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Politics

Myanmar held its first freely contested general election in 25 years. The National League for Democracy, an opposition party led by Aung San Suu Kyi, a Nobel peace-prize winner, appeared to have won a convincing victory over politicians supported by the army, which has ruled the country for half a century. The army-drafted constitution, however, prevents her from becoming president. A quarter of the seats in the parliament are reserved for the armed forces.

India's ruling Bharatiya Janata Party (BJP) suffered a heavy defeat in an election in Bihar for the state assembly. The ballot was an important test of the popularity of Narendra Modi, the country's prime minister, who campaigned widely in Bihar for the BJP's candidates. It was his biggest political setback since taking office last year.

China's president, Xi Jinping, met his counterpart from **Taiwan**, Ma Ying-jeou, in Singapore. It was the first encounter between leaders of the two sides since the end of the Chinese civil war in 1949. Opposition politicians accused Mr Ma of using the occasion to boost the fortunes of his party, the Kuomintang, which is expected to do badly in elections in January.

Police on **Christmas Island**, an Australian territory in the Indian Ocean, used tear gas to quell three days of unrest at a detention centre for asylum-seekers. Violence erupted after an escaped detainee from Iran was found dead. The facility is one of several to which Australia sends the migrants it intercepts at sea.

Green victory

After a seven-year review, Barack Obama decided not to give the go-ahead for the controversial **Keystone XL** oil pipeline. The project would have carried oil from Canada's tar sands to the Gulf coast, but was strongly opposed by environmentalists.

In a blow to Mr Obama's **immigration** reforms, an appeals court sided with 26 states that want to block his plan to allow some 4m illegal immigrants to stay in America and obtain work permits. The court found that the president's use of executive powers to implement the order had "no statutory authority".

The tinder box

Violence in **Burundi** escalated, more than six months after Pierre Nkurunziza announced his plans to run for a third term as president. Security forces were ordered to disarm members of the opposition who fail to hand in their weapons, a move that many observers fear could lead to further killings.

Muhammadu Buhari, the president of **Nigeria**, at last named his cabinet, five months after being sworn into office.

South Africa jailed eight policemen for murdering a Mozambican taxi driver, who had been dragged behind their van and beaten in his cell. This comes amid a wave of incidents of police brutality and extrajudicial killings that have come to light in South Africa recently.

Russia drafted a peace plan for **Syria** that entails 18 months of constitutional reform followed by presidential elections. Syrian opposition groups rejected it as an attempt to keep President Bashar al-Assad in power.

The European Union issued new guidelines requiring that foodstuffs produced in parts of the West Bank or the Golan Heights occupied by **Israel** since the 1967 war are labelled as coming from either Israeli settlements or Palestine.

Spoiled ballot

Luis Almagro, the secretary-general of the Organisation of American States, told **Venezuela's** election commission that it has failed to guarantee conditions for a fair parliamentary election, which is to be held on December 6th. Several shortcomings were identified, including the disqualification of opposition candidates. Two nephews of the wife of Venezuela's president, Nicolás Maduro, were arrested in Haiti and sent to the United States, where they face drug-trafficking charges.

Chile objected to **Peru's** creation of a new district that lies partly in disputed territory on the border between them. Four hectares of the new district are uninhabited desert between the last boundary marker and the sea. Last year the International Court of Justice redrew the maritime boundary between the two countries in Peru's favour.

The FARC, a leftist guerrilla army that has been fighting **Colombia's** government for more than half a century, says it has stopped buying arms. The group's leader, Rodrigo Londoño Echeverri, also known as Timochenko, said on Twitter that he issued the order in September.

Faster, higher, weaker

A report for the World Anti-Doping Agency alleged that **Russian athletics** is plagued by a culture of cheating, encouraged by state authorities. Some countries called for Russia to be banned from the Rio Olympics next year. Vladimir Putin ordered authorities to co-operate with the inquiry.

Portugal's conservative government fell from power after failing to get its legislative programme through parliament, less than a month after a general election at which it lost its overall majority. The government was brought down by a leftist alliance led by the mainstream Socialists. The smaller parties in the alliance oppose Portugal's membership of NATO, and have mooted the possibility of leaving the euro zone.

More than 60 leaders from African and European countries gathered in Malta for a summit to tackle the **migrant crisis**. As the summit began, **Sweden** brought in temporary border checks to control the flow of migrants entering the country, saying that the influx of recent arrivals was a threat to public order.

An election in **Croatia** gave the most seats to a centre-right coalition, though it fell far short of a parliamentary majority. The migration crisis was a big issue in the election, the first since Croatia joined the EU two years ago.

David Cameron at last set out his demands for changes in **Britain's** relations with the EU. The prime minister wants to seal a deal quickly with Europe's leaders; if his demands are met, he will campaign to stay in the union in a referendum in Britain planned for either next year or 2017. His Eurosceptic opponents said his conditions were small-bore, and nothing like the reforms he had promised to push for.

Business

The Financial Stability Board, which advises the G20 group of countries, said that the world's 30 **biggest banks** should raise up to $1.2 trillion in loss-bearing debt on top of their equity capital. By compelling banks to issue debt that can be written down in times of trouble, the goal is to make creditors liable for a bank's failure, rather than taxpayers. Under the proposals a bank would fund at least 18% of its risk-weighted assets with such debt and equity by 2022. Mark Carney, the governor of the Bank of England, who also chairs the FSB, said that if adopted by regulators, the plan would "support the removal of the implicit public subsidy" enjoyed by banks that are "too big to fail".

Dutch courage

Seven years after the financial crisis, the Dutch government was set to sell the first tranche of shares it owns in **ABN AMRO** in an IPO that should fetch at least €3 billion ($3.2 billion). ABN AMRO's spectacular collapse in 2008 cost the Dutch taxpayer €22 billion; the Dutch finance minister has acknowledged this is unlikely to be ever fully recovered.

UniCredit, Italy's biggest bank, announced that it would cut 18,200 staff, in part by selling its Ukrainian subsidiary, as one element of a revised plan to boost profit and improve its capital position.

After weeks of negotiations, **Anheuser-Busch InBev** made a formal offer to buy **SAB-Miller** for $106 billion. In order to smooth the path with antitrust regulators in America, SAB confirmed that it will sell its near-60% stake in **Miller-Coors** to Molson Coors, which owns the rest of that business, for $12 billion.

Rolls-Royce greatly reduced its estimated income for next year, and lowered its profit forecast for this year, because of the "speed and magnitude of change" in its markets. The engineering firm anticipates sharply lower sales of business jets powered by its engines and reduced demand for maintenance on large turbines. Its share price swooned on the London exchange.

Creatures of legend

Square, a mobile-payments firm, set the price range for its IPO at $11-13 a share. This values Square at around $3.9 billion, well below the $6 billion figure talked of earlier. More questions were raised about the true worth of "unicorns", technology start-ups that are privately valued at over $1 billion, when it emerged that an investor had marked down its stake in **Snapchat**, a messaging app, by 25%.

Microsoft said it would give European customers the option of **storing data** at cloud-server facilities in Germany. Last month Europe's highest court struck down an agreement that had governed the transfer of private data between Europe and America, finding that it left Europeans susceptible to snooping by America's intelligence agencies. Microsoft says it will not be able to gain access to data in the new centres, which will be run by Deutsche Telekom, without permission from a customer and DT.

Sifiso Dabengwa resigned as chief executive of **MTN**, Africa's biggest mobile operator, amid the furore caused by Nigeria's decision to slap it with a $5.2 billion fine. Nigeria's telecoms regulator claims MTN, based in South Africa, was too slow in disconnecting 5.1m unregistered SIM cards, which was ordered as part of the country's fight against Islamist insurgents. MTN says it complied with the law, but its handling of the situation has been criticised.

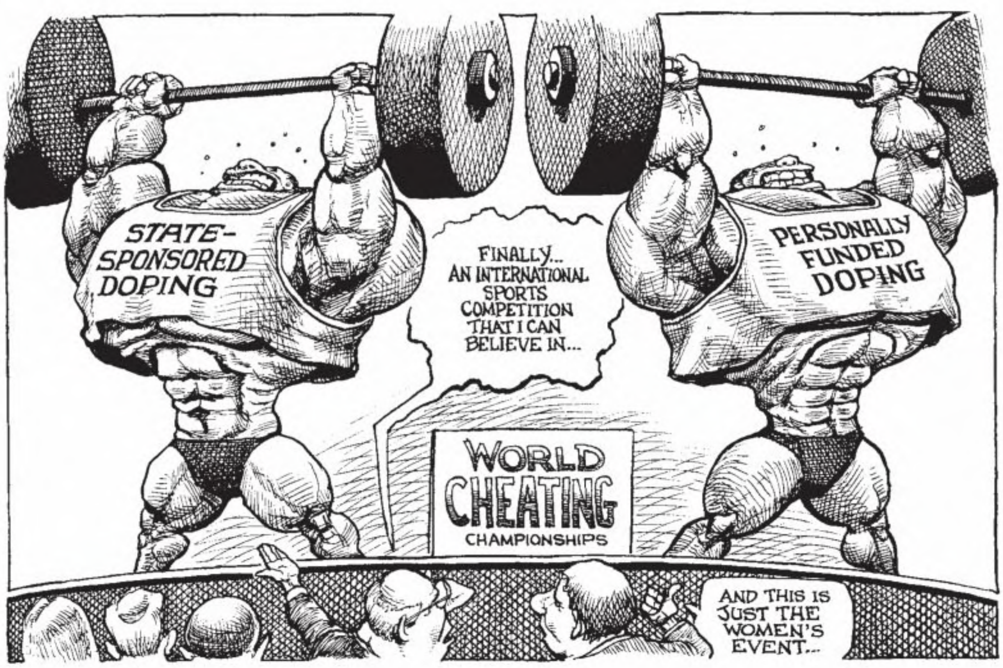
Hourly earnings in **America** grew by 2.5% at an annual rate in October, the fastest pace since 2009. The unemployment rate fell to 5%, the lowest since 2008, as 271,000 jobs were created. Markets interpreted the good news as a sign that the Federal Reserve will raise **interest rates** at its next meeting in December. In **Britain** unemployment fell to 5.3%, also the lowest since 2008, but wage growth slowed, complicating the situation for the Bank of England as it ponders when to increase interest rates.

Another poor month for **Chinese trade** sparked debate about whether the government will have to do more to stimulate the economy. Exports fell by 6.9%, in dollar terms, in October from the same month last year and imports were down by 18.8%. The figures for both measures were much worse than analysts had forecast. Industrial production also grew by less than had been expected.

As the world turns

The sharp downturns in trade and in emerging markets were factors behind the OECD's downward revision to its estimate of **global growth**. The organisation now expects the world economy to expand by 2.9% this year, well below the long-run average. Growth should bounce back, but this "requires a smooth rebalancing of activity in China and more robust investment in advanced economies".

Other economic data and news can be found on pages 91-92



The never-ending story

First America, then Europe. Now the debt crisis has reached emerging markets

IT IS close to ten years since America's housing bubble burst. It is six since Greece's insolvency sparked the euro crisis. Linking these episodes was a rapid build-up of debt, followed by a bust. A third instalment in the chronicles of debt is now unfolding. This time the setting is emerging markets. Investors have already dumped assets in the developing world, but the full agony of the slowdown still lies ahead.

Debt crises in poorer countries are nothing new. In some ways this one will be less dramatic than the defaults and broken currency pegs that marked crashes in the 1980s and 1990s. Today's emerging markets, by and large, have more flexible exchange rates, bigger reserves and a smaller share of their debts in foreign currency. Nonetheless, the bust will hit growth harder than people now expect, weakening the world economy even as the Federal Reserve begins to raise interest rates.

Chronicle of a debt foretold

In all three volumes of this debt trilogy, the cycle began with capital flooding across borders, driving down interest rates and spurring credit growth. In America a glut of global savings, much of it from Asia, washed into subprime housing, with disastrous results. In the euro area, thrifty Germans helped to fund booms in Irish housing and Greek public spending.

As these rich-world bubbles turned to bust, sending interest rates to historic lows, the flow of capital changed direction. Money flowed from rich countries to poorer ones. That was at least the right way around. But this was yet another binge: too much borrowed too fast, and lots of the debt taken on by firms to finance imprudent projects or purchase overpriced assets. Overall, debt in emerging markets has risen from 150% of GDP in 2009 to 195%. Corporate debt has surged from less than 50% of GDP in 2008 to almost 75%. China's debt-to-GDP ratio has risen by nearly 50 percentage points in the past four years.

Now this boom, too, is coming to an end. Slower Chinese growth and weak commodity prices have darkened prospects even as a stronger dollar and the approach of higher American interest rates dam the flood of cheap capital. Next comes the reckoning. Some debt cycles end in crisis and recession—witness both the subprime debacle and the euro zone's agonies. Others result merely in slower growth, as borrowers stop spending and lenders scuttle for cover. The scale of the emerging-market credit boom ensures that its aftermath will hurt. In countries where private-sector indebtedness has risen by more than 20% of GDP, the pace of GDP growth slows by an average of almost three percentage points in the three years after the peak of borrowing (see pages 25-28). But just how much pain lies ahead will also depend on local factors, from the scale of the exchange-rate adjustment that has already taken place to the size of countries' reserves. Crudely, most emerging economies can be put into one of three groups.

The first group includes those for which the credit boom will be followed by a prolonged hangover, not a heart attack. The likes of South Korea and Singapore belong in this category; so, crucially for the world economy, does China. It still has formidable defences to protect it against an exodus of capital. It has an enormous current-account surplus. Its foreign-exchange reserves stood at $3.5 trillion in October, roughly three times as much as its external debt. Policymakers have the ability to bail out borrowers, and show little sign of being willing to tolerate defaults. Shovelling problems under the carpet does not get rid of them. Firms that ought to go bust stagger on; dud loans pile up on banks' balance-sheets; excess capacity in sectors like steel leads to dumping elsewhere. All this saps growth, but it also puts off the threat of a severe crisis.

For that risk, look instead to countries in the second category—those that lack the same means to bail out imprudent borrowers or to protect themselves from capital flight. Of the larger economies in this category, three stand out. Brazil's corporate-bond market has grown 12-fold since 2007. Its current-account deficit means that it relies on foreign capital; its political paralysis and fiscal inflexibility offer nothing to reassure investors. Malaysia's banks have lots of foreign liabilities, and its households have the highest debt-to-income ratio of any big emerging market; its cushion of foreign-exchange reserves looks thin and its current-account surplus is forecast to shrink. Turkey combines a current-account deficit, high inflation and foreign-currency-denominated debts that have become more onerous as the lira has fallen.

The third group of countries consists of those emerging markets that will either escape serious trouble or have already gone through the worst. Of the big ones, India is in healthier shape than any other big emerging economy and Russia might just surpass expectations. The rouble has already gone through a bigger adjustment than any other major currency, and the economy shows tentative signs of responding. Argentina, a perennial flop but one with little private debt, could also shine if a reformist wins the presidency this month.

Such brighter spots aside, everything else points to another pallid year for the world economy. The IMF has forecast higher growth in emerging markets next year; the lesson of past debt cycles suggests another year of slowdown is more likely. And weakness in the developing world, which accounts for over half of the global economy (in purchasing-power-parity terms), matters far more than it once did. Lower growth in emerging markets hits the profits of multinationals and the cash flows of exporters. Low commodity prices help oil importers but ratchet up the pressure on indebted miners, drillers and traders, which between them owe around $3 trillion.

Volume four?

Europe's open economy is most exposed to a cooling in emerging-market demand, which is why more monetary easing there looks likely. But America's policy dilemma is more acute. The divergence in monetary policy between it and the rest of the world will put upward pressure on the dollar, hurting exports and earnings. And waves of capital may again seek out the American consumer as the borrower of choice. If so, the world's debt crisis may end up right back where it started. ■

Myanmar's general election

A new era

Aung San Suu Kyi, Myanmar's opposition leader, has won a great victory. Now she must change the country

FOR once the headline of the *Global New Light of Myanmar*, the rag that churns out the paranoid delusions of Myanmar's ruling generals, told the real story: "Dawn of a New Era". Even before a final result is declared, it is plain that the National League for Democracy (NLD), led by Aung San Suu Kyi, a Nobel peace-prize winner, has won by a landslide in Myanmar's first free, but far from fair, election in 25 years.

The NLD seems likely to have won enough seats to secure a majority—even with a quarter of the parliamentary seats reserved for the army. That is a remarkable victory for Miss Suu Kyi, a vindication of her policy of compromise with the generals and a repudiation of decades of military rule (see page 39). One of Asia's most isolated and brutal dictatorships may thus be setting a democratic example to an ever more autocratic neighbourhood: in recent years Thailand has suffered a military coup (again), China and Vietnam have been locking up more dissenters and bloggers than ever and Malaysia's government has clung to power only through rigged elections.

Amid the euphoria though, there is a nagging fear that Myanmar's generals will seek to frustrate the people's will. The early signs are that they will not do so blatantly, as they did when they ignored Miss Suu Kyi's last general-election success in 1990. But apart from their parliamentary block, the generals retain control of the army, police and key ministries as well as much of the civil service. The army-inspired constitution ensures that Miss Suu Kyi cannot become president.

Yet the ruling party's defeat is such that the army's hope for a "disciplined" democracy is no longer tenable, if it ever was. The generals must now accept that their best hope of preserving their interests is to co-operate with the NLD in a process of thorough reform, including constitutional change. In Miss Suu Kyi they have a figure of authority willing to set aside bygones. Undermining her would strengthen those who think the generals should be pursued for human-rights abuses and ill-gotten gains; worse, it could plunge Myanmar into renewed and possibly bloody turmoil.

For now, Miss Suu Kyi says she will call the shots from outside government if, as seems likely, the next president hails from the NLD. During the campaign she said little about her strategy for running the country. She attracted many voters purely with her charisma.

Much to ASSK of the lady

After the victory Miss Suu Kyi must speak up and try to govern, even with her hands tied. She must still tread carefully in her dealings with the generals, but she must also be firm in setting a timetable for them to withdraw from politics and surrender their dominance of the economy. Indeed, she must draw up policies to give investors the confidence needed to develop the country's agricultural and mineral bounty.

She will need to foster a spirit of inclusiveness. Myanmar's wretched state, after all, is only partly the result of military rule; another cause is the nationalism of the ethnic Burman majority, which has exacerbated conflicts with other ethnic groups living along Myanmar's borders. Miss Suu Kyi must seek to stop the wars and create a federal system that makes minorities feel safer. She should give citizenship and property rights to the roughly 1m Rohingyas, thousands of whom are fleeing oppression by taking to the sea in rickety boats. Miss Suu Kyi has been disturbingly silent about their plight.

The daughter of Aung San, who led Burma to independence, Miss Suu Kyi has endured years of house arrest and much else. She might yet become the president that most Burmese clearly want. But her greatest tests still lie ahead. ■

Britain and the European Union

How to make the case

David Cameron needs to tell a more positive story about Britain's EU membership

AFTER five months of vague statements of intent, David Cameron has at last set out in concrete terms his demands for changes in Britain's relations with the European Union. The prime minister wants to make a deal with the EU's leaders in December or early next year that would allow him to recommend a vote to remain in the union when he holds his planned referendum. Preparing for a fight, he insisted he was deadly serious and even threatened that, if he did not secure what he wanted, he might campaign to leave.

In truth his proposals, well trailed in advance, are small stuff, carefully calibrated to be winnable (see page 56). Some are cosmetic, such as exempting Britain from the goal of "ever closer union". Others sound big but aren't: a four-year wait before EU migrants claim welfare benefits is unlikely to cut the numbers drawn by Britain's booming jobs market. Worthy demands for more trade deals and a bigger single market are already being met. And the main item on his wishlist is weighty but technocratic: guarantees that euro-zone countries cannot discriminate against non-euro members like Britain.

Eurosceptics are right to point out that these are hardly game-changing reforms. If the referendum is to be won, it must focus not on these minor changes, but on the underlying ques- ▸▸

tion of whether Britain is better off in or out. And in making that case, Mr Cameron needs a more upbeat message. The curmudgeonly tone he has used so far—a gambit to wring more concessions out of European partners—makes for an uninspiring campaign. Unless the government comes up with a more positive case quickly, it risks not only losing the referendum, but weakening Britain's position in the event of a victory.

Accentuate the positive

The logic behind the negative arguments is sound. Britain would survive outside the EU, but most studies find that membership has benefited its economy. The out campaign fails to offer a good alternative. The examples of Norway, Switzerland and others are clear: if Britain wants to keep access to the single market, it will have to accept the EU's rules (including free movement of labour), but with no say in drawing them up. Stressing the scary alternative worked, just, in Scotland's independence referendum last year.

Yet relying on a downbeat message risks handing the out campaign the best tunes, even if they are misleading. Promises of restored national sovereignty, an end to immigration or being unshackled from the euro-zone corpse have a strong superficial appeal. So Mr Cameron needs also to make a positive case for membership. As it happens, he has plenty of arguments to choose from. One is to stress how far the EU is moving in Britain's direction, with red tape being cut and several big trade deals under negotiation. A second is to beef up the case he is already making that the EU bolsters Britain's national security, especially when it comes to dealing with Russia and other dangerous neighbours. In a nasty world, it makes sense to remain in a club that has growing foreign-policy clout.

Winning the referendum is not the only reason for Mr Cameron to push a more positive message. He also needs to prepare for a post-referendum world. One of the failings in Britain's relations with the EU over the past five years has been that it has not played as important a role in Brussels as it could and should have. Britain has the club's second-biggest economy and will by 2050 be its most populous country. Absence from the euro inevitably diminishes Britain's influence in monetary affairs. But it should not weaken its role in the single market or in foreign policy.

One reason for Britain's lack of influence is that Mr Cameron has too often been sidetracked by battles with his party's Eurosceptics. After a vote to remain in, he would have a chance to shut them up. That will be harder to do if his campaign has argued simply that the EU is a terrible club but leaving it would be even worse. The failure to persuade Scots that their membership of the United Kingdom was a good thing, rather than merely the least bad, is one reason why last year's referendum did nothing to reduce demands for independence. Mr Cameron must not make the same mistake with Europe: only by convincing them of the benefits of membership will he ensure that Britons have the stomach not just to stay reluctantly in the EU, but to play a bigger, bolder role in it. ■

Student protests

The right to fright

An obsession with safe spaces is not just bad for education: it also diminishes worthwhile campus protests

HALLOWEEN is supposed to last for one night only. At Yale University (motto: "Light and Truth") it has dragged on considerably longer. As happens at many American universities, Yale administrators sent an advisory e-mail to students before the big night, requesting them to refrain from wearing costumes that other students might find offensive. Given that it is legal for 18-year-old Americans to drive, marry and, in most places, own firearms, it might seem reasonable to let students make their own decisions about dressing-up—and to face the consequences when photographs of them disguised as Osama bin Laden can forever be found on Facebook or Instagram. Yet a determination to treat adults as children is becoming a feature of life on campus, and not just in America. Strangely, some of the most enthusiastic supporters of this development are the students themselves.

In response to the Yale e-mail, a faculty member wrote a carefully worded reply. In it she suggested that students and faculty ought to ponder whether a university should seek to control the behaviour of students in this way. Yes it should, came the reply, in the form of a letter signed by hundreds of students, protests and calls for two academics to resign for suggesting otherwise. Tellingly, the complaint made by some students at Yale's Silliman College, where the row took place, was that they now felt unsafe.

On the face of it this is odd. New Haven, which surrounds Yale, had 60 shootings in 2014, 12 of them fatal. Thankfully, there has never been a shooting at the university. The choice of words was deliberate, though. Last year a debate on abortion at Oxford University was cancelled after some students complained that hearing the views of anti-abortionists would make them feel unsafe. Many British universities now provide "safe spaces" for students to protect them from views which they might find objectionable. Sometimes demands for safe space enter the classroom. Jeannie Suk, a Harvard law professor, has written about how students there tried to dissuade her from discussing rape in class when teaching the law on domestic violence, lest it trigger traumatic memories.

Bodies upon the gears

Like many bad ideas, the notion of safe spaces at universities has its roots in a good one. Gay people once used the term to refer to bars and clubs where they could gather without fear, at a time when many states still had laws against sodomy.

In the worst cases, though, an idea that began by denoting a place where people could assemble without being prosecuted has been reinvented by students to serve as a justification for shutting out ideas. At Colorado College, safety has been invoked by a student group to prevent the screening of a film celebrating the Stonewall riots which downplays the role of minorities in the gay-rights movement. The same reasoning has led some students to request warnings before colleges expose them to literature that deals with racism and violence. People as different as Condoleezza Rice, a former secretary of state, and Bill Maher, a satirist, have been dissuaded from giving speeches on campuses, sometimes on grounds of safety.

What makes this so objectionable is that there are plenty of things on American campuses that really do warrant censure from the university. Administrators at the University of Oklahoma managed not to notice that one of its fraternities, Sigma Alpha Epsilon, had cheerily sung a song about hanging black people from a tree for years, until a video of them doing so appeared on the internet. At the University of Missouri, whose president resigned on November 9th, administrators did a poor job of responding to complaints of unacceptable behaviour on campus—which included the scattering of balls of cotton about the place, as a put-down to black students, and the smearing of faeces in the shape of a swastika in a bathroom.

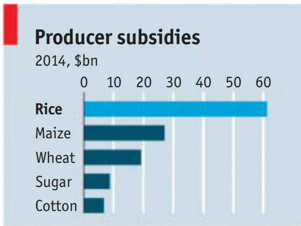
Distinguishing between this sort of thing and obnoxious Halloween costumes ought not to be a difficult task. But by equating smaller ills with bigger ones, students and universities have made it harder, and diminished worthwhile protests in the process. The University of Missouri episode shows how damaging this confusion can be: some activists tried to prevent the college's own newspaper from covering their demonstration, claiming that to do so would have endangered their safe space, thereby rendering a reasonable protest absurd.

Fifty years ago student radicals agitated for academic freedom and the right to engage in political activities on campus. Now some of their successors are campaigning for censorship and increased policing by universities of student activities. The supporters of these ideas on campus are usually described as radicals. They are, in fact, the opposite. ■

Rice

Hare-grained

Subsidies and other protections for rice farmers harm some of the world's poorest people



IN MANY Asian countries, painstakingly inscribing individual grains of rice with minuscule letters is a traditional craft. Just imagine, therefore, what bureaucrats in such places can get up to when they have a whole crop to work with. Tariffs, quotas, floor prices, ceiling prices, producer subsidies, consumer subsidies, state monopolies—no measure is too meddlesome (see page 71). As a result, the market for rice is more distorted than that for any other staple. Rice growers pocketed at least $60 billion in subsidies last year, according to the OECD, twice as much as maize (corn) farmers, the second-most-coddled lot.

The bureaucrats' urge to interfere is understandable. Rice feeds more people than any other crop. Almost half the world's population eats it every day. It accounts for more than 20% of the calories consumed by the average Asian, and 50% of the intake of the poorest 500m. No Asian government can afford to be cavalier about rice prices.

Unfortunately, governments' energetic manipulation of the rice market is counterproductive. All subsidies breed inefficiency and raise costs, whether for consumers, producers or taxpayers. But the ones affecting rice are especially pernicious, in that they drive up prices for those least able to afford it: the poorest citizens of relatively poor countries such as Indonesia and the Philippines. Even small increases in the price of rice can lead to higher rates of malnutrition and a greater incidence of poverty in these places. And the impact on the price from misguided policymaking is anything but small. Rice costs twice as much in the Philippines, for instance, as it does in Vietnam, just across the South China Sea.

The biggest cause of such discrepancies is the effort in rice-importing countries to stimulate domestic production. This is bad enough in rich places like Japan, which levies an average tariff on imported rice of 322% and spent roughly $12 billion last year on handouts to rice farmers, or South Korea (where the figures are 218% and $5 billion). Such policies certainly harm local consumers and taxpayers—the price of rice in both countries is more than three times the world average—but at least relatively few of them are on the verge of destitution. Sadly, the same cannot be said of consumers in China, Indonesia and the Philippines. All three countries have high tariffs on rice to protect local farmers. The three also set a minimum price for home-grown rice, and restrict imports in various ways. The result is domestic prices that are 50-100% above international ones—in effect, a fiercely regressive tax on the hungry.

Exporting countries bear a share of the blame, too. Their rice farmers have a natural advantage, in that they live in vast tropical river basins, where rice grows most readily. But instead of allowing nature to take its course, countries like India, Thailand and Vietnam also have a record of interference. India and Vietnam both curbed exports in 2008, when the international price began to rise, causing it to spike. When prices were falling in 2012-13, Thailand, then the world's biggest exporter, wasted $16 billion on a failed effort to boost them through hoarding.

Such policies are destructive for several reasons. They exacerbate swings in international prices, with grim consequences for the poor in other countries. They also deprive local farmers of potential income from exports. But most damagingly, they provide a justification for importing countries to meddle with the market. The exporters, in other words, are shooting themselves in the foot, giving their best customers an incentive to try to grow their own rice.

Paddy power

The irony is that the world does not appear to be short of rice. Prices fell by over 4% a year on average from 1969 to 2007. India, Myanmar and Vietnam have all become big exporters in recent years, thanks mostly to the lifting of some of the regulations smothering rice farmers—one of the reasons that Thailand's attempt to corner the market failed. Importing countries should have the confidence to dismantle their subsidies and buy more rice abroad, a step exporters ought to encourage with deregulation of their own. For the apparatchiks of rice, alas, that would go against the grain. ■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Worthwhile learning

I write regarding Washington and Lee University taking the top spot in your first-ever college rankings ("Where's best?", October 31st). We measure success by more than what our graduates earn. That standard is an unfortunate result of the Department of Education's College Scorecard, which reinforces the perception that the value of a college education can be determined by salary data. There is nothing wrong with earning a living. But Washington and Lee encourages young women and men to develop a commitment to something greater than the self and pursue more than material well-being.

I would also like to point out that when Robert E. Lee came to Lexington as president of Washington College after the civil war he explicitly directed that the Confederate battle flag be furled. You were wrong in saying that the university "flew the Confederate flag until last year". No such flag "flew" on our campus. Flags that had been on display inside Lee Chapel were removed. Our museum currently exhibits an original battle flag and provides appropriate historical context.

KENNETH RUSCIO
President
Washington and Lee University
Lexington, Virginia

The BlackRock/BGI merger

"Two's a crowd" (October 10th) reported on an academic study that attempts to use the BlackRock/BGI merger to show that large asset-management firms can affect the behaviour of other investors. The study falls short on several fronts, the most egregious of which is the authors' failure to control for any external factor affecting markets at the time. The period of the study, 2008-10, was a particularly turbulent time: think global financial crisis, great recession, quantitative easing and European debt crisis. Instead of accounting for the effects of these or any other highly disruptive events, the authors attribute investor behaviour solely to the BlackRock/BGI merger. This fails the most basic smell test. In this type of study, it is important to hold all else equal. That is difficult to do in practice, especially during a turbulent period in markets, but clearly these other world events affected asset managers in different ways.

As the authors document, the stocks owned by BGI prior to the merger were in significantly larger-than-average companies. This makes it very difficult to compare performance of like-for-like assets, potentially confounding the causal statements made by the authors. Additionally, smaller asset-managers facing redemption requests during this period would have needed to sell shares, and to the extent stocks held by BGI were larger, more liquid and easier to liquidate, that would appear as though other investors were migrating away from stocks held by BlackRock/BGI.

The authors' failure to consider these facts, or at least try to account for them in their analysis, is a lack of understanding of asset management, or at worst, an intentional oversight to skew the results in support of their thesis.

KENNETH KRONER
Senior managing director
BlackRock
San Francisco

A human army

As a serviceman I read your article on the problems for army recruitment in America with interest ("Who will fight the next war?", October 24th). Through games, movies and political pandering, we have cast the average American soldier as a hardened commando. This gives politicians leeway to make extreme claims about our military effectiveness while cutting our fighting strength. The result is a smaller force with higher expectations.

America's troops should combat their status as idols. Perhaps making us seem a little more human will bring in more recruits who "don't like the violence", and undercut the idea that our military should be our primary instrument of foreign policy.

SHAWN COOPER
Enterprise, Alabama

The House of experts

I accept your thesis that Britain's House of Lords would gain more legitimacy if its constitutional role was defined ("Right answer, spoken out of turn", October 31st). But one of the great advantages of the Lords is that its members are not elected. A bicameral Parliament with both houses elected is a recipe for obstruction. Moreover, the House of Lords is much more diverse than the House of Commons, containing business leaders, scientists, artists and doctors, as well as politicians.

SHAUMIK ADHYA
London

The distinction made between a virtuous, elected Commons and a nasty, unelected Lords is humbug. Elected MPs represent their respective interests far more than they represent the people who elected them. Our democracy is more like an oligarchy, with power alternating between two juntas.

Does the House of Lords need reform? Of course. Who would be the worst to try to reform it? Politicians who want a rubber-stamp for unicameral legislation and its attendant evils. Reforming the Commons is more urgent. W.S. Gilbert's Fairy Queen had the right idea: entry by competitive examination.

WYLIE GIBBS
Newport, Isle of Wight

Not a union of minds

On "ever closer union" you are right ("Never closer union", October 24th). The relevant scholastic theology is as follows. One, as its name implies, the European Union is already a union. Two, "ever closer union" is asymptotic: always closer, never reached. Three, the reality is "ever closer disunion", as some governments want a union-within-the-union which would still not be a federation. The problem of angels on pinheads was never treated as a serious problem by sensible people.

PHILIP ALLOTT
Professor emeritus of international public law
Cambridge University

American Bond returns

Bagehot was right to begin his toast to James Bond with Dean Acheson's line about Britain losing an empire and not yet finding a role (October 31st). The American secretary of state was a son of Canadian immigrants who flew the Union Jack, and modelled his appearance on Lord Balfour. He found a role. So did the Beatles and the Rolling Stones, initially by recycling American blues and rock-and-roll tunes.

James Bond got his start in film thanks to the Italian-American Broccoli family. He bears less resemblance to a British imperial archetype than to Douglas Fairbanks, Steve McQueen or Clark Gable. The packaging may look and sound British; the culture and the imperium are not.

KEN WEISBRODE
Ankara, Turkey

In the same way that meat is hung but men are hanged, it should be noted that since he lacks a medical licence, "Doctor Who" is the preferred name of the show in question, not "Dr Who". A small quirk, but important to the purists.

STE CORK
Madison, Wisconsin

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Pulled back in

The world is entering a third stage of a rolling debt crisis, this time centred on emerging markets

BY THE time the third film in a franchise comes around, it is not just audiences that may be getting restive; the characters themselves have been known to complain. It is his inability to put the sins of screenplays past behind him that gives Al Pacino's Michael Corleone the most memorable line in "The Godfather: Part III": "Just when I thought I was out, they pull me back in!"

As with anti-heroes in sequels, so with the world's debt crisis; seeming conclusions serve only to set the narrative off in new directions. Householders in America have struggled for years to work off the excess borrowing taken on during a global housing boom in the 2000s. The economy has suffered from a shortfall of spending as a consequence. The world economy was dealt a second blow, after 2010, when the delayed effects of that earlier boom were played out in a debt crisis at the fringes of the euro area, one that at several points threatened to break up the currency union.

America has put that crisis behind it. Consumer spending is rising at a healthy 3% or so. Nominal wages are beginning to edge up in response to a tighter labour market, leaving the Federal Reserve poised to increase interest rates for the first time since 2006 (see page 29). And household debt looks as if it is bottoming out. Much the same is happening in Britain, which suffered a boom and hangover quite like America's (see chart 1 on next page).

Europe was slower in dealing with its debt and always tends to lag behind America and Britain in its economic cycle. Nevertheless it is having its best year of growth since 2011. It is for these reasons, among others, that the IMF is predicting that world GDP will pick up to 3.6% next year; not the sort of growth seen in the early 2000s, or when emerging markets were booming after the financial crisis, but not too shabby, considering the slowdown in the developing world that started a few years ago.

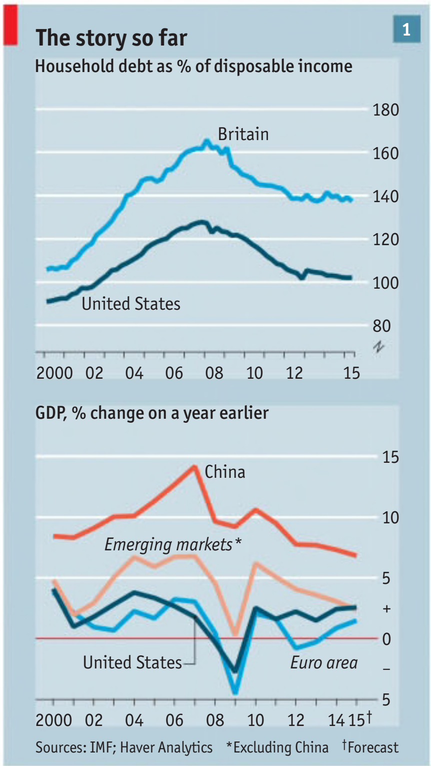
Yet just as the rich world seems to be getting shot of its dodgy legacy of indebtedness, it risks being dragged back into the mire by a third leg of the debt crisis. The debt that built up in emerging markets after the American bust is still there. It has continued to grow even as the economies have slowed, and now overhangs them ominously. In the past, the rich world had the muscle to shake off such problems elsewhere. But emerging markets now make up most of the world economy (around 58% if exchange rates are measured at purchasing-power parity). They are quite capable of weighing down rich-world recoveries—especially if, as in Europe, they are already fragile ones. Taking full account of the effects of emerging-market debt makes the world economy look far less secure.

The burdens of past opportunities

The build-up of emerging-market credit began just as the rich world's financial system started to creak in 2007. According to figures collated by J.P. Morgan, a bank, private-sector debt in emerging markets rose from 73% of GDP at the end of 2007 to 107% of GDP by the end of last year. These figures include loans made by banks and bonds issued by companies. Including the credit extended by non-bank financial institutions (so-called "shadow banks") for the handful of emerging markets where such estimates are available gives a steeper rise and a higher total burden: 127% of GDP.

The credit boom in emerging markets was in large part a response to the credit bust in the rich world. Fearing a depression in its richest export markets, the authorities in China brought about a massive increase in credit in 2009. Meanwhile a flood of capital escaping the paltry yields on offer in developed economies pushed interest rates lower in developing ones. This search for yield by rich-world investors took them to ever more exotic places. A dollar-denominated government bond issued in 2012 by Zambia, a copper-rich country with an average GDP per person of $1,700 a year, offered just 5.4% interest; even so, it was 24 times oversubscribed as rich-world investors clamoured to buy. The following year a state-backed tuna-fishing venture in Mozambique, a country even poorer than Zambia, was able to raise $850m at an interest rate of 8.5%.

In contrast to the credit booms in America and Europe, where households were the main borrowers, three-quarters of the private debt burden in emerging markets is shouldered by businesses: corporate debt has ballooned from less than 50% of GDP in 2008 to almost 75% by 2014. Much of the lending was done in Asia, notably in China. But Turkey, Brazil and Chile also saw substantial increases in the ratio of company debt to GDP (see chart 2 on next page). Construction firms (notably in China and Latin America) increased their leverage a great deal. The oil and gas industry was a big player, too, according to the IMF's latest ▸▸



Global Financial Stability Report.

Growing debt in emerging markets is not of itself something to worry about. It may be that savings are getting into local capital markets more effectively or that there are more, better investment opportunities. Sadly, those happy possibilities do not seem to account for what is now going on. While corporate leverage in emerging markets has been going up, corporate profitability there has fallen, says the IMF. There is plenty of evidence to suggest that rapid debt build-ups are the hallmarks of periods of indiscriminate lending that eventually end in tears.

David Mackie, of J.P. Morgan, has analysed 52 episodes in which the ratio of private debt to GDP increased by at least 20 percentage points over five years. He found that annual GDP growth falls by almost three percentage points in the three years after the debt ratio peaks. The impact is less severe in countries where the peak is not marked by a crisis of some sort. His finding is backed up by academic research. A paper by Alan Taylor and Oscar Jorda, of the University of California, Davis, and Moritz Schularick, of the Free University of Berlin, shows that in the rich world recessions preceded by unusually rapid bank-credit growth are followed by weaker recoveries. Looking at the way credit moves up and down as a proportion of GDP, they found that larger increases in credit on the upswing were correlated with deeper recessions and slower recoveries.

Indeed, credit booms are among the most reliable signals that trouble is brewing. Research by Pierre-Olivier Gourinchas of the University of California, Berkeley, and Maurice Obstfeld, now the IMF's chief economist, finds that credit booms have been one of the two best predictors of crises in emerging markets (the other is a rapidly appreciating real exchange rate). Increasing the credit-to-GDP ratio by nine percentage points is associated with higher probabilities of various misfortunes. In the subsequent three years the probability of a sovereign-debt default goes up by 11.5%, that of a currency crisis increases by 9.4% and that of a banking crisis by 6.4%.

Taken together, such studies of the aftermath of credit booms strongly suggest that growth in emerging markets will be much slower than it was in the early 2000s and the early 2010s. With recessions already under way in Brazil and Russia, this should temper any expectations that growth in emerging markets as a whole is going to buoy up the rest of the world.

There are reasons not to overdo the gloom. Evidence suggests that corporate-lending splurges, which account for most of what is being seen in emerging markets, are less damaging than big build-ups in consumer debt of the sort seen in America in the 2000s. A paper by Boris Cournède and Oliver Denk of the OECD, a think-tank, finds that corporate-debt booms are only half as damaging to subsequent growth in GDP per person as soaring consumer debt. Research from Atif Mian and Emil Verner of Princeton University and Amir Sufi of the University of Chicago Booth School of Business also suggests, albeit tentatively, that the link between rising debt and falling GDP growth is weaker where lending is to companies and not households. Declines in house prices might make busts in mortgage lending more damaging than corporate-debt crashes, because they depress the wealth of all consumers, and not just the indebted.

