, health-care providers are improving their game (see page 42). Walmart and other retailers are selling basic medical services more cheaply and outside usual hours.

Reform will work only if prices are transparent. This is where antitrust and other competition authorities could come in. Cosy deals between hospitals and insurers that suppress price information should be barred. The government should release more data on the price and quality of doctors. In April it published doctors' charges for treating elderly patients, but largely withheld the most useful information, such as data showing doctors' treatment of specific patients over time.

Obamacare's effects will not be fully understood for years; but it will never be the core of the problem. If America wants to stick to the idea that it has a health-care market, then it should focus on trying to make it more like a market—with prices, competitors and some form of choice. ■

Ebola

Chasing a rolling snowball

The world is still acting too slowly to stop Ebola



FOR months the world has sat largely idle as an Ebola epidemic has marched steadily from the remote jungles of Guinea to the slums of Liberia, and beyond. On September 16th that changed. Barack Obama announced the largest humanitarian deployment by America's armed forces to fight an infectious disease. Saying that the epidemic "is not just a threat to regional security—it's a potential threat to global security if these countries break down", the president began the process of sending some 3,000 American troops to set up treatment centres with 1,700 beds and to train local health workers.

The dispatch of troops to west Africa may seem an odd priority when American forces are preparing to confront jihadists in Iraq and Syria and are stretched thin elsewhere. Ebola is a disease that is usually absent from human populations, has been quickly stamped out in the past and in its worst recorded outbreak has thus far caused 3,000 known deaths (see page 39). Moreover it is unlikely to spread widely in rich countries with good health-care systems. Set against killers such as HIV, the virus that kills some 1.6m people a year, or tuberculosis (TB), which takes another 1.3m lives, an expensive fight against Ebola may seem a misallocation of resources.

Yet Ebola is now growing exponentially, with the number of new cases roughly doubling every three weeks or so. In Monrovia, the capital of Liberia, it is thought to be doubling every two weeks. Previous outbreaks were usually in rural villages where it was easier to contain. At this rate of progress, small numbers quickly become big ones, and there is a real risk of the disease spreading to cities such as Lagos, which is home to more than 10m people. The longer Ebola is allowed to replicate in humans, the greater the risk that it will become more

contagious. Some virologists fret that it might even acquire the ability to be transmitted through the air by coughs and sneezes. Although this seems unlikely, nobody wants to find out just how quickly Ebola can adapt to humans.

America's response is the first by a government on a large scale. Until now the burden has been carried by charities such as Médecins Sans Frontières (MSF), which has 2,000 staff in the affected countries. Yet even America's large commitment may not be enough to get ahead of this epidemic in Liberia, the country most affected. By the time the troops actually get there, the situation in Liberia could be far worse.

Gloves and masks needed

Elsewhere, the response falls far short of what is needed. Sierra Leone, the second-worst-affected country, has received far less help from governments: China is sending 174 people and mobile laboratory teams, Cuba is sending a similar number and Britain will set up a hospital with 62 beds. France is sending 20 people to the region (though it is expected to announce that it will build a hospital).

Two things are urgently needed. The first is the rapid provision of basic (and, frankly, cheap) protective gear such as gloves, gowns, surgical masks and disinfectant. Domestic health systems in affected countries have crumbled as nurses and doctors have fallen ill or died for lack of basic gear.

The second need is for trained staff to run the treatment centres and work in them. Poorly run ones with weak infection controls may hasten the spread of the disease. Both are needed soon, as the cost of halting Ebola's spread is also rising exponentially. In August the World Health Organisation estimated that it would take nine months and cost \$490m to contain Ebola. Now it reckons the cost has risen to over \$1 billion. The longer the world prevaricates, the harder and costlier it will be to contain this outbreak. ■

Inequality and the narrowing tax base

Too reliant on the few

Taxes are best raised on a broad base, but in many countries it is worryingly narrow



effort and entrepreneurship, while encouraging all manner of activity to avoid them. That is why a basic principle of good tax policy has long been to charge a low rate over a broad base.

It is a target which many countries miss, and the gap is growing. Income taxes—one of the main sources of tax rev-

“I LIKE to pay taxes,” said Oliver Wendell Holmes. “With them I buy civilisation.” Most people recognise that taxes pay for public services, but few are as keen to stump up for them as Justice Holmes was. High income taxes tend to discourage

enue across the rich world—are increasingly paid by a small minority of the most affluent. In Britain, employment has risen by 1.3m in the past five years, but the number of taxpayers has fallen by 2.2m. More than 40% of American households pay no income tax. In contrast, the most highly paid 1% of workers in Britain pay 28% of all income tax, while in America it is 46%. In 1979 those shares were 11% and 18% respectively. Corporate income taxes show the same concentration. In Britain just 830 firms pay almost half of all corporation tax. Five American industries account for 81% of the country's corporate tax revenue, but just a third of its companies.

This narrowing of the tax base is partly the natural consequence of widening inequality. Since an ever bigger share of

▶ overall income goes to the highest earners, and since income taxes are progressive (with a higher rate levied at higher income), it is inevitable—and appropriate—that the most affluent should pay a growing share of the overall tax take. Well-intentioned efforts to encourage work among poorer folk have also concentrated the pool of taxpayers. America's Earned Income Tax Credit (EITC), which tops up the earnings of the least-skilled, is one of its biggest poverty-fighting schemes. Thanks to the EITC, millions get a cheque from Uncle Sam rather than paying income tax. Much of the drop in the number of British taxpayers is also thanks to generous new exemptions for low earners (see page 33).

Unfortunately, the narrowing of the tax base, both personal and corporate, also reflects two failures of tax policy. The first is the proliferation of exemptions and deductions that go far beyond reasonable poverty-fighting policies. America is the most egregious offender. Its income tax (which contributes a bigger share of overall revenue than in other rich countries) is riddled with myriad deductions, from medical insurance to mortgage interest, which collectively cost a whopping 7% of GDP and mean that income tax is levied on a much narrower base than it could be. Other rich countries, from Italy to Australia,

also have too many unnecessary deductions.

The second problem, which applies most to corporate income taxes, is that tax rules have failed to keep up with the reality of the 21st-century economy. A web of arcane bilateral tax treaties allows clever companies to shift their profits from high-tax to low-tax jurisdictions, whether by registering patents or setting up intra-company loans. A firm's tax bills depend more on what industry it is in and how clever its accountants are than its profitability. America, with the highest marginal rate, has the biggest distortions.

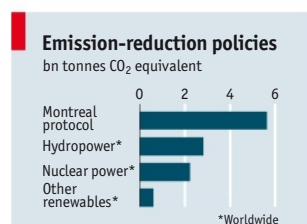
Better simpler and better together

These failures need to be fixed. A narrow tax base is economically and politically risky, particularly if the logic for who pays taxes seems capricious. Governments across the rich world, but particularly in America, should aggressively prune deductions. And they should work together to reach international agreement on how firms should book their profits. This week's blueprint from the OECD is a good start (see page 70). As with trade, a multilateral approach to tax treaties is far better than bilateral deals. That way, more countries have a better chance of raising the taxes that help build civilisation. ■

Greenhouse gases

Paris via Montreal

The quickest way to cut greenhouse gases is to expand the Montreal protocol



down the ozone layer which protects Earth from ultraviolet radiation. The chairman of DuPont, a chemical company, called their idea "a load of rubbish".

Eleven years later, scientists discovered a hole in the ozone layer over Antarctica, and two years after that governments negotiated an agreement, the Montreal protocol, to phase out CFCs. Messrs Rowland and Molina now share a Nobel prize; the ozone layer has been preserved and, as a happy consequence, the climate as a whole has benefited. CFCs are powerful greenhouse gases and the Montreal protocol has reduced them by the equivalent of 135 billion tonnes of carbon dioxide (compared with doing nothing), making it by far the world's most effective action to tackle climate change. We have reviewed the carbon-cutting records of 20 policies which rein in greenhouse-gas emissions (see page 22). The protocol does almost as much as everything else on the list put together.

This little-known success deserves greater prominence in today's efforts to tackle climate change. On September 23rd the world's leaders gather for a climate summit in New York. Their meeting starts a year of talks aimed at producing a treaty on carbon emissions to be signed in Paris at the end of 2015. In designing the new treaty, politicians ought to learn from—and expand—the Montreal protocol.

The protocol won the backing of developing countries

IN 1974 two chemistry professors, Frank Rowland and Mario Molina, predicted that chlorofluorocarbons (CFCs), a set of chemicals used in refrigeration, would gradually decompose, release chlorine into the stratosphere and break

partly because they did not think its targets were being jammed down their throats, and partly because they were given plenty of money to comply with its measures. Even more important, it also won support from large chemical companies (including DuPont) which made money producing substitutes for CFCs. This widespread co-operation is a model to be copied. It will be harder with carbon, because regulating downstream emissions (which a carbon treaty must do) involves more parties than upstream production (which the protocol regulates). But the spirit—of generous financing and co-operation—is the same.

While learning from the Montreal protocol, the world's leaders should also expand it. The existing agreement does not cover a class of chemicals called hydrofluorocarbons (HFCs) which do not harm ozone but do act as greenhouse gases; they are among the fastest-growing such gases. If the protocol were amended to cover them, it could reduce greenhouse gases by the equivalent of another 130 billion tonnes of CO₂ by 2050, or roughly 4 billion tonnes a year. It would reduce greenhouse gases more than any other single climate-change action.

Worthwhile Canadian initiative

Expanding the Montreal protocol would not, by itself, keep the rise in global temperatures within safe bounds. That will require cutting carbon emissions by around 26 billion tonnes of CO₂ equivalent a year by 2030 (or almost halving the current rate of emissions). A broad carbon treaty will still be necessary; so will stopping deforestation, slashing subsidies to fossil fuels and much else (see page 26). But expanding the Montreal protocol would get more than a tenth of the way towards what is needed. More important, it can be agreed, and implemented, quickly. The road to Paris should run through Montreal. ■

Combating Counterfeiting



Fujifilm is using its cutting-edge counterfeiting prevention solutions to open up new horizons in security.

The counterfeiting of popular brand products continues unabated worldwide with damages said to reach about \$250 billion(USD)* annually. As the methods used by counterfeiters grow increasingly sophisticated, it is becoming more difficult to recognize fake goods. Customs and law enforcement officials need new security technology that can reliably identify counterfeit products. Fujifilm has developed FORGE GUARD™, counterfeit prevention labeling, that when scanned with a special viewer, displays an invisible color pattern that can verify authenticity. This unique system for displaying images comes out of a wide range of proprietary technologies developed by Fujifilm over its many years in the field of photography. Our effective and innovative technology can protect the value of honestly-made goods. Fujifilm's proprietary counterfeiting prevention solutions help brand owners keep a sharp watch over their products—from everyday consumer items to commercial and industrial items.

* Based on data from 'OECD (2009), Magnitude of Counterfeiting and Piracy of Tangible Products : An Update <http://www.oecd.org/sti/ind/44088872.pdf>

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The West's disengagement

SIR – I welcome the fact that *The Economist* has shone a spotlight on the long-protracted dispute over Nagorno-Karabakh (“A mountainous conflict”, September 6th). But calling Nagorno-Karabakh a “republic” plays into the hands of the separatists who strive to gain international legitimacy. In reality Nagorno-Karabakh was created in violation of Azerbaijan’s internationally recognised territorial integrity and hundreds of thousands of ethnic Azerbaijanis were forced from the region.

Other conflicts happening right now demonstrate how vital it is to commit to the territorial integrity of states. But there is now a dangerous trend in the West where disengagement has become the norm and it is widely accepted that borders can change through the use of force. If this mindset continues it will cause irreparable damage to the international system.

With regards to Nagorno-Karabakh, only international engagement and a respect for territorial integrity can bring about lasting peace and prosperity to our region. Allowing a “frozen conflict” to remain frozen will not produce a solution.

TAHIR TAGHIZADEH
Ambassador of Azerbaijan
London

Firing away

SIR – As someone who litigates on behalf of employees, I can assure you that the “employment-at-will” doctrine that allows companies to sack workers more or less as they please is very much alive in America (Free exchange, August 30th). It remains the default rule in 49 of the 50 states, Montana being the exception.

Consider this all-too-common scenario: a firm asks a worker to relocate on the offer of a good job, but sacks the worker soon after, claiming a poor fit. Under the ordinary law of contract, an offer accepted and acted upon should be enforceable. An employment contract shouldn’t be any

different, yet the employment-at-will rule means the worker probably has no legal recourse. So as there has been no meaningful erosion of the employment-at-will rule it cannot be to blame for the labour-market sclerosis you wrote about.

By the way, my colleagues in Montana tell me that their state has not suffered for lack of an employment-at-will rule, as unemployment there is below the national average.

KEVIN MERRITT
Boston

Systems failure

SIR – You praised the new automated generation of air-traffic control systems as enhancing safety by leaving less room for human error (“Free flight”, September 6th). Automation is not a panacea; it only relocates the opportunity for human failure from air-traffic control rooms or cockpits to whatever houses the software. The automation system itself, as a technological entity, has a failure risk that could result in accidents.

Jens Rasmussen, who was highly influential in the field of safety and science, argued as far back as 1980 that human operators should be kept in complex technological systems because they “are flexible, can learn and do adapt to the peculiarities of the system, and thus they are expected to plug the holes in the designer’s imagination.”

NAJMEDIN MESHKATI
Professor of engineering
University of Southern California
Los Angeles

Vladimir the Terrible

SIR – Vladimir Putin is acting in the time-honoured Russian tradition of an opportunistic land grab in Ukraine (“The long game”, September 6th). In 1478 Ivan the Great destabilised much of what is now Ukraine, but which at the time was a possession of the Grand Duchy of Lithuania, by the systematic provocation of Lithuania’s border lands. Basil Dmytryshyn, a historian, described it as “a policy designed to demoralise the peo-

ple living along the frontier and to prompt them to seek Muscovy’s protection, thereby moving the frontier west. Ivan publicly disclaimed all responsibility for these tactics, but privately he encouraged them and rewarded the defectors.”

Fourteen years into this strategy Ivan threw away all pretence of non-involvement and invaded Lithuania, occupying key bits of its territory. Mr Putin is indeed playing the long game in Ukraine.

DAVE GLANTZ
Fairfax, Virginia

Clothing optional

SIR – It was interesting to read about the amazing new “local warming” systems being developed to heat people rather than the buildings they work in (“In the moment of the heat”, September 6th). This new system relies on devices to beam infra-red radiation directly at individuals. But there is another approach that relies on trapping heat and is generated by the human body. These devices require no external power source, use regular arrays of nano biopolymer fibres to trap warm air and efficiently maintain body temperature at a comfortable level. We call them “sweaters”.

DENIS MURPHY
Treforest, Mid-Glamorgan

The learning curve

SIR – Your short piece criticising grade inflation at Ivy League universities (“Grade expectations”, September 6th) ignored the critical shift since the 1950s from “norm-referenced” grading, where students are awarded their grades based on their ranking within a particular cohort, to “criterion-referenced” grading, where students’ grades are determined by achieving clear learning benchmarks.

It is possible that all the students in schools using criterion-referenced grading could achieve top marks, if their teachers have made the criteria for the top levels of achievement clear and students have reached them. The International Baccalaureate

programme in which I teach uses such a system.

I do not know to what extent Ivy League universities are using criterion-referenced grading, but if they are, and given your acknowledgment that these universities have many more capable students than they did when they were “gentlemen’s clubs”, the large number of A grades may be deserved.

JENNIFER BRANDSBERG-ENGELMANN
Head of humanities
Strothoff International School
Dreieich, Germany

SIR – It is not just Ivy League schools that suffer from grade inflation. I spent a term as a visiting professor at a management school in Tennessee. During the first hour of the first day of lectures I was giving in marketing strategy a student stood up and yelled at me—yes, actually yelled—and said, “You better get this straight right now. Around here B-plus is a bad grade!” Things went downhill from there.

JAMES TAYLOR
San Clemente, California

Google play

SIR – Claiming that “consumers hand over their data freely” to Google “and get something back” is stretching it a bit (“Googlephobia”, September 6th). Google’s algorithm rummages through its subscribers’ Gmail messages to decide which advertising to direct to them. When I learned this, I began closing each e-mail to friends with a tagline to throw the algorithm off, such as, “jabberwocky gilgamesh nude dwarf tossing leather chaps latex dictionaries”. Unfortunately, my Gmail feed responded to the leather-chaps phrase and began offering me motorcycle accessories. The banality of “don’t be evil”.

ANDREW HORN
San Francisco ■

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James’s Street, London SW1A 1HG
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The Islamic Development Bank (IDB) Group strives to become a significant partner in the socio-economic development of its member countries in conformity with its own principles of alleviating poverty, promoting human development, science and technology, Islamic economics, banking and finance and strengthening cooperation among its member countries in collaboration with other development partners. The Group is looking for suitable candidates for the following senior leadership positions.

Chief Executive Officer (CEO)

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The CEO of ICIEC is a senior management position that reports to the Chairman of the IDB Group and to ICIEC's Board of Directors. He/she is directly responsible for managing ICIEC, whose mission is to promote exports from its member countries and to facilitate the flow of foreign direct investments thereto through the use of Shariah-compatible export credit and investment insurance as credit and country risk mitigation instruments. He/she shall ensure that ICIEC carry out its mandate, vision and mission in accordance with its Articles of Agreement and shall scale-up its operation and direct its efforts to come up with innovative initiatives.

The CEO of ICIEC is a member of the IDB Group's senior management team, which has an oversight authority over the Group's entire activities. The position requires direct interaction with ICIEC's Board of Governors, the Chairman of the Board of Directors, ICIEC's Board of Directors, external clients, stockholders, multilateral development banks, the Organization of Islamic Cooperation (OIC), public and private sector institutions and non-governmental organizations. It also requires vast experience in leadership, business and management.

The candidate must hold a postgraduate qualification preferably in Business Administration and/or Finance or any other related field, have good working experience including a proven track record in a senior management position of a large, preferably multinational corporation, particularly in the Takaful/insurance industry or in the export credit insurance industry.

Chief Economist

ISLAMIC DEVELOPMENT BANK (IDB)

The Chief Economist is a senior management position that reports to the Chairman of the IDB Group. He/she is directly responsible for ensuring intellectual leadership and guidance for the Group's economic development strategy and economic research agenda at the global, regional and country levels. The Chief Economist also helps to bolster the IDB Group's efforts to promote the Islamic approach to economic development and cooperation. He/she is the spokesperson for matters relating to the Group's economic development agenda, particularly those affecting member countries. He/she also spearheads the Group's efforts in knowledge-based activities for development.

The Chief Economist advises the Group Management on global economic issues, development challenges of member countries and related policies. The position requires direct interaction with the IDB Group's senior management, Board of Executive Directors, external clients, multilateral development banks, the OIC, public and private sector organizations and non-governmental organizations. The position requires vast experience in leadership and management coupled with skills in economic research, policy-making and social development issues.

The candidate must hold a PhD in economics, have good working experience in economic development, including a proven track record in a senior management position of a large, preferably multinational corporation or development organization.

The IDB Group offers an internationally competitive remuneration package. Candidates must send their application and curriculum vitae to the Director, HRMD at: executives@isdb.org. The deadline for receiving applications is one month from the date this advertisement is published. Only shortlisted candidates will be contacted.

Appointment of Provost



A premier university in Asia, the Singapore Management University (SMU) is internationally recognised for its world-class research and distinguished teaching. SMU's mission is to generate leading-edge research with global impact and produce broad-based, creative and entrepreneurial leaders for the knowledge-based economy.

The Provost is the educational officer responsible for the conduct, co-ordination and quality and future development of the University's Academic Programmes. S/he assists the President in taking SMU forward with a clear vision, and plays a key role in the implementation of SMU Vision 2025. S/he must have the ability to exercise key oversight over all academic initiatives, centres, laboratories and institutes and work closely with the administrative leadership of SMU in setting the overall academic priorities and allocating the funds necessary to move these priorities forward.

The successful candidate will bring a personal record of achievement in research, along with a wide range of managerial skills and experiences, developed within large and complex organisations. Reporting to the President s/he must be able to discern, clarify and crystallise the academic mission and strategy for SMU and inspire staff to work together to deliver exceptional outcomes in education and research.

Applications should consist of a full CV accompanied by a covering letter describing how they meet the person specification and their interest in the position.

For further information and details on how to apply, please visit Perrett Laver's website www.perrettlaver.com/candidates quoting reference 1721. The deadline for applications is Monday 6th October 2014.





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Closing date for applications: Thursday 23rd October.



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For more information about this position, go to: www.un.org/sg/vacancies

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The Global Fund
To Fight AIDS, Tuberculosis and Malaria

Inspector General, Geneva

The Global Fund Board intends to appoint an Inspector General. Reporting to the Board, through the Audit and Ethics Committee, the Inspector General is vital to the achievement of the Global Fund's mission. As head of one of the Fund's two administrative units (the other being the Secretariat led by the Executive Director), the Inspector General is responsible for the provision of independent and objective audit and investigation. This encompasses the provision of independent and objective assurance over the design, performance quality, and effectiveness of controls and processes in place to manage key risks. S/he does this in a dynamic and evolving environment: the identification and mitigation of future risks is an important element of the role.

As the leading financier of programs to prevent, treat and care for people affected by or at high risk of HIV/AIDS, tuberculosis and malaria, the Global Fund raises and invests nearly US\$4 billion each year in programs run by implementers in more than 140 countries. To date, it has invested more than US\$30 billion in such programs. It operates with core principles of partnership, country ownership and performance-based funding. Global Fund staff, all based in Geneva, Switzerland, come from various professional backgrounds and from more than 100 different countries, are united in their dedication to the defeat of these epidemics.

The successful candidate for the role of Inspector General will bring substantial experience of leading both audit and investigation activity, in complex global organisations. S/he will have the authority to engage at board level. S/he will bring well-developed managerial skills and a track record of building and developing teams. The new Inspector General will possess a combination of clarity of purpose, independence, and diplomacy, that allows him or her to maintain a critical and constructive relationship with the Secretariat. A skilled communicator, the Inspector General will be comfortable and effective in a multi-cultural context.

The Global Fund has retained Russell Reynolds Associates to assist with this appointment. For further information on the position and additional details on qualifications, requirements, terms and conditions of service and how to apply, please visit: www.rraresponses.com

The closing date for applications is 9 October 2014.

All appropriately qualified people regardless of sex, sexual orientation and/or gender identities, and individuals who are living with HIV are encouraged to apply.

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Infectious Diseases Institute

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EXECUTIVE DIRECTOR

Background:

As part of a planned succession process, the Infectious Diseases Institute (IDI) is seeking to recruit an EXECUTIVE DIRECTOR to take up the leadership of the Institute by March 2015. IDI is an independently governed institute within the College of Health Sciences at Makerere University and has the mission "To strengthen health systems in Africa, with a strong emphasis on infectious diseases, through research and capacity development." IDI has operations across Uganda as well as in a number of other African countries and has a staffing of over 700 managing multiple projects in research, clinical services, public health, training and health systems strengthening.

The Individual:

We are seeking a passionate and self-driven individual with a track record of leading and managing institutions of high repute, excellence and results. The individual would need to be visionary, who is also able to effectively manage a complex organisation, and initiate change in response to a dynamic environment.

Key Responsibilities:

- Lead and inspire an international and multicultural group of employees, collaborators and partners
- Translate the IDI vision and mission into programs and outputs that enhance health in Uganda and Africa
- Ensure that IDI outputs are relevant to, and contributing to, global knowledge, policy and practice
- Ensure that IDI is a key contributor to Makerere University and the College of Health Sciences mission
- Ensure excellent management systems that provide full accountability for IDI programs and resources
- Provide evidence-based advocacy to attract and retain resources for IDI programs and institutional sustainability

Required Qualifications and Experience:

Applicants for this position should have the following attributes:

- Senior Health professional preferably with infectious diseases clinical and research experience
- At least 10 years experience in a senior management position preferably with previous experience as a Chief Executive in sub-Saharan Africa and a proven track record of achievement
- Knowledge and competency in financial strategic oversight of a multi-million dollar budget
- Governance experience of working with a board
- Experience of working in a multi donor environment

Compensation Package:

The compensation package will be commensurate with the caliber and experience of the individual we are seeking. Contract is initially 3 years and renewed thereafter

To Apply:

Qualified and interested persons who wish to apply should email as well as post or deliver an application letter (clearly labeled – Application for Executive Director) with a detailed CV, naming at least two professional referees, to:

**The Manager, Human Resources
Infectious Diseases Institute**

P. O. Box 22418, Kampala.

E-mail: ed@idi.co.ug

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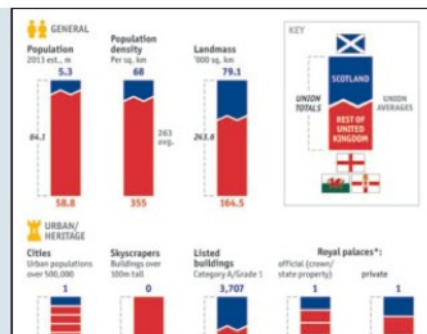
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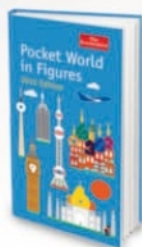
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The deepest cuts

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Our guide to the actions that have done the most to slow global warming

ON SEPTEMBER 23rd 120-odd presidents and prime ministers will gather in New York for a UN meeting on climate change. It is the first time the subject has brought so many leaders together since the ill-fated Copenhagen summit of 2009. Now, as then, they will assert that reining in global warming is a political priority. Some may commit their governments to policies aimed at reducing greenhouse-gas emissions. What few will say is how many tonnes of carbon dioxide these will save—because they almost never do.

According to scientists, cutting carbon-dioxide emissions is an essential part of reducing catastrophic risks from climate change. Yet governments are persistently averse to providing estimates of how much carbon a policy saves. That may be because, in countries where climate change is controversial, it makes more sense to talk about the other benefits a scheme offers rather than its effect on carbon. Or it may be that, in countries which are enthusiastic about renewable energy, pointing out that it may not save that much carbon is seen as unhelpful. Or perhaps governments think climate change is so serious that all measures must be taken, regardless of cost (though their overall lacklustre record suggests this is not the case).

Whatever the reason, the end result is that while the world's governments have hundreds of policies for tackling climate

change, some of them very expensive—China, America and the European Union spend \$140 billion a year on subsidising renewable energy—it is hard to say which policies are having the greatest effect.

So *The Economist* has made a stab at a global comparison of carbon-mitigation efforts. Chart 1 on the next page is the result. It ranks 20 policies and courses of action according to how much they have done to reduce the atmosphere's stock of greenhouse gases. We have used figures from governments, the EU and UN agencies. As far as we know, this exercise has not been carried out before.

Apples, meet oranges

First, a health warning: the policies and actions on our list are not strictly comparable. Some are global, some regional and some national. Some are long-standing; some new. A couple are not policies at all, such as the collapse of the Soviet Union, which led to the closure of polluting factories and to inefficient state farms reverting to grassland, locking up carbon.

And the numbers almost all come with caveats. It is fairly easy to estimate how much carbon a new field full of solar cells or a nuclear-power plant saves by looking at the amount of electricity it produces in a year and how much carbon would have been emitted if fossil fuels had been used instead, based on the local mix of coal, gas

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and oil. But as Paul Joskow of the Massachusetts Institute of Technology has pointed out, the standard “levelised” calculations, which divide the total amount of power a plant will produce over its lifetime by its total lifetime cost, are a poor way to compare fossil fuels and renewable energy.

Other measures have problems, too. Take the effects of fuel-efficiency standards. Would companies have curtailed their cars' emissions anyway to sell more of them to cost- and mileage-conscious drivers? And how much has better fuel efficiency encouraged drivers to drive farther?

A further complication is that many policies have benefits beyond—or indeed closer to hand than—those they offer in terms of climate. Burning less coal saves lives in the near future as well as reducing climate risks in decades to come. Saving forests preserves wildlife, not just carbon.

So our table should be treated with caution. It is only safe to say that one policy is better than another in climate terms if it beats it by a wide margin.

As it happens, though, there are some very wide margins to be found. One policy stands head and shoulders above all others. And it is one that few people other than climate-policy specialists will have thought of in this context: the Montreal protocol, a 1987 agreement to phase out substances such as chlorofluorocarbons (CFCs) used in air conditioners, refrigera- ▶▶

To slash or to trim

Emission reductions by policies/actions, bn tonnes CO₂ equivalent

CATEGORIES:

Energy production

Transport

Other regulations

Global treaties

Land & forests

Other

Policy/Action	Cumulative emissions	Period	Annual emissions
Montreal protocol	135.0bn	1989-2013	5.6bn
Hydropower worldwide	2.8bn	2010	2.8bn
Nuclear power worldwide	2.2bn	2010	2.2bn
China one-child policy	1.3bn	2005	1.3bn
Other renewables worldwide	600m	2010	600m
US vehicle emissions & fuel economy standards*	6.0bn	2012-25	460m
Brazil forest preservation	3.2bn	2005-13	400m
India land-use change	177m	2007	177m
Clean Development Mechanism	1.5bn	2004-14	150m
US building & appliances codes	3.0bn	2008-30	136m
China SOE efficiency targets	1.9bn	2005-20	126m
Collapse of USSR	709m	1992-98	118m
Global Environment Facility	2.3bn	1991-2014	100m
EU energy efficiency	230m	2008-12	58m
US vehicle emissions & fuel economy standards†	270m	2014-18	54m
EU renewables	117m	2008-12	29m
US building codes (2013)	230m	2014-30	10m
US appliances (2013)	158m	2014-30	10m
Clean technology fund	1.7bn	project lifetime	na
EU vehicle emission standards	140m	2020	na

Sources and explanations: Economist.com/emisbrief

*Cars and light trucks †Heavy trucks

tors and so on. It was enacted to limit the damage such substances were doing to the ozone layer, a goal which it has achieved.

Like carbon dioxide and many other gases emitted by industry and agriculture—methane and nitrous oxide, for example—CFCs are greenhouse gases. And they are extremely potent ones, causing thousands of times more warming per molecule than carbon dioxide does. That means stopping CFC production, which was in the range of millions of tonnes a year, delivered a climate benefit equivalent to cutting carbon-dioxide emissions by billions of tonnes.

Collateral benefits

Guus Velders of the Dutch National Institute for Public Health and the Environment has compared the warming effect that would have come about if the emissions of such chemicals had continued to grow at the rate they were growing before the protocol with what has come about thanks to their banning. The net effect is equivalent to that of a whopping 135 billion tonnes of carbon dioxide. That is more than twice today's total annual greenhouse-gas emissions, which are equivalent to about 50 billion tonnes of carbon dioxide (carbon dioxide itself makes up about three-quarters of that, with methane, nitrous oxide and some gases used in industry making up the rest). Durwood Zaelke of the Institute for Governance and Sustainable Development, a think-tank, says that if CFCs were uncontrolled the annual figure would be 8 billion tonnes higher. The Montreal protocol has had nearly as big an

effect as all the rest of our list put together.

Trailing some way behind the Montreal protocol is a small group of measures—not really climate policies—that have been responsible for avoiding between 4% and 7% of greenhouse-gas emissions. According to the International Atomic Energy Agency, nuclear power avoided the production of 2.2 billion tonnes of carbon dioxide in 2010—that is, emissions would have been 2.2 billion tonnes higher if the same amount of electricity had been produced by non-nuclear plants. Energy from dams and other hydroelectric sources avoided 2.8 billion tonnes (though emissions of methane from the reservoirs behind some of those dams mean the net effects were less than that). Between them they generated 6,000 terawatt-hours of electricity in 2011, compared with 450TWhrs for wind and less than 60TWhrs for solar. The high rate at which new wind and solar capacity is being built will eat into this lead, but it will take some time to overturn it.

The other item in this group is something of a cheat. In 2007 Su Wei of China's foreign ministry said that his country's one-child policy, by reducing the number of births between the late 1970s and the mid-2000s by 300m, had reduced carbon emissions by 1.3 billion tonnes in 2005 (because there were fewer people to consume goods which generated greenhouse gases in their production). Taking this argument further, one could say that the fall in global fertility since 1960 cut emissions even more. That is not exactly a climate policy. But it is a reminder that greenhouse gases

are powerfully influenced by factors far beyond the scope of climate-change policies.

Three other lessons emerge. First, policies to slow or reverse deforestation are more important than one might expect. Trees absorb carbon as they grow and release it when they are cut down. According to a recent study in *Science*, declining deforestation in Brazil meant that the country produced 3.2 billion tonnes less atmospheric carbon dioxide between 2005 and 2013 than it would have if the tree-felling had continued unabated. That is 400m tonnes a year. The slowdown in deforestation in tropical countries is one of the reasons that the conversion of forests to farmland now accounts for only 11% of greenhouse-gas emissions globally, much less than 20 years ago.

The other reason for deforestation's dramatically reduced share of total emissions, though, is that industrial emissions of carbon dioxide have continued to grow rapidly. The rise is not as fast as it might have been. Rules that make vehicles more efficient and improve the energy efficiency of buildings and appliances have done more than might be expected. America has been setting standards for vehicle greenhouse-gas emissions and fuel efficiency since the mid 1970s; the current rules are forecast to reduce carbon-dioxide emissions by 6 billion tonnes in 2012-25, meaning by about 460m tonnes a year. America's Department of Transportation reckons that overall such rules have reduced carbon-dioxide emissions by a cumulative 14 billion tonnes. Europe's equivalent regulations for passenger cars and light trucks do less (European vehicles were more efficient to start with) but are still respectable; being adopted by overseas manufacturers who want to sell cars in Europe gives them an unquantified extra clout.

Their time will come

New EU rules on the design of boilers and water heaters are expected to save 136m tonnes of carbon dioxide a year within six years. China's Development Research Centre and the World Bank say that on the basis of 2010 figures energy-efficiency targets for Chinese state-owned enterprises save about the same amount; that scheme has recently been much expanded.

Subsidies for solar and wind power do less than you might expect, considering the attention they receive. The European Environment Agency calculates that between mid-2008 and 2012, what it calls changes in

▶ the carbon intensity of energy (mainly, the rise in renewables) accounted for a third of the decline in carbon-dioxide emissions in the EU. Emissions fell 350m tonnes in that period, so renewable policies seem to be responsible for about 30m fewer tonnes of carbon dioxide a year, making them less effective than energy-efficiency measures.

This estimate may be low. A separate calculation by Germany's environment ministry puts the figure for Germany alone at 100m tonnes in 2012. But even if the EU estimate is only half what it should be, renewables would still fall short of other carbon-mitigation policies. They are also extremely pricey. The cost of Germany's *Energiewende* (its transformation to a renewables-based electricity system) is €16 billion (\$21 billion) a year. The cost of helping developing countries phase out CFCs under the Montreal protocol was just \$2.4 billion all-told from 1990-2010. The Amazon Fund, which has done much to fight deforestation in Brazil, has mostly been funded by the Norwegian government at a cost of just \$760m over 11 years.

Over the next few years, the relative weights of all these policies will change. Nuclear energy is being phased out in Germany and may not recover to its pre-Fukushima heights in Japan. Although it is growing in China, its share of worldwide electricity generation—currently about a seventh—is likely to decline. The same may be true of hydropower. The share of solar and wind power, on the other hand, will rise as costs fall and capacity increases (installed capacity for these renewables doubled in 2012-14).

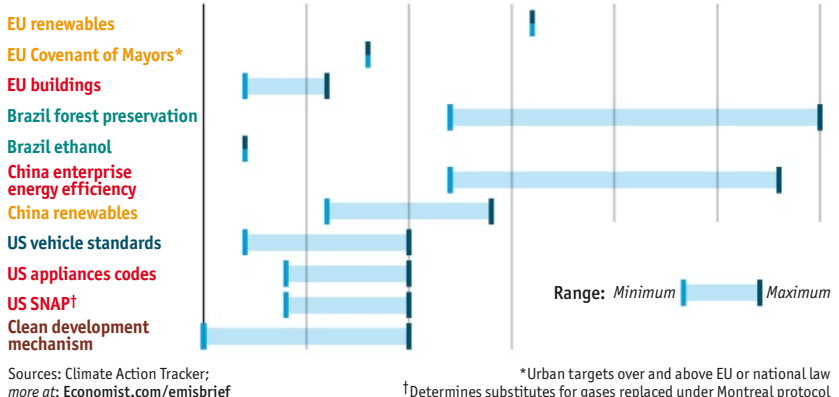
The *Economist* asked Climate Action Tracker, a group of scientists who study emissions policies and actions, to calculate the policies likely to have the biggest impact in 2020. Their findings, in chart 2, suggest that the influence of the EU's renewables regime will grow considerably, though Europe will still be far from the zero-carbon energy system greens long for. Chinese efforts to boost renewables and energy efficiency are also likely to start bearing a lot more fruit. So, they think, could the UN's Clean Development Mechanism (CDM), which finances greenhouse-gas reduction measures in developing countries to offset emissions in rich ones.

Much more to do

These estimates work on the basis of current policies. But one possible new measure would make a big difference. Hydrofluorocarbons (HFCs) are ozone-friendly replacements for CFCs, and are one of the fastest-growing greenhouse gases, having risen 40% since 1990. Emissions of HFCs are unrestricted, though CDM investments are used to reduce them in some cases. If the Montreal protocol were quickly amended to include them, says Mr Zaelke, it might do almost as much for greenhouse-

What next

Policies with highest impact on climate change mitigation in 2020
bn tonnes CO₂ equivalent



gas emissions in the next 35 years as it did in 1990-2010.

Saving the equivalent of some 130 billion tonnes of carbon dioxide so cheaply would be a big win. But it is still only a tenth of what would need to be done to ensure that the temperature in 2100 is no more than 2°C higher than it was at the time of the Industrial Revolution—the limit that the countries of the world have com-

mitted themselves to. Without the measures listed in chart 1 emissions might be equivalent to almost 70 billion tonnes of carbon dioxide a year, rather than 50 billion. But even the lower number is too high to meet the stated goal, and the overall trend is up, not down. World leaders gathering in New York are not only being vague about their climate policies. They are being dilatory, too. ■

Encouraging climate action

Try jam today

Policies to slow down warming may be more attractive if framed as ways of speeding up growth

FOR years, people who worry about climate change have tried to persuade, cajole or scare governments into doing more to stop it. Nothing has made much difference. Carbon-dioxide emissions have risen relentlessly; in 2013 the level of carbon dioxide in the atmosphere increased at its fastest rate for 30 years.

Now, a team of the great and the good has a canny pitch. In the lead-up to the New York climate-change summit they have issued a report arguing not that global warming will destroy the Earth, but that much of what is needed to reduce its risks would be a good idea anyway.

The group is chaired by Felipe Calderón, a former president of Mexico, and Nicholas Stern, author of an early review of the economics of climate change which played up the costs of inaction more than benefits of action. Its members are a Who's Who of global influence: four former presidents or prime ministers; two Nobel economics laureates (Michael Spence of New York University and Daniel Kahneman of Princeton); and a bevy of people from all Ücretsiz PDF Kitap Arsivi - <https://rantey.org>

the main multilateral financial institutions (such as the World Bank, IMF and Asian Development Bank). They are people who know what presidents and finance ministers think is important, which is getting and keeping economies going.

"Better Growth, Better Climate" starts not with threats to the environment but with weak global demand and dangers to jobs and income. Productivity and job growth in rich countries is feeble; middle-income countries are only rarely graduating into the rich club; poor countries fear they will not catch up. The solution, say the authors, is structural reform in urban infrastructure, in farmland and forests and in energy markets. Not by coincidence, these areas between them account for the lion's share of greenhouse-gas emissions.

Cities and their inhabitants' consumption account for about 70% of global emissions. They are also where almost all the world's net population growth will occur in the next 20 years. For leaders of middle-income and poor countries getting urbanisation right is already critical. The report ▶▶

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► says “getting it right” means encouraging cities that are dense, not spread out, with good public transport, not clogged highways. Sprawl wastes money. It ends up subsidised through the provision of more extensive systems of roads, sewers and the like; it reduces the gains in productivity that agglomeration provides. The report reckons that sprawl costs America \$400 billion a year and quotes research from China that says labour productivity would rise 9% if its cities were denser.

The authors reckon better infrastructure policies would lower the capital requirements of urbanisation by \$3 trillion over the next 15 years and be popular, too (riots in Brazil this summer were partly over the poor quality of urban services). Happily, they would also cut greenhouse-gas emissions by the equivalent of 1.5 billion tonnes of carbon dioxide a year, mainly because commuters would switch from cars to public transport (or bicycles).

The report also pays a lot of attention to agriculture and forests, which are economically important in low- and middle-income countries and account for a quarter of the world's emissions. At the moment, governments spend about \$16 billion a year on agricultural research and development in developing countries; this, the report says, should be doubled. It also calls for drastic changes to farm subsidies. Subsidies for fertilisers lead to their overuse in many places, which brings with it environmental problems including the emission of nitrous oxide, a powerful greenhouse gas. Where this happens, fertiliser subsidies should be cut back. If all this were done, the authors calculate, greenhouse-gas emissions could be the equivalent of 4.2 billion to 10.4 billion tonnes of carbon dioxide less per year than they would otherwise be by 2030.

Lastly, the report proposes a combination of subsidy cuts and new investment in energy. Subsidies on fossil fuels (mainly in

Towards a treaty

The shadow of Copenhagen

A 2015 UN climate agreement is possible, but it will not be bold

NEXT year the signatories to the UN Framework Convention on Climate Change will meet in Paris to try to negotiate a new agreement—just as they did in Copenhagen in 2009. Those Nordic negotiations ended in acrimony: one non-governmental organisation (NGO) described the city as “a climate crime scene...with the guilty men and women fleeing to the airport in shame.” Five years later, has anything changed?

Plenty, say many NGOs. The costs of climate change are becoming clearer, according to recent reports from the Intergovernmental Panel on Climate Change, a group of scientists who advise governments. There is more agreement among governments, economists and business people that climate change will be a big economic problem unless checked. The preliminary UN powwow in New York next week is intended to build on this feeling of common concern.

And the politics seem more promising. While Barack Obama could not get

any new agreement ratified by America's Senate, his use of the Environmental Protection Agency to limit carbon-dioxide emissions from power plants gives the world a token of good faith that was lacking before. Climate policy has a higher priority under Xi Jinping, China's president, than it did under Hu Jintao, his predecessor. Narendra Modi, India's new prime minister, was a pioneer of green policies when chief minister of Gujarat. Europe's aspiration to global green leadership may be waning, but it is still keen on a deal.

The New York summit will be a forum for political declarations (though not by Mr Xi or Mr Modi, who are not planning to attend). The countries will say what they are prepared to commit to in Paris at the end of March 2015. It seems likely that any treaty will be mild, nudging not pushing countries into reining in emissions. But in part because of that mildness, the chances of a signing look greater now than at any time since 2009.

oil-exporting countries) run at \$540 billion a year, a massive encouragement to burn carbon that should be done away with. So, to the extent practicable, should the use of coal. Over the past decade increased electricity demand has been mostly met by coal-fired power plants, especially in China and India. If they continue in this way both countries will soon be importing huge amounts of coal, which would lead to higher, more volatile prices. And coal also kills a lot of people. Outdoor air pollution, largely from coal though also from

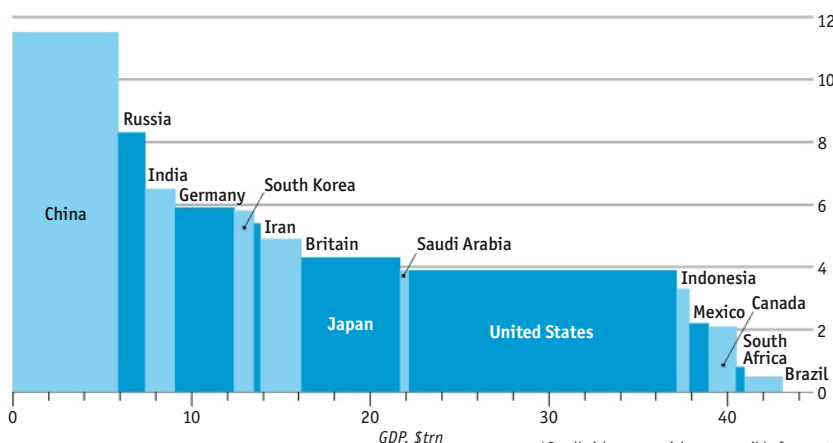
cars and other industry, kills 4m people a year, more than any infectious disease, and in so doing has huge economic effects (see chart).

The authors argue therefore that some of the \$45 trillion of infrastructure spending needed to keep up with energy demand in emerging markets over the next 15 years should go on encouraging low-carbon renewable forms of energy. Add that strategy to greater energy efficiency and reducing methane emissions from the oil and gas industry and you save greenhouse-gas emissions equivalent to another 5 billion-7 billion tonnes of carbon dioxide.

The authors thus think their prescriptions could reduce annual greenhouse-gas emissions by as much as the equivalent 24 billion tonnes of carbon dioxide by 2030. At the moment emissions are equivalent to 50 billion tonnes of carbon dioxide a year; at current rates that will rise to 68 billion tonnes by 2030. Models based on a need to keep warming at or below 2°C, compared to the pre-industrial climate, suggest they need to drop to 42 billion tonnes by then. So at best the report's measures could deliver 90% of that; a lower limit might be 50%. And there would be a lot more cuts to make post-2030. But if such reforms deliver growth, too, they will not just endear themselves to politicians. They will make at least some of the world better able to pay the costs of adapting to the climate change it has failed to avert. ■

Big burden

Cost of mortality from PM 2.5* exposure, as % of GDP, 2010, 15 largest CO₂ emitters



Source: New Climate Economy

*Small airborne particles responsible for most of the health effects of outdoor air pollution



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Ukraine and Russia

Win some, lose more

KIEV AND MOSCOW

For all the celebrations in Kiev over ratifying the trade deal with Europe, it is the Russians who got most of what they wanted

HISTORIANS will struggle to put dates on Russia's murky war against Ukraine. It had no official start and no formal end. Russia never admitted that it was in the conflict, which it fanned and fought both directly and through proxies, so has not celebrated victory as it did after the annexation of Crimea. Ukraine never formally declared itself under attack, so it cannot formally admit its defeat.

But that does not make defeat any less real. After six months of fighting, Ukraine has lost at least 3,000 men and control over a swathe of territory in the east, as well as being forced by Russia to delay the full implementation of its association agreement with the European Union.

Ukraine's setback was masked by the fanfare of the simultaneous ratification of the agreement by the Ukrainian Rada and the European Parliament on September 16th (see Charlemagne). Petro Poroshenko, Ukraine's president, called it an historic moment and led a chorus of MPs in the national anthem: "Ukraine is not dead yet". After all, it was the decision by the former president, Viktor Yanukovich, to reject an earlier version of the deal a year ago that sparked the Maidan revolution.

Yet the agreement will not fully come into force at least until the end of 2015. The pause is meant to give Ukraine, Russia and the EU time to find a compromise. (During it, Ukraine will be able to export to Europe duty-free while European goods will still

be taxed on their way into Ukraine.) This is precisely what Russia asked for before the start of the Ukrainian crisis, only to be told to keep out. Many Ukraine-watchers are worried that the association agreement could yet be further hollowed out.

That is why European officials were in despair when news of the delay emerged from the three-way talks between Ukraine, Russia and European Union. "It is Munich 1938," one said. Yet Ukraine did not have much choice. Russia threatened the renewal of military action and a complete economic blockade if Ukraine did not postpone implementation. To make itself clear, Moscow is to increase its military presence in Crimea and introduce tariffs for Ukrainian exports to Russia that will be deferred so long as Ukraine does not implement the agreement with Europe. It is not just Ukraine's free trade with Europe that is at stake, but its ability to reform and to make its own decisions about the future.

Ukrainian politicians have pledged to reform their economy despite the deferral of the EU agreement, but if the past 23 years are anything to go by the chances of their doing it are slim. Arseniy Yatseniuk, the prime minister, blames the war for lack of reform in the past few months, but it is unclear why the government could not have begun to remove wasteful energy subsidies, deregulate the economy or curb corruption. Even during the war, some in Ukraine's defence ministry used

intermediaries to charge money for hardware and guns being supplied to volunteers on their own side, according to *Zerkalo Nedeli*, a weekly. Private firms whose employees enlisted for military duty bought flak jackets from Ukrainian suppliers that turned out to be fakes.

On the same day the Rada ratified the association agreement, it passed a law granting special status to the part of the Donbas controlled by Russian-backed separatists, including the cities of Donetsk and Luhansk. The law gives these territories broad autonomy for three years, guarantees Russian-language rights and self-governance, and allows them to establish deeper ties with Russia—although it does not give the region a say in foreign or defence policy. Another law offers an amnesty to rebel fighters. Mr Poroshenko's aides say this was the only way to save lives, but it poses uncomfortable questions. "What did our boys die for? Why did we not hold peace talks back in May?" asked Sergei Taruta, the Kiev-appointed governor of the Donetsk region.

Unlike the association agreement, the vote on special status was held in secret, with journalists barred and voting rolls concealed to avoid accusations of treachery. Even Mr Poroshenko's supporters recoiled. As Mustafa Nayem, a journalist-turned-candidate from Mr Poroshenko's bloc, says: "To pass such important laws without an open discussion, without any explanation to society, is barbaric." Special status may establish a frozen conflict with no clear borders, a perfect environment for contraband and banditry.

Ukraine clearly cannot win a fight against Russia. But Mr Putin also faces limits. The Russian public does not support full-scale war with Ukraine. The killing of its own soldiers, who were not even meant to be involved, has been uncomfortable ►►

► for the Kremlin. And for all Moscow's bravado, Western sanctions have pushed Russia's economy closer to recession. Alexei Kudrin, Russia's former finance minister, talks of a 5% contraction in GDP if more sanctions are imposed. Russia has already tapped its rainy-day fund. The strain is being seen in infighting among Mr Putin's entourage (see box).

Both Mr Putin and Mr Poroshenko have reasons to want a truce: Mr Putin to avoid more sanctions and questions from relatives of dead soldiers, and Mr Poroshenko ahead of a parliamentary election on October 26th. But this does not mean the end of Ukraine's troubles and Russia's adventurism. The Kremlin's goal is not just to control two cities in eastern Ukraine, but to stop all of Ukraine from moving westward. Further violence in the east is possible as rebels try to capture more territory.

The biggest danger, however, is that the fragile truce will be followed by the usual political wrangling in Kiev and renewed Ukraine fatigue in the West. The only way Ukraine can realise its European aspirations is over many years, by building an economically and politically coherent state. That will take patience, money and time from the West and perseverance from Ukraine. But not to try would mean the ultimate defeat and betrayal of those who died for Ukraine's sovereignty. ■

Sweden's election

Lofven's coalition problem

STOCKHOLM

The Social Democrats win, but will find it hard to form a stable government

DESPITE winning only 31.2% of the vote, Sweden's Social Democrats were jubilant on September 14th. Stefan Lofven, their leader, declared that the voters' rejection of the centre-right alliance under Fredrik Reinfeldt marked a return to Social Democratic solidarity and the egalitarian Swedish welfare state.

Yet Mr Lofven was far less jubilant a day later, as he faced the daunting task of forming a coalition government. He brusquely rejected the ex-communist Left (with 5.7%) and began negotiating with the Greens (6.8%). But the two parties are a long way short of a majority, and they have big policy differences. The Greens want two of Sweden's ten nuclear reactors closed immediately, but Mr Lofven supports nuclear power; they also want to raise taxes more than the Social Democrats do.

Mr Lofven is desperately trying to lure smaller centre-right parties away from the Moderate-led alliance, but so far he is having no luck. Worse, the Social Democrats

Russian oligarchs

Yukos 2.0?

MOSCOW

The arrest of Vladimir Yevtushenkov recalls that of Mikhail Khodorkovsky

THE rules should be familiar to Vladimir Yevtushenkov, an oligarch with a \$7 billion fortune who runs Sistema, which is listed on the London Stock Exchange and is in telecoms, tourism and oil. The state, he said in June, "will always find a way to put you in your place." Now Mr Yevtushenkov is under house arrest, accused of money-laundering and handling stolen assets. Sistema lost over a third of its value in one day and the Russian stockmarket fell by 2%.

Parallels have been drawn with the arrest of Mikhail Khodorkovsky in 2003 and the transfer of assets in his oil company, Yukos, to Rosneft, a rival now run by Igor Sechin, a confidant of President Vladimir Putin. Dmitry Peskov, Mr Putin's press secretary, claimed that "It is wrong and absurd to paint this story in a political light." Russia has changed since 2003. Before, security servicemen needed a political motive to take from disobedient oligarchs. Now obedience is no defence.

Whatever Mr Yevtushenkov's sins,

they are not the source of his trouble. His loyalty to the Kremlin is unquestioned. The real cause seems to be his reluctance to part with an oil company wanted by Mr Sechin. Sistema bought Bashneft in 2009 for \$2.5 billion from the son of a regional boss in Bashkortostan who, according to law enforcers, had expropriated it from the state. Rosneft proposed buying it from Mr Yevtushenkov, but he found the offer too low. House arrest may help him to change his mind.

Renewed infighting within the Russian elite reflects Western sanctions and a weakening economy. Rosneft is struggling to refinance \$26 billion of debt due by the end of 2015. Oil production is falling, and the company needed some success to show Mr Putin. A takeover of Bashneft could cover its failings. This is Mr Khodorkovsky's view. He told *Vedomosti*, a business daily, that Mr Sechin "has not become any wiser, but perhaps just greedier." The fight for the spoils in Russia can only grow more desperate.

have no tradition of managing baggy coalitions, preferring instead to run minority governments that look to smaller parties to win votes in parliament. Swedish governments do not need a vote of confidence: they can survive so long as there is no majority vote against them.

Making everything harder are the far-right Sweden Democrats, who took 12.9% of the vote to become the third-largest party. The Sweden Democrats' leader, Jimmie Akesson, made clear that his party must be reckoned with. It won votes by playing on fears of immigration and attacking the government for spending taxpayers' money on immigrants and asylum-seekers instead of on native Swedes. The well-dressed and articulate Mr Akesson is strong in southern Sweden, which has a large immigrant population and where there have been nasty racial and religious clashes. But his party gained ground everywhere, a sign that anti-immigrant sentiment is spreading and populist appeal is working. Several thousand people demonstrated in Stockholm against the Sweden Democrats on September 15th; all parties have agreed not to work with them. But neither protest nor isolation can change parliamentary arithmetic.

The crunch will come over next year's budget, which must be brought to parliament no later than November 15th. If the Social Democrats and Greens cannot present a budget that wins majority backing,

the Moderate-led opposition alliance has an alternative ready. In the past, whichever government was in power negotiated with other parties before bringing a budget to parliament to ensure a smooth and quick passage. But this time the Sweden Democrats could back the centre-right and pass their budget. Were that to happen, it is hard to see how Mr Lofven could avoid calling a fresh election. ■



Lofven prays for more allies

German politics

There is an Alternative

POTSDAM

The continued rise of Alternative for Germany in state elections

CALM down. So suggested Angela Merkel, the chancellor and also leader of the centre-right Christian Democratic Union (CDU), following the state elections in Thuringia and Brandenburg on September 14th. After all, the CDU gained votes in both states, taking 33.5% in Thuringia, where it came first (as it has done ever since unification in 1990), and 23% in Brandenburg, where it has replaced the ex-communist Left to come second to the centre-left Social Democrats (SPD). How can this be considered a crisis?

Let us count the ways. In Thuringia the CDU's victory was marred because a majority (of one seat) could now be achieved by a coalition of the three left-leaning parties—the Left, the SPD and the Greens—as well as by the outgoing coalition of the CDU and the SPD. So the CDU could yet lose control of the state. In Brandenburg the SPD will decide whether to continue ruling with the Left or switch to a coalition with the CDU. For the CDU, neither prospect is alluring.

However the bigger crisis in both states was the success, following Saxony on August 31st, of the Alternative for Germany. Formed only last year and led largely by CDU defectors, the Alternative wants to unravel the euro. With its support for traditional families and its bracing talk on crime and immigration, it is selling itself as a conservative party of the kind the CDU was before Mrs Merkel took charge.

This message worked in Saxony and has now done so in Thuringia and Brandenburg, with the Alternative winning 9.8%, 10.6% and 12.2% of the vote, respectively. Some of its support comes from protest voters. But the spectrum is broad, from young to old, from the unemployed to the self-employed. The Alternative drew voters from all parties, even from the Left. Germany's old liberal party, the Free Democrats, is now, in effect, dead. Its demise robs the CDU of what was its natural coalition partner for most of post-war history.

The Alternative espouses liberal economics, but its anti-euro stance rules it out as a partner for the CDU. Mrs Merkel's strategy so far has been to ignore it. The CDU's best answer, she said on September 15th, is simply to govern well. But some on the right of her party increasingly disagree. One group, the Berlin Circle, this week circulated a paper blaming the Alternative's success on Mrs Merkel's turn away from conservatism. In everything from family



Anti-Semitism in Germany

Who is the Other now?

BERLIN

The tricky balance of responsibility towards Jews and other minorities

FROM President Joachim Gauck and Chancellor Angela Merkel to Catholic, Protestant, Jewish and Muslim leaders, Germany's political and religious elite gathered at Berlin's Brandenburg Gate on September 14th to protest against anti-Semitism. And no wonder, when recent demonstrations against Israeli military action in Gaza have chanted: "*Hamas, Hamas, Juden ab ins Gas*" (Hamas, Hamas, Jews to the gas). It is "a shocking scandal" that Jews in Germany are molested, Mrs Merkel told the Berlin crowd. "Jewish life is part of us, of our identity and culture."

It has been a hard summer for Jews in Germany. Provoked by fighting in Gaza, many Germans have demonstrated against Israel and for the Palestinians. One synagogue was set on fire. Some Jews were beaten.

Yet, at the same time Germany, especially Berlin, is a favourite place for young Israelis to emigrate to; this is made easier because the government gives Jews German passports if their grandparents had them. Adi Liraz, a Jewish Israeli artist who lives in Berlin, finds the German obsession with anti-Semitism excessive. So do the Muslim, Jewish and gentile Germans with whom she has formed a friendship group, called Salaam-Shalom. "I'm married to an Afghan Muslim," Ms

Liraz says, "and he's more a victim of prejudice than me."

Although there is still a remnant of anti-Semitism among Bio-Deutsche ("organic Germans" in the slang of natural-foods stores), the recent wave of anti-Semitism in Germany is largely a phenomenon among those "with a migration background", to use the modern argot. Perpetrators, in other words, have tended to be young Muslims of Arab or Turkish descent. They inherit a collective identity not of German guilt, but of victimhood and marginalisation at the hands of both Israel and their adopted country.

This puts ethnic Germans in an awkward spot. The specific lesson from the horrors of the past is that Germany must never wrong Jews again. But its general application is that Germans must never again marginalise any minority. And that includes German Muslims.

Most German politicians therefore dare not explicitly state that the recent anti-Semitism is mostly the work of Muslims, for fear of stirring up hatred against the vast majority of German Muslims who, whatever they think of Zionism, do not hate Jews. On September 19th several Muslim groups will "stand up against hatred" in about 2,000 mosques across Germany.

policy to energy, Mrs Merkel "covered her left flank, thinking there would never be a threat on the right", says Werner Patzelt of the Technical University of Dresden. "That's changed now."

Another change is in the tone of German politics. In nine years as chancellor Mrs Merkel has perfected a soothing language that presents compromise as inevitable. The word she used to justify her

policies during the euro crisis was "alternativeless". This inspired the Alternative's name. People are fed up with politically correct waffling in mainstream politics, says Alexander Gauland, a former CDU politician who now leads the Alternative in Brandenburg. Voters are flocking to his party, he thinks, because it tells things as they are. To many Germans that sounds refreshing. To others it is merely populist. ■

French politics

The long road to 2017

PARIS

Recent manoeuvres kick off the fight for the presidency in 2017

TO JUDGE by this week, the race to succeed François Hollande as president in 2017 has begun. One by one, rival politicians are carving out positions. On the left Manuel Valls, the Socialist prime minister, sounds ever more like a rival to his own boss. On the right, two former prime ministers are in the running, and a third contender is likely to declare: Nicolas Sarkozy. The former president is expected this weekend to announce his candidacy for the centre-right UMP party leadership, a prelude to a presidential bid.

The start of the week belonged to Mr Valls, who put his government on the line on September 16th in a parliamentary vote of confidence after his eviction of three anti-austerity rebels last month. He narrowly won, ensuring the government's survival. But 31 of his own deputies abstained, up from 11 at a previous vote in April, in protest at what they consider to be a betrayal of the socialist policies which Mr Hollande was elected to put in place.

The ambitious Mr Valls is now treading a difficult line between loyalty to the unpopular Mr Hollande and a muscular desire to show that his more reformist, business-friendly politics can be an alternative to tax-and-spend socialism. It is a perilous strategy. Mr Valls's poll ratings are tumbling as he becomes linked with Mr Hollande, whose popularity is at a record low of 13%. Damaging revelations by Valérie Trierweiler, Mr Hollande's former partner, as well as the resignation after barely a week in the job of a junior minister who had confessed to not paying tax, are taking their toll on Mr Valls as well. His approval rating fell from 45% in May to 30% in September, with a loss of 13 points among Socialist voters in just one month.

Mr Hollande's dismal standing has also shifted political calculations on the right. One sobering poll has suggested that, were he to face the National Front's Marine Le Pen in a second-round run-off in 2017, she would win. The polls also suggest that Ms Le Pen would make it into the second round at Mr Hollande's expense if he stood again—but that she would then lose to the centre-right candidate. This prospect has made the UMP's nomination a real prize.

Hence, in part, the return of Mr Sarkozy. After losing in 2012, he vowed to withdraw from public life. But his promise never rang true. Stung by defeat and galvanised by the failure of a clear successor to emerge on the right, Mr Sarkozy has kept up the suspense.

An opening came in May, when Jean-François Copé resigned as party leader because of campaign-financing irregularities. Mr Sarkozy is likely to run in the party leadership race in November, which he will almost certainly win.

He is not the only aspirant on the right. He faces two minor candidates for the UMP job (Bruno Le Maire and Hervé Mariton), although neither stands a chance against him. Two former prime ministers are also eyeing a presidential bid. One, Alain Juppé, has confirmed that he will run in the party's presidential primary. The other, François Fillon, is mulling it over.

In many ways, it seems improbable that Mr Sarkozy should return. Mr Hollande was elected partly because voters had had enough of an exhausting, look-at-me president. His wife, Carla Bruni, a singer, has told the press she is not keen on a comeback. He is also in a judicial tangle, being put under formal investigation in July in another party-financing case. Yet if anything, this has stiffened his resolve. A return would certainly disrupt the political balance. At a time when the left is riven by internal discord, Mr Valls may relish the chance to take on a reinvigorated opposition on the right. ■

Italy's economy

Renzi redux

ROME

The Italian prime minister struggles to reform and revive the economy

MATTEO RENZI's Italy is a bewildering place. Slogans change; priorities shift; established orthodoxy can be overturned in an instant. The latest change came on September 16th, when the prime minister set out a programme for his government until May 2017. The centrepiece is reform to relax restrictive hiring-and-firing rules in the labour market. This was so urgent, he declared, that the government would introduce it by decree if parliament raised objections: "We cannot lose another second." Yet just two weeks ago, presenting his agenda to the media on September 2nd, there had been no stress on employment reform. And a new website detailing the programme did not even mention it.

Mr Renzi's latest rallying cries are "One thousand days" and "Step by step". The gradualist approach they imply is a departure from the blitzkrieg he promised when he wrested the premiership from his Democratic Party colleague, Enrico Letta, in February. Then, the catchphrase was "One reform a month". The aim was to transform Italy through a new electoral law along with sweeping changes to the

jobs market, public administration and the tax system.

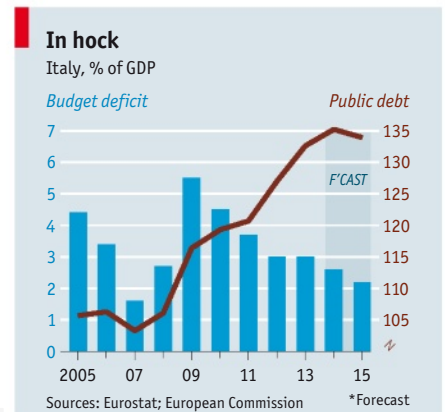
Instead, Mr Renzi's biggest achievement has been to get the upper-house Senate to accept a drastic reduction in its membership and powers, a move that should make for swifter lawmaking. The electoral law and the labour reform were deferred. But a reform of the public sector has been launched, and the government has put an extra €80 (\$100) a month into the pay packets of the lowest earners.

The tax break helped Mr Renzi to an impressive win in May's European elections, but has done little for the economy. Indeed, the picture is increasingly dire. In the first two quarters of this year Italy sank back into recession. On September 15th the OECD rich-country think-tank shocked Italians with a forecast that GDP would grow by only 0.1% in 2015.

That may explain why labour-market reform has suddenly emerged. All but one of the ideas Mr Renzi set out in early September for stimulating the economy will cost money. Despite plans to cut the 2015 budget by €20 billion, there is no longer any chance of Italy hitting its budget-deficit target. Mr Renzi seldom misses a chance to insist that he will respect the ceiling of 3% of GDP. But he glosses over Italy's previous promise to cut its deficit to 2.6% this year.

European satraps, including the European Central Bank president, Mario Draghi, and the European Commission president, Jean-Claude Juncker, have hinted they would be more sympathetic to Mr Renzi if there were more reforms on his agenda. He still has few privatisation plans, and not much in the way of product-market liberalisation.

Labour-market reform may be a start. But it risks drawing Mr Renzi into a clash with the unions and the left of his party. He has been careful to tuck away some ammunition. He told parliament he would also give priority to a new electoral law, which could give him full control of the next parliament. He denied this was so that he could call a snap election. But he added that he and his ministers had "no fear of facing the Italian people". ■





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Charlemagne | Europe's ring of fire

The European Union's neighbourhood is more troubled than ever



IT SEEMS safe to assume that Johnny Cash, born in Arkansas in 1932, gave little thought to European foreign policy. Yet one of the Man in Black's better-known numbers sums up the European Union's troubles with its neighbours. "Love is a burning thing," he sang in "Ring of Fire", a hit in 1963, "and it makes a fiery ring. Bound by wild desire, I fell into a ring of fire."

Wild desire is a mild overstatement, but there was certainly an abundance of goodwill behind the EU's decision to launch its European Neighbourhood Policy (ENP) in 2004. Aiming to construct a "ring of friends" to its east (former communist countries) and south (across the Mediterranean), the EU took enthusiastically to the task of transforming its 16 ENP partners. Like Cash with his guitar, the EU had powerful instruments, including trade, aid and political reform. Fresh from an enlargement that took in eight central and east European countries, the club believed itself influential enough to bring about change in its neighbours without the carrot of eventual membership.

Yet ten years on, the EU is facing a ring of fire on its eastern and southern flanks. Over 3,000 people have been killed in Ukraine's fighting this year. There, and in Georgia and Moldova, two of the other five eastern ENP countries, Russian troops are present against the will of the legitimate governments. Azerbaijan is imprisoning activists and tensions are rising with Armenia over Nagorno-Karabakh, an enclave the pair fought a war over in the early 1990s. Belarus's long-serving president, Alexander Lukashenko, still merits his label as Europe's last dictator. Meanwhile, to the south, Libya is in turmoil, the hopes from Egypt's 2011 uprising have been quashed by a military counter-revolution, and Israelis and Palestinians have again shown that any number of EU action plans cannot stop them killing each other.

Why has the ENP fallen so far short of its goals? The EU cannot control the internal political dynamics of other countries, of course. In many cases, particularly in the south, its technocratic approach has simply been overwhelmed by domestic forces. But elsewhere it has been guilty of naivety. Take Ukraine. Last year the EU and Ukraine concluded an "association agreement", an ENP instrument *par excellence* that included a free-trade deal and various political elements. But under pressure from Russia, which was alarmed by the prospect of Ukrainian integration into

Western institutions, Viktor Yanukovich, then Ukraine's president, declined to sign at the last minute, causing protests that led to his downfall. This was followed by Russia's annexation of Crimea and its invasion of the south-east.

The thousands of Ukrainians who occupied the Maidan in Kiev were not demonstrating for tariff reform and patent protection. They were asserting a European identity and rejecting the backward-looking, post-Soviet vision of Mr Yanukovich and the corruption that flourished on his watch. They understood that Europe had not banished geopolitics. So did Vladimir Putin, Russia's president, although his conclusion that Ukrainian sovereignty must be sacrificed to secure Moscow's interests was altogether darker. The irony was that the Russians took the ENP far more seriously than the Europeans ever did.

Europe, too, has woken up to the return of geopolitics. Last week the association-agreement circle was completed when the EU and Ukraine, after lobbying by Russia as well as some EU members, decided to delay many of its provisions for a year to help underpin a ceasefire in the south-east that is barely holding. This week, in a powerful piece of symbolism, the European and Ukrainian parliaments ratified the agreement simultaneously via video link. Yet the different understandings of Ukraine's European vocation seemed apparent when Petro Poroshenko, Ukraine's pro-European president, declared that, after all the violence in his country, "nobody will dare close the door of the EU in front of Ukraine". Some MEPs looked awkwardly at their feet.

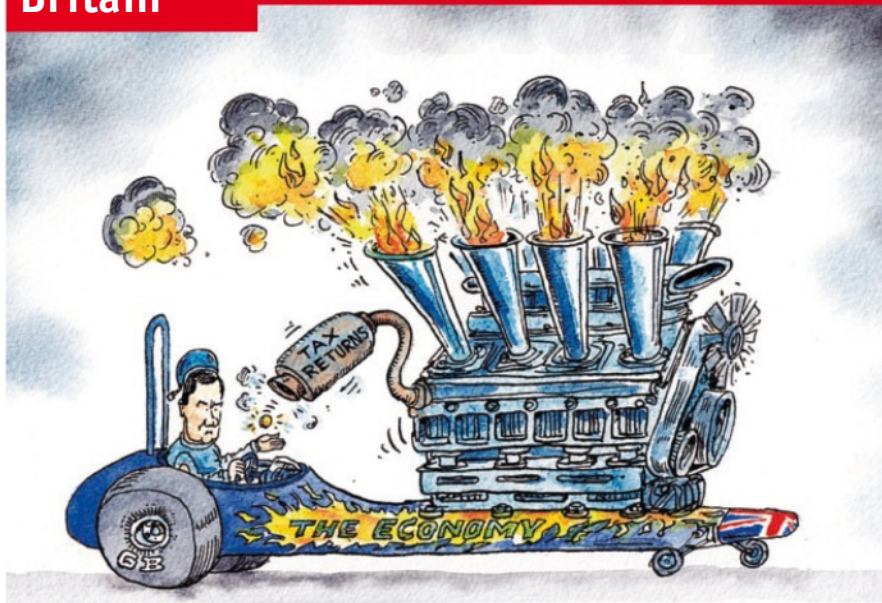
Technocratic policies are not toothless. The EU accession process, during which candidates must adopt rules on everything from food safety to public procurement, is mind-numbing but also powerful. Yet it requires the lure of membership to work. Nobody believes the EU's eastern neighbours are anywhere near joining; the southerners never will. But signals count, and today the EU seems more concerned to downplay its neighbours' aspirations. One of the first pledges of the incoming president of the European Commission, Jean-Claude Juncker, was that there would be no expansion of the club in the next five years.

Yet the EU must find some way to quell the flames licking at its borders. Poland and the Baltic trio worry that a weak-kneed European response in Ukraine has encouraged Russia to make more mischief. To its south, the EU has not found a solution to the human tragedies of would-be migrants dying in the Mediterranean; recently, over 500 drowned after their boat was rammed by human traffickers. Relations with Turkey, which have soured as Recep Tayyip Erdogan's government has turned eastward, are especially tricky, as its membership talks are stuck and it shelters as many as 1m Syrian refugees, many of whom want to get to the EU.

Federica's challenge

The EU's eastern policy was dented by a previous bout of muscle-flexing by Russia: the 2008 war with Georgia. This year, after a slow start, EU members have finally begun to act, although a senior official warns that internal differences will make it hard to move beyond the latest sanctions. The incoming EU foreign-policy chief, Italy's Federica Mogherini, is to produce an assessment of global challenges. This is a chance to rethink Europe's security strategy, if Ms Mogherini has the ambition and is given enough space by the big countries. It is a fine line between being tough and staying united, but the EU, as Cash once sang, must walk it. ■

Economist.com/blogs/charlemagne



Public finances

The tax-free recovery

Why Britain's economic recovery has not yet filled its coffers

BRITAIN'S economy is roaring along. The IMF thinks it will outpace that of every G7 country in 2014. In the past twelve months 774,000 jobs have been created; the adult employment rate, at 73%, is on the verge of breaking a record set in 1974. Yet this humming engine is so far doing surprisingly little for the country's finances. As the economy revs up, the Treasury is not benefiting from the acceleration.

In 2010 George Osborne, Britain's newly appointed chancellor, promised to close the deficit—then 11% of GDP—within five years. He is only two-fifths of the way there. Until last year his problem was slow growth, which weighed on receipts and kept unemployment and benefits spending high. That cannot explain the present weakness of the public accounts. In March the Office for Budget Responsibility, Britain's fiscal watchdog, forecast borrowing to fall by £10.4 billion (\$17 billion) in the 2014-15 financial year. Four months in, it is up by £1.8 billion.

Mr Osborne's spending cuts are proceeding more-or-less as planned. A consumption boom has boosted VAT receipts. Stamp duty, paid on house sales, is up by an astonishing 71% since January 2013, adjusting for inflation—the result of a housing boom. The big problem is income tax, which accounts for just over a quarter of government revenue. Mr Osborne is seeking £11 billion more from income tax this year; less than a tenth of that sum has materialised so far, notes Elizabeth Martins,

an economist at HSBC, a bank.

Comparisons with last year's receipts look particularly dismal because many bonus payments were shifted into that year to take advantage of a reduction in the top rate of tax. A one-off levy on Swiss bank accounts filled the Treasury's coffers by £900m a year ago, too. But the root of the problem is structural. Britain is having a job-rich, tax-poor recovery (see chart).

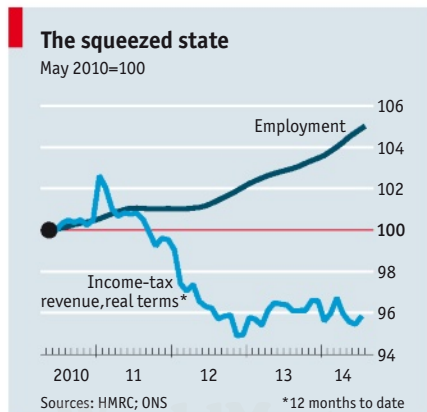
Wages are stagnating: average weekly earnings are up just 0.1% so far this financial year. Lower paying part-time work, self-employment and zero-hours contracts have replaced some full-time jobs. This is bad for the Treasury because every additional worker must earn his tax-free allowance—recently raised to £10,000 and due to rise further—before he starts paying in-

come tax. An accountant earning £28,000 a year contributes more than four times as much as a cleaner earning £14,000. Moreover, when wages fail to keep pace with inflation, workers across the income scale are pulled into lower tax brackets—a phenomenon dubbed “reverse fiscal drag”.

All this accentuates a long-running trend: the Treasury's increasing reliance on high-flyers. The top 1% of earners are thought to have contributed 28% of all income taxes in 2013-14; the Institute for Fiscal Studies, a think-tank, says the proportion was only 11% in 1979. Inevitably, this makes receipts more volatile. In particular, they are sensitive to pay packets in the City, which have been constrained recently by regulation and restructurings. Average weekly earnings in finance and business services have fallen slightly this year. The Treasury may have bailed out the banks, but they are not returning the favour.

For wages—and hence tax income—to rise, two things must happen. First, Britain must close the output gap (a measure of slack in the economy). The Bank of England revised down its estimate of this gap in August. Second, productivity must rise. Ultimately, the value of what people produce drives wages, and output per hour is far below its pre-crisis trend. Britain must use more of its resources and get more from them.

The state of the public finances leaves Mr Osborne vulnerable to attack. He already faces criticism over the lack of wage growth, which his opponents say is causing a “cost-of-living crisis”. Now wage stagnation also threatens his flagship deficit-reduction strategy. But Labour's shadow chancellor, Ed Balls, will not be cheering too loudly either. Mr Balls has pledged to deliver a budget surplus—albeit excluding investment spending—as soon as possible in the next parliament. That will mean cuts, and yet more painful cuts. ■



Also in this section

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Note: Scotland was voting on independence as *The Economist* went to press, with pollsters predicting an extremely tight race. Read our coverage online at www.economist.com

Foreign policy

Back into the fray

David Cameron tries to persuade war-weary Britons to fight IS

A DAY after Islamic State released a video showing the beheading of David Haines, a British aid worker, the prime minister spoke in forthright terms. Britain, said David Cameron on September 14th, had “an iron determination” to destroy the terrorist organisation. A second British hostage, Alan Henning, may be the next victim of IS. Yet some confusion surrounds the British government’s intentions.

Just a few days earlier the foreign secretary, Philip Hammond, had told an audience in Germany that Britain “will not be taking part in any air strikes in Syria.” Parliament “had already had that discussion” a year ago, he explained. The prime minister’s office promptly slapped Mr Hammond down, saying it was ruling nothing out. Unconvincingly, a junior foreign office minister explained that Mr Hammond had been referring to attacks on the Syrian regime’s forces. Coming hours after Barack Obama had declared that he was building an international coalition to “degrade and ultimately destroy” IS and that he would “not hesitate to take action” in Syria as well as Iraq, it made Britain look like a confused, half-hearted ally.

That impression may be misleading.

Britain was quick to join America in providing humanitarian help for the Yazidis in Iraq and in training and arming Kurdish Peshmerga forces; British special forces have been active in the area around Irbil. It has also flown surveillance sorties in support of American ground attacks. Michael Clarke, the director of RUSI, a London-based think-tank, says that if, as seems likely, Australia and France are ready to join America in an extended air campaign, it is almost inconceivable that Britain “would not step up to the plate.”

The appearance of hesitancy reflects two understandable British concerns. The first was a desire not to get ahead of America when Barack Obama had himself publicly confessed on August 28th that he did not yet have a strategy for defeating IS. That at least is settled. Mr Obama now has a strategy; indeed, Mr Cameron helped the president build support for it during the recent NATO summit in Wales.

The second worry derives from the wounding defeat the government suffered in the House of Commons last summer when it lost a vote to approve air strikes on Syria after President Bashar Assad’s regime used chemical weapons. Mr Cameron felt

misled by Labour and betrayed by Tory rebels. Britain’s foreign-policy and security establishment was shocked to its core. In December the chief of the defence staff, General Sir Nick Houghton, warned that Britain was in danger of losing “its courageous instinct”. Sir Nigel Sheinwald, a former British ambassador in Washington, says: “The government hasn’t had a coherent strategy on Syria and until last month it didn’t want to think about Iraq, which it had consigned to the Blair dustbin.”

That remains a problem, as Mr Hammond’s ill-considered remarks show. But Mr Cameron is being far more careful in preparing the political ground for military action than he was a year ago. Public opinion, thanks in part to the gruesome images of IS executions and calls for action by much of the media, has swung in favour of intervention. A poll taken by YouGov a week before the murder of Mr Haines became known showed that 54% supported British air strikes on IS, while only 25% were against. Given the apparent British identity of the executioner, the public probably needs little convincing that IS could become a threat in Britain.

If Mr Cameron were to hold a Commons vote on military intervention in Iraq, he would probably win a large majority. The Iraqi government’s request for military help is unambiguous. But Mr Cameron has been slow to recall Parliament from its recess for other reasons.

First, he did not want debate about British involvement in another Middle East conflict to cloud the final day of the Scottish referendum campaign (the “Yes” camp likes to complain about Scotland being forced to fight Britain’s illegal wars). Second, he clearly believes that British participation cannot be limited to Iraq. Some MPs have already questioned the legality of bombing IS in Syria, while Philippe Sands, a much-quoted international lawyer, says that the legal justification would not even be “wafer thin”.

Mr Obama is expected to address the UN next week on the subject, but will not seek a Security Council resolution that would only be vetoed by Russia. However, Mr Clarke thinks that should not hold Britain back. The territory in Syria controlled by IS is not governed by any state, the legitimacy of the Assad regime is not recognised, and the IS leadership glories in its rejection of both national and international law. Moreover, any attack on IS should be covered by Article 51 of the UN Charter which describes the right to individual or collective self-defence. Not only does IS pose a direct threat to British targets and individuals, but the attacks on Iraq have been launched from Syria. Mr Cameron is determined that Britain will play what one minister calls a “full role”. But he is equally determined not to seek the support of MPs until he knows he will get it. ■



Hallowed be thy game

The growing warmth between the Church of England and the Catholic church has found expression in a tour by St Peter’s Cricket Club. The team is made up of seminarians—mostly South Asians—studying in Rome. They lost to a Royal Household XI ahead of the big match in Canterbury on September 19th against the Church of England. Eamonn O’Higgins, the team’s “spiritual director”, insists there will be no sledging in Latin, nor seeking revenge for the Reformation. But, he says, “Of course, we’re playing to win.”

Bagehot | Clan Douglas

The populist UK Independence Party could be about to surge behind a charismatic MP



EVERYONE in Clacton-on-Sea seems to want a piece of Douglas Carswell. The renegade Conservative had invited Bagehot for a “walk and talk” through the Essex seaside town, while campaigning for the by-election he triggered last month by defecting to the Eurosceptic UK Independence Party (UKIP). Yet the relentless sleeve-tugging, back-slapping and declarations of allegiance he elicits among the worn-out resort’s charity shops and arcades make this impossible.

“Oi, Douglas, over here!” yell a trio of well-built women, drinking tea across the street, and the tall, raptorine Mr Carswell bounds across, leaving his half-articulated thoughts on “iDemocracy”, a pet theory of his, trailing in the air. He glad-hands the women, shows off his knowledge of their problems, and thanks them for their support. “I had a serious drug case two doors down, needles in my garden and everything,” explains Pauline, who runs a guest-house. “Douglas got hold of it and wouldn’t let it go. He’s like Princess Diana around here, a prince of our hearts.”

As a devoted MP, Mr Carswell clearly worked hard for his constituents. Yet that is no more a complete explanation for his current stardom in Clacton than the popularity of Scotland’s nationalist first minister, Alex Salmond, can be explained by the fact that he runs a competent government. Both politicians have succeeded chiefly by defining themselves as the anti-politician—in Mr Salmond’s case against an arrogant Westminster elite opposed to Scottish independence, in Mr Carswell’s against the same elite, because of its reluctance to quit the European Union. The cause may be different; the anti-establishment mood in Clacton and Glasgow is strikingly similar.

As *The Economist* went to press, no one knew whether Mr Salmond would achieve his great aim; it looked almost certain that Mr Carswell would succeed in his smaller one, to become UKIP’s first elected MP on October 9th. That will cap a momentous few weeks for the party, which some had expected to decline rapidly after its triumph in the European Parliament elections in May. Most UKIP-watchers now expect it to retain the double-digit vote share it is currently polling at next year’s general election, and win somewhere between three and five seats in the House of Commons. This signals a huge change in British politics, and Mr Carswell and Mr Salmond have both had a hand in it.

When Mr Carswell announced his defection last month, Tory bosses trembled to see who might follow. But they were worrying about the wrong domino effect. A bigger one, for all the mainstream parties, is the likely ripple of a UKIP victory in Clacton, behind a charismatic MP, in the heart of its natural hunting ground: a series of down-at-heel east-coast towns, packed with disgruntled and often aged people. Mr Carswell’s campaign already shows signs of this bounce, having drawn activists—including many former Tories—from across the south-east; his campaign office throngs with them, gossiping in Essex and Kentish accents, amid cheeky sticks of rock decorated in UKIP’s rhubarb-and-custard colours.