Broader changes in the world economy militate against a repeat of famous emerging-market blow-ups at the end of the 20th century, such as Mexico's "tequila crisis" in 1994 or the Asian financial crisis of the late 1990s. In the past rich-world banks lent to poorer countries in dollars. That meant that when things went pear-shaped wilting local currencies made debt burdens even larger. This time, though, much of the flood of capital has gone into local-currency bonds, which means that when currencies weaken, some of the losses are automatically shared with rich-world investors. It is still a hit—but spread out this way it does not have the same impact. What is more, memories of crises past have prompted Asian governments, in particular, to build up their foreign-exchange reserves. They are now a bulwark against a sudden exit of foreign capital. Still, some companies will face a mismatch between their earnings (in local currency) and their debts, and an arsenal of reserves may not help them. After all, the foreign-exchange reserves are held by governments, not companies. "In a crisis the money is in one place but the holes are in a different place," says Mr Taylor.

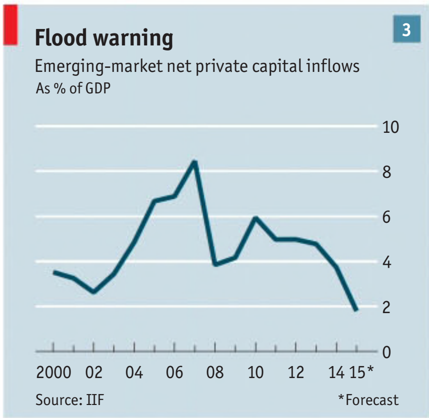
Even allowing for mitigating factors, the scope for the debt saga's latest instalment to do more damage is clear. Brazil and Russia are already mired in deep recessions. The IMF reckons Brazil's GDP will shrink this year by around 3% and Russia's by 4%. South Africa, Turkey and Malaysia have seen their currencies plummet over the past two years. After 2007 capital flooded from rich markets into emerging ones (see chart 3 on next page). But now it is flowing the other way. Rising interest rates in America might turn that reversal into a rout.

Market triage

This makes it difficult to be optimistic about emerging markets in general. But "it is also hard to think of who might blow up," says George Papamarkakis of North Asset Management, a hedge fund. This is in part because, as Manoj Pradhan of Morgan Stanley notes, there are two types of emerging markets, and those with the largest debt are not in general of the type more disposed to acute crises.

The classic sort of emerging market has a current-account deficit and is prone to inflation. Its central bank has to pay obsessive attention to the exchange rate: too low and it stokes inflation; too high and it hurts exports. The other kind, too new to feature in textbooks on emerging-market crises, has a hearty current-account surplus, huge foreign-exchange reserves and decent public finances—but lots of private debt and an excess of goods-producing capacity, leaving it prone to deflation.

The most highly indebted emerging ▸▸



markets, such as China, South Korea, Singapore and perhaps Thailand, mostly fall into Mr Pradhan's second category. They are unlikely to suffer an abrupt crash brought on by capital flight; most of them have formidable defences against a balance-of-payments crisis. But that stability also means the problems brought on by excess debt are likely to linger for years. With inflation absent interest rates can be kept low; that makes the carrying cost of debt manageable, at least for a while. And banks heavily influenced by governments may be unwilling to tackle non-performing corporate loans, because they will result in factory shutdowns. Instead the debt overhang is perpetuated as bad loans are rolled over, creating zombie companies and industries. Overcapacity pushes down factory-gate prices, which hurts profits and investment. Capital is trapped in underperforming businesses and sectors, which steadily saps GDP growth.

A second group of countries, including Brazil and Turkey, is at more immediate risk. These are emerging economies of the more classic type. They saw a build-up in private debt after 2007, much of it in the corporate sector. Their big current-account deficits make them reliant on foreign lending to sustain GDP growth. As the prospect of interest-rate increases by the Federal Reserve draws capital back to America, such countries become more vulnerable to further currency weakness. That stokes inflation. The higher interest rates required to curb inflation and to slow capital outflows make servicing debt more costly. In such circumstances, the pressure to address the debt problem is greater and the impact on the economy is potentially more dramatic; these are the countries that are most at risk of true crises. Not all of the countries in this sort of danger have current-account deficits. Malaysia runs a surplus, but probably still belongs in this category because of its high private-sector debt (181% of GDP), its weakening currency and its strong trade ties to China's slowing economy.

There is a third sort of emerging market, though: economies that are either less blighted by private-sector debt or have other reasons to be optimistic about growth. India belongs here. Like others in Asia, India saw corporate credit soar after 2007. But its investment boom hit the buffers earlier than in other places; overall private-sector debt was a comparatively modest 60% of GDP in 2014 (though this is also in large part because the market for consumer debt is under-developed). The central bank has put pressure on state-owned banks to recognise bad debts, and bankruptcy legislation to help clear up the mess that goes along with them is pending.

The IMF expects Indian GDP to rise by 7.3% in 2016, which will make it the world's fastest-growing big economy. It is less affected by the slowdown in China than other Asian economies, and the halving in oil prices which has hit Asian producers like Malaysia hard has been a boon to India, which imports 80% of the oil it consumes. The current account has moved closer to balance, in part because of low oil prices but also because of the prompt action taken after concerns about capital starting to leave emerging markets sparked a mini-crisis (the so-called "taper tantrum") in 2013. Inflation, which was in double-digits in 2013, was down to 4.4% in September; the oil price has helped, but so have measures to curb food-price inflation. Interest rates have been steadily reduced this year from 8% to 6.75%, and there is scope for the central bank to make further cuts.

Glimmerings of hope

The trouble in Brazil and Russia, and the volatility of China's stockmarket, have made India an increasingly attractive haven. But look harder and it is possible to find other biggish developing economies that are not afflicted by a corporate-debt overhang. Mexico, though an oil exporter, saw only a modest increase in credit growth after 2007. Its private-debt burden rose to just 35% of GDP by the end of last year. It is more closely tied to America, an economy that is escaping its private-debt problems, than to China, which has yet to deal with them.

Pakistan, like India, benefits from low oil prices and has seen a dramatic fall in inflation and a pick-up in GDP growth. Argentina has barely any private debt and could shed its reputation for chronic economic mismanagement if Mauricio Macri, a reformer, wins presidential elections this month. Russia, though still mired in recession, might return to growth sooner than many expect in response to a quite brutal devaluation of the rouble. "It is hard for Russia to go down much further," reckons Mr Pradhan. Its central-bank governor, Elvira Nabiullina, is well regarded. And like India, Russia has relatively high interest rates, giving it "an arsenal of monetary policy" to bring to bear.

In the immediate aftermath of 2007 the growth rate of the world economy was a contest between emerging markets, which pressed forward, and the obstructions put in the way of progress by the woes of the rich world. The tables have now turned, with debt poised to exacerbate crises in some parts of the developing world and dent long-term prospects in others.

The response of rich-world central banks to the anxieties this turnaround provokes provides clues to how each region will be affected. America's Federal Reserve was poised to raise interest rates in September, but delayed because of worries about China. It now seems set on a rate increase in December. The feeling is that America's recovery is sufficiently robust to shrug off trouble from elsewhere.

The euro zone, by contrast, looks much less hale. The currency zone is more open to trade than America. Germany in particular has done well out of the corporate-debt boom in emerging markets, which spurred demand for the capital goods it specialises in. So Europe's recovery, always more fragile than America's, is at greater risk. Mario Draghi, chief of the European Central Bank, has signalled that further monetary easing, including more quantitative easing and a cut in the central bank's deposit rate, looks to be on the cards.

More quantitative easing in Europe while America tightens monetary policy is a recipe for a stronger dollar. If the greenback rises far enough, that will hurt export earnings in America, which will eventually feed through to weaker investment and softer GDP growth. The Fed may thus find that even a gradual increase in interest rates will have to be cut short.

Some stories come to a satisfactory end. Some, like the Godfather saga, outstay their welcome. The chronicles of debt seem to fit firmly in the second category. Michael Corleone's driving ambition was to settle all family business; but nothing stays settled for ever. ■

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Wages

Looking for a rise

WASHINGTON, DC

Wage growth is at last accelerating. But living standards will continue to stagnate

THE last time unemployment in Wisconsin was as low as today's 4.3% was in April 2001. George W. Bush had been president for a mere three months; *Gladiator* had just cleaned up at the Oscars. Usually, economists have to look back just one recession to gauge the strength of a labour-market recovery; in Wisconsin, they must go back two. With their talents in such demand, today's Wisconsinites might have expected bumper pay rises in 2015. Instead, they have been disappointed. Hourly wages rose by just 1.1% in the past year—and are lower than they were 18 months ago.

The Badger State is not alone. The same curious combination of booming labour market and meagre pay rises has characterised the economy as a whole for most of 2015. At 5%, nationwide unemployment is more or less as low as the Federal Reserve thinks it can go before the economy overheats. Even the broader measure of underemployment, which include workers who are part-time but want a full-time job, is at its lowest in seven years. Despite this, wage growth has been lacklustre. It was a sign of the times when, on November 6th, pundits celebrated the news that hourly pay grew by 2.5% in the year to October. Bumper by today's standard, that pace remains well below the 3.8% achieved in mid-2007, before the financial crisis hit.

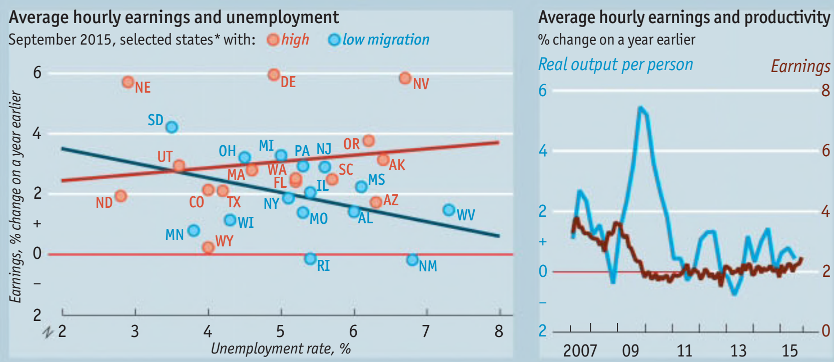
This has cast doubt on the conventional wisdom that a tight labour market leads firms to bid up wages, resulting in higher inflation. Lael Brainard, a Fed governor, recently declared that, unlike some of her colleagues, she views the labour market as an insufficient bellwether for price rises.

The link between unemployment and wage growth—the so-called "wage Phillips curve"—has flattened in recent years, for several reasons. One is low participation in the labour market. At just under 81%, the proportion of 25- to-54-year-olds in the labour force is lower than at any time since 1984. For men, the labour-force participation rate is lower than in supposedly sclerotic France or social-democratic Sweden.

Many of these potential workers gave up looking for a job during the long hangover from the financial crisis. As a result, the fraction of 25-to-54-year-olds with jobs has recovered only about halfway to its pre-recession peak. Inactive folk act as a brake on wage growth if better prospects can tempt them back into the labour force.

The same is true of migrants. Economists have long suspected that labour and capital flowing across borders may dampen the effect of employment on wages and prices. There is some recent evidence for this on a state level. Wage growth and unemployment appear related only in states where, overall, few migrants flow in or out (see chart). Workers in such states, which include Ohio, Michigan, and Mississippi, may have more bargaining power in booms and less in downturns. They also have lower overall wage gains on average.

The pickup in wage growth that appeared in October's data, if sustained, will not be enough to keep living standards rising. In the long run, that requires rises in labour productivity, the amount produced by each worker. In the aftermath of the recession, labour productivity growth fell in tandem with wage growth. In the past five years it has grown by an average of just 0.5% a year, compared with 1.9% from 2005 ▸▸



Finding Phillips
United States

Sources: BLS; Census Bureau; *The Economist*

*Ranked by absolute net migration in 2014 to 2010, and 3.2% in the five years before that. Persistently weak productivity growth is depressing wage growth by about 0.3 percentage points, according to David Mericle of Goldman Sachs, a bank.

Falling fuel prices and an appreciating dollar have recently masked this shortfall by filling workers' wallets. With zero inflation, employees will cheer a 2.5% pay rise. Tumbling petrol prices may have kept a lid on wage demands; Mr Mericle estimates that low inflation has knocked about 0.2 percentage points off wage growth.

As inflation does eventually return, though, wages must rise higher still. Unfortunately, the productivity slowdown may be permanent. In a recent paper, John Fernald and Bing Wang of the San Francisco Fed documented how it began before the crisis—as big gains from information technology during the 1990s and early 2000s dried up—and warn that a "relatively slow pace" is the best guess for the future.

Bridge and tunnel

This is not the stuff of stump speeches. Among the candidates for the Republican nomination, Donald Trump, Jeb Bush and Marco Rubio want to slash taxes to spur productivity-boosting private investment. All promise to cut American's corporate tax rate, which at 35% is the highest in the OECD, a club of mostly-rich countries. Mr Rubio wants to encourage corporate investment further by allowing firms to deduct the full cost of investment from taxes in the year they are made.

A Republican president would inevitably pair these changes, though, with expensive income-tax cuts that would require a squeeze on public investment. That would sap productivity, especially given the deplorable state of American infrastructure. The burden of shoddy roads, airports and energy infrastructure will cost every household $3,100 a year, according to the American Society of Civil Engineers. Avoiding that should be a priority. On November 5th the Republican-controlled House of Representatives at last passed a highways bill, which should help, but left a gaping hole in the finances of the highway trust fund. Part of the bill was funded by a raid on the Fed's reserves.

Hillary Clinton, the probable Democratic nominee, promises more funds for infrastructure and scientific research. Yet if income-tax cuts lead Republicans astray, Democrats are too keen on crude responses to wage stagnation, such as much higher minimum wages. On November 10th, Mrs Clinton tweeted a message of support for campaigners for a $15 minimum wage.

Recent data show wage growth straining at its shackles; sooner or later, it will escape them. But over the next year, pay will rise only in tandem with inflation. That will bring the productivity slowdown sharply into view for the next president. ■

Electing judges

Courting cash

NEW YORK

Democrats prevail in the most expensive judicial race yet

COURTS, in theory, are bastions of independence and impartiality. But that image is tainted when campaigns pass the hat for contributions, or benefit from spending by others. Earlier this month, a race for Pennsylvania's Supreme Court was fuelled by at least $16.5m in campaign spending—the most expensive judicial election America has seen to date.

Democrats outspent the Republican candidates more than three-to-one and scored a resounding victory on November 3rd, taking all three open seats on the court to reach a 5-2 majority and increase the likelihood of left-leaning decisions from Pennsylvania's highest tribunal. Crucially, these seven judges choose the tiebreaking member of a bipartisan commission charged with drawing the state's electoral districts. So the win may pay dividends for the Democrats in state legislative races over the next decade as well.

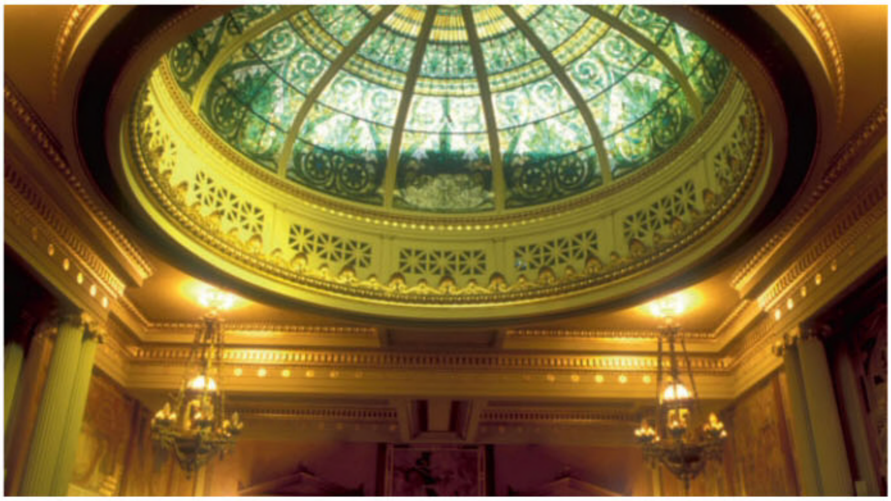
The three Democrats elected to the Keystone State's highest court owe their gavels primarily to organised labour and plaintiffs' lawyers, their two most generous blocs of financial support. Christine Donohue, Kevin Dougherty and David Wecht, the three winning candidates, took in $2.1m from unions and another $1.7m from lawyers.

These Democratic victories ought to be troubling for Democrats. Hillary Clinton, the front-runner for the party's nomination, has railed against *Citizens United v Federal Election Commission*, a decision of 2010 that enabled outside groups to spend freely in election campaigns. The ruling, she said, protects "the right of billionaires to buy elections". But *Citizens United* is precisely the wrench that opened the spigot of outside dollars for judicial candidates in Pennsylvania.

Mr Wecht opposes the principle in *Citizens United* that spending money is protected by the First Amendment's guarantee of freedom of speech. He admits, however, that money helped the Democrats take command of the Pennsylvania Supreme Court. He ran on a platform calling for a ban on gifts to judges. "The opportunity to serve as a judge is a solemn responsibility and a public trust," his campaign declared. "The exchange of favours has no place in the judicial process."

Massive campaign spending in judges' elections, according to Liz Seaton, interim head of the campaign group Justice at Stake, "is a giant and growing storm that threatens justice". The candidate amassing the largest war-chest wins more than 90% of contested state Supreme Court races, she has pointed out. Ms Seaton and other critics think the selection of judges should be taken out of the hands of the people and entrusted to panels of experts instead.

Some members of the Pennsylvania legislature have similar plans. A Republican lawmaker, Bryan Cutler, has proposed an amendment to the state constitution establishing a bipartisan commission to scrutinise would-be judges' records. The body would send a few names to the governor, who in turn would choose a nominee from the list to propose to the state Senate for confirmation. Many states use a variant of this so-called Missouri Plan—which is named after the state which, in 1940, became the first to use merit selection. But the chances of Pennsylvania adopting such a change right away are nil. Both houses of the state legislature would have to approve the measure two years in a row, followed by a state referendum in which the people agree to give up their power to elect judges themselves. ■



Yours for $16.5m

Undocumented migrants

A stay, so go

WASHINGTON, DC

The courts deal the president a blow

IT MAY not be the end, or even the beginning of the end. But a ruling of the US Court of Appeals in New Orleans on November 9th to put a stay on Barack Obama's executive action (a kind of presidential decree) on immigration has left one of the president's most consequential policies in a tight spot. The best he—and some 4m undocumented people who stand to benefit from the plan—can hope for is that the Supreme Court resuscitates it before his presidency ends, in 14 months.

The verdict, reached by a 2-1 margin, upheld an earlier ruling by a district court in Texas, and was anticipated, given the appeals court's previous deliberations on aspects of Mr Obama's plan. Launched by executive fiat in November 2014, it includes a promise of temporary reprieve from deportation to those who have lived in the country undocumented since childhood and to anyone who has lived in the country since 2010 and whose children are American citizens. Together those groups—whose members would gain most of the usual trappings of legal residency, including work permits and driving licences—represent a third of the 11m people estimated to be living in America without a legal right to do so.

Republicans, who had repeatedly nixed a proposed legislative solution to that grave problem, mostly denounced Mr Obama's alternative effort as an unconstitutional and tyrannical act designed to swell the Democratic vote-bank (though no illegal immigrant would be pardoned or gain citizenship under it). Texas and another 25 mostly Republican-run states argued that it represented an encroachment by the federal government, for which they would have to pick up the tab.

The administration has already declared its intention to appeal against the latest ruling to the Supreme Court, which is not guaranteed, but would be expected, to take up the case. In that event, the administration believes it would be on firm ground. It argues that though the powers of the president do not extend to scrapping complicated immigration rules by fiat, they do allow him to determine the order of priority in which resources should be spent to police them.

Prosecutorial discretion allows those tasked with enforcing the law to forgive minor traffic misdemeanours in order to concentrate on more serious ones. Similarly, the argument goes, Mr Obama is mainly signalling in his order that the 4m in question are his lowest priority for deportation—a fate that, given the enormity of the backlog, they will not suffer as a result. The Supreme Court has not previously shown an inclination to curb the powers of the executive in exercising that discretion.

Assuming it takes up the case, the court would be expected to rule on it towards the end of its current term, next June. If it rules in his favour, Mr Obama would then have a few months to try hurriedly to implement a plan that most of the Republican candidates for their party's presidential nomination have pledged to scrap. In the thick of election campaigning, that could mean pain for the Democratic nominee, especially if a bumpy economy causes the usual uptick in anti-immigrant sentiment. Depending on who her Republican opponent may be, this, depressingly, could be an issue that dominates the election. ■

Beards

Pogonophilia

BROOKLYN

Notes from a festival of facial follicles

Father figure

STEPHEN POFELSKI has dead-straight red hair, which flops over his forehead when he doesn't push it back. His long ginger beard, which he has been growing for 18 months, is naturally wavy and voluminous. Most people when they spy it, and then see braces supporting his trousers, assume he is a hipster, which he concedes is not inaccurate. "But I prefer to be called a modern-day mountain man with little bit of a trendy edge," he says. On November 7th, Mr Pofelski's struggles against the challenges of itchiness and soup were vindicated when he won best natural full beard at the National Beard and Moustache Championship.

The competition was held in Brooklyn, a whisker paradise. Yet few of the competing beardsmen were hipsters, though many were dressed in unusual garb (your correspondent spotted a Viking, several cowboys and a crusader, as well as a few ship's captains). The smell of styling beeswax hung heavy in the air.

They competed in 18 categories. The moustache contest included the English (where the lengthy ends are styled), the Dalí (as in Salvador) and the Hungarian (no explanation necessary). For the bearded, categories included the Amish, the Fu Manchu, the Musketeer, the Kaiser and the Garibaldi.

Pogonophiles are the most visible outgrowth of a broader trend. According to Mintel, a consultancy, 41% of American men do not shave daily, including half of those aged 18 to 24. Ralph Marburger of Just for Men, a hair-colouring company, says this is partly the result of increasingly casual workplaces, where clean chins are no longer mandatory. In some industries they may even attract suspicion.

That many would-be mates allegedly find men with stubble attractive may also be a factor. A pro-growth study two years ago from the University of New South Wales found that an "intermediate level of beardedness" is most attractive, while fully bearded men are often perceived as being better fathers.

Not only are men shaving less, but those that do are using online shaving clubs, like Dollar Shave Club, to get cheaper razors and blades. Gillette, a razor-maker, launched an online shaving club in June to woo back customers. The bearded take their facial hair most seriously, carefully trimming and conditioning it. Some colour their beards to mask the grey. Mr Marburger says 20% of his company's beard and moustache-dye sales are to men under 35.

Competitive bearders are even more addicted to grooming. Using tongs, Chris Bates took two and a half hours to transform his massive beard into intricate curls. But he was unable to defeat Adam Gazda who, with the help of a coffee cup, a fizzy-drink can and lots of hairspray, styled his beard into a dizzying array of gravity-defying loops, thereby triumphing in the freestyle full-beard category.

Politics in Louisiana

Sins of the fathers

BATON ROUGE

A frontrunner's past bites back in a filthy fight for a southern governorship

THE great, metamorphic trick for public figures ensnared in scandals is somehow to portray themselves as victims of their own transgressions. Senator David Vitter is trying it. He once "failed [his] family", he acknowledges in a new campaign advert, while maintaining that "our falls aren't what define us, but rather how we ...earn redemption". Louisiana was also experiencing hard times, runs the optimistic segue, so he should be its next governor.

Mr Vitter's last-ditch bid to recast his past follows a haymaker from his opponent in the state's run-off election on November 21st. Savage even by the bare-knuckle standards of Louisiana, the ad alleges that, by missing a congressional vote that honoured fallen soldiers in 2001—shortly before he received a call from a Washington madame—Mr Vitter "chose prostitutes over patriots". It is a reprise of an old but vibrant controversy that first broke in 2007, when, after his phone number turned up in the madame's records, Mr Vitter vaguely admitted a "very serious sin". He also faces a farcical subscandal involving a private investigator, hired by him, who spied on a sheriff and others, was chased and reportedly arrested as he hid behind an air-conditioning unit.

By no means the most eccentric in Louisiana's colourful political history, this year's governor's race has nevertheless been dramatic. In Mr Vitter it features a well-known, well-funded politician who has never lost an election in his long, formidable career—but now, in improbable circumstances, just might. The contest has been filthily personal, though some of the most denigrated personalities aren't actually on the ballot. Its outcome will suggest whether partisanship now trumps all other considerations, including character, for voters in the South.

That Mr Vitter could well lose, at least according to the polls, is largely a result of the state's non-partisan "jungle" primary on October 24th. Three of the top four contenders were Republicans; their internecine slugfest dwelled on Mr Vitter's peccadilloes—an embarrassment which, with his re-election to the Senate in 2010, had seemed forgiven. He staggered out with a mere 23% of the vote, his reputation blackened and his party bitterly divided.

Witness the subsequent behaviour of Jay Dardenne, the outgoing lieutenant-governor and one of the defeated Republicans, who agrees with Mr Vitter about whether to expand Medicaid (only on the right terms), a putative state minimum wage (nope) and much else. He backed Jon Bel Edwards, a Democratic state legislator who strolled into the run-off with 40% in the primary. That, Mr Dardenne explains, as his secretary fields calls from irate Republicans (and some supportive ones), is because he thinks Mr Vitter lacks the integrity and temperament to do the job.

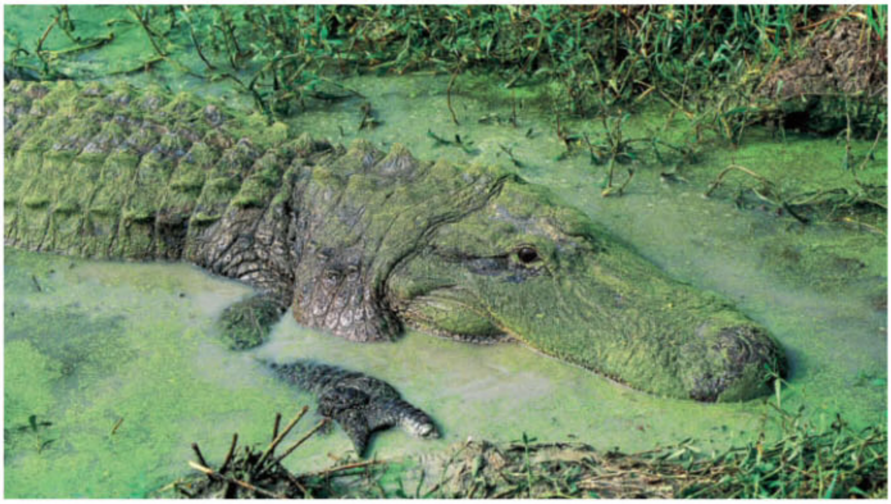
They'll always have Kentucky

Mr Vitter's catch-up strategy, tried and tested by Republicans, is to yoke Mr Edwards to Barack Obama. Disappointingly—since criminal-justice reform has seemed a bipartisan initiative—that includes disparaging Mr Edwards's plan to reduce Louisiana's staggering incarceration rate, the highest in America. Under the watchful eye of the "tracker" who follows and films him, Mr Edwards insists that he has no association with the president and has never met him (he calls Mr Vitter's surveillance tactics "Nixonian"). He stresses his background at West Point and in the 82nd Airborne Division and minimises his party affiliation. Nobody asked what anyone's party was when he and his buddies were checking each other's parachutes, he said, somewhat redundantly, at an event at a casino in Baton Rouge on November 9th.

If Mr Vitter is running against Mr Obama, Mr Edwards is partly running against Bobby Jindal, the outgoing Republican governor, who in some surveys is even more unpopular than the president. Mr Jindal is widely thought to have used his office as a long, exploitative audition for his White House run—a destructive one, since he bequeaths a long-running budget crisis and an emaciated higher-education system. "Bobby Jindal and I", says Mr Vitter, wryly understating their well-known enmity, "do not have a close relationship"; but his effort to portray himself as an outsider, at least in state politics, seems to have flopped. And, constantly, there is that intractable sin. When fending off charges that he is in hock to trial lawyers or other special interests, Mr Edwards likes to protest that he does not give 100% of himself to anyone—"other than my wife".

"He's doing everything he can not to talk about the issues," Mr Vitter complains. And, in fact, despite Mr Edwards's tendency to downplay their differences, they do disagree on key policies—most notably, thinks Kevin Kane of the Pelican Institute, a think-tank, in Mr Vitter's much greater enthusiasm for school choice and vouchers. At a grip-and-grits event on November 10th in Houma, in the southern oil-and-gas lands where bayous lap the highways, bigwigs in the energy industry endorsed Mr Vitter, who baits unions and favours deregulation, as have other business leaders.

Sadly for him, reckons Pearson Cross of the University of Louisiana, in what, beyond Bourbon Street, is a deeply conservative state, guns and abortion are the only issues that reliably swing votes—and Mr Edwards is against the latter and for the former. The best hope for Republicans (at least those who back Mr Vitter) may lie in the example of Kentucky, where, last month, their candidate defied the polls to win the governorship. Louisiana ought to be much easier for them: no Democrat has won a statewide election since 2008. Yet Mr Edwards's team claim they are on track to secure the third or so of white votes that, along with the reliable black support, they need. Mr Vitter's lot say Republican voters are rallying to him and decry the smears. His enemies call it karma. ■



A candidate at rest

Illinois's budget stand-off

Rauner v the rest

CHICAGO

Even by the usual standards of the Prairie State, Illinois is in a mess

SINCE he took over as governor of Illinois at the start of the year, Bruce Rauner, who has always been slender, has shed about 20 pounds (nine kilos). The stress of running one of America's most dysfunctional and indebted states is starting to show. The Republican governor is fighting an epic battle with the Democratic super-majority in both chambers of the statehouse. At stake is Illinois's budget: the Midwestern state has been operating without a proper one since the beginning of July when Mr Rauner vetoed the unbalanced budget lawmakers presented to him.


The governor, with menacing tuna steak

So entrenched is the conflict between the legislature and the former businessman, who has never before held political office, that it might drag into 2016. The main bone of contention is Mr Rauner's pro-business, anti-union, agenda, which he wants the statehouse to pass before he approves the tax increases and expenditure cuts needed to achieve a balanced budget. The governor's pet reforms are curbing the cost for businesses of workers' compensation, an insurance policy against workplace injury, changes to tort law and restrictions of collective-bargaining rights of public-sector employees. Mark Madigan, the speaker of the House, and John Cullerton, the president of the Senate, the two heavyweights of the state legislature, say that the governor's agenda is too radical and that they would need to abandon their core beliefs to give in to his demands.

Illinois's public sector is still mostly functioning. A patchwork of court orders and state laws is ensuring that around 90% of state spending is disbursed. State employees are receiving their salaries and pensions, and recipients of Medicaid, a government health-scheme for the poor, are getting coverage. The state's elementary and high schools are open. Even Illinois's gargantuan debt is being serviced.

Yet state universities have not received any funding from the state since July, which is especially tricky for those that do not have the backing of wealthy foundations or a big network of graduates. Funds have been blocked for almost all social-assistance programmes for children, the poor, the elderly, the disabled, addicts and victims of domestic abuse. The agencies running the programmes are forced to reduce their services, sack employees, deplete their cash reserves or take on debt. Some have simply shut their doors.

"This has never happened before, not like this," says Tom Dart, the sheriff of Cook County. The sheriff is enraged because as boss of the biggest jail in America he sees how the absence of a budget hits the poor and vulnerable who rely most on state services hardest. After release from jail those with mental illnesses are not getting the treatment and medication they need; those with a history of substance abuse are looking in vain for support; and those without a home have fewer places where they can ask for help. "Our social services were meagre to start with," says Mr Dart. "Now there is even less."

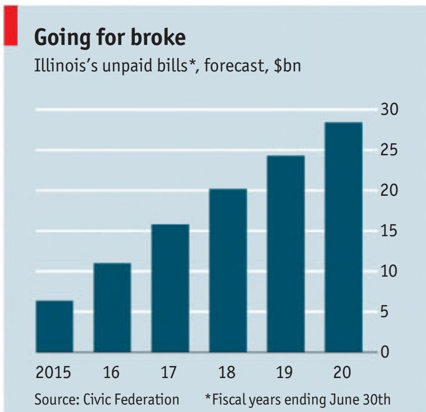
A fishy friendship

Chicago's state-school children are caught up in the tussle. Chicago Public Schools (CPS) is counting on $480m from the state. Without the cash the CPS will need to lay off thousands of teachers as early as January. Fearing another teachers' strike, Rahm Emanuel, the mayor of Chicago, urged Mr Rauner "to stop name-calling and just do your job". Mr Rauner retorted that Mr Emanuel was hiding his support for his pro-business reforms. Mr Emanuel needs $800m from the state for the CPS and Chicago's public transport. Mr Rauner wants Mr Emanuel's help in getting Democratic lawmakers to agree to his reforms. Chicago folklore has it that Mr Emanuel once sent a dead fish to a political operative; the governor has promised to give the mayor the same treatment. The two men, who have been friends for over a decade, are in a fight which only one can win.

In cold financial terms the lack of a budget hurts Illinois. Mainly due to the expiration of a temporary increase in the income-tax rate at the start of the year, the state is spending more than it is taking in. The state comptroller has warned that by the end of the year Illinois would be saddled with $8.5 billion in unpaid bills and that the state would need to delay a payment into the state pension system this month (see chart). On October 19th Fitch, a credit-ratings agency, downgraded Illinois's rating on $27 billion in outstanding bonds to three notches above junk, citing the budget battle, the state's high debt and its huge pension liabilities. Moody's, another ratings agency, followed suit a few days later, with the sixth downgrade in five years.

"This is a political battle in which lawmakers abdicated their responsibility to pass a balanced budget," says Laurence Msall at the Civic Federation, a budget watchdog. Lawmakers voted for a budget that authorises $36 billion in spending when Illinois's revenue is only $32 billion. And while everyone involved is loudly blaming the other side for the budget mess, lawmakers and the governor have come up with few proposals on how to balance the budget. According to Matt Fabian at Municipal Market Analytics, a research firm, the stand-off is unprecedented because of the complete intransigence of both sides. For the market, the biggest problem is the unbalanced budget. Illinois is spending as if it were still taking in last year's revenue when the income-tax rate was at 5% rather than this year's 3.75%.

If Illinois had kept its income-tax rate at last year's level its budget would be more or less balanced and its most immediate problem solved. But it is too late now, even if Mr Rauner were to agree to go back to a flat rate of 5%, which is still lower than rates in many other states. Illinois had reasonable economic growth even with the 5% rate, says Mr Fabian, who thinks that Illinois's financial woes are "correctable". The state's population is not leaving in droves, Chicago is a handsome city that attracts talent and the economy is in decent shape. The state could get back on its feet relatively quickly—but first it needs a budget. ■



Lexington | The narcissism trap

A new book about George H.W. Bush has much to teach Republicans

EIGHTY-SIX years ago, the young George H.W. Bush was dressed in a black-and-orange uniform sweater, popped into a chauffeur-driven car and sent to Greenwich Country Day School in Connecticut, beginning his formal apprenticeship as a gentleman. The task was taken seriously, records "Destiny and Power", a gripping new biography of the 41st president by Jon Meacham. So intense was the focus on fair play that school report cards included the category, "Claims More Than His Fair Share of Time and Attention in Class".

Jump to the present day, and most Republican candidates for the White House would score poorly on such a school report. The party's 2016 presidential nominating contest is a brag-a-thon, dominated by such Washington-bashing outsiders as the businessman Donald Trump, who delights in telling crowds that he is "really smart" and "really rich"; and the retired neurosurgeon Ben Carson, who says that his surging poll ratings reflect the "power of God". Small wonder that Mr Meacham concedes that modern Americans may find the elder president Bush—a buttoned-up patrician, proud of his public service—distinctly "quaint".

In a noisy, frantic election season, most coverage of the biography has highlighted the 41st president's decision to break years of silence about foreign-policy missteps by his son, the 43rd president, George W. Bush. The elder Bush tells his biographer that his son indulged in sabre-rattling "hot rhetoric" towards such adversaries as Iran and North Korea, to no obvious benefit. The 91-year-old patriarch regrets that his son's vice-president, Dick Cheney, became "very hard-line". Donald Rumsfeld, his son's defence secretary, is accused of a damagingly "iron-ass" world view.

Pundits call the biography a headache for Jeb Bush, the former governor of Florida and second son of George H.W. Bush, whose Republican presidential bid is flagging. In their telling, the last thing that Jeb Bush needs is a book reminding conservatives about his father, and how he broke his 1988 campaign pledge: "Read my lips, no new taxes", enraging the right. There is something to this. Though foreign-policy grandees hail the 41st president's sensitive handling of the Soviet Union's collapse, and his swift, limited Gulf war to expel Saddam Hussein from Kuwait, he is still distrusted by many in the grassroots (who also chide George W. Bush for expanding the federal government).

With a mood of torch-and-pitchfork fury sweeping the right, few activists think they have any lessons to learn from the Bush clan—certainly not on the subject of gentlemanly manners. The activists are wrong. George H.W.'s horror of boasting—talking up "the Great I Am", as his mother put it—reflects a code of honour that goes well beyond etiquette.

Mr Bush's code is distinctly conservative. It is steeped in ideas of self-discipline and duty to others. At 18, that led the future president to sign up as a naval aviator, serving heroically in the Pacific. After the second world war the romance of self-reliance drew him to Texas, and the oil industry. His code should not be romanticised too far: like many blue-bloods, Mr Bush was not raised to shun ambition, just to conceal it. He was capable of cynical calculation, for instance opposing the 1964 civil-rights bill while running for the Senate in Texas. Privilege often helped him, as when family friends invested in his oil business. After his election to Congress his father, Prescott Bush, a former centrist Republican senator, managed to boost him, including with the Democratic president, Lyndon Johnson. LBJ assured Mr Bush that as a cattle-breeder he trusted bloodlines: "We say, 'Who's the Daddy?' We know you're all right."

But crucially, privilege also made Mr Bush modest: he knew what he owed to luck. That diffidence extends to religion. On the eve of the Gulf war he realised: "I need to pray, and yet I am not certain my prayers are heard." And although he could be stiff in public as a politician, his modesty is bound up with empathy for others. Read beyond his comments about Mr Rumsfeld, and his main complaint is that his son's Pentagon chief lacked the "humility" to see "what the other guy thinks". In politics and diplomacy, Mr Bush never claimed that his side had a monopoly on wisdom. In his inaugural address as president, he deplored ideologues who question not just opponents' ideas but their motives.

I'm marvellous—vote for me

The elder Mr Bush was the last president to be so self-effacing. Too many modern politicians, convinced of their rightness and certain that opponents have shabby intentions, have a narcissist streak. Dr Carson, who says he can feel God enabling his presidential run, is an extreme case. Recently he has faced press scrutiny of his life story, as is routine for a front-runner. Several of his favourite tales have proved impossible to verify. Undaunted, Dr Carson says he is under attack because he threatens the "secular progressive movement". Expressing fury at mainstream journalists, supporters promptly flooded him with donations.

Other Republicans stoke a strain of angry narcissism among voters. In 1995 George H.W. Bush resigned from the National Rifle Association after the gun lobby called federal agents "jack-booted thugs". Today, Senator Ted Cruz of Texas, a presidential candidate, tells supporters that their right to bear arms makes them "the ultimate check against governmental tyranny". Mr Trump, when not boasting about himself, tells older voters that they have paid for their Social Security and medical benefits, so should not tolerate anyone trying to reform those schemes: a fantasy that many lap up.

Conceited politicians infest left and right. But as a party built on individualism and admiration for self-made success, Republicans must take special care not to fall into the narcissism trap. "Nobody likes a braggadocio," George H.W. Bush's mother used to say. The level of support for Mr Trump and Dr Carson suggests this is not wholly true. But it remains sound political advice. ■

Also in this section

Immigration to Brazil

No golden door

MIAMI AND SÃO PAULO

Forbidding policies take an economic toll

WHEN Chico Max decided to mount an exhibition of photographs of recent immigrants to Brazil, he had a harder time finding subjects than he expected. That is because just 600,000 of the 204m people living in the country are foreign-born. The small pool of potential sitters surprised Mr Max. Nearly everyone in Brazil is descended from immigrants or African slaves; only the United States has a bigger non-indigenous population. The country's president is the daughter of a Bulgarian; the vice-president has a road named after him in Lebanon. All of Mr Max's grandparents came from Portugal between the two world wars. As the title of his show this month in São Paulo proclaimed, "We are all immigrants".

Yet Brazil's foreign-born population peaked at 7.3% of the total at the start of the 20th century and has been dwindling ever since. It is now a fifth of Latin America's low average and a fraction of that in melting pots like the United States (see chart). That is a problem. Brazil needs millions of well-qualified workers but its mediocre schools are not providing them. Without more immigration, analysts warn, Brazil faces a "skills blackout".

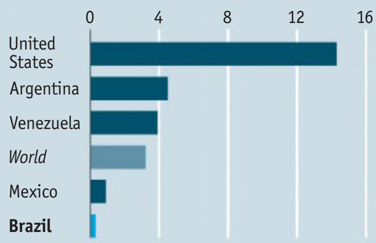
Some of the reasons for which migrants shun Brazil are obvious. It is not a rich country (and is now facing a deep recession). Its language, Portuguese, is not widely spoken elsewhere. Yet Argentina, with a fifth of Brazil's population and an equally troubled economy, attracts more than double the number of newcomers—about 280,000 people a year, mostly poor labourers from other Spanish-speaking countries. They could easily master enough Portuguese to work in Brazil, although they would not solve the skills shortage.

They do not come because Brazil needlessly puts up additional roadblocks. Its legislation on immigration is "anachronistic", admits Beto Vasconcelos, who handles the issue at the justice ministry in Brasília. The main law dealing with immigration, enacted by generals who ruled from 1964 to 1985, treats foreigners as a menace to national security and to Brazilian workers. It bars non-Brazilians from taking part in political rallies, owning stakes in newspapers or participating actively in trade unions.