Scotland’s referendum campaign has given UKIP additional impetus because of the publicity it has afforded to its anti-elite message, albeit in the form of Scottish nationalist propaganda. That many Scots cite the rise of UKIP as a reason to quit Britain is ironic. Indeed, had they not their own nationalist cause to pursue, many more disaffected Scots would no doubt vote for the party. As it is, one of UKIP’s new European Parliament seats is in Scotland.

Though ostensibly a unionist, Nigel Farage, UKIP’s shrewd leader, used the referendum chiefly to deride Labour and the Tories for their poor management of the cross-party campaign. Perhaps he consoled himself with the thought that a Yes vote would be good for UKIP, as a shattering blow to its mainstream rivals and a spur to the English nationalist cause of which he is the nearest thing to a leader. Yet if Scotland stays, with the additional powers promised by Westminster’s panicked leaders, UKIP can expect a similar bounce from cross English voters. Either way, Britain, or what is left of it, is about to see an awful lot more of Mr Farage’s jackanapes grin—including at the party’s eagerly awaited annual gathering later this month, in Doncaster, parliamentary seat of Labour’s leader Ed Miliband. “Are you coming? I can promise it’ll be fun!” says Janice Atkinson, a UKIP MEP now campaigning in Clacton, who recently got into trouble for referring to a Thai-British supporter as “Ting Tong from somewhere”.

A sou’easterly gale

How can mainstream politicians stop the populists? Scotland offers some clues, but mostly negative ones. One is that they should give up on the token crowd-pleasers, including unkeepable promises to slash immigration, which both the Tories and Labour have indulged in. The popular disaffection with and mistrust of politicians, so evident in Scotland, is too deep. Another is that, instead of preaching hot issues from their focus groups, they must declare a more holistic, hopeful vision for Britain’s future. This was Mr Salmond’s achievement, the unionist campaign’s big weakness and, more through force of personality than any credible idea, it is Mr Farage’s strength, too. Fading tribal loyalties and the erosion of class-based deference have made British politics a more open marketplace than ever before. If politicians cannot please and inspire their supporters, votes will go elsewhere.

As in Scotland, it may be that stronger medicine for the disaffection is needed, in the form of constitutional change. There is talk of more localism and perhaps an English parliament, and these may have their place. Yet it is not clear, viewed from Clacton, how this would improve matters. Nobody here demands more local powers. What people want is a more reassuring, trouble-free world to call their own. As long as the world is not like that, they will protest. ■

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Confronting Islamic State

An improbable alliance

The many tensions among those preparing to take on jihadists in Iraq and Syria

EVEN before America has properly put together its coalition to “degrade and ultimately destroy” Islamic State, the jihadist group that controls swathes of Iraq and Syria, it thinks it is making military progress. *is*’s advance has already been halted, and the group has been pushed back on several fronts. *is* can lose as well as win, say the Americans; triumphant convoys waving black flags down Iraqi streets should not expect to survive for long.

The diplomatic campaign against *is* is making progress, too. On September 15th representatives from 27 countries converged on Paris (pictured above) to declare their backing for the Iraqi government’s bid to recapture all *is*-controlled areas “by any means necessary, including appropriate military assistance”.

Iraqi officials delightedly reel off the names of countries that have pledged support: America has already plunged in; France has launched surveillance flights, with hints of deeper involvement (Britain, more quietly, is doing likewise); Belgium, where a Jewish museum was attacked by a seeming *is* henchman, has signed on for the air campaign, as has Australia; Germany, Norway and Denmark have variously committed advisers and weapons to Iraq’s Kurdish region and the Iraqi government. Several Arab states, says John Kerry, America’s secretary of state, are prepared to take part in air strikes.

Barack Obama, the American presi-

dent, is on track to secure congressional approval for plans to train and arm “moderate” rebels in Syria. But he appeared to disown a suggestion by his senior military chief that American soldiers could be embedded with Iraqi fighting units.

For America, the heart of the strategy is to turn disgruntled Sunnis against the jihadists, especially in Iraq. Having Sunni Arab rulers as allies helps, but the effort must start with reform in the Iraqi government. Though of the same stock as his heavily criticised predecessor, Nuri al-Maliki, Iraq’s new prime minister, Haider Abadi, speaks more convincingly of including Sunnis. Both men rose through the ranks of *Dawa*, a Shiite underground movement that fought the Iraqi dictator, Saddam Hussein. Mr Abadi has ordered a halt to air strikes in built-up areas (though an errant Iraqi bomb struck a hospital in the besieged Sunni city of Falluja, which *is* has in effect controlled since January). He has suggested that Gulf states finance reconstruction of war-battered Sunni areas.

Iraq’s president, Fuad Masum, a Kurd, has suggested that four Sunni-majority northern provinces could merge into a Sunnistan bloc alongside Kurdistan. Under the constitution, he adds, it could draft its own National Guard, like the Kurdish *peshmerga*, without the approval of the Baghdad government. That said, despite the demand by Western and Gulf states for Mr Abadi to appoint Sunnis to senior cabinet posts, Iraq’s parliament on September 16th rejected his nominees for the defence and interior ministries.

net posts, Iraq’s parliament on September 16th rejected his nominees for the defence and interior ministries.

Once bitten, Iraq’s Sunni Arab tribes are twice shy. In 2007-08, they worked with America to set up the *Sahwa* or “Sons of Iraq” militias, to fight *is*’s precursor, al-Qaeda in Iraq, only for Mr Maliki to disband them once America left. Loyal today, caution some Iraqi officials, such fighters might yet switch sides and bolster *is*’s capabilities. Critics point to the objections raised by some milder Sunni groups, including the Muslim Brotherhood, to renewed Western intervention in the region.

Indeed, one point of friction in the anti-*is* coalition is the treatment of the Brotherhood: it is supported principally by Qatar and Turkey, and fiercely opposed by Saudi Arabia, the United Arab Emirates and Egypt, whose military government toppled the elected president from the Muslim Brotherhood, Muhammad Morsi. American officials say some allies had wanted the coalition to confront the Muslim Brotherhood as well as *is* jihadists.

Not the Brothers’ keeper?

Qatar’s close links to the Brotherhood and vocal support for its varied branches have long irked neighbouring monarchs, and latterly Israel too. Qatar has abruptly changed its tune. At least seven senior Egyptian Brothers, exiled since the July 2013 coup, are to leave the emirate, most likely for Turkey. Qatar’s reconciliation with its neighbours will help military co-ordination: America’s main air and logistics base in the region happens to be there.

Winning support from Sunnis in and out of Iraq risks creating an opposite problem, stirring the suspicions of Shias, who form Iraq’s majority, and of Iran, a principal backer of the Iraqi government.

Iran and Syria (ruled by the Alawite ►►

► sect, regarded as an offshoot of Shia Islam) were excluded from the Paris conference. Iraq's new foreign minister, Ibrahim Jaafari, another Dawa man, brimmed with frustration at the absence of Iran. "No country has offered Iraq more support curbing IS's advance," seethed an Iranian official, meeting his Iraqi counterparts on the sidelines. "Had our men not intervened, IS would have swept into Baghdad." One reason for America's intervention was the fear that Iran and its Shia militia allies would extend their reach.

On Syria, Mr Abadi has quietly retreated from Mr Maliki's vocal support for Bashar Assad's regime. An estimated 20,000 Iraqi militiamen who helped defend Damascus, Mr Assad's capital, have returned home to defend Baghdad. But Mr Abadi has stopped short of committing his country to neutrality in the Syria war as Iraq's Sunni citizens and neighbours want him to do. His officials query the wisdom of co-ordinating the campaign against IS with Iraq's government, but not Iran's or Syria's—positions reiterated by Russia. Anxious to keep his Russian guests in the conference room, François Hollande, the French president, tellingly emptied his speech of criticism of Mr Assad. Doubtless with a nod from Iran, varied Iraqi Shia militias whisper that IS is a CIA creation, and mutter that any Western intervention on the ground could be met by Shia resistance.

Deep suspicions also linger between the Baghdad government and Kurds, in spite of their temporary convergence of interests and the hurried Western effort to arm the Kurds to hold the line against IS.

Attempts to orchestrate the anti-IS coalition face other obstacles. Turkey, despite being a NATO member and sharing a porous stretch of its 900km (550-mile) Syrian border with IS, has shied from committing to any military role. It not only fears for the lives of 49 Turkish consular staff and family members held hostage since IS's capture of Mosul, but also retaliatory terror attacks such as one that killed 52 people in the border town of Reyhanli last year. Officials

Crime and punishment in Saudi Arabia

The other beheaders

The possible reasons for a mysterious surge in executions

THE condemned may request a painkiller. Their end is not televised, and comes with a swift sword stroke from a skilled executioner rather than from hacking with a kitchen knife by an untutored brute. Otherwise there is not much difference between a death sentence in the jihadists' "Islamic State" and in Saudi Arabia, a country seen as a crucial Western ally in the fight against IS. Nor, indeed, is there much difference between the two entities in other applications of a particularly merciless brand of *sharia*, or Islamic law, including public whippings and the right for victims of crime to claim eye-for-an-eye revenge.

Both follow Hanbali jurisprudence, the strictest of four schools of traditional Sunni Islamic law: when Egyptians chide someone for nitpicking, the expression is "Don't be Hanbali". Dissidents in Raqqa, the Syrian town that is IS's proto-capital, say all 12 of the judges who now run its court system, adjudicating everything from property disputes to capital crimes, are Saudis. The group has also created a Saudi-style religious police, charged with rooting out vice and shooing the faithful to prayers. And as in IS-ruled zones, where churches and non-Sunni mosques have been blown up or converted to other uses, Saudi Arabia forbids non-Muslim religious practice. For instance, on September 5th Saudi police raided a house in Khafji, near the Kuwaiti border,

and charged 27 Asian Christians with holding a church ceremony.

In recent months IS has carried out hundreds, possibly thousands, of executions, mostly by gunfire rather than beheading and typically without a trial of any kind. Saudi Arabia is far less trigger-happy. Still, in the space of just 18 days during the month of August, the kingdom beheaded some 22 people, according to human-rights advocates. The spate of killings was surprising not only because it was so sudden—the kingdom carried out a total of 79 executions last year—but also because many of those killed were convicted of relatively minor offences, such as smuggling hashish or, strangely, "sorcery". In one case the defendant was determined to be mentally unsound, but lost his head anyway.

It was surprising, too, because the Saudi kingdom has in recent years gently relaxed some social strictures, and made efforts to rein in excesses by religious police. Some Saudi critics fear that the sudden upsurge represents a response by the religious establishment to the challenge from IS. Perhaps it is an attempt to prove to the most conservative Saudis that the kingdom remains a truer "Islamic" state than any other. Others see it as part of a broader policy to assert government control amid signs of growing discontent among the bored Saudi young, including a drift into unbelief.

suspect IS has planted sleeper cells. Others have similar worries: Australian police carried out several raids in Sydney and Brisbane this week after receiving intelligence that IS was urging sympathisers to behead a member of the public at random as a "de-

monstration killing". Turkey also worries about the growing prowess in the fight against IS of Syrian Kurdish militias that are politically aligned with the PKK, a group that has fought a 30-year Kurdish insurgency inside Turkey.

Jordan, another front-line state through which supplies have flowed to Syrian rebels, is also wary of public commitment. Like Turkey, which may help by sealing its border more tightly to IS fighters and smuggled fuel, it will probably aid the coalition quietly. The flow of Western and Arab-supplied arms and trained fighters through Jordan has already made life more painful for Mr Assad's regime, with non-IS rebel groups in southern Syria recently advancing to within 50km of Damascus.

In the short term, Mr Obama and his coalition may well be able to degrade IS. But destroying the group is a different matter altogether. It will require a long campaign which he will bequeath to his successor, and a sustained political effort to hold together the disparate coalition. ■



Egypt

Al-Sisi Ascendant

CAIRO

The general has a good first 100 days—at the cost of political freedom

WHEN he addresses the UN General Assembly on September 25th, Abdel Fattah al-Sisi will surely have reason to feel pleased. The former field-marshal's first 100 days as president, following a strong electoral win in June, have brought economic and diplomatic advances as well as hope to Egyptians wearied by years of political turmoil. Yet the health of the most populous Arab state remains fragile. Full recovery will take more time and less of a few things, not least reliance on heavy-handed police to silence dissent.

Mr Sisi can take credit for some good first steps. Successive Egyptian governments have shied from tackling ruinously large energy subsidies. But in July Mr Sisi's cabinet raised fuel prices, which will both restrain galloping consumption and trim the government's budget deficit, running perilously above 11% of GDP.

The launch of a \$4 billion project to double the capacity of the Suez Canal, one of Egypt's main earners, has also been a success. Despite scepticism among some experts over government claims that the project will more than double canal revenue, from \$5 billion to \$12.5 billion, Egyptians snapped up an \$8.5 billion bond issue that will underwrite both the digging and a wider development scheme. The sum not only indicates a return of confidence among ordinary citizens, but suggests how Egypt might reduce reliance on foreign donors. Rich Gulf countries have shelled out some \$20 billion to prop up Mr Sisi since (as defence minister) he led a coup against the Muslim Brotherhood last year.

Mr Sisi has also cashed in on the region's misfortunes. With Egypt's neighbour Libya in turmoil, Gaza in ruins, and Islamic State rampaging in Iraq and Syria, anxious Western countries have turned to Egypt to fulfil its familiar regional role as a moderating force. Visiting Cairo to lobby for support against IS, America's secretary of state, John Kerry, avoided public mention of Egypt's dismal human-rights record. Despite sharp words from the European Union on the subject, France in July sealed a deal to sell warships to Egypt.

Mr Sisi's rehabilitation is not yet complete. America, which has lavished \$1.3 billion a year of military aid for three decades, is unhappy about overtures to Russia, which on September 17th said it had inked a \$3.5 billion arms deal with Cairo. Egyptian diplomats also fear that American supporters of the Muslim Brotherhood,

which has suffered the deaths of hundreds of supporters under Mr Sisi, plan demonstrations against his visit in New York.

In Egypt a snowballing campaign of hunger strikes is focusing public attention on the plight of political prisoners, hundreds of whom have been incarcerated for more than a year without trial. Power cuts and price rises are also causing discontent.

Perhaps to pre-empt embarrassment in New York and encourage a friendlier reception from Mr Obama, Mr Sisi's government has quietly relaxed some strictures in recent weeks. High-profile secular prisoners have been released, as have more than 100 students who had been held for seven

months for mounting pro-Brotherhood protests. The government has postponed passage of a law to place NGOs under strict state control, and hints that it will revise a draconian anti-protest law.

Since Mr Sisi's election there have been few counterbalances to the incremental reassertion of state control. The Muslim Brotherhood is crushed and largely discredited, while secular opposition forces are marginalised and in disarray. Parliamentary elections, likely to be held by January, are expected to produce a low turnout and a weak, divided legislature. Mr Sisi's luck, for the time being, looks as if it will hold. ■



Health in west Africa

Help in the time of Ebola

There is a scramble to control a runaway epidemic

“WE ARE exhausted, we are angry, we are desperate,” said Sophie Delaunay, the American director of Médecins Sans Frontières (MSF) last week, frustrated at the tardy international response to the deadly Ebola virus in west Africa. Within days of these words, the outside world was at last waking up to the danger of Ebola haemorrhagic fever—a viral disease that threatens tens of thousands of lives, health systems, economic growth and even political stability in parts of west Africa.

On September 16th Barack Obama, the American president, said he would dispatch 3,000 troops and spend more than \$750m to contain the epidemic. “We can’t dawdle on this one,” he declared. His move follows earlier, more modest, commitments from countries such as Cuba and China (each is sending about 170 people) and Britain, which will build a 62-bed hospital.

Commitments from other countries look even more paltry. Germany will provide a few million dollars, the European Union is giving \$15.5m (though it is giving 12 times that amount in general humanitarian aid) and a laboratory. As *The Economist* went to press, the UN was due to debate a motion calling for more help.

This is the largest outbreak of Ebola in history and the first in west Africa. The disease is transmitted by body fluids, and may have originated in bats. Official figures suggest that almost 5,000 people have been infected and more than 2,400 have died, mainly in Liberia, Sierra Leone and Guinea. These figures underestimate the problem, given that many patients are thought to be unaccounted for. Roughly half of those who become infected go on to die.

Across the continent, Ebola barely rates among big killers, with far more deaths at ▶▶

tributable to malaria or even diarrhoea. But the exponential spread of infections means that, unchecked, it could quickly grow extremely large. The World Health Organisation (WHO) last month said it hoped to control the outbreak within nine months and at 20,000 cases, but other experts think it may take 12 to 18 months—and infect hundreds of thousands of people—before it is brought under control.

More significantly, the disease has devastated the weak health-care systems of already fragile countries, some of which are recovering from civil wars. The collapse is sometimes called an “emergency within the emergency”. Many of the 144 health-care workers who have died from Ebola (an unprecedented number) were not working in infection-control facilities but rather in general hospitals that lacked any protective gear.

Liberia has fewer than 200 doctors serving some 4m people. Since the outbreak, all of its main public hospitals have shut (some private ones are still working). Death, illness and fear mean that just 50 doctors are continuing to work in the domestic health system. Across the region, cases of malaria, typhoid and cholera are going untreated. Even where hospitals do remain open, patients may be too frightened of catching Ebola to attend.

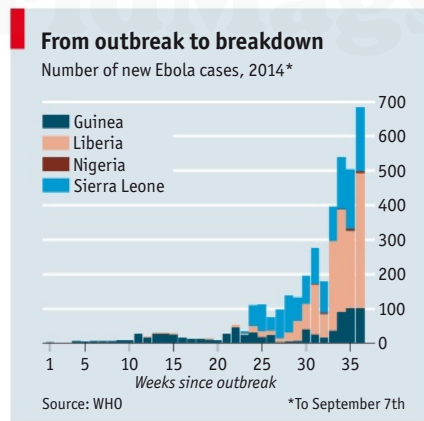
What is most needed are people and kit to isolate and care for patients, trace their contacts and bury the dead. America's first military deployment to combat a disease should make a difference, but will be focused on Liberia, a country founded by freed American slaves.

The American joint command will be based in the capital, Monrovia, where it will co-ordinate relief efforts and train up to 500 health-care providers every week. Households across the country will also be offered protection kits—which include gloves, masks and disinfectant. America wants to build 17 treatment facilities, each containing 100 beds.

Troops will not treat patients but will offer logistical and other support. American help will allow services to be restored at ten non-Ebola hospitals. It will also offer air transport in the region, where many commercial airlines have ceased flying to Ebola-stricken countries.

Will this be enough? Brice de le Vingne, the director of operations at MSF, thinks the American response may just be enough to halt the disease in Liberia. The number of cases there is doubling every two weeks, says Jeremy Farrar, infectious-disease specialist and director of the Wellcome Trust, a British health-care charity. Yet the spread of the disease is not far behind in Sierra Leone, which is receiving far less support.

The assistance is coming late. In March MSF warned that with cases scattered over Guinea—and uncontained in remote locations, as during previous outbreaks—the



world was facing an unprecedented urban epidemic of Ebola. By 23rd June the virus had spread to more than 60 places across west Africa. At this point MSF, not to mention local health authorities, were at the limits of what they could cope with. The epidemic was out of control, warned MSF. Yet the WHO did not declare the situation an international public-health emergency until August.

The long-term economic effects on these countries is likely to be grave. The World Bank says that unless the epidemic is contained it could cause Liberia's economy to contract by 4.9% and slash growth

in Sierra Leone from 11% to about 2%. Trade across many African borders has slowed over fears of the disease; tourism has suffered. The World Bank recently released \$105m of \$250m it had offered to support the immediate response and to rebuild damaged health systems. And the \$181m promised by the European Union is largely aimed in this direction. Although long-term thinking is laudable, the immediate issue in Liberia is national stability. The defence minister, Brownie Samukai, told the UN Security Council that Ebola is a threat to his country's existence.

There is already much distrust and fear towards authorities in the country. Angry locals ransacked one Ebola treatment facility in August, causing patients to flee. Liberia has been roundly criticised for coercive measures that hinder disease surveillance and harm economic activity. These include border closures, a night-time curfew and quarantines—one of which sparked a deadly riot in Monrovia.

Sierra Leone is to repeat this failed experiment. It was due to impose a three-day lockdown on the country from September 18th. Experts at MSF and elsewhere have warned that such draconian measures could be counterproductive, by driving people to conceal the illness and by destroying trust in the authorities. ■

Nigeria's online retailers

E-bola

Fear of the virus boosts e-commerce in Africa's most-populous nation

WHAT if Ebola spread beyond the smaller west African states, where the outbreak is concentrated, and took hold in Nigeria, Africa's most-populous country? International epidemiologists tremble at the thought. Ordinary Nigerians worry, too—so much so that the country has seen a boom in online shopping, as some people avoid going out into crowded markets and shopping malls.

Access to the internet and e-services is growing fast in Nigeria, a country of 173m people, more than 10m in Lagos alone. Online retailers must contend with poor roads, especially in rural areas, and suspicion of online payments (they accept cash on delivery). Ebola is giving an unexpected push to nascent e-commerce, after the country suffered its first case in July, when Patrick Sawyer, a Liberian civil servant, died in Lagos. At least six others have perished since.

Jumia, the biggest e-commerce site, says orders have tripled since the outbreak. It has seen a big increase in demand for sanitation products—such as hand-wash, bleach and other cleaning agents—which have supplanted mobile

phones as the bestselling products. Other online retailers, among them Konga and Kaymu, also report a large increase in sales of cleaning supplies.

E-commerce firms say they have a big contribution to make to preventing the spread of Ebola, not only by stocking and delivering hygiene products but also by promoting health-and-safety standards among staff and educating customers. “E-commerce allows business to be done to a large scale by a limited number of people who can be held to a controlled regime, to limit the spread of communicable diseases,” says Sim Shagaya, chief executive of Konga.

Nigerian websites have also sprung up to help educate the public, such as www.ebolafacts.com, which registered over 2m visits in its first month. It warns readers against unproven remedies such as relying on prayer, drinking salt water and eating bitter kola, a folk remedy for colds and an aphrodisiac. Seyi Taylor, of Big Cabal Media, which launched the site in July, says that the internet can spread information faster than diseases like Ebola can be transmitted.



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Obamacare

Experimental medicine

HOUSTON

A year after the big launch, is Obamacare working?

TEXAS has a higher share of uninsured citizens than any state in America. Until recently Shane, a 38-year-old from Houston, was one of them. "I just couldn't afford it," he says. Shane has HIV; his job does not cover him. Because of his illness, insurers would offer him only a costly plan with limited benefits. Such discrimination is now illegal. Since January the Affordable Care Act, better known as Obamacare, has required insurers to charge the healthy and the sick the same price. For the first time in 20 years, Shane can afford health cover.

Across town, Suezan Salinas is less fortunate. Having recently returned to college, she has no job. Her two children qualify for Medicaid, the public health programme for the poor, but she does not. Texas is one of the nearly two dozen states that did not expand Medicaid, despite Obamacare's offer that the federal government would cover most of the cost. Ms Salinas also earns too little to qualify for Obamacare's subsidies (which were fixed when Democrats in Congress thought all the states would expand Medicaid). So she used some of her college financial aid to buy health cover.

Health care in America is changing, thanks to Obamacare and the efforts of innovative private firms (see box on next page). And not before time. America's health system, the world's biggest, involves a tangled mess of rules and a hotch-potch of public and private institutions. It combines dazzling technology with mini-

mal cost controls and spotty coverage. In 2012 it left some 48m people uninsured despite gobbling up 17.2% of GDP, a figure that dwarfs spending in any other country and has shot up from 4.4% in 1950.

Rather than scrap this system, Obamacare rejigs it. It expands Medicaid to include millions of not-quite-poor Americans. It seeks to create a market where individuals can buy health insurance, pooling risks without the backing of a large employer. Ultimately, it aims to expand coverage and deliver better care at a lower price. Its record is mixed so far.

Obamacare created new health exchanges, where individuals can shop for private insurance and, if they earn between \$11,670 and \$46,680, qualify for sub-

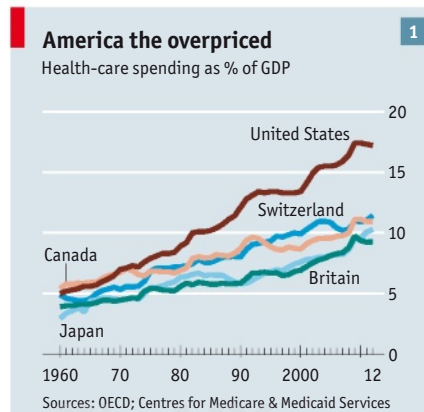
sidies. As well as barring insurers from charging the sick more, it requires individuals to have health insurance or pay a fine. (If it did not, people would buy insurance only when they fell ill, and premiums would shoot into space.)

In some states Obamacare works well. In others, it does not. Many Republican-run states refused to expand Medicaid on the grounds that taxpayers would be stuck with the bill. That left almost 9m adults who earn less than \$11,670 a year, like Ms Salinas, too rich for Medicaid but too poor to receive subsidies on the exchanges.

Thirty-six states did not set up their own exchanges (as Congress had assumed they would), instead relying on the federal government to do the work. That put a lot of pressure on Healthcare.gov, the federal insurance website, which hardly worked at all when it was launched on October 1st last year. It is working better now, but problems remain. A new audit warns that more must be done to make the site secure.

For now Obamacare seems to have expanded cover. Data-crunchers at Gallup, Harvard University, the Urban Institute and the Commonwealth Fund agree that the proportion of American adults who are uninsured dropped by 22%-26% from the third quarter of 2013, just before Obamacare's exchanges opened, to the second quarter of 2014, when enrolment ended. Between 8m and 10.3m adults have gained cover. Much of this gain appears to have come from the expansion of publicly-funded Medicaid, however. Nearly 20% of adults are uninsured in states that did not expand Medicaid, about twice the share in states that did, according to the Urban Institute (see chart 2 on next page).

How many people have gained coverage through the new exchanges is unclear. Officials say that more than 8m have signed up, but this includes some who had ►►



► insurance before. In May McKinsey, a consultancy, estimated that 26% of those who had bought policies on the individual market had been previously uninsured.

Politically, Obamacare remains highly controversial. A poll of polls finds that 51% of Americans disapprove of it; only 41% approve. Republicans bash it in stump speeches; Democrats mention it only in passing. A lawsuit, *Halbig v Burwell*, contends that the law allows insurance subsidies only through state-run exchanges, not through the federal one. If the plaintiffs win, they could kneecap the entire reform.

Assuming it survives legal challenges, however, Obamacare's success depends largely on how many uninsured people eventually sign up for coverage on the exchanges. Legally, they are obliged to have coverage, but if prices are too high, some will opt to pay the penalty instead. Education should help—most of the uninsured are unaware of the subsidies available to them. But premiums matter more, and are rising, by an average of 7% across 33 states, according to PwC, a consultancy. There is broad variation. Premiums are to rise by an average of only 2.4% in Colorado, but by a whopping 14% in Tennessee, according to PwC. The next round of enrolment starts in November; many people will discover whether their premiums are to rise or fall just before the mid-term elections.

Growth in health spending per person slowed from a shocking 7.4% a year from 1980 to 2009 to 3% from 2009 to 2012. It may rise again, alas. The lousy economy caused some of the recent slowdown. The government's actuaries expect spending to jump by 5.6% this year and 6% a year from 2015 to 2023. As more Americans age and gain insurance, they will demand more health care. Shane, for example, ignored an aching shoulder and blocked sinuses when he was uninsured. Now that he has cover, he is seeking treatment. Big hospitals say they

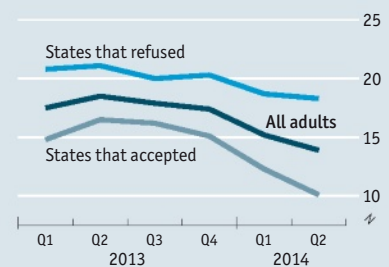
are seeing more patients: Tenet, a giant hospital firm, reported a 4% jump in patient volumes in the second quarter, compared with a year earlier.

Higher public spending on health threatens to crowd out education, infrastructure and more besides. In July the Congressional Budget Office predicted that, despite the recent slowdown, government health programmes would become the single biggest area of public spending within 20 years, and grow from 4.8% of GDP now to 8% in 2039.

America's health system is terrible at controlling costs for two main reasons. First, insurers and Medicare usually pay doctors when they deliver many services, rather than when they keep patients well. Second, America relies on a private market of doctors and insurers, yet their costs and quality remain opaque. For decades the doctors' lobby has fought to hide detailed data on doctors' performance and prices. Robert Kocher and Ezekiel Emanuel report that 30-40% of top academic hospitals have contracts that bar insurers from relaying hospital prices to employers or pa-

Expanding public coverage

18- to 64-year-olds who lack health insurance in states that did and didn't accept Obamacare subsidies to expand Medicaid, % of total



Source: Urban Institute

tients. What quality measures exist are mostly tied to procedures, not results.

So patients have been left in the dark. When they have visited the doctor, they have had no idea what anything costs or that it all ultimately comes out of their wages. So they have not objected when doctors gave them unnecessary tests, or overcharged.

Thus the cost of a back scan in New York ►►

Private health care

The problem-solvers

MIAMI

Hints of how to provide better health care for less money

CHENMED doesn't look like much. Its clinic north of Miami has a modest waiting area and circle of examination rooms. But every action is engineered and tracked. Jennifer Thomas, the chief operations officer, pores over data. Whiteboards on her walls are covered with diagrams, a vestige from her days at McKinsey, a consultancy. "We've kind of figured it out," she says.

"It" is how to care for the most expensive patients in the world's most expensive health system. ChenMed is devoted to poor elderly people who may have half a dozen chronic conditions. It profits when they are kept well and their health-care costs are kept low. Clinics like ChenMed are the exception, not the rule. But the company is one of many that provide a hint of how American health care might work better.

ChenMed is led by Christopher Chen, a doctor and the son of the company's founder, a Taiwanese immigrant. Other members of the Chen family hold senior positions, but they have been joined by high-flying executives and management consultants, lured by ChenMed's model and the promise of profits as the company grows.

The idea is simple. Medicare, the public health programme for the elderly, has a growing share of patients who use

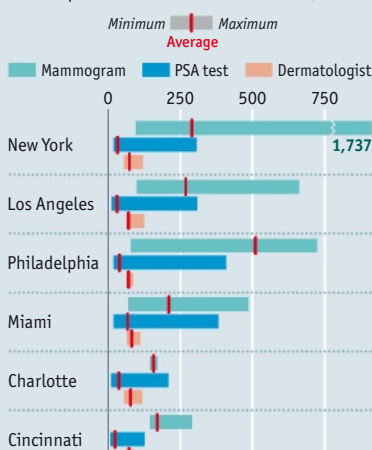
government money to buy private insurance. ChenMed contracts with those insurers, most of which pay a capped rate for each patient, and then plies patients with primary care to keep them out of hospital. ChenMed has vans to take patients to and from its clinics—lack of transport often keeps elderly patients from seeing their doctors. Once at the clinic, patients wave a card at the front desk and are automatically checked in. Staff perform a tightly choreographed routine, with data fed back to Ms Thomas and others to find further improvements.

Examination rooms circle a central hub so that doctors can confer easily with assistants and specialists. A mobile app lets doctors see patients' medical records and refer to clinical protocols. The clinic has a pharmacy, so doctors give patients pills directly and answer any questions; failing to take medicine often sends patients to hospital. Most administration is centralised elsewhere, so staff at the clinic devote their attention to treatment.

This seems to work. Medicare patients at ChenMed spent nearly 40% fewer days in hospital than the national average. Thanks to a venture with Humana, a big insurer, it has expanded to three dozen clinics. Dr Chen is bullish. "We don't see why we can't grow by 300% to 400% over the next five years," he says.

When hidden, costs vary wildly

Medical procedure costs in selected cities, \$



Source: Castlight Health

▶ City ranges from \$416 to more than ten times that amount, according to Castlight, a firm in California. A prostate-specific antigen test in Philadelphia could be \$20 or \$407 (see chart 3 on previous page). Quality is erratic, too. Laurent Glance of the University of Rochester found that rates of complications from caesarean deliveries varied nearly fivefold among American hospitals.

Obamacare tries various ways to curb costs. For example, it urges groups of doctors and hospitals to become Accountable Care Organisations (ACOs), rewarded for keeping Medicare patients' costs below a set limit. However, data published on September 16th show that only a quarter saved enough to earn a bonus. Obamacare also orders the health department to make costs and quality more transparent. This, too, is proceeding fitfully. In April health officials published Medicare payments to specific doctors. This revealed which doctors perform a lot of procedures. However, it did not reveal whether those interventions were appropriate or successful. Medicare's more useful data, which would show which doctors keep patients well, have yet to be broadly released; there are worries about privacy.

A long way to go

Mark McClellan of the Brookings Institution, a think-tank, points out that insurers and doctors' groups are testing their own versions of ACOs, which might be more successful than the government's. Companies are also slowly lifting the veil from doctors' costs and quality. Castlight compiles data from employers' insurance bills, then presents prices to patients. UnitedHealthcare, Aetna, Humana and Kaiser Permanente, four huge insurance and health companies, have given reams of data to an independent research centre. Next year it will launch a website where any insured patient can log in and view quality and cost information for specific doctors and hospitals.

Patients may increasingly demand change, too. Employers are pushing workers into plans with high deductibles, which means they must pay for more care out of their own pockets before insurance kicks in. The share of workers with deductibles jumped from 55% in 2006 to 80% in 2014. This gives patients a good reason to shop around for cheaper treatment. In some cases, employers are asking workers to shop around for insurance too, giving them cash to buy coverage on privately-run health exchanges.

When patients act like shoppers, health-care providers serve them better. In August the number of retail clinics, which treat patients at malls and outside regular hours, was up 17% over last year, according to Merchant Medicine, a consultancy. Obamacare's exchanges have inspired new in-

surance entrepreneurs. Oscar, started by techies in New York, tries to be the patient's ally, swapping insurers' usual perplexing drivel for clear information. Medicare Advantage, a complement to the traditional public scheme for the elderly, often pays doctors a capped fee to care for patients. Providers profit when patients are well and costs are cut. America's health market has long been an example of what not to do. If it can serve patients, it just might become the opposite. ■

The NFL and violence

The politics of outrage

WASHINGTON, DC

Football has become a political football

NO PASTIME unites America like the National Football League (NFL). During the 2013 autumn season, 34 of the 35 most-watched shows on television were NFL games. Though non-Americans may puzzle over the game's allure, football offers advertisers one of the last chances to reach huge, real-time audiences. Unlike golf (whose fans tend to be old, white and well-off), or NASCAR racing (whose fanbase lies in the white South), football spans racial, class and partisan divides. It is all the more striking, then, that football finds itself mired in so many divisive debates.

On September 8th Ray Rice, a running back, was fired by the Baltimore Ravens and dropped indefinitely by the NFL after video footage emerged showing him punching his future wife unconscious in a casino lift. Mr Rice had initially received only a two-game suspension after being indicted in March for the assault (charges were suspended after he agreed to coun-

selling). The NFL has hired a former FBI director to probe allegations that it knew of the damning footage earlier than it admitted. Some fans think Mr Rice should be forgiven and welcomed back (see picture).

On September 17th Adrian Peterson, a Minnesota Vikings star, was suspended after being accused of beating his four-year-old son with a tree branch, leaving open wounds (Mr Peterson says being spanked as a child has helped him in life). Team bosses had already suspended the player once then reinstated him, citing his legal rights (though sceptics noted that his team had just lost a game without Mr Peterson on the field). On September 17th Jonathan Dwyer of the Arizona Cardinals was arrested on suspicion of domestic violence.

Sponsors are not happy. Anheuser-Busch InBev, the maker of Budweiser beer, said on September 16th that it was "not yet satisfied" with the NFL's handling of such things. Nike severed ties with Mr Rice and suspended a deal with Mr Peterson.

Maria Cantwell, a Democratic senator from Washington state and advocate for Native Americans, said she would ask Congress to remove the NFL's tax-exempt status as punishment for allowing the Washington Redskins (of Washington, DC) to keep a name deemed racist by some. Both Republicans and Democrats have attacked sports-league tax breaks in recent years, without result. Earlier this month the NFL admitted that it expects almost a third of players to suffer health problems, such as dementia, from concussions suffered on the field. President Barack Obama said in January that if he had a son, he would not let him play pro football. Many parents feel the same.

Rick Burton, a sports-management professor at Syracuse University, sees a society that wants players held to higher standards of off-field behaviour than the public imposes on itself, while "we reward them for being violent on the field". ■



What would Ray Rice have to do to lose your support?

Ücretsiz PDF Kitap Arsivi - <https://rantey.org>

NOTICE OF A JUDICIAL INSTRUCTION PROCEEDING IN CONNECTION WITH THE ACCEPTANCE OF THE
MODIFIED PROPOSED SETTLEMENT AGREEMENT WITH JPMORGAN

NOTICE IS HEREBY GIVEN TO THE HOLDERS OF CERTIFICATES, NOTES OR OTHER SECURITIES ("CERTIFICATEHOLDERS") OF THE RESIDENTIAL MORTGAGE-BACKED SECURITIZATION TRUSTS AND LOAN GROUPS IDENTIFIED IN EXHIBIT A HERETO (THE "ACCEPTING TRUSTS AND LOAN GROUPS") AND OTHER PERSONS POTENTIALLY INTERESTED IN THE ACCEPTING TRUSTS AND LOAN GROUPS. THE CERTIFICATEHOLDERS AND OTHER NOTICE RECIPIENTS SHOULD READ THIS NOTICE AND THE MATERIALS REFERENCED HEREIN CAREFULLY IN CONSULTATION WITH THEIR LEGAL AND FINANCIAL ADVISORS. THE ACCEPTANCE OF THE MODIFIED PROPOSED SETTLEMENT AGREEMENT COULD MATERIALLY AFFECT THE INTERESTS OF THE CERTIFICATEHOLDERS.

NOTICE IS HEREBY GIVEN BY:

THE BANK OF NEW YORK MELLON
THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.
DEUTSCHE BANK NATIONAL TRUST COMPANY
HSBC BANK USA, NATIONAL ASSOCIATION
LAW DEBENTURE TRUST COMPANY OF NEW YORK
U.S. BANK NATIONAL ASSOCIATION
WELLS FARGO BANK, NATIONAL ASSOCIATION
WILMINGTON TRUST, NATIONAL ASSOCIATION

EACH, IN ITS CAPACITY AS TRUSTEE, INDENTURE TRUSTEE, SEPARATE TRUSTEE, AND/OR SUCCESSOR TRUSTEE OF THE ACCEPTING TRUSTS AND LOAN GROUPS (COLLECTIVELY, THE "ACCEPTING TRUSTEES" AND EACH AN "ACCEPTING TRUSTEE"), TO CERTIFICATEHOLDERS.

THIS NOTICE CONTAINS IMPORTANT INFORMATION FOR CERTIFICATEHOLDERS. ALL DEPOSITORIES, CUSTODIANS AND OTHER INTERMEDIARIES RECEIVING THIS NOTICE, AS APPLICABLE, ARE REQUESTED TO EXPEDITE THE RE-TRANSMITTAL OF THIS NOTICE TO CERTIFICATEHOLDERS IN A TIMELY MANNER.

Dated: August 20, 2014

This notice (the "Notice") is given to you by the Accepting Trustees under certain applicable Pooling and Servicing Agreements, Indentures, Servicing Agreements, Mortgage Loan Purchase Agreements, Assignment and Assumption Agreements and/or other agreements governing the Accepting Trusts and Loan Groups (the "Governing Agreements").

ACCEPTANCE OF MODIFIED PROPOSED SETTLEMENT AGREEMENT

This notice relates to the RMBS Trust Settlement Agreement entered into as of November 15, 2013 and modified as of July 29, 2014 (the "Modified Proposed Settlement Agreement" or "Settlement"), by a group of twenty-one (21) institutional investors (the "Institutional Investors") and JPMorgan Chase & Co. and its direct and indirect subsidiaries ("JPMorgan"). A copy of the Modified Proposed Settlement Agreement is available at: http://www.rmbstrustsettlement.com/docs/Modified_Proposed_Settlement_Agreement.pdf. Capitalized terms used in this Notice and not otherwise defined have the meanings assigned to them in the Modified Proposed Settlement Agreement.

In a prior notice to Certificateholders, dated August 1, 2014, the Accepting Trustees informed Certificateholders that on August 1, 2014, the Accepting Trustees notified JPMorgan that, following an evaluation process including consideration of expert reports, they each have accepted the Modified Proposed Settlement Agreement on behalf of the Accepting Trusts and Loan Groups for which they act as trustee, indenture trustee, separate trustee, or successor trustee, subject to Final Court Approval.

FINAL COURT APPROVAL – NOTICE OF A JUDICIAL INSTRUCTION PROCEEDING

The Accepting Trustees have filed a petition (the "Petition") and commenced a judicial instruction proceeding pursuant to CPLR § 7701, *In the matter of the application of U.S. Bank National Association, et al.*, (Index No. 652382/2014) (the "Article 77 Proceeding"), in the Supreme Court of the State of New York, County of New York (the "Court"). In the Article 77 Proceeding, the Accepting Trustees are seeking a judgment that the Accepting Trustees' acceptance of the Modified Proposed Settlement Agreement on behalf of the Accepting Trusts and Loan Groups was a reasonable and good faith exercise of the Accepting Trustees' authority under the applicable Governing Agreements, and barring Certificateholders from asserting claims against the Accepting Trustees with respect to the Accepting Trustees' evaluation and acceptance of the Modified Proposed Settlement Agreement and implementation of the Modified Proposed Settlement Agreement in accordance with its terms. Such a judgment, if granted, would constitute, after becoming final and non-appealable (including the expiration of any time to apply for discretionary review), "Final Court Approval" under and as defined in the Modified Proposed Settlement Agreement.