It also imposes cumbersome conditions on foreign workers. Securing a work permit can take months and cost thousands of dollars in legal and administrative fees. Most work visas are tied to an employer, so changing a job requires starting the application process from scratch. Brazil's enlightened refugee law, by contrast, grants asylum-seekers a work permit within a week of arrival, free of charge.

Rolling back the welcome mats

Immigrants as % of population, 2013



Source: UN

The more qualified the immigrant, the more devilish the bureaucracy. A graduate student who wants to join a university's faculty must reapply for a different type of visa—from abroad. A professional will typically wait a year for his or her credentials to be recognised; a yes is not assured. Few universities offer courses in a language other than Portuguese. Add to that the absence of Brazilian universities at the top of global rankings, and it is small wonder that the country hosts just 14,000 foreign students (though beaches and an easy-going culture are a draw).

In the 19th and early 20th centuries Brazil encouraged immigrants from Europe and Japan (partly from a racist impulse to avoid further "blackening" of the population). Today Brazil, unlike Chile, does not market itself to prospective citizens.

Even when the economy is shrinking and unemployment is rising, this unfriendliness to foreign talent has a big cost. Manpower, a human-resources consultancy, recently found that 61% of Brazilian employers are having trouble filling job vacancies. Among 42 countries, only geriatric Japan, poorer Peru and tiny Hong Kong had more acute skills shortages. In an annual ranking of countries by their ability to develop and attract talent, put together by IMD, a business school, Brazil fell to 57th place out of 61 this year (from 52nd place). It scored especially poorly for security, quality of life and education.

Brazil may now be reopening a bit. The National Immigration Council, part of the federal government, has recently made it ▸▸

easier for students to apply for summer jobs and for some types of professional to obtain work permits for their spouses. But the council's decisions apply to few people, lack the force of law and create a confusing patchwork, says Ana Paula Dias Marques, a lawyer specialising in migration. Since 2009 Congress has been sitting on draft legislation that would update the old law. In July this year the Senate passed a sensible version, which gives statutory backing to many of the council's rulings. But it risks being bogged down in the dysfunctional lower house.

Alarmingly, recession, corruption and political deadlock may be pushing brainy people out of the country. Its diaspora is tiny: just 1.8m Brazilians, 0.9% of the population, live abroad, the smallest share among all countries of the Americas. But it may be growing. The consulate in Miami, the most popular destination for Brazil's wealthy and worldly, is busier than ever. Fabriene Prudencio, who advises Brazilian parents on schools in south Florida, says business is booming. The number of Brazilian families at her own children's (public) school in a posh Miami suburb has shot up from seven to 30 in the past six years. Several other schools have begun offering instruction in Portuguese.

Between 2008 and 2013, when economic times were still good, the trickle of immigration into Brazil became a rivulet: annual arrivals doubled to 128,000. The newcomers, mainly from Haiti, Bolivia, Senegal and other poverty-stricken countries, provided Mr Max with his subjects. Immigrants bring cultural diversity and a go-getting attitude that characterises migrants the world over. Their faces exude dignity and fortitude. They will no doubt enrich the country. But Brazil needs more of them, and more who already have the skills that a modern economy demands. ■

Bello | "By hook or by crook"

Venezuela's regime is in a scared and ugly mood

VENEZUELA'S president, Nicolás Maduro, admits that a parliamentary election on December 6th "could be the most difficult" test the government has faced since Hugo Chávez, his mentor, came to power following an election in 1998. Mr Maduro, like Chávez, claims to be leading an "anti-imperialist" revolution. Yet his legitimacy derives purely from the ballot box. Chávez's popularity was boosted by an oil windfall, which he showered on Venezuela's previously neglected poor. This helped him win a further three elections, by wide margins, before his death from cancer in 2013. Shortly afterwards Mr Maduro won by just 1.5 percentage points a presidential election that the opposition denounced as fraudulent.

Mr Maduro, a former bus driver, lacks not just Chávez's charisma and political skills but also his luck. The plunge in the oil price, plus years of corrupt mismanagement, have hit Venezuela hard. The government stopped publishing economic statistics months ago. The IMF forecasts that inflation will hit 190% and the economy will shrink by 10% this year (after a decline of 4% last year). Imports have fallen by more than 40% since 2012, reckons Francisco Rodríguez, a Venezuelan economist at Bank of America. Despite big price increases, many goods are in short supply. "People are really sick of having to queue up for everything," says a long-suffering resident of Caracas.

Discontent has brought an unprecedented collapse in support for *chavismo*. According to Datanalisis, a pollster that accurately forecast Chávez's victories, Mr Maduro's approval rating is down to 22% and the opposition leads the ruling United Socialist Party (PSUV) and its allies by 28 percentage points.

Mr Maduro repeats that the "revolution" will win *como sea*—"by hook or by crook". The government has gerrymandered voting districts to give more seats to rural areas where the PSUV is strong: six urban states with 52% of the electorate will elect just 64 deputies; the remaining 18 will elect 100. In September, after smugglers clashed with the army, Mr Maduro declared a "state of exception" along the border with Colombia. In those areas, which will elect 19 legislators, campaigning is restricted, which hurts the opposition.

The government has refused to allow election observers from the Organisation of American States (OAS) or the European Union. A mission of "electoral accompaniment" of the Union of South American Nations has been thrown into doubt after Venezuela rejected Brazil's representative. In an unprecedented 18-page letter to Venezuela's electoral authority, released on November 10th, Luis Almagro, the OAS's secretary-general, paints a devastating picture of the tilted field on which the opposition must play. Mr Almagro, formerly a politician of Uruguay's left-wing Broad Front, warns that the opposition lacks "equitable" conditions and that the ruling party abuses the resources of the state.

Seven opposition leaders are banned from being candidates. One, Leopoldo López, is in jail (sentenced to almost 14 years for inciting violence), the first such case in Latin America since Uruguay's military dictatorship locked up an opposition leader during an election in 1984, Mr Almagro points out. Last month, one of the two lead prosecutors in the case fled to Miami and said the evidence against Mr López was fabricated. The electoral authority has placed next to the opposition coalition on the electronic ballot a pro-regime splinter party with a similar name and logo. In one state, a candidate from that party has the same name as an opposition leader. The government has crippled the opposition media, for example by not renewing broadcasting licences.

The regime's propaganda is aimed at manufacturing threats and generating fear. It blames Venezuela's woes on an "economic war" engineered by the opposition and the United States. On November 10th two nephews of Mr Maduro's wife were arrested in Haiti to face drug-trafficking charges in the United States, which will fan conspiracy theories.

As the opposition surges in the polls, some analysts in Caracas think that it could win the three-fifths majority in the legislative assembly required to claw back powers from Mr Maduro. The government tacitly recognises the possibility of defeat: it recently pressured 13 supreme court justices to retire early, so that they can be replaced before the new assembly convenes in January.

Mr Maduro talks darkly of "governing with the people" if he loses. This suggests that he would seek to throttle and bypass the assembly. But everything indicates that "the people" are no longer with him. If he blocks peaceful change, he may ensure that frustration leads to violence.

Canadian oil

Keystone flops

OTTAWA

Barack Obama's rejection of a pipeline is a test for the new prime minister

"THIS is huge," crowed one prominent environmental campaigner. He was celebrating Barack Obama's decision on November 6th to reject the Keystone XL pipeline, which would have carried heavy oil from Canadian tar sands to the United States (see map). To Canada's prime minister, Justin Trudeau, installed in office just two days before, the decision is both a headache and an opportunity.

He will have to come up with a new way of exporting oil without breaking his promise to be a much greener prime minister than his Conservative predecessor, Stephen Harper. Protests and lobbying will now move from Washington to Ottawa. But Keystone XL's demise, weeks before a UN conference on climate change in Paris, will make it easier for Mr Trudeau to forge a national consensus on climate policy and to portray Canada as a helpful partner at the global gathering.

The thumbs-down for Keystone XL, which would have carried 830,000 barrels of oil a day, was not quite as beneficial for the environment as campaigners claimed. Canada is shipping record amounts of crude oil, about 3m barrels a day, to the United States through 31 pipelines. About half is heavy bitumen from Alberta's tar sands, or synthetic oil made from it. That will continue to grow for a while, even though extracting tar-sands oil is expensive and oil prices are weak. Low prices depress future investment, but producers have already spent billions to exploit Alberta's reserves.

What does not fit into the pipelines will be carried by rail, which is more dangerous, dirtier and more expensive. Two years ago 47 people were burnt to death in a derailment in Lac-Mégantic in Quebec. This month a train derailed in Wisconsin, spilling hundreds of gallons of crude.

Still, the environmentalists' victory is not an empty one. Burning tar-sands oil emits about a fifth more carbon than using conventional petroleum. Without Keystone XL to make it more competitive, more of it is likely to stay in the ground.

Until, that is, Canada comes up with an alternative. Alberta's oil producers are still intent on shifting transport from rail to pipeline. Mr Trudeau does not want to disappoint them. His Liberal Party won four seats in Alberta in October's election, matching its best showing since his father, Pierre, a long-serving prime minister, enacted an unpopular national energy programme in 1980. The Liberals do not want

to alienate the province again.

But Mr Trudeau will have to reconcile appeasement of Alberta with the Liberals' many environmental promises. These include modernising the National Energy Board (the main regulator); assessments that consider energy projects' downstream effects, such as carbon emissions, along with their impact on the local environment; and closer consultation with aboriginal peoples on regulation and on how the pipelines are operated and maintained.

The day after Mr Trudeau and his cabinet were sworn in, a small group of demonstrators showed up in Ottawa to demand an end to development of the tar sands.

He has already ruled out one pipeline on environmental grounds: the Northern Gateway, which would have carried 525,000 barrels of oil a day over the Rockies from Alberta to the coast of British Columbia. That leaves two other big projects. Energy East could carry 1.1m barrels a day to a port on the Atlantic coast. Another option is to increase the capacity of the existing TransMountain pipeline by nearly threefold, to bring 890,000 barrels a day to Vancouver, an outlet to Asia. Energy East looks like the favourite; the premiers of Alberta and New Brunswick, where the pipeline would begin and end, are keen. It also needs consent from the more sceptical leaders of Ontario and Quebec.

Mr Obama did the new prime minister a favour by quashing Keystone XL so early in his term, relieving him of any blame for the decision. The rejection will also help Mr Trudeau to persuade provincial premiers that Canada needs a national plan to cut carbon emissions if it is not to face discrimination from importers. The help from the American president ends there. Mr Trudeau must handle the tricky task of selling dirty oil in a green way on his own. ■

Canada's new government

Ungagging order

VANCOUVER

Justin Trudeau wastes no time in setting a new tone

KRISTI MILLER picked up a ringing telephone on November 6th and spoke to a journalist. Until this month, she was not allowed to do that. The government of Stephen Harper, a Conservative who led Canada for nearly ten years until his defeat in an election in October, demanded that scientists in its employ, like Ms Miller, get authorisation to speak to the press. The first targets of the policy were researchers on climate change, a subject Mr Harper avoided discussing, but it spread to other specialities. It represented everything the prime minister's critics loathed about him.

Justin Trudeau, his Liberal successor, scrapped it the day after he took office on November 4th. This is one of several swift changes intended to show that his Canada will be very different from Mr Harper's.

Ms Miller, a biologist at the fisheries department, was among the most prominent of the silenced scientists. In 2011 she co-wrote a paper identifying a virus as one possible cause of a plague among sockeye salmon, which had reduced salmon stocks in the Fraser river in British Columbia. The government ordered her not to talk about her findings to the press. It may have feared that people would conclude from her work—mistakenly—that fish farming had caused the disease. (She did testify at a hearing on the issue.) Now Ms Miller can "speak the truth and speak my mind and not have a handler," she says. It is "liberating".

Diplomats, too, have been unshackled. They no longer have to clear appearances at events with the foreign ministry and submit advance copies of their speeches. The new government reinstated the mandatory long-form census. The Conservatives, thinking it intrusive, had replaced it with a voluntary survey, which worsened the quality of social and economic data.

Mr Harper's government "attacked the sector that was providing them with information and data," said Thomas Landry, a federal biologist and an official of a union that represents scientists and professionals employed by federal and provincial governments. For boffins and diplomats, at least, Mr Trudeau has ushered in a new age.

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Politics in Myanmar

Celebrating democracy

YANGON

Aung San Suu Kyi scores a remarkable victory

THE excitement was palpable. In the pre-dawn dark of November 8th, 30 minutes before voting in Myanmar's general election began, the queue at a polling station in Yangon, the country's biggest city, stretched for several blocks. In mid-morning a line of voters trailing through a monastery's leafy grounds suddenly shifted to allow a frail elderly woman, carried up a flight of stairs by two young men, to cast her ballot. Through blazing midday sun and afternoon rainstorms, Myanmar's citizens turned out to vote in their country's first competitive general election since 1990—most of them, it appeared, to deliver a blow to the army, which has controlled the country for half a century.

Full results are not yet in, but as *The Economist* went to press, the National League for Democracy (NLD), an opposition party led by Aung San Suu Kyi, a longtime democracy activist, had won 291 parliamentary seats, compared with just 33 taken by the incumbent Union Solidarity and Development Party (USDP) and 35 by assorted ethnic parties and independent candidates. Miss Suu Kyi believes the NLD is on track to win at least 75% of the seats contested—enough to give it a majority, despite the constitution's provision that one-quarter of the seats must be reserved for the army.

The NLD has also performed well in local elections held at the same time as the national one. The party has so far taken 367 seats in state and regional parliaments, compared with the USDP's 46 and 27 won by ethnic parties. The USDP seems resigned. "We lost," admits its boss, Htay Oo. Thein Sein, the president, has congratulated Miss Suu Kyi, as has the army chief.

Miss Suu Kyi will not succeed Mr Thein Sein: the constitution drafted by the army deliberately ensures that by preventing anyone from taking the job who has a foreign spouse or children. But assuming the NLD gets a majority, she will decide who the president will be (by February), and, as she admits, will tell him what to do. She is already acting presidentially, calling for "national reconciliation", talks with Mr Thein Sein and the army, and urging her supporters to be magnanimous in victory.

That has not stopped them from rejoicing. On election night, revellers danced atop cars, waving inflatable red batons and singing party songs. Kya Ma, a 47-year-old public-health teacher, said that in previous elections, "You did not even tell your friends if you voted NLD."

Local and international observers agreed that the election went smoothly. Fears of widespread disenfranchisement due to error-ridden voter lists proved unfounded. Votes were counted openly, in the presence of party representatives. Advance votes were, however, harder to monitor. In by-elections in 2010 such ballots swung some constituencies in the USDP's favour. This time there were scattered reports of boxes full of suspiciously fresh and similar-looking advance ballots being delivered to polling stations. But the more constituencies the NLD wins, the more such chicanery amounts to little more than fiddling at the margins.

Cabinet ministers lost their seats to political novices. The NLD achieved a near-sweep in Naypyidaw, Myanmar's capital, where most residents are connected in some way with the army or the current government. Before the election, U Tin Aye, a former USDP official who heads Myanmar's election commission, said he wanted his old party to win fairly. But the USDP underestimated how unpopular it is: a USDP victory proved incompatible with a free election. Intentionally or not, the government chose the latter and paid the price.

But whereas the army's proxy party has been defeated, the army itself remains powerful. Its faction in the parliament gives it political clout that voters, judging from the results, do not want it to have. It will still appoint the ministers of defence, interior and border affairs. This will keep the police and the powerful General Administrative Department—the country's civil service—under military control. Whether a civilian president will be able to rein in the army remains unclear.

Apart from one public appearance soon after the election, Miss Suu Kyi has kept a low profile. That will not last. Voters, after all, chose the NLD not because of its policies (these are vague), but because of Miss Suu Kyi's record of struggle against the army, including years of house arrest, and her charisma. Without constitutional reform, the highest office she could accept would be as the parliament's speaker. But ▸▸

using her personal status to control the presidency would be risky. What would happen if her puppet tires of having his strings pulled? And what would happen to the NLD should Miss Suu Kyi, who is 70 years old, fall ill? In opposition the NLD never had to answer such questions; as a ruling party it would have to.

It will be a short honeymoon for Miss Suu Kyi. She will face international pressure to alleviate the suffering of the Rohingyas, a Muslim minority which the government declared stateless and which therefore had no vote. She has so far shied away from addressing their plight directly. After her victory—and the implicit rebuke it delivered to Buddhist nationalists, who tried to undermine Miss Suu Kyi's campaign by accusing her of coddling Muslims—many will rightly expect more.

People may not know what Miss Suu Kyi stands for on many domestic issues, but they do know they want a better government, more jobs and a form of development that does not shovel money into the pockets of generals. The army is not out of politics yet, but voters will expect Miss Suu Kyi to deliver. ■

Politics in India

Wallop

DELHI

The dusty plains of Bihar expose Narendra Modi's feet of clay

THE eastern state of Bihar has a population close in size to that of the Philippines: elections to its assembly matter greatly to its more than 100m, largely poor inhabitants. But the latest one mattered to Narendra Modi, the prime minister in Delhi, chiefly because of its importance in his quest to recast national politics to his advantage. And so the thrashing in Bihar of his Bharatiya Janata Party (BJP), at the hands of two Bihar political heavyweights who buried past enmities to oppose Mr Modi, represents the biggest setback in his political career.

Victory in Bihar would have sent, through indirect election, friendly faces to the national Parliament's upper house—which, unlike the lower one, Mr Modi does not dominate. That would have helped him more easily push through bills aimed at fulfilling his pledge of economic reform. But more importantly, he and his electoral henchman, Amit Shah, the BJP's president, intended Bihar to be a template for the party to spread beyond its strongholds in western and central India to become a truly national movement.

Other state elections loom, including in West Bengal in the east and Assam in the north-east, Uttar Pradesh (the most populous state) in the north and Kerala in the south. Do well in those, and by the end of 2017 the BJP would be well placed to gear itself for a general election two years later that could establish an almost presidential Modi rule. To give a measure of the importance Mr Modi placed in Bihar, he attended 30-odd election rallies in the state—extraordinary for a prime minister who presumably has much else to do.

Yet since the Bihar results on November 8th all longer-term calculations are moot—even whether Mr Modi will prove more than a one-term prime minister. The BJP ran against a "grand alliance" led by the state's incumbent chief minister, Nitish Kumar (pictured, next page), with a record of boosting growth and cutting poverty, and "Lalu" Prasad Yadav, whose corrupt and lawless tenure as chief minister in the 1990s came to be known as the "jungle raj" but who calls on large numbers of followers; the alliance seized more than three times as many seats in the state assembly as did the BJP (see chart).

In the general election in 2014 Mr Modi swept to a landslide victory with an aspirational message that highlighted growth and jobs. In Bihar he and Mr Shah are to blame for the ugliest and most socially divisive state election in memory. Caste is a critical fact of life—and politics—in Bihar, a state that is still nine-tenths rural. The grand alliance bolted together a coalition of the state's middle- and lower-tier castes. The BJP tried to even the game by tying its traditional core from the upper castes to a cluster of small parties representing Dalits, the lowest of the castes.

But at a crucial moment the leader of the Rashtriya Swayamsevak Sangh (RSS), a Hindu-nationalist outfit that is seen as the BJP's ideological parent, said India's whole system of awarding benefits to lower castes was being abused for political ends and ought to be reviewed. That spread alarm among poorer groups. And then Mr Shah warned that a victory for the grand alliance would lead to celebrations in neighbouring Pakistan. His coded message to Hindu chauvinists was that, dangerously, the alliance was the party of Muslims, who make up 17% of Bihar's population.

Attempting to pit the Hindu castes against Muslims—the BJP also made much of protecting the cow, sacred to many Hindus—was reprehensible. Fortunately, it did not lead to the kind of communal violence that has recently been ticking up elsewhere (and which BJP leaders have been slow to deplore when Muslims are the victims). Still, the results show that the BJP got punished for its crude tactics.

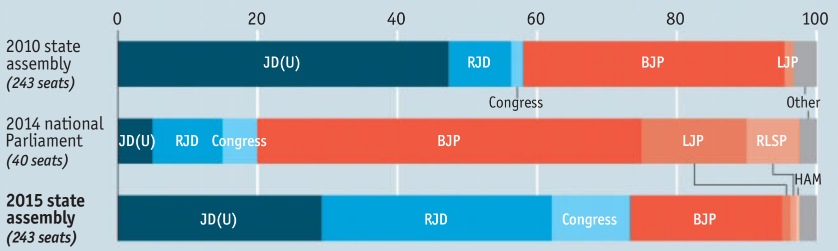
Back in Delhi, Mr Modi's prestige is damaged. Party managers' insistence on "collective" responsibility for the loss in Bihar is a charade. He and Mr Shah have run the party with an iron grip, laid down the electoral strategy and directly recruited RSS members as campaign foot-soldiers. Yet for the first time dissenters in the BJP—admittedly, none younger than 78—have spoken out. They said, in a jab at the overweening Mr Shah and his arrogation of authority, that the party had become "emasculated" over the last year. In private some of the prime minister's advisers lament the trust he places in Mr Shah.

As for opposition parties, especially Congress, which the last general election annihilated as a national force, prospects look suddenly cheerier. Congress tagged along with the grand alliance in Bihar, and will want to do the same with dominant regional parties in other state elections. Such parties, meanwhile, have seen in Bihar the merits of ganging together to take on the BJP. But whether Congress is yet ready to learn the lessons of its national defeat is unclear. It suffers from a paucity of fresh ideas, venality on a grand scale, an underwhelming Gandhi/Nehru dynasty at whose pleasure the party serves, and an unwillingness to refresh its leadership.

Lacking an upper-house majority any ►►

Bad days for the BJP

Bihar elections, % of total seats won by: Grand alliance parties; National Democratic Alliance parties



Sources: Election Commission of India; Office of the Chief Electoral Officer


Nitish Kumar, Modi's nemesis

time soon, Mr Modi needs to rethink tactics for his programme of economic modernisation. Later this month the Parliament will convene for its winter session. On the agenda is reform to bankruptcy laws to help banks recover loans; long-debated legislation to make it easier for companies to acquire land for plants; and the introduction of a nationwide goods-and-services tax that would do much to knit India's economy together and raise revenues. Mr Modi ought now to reach out to the opposition in hopes of getting the agenda passed.

There is still much that he can do without legislation, his aides say. That includes easing rules to make it easier to do business, and pushing for infrastructure—roads, ports, utilities—that India badly needs. Only too aware of the need to reassure investors, this week the government announced sweeping liberalisations to the regime regulating foreign investment, including in sectors like retail, banking, construction, broadcasting and even defence. In theory the changes will make it possible for more foreign firms to get automatic approval for investment. And Apple will at last be able to open its own stores in India.

On November 11th Mr Modi climbed on a plane to London to convey an upbeat message. Though the government of David Cameron promised to grill Mr Modi on rising intolerance at home, both prime ministers will be happiest emphasising the trade and investment deals that are likely to emerge from the visit. Mr Modi, with the help of RSS workers, will also hope to whip up enthusiasm among an invitation-only crowd of 55,000 from the Indian diaspora at Wembley stadium. So long as he can count on their fervour—and overseas Indians have been crucial in underwriting his political rise—he may find a welcome distraction from the setback in Bihar. ■

Politics in Thailand

Never saw it coming

BANGKOK

A purge of prominent people is causing alarm in Thailand

IN LATE October the Thai authorities announced that Prakrom Warunprapa—a disgraced police major accused of embezzling money by falsely claiming links to Thailand's monarchy—had hanged himself in his cell in a small prison at an army barracks. On November 9th officials said that a second prisoner arrested during the same investigation had also met an untimely demise. Suriyan Sujaritpalawong, a fortune-teller and minor celebrity better known as Mor Yong, is said to have succumbed to blood poisoning only days after his jailers suggested his illness was feigned. The two deaths follow a wave of arrests and disappearances which have left many in the capital feeling anxious.

Mr Suriyan's tale is dramatic. Until his arrest he was a darling of Bangkok's ruling establishment, hobnobbing with the superstitious generals who have run the country since an army coup last year. He was also believed to be on good terms with Thailand's crown prince, Maha Vajiralongkorn. Mr Suriyan stood accused—along with Mr Prakrom, and with a personal assistant who remains in custody—of pocketing money coughed up as sponsorship by large firms supplying two auspicious royal events: a nationwide bike-ride held in August in honour of the queen (called "Bike for Mum") and another day of mass-cycling to be held in December, in honour of King Bhumibol Adulyadej ("Bike for Dad").

Mr Suriyan's case also relates to a purge of prominent people accused, through word or deed, of bringing the monarchy into disrepute—a crime known as lèse-majesté. Unusually, army officers as well as police are among those in the frame. An army colonel linked to Mr Suriyan's alleged crimes is said to have fled to Myanmar; on November 4th a police spokesman appeared to suggest that 40-50 high-ranking members of the armed forces could be involved. As well as irregularities in the organisation of the two mass-cycling events, authorities are looking into allegations of corruption related to the building of a grand new royal park built on army land in the resort city of Hua Hin, which features statues of seven Thai kings.

Grimly, Mr Suriyan and Mr Prakrom are not the only lèse-majesté suspects to have died before trial. During a previous crackdown, which took place in late 2014, a senior policeman accused of defaming the monarchy fell from a hospital window. On November 8th the palace, citing only "gravely evil behaviour", said that it was stripping Pisitsak Seniwong na Ayutthaya, a blue-blooded senior officer in the palace bodyguard, of his royal decorations. There are rumours that he too is dead.

All this turmoil comes amid growing dread about what will happen after the death of the ailing 87-year-old king. Prince Vajiralongkorn, widely regarded as a playboy with little interest in Bangkok's Byzantine court culture, commands little of the popularity enjoyed by his father; elites worry that under his watch the Thai monarchy will lose its powerful position in society, disrupting lines of patronage which for generations have funnelled wealth and influence from the monarchy to the army and elsewhere. The two mass bike rides—for which the prince is the public face—have looked in part designed to help scrub up his public image in advance of his accession. So does the royal park, which the prince formally opened.

Given that the targets are drawn from across Bangkok's elites and royal hangers-on, it is not immediately clear what faction within Thailand's fractious ruling classes is driving the present purge—and few tongues have been wagging since Mr Suriyan's death was announced. Some suggest that supporters of the prince are keen to punish those seen to be sullying his pet projects; others speculate that the army is winnowing out people it sees as a bad influence within the prince's inner circle. A simpler theory is that factions within Thailand's police and army are using lèse-majesté legislation to settle scores with each other. The only certainty is that Thailand looks increasingly troubled as it slides towards the royal succession—and its people increasingly nervous. ■


Mor Yong's last days

Tourism

They wish you were here

JAKARTA

Indonesia wants your dollars

THE city of Batavia was once the bustling heart of the Dutch East Indies, a port town with an abundance of pepper, nutmeg and other exotics bound for the west. Now it is a rundown northern district of Jakarta, Indonesia's capital, stuffed with crumbling colonial mansions. A peek through the rotting shutters of one grand pile reveals tree trunks and a carpet of leaves. The building is popular with Indonesian film-makers, says Agus, a local guide: "They use it for spooky movies."

Old Batavia is a respite from the traffic and smog of Jakarta, perhaps South-East Asia's least prepossessing capital. As dusk approaches locals congregate happily in its central square, which boasts a handful of museums. But to many tourists it seems an unpolished diamond—much like Indonesia itself. Nearly 10m foreign sightseers will enter the country this year, many heading straight to the bars and beaches of the island of Bali. That is a record, but still well short of the 12m or so who visit tiny Singapore, and a league away from Thailand's roughly 26m (see chart). Inflexible visa rules, dangerous transport, annual forest fires and lingering worries about terrorists, who struck at tourists several times during the 2000s, are among many of Indonesia's handicaps.

Boosting tourism is a priority for Joko Widodo, Indonesia's president. Travellers' dollars would go some way towards mitigating the effects of China's slowdown, which has slashed demand for Indonesian commodities and pushed its currency, the rupiah, to a 17-year low. As well as pepping up domestic travel, the government wants at least 20m foreign tourists to visit annually by 2020. Tourism officials have plenty to work with. Countless pristine beaches fringe Indonesia's 13,000 islands. Its people are welcoming, and its brand of Islam largely tolerant.

Some early policies have looked bold. For the first time tourism now has a government ministry of its own. Its promotional budget this year quadrupled to nearly \$100m, and could rise to \$300m in 2016. In October the country hired Ogilvy, a big advertising agency, to boost its image. Immigration authorities have at last granted visa-free entry to tourists from dozens of countries, batting back nationalists who say states that benefit should open their borders in return.

But old Batavia's struggles are informative. Plans to revitalise the district have come and gone, with limited effect. Officials have rebuked private owners for letting their properties decay, but offered few incentives to restore the buildings. Some locals resent any effort to preserve remnants of Indonesia's not-fondly-remembered colonial past. Others fear government planners will rig up a sterile ghetto for monied foreigners.

The most recent initiative—a masterplan drawn up by a consortium from the public and private sectors, formed two years ago—is the best chance yet of breaking the logjam. It hopes to restore many dozens of dilapidated mansions, and attract businesses to use them. Progress is gradual but promising: the old Dutch post office has had a facelift, and Batavia's grand state house has been scrubbed up too.

The endgame is to have the old town included in the UN's list of World Heritage Sites. That would be good news for tour guides such as Agus. He has only enough custom to give a handful of tours each week, largely to Dutch travellers revisiting their ancestors' haunts. During the rainy season there is almost no work at all. ■

Bottom of the pack

International tourists
Number of arrivals, m

Source: UNWTO *2013

Regional development

All Partners (Except China)

SINGAPORE

No thriller in Manila for APEC

THE annual summit of Asia-Pacific Economic Co-operation, or APEC, is often more interesting for who is there than for the agenda. A 21-member body formed in 1989, it engages in worthy initiatives to foster regional economic integration. Its leaders' meeting, however, to be attended this year in Manila on November 18th-19th by the presidents of America, China and Russia and other luminaries, is always vulnerable to geopolitical rivalries. This year it faces an even bigger challenge: 12 APEC members have signed the Trans-Pacific Partnership (TPP), a trade agreement that would achieve many of the group's goals, but outside its framework (see page 76). That raises the question, if the TPP is realised, of what APEC itself is for.

China has tried to ensure that one bone of geostrategic contention, its building spree in the South China Sea, is not discussed. APEC's host, the Philippines, boldest of those contesting China's claims in the sea, and the complainant in international legal action about them, has agreed not to raise the issue at APEC. America, which recently bearded China's leaders by sending a warship close to one of their newly built islands, is probably also happy to talk about other matters.

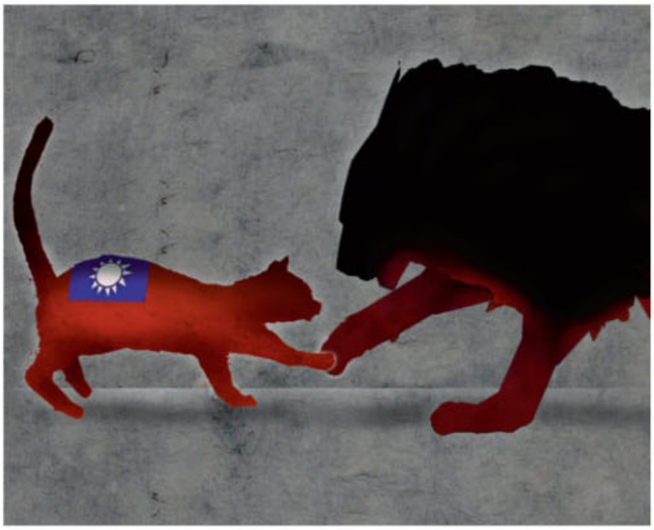
For one thing, Barack Obama will have to reassure the other 11 TPP members that their agreement, years in the making, will eventually be ratified by America's Congress, despite growing from its members. Most of the 11 also have to face down powerful vested interests at home. In countries from Japan to Vietnam, that is part of the point of the TPP: to help economic reform. If the prizes—improved access to the American market above all—seem in doubt, they will balk.

Other non-TPP APEC countries, however, have already expressed interest in joining: South Korea, the Philippines, even protectionist-inclined Indonesia. And although Mr Obama has presented TPP as a way of countering China and bolstering American economic leadership, China itself has not ruled out membership. The TPP will, eventually, require a big secretariat and a dispute-resolution mechanism. It will have rules. APEC, with a small secretariat and a toothless approach of "concerted unilateralism" (reaching consensus then each country doing its own thing, in effect), may become irrelevant.

Its fate probably depends on China. For now China seems to want to use APEC to pursue a broader Free-Trade Area of the Asia-Pacific, covering all APEC's members, which account for nearly three-fifths of global GDP and more than half of world trade. Expanded, this would unite the TPP with another putative regional-trade agreement involving China as well as India, not at present in APEC. India's bid to join APEC is another big issue not to be discussed in Manila. Neither America or China seem in a hurry to help it; both know that including India would make APEC's trade discussions all the more complicated.

Banyan | The emperor's descendants

Smiles and handshakes usher in what will be a rocky period for China-Taiwan relations



IT WAS a long handshake, a full minute's worth. Ma Ying-jeou, Taiwan's president, and Xi Jinping, his Chinese counterpart, wanted to milk the historic importance of their encounter on November 7th in Singapore. Yet the two men intended their citizens to draw very different messages. For Mr Ma, it showed that the policy he has pursued in office since 2008 of fostering better ties with the mainland has ensured smoother relations, and so safeguarded Taiwan's prosperity and security, ie, the status quo. For Mr Xi, the meeting implied that China's reciprocal policy of encouraging economic and other ties with Taiwan has lowered tensions and helped pave the way for its eventual unification with the mainland. They cannot both be right.

Mr Xi's gesture, in agreeing to meet the leader of a government China views as the illegitimate usurper of local authority in one of its provinces, was remarkable. Such a meeting had never happened since Mr Ma's Nationalist party, the Kuomintang or KMT, turned Taiwan into its last redoubt as it lost China's civil war to the Communists in 1949. The summit was perhaps the biggest concession on a "core issue" of sovereignty any Chinese leader has made since the early 1980s when, under Deng Xiaoping, China offered Taiwan a "one-country, two-systems" solution and agreed with Britain on a similar deal for Hong Kong. Taiwan rejected China's promise that, in exchange for recognising the authority of the government in Beijing, the island would enjoy self-government and even get to keep its army.

Mr Xi's grand gesture suggests again that he is the strongest leader in China since Deng, able to shun decades-old shibboleths without fear of opposition. Of course, China was careful not to give Mr Ma too much status. The leaders addressed each other as plain "Mr", and met not at an international economic summit, as Taiwan had hoped, but in a hotel, where they split the bill. To the irritation of many in China, state television cut away from Mr Ma as soon as he opened his mouth.

Mr Xi could be confident that he would not, as Mr Ma did, face street protests over the meeting at home. But he, too, was taking a bold risk. He has gained some kudos by presenting himself as a magnanimous, peacemaking statesman. But he has also put the issue of cross-strait relations into the domestic and international spotlight. His people might now expect to see some progress towards unification. They are likely to be disappointed.

It is widely assumed China had a tactical aim: to influence voting in the presidential and legislative elections in Taiwan in January. Polls suggest that the KMT's presidential candidate, Eric Chu, will lose to Tsai Ing-wen of the Democratic Progressive Party (DPP). The DPP may even for the first time gain control of the legislature. China abhors it, because the party's roots are in the movement agitating for Taiwan's formal independence from China. The KMT at least adheres to the woolly notion, known as the "1992 consensus", that there is only "one China"—with both sides agreeing to disagree on what this means (Taiwan's official name remains the Republic of China). In their meeting both men emphasised the importance of this consensus, though Mr Xi, as Chinese officials are wont, made no reference to the differing interpretations part. The DPP denies such a consensus exists.

Mr Xi and—even more so—Mr Ma emphasised their people's ethnic and cultural links. "Brothers connected by flesh even if our bones are broken", as Mr Xi put it; "descendants of the Yellow Emperor", in Mr Ma's words. But growing numbers of people in Taiwan see themselves as primarily "Taiwanese", rather than Chinese. Most people in Taiwan come from families that lived on the island for generations before 1949. A small aboriginal population is not Chinese at all. Apart from during the chaos of the civil war China has not even pretended to rule Taiwan since 1895, when it ceded the island to Japan. China says a declaration of independence could provoke it to use force, so few Taiwanese support formal independence. But even fewer want unification.

So the subtext in Singapore to all the bonhomie, the mutual congratulation about improved ties and the promises of even closer future co-operation was an implied threat for Taiwan's voters: elect the DPP and jeopardise all this. Mr Xi was also reminding Taiwan's international friends, especially America, that they, too, have signed up to the idea of "one China" as the price of relations with the People's Republic. The emphasis on the consensus was, in effect, a warning that a DPP government may face reprisals if it does not accept it. The DPP would prefer to dodge the issue, but Mr Xi seems to want to force its hand. He is an ambitious leader, and the son of a Communist revolutionary grandee. Perhaps he sees himself as the man to complete the core mission of Chinese "reunification", unfulfilled for nearly seven decades.

An empty locker

Yet, unlike Deng, Mr Xi has no further big concessions to offer, beyond symbolic ones, like this meeting. Surely he does not want to contemplate unification by force, so he needs to win the consent of Taiwan's government, and hence, in a democracy, its people. In the past dire warnings and even crude military threats—as in 1995-96 ahead of Taiwan's first direct presidential election, when China conducted missile tests in the Taiwan Strait—have served only to alienate Taiwan's people further. Nor has being friendly, eg, by offering trade concessions and boosting tourism and other links, helped much. As in Hong Kong, the more contact people have with the mainland, the more conscious they seem to become of the distinctness of their local identity.

"Who among the descendants of the Yellow Emperor wishes to go down in history as a traitor?" China asked in a message to Taiwan on January 1st 1979, when America ditched its diplomatic relations with the island in favour of the mainland, and China stopped its ritual shelling of Taiwanese outposts. With each passing year the number of would-be traitors seems to grow. ■

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Politics

The north star

HARBIN

China's youngest provincial governor is on a long road to national power

ASKED what they think of Lu Hao, their governor, residents of Harbin, capital of the north-eastern province of Heilongjiang, often reply with the word *xiaozi*. This roughly translates as "young whippersnapper". Mr Lu's youthfulness is indeed striking. Born in 1967, he is the youngest of China's current provincial governors. He was also the youngest to hold most of his previous positions. Those include factory boss at a large state-owned enterprise, deputy mayor of Beijing and leader of the Communist Youth League, an important training ground for many a national leader.

China's system of political succession produces occasional surprises, such as the purge three years ago of another provincial leader, Bo Xilai, on the eve of what appeared to be his likely elevation to the pinnacle of power, the Politburo Standing Committee, alongside Xi Jinping, who is now president. But at least since the Communist Party began institutionalising succession arrangements in the 1990s, high-flyers have often been easy to spot. Mr Lu is one of them.

His stint at the youth league was of greatest portent. The organisation is something like an American fraternity club (without the misbehaviour)—its members form close ties which are often maintained in their later careers. Its leaders have a tendency to move into high national office. Hu Yaobang, a party chief in the 1980s, grew to prominence in the league, as did Hu Jintao, Mr Xi's predecessor. Li Keqiang, the current prime minister, is also an ex-head of the league. Mr Lu's stint in that role from 2008-13 made him an obvious rising star. His subsequent promotion to a provincial governorship confirmed this impression.

Youth is on his side. The next rung on the ladder to the top may be induction into the 25-member Politburo, possibly as early as 2017. But it will not be until around the time of the party's 20th congress in 2022—a year after its 100th birthday—that Mr Xi will retire and Mr Lu will have a chance to shine, likely as one of the (now seven) members of the Standing Committee. He will then be 55, a year older than Mr Xi was when he joined the body in 2007. That would give Mr Lu a good few years at the top: Standing Committee members are expected to retire around 70. He would be a member of what party officials already call the "sixth generation" of Communist leaders (the first having been led by Mao Zedong, Mr Xi representing the fifth).

There are several other likely members of the upcoming generation. They include Hu Chunhua, Mr Lu's predecessor as head of the youth league who is now the party boss of the southern province of Guangdong; and Sun Zhengcai, the party chief of Chongqing, a south-western region. One rising star has already fallen, however. Su Shulin was thought to have bright prospects until he was removed as governor of coastal Fujian province after being snared in a corruption investigation in October.

China's media often drop hints of who to watch. Mr Lu's appointment as Heilongjiang's governor (a few months after he became the youngest full member of the party's 370-strong Central Committee) was accompanied by a flurry of celebratory articles in the party's main mouthpiece, the *People's Daily*, and other newspapers. They emphasised Mr Lu's youth, impeccable work ethic and solid record of excellent performance in his previous jobs.

The hagiographies credit Mr Lu with reviving the fortunes of a debt-ridden wool factory in Beijing, of which he was appointed boss in 1995 as a 28-year-old. Four years later he was promoted to a job in the city government, managing a technology zone in the city's north-west. The area, Zhongguancun, was already referred to by hyperbole-prone state media as "China's Silicon Valley", although it consisted mostly of streets lined with stalls selling computers, electronic accessories and pirated software. But by the time Mr Lu moved on to his next job, in 2003, Zhongguancun was well on its way to being worthy of its nickname. Today it is full of modern towers housing the Chinese headquarters of many world-class technology companies.

The likes of Mr Lu rarely give interviews to foreign journalists (President Xi never has, one-on-one). But a foreign businessman who met Mr Lu several times recalls him as an exuberant manager who, somewhat ahead of his time, advocated the recruitment of talented Chinese who had returned from abroad. Another foreigner familiar with Mr Lu calls him "sharp", "impressive", "focused" and good at giving speeches without a script—not a preferred style of oratory among Chinese officials.

Mr Lu's current job is an exceptionally tough one. Heilongjiang was once known as a rustbelt of shuttered heavy industries. It boomed under a rejuvenation scheme earlier this century, but its fortunes have slumped again. Its oilfields are well past peak output, and, thanks to low oil prices, far less lucrative. Trade across its long border with Russia is hampered by Russia's economic woes and its much-devalued rouble. The coal industry, another economic pillar, is suffering from overcapacity thanks to a slump in demand as China's growth slows. One of the province's largest employers, Longmay Group, announced in September that it would reduce its 240,000-strong mining workforce by 100,000 within three months. The company cut thousands of jobs last year.