On August 15, 2014, the Court issued an order (the "August 15 Order") approving a notice program related to the Article 77 Proceeding and directing, among other things, that:

- anyone having an interest in the Accepting Trusts and Loan Groups show cause before the Court at IAS Part 60, to be held at the Courthouse, 60 Centre Street, New York, New York, on the 16th day of December, 2014, at 10:00 a.m. ("Hearing Date"), or as soon thereafter as counsel may be heard, why an order should not be issued, pursuant to CPLR § 7701, granting judgment in favor of the Accepting Trustees, as trustees, indenture trustees, separate trustees, and/or successor trustees for the Accepting Trusts and Loan Groups, on their Petition;
- the Court reserves the right to adjourn the Hearing Date or any adjournment thereof without further notice of any kind other than oral announcement on the Hearing Date or any adjournment thereof or e-filed order; and the Court reserves the right to approve the Accepting Trustees' entry into the Settlement (including with such modification(s) as may be consented to by the parties to the Settlement in accordance with its terms) without

further notice of any kind beyond such notice as provided for in the August 15 Order;

- any potentially interested person who wishes to be heard in support of or opposition to the Settlement and/or the Petition may appear in person or by an attorney on the Hearing Date and subject to further order of the Court may present evidence or argument that may be proper and relevant; provided, however, that, except for good cause shown, no person shall be heard and nothing submitted by any person shall be considered by the Court in objection to the Settlement unless a written notice of intention to appear along with a statement of such person's objection to any matters before the Court and the grounds therefor, as well as all documents such person desires the Court to consider, shall be filed with the Court and served upon the Accepting Trustees' counsel, on or before November 3, 2014;
- any potentially interested person who fails to object in the manner required by the August 15 Order shall be deemed to have waived the right to object (including any right of appeal) and shall forever be barred from raising such objection in the Article 77 Proceeding or any other action or proceeding, unless the Court orders otherwise;
- on or before December 3, 2014, any papers in response to any such objection, or any submissions in favor of or with respect to the Settlement, shall be filed with the Court and served upon (i) any person who submitted any objection, and (ii) any person who has been granted leave to intervene and entered a formal appearance in the Article 77 Proceeding pursuant to CPLR § 320;
- except for good cause shown, no person other than the Accepting Trustees' counsel shall be heard on the Hearing Date unless such person has submitted an objection, or a submission in favor of or with respect to the Settlement, in accordance with the August 15 Order;
- the Court retains exclusive jurisdiction over the Accepting Trustees, the Accepting Trusts and Loan Groups and all trust beneficiaries (whether past, present or future) for all matters relating to the Settlement and the Article 77 Proceeding;
- during the pendency of the Article 77 Proceeding, the Accepting Trustees may seek an instruction from the Court before responding to or taking any action with respect to assertions, allegations, notices, or directions from any trust beneficiary relating to the subject matter of the Article 77 Proceeding;
- all papers required or permitted to be served by the Accepting Trustees or any party who is subsequently granted leave to intervene shall be served by filing on the court e-filing system ("NYSCEF"), unless a party or recipient is exempt, and by overnight mail or personal delivery;
- any papers served by any objector or other potentially interested person who is not formally granted leave to intervene shall be served by filing on NYSCEF, unless a party or recipient is exempt, and by overnight mail or personal delivery to the Accepting Trustees;
- two hard copies of all papers served by any person, with proof of service thereof, shall also be filed with the Clerk of Part 60 by the date on which such papers are required to be filed. (For example, paragraph 6 of the August 15 Order requires a written notice of intention to appear to be served and filed by November 3, 2014. Hard copies shall also be filed with the Part 60 Clerk by that date). For any paper for which this Order to Show Cause does not specify a service and filing date, the two hard copies shall be filed with the Part 60 Clerk in advance of the return date and, if possible, at least seven days before the return date. Except for good cause shown, no request to be heard will be granted unless such hard copies are filed pursuant to this paragraph;
- any written notice of intention to appear with statement of the grounds for objection, and any other written motions and papers required or permitted to be filed for any purpose in the Article 77 Proceeding shall be subject to the following requirements. Such papers shall be double-spaced and shall not exceed a total of 15 pages, not including documentary

evidence, unless an expansion of the page limits is granted by the Court in advance of the filing of the papers. (For example, a notice of intention to appear, statement of grounds for the objection, and memorandum of law in support shall together not exceed 15 pages); and

• any request for leave to formally intervene (as opposed to submission of written notice of intention to appear) shall be made by order to show cause, not by separate Petition. Petitions that have been served and filed as of August 15, 2014 will be accepted by the Court.

The August 15 Order is available at: <http://www.rmbstrusteesettlement.com/docs/Interim%20Decision%20and%20Order%20on%20Order%20to%20Show%20Cause.pdf>.

Following the Article 77 Hearing, the Court will determine, among other things, whether to grant the requested judgment, and will consider other important matters described in the Modified Proposed Settlement Agreement. If the requested judgment is granted and becomes final and non-appealable (including the expiration of any time to apply for discretionary review) and if the other conditions to the effectiveness of the Modified Proposed Settlement Agreement are satisfied, the Modified Proposed Settlement Agreement will become effective and will affect the rights and interests of all Certificateholders, and their successors-in-interests and assigns, in the Accepting Trusts and Loan Groups, including by, among other things, releasing claims against JPMorgan on behalf of the Accepting Trusts and Loan Groups arising out of or relating to Rep and Warranties Claims and Servicing Claims. Please refer to the Modified Proposed Settlement Agreement for a complete description of the releases provided for therein.

If the Court grants the requested judgment and such judgment becomes final and non-appealable (including the expiration of any time to apply for discretionary review) and the other conditions to effectiveness of the Modified Proposed Settlement Agreement are satisfied, all Certificateholders will be bound by the Modified Proposed Settlement Agreement whether or not they appeared in the matter or submitted any objection to the

Modified Proposed Settlement Agreement. The Petition, any papers filed in support of the Petition, any orders entered by the Court in the Article 77 Proceeding and other information relevant to the Article 77 Proceeding will be made available at <http://www.rmbstrusteesettlement.com/index.php> (the "JPM Proposed Settlement Website"), which will be updated when additional papers are filed or additional orders are entered in the Article 77 Proceeding. You should also be able to obtain any documents filed with the Court by visiting the Court's website: <http://iapps.courts.state.ny.us/iscroll/>. If you have any questions, you may call (855) 382-6461 in the United States, (513) 785-0998 outside the United States, or send an email to questions@rmbstrusteesettlement.com.

Certificateholders should NOT direct inquiries to the Court or the Clerk of the Court.

MISCELLANEOUS

This Notice summarizes the Modified Proposed Settlement Agreement and the Article 77 Proceeding and is not a complete statement of the Modified Proposed Settlement Agreement or the Article 77 Proceeding or a summary or statement of relevant law or of relevant legal procedures. Certificateholders and other potentially interested persons are urged to carefully consider the implications of the Modified Proposed Settlement Agreement, including the releases of the Rep and Warranty Claims and Servicing Claims and to consult with their own legal and financial advisors.

Certificateholders and other persons interested in the Accepting Trusts and Loan Groups should not rely on the Accepting Trustees, their counsel, experts or other advisors retained by the Accepting Trustees, as their sole source of information.

Please note that this Notice is not intended and should not be construed as investment, accounting, financial, legal, tax or other advice by or on behalf of the Accepting Trustees, or their directors, officers, affiliates, agents, attorneys or employees. Each person or entity receiving this Notice should seek the advice of its own advisors in respect of the matters set forth herein.

EXHIBIT A

List of Accepting Trusts and Loan Groups

Accepted subject to entry of a final court order in a judicial instruction proceeding as set forth in Section 2.03(c) of the Modified Proposed Settlement Agreement.

Unless otherwise indicated, acceptance is with respect to all loan groups or sub-loan groups, if applicable, of a particular trust.

The Bank of New York Mellon, as Trustee

BALTA 2005-1
BALTA 2005-10
BALTA 2005-2
BALTA 2005-3
BALTA 2005-4
BALTA 2005-5
BALTA 2005-7
BALTA 2005-8
BALTA 2005-9
BALTA 2006-1
BALTA 2006-2
BSABS 2005-SD1
BSABS 2005-SD2
BSABS 2005-SD3
BSABS 2005-SD4
BSABS 2006-2
BSABS 2006-3
BSABS 2006-4
BSABS 2006-SD1
BSABS 2006-SD2
BSABS 2006-SD3
BSABS 2006-SD4
BSABS 2007-1
CHASE 2006-S2
GPMF 2005-AR1
PRIME 2005-1
SAMI 2005-AR1
SAMI 2005-AR2
SAMI 2005-AR3
SAMI 2005-AR4
SAMI 2005-AR6
SAMI 2005-AR7
SAMI 2005-AR8
SAMI 2006-AR1
SAMI 2006-AR2
SAMI 2006-AR3
SAMI 2006-AR4
SAMI 2006-AR5
SAMI 2006-AR6
SAMI 2006-AR7
SAMI 2006-AR8

The Bank of New York Mellon Trust Company, as Trustee

CFLX 2007-1
CFLX 2007-2
CFLX 2007-3
CFLX 2007-M1
CHASE 2006-S3
CHASE 2006-S4
CHASE 2007-A1
CHASE 2007-A2
CHASE 2007-A3
CHASE 2007-S1
CHASE 2007-S2

CHASE 2007-S3
CHASE 2007-S4
CHASE 2007-S5
CHASE 2007-S6

Deutsche Bank National Trust Company

JPMAC 2007-CH1
JPMAC 2007-CH2
JPMAC 2007-CH3
JPMAC 2007-CH4
JPMAC 2007-CH5
JPMAC 2007-HE1
MSST 2007-1

HSBC Bank USA, National Association

BSMF 2006-AC1
JPALT 2006-A5
JPALT 2006-A7
JPALT 2007-A1
JPMMT 2006-A5
JPMMT 2007-A1
JPMMT 2007-A2
JPMMT 2007-A5
JPMMT 2007-A6
LUM 2006-3

U.S. Bank National Association, as Trustee

BALTA 2006-3
BSABS 2005-2
BSABS 2005-3
BSABS 2005-4
BSABS 2005-AC1
BSABS 2005-AC2
BSABS 2005-AC3
BSABS 2005-AC4
BSABS 2005-AC5
BSABS 2005-AC6
BSABS 2005-AC7
BSABS 2005-AC8
BSABS 2005-AC9
BSABS 2005-AQ1
BSABS 2005-AQ2
BSABS 2005-EC1
BSABS 2005-FR1
BSABS 2005-HE1
BSABS 2005-HE10
BSABS 2005-HE11
BSABS 2005-HE12
BSABS 2005-HE2
BSABS 2005-HE3
BSABS 2005-HE4
BSABS 2005-HE5
BSABS 2005-HE6
BSABS 2005-HE7
BSABS 2005-HE8
BSABS 2005-HE9

BSABS 2005-TC1
BSABS 2005-TC2
BSABS 2006-1
BSABS 2006-AC1
BSABS 2006-AC2
BSABS 2006-AC3
BSABS 2006-AC4
BSABS 2006-AC5
BSABS 2006-AQ1
BSABS 2006-EC1
BSABS 2006-EC2
BSABS 2006-HE1
BSABS 2006-HE10
BSABS 2006-HE2
BSABS 2006-HE5
BSABS 2006-HE6
BSABS 2006-HE7
BSABS 2006-HE8
BSABS 2006-HE9
BSABS 2006-IM1
BSABS 2006-PC1
BSABS 2007-AC1
BSABS 2007-AQ1
BSABS 2007-FS1
BSABS 2007-HE1
BSABS 2007-HE2
BSABS 2007-HE3
BSABS 2007-HE4

Loan Group II only

BSABS 2007-HE5
BSABS 2007-HE6
BSABS 2007-HE7
BSARM 2005-1
BSARM 2005-10
BSARM 2005-11
BSARM 2005-12
BSARM 2005-2
BSARM 2005-3
BSARM 2005-4
BSARM 2005-5
BSARM 2005-6
BSARM 2005-7
BSARM 2005-9
BSARM 2006-1
BSARM 2006-2
BSMF 2006-SL5
BUNT 2005-1
CFLX 2005-1
CFLX 2005-2
CFLX 2006-1
CFLX 2006-2
CHASE 2005-A1
CHASE 2005-A2
CHASE 2005-S1
CHASE 2005-S2
CHASE 2005-S3
CHASE 2006-A1
CHASE 2006-S1

EMCM 2005-A
EMCM 2005-B
EMCM 2006-A
JPALT 2005-A2
JPALT 2005-S1
JPALT 2006-A1
JPALT 2006-A2
JPALT 2006-A3
JPALT 2006-A4
JPALT 2006-A6
JPALT 2006-S1
JPALT 2006-S2
JPALT 2006-S3
JPALT 2006-S4
JPALT 2007-A2
JPALT 2007-S1
JPMAC 2005-FLD1
JPMAC 2005-FRE1
JPMAC 2005-OPT1
JPMAC 2005-OPT2
JPMAC 2005-WMC1
JPMAC 2006-ACC1
JPMAC 2006-CH1
JPMAC 2006-CH2
JPMAC 2006-CW1
JPMAC 2006-CW2
JPMAC 2006-FRE1
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JPMAC 2006-HE1
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JPMAC 2006-HE3

Group I only

JPMAC 2006-NC1
JPMAC 2006-NC2
JPMAC 2006-RM1
JPMAC 2006-WMC1
JPMAC 2006-WMC2

Group I only

JPMAC 2006-WMC3

Group I only

JPMAC 2006-WMC4

Group I only

JPMMT 2005-A1
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JPMMT 2005-A4
JPMMT 2005-A5
JPMMT 2005-A6
JPMMT 2005-A7
JPMMT 2005-A8
JPMMT 2005-ALT1
JPMMT 2005-S1
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JPMMT 2007-S2
JPMMT 2007-S3
LUM 2005-1
PRIME 2005-2
PRIME 2005-3
PRIME 2005-4
PRIME 2005-5
PRIME 2006-1
PRIME 2006-2
PRIME 2006-CL1
PRIME 2007-1
PRIME 2007-2
PRIME 2007-3
PRIME 2007-3
SACO 2005-6
SACO 2005-9
SACO 2005-WM1
SACO 2005-WM2
SACO 2005-WM3
SACO 2006-4
SAMI 2005-AR5

Wells Fargo Bank, National Association, as Trustee Law Debenture Trust Company of New York, as Separate Trustee

BSABS 2005-1
BSABS 2007-AC2
BSABS 2007-AC3
BSABS 2007-AC4
BSABS 2007-AC5
BSABS 2007-AC6
BSARM 2007-3
BSARM 2007-5
BSMF 2006-AR1
BSMF 2006-AR2
BSMF 2006-AR3
BSMF 2006-AR4
BSMF 2006-AR5
BSMF 2007-AR1

Loan Group I only

BSMF 2007-AR2
BSMF 2007-AR3
BSMF 2007-AR4
BSMF 2007-AR5
GPMF 2005-AR2
GPMF 2005-AR3
GPMF 2005-AR4
GPMF 2005-AR5

GPMF 2006-AR1
GPMF 2006-AR2
GPMF 2006-AR3
SACO 2005-1
SACO 2005-2
SACO 2005-3
SACO 2007-VA1
SAMI 2007-AR4

Wilmington Trust, National Association, as Trustee

BALTA 2006-4
BALTA 2006-5
Loan Group II loans only
BALTA 2006-6
BALTA 2006-7
BALTA 2006-8
Loan Group III loans only
BALTA 2007-1
Loan Group II loans only
BALTA 2007-2
BALTA 2007-3
BSAAT 2007-1
SACO 2005-6
SACO 2005-9
SACO 2005-WM1
SACO 2005-WM2
SACO 2005-WM3
SACO 2006-4
SAMI 2005-AR5
BSABS 2005-CL1
BSABS 2006-HE3
BSABS 2006-HE4
BSABS 2007-2
BSABS 2007-SD1
BSABS 2007-SD2
BSABS 2007-SD3
BSARM 2006-4
BSARM 2007-1
BSARM 2007-2
BSARM 2007-4
BSSLT 2007-SV1
GPMF 2007-HE1
PRIME 2006-DR1
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SACO 2005-5
SACO 2005-7
SACO 2005-8
SACO 2005-10
Loan Group II loans only
SACO 2005-GP1
SACO 2006-1
SACO 2006-12
Loan Group II loans only
SACO 2007-1
Loan Group II loans only
SAMI 2007-AR1
SAMI 2007-AR2
SAMI 2007-AR3
SAMI 2007-AR5
SAMI 2007-AR6
SAMI 2007-AR7
Sub-Loan Group III loans only

Confronting Islamic State

A war by any other name

WASHINGTON, DC

Despite disagreement about what to call it, America is preparing to go to war with jihadists in Iraq and Syria

BARACK OBAMA does not call it a war and Congress has not passed a war powers resolution. Yet America is poised to begin officially arming and training rebels fighting against Islamic State (IS) in Syria, where the CIA has offered some covert assistance for some time. And in Iraq American pilots have launched air strikes in support of Iraqi government forces for the first time since 2011, attacking targets near Baghdad. Whatever it is called, it looks a lot like a war.

America's plan for fighting IS has two parts. On September 17th the House of Representatives passed a continuing resolution to fund the federal government until mid-December. Tacked on to it was a provision to pay for training and equipment for rebels fighting against IS in Syria. The measure passed with support from 159 Republicans and 114 Democrats. The opponents of the measure were an eclectic coalition of 85 broadly anti-war Democrats and 71 hawkish Republicans who wanted more direct intervention in Syria. As *The Economist* went to press the Senate was expected to vote in agreement.

This reflects a sharp turn in public opinion. A year ago, when Bashar Assad used chemical weapons in the suburbs of Damascus, Mr Obama was unable to find the votes on Capitol Hill to support air strikes. Since IS began beheading Westerners on camera, public opinion has swung behind American involvement in Syria (see chart). Chuck Hagel, the defence secretary, said that American support, which will cost \$500m, will consist of training for fighters conducted in Saudi Arabia, plus the provision of small arms, vehicles and communications technology. The plan is to train a few thousand soldiers who have been vetted to check they are not rapists, murderers or terrorists. It will be several months before they are deemed ready for battle.

If this goes well then more sophisticated weapons will be handed over. This approach has already been tested in the covert arming of rebels, some of whom have been loaned powerful weapons on the condition that they video their use, allowing American agents to verify that they have indeed been used for the purposes for which they were intended.

The strategy in Iraq, where IS is trying to hold territory it has already taken, is different. America is increasing the number of troops deployed there. Mr Hagel told Congress that there will eventually be 1,600 in



How to recruit 300m opponents

Iraq, though they will not have a combat mission, a point Mr Obama has been keen to emphasise. General Martin Dempsey, Chairman of the Joint Chiefs of Staff, added that some of these troops might, under some circumstances, follow Iraqi forces into battle on raids. He also said that he would, if necessary, recommend sending American ground troops into battle.

The difference in approach in Iraq and Syria reflects the line-up of forces in both places. Yet it is also consistent with an organising principle of Mr Obama's foreign policy. The president is concerned to set norms for the use of force now that will hold good later in the century, when America will no longer be the world's pre-eminent economic power. One of these is that countries should not send their troops into

other countries unless the deployment meets one of three criteria: either their security is directly threatened, they have been asked to help by a host government, or their actions are backed by an unambiguous UN Security Council resolution.

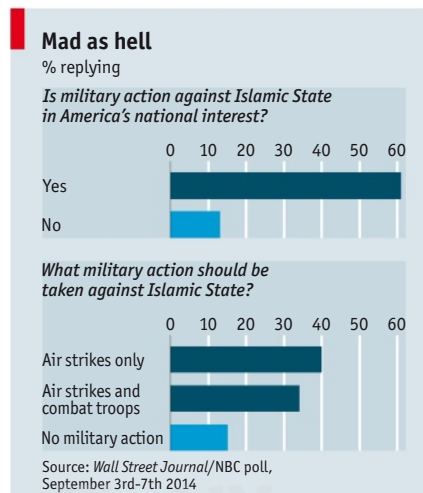
In the case of Iraq, America has been involved in—hence the deployment of troops and launching of air strikes. In Syria, where Bashar Assad is still president, they have not, and so American boots will not tread there. Mr Hagel did suggest that once in Iraq, some troops might cross the border from there into Syria. “Our actions,” he told the Senate, “will not be restrained by a border in name only”.

Two other principles of Mr Obama's foreign policy have been on display since he gave a speech on September 10th announcing plans to support some Syrian rebels and to weaken IS. As a presidential candidate, Mr Obama argued that the armed forces should not go to war without authorisation from Congress. In office he has claimed the authority to do so, in both Libya and Syria. The administration's legal arguments have relied on one use-of-force resolution secured by George W. Bush three days after the terrorist attacks on September 11th 2001, another secured by the same president a year later and powers included in the constitution to protect Americans abroad: the recent operation to secure the Mosul dam in Iraq was justified in part on the grounds that blowing it up might threaten the lives of Americans in the embassy in Baghdad.

Dependency theory

The other principle at work helps to explain why Mr Obama's plans disappoint the hawkish members of Congress. The president thinks military power should not be used in such a way that it allows other countries to duck their responsibilities. The administration is eager to involve Saudi Arabia, Turkey, Qatar and the United Arab Emirates in the fight against IS rather than just do the job for them. One person familiar with the plans to bolster Syrian rebels thinks that the funding announced by the president and passed by the House is insufficient to defeat IS, but will work instead as seed financing for a force that will get more financial support from Gulf states once it has proved its effectiveness.

In short, the president seems to feel about foreign policy the way many Republicans feel about welfare: too much help from the federal government is infantilising and ultimately makes the problem worse. For now Mr Obama has put this concern aside, but the test he has set for his plan is clear: intervention now must lead to less American help in the future. ■



Correction: A chart last week suggested that Americans over 70 are far likelier to be murdered than those in their 60s (“Who gets murdered, September 13th”). This was an editing error; they are not. Sorry

Country music and tourism

Heels and reels

NASHVILLE

What “Nashville” has done for Nashville

COUNTRY MUSIC manages to be both hugely popular and utterly unfashionable. Toby Keith, a former oil worker from Oklahoma whose songs include “I Like Girls That Drink Beer”, made \$65m last year: more than the Rolling Stones, Justin Bieber, Beyoncé or any rapper. Yet some people have never heard of him. Tim McGraw, a lesser country star who made only \$33m last year, recently told the *Wall Street Journal* that he used to take his young daughters on tour with him, but “now they’re too cool”.

“Nashville” is also uncool. Yet viewers in 50 countries are addicted to this grand old soap opera about musicians with big voices, big hair and even bigger personal problems. And that is good news for Nashville, the city. Because since ABC first broadcast “Nashville” in 2012, hordes of fans from all over the world have flocked to the capital of country music to see where their favourite characters sang, brawled and stole each other’s boyfriends.

On a bus tour around the sets, two Swedish ladies gush that they watch “Nashville” because Deacon Claybourne, a character played by Chip Esten, is such a hunk. An American couple say they love the music—and hop off the bus early to join a two-hour-long queue for dinner at the Bluebird Cafe, an eatery where country wannabes perform—both on the show and in real life.

Nashville attracted 12.2m visitors last year. Of those who come for fun, surveys suggest that 55% have seen the show. Members of this happy group stay in town longer than those who have not, spend 23% more money and bring more pals with them. In all, visitors splurged more than \$4 billion in 2013. Small wonder Tennessee loves “Nashville”.

But like the “high-maintenance woman” who ain’t “gonna fall for a maintenance man” in one of Mr Keith’s songs, the show doesn’t come cheap. Its executives threatened to walk out the door and shoot the second series somewhere cheaper, like Texas or Georgia. Last year Tennessee produced \$12.5m to keep “Nashville” in Nashville. The city government gave another \$500,000. The Nashville Convention & Visitors Corporation (NCVC) chipped in \$125,000. Handouts for the third series, which hits screens on September 24th, are more modest: Tennessee set aside \$5.5m for all film projects this year.

Even if the “Nashville” craze fades away



Even the buskers are good in Nashville

(just like every storm runs out of rain), the city will still have a lot going for it. Its bars serve smooth whiskey and resound with guitars, banjos and fiddles. And it is home to real country stars, such as Mr McGraw, his wife Faith Hill, Keith Urban and Taylor Swift. David Nicholson of the NCVC says that Ms Swift is a big reason why young women from Europe want to visit Nashville. “Five years ago the city drew a complete blank,” he says. Rumours that she inspired the volatile character of Juliette Barnes (pictured, right) in “Nashville” have been vigorously denied. ■

Drought in California

Painting the lawn green

LOS ANGELES

Californians find novel ways to cope with drought

JACK MELLIGAN, a prison guard in Sacramento, was tired of staring at his brown, patchy lawn—a side-effect of the drought that has parched California for the past three years. He thought about replacing it with shop-bought turf, but worried that he might incur hefty fines for watering it, under new statewide water restrictions. So he paid someone \$180 to spray-paint his lawn a cheery green instead.

In a state known for special effects, such fakery is to be expected. If Hollywood can make a green screen look like a terrifying desert on an alien planet, it is only natural that Californians should seek ways to make the terrifying deserts in their front yards look verdant. Mr Melligan is not alone; your correspondent has a wardrobe

full of green-stained shoes to prove it.

The fad for *trompe l’oeil* gardening has been a boon for lawn-painters such as David Bartlett, the owner of Xtreme Green Grass, whose business has grown 75% this year. Over the same period Jim Power, who runs a lawn-paint supply company called LawnLift, has seen sales triple. “It has become more socially acceptable to paint your lawn,” he says, “especially as it’s become more socially shameful to water it.” At the same time, fewer Californians are buying new turf, says Jurgen Gramkow, who grows the stuff and says sales at his farm in Oxnard are down 20% this year.

The drought, one of the worst in a century, has pushed the state to waste a bit less water. In July California banned such things as allowing sprinkler water to run off lawns on to streets and washing cars with hoses that have no shut-off nozzle. And on August 29th the state legislature passed three bills that would allow local agencies, for the first time, to curb excessive pumping of groundwater by landowners.

Historically, California has resisted groundwater regulation, favouring local property rights even as every other western state embraced state control. But sentiment has shifted with the realisation that the water might run out. By some measures, the state’s \$45 billion agricultural industry already accounts for 62% of water consumption. And it is getting thirstier, as profitable fruit trees and vines have replaced other crops. As surface reservoirs are depleted, farmers are forced to drill deeper. Perhaps 65% of California’s water could come from underground this year, up from 40% in average years, according to the California Water Foundation, a green group. Over-use of wells means that salt water can invade coastal aquifers, and also that fresh water disappears. A recent study by the California Department of Water Resources found that, in about half of the wells surveyed, water levels had already fallen to their lowest point for a century.

Several cities are trying to conserve water. Earlier this year Santa Cruz began enforcing rationing for every home and a ban on filling hot tubs and jacuzzis, with weighty fines and “Water School” for transgressors. The results are striking: in July citywide water use fell 26% compared with last year. In comparison, statewide water use had declined by only 7.5% from the previous year, despite recent pleas from Governor Jerry Brown to all Californians to cut water use by 20%.

The state’s water shortages can be resolved only by putting a sensible price on water. State law will eventually require water metering on all buildings, but not until 2025. “We are finally moving toward a pricing system,” says Barton Thompson, a professor of natural resources at Stanford Law School, “which is really the only way to truly encourage people to conserve.” ■

Lexington | Hillary in Iowa

If she runs, she may win. But if she wins, could she govern?



IS HILLARY CLINTON preparing a run for the White House? Before pondering that timely question, consider another which may matter just as much. Why would any Democrat want to become president in 2016?

Mrs Clinton is certainly giving people cause to ask the first question. Before too long, she will need to answer the second. On September 14th she headed to Iowa for the first time since her wounding defeat by Barack Obama in that state's 2008 Democratic caucus. The former secretary of state, senator and First Lady made her return in a friendly, controlled setting. Accompanied by her husband, Bill, she was the guest star at the Harkin Steak Fry, a combined picnic, fundraiser and clan gathering for fans and friends of Tom Harkin, Iowa's Democratic senator and an old-school New Deal populist.

No national politician heads to Iowa on a whim. Winning Iowa's first-in-the-nation presidential contest does not sew up the nomination. But losing Iowa badly (in 2008 Mrs Clinton came third behind Mr Obama and John Edwards, a caddish lawyer) can derail a campaign built round inevitability. Senator Harkin tried to consign that rejection to history, calling the Clintons America's "comeback couple" and, to Iowa Democrats, "family".

Mr Harkin is retiring after 40 years in Congress. The Clintons were at pains not to overshadow their host. They used his-and-hers speeches to heap praise on Mr Harkin, bash Republicans and urge Democrats to vote in November's mid-term elections. The lovely setting, a sloping meadow bathed in autumn sunshine, had been decorated with similar care. There were old tractors, artfully placed hay bales, a giant flag and rows of campaign signs promoting mid-term candidates. "Ready for Hillary", a shadow campaign group working to assemble an army of grassroots activists for Mrs Clinton if she decides to run, bused hundreds of volunteers and Iowa students to the site, just outside Indianola. Tactfully, the group had lined the site with signs declaring "Thank You Tom!" and "Ready", and making no explicit mention of their heroine or 2016 (though the signs' colours were laden with meaning, with sky-blue lettering giving way to exclamation marks in a grown-up shade of pink).

Before her speech Mrs Clinton chatted, gingerly, with a crowd of over 100 penned-in reporters, pretending not to hear yelled-

out questions about her presidential ambitions. Once on stage she was a bit more direct, admitting that she was "thinking about" the presidency. Strikingly, she earned only a handful of real cheers: when she walked onstage, when dropping 2016 hints, and when she defended women's rights. Before the end of her workmanlike speech, activists began heading for the exits. Judging by the badges and banners they carried, these were Democrats pleased by the general idea of a fresh Clinton candidacy. Yet at that precise moment they also looked a little bored, and mostly focused on beating the traffic.

When straw-pollled, quite a few Iowa Democrats seem content with that level of commitment, for now. They sound mainly intrigued by that first basic question—is Mrs Clinton running?—and in quite a tokenistic way. This was true of several students at Drake University in Des Moines, waiting to board a free bus to the steak fry, laid on by "Ready for Hillary". Many said America needed to show it could elect a woman president. Young people are excited by novelty, added a first-year advertising student: "We've had a black president, now what's next?"

Other Democrats are willing to grapple with the second question cited at the start: why would they want the presidency in 2016? Democrats could be termed the party of people, with an edge in the nationwide popular vote, at least on the one day every four years when the White House is at stake. Beyond the Democrats' urban strongholds, Republicans are the party of territory, dominating vast swathes of rural and suburban America. Combine that with congressional district maps not due to be redrawn before 2020, and a President Hillary would be likely to face—at a minimum—a Republican-held House of Representatives and years of divided government.

Alas, divided government is not currently working. Mrs Clinton's husband has a talent for defining the political issue of the moment, and proved it again at the steak fry. America faces a puzzling problem, he mused in his speech. "We are less racist, sexist and homophobic than we've ever been." At the same time: "We don't want to be around anyone who disagrees with us." Put another way, even as some big divisive arguments lose their potency, partisan divisions are growing ever sharper.

Post-hope politics

Such gridlock alarms thoughtful Iowa Democrats, it turns out, to the point of undermining the received wisdom that voters hate Washington and all its works. Those Democrats—the ones who wonder what Mrs Clinton might do as president—were united in praising her experience, not just in government and the Senate, but in the wheeling-'n'-dealing Clinton White House. In 2008 Mr Obama "took us by storm", sighed a long-time activist. Hope and change was a "wonderful slogan", she added—but after Mr Obama's idealism it is time for "cold, hard facts", and a president ready to cut deals from day one. A church minister urged the former First Lady to run as a "hard-nosed pragmatist", offering, in effect, "a third term of Bill Clinton". A 19-year-old student, describing Mrs Clinton's strengths, ventured: "Her involvement in Washington politics is a lot longer than President Obama's." A handful openly regretted their 2008 support for Mr Obama.

Democrats are sure that Hillary Clinton would be a formidable presidential contender. They nearly all blame Republicans for Washington's dysfunction. But a deep fear gnaws at them, and spilled into the open in Iowa: what if a Democrat can win the White House, then finds the country ungovernable? ■



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Venezuela's economy

Of oil and coconut water

CARACAS

Probably the world's worst-managed economy

ABIG oil producer unable to pay its bills during a protracted oil-price boom is a rare beast. Thanks to colossal economic mismanagement, that is exactly what Venezuela, the world's tenth-largest oil exporter, has become.

At the end of the second quarter Venezuela's trade-related bills exceeded the \$21 billion it currently holds in foreign assets (see chart), almost all of which is in gold or is hard to turn into cash. Over \$7 billion in repayments on its financial debt come due in October. The government insists it has the means and the will to pay foreign bondholders. Few observers expect it to miss the deadline. Even so, the dreaded word "default" is being bandied about.

On September 16th Standard & Poor's, a ratings agency, downgraded Venezuelan debt, assessing the country as "vulnerable and dependent on favourable business, financial and economic conditions to meet financial commitments". Reports that the government is seeking to sell Citgo, an American refining subsidiary of Petróleos de Venezuela (PDVSA), the state oil firm, have fuelled talk of cash-flow problems.

Even if it stays current on its financial dues, Venezuela is behind on other bills. Earlier this month two Harvard-based Venezuelan economists, Ricardo Hausmann and Miguel Angel Santos, caused a stir by criticising the government's decision to keep paying bondholders religiously

while running up billions in arrears to suppliers of food, medicine and other vital supplies. "To default on 30m Venezuelans rather than on Wall Street", they wrote for *Project Syndicate*, a website, "is a signal of [the government's] moral bankruptcy." President Nicolás Maduro branded Mr Hausmann a "financial hitman" and threatened him with prosecution.

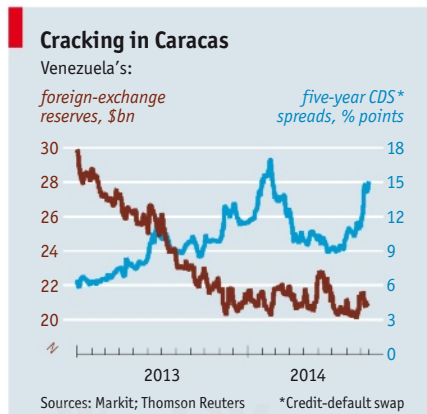
Another Venezuelan economist, Francisco Rodríguez of Bank of America Merrill Lynch, thinks that scarcities of basic goods stem from the government's refusal to adopt sensible exchange-rate policies. On the black market a dollar trades for over 90 bolívars; "official" dollars are worth between 6.3 and 50 bolívars, depending on

which of the country's multiple exchange rates you use. Exports of oil and its derivatives, which are dollar-denominated, account for 97% of Venezuela's foreign earnings. Using an overvalued official rate means that the country is not making as much money as it could: the fiscal deficit reached 17.2% of GDP last year.

The government has been bridging that gap in part by printing bolívars. That has caused the money supply almost to quadruple in two years and led to the world's highest inflation rate, of over 60% a year. Food prices, by the government's reckoning, have nearly doubled in the past year, hitting the poor, its main constituency, hardest of all.

Even worse than inflation is scarcity. The central bank stopped publishing monthly scarcity figures earlier this year, but independent estimates suggest that more than a third of basic goods are missing from the shelves. According to Freddy Ceballos, president of the federation of pharmacies (Fefarven), six out of every ten medicines are unavailable. The list runs from basic painkillers, such as paracetamol, to treatments for cancer and HIV. One unexpected side-effect has been a sharp increase in demand for coconut water, which Venezuelans normally buy to mix with whisky. Nowadays it is sought out more for its supposed anti-viral and anti-bacterial properties.

Unable to obtain what they need through normal channels, people are having to improvise. Social media are packed with requests for urgently required medicines, while some highly sought-after goods—babies' nappies, say—are offered in exchange for others, like spare parts for cars. Those lucky enough to have friends or relatives abroad arrange for emergency relief. "My cousin in Panama sends my ▶▶



► mother's Parkinson's treatment," says one Caracas resident. "It costs \$30 a time there, compared with a few bolívars here, but here you can't get it." An opposition political party has even asked the Red Cross to help relieve the scarcity of medicines.

The mess is a reflection not just of import-dependence and a shortage of dollars, but also the mismanagement of domestic industry. Some food producers have been nationalised; price controls often leave manufacturers operating at a loss. Some price rises have recently been authorised, but manufacturers say it is impossible to maintain normal output with such stop-go

policies. For its part, the government blames what it calls an "economic war" and the contraband trade. It has instituted a nightly closure of the border with Colombia, and plans to fingerprint shoppers to prevent "excessive" purchases.

The prospects for a change of course are gloomy. On September 2nd Mr Maduro replaced the vice-president for economic affairs, Rafael Ramírez, with an army general; Mr Ramírez also lost his job as chairman of PDVSA in the reshuffle, which saw him moved to the foreign ministry. Under Mr Ramírez, PDVSA has not thrived. Oil exports have fallen by over 40% since

1997 because of lack of investment, offsetting the benefit from price gains. Nonetheless, Mr Ramírez was seen as the only man in the cabinet arguing for exchange-rate unification, a cut in fuel subsidies and a curb on the burgeoning money supply.

Venezuela's streets are calmer now than earlier this year, when clashes between opposition protesters and government forces left more than 40 people dead. The reshuffle appears to have strengthened Mr Maduro's position. Bondholders may well keep getting paid. But the price of the revolution's survival seems to be the slow death of Venezuela. ■

Bello | Latin America's Korean dream

The case for a modern industrial policy

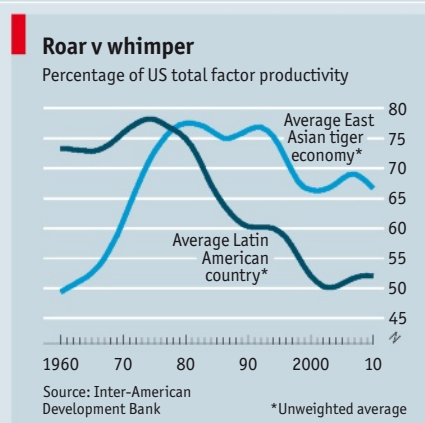
ONCE again, Latin America has a growth problem. After a dozen golden years of economic expansion and falling poverty, the region is likely to grow by only around 1.5% this year. Argentina, Brazil and Venezuela are suffering recessions of varying severity. Even high-flyers like Peru and Chile have slowed to a crawl; growth in Mexico, where reforms promise much, has yet to take off.

The immediate reasons are not hard to divine. The commodity boom has waned and, in some places, years of fiscal populism are coming home to roost. Low unemployment and a population that is starting to age mean that growth can no longer come from adding workers. If the region is to return to faster expansion, it must raise productivity.

Yet here the region has a lamentable record (see chart)—and for familiar reasons: red tape and the informal economy, poor education and infrastructure, and a lack of competition and credit. But according to a new study* by the Inter-American Development Bank (IDB), there is another factor. Unlike many East Asian countries, Latin America has eschewed state action to stimulate the development of higher-productivity sectors and businesses.

Industrial policy, as it used to be called, went out of fashion in the region in the 1980s, and for good reason. In Latin America it was mainly deployed in the cause of import substitution. All too often, it sheltered favoured low-productivity firms from the foreign competition that would have made them more efficient. In South Korea, by contrast, industrial policy was more ruthless: state help for businesses was temporary and linked to performance in exports and innovation.

Because of this dismal history, the IDB rebrands "industrial policy" as "productive development policies". That signals



not only that such policies should apply to services and farming as well as manufacturing, but also that they should avoid past mistakes. They are justified, the authors caution, only when they aim to develop a latent or potential comparative advantage and when market forces have failed to do this. And the remedy should directly address the market failure.

There is much to do. Latin America is poor at innovation. Spending on research and development in the region, as a share of GDP, is less than half that in developed countries, which have seven times as many researchers per 1,000 workers. Tax breaks can stimulate innovation, especially when they reward the hiring of researchers and collaboration between universities and firms in competitive industries.

State intervention may also be justified in order to overcome "co-ordination failures"—where several firms would potentially benefit but no one will organise a scheme to pay for, say, setting up a temperature-controlled "cold chain" for the export of fruit and vegetables. Costa Rica's investment agency helped to develop a surgical-devices industry by persuading

an American firm to set up a sterilising service in the country. Argentina's INTA, a public agricultural-technology institute, worked with local farmers to develop more productive strains of rice.

The biggest challenge is for the state to incubate new higher-value industries—without falling prey to special pleading. There are several such success stories in Latin America. The origins of Embraer, a Brazilian aircraft manufacturer, lie in a public aeronautical-technology institute. Fundación Chile, a private development agency with a public-policy remit, created a salmon-farming industry. But such initiatives will work only if governments have the technical and institutional capacity to carry them out, the IDB warns. It thinks projects should be subject to external evaluation. South Korea's example suggests that sunset clauses in state support and subjecting firms to the discipline of foreign competition is crucial.

Some chapters of the IDB study are indigestible, written for economists rather than politicians. It pulls some punches: although it criticises the protection of rice farmers in small Costa Rica, it is silent about the recent use of subsidies and protection in Brazil and Argentina to cosset declining or established industries.

But its argument for a modern industrial policy is timely. Indeed, it is already being applied. This year Peru's production minister, Piero Ghezzi, unveiled a "productive diversification plan", the first step of which is the opening of ten technological-innovation centres. Peruvian man cannot live by mining alone. Sensible government policies can help.

* "Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation", edited by Gustavo Crespi, Eduardo Fernández-Arias and Ernesto Stein, IDB

Laundering Mexico's drug money

Washing up

LOS ANGELES

Drug kingpins turn to trade-based money-laundering

DRUG traffickers, like everyone else, only want money because they want what money can buy. But turning dirty cash from drug sales into clean, usable currency has become harder for Mexican drug gangs as a result of tighter banking regulations at home and in the United States, their main market. The criminals are responding by piggy-backing on cross-border trade to launder their gains.