Since the first quarter of 2014, Heilongjiang's real GDP growth rate has hovered between 4-5%—far behind the 7% nationwide figure. Its growth is among the slowest of China's provinces. Last year Mr Lu was summoned, together with other governors, to a meeting with the prime minister to discuss their provinces' ailing economies. "I took his remarks as criticism," Mr Lu contritely said afterwards.

He is probably confident, however, that his career remains secure. For all China's fixation on high economic growth rates—at least until recently when it became more obvious that they were unsustainable—several studies by Western scholars have shown little correlation between economic performance in provincial jobs and advancement to high-level posts in the central government. Residents rarely blame Mr Lu, who ranks below Heilongjiang's party secretary, even though it is Mr Lu who is responsible for managing the province's economy. "It's mostly because of factors the governor cannot possibly control," says a local reporter.

Mr Lu has a nearby scapegoat: Russia. He blames it for failing to develop transport facilities on its side of the frontier. "How can you increase the volume of turnover if many border crossings are seasonal in nature… and in the winter, the border crossings remain idle?" he demanded at a China-Russia trade expo last month, according to Russian media.

The views of ordinary citizens do not count for much in the grooming of successors. That is fortunate for Mr Lu. In Heilongjiang he is chiefly known not for anything he has done for the province, but for his love of dancing, both ballroom style and, in his student days, disco; at Peking University where he studied economics he is said to have choreographed a group routine. Crucially, Mr Lu is widely believed to be a protégé of President Xi. That is a strong qualification for power. ■

Slash fiction

Click bait

BEIJING

Homoerotic fiction is doing surprisingly well—among straight women

SHENG JIA first came across *danmei* fiction five years ago when she was a journalism student at Shanghai University. She was looking for escapism; a friend recommended "Silk Trousers", a story about a handsome, womanising nobleman who falls in love with a male celebrity of Chinese folklore, the fox king, who can swap between human and animal forms (the book's cover is pictured). It ends in heartbreak.

Ms Sheng became instantly hooked on the homoerotic tale with its subtle portrayal of a form of sexual desire that is rarely discussed openly in China (homosexuality was considered a mental illness until 2001). She found the novel more appealing than the saccharine love stories popular among other heterosexual Chinese women like her.

Danmei, meaning "indulgence in beauty", is China's version of what is often called "slash" fiction in other countries. The genre takes its English name from the slash sometimes used in synopses of such works to separate the names of often well-known protagonists: Kirk/Spock, or in this case fox king/nobleman (the men, despite their attraction to each other, are portrayed as straight). The genre sometimes explores taboos: incest, intergenerational sex, or sex with a character who is disfigured. It is also inspired by Japanese *manga* comic books with their whimsical illustrations (the word *danmei* was originally a Japanese term: *tanbi*). The genre is only available online in China—no state-owned publisher would dare print such works, for fear of violating laws against pornography.

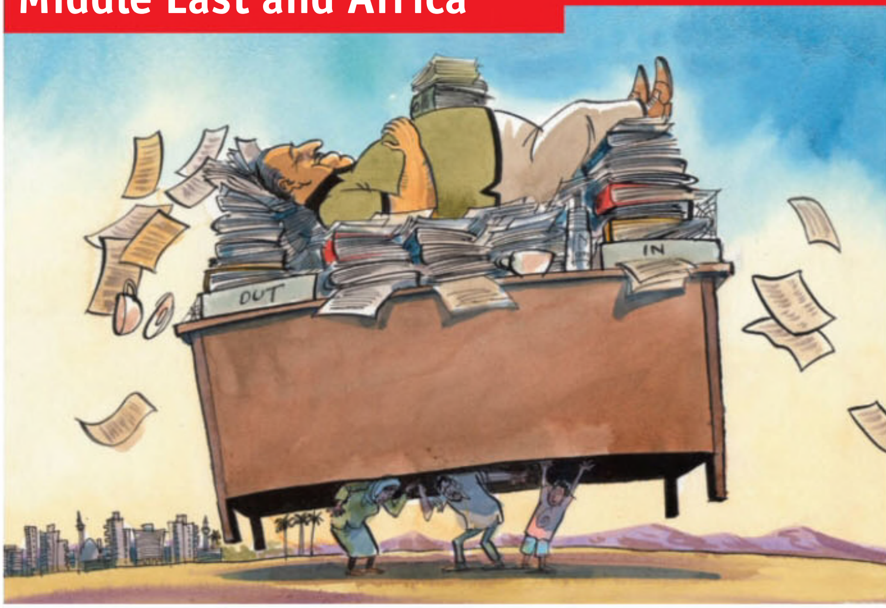
E-foxy

Among younger Chinese women and teenagers, *danmei* is proving remarkably popular: websites devoted to it have large followings. Katrien Jacobs, an expert on Chinese online pornography at the University of Hong Kong, estimates that in every high school or university class, there is at least one fan of *danmei*. If so, that could mean a readership in the hundreds of thousands. Ms Jacobs says *danmei* attracts readers by creating "a sense of rebellion" against a culture in which women are often expected to be obedient and conventional. Readers delight in enjoying the forbidden.

Spurred by a dearth of exciting offline options (all publishing houses are controlled by the government), readership of e-fiction of all types has been growing rapidly in recent years. Yang Chen, general manager of China Reading, one of China's biggest publishers of online literature, says there are about 275m people in China who read fiction through the internet. A big attraction is that censors find online literature far more difficult to monitor. Publishers of *danmei* often avoid the use of machine-readable text, circulating stories instead in photographed form, which is more difficult for the censors' software to scan for banned words, or else as audio books.

In 2011 the authorities shut down a *danmei* website and, the following year, jailed its (male) founder for 18 months. In less than three years it had published 1,200 works of fiction, many of them reportedly written by young women. Most of the time, however, censors appear preoccupied with stopping the spread of hard-core pornography and material critical of the Communist Party. *Danmei* usually avoids graphic descriptions of sex, and steers clear of politics.

Crackdowns certainly do not bother Ms Sheng. She identifies herself as a *funu*, or "rotten girl"—a pun on the word for woman that readers of *danmei* sometimes use ironically to describe themselves. She says she will continue buying and sharing the works of her favourite authors from Taiwan and Hong Kong (where such fiction is legal), despite the risks in China.



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Arab bureaucracies

Aiwa (yes) minister

BEIRUT AND CAIRO

The region's countries desperately need to reform their public sectors

AHMED tries for days to complete the government paperwork to transfer his children to a new school. It is no easy task. On one occasion the bureaucrat he needs to see is on holiday; another time he is in the toilet. Frustrated, Ahmed ends up in a scuffle and accidentally takes a guard's weapon and several hostages. The event is entirely fictional—it is the plot of a 1993 Egyptian film, "Terrorism and Kebab"—but the difficulties it depicts persist today.

Real-life examples fit for comedies abound. Paper-shufflers in Iraq insist that citizens list their birthplaces as that of their fathers, regardless of where they were born, causing no end of trouble. When one Iraqi tried to change his son's name, a legally permitted process, he had to go to court 18 times to accomplish this minor revision. Lucky for him he wasn't trying to start a business in Egypt, which by some reckonings requires permits from 78 different agencies. Things are so bad that this year one Egyptian minister joked about blowing up the civil service with dynamite.

Citizens the world over complain about red tape and pen-pushing bureaucrats. But those across the Arab world have more cause for complaint than most. Dictators and one-party states have long treated the civil service far more as an employment agency for loyal supporters (and family members) than a provider of services.

The effects are dire. Funding these armies of desk jockeys eats into national budgets, diverting skilled workers from the more productive private sector and depressing economic growth. In some parts of the oil-rich Gulf, for instance, more than half of all working nationals are employed by the state (see chart). The World Bank reckons that bureaucracies in the region are bigger (as a share of total employment) than in any other part of the world. Many of these employees "do no work at all," says Hala al-Said, a professor at Cairo University. Promotions are based on age or connections, not merit. It is hard to be fired, even for incompetence. Absenteeism is widespread, not least because no one is doing any monitoring of performance, says Zaid al-Ali, an academic at Princeton.

The inefficiency of Arab bureaucracies matters to more than just frustrated citizens. The uprisings of 2010 that toppled regimes in the so-called Arab Spring were as much a cry for services as for democracy. Yet the governments replacing them have been even less efficient in many cases, raising the risks of further upheaval.

Pressure to change is mounting. For months Iraqis have been protesting against corruption and a lack of basic services; in Lebanon people have taken to the streets to demand that rubbish be collected.

Several countries have announced changes. A law passed in Egypt this year contains sensible reforms, such as publicly announcing job openings, testing candidates and requiring regular performance reviews. Iraq, too, is trying to weed out corruption among pencil-pushers.

Yet few think the improvements will get off the ground. Already tax-authority workers and unions have protested against the new law in Egypt while politicians in Iraq are blocking change there. An attempt in Lebanon in 2005 to recruit senior civil servants on merit soon collapsed lest reform upset a fragile system that distributes jobs among various religious groups.

Instead of reforming from the top, countries may well have more success starting at the bottom by making bureaucrats accountable to citizens at a local level, says Shanta Devarajan, the World Bank's chief economist for the Middle East and north Africa. He points to successful schools in the West Bank and Gaza where parents assess the performance of teachers.

Yet not every country will be willing to go down this route, mainly because it would entail a weakening of the state's ability to distribute largesse to loyal followers. "The social contract where the state provided health and education for nothing and citizens were pacifist consumers is broken," says Mr Devarajan. But so far, nothing has replaced it: not private-sector jobs and certainly not democracy. ■

Iran's crackdown

After the party

TEHRAN

Hardliners in Iran are flexing their muscles

HAVING got the nuclear deal he desperately wanted, Hassan Rouhani (right) is now suffering the backlash. At a time when Iran's moderate president is courting foreign investment—he will do so on a trip to France and Italy from November 14th (though he will skip a state banquet because the French insist on serving wine)—a series of arrests back home have embarrassed him. These would be less damaging if they were not so flagrantly at odds with Mr Rouhani's efforts to change Iran's image after a decade of international estrangement.

The agreement on July 14th struck between Iran and the West will mothball much of its nuclear programme in exchange for a lifting of sanctions. Yet those who hoped this might signal a wider reconciliation between Iran and the West have been left humbled in recent weeks. Siamak Namazi, an Iranian-American businessman with close links to Iran's former president, Ali Akbar Hashemi Rafsanjani, was arrested in mid-October. His family runs Atieh Group, which advises companies that want to enter the Iranian market. A well-known advocate of economic liberalisation, Mr Namazi was arrested by the intelligence wing of the Islamic Republic's Revolutionary Guards Corps (IRGC).

The Guards, who control much of Iran's economy, could have much to lose from a more open market and have shown willingness to conduct heavy-handed interventions timed for maximum effect. In July 2014 they arrested Jason Rezaian, the *Washington Post*'s Tehran correspondent, just when the nuclear deal was starting to look possible. The reporter, a dual citizen, languishes in jail with no official confirmation of his sentence although he has reportedly been convicted of espionage.

Five journalists, all either backers of Mr Rouhani or critical of hardline elements in Iran's regime, have since followed Mr Namazi into custody behind the high walls and barbed wire of Evin prison in Tehran.

The incidents all bode ill for Mr Rezaian as they have complicated talk of a prisoner swap—for Iranians detained in America—that had seemed his best hope of a quick release after the nuclear deal. Mr Rouhani has no control over the IRGC. It reports to the supreme leader, Ayatollah Ali Khamenei. And the judiciary that tried Mr Rezaian is also a conservative fief at odds with the president,

Herding cats would be easier

which makes a trade harder to negotiate.

Mr Khamenei, having backed his president throughout the nuclear talks, now seems content to divide and rule. A speech he gave to Guards commanders on September 16th, in which he warned them of "economic and security infiltration", seems to have spurred the crackdown. But the upcoming parliamentary election in February may also offer an explanation for why Mr Rouhani is being undermined by conservatives.

The poll will be the electorate's first chance to endorse or criticise him since he won election in June 2013. In a fair poll he would likely do very well indeed, not least for having secured the nuclear deal. The hardline wing of Iranian politics has been in disarray since Mahmoud Ahmadinejad, the former president, left office after driving the country's economy over a cliff. Yet the Guardian Council, a conservative-dominated body that vets parliamentary candidates, could block Mr Rouhani's allies from the ballot. Such interference, though calculated, may well veer into dangerous territory: further attacks on the president may force Mr Khamenei to intervene since he does not want allegations of a tainted election to provide fuel for domestic tumult, as happened after Mr Ahmadinejad's questionable re-election in 2009.

"Mr Rouhani is stronger than before the deal," says one ally. "His only vulnerability is that the people may lose patience if there is no economic improvement." A stalled economy may hurt him as much as his conservative foes.

Conflict in Sinai

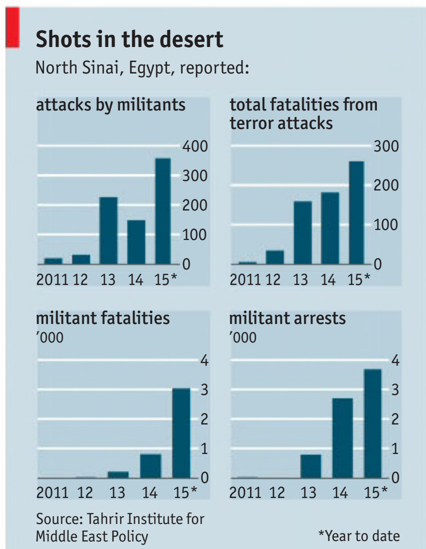
The peninsular war

Egypt is losing control of the Sinai

"BELIEVE me, the situation in Sinai—especially in this limited area—is under our full control," said Abdel-Fattah al-Sisi, Egypt's president, after a Russian passenger jet crashed in the rugged peninsula on October 31st, the apparent victim of a bomb on board. Yet the figures suggest otherwise. Militant attacks in Sinai have risen to 357 this year, a tenfold increase from 2012, the year before he took power, says the Tahrir Institute for Middle East Policy (TIMEP), a think-tank in Washington.

Four major army operations, each more punishing than the last, have resulted in large numbers of deaths. Fatalities from counter-terror operations are up from 12 in 2012 to over 3,000 so far this year, says TIMEP (see chart). Detentions, often accompanied by torture, have soared from 16 in 2011 to over 3,600 for 2015. Amar Salah Goda, a former mayor of El Arish, Sinai's largest city, and a mediator between the government and Sinai's Bedouin tribes, is among those locked up. The Egyptian army says its latest assault—dubbed Operation Martyr's Right—resulted in the death of 500 militants. Despite the toll, the ranks of militants seem only to grow.

The conflict started as a low-level insurgency fuelled by Bedouin grievances over their poverty. Now Sinai has become a battleground for Islamic State (IS), and the army's harsh methods seem to be driving many of Sinai's 400,000 Bedouin into the arms of the jihadists. "Egypt's military leaders are like ostriches with heads in the sand," says an analyst. "They say, 'We're



winning hearts and minds with our great counter-insurgency plans,' when they're just stirring animosity with their collective punishment."

In the north the army has destroyed hundreds of smuggling tunnels supplying Gaza, hitherto the Bedouin's economic mainstay. The army has levelled neighbourhoods along its border, displacing tens of thousands of people. Elsewhere in North Sinai residents say the army is firing tank shells on homes in what seems an attempt to drive Bedouins into cities under its control. IS, for its part, is strengthening its grip on the countryside: militants have distributed leaflets telling residents to get permission before ploughing their lands.

On July 1st IS fighters briefly captured Sheikh Zuweid, north Sinai's second city. "The Sheikh Zuweid assault showed a considerable improvement in capabilities and revealed techniques acquired in Iraq," says Muhammad Gomaa, of Cairo's Al-Ahram Centre for Political and Strategic Studies.

The army retook the city, but only after aerial bombardment. Now IS fighters may be heading back to the Nile Valley, increasing the risk that violence confined to the periphery could flare in the heart of Egypt. On November 9th, the government killed Ashraf Hassanein al-Gharabli, an IS leader who was driving through Cairo. His suspected attacks this year included the killing of Egypt's chief prosecutor, the most senior Egyptian assassinated since 1990, the bombing of the Italian consulate, and the beheading of a Croatian oil surveyor.

The British and other governments maintain that Sharm el-Sheikh's hotels remain safe for tourists, but there are signs, too, that militants are penetrating Sinai's south. The 19 monks at St Catherine's, once a key tourist destination at the foot of Mount Sinai, have faced repeated albeit foiled attempts at attack. An attack on a tourist bus in February 2014 and a suicide-bombing in May 2014, both in south Sinai, have emptied most of the peninsula's resorts outside Sharm el-Sheikh.

Such attacks on the tourist industry further weaken the government's financial grip. Tourism receipts fell to $7.8 billion in Egypt's last fiscal year, down 22% from Mr Sisi's first year in office, and 40% from the last year of the former dictator, Hosni Mubarak. That presents a Catch-22. Without an improvement in security Mr Sisi will struggle to provide employment to Sinai's people. Yet unless he can provide employment to quell Bedouin resentment he can expect little improvement in security. ■

Israel and Palestine

Stick a label on it

PSAGOT

Europe steps up pressure on Israel over its settlements

THE prize-winning Psagot Winery in a West Bank settlement north of Jerusalem has become a favourite destination in recent years for right-wing Israeli and American politicians, eager not just to quaff Cabernet but also to score political points by highlighting the return of the Jews to their biblical homeland. Sixty-five per cent of the 250,000 bottles produced here each year are exported. Under new European Union rules adopted this week those bottles sold in Europe will no longer be labelled "Produce of Israel" but "Produce of the West Bank (Israeli settlement)".

Yaakov Berg, the winery owner, is not concerned for his own business. "People who buy our wines know where we are and want to buy them," he says. "This will probably only make them more popular." He is already planning a line of Christmas gift-boxes with additional settlement products, which he believes will be a hit in evangelical communities in America. Some of his fellow producers may, however, see sales fall as European retailers refuse to stock their products.

Labelling produce from the Israeli settlements in the West Bank, the Golan Heights and East Jerusalem has been a subject of diplomatic disagreement between the EU and Israel for more than seven years. The Europeans, like the rest of the world, do not recognise Israel's sovereignty in the lands captured in the six-day war in 1967 and regard Israeli settlements there as illegal. Although Israel enjoys preferential access to Europe's market and gets grants for research programmes inside the "green line", it has refused to abide by the EU's previous labelling regulations. These new guidelines put the onus on EU members to ensure that imports from the settlements declare the correct provenance.

Israel's response has been to accuse Europe of discrimination. Israel's prime minister, Binyamin Netanyahu, questioned why such guidelines do not exist for other cases where there are contested borders, such as Northern Cyprus, accusing the EU of a "double standard" and said the move "brings back dark memories", alluding to the Holocaust.

The new measure represents a diplomatic blow for Israel as well as a victory for the BDS (Boycott, Divestment, Sanctions) movement, which calls for a boycott of all Israeli produce. However, as European diplomats were at pains to point out, the new guideline is not intended to constitute a boycott of Israel in any sense. It is, they said, to ensure consumers are not misinformed.

Whatever the moral justification of this step, it is unlikely to amount to more than an exercise in gesture politics. Israel's Economics Ministry reckons that it could cause no more than $50m-worth of damage to Israeli producers a year, out of some $300m exported from the settlements (and some $18.9 billion that Israel exports to Europe). It will not help to restart the moribund peace process between Israel and the Palestinians, and may only entrench an Israeli government that believes that it is unfairly singled out by a hostile and, in its view, anti-Semitic international community.

Recovery in Liberia

After Ebola

MONROVIA

Beating the virus is just the beginning

TRAVELLERS shuffle past temperature checks as they disembark at the tiny airport in Monrovia. Buckets of chlorinated hand-wash sit dutifully outside public buildings, and adverts describing the grim symptoms of Ebola are displayed across city walls. Two months after Liberia was (for the second time) declared safe, the ghosts of the virus lurk. Yet life is tiptoeing back to back to normal in the West African country of 4m people. Schools and markets are open, people have food to eat and locals are back to their old ways of greeting visitors with hugs and holding hands.

Yet not all the hard-won lessons have been forgotten. At the height of the outbreak, which claimed 4,800 lives in the country, Redemption Hospital, a labyrinthine market-turned-medical facility in a Monrovia slum, was receiving hundreds of patients a day. Chlorine supplies ran dry, protective equipment was scarce and refuse piled up behind the wards. Twelve of its workers lost their lives. Today staff religiously wash their hands and patients are not forced to share beds. Rubbish is destroyed in incinerators and cleaners douse the wards with disinfectant. "If we've learnt anything it was fear," says Jude Senkungu, a Ugandan doctor working with the International Rescue Committee (IRC). "That's struck a behaviour change."

The resources that flowed into Liberia's ramshackle health-care system to stem the disease are continuing to do some good. A measles outbreak erupted after last year's vaccinations were suspended. When immunisation shots were finally dispatched they reached more than half a million children, according to the deputy health minister, Francis Kateh—one of the highest coverage rates to date. This is heartening news for neighbouring Sierra Leone, which was declared Ebola-free earlier this month. (A third hard-hit country, Guinea, is struggling to extinguish the outbreak.)

But the aftermath of the pandemic is a battle in itself. Hospitals, which are applying better standards of infection control, now turn patients away for lack of space. There were fewer than 60 Liberian doctors in the country before the virus broke out last March, and some 10% of them died after catching it. Donors worry about what will happen to the health system when the flow of aid stops. "Once the resources are out, it'll just go back to the way it was," says the local head of a non-profit organisation.

Longer-term social issues are also coming to the fore. Families that lost their breadwinners face grinding poverty, and there is scant assistance for the 5,000 orphaned children now living under caregivers' roofs. In Dolos Town, a hard-hit community outside the capital, foster parents say they cannot afford school fees. Street Child, a charity, thinks that child labour is on the rise as struggling families take children out of school and send them to work. Locals complain of worsening crime, and teenage pregnancies have spiked since children found ways of keeping themselves busy when schools were closed. "Liberia has easily lost three years in its development agenda," says one diplomat.

The economy is struggling, too. Annual growth should rebound to 2-3% this year from less than 1% in 2014, the World Bank reckons, but that looks paltry in comparison to a pre-Ebola rate of close to 9%. Not all of this is due to the virus: falling commodity prices have played their part, too. Iron-ore revenues have fallen and rubber exports have dropped. International companies that were prospecting for oil a few years ago have now stopped work. Airlines such as Air France, that halted flights to Monrovia during the outbreak have not returned. "The real issue is not rebuilding Liberia after Ebola," the diplomat says. "It is building it from scratch." ■

Uganda

President forever

The electoral race has started, but the winner seems preordained

THERE is a curious new vehicle crawling the streets of Kampala, Uganda's capital. It is a pickup truck, but mounted on its back is a sort of mechanical merry-go-round. As it crawls through traffic, two mannequins pedalling bicycles do revolutions, their arms waving. Music blares out of speakers; the entire vehicle is festooned with political banners. And on its top is a sign, which reads simply, "Vote Museveni. President now. President forever."

What better slogan for Yoweri Museveni, Uganda's president since he took power after a coup in 1985? A staunch ally of the West, he introduced multiparty elections in a country torn apart by Idi Amin. But he has been in power for almost 30 years and seems determined to stay for longer. In February Uganda will hold elections. They will be the most fiercely fought in the country in decades, and will probably not end with an unimpeachable result.

The campaigns were launched on November 3rd. There are eight presidential candidates, but only three are credible. Mr Museveni himself; Amama Mbabazi, a former prime minister who has broken with his one-time boss; and Kizza Besigye, a long-standing opposition leader who was Mr Museveni's doctor in the bush wars of the 1980s. He has fought three elections since 2001 (and has been repeatedly arrested for doing so).


Museveni, still smiling

Each of the three held rallies. Mr Museveni's launch was accompanied by an enormous gathering at Independence Park in the centre of Kampala. Hundreds of buses brought in supporters in yellow T-shirts; lines of soldiers toting guns guarded the perimeter. Mr Mbabazi's supporters crowded into a football stadium in central Kampala shortly afterwards. The following day Mr Besigye's supporters marched into the city covered in blue.

Yet the buzz conceals widespread apathy. "Elections have become a ritual in recent years," says Dr Livingstone Sewanyana, the head of a local human-rights organisation. At the last election in 2011 turnout was just 59%, down from 71% in 2001. Mr Museveni's supporters are largely bought, reckons Mr Sewanyana. Some say they are paid between 5,000 and 10,000 Ugandan shillings ($1.50-$3) to come to rallies, as well as given transport and food. Opposition supporters are more genuinely enthusiastic, but not very numerous.

Partly thanks to long suppression, the opposition is weak and divided. Mr Besigye has been running the same campaign for a decade now—each time struggling to compete with the resources and state power of Mr Museveni's party, the National Resistance Movement. Mr Mbabazi brings some new supporters, but he is almost as tainted as the man he hopes to unseat. The two foes of the president are so far refusing to join forces: a meeting in London chaired by Kofi Annan, produced no agreement.

It seems unlikely this time that opposition leaders will be arrested or charged with treason (as Mr Besigye was in 2005). But all other institutions will be used to serve Mr Museveni. Already the state is his personal fiefdom: MPs are obsequious to the president; officials and judges serve at his whim, and ministerial jobs are given to allies and family members. Janet Museveni, the president's wife, is a cabinet minister; Muhoozi Museveni, his son, is head of the presidential guard, the top army unit. In September, a meeting of Mr Mbabazi's supporters was broken up by police who fired tear-gas canisters.

Sadly, his determination to hold on is hardly unique to Uganda: the whole of the Great Lakes region of Africa is plagued by presidents who won't leave. In Rwanda Paul Kagame, president since 2000, may hold a referendum to erase a constitutional ban on running for a third term. Opposition there has been fiercely suppressed. In Burundi close to 200 people have been killed since April, when President Pierre Nkurunziza declared he would run for a third term. And in the Democratic Republic of Congo the government claims elections due next year will have to be delayed—giving President Joseph Kabila more time to consolidate his power. President now, president forever, is a slogan that a lot of leaders would be quite happy with. ■

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Doping in sport

A cold-war chill

Investigators charge Russia with once again drugging its athletes

ONLY a naive sports fan would be shocked by a new round of doping allegations. In cycling's Tour de France from 1998-2013, 38% of the top-ten finishers were punished for using performance-enhancing drugs (PEDs), and a leak of track-and-field athletes' blood test results earlier this year showed that around one-seventh were "highly suggestive of doping". Yet the report on Russian athletes published on November 9th by the World Anti-Doping Agency (WADA) still represents a new kind of scandal—or, more precisely, a very old one. Rather than merely citing individual athletes, WADA claims that Russia has maintained an organised national doping programme of the sort that was thought to have ended with the cold war.

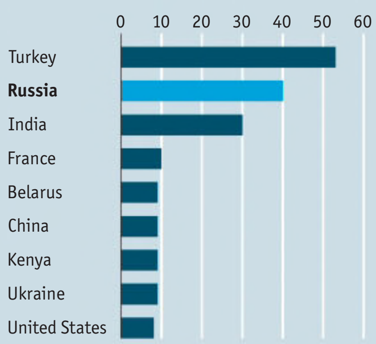
Russia first found itself in WADA's cross-hairs last December, when a German TV station aired accusations of rampant PED use. In June the agency noted that Russia led the world in PED violations in 2013, with 11.5% of the global total. But once its investigators started digging, what they found was "worse than we thought," said Dick Pound, the report's co-author and a former WADA president. "It may be a residue of the old Soviet Union system."

The report's main smoking gun involves Sergey Portugalov, the chief medical officer of the All-Russian Athletics Federation (ARAF). In an e-mail, he encouraged Yuliya Stepanova, a runner, to increase her use of banned testosterone. Ms Stepanova later secretly recorded her coach, Vladimir Mokhnev, while he allegedly gave her PEDs. (Mr Mokhnev denies this account.) The report also accuses Dr Portugalov of directly delivering injections of banned substances to athletes, though it does not provide specifics. Dr Portugalov could not be reached for comment.

In addition, WADA has levelled wider allegations of "direct intimidation and interference by the Russian state" to conceal doping. Many of the most incendiary claims, such as assertions that Russia had set up a "pre-screening" lab to filter out positive tests, seem to rely on hearsay. But the agency did obtain statements of guilt from people involved in the cover-up. Staff at a WADA-accredited lab in Moscow told investigators that its director, Grigory Rodchenkov, had ordered them to get rid of some samples. Mr Rodchenkov, who resigned on November 10th, admitted himself that he had destroyed 1,417 test results before an inspection in 2014. And Liliya Shobukhova, a marathon runner, acknowledged paying €450,000 ($480,000) to ARAF in exchange for the destruction of samples that tested positive.

These aren't the 'roids you're looking for

Athletics, anti-doping rule violations, 2013



Source: WADA

Even more striking than the report's findings are its prescriptions. In addition to proposing lifetime bans for five runners, WADA suggests that Russia's entire track-and-field team be excluded from international competitions until it cleans up its anti-doping system. Given the magnitude of the charges, it would take a rapid turnaround to achieve this before the Summer Olympics next August—a threat Mr Pound compares to a "nuclear weapon".

Vladimir Putin, Russia's president, would probably take a ban particularly hard. An amateur hockey player and judo black belt, he has revived the Soviet habit of using athletics for propaganda. "We not only organised and hosted the best-ever Winter Olympics," he said after Russia led the medal table at last year's games in Sochi, "we won them too." At a time when Russia is floundering economically and isolated diplomatically, its athletes have provided a much-needed image of success.

With this narrative in danger, Russian authorities offered a defiant response. Vadim Zelichenok, who took over ARAF in February, called the accusations a "political hit-job", and Dmitry Peskov, a Kremlin spokesman, said they were unfounded. Vitaly Mutko, the sports minister, suggested that WADA had proposed the ban because other countries would "benefit from removing a direct competitor", and quipped that Russia could save money by shuttering RUSADA, its anti-doping agency.

Any decision on banning the Russian team would fall to the International Association of Athletics Federations (IAAF), track-and-field's global governing body. ▸▸

Unfortunately, the IAAF itself is also mired in the scandal. Perhaps the most explosive allegation to come out of WADA's investigation does not appear in the report: that Lamine Diack, the former head of the IAAF, took some €1m in bribes, reportedly paid through ARAF, in exchange for not taking action against Russian cheaters. WADA excluded these details in deference to criminal proceedings in France, which arrested Mr Diack on November 4th. Sebastian Coe, the IAAF's new president, will face pressure to take a hard line. He is demanding an official response from Russia within a week.

There is still a chance that Russia could get back into the IAAF's good graces in time. A few officials have taken a more conciliatory tone: the sports ministry said Russia was "open to more robust co-operation with WADA", while Nikita Kamaev, the head of RUSADA, said the country was "on the path to cleaning up sport".

If it does not, it could mean the first absence of a large country from the Olympics since America and the Soviet Union boycotted each other's events in 1980 and 1984. Sporting officials are shuddering at a return to the bad old days of the cold war. However, following a year of proxy wars between Russia and the West in Ukraine and Syria, hopes that sport could remain immune might be wishful thinking. ■

Russia and terrorism

Tolerance for casualties

VLADIVOSTOK

Russians' stoicism gives Vladimir Putin time to work out a response

SHORTLY after Vladimir Putin became prime minister in 1999 Russia was hit by a string of apartment bombings that killed over 300 people. An enraged Mr Putin promised to "waste the terrorists in the outhouse". By comparison, his response to the Metrojet crash in the Sinai peninsula has been curiously subdued. There have been no impassioned calls to avenge the 224 dead, only a brief televised offer of condolences.

Yet the consensus that terrorists brought down the airliner grows stronger each day. It is no longer just British and American officials who are saying it. Evidence from the flight recorder, the exit holes in the fuselage and the burn injuries sustained by passengers all point to a bomb. The main suspect is the Sinai Province of the Islamic State, the group which initially claimed responsibility.

Judging by Mr Putin's decision last week to cancel flights to Egypt and evacuate some 80,000 Russian tourists, he too gives credence to the terrorism scenario. Nonetheless, his chief-of-staff insists that a bombing is "just one of the versions" and that the investigation will take months. The Kremlin refuses to accept any connection between the crash and Russia's military operations in Syria.

On television, Russian viewers have been treated to a series of obfuscations. Experts have offered various technical explanations. Anger has been redirected at *Charlie Hebdo*, the French satirical weekly, which caricatured the crash. In his Sunday broadcast Dmitry Kiselev, Russia's propagandist-in-chief, blamed the crash on a secret pact between America and Islamic State.

The Russian leadership may be genuinely reluctant to jump to conclusions, but it is also clear that Mr Putin has not decided on a line. Maria Lipman, a political analyst, says the government is buying time: "The farther away from the actual shock and grief, the easier it becomes to package it in a way that serves the Kremlin's interests."

In the meantime, the authorities face no public pressure for answers. Russians have responded to the tragedy with a stoicism born of experience. Collective grief in Russia is intense but dissipates fast, says Lev Gudkov, director of the Levada Center, an independent pollster. Russia's experience of terrorism resembles Israel's more than it does Europe's or America's. In the past 20 years Russians have seen aeroplanes, airports, buses and metros bombed, and hostages taken in theatres and schools. The Sinai victims were touchingly mourned, but society has quickly moved on, giving the government space to calibrate its response.

Mr Putin is due to deliver his yearly address at the beginning of December. With the aid of television, the crash can be used to fuel further "patriotic mobilisation", Ms Lipman says. If Russia acknowledges terrorism as the cause, winding down its military operation in Syria might be more difficult; Mr Putin cannot allow such an attack to go unpunished. But, as the West has learned the hard way, the urge for military payback in the Middle East can have unexpectedly painful consequences.

Trapped in Sinai, proud of Putin

France's National Front

Phantom menace

SAINT-QUENTIN

Marine Le Pen may win elections on fear of a non-existent migrant wave

NEAT mounds of freshly harvested sugar beets await collection on the plains of Picardy. This flat land, around the northern town of Saint-Quentin, is quiet farming country. No refugees are camped out anywhere in sight. No immigrants wrapped in blankets tread the roads. Yet when Marine Le Pen, leader of France's far-right National Front, takes to the stage for a campaign rally at the town's municipal theatre, she deplores the "gigantic migratory wave" that is on its way—and the audience erupts with applause.

Europe's greatest refugee influx in modern history has strengthened right-wing anti-immigration parties from Poland to Switzerland. But the biggest European country in which such a party is close to securing a chunk of electoral power is France. Polls now make Ms Le Pen the favourite to win the region of Nord-Pas-de-Calais-Picardie at two-round elections on December 6th and 13th. Home to nearly 6m people, it covers not only Picardy, the city of Lille, and the mining basin to its south, but also the refugee camp at the port of Calais.

For the National Front (FN), conquering the north of France would mark its biggest victory yet. The party or its allies currently boast two members of parliament, and run 12 town halls. But the movement, founded in 1972 by Jean-Marie Le Pen, Ms Le Pen's father, has never secured a region. Polls suggest that as many as three are now within its grasp: the north; the region around Provence in the south; and a third towards Alsace in the east. A win in even one would be a big step for a party bent not only on protest, but on power.

Ms Le Pen's ambition is to transform the FN from a marginalised extremist movement into a serious party of government. She has expelled the thuggish fringe, turfed out her rambunctious father, and recruited policy types to work up wonkish documents. For those packed into the Saint- ▸▸

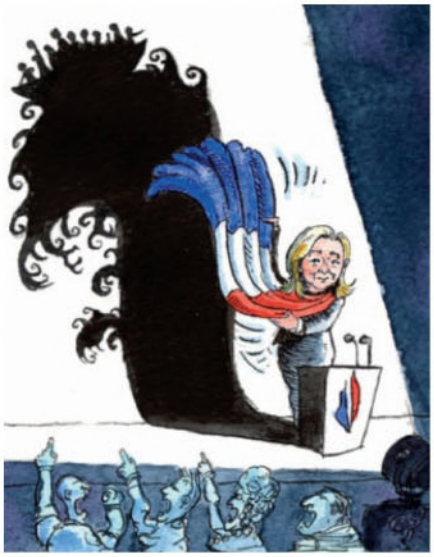
Quentin theatre, this makes for an odd Saturday night: a mix of crowd-pleasing entertainment (she has a stand-up comic's timing) and tedious technical pledges. When Ms Le Pen talks about cash-flow problems for small firms, the audience looks blank, and children fidget on their seats. When she vows to end regional subsidies to refugee-aid groups in Calais, however, a huge cheer goes up. Calais, she says, is living "a veritable nightmare" and taxpayers' money should "serve the French first".

The refugee crisis has played straight to Ms Le Pen's hand, even though the exodus from Syria and Iraq has headed overwhelmingly to Germany, not France. Traditionally the FN has drawn support from whites in heavily immigrant areas, in the troubled industrial north and the Mediterranean south. But work by Hervé Le Bras, a French geographer, shows that recent gains include places where immigrants are scarce. For many, they need only to see the television images of migrants wading ashore in Greece to swing behind the FN.

Mainstream parties seem at a loss as to how to stop this. For the right, tough talk about migrants can sound merely like a pale version of the FN. The left fears that an appeal to France's history as a land of human rights could push voters into Ms Le Pen's arms. The FN is already the most popular party among working-class voters: 41% of them back it, next to 24% for the Socialists. The party is even courting Muslims, arguing that the FN is against extremism, not Islam. "Muslim perhaps, but French first" reads one slogan. "Nobody wants Islamism, least of all Muslims," says Florian Philippot, an FN vice-president.

Ms Le Pen's ascension, however, is due to more than a narrow anti-immigrant message. It is also a pitch to the people against the system. Perhaps the greatest cheers in Saint-Quentin are reserved for her denunciation of the interchangeable ruling parties, which "promised everything" and "betrayed everyone". They are devoting all their energies not to governing the country, she jokes, but to fretting about the rise of the FN. Manuel Valls, the Socialist prime minister, has warned darkly of the "drama" of a possible FN regional victory, declaring that "everything should be done" to stop it. Yet the more that politicians try to take the moral high ground against Ms Le Pen, the more she casts herself as the victim of an elite cabal.

It may yet be that voters are not ready to hand power to the FN, or that rivals gang up in the second round to thwart it. As Sylvain Crépon, at the University of Tours, points out, even some FN strategists have reservations: the more it accepts the messy compromises of government, the more it "risks losing its radical edge". As it is, the regions run schools and transport, but have no powers over policing or asylum. So Ms Le Pen's chief promise over Calais is to

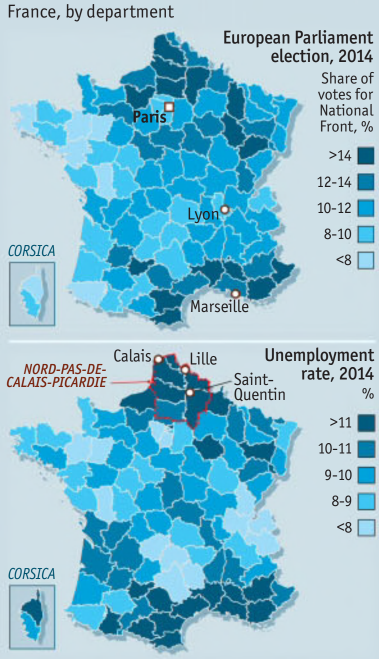


"make a din" and force the government to step in, to process genuine asylum-seekers and expel those who are not.

Perhaps the best effort at damaging Ms Le Pen has come from her centre-right rival in the region, Xavier Bertrand, a former labour minister and mayor of Saint-Quentin. For all her anti-system talk, he says, she and her family are in reality "the incarnation of the system," living for decades "like a vampire" off taxpayers' money, thanks to the perks of office. His is a sharp point, but it may not be enough. In Saint-Quentin, those queuing up to hear Ms Le Pen do not seem put off. "Even if I don't agree with all her ideas," says a middle-aged woman who has turned up with her husband, "she is the only one who speaks about us." ■

Frontal assault

France, by department



Sources: French interior ministry; INSEE

Polish politics

He's back

WARSAW

Jaroslaw Kaczynski controls the new government, as centrists feared

ON THE 10th of every month Polish nationalists gather outside the presidential palace in Warsaw with flowers and votive candles to mourn Lech Kaczynski, its former occupant, who died with 95 others in a plane crash in Russia in 2010. They also demand justice. A pensioner in a billowing raincoat has no doubts about who caused the crash: "Vladimir Putin, and Donald Tusk"—then Poland's prime minister.

That the outgoing centrist government conspired to murder a right-wing president is a minority belief, but one felt deeply on the far right. But at its latest rally the crowd felt justice was inching closer. The Law and Justice party (PiS) led by Jaroslaw Kaczynski (Lech's twin), which won last month's parliamentary election, has named Antoni Macierewicz, a leading proponent of conspiracy theories about the crash, as minister of defence.

In its first term in power from 2005-07, PiS split the country over religious and cultural issues and picked needless fights with Germany and the European Union. For some Poles, the new government confirms that PiS has not changed. "It's like going back a decade," says a well-dressed man at a nearby coffee shop, running his finger down the list of ministers in the newspaper. Feminists warn of a return to the dark ages, liberal editors of a crackdown.

Even some who voted for PiS have doubts. The party swept to power last month with a campaign exploiting popular exhaustion with eight years of rule by the centrist Civic Platform party (PO). To win over moderates, Mr Kaczynski, a divisive prime minister in 2006-07, named his milder deputy Beata Szydlo for the job. But signs abound that she will have little power. Mr Kaczynski denied that she had been sidelined, but as party insiders drew up the government, Ms Szydlo was nowhere to be seen. ("She has earned a few days' rest," said a senior PiS figure.)

Instead the new cabinet has Mr Kaczynski's stamp on it. The security portfolios have gone to his chums; the economic ones, which he cares less about, have been left to experts. Many ministers are veterans of the last PiS government, including Zbigniew Ziobro, the justice minister, an anti-corruption zealot with a habit of investigating political opponents. Witold Waszczykowski, a veteran diplomat who fell out of favour in the PO era, is the new foreign minister. He is expected to focus on boosting transatlantic ties (though the Obama ►►

administration may not reciprocate). Europhiles prefer his deputy for European affairs, Konrad Szymanski, an able former member of the European Parliament.

But it is the return of Mr Macierewicz, a former deputy defence minister, that has has raised the most eyebrows. One in two Poles regard him as untrustworthy. Many of Poland's allies find him alarmingly prone to overstatement. PiS had lately kept Mr Macierewicz hidden away (apart from a meeting with the Polish diaspora in Chicago, where he hinted that Mr Tusk, now president of the European Council, had been an agent of the Stasi, the intelligence service in communist-era East Germany). Ms Szydlo had ruled out his becoming defence minister; now he is host for the next NATO summit, in Warsaw in July.

Mr Kaczynski has called for a "renewal of the republic". That may be code for his grand project of moral revolution, culminating in the creation of a "fourth republic": a radical break from the messy compromises surrounding the collapse of communist Poland. (The inter-war republic was the second one, the 17th-century commonwealth the first.) That project—alarming to some, intoxicating to others—was interrupted when PiS lost eight years ago. Now Mr Kaczynski has the votes, and the team, to try to make it happen. ■

Politics in Romania

Collective responsibility

Protests about a deadly nightclub fire have toppled Romania's government. They have yet to change the political system

CHANGING prime ministers in Romania is nothing special. Changing them on grounds of corruption or incompetence is unprecedented. Changing the whole dysfunctional political system is still a daunting and distant prospect. But since the resignation of Victor Ponta's government last week, Romanians are beginning to feel a breath of optimism, after 25 years of fitful progress in building institutions and entrenching the rule of law.

The immediate cause is a tragedy—a fire followed by a stampede at Colectiv, a Bucharest nightclub, at the end of October, which killed 48 people and left dozens with horrific burns. The disaster epitomised many of the features that have held the country back: irresponsibility (the use of fireworks in a basement with polystyrene soundproofing); incompetence (the club was ill-run and the emergency services ill-prepared); and apparent corruption (the building seems not to have been properly inspected or licensed).

In the aftermath of the fire, Romanians took to the streets in some of the biggest protests since the collapse of communism. Under the slogan *Coruptia Ucide* (Corruption kills) they demanded resignations and prosecutions, as well as a cut in the number of lawmakers; new anti-corruption laws; and higher pay for officials to reduce the temptation to accept bribes. A banner in University Square, a hotspot of the 1989 revolution, read: "In 1989 we fought for liberty, today we fight for justice."

The establishment initially appeared nonplussed. Patriarch Daniel of the Romanian Orthodox Church responded by saying that young people would find it safer to go to churches rather than nightclubs. He apologised nearly a week later. The prime minister, Victor Ponta, finally resigned on November 4th—the first time in Romania's post-communist history that a leader stepped down because of public pressure.

The toppling of Mr Ponta is the culmination of a fight that started in 2003, when an independent prosecutor's office, the DNA, was set up at the behest of the European Union, which Romania was seeking to join. Although much of the country's justice system remains resistant to reform, the DNA is now one of Romania's most-respected institutions. Strongly supported by the EU and America against domestic political attacks, it has steadily tightened its grip over the years, ending the assumption of complete impunity which had long marked the country's political class. Last year it successfully prosecuted 24 mayors, five parliamentarians, two ex-ministers and a former prime minister, as well as 1,000 others—with a conviction rate of over 90%. It is led by 42-year-old Laura Codruta Kovesi, previously the country's prosecutor-general (the youngest ever, and the only one to serve a full term).

The DNA had Mr Ponta in its sights too. A four-month investigation led to charges of forgery, money-laundering and tax evasion—all dating from his career before he became a politician. If he had not managed to keep his parliamentary immunity, his activities in office would have been under scrutiny as well. He denies all wrongdoing and blames the DNA's investigation on political vendettas. Dogged by other controversies (such as alleged plagiarism), Mr Ponta failed in his bid to become president in elections last year. He was beaten by the austere Klaus Iohannis, the long-serving mayor of Sibiu, a thriving Transylvanian city. The election of an ethnic German and a Protestant signified a welcome shift from the fevered ethno-nationalism that has beset parts of the Romanian political spectrum since the fall of communism.

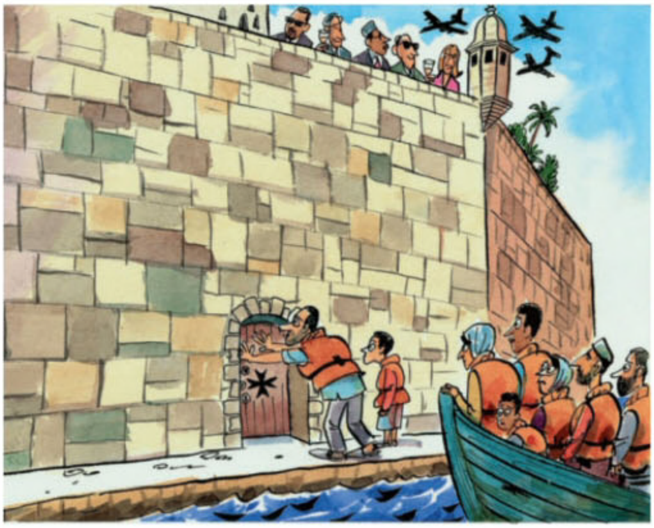
Mr Iohannis has now appointed as prime minister a technocrat, Dacian Ciolos, a former EU agriculture commissioner. Assuming he wins a parliamentary vote of confidence later this month (highly likely, given how badly shaken the political parties are by the upheavals of the past days), Mr Ciolos will then run the country until the scheduled parliamentary elections in December next year. In that period he may form the nucleus for a new grouping, bringing into formal political life the street protesters, who have so far shunned contact with the establishment.

New people at the top and public impatience with the past are necessary conditions for Romania to turn itself into a modern European country. But they are not sufficient ones. Creating institutions in a country that lacks any memory of them is hard. Just ask the Greeks. ■

Liberty plus justice, please

Charlemagne | High wall, narrow sea

Migrants once flocked to Malta, host of the EU-African migration summit. Not anymore



WHEN the European Union picked Malta as the site for this week's EU-Africa migration summit, it seemed a logical choice. The island nation is perched in the Mediterranean halfway between Libya and Italy. For a time, it was one of the top destinations for migrants from Africa trying to reach Europe. And Valletta, Malta's fortified Baroque capital, is a very telegenic spot for a summit. (In "Game of Thrones", a television series, it serves as the backdrop for the port city of Pentos, whose own asylum seekers include the Targaryans, an exiled royal family.) But Malta is also apt in a way EU leaders may not have intended: as a standpoint from which to observe Europe's increasingly confused attitude towards refugees and other immigrants.

African migrants encounter as much undisguised hostility here as anywhere in Europe. Neil Falzon, who runs Aditus, a local human rights organisation, says many have been spat upon in the street. As in much of eastern Europe, unfamiliarity breeds contempt. Until the turn of the century, the island had one of the most ethnically homogenous societies in Europe, though its unique identity is actually the product of centuries of racial mingling. (The result is a native population who look a bit like Italians, speak a bit like Arabs and drive on the left like the British.)

In the early 2000s, when thousands of African asylum seekers began landing here annually, it came as a shock. "A lot of elderly people had never seen a coloured person," says the leader of the opposition Nationalist Party, who condemns racism (while unwittingly using a politically incorrect term). Maltese xenophobes can fall back on a rational argument: Malta is both the EU's smallest state and its most densely populated one. Maltese feel they should have to take fewer migrants than larger states.

Yet strangely, without anyone much noticing, they seem to have got what they want. Malta is barely 200 miles from Libya, still a major transit country for refugees though no longer as important as Turkey. But the flow to Malta has virtually shut down—and no one knows why. Over 140,000 migrants arrived in Italy by sea in the year to November 10th; in Malta, since the end of January, the number is just 20. Meanwhile, the economy has been thriving. Malta has succeeded in becoming something Viktor Orban, the eurosceptic Hungarian prime minister, might dream of: an EU state with enviable growth figures and almost no migrants.

The signs of prosperity are everywhere. Winter sun-seekers throng Republic Street, Valletta's main thoroughfare. Everywhere one looks, sandstone palazzos are being converted into plush offices for foreign firms. Tower cranes dot the horizon. The Maltese economy grew in the second quarter at an annual rate of more than 5%. Unemployment is the third-lowest in the EU. The budget deficit this year is expected to be 1.6% of GDP.

Malta has undoubtedly benefited from an "Arab winter" effect, as tourists who might otherwise be in Egypt or Tunisia opt for a safer alternative. But the government prefers to stress its own contributions. In 2013 Joseph Muscat, the leader of the Labour party, swept to office with an implausible pledge to cut the island's sky-high energy tariffs by 25%. Helped by the fall in oil prices, he managed it (though at the cost of getting the state-owned power company to set artificially low prices and rack up debt). "I think that we can do what Singapore has done," says the 41-year-old Mr Muscat, who has the same missionary zeal as Matteo Renzi, prime minister of neighbouring Italy.

One would think such talk would have migrants hastening to his island. Yet there are virtually no new arrivals, no rickety fishing vessels full of human cargo. Not a single large boat has landed on Malta this year. Even migrants rescued by Maltese vessels in Malta's search-and-rescue area are being taken to Italy instead.

Conspiracy theorists speculate that the Italians are helping in return for a chunk of Malta's lucrative air space, or have secretly been granted prospecting rights for oil and gas. The prime minister denies any secret deal with his friend Mr Renzi, and protests that Malta has taken its share of refugees under burden-sharing arrangements with Italy and Greece. But Mr Falzon estimates there are today only about 2,000 migrants on Malta who arrived irregularly, less than 0.5% of the population.

Fortress Malta, Fortress Europa?

At the EU-Africa migration summit, European leaders pleaded with African countries to help them to bring their migrant problem under control. Countries that arrest people-smugglers, and accept the return of migrants whose asylum applications have been rejected, will be given aid—€1.8 billion ($2 billion) of it, says the European Commission—as well as more access to European markets and more visas for their citizens. As the summit was meeting, Sweden, one of Europe's friendliest countries to refugees, announced it would set limits on asylum applications. Could Europe as a whole aim for the same migrant-free prosperity as Malta?

Perhaps, were it not that Malta's economic renaissance depends heavily on migration. According to the Malta Employers' Association, expatriates (European or otherwise) now make up 12% of the labour force. Foreign workers have flocked to the island nation to work in growth industries such as financial services, generic pharmaceuticals and online gaming. Locals say some asylum-seekers who have been accepted in other Mediterranean countries, like Spain, are coming to Malta in search of jobs. The country even offers passports to anyone who invests €1m.

Malta is not keeping immigrants out; it welcomes them, but preferably if they are European, skilled or wealthy. This may be a viable strategy for small Mediterranean islands, but not for an entire continent of greying workers. Leaders who draw lessons from Malta's success should keep in mind that if Europe wants to bring in immigrants to grow its economy, they will by definition have to come from outside Europe. From Africa, perhaps. ■

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Britain and the European Union

Cameron's call to arms

The prime minister faces a tougher fight with his own party than with other European leaders

THE phoney war is over. David Cameron's letter of November 10th to the president of the European Council, Donald Tusk (pictured with the prime minister), marks the start of the real battle over Britain's EU membership. A period of renegotiation will follow, before an EU summit on December 17th-18th, with the referendum probably taking place next year. The lesson from Mr Cameron's letter is that his biggest fights will not be with Brussels or national capitals but with Eurosceptics at home.

Mr Cameron's demands were as expected. On economic governance, he wants assurances that a more deeply integrated euro zone will not gang up on non-euro members. On competitiveness, he is seeking commitments to complete the single market, rein in EU regulation and pursue free-trade deals. On sovereignty, he is demanding a British exemption from the goal of ever closer union and more say for national parliaments. And on immigration, he wants measures against abuse of free movement, including a four-year waiting period before EU migrants can claim in-work welfare benefits.

Except for this fourth demand, most European leaders greeted the list as "achievable". It is notable more for what it leaves out than what it includes: no demands for opt-outs from social or employment laws, for transfers of power back to national governments, for a new national veto or for quotas on EU migrants. The omissions were harshly criticised by Eurosceptics. Dominic Cummings of the Leave campaign denounced Mr Cameron's entire wishlist as "trivial".

The migration demand will be hotly contested. East Europeans are loth to dilute the principle of free movement of labour. Mr Cameron's claim that over 40% of EU migrants collect in-work tax credits or housing benefits was challenged by statisticians who said the true figure might be only half as big. Most migrants come to Britain to work, not to claim benefits. John Springford of the Centre for European Reform, a pro-EU think-tank, says any four-year waiting time would constitute discrimination under EU law. Mr Cameron himself conceded that some other answer might be needed. One possibility would be to impose a four-year residency requirement before benefits are available for everybody, including Britons.

Mr Cameron faces other difficulties, including securing the legally binding and irreversible guarantees he wants. That is hard without treaty change, which is unlikely to happen for some years. He will hope for at least one big row, perhaps with the European Commission, Poland or, best of all, France. Yet overall he has set the scene for a rerun of Harold Wilson's 1975 experience: a short renegotiation, some minor concessions and a referendum that decides by a large majority to stay in.

But it will be harder this time. The Leave campaign, bolstered by huge donations from wealthy Eurosceptic hedge-fund managers, is well organised and is trying to harry companies against speaking out for the EU. This week's mild protest at the annual conference of the Confederation of British Industry may presage other disruptions at company meetings. There are more anti-EU newspapers than in 1975. And Tory Eurosceptics are right to argue that Mr Cameron's reforms will not bring the fundamental change he once promised. This week one MP, Jacob Rees-Mogg, called them "thin gruel"; another, Bernard Jenkin, asked incredulously: "Is that it?"

This will put the onus on Mr Cameron not just to trumpet his reforms but to make a broader case for the value of Britain's EU membership. He began this in his speech this week. He stressed the economic advantages to Britain of being in the EU. He dismissed alternatives like Norway and Switzerland's models, which might turn Britain into a rule-taker, not a rule-maker. For the first time, he cited national-security interests, pointing to the EU's role in the nuclear-weapons deal with Iran and in sanctions against Russia over Ukraine. He also tried to quash claims that a vote to leave could just mean more talks, insisting that if it happened Britain would indeed leave.

Yet the problem Mr Cameron has in talking up the value of Britain's membership is that he simultaneously calls the status quo unacceptable. EU-bashing has become so ingrained in the Tory party that it is hard even for a deft prime minister to switch. The gamble he took by promising a referendum in his January 2013 Bloomberg speech remains risky. If he loses and Britain leaves, that is what his premiership will be remembered for. ■

Public services

Sharper elbows

The well-off are grabbing an ever-larger share of spending

PUSHY middle-class types are said to have a knack for getting the most out of the state. With their sharp elbows, the argument goes, the wealthy jostle others out of the way in the queue for doctors' appointments, school places and other scarce public services. The conventional wisdom is half-right. In absolute terms, Britain's poor consume more public services than the rich—but, after adjusting for need, studies suggest that the rich tend to get more than their due.

That long-standing inequality may be growing. Earlier this year the Office for National Statistics (ONS) released a trove of historical data which went almost unnoticed. It estimated the monetary value of certain public services, including education, the National Health Service (NHS) and transport, which combined offer the average household benefits worth £7,000 ($10,600) a year, more than the value of cash benefits such as pensions and jobseekers' allowance. The ONS then worked out what proportion of that spending was consumed by each income quintile. The data show that in the past 15 years, the rich have got a steadily better deal. In 2000, for every £1 spent on the poorest quintile, 56p was spent on the richest. By last year, the richest received 73p for every £1 spent on the poorest (see chart). The last time the rich received such a big share was three decades ago. What is going on?

Much the biggest of the various services analysed is the NHS, which eats up one-fifth of all government spending. One reason for its apparently growing generosity to the well-off is that the elderly, its main clients, are getting richer. According to the Institute for Fiscal Studies, a think-tank, in 2000 the average pensioner's income was 86% that of the median, whereas by 2013 it exceeded 100%.

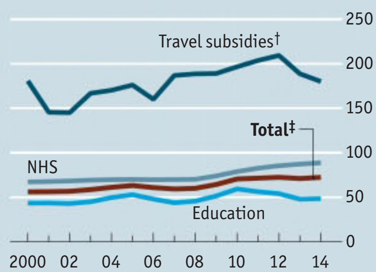
Yet data for NHS spending on the working population show a similar trend: whereas in 2000 households in the bottom income quintile received 27% more than those in the richest, today they receive the same as each other. One explanation is that the rich are ditching their private health insurance and instead using the NHS, whose growing budget has made it a better substitute. According to LaingBuisson, an information provider, individual medical insurance covered 1.2m Britons in 2001 but fewer than 1m by 2011 (company policies remained pretty static).

There is also some evidence that poor households are finding it harder to access the NHS. Areas with low life expectancy matched those with few general practitioners (GPs, or family doctors), found a report in 2007 by Ara Darzi, a Labour peer. Inequality in GP distribution had grown in the past two decades, it said. The OECD, a rich-country club, finds that after adjusting for need, Britain's poor are 5% less likely than the rich to have visited a GP in the past year (though this gap is narrow by international standards). Household-survey data suggest that the difference has grown lately, though comparisons are tricky.

Just as fewer people are taking out private health insurance, fewer are sending their children to private school. Since 2008 the proportion of children at independent schools in England has slipped from 7.2% to 6.9%, thanks in part to higher fees. More rich families are thus benefiting from state tuition. Yet the long-term trend in education funding is steeply progressive. In 1977 the richest quintile received 87p for every £1 that was spent on educating the poor; last year they got 48p. The biggest change during this period was in higher education, which went from being the heavily subsidised privilege of a few to a service from which about half benefit.

The strategy of inequality

Britain's public spending on top income quintile
% of spending on bottom income quintile*



Sources: ONS; *The Economist*

*Three-year moving average
†Rail & bus subsidies
‡Includes housing & food subsidies

Its funding model has become fairer, too. In 2012 the government raised the cap on tuition fees from £3,375 to £9,000 per year, thus reducing a subsidy whose main beneficiary had been the middle class. Poor students have been protected by a generous maintenance grant and relaxed terms for the repayment of loans. Their participation rate has grown at a faster rate than that of their richer peers since the reform, finds Gill Wyness of the London School of Economics (LSE). The overall progressive trend may continue: this year it became compulsory to stay in education or training until 18, a change which will mean more being spent on low-income children, who are more likely to leave school early.

The most regressive public service is transport, from which the richest quintile benefit almost twice as much as the poorest. The reason is that they travel more—and by the most expensive means. The state subsidises rail travel by £5 billion a year. Yet intercity trains bulge with well-dressed folk tapping away on laptops; each year the average top-quintile earner travels 2,300km (1,400 miles) by train, five times as much as the bottom earners. In 2002-12 the gap widened by 270km, meaning richer types gobbled up yet more subsidy.

The wealthy also drive three times as many miles as the poor. This makes them big beneficiaries of spending on roads, worth £8 billion a year (and not counted in the ONS's figures). Poor people make up ground elsewhere: they use buses twice as much. But bus subsidies are smaller, and the rich use them increasingly frequently.

What are the implications of all this? George Osborne, the chancellor, wants to close Britain's budget deficit by 2019-20, which implies very steep cuts to public spending (details will be announced in a mini-budget on November 25th). The fact that a growing share of some public spending goes to the well-off might make this task look less painful.

But it also presents a problem. Julian Le Grand of the LSE argues that the government struggled to reduce spending in the 1980s because of "its willingness to favour state-provided services that were predominantly used by members of the middle class". Mr Osborne has shown a similar reluctance to rob this constituency, pledging to protect spending on pensions, the NHS and schools (as well as foreign aid and defence). This puts the onus of deficit-cutting elsewhere; some departments will see their budgets reduced to half their level in 2010. Those seeking to keep their share will need sharper elbows than ever. ■

Bagehot | Trouble in Labourland

Oldham's by-election campaign is a microcosm of social democracy's woes

FEW places, in 1899, better encapsulated Britain's industrial pomp than Oldham. Its skyline was the Manhattan of its day: a forest of smoke stacks emanating from the cotton mills, the Pennine hillsides freckled with mansions housing the country's largest concentration of millionaires. So when the Liberal Party swept aside the Conservatives in a parliamentary by-election there—after a campaign that had turned on church funding, women's suffrage and trade unionism—it rattled windows down in London. Winston Churchill, at 24 one of the two Tory candidates, compared the experience to discovering that a bottle of champagne had been left uncorked for a night and had gone flat (in short: it was a considerable trauma). The upset illustrated the Tories' loosening grip on the establishment and thus foreshadowed the Liberals' landslide victory of 1906.

Today, once more, Oldham is a battlefield on which an early, indicative skirmish in a larger political war is unfolding. As in 1899, the Lancashire town is holding a by-election after the death of one of its MPs, but today this erstwhile bellwether for the high-Victorian bourgeoisie is a microcosm of forces acting on Europe's social democratic parties. With its large blue-collar workforce it has been a Labour Party bastion for 68 of the past 70 years, the party's dominance surviving Fordism's long twilight, the arrival of Pakistanis and Bangladeshis in the 1970s and race riots in 2001. Now, however, ahead of the vote on December 3rd, Labour's electoral coalition is being torn apart by the anti-immigration UK Independence Party. With its purple UKIP yard signs, its rusting factories and its shops selling halal meat and salwar kameez, the Oldham West and Royton constituency stands for political fractures in old working-class areas across the continent.

For much of its 22-year history UKIP has chipped away at the right flank of the Conservative Party, first in its Home Counties heartland and then in working-class southern seats like the two it prised from David Cameron's hold at by-elections last year. But the general election in May marked the arrival of a new phase: UKIP held only one of those seats and came second in 120 others. Of these, it looks most threatening in a string of formerly uncompetitive Labour strongholds outside big northern cities; its vote share in Oldham West and Royton, for example, rose from 3% to 21%. A party once confined to the comfortable gin-and-jag belt around London is now a serious presence in the bitter-and-bus-pass belts around Manchester, Sheffield and Newcastle.

There the election in September of Jeremy Corbyn, a hard-left London MP, as Labour's leader has been a tremendous boost for UKIP—and its candidate in Oldham, John Bickley. The scene: a street of semi-detached houses built for workers at the now-closed Avro factory that once made the Lancaster bomber. Arriving home, a resident in a high-vis jacket confesses that he is Labour by habit and UKIP by preference. "He's an idiot," he adds matter-of-factly of Mr Corbyn: "his foreign policy is totally out of date." A couple of houses down an old man in a vest declares himself a convinced socialist, a scion of a "strong army family" and utterly alienated by the unwillingness (as he sees it) of Mr Corbyn, a unilateral nuclear disarmer, to defend Britain. "I call it the political version of the Stockholm syndrome," says Mr Bickley. "I am putting out a hand [to Labour voters] and saying: you can leave your captor and come to a safe place."

Excessive this may be, but playing out on the streets of Oldham is a story repeated across Europe; a suspicion of political elites borne of stagnant living standards, doubts about globalisation borne of deindustrialisation and in particular hostility to immigration borne of shifting demographics and pressures (however unrelated) on housing, wages and services. Support for nativist parties, ranging from Britain's blokeish UKIP to France's hard-right National Front and Hungary's overtly racist Jobbik, is squeezing traditional social democratic parties more comfortable discussing redistributive social policies than flags, nationhood and identity. UKIP plans to squeeze Labour hard on this in Oldham, concentrating its campaign on immigration, defence and Mr Corbyn's obvious ambivalence towards patriotic symbols from the armed forces to the royals.

A wilting rose

The by-election is especially representative of the bigger picture because each of the main candidates epitomises his own side's best hopes. Mr Bickley, the son of a trade unionist, entered politics only two years ago (aged 60) and deals in pub aphorisms—on everything from climate change to the Middle East—that resonate with locals. It is hard to imagine a figure better able to connect with the disillusioned, older voters who may decide the by-election. Meanwhile Jim McMahon, his dynamic Labour rival, is about as optimistic an embodiment of his party's prospects as it could wish for. The son of a truck driver who left school at 16, he runs Oldham's innovative, well regarded council at just 35 and has close links to the armed forces. (Two months ago Bagehot committed to this page the hope that Mr McMahon's professed indifference to the national stage was merely false modesty.)

The result is something like the ultimate contest between social democracy and the populist forces threatening it across Europe. If Mr Bickley can defeat as forward-looking an example of the mainstream centre-left as Mr McMahon (or even limit him to a narrow win), Labour should be terrified for its strongholds across the English north, and thus its prospects of winning a majority any time soon. Its counterparts from Malmo to Marseille should be similarly worried. But if Mr McMahon scores a clear victory, Europe's social democrats should promptly seek to learn from his achievement. What happens in a rainy town in Lancashire next month will give the continent's embattled left-wing moderates—not to mention its surging populist parties—a glimpse of their future. ■

Also in this section

Aviation security

No more of the same, please

A lot of what passes for security at airports is more theatrical than real

THE growing certainty that the mid-air destruction of a Metrojet airliner flying from Sharm el-Sheikh to St Petersburg was caused by a bomb placed in the baggage hold has led to predictable calls from politicians for tighter airport security across much of the world. "What we have got to do is ensure that airport security everywhere is at the level of the best," said Philip Hammond, Britain's foreign secretary. "That may mean additional costs; it may mean additional delays at airports as people check in." The deaths of 224 people aboard the Airbus A321 is a tragedy. But if passengers groan at ever more intrusive security screening, they are right.

Airliners are exceedingly tempting targets for jihadist terrorists, particularly those wanting to attack the "far enemy" in the West. Inspired by its success on September 11th 2001, al-Qaeda and its offshoots have sought several times since to strike at aircraft. In 2006 an ambitious plot to bring down several planes crossing the Atlantic simultaneously was foiled by good intelligence work. In 2010 a tip-off from a Saudi agent working for the British helped uncover an attempt by al-Qaeda's Yemeni branch to send bombs disguised as printer toner cartridges to Chicago. Richard Reid, the "shoe bomber", and Umar Farouk Abdulmutallab, the "underpants bomber", tried to set off explosives on board airliners before being subdued by their fellow passengers.

Two things are striking about these events. The first is that, despite the terrorists' fascination with blowing up airliners, attempts to do so are actually rather rare. Unless the Malaysia Airlines Boeing 777 that disappeared last year was brought down by terrorists (the most probable theory remains pilot suicide) the explosion of the Metrojet A321 over Sinai is the first major success they have had against an airline since 2004, when two Russian planes were blown up. The second striking thing is that the enhanced airport security introduced after the terrorist attacks of 2001 played no role in thwarting any of these attacks.

Hamming it up

Officials responsible for airport security argue that the system of checks and screening that take place at every airport, albeit with varying degrees of rigour, are the main reason for the absence of successful attacks. Perhaps they have served as a modest deterrent. But there are legitimate doubts about how much the kind of security currently inflicted on passengers really contributes to their safety.

The prohibition on carrying liquids on board, introduced in response to the method of mixing chemicals to explosive effect revealed by the 2006 plot, is a case in point. If security staff find illicit liquids that a passenger has not presented, they deliver a ticking off and confiscate the containers, but still allow the passenger to fly. Discovery of a gun or bomb, by contrast, would result in immediate arrest and almost certain punishment. Despite the mild consequences, it appears that nobody has been apprehended trying to get liquids on board to combine into a bomb in almost a decade. Nor have there been any reports of a would-be shoe bomber being intercepted despite the requirement for passengers to remove their shoes, brought in after Mr Reid's cack-handed effort.

It could be that both security measures are so effective that they have completely deterred would-be terrorists from trying these methods again. Or it could be that they are essentially a performance to reassure passengers. Most experts incline towards the latter view. Philip Baum, a security consultant and editor of *Aviation Security International*, calls it "security theatre as opposed to security reality".

America's Transportation Security Administration (TSA), an agency of the Department of Homeland Security (DHS), has a budget of more than $7 billion a year; it also has access to the most advanced scanning technologies money can buy. Critics say it has not foiled a single terrorist plot or caught a single terrorist in the past decade.

Bruce Schneier, the chief technology officer of Resilient Systems, a security firm, points out that whereas the TSA catches plenty of guns and knives inadvertently packed by passengers, it is less good at spotting more determined attempts to get bad stuff onto aircraft. In June its acting head was "reassigned" after a so-called "red team" appointed by the inspector-general of DHS succeeded in getting fake bombs and weapons through the screening process in 67 out of 70 tests carried out in airports across America. ▸▸

Why such a dismal record? "My guess is that it's a combination of things," reckons Mr Schneier. "Security screening is an incredibly boring job, and almost all alerts are false alarms. It's very hard for people to remain vigilant in this sort of situation, and sloppiness is inevitable." Mr Schneier also points to technology failures. Screening technologies are poor at detecting PETN, an ingredient of the explosive Semtex, carried by the underpants bomber. A disassembled weapon has an excellent chance of getting through airport security. Mr Schneier reckons that the only worthwhile security changes that happened after the 2001 terrorist attacks were the introduction of locked, blast-proof cockpit doors (the al-Qaeda terrorists used knives to take over the planes) and the willingness of passengers to intervene if they see somebody behaving oddly.

Some security experts argue that one of the greatest vulnerabilities at airports comes from what Mr Baum calls "the insider threat". The working assumption is that the Metrojet bomb was placed in the hold by a baggage handler or by someone who had airside access (another possibility is that the bomb was placed in a passenger's luggage by a hotel worker and was not picked up by airport scanners). It was probably detonated by a barometric trigger device when the plane gained altitude.

Mr Baum reckons that the airport at Sharm el-Sheikh is no worse than many others at vetting staff. He says that at British airports there are many people working airside who follow jihadist social media and that at some big American airports employees are not screened on their way into work if they have an ID card. Nobody is more dangerous than a psychologically disturbed pilot, as Andreas Lubitz demonstrated when he killed 150 people by flying his Germanwings Airbus A320 into a mountain earlier this year.

Some clue as to how easy it would be to put a bomb into somebody else's bag comes from the number of valuables stolen from checked-in luggage. In the four years to 2014 passengers filed over 30,000 reports of missing property with the TSA. This year police at Miami International Airport used a hidden camera to film baggage handlers rifling through bags in a plane's hold and stealing whatever took their fancy. Security experts reckon such practices are widespread.

The main reason why airport security is so bad, says Mr Baum, is that it tries to find things instead of focusing on the people who might carry them. Issy Boim, a former Shin Bet officer who worked closely with Israel's airline, El Al, argues that whereas the Americans are looking for weapons, the Israelis "are looking primarily for the terror suspect". Mr Baum is a strong advocate of what is known as "profiling"— building a picture of both passengers and airline staff. He rejects the idea that this has to be based on crude stereotyping (being suspicious of all young Muslim men, for example). It should be based on behaviour both prior to flying—for example, when, how and where a ticket was purchased—and at the airport itself.

El Al employs people who have been trained in psychological observation techniques to interview every passenger before he or she is cleared to go through physical screening. Anyone who arouses their suspicion is subjected to a further grilling and may well not fly. El Al is thought to use some profiling techniques that would be politically unacceptable in Europe or America. Hebrew-speaking Israelis can expect to get off more lightly than Arabs and single white women, for example. But as Mr Baum points out, customs and immigration officers at airports in the West commonly use profiling, "and it works".

El Al also spends more than other airlines on other types of security. Hold bags are subjected to barometric pressure testing, undercover armed marshals travel on every flight and its planes are even equipped with anti-missile systems.

Elsewhere, better technology might improve the performance of conventional screening, but few airports can afford to update their systems whenever the latest gizmo comes out. Instead, says Mr Baum, they should use profiling to help make their procedures much less routine. "Airport security is far too predictable," he adds, "Giving everyone a pat-down search is a waste of resources. Terrorists don't like unpredictability."

Mr Schneier is more dubious about profiling, and he is "incensed" by the way the TSA singles out some of the most unlikely passengers "for humiliation, abuse and sometimes theft". He says that when people propose profiling, "they are really asking for a system that can apply judgment. Unfortunately that's really hard. Rules are easier to explain and train…judgment requires better-educated, more expert and higher-paid screeners."

Simply doing more of the kind of airport security by rote that is done now seems like a bad idea. There ought to be more emphasis on dealing with insider threats through better vetting and more intrusive monitoring of airside staff by CCTV. Apart from that, greater focus on passenger behaviour at the airport and less predictable forms of screening (for example, more swab tests, more use of sniffer dogs and so on) would be good.

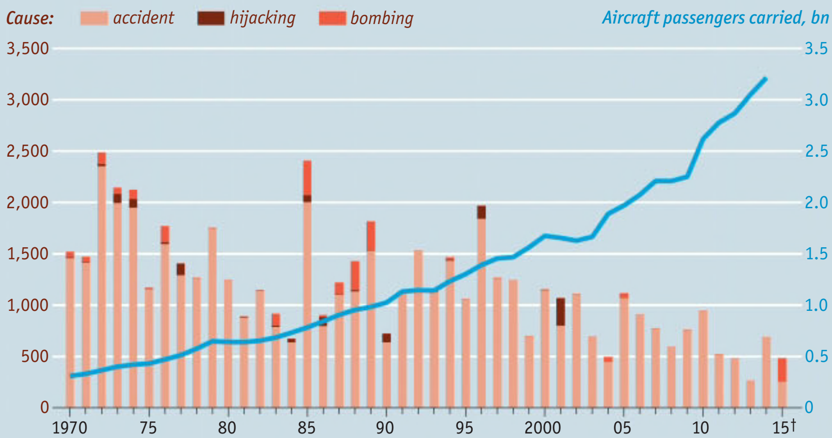
But the most important thing of all might be to keep a sense of proportion. Many people travel on buses and trains, go to sporting events and attend open-air concerts. All are potential targets for terrorists, yet they receive not even a fraction of the attention that air travel gets. ■

Unnerving but uncommon

If Metrojet flight 9268 was destroyed by a bomb, it is a rarity. Even as the number of airline passengers has soared, the number of deaths as a result of bombings and hijackings has gone down. Attacks were most common in the late 1960s and early 1970s. According to the Aviation Safety Network, which tallies them, there were six explosions and 59 hijackings in 1972 alone. Some were terrorist attacks by nationalist groups; in others, hijackers simply demanded money. For every lethal attack there were several in which nobody was killed.

An even clearer trend is the decline in deadly accidents. Planes are much less likely to fall apart of their own accord these days—the result of technological improvements and better safety checks. That is excellent news for passengers. It does, however, mean that the rare bombings, hijackings and suicides stand out more.

Global airline deaths*



Sources: World Bank; Aviation Safety Network; *The Economist*

*Passengers and crew on aircraft of ≥14 passengers, excluding military and corporate
†To November 8th. Includes air crash of October 31st in Egypt as a bombing

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Oil companies and climate change

Nodding donkeys

Some oil majors are still ducking the issue of global warming

FEW symbols of the oil industry are as familiar as the pumpjack, or "nodding donkey" (pictured). The technology is little changed since it was invented in 1925, and in some mature onshore fields it serves as a constant reminder of the world's insatiable thirst for oil—until recently, about one-sixth of American crude came from the tiny "stripper" wells that it usually pumps. It is also a metaphor for how oil-company bosses have responded to the risks of climate change. Every so often they put their heads up and survey the future, only to bury them again. In the run-up to climate-change negotiations in Paris, starting at the end of this month, the industry's willingness to stare the issue squarely in the eye is again under scrutiny.

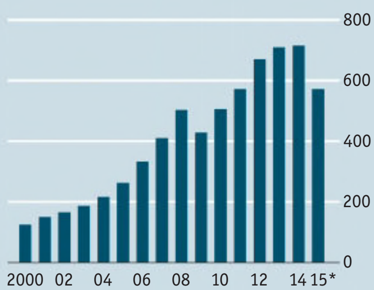
In the 1990s oilmen responded to criticism from environmentalists by launching campaigns to encourage debate about climate change, and by increasing their investment in renewable energy. Under John (now Lord) Browne, BP of Britain declared itself to be moving "Beyond Petroleum". However, steadily rising crude-oil prices after the global financial crisis led firms to scale back their loss-making green-energy businesses, while continuing to pour money into hydrocarbons (see chart).

More recently a dramatic fall in oil prices has forced them to start cutting some big exploration projects. And as the Paris summit has approached, ambitious pledges by more than 150 countries to cut greenhouse-gas emissions have taken oil bosses by surprise—even if the pledges are likely to fall short of the target of limiting global warming to two degrees Celsius above pre-industrial levels.

If these commitments were to translate into significant moves to limit global warming, this would challenge a view still held by oilmen on both sides of the Atlantic that demand for fossil fuels will keep growing strongly for the foreseeable future. Exxon Mobil, the world's biggest publicly traded oil company, argues that fossil fuels will still account for three-quarters of primary energy demand even in 2040, only slightly below their current share. But the International Energy Agency (IEA), a body that represents oil-consuming countries, says that to keep global warming to two degrees, fossil fuels would need to fall to 60% of the energy mix by 2040. The IEA sees no mass abandonment of hydrocarbons, but nonetheless, its executive director, Fatih Birol, said on November 10th that, "There should be no energy company in the world [which] believes that climate policies will not affect their business."

Change in the climate

Global upstream oil and gas investment, $bn



Source: IEA WEO

*Forecast

Some oil majors are going on the attack, realising the reputational shambles they face if they are considered foot-draggers on climate change. In October the heads of ten big oil and gas companies (none of them from the United States) officially threw their weight behind the "general ambition" to meet the two-degree goal. Many are cleaning up their energy portfolios by investing more heavily in producing natural gas, which creates less carbon dioxide than oil when burned, for each unit of energy liberated. Shell, an Anglo-Dutch major, is doing so by buying BG, a British firm with big gas reserves. "You can argue that Big Oil is becoming Big Gas," says Occo Roelofsen of McKinsey, a consulting firm. Others are going in for renewables. Total of France has a majority stake in SunPower, one of the world's biggest solar-power firms. Eldar Saetre, the boss of Statoil, Norway's state-run oil company, says that in 15 years there may be more opportunities outside oil and gas than within.

BP executives, also favouring a gassier future, have been modelling potential "demand destruction" scenarios based on the climate pledges made in the run-up to Paris. BP has become one of the first majors to acknowledge the risk that the industry is ▸▸

spending money developing reserves that it may never tap. Spencer Dale, its chief economist (and formerly of the Bank of England), recently estimated that the world had almost three times the reserves of oil, gas and coal that it could burn if it were to hit the two-degree goal.

Yet oilmen still play down the risk that oil and gas assets will be abandoned en masse, not least because of the still-growing demand in the developing world. Collectively the industry is betting on three ways to stay in the fossil-fuel business and yet emit less carbon dioxide. First, executives see gas increasingly substituting for dirtier coal in the power-generation business. Second, they expect energy efficiency to keep improving, allowing drivers, for example, to travel longer on each tank of petrol. Third, they intend to reduce the considerable amount of natural gas (composed mostly of methane, an even more potent "greenhouse gas" than carbon dioxide) that leaks out of their wells and processing plants.

Plenty of oil firms (Exxon among them) are also calling for governments to enact a "carbon tax" on emitters of greenhouse gases. Their critics argue that this is less altruistic than it appears. For one thing, such a tax would hurt the coal industry especially, thereby boosting the oil firms' gas businesses. And governments, especially in the developing world, where fossil-fuel demand is still surging, may find such a tax politically impossible anyway; the oilmen are calling for it, opponents say, in the knowledge that such countries will never introduce it.

In the absence of a global carbon tax or some other effective measure, however, the risk for the oilmen is that everyone from environmentalists to politicians will simply find other ways to make them pay for global warming. On November 4th New York's attorney-general, Eric Schneiderman, subpoenaed documents from Exxon to investigate how much it has known since the 1970s about the effects of fossil fuels on the climate. Exxon is reportedly being investigated under the Martin Act, dating back to 1921, which gives prosecutors wide-ranging powers to investigate securities fraud. Exxon says it has long disclosed information about the risks to its business from climate change, and from action to prevent it, in reports to its shareholders. But the firm's run-in with the New York justice department may be a portent of what is to come.

Another worry for oil executives is pressure from investors spooked by the financial risks of climate change. Policymakers, such as Mark Carney, governor of the Bank of England, talk about the possibility of many oilfields turning into "stranded assets", or "unburnable carbon", if governments get serious about climate-change action. Anthony Hobley of Carbon Tracker, a climate-advisory firm, says that if the Paris pledges are taken at all seriously, the oil and gas industry may become "ex-growth". Oil executives dispute that. But shareholders, if motivated, could force the industry to shrink just by limiting the funds they provide for new oil discoveries.

Curiously, the present situation may provide a foretaste of this—though cyclically, because of falling oil prices, rather than structurally, because of rising temperatures. Faced with a world awash in crude, oil majors are abandoning high-cost reserves in the Arctic, Canada, North Sea and Gulf of Mexico. One oil executive ruefully calls it a "practice run" for the day in the distant future when fears of global warming, or the emergence of cheap, clean alternative technologies, mean that demand for fossil fuels starts to wane. ■

Enel and stranded assets

Anyone want a power station?

ROME

Italy's largest power company faces up to the "stranded assets" problem

"IT'S not a funeral, it's a transformation." That is the positive spin Francesco Starace, the Tesla-driving boss of Enel, one of Europe's biggest electricity companies, puts on a tough issue looming over the energy industry: stranded assets. He knows of what he speaks. Whereas executives at coal, oil and gas firms shudder at the thought that many of their vast reserves will be stranded if the world turns against fossil fuels, Enel is decommissioning old power plants as if its future depended on it.

Enel has announced that 23 power stations in Italy with a capacity of 13 gigawatts—enough to power a small country—are to be scrapped within five years. The first to be sold, on November 2nd, was the Giuseppe Volpi coal-fired station near Venice (pictured), which will become an industrial and logistics plant. For a lucky few the future could be more illustrious. Enel hopes some will be turned into galleries and museums, using the conversion of the Bankside power station on London's South Bank as a model. It became the Tate Modern.