On September 10th roughly 1,000 law-enforcement officials raided the Garment District of Los Angeles, seizing at least \$65m in cash and arresting nine people. According to court documents, several garment businesses allegedly helped drug traffickers ferry proceeds from sales back into Mexico. The scheme is relatively simple. Black-market peso brokers contact Mexican importers who want to buy goods from a business in Los Angeles. The broker then finds a gang associate in the United States to pay the bill on behalf of the Mexican importer, using dollars from drug sales. The importer pays the broker in pesos; the broker takes a cut and passes along the remainder to the gang in Mexico.

Such schemes are not new, but they have become more popular as it has become harder to use the banking system to move money. In 2010 Mexico set restrictions on deposits of dollars. It later imposed reporting requirements on cash payments above a certain threshold for items like homes, cars and so on. The United States has also ramped up its scrutiny of large cash transactions and taken a much firmer line against banks. In 2012 HSBC paid \$1.9 billion to regulators in the United States to settle accusations that, among other things, it had failed to monitor transactions involving Mexican drug gangs.

That helps explain why drug kingpins are targeting businesses in Los Angeles, from toy manufacturers to clothing wholesalers, as ways to send money back home. Such firms—some of which are legitimate, some of which are purely fronts—provide convenient cover because of their frequent export of goods to Mexico.

Claude Arnold, who is in charge of US Immigration and Customs Enforcement's Homeland Security Investigations unit in Los Angeles, says the dealings have reached unprecedented levels in LA: "We've never seen it on such a grand scale before." In 2013 banks in the United States filed 1,510 "suspicious activity reports" related to possible trade-based money-laundering; over half came from California.

dering; over half came from California.

Keeping up with the traffickers will always be a huge task. Estimates vary widely but the Department of Homeland Security reckons that traffickers send as much as \$29 billion back to Mexico every year from the United States. If industrial-scale laundering is happening, say some, smallish manufacturers and cash deposits cannot be the only conduit (Mexico's President Enrique Peña Nieto this month announced that he would ease rules on cash deposits of dollars for firms). Better to look, too, at capital flows in other industries—property, tourism and the like. ■

Migration via Mexico

Taming the beast

MEXICO CITY

The Mexican authorities block an infamous route north

"LA BESTIA" ("The Beast") still trundles along the length of Mexico, from Guatemala to the United States. But the infamous freight train has fewer people perched on its roof and clinging to its sides. Since last month the Mexican authorities have been cracking down on Central American migrants clambering on board; their ranks have dwindled from hundreds to dozens on each journey.

"We have an obligation to stop the migrants getting on the train, because the train is a danger to them," said Humberto Mayans, the head of Mexico's new migrant programme. Mr Mayans has cited the risks of travellers losing their lives or limbs from falling off the train when exhausted, or being pushed off by the gangs who prey on those aboard.

Such dangers are horribly real. But for all the rhetoric about protecting migrant rights, the government's tougher policies are motivated more by pressure from the United States to tackle a rise in the number

of unaccompanied child migrants coming north from Honduras, El Salvador and Guatemala. Around 66,000 unaccompanied minors were detained at the border with the United States between last October and the end of August, an 88% increase on the same period in the previous year.

As well as cracking down on La Bestia, the new Mexican programme includes raids on flophouses along the route north, as well as more checkpoints on roads near the border with Guatemala. The numbers of unaccompanied minors making it to the United States have fallen sharply in recent weeks: detentions at the border have declined from over 10,000 in June to 3,100 in August. A similar pattern exists in the number of families being detained.

A six-billion-peso (\$500m) modernisation plan seeks to ensure that La Bestia never recovers its role as the route of choice for the poorest migrants. The plan includes replacing large stretches of track so that trains can go faster, making them more difficult to board. Vehicles will run ahead of the trains and send back information about what lies ahead, including migrants who remain willing to risk the jump.

Campaigners argue that such measures are aggravating the risks. They say migrants will rely more heavily on people-smugglers, leaving them even more vulnerable to extortion by corrupt officials and to abuse, kidnapping and murder by criminal gangs who promise safe passage at a price. "Nobody in their right mind would want the migrants to be getting on the train," says Friar Tomás González, who runs a shelter close to the tracks in the southern city of Tenosique. "But this policy is increasing the dangers they face."

The friar complains that the measures are designed to calm a political storm in the United States rather than to deal with the root causes of the exodus from Central America. Shelters echo to stories of rampant gang violence and poverty back home that make the risks of the north-bound journey tolerable. Cutting off La Bestia may deter some from making the journey, not all. ■



The days of human cargo



Politics in Bangladesh

One and only one

DHAKA

As the opposition takes a break from politics, the government tightens its grip

THE Supreme Court of Bangladesh has just rejected appeals by a former prime minister, Khaleda Zia, over the appointment of a judge in a corruption case against her. The ruling clears the way for Mrs Zia to stand trial. Prosecutors accuse her of having siphoned off cash from charitable trusts set up in memory of her late husband, Ziaur Rahman, who was an army leader at independence and was later assassinated as president. If found guilty, the country's second-most-powerful woman could face time in jail.

The court ruling reinforces the dominance enjoyed by the country's most powerful woman, Sheikh Hasina, the prime minister (pictured above). It comes eight months after she won an unprecedented second term in an election boycotted by Mrs Zia's Bangladesh Nationalist Party (BNP). Sheikh Hasina had put Mrs Zia under house arrest and barred the BNP's electoral ally, Jamaat-e-Islami, from running. With no opposition, it was a shoo-in for Sheikh Hasina's Awami League.

After a nervous start and amid calls for fresh polls, her government has hit its stride. Some sympathisers argue that Sheikh Hasina's rule is justified, if only because of her success in developing the economy. Poverty has fallen rapidly since her return to power in 2009. The economy is now twice as big as when the kleptocratic and incompetent rule of Mrs Zia's government ended in 2006—the moment

the army locked up both battling begums.

After its coup, the army discovered that governing was less enjoyable than it had imagined. It has since taken a back seat. It earns a handy \$500m a year from its UN peacekeeping missions, the arms budget has grown nicely, and new additions to the army's business portfolio include yet another luxury hotel as well as a cattle ranch.

At the same time, Sheikh Hasina's government has continued to capture the courts, silence media critics and tinker with the constitution to perpetuate its rule. It has a two-thirds majority in Parliament, and its ally, the Jatiya Party of a former dictator, Mohammad Ershad, acts as the loyal opposition. On September 17th Parliament passed a constitutional amendment to give it the authority to fire judges.

The BNP has little choice but to wait until the next general election, which need not take place until 2019. Its claim that the Awami League is imploding is wishful thinking. Although the economy has recently slowed, the banking sector is in bad shape and law and order is shaky, no full-blown crisis is in sight.

In some respects, the government has been shrewd. It has kept pending long-overdue verdicts by a controversial tribunal set up to look at charges of genocide and other crimes committed during Bangladesh's war of independence from Pakistan. Almost all those charged are members of Jamaat-e-Islami. On September 17th

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the Supreme Court commuted a death sentence for Delwar Hossain Sayedee, a Jamaat leader. Mr Sayedee's sentencing for war crimes last year triggered a wave of fatal street unrest. This latest ruling, along with, in effect, a suspension of the war-crimes trials, hints that they have outlived their usefulness as a political tool.

Perhaps surprisingly, the government is now considerably more popular than it was before the election, according to a recent opinion poll. The BNP says the poll is flawed; the party points out that it defeated the Awami League in mayoral elections last year (while accusing it of rigging local-government elections this year). Perhaps the opinion poll reflects a sense of fatalism: why flay the government when the opposition is not, for now, an alternative?

How the BNP climbs back into contention will remain unclear for some time. Out of parliament, its politicians rely on thugs for personal protection that was once provided by the state. Flanked by advisers who were once close to her husband, Mrs Zia insists that boycotting the general election was the right thing to do. She suggests that party reform is in the works and that her son, Tarique Rahman, in exile in London, will make a political comeback. Mrs Zia declares that she is not interested in revenge—unlike “that lady”.

Although Mr Rahman's return would inject some younger blood into the party, his elevation would divide the BNP at home and isolate it abroad. In 2008 American diplomats judged in cables leaked by WikiLeaks that “much of what is wrong in Bangladesh can be blamed on Tarique and his cronies”. Mr Rahman's defenders say that the corruption of which he is widely accused was in fact carried out by those who abused their connections with him.

Not relishing a return of the BNP's mother-son duo—which, among other ►►

► things, turned a blind eye to the Islamist fringe—foreign governments are content to do business with Sheikh Hasina. India's prime minister, Narendra Modi, has nothing like the close ties with Sheikh Hasina that were forged by the Gandhi dynasts of the country's recently defeated Congress party. Still, he is keen for relations with Bangladesh to be solid, emphasising economic ties and a common front against Islamist militants. China has submitted an open-ended offer of aid so long as it gets a seaport. Japan has just pledged \$6 billion in loans. Russia and Bangladesh are conducting a feasibility study for two nuclear power plants—though doubts exist about whether they will ever be built. Foreigners have put in bids to launch a Bangladeshi satellite, to be named after the prime minister's father and the country's founding president, Sheikh Mujibur Rahman.

All, in other words, is set fair for Sheikh Hasina, despite a deeply flawed election. Without an effective opposition, she is under little pressure. Only if the prime minister feels that winning a third straight term in 2019 looks unlikely might she call an early poll in the hope of prolonging her dynasty's rule. One begum is winning the endless battle—for the time being. ■

Health care in Vietnam

Limping along

HANOI

Ordinary folk are sick and tired of their public hospitals

WAS the tumour malignant? Nguyen Thi Hoat's doctors could not tell because their public hospital lacks brain-scanners. Ms Hoat's only option was to travel 130km (80 miles), on the back of her sister's motorbike, from her village to a crowded public hospital in the capital. Yet her state insurance policy covers just 30% of any medical expenses incurred outside her home province. The \$150 that Ms Hoat, a rice farmer, put towards blood tests and a brain scan is equal, for her, to a month's earnings.

It is the job of the authorities to look after health care. The Communist Party of Vietnam first pledged health-sector reform as early as the 1920s, well before it declared the country independent in 1945. It developed a publicly financed health-care system even as it was fighting wars against France and then America. The provision of health care is supposed to be one of the pillars on which the party's legitimacy is based.

Yet the health-care system, like the state-dominated economy, is limping. The 3% of GDP the state spends on the system



Full to overflowing

(nearly half of total health spending) is not enough to improve health infrastructure. Hospitals have outdated facilities and maddeningly opaque bureaucracies. A law on health insurance passed in 2008, created to assist the poor and ethnic minorities, is far from comprehensive. But the government knows that providing proper health care is key to preventing the kind of social unrest that undermines its authority.

Some reform is under way. The government has given some hospitals more autonomy. And in June the national assembly passed a new version of the insurance law designed to make participation compulsory. The idea is to lure into the fold poorer and black-market workers who have long avoided paying insurance.

Yet distrust of the system runs deep. Some public hospitals have built flashy new wings which cater to well-heeled patients but do little to meet general demand. Bed-sharing is common, especially in urban wards flooded by patients from the countryside.

Though this is an authoritarian state, ordinary Vietnamese are remarkably outspoken about social issues. In health, they complain of the prevalence of "out of pocket" payments, which happen in around half of health-care transactions. Many of the payments are really bribes paid on top of formal hospital fees. They mean that affordability is often a larger factor than need, for all but the richest patients. In a typical case, a university lecturer in Hanoi says she slipped doctors and nurses about \$250 to ensure attentive treatment when she gave birth at a public maternity hospital. The rate, she says, was \$1 per injection, \$2 for a bath and \$5 to sidestep a queue.

The health minister, Nguyen Thi Kim Tien, has faced blistering criticism this year after a parade of health scandals, including

a measles outbreak that killed more than 100 children. Online, thousands have called for her resignation. A popular television satire advises sick patients to avoid corrupt doctors by curing themselves. The fault is not all the minister's—or the doctors'; they have long earned as little as \$100 a month, for instance.

In order to get by, doctors moonlight at private hospitals and clinics that are popping up in cities, led by Hanoi and Ho Chi Minh City, to serve foreigners and affluent Vietnamese, people who would otherwise opt for treatment in Singapore or Hong Kong. One such institution is Vinmec International Hospital, a 600-bed facility financed by Vingroup, a property developer. Its director, Nguyen Thanh Liem, says private hospitals help to minimise overcrowding elsewhere. And they showcase an international standard of care that may one day spread to the public sector.

That is cold comfort for Nguyen Thi Hoat, the rice farmer with a brain tumour. She says if her tumour proves cancerous, she will need to borrow from her brother and sister for surgery in Hanoi. Her family is worried. Yet poorer neighbours, she says, have fewer options. She considers herself lucky. ■

The press in Japan

Gotcha

TOKYO

A string of errors damage a leading paper

ATENET of journalism in some quarters is that three examples make a credible story. The *Asahi Shimbun*, Japan's leading left-of-centre newspaper, with a circulation of 7.3m, is battling for its reputation after a third embarrassing retraction. On September 14th it admitted that it had faked an interview with the boss of Nintendo, a video-game company. In August and September it withdrew two, more consequential, articles. The first had to do with the army's wartime use of "comfort women", ie, women forced into prostitution. The second had to do with the catastrophe at the Fukushima Dai-ichi nuclear plant in 2011. The fear is that the *Asahi*, the most forceful of Japan's establishment-minded big dailies, will in future pull its punches.

Japan's vocal right is gloating over the newspaper's embarrassment. A clutch of conservative magazines had pummelled the *Asahi* for months on the subject of wartime sex slaves. Starting in the 1980s, it had published over a dozen stories based on accounts by a former imperial army soldier, Seiji Yoshida. He described how in the Korean countryside in 1943-44 he had ►►

rounded up women for army brothels. His accounts quickly came into question, and in 1997 the *Asahi Shimbun* said it could not verify the testimony. At that time, says Takaaki Mizuno, a former *Asahi* correspondent, newsmen knew full well what that meant, “yet there was no clear explanation to our readers”.

The paper's top brass came clean painfully slowly, after those involved in preparing the stories had left. On September 11th executives apologised on television. The editor was also fired. Even the prime minister, Shinzo Abe, has since weighed in. The *Asahi*, he said, should explain its errors over the comfort women to the world. Fellow right-wingers in his Liberal Democratic Party (LDP) are calling (yet again) for a revision of a government statement issued in 1993 acknowledging Japan's responsibility over the comfort women. That is despite the broad historical facts about forced prostitution by the imperial army remaining unchanged.

The *Asahi*'s error over events at Fukushima Dai-ichi appears to be more nuanced. In May it claimed that panicking workers defied orders and fled the crippled nuclear plant. In fact they were merely confused about instructions, as recently published testimony by Dai-ichi's late manager underscores. In the Nintendo episode the *Asahi* misrepresented as an interview some remarks that the company's chief executive had made online.

A former senior editor at the paper says the *Asahi Shimbun* will now struggle to recover from the embarrassments. More revelations may come, he says, and many readers may leave. Already, its right-wing rival, the *Yomiuri Shimbun*, has seized the opportunity. The world's highest-circulation newspaper (with a print run of 9.2m) has distributed pamphlets to *Asahi* readers cataloguing its rival's errors over comfort women and offering a hotline for subscribers to switch.

The *Asahi*'s transgressions come in a country that is one of the last remaining redoubts of trust in newspapers. Japanese place more confidence in papers than in local officials, the courts or the police. Even in the internet age, the main papers are still delivered to readers' letterboxes. Kaori Hayashi of the University of Tokyo argues that the public thinks of newspapers as loyally serving nation and society. It fosters media subservience to the establishment.

Still, the *Asahi* has been bolder than other papers. Over the years it has reported on more big political scandals than other papers have. It has not slavishly adhered to the system of *kisha*, or reporters', clubs. In these, media organisations themselves help restrict the access of other (unapproved) journalists to ministries and other official bodies. When the annals of the life of Emperor Hirohito were released this month, the imperial household allowed

access to the document only to its own *kisha* club, despite the story's international appeal. Neither the *Asahi*'s comfort-women stories nor its Fukushima coverage drew upon the *kisha* clubs.

The *Asahi Shimbun* may now grow more timid. As it is, the scandals suggest the behaviour of a typical Japanese corporate or government hierarchy concerned with its own preservation. A chief reason for the *Asahi* failing for so long to admit that its comfort-women stories were false was that journalists involved in the original reporting had risen through the ranks and wielded power. Reporters are not so unlike functionaries after all. ■



Politics in Fiji

Back into the fold

A coup-plagued state goes to the polls

THE island republic of Fiji, troubled but potentially prosperous, went to the polls on September 17th in the first election since the armed forces seized power in December 2006. Early results suggest that Frank Bainimarama, who became prime minister on the back of that coup, has polled strongly, with his Fiji First Party securing perhaps 60% of the vote. Since the coup Mr Bainimarama's supporters have written a new constitution, introduced a bewildering electoral system and marshalled the resources of incumbency to secure victory for their new party. Their main opponent was the Social Democratic Liberal Party (SODELPA), which led the government that was overthrown in 2006.

Mr Bainimarama, who stood down as army commander in March, says SODELPA

is a group of corrupt politicians seeking to resurrect Fiji's baneful tradition of racial tension between the three-fifths of the population who are indigenous and the one-third who are of Indian extraction. The head of SODELPA, Ro Teimumu Kepa, one of Fiji's three paramount chiefs, retorts that Fiji's root cause of instability is Mr Bainimarama himself and army officers.

Fiji has had three coups since independence, in 1987, 2000 and 2006. In all of them, the 3,500-strong armed forces have been the decisive actor—though in 2000 they intervened not to overthrow the government but to suppress a coup launched by ethnic-Fijian nationalists. Mr Bainimarama was military commander at the time. His claim to be liberating the nation from its history of ethnic strife constantly harks back to that earlier episode, when his own life was threatened during an army mutiny at the army barracks in Suva, the capital.

This time round, the army will accept the election result. Mr Bainimarama's hand-picked successor as commander, Brigadier-General Mosese Tikoitoga, has promised to uphold the constitution of 2013 and says he will back whichever party forms a government. The other larger parties lined up in opposition to Fiji First say that the new constitution was foisted on Fijians. They say they will seek a judicial review if elected to government. It looks like they will not get the chance.

Mr Bainimarama's position has grown considerably more secure than it was in the early post-coup years. Fiji's economy has recovered. Chinese money has helped build new roads, including a much-needed tarmacked highway up the eastern side of Viti Levu, the main island. Among the urban poor, subsidised bus fares for children and free schooling are popular.

Mr Bainimarama himself has grown more accustomed to speaking in public, cracking jokes and handling questions more adeptly than at first. Meanwhile, his opponents have withered. In an implicit acknowledgment of Mr Bainimarama's popularity as a man who gets things done, they have concentrated their fire on the attorney-general, Aiyaz Sayed-Khaiyum, who is responsible for much of the affairs of government and who is less popular.

In past elections Fiji's citizens have voted strongly along ethnic lines. This time the pattern is blurred. Mr Bainimarama has polled well among ethnic-Indian voters, who did not like the indigenous-controlled pre-coup government. Indigenous Fijians appear split between Fiji First and SODELPA.

Of the other five parties, most will struggle to reach the 5% threshold. The new proportional electoral system featured an opaque ballot paper showing only numbers representing candidates. It did not make clear to voters that party tallies are decisive in determining the overall out- ▶▶

come. Unfortunately, the 2013 constitution requires a 75% majority in a referendum for any change.

With no election for eight years, and a reduction in the voting age from 21 to 19, a large number of Fiji's nearly 600,000 adults were voting for the first time. Many younger Fijians back Mr Bainimarama's development and anti-racist messages. The result, by in effect legitimising the coup, has shocked the country's intellectual elite. The task now for the Fiji First Party is to adjust the leadership style to fit the new parliamentary context, and to consult more effectively.

The past eight years have been debilitating for Fiji's politics and have fostered possibly durable divisions among the country's elites. A new elected parliament—particularly if it can marshal at least a degree of consensus among Fiji's eternally quarrelsome politicians—would not only enable the country to return to the Commonwealth and the Pacific Islands Forum. It could also open the door to substantial foreign investment. ■

South Asia and China

Xi Jinping's progression

COLOMBO AND DELHI

Fanfares for a common man

ON HIS tour of South Asia this week, President Xi Jinping of China went out of his way to be reassuring. In Male, the cramped capital of the Maldives, he spoke of his dream of a "maritime Silk Road" to increase trade across the Indian Ocean. He proffered gifts: funds for a big road bridge and a promise to operate the tourist airport. For such a tiny country, the first visit in four decades by a Chinese leader should boost tourist numbers. As it is, Chinese make up a third of holidaymakers.

In Sri Lanka, the next stop, Mr Xi was met with state-orchestrated adoration. In Colombo, the capital, on September 16th, a crowd of schoolchildren greeted him waving Chinese flags and sparkly pompoms, along with a troupe of 40 decorated elephants (the Chinese president had let it be known that they are his favourite animal). The ruling family of President Mahinda Rajapaksa enjoys close commercial, diplomatic and defence ties with China. Now the hope is for people-to-people ones. Mr Xi did not indulge in one of the casinos in Colombo designed to lure 24-hour-a-day Chinese gamblers on charter flights, but he pledged a steady flow of businessmen who might. And as a gesture to emphasise China's infrastructure push, Mr Xi and 200 drummers went along to the site of a land-

fill island off Colombo which the Chinese will turn into a commercial town at a cost of \$1.3 billion, right by a new Chinese port.

That comes on top of an existing Chinese-built port at Hambantota, the Rajapaksa heartland in southern Sri Lanka. Other Chinese-backed infrastructure projects are intended to help Sri Lanka become a regional trading hub. But what happens if—when, say some—the loans that fund these projects are not repaid? Some Sri Lankans worry that Chinese state-backed firms will take over sizeable tracts of land and control strategic assets; it is only a small step from there for China to be meddling in Sri Lankan affairs. Mr Xi bats away the possibility. He has written reassuring letters in various corners of the South Asian press this week, pointing to the sacred Chinese principle of non-interference in internal affairs.

Some in India watch warily. Its diplomats are concerned whenever China swans about in their backyard. When Mr Xi scrapped his plan to visit Pakistan because of political upheaval there, Indians were relieved. Yet when Mr Xi arrived in India, Narendra Modi, the prime minister, seemed determined to banish suspicion and rivalry in favour of material progress in Sino-Indian exchanges. The relationship between the two men will prove the most important in the region. At home, each leader is confident in his power and expects to remain in office for a long time.

Mr Modi, fond of performances, courted his visitor in Ahmedabad, the biggest city in his home state of Gujarat, with a riverside dinner of 150 vegetarian dishes to celebrate his birthday on September 17th. The development-minded prime minister is looking for foreign capital and technology to boost India's economy. China's stock of direct investment of \$400m in India is derisory—less than that of Belgium. Talk fills the Indian press of a 250-fold increase, to \$100 billion in just a few years. That may be as likely as building a snow-

man in the Rann of Kutch, but Mr Modi hopes for \$20 billion over five years. Mr Xi pledged that Chinese firms would invest in business parks in Gujarat, and corporate leaders announced deals of a few billion dollars. Now comes the task of turning headlines into facts on the ground.

Both sides know that old points of friction are never far away. Bilateral trade, worth nearly \$70 billion a year, is less encouraging than it looks. There is a sharp imbalance, since India imports valuable Chinese manufactured goods and exports mainly a few raw materials. India wants China to open up more of its sectors, especially information technology, services and pharmaceuticals.

And then there is public animosity towards China, mainly over a long, disputed border. A poll earlier this year by the Pew Research Centre found that 56% of Indians who were asked considered China a "major threat". Only Pakistan was a bigger one. When he was in opposition, such animosity was stoked as much by Mr Modi as by anyone.

Attitudes will shift only if China and India fix bitter disagreements, notably over their border. Though swift progress on that is unlikely, measures to manage the discord are possible. As if to prove the need, this week a Chinese incursion was reported into the Indian-controlled part of Kashmir involving hundreds of Chinese soldiers. Once Mr Modi would have huffed angrily about that. This time, both men called for the border to be demarcated at last.

Mr Xi's visit will lift the bilateral mood. Mr Modi spoke this week of increasing tourist and other travel between two giants that remain atrociously served by transport links. He harked back to shared Buddhist ties and centuries-old pilgrimages by Chinese monks, including to Gujarat. To get more students and tourists flowing between the world's two most-populous countries should surely be possible. Easier, certainly, than fixing that border. ■



Banyan | Pax Sinica

China is trying to build a new world order, starting in Asia



THE clue is in the name. The Shanghai Co-operation Organisation (SCO) groups six countries—China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan—and aims to be the dominant security institution in its region; but its origin and purposes are largely Chinese. So it looks rather worrying from a Western point of view that the group has agreed to expand and that India, Pakistan and Iran are all keen to join: the rise of a kind of China-led NATO to which even America's friends, such as India and Pakistan, seem drawn. Yet that is to misunderstand the sort of organisation the SCO aspires to be. It does indeed pose a challenge to the American-led world order, but a much more subtle one.

On September 11th and 12th the SCO held its 14th annual summit in Dushanbe, Tajikistan's capital. It agreed to adopt procedures for expansion, first for those countries that are already observers. India and Pakistan are likely to join in the next year. Iran is at present disqualified because it is under UN sanctions. Another observer, Mongolia, is a democracy and has long had qualms about joining what looks like a club for authoritarians. Afghanistan, the final observer, has other priorities.

The SCO summit came hot on the heels of one held by NATO, in Wales. This gave columnists in China and Russia the chance to tut-tut about the "20th-century" or "cold war" or "confrontational" mentality that animates NATO, and to boast about what makes the SCO different from what Russia's foreign minister, Sergei Lavrov, has called such "relics of a past era", with the rigid discipline imposed by particular blocs of countries.

In August the SCO held its largest joint military exercises yet, an anti-terrorist drill in Inner Mongolia in China involving more than 7,000 personnel. The SCO's boosters, however, insist it is not an alliance, like NATO, but a "partnership", with no adversary in mind. That is not entirely true. It has always been explicitly directed against three enemies, even if they are only abstract nouns: the "three evil forces" of terrorism, separatism and extremism. China, in Xinjiang; Russia, in Chechnya; the Central Asian members, in the Ferghana Valley and on their borders with Afghanistan. All SCO members face a threat from Islamist extremism.

Hence the plea in Dushanbe from Xi Jinping, China's president, that the SCO should "focus on combating religion-involved extremism and internet terrorism". China's problems with viol-

ent extremism from ethnic-Uighur Muslims in Xinjiang have worsened recently. Uighur militants have committed terrorist attacks in Xinjiang and other parts of China. They have also been fighting for jihadist groups elsewhere—in the tribal areas of Pakistan, for example. And reports suggest some have joined Islamic State (IS) in Iraq and Syria. This month four Uighurs with alleged links were detained on the Indonesian island of Sulawesi.

These men had left China by way of South-East Asia. One of China's successes in Central Asia in recent years has been to secure the co-operation of local authorities in deporting illegal migrants—meaning mainly Uighurs with a grudge—so more are finding their way out through Laos and Thailand. That success, however, is probably more the result of China's growing presence and commercial clout in the region, and the rendition agreements they have bought, rather than a tribute to the influence of the SCO itself. The same goes for the economic goals China has set the SCO. The countries it covers are on the "New Silk Road" Mr Xi advertises. But it is bilateral deals that will build the dream, not communiqués from an SCO summit.

Viewed like this, not as a regional security bloc but as a rather ineffectual effort at combating cross-border terrorism and boosting other links, the SCO seem less threatening. Its appeal to India and Pakistan also seems more obvious, especially as NATO's withdrawal from Afghanistan opens up new uncertainties in the region. Membership incurs few costs and may have some benefits. India, for instance, is courted both by China—Mr Xi paid a much-trumpeted visit this week—and America. SCO membership would be a useful way for India to flaunt its independent foreign policy and its refusal to be drawn into an anti-China bloc.

For China, however, and even more so Russia, the accession of India and Pakistan would be a mixed blessing. The SCO would look less like a self-absorbed club focused on Central Asia, and it would gain real global heft. However, as other regional groupings have found, expansion would inevitably be at the expense of the SCO's cohesion. India, even under the leadership of a strongman like Narendra Modi, would not sit comfortably in an authoritarian club. The SCO would be able to do even less than it has so far.

Building bricks

In fact, even Russia and China seem unsure about how important they want the SCO to be. Four SCO members also belong to the Russian-led Collective Security Treaty Organisation. Russia is also hoping its Eurasian Union with Belarus and Kazakhstan can expand. And China has started lavishing attention on another organisation, the leadenly named Conference on Interaction and Confidence-Building Measures in Asia, or CICA.

But to note the potential conflicts among the different multilateral organisations China is promoting may be to miss the point. America's leading role in Asia is based on a number of bilateral security treaties and a plethora of inclusive multilateral institutions, all open to Chinese membership. China itself is building all sorts of institutions: the SCO, CICA, the "BRICS" (grouping China with Brazil, Russia, India and South Africa), a Trilateral Commission (at present languishing) with South Korea and Japan and a Regional Comprehensive Economic Partnership. Their shared characteristics are that China has a big and sometimes dominant role and that the United States is not a member—and indeed was rebuffed when it sought to join the SCO as an observer. China is not just challenging the existing world order. Slowly, messily and, apparently with no clear end in view, it is building a new one. ■

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58 Xi Jinping's father

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Chinese politics

The power of Xi Jinping

A cult of personality is growing around China's president. What will he do with his political capital?

HE KICKS calves, cups babies' cheeks and kicks footballs. He laughs and smiles in public. He holds his own umbrella, shuns a limousine, carries his own bowl of dumplings to a restaurant table and sits crossed-legged in a farmer's hut. His glamorous wife accompanies him on international tours; he stands tall and confident alongside world leaders.

Such behaviour is standard among modern politicians. But in China Xi Jinping's common touch and courting of public opinion are a striking departure. Since Deng Xiaoping came to power in the late 1970s, the party has been extolling the virtues of "collective leadership" in which responsibilities are shared rather than concentrated in the hands of a capricious tyrant like Deng's predecessor, Mao Zedong. Collective leadership meant giving up Maoist flamboyance, such as appearances in Tiananmen Square in front of ecstatic crowds of admirers and swimming down the Yangzi, in favour of a studied greyness (though Jiang Zemin, who led the party from 1989 to 2002, liked to show some colour in private by breaking into song when meeting foreigners). Mr Xi is not only jettisoning long-established convention; he is dismantling the very system of collective rule.

Since becoming military chief and general secretary of the Communist Party in November 2012 and president in March 2013, Mr Xi has been sending a clear mes-

sage that the country is not just ruled by a faceless party—it is ruled by a man. He has even acquired a nickname: "Xi Dada", or Uncle Xi, as internet users and sometimes even the official media call him.

These changes in style hint at a profound shift in the nature of Chinese politics. Even as he plays to the public gallery, Mr Xi is tightening his grip on power among the elite. He has added a new layer of authority at the top, taken command of numerous committees, and now personally supervises overall government reform, finance, the overhaul of the armed forces and cyber-security. Always small, the number of decision-makers is shrinking further, says Odd Arne Westad of the London School of Economics. Under Mr Xi, membership of the Politburo's Standing Committee, the party's key decision-making body, has been cut from nine to seven, back where it stood a decade ago.

Notably removed from the seven is anyone exclusively responsible for domestic security. That is now Mr Xi's fief. He does not want anyone to threaten his power in the way his predecessor, Hu Jintao, was overshadowed by Zhou Yongkang, a member of the Standing Committee who was in charge of the entire law-enforcement apparatus, from the police and secret police to the judiciary. Mr Xi is trying to eliminate all vestiges of Mr Zhou's influence. Mr Zhou, who retired when Mr Xi took over, is now being investigated for corruption—the

highest-ranking official to be targeted for such an offence since the party came to power in 1949. Dozens of people who worked closely with Mr Zhou have been rounded up. Mr Xi has discarded an unwritten party rule that former and serving members of the Standing Committee are immune from prosecution.

Mr Xi's change in political style was clear from the moment in November 2012 when he walked before live cameras into a room in the Great Hall of the People to greet the country as its new leader. He smiled at the throng of journalists and then apologised for keeping them waiting, a humility previously unheard of. He literally loomed large. At 1.80 metres (almost 6 feet), Mr Xi stands out as the tallest leader since Mao—a point well-noted by a height-obsessed nation.

The new Peking order

Image clearly matters to Mr Xi. Unlike previous presidents, he has a big team looking after it, says Cheng Li of the Brookings Institution, an American think-tank. State-controlled media have released a steady drip of personal information about him: he likes Hollywood movies, he swims and climbs mountains. A photo essay in December 2012 showed him riding a bike with his young daughter on the back and pushing his aged father in a wheelchair. The headline read: "Man of the people, statesman of vision".

At 61, Mr Xi is the first leader to be born after Mao seized power. He is a "princeling", the privileged child of a revolutionary figure (see box on next page). But in common with many Chinese, he suffered during Mao's Cultural Revolution of the 1960s and 1970s. He uses his experience of hardship as part of his political message. In June a ten-year-old video was re-released in which Mr Xi recalled being sent into in- ▶

▶ ternal exile in the countryside.

He has also been learning from the political culture of the West. Since Mao's wife, Jiang Qing, was arrested in 1976 as a member of the "Gang of Four", leaders have avoided showing off their wives in public. Mr Xi has no such qualms. His wife, Peng Liyuan, was famous long before he was as a singer with the People's Liberation Army. Now she models herself on an American First Lady. Ms Peng is known for her beauty, elegance and great clothes (she was on *Vanity Fair's* "best-dressed" list last year). Mr Xi wins praise for matching his ties to her outfits.

He has even laid himself open to being laughed at—though only very gently. In February a cartoon about Mr Xi's political engagements appeared on Qianlong.com, a government-backed website, toying (ever so cautiously) with a taboo on political lampooning. An animated history of Mr Xi's involvement in military affairs was released on Army Day in August.

Sidney Rittenberg, an American who interpreted for Mao, describes Mr Xi as the most "defiant and challenging" leader since the late chairman. The president, wary of evoking Mao but keen to be seen as a strongman, prefers to compare himself to Deng, who steered China away from Maoism in the late 1970s and helped to engineer spectacular economic growth. Party officials laid on numerous celebrations of the 110th anniversary of Deng's birth in August. The state news agency, Xinhua, spelled out the intended message: "To reignite a nation, Xi carries Deng's torch."

In his cultivation of charisma, Mr Xi may well have drawn lessons from the rise of Bo Xilai, a party chief in the south-western province of Chongqing with whom he had much in common: a good pedigree, suave manner and a common touch that made him hugely popular. Mr Bo was sentenced to life in prison last year for corruption and abuse of power, but some Chinese still mourn his downfall. Many believe that the real reason for it was that he had posed a challenge to Mr Xi and stolen a march in the pursuit of populism.

As Mr Bo once did, Mr Xi has been winning hearts with a ferocious assault on corruption. His biggest target has been Mr Zhou, the retired security chief. More than 200,000 others have been rounded up by party investigators (and some driven to suicide). At the same time, Mr Xi has been playing up his disdain for the ostentation and extravagance that are common, and much-resented, accoutrements of power in China. "President's visit causes no traffic jam" was the headline of a television report in 2012 when Mr Xi swapped a motorcade for a minibus.

These are nothing like the days of fanatical Red Guards waving Mao's "Little Red Book", but party-backed adulation for Mr Xi has reached levels rarely experienced

since the 1970s. In the first 18 months of Mr Xi's leadership, his name appeared in the *People's Daily*, the party's mouthpiece, more often than in the comparable period of any other leader's reign since Mao, according to a study by the University of Hong Kong. Mr Xi's head adorns plates and heart-shaped talismans on sale in Beijing.

The perils of power

Mr Xi's bid for popular acclaim, however, does not involve any attempt to shed the secrecy that surrounds the doings of the party elite. Since becoming leader, Mr Xi has not given any press conference about his domestic policies, nor granted any interviews. He has tightened controls on online social networks and launched a sustained campaign against political dissent, including the rounding up of dozens of activists. Even those calling for officials to be more open about their wealth are being targeted.

Mr Xi may enjoy unusual popularity,

but there are many Chinese who want changes that he appears reluctant to make: not least a bigger say in the running of their local governments and the protection of their communities from environmental damage. In the years ahead, as the economy slows, China's new middle class is likely to get more restless. By painting himself as the main man, Mr Xi will have no one else to blame if things go wrong.

Mr Rittenberg, Mao's former interpreter, says that promoting a single popular figure may have been a deliberate strategy of the party elite, in the hope that such a politician could more effectively carry out the difficult economic and social reforms which Mr Xi says are needed. When the anti-corruption campaign eventually runs its course, this may prove correct. But at the moment the response to his display of power is a dreadfully familiar one: terrified local officials are lying low, afraid to take the initiative with reforms for fear their behaviour is misconstrued. ■

Revolutionary history

Like father, like son?

FUPING

The Chinese president's late father rises again

ASK a resident of Fuping county in rural Shaanxi province what the Chinese president has done for them, and they point to the smooth asphalt road beneath their feet. Since Xi Jinping came to power, the birthplace and burial site of his father has become a national tourist attraction. Xi Zhongxun was a revolutionary hero in his own right; since his son assumed power, he has been promoted further.

The late Xi was one of the first gener-

ation of Chinese Communist leaders. He was a guerrilla fighter in the 1930s. He became a deputy prime minister under Mao Zedong, but was purged in the 1960s and spent years under house arrest until he was rehabilitated in 1978. He is credited with having helped to launch the Shenzhen Economic Zone, a pioneering breeding-ground of capitalism. This helped to cement his enduring popularity among older Chinese.

A granite statue was erected to Xi senior in 2005, three years after he died. But only after his son took office did the tourists and school parties start pouring in. Visitors are required to bow three times to the imposing figure in front of an arrangement of cypress trees, security cameras and steely guards. A nearby museum tells his life story. It includes just one photo from his wilderness years.

The locals are enjoying a bounty. New buildings, cranes and construction sites are all around. Not far away, Xi Zhongxun Middle School has acquired bright new red-brick buildings. These days Fuping lives up to the "fu"—meaning wealth—in its name, one inhabitant remarks.

In 2013 what would have been Xi Senior's 100th birthday was celebrated with the publication of three books about him, a six-part television documentary, a symposium in Beijing and two commemorative stamps. Another photo-biography of him is due out soon. Thus a faithful son honours his father.



Xi Dada loves Daddy Xi



Also in this section

60 Addresses: from A to B via 1,2,3

60 Think-tanks doing journalism

Addresses (1)

Getting on the map

NOTTINGHAM

Physical location is becoming even more important in the digital world. That has governments thinking

NOBODY has yet called the police about Jerry Clough, but he gets strange looks. Strolling around Nottingham, he takes photographs seemingly at random, jotting notes and mumbling about missing numbers. Mr Clough is one of a handful of Britons who collect addresses for OpenStreetMap (OSM), a global group of volunteer cartographers who maintain free online maps. "Yes, it is a bit obsessive," he says. "But it makes our maps much better."

Addresses have always been important in the real world: among other things, they help establish people's identities and guide emergency services to where they need to be. They increasingly matter in the virtual world, too, as websites and apps rely on them to give directions, send users to the nearest cinema or cheapest petrol station, and more. An accurate and detailed address book that includes geographical co-ordinates is turning out to be the connection that binds the digital and physical realms together.

Some countries have decided that addresses are such an important part of their social and economic infrastructure that publishing and updating them is best done by a single, central body—and that access should be free, without conditions. Denmark has moved farther in this direction than most. Though it has long had a standardised system for creating addresses, until 2001 several government agencies and

private firms kept separate, inconsistent registries. "Addresses were treated as a mere add-on to other data," says Morten Lind of the urban-affairs ministry.

Now Mr Lind's ministry holds a unified national registry. It is updated daily with data from municipalities, which are responsible for allocating addresses, and is what geeks call "open": anyone can download it without paying or being bound by licensing terms. A study in 2010 found that maintaining it had cost a mere €2m (\$2.7m) in the previous five years—for financial benefits 30 times that amount to the 1,200 firms and other entities known to have used the data. Norway and the Netherlands have implemented similar schemes.

Denmark's government compensated municipalities, which used to make money selling address lists. Elsewhere, an unwillingness to buy off the losers means progress has been slower. After years of deliberation, Britain at last has an official address register, the National Address Gazetteer. But it is owned by GeoPlace, a partnership between central and local governments that makes money by selling the data. And one of its main sources, the postcode-address file, was bundled in with the national postal service, Royal Mail, when a 60% stake was sold earlier this year, meaning that it is private property—even though the government has made much of the importance of open data.

That drew wide criticism. But it may make Britain the venue of a unique experiment. In what looks like damage limitation, the Cabinet Office has paid the Open Data Institute, a not-for-profit organisation, to build an open alternative. Starting from scratch would be too slow, so it is searching for address databases that it can use, which will be merged and tidied up to remove dud or duplicate entries. Volunteers must be recruited to resolve inconsistencies and fill in the blanks. And a business model must be found: its £28,000 (\$46,000) grant will not last long. A first version should be ready by March, says Jeni Tennison, the institute's technical director.

Less ambitious projects elsewhere show both how difficult all this will be—but also that it seems possible. In America OpenAddresses.io has got little further than creating a list of available address files; many counties have not been able to afford to digitise theirs. Ian Dees, one of the group's founders, hopes to find the time and money to tour the country to collect paper files and scan them in.

In France, by contrast, the National Open Address Base (BANO), an open-address project, has merged information from local *cadastres* (registers) with data from OSM volunteers and other sources to create a file with more than 15m addresses, about 80% of the national total. Christian Quest, who launched the project, doubts addresses are sufficiently exciting to attract enough volunteers to keep it up to date, but hopes to get firms and government agencies to share their data.

Concerns about privacy may also slow the creation of open-address registries. In Germany, for instance, it is not clear whether physical addresses and geographical co-ordinates count as personal data, even if no name is linked to them. Some certainly ►►

▶ think so; in former East Germany suspicious souls threw bricks at an OSM volunteer collecting addresses (they missed). And fire departments and other highly error-sensitive users may be slow to rely on unofficial sources for addresses, not least for fear of getting sued. But such registries may end up being more accurate, since errors are more likely to be spotted and fixed, and they are easier to keep up to date.

"Maintaining key registries centrally is clearly more efficient," says Marc de Vries of TheGreenland.eu, a consultancy that has helped the Dutch government develop a range of registries, from topographical maps to vehicle registrations. "And once the data are in one place you want them to be used as much as possible, both inside the government and outside."

Governments need to move quickly if they want to stay in the game. In many countries Google Maps is more complete and reliable than official sources. Mr Clough, for his part, will continue to gather addresses, no matter what. "I'm not particularly interested in addresses themselves," he says. "But by collecting them I learn so much about my city." ■

Think-tanks and journalism

Making the headlines

The divide between having ideas and reporting on them is dissolving

"RATLIKE cunning, a plausible manner and a little literary ability"—the qualities of a successful journalist, according to Nicholas Tomalin, one of the breed—are not traditionally valued in think-tanks, the semi-academic institutions that come up with ideas for politicians. Their policy papers are meant to be dry; their wonks more like politicised civil servants than hacks. But increasingly think-tanks are doing journalism—not just blogging and tweeting but foreign reporting, too. Desk-bound journalists, meanwhile, are embracing data and spreadsheets.

Foreign Policy, a magazine, now runs "Democracy Lab", a website paid for by the Legatum Institute, a think-tank based in London. It has a modest budget for free-

lancers. In June the Centre for Policy Studies, a think-tank co-founded by Margaret Thatcher, launched "Capx", which publishes daily news and comment on its website and by e-mail. The Centre for European Reform, a think-tank founded by Charles Grant (formerly of *The Economist*), publishes pieces with gripping headlines such as: "Twelve things everyone should know about the European Court of Justice".

Unlike non-profits, such as ProPublica and the Bureau of Investigative Journalism, think-tanks are in journalism more to promote ideas than to inform the public or expose wrongdoing. Much of what they publish is about policy. For officials and politicians, writes Jeremy Shapiro of the Brookings Institution, an American think-tank, "The thinkers are the validators. They will write op-eds, give pithy quotes to important newspapers, and appear on network news programmes."

Think-tank journalism comes closest to the traditional sort when it is in the field. Most of the analysts at the European Council on Foreign Relations spend their days crunching data and attending meetings, says Hans Kundnani, its head of research. But it also has a few in strife-torn places. The International Crisis Group (ICG), an NGO that researches conflict and natural disasters, has more still. Human Rights Watch, which investigates abusive governments, recently published a series of articles on the plight of the Yazidis in Iraq.

Once, these analysts would have written "big-picture" pieces, says Mr Kundnani. But 24-hour news and Twitter demand on-the-fly reporting and analysis, which blend into journalism. Nathan Thrall, the ICG's Middle East analyst, based in Jerusalem, has written about the conflict in Gaza for, among others, the *New York Times* and the *London Review of Books*.

Some journalism, meanwhile, is becoming more wonkish. In April the *New York Times* launched the *Upshot*, which features data-packed articles—many written by wonks. "Wonkblog", by the *Washington Post*, contains stories explained "in one chart". In January one of its best-known writers, Ezra Klein, left to launch a website, *Vox*, that does something similar.

For politicians, policymakers and readers, more journalism means more information and choice. Inaccuracies can be quickly challenged and there is always a second opinion. For journalists, the news is not so good. Twitter, blogs and newsletters can get a think-tank's ideas to its audience direct. Hence a relationship that used to be symbiotic, with wonks helping create news and hacks distributing it, is becoming competitive—especially in the battle for influential readers, such as politicians. ■

Correction: In last week's article on NGOs ("Donors: keep out"), we wrote that the Open Government Partnership makes cash grants to governments. In fact its support is non-financial.

Addresses (2)

Getting from A to B

Not always as easy as 1,2,3

GETTING lost once is all it takes to etch on a traveller's mind that not everywhere numbers its streets in the same way. The most common methods are to start at one end and count up, with odd numbers on one side and even on the other (popular in Europe); or for the numbers to indicate distances, generally from one end of the street (used in much of the Americas).

But there are exceptions. Berlin's street numbers often go up one side and down the other. Brasília, laid out to look like a plane from the air, assigns numbers and letters within "sectors", "quadrants" and "blocks" on the north or south wings, or central axis. A single misread character in an address can mean a lengthy detour. Japanese homes and offices are numbered within blocks in no discernible order, often according to when they were built. The result is so confusing that business cards sometimes include a map.

But any street-address system is better than none at all. Until recently Costa Rican addresses were simply directions from landmarks: "100 metres south of McDonald's" or "the white house opposite the school". A quarter of all post went astray. Much to the relief of its long-suffering postal workers, the capital, San José, started in 2012 to name its streets



Numeral soup

and put those names on signs. The rest of the country is now following suit.

Ireland has long named and numbered its streets, but is one of the very few developed countries never to have introduced postcodes. Now it, too, is advancing several decades in a single step. Next year it will have what it boasts will be the world's most sophisticated system, with each of its 2.2m addresses assigned a unique seven-digit code. (Elsewhere, postcodes are often shared by several buildings.) The aim is to make online maps and satellite navigation completely accurate. It is good to travel hopefully—but also to arrive.



Companies and geopolitical risk

Profits in a time of war

NEW YORK

Death, chaos, destruction. They're not as bad for companies as you might think

ISLAMIC STATE may be a geopolitical threat, but it has not yet posed much of a danger to business. A day's drive from the fighting, in Kurdish-run Iraq, three Western oil firms, Genel Energy, DNO and Gulf Keystone, continue to pump out crude that is piped or sent by road to Turkey. Their combined market value plunged after it seized the city of Mosul in June, but has recovered to \$8.3 billion, down 29% from the start of the year—a hefty fall, but not so bad for firms on the front line of fanaticism.

“We’ve gone from a place that was a bit tricky in terms of security to a full-on war,” says the chief of one firm. But he is confident that the Kurdish region’s well-armed militia will protect his business. So far investors have tweaked their financial models, not run for the door. Analysts now assume a cost of capital of 15%, up from 12.5% before it was struck, he says.

That mix of instability and business-as-usual is true of the world at large. In a new book Henry Kissinger, the doyen of foreign-policy strategists, describes a world in which disorder threatens, and violence in Ukraine and the Middle East and tensions in the South China Sea vindicate him. In theory, after 20 years of global expansion, multinationals are more vulnerable than ever. Listed Western firms have 20-30% of their sales in emerging markets, about double the level in the mid-1990s. It is not just oilmen but tech wizards and sellers of fancy handbags who face political risk. It can

range from currency instability, vindictive regulation, curbs on remitting cash back home and production disturbances to sanctions or even nationalisation.

Yet none of the recent geopolitical turmoil has had much impact on firms or financial markets. There have been yelps of pain. Carlsberg, Adidas, Société Générale and others have had share-price falls or made write-offs due to Russia. Overall Russian losses by Western firms amount to \$35 billion, based on announced write-offs and the value of a basket of ten companies most exposed to Russia. But that is a drop in the multinational ocean. An index of political risk calculated by Dun & Bradstreet, an analysis firm, is at its highest level since 1994 (partly as a result of the euro-zone crisis). But the VIX index, which measures the implied volatility of America’s stockmarket, and is also known as the “fear gauge”, is near a 20-year low.

One explanation is obvious: the places suffering conflict are politically important but economically small. The Middle East, north Africa, Russia and Ukraine together produce just 7% of world economic output. They are mere “flesh wounds”, says the head of a Wall Street bank. Only 2% of the stock of foreign investment by American, Japanese and British firms is in these places. Many bosses are more worried by American lawyers than jihadis. Multinationals’ central nervous systems—their financial operations and computer servers—

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are still typically based in the West, Singapore or Japan. In 1973, 1979 and 1990 the oil price transmitted unrest in the Middle East across the world, but the world’s energy mix has shifted away from oil since then, and America has lots of shale gas. Loose monetary policy has also buoyed markets.

Companies have so far proved better than expected at absorbing risk. This has little to do with the advice of political pundits and a lot to do with common sense. One boss says there is no substitute for getting directors to visit operations. “You get a sense of what is going on. It’s a lot better than sitting in a boardroom with nice charts and the latest 30-year-old analyst telling you what is happening in Africa.”

Crisis, or opportunity?

For a start, it is possible to grind out profits in troubled places. Lafarge, a French cement giant, has operations across the Middle East and north Africa. Sales there have risen slightly since 2009 and gross operating profits are now \$1.5 billion a year. MTN, a South African mobile-telecoms firm with a thirst for danger, has a division in Syria (and in Sudan and Iran) where gross operating profits rose by 56% in the first six months of this year.

Most multinationals have reduced their risks. The subprime and euro-zone crises inadvertently helped: big firms typically carry more cash than before, making them less exposed to a credit-market freeze. GE has twice as much cash as it had in 2006. And most big firms have pursued a policy of geographic diversification. An excessive concentration on one country is a classic mistake. After China’s revolution in 1949 HSBC, then a purely Asian bank, lost half its business. Iran’s nationalisation in 1951 of the Anglo-Iranian Oil Company’s assets devastated the firm, a precursor of BP.

There are modern echoes of these epi- ►

▶ sodes. Repsol, a Spanish oil firm, fell in love with Argentina, leaving it vulnerable when YPF, the firm it bought there, was nationalised in 2012. First Quantum, of Canada, had made a third of its profits from a mine that the Democratic Republic of Congo nationalised in 2009. But as they have expanded over the past two decades, multinationals have spread themselves more. Only a dozen big, global, listed firms have over a tenth of their sales in Russia. BP is the country's largest foreign investor but gets only about 10% of its value from its stake in Rosneft, an oil giant. McDonald's Moscow outlets, once a symbol of détente, are temporarily shut, victims of a diplomatic tit-for-tat. Even so, the burger giant makes less than 5% of its profits in Russia.

This picture is true in other hotspots. Telefonica, a Spanish firm, and Procter & Gamble (P&G), together have billions of dollars trapped in Venezuela, which has introduced capital controls. But it represents less than 5% of their sales. Ben van Beurden, the boss of Royal Dutch Shell, recently said diversification is "the only way to inoculate yourself".

As well as boosting their liquidity and hedging their bets, firms have got cleverer at running their production networks. The cliché of a rickety global supply chain that fails if a single link breaks is still sometimes true. Floods in 2011 in Thailand, a hub for making hard drives, disrupted the global computer industry. But whereas emerging countries were once just a source of production for rich ones, now they are a source of demand, too, allowing production to be organised into more robust regional cells and providing a natural currency hedge. Alan Lafley, the boss of P&G, has said 95% of its production is in the region where the goods in question are sold.

Very large firms can reallocate output around the world. ArcelorMittal, which paid \$5 billion for a steel mill in Ukraine in 2005, is now selling its slabs outside that country. William Fung of Li & Fung, the world's biggest sourcing company, serving big retailers such as Walmart, says that since Lehman Brothers' collapse, most firms have become more careful to ensure

that they have backup plans. "People wound their supply chains up too tight, until it became dangerous. What they have learned in the past five years is that you need some slack in your supply chain—you are not aiming for 100% efficiency... You need resilience, too."

Is geopolitical risk exaggerated? Executives admit there are catastrophic scenarios that keep them awake at night. Tensions with Russia could escalate, leading to much tighter sanctions and prompting Russia to turn off the supply of gas to Europe (see box). An overthrow of Saudi Arabia's geriatric monarchy could make oil prices soar. And everyone is scared of political instability or an economic slump in China. It is simply too large, both as a centre of production and as a market, to ignore. The Wall Street boss says, "This is China's century but not every year will be its year. When it has a bad year, everyone

will panic." Another bank chief says a China blow-up is "inevitable". The head of a huge multinational says he fears a war between China and Japan.

Although geopolitics might not destroy today's multinational corporations, they may alter their investment plans. After a row over the Senkaku/Daiyou islands in 2012, Japanese firms faced boycotts in China and their exports to it fell by a fifth. They recovered, but Japanese firms have cut investment in China: the share of Japanese foreign direct investment going there has halved since 2010, to 7%. Likewise, Russia's conflict with the West over Ukraine has impaired its ability to attract capital to upgrade its creaking energy industry. And strife in Libya and Egypt has damaged north Africa's hopes of becoming a production hub for Europe. Like countries, multinational companies have no permanent allies—only permanent interests. ■

Energy in Europe

The gasman cutteth

Europe could survive a cut-off of Russian gas, but only a short one

NAPOLION and Hitler both succumbed to the bitter Russian winter in their efforts at territorial expansion in Europe. Now, Vladimir Putin seems to be exporting a bit of Russian chill as part of his strategy to shift Europe's borders in his favour. In recent days there have been ill-explained reductions in the flow of gas that Gazprom, a Russian state firm, supplies to Poland, Austria and Slovakia—possibly to warn them off re-exporting any of it to Ukraine.

Russia provides one-third of the gas that other European countries rely on to heat their homes, generate electricity and feed industry. So far the assumption among western European governments and industrial gas users is that even if relations with Russia worsen further, there is little danger of a complete and long-term cut in supplies, since Russia's government is so dependent on the revenues from gas exports.

However, a short-term interruption in the coming months, as winter descends, is not so unthinkable. Fortunately, most European countries would be able to struggle through. Their gas-storage facilities are about 90% full, since last winter was mild and they did a bit of further topping-up over the summer. Last year Europe imported 155 billion cubic metres (bcm) of Russian gas; stocks currently stand at 75bcm. So European energy distributors would have a few months' grace to find alternative supplies.

Norway, a big producer, could pump a bit more. China's slowing economy and

Japan's reopening of some nuclear plants will mean more liquefied natural gas (LNG) is available on spot markets, though it is costly. Europe has the capacity to import more than 200bcm of LNG a year, of which just 20% is in use. Contingency plans being drawn up by the EU are also said to include cutting gas to industry to preserve supplies for heating homes and generating power.

Half of Europe's imports of gas come down pipes that traverse Ukraine, and Russia has cut their flow several times since 2006 over price disputes with the Ukrainians. If it did so again, it might pump more gas down pipelines that bypass Ukraine. Trouble is, these do not reach those countries most dependent on Russian gas, such as Hungary, Bulgaria, the Baltic states and Finland. The Finnish coalition government is at risk of falling because the Green party is threatening to quit over plans to buy a Russian nuclear reactor, which it says would increase, not reduce, dependence on Russia.

EU countries are making some preparations for short-term cut-offs but almost nothing has been done to reduce long-term reliance on Russia. There is much that could be done: governments could encourage the building of more cross-border pipelines to connect customers to sources of supply, including the underused LNG import terminals; more storage capacity could be provided; and those countries with shale reserves could get fracking. So far all that has been produced is hot air, and not the useful kind.

A world of risks

Selected politics-linked business shocks

China	1949-55	HSBC, post-revolution shutdown
Iran	1951	BP, nationalisation
Saudi Arabia	1973-80	American oil firms, nationalisation
South Africa	1986	Barclays, pull-out after anti-apartheid boycott
Venezuela	2007-10	Energy, banks, industry nationalised
Argentina	2012	Repsol, nationalisation
Russia	2014	McDonald's, closures after Western sanctions

Source: The Economist

Brewery mergers

Foamy war

SABMiller may be swallowed up by its main rival, AB InBev

THE world's biggest brewer, AB InBev (ABI), is also the most frugal. There are no company cars for senior executives. Carlos Brito, the boss, flies economy class. That is one reason why, with 18% of global beer sales, ABI has a third of the profits.

This will matter in the wary manoeuvres now taking place among the giants of global brewing. On September 14th Heineken, the number three by volume (see chart), said it had rejected a takeover proposal from SABMiller, the number two. SAB seems to have been trying to defend itself against a possible takeover by ABI, which was said to be talking to bankers about raising £75 billion (\$121 billion) to buy its rival. That was little more than a rumour, but industry-watchers suspect something big is indeed brewing, in brewing. And the chances are that ever-thirsty ABI, maker of Budweiser and Stella Artois, will swallow SAB.

The beer behemoth has few other ways to grow. In rich countries, consumption of beer has stopped rising. In America, ABI's Anheuser-Busch division is suffering growing competition from small makers of "craft beer". The number of American breweries has jumped from fewer than 100 in 1983 to more than 3,000 today. ABI has its roots in Brazil, but there drinkers are suffering from a sluggish economy and post-World Cup blues. This leaves ABI with two options, says Andrew Holland, an analyst at Société Générale: give its cash back to shareholders or buy something.

SAB is a tempting target. Though based in London, its origins are in South Africa; it has breweries and bottling plants in 15 African countries, where people still mainly guzzle moonshine. It has stakes in 21 others through an alliance with Castel, a French drinks company. Nearly 70% of SAB's sales are in emerging markets, many of which are still developing a taste for beer. Last year its sales by volume expanded by 3% (not counting growth from acquisitions). ABI's, in contrast, dropped 2%.

If ABI gets hold of SAB it will no doubt try to repeat tricks that have worked well since AmBev of Brazil merged with Interbrew of Belgium a decade ago and then pushed out its American boss: squeeze costs and use the new acquisition as a platform to spread its brands. That was the formula after the merged group bought Anheuser-Busch, the maker of Budweiser, in 2008. Grupo Modelo, a Mexican brewer which makes Corona and has been part of



Another round of mergers?

Beer sales, top ten brewers by volume 2013, hectolitres m



Source: Euromonitor International

ABI since last year, is now undergoing the same rigours.

SAB would be a more difficult undertaking. For one thing, notes Mr Holland, it is more tightly managed than "fat and lazy" Anheuser-Busch was, so there is less scope for cutting costs. SAB is bigger and more complex than anything else ABI has taken on. A knack for cost-cutting may not serve it as well in fast-growing markets. Another problem is that in some countries the two giants' combined businesses would be too big. In America Anheuser-Busch and SAB's joint venture with Molson Coors, another rival, would together have three-quarters of the beer market. In China the two would have more than a third. These are not

insurmountable problems. In America, for example, the stake in the joint venture could be sold to Molson Coors.

Despite the obstacles, a merger of the leading two beer companies looks the likeliest of the potential huge deals. Heineken, which is controlled by the Heineken family even though it owns just 23% of the company's equity, has now given notice that it does not want to be bought (though that could change if SAB boosted its offer). Carlsberg, the smallest of the big four, is controlled by a foundation. So the parsimonious Mr Brito may well get his hands on SAB if he wants it enough. Teaching Africans to like Budweiser, however, may prove somewhat harder. ■

Huawei

The great disrupter's new targets

SHENZHEN

The Chinese firm prepares to take on HP, Cisco and other IT giants

"THE last time there were so many people down by here, the Rolling Stones were in town." So declared one of those attending an unusual gathering this week in a vast auditorium along the shores of Shanghai's Huangpu River. The music was blaring, the coloured lights flashing and the ceiling shimmering, but this was not another rock concert. Astonishingly, the enthusiastic throngs—10,000 squeezed into the venue and another 13,000 joined in via streaming video—had gathered for a technology conference.

The gig was organised by Huawei, a Chinese maker of telecoms equipment, which used the occasion to unveil a new business strategy. As they strode across the stage in front of a video screen nearly as wide as a football pitch, Huawei's bosses declared their aim of making their firm the

world's leading information-technology (IT) company. In the first stage of this, Huawei plans to increase its sales of servers, storage and other data-centre equipment by a factor of ten by 2020. Last year such products brought in only about \$1 billion of Huawei's total revenues of \$39 billion.

It is an audacious goal. It pits Huawei against such titans as IBM, Cisco and HP—innovative giants with deep customer relationships and comprehensive offerings that Huawei cannot yet match. Then again, a decade or so ago Huawei faced a similar challenge in telecoms equipment and has grown to become one of the world's dominant vendors. It has also become big in smartphones. Evan Zeng of Gartner, a consulting firm, says Huawei starts with an edge in China's fast-growing market, where state-owned firms favour domestic ►►

► suppliers. That said, it has some strong local rivals, notably Lenovo and ZTE.

Bryan Wang of Forrester Research, another consulting firm, says Huawei is taking on this daunting challenge because the telecoms-equipment market has become saturated and is set to grow only sluggishly. The IT business is also crowded. But it is a far bigger market than telecoms equipment, and Huawei, since it has such a small share of it, has enormous scope for growth.

In an attempt to keep the company nimble, Huawei recently introduced a system in which three of its bosses take turns, six months at a time, at being the chief executive. Guo Ping, who is in charge at the moment, argues that the telecoms operators that are now his firm's main customers are embracing cloud computing, so it makes sense for Huawei to make sure it can provide all the gear they need to do so.

Second, Mr Guo argues, the long-predicted convergence of the telecoms and IT businesses is finally happening. The switching of telecoms and internet traffic will no longer require so much of the costly, specialist hardware that Huawei now makes. Increasingly, the job will be done by software, which will run on cheaper, standard IT equipment—what is known as “software-defined networking”. Huawei is seeking to get ahead of this disruption of its core business by being a disrupter itself.

There are good reasons to think Huawei may be up to the challenge. As a privately-held company, “its managers don't have quarterly pressure, and can invest for the long term,” notes Mark Gibbs of SAP, a German software firm that works closely with Huawei. Ryan Ding, Huawei's head of product development, recalls that his firm stuck with its efforts to penetrate the markets for routers and LAN switches—two important bits of telecoms gear—despite losing money on each for more than a decade. Likewise, this year it is pumping \$600m, or more than half of its entire revenues from IT products, into researching future ones.

Huawei is a proven innovator entering a bloated industry, ripe for change. Its bosses speak clearly and compellingly about what innovation is for: not to win Nobel prizes, or plaudits in the media for the “coolness” of its products, but to create value for customers. To this end, Huawei stations armies of engineers at 28 “joint innovation centres” at customers' sites around the world. “My guys don't just ask the customer what he wants: they go to the field site together, do the installation together, and figure out together how to increase efficiencies,” boasts Mr Ding.

The American and European giants of IT have been put on notice. Mr Wang of Forrester says Huawei has already shown it can deliver a potent combination of price, service and customisation. That is why he feels sure it will disrupt the IT business just as it did with telecoms. ■

Sony's woes

Pouring cold water

TOKYO

Dismal results show the need for more vigorous restructuring

THIS month the chief executive of Sony, Kazuo Hirai, gamely subjected himself to the “ice-bucket challenge”—to raise money to fight a little-known disease, amyotrophic lateral sclerosis—and was duly drenched in freezing water, following the examples of assorted technology titans and celebrities. Mr Hirai was presumably reminded of that chilling sensation this week, when he was obliged to announce that Sony would take a \$1.7 billion impairment charge on the value of its mobile-phone unit, because of lowered expectations for sales of smartphones. For the first time since 1958, when Sony was first listed, the firm will not pay a dividend this year.

With its Xperia range of phones, Sony had recently begun to enjoy some success in the category. For years, smartphones have been the undisputed king of consumer gadgets, Sony's main business. Strong sales had in turn raised hopes that the firm could at last begin to revive its ailing consumer-electronics division, which despite years of losses and mounting calls for the firm to exit parts of the business, still produces two-thirds of its sales.

Its achievements in smartphones have now proved too little, too late. It missed out on the category's earlier boom, and Apple and Samsung swiftly came to dominate. Now, even the giants are suffering from the inroads of low-cost Chinese manufacturers, and for Sony, growth has abruptly stalled. Its share of the global smartphone

market had declined to 3.1% by June, from 4% a year earlier. The shares of Huawei, Lenovo and Xiaomi, the leading Chinese brands, leapt. Sony's feeble first-quarter sales prompted the write-down; it will now reduce the size of the division, and concentrate on the fanciest smartphones.

The firm's bosses can fairly point out that its impairment charge, which eliminates all the goodwill accumulated from its buy-out in 2012 of a joint venture with Ericsson of Sweden, is merely an accounting adjustment. To its credit, Sony is moving swiftly, if belatedly, in recognising altered reality. Some observers hope its move signals a fresh willingness by the recently appointed finance director, Kenichi Yoshida, to force the firm's business heads to rein in unrealistic ambitions. The charge will mean a net loss of ¥230 billion (\$2.1 billion) in the year to March 2015—five times the loss forecast by the firm back in July. Sony also now expects an operating loss of ¥40 billion, compared with an operating profit last year of ¥26.5 billion.

The news will pile on still more pressure to increase the pace of restructuring. In July Sony spun off its television unit into a separate entity, and sold its Vaio personal-computers division. Yet other than PCs, Sony still makes all the same products—and often, too many versions of them—as it did five years ago. That is despite calls, notably from Daniel Loeb, an American activist investor, for a break-up of the firm. Mr Loeb called in 2013 for Sony to spin off part of its highly profitable entertainment unit. Now it will have to rely still more on this, and its PlayStation franchise. Its finance unit, too, is highly profitable.

It is high time, says an executive at another electronics firm, for Sony's management to begin the kind of vigorous restructuring that between 2010 and 2012 returned Japan Airlines from bankruptcy to profits under Kazuo Inamori, its saviour. He reduced staff by a third, pushed through pay cuts and slashed routes. “Everyone thinks that Sony should be in hardware, but that's an illusion and it should follow the General Electric model of self-reinvention,” says Eiichi Katayama of Bank of America Merrill Lynch. Yet many people wonder whether Mr Hirai, a Sony lifer who joined the company in 1984, has the gumption to take an axe to its divisions. His vow to return Sony to a fat operating profit by 2016 looks ambitious, and is a promise he cannot afford to break. ■



Hirai under pressure

Air France

Strikers against reality

PARIS

Pilots stop work as the French flag-carrier struggles to reinvent itself

THE good news is that Air France has an idea for getting back into the black: building up Transavia, the low-cost, short-haul carrier it shares with its partner, the Dutch flag-carrier, KLM. The bad news is that its pilots won't allow it; they want Transavia's pilots to be on the same pay and conditions as they enjoy. The fear is that an expanded Transavia will cut into Air France's own short-haul services and that its pilots will be fired or forced to accept pay cuts. They have gone on strike in protest. The strike, in its fourth day as we went to press on September 18th, may be the worst at the airline since a particularly confrontational 1998. Around half of all flights were being grounded, with daily losses the company puts at €15m (\$19m).

Air France-KLM, Lufthansa and International Airlines Group (IAG, which owns British Airways and Iberia), are all in the same fix. Low-cost rivals such as EasyJet and Ryanair now dominate short-haul services. Europe's national flag-carriers are struggling to stay in short-haul, to ensure they have passengers to feed into their more profitable long-haul routes. They have tried slashing fares but are hitting the limits of this, because of entrenched working conditions and determined unions. All three are plumping for new solutions.

Last year IAG took over Vueling, a budget airline based in Barcelona that serves mainly Spain and the Mediterranean basin. Lufthansa plans to fly more low-cost services in Europe through its subsidiaries, Germanwings and Eurowings, and is starting a budget long-haul airline. It is an uphill struggle: Lufthansa's pilots have gone on strike three times in the past month, over proposals to raise the retirement age. A threatened fourth strike on September 16th was called off at the last minute.

What put the match to the tinder in France was the launch on September 11th of Air France-KLM's latest five-year strategic plan, for 2015-20. The group will invest €1 billion in Transavia. Its fleet of aircraft is to be doubled to around 100, and three new bases are to be set up outside France and the Netherlands.

Air France-KLM does have a measure of credibility where cost-cutting is concerned. The group's previous plan, for 2012-15, scrapped thousands of jobs and returned it to operating (though not net) profit in 2013. Analysts at Credit Suisse, a bank, calculate that the group drove down its unit costs by 5% in three years, not counting fuel-price

Aircraft cabins

Piketty Airways

The distance between the back and front of the plane will keep widening

TWO economy-class passengers recently caused a ruckus on a flight between Miami and Paris, after one annexed the sliver of territory they shared by reclining his seat. It was one of three such incidents within a fortnight which led to planes being diverted.

Nowadays those at the cheap end of the plane barely have room to open their copies of Thomas Piketty's recent book lamenting a new age of inequality. Yet airlines think there is further scope for cramming more bodies into economy, and that passengers, for all their moans, will tolerate this in exchange for cheap fares. Meanwhile, business class keeps on getting comfier.

Some economy-class seats have already lost about 30% of their weight in

the past 10 to 20 years, says René Dankwerth of RECARO, a seat-maker. But there is scope to do more: padding is being made thinner by replacing foam with netting; reclining mechanisms are being removed from some short-haul planes. Most of the extra room thus created is used to squeeze in extra rows of seats.

Skift, a research firm, notes that this has prompted a seating war among the planemakers. First, Airbus increased capacity on its A320 short-haul plane from 180 to 189 to match that of Boeing's 737. Boeing responded with a new, 200-seater 737. So Airbus is now promising a 240-seater. The new planes will be no longer than their older versions.

Ryanair, which has just announced a huge order for the new 737, says its seats will be an average of 30 inches (76cm) apart, compared with 29 inches on some other budget carriers. But this does not mean the sardine-squeezing has reached its limit: RECARO is working on designs for cabins whose seating is at different heights, which could provide more leg-room, or add seats—guess which option airlines are likely to take. Airbus has patented a bicycle-style seat on which air passengers would perch rather than sit.

As they battle for business-class travellers, who provide most of their profits, long-haul carriers have made seats in that cabin as plush as first-class ones used to be, says James Park, a designer of aircraft interiors. So although Etihad is planning to offer its wealthiest flyers three-room suites, many airlines are scrapping first class and making business class bigger and plusher. Travelling executives will be able to appear relatively frugal, by flying business while enjoying the comforts of first. Never has there seemed such a gap between those who turn left and those who turn right on entering the plane.



Back in the days when we had elbow-room

and currency swings. The goal now is to push the black ink through to the bottom line. Will it work?

"I'm not persuaded that full-service airlines can ever truly compete with low-cost carriers," says Andrew Charlton of Aviation Advocacy, a consulting firm. "They don't have the mentality, their business model depends on a hub and they are too handicapped by legacy work practices." Nor are their leaner rivals standing still. EasyJet's profits in 2013 were boosted by its expanding business-class sales. In August even Ryanair, hitherto defiantly downmarket, launched a business fare.

Competition of all kinds keeps building for Europe's flag-carriers, and not just in short-haul. Carriers from the Gulf are extending their networks in Europe, to attract transfer traffic to their own hubs. Etihad, with stakes in a host of airlines including Airberlin of Germany, has recently rescued Alitalia of Italy (in which Air France too is a shareholder). Qatar Airways joined IAG's OneWorld Alliance last year. Another rising contender, Turkish Airlines, is enjoying double-digit annual growth in traffic, much of it to or from the rest of Europe. Strikes by Air France's pilots are not going to change these harsh realities. ■

Schumpeter | Entrepreneurs anonymous

Instead of romanticising entrepreneurs people should understand how hard their lives can be



SEVEN years ago Joe Jones (not his real name) left his job with a big NASDAQ-listed company to strike out on his own. He was sick of corporate life and he wanted to test his inner mettle. But being an entrepreneur proved far harder than he had imagined: a succession of potholes, speed bumps and dead-ends rather than a high road to prosperity. He found he had “lost his levers of control”: all the things his former employer had provided for him, from administrative support to a social network. He had to learn how to do all sorts of things he had not thought about before. The responsibility of meeting his payroll was “overwhelming”. The worry about every detail of his life—could he afford to keep his car, or pay the mortgage on his house?—was all-consuming. He took to drinking. Mr Jones eventually joined Alcoholics Anonymous and turned his business into a success. But many other would-be entrepreneurs have not been so lucky.

It is fashionable to romanticise entrepreneurs. Business professors celebrate the geniuses who break the rules and change the world. Politicians praise them as wealth creators. Glossy magazines drool over Richard Branson’s villa on Lake Como. But the reality can be as romantic as chewing glass: first-time founders have the job security of zero-hour contract workers, the money worries of chronic gamblers and the social life of hermits.

Phil Libin, the boss of Evernote, a document-storage service, says that “It is amazingly difficult work—you have no life balance, no family time, and you will never work harder in your life.” Aaron Levie, a founder of Box, a cloud-storage firm, says he spent two and a half years sleeping on a mattress in his office, living off spaghetti hoops and instant noodles. Vivek Wadhwa, an entrepreneur turned academic, had a heart attack when he had just turned 45, after taking one company public and reviving another.

Over half of American startups are gone within five years. Most of the survivors barely stumble along. Shikhar Ghosh of Harvard Business School (HBS) found that three-quarters of startups backed by venture capital—the crème de la crème—failed to return the capital invested in them, let alone generate a positive return. In 2000 Barton Hamilton of Washington University in St Louis compared the income distributions of American employees and entrepreneurs, and concluded that the latter earned 35% less over a ten-year period than those in paid jobs.

Even success can turn into a different sort of failure. The best way to avoid the loneliness of the long-distance entrepreneur is to found your company with a friend. But this frequently leads to quarrels about power, titles or money, as anyone familiar with the story of Facebook will know. The best way to cope with growth is to take on more investors and introduce more professional managers. But this usually leads to a loss of control: few founders are still CEOs when their companies go public.

Such a roller-coaster would impose an emotional strain on even the most balanced people. But it seems the average entrepreneur is far from balanced. John Gartner, who teaches psychiatry at Johns Hopkins University medical school, suggests that a disproportionate number of entrepreneurs may suffer from hypomania, a psychological state characterised by energy and self-confidence but also restlessness and risk-taking. Numerous studies confirm, at the least, that they are prone to over-optimism. Guy Kawasaki, a venture capitalist, says that when an entrepreneur promises to make \$50m in four years he adds one year to the delivery time and divides the revenue by ten. Venture capitalists often use personality tests to distinguish between the merely over-optimistic and the completely delusional.

What can be done to deal with the dark side of entrepreneurialism? Mr Wadhwa urges company founders to have regular medical checkups, make time to exercise and learn to relax. “You may not believe in anything called a work-life balance, but your body certainly does.” Mr Jones suggests that people who start their own companies need to think hard about constructing social networks: the idea that they can succeed in splendid isolation is a dangerous illusion. They need friends to lean on, and mentors to guide them. The Entrepreneurs’ Organisation (EO), which has more than 10,000 members in 46 countries, organises meetings in which they can talk about their emotional as well as their business problems. The Kauffman Foundation, an American non-profit which studies and promotes entrepreneurship, provides online courses on “surviving the entrepreneurial life”.

Learning by being thumped

Company founders need to have a more realistic assessment of what it is like to fail. Management literature is full of guff about how entrepreneurs should embrace failure as a “learning experience”. But being punched in the face is also a learning experience. Dean Shepherd of the Kelley School of Business at Indiana University argues that the entrepreneurs who fail frequently go through a process that is similar to grieving after a death or divorce. Some bury themselves in the details of putting their lives back together. Others fixate on their loss. He argues that they must learn how to repair their lives and cope with their loss if they are to restore their fortunes and learn from their mistakes. Glib talk about “failing fast” hardly encourages this.

The paradox of the current, romantic view of entrepreneurs is that it leads us to undervalue their achievements. It is easy to envy people if you focus on a handful of success stories. It is easy to say, as Barack Obama did, that “If you’ve got a business—you didn’t build that. Somebody else made that happen”, while ignoring all the edifices that have fallen down and crushed those who devoted their lives to building them. Would-be entrepreneurs need to have a more measured view of the risks involved before they start a business. But society also needs to have more respect for people who put their lives on the line to build something from nothing. ■



Shareholder rights

Out of control

NEW YORK, PARIS AND SHANGHAI

More of the world's big stockmarkets are allowing firms like Alibaba to sideline their shareholders

FOR New York Stock Exchange (NYSE), the listing of Alibaba, a giant Chinese e-commerce website, seems like a triumph. As *The Economist* went to press, the firm was pricing the offering; its shares were due to begin trading on September 19th. Amid all the excitement about whether the IPO would prove the world's biggest, another of its striking features has been largely forgotten: shareholders will have little control over how the firm is run.

Alibaba only listed in New York because Hong Kong Stock Exchange, a more natural home, insists that shareholders have a say over management in keeping with their stake. The firm's owners, who balked at this notion, took their business to a more pliable venue. Technically, every Alibaba share has equal rights, but they are circumscribed ones. A pre-defined cabal of 30 managers of Alibaba or related companies, including the firm's chairman, Jack Ma (pictured above), will control nominations to a majority of seats on the board. According to Alibaba's prospectus, this group "may make decisions with which you [the shareholder] disagree, including decisions on important topics such as compensation, management succession, acquisition strategy, and our business and financial strategy".

Alibaba says this structure is needed to preserve the firm's culture. It is not that different from many tech firms, both Chinese and American, that have two or more cate-

gories of shares, some of which confer more say in the running of the company than others. Advocates of such skewed set-ups argue that they allow the founders of fast-growing firms to raise the necessary capital to pursue their long-term ambitions without having to deal with short-term mood swings among investors. By the same token, media companies with similar rules claim that allowing a small group of shareholders to maintain control preserves editorial integrity.

"Dual-class" structures were common in America in the 1920s but were largely stamped out in a populist campaign led by William Ripley, a Harvard professor who labelled the practice a "crowning infamy" to "disenfranchise public investors", according to a paper by Stephen Bainbridge of the University of California Los Angeles. There were exceptions—notably the listing of Ford in 1956 on NYSE and of media firms on the American Stock Exchange, a second-tier market—but Ripley's philosophy was largely intact until the 1980s when the rise of corporate raiders brought less democratic regimes back into fashion.

The Securities and Exchange Commission, the main market regulator, responded with a ban in 1988 but a court ruled that the agency had exceeded its authority. In a compromise, the SEC gave companies substantial discretion to choose their structure at the time of an offering, but not thereafter, on the grounds that this would allow in-

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vestors to understand what they were buying and invest accordingly. Tech firms, led by Google, embraced the idea; few now list without some arrangement that guarantees the founders' continued sway.

As a consequence, America accounts for the lion's share of public companies that give disproportionate rights to certain shareholders, with 55% of the 524 such companies in the global database of MSCI, a financial-data firm. Canada is a distant second with 40, although many firms in Europe resort to other measures that distort ownership rights. Britain used to have many such listed firms, but largely abandoned the practice under pressure from big investors. The Financial Conduct Authority, Britain's market regulator, recently issued a formal ban on skewed voting structures for firms listed on the London Stock Exchange's main market.

Shareholder autocracy

Several jurisdictions seem to be moving in the other direction. The European Union considered imposing a one-share, one-vote rule on all members in 2007, but abandoned the idea as the financial crisis set in. Earlier this year France adopted the "Loi Florange", designed to block unwanted foreign takeovers. It doubles the voting rights of shares held by the same owner for more than two years at all listed French firms unless by-laws are amended to say otherwise. Almost two-thirds of the CAC-40, France's largest quoted companies, already offered multiple voting rights to loyal shareholders, says Jean-Nicolas Caprasse of Institutional Shareholder Services, an advisory firm. France also allows a form of limited partnership in which it is very hard to dislodge the boss, points out Hubert Segain of Herbert Smith Freehills, a law firm. Hermes, a fashion house, is one and Lagardere, a media ►►

▶ group, another.

Last month Hong Kong's bourse published a "concept paper" on corporate structures that would give control to select shareholders. The public has three months to comment. While the exchange itself has said it is undecided either way, Charles Li, its head, has given every indication that he would like to see the rules relaxed. "Losing one or two listing candidates is not a big deal for Hong Kong, but losing a generation of companies from China's new economy is," he wrote last year.

Singapore also bans dual-class shares but, partly as a result, has struggled to at-

tract tech start-ups. It also lost out in 2012 on the listing of Manchester United, a football team, due to the desire of the controlling family to cash in without forfeiting control. The finance ministry has proposed changing the rules to allow dual-class listings; investors and lawyers believe it is only a matter of time.

Despite the temptations of blockbuster tech listings, investors dislike the idea of diminished control. The Asian Corporate Governance Association surveyed its members, including big international asset managers, pension funds and universities, about the possible introduction of dual-

class structures in Hong Kong. On average, they said it would lower their valuations of firms listed there by 13%. "It would be a disaster," says Mark Mobius of Franklin Templeton Investments, a fund manager.

There are good grounds for such misgivings. In addition to the risks that potentially lucrative takeovers may be prevented and poorly performing managers might prove impossible to dislodge, there is also the danger that those controlling a firm will make decisions that benefit them, at the expense of other shareholders. A study published in 2012 by the Investor Responsibility Research Centre Institute, a think- ▶▶

Buttonwood | Can't pay, won't pay

Hiring hedge funds was never going to make pension deficits disappear

HAVE the whizz kids of finance lost their va-va-voom? For decades, hedge funds have been portrayed as the smart money, with the power to frighten chief executives and destabilise governments; rich individuals and powerful institutions competed to give them money. But the announcement on September 15th, by CalPERS, California's main public pension fund, that it was unwinding its \$4 billion hedge-fund portfolio, is a significant blow to the sector's appeal.

The CalPERS press release specifically says that the decision is not based on the performance of the programme. But Ted Eliopoulos, the chief investment officer, said that "when judged against their complexity, cost and the lack of ability to scale at CalPERS' size", the allocation to hedge funds was no longer warranted.

It is hard to believe that, if the performance of the programme had been stellar, the pension fund would have axed it. But the reference to scale is also striking. Very small pension funds tend not to have the money or the expertise to invest in hedge funds. Now CalPERS (the sixth-biggest pension fund in the world, according to TowersWatson, an actuarial consultant) is saying that it is too big to be involved. Who does that leave?

Investing in hedge funds requires one to believe in three things. The first, which is plausible, is that there are anomalies in the market which a shrewd fund manager can exploit. One example is momentum, the tendency for assets that have recently risen in price to continue doing so. The second requirement is to identify such outperforming managers in advance. This is much more difficult. It takes time to spot good managers, but the average life of a hedge fund is less than five years, indicating that many managers have to give up for lack of clients or because of poor



performance. In addition, half of all current funds are less than five years old.

Even if one can successfully identify smart managers, one must then believe that the excess returns will be sufficient to outweigh their high fees. Not all managers charge the "two-and-twenty" of legend (a 2% annual fee plus 20% of the return over a given benchmark) but enough do to make this a very high hurdle to overcome. And investors who use a consultant (or a fund of funds) to help with the selection process have to pay an extra layer of fees.

The evidence for stellar hedge-fund performance is not convincing. Of the last ten calendar years, only one (2005) has seen the average hedge fund outperform a portfolio of 60% equities (the S&P 500 index) and 40% government bonds. Far from being masters of the universe, the managers have been mastered by the market.