Awaiting rebirth

Mr Starace is unsentimental about shedding bits of Italy's industrial history. "The best thing to do is realise they are stranded and don't wait for the tide to come back in...the faster you get there, the better." As renewable energy, such as hydroelectricity and wind, account for an increasing share of Europe's power generation, he believes such write-offs will spread across the European Union.

Eon, Germany's biggest utility, gave a taste of that on November 11th. A record third-quarter loss was driven mostly by €8.3 billion ($8.8 billion) of impairment charges, particularly on fossil-fuel plants that are struggling because subsidised renewables are clobbering electricity prices. Next year it will split itself in two: a conventional power-plant business, and one dominated by greener energy.

Many other European utilities are struggling with overcapacity and low wholesale power prices. Mr Starace says that, collectively, their conventional power plants suffered a cumulative hit to operating profits of €36 billion between 2008 and 2013. They will have to reinvent themselves in the coming years. "We are a herd. We do the same things if you give us enough time....the essence is to get out of this stranded world."

It is not surprising that Europe's utilities are moving faster than its oil companies to lower their carbon footprint. There is carbon-free electricity. There is not carbon-free oil. What is more, Europe's electricity usage appears to be in long-term stagnation, set to grow more slowly over the next 25 years than anywhere except Japan.

Mr Starace hopes that the growth of renewables can be tied in with Italy's relatively modern smart-grid system to modernise the domestic electricity market even if it shrinks. But Enel is also betting big on Latin America, where demand for electricity continues to surge. Less risk of stranded assets there.

SoftBank

Here comes the Son

TOKYO

Masayoshi Son has always bounced back from setbacks, but his latest big moves are raising eyebrows

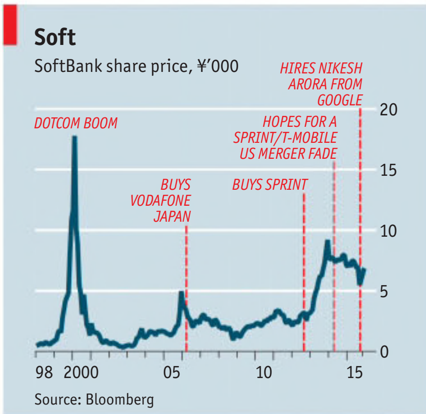
IT WAS a vintage performance from Masayoshi Son, the 58-year-old founder and chief executive of SoftBank, a Japanese telecoms and technology firm. He was speaking to members of SoftBank Academia, an in-house executive school set up five years ago with the chief purpose of finding his successor. On October 22nd Mr Son riffed at length on how the world will change in the era of the Singularity, when artificial intelligence will exceed the human kind—by around 2055, he reckons.

Mr Son described how SoftBank will reinvent itself well before then from an old-line, pre-Singularity Japanese telecoms company into SoftBank 2.0, a superior, global and web-enabled being with a lifespan of 300 years or more. His mind-blowing predictions include one that robots will let their owners lead lives of unparalleled luxury, as masters with slaves did in ancient Rome. (Indeed, SoftBank is about to launch "Pepper", a popular robot capable of expressing emotions, in America.)

Science fiction or reality? Despite his relatively low profile outside Asia, it is unwise to ignore Mr Son. He spotted the potential of Alibaba, a Chinese e-commerce giant, early. He has pulled off the largest foreign takeover by a Japanese firm yet seen. Even his aborted projects have grandeur: last year SoftBank talked about buying DreamWorks, a big Hollywood studio, and in 2013 it tried to buy Universal Music, the world's largest record company.

Mr Son also matters to the wider future of corporate Japan. As part of a sweeping plan to revive a stagnant economy, Japan's prime minister, Shinzo Abe, is trying to prod Japanese firms to take more risk, to spend their hoards of cash and to venture overseas. This is precisely what SoftBank is doing under Mr Son's leadership.

He takes chances, and gears up SoftBank's balance-sheet: with a ratio of net debt to operating earnings of around 3.5 times, it is one of Japan's most heavily indebted firms, and is highly leveraged by global standards. It has become slightly less outlandish of late to be a business leader in the mould of Mr Son. But Japanese managers will seize on a failure as a sign that conservatism is best. Much of corporate Japan would be gratified to see Mr Son stumble, not least because his Korean origins have long kept him outside clubby business circles. His perceived success or failure will surely help to determine whether Mr Abe achieves his goals.



So far, SoftBank's 34-year lifespan has had three distinct phases. First it was a small Japanese packaged-software distributor in the early 1980s. Then it grew as an internet conglomerate with hundreds of stakes in web firms, including Yahoo, becoming the American firm's biggest shareholder. The dotcom crash of 2000 wiped out much of the value accumulated, but that same year Mr Son happened to invest $20m in a then-fledgling Alibaba. In 2014 Alibaba's initial public offering valued SoftBank's stake at more than $50 billion.

SoftBank's third incarnation was as a mobile-telecoms operator, starting with its purchase in 2006 of the ailing Japanese operations of Vodafone, of Britain. Many observers thought the debt Mr Son took on to buy it would spell his demise, but he built what is now called SoftBank Mobile into Japan's most profitable telecoms firm.

Similar naysaying accompanied his takeover in 2013 of Sprint Nextel, a struggling American operator, for $22 billion—the biggest foreign acquisition by a Japanese firm to date. So far there has been scant sign of a turnaround. Mr Son's plan was to merge the firm with T-Mobile US, but America's telecoms regulator reportedly refused even to consider the deal. Quarterly figures on November 3rd showed Sprint continuing to lose money, as it slashed prices to stop subscribers quitting.

That setback has not deterred Mr Son from his world-altering ambitions. To help fulfil them, he has brought into SoftBank Nikesh Arora, Google's former chief business officer. In May he effectively named Mr Arora as his successor and gave him the title of president. In Japan the median level of pay for bosses of big firms is around $1m, so Mr Arora's pay for his first six months' work, of nearly $140m, made headlines. According to an adviser to some of SoftBank's investors, they were taken aback to see Mr Arora paid a sum equivalent to around a third of the total dividends SoftBank paid for the entire financial year.

Mr Son has argued that the profits booked from Mr Arora's investments since he joined have already more than made up for his compensation. In August Mr Arora returned the favour by pledging, as a measure of his commitment to Mr Son, to buy ¥60 billion ($483m) of shares in SoftBank.

As for Academia, Mr Son bluntly informed its members at its October gathering that it had failed to find a suitable successor, going on to explain how he had met, and selected, Mr Arora. In turn Mr Arora recalled how Mr Son drove 65 miles (105km) one night to have dinner with him in California. Analysts who cover SoftBank joke that Mr Son talks about his new hire rather like a new girlfriend. ▸▸

Son and his anointed son

Mr Son's whims are not a surprise in Japan, where the corporate world has grown accustomed to his ways. He has long been known as a maverick, the only Japanese business leader to invite comparisons with Bill Gates of Microsoft or the late Steve Jobs of Apple. Yet the bets on Sprint and, now, on Mr Arora are as sizeable and risky as any he has made. That worries investors, who tend not to be keen on a 300-year business plan that means expensive investments in the short term, but whose returns may not come in their lifetimes. They are also said to be concerned about the sums Mr Arora will be paid in the future.

As a result, SoftBank's shares trade at a hefty discount to book value. According to Atul Goyal of Jefferies, an investment bank, given SoftBank's stake in Alibaba, which is worth more than ¥6 trillion, and its investments in Yahoo Japan, Sprint and other firms, the current market capitalisation of SoftBank, at ¥8.2 trillion, implies that its entire, profitable Japanese telecoms business is worth nothing.

Mr Goyal sees good reasons for investors to keep the faith with Mr Son. "It is difficult to find anywhere else a combination of Son's record as an entrepreneur, a turnaround operator and an investor—investing in the internet, where even Warren Buffett fears to tread—and with his track record of success," he says. Mr Son is said to be so frustrated at how far investors have marked down the shares that at one point this year he reportedly contemplated a management buyout—characteristically, it would have been one of the largest such deals in history.

A world-wide web of happiness

It is clear that of all the business roles Mr Son has played, he most relishes investing in web businesses, preferably those that promise to add to the sum of human happiness while delivering Alibaba-sized returns. SoftBank plans to invest around $3 billion a year for several years, analysts reckon, chiefly in Asian e-commerce. Now, though, SoftBank is no longer investing in entrepreneurs running businesses from their living rooms, as Jack Ma was when Mr Son first invested in Alibaba. It must compete with a host of Silicon Valley venture capitalists each time it invests.

That is partly why Mr Son needs Mr Arora and his prodigious social network. In June this year the pair invested $1 billion in Coupang, South Korea's wannabe Amazon, in return for a fifth of the company. Coupang, which has yet to make a profit, became the best-financed startup in the world after Uber and Flipkart, an Indian e-commerce firm. Yet South Korea's online-retail market would have to grow by well over a third before SoftBank makes much of a return on its investment.

Other big bets have been on e-commerce in India and Indonesia. Without Mr

Sprinting into a price war

Arora, Mr Son has said, he would not have been able to take as big a stake in Snapdeal, another Indian e-commerce platform, which Mr Son has hailed as the Alibaba of India. When he tried to follow up one investment with a second this summer, existing investors at first refused to be diluted. Mr Son would have given up until Mr Arora used his network to prevail.

Some venture capitalists snipe that for SoftBank, its big and growing position in Indian e-commerce may be inspired as much by Mr Arora's personal ties to the country as by the market's potential. Others reckon that as he contemplates his seventh decade, Mr Son is putting his desire to change the world ahead of moneymaking. "Each of these bets is a bet-the-farm kind of wager, and he is making lots of them," says a veteran venture capitalist in Tokyo.

The latest firms he has invested in face far more competition than did Alibaba, which was partially sheltered by the Chinese government from foreign competition. No such protection necessarily prevails elsewhere. (SoftBank declined our request to interview Mr Son or Mr Arora for this article.)

Another recent deal that raised eyebrows, even in Silicon Valley, where money is splashed around with abandon, came in the field of "fintech"—the application of digital technology to financial services. SoftBank has put almost $1 billion into SoFi, one of many online lenders striving to be "the Uber of banking". SoFi is at least profitable; yet the scale of the funding caused surprise.

Making bets of such size and speed makes Mr Son quite unlike most Japanese bosses. Yet in one respect the firm may have followed a very Japanese tradition; overpaying for a foreign business after paying insufficient attention to the local climate in which it operates.

Sprint's woes began long ago, with its merger in 2005 with Nextel Communications, after which it backed WiMAX, a mobile-broadband technology that never caught on with customers. Since SoftBank bought its 80% stake in Sprint, the American firm's share price has fallen almost by half. A newly revitalised T-Mobile US overtook it this summer by number of customers, leaving it fourth out of the country's four main operators.

Mr Son seems to have underestimated the difficulty of pulling off a turnaround of Sprint in America's hyper-competitive telecoms market, dominated by two behemoths, Verizon and AT&T. It is certainly a far harder task than when SoftBank Mobile leapfrogged Japan's two sleepy market leaders, KDDI and Docomo. Much of Mr Son's success there came from exploiting the two incumbent firms' myopia on Apple's iPhone. One SoftBank-watcher recalls how their executives said the iPhone would never catch on in Japan because it had no hook on which young women could hang cutesy mascots. The iPhone quickly soared to dominance, and took SoftBank Mobile from a 19% share of the market in 2008 to 26% now. "Son was the only guy in Japan who could speak to Steve Jobs", says Jesper Koll, of WisdomTree, an asset-management firm, who has served on a board with Mr Son.

He's not in Kansas yet

Sprint is a huge bet, even for a risk-taker like Mr Son; and if he cannot engineer a turnaround in an industry he knows so well, it will bode ill for his other investments. But he has yet to show that he has the energy to oversee a revival of the sort he pulled off with Vodafone's Japanese offshoot.

Last year Mr Son appointed as Sprint's boss Marcelo Claure, a Bolivian-born entrepreneur and football-club owner who, thanks to Mr Son's investment in the mobile-handset distributor he founded, is said to be the richest Hispanic person living in America. Mr Claure has launched a price war and a big network-investment programme that are burning through the firm's funds. Sprint had $34 billion of debt at the end of fiscal year 2014, and in 2015-16 is expected to spend another $9 billion of its cash. Sprint's dire financial position may even prompt regulators to reconsider their bar on it merging with T-Mobile US. Even so, the path to recouping SoftBank's original investment looks arduous.

The only way that Sprint can recover is if Masayoshi Son is right on top of it, says a Japanese businessman with knowledge of the industry. Mr Son has spent weeks in late-night conference calls devising solutions for Sprint's network, but has also said that he is "a busy guy", questioning why he should put all his efforts into the American telecoms market when the situation "looks bad". In October, in an apparent attempt to convince investors of his determination to fix Sprint, Mr Son said he had bought a house near its headquarters in Kansas City. But there is no sign of him taking up full-time residence.

Mr Arora is among those at SoftBank who have questioned whether it would be better to sell Sprint, if a buyer could be found. How much influence on such issues he will have is hotly debated in Tokyo, as is the question of whether he will indeed succeed Mr Son. Some think Mr Son can, and perhaps will, drop him eventually if he disappoints. Others say that if he did so, he would never persuade any other tech luminary to take Mr Arora's place; and thus that their fortunes are now tied—they will rise, or sink, together.

Mr Son's initiative to bring in and anoint a successor while still in his prime is a sign of confidence, says one of his inner circle. It contrasts with many bosses in Japan who are unable to move on. Some years ago, Tadashi Yanai, the founder of Uniqlo, a fast-fashion giant, promised to retire in 2014 around the age of 65, then decided no one was good enough to take the job. It is conceivable that Mr Son may yet reach the same conclusion, given what an observer of the company describes as his habit of becoming intensely taken up with someone only to lose interest later on.

It will also be difficult for Mr Arora to navigate the internal politics at SoftBank, which remains Japanese in character, despite Mr Son's global outlook. It has been reported that the company was considering moving its investment arm to London, to cut the group's tax bill as well as helping to make it less Japanese. That this leaked out was widely seen as a sign of deep internal discontent at Mr Arora's influence.

Still, SoftBank's highly profitable position in Japanese telecoms, and the continuing strength of Alibaba in China, both offset the gloom from Sprint and provide the funds for Mr Son's foreign adventures. In the domestic market, SoftBank Mobile is expected to produce $3 billion-$4 billion of cash a year now that its investment in the network is largely complete. If the cash materialises—and SoftBank has suffered poor cashflow in the recent past—this will more than make up for the money it is spending elsewhere: in the year to June the group's free cash rose by a quarter, to the equivalent of $19 billion.

However, SoftBank's Japanese profits and those of its rivals have lately drawn unwelcome attention from the government. In September Mr Abe announced that he had instructed the telecoms minister to study how to achieve lower pricing. Monthly bills for smartphones in Tokyo are among the world's highest. Mr Abe will need to tread carefully, analysts reckon, for it would not take much to badly weaken Docomo, which makes much lower profits than the other two firms. Yet Mr Abe's move has added to worries that growth for SoftBank at home is levelling off, with both numbers of new subscribers and revenues per customer now falling.

For the moment, though, Messrs Son and Arora seem able to funnel the riches earned from Japanese smartphone users to some of the world's most talked-about startups and their founders. "We stay young with that new blood and SoftBank will be the summation of those young, passionate entrepreneurs," enthused Mr Son last month. It is perhaps the best testament to him that his fan club in Academia shows no sign of attracting fewer recruits. To the young executives in Japan, his bold strategies make him a hero in a risk-averse corporate culture. Some of them doubtless reckon that, despite Mr Arora being the chosen one, they may yet be in with a chance of leading the company. ■

A takeover battle in Australia

From waterfront to boardroom

SYDNEY

A corporate warrior launches a bid battle for a big port and rail firm

CHRIS CORRIGAN, a Sydney businessman, has lost none of his gift for drama. Seventeen years ago Mr Corrigan took on the "wharfies", Australia's stevedores, in a bitter dispute that smashed their control of the docks. The tale was eventually turned into a television miniseries, "Bastard Boys". On November 10th he inserted himself into what had looked like a done deal by launching a rival bid for Asciano, one of Australia's biggest port and rail operators. The company was already on the verge of accepting an earlier, slightly lower offer from Brookfield Infrastructure, a Canadian consortium. Mr Corrigan has set the stage for what may become one of Australia's most hotly contested bids.


The wharfies' nemesis

Mr Corrigan is back on familiar turf: Asciano owns Patrick, the port operator which he once headed, and through which he waged his waterfront war, before it was taken over in 2006. He was also one of the founders of Asciano's Pacific National rail-haulage division. Qube Holdings, the vehicle through which Mr Corrigan is bidding for Asciano, has two North American partners: the Canada Pension Plan Investment Board and Global Infrastructure Partners, an American fund manager. Qube's consortium recently bought a 20% stake in Asciano, beating Brookfield's 15%.

Asciano's board seems to be relishing the prospect of a bidding contest. Its chairman, Malcolm Broomhead, says it will consider Qube's proposal, and that it is committed to "maximising value for shareholders".

Brookfield's bid faces some regulatory problems. One of Asciano's rail-haulage businesses runs on tracks that Brookfield owns in the state of Western Australia and also uses Brookfield's big coal terminal in Queensland. Rod Sims, head of the Australian Competition and Consumer Commission, has expressed worries that if Brookfield owned both monopoly infrastructure and one of the rail operators that used it, competition in the rail-haulage market could be damaged.

The commission is due to rule on Brookfield's bid on December 17th. Mr Sims says that Qube's rival offer "adds a new dimension to our review". Mr Corrigan is likely to argue that his consortium's bid will have less impact on competition: Qube is only interested in Asciano's port terminals, and its two investment partners would end up owning its rail-haulage business.

Australia's transport industry has been hit hard by the downturn in the global prices of the commodities that Australia exports. But with interest rates low, and the government keen to promote investment in infrastructure, Asciano's assets could prove to be a good long-term bet for whichever bidder ends up owning them. Warren Hogan, chief economist of ANZ Bank, one of Australia's biggest, says it is more than just a "fascinating corporate battle". He reckons it also highlights how critical an "infrastructure upswing" could be for reviving Australia's economy.

Retailing in South America

Cautious conqueror

LIMA

Falabella is expanding steadily in a region of economic turbulence

CHILE is often described as the Germany of South America. Its budgets are balanced, roads decent and trains punctual. Alongside Argentine histrionics or Brazilian flamboyance, life tends to be Teutonically staid. Successful Chilean businesses often exhibit cautious conservatism as they look beyond their puny home market of 18m people. Take Falabella, a 126-year-old department-store chain, which now employs 100,000 people across the continent and flogs everything from handbags to hand tools.

Retailers across South America should be having a miserable time. Growth has either slowed or gone into reverse, as global prices of the region's plentiful raw materials have plunged. Unemployment is up, and high inflation is eating into wages. Sliding currencies—the Chilean peso has fallen by one-third against the dollar since the start of 2013—make imported wares costlier. All this is making the continent's shoppers think twice before splurging.

Against this backdrop Falabella's performance has been positively perky. On November 10th it announced net profits of 95 billion pesos ($136m) in the third quarter, up by 16% on a year earlier. Revenues were up by almost 13%. Analysts dialling in to its previous earnings call, in August, all prefaced their questions to Sandro Solari, the chief executive, by congratulating him. Earlier that month, amid a sea of corporate downgrades in the region, Fitch had raised the company's investment-grade credit rating by a notch, to BBB+.

The reason for Falabella's resilience is its assortment of businesses, spread judiciously across six countries. Besides its 101 department stores, it runs 102 supermarkets; together these generate about half of the group's retail revenues. The other half comes from 246 big-box DIY shops (the result of a merger with Sodimac, another Chilean firm, in 2003). The fortunes of the three do not overlap exactly, helping to smooth sales over the cycle.

Falabella also runs 39 shopping centres, where its shops are the "anchor" tenants. And as customers flit between a Falabella department store and a Falabella-owned supermarket, they can pay with a Falabella credit card or draw cash from one of Banco Falabella's ATMs. The financial-services arm, with reams of data on customers' spending habits, is considered one of the region's most sophisticated lenders. Its $5.7 billion loan book is "impeccable", says Joaquim Ley of Itaú BBA, an investment bank. It also enjoys cheap finance, thanks to Chile's low interest rates and the firm's good rating.

Falabella's focus on the market-friendly Andean economies, which continue to grow, rather than on stodgy, interventionist places like Brazil, has helped, too. Chile, Peru and Colombia (where it ranks first in both department stores and home improvement) account for 52%, 24% and 14% of sales, respectively.

The rest comes from Argentina and Brazil, where a larger Chilean retailer, Cencosud, has expanded more enthusiastically and has good reason to regret it. Argentina and Brazil contribute no net profit to Falabella at the moment. But, as Mr Ley points out, together they have 250m consumers, so it is worth having toeholds there, which could be scaled up if and when prospects brighten. (Argentina's would if, as seems likely, it elects a market-friendly president later this month.)

A bright spot in a gloomy region

What's a hammer?

Jordi Gaju, Falabella's chief development officer, attributes his firm's success to its understanding of shopping habits, which can vary enormously from country to country. Gisele Bündchen, a Brazilian fashion model, is the face of Falabella department stores across the region. But there was no point launching one in her native land, where this sort of retail format is practically non-existent and trend-conscious consumers prefer dedicated purveyors of fast fashion. In Chile, the group's Sodimac hardware stores are aimed at middle-class DIYers. Their counterparts in Brazil would not dream of lifting a hammer, so branches there are designed to appeal more to builders, plumbers and the like.

When Falabella does expand, it never rushes in. Sometimes, after entering a country and getting a feel for it, it will buy a local firm and combine it with its own branches, to cut costs and tease better deals from suppliers. Last year, for example, Sodimac's Peruvian business was merged with Maestro, a local DIY chain.

Apart from the macroeconomic climate, Falabella's biggest challenge may be the growing sophistication of the region's shoppers. It plans to invest $1 billion by 2018 in computer systems and logistics, to boost its e-commerce business as the region's consumers get used to buying online. For now, many still relish bricks-and-mortar one-stop shops like Falabella's department stores—but so did Americans and Europeans until they began turning to specialist shops, and then migrating online. In this regard, Latin America "is 15-20 years behind advanced economies", notes Esteban Bowles of A.T. Kearney, a management consultancy. That gives the cautious Chilean firm plenty of time to adjust. ■

Schumpeter | It's the real thing

"Authenticity" is being peddled as a cure for drooping brands

BUSINESSES have always told stories about their products. But in recent years they have become particularly verbose, bombarding consumers with any small detail that might enhance the brand. Shoppers at Whole Foods can peruse scintillating biographies of the chickens they are about to casserole. Prospective Tesla drivers can learn not just about the cars' specification and performance but about the principles of a stator rotating magnetic field. Guzzlers of Blue Moon beer can soak up its proud heritage, stretching back to, ooh, 1995, and read about its creator's brilliant idea of garnishing each glass of the ale with a slice of orange.

Brands began as badges of product quality, going back at least as far as the medieval guilds of craftsmen who used them to distinguish their work. In the modern age they have sought to convey emotional and social values, too: think of Nike's "Just do it", or Kodak's "Share moments. Share life". Now, in inundating consumers with a cascade of fascinating facts, companies are striving to bestow "authenticity" on their brands. Interbrand, a consultant on branding, describes authenticity as "an internal truth and capability", a "defined heritage" and a "well-grounded value set". This slippery quality, the pundits tell firms, is what the public is yearning for, in an age of doubt and mistrust. In 2013 the Boston Consulting Group surveyed 2,500 American consumers and found that being authentic was indeed one of the main qualities they said would attract them to a brand. For younger "millennial" consumers (born between 1980 and 2000), it was second in importance only to rewarding their loyalty with discounts.

Authenticity is being peddled as a cure for consumers' ebbing loyalty to brands. It is not hard to see why the old marketing magic is fading, in an age in which people can instantly learn truths (and indeed untruths) about the things they are contemplating buying. Online reviews and friends' comments on social media help consumers see a product's underlying merits and demerits, not the image that its makers are trying to build around it. The ease of accessing information makes consumers more likely to abandon their habitual brands because they have heard about something new, or learned that retailers' own-label products are much the same, except cheaper. Depending on your perspective, people are either increasingly fickle or ever more impermeable to marketing bullshit. For brands that lack any truly distinguishing features, that is bad news.

The waning faith in brands is a greater threat to some types of products than others: snacks and household gadgets, say, as opposed to luxury handbags. But for a range of consumer goods, brands' strength as a signal of quality, and their power to open people's wallets, are fading, argue Itamar Simonson and Emanuel Rosen in their book, "Absolute Value: What Really Influences Customers in the Age of (Nearly) Perfect Information".

Surveys back up this conclusion. In North America consumers say they trust only about a fifth of brands, according to a poll by Havas, a marketing agency. For slightly less sceptical Europeans it is about a third. Consumers seem particularly wary of big brands. About half of American shoppers say they trust small companies to do the right thing, compared with just 36% who say the same of large ones, reports Mintel, a research firm.

These opinions are starting to have tangible effects. Of the top 100 consumer packaged-goods brands in America, 90 lost market share in the year to July, according to Catalina, a marketing firm. In China and other big emerging markets, foreign-branded goods are losing their allure, as shoppers realise that local products are no longer so inferior. In a recent study by Bain, a consulting firm, foreign brands were found to be losing market share in China in 18 out of 26 categories of consumer goods.

The consulting firms that value and rank brands, such as Interbrand and Millward Brown, report that their top 100 names are still increasing in value. However, such firms have different and quite subjective methodologies, and often disagree on what any given brand is worth. Christof Binder of Trademark Comparables, an adviser on brand values, and Dominique Hanssens of the University of California, Los Angeles, sought a more concrete measure: when brands are sold as part of corporate takeovers, what price do investors put on them? They found that these prices, as a percentage of deals' total value, have dropped since 2003. So, at least for those firms being taken over, the strength of their brands is becoming a smaller share of their overall worth.

Sincerely, folks

The silver lining—authentically handcrafted, of course—to the dark cloud looming over brands is that as people become better informed about products' underlying qualities, and more sceptical of marketing gimmicks, they are exhibiting a desire for brands that are "honest" and seem to have some identifiable merit. Inevitably, this is leading some marketers to concoct campaigns that seek to conjure up the ineffable quality of authenticity out of thin air. As the cynics among them might say: authenticity is the secret of success; once you can fake it, you've got it made.

However, authenticity is far easier to pull off when your product has some real-world qualities that its competitors lack. The most striking recent example is that of America's craft beers. As drinkers turn against the pallid swill pumped out by mass-market brewers, the craft brewers have almost doubled their market share in the five years to 2014. Although many long-established, heavily advertised but mediocre products are losing force, and the fickleness of consumers is making it harder for them to maintain premium prices, for those firms that get the product right and have a genuine story to tell, the rewards can still be huge. The textbook example of this is Apple, whose devices' superior design and ease of use make it a powerful brand in a commoditised market. Last year it had only 6% of the revenues in the personal-computer market, but 28% of the profits. That's real authenticity. ■

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Rice in Asia

Paddy-whacked

SINGAPORE

By meddling in the market for rice, Asian governments make their own citizens poorer

NEARLY 16% of Indonesia's 250m people survive on $1.90 a day or less, as do more than 6% of Cambodia's 15m people. In both countries, rice is the staple crop, providing more than half the daily calories of the poor. That puts needy Cambodians at a distinct advantage: between January of last year and April of this, the average wholesale cost of a kilo of rice in Cambodia was roughly $0.40, while in Indonesia it was nearly $0.70.

There are a few reasons why rice is more expensive in Indonesia. For one, it is a net importer, whereas Cambodia grows more than it needs. Indonesia is also a far-flung archipelago with abysmal infrastructure, which raises transport costs. But David Dawe of the Food and Agriculture Organisation (FAO), a division of the United Nations, has found that transport costs account for only a small share of the gap in prices. Instead, the culprit is policy.

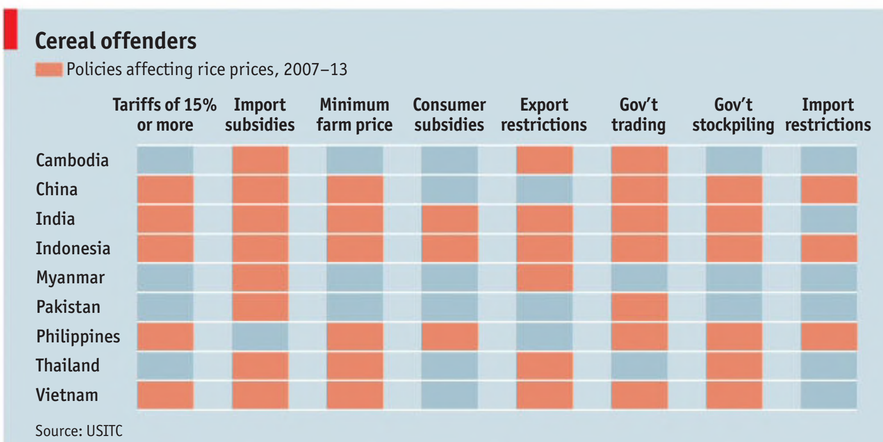
Like many Asian countries, Indonesia wants to be self-sufficient in rice. But as well as trying to help farmers become competitive through investments in agriculture and infrastructure, its government, like others in the region, manipulates the rice market through a welter of subsidies, tariffs and other support mechanisms for domestic producers (see table). These interventions, though well-intentioned, raise prices for consumers and harm the region's poorest people.

Asia consumes 90% of the world's rice. It is used to make flour, noodles and puddings. Babies and the elderly survive on rice gruel. Steaming rice porridge is eaten for breakfast in skyscraping hotels in Hong Kong and rustic village kitchens in Hunan. Alcohol made from rice—be it *sake* in Japan or rice whiskey in Thailand—is swilled deep into the night in karaoke parlours and roadside stalls.

But rice is not just a culinary mainstay: it has religious and cultural uses across the continent. It appears on Buddhist altars and in offerings to deceased ancestors; farmers pray to gods who govern rice before the harvest and thank them afterward. In many Asian languages the verb "to eat" literally means "to eat rice".

Its ubiquity and cultural centrality make rice far more important politically than any other food. Every country believes its own rice superior: Thais love the fragrance of the local jasmine rice; Indians extol the fluffiness of basmati; Japanese rave about the delicate texture of *koshihikari* from Niigata prefecture. Having to rely on foreign rice seems to many a cultural affront.

The early adoption of especially productive strains during the Green Revolution briefly helped Indonesia and the Philippines to achieve self-sufficiency in rice in the 1980s, but for most of the past century they have been importers. The rice-exporting countries on the mainland have a big competitive advantage, in the form of large river deltas, which offer the perfect setting for growing rice and a handy means of transporting it. Peninsular, island and archipelagic countries such as Indonesia, ▸▸



Applications are invited for a Marjorie Deane internship in *The Economist*'s New York bureau. The award is designed to provide work experience for a promising journalist or would-be journalist, who will spend 3-6 months at *The Economist* writing about economics and finance. Applicants are asked to write a covering letter and an article of no more than 500 words, suitable for publication in *The Economist*. Applications should be sent to deaneinternny@economist.com by December 20th.

Malaysia and the Philippines lack vast tracts of flat, swampy land. Their farmers produce more rice per hectare, but have a far smaller area under cultivation.

Many governments look back with fear to the rice-price spike of 2007-08, seeing it as a reason to build up domestic production so that they are not dependent on a fickle international market. In fact, the rice market is fairly stable: production has largely matched or exceeded population-growth rates in Asia. And global rice prices are no more volatile than those of the other two global staples, wheat and maize (corn), which also shot up in 2007-08.

But wheat prices rose because of weather-induced shortages and maize prices jumped because of increased demand for ethanol production. Rice prices shot up because governments panicked. India restricted exports, which sent the international price soaring. The Philippines, which had low government rice-stocks but ample private stocks and was on the verge of a record harvest, nonetheless bought massive quantities of Vietnamese rice at above-market prices. That helped spur a run on rice in Vietnam. Thailand mulled restricting exports and creating a rice-exporting cartel, inspired by OPEC, with Vietnam, Cambodia and Myanmar. Elsewhere, smaller exporters cut exports while importers and farmers hoarded. Prices did not start falling until the second half of 2008, when Vietnam, Japan and Thailand all said they would boost exports, and oil and shipping costs started declining.

This episode was an object lesson in the perils of interference. But governments continue to intervene across the market. They offer trade restrictions, price support and hefty subsidies on power, fertiliser and water, mainly to keep domestic prices stable, assure supplies in times of crisis and protect domestic growers.

Buttonwood | Born to run

Bonds that will take the hit when banks fail

FIXING the banking system to prevent another crisis on the scale of 2007-08 is a fiddly and time-consuming task. It is not the kind of thing that generates tabloid headlines and public approbation. But another important stage in the process was reached on November 9th when the Financial Stability Board (FSB), a global regulators' forum, issued new guidelines on bank balance-sheets.

The underlying problem is as ancient as banking itself: banks lend out more money than they have capital to absorb losses. If their loans go sour (or if the banks' own creditors, including depositors, lose confidence), institutions can rapidly go bust. And then, because of the importance of the banking system to the economy, governments feel obliged to ride to the rescue at potentially vast cost.

To avoid this danger, the FSB wants private investors to bear the cost of bank failure. As well as their equity capital, banks should issue a new type of debt with terms that make it explicit that the lenders will be among the first to take a hit if the bank gets into trouble. This has two advantages. First, severe bank losses will be absorbed by these bondholders and not by depositors. This reduces the risk of a public panic and thus the need for a government rescue. Second, the threat of a potential loss will encourage bondholders to keep a close eye on bank management, and to intervene if they feel executives are taking too much risk.

Asking banks to raise a lot of new debt immediately is not ideal. One of two things might happen. The banks could flood the market with new bonds, causing the cost of borrowing to rise. Or the banks could improve their capital ratios by lending less, cutting off funds to business and hurting the economy. So the reform has to be phased in.

All these changes sound eminently sensible. But this is finance, so the regulator's proposals inevitably come cloaked in impenetrable jargon dotted with obscure acronyms. The relevant measure of capital (equity plus the at-risk debt) is called "total loss-absorbing capacity" or TLAC. The ratio will only apply to the most important institutions, dubbed global systemically important banks (G-SIB). It is hard to see the public marching behind Mark Carney, who heads both the FSB and the Bank of England, shouting, "What do we want? Higher TLAC for G-SIBs. When do we want it? Phased in between 2019 and 2022, except for emerging-market banks which will have till 2025 to 2028 to comply."

Those familiar with the minutiae may complain that the FSB has not been as demanding as it might have been. It is asking banks to have TLAC of 16% of their risk-weighted assets by 2019, rising to 18% by 2022. This is at the lower end of the expected range. The FSB estimates that banks will have to raise as much as €1.1 trillion ($1.2 trillion) in new TLAC-compatible debt. But not all of this will be additional borrowing: banks can simply issue TLAC bonds to replace existing debt as the latter matures.

That helps explain why the estimated costs of the reform are so low. Doubtless, investors will demand a higher yield on bonds that will be counted as TLAC. This higher cost is likely to be passed on to bank customers in the form of higher lending rates, which may crimp economic growth. But the FSB estimates that the effect, in both cases, will be a small fraction of a percentage point—far less than the costs of another bank blow-up.

None of this will prevent a future banking crisis. Instead, the aim is to limit the damage such a crisis can create by making clear where the losses will fall—something that was not obvious in 2008. The biggest economic impact occurs when depositors, having assumed their money was safe, take fright; that is when you see queues round the block. Back in the 1930s America introduced deposit insurance to reduce this problem. The new reforms give depositors an even more secure status.

But bank losses have to be borne by somebody. In that sense, bank runs are rational: if you think a bank will run out of cash or capital, it makes sense to withdraw deposits, or to dump investments in the bank, before the rest of the herd. That will be true of TLAC bonds, too.

Alas, you can't get rid of risk altogether. Because TLAC bonds will take the hit during the crisis, they will provide early warning of trouble. But corporate-bond markets are pretty illiquid, and even liquid government bonds have seen sudden lurches in price. So it is quite possible that TLAC bonds could give false indications of a looming crisis; smoke without fire, in other words. Even sensible reforms have their flaws.

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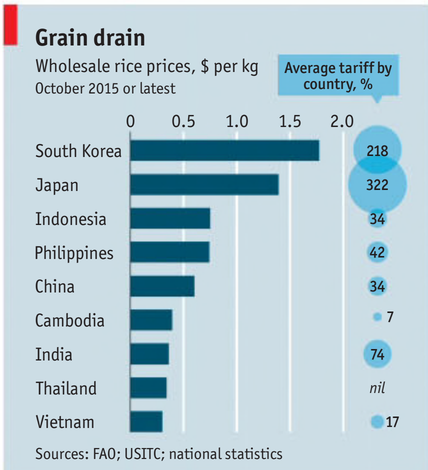


In one sense, this has worked. Across Asia, domestic rice prices are relatively stable. But the countries trying to reduce imports tend to have far higher prices than exporters (see chart). Japan, for instance, maintains its network of archaic, inefficient, heavily subsidised small rice farms. The average age of its rice farmers is 70. Japan imports rice grudgingly and taxes it heavily: tariffs on milled rice will remain at 778%, even after it joins the Trans-Pacific Partnership, a free-trade agreement under which Japan agreed to lower tariffs on other agricultural imports (see Free exchange).

The government plays an even more outsized role in Indonesia and the Philippines, by directly determining the volume of imports. The quota varies from year to year, depending on how good the local harvest is expected to be. Both countries also set a floor price for farmers and a ceiling price for consumers. Vietnam, an exporter, uses quotas to restrict the amount of rice leaving the country, and thus stabilise domestic prices. Such restrictions create a lucrative opening for smugglers.

Governments not only dictate the volume of trade, they also buy rice directly. For more than a decade China's government has been buying rice from local farmers at above-market rates to maintain its stockpile. The Indian government guarantees farmers a floor price in theory, but many do not receive it. The National Food Security Act, passed in 2013, is supposed to ensure that the poor can buy rice from the government at below-market rates from a network of around 60,000 fair-price shops. This byzantine, inefficient system—the central government buys rice and sends it to the states, who distribute it to shops—provides myriad opportunities for corruption. By some estimates more than half the grain is siphoned off, and tons of rice intended for the poor rot in massive government stockpiles.

Indonesia also guarantees floor and ceiling prices, and maintains a similar rice-distribution programme, spending around $1.7 billion each year to distribute subsidised rice to roughly 16m families. This scheme has also been dogged by allegations of corruption: some of the rice was rotten and weevil-infested by the time it reached poor families, and some of the families sold rice back to traders for several times the subsidised price. This year an OECD study found that as a result of Indonesia's various policy interventions rice there cost around 60% more than on the world market.

In 2012 Thailand cooked up a disastrous plan to buy rice from farmers at above-market prices, hoard it to drive up global prices (at the time Thailand was the world's biggest exporter) and then sell it when prices rose. The ruse failed when growing Indian rice exports picked up the slack; it ended up costing the Thai government around $16 billion, leaving it sitting on 13m tonnes of quickly rotting rice and getting Yingluck Shinawatra, the prime minister of the day, impeached. Many farmers still have not been paid.

As a result of interventions like these, billions of people pay above-market rates for rice. High rice prices lower purchasing power and increase poverty in rice-importing countries. They also hinder child development by reducing the amount of more nutritious foods households can afford. Studies in Bangladesh and Indonesia have found that higher prices are associated with higher rates of malnutrition.

Governments often justify keeping prices high on the grounds that it helps poor rice farmers. In fact, most benefits accrue to the richest farmers—those with the most surplus rice to sell. Farmers with holdings too small to grow enough rice to feed their families suffer, as do landless farmhands, the urban poor and farmers of crops other than rice. All told, these groups number in the hundreds of millions.

But farmhands and the urban poor lack political clout, and subsidies, once in place, can be hard to take away. Japan's ruling Liberal Democratic Party, for one, relies on the support of all those doddering rice farmers. Thailand's junta came into office promising to end rice subsidies. Yet even as the generals moved to try Ms Yingluck for the losses incurred by her rice-purchase scheme, they announced their own billion-dollar handout to rice farmers. For Asian policymakers, it seems, intervening in the market for rice has become as reflexive as eating the stuff. ■

Set it free

The oil market

Abnormally normal

For once, oil prices are responding to supply and demand, not OPEC

FROM John Rockefeller's Standard Oil in the late 1800s, through the Railroad Commission of Texas in 1930, to OPEC since 1960, institutions have long tried to control and stabilise the oil market for their own benefit. Only rarely, says Jason Bordoff, director of Columbia University's Centre on Global Energy Policy, has the oil market behaved like a normal market, more subject to the laws of supply and demand than to the whims of a cartel. Now is one of them.

Take supply. A year ago Saudi Arabia refused to allow OPEC to try to raise prices by pumping less crude, in the hope that a low price would drive competitors, especially America's shale-oil producers, out of business. Since then it has used its low cost of production to carve out a bigger slice of the pie. It has fought with Russia and fellow OPEC members to sell oil to China. Seth Kleinman of Citibank says that it has recently sought to displace Russian crude going into refineries in Sweden and Poland, and cut prices across Europe.

Producers with higher costs, including big listed oil firms and many rival national oil companies, have also behaved rationally, albeit reluctantly, cancelling at least $150 billion of investments this year, with more cuts to come next year. It takes time for this retrenchment to feed into lower production, because oil projects have long lead times, and in the meantime, producers naturally seek to compensate for lower prices by pumping more from existing facilities. But eventually diminished investment will reduce output.

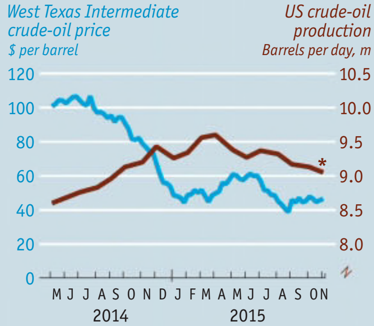
The geopolitical tensions that sometimes play havoc with the oil market are relatively absent this year, in part because OPEC has more or less abandoned its quotas. That means disputes within the cartel that might once have led to the breaching ▸▸

of production caps, such as the proxy war in Yemen between Saudi Arabia and Iran, barely stir prices. Instead the factors that are setting traders' pulses racing make crude oil sound about as thrilling as iron ore: an oil-workers' strike in Brazil; cuts to Iraq's investment budget; a Saudi bond issue that may enable it to withstand lower prices for longer.

Demand is also making its mark. As might be expected, the falling oil price is boosting consumption to a degree. Since last year, according to the International Energy Agency (IEA), a Paris-based forecaster representing oil-consuming nations, drivers have been opting more often for "larger, more fuel-guzzling vehicles" such as SUVs, especially in America and China. Overall the IEA expects demand to grow by 1.9% this year, well above the average for the past decade, of 0.9%.

Yet the nuances are as interesting as the overall direction. The IEA says that even in the developing world, the amount of oil consumed per unit of economic output is declining. China's growth, in particular, is becoming less energy-intensive. Fuel-efficiency standards may not be tightly enforced but they nonetheless affect three-quarters of all vehicles sold worldwide. Industry analysts are beginning to invoke "peak demand", as opposed to "peak supply", as a factor that may determine the trajectory of prices in the long run.

Sticky shale



Sources: EIA; Thomson Reuters *Forecast

In its annual "World Energy Outlook", released on November 10th, the IEA predicted that a relatively sluggish recovery in demand and decline in supply would yield a price of $80 a barrel in 2020. But it also aired an alternative scenario in which oil stays in a range of $50-60 a barrel until well into the 2020s. One of the main reasons it hedged its bets is American shale oil, which has not been responding as promptly to changes in the price as analysts had assumed.

Even after oil prices fell last year, production continued to increase, a process that has only recently started to reverse (see chart). The IEA says this longer-than-expected adjustment was caused by a timelag of several months between drilling a well and fracking it (ie, pumping in water and sand to split the shale rock, allowing oil to seep out). Cost-cutting and hedging also enabled the industry to maintain margins even as prices fell.

One big question is how quickly frackers would ramp up production again if oil prices rise. The IEA is sceptical. It argues that banks may be reluctant to fund more of their wells; staff will take longer to mobilise after recent lay-offs; and other factors will make shale-oil production "stickier" than boosters assume. It believes that rapid depletion rates in shale-oil fields may raise costs faster than new technology can lower them, putting a cap on shale's long-term potential. That would be music to Saudi Arabia's ears. But the shale-men are a resourceful bunch, who understand markets at least as well as the Saudis. The battle is not yet won. ■

Economics can be fun

A graph a minute

KILKENNY

Supply and demand walk into a bar

ECONOMICS is not usually associated with humour. But once a year in the Irish city of Kilkenny, organisers of the "Kilkenomics" festival try to inject some merriment into the dismal science. When it started in 2010 as Europe's first festival to combine economics and comedy, Ireland was in no mood for laughter. As ten-year Irish bond yields spiked to 9%, the festival organised its own mock rating agency: Moody and Poor. Shortly after, the government was forced to accept an €85 billion ($112 billion) bail-out.

Five years on, the festival has moved beyond austerity-focused sessions like "Grannies for gold: how to sell your families on Amazon", notes Dermot Whelan, a comedian. Panellists at this month's event pondered whether Ireland was on the cusp of a golden era, with Bill Black, an expert on financial crime, concluding that it "will look like a star in the euro zone because the euro zone is crap".

Panellists did their best to put the fun back into fundamental welfare theorems. A discussion of whether money makes you happy included the answer to how bankers sleep at night: on big piles of cash. Diane Coyle, an economist, predicted that technological change would transform future generations—by giving them hunched shoulders and flexible thumbs.

Economists themselves came in for a little teasing too. Stephen Kinsella of the University of Limerick squeezed laughs from the audience by describing a real paper from the prestigious *Journal of Political Economy*, which used elegant algebra to describe how women choose between two options: becoming a wife or becoming a prostitute. Who needs comedians when there is such rich material in academic journals?

In Kilkenny courthouse, four comedians donned wigs and gowns and put economics on trial. One economist in the dock admitted that her profession has a poor reputation when it comes to communication. Given that, Kilkenomics is just what economics needs: an event bridging the gap between academic analysis and the ordinary people whose lives are turned upside down by economic mayhem. "People who take themselves too seriously are a danger to themselves," was the verdict of Yanis Varoufakis, until recently Greece's finance minister. Proof that the festival does irony, too.

Amundi's IPO

Supersize me

A flotation paves the way for growth

THIS week Amundi, one of Europe's biggest money managers with €950 billion ($1 trillion) of assets, took a step towards becoming bigger still. On November 12th it listed on the Paris stock exchange in the biggest initial public offering of a financial firm in continental Europe since the $2.7 billion flotation in Amsterdam last year of Pershing Square, an American hedge-fund manager. Société Générale, a French bank, is selling its 20% stake to increase capital buffers; Crédit Agricole, another bank and the owner of the rest of Amundi, is selling up to 5%.

By moving Amundi out of the shadow of its two parents, the listing will make it easier for the firm to attract new partners and, in particular, pave the way for acquisitions. That is not because Amundi is retaining the proceeds of the IPO (those go to Société Générale and Crédit Agricole), but because future takeovers can now be financed by issuing more shares. Moreover, once a company is listed it is easy to value, something that could ease a big merger in future. In addition Amundi has €1.3 billion in cash that Yves Perrier, its chief executive, has promised to return to shareholders if he does not spend it in the next three years.

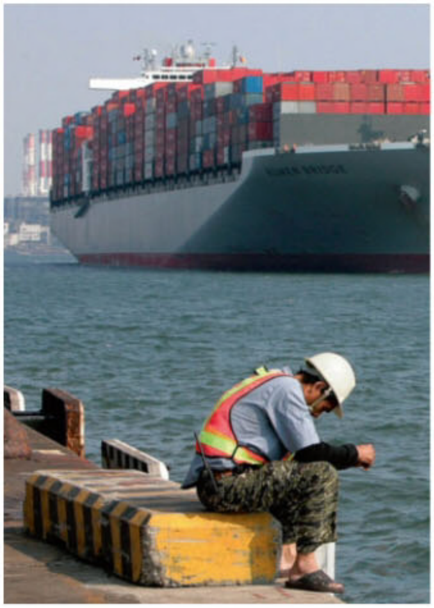
Amundi has good reason to bulk up: investors increasingly gravitate towards mammoth fund-management groups, such as BlackRock and Vanguard. Their scale allows them to keep fees low by spreading overheads such as technology and compliance over a bigger pool of investments. They can also provide a much broader choice of investments, sparing clients the bother of dealing with more than one firm. And their recognisable brands provide solace to administrators of pension funds and endowments who shy away from controversial investments. "If it doesn't work out well, you can never be blamed for investing in BlackRock," says Nathan Gelber of Stamford Associates, an investment consultancy. No wonder Mr Perrier wants to make Amundi, already the world's tenth-biggest asset manager (and the only European firm in the top ten), into a "global brand".

Mr Perrier says he will focus on growing organically: he expects to increase assets under management by €120 billion over the next three years. "But the right acquisitions can of course reinforce and accelerate that organic growth," he says. Amundi recently bought the asset-management wing of Bawag PSK, an Austrian bank; in 2013 it acquired Smith Breeden, an American asset manager. Amundi has ruled out further purchases in America, leaving Europe and Asia as its most likely hunting-grounds for acquisitions.

Buying a European firm holds out greater hope of cutting costs, since there will be overlap with Amundi's existing operations. But many European asset managers (like Amundi itself until this week) belong to banks or insurance firms. Profits at their parents are often limp, making them reluctant to let go of a relatively lucrative sideline. Expansion in Asia, where Amundi has several joint ventures and where prospects for growth are better, might make more sense—though foreign firms often struggle in the region.

Acquisitions would also allow Amundi to broaden its offering. It is heavily reliant on bond funds, says Christian Kuendig of Fitch, a rating agency. This makes it vulnerable to a rate rise. Boosting its equity business would be a natural hedge. Buying a firm with more retail investors would also make sense. Institutions account for three-quarters of the assets Amundi manages, but tend to be less profitable.

Amundi has lower operating costs than most in the industry: its cost-to-income ratio is just 52% versus 60% at BlackRock, for example, and 77% at the asset-management arm of AXA, a big French insurance firm. But it is a quarter of the size of BlackRock, the titan of the industry. In a business that favours scale, Amundi still has a long way to go to catch up. ■



Taiwan's economy

Straitened circumstances

TAIPEI

Weaker growth exposes the downside of ties with China

THE Chinese theory about economic integration with Taiwan is that it will bind the two together politically. Taiwan will become ever more reliant on China for its prosperity, paving the way to eventual unification. Many in Taiwan fear this process is under way. But now the premise of the theory—that closer ties with China are essential for growth—is being tested by a sharp economic slowdown in Taiwan.

Over his nearly eight years in office, Ma Ying-jeou, Taiwan's president, has pushed for a detente with China. A flurry of deals, including a limited free-trade agreement, has fuelled business ties. Taiwanese exports to China have soared, as has Chinese investment in Taiwan. A recent meeting between Mr Ma and Xi Jinping, China's president, in Singapore—the first between leaders of the two countries—was meant to show the promise of more co-operation.

Awkwardly, though, Taiwan's economy is in a slump. GDP shrank by 1% year on year in the third quarter, its first contraction since 2009. Last year Taiwan grew by 3.8%. Many analysts had expected about the same this year. Instead, it will do well to hit 1%, says Gordon Sun of the Taiwan Institute of Economic Research.

The global slowdown in trade is partly to blame. Exports are the lifeblood of Taiwan's economy, accounting for nearly three-quarters of its output. Yet other export-driven economies in Asia such as South Korea and Singapore are not suffering as much.

The benefits from Taiwan's rapprochement with China appear to be topping out. Taiwan's trade surplus with China was 18% smaller in the first nine months of this year than in the same period in 2014. Chinese investment is down by nearly two-thirds from a year earlier. Even Chinese tourists, still flocking to Europe and other parts of Asia, are showing less interest in Taiwan: visitor numbers are up by just 5% this year.

One interpretation is that Taiwan is simply a victim of China's slowing growth. But there is widespread concern that something deeper is at work: that Taiwan is losing ground to China and ill-equipped to fight back. So prevalent is this view that Taiwanese routinely refer to the threat from Chinese firms as the "red supply chain".

Until a few years ago, the economic relationship between China and Taiwan was symbiotic. Taiwanese firms, among the world's biggest makers of electronic components, needed China's cheap labour; China craved Taiwan's technical know-how. But this complementarity has given way to competition. Chinese producers of petrochemicals, steel, computers and digital displays have moved into terrain once occupied by Taiwan. Taiwanese firms with operations in China are themselves buying more materials and machinery from Chinese suppliers. Chinese firms are now trying to break into semiconductors, Taiwan's last big industrial redoubt.

The structural challenge does not come from China alone. Taiwan's greatest strength is in making parts for computers and mobile phones. But the global markets for both are increasingly saturated. Short of a new consumer craze—some firms pin their hopes on wearables or 3D printers—the hardware industry's future looks bleak.

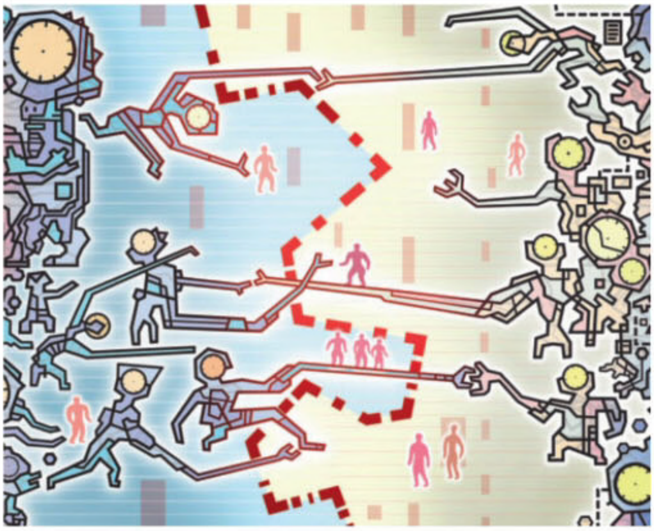
For an export-led economy like Taiwan to reinvent itself, it needs to stay immersed in global trade. Here, though, it faces the cold reality of its geopolitical ostracism. Absent China's express approval, other countries are reluctant to engage in free-trade talks with Taiwan. Yet Japan, South Korea and China—Taiwan's main competitors—are signing lots of their own deals.

The easiest answer would be for Taiwan to open itself yet wider to trade with China. Politically, though, this is a non-starter. Taiwanese students last year occupied the parliament to protest against a services trade deal with China.

Tsai Ing-wen, Mr Ma's likely successor , is determined to tilt Taiwan away from China. She wants to foster closer links with South-East Asia and to bring Taiwan into the Trans-Pacific Partnership, an American-led free-trade deal that covers 40% of the global economy but excludes China (see Free exchange). It will be very hard for Taiwan to escape China's economic orbit. If Ms Tsai gets her way, it will not be for lack of trying. ■

Free exchange | A serviceable deal

TPP is intended to spark a boom in trade in services, but it will be decades in the making



IT DID not take long for America's presidential candidates, busy though they must be, to digest the 6,000 pages of the agreement creating the "Trans-Pacific Partnership" (TPP). America and 11 other countries of the Pacific Rim struck the trade deal in early October, but the full text was not released until November 5th. Within days Bernie Sanders, a Democrat, had rendered judgment: "It's even worse than I thought." Donald Trump, a Republican, labelled it "insanity".

Even people of a less protectionist bent are unimpressed, complaining that TPP's short-term benefits will be indetectably modest. One estimate suggests that in its first ten years it will cause its members' exports of goods and services to rise by just $308 billion in total. In 2003-13 global trade in goods and services grew by more than $1 trillion a year on average. A ten-year horizon misses the point, however. TPP's real promise lies in the liberalisation of trade in services. Just as it took decades for supply-chain integration to flower into the rapid goods-trade growth of the 1990s and 2000s, the pay-off from TPP, and deals like it, is further off.

TPP cuts tariffs for some important industries, such as cars and agriculture, but its main concern is to eliminate non-tariff barriers, such as onerous customs procedures, buy-domestic rules for government agencies and regulatory barriers to trade in services. Indeed, Hillary Clinton, another Democratic presidential candidate, who was for TPP before she was against it, once said it set "the gold standard" in this respect.

Not all services can be traded: outside of border-straddling cities, the international trade in manicures, say, is limited. Yet parts of other service industries, including finance, telecommunications, education and health care, are increasingly tradable thanks to advances in information technology. Such services account for an enormous share of GDP and employment in most rich countries, but only a tiny sliver of trade. Liberalisation could open them up to global competition. Hospitals in America, for instance, could outsource patient monitoring to nurses in Malaysia, diagnostics to technicians in India, and consultations to doctors in Canada, to the benefit of all four countries.

Fulfilling that hope will be hard. Trade typically grows in step with GDP. It grew rapidly in the decades after the second world war, for example, largely because the world's big economies were expanding so fast. So TPP's benefits may be held in check in the short-run by weak demand around the rich world.

But instigating a trade boom takes time as well as a propitious environment. Beginning in the 1980s trade began behaving strangely, growing twice as fast as GDP. This burst originated in a revolution in supply chains that had been decades in the making. For most of industrial history, countries traded raw materials or finished goods, with the process of turning the one into the other located entirely within a single country, and often within a single factory. From the 1980s, however, a large and rapidly growing share of trade consisted of "intermediate goods". Rather than produce a computer from scratch in one country, for example, a tech firm would source components from several different countries, bring them together in yet another country for assembly, and then ship the completed good to consumers around the world. As a result, rising GDP led to even greater jumps in trade.

The great supply-chain revolution was slow in coming, however. Tariff rates fell precipitously from the 1940s to the 1980s, by which time the duties imposed on most goods traded between rich economies had fallen to negligible levels. The shift to container shipping, which made transit by sea much faster and more reliable, was largely over by the early 1980s. From 1950 to 1985 the cost of a long-distance phone call dropped dramatically. Yet it was not until the 1990s that the supply-chain boom really got going, abetted in part by China's economic opening.

About half of the current slowdown in trade growth represents the exhaustion of this process. At the turn of the century, for instance, imported parts accounted for nearly 55% of goods exported by China. By 2012, that share had fallen to 35%. Some large economies, like America and China, are keeping more of their supply chains for themselves. As China's rich coastal cities have progressed from the assembly of electronics to the development of more sophisticated components and designs, assembly work has often moved to poorer inland cities rather than to China's poorer neighbours. Hence the importance of services.

Long-haul service

There are lessons here for those awaiting a service-trade boom. TPP in its present form is just one element of several which must fall into place. Barriers to trading services remain prohibitively high, equivalent to an average tariff of 15-17% in Canada, Australia and Japan and 44% in Mexico, according to the Peterson Institute for International Economics, a think-tank. Provisions within the TPP deal to work toward mutual recognition of some professional certifications still need to be seen through. Adding China, which is currently excluded, would greatly help. So would completion of the Trans-Atlantic Trade and Investment Partnership, a mooted trade pact between America and Europe which is also preoccupied with services, and a multilateral Trade In Services Agreement being negotiated at the World Trade Organisation.

Technological change is also needed. Cross-border internet traffic grew 18-fold between 2005 and 2012, according to the McKinsey Global Institute, an arm of the consulting firm. Further advances—to enable even better digital translation, for example—would help overcome the cultural and personal barriers to trade in services. One day service industries may be as efficient and as globally integrated as manufacturing is today. TPP is a step toward that ideal, but just one of many that are needed. ■

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Dark matter

Envisaging the invisible

Also in this section

Powerful gamma rays from the centre of the Milky Way look like signs of an elusive component of the cosmos

"WHEN you have eliminated the impossible, whatever remains, no matter how improbable, must be the truth." Though that maxim of Sherlock Holmes would rarely withstand scrutiny in the everyday world, where facts can be fuzzy and the truth is often protean, it is not a bad one for fundamental physics—a field where there really is only one right answer. It has certainly been the approach taken by Dan Hooper and Lisa Goodenough, two hunters of some of physics's most elusive creatures: the particles of which dark matter is composed. They think they have eliminated all alternative explanations to these particles being the origin of a powerful clutch of gamma rays that come from the centre of the Milky Way, the Earth's home galaxy, and they have been saying so for several years.

This week the chief remaining group of sceptics—the team that runs the satellite which detected the gamma rays in question—has thrown in the towel and agreed that it, too, can come up with no convincing alternative. Though this concession does not, quite, close the "Case of the missing WIMPS", it will require a considerable reversal of fortune for Dr Hooper and Dr Goodenough now to be proved wrong.

The WIMPS in question are weakly interacting massive particles, the name given to the putative components of the mystery that is dark matter. Exactly what WIMPS are is not clear. What is clear is that they have gravitational attraction, but otherwise interact only vanishingly rarely with the more familiar matter of which atoms are made. Nor do they interact with light. Dark matter is thus invisible. Everything from the motions of galaxies to calculations about what sort of universe came out of the Big Bang says it must exist—and must outweigh familiar, atomic, matter by about six to one. But no one has ever detected it other than by its gravitational effects. Dr Hooper and Dr Goodenough think they have found a second way. They believe that the gamma rays they have been analysing are flashes of radiation given off when WIMPS run into one another.

Spot marks the "X"

The satellite which collects these flashes is *Fermi*, an American space telescope launched in 2008. Gamma rays (electromagnetic radiation like light, but much more energetic) are generated by the universe's most violent processes—the leftovers of supernovae, particles accelerated in potent magnetic fields, matter swirling ever faster around black holes and so on. Data on the rays *Fermi* detects are published unedited, so that any scientist who wishes can poke through them.

Among those who poked were Dr Hooper (who works at the coincidentally named Fermi National Accelerator Laboratory, near Chicago) and Dr Goodenough (then a graduate student at New York University; now at Argonne National Laboratory, also near Chicago). They looked in particular at rays from the centre of the Milky Way. As is true of any galaxy, much of the Milky Way's matter—including its dark matter—is concentrated at its centre. This therefore seemed, to Dr Hooper and Dr Goodenough, to be a good place to look for signs of colliding WIMPS.

Unfortunately, the amount of matter at the Milky Way's centre means there are many other sources of gamma rays, too. The two researchers had therefore to subtract from the data collected by *Fermi* all of the radiation they thought could be accounted for by cosmic objects already known to astronomers. What they were left with (see picture above, of a computer-generated image of the gamma rays superimposed on a visible-light photograph of the Milky Way), was a bright residuum of gamma radiation that would be inexplicable if it were not caused by dark matter.

Dr Hooper and Dr Goodenough first observed this surplus six years ago, and made it public then, so that other physicists could attempt to refute it. Nor was their claim the only one of its kind: the scientific literature abounds with reports of intriguing blips spotted in *Fermi*'s data by enterprising researchers. But, while other claims to have seen dark matter in these data have fallen away, explained by ever-better models of the underlying physics, or dismissed as artefacts created in the telescope's machinery or in the maths needed to subtract the known from the unknown sources of radiation, theirs has not.

The phenomenon they see falls off in intensity away from the Milky Way's centre exactly as would be expected were dark matter responsible. And the frequencies of the gamma rays match what several plausible-looking models predict will happen ▸▸

when WIMPs cross paths: transmogrification into familiar-matter particles called bottom quarks, with the balance of the energy involved speeding off as gamma rays of exactly the sort Dr Hooper and Dr Goodenough have seen. The truth of their observation is therefore now widely enough accepted in dark-matter circles that the putative particle responsible has, playfully, been dubbed the "hooperon".

The endorsement Dr Hooper and Dr Goodenough really wanted, though, was from the *Fermi* team itself, which knows better than anyone else what the telescope's kinks are, and thus how artefacts might be created. On November 10th that endorsement came—with the release of an analysis to be published in the *Astrophysical Journal*, led by Simona Murgia of the University of California, Irvine, who helps run the telescope's main detector.

Dr Murgia says *Fermi*'s operators—who were, of course, able to see the data as they arrived, and thus steal a march on outside analysts—knew about the anomalous surplus even before Dr Hooper and Dr Goodenough, and have been working ever since to try to explain it away. They kept shtum because, she explains, grand international collaborations like *Fermi* are conservative by their nature. "When you see something you expect, you write a paper," she says. "When you see something you don't expect, there's a lot of discussion and arguing and it's not always helpful. In this case it delayed things a bit much."

On being a WIMP

There are still a few die-hards who do not believe in hooperons. They suggest that if an ensemble of millisecond pulsars (dead stars that rotate hundreds of times a second) were buried in the Milky Way's middle, that might do the trick. To see off this theory (or indeed, prove it correct) requires further lines of evidence.

One such may be dwarf galaxies—conglomerations of just a few billion stars (as opposed to the hundreds of billions in galaxies the size of the Milky Way) that are believed to host lots of dark matter and few confounding gamma-ray sources. *Fermi* can peer at those too, and has. Indeed, gamma rays it has detected coming from one such galaxy, Reticulum II, may support the Hooper-Goodenough hypothesis. Another possibility is that an intriguing signal noticed by XMM-*Newton* (a space telescope that scans the skies for X-rays rather than gamma rays), which has defied preliminary attempts at conventional explanation, might turn out to be a consequence of dark matter.

Dark matter might also be caught more directly, in vast underground laboratories on Earth. These employ lumps or tanks of special materials dedicated to detecting the flash of light or heat that occurs on those rare occasions when a WIMP actually does deign to interact with an atomic nucleus. The sensitivity of such experiments has improved markedly in recent years, so WIMP fans remain hopeful.

And WIMPs may even show up in the Large Hadron Collider, a particle accelerator in Switzerland which, after a long upgrade, should now be powerful enough to spot evidence of dark-matter particles in the detritus of its smashings.

What is at stake for all these efforts is tremendous. If and when any of them does confirm the suspicions of Dr Hooper and Dr Goodenough, a new and odd inhabitant will have to be admitted to the zoo of particles known as the Standard Model; a new taxonomy will have to be developed to accommodate it; and particle physicists will have six times more stuff to study than they had before. ■

Earthquake rescue

Compare and contrast

LOS ANGELES

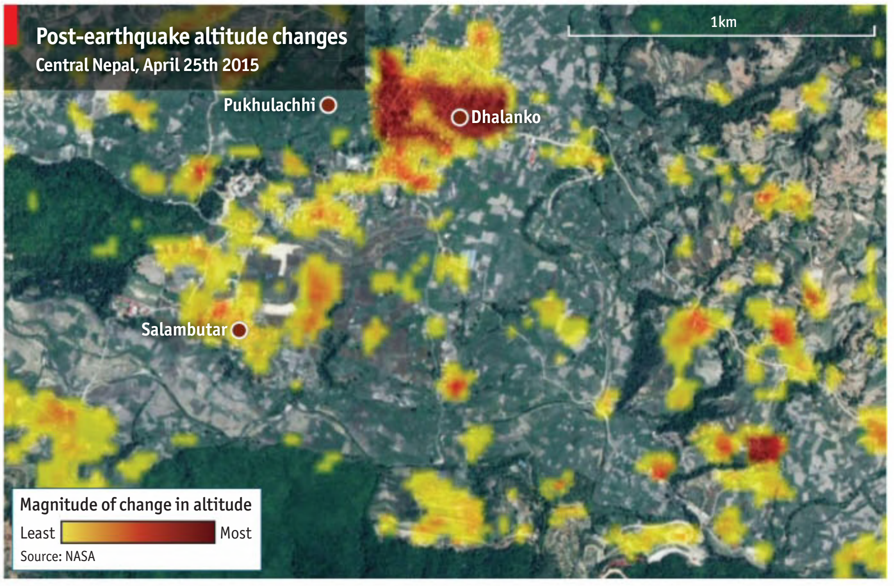
A better way to use satellite images to save lives after tremors

WHEN a big earthquake strikes, it does not do equal harm everywhere. Places resting on unstable sediment will shift around a lot and are thus likely to be damaged badly. Those resting on bedrock are normally better off—though not if they are stuck at the end of a rocky promontory that amplifies a quake's vibrations in the manner of a tuning fork. Finding the areas most badly damaged, and therefore most urgently in need of assistance, in an area whose geology is not already well understood is thus a high-stakes game of hide-and-seek. It involves experts both on the ground where the earthquake happened, and in faraway laboratories, studying satellite photographs.

Sang-Ho Yun of the Jet Propulsion Laboratory—NASA's outpost in Pasadena, California—hopes to help those seekers by using such photographs more effectively. These days, pretty much all of the Earth's surface has been mapped by a technique called satellite-born synthetic-aperture radar. Crucially for disaster-relief work, radar can see through cloud, so does not require clear skies. Equally crucially, its images include information on altitude, accurate to within a few centimetres. Dr Yun's plan is to compare, automatically, the "before" and "after" shots of a stricken area, to work out which parts have risen or fallen the most, and are thus likely to have suffered most damage. A suitably programmed computer would then colour these in (see below), making them obvious to human users.

On April 25th 2015, as he reports in *Seismological Research Letters*, he got a chance to test his ideas out. An earthquake of magnitude 7.8, the most powerful in the region since 1934, hit central Nepal. It claimed over 8,000 lives and caused widespread damage. Four days after it struck, an Italian satellite called COSMO-*SkyMed*, which is equipped with a synthetic-aperture radar, flew over the area. Dr Yun and his colleagues fed the information COSMO-*SkyMed*'s radar collected into their computers and compared it with radar images taken before the disaster.

Their labours produced wide-area colour-coded maps (see below) that showed where the ground had risen or fallen during the earthquake in ways that might damage buildings. Higher-resolution examination of these high-risk areas was then able to pick out buildings that looked as if they had changed in some substantial way. In some cases these buildings had ▸▸



simply gone askew. In others they had collapsed completely.

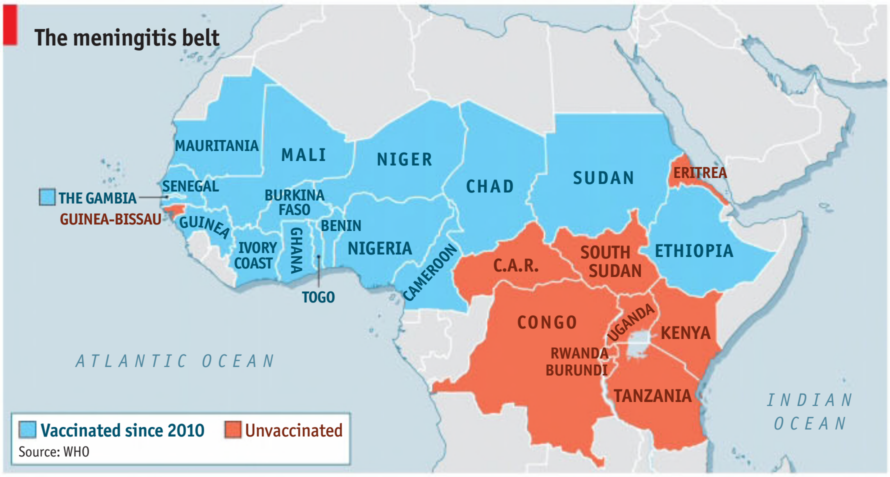
To double check the accuracy of their conclusions Dr Yun's team collaborated with one at the United States Geological Survey, led by Kenneth Hudnut. This let them compare their maps with those created independently, after the disaster, by the National Geospatial Intelligence Agency, one of America's groups of spies, and by the United Nations. Both these sets of maps were made by people inspecting high-resolution satellite photographs for damage—a process that took three days. Dr Yun's maps, the comparison showed, contained almost all of the same information.

This test, then, proved that the method works. But Dr Yun and his colleagues know they still have a long way to go before they can provide such maps quickly enough to be useful. The four days it took an appropriately equipped satellite to come by in the case of the Nepalese earthquake were four days too many for effective disaster relief. Such delays are, though, expected to shorten in coming years, as more satellites equipped with synthetic-aperture radar make it into orbit, and more of the agencies operating them realise the value of keeping that radar running all the time, and also of sharing their data as widely and quickly as possible. By 2020, Dr Yun reckons, the average wait should have dropped to between four and seven hours. That is still a long time to be stuck under a collapsed building. But it is a lot better than the current alternative. ■

Preventing meningitis

Knockout jab

A vaccine that rarely makes the news is a big public-health success



The meningitis belt

FEW vaccines have been so successful, so quickly, as MenAfriVac. It was introduced into Africa in 2010, to immunise people against meningitis A—a bacterial infection of the membranes surrounding the brain and the spinal cord, which can cause death or brain damage within hours of the onset of its flu-like symptoms. Since then, the caseload of the illness has plummeted to zero in 16 countries that used MenAfriVac in mass vaccination campaigns. Before the vaccine's introduction epidemics in the "meningitis belt", which stretches from coast to coast south of the Sahara desert (see map), used to kill thousands a year and disable many more, nearly all of them children and young adults. In 1996, for example, an outbreak killed 25,000 people and sickened 250,000 in six months.

Out of sight is, however, all too frequently out of mind, and health experts now worry that this one-off success will not, at least in some countries, be followed by the introduction of MenAfriVac into routine schedules of infant vaccination. A study just published in *Clinical Infectious Diseases* by Andromachi Karachaliou of Cambridge University and her colleagues shows what this could lead to. Ms Karachaliou's computer model predicts that the epidemics will return with a vengeance in about 15 years if MenAfriVac does not become a routine childhood jab, as the World Health Organisation (WHO) recommends it should. That, the model suggests, is the moment when waning immunity among those already vaccinated, and no immunity at all among a rising generation of the unvaccinated, could combine with seasonal factors (epidemics usually start in the dry season) to create a crisis.

In principle, universal vaccination could eradicate the disease, for the bacterium that causes it can survive only in humans and vaccination clears it from its hosts. The current goal, however, is less ambitious: to stop the epidemics in all 26 countries of the belt, including the ten which have yet to roll out the one-time mass-vaccination campaigns that have done so much good elsewhere. These campaigns cover only those aged between one and 29. That is, nevertheless, about 70% of Africa's population—and this, combined with the fact that older people are much less infectious and rarely succumb to the disease, is enough to create "herd" protection, according to Marie-Pierre Preziosi, a meningitis expert at the WHO. Herd protection is the point at which, even though vaccine coverage is not 100%, there are insufficient infectible people around for the disease to sustain itself.

To keep a proper lid on meningitis A, though, the next step should be to make vaccination routine for infants and remain vigilant for outbreaks. Gavi, an international vaccine fund for poor countries, has already promised its backing for this plan. Besides saving lives, such an approach would save money. A second paper in *Clinical Infectious Diseases*, describing a study led by Anaïs Colombini of the WHO, looked at how routine vaccination might play out in Burkina Faso. Ms Colombini concluded that such a pre-emptive approach would cost less than the alternative of waiting for an outbreak and then vaccinating en masse. This would probably be the case in other countries of the belt, too.

Moreover, MenAfriVac brings benefits beyond curbing meningitis, as two further studies published in the same journal show. These looked at its effect on tetanus. The MedAfriVac uses tetanus toxoid as the protein to which the immunity-generating antigen is attached. Other vaccines that employ a similar trick are known to boost immunity to tetanus. In one of the studies, Nicole Basta of the University of Minnesota and her colleagues have shown that this process works for MenAfriVac, too. Their research, carried out in Mali, found that the mass campaign increased the share of people with long-term tetanus immunity from 20% to 59%. This makes MenAfriVac a formidable tetanus booster, even though it is not strong enough to stand alone against tetanus, says Dr Preziosi.

What this means for neonatal tetanus, which kills nearly 50,000 newborns a year in sub-Saharan Africa, is shown by the second study, led by Ray Borrow of Manchester Royal Infirmary, in Britain. Poor countries now tackle it by giving pregnant women tetanus boosters, which ensure they pass antibodies on to their unborn babies. Dr Borrow's team found that rates of neonatal tetanus fell by 25% in countries that had had a MenAfriVac campaign. Although some of this drop may have happened for other reasons, the evidence points mostly in the direction of the vaccine's hefty double-duty.

All of this makes MenAfriVac one of the brightest public-health stars around. For, if countries in the meningitis belt follow the prescription these studies suggest, they should be able, quickly, to put the lid on two scourges for the price of one. ■

America's BRAIN initiative

The observer corps

ARGONNE, ILLINOIS

What is the way best to study the brain? Big labs or small?

IF YOU want to build an atom bomb, land men on the Moon or work out the exact order of the 3 billion chemical "letters" in the DNA of the human genome, then Big Science, a large-scale project backed by a budget in the billions, will do it for you. But will it also do it for the brain, the understanding of which is, perhaps, the biggest scientific challenge of all? That is a question with particular salience now, as the Brain Research through Advancing Innovative Neurotechnologies (BRAIN) initiative gets going in earnest.

At the moment this endeavour, announced by Barack Obama in April 2013, is definitely small science—despite its proposed budget of $4.8 billion over the next decade. According to Rafael Yuste of Columbia University, who was one of its instigators, some 125 laboratories around America have signed up to dip their bread in the gravy, so that gravy is very thinly spread. This reflects the way neuroscience has been done until now, but Dr Yuste would like the future to be different. Genetics was similarly fragmented before the Human Genome Project began, but the bargain imposed on researchers by that project was that the process of sequencing would be centralised into a few laboratories, where it could be industrialised. This, as Dr Yuste and several of his co-sponsors of the original idea of BRAIN write this month in *Neuron*, is the model they think neuroscience should now adopt.

BRAIN's specific remit, they point out, is to develop new technological approaches for the study of brains. For that purpose, they propose creating a handful of "brain observatories" which would design and build the equipment, and then make it available to teams of outside researchers, much as academic astronomers book (and pay for) time on large telescopes. In this way, the observatories could concentrate on the engineering: refining the equipment by experience and arriving at designs that might then be commercialised.

Manhattan-project transfer

Dr Yuste and his colleagues identify four types of technology that BRAIN needs. Three are improvements of existing methods. The fourth is largely terra incognita.

The first of the improvements is better computing power. Even the task of mapping a mouse brain will require 500 petabytes of data storage. A petabyte is 1m gigabytes. For comparison, finding the Higgs boson required about 200 petabytes. A human brain is vastly more complex than a mouse's. It has around 86 billion neurons, compared with 71m in a mouse. And the wiring that links these neurons (cell protrusions called axons) is reckoned to be about 100,000km long.

The second improvement that is required of existing technology involves brain-scanning. At the moment, this has a resolution measured at best in millimetres, which is fine for its original purpose—clinical diagnosis—but useless for understanding how brains work at anything more than a superficial level. Higher-resolution scanners would permit researchers to look at small, functional groups of neurons, such as the neuronal columns of which brain cortexes are composed.

The third improvement Dr Yuste desires is to instruments that can study the connections between individual neurons, a field known as connectomics. At the moment, this can be done only to dead brains, and the tools usually employed are electron microscopes. As with many other fields, the more closely you want to look, the bigger the machines you need to do it. Dr Yuste and his colleagues would also like to overlay on the three-dimensional electron-micrographs of connectomics information from other machines, such as high-resolution fluorescent microscopes, which can detect the molecules present in particular parts of neurons.

That leads to the unknown land. This is the designing of nanoscale devices (ie, instruments whose dimensions are measured in billionths of a metre) which can do something approaching connectomics on living brains, by studying the activities of hundreds or thousands of interconnected neurons simultaneously. Only in this way can the true nature of the brain's circuitry be understood.

Asking what these nanoscale devices will look like tends to generate a lot of handwaving involving words like "quantum dots" and "nanodiamonds"—both types of tiny crystal that might act as neuron-scale probes—but with little clear idea of how these crystal probes would be controlled and listened to. In their case, then, there is an argument for letting a thousand flowers bloom in laboratories large and small. But for the other devices on Dr Yuste's shopping list, observatories do seem a good idea. And, as luck would have it, America has a network of institutions that might be pressed into service as such.

Critical mass

The National Laboratories, are, in many ways, Big Science personified. A lot of them started life as atomic-weapons establishments, so they know how to run large projects that go on for years. They also house five of the world's ten fastest supercomputers. One, indeed, is ready and eager to go. Argonne, near Chicago, has been hiring out one of its instruments, an X-ray generator called the Advanced Photon Source, to biologists for several years. Last year, 2,000 of the 5,000 experiments conducted using it were biological, and Argonne has recently hired a neuroscientist specifically to run a project that will employ the photon source to X-ray mouse brains, with a view to mapping them at high resolution. It is also buying a top-of-the-range electron microscope, with which researchers will be able to zoom in on areas of the brain the photon source suggests are particularly interesting, and a flashy, new computer that will help analyse the results of all this. Argonne's director, Peter Littlewood, thus hopes to create a model which other national laboratories thinking of developing brain observatories might follow.

Whether they do will depend a lot on the say-so of Ernest Moniz, America's energy secretary, who is the labs' collective supremo. He and Francis Collins, head of the country's National Institutes of Health (and thus, in effect, BRAIN's treasurer), have met several times to chew the matter over. Some in Congress think the energy department should be minding its own business. Dr Moniz, an astute politician, understands this. But he is also a scientist to his fingertips, for he was once head of the physics department at the Massachusetts Institute of Technology. That he will turn down the chance to be part of what may become the scientific adventure of the 21st century seems unlikely. ■

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Pop music

Bopping brilliant

The story of how pop was made—and who made it

The Song Machine. By John Seabrook. *Norton; 338 pages; $26.95. Jonathan Cape; £18.99*

EVERY musical genre has its canon: Bach and Mozart for classical, Armstrong and Parker for jazz, Dylan and the Beatles for rock, Biggie and Tupac for hip-hop. Only pop music—the "bubble gum" or "teeny-bop" tunes played on nightclub dance floors and Top 40 radio—lacks similar critical analysis and acclaim. True, Michael Jackson has been given his due. But it took an early death for the public to value his contributions fully. And no one would mention today's "manufactured" stars, such as Katy Perry (pictured) or Miley Cyrus, in the same breath as the King of Pop.

John Seabrook takes another tack. "The Song Machine", a history of the past 20 years of pop music, takes for granted two assumptions, both convincingly demonstrated via a highly engaging narrative. The most basic is that modern "earworm" pop is a high art form, as worthy of appreciation as any other: he calls Kelly Clarkson's "Since U Been Gone" "magnificent", for example, and the "hooks" (catchy, repeated snippets of melody) in Rihanna's "Umbrella" are "wonderful" and "lovely". The second is that the public unfairly dismisses such masterpieces, because its expectations of the creative process were set during the rock 'n' roll era, when singer-songwriters were the norm. In fact, the 1960s and 1970s were a historical aberration, and what may seem like a soulless new wave of industrial music production is a return to the "hit factories" of years gone by.

During the first half of the 20th century, many of the biggest names in popular music were not performers but songwriters, based on the stretch of West 28th Street in New York known as Tin Pan Alley. Whether solo composers like Cole Porter and Irving Berlin or inseparable duos like George and Ira Gershwin or Richard Rodgers and Oscar Hammerstein, these hitmakers remain far better known than the singers who performed their work. Much of early rock, including many Elvis Presley classics, was written by teams in or around the Brill Building in midtown Manhattan. And even after folk rockers and the Beatles established a precedent that performers should write their own material, Motown maintained a musical assembly line that would have made Henry Ford proud.

The protagonists of "The Song Machine" are not headliners like Taylor Swift, but rather the men (they are indeed mostly men) behind the music. Mr Seabrook sees their ascent as the product of broader social trends. One thread that runs consistently through his tale is technological disruption. The advent of computerised music software in the 1970s made virtuosic instrument-playing or singing redundant: producers could obtain any sound they wanted synthetically, and string together vocals by using the best individual syllables from a large number of takes ("comping") and running them through a pitch corrector. Subsequently, the advent of internet downloading shifted the primary unit of musical consumption from the album to the single. That sharply increased demand for melodic hooks, to lock listeners in within the seven seconds before they are likely to turn the radio dial.