One could argue that hedge funds offer a different type of return—less volatile and thus offering a better trade-off between risk and reward. But the example of 2008, when the average hedge fund made a loss of 23%, makes that a harder case to argue.

Anyway, it seems unlikely that pension

funds have been putting money into hedge funds for such a reason. It is more likely that a hedge-fund allocation is part of a "Hail Mary" bet, with pension schemes looking for something, anything, that will pep up returns, and help to reduce yawning deficits. CalPERS highlights the issue with its claim that it has adopted "a new asset-allocation mix that reduces risk to the portfolio, while still being able to achieve its return goal of 7.5%."

The risk-free rate (the yield on the ten-year Treasury bond) at the moment is around 2.6%. One has to take on a substantial amount of risk to hope for a return five percentage points higher than that. CalPERS points to its 8.4% annual return over the past 20 years, but that is irrelevant: when yields fall to historic lows, as they have over those two decades, investors make a capital gain that boosts returns. One cannot expect such returns to continue without a similar plunge in yields in future, which is almost impossible. And a world in which Treasury bonds yielded even less would probably be characterised by slow growth and deflation—not an environment in which CalPERS's equity portfolio would thrive.

Even if hedge-fund managers did outperform a market index on a reliable basis, it would not solve the problem of pension funding. The 300 largest pension funds in the world have assets of \$15 trillion; total hedge-fund assets are around \$2.9 trillion, or a fifth of that. So if pension schemes were the only clients of hedge funds, and if they earned an excess return of two percentage points a year after fees, that would still boost overall pension returns by just 0.4 percentage points a year. No wonder CalPERS thought it wasn't worth the bother any more.

Economist.com/blogs/buttonwood

▶ tank, concluded that American companies that diverge from the principle of one-share-one-vote suffer from lower returns, higher share-price volatility and various other ills including weak accounting controls and damaging transactions with related parties. Much other research corroborates these findings.

It does not help that Alibaba does not own the websites that generate its revenues (it could not list in New York if it did, since Chinese law bars foreigners from owning local websites). Instead, the listed firm owns the rights to those revenues, under a type of contract that it believes to be valid but, its prospectus admits, is the subject of “substantial uncertainties” under Chinese law.

If there is one lesson to be learned from the mix of bargains and dross on Alibaba's e-commerce sites, it is “buyer beware”. Its shares and those of similarly structured companies may reinforce that idea. ■

Saving in poor countries

Beyond cows

Coaxing does more to boost saving than compelling

ADULTS in developing countries are half as likely to have an account at a formal financial institution as those in the rich world. Only 18% of people in the Middle East and north Africa do, compared with 89% in high-income countries. Economists would like the world's poorest to save more. That would help them to pay for big or unexpected expenses, such as school fees or medical treatment. It would also boost investment and thus accelerate economic growth.

But getting people to save is hard. One reason is the economic version of myopia: the failure to give adequate weight to future benefits over immediate pleasures. Most people are myopic, but for those in grinding poverty, the self-discipline required to save is greater and the consequences of failure worse.

For many, the answer is to tie up money in livestock, which can be sold if necessary, or to join a rotating savings and credit association (ROSCA), which pools members' savings and disburses them to those in need. But these mechanisms are far from perfect. A survey in Uganda found that 99% of people using informal savings schemes had at some point lost some of their savings. Livestock get sick and die.

Hence the growing enthusiasm for “commitment-savings accounts” (CSAs), which attempt to tie people's hands to prevent myopic spending. Those who open

an account typically cannot withdraw funds until a certain date, or until they have deposited a certain amount.

CSAs have a surprisingly big effect. In one experiment in the Philippines, those offered a CSA boosted their savings by 82% relative to a control group in just a year. In Malawi, farmers who were offered CSAs saw their savings rise prior to the planting season. That allowed them to buy 48% more fertiliser and seed than farmers who were not offered a CSA.

But there is a big problem: few people seem to want CSAs. New research in Kenya finds that only 19% of households had one, whereas 78% saved via a ROSCA. Studies in South Africa and Malawi find similarly low take-up. The stringency of many CSAs may be at fault. One account, offered by a Kenyan bank, ties up money for at least six months, with no withdrawals allowed. Under the rules of other CSAs, savers who fail to meet their targets see their balances gradually dwindle, as punitive fees kick in.

“People in poverty often need access to their cash at short notice, whether for a medical emergency or to take advantage of a business opportunity,” says Nava Ashraf of Harvard University. Recent research suggests that people prefer more forgiving CSAs. In one experiment Ugandan students were offered two types of saving account: one that could only be used to pay for education and another that was intended for the same purpose but could be put to other uses if need be. Students deposited significantly more money into the account with laxer rules. A study in Kenya found that demand for CSAs rises if the funds can be used for emergencies. Another paper, which looked at Filipino migrants, found that labelling their remittances “for education”, with no further strings, boosts them by 15%. Sending the remittances directly to the school added only a further 2%. ■



A cumbersome savings plan

China's economy

A test of will

After a sharp slowdown, stimulus is back on the agenda

WHEN Li Keqiang, China's prime minister, spoke at a big business meeting earlier this month, he trumpeted two achievements. Not only had the government overseen steady economic growth, he said, but it had done so without resorting to a big stimulus. Both assertions are now looking rather doubtful.

A barrage of data for August pointed to a sudden weakening in growth, catching many analysts and investors by surprise. Although it is unwise to read too much into one month's numbers, the figures had a distressingly uniform downward tilt. Investment, retail sales and credit issuance all slowed. Industrial output, which is closely correlated with GDP given the size of China's manufacturing sector, grew at its weakest pace since late 2008, when the global financial crisis was battering the economy. Housing sales, already struggling, contracted further; they have fallen 8% so far this year. That has started to eat into the revenues of local governments, since property developers are holding back on land purchases. Yao Wei of Société Générale, a French bank, called it a “shockingly sharp” deceleration.

Until the gloomy data started to pile up, China's economy had seemed to be following an established pattern. A wobbly start to 2014 had prompted the government to come up with a series of policies to revive growth. It sped up spending on infrastructure and cheap housing, while the central bank administered a small dose of monetary easing. In 2012 and again in 2013 measures of more-or-less the same design had been enough to keep the economy going. But this year the jolt lasted for little more than a month before petering out.

Trouble in the property sector, which directly accounts for about 15% of China's GDP, is the biggest single factor. A glut of unsold homes has started to weigh on the market. Inventories at listed developers rose by a quarter in the first half, reaching 65% of their assets, an all-time high, according to CICC, a Chinese investment bank. The pain is even spreading to the biggest cities, especially in suburbs where building has been most frenetic. In Jiading, a northern district of Shanghai, the streets are lined with ads for new homes, yet the showrooms of its sprawling developments receive few visitors.

The good news is that property is getting more affordable: the average home costs about 8.8 times the annual income of ▶

▶ the average Chinese household, down from nearly 12 times in 2010, according to an index calculated by the Economist Intelligence Unit, a sister company of *The Economist*. The bad news is that the market may yet be far from bottoming out.

Another reason for the economy's weakness is Mr Li's desire to wean the economy off its rising dependence on debt, which has soared to more than 200% of GDP. China has not yet started deleveraging, but credit is at least growing more slowly as regulators force banks to hold more capital to cover loans they have kept off their balance-sheets. When the prime minister spoke at a World Economic Forum event in Tianjin on September 10th, he had surely been briefed in advance about the poor August data. Yet he still persisted in ruling out a "strong economic stimulus" and instead emphasised the importance of reforms—an indication that the government will tolerate the current slowdown.

Mr Li, though, is not willing to let the slowdown turn into a rout. On September 16th, local media reported that the central bank had injected 500 billion yuan (\$81 billion) into the financial system via loans to big banks. It is customary for the central bank to pump out cash before China's two annual weeklong holidays, one of which begins in early October, as demand for money spikes. But the special loan was far bigger than anything of its kind in the past.

The central bank did not actually announce the loan, doubtless because it did not want to look like it was going back on Mr Li's pledge to refrain from stimulus. Instead, word of it spread on Sina.com, a web portal. "Because it is so low profile, a large part of the effectiveness is wasted," says Larry Hu of Macquarie Securities. Evidence from earlier this year is that stealthy forms of monetary easing do not have a lasting impact, since businesses are uncertain about what the government actually intends. Mr Li himself appears uncertain. Refraining from large-scale stimulus is the right medicine for the economy in the longer term. But there is no sense in pretending that fast growth can be sustained this year without it. ■

CaixaBank

Now, make money

MADRID

A rare survivor among Spanish savings banks tries to boost profits

CAIXABANK is a rare breed in Spanish banking. The financial crisis brought most of the country's 45 *cajas*—regional savings banks with a commitment to social welfare—to their knees. But CaixaBank, based in Barcelona, has grown. On September 1st it became the largest domestic bank by loans, after buying the Spanish retail business of Barclays, a British bank.

Many southern European banks are still defined by how they weathered the euro-zone crisis. A handful are expected to fail upcoming stress tests conducted by the European Central Bank. CaixaBank not only survived without state aid, but used the crisis to expand. Its new chief executive, Gonzalo Gortázar, is unperturbed by the ECB's probe. But even though the economy is growing again, banking in Spain is still a tough business.

The bank avoided the worst of the euphoric lending during Spain's decade-long construction boom that felled many of its peers. Its current exposure to property is €31 billion (\$40 billion), but it has set aside 42% of that sum in provisions. Some of its doubtful debts came from hoovering up troubled savings banks like Banca Cívica in 2012; that deal increased its loans by a fifth but the dud ones by half. The share of its loans that have soured, at 10.8%, is lower than Spanish average of 13.1%, and falling. The bank also has a bigger cushion of capital than most of its peers.

CaixaBank's scale helped it stave off the political interference that added to the mess at other *cajas*. Better management, in turn, led to bigger profits, some of which it spent on big stakes in blue-chip Spanish firms such as Telefónica and Repsol. After 2007 it shopped abroad, though much later and more modestly than rival Spanish banks such as Santander and BBVA. It took minority stakes in Erste Bank of Austria, Bank of East Asia in Hong Kong and Inbursa of Mexico, among others. All these investments were worth €10.5 billion at the end of June and provided much-needed dividends during the crisis.

The bank's move to the big leagues is not quite complete, however. One condition of the €41 billion European bail-out of Spanish banks in 2012 is that *cajas* separate their charitable and banking arms. La Caixa, as the combined entity was known, had already moved its banking business into a listed subsidiary, now CaixaBank, in 2011. The parent, which became a foundation in June, still owns a 61% stake.

All this leaves corporate governance a bit fuzzy. The foundation and the bank share a long-serving chairman, Isidro Fainé, but in June 2016 the roles must be split. In June CaixaBank's veteran chief executive, Juan María Nin, considered a counterweight to the powerful Mr Fainé, departed abruptly. He was replaced by the chief financial officer, Mr Gortázar, an investment banker from Morgan Stanley who joined CaixaBank in 2009.

His challenge is to make more money—a tall order in a country where lending is shrinking and interest rates are close to zero. Cheap funding from the ECB should help, as will lower provisions if the economy stays on track. Until now, CaixaBank seems to have chased size rather than profits. Its return on tangible equity this year will be 4%, according to estimates by Exane BNP Paribas, low even by Spanish standards. One problem is a groaning branch network, by far the largest in Spain, at a time when other lenders are pushing customers online.

Mr Gortázar is due to set out a new strategy soon. The chances are that CaixaBank will sell some of its portfolio of shares. That could presage higher dividends or acquisitions at home or abroad, perhaps in Portugal where it where it already owns a chunk of Banco BPI. Ultimately, though, CaixaBank's future depends on the continuing strength of the Spanish economy. Mr Gortázar is optimistic: "After what we have been through in Spain, it's no longer our biggest concern." ■

Corporate tax dodging

Transfer policing

Big economies take aim at the firms running circles around their taxmen

POLITICIANS in the rich world like to splutter about the ever more elaborate dodges that big multinational firms undertake to minimise their tax bills. But doing something about them is trickier. America's Congress is struggling to agree on ways to stop companies "inverting"—switching domicile to reduce tax bills (see next story). The European Union is locked in a protracted debate about whether the favourable treatment that some of its members give to particular forms of corporate revenue are tantamount to illegal subsidies. So the news that the world's biggest economies have agreed on a plan to limit "base erosion and profit shifting" in corporate tax is something of a watershed.

It has become the norm for multinationals to park themselves or large chunks of their assets—especially intangible ones, ▶

All systems slow

China, % change on a year earlier



Source: CEIC

such as rights to royalties—in low- or no-tax places such as Bermuda, Luxembourg and Ireland. The wiliest, including Apple, have even discovered ways to re-route funds so as to render income stateless. These transactions are generally legal, or at least exploit grey areas in the tax codes of the countries concerned. But they appear unfair to many in these fiscally strained times, not least because they are beyond the reach of small, domestic firms.

It is only natural that companies take advantage of the gaps. They plough huge resources into doing so, viewing cutting-edge tax arbitrage as a competitive advantage. One study estimated that the resulting tax avoidance could amount to a quarter of total corporate profit-tax receipts in rich countries, and more in poor ones. In truth, the extent of the fleecing is unclear. Corporate tax receipts as a share of GDP, although volatile, do not appear to have declined markedly in the past decade. As a share of profits, however, they have fallen steeply (see chart), though that is partly due to declining rates.

In 2012 the G20, a club of the world's biggest economies, called on the OECD, a similar grouping which has long overseen international tax standards, to seek consensus on ways to close the loopholes. Its members have agreed on one set of proposals, released this week, and are working on another. The G20 will formally approve the OECD's plan at a summit in Australia on September 20th. All told, 44 countries accounting for 90% of the world economy are on board.

The proposals aim to reduce the discrepancy, for many firms, between where they do most of their business and where they pay most of their taxes. One target is “transfer pricing”, the rates that subsidiaries of a single firm charge each other for goods and services. By setting these high, firms can spirit profits out of the countries where they do most of their business to tax havens where they locate their intangibles. The proposals would also clamp down on “treaty shopping”, arrangements through which firms obtain benefits from a tax treaty despite not being resident in either country that is party to it.

Another measure attempts to end the absurd practice of “hybrid mismatches”, whereby companies claim double deductions by classifying financial instruments as debt in some countries and equity in others. In a genuine coup, all members will share basic information about multinationals (such as assets, sales, profits and employees), giving authorities a better chance of spotting tax dodging.

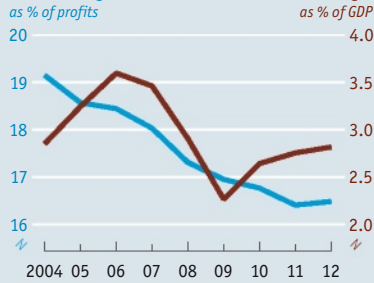
In some areas, consensus could not be reached or is slow to emerge. There was, for instance, no agreement on restricting the use of “patent boxes”, favourable tax regimes for patented inventions and other innovations. In a win for America, the

Losing grip on intangibles

Corporate income tax

Global average,
as % of profits

OECD average,
as % of GDP



Sources: PwC; OECD

countries agreed not to treat e-commerce as a distinct sector, subject to special “Google taxes”, although they did undertake to study the digital economy’s impact on taxes further. The second set of proposals, expected late next year, is unlikely to include anything much more concrete on this. It will, however, tackle a number of other thorny issues, such as the rampant use of intra-group loans to “strip” earnings out of higher-tax countries.

The chief complaint against the OECD’s approach is that it eschews more radical reforms, such as divvying up taxing rights among countries according to the proportion of a firm’s sales or staff located there.

Tax inversions

Inverse logic

WASHINGTON DC

America weighs action to discourage a corporate exodus

MANY countries fret about losing corporate taxes to accounting gymnastics; America worries about losing the companies themselves. This year several big firms have announced plans to merge with foreign partners and in the process shift their headquarters abroad, prompting much hand-wringing.

The incentive is simple. America taxes profits no matter where they are earned, at a rate of 39%—higher than in any other rich country. When a company becomes foreign through a merger, or “inverts”, it no longer owes American tax on its foreign profit. It still owes American tax on its American profit. But that, too, can be minimised. Often, the group can shift debt to the American unit, or have it borrow from the foreign parent. It can then pay interest to the parent while deducting the sums involved from its American taxes. Several studies have found such “earnings stripping” common when companies invert. When Walgreens, an American chemist, announced plans to merge with Swiss-based Alliance Boots, Barclays, a bank,

Sol Picciotto of Lancaster University and the Tax Justice Network, an NGO, calls the reforms “a patch-up job” that maintains the “fiction” that subsidiaries charge each other market prices and does little for the poor African countries that are among the main victims of profit-shifting. Jeffrey Owens, a former head of the OECD’s tax division, applauds his former employer’s work but thinks policymakers could struggle to keep up as location becomes an ever-fuzzier concept in business.

Moreover, much of what has been agreed requires the amending of laws and treaties. The risk is that countries implement only the bits that suit them. It remains to be seen how Britain, for instance, will square its official support for the project with its desire to be the most tax-competitive nation in the G20. It offers an alluring patent box and generous treatment of interest and has enthusiastically cut its corporate tax rate, to 20%. America often drops multilateral initiatives in favour of its own preferences.

Small wonder, then, that only 23% of the 3,000 firms surveyed recently by Grant Thornton, an accountancy, expect the proposals to win global approval. And even if they do, the next step is even harder: making sure the multinationals’ supremely inventive lawyers and accountants do not find a way around them. ■

reckoned the move could save \$783m a year in taxes in this way.

Walgreens is staying put, but fear of further defections is goading politicians. At present, tax-deductible interest paid to a related party may not exceed 50% of a firm’s cashflow. Two bills before Congress would lower that to 25%. Ron Wyden, the Democratic chairman of the Senate’s tax-writing committee, wants to pass some sort of inversion-fighting measure, but has yet to find the necessary Republican support. Meanwhile Jack Lew, the treasury secretary, is looking at what the administration can do. Some experts believe he has the authority to curb the deduction by reclassifying some intra-company debt as equity.

In 2008, Germany lowered its tax rate while at the same time limiting multinationals’ ability to strip earnings. Mr Lew would prefer anti-inversion measures to be part of a bigger reform of corporate tax, which would lower the top rate, thereby reducing the incentive to invert, and eliminate deductions. Republicans agree in principle, but not on the details.

Free exchange | Leaving dead presidents in peace

Abolishing notes and coins would bring huge economic benefits

SINCE cash was invented in the seventh century BC, it has generally been the most convenient way to pay for everyday purchases. But as electronic payments get easier—most recently with the launch of a “contactless payment” system by Apple—economists are beginning to ask whether notes and coins have had their day. Kenneth Rogoff, of Harvard University, reckons they have. Scrapping physical currency, he argues, would help governments to collect more tax, fight crime and develop better monetary policy.*

On the surface, Mr Rogoff’s plan seems like a minor change. Notes and coins make up only a tiny part of the money in circulation: just 3% in Britain, for instance. (In America, the proportion is 10%, partly because foreigners hold lots of dollar notes.) The rest is simply records of balances in accounts, either at a bank (in the case of businesses and individuals) or at the central bank (in the case of banks). It tends to be moved around by electronic transfer, never taking physical form.

Cold, hard electronic transfers

Rich countries are becoming ever less dependent on cash, as debit and credit cards, “virtual wallets” and other substitutes grow in popularity. According to the World Bank, they had 83 cash dispensers for every 100,000 adults in 2008; by 2012 they had only 68. A paper from the Federal Reserve Bank of San Francisco shows that, in America, the share of transactions using cash has fallen in recent years. Until the mid-1990s the total value of all bills of \$50 or less grew in line with the economy. From 1993 to 2013, however, the American economy grew in real (inflation-adjusted) terms by 65%, but notes of \$50 or lower grew by just 19% (see chart).

Yet cash remains important. There is \$4,000 of the stuff for every American. And it causes all sorts of problems. Forgery is one: in 2013 the Bank of England removed 680,000 counterfeit notes, with a face value of £11.5m (\$19m), from circulation. Genuine cash helps criminals of other sorts, since notes and coins keep transactions anonymous: you cannot tell who has bought a kilo of cocaine by looking at the cash they used to pay for it. In the OECD, a club of rich countries for the most part, the “underground economy” of activity hidden from the government, whether drug-dealing or undeclared income from babysitting, makes up about one-fifth of GDP. What is more, that share has barely shrunk in a decade. Mr Rogoff estimates that in most countries, the desire to

hide something from the authorities accounts for more than half of cash transactions by value.

Higher-denomination notes are particularly useful for criminals. There are €295 billion (\$382 billion) of €500 notes in circulation. Yet most Europeans have never seen one: criminals hog them, as they are so useful for moving ill-gotten gains around. (€1m-worth of €500 bills weighs just 2.2kg.)

Abolishing cash would eliminate counterfeiting at a stroke, and make it much easier to trace illicit payments. The reduction in crime that would follow would be a huge boon, both socially and economically. The reduction in tax evasion alone would bring big fiscal benefits. Research from Tufts University estimates that Uncle Sam could collect an extra \$100 billion a year if America went cashless.

Monetary-policy experts also see benefits in cashless economies. Many rich economies are stuck at the “zero lower bound”, with interest rates close to zero. These economies would gain from further monetary stimulus in the form of negative rates, which would prod those hoarding money to spend and invest. An article published by the Cleveland Fed in 2012 found that the “ideal” interest rate for the American economy at the depth of the crisis would have been -6%.

However, the continued existence of cash makes moving rates below zero much less effective. Central bankers assume that people would simply withdraw their money from the bank and hold it as high-denomination notes. In fact, they already seem to be doing so in countries where interest rates are very low. From 2009 to 2013 the total value of \$100 bills in circulation grew by 30% in real terms. The San Francisco Fed reckons that rock-bottom interest rates were partly responsible.

Going digital does pose problems. For one thing, even in the rich world, there are still plenty of honest but “unbanked” people who rely completely on cash. Some economists think central banks might suffer too. They inject money into the economy, in both physical and virtual form, by buying government debt. They do not pay interest on the money they have created, but they earn interest on the bonds they have bought. The profits they earn in this way, known as seigniorage, are sent to government coffers. Bhaskar Chakravorti, of Tufts University, reckons that in America seigniorage typically brings in \$20 billion a year. The Bank of England earns about £500 million a year in this way.

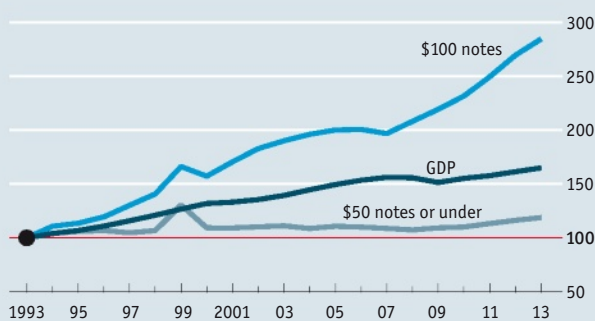
Mr Rogoff thinks that scrapping physical money would reduce seigniorage revenues. Tax-evaders and other criminals, fearful of being noticed, would cut back on spending; demand for money would fall. Mr Chakravorti, though, reckons that the lost revenue would be dwarfed by higher tax receipts. It might also be offset by the lower per-unit cost of producing currency.

There is also the question of whether voters would tolerate the loss of privacy that the abolition of cash entails. Some might be so outraged that they stop using local currency and convert their bank balances into alternative stores of value, such as foreign exchange or Bitcoin, a digital currency.

One compromise might be to phase out big notes, such as €500 bills. That would allow small transactions to be kept completely private, while making life much trickier for all but the pettiest of criminals. ■

Can you break a hundred?

US GDP and value of currency in circulation, 1993=100, constant prices



*Studies cited in this article can be found at www.economist.com/cash14

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Artificial sweeteners

Saccharin solution?

Sugar substitutes may mess with gut bacteria—causing obesity in the process

DIET COKE is one of science's great miracles. Ordinary Coca-Cola relies on lashings of sugar to achieve its trademark sickly sweetness—15.9 grams per can, or about a third of the total daily intake recommended for women by Britain's National Health Service. A can of Diet Coke, by contrast, contains no sugar at all. It owes its sweetness to aspartame and acesulfame-K, a pair of chemicals that are far sweeter than ordinary sugar, but which provide the body with no energy at all.

That magic combination of sweetness without calories has made artificial sweeteners among the most widely used food additives in a world that is struggling to keep its waistline in check. But people generally dislike the idea of “chemicals” in their food, and sweeteners have attracted their share of scare stories. The idea that they cause cancer has proved especially hard to shift, despite no evidence to suggest it is true. A lesser-known (though more respectable) worry is that consuming them might—ironically, and in defiance of common sense—be associated with obesity.

A paper just published in *Nature* bolsters that view. It provides a big dollop of evidence in support of an emerging idea that artificial sweeteners are not directly bad for people (humans cannot even digest most of them). Rather, they may be bad for the zillions of microbes that live in people's guts—and this, in turn, may be bad for their human hosts.

Between three and ten times as many bacteria live on or in the typical human as there are cells in that person's body. Researchers have only recently begun to appreciate the importance of these fellow travellers, known collectively as the “microbiome”. Gut bacteria, in particular, seem able to affect all kinds of bodily functions. Their actions and secretions have been implicated in everything from depression and arthritis to the regulation of the immune system.

They contain multitudes

Several previous studies have suggested that artificial sweeteners might affect intestinal bacteria. But the *Nature* paper, whose lead authors are Eran Elinav and Eran Segal, of the Weizmann Institute of Science, in Israel, is the most robust yet. Like much biomedical research, the initial work was done in mice. Three groups of rodents were given water containing aspartame, sucralose or saccharin, three common commercial sugar substitutes. Three control groups were given plain water or water laced with glucose or sucrose—sugars from which the body can extract energy.

After a week, Dr Elinav and Dr Segal gave their animals a hefty dose of glucose and measured how well they processed it (inability to do so properly is a risk factor for obesity, and is characteristic of diabetes). The mice drinking the artificial sweeteners had higher levels of glucose in their

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blood than did their confrères who had been sipping water or ordinary sugar.

To check whether the sweeteners were affecting the murine microbiome, the researchers dosed their mice with broad-spectrum antibiotics. Sure enough, killing off the gut bacteria reversed the metabolic changes. To make doubly sure, they transplanted faeces from mice that had been drinking artificial sweeteners into others that had been raised in sterile conditions, and which, therefore, had no gut bacteria of their own. Once the transplanted bacteria had colonised their new hosts, these too began showing signs of glucose intolerance. Gene sequencing confirmed that mice fed artificial sweeteners had a notably different set of bacteria living in their guts from those fed on the natural kind. Intriguingly, the microbiomes of the sweetener-fed mice looked a lot like those found, by other studies, in obese individuals.

Mice, of course, are not people, and it is here that things get trickier. To check whether their results applied to humans, Dr Elinav and Dr Segal looked at data from an ongoing human nutritional study that both are involved in. As with the mice, they found a correlation between consumption of artificial sweeteners and various risk factors for diabetes, including higher weight, a greater waist-to-hip ratio and higher levels of glucose in the blood.

But that result runs against the general weight of evidence. Artificial sweeteners are well-studied, and although different papers have come to different conclusions, meta-analyses (which combine lots of studies in a statistically meaningful way) have tended to discount the idea that they make people fat. Indeed, the most recent analysis, published in 2014, found that, when considering only the highest-quality evidence, food and drink sweetened with aspartame and the like were associated ►►

▶ with a moderate reduction in weight.

But the epidemiological research is tricky to interpret, says Kristina Rother, a researcher at the National Institutes of Health, in Maryland. Many studies are of people who are trying actively to lose weight, which means that effects from sweeteners may be swamped by the effect of simply eating less. And finding a good control group is impossible, because artificial sweeteners are found in everything from toothpaste to painkillers.

Dr Elinav offers another theory that may reconcile his laboratory results with the epidemiological evidence. When he and Dr Segal conducted a small-scale human version of their mouse trial, dosing seven people with saccharin for a week, they found similar sorts of biochemical changes to the ones they had seen in their mice—but in only four of the participants.

Unlike those of mice—animals which are enthusiastic eaters of each others' faeces, and which thereby regularly swap gut bacteria—the microbiomes of humans differ from one individual to the next, says Dr Elinav. It is a lot to hang on one small experiment, but if the unpleasant effects of artificial sweeteners affect only some people, that could explain why the large epidemiological studies have failed to find that they consistently make people fat. ■

Mining the microbiome for medicines

Set a thief...

Humanity's bacterial companions are a good place to look for new drugs

NO NOVEL classes of antibiotic drugs have been produced for 25 years and, though scare stories about the consequences of emerging resistance to old ones are often exaggerated (the disappearance of bacterial diseases in rich countries in the 20th century owed far more to better public health and vaccines than to antibiotics), resistance is indeed on the rise. A bigger armoury would therefore be welcome.

Natural antibiotics are weapons used by one micro-organism against another, so it is among micro-organisms that antibiotics-hunters hunt. But at the moment, they do so using a technique described by some, rather scathingly, as "grind and find". Microbes are picked almost at random from the wild (one successful antibiotic, for example, began with a sample collected on Easter Island), then grown in laboratory conditions to see what turns up. If you are looking for weapons against human pathogens, though, surely the best place to look is in the human microbiome itself, for this collection of bugs that live on

people's skins and in their guts (see previous story) are the ones most likely to have evolved chemicals designed to deal specifically with interlopers invading their human territory.

And that, as described in a paper just published in *Cell*, is exactly the line of reasoning followed by Mohamed Donia of the University of California, San Francisco. Dr Donia and his colleagues have designed a piece of software that can scan DNA databases for genes which look as if they are involved in antibiotic production. These genes—coding for enzymes that might then synthesise drugs—are well disguised, and generally have to be found through educated guesswork. So the team designed an algorithm they could educate: they exposed it to 752 of these kinds of genes until it could pick out the patterns accurately. The database they tested it on is one being built up by the Human Microbiome Project, an international scientific collaboration which aims to catalogue the gene sequences of all bacteria found in humans.

Their trawl turned up 3,118 "potentially useful" clusters of genes. To demonstrate just how useful these could be, the team chose one called *Lactobacillus gasseri*, which lives in the vagina, to culture. It duly produced a chemical similar to a recently discovered antibiotic.

Antibiotics are not the only things Dr Donia's technique might turn up, for the bugs in the human microbiome spit out all sorts of other chemicals that could potentially be put to use as drugs. Among them are neurotransmitters, the molecules that carry messages between nerve cells. These might be deployed to treat certain neurological diseases.

The most useful products of all, though, could be drugs that can regulate the immune system. At the moment such drugs—like etanercept, employed to treat arthritis, and cyclosporin, used to prevent the rejection of organ transplants—tend to operate on the whole body, rather than just one part of it. That causes horrible side effects. However, a recent study published in *Nature* showed that human bacteria can aim their chemicals at specific subpopulations of immune cells, which suggests they may be able to produce drugs which have greater precision.

There is also the possibility of using bugs themselves as treatments. This already happens in a crude way: transplanting faeces, with their associated bacterial load, from healthy individuals has proved an effective treatment for infection with *Clostridium difficile*, a bacterium that causes serious, sometimes lethal, gut problems. Knowing more about which bugs do what would let such treatments be refined. As Michael Fischbach, one of Dr Donia's co-authors, puts it: "In the future, I don't think we will leave which bacteria live in our bodies to chance." ■

Fusion power

Iterative processes

A big nuclear-fusion project attempts to move from design to construction

HERE is one way to squeeze energy from nuclear fusion: create and contain a roiling soup of ionised hydrogen atoms known as a plasma, and heat it to ten times the temperature of the sun's core. Some of the fast-moving atomic nuclei will bash together with enough oomph to fuse. Gather the energy from fast-moving particles created in these collisions and you have a limitless (for hydrogen is abundant), comparatively clean energy source. It is an idea conceived in the 1950s, but yet to be born in a laboratory.

Here is one way that might make it happen: gather an international consortium of the fusion-minded, including the European Union, America, China, India, Japan, Russia and South Korea. Conspire to build a 23,000-tonne doughnut-shaped vessel called a tokamak, that is wrapped with 80,000km of superconducting wire, all to contain the plasma magnetically and, for the first time, produce fusion energy continuously. Call it the International Thermonuclear Experimental Reactor; shorten the name to ITER for better PR. And farm out the design to the seven "domestic agency" partners, each completely in charge of the procurement and production of their bit (they will all have to agree to any changes, though, as the design of this technological beast inevitably evolves).

It sounds wonderfully egalitarian, in a technocratic sort of way. Timelines are slippery things, though, so delays will occur and costs will go up. That makes for more delays. Partners may drop out and come ▶▶



A money pit in Provence

▶ back as the political will to pay for the project comes and goes.

The story of ITER has become a tale of these shortcomings. The first of its components arrived at the reactor's site in Cadarache, in the south of France, earlier this month, just as the foundations were finished. In the next week or so construction should start on the walls that will house its core: the doughnut-shaped vacuum vessel. Perhaps tellingly, no one can say exactly when even that will happen. There has already been a 30-month delay in the manufacture of the vacuum vessel. The most recently published schedule says the first plasma will be created in the vacuum vessel in 2020. That will now have to slip to 2023 or 2024, but the revised official schedule will not be published until mid-2015. The overall cost? Also unknown, but it is sure to surpass by a considerable sum the current official estimate of \$20 billion.

The factors that have hobbled ITER from the start have not been concerns of nuclear physics or large-scale engineering. They have been problems of leadership and project management. Few would now argue that the initial design was adequate, or that the seven domestic agencies should have been allowed to have the absolute control they got over the bits of it they worked on. As delays and dissent cropped up within the domestic agencies, ITER's management kept the other agencies in the dark, and stuck too long to timelines that were never feasible.

Most embarrassingly, a management assessment from last October that was leaked earlier this year derided the organisation along all these lines, and added that the project lacked a "nuclear safety culture". America withheld 12% of its ITER funding this year, pending the implementation of every one of the assessment's recommendations. A dissenting subcommittee of the Senate has proposed a budget that would see America pull out altogether next year, as it did in 1999 (it came back into the fold in 2003).

ITER's core philosophy is to share between countries the risks, efforts and rewards of trying to crack the fusion-power problem—costs and delays be damned. The idea is that if the project proves successful, any of the domestic agencies involved should then be able to build its own version with the knowledge collaboratively gained.

Consensus among the ITER faithful is that it will accomplish its stated goal of extracting 500 megawatts of power from a continuously fusing plasma—about ten times as much power as is put in. Scientifically, nothing seems to stand in the way of this. But consider the National Ignition Facility, a star-crossed American effort to use lasers rather than magnetic fields to create fusion. It looked certain, on paper, that if engineers built a laser of a given size (the

world's largest, by some margin) and fired it at a target of a prescribed shape and composition, the result would be a net gain of energy. The laser and the targets were made; fusion "break-even", however, was not. The facility has now switched its focus to "nuclear-stockpile stewardship" (modelling the behaviour of atom bombs).

What looks good according to the equations is thus not always—or even often—what works best in reality. But if ITER wants even the chance to test the science, it will first have to solve, in a comprehensive fashion, its human problems. ■



Extreme altruism

Right on!

Self-sacrifice, it seems, is the biological opposite of psychopathy

FLYERS at petrol stations do not normally ask for someone to donate a kidney to an unrelated stranger. That such a poster, in a garage in Indiana, actually did persuade a donor to come forward might seem extraordinary. But extraordinary people such as the respondent to this appeal (those who volunteer to deliver aid by truck in Syria at the moment might also qualify) are sufficiently common to be worth investigating. And in a paper published this week in the *Proceedings of the National Academy of Sciences*, Abigail Marsh of Georgetown University and her colleagues do just that. Their conclusion is that extreme altruists are at one end of a "caring continuum" which exists in human populations—a continuum that has psychopaths at the other end.

Biology has long struggled with the concept of altruism. There is now reason-

able agreement that its purpose is partly to be nice to relatives (with whom one shares genes) and partly to permit the exchanging of favours. But how the brain goes about being altruistic is unknown. Dr Marsh therefore wondered if the brains of extreme altruists might have observable differences from other brains—and, in particular, whether such differences might be the obverse of those seen in psychopaths.

She and her team used two brain-scanning techniques, structural and functional magnetic-resonance imaging (MRI), to study the amygdalas of 39 volunteers, 19 of whom were altruistic kidney donors. (The amygdalas, of which brains have two, one in each hemisphere, are areas of tissue central to the processing of emotion and empathy.) Structural MRI showed that the right amygdalas of altruists were 8.1% larger, on average, than those of people in the control group, though everyone's left amygdalas were about the same size. That is, indeed, the obverse of what pertains in psychopaths, whose right amygdalas, previous studies have shown, are smaller than those of controls.

Functional MRI yielded similar results. Participants, while lying in a scanner, were shown pictures of men and women wearing fearful, angry or neutral expressions on their faces. Each volunteer went through four consecutive runs of 80 such images, and the fearful images (but not the other sorts) produced much more activity in the right amygdalas of the altruists than they did in those of the control groups, while the left amygdalas showed no such response. That, again, is the obverse of what previous work has shown is true of psychopaths, though in neither case is it clear why only the right amygdala is affected.

Dr Marsh's result is interesting as much for what it says about psychopathy as for what it says about extreme altruism. Some biologists regard psychopathy as adaptive. They argue that if a psychopath can bully non-psychopaths into giving him what he wants, he will be at a reproductive advantage as long as most of the population is not psychopathic. The genes underpinning psychopathy will thus persist, though they can never become ubiquitous because psychopathy works only when there are non-psychopaths to prey on.

In contrast, Dr Marsh's work suggests that what is going on is more like the way human height varies. Being tall is not a specific adaptation (though lots of research suggests tall people do better, in many ways, than short people do). Rather, tall people (and also short people) are outliers caused by unusual combinations of the many genes that govern height. If Dr Marsh is correct, psychopaths and extreme altruists may be the result of similar, rare combinations of genes underpinning the more normal human propensity to be moderately altruistic. ■

French history

Flawed sparkler

A new biography paints Napoleon as a tactical military genius. But he made some serious strategic mistakes and was far from being a brilliant statesman

IS ANOTHER long life of Napoleon really necessary? On three counts, the answer given by Andrew Roberts's impressive book is an emphatic yes.

The most important is that this is the first single-volume general biography to make full use of the treasure trove of Napoleon's 33,000-odd letters, which began being published in Paris only in 2004. Second, Mr Roberts, who has previously written on Napoleon and Wellington, is a masterly analyst of the French emperor's many battles. Third, his book is beautifully written and a pleasure to read.

Mr Roberts admits having taken longer to research and write it than the seven years that Napoleon spent both on Elba and on St Helena. He visited no fewer than 53 of the 60 battlefields, as well as Elba and even Longwood on St Helena, where Napoleon died at just 51. He captures well the frenetic energy and will of the man, shown not just in the furious pace and number of his letters but also in his many (mostly short-lived and often unsuccessful) sexual liaisons.

What comes across most strongly are Napoleon's extraordinary military gifts. His political impact on his country and Europe was clearly profound, but it was his revolutionising of warfare, military supplies, logistics and the use of artillery and tactics, especially in such battles as Austerlitz in 1805 and Friedland in 1807, that stands out. Yet as Mr Roberts's own analysis demonstrates, even here Napoleon had flaws. He was lucky at Marengo in 1800, he all but lost Wagram in 1809 and he should really have won Waterloo in 1815.

Mr Roberts is clear-eyed about Napoleon's tactical mistakes, but too forgiving of his broader strategic failings. The most obvious was the catastrophic invasion of Russia in 1812, when he underestimated not just the skill of such generals as Barclay de Tolly and the fighting quality of Russian troops, but also the determination of the tsar. Yet Napoleon also erred in invading Spain in 1808 and repeatedly picked unnecessary fights with the Austrians and Prussians.

Napoleon the Great. By Andrew Roberts. Allen Lane; 936 pages; £30. To be published in America by Viking in November; \$40

He was also hopeless when it came to sea power. Mr Roberts concedes that "Napoleon's understanding of naval affairs was dismal." But this understates the significance of his failing. In many ways the decisive battle of his wars was not Austerlitz or even Waterloo but Trafalgar in 1805, to which Mr Roberts devotes only half a page. It was Trafalgar that finally killed French hopes of invading England and cut Europe off from burgeoning world trade. As a consequence the British economy continued to grow strongly, while (thanks in part to Napoleon's atavistic

protectionism) even by 1815 France had barely reached Britain's level of industrialisation in 1780.

Then there are Napoleon's flaws as a political leader. Mr Roberts, who is an ardent fan, portrays him as an Enlightenment figure whom many saw as the embodiment of progress and meritocracy. He certainly did much to reform France and Europe, not least through what became the Napoleonic legal code. Yet he was also a dictator, and he lied about his battles, instigated the Brumaire coup in 1799, made himself emperor and was guilty of such crimes as the kidnap and murder of the Duc d'Enghien. Beethoven, a true believer in the Enlightenment, tore up his dedication of the "Eroica" symphony to Napoleon in 1804 (see following review).

Perhaps worst of all was Napoleon's habit of indulging and promoting his own family, especially his brothers. Mr Roberts is right to detect Corsican roots in this. But Napoleon's crowning of Joseph, first in Naples and then in Spain, of Louis in the Netherlands and then of Jerome in Westphalia all proved costly mistakes. And his proclamation of his infant son (conceived with Austria's Marie Louise, after his divorce from Josephine) as king of Rome was ludicrous in its pomposity.

The ultimate failure of Napoleon can be seen in his legacy to his own country. He clearly promoted modernisation in Europe through such abruptly unceremonious acts as the abolition of the Holy Roman Empire and of the doge in Venice. Yet when he was born in 1769 France could still claim to be Europe's predominant power, as it had been for 100 years. By the time he died in 1821, it had been pushed aside. Mr Roberts cleaves to a very French view of Napoleon, seeing him as a force for good who fed the greater glory of his country. Yet contemplating European history since his death—first the dominance of Britain, then the rise of Germany and now France's relative economic and demographic decline—that seems at best debatable and at worst plain wrong. ■

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Fur real

Ludwig van Beethoven

Sturm und Drang

Beethoven: Anguish and Triumph. By Jan Swafford. Houghton, Mifflin Harcourt; 1,107 pages; \$40. Faber & Faber; £30

“WHO can do anything after Beethoven?” asked Schubert. Composers who came after him struggled. For writers, on the other hand, the great man left behind a feast. The first biography appeared just over a decade after his death, and they have kept coming ever since. Some have been excellent and are still in circulation. Yet here is another.