These inventions shifted the balance of power from performers to production teams. Today, the process starts with producers laying out beats and chords. They then recruit "topliners", who are often women, to try out melodies and vocal snippets and see what sticks. Lyrics are an afterthought. The finished product is shopped around to star singers, who do their best to "preserve the illusion" of authorship. "I get this feeling of a big painter's studio in Italy back in the 1400s," one Swedish artist says in the book. "One assistant does the hands, another does the feet ...and then Michelangelo walks in and says, 'That's really great, just turn it slightly ...Next!'" The book is full of cautionary tales of singers whose careers went off the rails when they rebelled against their labels and demanded creative control.

The second engine of change in "The Song Machine" is cultural globalisation. The Cole Porters of today hail primarily from Scandinavia: Max Martin, a Swedish über-producer, has written more chart-topping hits than the Beatles. Mr Seabrook thinks it is no accident that American listeners have become hooked on tunes from abroad. Although white artists borrowed from African-American blues in the early days of rock, by the 1990s black music had moved on to spoken, beat-focused hip-hop, while white bands like Nirvana screeched with dissonant grunge rock. ▸

By contrast, Sweden, the country that produced ABBA, never lost its appetite for soaring melodies. Its government offered free music education. Moreover, its artists were not constrained by racial boundaries in American music, and could produce "a genre-bursting hybrid: pop [white] music with a rhythmic R&B [black] feel". And because English was not their first language, they were free to "treat English very respectless", as Ulf Ekberg of Ace of Base, a band, says, "and just look for the word that sounded good with the melody".

Mr Seabrook clearly enjoys writing about pop music. He walks readers through the hits measure by measure. Britney Spears's single "...Baby One More Time", he writes, "is a song about obsession, and it takes all of two seconds to hook you...first with the swung triplet 'Da Nah Nah' and then with that alluring growl-purr...Then the funky Cheiron backbeat kicks in, with drums that sound like percussion grenades." He paints vivid pictures of his protagonists; Ms Spears was "scared" the first time she saw Mr Martin's "lank hair, a fleshy grizzled face...and the sallow skin of a studio rat". And he brings little-known stories to life, from the con man who developed the Backstreet Boys and 'N Sync and is now in prison for fraud, to a singer who delivers a laugh-out-loud funny, profane tirade against Ms Perry for ripping off her song title "I Kissed A Girl".

"The Song Machine" will not lead anyone to confuse Mr Martin and his partner, Lukasz "Dr Luke" Gottwald, with John Lennon and Paul McCartney—even Mr Seabrook makes clear that his first love remains classic rock. But getting clubgoers out of their seats and drivers bopping in their cars is its own rare kind of genius. ■

European history

A grim half-century

To Hell and Back: Europe 1914-1949. By Ian Kershaw. *Viking; 624 pages; $35. Allen Lane; £30*

When Europe was flat on its face

FOR Europe, as Ian Kershaw notes in this magisterial history, which came out in Britain in September and is just being published in America, the 20th century was a game of two halves. The first saw a cataclysm that brought down empires, plunged the continent into a deep slump and culminated in the horrors of the second world war. At least for Western Europe, the second was, in contrast, a triumph of peace and prosperity. That distinction may explain why Mr Kershaw has sensibly divided his original assignment to write the 20th-century volume in the Penguin "History of Europe" series into two books, of which this is the first.

His broad picture of what went wrong in Europe in the 20th century is built around four related points. First was the rise of ethnic nationalism, something that helped to doom the multinational empires of Austria-Hungary, Russia and the Ottomans. Next were demands for territorial revision, between France and Germany, in central and eastern Europe and all over the Balkans. Third was class conflict, as workers and a nascent socialist movement flexed their muscles against bosses and the traditional aristocratic ruling class. And fourth was the crisis of capitalism, which struck home in the early 1930s and contributed hugely to the rise of Nazism.

Mr Kershaw, an acknowledged expert on Germany and author of the best biography of Adolf Hitler, naturally places the two world wars at the heart of his narrative, with Germany standing condemned as the main cause of both. That is a more controversial position to take for the first than the second, but on the whole Mr Kershaw justifies his claim. He also delineates cogently and chillingly the way in which the collapse of the tsarist empire, brought about to a large extent by Russia's military and political setbacks during the first world war, led to the Bolshevik triumph and the creation of the Soviet Union, which in almost all respects was worse than what went before.

The author shows how the failings of that first war's victors—the reparations fiasco, the Versailles treaty, America's withdrawal into isolationism—laid the ground for a path that led inexorably to the second. But he also insists that the path was not inevitable. The Locarno treaty of 1925 between Germany, France, Britain, Belgium and Italy, and the entry of Weimar Germany into the League of Nations, could, just about, have led to something rather like the rehabilitation of West Germany in the 1950s. What really took Europe back to the horrors that culminated in another war was economic collapse after 1929. Just as after the recent financial crisis of 2007-08, it was the political right, not the left, that benefited most from this collapse. In Europe that ultimately meant a snuffing out of democracy and the rise of the extreme right in Spain, much of central Europe and, above all, in Germany.

Mr Kershaw's focus on Germany inevitably means a few weaknesses elsewhere. His strictures against the other great European tyrant of the period, Josef Stalin, are softer than those against Hitler. Indeed, he somewhat underplays the horrific history of the Soviet Union from the late 1920s up to the Nazi-Soviet pact of 1939. He has little to say on Turkey: no mention of Field-Marshal Allenby nor T.E. Lawrence, little on Kemal Ataturk. His treatment of the military story of the two world wars is succinct almost to the point of cursoriness, but this ground is well-tilled in other books. It is also obvious from his narrative that he is more interested in politics and war than in social, demographic and cultural changes, though he dutifully covers these too.

As in previous volumes in the series, the editors have decided to dispense with footnotes and sources (though there is a useful bibliography). That may be understandable in a history aimed more at the general public than at fellow academics, but it is still annoying. Yet this is a worthy, impressive and well-written addition to a series that has become the definitive history of Europe for our times—and one that whets the appetite for his next volume. ■

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The financial crisis

Fresh thoughts

Between Debt and the Devil: Money, Credit, and Fixing Global Finance. By Adair Turner. *Princeton University Press; 302 pages; $29.95 and £19.95*

THE hangover from the debt crisis of 2007-08 can still be felt. Developed economies are growing sluggishly and central banks are maintaining a policy of near-zero interest rates. Debt is still a huge burden on the Western economies, and politicians are arguing about how to deal with it.

Adair Turner was one of the regulators who had to deal with the fallout from the crisis. A classic technocrat, with spells in management consulting and investment banking and as head of the Confederation of British Industry, a lobby group, he took charge of the Financial Services Authority, Britain's regulator, on September 20th 2008. Only days before, Lehman Brothers had collapsed. He has now reflected on the causes of a crisis that he freely admits he did not see approaching. The problem, he argues, lies in the nature of credit creation.

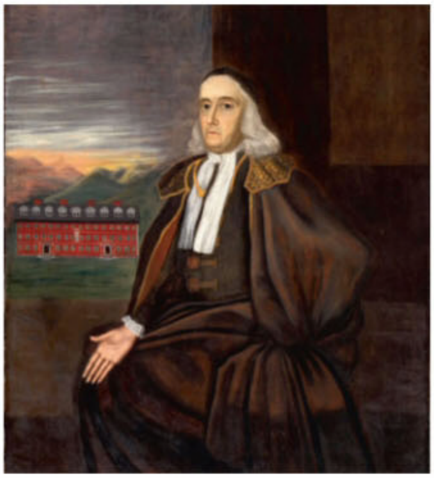
Most new credit is created by the commercial banking system. In simple economic models, banks take deposits from consumers and lend them out to businesses. In fact, however, most lending goes to the property sector. In 1928, property lending comprised 30% of all bank loans across 17 advanced economies; by 2007, this proportion was approaching 60%.

So when central banks cut rates to stimulate the economy, the newly created credit may well be used not to buy new assets, but to buy existing properties. The result can be a speculative bubble. When it bursts the economy can be damaged, as asset prices fall, leading to a rise in bad debts; a debt-deflation cycle. A further problem is that rising asset prices deliver big gains to the wealthy, who have a lower propensity to spend than the worse-off. The result is sluggish growth in demand unless the middle-classes and the poor borrow to maintain their standard of living. But that creates the fuel for the next crisis.

Before 2007 regulators and economists were slow to recognise this issue. They regarded debt as a zero-sum game (for every debtor, there is a creditor) and the rapid rise of the financial sector as a largely benign phenomenon. Since the crisis, regulators have tried to stabilise the system, chiefly by requiring banks to hold more capital. But Lord Turner, a life peer in the British Parliament, thinks a complete rethink is needed.

"Free financial markets left to themselves are bound to create credit in excessive quantities and allocate it inefficiently, generating unstable booms and busts," he writes in his new book, "Between Debt and the Devil". Instead, countries should restrict private credit growth and consider allowing the central bank to create money to finance a budget deficit. Such an idea smacks of the Weimar Republic, where the policy led to hyperinflation. But Lord Turner argues that it should be possible to prevent excessive money creation. Furthermore, this option would be better than the alternatives: stagnation caused by the failure of the private sector to create credit, or the boom-and-bust cycles of the past.

This idea, which is not entirely new, is what lies behind the tentative plans for "people's quantitative easing" advanced by the new left-wing leadership of the Labour Party. This might seem odd company for a former McKinsey consultant. But if developed economies fall back into recession, people may hear quite a bit more about Lord Turner's ideas. ■



The Salem witch trials

Madness in Massachusetts

The Witches: Salem, 1692. By Stacy Schiff. *Little, Brown; 498 pages; $32. Weidenfeld & Nicolson; 512 pages; £20*

"IT WOULD be difficult to name another historical moment so dominated by teenage virgins," observes Stacy Schiff, in a masterly new account of the Salem witch trails. In 1692 writhing girls in the Massachusetts village of Salem, steeped in Puritan teachings about the devil and perhaps also bored, began hurling charges of witchcraft at village women. Accusations spread swiftly. By the time the crisis ended less than a year later, 14 women and five men had been hanged, and another was crushed to death by stones.

The tale is alternately absurd and heart-rending. Suspects were subject to bodily searches. Witches' teats could lurk in marks like warts or insect bites, perhaps a conduit for the devil to enter the body. Several of the accused were found to have "a preternatural excrescence of flesh between the pudendum and anus". The unfortunates were kept chained in cold and dank prisons, where some died. Even a five-year-old was held for several months.

Many asserted their innocence, to no avail. "You tax me for a wizard. You may as well tax me for a buzzard," said George Jacobs, who insisted that he was no witch. Perversely, pleading innocent tended to bring a death sentence, whereas those who confessed were spared. Some who pleaded guilty to survive felt awful remorse for lying.

Ms Schiff, a Pulitzer prize-winning author and biographer of Cleopatra, clearly relishes her subject and its historical context. She adopts a wry, confident and sometimes even playful tone. Witches race around on brooms; they appear as wolves or yellow birds; the devil presides at a witches' convention. All the while, many accusers remained, in the words of one rare sceptic, Thomas Brattle, curiously "hale and hearty, robust and lusty".

At least 144 people faced accusations, and the thicket of charges sometimes can make it hard to keep track of who's who. (A cast of characters in the front of the book helps.) Women, with their weaker wills, "were understood to be more susceptible to witchcraft", Ms Schiff writes. Her challenge is that records are limited, so she builds drama where she can find it. Curiously, no court records of the trials themselves have survived, though transcripts of some preliminary hearings, as well as related documents like indictments and confessions, remain. Some diaries of high officials at the time are surprisingly empty.

"What sets Salem apart", Ms Schiff writes, "is not the accusations but the convictions." She assigns particular blame to William Stoughton (pictured, in a portrait in the Harvard Art Museums), the chief justice at the trials, whose name still adorns a Harvard dormitory. As Ms Schiff points out, he was a bachelor with no knowledge of teenage girls; hence his willingness to allow "spectral evidence" seen by hysterical girls and other accusers, but no one else.

The trials ended suddenly, as the community and justices wrestled with whether innocents had gone to their deaths. After all, what was innocence and what was guilt? Could the devil co-opt a person's form and appear as a witch, even while that person remained innocent? Europe had already ceased to prosecute witches, and prior to Salem, New England had known just four confessed witches. That Massachusetts allowed the trials to get so badly out of hand remains one of history's tragic enigmas. ■

German fiction

Prussia goes west

All For Nothing. By Walter Kempowski. Translated by Anthea Bell. *Granta; 343 pages; £14.99*

WALTER KEMPOWSKI was one of Germany's finest post-war writers, though he always lived in the shadow of Günter Grass and Heinrich Böll, both Nobel laureates. Dominating his oeuvre is "Echo Soundings", ten volumes of eyewitness accounts of the second world war. Yet he was also a talented novelist, his reputation cemented by "All for Nothing", the last novel he wrote before he died in 2007, which is now translated into English for the first time.

The book is set in January 1945 and centres on a manor house in Prussia, the residence of the wealthy von Globig family. The mistress of the household is Katharina, who leads a quiet life of leisure at a civilised remove from the world outside. But wider events are about to intrude, with fiery glows on the horizon and the reverberations of shell-fire heralding the arrival of the Red Army. Daily life is deteriorating as theft and looting gather momentum, despite ruthless punishment by the authorities. Katharina's husband Eberhard is a Wehrmacht officer in Italy, so the fraught decision of when to flee is hers alone.

Kempowski's treatment of this dark material is often surprisingly mischievous. Irony shines through his narration as his characters cling onto numbingly petty concerns despite impending catastrophe. Servants continue to bicker and a Nazi party functionary, Drygalski, snoops on Katharina, determined to catch her in breach of one or more petty regulations. But Kempowski is not concerned with evil stereotypes. Drygalski also cares scrupulously for the refugees flooding the area, in between mourning his dead son.

Even so, this is a world drained of idealism. In a pivotal episode, Katharina gives in to the town pastor's pleas and hides a fugitive, but this has more to do with her passivity than any heroism. Denial is endemic, of both the horrors of the Nazi regime and the cataclysm arriving from the east. Kempowski's idiosyncratic genius lies in his ability to weave this accumulation of human fallibility into something greater. His perspective on a grim slice of history steadily broadens out to become visionary, lending his novel the irresistible pull of great tragedy.

Theatre

Human nature

NEW YORK

A musical for people who don't like musicals

THE ingredients of "Futurity", a new off-Broadway show, promise a noble failure. The story crams together the bloodiness of the American civil war, the barbarity of slavery, the purity of mathematics, the promise of artificial intelligence and the wisdom of Ada Lovelace (Lord Byron's daughter, who was an early computer scientist and a metaphysicist). Oh, and it is a musical, with tunes that range from folksy to barnstorming, and lyrics that revel in wonkiness ("What's the animating force from which intelligence emerges/Is it material in nature or a spiritual convergence?"). Add all of this together and you could get a horrible mess. Instead, "Futurity" is a delight.

The show's arrival at the Connelly Theatre in New York, where it will play until November 22nd, caps a long journey. "I don't really like musicals, so I thought maybe I could write one I like," explains César Alvarez (pictured), the lanky star, who also wrote the book, music and lyrics. He was always drawn to the way music can help tell a story, how it "speaks directly to the emotional part of our brain. It literally shakes the viscera." But he never cared for the formulaic fare typical of Broadway, where risk-averse producers commission soundtracks that ooze with cynical sincerity. So he began "Futurity" as a concept album for his band, the Lisps, which they first performed on a shoestring budget at a now-defunct downtown space in 2009.

Sarah Benson, the artistic director of the Soho Rep, saw an early concert and knew it belonged in a theatre. She had never directed a musical before—she shares Mr Alvarez's antipathy for the usual razzmatazz—but she had always been intrigued by music's power to "elevate experience into something that transcends what's rational," she says. She also saw in the songs a story that was naturally theatrical.

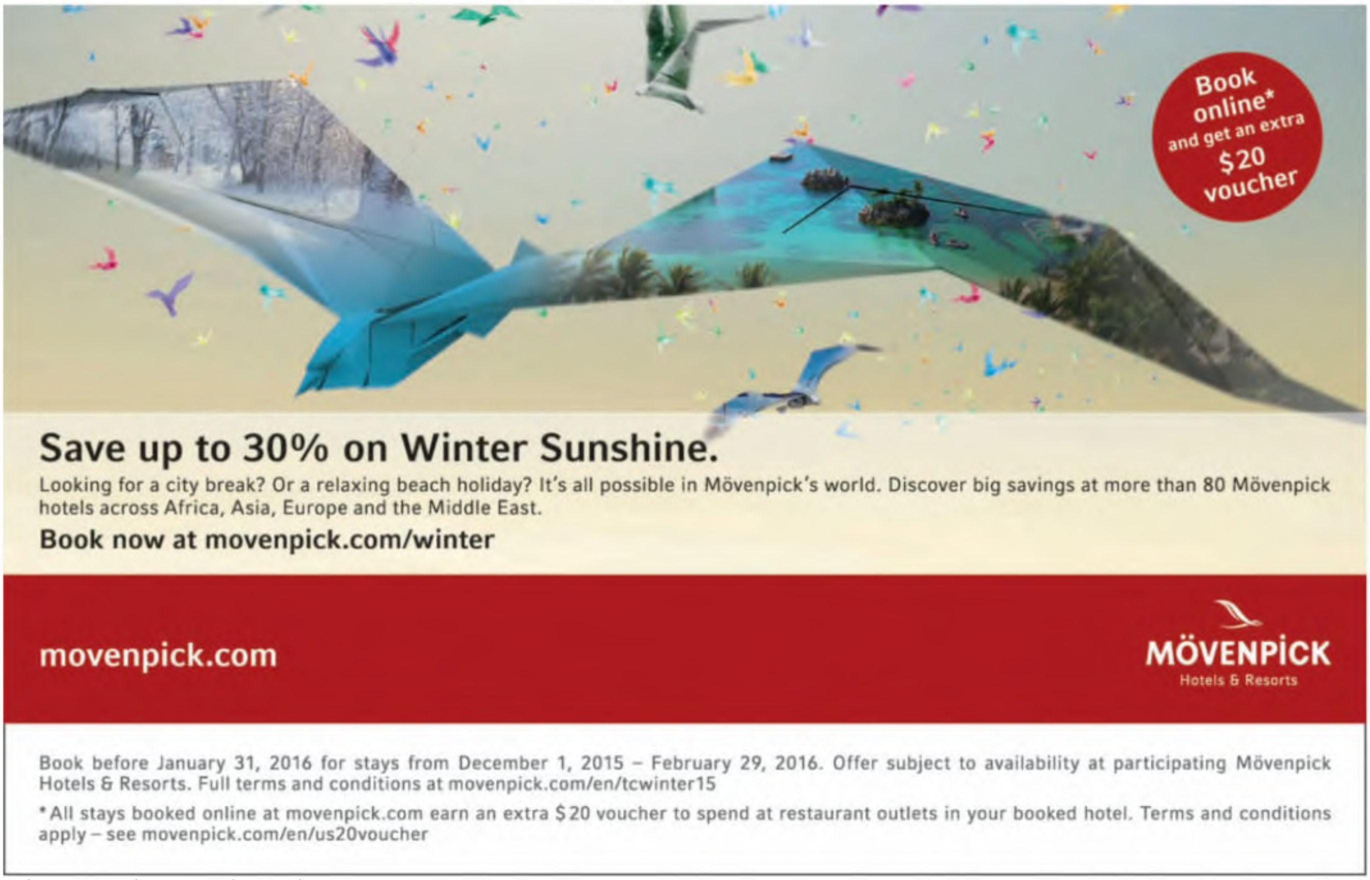
The show tells the tale of a fictional civil-war soldier named Julian (Mr Alvarez), who dreams of a fate other than imminent death. An aspiring inventor, he writes to Ada Lovelace (Sammy Tunis of the Lisps) in the hope that she will help him create a "thinking machine" capable of transcending, and therefore resolving, thorny human illogic. Could a "steam brain" figure out a way to end the war? Julian and Ada ponder the potential ("Is morality made of information?"; "Is an impractical question worth pursuing?") as Julian's regiment marches (and sings) towards the front.

From the start it is clear that "Futurity" is a rather different sort of musical. It opens with Mr Alvarez and his band (an appealingly incongruous foursome) in T-shirts and jeans, addressing the audience directly. "Do not attempt to learn about history from this musical," he quips before retreating backstage. When the curtain rises moments later, Mr Alvarez is in uniform with his regiment, each soldier armed with a musical instrument (everything is performed on stage by an impressive ensemble of actor-musicians). The music itself is stirring, mixing rustic Appalachian sounds with a cool and often irreverent contemporary sensibility. Occasionally Mr Alvarez and Ms Tunis break character to banter as themselves ("They didn't clap for either of us," she says after their opening numbers), and the effect is unexpectedly endearing. By calling attention to the artifice of performance, they subtly highlight their role as the show's creators, too.

"Futurity" does not shy away from serious themes or dark concepts. Death and human frailty are there throughout, alongside cosmic questions about the nature of intelligence and the value of fruitless pursuits. Yet the overall effect is uplifting. In part this is because Mr Alvarez, who now teaches musical theatre at the University of the Arts in Philadelphia, has injected this show with both humour and hope. But also he suggests there is something extraordinarily heartening about the musical form. "Music is about organising chaos," he says. When so many people, so many instruments, come together to create something harmonious, the effect is inspiring. "It's primal," he observes. "You can't help but think, 'Look at how well we can work together.'" ■

Courses

Travel



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Economic and financial indicators

Economic data

% change on year ago

	Gross domestic product			Industrial production	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance	Interest rates, %	Currency units, per $	
	latest	qtr*	2015†	latest	latest	2015†		latest 12 months, $bn	% of GDP 2015†	% of GDP 2015†	10-year gov't bonds, latest	Nov 11th	year ago
United States	+2.0 Q3	+1.5	+2.4	+0.4 Sep	nil Sep	+0.3	5.0 Oct	-429.0 Q2	-2.5	-2.6	2.33	-	-
China	+6.9 Q3	+7.4	+6.9	+5.6 Oct	+1.3 Oct	+1.6	4.1 Q3§	+279.0 Q3	+3.1	-2.7	3.04§§	6.37	6.13
Japan	+0.8 Q2	-1.2	+0.7	-0.9 Sep	nil Sep	+0.7	3.4 Sep	+121.9 Sep	+2.7	-6.8	0.31	123	116
Britain	+2.3 Q3	+2.0	+2.5	+1.1 Sep	-0.1 Sep	+0.1	5.3 Aug††	-149.2 Q2	-4.6	-4.4	2.09	0.66	0.63
Canada	+1.0 Q2	-0.5	+1.2	+0.5 Aug	+1.0 Sep	+1.3	7.0 Oct	-48.5 Q2	-3.1	-1.8	1.71	1.33	1.13
Euro area	+1.5 Q2	+1.4	+1.5	+0.9 Aug	nil Oct	+0.1	10.8 Sep	+353.4 Aug	+2.8	-2.1	0.61	0.93	0.80
Austria	+1.0 Q3	+2.2	+0.7	+1.0 Aug	+0.7 Sep	+0.9	5.7 Sep	+10.7 Q2	+1.2	-2.1	0.90	0.93	0.80
Belgium	+1.3 Q3	+0.8	+1.2	+2.4 Aug	+1.3 Oct	+0.5	8.7 Sep	-5.8 Jun	+1.2	-2.6	0.98	0.93	0.80
France	+1.1 Q2	nil	+1.1	+1.8 Sep	nil Sep	+0.1	10.7 Sep	-0.4 Aug‡	-0.5	-4.1	0.95	0.93	0.80
Germany	+1.6 Q2	+1.8	+1.6	+0.2 Sep	+0.3 Oct	+0.2	6.4 Oct	+277.8 Sep	+7.8	+0.7	0.61	0.93	0.80
Greece	+1.7 Q2	+3.7	+0.5	+3.0 Sep	-0.9 Oct	-1.1	25.0 Jul	-2.9 Aug	+2.5	-4.1	7.73	0.93	0.80
Italy	+0.7 Q2	+1.3	+0.7	+1.7 Sep	+0.3 Oct	+0.1	11.8 Sep	+38.3 Aug	+2.0	-2.9	1.63	0.93	0.80
Netherlands	+1.8 Q2	+0.8	+2.0	+0.8 Sep	+0.7 Oct	+0.4	8.3 Sep	+85.3 Q2	+10.3	-1.8	0.79	0.93	0.80
Spain	+3.4 Q3	+3.2	+3.1	+4.0 Sep	-0.6 Oct	-0.5	21.6 Sep	+18.8 Aug	+0.8	-4.4	1.88	0.93	0.80
Czech Republic	+4.6 Q2	+4.4	+3.4	+0.6 Sep	+0.2 Oct	+0.3	5.9 Oct§	+2.4 Q2	-0.1	-1.8	0.54	25.2	22.2
Denmark	+2.0 Q2	+0.6	+1.7	+2.3 Sep	+0.4 Oct	+0.6	4.6 Sep	+22.7 Sep	+6.7	-2.9	0.94	6.95	5.99
Norway	+2.2 Q2	-0.4	+0.7	+3.3 Sep	+2.5 Oct	+1.7	4.6 Aug‡‡	+37.8 Q2	+9.3	+5.9	1.73	8.61	6.82
Poland	+3.6 Q2	+3.6	+3.4	+4.1 Sep	-0.8 Oct	nil	9.6 Oct§	-1.9 Aug	-1.4	-1.5	2.85	3.93	3.39
Russia	-4.6 Q2	na	-3.9	-3.5 Sep	+15.6 Oct	+15.0	5.2 Sep§	+64.3 Q3	+5.5	-2.8	9.45	64.8	46.5
Sweden	+3.3 Q2	+4.6	+3.0	+6.3 Sep	+0.1 Sep	nil	6.7 Sep§	+35.1 Q2	+6.5	-1.2	0.83	8.69	7.42
Switzerland	+1.2 Q2	+1.0	+0.9	-2.5 Q2	-1.4 Oct	-1.1	3.4 Oct	+60.9 Q2	+7.9	+0.2	-0.25	1.00	0.97
Turkey	+3.8 Q2	na	+2.9	-7.9 Sep	+7.6 Oct	+7.5	9.8 Jul§	-40.6 Sep	-4.9	-1.6	9.89	2.89	2.26
Australia	+2.0 Q2	+0.7	+2.3	+1.2 Q2	+1.5 Q3	+1.7	5.9 Oct	-47.4 Q2	-3.8	-2.4	2.87	1.42	1.15
Hong Kong	+2.8 Q2	+1.6	+2.4	-1.2 Q2	+2.0 Sep	+3.1	3.3 Sep‡‡	+7.4 Q2	+2.8	nil	1.76	7.75	7.75
India	+7.0 Q2	+6.6	+7.3	+6.4 Aug	+4.4 Sep	+5.0	4.9 2013	-25.9 Q2	-1.1	-3.8	7.68	66.4	61.6
Indonesia	+4.7 Q3	na	+4.7	+0.7 Sep	+6.2 Oct	+6.4	6.2 Q3§	-21.6 Q2	-2.5	-2.0	8.63	13,603	12,205
Malaysia	+4.9 Q2	na	+5.4	+5.1 Sep	+2.6 Sep	+2.5	3.2 Aug§	+8.8 Q2	+2.5	-4.0	4.25	4.36	3.35
Pakistan	+5.5 2015**	na	+5.7	+4.8 Aug	+1.6 Oct	+3.9	6.0 2014	-2.6 Q2	-0.7	-5.1	8.80†††	105	102
Philippines	+5.6 Q2	+7.4	+6.4	+3.6 Sep	+0.4 Oct	+2.4	6.5 Q3§	+11.7 Jun	+4.1	-1.9	4.09	47.0	45.0
Singapore	+1.4 Q3	+0.1	+2.9	-4.8 Sep	-0.6 Sep	+0.2	2.0 Q3	+69.5 Q2	+21.2	-0.7	2.66	1.42	1.29
South Korea	+2.7 Q3	+5.0	+2.4	+2.4 Sep	+0.9 Oct	+0.8	3.1 Oct§	+107.9 Sep	+8.0	+0.3	2.32	1,155	1,092
Taiwan	-1.0 Q3	+0.2	+3.2	-5.3 Sep	+0.3 Oct	+0.1	3.8 Sep	+72.8 Q2	+12.8	-1.0	1.19	32.7	30.6
Thailand	+2.8 Q2	+1.5	+3.4	-3.6 Sep	-0.8 Oct	+0.8	0.8 Sep§	+24.4 Q2	+2.4	-2.0	2.65	35.9	32.9
Argentina	+2.3 Q2	+2.0	+0.7	+0.2 Sep	— ***	—	6.6 Q2§	-8.3 Q2	-1.7	-3.6	na	9.60	8.51
Brazil	-2.6 Q2	-7.2	-2.8	-10.8 Sep	+9.9 Oct	+8.9	7.6 Sep§	-79.3 Sep	-3.8	-6.0	15.50	3.76	2.56
Chile	+1.9 Q2	nil	+2.8	+0.5 Sep	+4.0 Oct	+3.9	6.4 Sep§‡‡	-0.3 Q2	-1.2	-2.2	4.67	699	591
Colombia	+3.0 Q2	+2.4	+3.3	+2.6 Aug	+5.9 Oct	+4.2	9.0 Sep§	-20.8 Q2	-6.7	-2.1	7.99	2,942	2,106
Mexico	+2.2 Q2	+2.0	+2.3	+1.7 Sep	+2.5 Oct	+2.9	4.2 Sep	-25.3 Q2	-2.7	-3.4	6.10	16.7	13.6
Venezuela	-2.3 Q3~	+10.0	-4.5	na	+68.5 Dec	+84.1	6.6 May§	+10.3 Q3~	-1.8	-16.5	10.51	6.31	6.35
Egypt	+4.3 Q4	na	+4.2	-5.5 Aug	+9.7 Oct	+10.0	12.7 Q2§	-12.2 Q2	-1.4	-11.0	na	7.83	7.15
Israel	+1.8 Q2	+0.1	+3.3	+3.9 Aug	-0.5 Sep	-0.2	5.1 Sep	+10.2 Q2	+4.9	-2.8	2.17	3.90	3.82
Saudi Arabia	+3.5 2014	na	+2.7	na	+2.4 Oct	+2.7	5.7 2014	-1.5 Q2	-2.7	-12.7	na	3.75	3.75
South Africa	+1.2 Q2	-1.3	+1.5	+0.4 Sep	+4.6 Sep	+4.7	25.5 Q3§	-15.6 Q2	-4.3	-3.8	8.55	14.2	11.3

Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. ~2014 **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, August 27.01%; year ago 38.49% †††Dollar-denominated

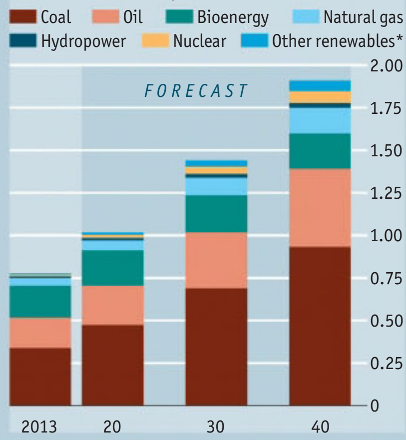
Markets

	Index Nov 11th	% change on one week	% change on Dec 31st 2014 in local currency	% change on Dec 31st 2014 in $ terms
United States (DJIA)	17,702.2	-0.9	-0.7	-0.7
China (SSEA)	3,822.9	+5.5	+12.8	+9.9
Japan (Nikkei 225)	19,691.4	+4.0	+12.8	+10.1
Britain (FTSE 100)	6,297.2	-1.8	-4.1	-6.5
Canada (S&P TSX)	13,341.9	-2.3	-8.8	-20.4
Euro area (FTSE Euro 100)	1,149.6	+0.3	+10.9	-1.7
Euro area (EURO STOXX 50)	3,448.4	+0.3	+9.6	-2.8
Austria (ATX)	2,466.7	+1.4	+14.2	+1.2
Belgium (Bel 20)	3,655.7	+1.3	+11.3	-1.3
France (CAC 40)	4,952.5	+0.1	+15.9	+2.8
Germany (DAX)*	10,907.9	+0.6	+11.2	-1.4
Greece (Athex Comp)	667.9	-5.7	-19.2	-28.3
Italy (FTSE/MIB)	22,385.1	+0.3	+17.7	+4.4
Netherlands (AEX)	469.2	+0.1	+10.5	-2.0
Spain (Madrid SE)	1,047.5	-0.9	+0.5	-10.9
Czech Republic (PX)	992.6	+1.2	+4.8	-4.7
Denmark (OMXCB)	878.1	+2.0	+30.0	+15.1
Hungary (BUX)	22,508.7	+2.0	+35.3	+21.6
Norway (OSEAX)	665.4	-1.8	+7.4	-6.5
Poland (WIG)	49,538.1	-1.8	-3.7	-12.9
Russia (RTS, $ terms)	845.7	-4.6	+15.6	+7.0
Sweden (OMXS30)	1,511.5	-1.2	+3.2	-7.1
Switzerland (SMI)	8,884.6	-0.8	-1.1	-2.1
Turkey (BIST)	81,717.9	-2.3	-4.7	-22.9
Australia (All Ord.)	5,181.1	-2.1	-3.9	-17.3
Hong Kong (Hang Seng)	22,352.2	-3.0	-5.3	-5.3
India (BSE)	25,867.0	-2.6	-5.9	-10.6
Indonesia (JSX)	4,451.6	-3.5	-14.8	-22.5
Malaysia (KLSE)	1,665.3	-1.2	-5.4	-24.2
Pakistan (KSE)	33,934.0	-1.7	+5.6	+0.7
Singapore (STI)	2,981.6	-1.9	-11.4	-17.4
South Korea (KOSPI)	1,997.3	-2.7	+4.3	-0.8
Taiwan (TWI)	8,415.0	-5.0	-9.6	-12.6
Thailand (SET)	1,390.2	-2.3	-7.2	-14.9
Argentina (MERV)	13,159.7	+2.8	+53.4	+35.3
Brazil (BVSP)	47,065.0	-1.4	-5.9	-33.5
Chile (IGPA)	18,646.6	-1.7	-1.2	-14.3
Colombia (IGBC)	9,050.6	-1.7	-22.2	-37.2
Mexico (IPC)	44,347.9	-2.3	+2.8	-9.3
Venezuela (IBC)	12,555.3	+5.1	+225	na
Egypt (Case 30)	6,801.9	-8.7	-23.8	-30.4
Israel (TA-100)	1,363.6	-0.6	+5.8	+5.6
Saudi Arabia (Tadawul)	7,128.3	+1.3	-14.5	-14.4
South Africa (JSE AS)	52,594.1	-3.7	+5.7	-13.9

Energy demand in India

India's growing economy and booming population mean that its energy demand is set to increase rapidly over the next few decades, according to a new report from the International Energy Agency (IEA). The IEA's forecasts are grim reading for climate activists. It estimates that coal will remain India's most used fuel, making up 49% of total energy demand in 2040. The IEA's forecast of a 6m-barrels-a-day increase in oil consumption is also the largest projected for any country. The rise can largely be explained by increased vehicle ownership: 260m passenger cars will be added to the Indian fleet over the next 25 years. Renewables and nuclear power will make up only a small slice of consumption, the IEA reckons.

Billion tonnes of oil equivalent



Source: IEA

*Includes wind, solar PV, solar thermal, geothermal and marine

Other markets

	Index Nov 11th	% change on one week	% change on Dec 31st 2014 in local currency	% change on Dec 31st 2014 in $ terms
United States (S&P 500)	2,075.0	-1.3	+0.8	+0.8
United States (NAScomp)	5,067.0	-1.5	+7.0	+7.0
China (SSEB, $ terms)	376.8	+3.5	+33.0	+29.6
Japan (Topix)	1,595.3	+3.6	+13.3	+10.6
Europe (FTSEurofirst 300)	1,494.2	-0.5	+9.2	-3.2
World, dev'd (MSCI)	1,690.5	-1.4	-1.1	-1.1
Emerging markets (MSCI)	833.4	-4.0	-12.9	-12.9
World, all (MSCI)	407.2	-1.6	-2.4	-2.4
World bonds (Citigroup)	858.6	-1.3	-4.8	-4.8
EMBI+ (JPMorgan)	710.1	-1.5	+2.7	+2.7
Hedge funds (HFRX)	1,194.0§	-0.5	-2.0	-2.0
Volatility, US (VIX)	15.8	+15.5	+19.2	(levels)
CDSs, Eur (iTRAXX)†	70.8	+0.4	+12.4	-0.3
CDSs, N Am (CDX)†	81.1	+4.6	+22.7	+22.7
Carbon trading (EU ETS) €	8.4	-0.5	+15.5	+2.4

Sources: Markit; Thomson Reuters. *Total return index.
†Credit-default-swap spreads, basis points. §Nov 9th.

Indicators for more countries and additional series, go to: **Economist.com/indicators**

The Economist commodity-price index

2005=100

	Nov 3rd	Nov 10th*	% change on one month	% change on one year
Dollar Index				
All Items	130.9	129.7	-3.0	-18.0
Food	153.4	152.7	-1.4	-13.3
Industrials				
All	107.6	105.8	-5.3	-24.2
Nfa†	108.7	108.6	-2.6	-15.0
Metals	107.1	104.5	-6.5	-27.6
Sterling Index				
All items	154.6	156.1	-2.3	-13.9
Euro Index				
All items	148.7	150.8	+3.2	-4.7
Gold				
$ per oz	1,123.9	1,090.8	-6.5	-5.6
West Texas Intermediate				
$ per barrel	47.9	44.2	-5.2	-43.2

Sources: Bloomberg; CME Group; Cotlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional
†Non-food agriculturals.

Smoke and fire

Helmut Schmidt, Social Democrat chancellor of West Germany, died on November 10th, aged 96

HE WAS so clever, and so rude with it, that his listeners sometimes realised too late that they had been outwitted and insulted. Helmut Schmidt did not just find fools tiresome. He obliterated them. The facts were clear and the logic impeccable. So disagreement was a sign of idiocy.

He was impatient, too, with his own party, which failed to realise the constraints and dilemmas of power. It wanted him to spend money West Germany did not have, and to compromise with terrorists who belonged in jail. He was impatient with the anti-nuclear left, who failed to realise that nuclear-power stations were safe, and that the Soviet empire thrived on allies' weakness. And he was impatient with post-Watergate America, which seemed to have lost its will to lead.

In good causes and in bad he was imperious. His addiction to nicotine trumped convention and courtesy. He smoked whenever and wherever he felt like it, even in non-smoking compartments of railway carriages. "Can you ask Mr Schmidt to put his cigarette out?" a passenger asked the conductor. "Would you mind telling him yourself?" came the timid reply.

Yet his brains, eloquence and willpower were unmatched in German politics. They brought him through the Nazi period, thrown out of the Hitler Youth for disloyalty but with an Iron Cross for bravery. He was one-quarter Jewish, which he concealed when he married his wife Loki and needed to prove his Aryan background. Only late in his career did an army document emerge which described him as ideologically sound.

In post-war West Germany he flourished, making a successful career in Hamburg's city government. By commandeering army units to deal with the floods of 1962 he broke a taboo, and the law, but gaining a deserved reputation as a doer.

He replaced Willy Brandt (the victim of an East German espionage operation) in 1974, at a time when the West was reeling from the oil-price shock, terrorism and America's humiliation in Vietnam. With his friend Valéry Giscard d'Estaing (another fluent English-speaker), he launched the idea of summit governance to deal with the world's economic woes. G7 meetings in those days were brief, informal affairs with real conversations and real decisions, not the micromanaged showpieces of today. Agreements made then laid the foundations for the modern European Union.

Other leaders did not find him easy to deal with. He detested the weakness of Jimmy Carter's administration, and the two men got on badly. His foreign minister, Hans-Dietrich Genscher, recalled that "Schmidt was of the opinion that the world would be fairer if he was president of the United States and Carter the German chancellor." The Israeli leader Menachem Begin called him "unprincipled, avaricious, heartless and lacking in human feeling" after he said that Germans living in a divided nation should feel sympathy for Palestinian self-determination.

Fairness, not fads

His toughness towards the nihilist terrorists of the Red Army Faction outraged many liberal-minded Germans, who felt that extensive snooping, interrogations and quasi-military justice had dreadful echoes of the Nazi period. They flinched when he urged America to beef up its nuclear presence in Europe in response to the Soviet Union's growing stockpile of medium-range missiles. But for him social democracy was based on fairness, not fads. He had no time for greenery, feminism or culture wars. Anyone with a vision should go and see a doctor, he once said. Far more important was bolstering the welfare system, building more houses and making Germany safe at home and abroad.

Unfortunately his Social Democratic party thought differently, as did, increasingly, his liberal coalition partner, the FDP. Flexibility and charm were not Mr Schmidt's strong points. A bit more of both might have saved him.

His nemesis was Helmut Kohl, the beefy Christian Democrat leader. Mr Schmidt underestimated his rival, mocking his mumbled provincial diction. He himself was an accomplished music and art critic, as elegant a wordsmith in prose as in speech. Mr Kohl's main interest outside politics was food. But the conservative leader's willingness to listen and do deals made Mr Schmidt look arrogant and out of touch. As his coalition disintegrated, the chancellor, in government since 1969, suddenly found himself in the political wilderness. His party (like many in Europe spooked by Ronald Reagan's unabashed anti-communism) veered leftwards.

Mr Schmidt, still puffing away on his beloved menthols (stockpiled in case of a ban) and playing the piano (of which he had a near-professional mastery), varied his views hardly an iota. As publisher of *Die Zeit*, Germany's most heavyweight weekly, he became its leading commentator—more influential there in shaping opinion, perhaps, than as an embattled chancellor. He deplored worries about climate change: population growth was a far bigger problem. Intervention in other countries' affairs was a mistake (though he made an exception for Vladimir Putin's war in Ukraine: that was a justified response to Western meddling). Unpopular views—but the facts and logic were clear. Anyone who disagreed was stupid. ■