Beethoven was probably the most famous composer who ever lived. The “Ode to Joy” that concludes his Ninth Symphony (the European Union’s official anthem) is one of the best-known tunes in classical music. The tempestuous story of his life, too, is familiar to millions: a child prodigy pushed by his father (though not as ruthlessly as Mozart was); a consummate keyboard player who soon turned into a highly innovative composer and went on to produce a large oeuvre of sublime music; a public figure who was often lionised but also reviled; a man plagued by ill health and, most cruelly, struck at a young age by progressive deafness; a free spirit with an explosive temper, uncouth, paranoid and self-centred, consistently unsuccessful with women, and generally hopeless at managing both his money and his life.

What else? Jan Swafford, an American composer and musicologist, had already written two well-received biographies, of Johannes Brahms and Charles Ives, when he embarked on his latest book. He spent 12 years on it, and it shows. He has dug deep and found some fresh sources, including a 60-volume collection of regional historical studies, the *Bonner Geschichtsblätter* (“Bonn Historical Chronicles”), which produced new insights into Beethoven’s early years. But the most intriguing episodes of Beethoven’s life have already been extensively researched, and nothing dramatically new is likely to emerge. We know about the “Heiligenstadt Testament”, a letter to his brothers written when the composer, at the age of 31, felt suicidal but vowed to carry on for the sake of his art. His unhinged correspondence with his “Immortal Beloved”, a mysterious woman who has never been identified, has been pored over before. So has his fraught relationship with his nephew Karl, the nearest he had to a son.

Nonetheless this is a highly rewarding read, with a lightness of touch that makes history come to life. Beethoven lived in a remarkable time. His youth was steeped in

the Enlightenment, to be followed in short order by revolution and war all over Europe. He escaped the worst of the ravages, but the din of war got close. Mr Swafford supplies enough context for the reader to understand how all this affected Beethoven the man and the musician. (The Third Symphony was originally called the “Bonaparte”, but Beethoven became disenchanted with Napoleon when he crowned himself emperor and changed the name to “Eroica”, a homage to heroes.) The book also vividly conveys what daily life was like, even for the upper layers of society, 200 years ago: the rigid social stratification (which Beethoven resented and rejected), the wildly uncomfortable travel, the stomach-turning medical procedures that did no good and plenty of harm.

In a book this big, it seems odd not to have a list of works and a chronology of the composer’s life. But a useful appendix on Beethoven’s musical forms is supplied. Mr Swafford is good on musical influences on Beethoven, who was seen as Mozart’s heir and taught by Haydn as a young man but claimed, probably wrongly, that he learnt nothing from his mentor. Most useful for the reader with some musical schooling are the conducted tours of some of the greatest works, with a wealth of examples from the scores and explanations of just what makes them so innovative and so wonderful. For those without Beethoven’s capacity for hearing music inside his head, these passages are best read with the music playing aloud.

In the end Beethoven’s life, for all its anguish and triumph, does not explain his genius, as no life of a great artist can. But having read this book, next time you listen to “Fidelio” or the Fifth Symphony or the “Pathétique”, you may feel you understand them a little better. ■



A Pastoral moment

The army in Pakistan

Nosebags

The Struggle for Pakistan: A Muslim Homeland and Global Politics. By Ayesha Jalal. Belknap Press; 435 pages; £25

Fighting to the End: The Pakistan Army’s Way of War. By Christine Fair. Oxford University Press; 347 pages; \$34.95

MOST countries have armies, but in Pakistan the army has a country. Historians repeat that aphorism because Pakistan’s military men have always enjoyed disproportionate political clout. The men in khaki have ruled directly for 33 of the country’s 67 years and have meddled heavily in politics the rest of the time, right up to the present day.

The warriors in charge take the lion’s share of public spending. Figures are opaque, but Ayesha Jalal in a new history, “The Struggle for Pakistan”, offers some shocking ones. In 1973, she says, almost 90% of the federal budget went to military ends. By the late 1980s, around 80% of current spending either paid off debt or funded the army. Little has improved. Christine Fair, whose “Fighting to the End” is similarly sharp, suggests that the \$30 billion of direct and indirect aid which America has given Pakistan in the past 11 years has done little but enrich the military men.

The books share a similar thrust, even if the authors—Ms Jalal is a professor at Tufts University, Ms Fair at Georgetown—differ in how they think outsiders should respond. In short: Pakistan suffers from unsavoury politicians, judges who care little for the law and a rising tide of Islamist extremism, besides other troubles. But the greatest failing is an army (and its spies) with too much power and no accountability. “It was precisely because the military had never been out of the political system that Pakistan was in such a state of disrepair,” concludes Ms Jalal, describing the misadventures of Pakistan’s most recent dictator, Pervez Musharraf, who was in power for seven years until 2008, but who was recently charged with treason for, among other things, suspending the constitution.

The army’s record is not one to be proud of. Wars launched against India in 1947, 1965 and 1999, won little or nothing beyond international opprobrium. Genocidal repression of Bengalis in East Pakistan led to the loss of that half of the country, after a humiliating defeat by India’s army in 1971. Pakistan’s army became a nuclear proliferator, supplying technology to North Korea, Iran and Libya. It also pushed Islamist extremist groups to export terror and instability, which now worries China, as ►

► well as India and Afghanistan.

At home the army made a martyr of Zulfikar Ali Bhutto, a popular if flawed elected prime minister. Its spies have routinely rigged elections and bumped off journalists and politicians they do not like. Benazir Bhutto, his daughter and another popular leader who was assassinated in 2007, had predicted that the army would somehow have her killed. And though neither author makes much of the detail, it seems likely that Osama bin Laden, discovered in a garrison town in 2011, long enjoyed support from someone within Pakistan's spy network.

Ms Jalal offers a clear, chronological account of how the army, in competition with civilians, has misruled Pakistan. Its centralisation of power did much to spread disaffection in the provinces. Adventurism abroad brought tactical gains, but provoked long-term strategic losses. Under Zia ul Haq, in the 1980s, the government promoted violent *jihad* as a state policy and spread Islamist extremism. Ms Jalal spells out too, without labouring it, how American worries about the cold war and then Islamist terrorism helped to give the army a free hand and many resources for controlling domestic affairs.

Ms Fair's focus is on the army's "strategic culture", as she tries to explain why the generals behave as they do. She has pored over decades' worth of official army publications and she concludes, gloomily, that they are driven not by an urge to promote national security, but by ideology. Their main motivation is to resist and weaken Hindu-dominated India in whatever way possible; they see India as an existential threat. Ms Fair says that Pakistan that is thus best understood as a "purely greedy state", one that would consume whatever territory, aid or other benefits it can get, but would never seek peace with the old enemy, since giving up hostility under even the best circumstances would be tantamount to defeat.

When it comes to advice, the authors differ widely. Ms Jalal thinks Americans should keep on engaging and funding nuclear-armed Pakistan, rather than risk "untold consequences" by isolating it. Outsiders can help to preserve a space for moderates in the country and limit the disruption that might spread abroad. Ms Fair's opinion is bolder. Elsewhere she has depicted the army, in view of its ability to extract funds from America, as a massive "self licking ice-cream cone". She now urges Westerners to stop paying for this and to dare, instead, to "let Pakistan fail". The country has endured so many crises and shown "a very stable instability" over the years. It will not collapse now. The army, once held responsible for its actions, may not behave any better than before, she agrees. But at least the West would no longer be paying for it. ■



Advice for start-ups

From one who should know

Zero to One: Notes on Start-Ups or How to Build the Future. By Peter Thiel with Blake Masters. Crown Business; 210 pages; \$27. Virgin Books; £16.99

CONTRARIANISM and controversy have long been the hallmarks of Peter Thiel, the co-founder of PayPal and Palantir, and the first outside investor in Facebook. He has made headlines advocating seasteading (building new cities in or under the oceans), urging students to drop out of education to start companies and providing financial support for Ron Paul's libertarian run for the White House. His first book, though, is full of common sense, which may be for the best.

The biggest controversy in the run-up to the publication of "Zero to One" has been over Mr Thiel's unapologetic advice to entrepreneurs that they should avoid competition where possible and aspire to be monopolists. For the record, he is not a fan of monopolies in general, especially those that serve customers poorly with overpricing or shoddy products; the sort he favours are those that are based on creating the products that customers most want to buy, such as the monopoly enjoyed at times by Apple with the iPhone. Yet, in so far as competition contributes to economic dynamism, it is surely wrong to claim, as Mr Thiel does, "that competition and capitalism are opposites".

The book's title sums up the main argument, that truly valuable innovation occurs not through incremental change but by creating something out of nothing, something entirely new. That will require hard, contrarian thinking; the sort of vague "indefinite optimism" that things are going to get better that has long been a part of American culture, though is currently on

the wane, will have to be resisted. Successful entrepreneurs, he argues, are not lucky lottery-winners, but people who have a clear vision of the future and a well-designed plan for getting there. Knowing where Facebook was heading enabled Mark Zuckerberg to dismiss Yahoo's offer to buy the social network for \$1 billion in 2006. Seeing the future as random and unplannable is, he says, the curse of our age.

Mr Thiel is a broad thinker and well-read by Silicon Valley standards. He draws on Shakespeare as readily as he does "Star Trek". Wisely, he largely avoids many of the topics that have made him controversial in the past, even distancing himself from the ultra-libertarianism of Ayn Rand ("a merely half-great writer"). Founders of great companies tend to be oddball outsiders; of the six people who started PayPal, four had built bombs while at school. Yet they also tend to be great team-builders, he says, and not "Randian 'prime movers' who claim to be independent of everybody around them."

Nor, despite his optimism about the future, does Mr Thiel fully share Ray Kurzweil's techno-Utopianism: the "Singularity", a future of superhuman artificial intelligence, may be near, but it is not inevitable. Instead, he says, "We cannot take for granted that the future will be better, and that means we need to work to create it today." Quite so. Crisply written, rational and practical, "Zero to One" should be read not just by aspiring entrepreneurs but by anyone seeking a thoughtful alternative to the current pervasive gloom about the prospects for the world. ■

The Egypt-Israel peace treaty of 1978

Loaded terms

Thirteen Days in September: Carter, Begin, and Sadat at Camp David. By Lawrence Wright. Knopf; 345 pages; \$27.95. To be published in Britain by Oneworld in November

IN AN era of appalling violence in the Middle East, from Libya to Iraq, one might have expected a book by Lawrence Wright to explain how it all got so bad. An earlier work, "The Looming Tower", is one of the best accounts of the birth of al-Qaeda and its attack on America on September 11th 2001. Instead "Thirteen Days in September" looks back at a fleeting moment when things might have turned out for the better.

In his retelling of the summit at Camp David in 1978, which led to the seminal peace treaty between Israel and Egypt after four major wars, Mr Wright displays a sensitive understanding of the region and a ►►

▶ fine pen as he sketches in the characters and motivations of the three main players—the Israeli prime minister, Menachem Begin; Anwar Sadat, president of Egypt; and Jimmy Carter, America's president. All three, says Mr Wright, “saw themselves as living exemplars of prophetic tradition”. Begin wanted to preserve the Promised Land bequeathed by God to the Jews; Sadat saw himself as the divinely appointed saviour of a downtrodden people; and Mr Carter felt he had been appointed from above to bring peace to the Holy Land. Where Sadat was prone to theatrical gestures, Begin tended to retreat into legalistic nitpicking and was blind to the plight of Palestinians; indeed the Begin here was blind to their very existence as a people.

Perhaps the greatest delight of this book is Mr Wright's description of some of the secondary figures, such as Hassan el-Tohamy, Egypt's deputy prime minister, who served as Sadat's “astrologer, court jester and spiritual guru”. Tohamy claimed to speak to saints and prophets, and even to be able to command his heart to stop beating. A year before Camp David, at a secret meeting in Morocco with Moshe Dayan, Israel's one-eyed war hero, Tohamy claimed to have secured Israel's agreement to a complete withdrawal from the territories captured in 1967, a claim that Dayan subsequently rejected. “It is entirely possible that the Middle East peace process was set in motion by the misunderstanding of a madman,” writes Mr Wright.

The book intersperses day-by-day description of talks in the cabins at Camp David with layers of Middle Eastern history and exegesis of religious texts. At its best, the technique brings out the essence of political decisions. All too often, though, it makes for an irritatingly disjointed read.

One might suppose that prolonged seclusion at Camp David allowed the rivals to build trust. The opposite was true, says Mr Wright. What made the difference was Mr Carter's belated realisation that he had to apply the force of American power, putting forward his own compromise proposals, promising close friendship to the party that complied and threatening the loss of favour to the one that did not.

Camp David may have been a diplomatic triumph, but it was an incomplete peace. Sadat sacrificed Palestinian demands to Egyptian interests, and was assassinated. Begin, having neutralised Israel's most powerful foe, gave in to hubris by invading Lebanon in 1982, and resigned amid outrage over the massacre of Palestinians by his Phalangist allies. Mr Carter was booted out of office. The conflict remains unsolved. Peace deals have come and gone. American influence has declined. Worse, failed mediation can even lead to war. As Mr Wright says, “Hatred is so much easier than reconciliation; no sacrifices or compromises are required.” ■

The Wallace Collection Stuffed full

An old-fashioned gem gets a makeover

MINUTES away from Selfridges, a department store in central London, is a century-old gallery with unusual origins. The Wallace Collection is named after Richard Wallace, illegitimate son of the Fourth Marquess of Hertford, who grew up in Paris and, by his own account, discovered only after the marquess's death in 1870 that the nobleman was his father.

Wallace had no right to the title or to the family seat, but he suddenly inherited a priceless collection of paintings, sculptures, furniture and decorative objects. In 1872 he and his French wife (a former perfume-seller) moved with their treasures to a grand house in Manchester Square, building a Great Gallery for the larger pictures. When she died in 1897, seven years after her husband, she bequeathed much of the collection to the nation with the proviso that it “be kept together, unmixed with other objects of art”.

And so the Wallace Collection has remained an old-fashioned mansion filled with paintings and objects. Now its Great Gallery has been remodelled thanks to a £5m (\$8.2m) gift from a charity founded by Simon Sainsbury, the museum's ex-chairman, who died in 2006. Though it is state-of-the-art, the gallery looks splendidly 19th-century, with a coved ceiling and an overhead window that lets daylight in. The walls are covered with red silk damask and decorated with wainscot panelling. Hanging on them are 64 Old Master paintings including Titian's “Perseus and Andromeda”, Frans Hals's “The Laughing Cavalier” and Peter Paul Rubens's “The Rainbow Landscape”.

Still, the Wallace's future is full of chal-

lenges. Government grants, which account for half of its £6m annual budget, are down a third from the level in 2007-08, and shrinking further—in what the director, Christoph Vogtherr, describes as a dramatic shift. The Wallace has to find new ways of making money, since admission to its permanent collections is free (a government requirement), as it is to the small exhibitions it holds in the basement.

The director's immediate focus is fund-raising, which contributes only 15% of the budget. The development team has replaced three part-time positions with three new full-time staffers. There is also a 90-member benefactors' scheme (starting at £600 a year and stretching to £10,000 and beyond) and a corporate scheme which the museum wants to extend.

Mr Vogtherr, who took over in 2011, sees no need to pull in more (and younger) visitors, even though over half of the Wallace's visitors are at least 45 and grey heads are the norm in its galleries. He says that nearly 420,000 people came through the doors in the year to March 31st, a record. Visitors invariably spend money, whether on postcards, or lunch, or money-box donations (which bring in £70,000 a year).

His predecessor put on a string of high-profile shows. The most talked-about was an exhibition of 25 new paintings by Damien Hirst, which opened in 2009. A record number of visitors came that year, despite the show being universally panned. (Mr Hirst had previously made a £250,000 gift to the Wallace for the refurbishment of the three galleries where his show was held, though Mr Vogtherr insists there was no quid pro quo).

As an institution, the Wallace has lasting appeal among affluent patrons and trusts. But it will need additional deep-pocketed benefactors to come to the rescue. Otherwise, more commercial exhibitions may be required to plug the gap. And with the Wallace banned by its founder from lending any of its treasures, borrowing works from other museums could prove a challenge all of its own. ■



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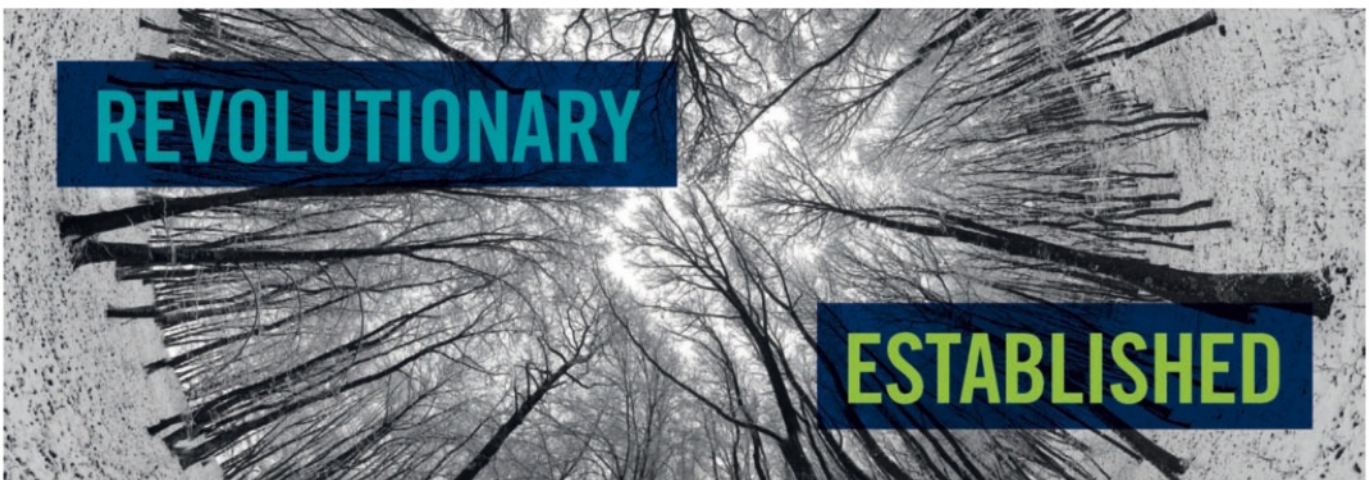
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No German language skills are required at the time of application. Intensive language training is provided as-needed in the US and Germany. Fellows receive a monthly stipend, health insurance, and all program-related travel expenses. Applicants should be US citizens, maximum 40 years old, and have a minimum of 5 years of professional experience in business, cultural management, journalism, law, non-profit, public policy, or urban planning.

The application deadline is **November 1, 2014**. Visit www.culturalvistas.org/bosch.

Tenders

REPUBLIC OF RWANDA



MINISTRY OF TRADE AND INDUSTRY

Request for Pre-qualification for Selection of a Concessionaire to develop and operate Kigali Logistics Platform Project

1. As part of its vision to strengthen the transport and logistics value chain for the country, the Government of Rwanda (GoR), through the Ministry of Trade and Industry (MINICOM) wishes to develop improved trade logistics across Rwanda. For this purpose, one of the facilities identified to make the logistics chain for Rwanda's trade more efficient is the Kigali Logistics Platform (Project).

2. The Project is envisaged as a modern integrated logistics facility in Kigali to be developed and operated with private sector participation under a public-private partnership (PPP) arrangement.

3. MINICOM now intends to select a private sector concessionaire to undertake the Project. MINICOM will award the Project through a fair and transparent competitive bidding process in accordance with the applicable laws of Rwanda and the process set out under the Request for Pre-qualification (RFQ) document.

4. Deloitte Touche Tohmatsu IPL is the lead transaction advisors assisting the Government of Rwanda in procurement of private sector concessionaire for the project.

5. All interested applicants may visit the website of MINICOM (<http://www.minicom.gov.rw>) for more details from September, 16th 2014.

6. The closing date and time for the submission of RFQ responses is October, 17th 2014 on or before 5.00 p.m (Rwanda time).



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- **PRQ20140309** Developing a Strategy to ensure that TMEA Supported One-Stop Border Post (OSBP) and Integrated Border Management (IBM) Programmes are more Pro-Poor; and
- **PRQ20140310** Developing a Strategy to make TMEA Supported Programmes on Cross Border Trade more Pro-Poor and responsive to Gender.

The Terms of Reference and the application form are available on the TMEA website www.trademarka.com under the "work with us" link button. Any queries should be directed to procurement@trademarka.com. The closing date for proposal submissions is **October 13th, 2014**.

Interested and qualified individuals/firms must register and apply online ONLY on the TMEA procurement portal at the website: <http://procurement.trademarka.com> and all attachments must be 10MB or less. Only successful applicants will be contacted.

TMEA cannot answer any query relating to this tender three days or less prior to the submission deadline.

TMEA will hold a virtual Bidders' Capacity Building session on 16th October 2014 at 2.00 p.m. (Kenya time). Please visit our website www.trademarka.com for more details.

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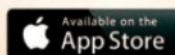
	Gross domestic product			Industrial production	Consumer prices		Unemployment	Current-account balance		Budget balance	Interest rates, %	Currency units, per \$	
	latest	qtr*	2014†	latest	latest	2014†	rate, %	latest 12 months, \$bn	% of GDP 2014†	% of GDP 2014†	10-year gov't bonds, latest	Sep 17th	year ago
United States	+2.5 Q2	+4.2	+2.0	+4.1 Aug	+1.7 Aug	+1.9	6.1 Aug	-389.2 Q2	-2.4	-2.9	2.60	-	-
China	+7.5 Q2	+8.2	+7.5	+6.9 Aug	+2.0 Aug	+2.3	4.1 Q2§	+163.6 Q2	+2.0	-2.9	4.03§§	6.14	6.12
Japan	-0.1 Q2	-7.1	+1.3	-0.7 Jul	+3.4 Jul	+2.8	3.8 Jul	-7.1 Jul	+0.3	-7.9	0.56	107	99.3
Britain	+3.2 Q2	+3.4	+3.2	+1.7 Jul	+1.5 Aug	+1.7	6.2 Jun††	-117.7 Q1	-3.9	-4.5	2.53	0.61	0.63
Canada	+2.5 Q2	+3.1	+2.3	+5.7 Jun	+2.1 Jul	+1.9	7.0 Aug	-50.4 Q2	-2.8	-2.6	2.24	1.10	1.03
Euro area	+0.7 Q2	+0.1	+0.9	+2.2 Jul	+0.4 Aug	+0.6	11.5 Jul	+297.9 Jun	+2.3	-2.5	1.05	0.77	0.75
Austria	+0.6 Q2	nil	+1.4	+1.0 Jun	+1.7 Aug	+1.6	4.9 Jul	+8.8 Q1	+2.5	-3.0	1.26	0.77	0.75
Belgium	+1.0 Q2	+0.3	+1.2	+1.6 Jun	nil Aug	+0.9	8.5 Jul	-5.4 Mar	-0.6	-2.5	1.33	0.77	0.75
France	+0.1 Q2	-0.1	+0.5	+0.1 Jul	+0.4 Aug	+0.8	10.3 Jul	-50.1 Jul‡	-1.2	-4.0	1.42	0.77	0.75
Germany	+1.3 Q2	-0.6	+1.7	+2.4 Jul	+0.8 Aug	+1.0	6.7 Aug	+278.7 Jul	+7.2	+0.4	1.05	0.77	0.75
Greece	-0.3 Q2	na	+0.4	-2.1 Jul	-0.3 Aug	-1.1	27.0 Jun	+3.4 Jun	+0.6	-5.3	5.80	0.77	0.75
Italy	-0.2 Q2	-0.7	nil	-1.8 Jul	-0.1 Aug	+0.4	12.6 Jul	+31.8 Jun	+1.3	-3.2	2.42	0.77	0.75
Netherlands	+0.9 Q2	+2.2	+0.5	+0.7 Jul	+1.0 Aug	+0.7	8.2 Jul	+86.3 Q1	+10.0	-2.7	1.23	0.77	0.75
Spain	+1.2 Q2	+2.3	+1.1	+0.9 Jul	-0.5 Aug	+0.1	24.5 Jul	-1.6 Jun	+0.7	-5.7	2.28	0.77	0.75
Czech Republic	+2.7 Q2	-0.1	+2.4	+8.6 Jul	+0.6 Aug	+0.6	7.4 Aug§	-0.8 Q2	nil	-1.8	1.18	21.3	19.3
Denmark	-0.1 Q2	-1.0	+1.3	-6.5 Jul	+0.5 Aug	+0.8	5.1 Jul	+23.7 Jul	+6.5	-1.5	1.30	5.75	5.59
Hungary	+3.9 Q2	+3.1	+3.0	+12.1 Jul	+0.2 Aug	+0.3	7.9 Jul§††	+4.7 Q1	+2.0	-2.9	4.69	241	223
Norway	-0.3 Q2	+3.7	+2.1	-4.1 Jul	+2.1 Aug	+2.0	3.3 Jun††	+57.9 Q2	+11.2	+12.2	2.36	6.41	5.90
Poland	+3.3 Q2	na	+2.7	-1.9 Aug	-0.3 Aug	+0.3	11.7 Aug§	-4.3 Jul	-1.2	-3.5	3.18	3.23	3.15
Russia	+0.8 Q2	na	+0.4	+0.1 Aug	+7.6 Aug	+7.5	4.8 Aug§	+51.5 Q2	+3.3	+0.4	9.61	38.4	32.2
Sweden	+1.9 Q2	+1.0	+2.3	-5.7 Jul	-0.2 Aug	+0.1	7.4 Aug§	+36.6 Q2	+6.3	-2.1	1.58	7.13	6.47
Switzerland	+0.6 Q2	-0.2	+1.9	+3.1 Q2	+0.1 Aug	+0.1	3.2 Aug	+105.4 Q1	+12.3	+0.3	0.61	0.93	0.93
Turkey	+2.1 Q2	na	+3.0	-4.6 Jul	+9.5 Aug	+8.9	9.1 Jun§	-48.5 Jul	-5.8	-2.6	9.19	2.21	2.01
Australia	+3.1 Q2	+2.0	+3.0	+4.6 Q2	+3.0 Q2	+2.8	6.1 Aug	-42.8 Q2	-2.2	-1.5	3.65	1.12	1.07
Hong Kong	+1.8 Q2	-0.6	+2.4	+2.2 Q2	+4.1 Jul	+3.7	3.3 Jul††	+4.5 Q1	+0.5	+0.7	2.12	7.75	7.75
India	+5.7 Q2	+3.1	+6.0	+0.5 Jul	+7.8 Aug	+8.4	8.8 2013	-18.4 Q2	-2.8	-4.9	8.50	60.9	63.2
Indonesia	+5.1 Q2	na	+5.2	+1.4 Jul	+4.0 Aug	+5.6	5.7 Q1§	-26.3 Q2	-3.5	-2.2	na	11,955	11,445
Malaysia	+6.4 Q2	na	+6.0	+0.5 Jul	+3.3 Aug	+3.1	2.8 Jun§	+18.7 Q2	+6.0	-3.5	4.00	3.22	3.25
Pakistan	+5.4 2014**	na	+5.4	+0.3 Jun	+7.0 Aug	+8.3	6.2 2013	-3.0 Q2	-2.1	-7.0	13.30†††	103	105
Singapore	+2.4 Q2	+0.1	+3.5	+3.3 Jul	+1.2 Jul	+1.8	2.0 Q2	+56.5 Q2	+19.7	+0.5	2.52	1.26	1.26
South Korea	+3.5 Q2	+2.0	+3.6	+3.4 Jul	+1.5 Aug	+1.5	3.3 Aug§	+87.7 Jul	+5.8	+0.6	3.04	1,035	1,084
Taiwan	+3.7 Q2	+3.9	+3.5	+6.1 Jul	+2.1 Aug	+1.5	4.0 Jul	+64.0 Q2	+11.8	-1.4	1.74	30.1	29.6
Thailand	+0.3 Q2	+3.5	+1.9	-5.2 Jul	+2.1 Aug	+2.5	1.0 Jul§	+12.5 Q2	+2.5	-2.2	3.32	32.3	31.8
Argentina	-0.2 Q1	-3.2	-1.4	-0.7 Jul	— ***	—	7.5 Q2§	-5.7 Q1	-0.9	-2.0	na	8.41	5.74
Brazil	-0.9 Q2	-2.4	+1.0	-3.5 Jul	+6.5 Aug	+6.5	4.9 Apr§	-78.4 Jul	-3.7	-3.8	11.52	2.34	2.26
Chile	+1.9 Q2	+0.6	+2.2	-2.6 Jul	+4.5 Aug	+4.1	6.5 Jul§††	-6.5 Q2	-1.9	-1.1	4.66	596	502
Colombia	+4.3 Q2	-0.6	+5.0	+1.8 Jul	+3.0 Aug	+2.9	9.3 Jul§	-13.2 Q1	-3.7	-1.5	6.55	1,977	1,912
Mexico	+1.6 Q2	+4.2	+2.4	+2.1 Jul	+4.1 Aug	+3.8	5.2 Jul	-24.5 Q2	-1.6	-3.6	7.75	13.2	12.9
Venezuela	+1.0 Q4	+3.6	-2.5	+0.8 Sep	+63.4 Aug	+64.4	6.7 Jul§	+6.9 Q3	+1.6	-12.2	15.72	11.7	6.29
Egypt	+2.5 Q1	na	+1.8	+19.6 Jul	+11.5 Aug	+9.5	13.3 Q2§	-1.9 Q1	-2.5	-12.2	na	7.15	6.89
Israel	+1.0 Q2	+1.5	+2.4	-1.0 Jun	nil Aug	+0.8	6.2 Jul	+8.5 Q2	+1.8	-3.1	2.47	3.64	3.54
Saudi Arabia	+4.0 2013	na	+4.0	na	+2.8 Aug	+2.9	5.6 2013	+132.9 Q1	+14.6	+2.7	na	3.75	3.75
South Africa	+1.0 Q2	+0.6	+2.0	-8.0 Jul	+6.4 Aug	+5.9	25.5 Q2§	-18.8 Q2	-5.4	-4.4	7.87	10.9	9.80

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, July 37.89%; year ago 21.11%. †††Dollar-denominated bonds.

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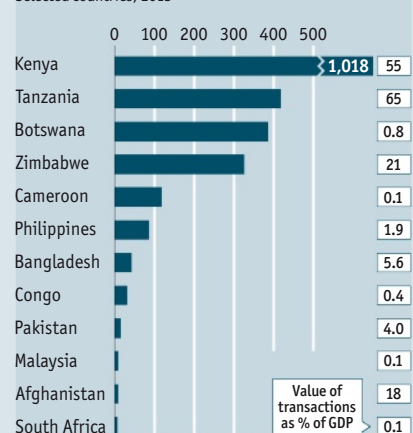


Markets

	Index Sep 17th	% change on		
		one week	in local currency terms	in \$ terms
United States (DJIA)	17,156.9	+0.5	+3.5	+3.5
China (SSEA)	2,416.0	-0.5	+9.1	+7.5
Japan (Nikkei 225)	15,888.7	+0.6	-2.5	-4.4
Britain (FTSE 100)	6,780.9	-0.7	+0.5	-1.6
Canada (S&P TSX)	15,458.9	-0.1	+13.5	+9.4
Euro area (FTSE Euro 100)	1,056.3	-0.2	+3.6	-2.7
Euro area (EURO STOXX 50)	3,237.4	-0.2	+4.1	-2.2
Austria (ATX)	2,282.8	-1.9	-10.4	-15.8
Belgium (Bel 20)	3,183.4	nil	+8.9	+2.3
France (CAC 40)	4,431.4	-0.4	+3.2	-3.1
Germany (DAX)*	9,661.5	-0.4	+1.1	-5.0
Greece (Athex Comp)	1,131.8	-3.3	-2.7	-8.6
Italy (FTSE/MIB)	21,111.7	-0.1	+11.3	+4.5
Netherlands (AEX)	417.8	-0.3	+4.0	-2.3
Spain (Madrid SE)	1,112.4	-0.3	+9.9	+3.2
Czech Republic (PX)	984.5	-1.3	-0.5	-7.0
Denmark (OMXCX)	691.7	+1.8	+22.2	+15.0
Hungary (BUX)	18,775.5	+0.4	+1.1	-10.1
Norway (OSEAX)	684.5	+0.7	+13.5	+7.4
Poland (WIG)	55,153.8	+1.1	+7.5	+0.1
Russia (RTS, \$ terms)	1,190.1	-4.0	-2.8	-17.5
Sweden (OMXS30)	1,407.0	+1.4	+5.6	-4.9
Switzerland (SMI)	8,825.6	+0.1	+7.6	+2.4
Turkey (BIST)	78,968.1	-0.7	+16.5	+13.0
Australia (All Ord.)	5,411.4	-2.9	+1.1	+3.1
Hong Kong (Hang Seng)	24,376.4	-1.3	+4.6	+4.6
India (BSE)	26,631.3	-1.6	+25.8	+27.4
Indonesia (JSX)	5,188.2	+0.9	+21.4	+23.5
Malaysia (KLSE)	1,843.8	-1.4	-1.2	+0.2
Pakistan (KSE)	30,136.6	+1.5	+19.3	+22.2
Singapore (STI)	3,296.5	-1.3	+4.1	+4.2
South Korea (KOSPI)	2,062.6	+0.6	+2.5	+4.4
Taiwan (TWI)	9,195.2	-1.7	+6.8	+5.5
Thailand (SET)	1,570.6	-0.7	+20.9	+23.3
Argentina (MERV)	11,511.3	+6.9	+114	+65.6
Brazil (BVSP)	59,108.2	+1.6	+14.8	+15.8
Chile (IGPA)	19,552.9	-0.8	+7.3	-5.1
Colombia (IGBC)	14,240.0	-0.8	+8.9	+6.4
Mexico (IPC)	46,043.6	+0.3	+7.8	+6.8
Venezuela (IBC)	2,766.9	+2.9	+1.1	na
Egypt (Case 30)	9,575.4	-0.1	+41.2	+37.2
Israel (TA-100)	1,294.5	+0.9	+7.2	+2.1
Saudi Arabia (Tadawul)	11,080.9	+0.2	+29.8	+29.8
South Africa (JSE AS)	51,173.0	-0.2	+10.6	+5.7

Mobile money in developing countries

Kenya leads the world in mobile money, with more active accounts than adults in its population. The total value of transactions made by mobile phone in 2013 was around \$24 billion, more than half the country's GDP. The leading mobile payment system in Kenya, M-PESA, was launched in 2007. A year later it expanded to Tanzania. While uptake there has not been as strong, the total transaction value is close to that of Kenya. As mobile phones have become more widely available, mobile payment transfers have helped reach the "unbanked". In at least eight countries, including Congo and Zimbabwe, more people have registered mobile-money accounts than traditional bank accounts.

Active accounts per 1,000 adults
Selected countries, 2013

Source: IMF

Other markets

	Index Sep 17th	% change on		
		one week	in local currency terms	in \$ terms
United States (S&P 500)	2,001.6	+0.3	+8.3	+8.3
United States (NAScomp)	4,562.2	-0.5	+9.2	+9.2
China (SSEB, \$ terms)	261.3	+0.7	+4.6	+3.0
Japan (Topix)	1,305.0	-0.1	+0.2	-1.7
Europe (FTSEurofirst 300)	1,385.1	nil	+5.2	-1.2
World, dev'd (MSCI)	1,735.3	nil	+4.5	+4.5
Emerging markets (MSCI)	1,062.4	-1.2	+6.0	+6.0
World, all (MSCI)	427.5	-0.2	+4.6	+4.6
World bonds (Citigroup)	925.0	-0.1	+2.0	+2.0
EMBI+ (JPMorgan)	701.3	-1.0	+7.6	+7.6
Hedge funds (HFRX)	1,246.8 ¹	-0.3	+1.7	+1.7
Volatility, US (VIX)	12.7	+12.9	+13.7 (levels)	
CDSs, Eur (iTRAXX) ¹	58.8	+0.3	-16.4	-21.5
CDSs, N Am (CDX) ¹	58.8	+0.4	-6.3	-6.3
Carbon trading (EU ETS) €	5.9	-3.0	+17.3	+10.2

Sources: Markit; Thomson Reuters. ¹Total return index.¹Credit-default-swap spreads, basis points. ²Sep 16th.Indicators for more countries and additional series, go to: Economist.com/indicators

The Economist commodity-price index

2005=100

			% change on	
	Sep 9th	Sep 16th*	one month	one year
Dollar Index				
All Items	162.2	156.0	-4.3	-4.8
Food	178.3	168.7	-6.0	-7.6
Industrials				
All	145.4	142.8	-2.1	-1.2
Nfa ¹	132.9	132.9	-1.8	-15.9
Metals	150.8	147.1	-2.3	+6.0
Sterling Index				
All items	183.2	174.9	-1.9	-6.7
Euro Index				
All items	156.2	149.9	-1.5	-1.9
Gold				
\$ per oz	1,255.8	1,233.1	-4.8	-6.0
West Texas Intermediate				
\$ per barrel	92.7	94.8	+0.1	-9.9

Sources: Bloomberg; CME Group; Cotlook; Darmann & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional

¹Non-food agriculturals.The
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Briefing



Ian Paisley

Ian Paisley, preacher and politician, died on September 12th, aged 88

IT WAS a biblical life. Indeed, the Rev Ian Paisley lived by the Bible from his earliest days. He quoted from it, drew strength from it and founded a church based upon the literal interpretation of it. When, as a young minister in East Belfast, he was challenged by a group of disaffected members, he won over the elders by asserting, "Gentlemen, I am just a boy, a stripling, but I believe the Book, and...I'm going to preach this Book." His life was biblical, too, in that the long decades of bigotry and hatred yielded at the end to a softening of language and behaviour which helped bring peace to Northern Ireland. You might say—he certainly would—that he had found redemption.

He was not just a clergyman, though. His father was chief preacher at the Gospel Tabernacle in Ballymena, and he was born into a tradition of politicised Protestantism that flourished in rural Ulster. It involved unionist politics, evangelical Christianity, suspicion of Catholics and, for many, membership of the marching Orange Order. Yet the unionist parties and the Protestant churches did not always stand united. No one took better advantage of their tendency to split than Mr Paisley, who was the only man in 20th-century Europe to found both a church, the Free Presbyterians, and a political party.

How did he do it? With great difficulty, at first. He began to contemplate a preacher's call as he turned peat for hours in the black bogs, a teenager labouring alone. A farmer asked him to say some words at a gospel meeting; he spoke for three minutes on the raising of Lazarus, and ran out of steam. Yet the seed was sown: with God's blessing, and a glass of cider vinegar every morning, he never ran out of steam again.

Vast bulk, booming tones and a gift for public speaking—some called it demagoguery—helped. Asked by a minister in early life to describe a cow's tongue, he replied, "It is like a file." The minister then prayed, "Lord, give this young man a tongue like an old cow." The Lord obliged.

Of all the words he rasped out, none was so famous as no. No to marchers demanding civil rights for Catholics. No to the flying of Ireland's tricolour in Belfast. No to the lowering of the Union flag on Belfast's city hall for the death of a pope. No to the legalisation of homosexuality ("Save Ulster from sodomy", as he put it). And no to every attempt, until 2006, to find a political solution to Ulster's age-old antipathies. That meant no to the Sunningdale agreement in 1973, no to the Anglo-Irish agreement signed by Margaret Thatcher and her Irish counterpart in 1985 and no to the Good Friday agreement of 1998. He even

said no when a Catholic politician, John Hume, asked, "Ian, if the word no were to be removed from the English language, you'd be speechless, wouldn't you?"

But he was not just a naysayer; he was also a doer. Spotting a circus tent in a Belfast park when he was a young minister, he quickly secured it for an evangelical rally that drew a thousand people. Rather than just delivering his sermons indoors, he would take to the streets to storm the battlements of hell, sin and apostasy. Nor did he just stay put in Belfast, but went round the province recruiting for the Lord. And everywhere he made contacts that turned out to be useful in politics.

He was aware that established unionism was not ideal. It defended the secular interests of Protestants—their right to be part of "the great country that is Great Britain"—but not their religion, despite the fact that Ulster had "more born-again people to the square mile than anywhere else in the world". Therefore it was up to him, like Daniel or David, to fight for it.

That meant two things. First, he would carry the sword for truth against the Catholic church, that "bloodthirsty, persecuting, intolerant, blaspheming, political, religious, papacy", with its "beads, holy water, holy smoke and stinks". Later, it also meant interrupting Pope John Paul II in the European Parliament with cries of "I denounce you as the Antichrist." When Tony Blair converted to Catholicism in 2007, he told him to his face he was a fool, skewering him with one look, "and I walked on".

Second, he would take on the unionist modernisers, men like Terence O'Neill, Ulster's prime minister in the 1960s, a liberal, landowning Anglican. Resisting O'Neill's modernist policies through civil disobedience put Mr Paisley in the dock several times, and even in jail: he took the first two syllables of Protestant seriously.

A sinner saved

His roaring energy also put him in Ulster's assembly at Stormont, in the European Parliament, and in the United Kingdom Parliament at Westminster, where he served for 40 years as MP for North Antrim before going to the House of Lords. (He became Lord Bannside, but preferred the title "a sinner saved by grace".) His Democratic Unionist Party had become the biggest unionist party in Ulster, enabling him, thanks to the St Andrews agreement in 2006, to become first minister at Stormont. That was the first agreement to which he had said yes.

Astonishingly enough, his deputy was Martin McGuinness, a former IRA leader in Londonderry. They got on so well that they became known as the Chuckle Brothers. He had once fulminated that Mr McGuinness was Satan himself. But, when all was said, "I'd rather see him in heaven redeemed." ■

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